Pohjola Bank plc
Report by the Board of Directors and Financial Statements 2012

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- Consolidated earnings before tax came to EUR 374 million (258) and consolidated earnings before tax at fair value amounted to EUR 792 million (78). Return on equity stood at 11.2% (9.2) and return on equity at fair value was 23.3% (3.1). Core Tier 1 ratio stood at 10.6% (10.3).
- Earnings before tax recorded by Banking improved to EUR 222 million (199). These included EUR 54 million (49) in impairment charges on receivables. The loan portfolio increased by 9% from its level on 31 December 2011. The average corporate loan portfolio margin stood at 1.52% (1.34).
- Within Non-life Insurance, insurance premium revenue rose by 10%. The combined ratio was 97.1% (97.7). Excluding the changes in reserving bases and amortisation on intangible assets arising from company acquisition, the operating combined ratio stood at 90.5% (89.8). Return on investments at fair value was 10.8% (-0.4).
- Earnings before tax posted by Asset Management amounted to EUR 32 million (27) and assets under management were EUR 32.7 billion (31.3) at the end of the financial year.
- The Board of Directors 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. This means a dividend payout ratio of 51%.
- Outlook for 2013: Consolidated earnings before tax in 2013 are expected to be higher than in 2012. It is estimated that Non-life Insurance's operating combined ratio will vary between 89 and 93%. For more detailed information on the outlook, see "Outlook for 2013" below.

Earnings before tax

Million EUR	2012	2011	Change, %
Banking	222	199	12
Non-life Insurance	92	8	
Asset Management	32	27	19
Group Functions	28	24	15
Total	**374**	**258**	**45**
Change in fair value reserve	418	-180	
Earnings before tax at fair value	**792**	**78**	
Earnings per share, EUR	0.89	0.67	
Equity per share, EUR	8.67	7.22	
Average personnel	3,421	3,189	

Financial targets

	2012	2011	Target
Return on equity, %	11.2	9.2	13.0
Core Tier 1, %	10.6	10.3	≥ 11,0
Operating cost/income ratio by Banking, %	34	35	< 35
Operating combined ratio by Non-life Insurance, %	90.5	89.8	< 92
Operating expense ratio by Non-life Insurance, %	21.5	21.8	18
Solvency ratio, %	81	77	70
Operating cost/income ratio by Asset Management, %	47	49	< 45
AA rating affirmed by at least two credit ratings at least at the main competitors' level	2	2	2
Dividend payout ratio at least 50% provided that Core Tier 1 ratio remains at least 10%	51*	60	≥ 50

* Board proposal

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%. The total claims paid increased at a slower pace than earlier, or by 4% This can be specifically attributed to the better weather conditions than the year before.

Consolidated earnings

Earnings analysis

€ million	2012	2011	Change, %
Net interest income			
Corporate and Baltic Banking	199	180	11
Markets	31	58	-47
Other operations	33	38	-13
Total	263	276	-5
Net commissions and fees	169	161	5
Net trading income	79	26	208
Net investment income	13	23	-44
Net income from Non-life Insurance			
Insurance operations	367	332	11
Investment operations	115	32	
Other items	-45	-46	3
Total	438	318	38
Other operating income	37	41	-8
Total income	**998**	**843**	**18**
Personnel costs	230	212	9
ICT expenses	87	81	7
Depreciation and amortisation	50	57	-12
Other expenses	200	177	13
Total expenses	**567**	**527**	**8**
Earnings before impairments of receivables	**431**	**316**	**36**
Impairments of receivables	57	60	-5
Share of associates' profits	1	2	-76
Earnings before tax	**374**	**258**	**45**
Change in fair value reserve	418	-180	
Earnings before tax at fair value	**792**	**78**	

Consolidated earnings before tax amounted to EUR 374 million (258). Total income and total expenses rose by 18% and 8%, respectively. Non-recurring expenses of EUR 7.0 million resulting from the reorganisation programme added to expenses. Impairment loss on receivables was slightly lower than a year earlier, standing at EUR 57 million (60).

The fair value reserve before tax grew by EUR 418 million, reaching EUR 221 million on 31 December. Earnings before tax at fair value amounted to EUR 792 million (78).

Corporate Banking continued to increase its net interest income considerably, thanks to growth in the loan portfolio and a rise in the average margin of the corporate loan portfolio. The loan portfolio grew by 9% year on year. The corporate loan portfolio's average margin rose by 18 basis points to 1.52% (1.34). The Markets division's net interest income decreased but then again net trading income increased considerably. The Group's combined net interest income decreased by 5%.

Net commissions and fees rose by 5%, thanks to an increase in lending and asset management fees. Net commissions and fees resulting from securities brokerage decreased.

Net investment income was EUR 10 million lower than a year ago. Dividend income was EUR 4 million higher than a year ago. Net capital gains were EUR 15 million lower than the year before.

Net income from Non-life Insurance improved by 38% year on year. A reduction in the discount rate for technical provisions related to pension liabilities from 3.3% to 3.0% decreased income by EUR 52 million. Changes in reserving bases reduced earnings by EUR 59 million last year. Insurance premium revenue increased by 10% and claims paid by 12%, excluding the change in the discount rate. Operating profitability remained at almost the previous year's level. Investment income recognised in the income statement was over EUR 80 million higher than the year before. Impairment charges recognised on investments totalled EUR 13 million (42). Return on investments at fair value was 10.8% (-0.4).

Other operating income fell by 8%, mainly as a result of lower maintenance lease income.

Personnel costs rose by 9% year on year. Personnel costs include EUR 7 million in non-recurring expenses related to the reorganisation programme. On 31 December 2011, the Group had a staff of 3,404, up by 24 from 31 December 2010.

ICT costs rose as a result of capital expenditure on system development. Growth in insurance sales commissions and higher personnel-related expenses increased other expenses. Depreciation and amortisation were lower as a result of lower depreciation on leases.

Risk management

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

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

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

Group risk exposure

The Group's risk exposure has remained stable despite the weak economic development in the euro area. The Group has a good risk-bearing capacity sufficient to secure business continuity even if economic growth remained weak. Investment-grade exposures remained high while doubtful receivables and past due payments declined. Impairment loss and final loan losses decreased slightly year on year. The Group kept market risks moderate throughout the financial year.

The funding and liquidity position remained strong. The Group had good access to short-term funding. The year 2012 saw improved long-term wholesale funding markets. In particular, the ECBs long-term refinancing operations bolstered the market in the first half. Pohjola Bank plc was not involved in such operations.

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

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

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

Liquidity buffer

€ billion, based on market values	31 Dec 2012	31 Dec 2011	Change, %
Deposits with central banks	5.6	4.2	32.5
Notes and bonds eligible as collateral	5.4	7.5	-27.9
Corporate loans eligible as collateral	3.0	2.6	14.5
Total	**14.0**	**14.4**	**-2.4**
Receivables ineligible as collateral	0.6	0.6	-2.5
Liquidity buffer at market value	14.6	15.0	-2.4
Collateral haircut	-0.9	-1.0	-7.6
Liquidity portfolio at collateral value	13.7	14.0	-2.0

Net loan losses and impairment losses recognised for 2012 reduced earnings by EUR 57 million (60), accounting for 0.35% (0.40) of the loan and guarantee portfolio. Final loan losses recognised for the financial year totalled EUR 35 million (47) and impairment losses EUR 62 million (84). Loan loss recoveries and allowances for impairment losses totalled EUR 40 million (71). The majority of the net loan losses and impairment losses were those recognised on an individual basis.

Doubtful receivables fell by EUR 28 million from their level a year ago. On 31 December 2012 doubtful receivables came to EUR 34 million (62), accounting for 0.21% (0.41) of the loan and guarantee portfolio.

No major changes took place in Non-life Insurance's underwriting risks. Risk exposure was affected by a reduction of the discount rate for pension liabilities to 3.0%. No major changes took place in the investment portfolio risk.

Uncertainty about the economic outlook and the overall operating environment makes it more difficult to assess the development of risk exposure.

Operational risks

The most significant, identified operational risks pertain to systems, business processes, the accuracy of documentation, and the allocation of resources. Materialised operational risks resulted in EUR 2 million (3) in costs in 2012.

Country risk

A significant part of Pohjola Group's country risk pertains to the liquidity buffer and the investment portfolio managed by Non-life Insurance. On 31 December 2012, the amount of secondary country risk, excluding Finland, Estonia, Latvia and Lithuania, came to EUR 9.3 billion, down by EUR 1.7 billion over the previous year. By region, the majority of the country risk applied to EU member states, with non-EU countries accounting for 19% of the country risk.

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

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

[1] Also include EUR 304 million in bond funds.
[2] Consist of RMBS, ABS and Covered Bond investments.
[3] EUR 58 million of exposures to the GIIPS countries will mature in 2013.
Exposures to Spain totalled EUR 173 million and to Italy EUR 171 million.
[4] Consist mainly of investments in Emerging Markets and Global funds.

Capital adequacy

Pohjola Group's Core Tier 1 ratio improved to 10.6% (10.3) and Tier 1 ratio to 12.4% (10.6).

Risk-weighted assets increased by 6% and the loan portfolio by 9% from their 2011-end level.

The capital adequacy ratio under the Act on Credit Institutions stood at 13.1% (10.6), as against the statutory minimum requirement of 8%, up by 2.5 percentage points from the level of 31 December 2011.

Pohjola Bank plc's issue in late February of Lower Tier 2 subordinated note of EUR 500 million increased Tier 2 capital. In the fourth quarter, Pohjola redeemed Upper Tier 2 perpetual subordinated notes of EUR 150 million and GBP 100 million.

Pohjola Group belongs to OP-Pohjola Group whose capital adequacy is supervised in accordance with the Act on the Supervision of Financial and Insurance Conglomerates. Pohjola Group's capital adequacy ratio under the Act, measured using the consolidation method, showed an improvement, standing at 1.70 (1.41) on 31 December.

As a result of the financial crisis, the regulatory framework for banks' capital requirements is becoming more rigorous in an effort, for example, to improve the quality of their capital base, 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 Pohjola Group's viewpoint, the most significant changes in the new regulations are related to the treatment of insurance company investments with respect to capital adequacy requirements and liquidity risk requirements whose treatment is most likely to be finalised only in national legislation.

On the basis of calculations based on the most recently available draft regulation, Pohjola estimates that its Core Tier 1 ratio (pro forma) will remain unchanged or improve, provided that insurance company investments are treated as risk-weighted assets and dependent on the risk weight used.

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 solvency 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. Pohjola estimates that its Non-life Insurance business already fulfils the solvency requirement under the proposed Solvency II. The solvency capital requirement (SCR) for Non-life Insurance under Solvency II would have amounted to EUR 685 million (pro forma) based on underwriting and investment risks on 31 December 2012. Non-life Insurance's solvency capital amounted to EUR 916 million on 31 December 2012 under the existing regulatory framework (Solvency I).

Capital base and capital adequacy

EUR million	31 Dec 2012	31 Dec 2011
Tier 1 capital		
Equity capital	2,769	2,306
Elimination of insurance companies' effect in equity capital (equity capital and Group eliminations)	-6	112
Fair value reserve, transfer to Tier 2	-36	136
Core Tier 1 capital before deductions and hybrid capital	**2,728**	**2,554**
Intangible assets	-182	-171
Excess funding of pension liability and fair value measurement of investment property	-7	-8
Dividend distribution proposed by Board of Directors	-145	-129
Investments in insurance companies and financial institutions	-703	-704
Impairments – shortfall of expected losses	-60	-56
Core Tier 1 capital	**1,631**	**1,486**
Hybrid capital	274	274
Shortfall of Tier 2 capital		-238
Total Tier 1 capital	**1,904**	**1,521**
Tier 2 capital		
Fair value reserve	13	-146
Perpetual bonds		294
Debenture loans	853	375
Investments in insurance companies and financial institutions	-703	-704
Impairments – shortfall of expected losses	-60	-56
Transfer to Tier 1 capital		238
Total Tier 2 capital	**103**	
Total capital base	**2,007**	**1,521**

Deductions from Tier 1 and 2 capital		
Investments in insurance companies and financial institutions	-1,406	-1,408
Impairments – shortfall of expected losses	-121	-112
Total	**-1,527**	**-1,521**
Risk-weighted assets	**15,320**	**14,409**
Core Tier 1 ratio, %	**10.6**	**10.3**
Tier 1 ratio, %	**12.4**	**10.6**
Capital adequacy ratio, %	**13.1**	**10.6**

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

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

EUR million	31 Dec 2012	31 Dec 2011
Pohjola Group's equity capital	2,769	2,306
Hybrid instruments, perpetual bonds and debenture bonds	1,177	992
Other sector-specific items excluded from capital base	-121	-2
Goodwill and intangible assets	-876	-869
Equalisation provision	-206	-266
Proposed profit distribution	-145	-129
Items under IFRS deducted from capital base*	-45	-28
Impairments – shortfall of expected losses	-121	-112
Conglomerate's capital base, total	**2,432**	**1,891**
Regulatory capital requirement for credit institutions**	1,226	1,153
Regulatory capital requirement for insurance operations***	203	186
Total minimum amount of conglomerate's capital base	**1,429**	**1,339**
Conglomerate’s capital adequacy	**1,004**	**552**
Conglomerate's capital adequacy ratio (capital resources/minimum of capital resources)	**1.70**	**1.41**

* Excess funding of pension liability, Fair value measurement of investment property, Portion of cash flow hedge of fair value reserve
** Risk-weighted assets x 8%
*** Minimum solvency margin

OP-Pohjola Group's capital adequacy ratio was 1,90.

Credit ratings

Pohjola Bank plc's credit ratings

Rating agency	Short-term debt	Outlook	Long-term debt	Outlook
Standard & Poor's Credit Market Services Europe Limited	A-1+	Stable	AA-	Negative
Moody's Investors Service Ltd	P-1	Stable	Aa3	Stable
Fitch Ratings Limited	F1	Stable	A+	Stable

Pohjola Insurance Ltd's ratings

Rating agency	Rating	Outlook
Standard & Poor's Credit Market Services Europe Limited	AA-	Negative
Moody's Investors Service Ltd	A3	Stable

Pohjola Bank plc's credit rating and Pohjola Insurance Ltd's financial strength rating were updated in 2012 as shown below.

Standard & Poor's

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

Fitch Ratings

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

Moody's

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, and confirmed Pohjola Bank plc's Prime-1 short-term rating. The insurance financial strength rating of Pohjola Insurance Ltd was downgraded from A2 to A3, with a stable outlook for these ratings.

Pohjola updates its strategy

On 31 October 2012, Pohjola's Board of Directors adopted Pohjola Group's updated strategy and revised financial targets.

The strategic theme is entitled "Value and efficiency through integration". The updated strategy highlights the following: improving customer experience, seeking more targeted growth in order to improve return on capital, making more efficient use of OP-Pohjola Group's competitive advantages and strengths, improving efficiency and increasing capital adequacy ratios.

Banking will concentrate on deepening customer relationships by focusing growth on business and products with high capital efficiency. Non-life Insurance aims to continue its successful cross-selling and improve efficiency. Within Asset Management, the key objective is to raise investment returns of OP Mutual Funds to a competitive level and to intensify OP-Pohjola Group's integration.

Pohjola's mission, vision and core values have remained unchanged. Pohjola's mission is to promote the sustainable prosperity, security and wellbeing of its customers. Pohjola's vision is to be the most preferred financial services partner and the key objectives include increasing company value and strengthening the market position profitably. Pohjola's core values are a People-first Approach, Responsibility, and Prospering Together.

Pohjola provides its corporate and institutional customers with a diverse range of top-quality banking, asset management and non-life insurance services, and private individuals with an extensive range of non-life insurance and Private Banking services.

Pohjola is in close interaction with its customers, knowing customer needs and risks and creating solutions ideal for customers. It builds customer relationships on a long-term basis with the aim of establishing total customer relationships.

Finland and its neighbouring regions constitute Pohjola's key market area where Pohjola invests in the development of its service network. In other market areas, Pohjola's service capabilities are based on cooperation with high-profile local or international partners.

As part of OP-Pohjola Group, Pohjola has the most extensive and diversified service network within the sector and the largest clientele in Finland. OP-Pohjola Group's logo is the most recognisable one in the Finnish financial sector. Pohjola secures business continuity by maintaining a strong capital base. Joint liability with OP-Pohjola Group's member credit institutions strengthens Pohjola's creditworthiness.

Highly skilled and motivated employees are a prerequisite for providing comprehensive solutions and the best service within the sector. Pohjola enhances its intellectual capital systematically as part of business development.

Revised financial targets

The Board of Directors also adopted the Group's new financial targets aiming at higher profitability and efficiency and a stronger capital base.

Pohjola abandoned its target for the return on equity (13.0%) calculated at fair value and set a new return-on-equity target at 13.0% calculated on earnings after tax. It raised its capital adequacy target by replacing the Tier 1 ratio target of 9.5% with the Core Tier 1 ratio target of 11%. Pohjola also revised its dividend policy in such a way that it aims to distribute a minimum of 50% of its earnings for the financial year in dividends, provided that Core Tier 1 remains at least 10% (previously: Tier 1 ratio of at least 9.5%).

Pohjola set a target level for its total expenses: the Group's total expenses at the end of 2015 will be at the same level as at the end of 2012. It also revised down the operating cost/income ratio target for Banking from 40% to 35% and for Asset Management from 50% to 45%. Pohjola revised its Non-life Insurance target for the operating combined ratio from 92% to less than 92% and for the operating expense ratio from 20% to 18%. The financial targets are set over the economic cycle, with the exception of the target for total expenses.

Financial targets over the economic cycle

	Target	2012	2011
Group			
Return on equity, %	13.0	11.2	9.2
Core Tier 1 ratio, %	≥ 11,0	10.6	10.3
Banking			
Operating cost / income ratio, %	< 35	34	35
Non-life Insurance			
Operating combined ratio, %	< 92,0	90.5	89.8
Operating expense ratio, %	18	21.5	21.8
Solvency ratio, %	70	81	77
Operating cost / income ratio, %	< 45	47	49

In addition, Pohjola still aims at an AA credit rating affirmed by at least two credit rating agencies or at credit ratings that are at least at the level of its main competitors.

Pohjola's reorganisation programme

As a result of the completed procedures for Information and Consultation of Employees, under the Finnish Act on Co-operation within Undertakings, covering all personnel groups as part of Pohjola Group's reorganisation programme, Pohjola Group decided to cut a total of 281 jobs. In addition, 22 jobs will be outsourced to service providers outside OP-Pohjola Group. When the process began on 24 September 2012, the estimated layoffs amounted to a maximum of 310 and the estimated number of outsourced jobs was around 90.

Centralising processes and operations within OP-Pohjola Group Central Cooperative Consolidated forms an integral part of the reorganisation programme, whereby 618 employees will transfer from Pohjola Group to other companies within OP-Pohjola Group Central Cooperative Consolidated. The original proposal involved internal transfers of 580 Pohjola Group's employees to other companies within OP-Pohjola Group Central Cooperative Consolidated.

Reasons for initiating the reorganisation included a more rigorous regulatory framework in the financial sector, tightening capital adequacy requirements set for banks, higher costs, and the preparation for new fiscal charges, such as a bank tax. In addition, the prolongation of the European sovereign debt crisis and the low interest rate environment will be strongly reflected in banks' and insurers' revenues.

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

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

Pohjola Group recognised most of the non-recurring personnel-related expenses of around EUR 7 million, associated with Pohjola Group under the reorganisation programme, in the third quarter of 2012.

Financial performance and risk exposure by business segment

Banking

- Earnings before tax improved to EUR 222 million (199).
- Net interest income from Corporate Banking was up by 11%.
- The loan portfolio grew by 9% to EUR 13.5 billion from its level on 31 December 2011 (12.4).
- The average corporate loan portfolio margin increased to 1.52% (1.34).
- Net trading income added to earnings posted by Markets.
- Impairment losses on receivables increased to EUR 54 million (49), accounting for 0.34% of the loan and guarantee portfolio.
- Operating cost/income ratio was 34% (35).

Banking: financial results and key figures and ratios

€ million	2012	2011	Change, %
Net interest income			
Corporate and Baltic Banking	199	180	11
Markets	31	58	-47
Total	230	238	-3
Net commissions and fees	96	97	-1
Net trading income	72	18	
Other income	21	31	-33
Total income	**418**	**384**	**9**
Expenses			
Personnel costs	62	56	11
ICT expenses	27	26	3
Depreciation and amortisation	15	21	-28
Other expenses	37	32	15
Total expenses	**142**	**135**	**5**
Earnings before impairments of receivables	**277**	**248**	**11**
Impairments of receivables	54	49	11
Earnings before tax	**222**	**199**	**12**
Earnings before tax at fair value	228	189	21
Loan portfolio, € billion	13.5	12.4	9
Guarantee portfolio, € billion	2.7	2.6	5
Risk-weighted assets, € billion	13.4	12.0	11
Margin on corporate loan portfolio, %	1.52	1.34	13
Ratio of doubtful receivables to loan and guarantee portfolio, %	0.21	0.41	
Ratio of impairments of receivables to loan and guarantee portfolio, %	0.34	0.33	
Operating cost/income ratio, %	34	35	
Personnel	745	748	0

Earnings

Earnings before tax amounted to EUR 222 million (199). This figure includes EUR 54 million (49) in impairment loss on receivables.

The loan portfolio grew by 9% from its level on 31 December 2011, standing at EUR 13.5 billion on 31 December 2012. The average margin on the corporate loan portfolio rose by 18 basis points in the year to December. The market share of euro-denominated corporate loans increased further.

The guarantee portfolio grew by EUR 0.1 billion to EUR 2.7 billion, year on year. Committed standby credit facilities amounted to EUR 3.4 billion (3.3) on 31 December.

The combined net interest income from Corporate Banking and Baltic Banking improved by 11% over the previous year, as a result of growth in the loan portfolio and a rise in the average margin.

Net commissions and fees fell by EUR 1 million, year on year. Commission income related to lending rose by EUR 6 million whereas commission income from securities brokerage fell by EUR 5 million as a result of lower equity trading volumes.

Other operating income decreased by EUR 10 million as a result of a reduction in the maintenance lease portfolio.

Banking reported a 5% increase in expenses, mainly as a result of higher personnel costs. A decrease in depreciation/amortisation was due mainly to a reduction in the maintenance lease portfolio.

Earnings before tax

Million EUR	2012	2011	Change, %
Corporate Banking	153	141	9
Markets	71	60	18
Baltic Banking	-2	-2	-1
Total	**222**	**199**	**12**

An improvement in earnings posted by Corporate Banking was due to a rise in net interest income and commission income related to financing. Corporate Banking net commissions and fees improved by 10% year on year. Impairment losses increased by EUR 5 million.

The Markets division was successful in managing risk exposures. Client income rose by EUR 1 million, year on year.

Risk exposure by Banking

Credit risk exposure

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

Risk exposure by Banking remained favourable. Net loan losses and net impairment losses increased slightly but exposures by rating were at a good level. In 2012, total exposure increased by EUR 2.0 billion to EUR 24.4 billion.

Total exposure by counterparty

€ billion	31 Dec 2012	31 Dec 2011	Change, %
Companies and housing associations	19.9	18.4	8%
Financial institutions and insurance companies	2.1	1.9	11%
Member banks and OP-Pohjola Group Central Cooperative	0.2	0.1	78%
Public-sector entities	1.1	1.0	12%
Households	1.0	0.9	14%
Non-profit organisations	0.2	0.2	-23%
Total	**24.4**	**22.5**	**9%**

Total exposures are divided into six customer groups by counterparty. Corporate customers constitute the largest group, accounting for 81% (82) of total exposure. Year on year, corporate exposure increased by EUR 1.5 billion, or 8%, loans and guarantees representing 56%, leasing and factoring 15% and unused and standby credit facilities 21%.

Total exposure by rating category

Rating category	31 Dec 2012	31 Dec 2011	Change, € bn
1–2	2.5	2.3	0.2
3–5	12.3	11.6	0.7
6–7	5.8	5.1	0.7
8–9	1.9	1.9	0.0
10	0.2	0.1	0.1
11–12	0.3	0.3	0.1
Non-rated	0.2	0.2	0.0
Households	1.0	0.9	0.1
Total	**24.4**	**22.5**	**2.0**

The ratio of investment-grade exposure – i.e. ratings 1–5 – to total exposure, excluding private customers, stood at 63% (65), the share of ratings 11–12 was 1.4% (1.3) and that of non-rated exposure 1.1% (1.1). The rating distribution of the Companies and housing associations sector remained good in 2012 as lending focused on counterparties with a high creditworthiness. Of corporate exposure, the share of investment-grade exposure was at a good level, standing at 59% (61) and the exposure of the lowest two rating categories amounted to EUR 0.3 (0.3) billion, representing 1.7% (1.5) of the total corporate exposure. Non-rated corporate exposure came to around EUR 0.2 billion (0.2), representing about 1.1% (1.1) of the corporate exposure.

Corporate and housing association exposure by rating category

Rating category	31 Dec 2012	31 Dec 2011	Change, € bn
1–2	1.1	1.0	0.1
3–5	10.5	10.3	0.3
6–7	5.5	4.7	0.8
8–9	1.9	1.8	0.1
10	0.2	0.1	0.1
11–12	0.3	0.3	0.1
Non-rated	0.2	0.2	0.0
Total	**19.9**	**18.4**	**1.5**

The largest three sectors included Renting and Operating of Residential Real Estate representing 10.3% (10.5), Wholesale and Retail Trade 9.6% (9.1) and Manufacture of Machinery and Equipment 8.9% (9.9). A total of 51% of exposures within Renting and Operating of Residential Real Estate were guaranteed by general government. The Energy and the Wholesale and Retail Trade sectors showed the strongest growth in euro terms. Growth in corporate exposure stemmed from a number of industries, which further increased the corporate exposure's dispersion by industry.

On 31 December 2012, Baltic Banking exposures totalled EUR 0.5 billion (0.3), accounting for 2.2% (1.5) of total Banking exposures.

Major customer risks

Major customer risks include customer risks whose direct exposure exceeds 10% of the Group's capital base. In 2012, the Group's capital base for the purpose of calculating major customer exposure rose from EUR 1.6 million to EUR 2.1 billion, or by 30%.

Corporate exposure counted as major customer risks fell to EUR 3.4 billion (4.5), due mainly to an increase in the Group's capital base. Major corporate customer exposure consisted of 13 groups of connected clients (19), accounting for 159% (274) of the capital base. A total of 66% (74) of major customer exposure was investment-grade exposure.

Past due payments and doubtful receivables

Past due payments fell by EUR 2 million to EUR 21 million and their ratio to the total loan and guarantee portfolio was 0.13% (0.15). Doubtful receivables – non-performing, zero-interest and under-priced receivables – fell by EUR 28 million to EUR 34 million, and their ratio to the loan and guarantee portfolio was low, standing at 0.21% (0.41). On 31 December 2012, impairment charges that reduce receivables totalled EUR 238 million (190), EUR 15 million (16) of which represented impairment loss based on collectively assessed receivables. A total of EUR 63 million (59) of impairment charges applied to non-performing receivables. Net loan losses and impairment losses reduced Banking earnings by EUR 54 million (49), accounting for 0.34% (0.33) of the loan and guarantee portfolio. The Baltic Banking share of net loan losses and impairment losses amounted to EUR –1 million (–1).

Market risk exposure

The Markets division within Banking is exposed to changes in market prices of interest rate, currency, commodity and credit risk premiums, of which the most relevant risk factors are interest rate and credit risks. Interest rate risk exposure averaged EUR 8.0 million (8.1) in January–December, based on the 1-percentage-point change in the interest rate. Overnight currency exposure and the associated risk remained low throughout the financial year. On 31 December 2012, net currency exposure amounted to some EUR 19 million (35). Foreign exchange trading focused on intraday trading.

Sensitivity analysis of market risk

Banking, EUR million	Risk parameter	Change	31 Dec 2012 Effect on results	31 Dec 2012 Effect on shareholders' equity	31 Dec 2011 Effect on results	31 Dec 2011 Effect on shareholders' equity
Interest-rate risk	Interest	1 percentage point	8		4	
Currency risk	Market value	10%	2		4	
Volatility risk						
Interest-rate volatility	Volatility	10 percentage points	1		1	
Currency volatility	Volatility	10 percentage points	0		0	
Credit risk premium*	Credit spread	0.1 percentage points	1	2	0	1

Sensitivity figures have been calculated as the sum of the currencies' intrinsic value.
* The credit risk premium has been calculated on notes and bonds at fair value through profit or loss and available for sale, included in liquidity buffer.

Derivatives business

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

Non-life Insurance

- Earnings before tax amounted to EUR 92 million (8). Earnings before tax at fair value were EUR 283 million (–39). Changes in technical bases reduced earnings by EUR 52 million (59).
- Insurance premium revenue increased by 10% (6).
- The number of loyal customer households grew by 46,658 (42,731).
- The operating combined ratio stood at 90.5% (89.8).
- Return on investments at fair value was 10.8% (–0.4).

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

€ million	2012	2011	Change, %
Insurance premium revenue	1,126	1,024	10
Claims incurred	-830	-754	10
Operating expenses	-242	-223	8
Amortisation adjustment of intangible assets	-21	-22	-4
Balance on technical account	**33**	**24**	**40**
Net investment income	115	36	221
Other income and expenses	-56	-52	9
Earnings before tax	**92**	**8**	
Earnings/loss before tax at fair value	283	-39	
Combined ratio, %	97.1	97.7	
Operating combined ratio, %	90.5	89.8	
Operating loss ratio, %	69.1	68.0	
Operating expense ratio, %	21.5	21.8	
Operating risk ratio, %	62.8	61.9	
Operating cost ratio, %	27.8	27.9	
Return on investments at fair value, %	10.8	-0.4	
Solvency ratio , %	81	77	
Personnel	2,384	2,355	1

Earnings

Earnings before tax improved to EUR 92 million (8), mainly because of good investment performance. Changes in reserving bases reduced the balance on technical account by EUR 52 million (59). The discount rate for technical provisions related to pension liabilities was revised down from 3.3% to 3.0%, which increased insurance liabilities by EUR 52 million. During the same period a year ago, a reduction of the discount rate for technical provisions related to pension liabilities from 3.5% to 3.3% increased insurance liabilities by EUR 32 million and higher life expectancy by EUR 27 million.

Insurance premium revenue continued to grow strongly, and the operating balance on technical account remained good. Total insurance premium revenue was up by 10% (6). The operating balance on technical account totalled EUR 106 million (104) and the operating combined ratio stood at 90.5% (89.8). These operating figures exclude changes in reserving bases and amortisation on intangible assets arising from the corporate acquisition. The combined ratio, including the abovementioned items, was 97.1% (97.7).

Insurance premium revenue

€ million	2012	2011	Change, %
Private Customers	566	503	13
Corporate Customers	513	472	9
Baltic States	46	48	-3
Total	**1,126**	**1,024**	**10**

Insurance premium revenue from both Private and Corporate Customers grew strongly. In the Baltic States, insurance premium revenue remained lower than a year ago although it began to rise towards the end of the financial year.

The number of loyal customer households grew by a record 46,658 (42,731). Their year-end number totalled 569,994, of whom 69% 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 bills (1,391,000) with 251,000 (209,000) paid in full using bonuses. Insurance premiums paid using bonuses totalled EUR 82 million (66).

Sales of policies increased by a total of 12%, with sales of policies to Private Customers rising by 13% and to Corporate Customers by 10% year on year.

Claims incurred, excluding changes in reserving bases, 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 large claims were higher than a year ago. The reported number of large or medium-sized claims (in excess of EUR 0.1 million and over EUR 0.5 million in pension liabilities) came to 291 (234) in 2012, with their claims incurred retained for own account totalling EUR 120 million (92). In 2012, claims incurred were reduced by a year-on-year increase of EUR 2 million released from technical provisions relating to prior year claims, excluding the effect of changes in reserving bases, the amount released coming to EUR 27 million (25).

Higher commissions arising from sales growth and higher personnel costs added to operating expenses. In 2011, Pohjola recruited more personnel for sales and claims services with a view to improving services for its growing customer base, which was reflected in 2012 costs.

Operating balance on technical account and combined ratio (CR)

	2012		2011	
	Balance, € million	**CR, %**	**Balance, € million**	**CR, %**
Private Customers	67	88.2	60	88.1
Corporate Customers	34	93.3	47	90.0
Baltic States	6	87.9	-3	105.3
Total	**106**	**90.5**	**105**	**89.8**

Within Private Customers, profitability was at the same level as a year ago. Corporate Customers recorded a slightly weaker profitability as a result of unfavourable claims developments, whereas favourable claims developments improved profitability considerably in the Baltic States.

Investment

Return on investments at fair value was 10.8% (–0.4). A sharp fall in interest rates and higher stock prices formed the key components behind the good investment performance. Net investment income recognised in the income statement amounted to EUR 115 million (36). Impairment charges recognised in the income statement totalled EUR 13 million (42). Net investment income at fair value was EUR 306 million (–11).

Risk exposure by Non-life Insurance

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 Board of Directors has confirmed financial strength rating A as the target for Non-life Insurance. Pohjola Insurance Ltd’s financial strength ratings are as follows: A3 affirmed by Moody’s (outlook: stable) and AA– affirmed by Standard & Poor’s (outlook: negative).

Underwriting risk exposure

The reinsurance of Non-life Insurance is managed on a centralised basis. Retention in both risk-specific reinsurance and catastrophe reinsurance is a maximum of EUR 5 million. The capacity of catastrophe reinsurance covering loss accumulation stood 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 large claims is higher than usual.

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

Sensitivity analysis of Non-life insurance

Risk parameter	Total 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
Major loss, over EUR 5 million		1 major loss	-5	Down by 0.4 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
Inflation for collective liability	550	Up by 0.25 pps	-4	Down by 0.3 pps
Life expectancy for discounted insurance liabilities	1,483	Up 1 year	-34	Down by 3.0 pps
Discount rate for discounted insurance liabilities	1,483	Down by 0.1 pps	-18	Down by 1.6 pps

* Rolling 12-moth, expenses by function in Non-life Insurance excluding expenses for investment management and expenses for other services rendered.

The number and size of claims vary annually. The year-on-year variation in earnings generated by the underwriting business is, to a large extent, explained by the claims incurred resulting from large claims. The number of large and medium-sized claims for 2012 came to 291 (234) and their claims incurred retained for own account totalled EUR 120 million (92). Claims incurred retained for own account in 2011 and 2012 are amounts after the aggregate protection. A large part of insurance liabilities consists of annuities affected by estimated mortality and the discount rate used. Estimated mortality is based on the mortality model commonly used by Finnish insurers, which assumes the current trend of an increase in life expectancy to continue. This model was last updated in 2011.

Discounted insurance liabilities of EUR 1,487 million (1,430), with a duration of 12.4 years (12.1), were discounted using a 3.0% (3.3) interest rate, while the remaining insurance liabilities, EUR 961 million (935), were undiscounted, with a duration of 2.1 years (2.1).

Investment risk exposure

On 31 December 2012, the Non-life Insurance investment portfolio totalled EUR 3,149 (2,863), consisting of investments covering both insurance liabilities and the solvency capital, bonds accounting for 75% (72) and listed equities and private equity investments for 12% (13).

Non-life Insurance investment portfolio by allocation

	31 Dec 2012		31 Dec 2011	
Allocation of investment portfolio	**Fair value, EUR million**	**%**	**Fair value, EUR million**	**%**
Money market total	42	1	48	2
Total bonds and bond funds	2,369	75	2,050	72
Equities and private equity investments	367	12	379	13
Total alternative investments	82	3	132	5
Total property investments	290	9	254	9
Total	**3,149**	**100**	**2,863**	**100**

The average credit rating of the Non-life Insurance fixed-income portfolio was A+ (AA-) (by Standard & Poor’s) and A1 (Aa3) (by Moody’s), which was slightly lower than a year earlier. The average residual term to maturity of the fixed-income portfolio was 4.7 years (4.8) and the duration 4.2 years (3.9). On 31 December 2012, the fixed-income portfolio’s current interest rate was 1.9%

Non-life Insurance fixed-income portfolio by maturity and credit rating on 31 December 2012, EUR million

Year(s)	0–1	1–3	3–5	5–7	7–10	10–	Total	%
Aaa	14	145	323	187	106	77	853	36%
Aa1–Aa3	27	47	142	23	12	27	278	12%
A1–A3	37	194	220	88	38	1	578	25%
Baa1–Baa3	25	80	176	68	74	26	448	19%
Ba1 or lower	32	79	47	26	6	8	198	8%
Internally rated	1	0	0	0	0	0	1	0%
Total	**135**	**545**	**909**	**392**	**236**	**139**	**2,356**	**100%**

The table above excludes credit derivatives.

Non-life Insurance’s uncovered currency position was EUR 254 million (196), accounting for 8% of the investment portfolio. The Group has been active in hedging against currency risks using currency derivatives.

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

			Effect on shareholders' equity, EUR million	
Non-life Insurance	**Risk parameter**	**Change**	**31 Dec 2012**	**31 Dec 2011**
Bonds and bond funds[1]	Interest rate	1 pp	72	84
Equities[2]	Market value	10%	30	35
Capital investments and unquoted equities	Market value	10%	10	10
Commodities	Market value	10%	1	
Real property	Market value	10%	29	25
Currency	Currency value	10%	25	20
Credit risk premium[3]	Credit spread	0.1 pp	9	8
Derivatives[4]	Volatility	10 pps	2	4

[1] Include money-market investments, convertible bonds and interest-rate derivatives
[2] Include hedge funds and equity derivatives
[3] Includes bonds and convertible bonds and money-market investments, excluding government bonds issued by developed countries
[4] 20 percentage points in equity derivatives, 10 percentage points in interest rate derivatives and 5 percentage points in currency derivatives

Asset Management

- Earnings before tax were up by 19% to EUR 32 million (27).
- Assets under management increased by 5% to EUR 32.7 billion (31.3).
- Good investment performance was reflected in an increase in performance-based fees.

Asset Management: financial results and key figures and ratios

€ million	2012	2011	Change, %
Net commissions and fees	60	50	20
Other income	5	6	-15
Total income	**65**	**56**	**16**
Personnel costs	19	18	7
Other expenses	14	13	7
Total expenses	**33**	**31**	**7**
Share of associates' profits	1	2	-76
Earnings before tax	**32**	**27**	**19**
Earnings before tax at fair value	32	**27**	19
Assets under management, € billion	32.7	31.3	5
Operating cost/income ratio, %	47	49	
Personnel	153	149	3

Earnings

Earnings before tax came to EUR 31 million (27). The operating cost/income ratio stood at 47% (49). As a result of the good performance of investment operations, performance-based management fees included in earnings climbed to EUR 15.2 million (0.8). Earnings before tax include net profit shown by Access Capital Partners Group SA, an associated company, in proportion to Pohjola's shareholding.

Assets under management made positive progress from their 2011-end level, totalling EUR 32.7 billion. Institutional Client and Private Client assets grew from their 2011-end level, whereas OP Mutual Funds' assets under management were down. A total of 68% of OP Mutual Funds included in Asset Management portfolio management outperformed their benchmark index in 2012.

Assets under management

€ billion	2012	2011
Institutional clients	19.5	18.5
OP mutual funds	9.5	9.9
Private	3.7	2.8
Total	**32.7**	**31.3**

Assets under management by asset class

%	2012	2011
Money market investments	16	17
Bonds	40	39
Equities	27	26
Other	18	19
Total	**100**	**100**

Group Functions

- Earnings before tax came to EUR 28 million, or EUR 4 million higher than the year before.
- Net investment income was substantially lower than a year ago.
- Earnings before tax at fair value improved by EUR 348 million year on year to EUR 250 million (–98).
- Liquidity and access to funding remained good.

Group Functions: financial results and key figures and ratios

€ million	2012	2011	Change, %
Net interest income	36	35	4
Net trading income	1	3	-58
Net investment income	11	18	-37
Other income	16	11	45
Total income	**65**	**67**	**-3**
Personnel costs	14	13	10
Other expenses	20	18	9
Total expenses	**34**	**31**	**9**
Earnings before impairments of receivables	**31**	**36**	**-13**
Impairments of receivables	3	11	-74
Earnings before tax	**28**	**24**	**15**
Earnings before tax at fair value	**250**	**-98**	
Risk-weighted assets € billion	14.6	15.0	
Liquidity, € billion	1.7	2.3	
Receivables and liabilities from/to OP-Pohjola Group entities, net position, € billion	3.2	1.7	
Central Banking earnings, € million	8	13	
Personnel	123	129	

Earnings

Earnings before tax came to EUR 28 million, or EUR 4 million higher than the year before. Earnings before tax at fair value amounted to EUR 250 million (–98). In the wake of the ECB's liquidity-providing long-term refinancing operations, markets calmed down and credit spreads narrowed.

When Suomen Luotto-osuuskunta, a cooperative, sold Luottokunta Oy shares, the value of the cooperative shares held by Pohjola was increased by EUR 31 million. In addition, net investment income includes EUR 11 million in interest on cooperative capital from Suomen Luotto-osuuskunta.

Net investment income includes EUR 4 million in capital losses on notes and bonds. Capital gains a year ago totalled EUR 7 million. Dividend income was EUR 15 million (10). Impairment charges recognised on bonds totalled EUR 3 million (11).

Pohjola's access to funding remained good. In 2012, OP-Pohjola Group issued long-term bonds worth EUR 4.5 billion used to cover long-term bonds maturing during the year, with senior bonds issued by Pohjola accounting for EUR 2.4 billion, Lower Tier 2 Subordinated Notes for EUR 0.5 billion and covered bonds issued by OP Mortgage Bank accounting for EUR 1.6 billion.

On 31 December 2012, the average wholesale funding margin of senior bonds was 40 basis points (27). A reduction in short-term wholesale funding and the renewal of long-term debt with higher margins have increased average funding costs.

Risk exposure by Group Functions

Credit risk exposure

On 31 December 2012, the Group Functions exposure totalled EUR 20.4 billion, consisting of the liquidity buffer and receivables from OP-Pohjola Group member cooperative banks. A total of 99% (98) of the exposure came from investment-grade counterparties.

Group member cooperative banks and OP-Pohjola Group Central Cooperative with its subsidiaries form a significant customer group for Pohjola Bank plc acting as OP-Pohjola Group's central financial institution. Group member cooperative banks' and OP-Pohjola Group Central Cooperative's exposure increased by EUR 1.7 billion, or roughly 23%. All of their exposure was investment-grade exposure.

The Group Functions maintains the liquidity buffer in order to secure OP-Pohjola Group's liquidity. On 31 December 2012, the liquidity buffer amounted to EUR 14.6 billion (12.6), comprising primarily investments in notes and bonds issued by governments, municipalities, financial institutions and companies all showing good credit ratings, in securitised assets and corporate loans eligible as collateral.

Liquidity buffer by maturity and credit rating on 31 December 2012, EUR million

Year(s)	0–1	1–3	3–5	5–7	7–10	10–	Total	%
Aaa*	5,721	868	683	409	751	22	8,452	58%
Aa1–Aa3	86	270	156	315	254	11	1,092	7%
A1–A3	244	458	234	14	13	1	964	7%
Baa1–Baa3	106	192	123	4	7		432	3%
Ba1 or lower	55	33	67	31	36	0	221	2%
Internally rated**	575	707	1,047	408	203	504	3,443	24%
Total	**6,787**	**2,527**	**2,308**	**1,181**	**1,264**	**538**	**14,605**	**100%**

The liquidity buffer's (excl. deposits with the central bank) residual term to maturity averages 4.6 years.
* incl. deposits with the central bank
** PD ≤ 0.40%

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

Market risk exposure

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

Interest rate risk exposure averaged EUR 16.1 million (17.3) in January–December, based on the 1-percentage-point change in the interest rate. On 31 December 2012, the market value of equity and private equity funds came to EUR 30 million (29), of which private equity funds with their investment commitments accounted for EUR 26 million (24). Capital tied to property holdings came to EUR 30 million (35), of which property in own use accounted for EUR 3 million (3).

Sensitivity analysis of market risk

Group Functions, EUR million	Risk parameter	Change	31 Dec 2012 Effect on results	31 Dec 2012 Effect on shareholders' equity	31 Dec 2011 Effect on results	31 Dec 2011 Effect on shareholders' equity
Interest-rate risk	Interest rate	1 percentage point	22		25	0
Interest-rate volatility	Volatility	10 percentage points	0		0	
Credit risk premium*	Credit spread	0.1 percentage points		19	0	23
Price risk						
Equity portfolio	Market value	10%		0		0
Private equity funds	Market value	10%		3		3
Property risk	Market value	10%	3		3	

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

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

Personnel and remuneration

On 31 December 2012, the Group had a staff of 3,404, up by 24 from 31 December 2011.

A total of 745 employees (748) worked for Banking, 2,384 for Non-life Insurance (2,355), 153 for Asset Management (149) and 123 for the Group Functions (129), and 387 employees (360) worked abroad. More information on the effects of the reorganisation programme on Group personnel can be found in “Pohjola’s reorganisation programme” above.

The scheme for variable remuneration within OP-Pohjola Group and Pohjola consists of short-term, company-specific incentives and OP-Pohjola Group-wide long-term incentives. More detailed information on remuneration can be found in Note 97 to the Financial Statements 2012.

Pohjola Group subsidiaries – Pohjola Asset Management Ltd and Pohjola Corporate Finance Ltd – had a shareholding scheme in place, under which each company’s key employees have held some shares in the company. These share-based schemes have been terminated.

Capital expenditure

Capital expenditure for 2012 totalled EUR 43 million (33), EUR 19 million (12) allocated Banking, EUR 22 million (20) to Non-life Insurance, EUR 1 million (1) to Asset Management and EUR 2 million (1) to the Group Functions, consisting mainly of ICT investments.

Corporate social responsibility

Corporate social responsibility (CSR) forms an integral part of Pohjola's and OP-Pohjola Group's core values and strategy, and Pohjola as part of 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.

More information on OP-Pohjola Group's Corporate Social Responsibility Programme is available in Pohjola's and OP-Pohjola's Annual Reports 2012.

Group restructuring

Pohjola Health Ltd and Excenta Ltd merged at the beginning of 2012 and the merged company now operates under the name of Pohjola Health Ltd.

Pohjola Insurance Ltd founded a hospital in Helsinki for outpatient surgery, specialising in the examination and treatment of orthopaedic diseases and injuries. The hospital began to operate in early 2013.

Pohjola Bank plc expanded its services in the Baltic region by opening a branch office in Latvia. For the moment, these new services for corporate customers in Latvia cover payment and liquidity management as well as working capital finance and investment financing.

Shares and shareholders

Pohjola Bank plc shares are divided into Series A and K shares. Series A shares are freely transferable and traded on NASDAQ OMX Helsinki (Helsinki Stock Exchange), whereas the holding of Series K shares is restricted to OP-Pohjola Group cooperative banks, the cooperative bank company and OP-Pohjola Group's central institution, OP-Pohjola Group Central Cooperative. At a General Meeting of Shareholders, one Series A share entitles its holder to one vote and one Series K share to five votes. Series A shares pay an annual dividend, which is at least three (3) cents higher than the dividend declared on Series K shares.

On 31 December 2012, the number of Pohjola Bank plc shares totalled 319,551,415, the number of Series A shares amounting to 251,942,798 and representing 78.8% of all Pohjola shares and 42.7% of all votes. The number of Series K shares came to 67,608,617, representing 21.2% of all Pohjola shares and 57.3% of all votes. The combined number of votes conferred by the shares totalled 589,985,883.

The total number of Pohjola Series A shares, quoted on the NASDAQ OMX Helsinki, and unquoted Series K shares underwent the following change in 2012. A total of 773,028 Series K shares held by OP-Pohjola Group member cooperative banks were converted into Series A shares, with the resulting changes registered in the Trade Register on 10 April 2012. Trading in the converted Series A shares began on the NASDAQ OMX Helsinki on 11 April 2012. As a result of the conversion, the number of Series K shares decreased from 68,381,645 to 67,608,617 while that of Series A shares quoted on the NASDAQ OMX Helsinki increased from 251,169,770 to 251,942,798. The conversions have not changed the total number of shares outstanding, amounting to 319,551,415 shares. The post-conversion number of votes conferred by the shares totals 589,985,883.

On 31 December 2012, Pohjola Bank plc had 32,278 registered shareholders, down by 1,684 on a year earlier, private individuals accounting for 95.3%. The largest shareholder was OP-Pohjola Group Central Cooperative, the parent institution of Pohjola, representing 37.24% of all shares and 61.28% of all votes. The number of nominee registered shares increased slightly in 2012, accounting for 20.4% (20.2%) of Series A shares on 31 December 2012.

On 31 December 2012, members of the Board of Directors and the Group's Executive Committee held a total of 168,602 Series A shares (148,028), accounting for 0.05% (0.05) of all Company shares and for 0.03% (0.02) of all votes.

At the end of 2012, one Series A share closed at EUR 11.27, as against EUR 7.51 a year earlier. The share price reached a high of EUR 11.42 and a low of EUR 7.34. Pohjola's market capitalisation amounted to EUR 3,601 million (2,400) at the end of 2012. In calculating the market capitalisation, Series K shares were valued at the price of Series A shares.

During 2012, trading in Pohjola shares decreased in euro terms to EUR 1,133 million as against EUR 1,514 million in the previous year. Similarly, the share trading volume decreased, with 126 million shares changing hands as against 174 million shares a year ago.

No disclosure of shareholdings took place in 2012.

The AGM of 27 March 2012 authorised the Board of Directors to decide on one or several rights issues. The total number of Series A and Series K shares offered for subscription in such a rights issue may not exceed 24,000,000 and 6,000,000, respectively. The Board of Directors is also authorised to waive the shareholders' pre-emptive right (private placement), should there be, from the Company's perspective, a financially cogent reason to do so, in accordance with the Limited Liability Companies Act. In such a case, this authorisation may be exercised for the purpose of financing and executing company acquisitions or other transactions relating to the Company's business. The authorisation contains the Board of Directors' right of stipulating the terms and conditions of a share issue and on other matters relating to these measures. The Board of Directors also has the right to determine whether the subscription price is to be entered in full or in part in the Company's reserve for invested non-restricted equity or in share capital. The authorisation is effective until 27 March 2013. On the basis of the authorisation, the Board of Directors has not made any decision on a share issue. No such authorisations issued in the previous years were effective in 2012.

In 2012, the Annual General Meeting did not make any decision on share buybacks or issue any related authorisations. No such authorisations issued in the previous years were in other respects effective in 2012.

Information on shareholdings is available in the Notes to the Parent Company's Financial Statements.

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

Decisions by the Annual General Meeting

Pohjola Bank plc's Annual General Meeting (AGM) of 27 March 2012 adopted the Financial Statements for 2011, discharged members of the Board of Directors and the President and CEO from liability and decided to distribute a dividend of EUR 0.41 per Series A share and EUR 0.38 per Series K share. The AGM confirmed the number of members of the Board of Directors at eight. In addition, the AGM authorised the Board of Directors to decide on a share issue.

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

Management

The AGM re-elected the following members to the Board of Directors until the closing of the next AGM: Merja Auvinen, Deputy Managing Director; Jukka Hienonen, President and CEO; Harri Sailas, President and CEO; and Tom von Weymarn. New Board members elected by the AGM were Jukka Hulkkonen, Managing Director, and Mirja-Leena (Mirkku) Kullberg, Managing Director.

In addition to the abovementioned Board members, Reijo Karhinen, Chairman of the Executive Board of OP-Pohjola Group Central Cooperative, the parent institution, acts as the Chairman of the Board of Directors and Tony Vepsäläinen, Vice Chairman of the Executive Board of OP-Pohjola Group Central Cooperative and Chief Business Development Officer, as Vice Chairman, by virtue of law.

At its regrouping meeting on 27 March 2012 held after the AGM, the Board of Directors of Pohjola Bank plc elected members to the Board's committees and assessed the status of its members' independence of the Company and its major shareholders.

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

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

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

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

Karri Alameri was appointed a new President of Pohjola Asset Management Limited, a subsidiary of Pohjola Bank plc, effective as of 10 February 2012. He succeeds Mikko Koskimies.

The Group Executive Committee comprises President and CEO Mikael Silvennoinen (Chairman), Vesa Aho, Karri Alameri since 10 February (Mikko Koskimies until 10 February), Jouko Pölönen, Reima Rytsölä, Petri Viertiö, and Tarja Ollilainen.

Corporate Governance Statement

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

Representative offices and branches abroad

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

Joint liability

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

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

The member credit institutions within the amalgamation (almost 200 OP-Pohjola Group’s member cooperative banks, Pohjola Bank plc, Helsinki OP Bank Plc, OP Mortgage Bank, OP-Kotipankki Oyj and OP-Process Services Ltd) and the central institution are jointly and severally liable for each other’s debts. A creditor who has not received payment of an overdue amount (principal debt) may demand payment from the central institution when the principal debt falls due. In such a case, the central institution must produce a statement referred to in said Act, showing the amount of liability apportioned to each member credit institution. This liability between the credit institutions is determined in proportion to the total assets shown in their most recently adopted balance sheets.

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

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

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

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

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

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

Outlook for 2013

Within Banking, growth prospects on the loan portfolio are dimmer than last year. The operating environment for the corporate sector will remain challenging. The greatest uncertainties related to Banking's financial performance in 2013 are associated with future impairment loss on the loan portfolio.

On 28 December 2012, the Finnish Parliament passed a bill on a temporary bank tax. This tax accounts for 0.125% of risk-weighted assets, which means that Pohjola will incur additional non-deductible expenses of around EUR 19 million in 2013.

Insurance premium revenue is expected to increase at an above-the-market-average rate. The operating combined ratio for the full year 2013 is estimated to vary between 89% and 93% if the number of large claims is not much higher than in 2012. Expected investment returns are largely dependent on developments in the investment environment. The most significant uncertainties related to Pohjola Insurance's financial performance in 2013 pertain to the investment environment and the effect of large claims on claims expenditure.

The greatest uncertainties related to Asset Management's financial performance in 2013 are associated with the actual performance-based fees tied to the success of investments and the amount of assets under management.

The key determinants affecting the Group Functions' financial performance include net interest income arising from assets in the liquidity buffer, any capital gains or losses on notes and bonds and any impairment charges that may be recognised on notes and bonds in the income statement. It is estimated that the Group Functions' net interest income will be lower than in 2012.

Consolidated earnings before tax in 2013 are expected to be higher than in 2012.

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

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

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

On 31 December 2012, the shareholders' equity of Pohjola Bank plc totalled EUR 1,719,758,901.82, EUR 570,537,192.60 of which represented distributable equity.

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

	€
Profit for 2012	194,506,607.98
Retained earnings	44,649,747.56
Reserve for invested non-restricted equity	307,931,364.75
Other non-restricted reserves	23,449,472.31
Total	**570,537,192.60**

The Board of Directors proposes that the Company's distributable funds be distributed as follows:

- EUR 0.46 payable on 251,942,798 Series A shares, totalling EUR 115,893,687.08, and EUR 0.43 per share payable on 67,608,617 Series K shares, totalling EUR 29,071,705.31, i.e. the proposed total dividend distribution amounts to EUR 144,965,392.39.

The Board of Directors proposes that EUR 144,965,392.39 out of the profit for 2012 be allocated to dividend distribution. Accordingly, EUR 425,571,800.21 remains in the Company's distributable equity.

In addition, the Board of Directors proposes that a maximum of EUR 150,000 be available to the Board of Directors reserved from the distributable funds for donations and other charitable contributions.

The Company's financial position has not undergone any material changes since the end of the financial year 2012. The Company's liquidity is good and will not be jeopardised by the proposed profit distribution, in the Board of Directors' view.

The Board of Directors proposes that the dividend be paid to shareholders who have been entered in the Shareholder Register, maintained by Euroclear Finland Ltd, by the dividend record date on 27 March 2013 and that the dividend be paid within the book-entry securities system on 5 April 2013.

Financial indicators and share-related figures and ratios

	2008	2009	2010	2011	2012
Return on equity (ROE), %	5.0	10.0	9.9	9.2	11.2
Return on equity at fair value (ROE), %***	-5.6	19.2	9.3	3.1	23.3
Return on assets (ROA), %	0.3	0.6	0.6	0.6	0.7
Equity ratio, %	5.1	6.4	6.6	5.6	6.2
Average personnel	3,085	2,966	3,005	3,189	3,421
Cost/income ratio, %	76	56	56	62	57

Share-related figures and ratios	2008	2009	2010	2011	2012
Earnings per share (EPS), €					
Series A share**	0.36	0.66	0.72	0.68	0.90
Series K share**	0.33	0.63	0.69	0.65	0.87
Equity per share, €**	6.58	7.09	7.44	7.22	8.67
Dividend per share, €*, **	0.18	0.33	0.39	0.40	0.45
Dividend payout ratio, %*, **	51.4	50.7	54.9	59.9	50.9
Effective dividend yield (Series A share), %*, **	2.4	4.5	4.5	5.5	4.1
Price/earnings ratio (P/E)**	22.4	11.5	12.5	11.2	12.7
Share price performance (Series A share)**					
Average, €**	9.15	6.32	8.61	8.52	8.99
Low, €**	6.28	3.80	6.97	6.47	11.42
High, €**	11.43	9.31	9.79	10.28	7.34
Year-end, €**	7.88	7.55	8.97	7.51	11.27
Market capitalisation (Series A share), € million	1,556	1,896	2,253	1,886	2,839
Market capitalisation (Series A and K shares), € million	1,983	2,413	2,866	2,400	3,601
Share trading volume (Series A share), 1,000	118,771	174,863	153,845	174,151	126,205
% of all shares	74.4	74.8	61.3	69.3	50.1
Issue-adjusted number of shares					
(Series A and K shares)					
Year average**	249,057,242	295,795,845	319,551,415	319,551,415	319,551,415
Year end**	249,057,242	319,551,415	319,551,415	319,551,415	319,551,415
Number of shares (Series A and K shares)					
Year average	203,350,900	295,795,845	319,551,415	319,551,415	319,551,415
Year end	203,350,900	319,551,415	319,551,415	319,551,415	319,551,415

* Board proposal: EUR 0.46 on Series A shares and EUR 0.43 on Series K shares.
** Due to Pohjola Bank plc's rights issue and new shares entered in the Trade Register on 4 May 2009, the per-share ratios have been adjusted retroactively using the share issue ratio.
*** The financial indicators for 2008–12 have not been adjusted retroactively due to the 2012 change of an accounting policy (IAS 19). The change has no major effect on the presented indicators.

Formulas for key figures and ratios

Return on equity (ROE), %

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

Return on equity (ROE) at fair value, %

Comprehensive income for the period /

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

Return on assets (ROA), %

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

Equity ratio, %

Shareholders' equity / Balance sheet total x 100

Cost/income ratio, %

Personnel costs + Other administrative expenses + Other operating expenses /

(Net interest income + Net income from Non-life Insurance + Net commissions and fees + Net trading income + Net investment income + Other operating income) x 100

Earnings/share (EPS)

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

Equity/share

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

Dividend per share

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

Dividend payout ratio, %

Dividend per share / Earnings per share x 100

Effective dividend yield, %

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

Price/earnings ratio (P/E)

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

Average share price

Total share turnover in euro / Share trading volume

Market capitalisation

Number of shares x closing price on the balance sheet date

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

Conglomerate's total capital / Conglomerate's total minimum capital requirement

Capital adequacy ratio, %

Total capital base / Total minimum capital requirement x 8

Tier 1 ratio, %

Total Tier 1 capital / Total minimum capital requirement x 8

Core Tier 1, %

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

Key ratios for Non-life Insurance

The key ratio formulas for Non-life Insurance are based on regulations issued by the Finnish Financial Supervisory Authority, using the corresponding IFRS sections to the extent applicable. The ratios are calculated using expenses by function applied by non-life insurance companies, which are not presented on the same principle as in the Consolidated Income Statement.

Loss ratio (excl. unwinding of discount)

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

Expense ratio

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

Net insurance premium revenue x 100

Combined ratio (excl. unwinding of discount)

Loss ratio + expense ratio

Risk ratio + cost ratio

Solvency ratio

(+ Non-life Insurance net assets

+ Subordinated loans

+ Net tax liability for the period

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

- Intangible assets)/

Insurance premium revenue x 100

Operating key ratios

Operating cost/income ratio

(+ Personnel costs

+ Other administrative expenses

+ Other operating expenses excl. amortisation on intangible assets and goodwill

related to Pohjola acquisition) /

(+ Net interest income

+ Net income from Non-life Insurance

+ Net commissions and fees

+ Net trading income

+ Net investment income

+ Other operating income) x 100

Operating loss ratio

Claims incurred, excl. changes in reserving bases /

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

Operating expense ratio

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

Operating combined ratio

Operating loss ratio + operating expense ratio

Operating risk ratio + Operating cost ratio

Operating risk ratio

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

Operating cost ratio

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

Values used in calculating the ratios

Non-Life Insurance, € million	**2012**	**2011**
Non-life Insurance net assets	1,654	1,490
Net tax liabilities for the period	-49	4
Own subordinated loans	50	50
Deferred tax to be realised in the near future and other		
items deducted from the solvency margin of the companies	-6	-5
Intangible assets	747	756

Changes in reserving bases, and other non-recurring items, € million	**2012**	**2011**
Increase in technical provisions related to higher life expectancy		-27
Change in discount rate	-52	-32

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Consolidated income statement

EUR million	Note	2012	2011
Net interest income	4	263	276
Impairment of receivables	5	57	60
Net interest income after impairments		**206**	**215**
Net income from Non-life Insurance	6	438	318
Net commissions and fees	7	169	161
Net trading income	8	79	26
Net investment income	9	13	23
Other operating income	10	37	41
Total income		**941**	**783**
Personnel costs	11	230	212
ICT costs		87	81
Depreciation/amortisation		50	57
Other expenses		200	177
Total expenses		**567**	**527**
Share of associates' profits/losses		1	2
Earnings before tax		**374**	**258**
Income tax expense	14	89	43
Profit for the period		**285**	**216**
Attributable to owners of the Parent		285	216
Total		**285**	**216**
Earnings per share (EPS), EUR			
Series A	15	0.90	0.68
Series K	15	0.87	0.65

Consolidated statement of comprehensive income

EUR million	Note	2012	2011
Profit for the period		**285**	**216**
Change in fair value reserve			
Measurement at fair value		401	-202
Cash flow hedge		17	22
Actuarial gains/losses on post-employment benefit obligations		-12	-10
Translation differences		0	1
Income tax on other comprehensive income			
Measurement at fair value		98	-49
Cash flow hedge		4	5
Actuarial gains/losses on post-employment benefit obligations		-3	-2
Total comprehensive income for the period		**592**	**72**
Total comprehensive income attributable to owners of the Parent		592	72
Total		**592**	**72**

Consolidated balance sheet

EUR million	Note	31 Dec. 2012	31 Dec. 2011	1 Jan. 2011
Liquid assets	16	5,643	4,247	1,501
Receivables from financial institutions	17	8,815	7,367	8,033
Financial assets at fair value through profit or loss	18			
Financial assets held for trading		246	170	410
Financial assets at fair value through profit or loss at inception		9	13	12
Derivative contracts	19	4,462	3,326	1,962
Receivables from customers	20	13,839	12,701	12,433
Non-life Insurance assets	21	3,523	3,256	3,198
Investment assets	22	5,431	7,341	6,339
Investment in associates	24	26	27	25
Intangible assets	25	922	920	925
Property, plant and equipment (PPE)	26	69	82	97
Other assets	27	1,600	1,572	1,185
Tax assets	28	36	87	40
Total assets		**44,623**	**41,111**	**36,160**

EUR million	Note	31 Dec. 2012	31 Dec. 2011	1 Jan. 2011
Liabilities to financial institutions	29	5,840	5,935	4,960
Financial liabilities at fair value throuhg profit or loss	30			
Financial liabilities held for trading		3	1	0
Derivative contracts	31	4,557	3,460	2,054
Liabilities to customers	32	10,775	8,025	4,231
Non-life Insurance liabilities	33	2,592	2,508	2,351
Debt securities issued to the public	34	13,769	15,179	16,685
Provisions and other liabilities	35	2,556	2,235	1,815
Tax liabilities	36	485	411	449
Subordinated liabilities	37	1,275	1,050	1,255
Total liabilities		**41,854**	**38,804**	**33,801**
Shareholders' equity	38			
Capital and reserves attributable to equity holders of the Parent				
Share capital		428	428	428
Reserves		1,260	945	1,081
Retained earnings		1,081	934	851
Total shareholders' equity		**2,769**	**2,306**	**2,359**
Total liabilities and shareholder's equity		**44,623**	**41,111**	**36,160**

Consolidated cash flow statement

EUR million	2012	2011
Cash flow from operating activities		
Profit for the period	285	216
Adjustments to profit for the period	260	238
Increase (-) or decrease (+) in operating assets	**-668**	**-1,101**
Receivables from financial institutions	-1,284	771
Financial asset at fair value through profit or loss	167	181
Derivative contracts	27	-9
Receivables from customers	-1,190	-320
Non-life Insurance assets	-185	-189
Investment assets	1,810	-1,141
Other assets	-14	-394
Increase (+) or decrease (-) in operating liabilities	**2,913**	**5,294**
Liabilities to financial institutions	-124	954
Financial liabilities at fair value through profit or loss	2	1
Derivative contracts	-22	34
Liabilities to customers	2,750	3,794
Non-life Insurance liabilities	10	95
Provisions and other liabilities	298	416
Income tax paid	-65	-83
Dividends received	45	40
A. Net cash from operating activities	**2,770**	**4,604**
Cash flow from investing activities		
Decreases in held-to-maturity financial assets	320	217
Acquisition of subsidiaries and associates, net of cash acquired	-3	-4
Disposal of subsidiaries and associates, net of cash disposed		0
Proceeds from sale of investment securities		0
Purchase of PPE and intangible assets	-44	-34
Proceeds from sale of PPE and intangible assets	2	1
B. Net cash used in investing activities	**275**	**180**
Cash flow from financing activities		
Increases in subordinated liabilities	502	181
Decreases in subordinated liabilities	-274	-388
Increases in debt securities issued to the public	22,516	36,482
Decreases in debt securities issued to the public	-24,095	-38,081
Dividends paid	-129	-126
Other monetary decreases in equity items	0	0

C. Net cash provided by (used in) financing activities	**-1,479**	**-1,931**
Net increase/decrease in cash and cash equivalents (A+B+C)	**1,565**	**2,853**
Cash and cash equivalents at year-start	**4,612**	**1,758**
Cash and cash equivalents at year-end	**6,177**	**4,612**
Interest received	**2,448**	**2,135**
Interest paid	**-2,153**	**-1,838**
Adjustments to profit for the financial year		
Non-cash items and other adjustments		
Impairment losses on receivables	59	61
Unrealised net earnings in Non-life Insurance	164	147
Change in fair value for trading	196	60
Unrealised net gains on foreign exchange operations	-254	142
Change in fair value of investment property	-1	0
Planned amortisation/depreciation	50	57
Share of associates' profits	1	-2
Other	31	-226
Items presented outside cash flow from operating activities		
Capital gains, share of cash flow from investing activities	0	0
Capital losses, share of cash flow from investing activities	13	
Total adjustments	**260**	**238**
Cash and cash equivalents		
Liquid assets*	5,654	4,253
Receivables from financial institutions payable on demand	523	359
Total	**6,177**	**4,612**

* Of which EUR 10 million (6) consists of Non-life Insurance cash and cash equivalents.

Consolidated statement of changes in equity

EUR million	Share capital	Fair value reserve: Measurement at fair value	Fair value reserve: Cash flow hedge	Other reserves	Retained earnings	Total equity
Balance at 1 January 2011	**428**	**-6**	**-6**	**1,093**	**868**	**2,377**
Change in accounting policy under IAS 19					-17	-17
Balance at 1 January 2011, new accounting policy	**428**	**-6**	**-6**	**1,093**	**851**	**2,359**
Total comprehensive income for the period		-152	16	0	216	80
Effect of change in accounting policy on comprehensive income for the period					-8	-8
Profit distribution					-126	-126
EUR 0.40 per Series A share					-100	-100
EUR 0.37 per Series K share					-25	-25
Equity-settled share-based transactions					1	1
Other					0	0
Balance at 31 December 2011	**428**	**-159**	**10**	**1,093**	**934**	**2,306**

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

Segment information

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

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

Segment accounting policies

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

Operating segment capitalisation is based on Pohjola Group’s capital adequacy measurement under the Act on Credit Institutions. Capital requirements according to this measurement are allocated among the operating segments. The Group has allocated capital to its operating segments in such a way that the Tier 1 ratio stands at 8% and the capital adequacy ratio at 11.5%.

Banking

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

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

The Markets division’s services range from the arrangement of debt issues, corporate finance services and custody, equity, foreign exchange, money market and derivative products to investment research. The division executes both its clients’ and the Bank’s orders in international financial markets and is also an active player in international derivatives markets, the government bond market in the euro area and corporate bond markets. Its income derives from net commissions and fees and income from trading.

Baltic Banking provides finance-company products in Estonia, Latvia and Lithuania. Pohjola has established itself in Estonia and Latvia through its own branch offices. It will open a branch office in Lithuania in early 2013.

Non-life Insurance

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

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

The range of Non-life Insurance products includes non-life policies for corporate and private customers. In addition, the domestic service network provides corporate customers with OP-Pohjola Group's life and pension policies and Ilmarinen Mutual Pension Insurance Company’s employment pension policies while being in charge of customer service for Suomi

Mutual Life Assurance Company and Ilmarinen. Furthermore, commissions and fees come from managing certain statutory charges and from risk management services.

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

Asset Management

The Asset Management business line comprises Pohjola Asset Management Ltd, Pohjola Asset Management Execution Services Ltd, Pohjola Property Management Ltd and the associated company Access Capital Partners Group SA.

Pohjola Asset Management Ltd provides Finnish institutional clients and wealthy private individuals with discretionary and advisory investment management services. Furthermore, the portfolio management of OP Fund Management Company Ltd's mutual funds is mainly centralised within Pohjola Asset Management. In addition to its own portfolio management, Pohjola Asset Management has some 30 international partners boasting a wide range of funds for the needs of both institutional and private clients.

Pohjola Property Management Ltd focuses on real property investment in Finland and on the selection of real estate funds in international markets.

The division's income came mainly from management commissions and fees.

Group Functions

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

It is responsible for the management of financing and liquidity for OP-Pohjola Group's retail banks and Pohjola Group, as well as for OP-Pohjola Group's wholesale funding.

Income, expenses, investments and capital which have not been allocated to the business segments are reported under the Group Functions. Group taxes are allocated to the Group Functions in their entirety.

Eliminations

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

Segment information

2012, EUR million	Banking	Non-life Insurance	Asset Manage-ment	Group Functions	Elimi-nations	Group total
Net interest income						
Corporate Banking and Baltic Banking	199					199
Markets	31					31
Other operations		-8	3	36	2	33
Total	230	-8	3	36	2	263
Net commissions and fees	96	23	60	-2	-8	169
Net trading income	72	0	0	1	5	79
Net investment income	2		0	11		13
Net income from Non-life Insurance						
From insurance operations		367				367
From investment operations		115			0	115
From other items		-45				-45
Total		438			0	438
Other operating income	19	5	2	18	-7	37
Total income	**418**	**458**	**65**	**65**	**-7**	**998**
Personnel costs	62	135	19	14		230
ICT costs	27	51	3	6	1	87
Amortisation on intangible assets related to company acquisitions		21	2			24
Other depreciation/amortisation and impairments	15	9	1	1		27
Other expenses	37	150	8	13	-8	200
Total expenses	**142**	**366**	**33**	**34**	**-7**	**567**
Earnings/loss before impairment of receivables	**277**	**92**	**32**	**31**	**0**	**431**
Impairments of receivables	54			3		57
Share of associates' profits/losses		0	0		0	1
Earnings before tax	**222**	**92**	**32**	**28**	**0**	**374**
Change in fair value reserve	6	191	0	222	-1	418
Actuarial gains/losses on post-employment benefit obligations	-8	-1	0	-3		-12
Total comprehensive income for the period, before tax	**220**	**282**	**32**	**247**	**-1**	**780**

2011, EUR million	Banking	Non-life Insurance	Asset Manage-ment	Group Functions	Elimi-nations	Group total
Net interest income						
Corporate Banking and Baltic Banking	180					180
Markets	58					58
Other operations		-2	3	35	2	38
Total	238	-2	3	35	2	276
Net commissions and fees	97	20	50	-2	-4	161
Net trading income	18		0	3	4	26
Net investment income	5	0	0	18		23
Net income from Non-life Insurance						
From insurance operations		332				332
From investment operations		36			-3	32
From other items		-46				-46
Total		321			-3	318
Other operating income	25	5	2	13	-5	41
Total income	**384**	**344**	**56**	**67**	**-6**	**843**
Personnel costs	56	125	18	13		212
ICT costs	26	46	2	6	0	81
Amortisation on intangible assets related to company acquisitions		21	2			24
Other depreciation/amortisation and impairments	21	10	1	1		33
Other expenses	32	133	7	11	-6	177
Total expenses	**135**	**336**	**31**	**31**	**-6**	**527**
Earnings/loss before impairment of receivables	**248**	**8**	**25**	**36**	**0**	**316**
Impairments of receivables	49			11		60
Share of associates' profits/losses		0	2		0	2
Earnings before tax	**199**	**8**	**27**	**24**	**0**	**258**
Change in fair value reserve	-10	-47	0	-122	-1	-180
Actuarial gains/losses on post-employment benefit obligations	-7	-1	0	-2		-10
Total comprehensive income for the period, before tax	**182**	**-40**	**27**	**-100**	**-1**	**68**

31 Dec 2012, EUR million	Banking	Non-life Insurance	Asset Manage-ment	Group Functions	Elimi-nations	Group total
Receivables from customers	13,723			286	-169	13,839
Receivables from credit institutions	433	5	3	14,037	-19	14,458
Financial assets at fair value through profit or loss	360			-104		256
Non-life Insurance assets		3,627			-104	3,523
Investment assets	457	16	23	4,943	-9	5,431
Investments in associates		2	24			26
Other assets	4,681	773	127	1,585	-77	7,090
Total assets	**19,653**	**4,423**	**178**	**20,748**	**-378**	**44,623**
Liabilities to customers	6,786			4,055	-66	10,775
Liabilities to credit institutions	1,225			4,784	-169	5,840
Non-life Insurance liabilities		2,595			-3	2,592
Debt securities issued to the public				13,817	-48	13,769
Subordinated liabilities		50		1,225		1,275
Other liabilities	5,573	124	12	1,985	-91	7,602
Total liabilities	**13,583**	**2,769**	**12**	**25,867**	**-377**	**41,854**
Shareholders' equity						**2,769**
Average personnel	745	2,384	153	123		3,404
Capital expenditure, EUR million	19	22	1	2		43

31 Dec 2011, EUR million	Banking	Non-life Insurance	Asset Manage-ment	Group Functions	Elimi-nations	Group total
Receivables from customers	12,627			207	-132	12,701
Receivables from credit institutions	363	0	3	11,261	-13	11,614
Financial assets at fair value through profit or loss	250			-67		183
Non-life Insurance assets		3,352			-97	3,256
Investment assets	281	16	28	7,026	-11	7,341
Investments in associates		2	25			27
Other assets	3,850	780	115	1,297	-53	5,988
Total assets	**17,371**	**4,150**	**171**	**19,723**	**-306**	**41,111**
Liabilities to customers	3,084			4,989	-48	8,025
Liabilities to credit institutions	924			5,143	-132	5,935
Non-life Insurance liabilities		2,543			-36	2,508
Debt securities issued to the public				15,202	-23	15,179
Subordinated liabilities		50		1,005	-5	1,050
Other liabilities	4,252	69	14	1,834	-61	6,107
Total liabilities	**8,261**	**2,662**	**14**	**28,173**	**-305**	**38,804**
Shareholders' equity						**2,306**
Average personnel	748	2,355	149	129		3,380
Capital expenditure, EUR million	12	20	1	1		33

Notes to the Consolidated Financial Statements

NOTES TO THE INCOME STATEMENT

NOTES TO THE BALANCE SHEET

NOTES TO RISK MANAGEMENT

OTHER NOTES TO THE BALANCE SHEET

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OTHER NOTES

Note 97. Variable remuneration

Notes to the Consolidated Financial Statements

Note 1. Pohjola Group’s Accounting Policies

1. General information

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

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

Pohjola Bank plc belongs to OP-Pohjola Group, which consists of 196 cooperative banks and their central institution, OP-Pohjola Group Central Cooperative with its subsidiaries. OP-Pohjola Group’s member credit institutions comprise Pohjola, Helsinki OP Bank Plc, OP-Kotipankki Oyj, OP Mortgage Bank and the member cooperative banks of OP-Pohjola Group Central Cooperative.

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

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

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

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

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

The Board of Directors authorised these consolidated financial statements for issue on 6 February 2013.

1.1 Basis of preparation

These consolidated financial statements have been 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.

In 2012, Pohjola adopted the following IFRS, interpretations and options:

OP-Pohjola Group has 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 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).

Pohjola's consolidated financial statements have been 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 and derivative instruments (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.

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

1.2 Use of estimates and judgements

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 Basis of consolidation

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

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

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

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

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

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

1.3.1 Non-controlling interests

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

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

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

1.4 Foreign currency transactions

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

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

The income statements of foreign subsidiaries, whose functional currency is other than the euro, are translated into euros using the average exchange rate for the financial year, while their balance sheets are translated into euros using the exchange rate quoted on the balance sheet date. The resulting exchange rate differences are recognised as translation differences in 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 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 a company's own valuation techniques where no active market exists. Markets are deemed to be active if price quotes are easily and regularly available and reflect real and regularly occurring market transactions on an arm's length basis. The current bid price is used as the quoted market price of financial assets.

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

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

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

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

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

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

1.5.2 Impairment of financial assets

At the end of each reporting period, 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

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 and financial assets at fair value through profit or loss at inception. Financial assets at fair value through profit or loss are initially recognised at fair value and transaction costs are charged to expenses.

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 accounted for 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.

1.5.4.2 Loans and receivables

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

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

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

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

Impairment will be recognised and impairment losses incurred if there is objective evidence 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, including any capital gain or loss, are transferred to the income statement when the asset is derecognised or there is objective evidence that its value has impaired.

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

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

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

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

1.5.5 Cash and cash equivalents

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

1.5.6 Other financial liabilities

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

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

1.5.7 Derivative contracts

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

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

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

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

1.5.7.1 Derivatives held for trading

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

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

1.5.8 Hedge accounting

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

The relationship between hedging and hedged instruments is formally documented, containing information on risk management principles, hedging strategy and the methods used to demonstrate hedge effectiveness. Hedge effectiveness is tested at the inception of the hedge and in subsequent periods by comparing respective changes in the fair value or cash flows of the hedging and hedged instrument. The hedge is considered highly effective if the change in the fair value or cash flows of the hedging instrument offsets the change in the fair value or cash flows of the hedged contract or position 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 (Pohjola's own issues), individual bond and loan portfolios, as well as individual loans. The Group uses interest-rate swaps and cross currency swaps as hedging instruments. Hedging against equity and foreign currency risks applies to Non-life Insurance's equity fund investments.

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

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

1.5.8.2 Cash flow hedges

A cash flow hedge is a hedge of the exposure to the variability attributable to a particular risk associated with variable-rate debt or other variable-rate assets and liabilities. For example, interest rate swaps are 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 or as Non-life Insurance assets in the consolidated balance sheet.

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

If no comparable market data is available on the transaction prices of investment property, Pohjola 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. Pohjola 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 in force exists, 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, Pohjola 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 Pohjola Group’s internal expertise. In the fair value of undeveloped plots, Pohjola has taken account of the planning and market situation at the time of appraisal. The fair value of major property holdings is based on valuation reports drawn up by Authorised Property Valuers. External valuers use a cash flow analysis as the basis for their appraisal.

1.7 Intangible assets

1.7.1 Goodwill

For business combinations on or after 1 January 2010, the Group measures goodwill as the fair value of the consideration transferred including the recognised amount of any non-controlling interest in the acquiree and the previous holding exceed 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 impairment and carried at cost less accumulated impairment losses. For the purpose of impairment testing, goodwill is allocated to cash-generating units, which are either business segments or entities belonging to them.

1.7.2 Customer relationships

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

1.7.3 Brands

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

1.7.4 Deferred acquisition costs of insurance contracts

Foreign subsidiaries capitalise costs related to the acquisition of new insurance contracts or to the renewal of existing contracts. The resulting capitalised costs are amortised on a straight-line basis over the effective lives of the contracts, which is the insurance period. An intangible asset is tested annually in connection with testing the adequacy of the liability associated with insurance contracts.

1.7.5 Other intangible assets

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

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

1.8 Property, plant and equipment

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

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

The estimated useful lives are mainly as follows:

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

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

1.8.1 Impairment of PPE and intangible assets

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

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

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

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

1.9 Leases

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

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

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

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

The statutory pension cover for Pohjola Group companies' employees is managed through payments to OP Bank Group Pension Fund or insurance companies. Some Group companies provide their employees with supplementary pension cover through OP Bank Group Pension Foundation or an insurance company.

Pohjola Group has both defined benefit and defined contribution plans. With respect to funded disability and old-age pensions, pensions managed by OP Bank Group Pension Fund are 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

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 Non-life Insurance financial assets and liabilities

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

1.11.2 Classification of insurance contracts issued by insurers

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

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

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

Short-term insurance contracts are usually valid for 12 months or a shorter period, but very seldom over 24 months. In particular, policies for private individuals, motor-vehicle policies and statutory workers' compensation policies are usually automatically renewable annual policies that are treated as short-term contracts.

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

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

1.11.3 Recognition and measurement of insurance contracts issued by insurers

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

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

Liabilities of contracts issued by insurers and measured under IFRS 4 are calculated using mainly national accounting standards. However, equalisation provisions are not included in these liabilities.

The liabilities comprise provisions for unearned premiums and provisions for unpaid claims. Non-life provisions for unearned premiums equal the liabilities arising from claims expected and other expenses for the remaining coverage periods of the recognised policies. Provisions for unpaid claims are the liabilities arising 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 (construction defects) and perpetual insurance is based on the proportional 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 occurred and their settlement expenses – including claims incurred but not yet reported to the Group (IBNR) – are reserved in the provision for unpaid claims consisting of both claims reserved for individual cases and statistically reserved claims. The provision, included in the provision for unpaid claims, for the future settlement expenses, is based on estimated costs.

Provision for unearned premiums for decennial insurance and perpetual insurance and provision for unpaid claims for annuities are discounted based on a fixed discount rate applied by the Group. Determined in view of the underlying trend in interest rates, the discount rate may not exceed the expected return on the assets covering the liability or the level set by the authorities. An increase in liabilities due to the passage of time (unwinding of discount) is shown in the income statement as a separate item within “Other Non-life Insurance items” under “Net income from Non-life Insurance”.

1.11.4 Liability adequacy test on insurance contracts

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

1.11.5.1 Receivables and payables related to insurance contracts

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

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

1.11.6 Salvage and subrogation reimbursements

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

Reinsurance assets are tested for impairment on each balance sheet date. If there is objective evidence that the Group may not receive all amounts to which it is entitled on the basis of the contract terms and conditions, 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.

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

1.11.8 Coinsurance and pools

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

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

1.12 Provisions and contingent liabilities

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

1.13 Income tax

Income tax expense shown in the income statement includes current tax, based on the taxable income of Pohjola Group companies for 2012, and income tax for prior financial years and deferred tax expense or income.

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

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

1.14 Revenue recognition

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

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

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

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

Summary of presentation of income statement items:

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

1.15 Segment reporting

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

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

1.16 Critical accounting estimates and judgements

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

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

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

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

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

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 a significant or long-term decline in the fair value forms 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 inputs are 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.

1.17 New standards and interpretations

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

- IFRS 13 – Fair Value Measurement. This Standard seeks to increase consistency and comparability 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 subjet 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 1January 2014.

- Annual improvements to IFRSs 2009–2011 cycle. These changes may have a minor effect on Pohjola'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 in financial statements information. OP-Pohjola Group is actively monitoring the progress of these changes.

Notes to the Consolidated Financial Statements

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

Core values, strategic goals and financial targets form the basis for risk and capital adequacy management.

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

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

Pohjola Bank plc's Board of Directors approves Pohjola Group's capital adequacy management principles, subject to an annual review, which are based the risk management and capital adequacy management principles adopted by the Supervisory Board of OP-Pohjola Group Central Cooperative, the central institution.

The capital adequacy management principles specify the Group's risk-bearing capacity, risk appetite, overall risk and capital adequacy management principles, as well as a capital maintenance plan. The principles define the Group's business-related risks and the risk management organisation while describing the duties of various decision-making levels and the organisational units involved in risk management, and their division of responsibilities. The capital adequacy management principles also include a description of the capital adequacy assessment process, risk management methods and indicators, and the principles related to risk monitoring and reporting.

1. Organisation of risk management

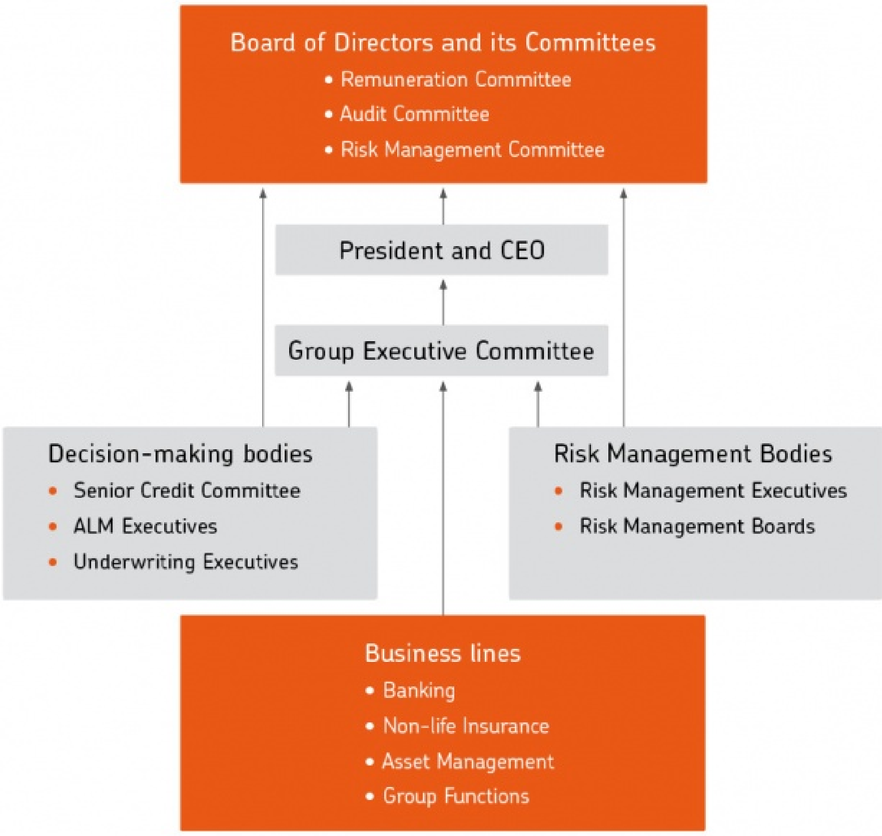
The section below describes the organisation of risk and capital adequacy management in 2012. Pohjola's risk and capital adequacy management responsibilities were centralised in OP-Pohjola Group Central Cooperative, the parent company, as part of the reorganisation of OP-Pohjola Group Central Cooperative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

As the highest decision-making body in matters associated with Pohjola Group's risk management and capital adequacy management, Pohjola's Board of Directors, decides on the goals and organisation of risk management and capital adequacy management, confirms the capital adequacy management principles, risk policies, investment plans and the main principles governing risk management. In addition, the Board supervises and monitors the implementation of risk management and capital adequacy management. The Board ensures the adequacy of risk management systems, confirms business goals, assesses the need for the Group's and Group companies' capital buffers, confirms capital plans and a proactive contingency plan for the capital base, and decides on the implementation method and organisation of the Compliance function. It also decides on reporting procedures which senior management uses to monitor the Group's and subsidiaries' business, risk-bearing capacity and risk status. The Board assesses the appropriateness, extent and reliability of Pohjola Group's capital adequacy management on a holistic basis at least once a year. The Board also approves the decision-making system and appoints Pohjola's Risk Management Executives, Asset/Liability Management Executives and members of the Senior Credit Committee, and confirms the description of the Underwriting Executives' duties and appointments.

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

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

Pohjola Group's reporting relationships in brief



The Board of Directors shall confirm the description of Pohjola Group's Risk Management Executives' duties and appoint the executives. The Risk Management Executives coordinate and supervise overall risk management and capital adequacy management principles and operational policies on a holistic basis. The Risk Management Executives deal with the Pohjola Group capital adequacy management principles submitted for the Board's confirmation, risk policies, an investment plan and major operating principles governing risk management and capital adequacy management. In addition, the Risk Management Executives approve the methods and indicators used in risk monitoring, and, upon a business line's proposal, new Group operating models and products and any changes to existing operating models and products. The Risk Management Executives report to the Risk Management Committee.

The Board of Directors shall confirm the description of the Asset/Liability Management Executives' duties and appoint the executives.

The Asset/Liability Management Executives are tasked with analysing, coordinating and controlling asset/liability management in accordance with laws, official regulations, risk policies issued by the Board of Directors and operating principles set by the Risk Management Executives. The Asset/Liability Management Executives deal with the development of the equity structure, the allocation of shareholders' equity to business units and risk types, and make decisions on policies governing the management of Group capital to optimise the return/risk ratio. Within the framework of the policy guidelines confirmed by the Board of Directors, the Asset/Liability Management Executives make decisions on Group funding and liquidity portfolio investments. They also decide on the allocation of limits, as defined in the Group's risk policies, to the business divisions. The Asset/Liability Management Executives report to the Risk Management Committee.

Pohjola Group's Risk Management Executives shall confirm the descriptions of the Insurance Risk Management Board's and the Pohjola Asset Management Risk Management Board's duties. The Risk Management Boards coordinate and supervise the Group's risk management and capital adequacy management principles and policy guidelines within their business lines. They monitor compliance with capital adequacy management principles and risk policy guidelines within their business lines and the businesses' risk exposure in relation to their risk-bearing capacity and goals. The Risk Management Boards report to the Risk Management Executives and their own business line's President.

Within the framework of authorisations confirmed by the Board of Directors, the Senior Credit Committee takes decisions on exposure, credit limit and credit approval concerning customer, bank and country risks. The Senior Credit Committee is chaired by the Executive Vice President of Banking. The Credit Committee, the Bank Credit Committee and the department- and unit-level decision-making bodies take decisions concerning credit risk within the framework of the confirmed authorisations.

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

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

Tasked with developing and implementing integrated risk management and capital adequacy management in cooperation with the Finance function within Pohjola Group, the Risk Management function, independent of business lines/divisions, is responsible for assisting the Board of Directors, the Risk Management Committee, the Audit Committee and the Risk Management Executives in preparing and developing the Group's capital adequacy management principles (incl. capital planning), and in preparing the Group's overall risk policy, risk policies by risk type, and investment plans. It is also in charge of monitoring and reporting the implementation of the Group's risk-bearing capacity and risk policies, and preparing and maintaining decision-making powers and instructions pertaining to risk-taking.

The Risk Management function also assists in decision-making and serves as a quality controller in the credit decision process, coordinates the Compliance function and supports the Group's business lines in the management of their compliance risks. The coordination, monitoring and reporting related to the identification and assessment of strategic risks, business risks and operational risks are carried out by the Risk Management function. The function is responsible for the creation, maintenance and further development of risk management methods in use. It also assesses risks associated with the introduction of new products and business models/concepts.

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

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

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

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

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

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

The Solvency II Directive, the updated regulatory solvency requirements for insurance companies, will probably come into force at the beginning of 2016. According to estimates, Solvency II is not expected to tighten Pohjola Group's Non-life Insurance solvency requirements significantly, since Finland complies with considerably higher minimum requirements than those set by the EU. Although there is not yet any final interpretation of the definition of solvency requirements and the capital base, the assumption is that equalisation provisions, for example, will be classified as Tier 1 capital under Solvency II. Arrangements made by the Group for the entry into force of Solvency II have proceeded on schedule.

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

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

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

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

3. Economic capital requirement

The economic capital requirement is Pohjola Group's own estimate of the amount of capital sufficient to cover any annual losses with a 99.97% level of confidence that may arise from risks associated with business and the operating environment. The economic capital requirement 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 Risk Management Executives approve Pohjola's models for measuring the economic capital requirement. The Group's Executive Committee examines the models and the Board of Directors examines their principles. Pohjola Group's economic capital model was adopted in 2009. These models will be further developed as a result of market changes and the development of the Group's business.

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

4. Risk appetite

Pohjola Group is a moderate risk taker and its business operations are based on a reasoned risk/return approach. The Group's risk appetite is defined by proportioning Group risk exposure to its risk-bearing capacity and expected returns. In its business operations, the Group exploits credit risks, market risks and funding risks as well as underwriting and investment risks. Business operations also involve strategic, business, compliance and operational risks. In 2013, the Group aims to keep its risk acceptance level cautious and allocate it to customer business in particular. In risk acceptance related to Non-life Insurance investment, the Group will gradually reduce tis risk allocation according to its long-term plan.

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

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

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

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

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

5. Risk policies

Annually formulated risk policies provide guidelines for risk acceptance. Pohjola's Board of Directors approves Pohjola Group's overall risk policy and the underlying risk policies and principles guiding the Group, Banking, the Group Functions and Non-life Insurance. Pohjola's overall risk policy is based on OP-Pohjola Group's risk policy.

In the overall risk policy, risk appetite is apportioned to various types of risks in such a way that the Group is able to achieve its business goals without jeopardising its risk-bearing capacity and capital adequacy targets. The overall risk policy is also aimed at restricting the creation of risk concentrations.

This overall risk policy is supplemented by risk policies by risk type within Banking and the Group Functions, and specific risk policies and reinsurance principles related to private and corporate customers guiding Non-life Insurance, and investment plans and a policy for hedging against interest rate risks of insurance liabilities guiding Non-life Insurance investments.

6. Management of strategic and business risks

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

6.1 Strategic risk and business risks

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

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

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

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

6.3 Monitoring and reporting strategic and business risks

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

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

7. Management of operational risks

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

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

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

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

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

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

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

7.2 Monitoring and reporting operational risks

For reporting purposes, operational risks are divided into different categories, according to the Advanced Measurement Approach, based on their potential sources, and identified and materialised risks are reported to the executive management. The most significant risks are also reported to the Risk Management Committee of Pohjola Bank plc's Board of Directors. In addition, material operational risks related to regulatory compliance are reported to the Board's Audit Committee.

8. Compliance risk management

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

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

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

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

Compliance officers in Pohjola Bank plc's subsidiaries ensure that the subsidiaries also adhere to Group-wide guidelines, instructions, regulations etc.

9. Risk management: Banking

9.1 Credit risk management

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

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

9.2 Credit risk policy

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

For the portfolio analysis, customers are divided into the following six groups: corporate customers and housing associations, financial institutions and insurance companies, households, OP-Pohjola Group institutions, public-sector entities, and non-profit institutions serving households. Corporate customers, credit institutions, households and international banking are governed by specific credit risk policies. Furthermore, the Group has drawn up a country risk policy.

The corporate customer credit risk policy involves determining target values for corporate exposure, for example, by rating category and a group of connected clients, as well as a relative maximum exposure by industry.

OP-Pohjola Group's rating system is not so far used extensively in Baltic Banking. OP-Pohjola Group's Rating Committee categorises clients meeting Pohjola's rating criteria. In other respects, for lending purposes Pohjola makes use of credit status reports provided by selected agencies in each country.

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

9.3 Credit risk limits

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

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

9.4 Credit process

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

9.5 Credit rating

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

Credit risk indicators within internal credit ratings

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 serious loan default	=	Loss given default (LGD), %
Estimate of the sum the customer would owe the bank in case of insolvency	=	Exposure at default (EAD), €

Credit risk models are utilised, for example, in

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

9.5.1 Probability of default

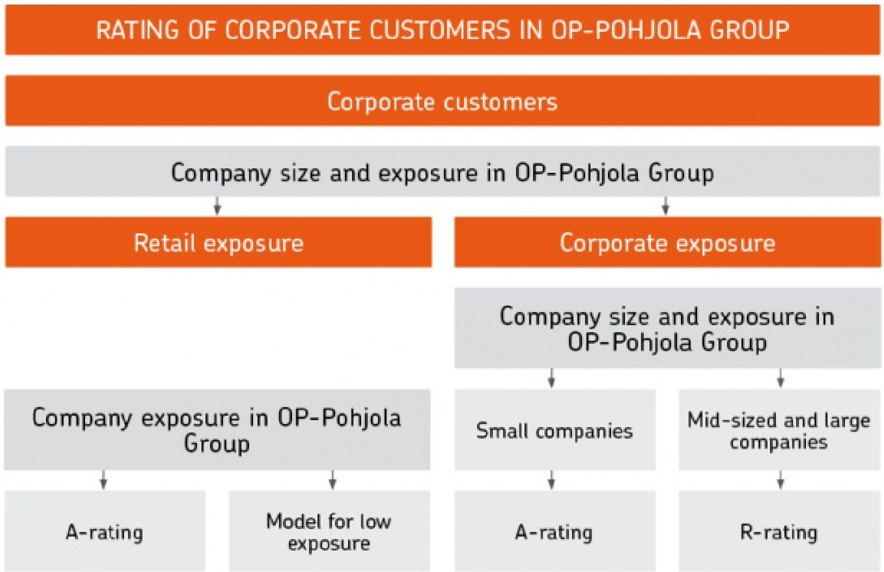
The purpose of credit rating is to divide customers into different groups according to the risk involved. A customer's credit rating is an estimate of the risk of some of the customer's exposures becoming non-performing receivables within 12 months or of the customer having more serious payment defaults.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

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

9.5.2 Assessment of corporate customer creditworthiness

Pohjola assesses the probability of default of its corporate customers using OP-Pohjola Group's internal 20-step credit rating system. Corporate exposure is put into categories ranging from 1 to 12, with defaulted customers falling under categories 11 or 12.

Rating of corporate customers in OP-Pohjola group



Probability of default assessment of mid-size and large corporate customers ('R' rating) is based on the companies' financial indicators and qualitative background information transferred into a statistical scoring model. An expert familiar with the customer will make a rating proposal on the basis of what is suggested by the model and of any other information available. Any changes and uncertainties relating to the future outlook will be 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.

Correspondence between corporate exposure rating categories and S&P ratings

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

9.5.3 Assessment of credit institution creditworthiness

A specific 'L' rating model used to assess the probability of default of credit institutions is based on the probability of default deriving from qualitative and quantitative factors. 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 exposure and the credit rating categories of international rating agencies.

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

S&P Rating	AAA...AA+	AA...BBB+	BBB...BBB-	BB+...BB-	B+...B	B-...CCC
OP-Pohjola rating	1,0–2,0	2,5–4,5	5.0	5,5–7,0	7,5–8,0	8,5–10,0

9.5.4 Assessment of private customer creditworthiness

In the assessment of probability of default of private customers, exposures are divided into 16 rating categories from A+ to F, the latter representing exposures of defaulted customers. In this assessment, Pohjola uses a credit rating 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 exposure has not yet any loan portfolio rating, Pohjola uses credit rating based on the application stage. Pohjola uses credit rating models for the application stage of finance-company products to categorise its private customer exposures, which it adopted in 2010 and updated in 2011. Three models for assessing creditworthiness are in use, as follows: car finance, trade finance and accounts with credit facility, and merchant MasterCard.

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

9.5.5 Country rating

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

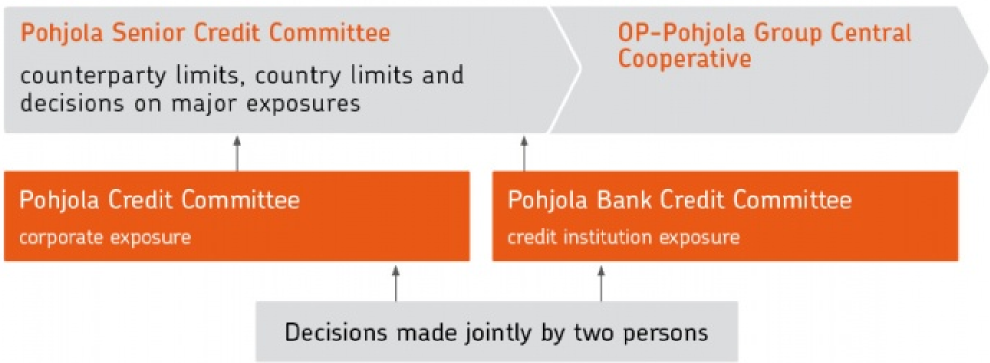
9.5.6 Loss given default and exposure at default

In addition to the models used for assessing the probability of default, Pohjola uses models for predicting loss given default (LGD) and exposure at default (EAD) to measure credit risk. In OP-Pohjola Group's credit risk models, LGD is an estimate of a financial loss (as a 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.

9.6 Credit decision

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

Pohjola credit decision-making bodies



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

9.6.1 Execution

The execution stage involves preparing the tender and contract documents based on the approved proposals. Before the customer has access to any funds, Pohjola verifies the fulfilment of the drawing terms and conditions. Furthermore, it supervises the fulfilment of the contractual terms throughout the term of the agreement.

9.6.2 Measuring, monitoring and reporting credit risk

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

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

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

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

The credit approval decision process involves monitoring the exposure limits of corporate and credit institution customers. Furthermore, decision-making bodies supervise credit approval decisions and always submit their minutes to the next decision-making level.

The Risk Management function bears overall responsibility for reporting credit risks. It prepares a corporate risk analysis for the Risk Management Committee of the Board of Directors. The analysis also contains information, for instance, on the development of the amount, distribution and type of total exposure, and on the development of doubtful loans.

The use of limits and any of their overdrafts are reported regularly. In addition, the Risk Management function prepares portfolio-specific analyses.

9.6.3 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 and Pohjola's Risk Management functions collect continuous feedback from the business lines/divisions on the effectiveness of the credit rating process and models related to credit risk parameters. It monitors monthly the models that automatically create a credit rating category, with a view to following changes in the loan portfolio and lending while ensuring the effectiveness of the rating process.

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

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 Group member banks as a matter of regular auditing.

9.6.4 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.

9.6.5 Securitised assets

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

The Group applies credit ratings 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.

10. Liquidity risk management

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

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

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

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

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

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

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

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

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

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

Every year, Pohjola's Board of Directors confirms a liquidity risk policy which describes the principles, methods and limits governing the management of liquidity risks. The Risk Management Executives coordinate, and supervise compliance with, these principles and control the use of limits. Group Treasury is responsible, on a centralised basis, for Pohjola's liquidity risk and funding liquidity risk management, long-term funding as well as the maintenance of liquidity portfolios.

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

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

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

10.1 Measuring, monitoring and reporting liquidity risks

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

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

11. Market risk management

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

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

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

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

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

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

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

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

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

11.1 Measuring, monitoring and reporting market risks

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

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

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

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

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

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

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

11.2 Interest rate risk

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

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

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

11.3 Credit spread risk

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

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

11.4 Currency risk

Currency risks arise if there is a gap between assets and liabilities denominated in the same currency.

Currency risk management is carried out in the context of trading. Pohjola set a limit for currency risk as part of the VaR limit. Foreign currency exposures are subject to daily reporting.

11.5 Price risk associated with structured products and securitised assets

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

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

11.6 Commodity risk

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

Commodity exposures are subject to daily reporting.

11.7 Equity risk

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

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

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

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

11.8 Volatility risk

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

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

11.9 Real estate risk

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

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

11.10 Derivatives business

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

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

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

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

12. Risk management of Non-life Insurance

12.1 Risks of insurance operations

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

12.2 Underwriting risks

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

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

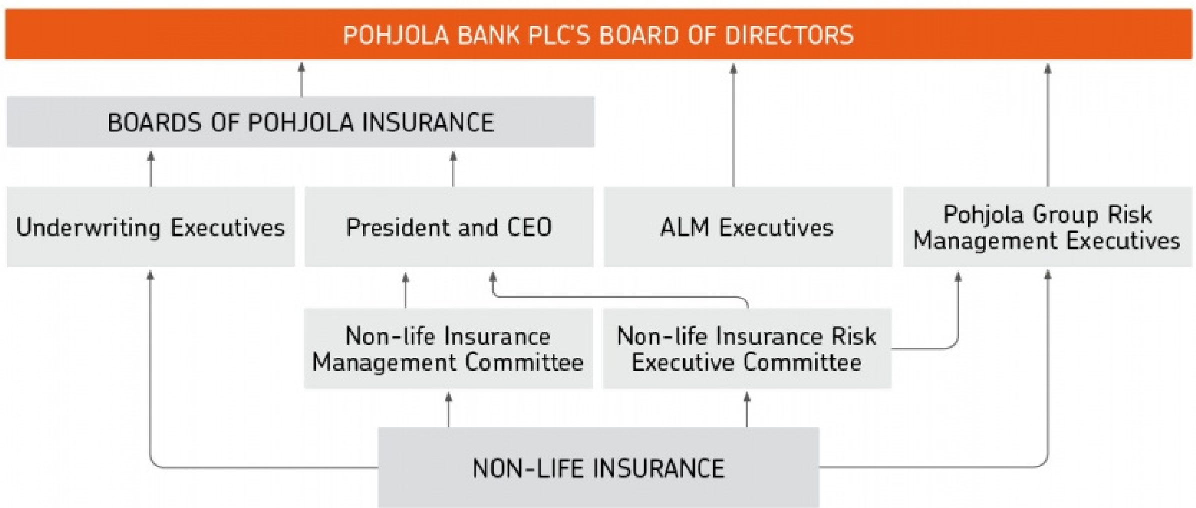
Since the lack of correlation between underwriting risks is never complete in real life, the insurer's claims risk in proportion to the size of the insurance portfolio never totally disappears, no matter how large the insurance portfolio. The remaining risk due to this correlation between underwriting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

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

12.2.1 Underwriting risk management

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

Non-life Insurance decision-making levels



The Non-life Insurance decision-making system contains a description of Non-life Insurance decision-making. Decisions on customer and insurance object selection and risk pricing are made according to the Underwriting Guidelines governing each line of insurance in case the risk involved is below the amount set for the Underwriting Executives. Greater and more severe risks require decisions made jointly by several underwriters or managers. For basic insurance lines, decisions are made on a system-supported basis and customers and the objects of insurance are selected within the powers allowed by instructions specifically approved.

12.2.2 Risk selection and pricing

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

12.2.3 Reinsurance

The reinsurance principles and the maximum risk per claim retained for own account are annually approved by the Board of Directors. In practice, this risk is kept lower if this is justifiable considering the price of reinsurance. Retention in risk-specific reinsurance is a maximum of EUR 5 million and that in catastrophe reinsurance EUR 5 million. The capacity of catastrophe reinsurance covering loss accumulation stood at EUR 120 million. In addition, claims under the short-tail business have an annual aggregate protection with a capacity of EUR 10 million.

The level of reinsurance protection has an impact on the need of solvency capital. Only companies with a sufficiently high insurance financial strength 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 company's solvency.

12.2.4 Risk concentrations

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

12.2.5 Evaluation of insurance liabilities

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

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

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

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

The provision for unpaid claims for annuities corresponds to the discounted present value of cash flow of compensation for loss of income payable as continuous annuity. The discount rate is determined taking account of the current interest rate, security required by law and the maximum discount rate set by the authorities. On 31 December 2012, the discount rate used was 3.0% (2011: 3.3%). As a result of the lower discount rate, the provision for unpaid claims for annuities rose by EUR 52 million.

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

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

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

12.3 Statutory insurance

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

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

12.3.1 Number and size of claims

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

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

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

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

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

The reinsurance of statutory workers’ compensation insurance has been arranged through a national catastrophe pool. The Group’s share of the pool is determined by the market share in the insurance line concerned. The pool has acquired reinsurance cover of up to EUR 200 million and the retention limit after the pool’s share is EUR 5 million. In motor liability insurance, the retention is EUR 3 million for any single loss event.

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

12.3.2 Uncertainties related to future cash flows

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

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

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

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

12.3.3 Pay-as-you-go system

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

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

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

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

12.4 Other accident and health insurance

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

12.4.1 Number and size of claims

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

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

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

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

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

12.4.2 Uncertainties related to future cash flows

Insurance liabilities for other accident and health insurance are long-term in nature. Projecting cash flows with respect to long-term medical treatment expenses under other accident insurance involves uncertainty due to cost inflation. If tax-funded public healthcare services decline, the medical-cost inflation applying to other accident insurance will intensify.

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

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

Developments in public healthcare will also affect future cash flows. If tax-funded public healthcare services decline, people will increasingly start financing their medical care through medical expenses insurance.

12.5 Comprehensive and cargo insurance

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

12.5.1 Number and size of claims

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

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

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

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

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

12.5.2 Uncertainties related to future cash flows

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

12.6 Property and business interruption/consequential loss insurance

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

12.6.1 Number and size of claims

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

The risk of natural catastrophes has been considered minor in Finland and the Baltic region, but forest damage in Sweden has led to the reassessment of this risk. Pohjola has insured around 24% of all Finnish commercial forests against storms, and geographically these are dispersed all over Finland. On the basis of our current knowledge based on studies, it is still uncertain whether the recent storms are due to climate change or natural variations in climatic conditions. However, the studies have suggested that there are indications of a change in climatic conditions in the Group's operating region at least in the long term. The projected temperature increase will probably be reflected in changes in summer and winter conditions and, for instance, in higher precipitation, although there is no clear proof of higher temperatures intensifying storms in our region. The capacity of the catastrophe reinsurance cover totals EUR 120 million, which is over three-fold compared with the company's largest realised catastrophe accumulations.

As a general rule, flood damage is excluded from the insurance terms and conditions of property insurance covering buildings.

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

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

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

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

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

12.6.2 Uncertainties related to future cash flows

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

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

12.7 Liability and legal expenses insurance

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

12.7.1 Number and size of claims

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

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

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

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

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

12.7.2 Uncertainties related to future cash flows

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

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

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

12.8 Long-term insurance contracts

Long-term insurance contracts refer to contracts with an average minimum validity period of two years, comprising guarantee insurance, decennial insurance and perpetual insurance.

12.8.1 Number and size of claims

The risk associated with loan guarantees relates to the debtor's default and that associated with performance guarantees relates to the supplier's non-performance. The policyholders consist mainly of companies. The economic situation has a major effect on the number of claims in guarantee insurance in such a way that the number of guarantee claims is much smaller during upturns than during downturns. Guarantee insurance contracts are divided into loan guarantees and contract guarantees, the former's duration being an average of 5–7 years and the latter's a maximum of two years. More than half of the guarantee insurance portfolio consists of contract guarantees. The Group has not issued new contract guarantees in recent years.

As a rule, the Group has not taken out reinsurance cover for guarantee insurance, but some of the guarantee insurance liabilities are covered by sufficient security. In case of a loss, the Group can realise the property held for security, thus reducing the loss. Since guarantee insurance is based on long-term activity, the Group must regularly monitor the insured party's financial standing, developments in the amount of liability and the adequacy of counter-security.

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

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

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

12.8.2 Uncertainties related to future cash flows

The largest problem related to the projections of cash flows from long-term guarantee insurance contracts is that the amount of compensation fundamentally depends on future years' economic conditions that are difficult to predict.

The greatest uncertainty related to cash flows from perpetual insurance resides in the amount of surrenders. Currently, there are very few surrenders, the greatest risk being that the number of surrenders increases markedly. The annual amount of surrenders has come to EUR 200,000. If all policies were to be surrendered immediately, the amount payable would be EUR 15 million.

12.9 Investment risks

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

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

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

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

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

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

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

12.9.1 Market risk

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

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

12.9.2 Interest rate risk

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

12.9.3 Currency risk

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

12.9.4 Use of derivatives

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

12.9.5 Credit risk

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

12.9.6 Liquidity risk

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

Notes to the Consolidated Financial Statements

Note 3. Change in accounting policy

Pohjola Group has 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, 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, Pohjola is also preparing for the requirements of the revised IAS 19 effective for financial years starting on or after 1 January 2013. Pohjola has applied the change in the accounting policy retrospectively. The change has no effect on the earnings per share (EPS) ratio. The effects of the changed accounting policy on the comparatives of the 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	1,208	1,185	-24
Tax assets	40	40	0
Liabilities			
Provisions and other liabilities	1,816	1,815	0
Tax liabilities	455	449	-6
Shareholders' equity			
Retained earnings	868	851	-17

EUR million	Previous accounting policy	New accounting policy	Effect of change in accounting policy
Balance sheet 31 Dec. 2011			
Assets			
Other assets	1,604	1,572	-32
Tax assets	87	87	0
Liabilities			
Provisions and other liabilities	2,234	2,235	1
Tax liabilities	418	411	-8
Shareholders' equity			
Retained earnings	959	934	-25
Income statement 2011			
Personnel costs	213	212	-1
Income tax expense	42	43	0
Statement of comprehensive income 2011			
Actuarial gains/losses on post-employment benefit obligations		-10	-10
Income tax on actuarial gains/losses on post-employment benefit obligations		-2	-2

Notes to the Consolidated Financial Statements

NOTES TO THE INCOME STATEMENT

Note 4. Net interest income

EUR million	2012	2011
Interest income		
Receivables from credit institutions	93	144
Receivables from customers	359	386
Loans	333	363
of which value changes of hedged items	13	11
Finance lease receivables	24	21
of which value changes of hedged items		0
Impaired loans and other commitments	2	3
Notes and bonds	200	465
Held for trading	9	8
At fair value through profit or loss	0	0
Available for sale	168	416
of which value changes of hedged items	0	224
Held to maturity	8	21
Loans and other receivables	15	20
Derivative contracts	1,666	1,416
Held for trading	1,761	1,719
of which hedging derivatives	-9	-16
Hedge accounting	-104	-304
of which hedging derivatives	-5	-223
Cash flow hedge	9	2
of which hedging derivatives		0
Other	4	4
Total	**2,322**	**2,416**

Interest expenses		
Liabilities to credit institutions	120	110
of which value changes of hedged items	30	20
Financial liabilities at fair value through profit or loss	0	0
Liabilities to customers	44	53
Debt securities issued to the public	391	413
of which value changes of hedged items	133	108
Subordinated liabilities	74	43
Subordinated loans	12	11
of which value changes of hedged items	2	0
Other	62	32
Derivative contracts	1,428	1,517
Held for trading	1,729	1,705
of which hedging derivatives	-2	-1
Hedge accounting	-301	-188
of which hedging derivatives	-164	-127
Other	2	4
Total	**2,059**	**2,140**
Net interest income before impairment loss	**263**	**276**

Hedging instruments in hedge accounting showed net income of EUR 152 million (loss of 111) and net loss of hedged contracts came to EUR 152 million (income of 108).

Notes to the Consolidated Financial Statements

NOTES TO THE INCOME STATEMENT

Note 5. Impairment loss on receivables

EUR million	2012	2011
Receivables written down as loan and guarantee losses	35	47
Recoveries of receivables written down	-2	-1
Increase in impairment losses	62	80
Reversal of impairment losses	-37	-70
Collectively assessed impairment losses	0	4
Total	**57**	**60**

Notes to the Consolidated Financial Statements

NOTES TO THE INCOME STATEMENT

Note 6. 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	115	32
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	**438**	**318**

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' shares 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
Net insurance premium revenue	**1,126**	**1,024**

Net investment income from Non-life Insurance		
Loans and receivables		
Interest income	5	9
Interest expenses	-1	-3
Capital gains and losses	-2	0
Fair value gains and losses	0	-1
Total	**2**	**5**

Net income from financial assets recognised at fair value through profit or loss		
Interest income		
Notes and bonds	0	0
Derivatives	0	0
Capital gains and losses		
Notes and bonds		0
Derivatives	-11	-18
Fair value gains and losses		
Notes and bonds	2	0
Derivatives	-2	0
Total	**-10**	**-18**

Net income from available-for-sale financial assets		
Notes and bonds		
Interest income	57	55
Capital gains and losses	35	5
Transferred from fair value reserve during financial year	-8	-13
Impairments	-2	-34
Total	82	13
Shares and participations		
Dividends	29	30
Other income and expenses	4	5
Capital gains and losses	41	-22
Transferred from fair value reserve during financial year	-27	20
Impairments	-11	-8
Total	36	25
Total	**118**	**38**

Net income from investment property		
Rental income	16	14
Capital gains and losses	0	0
Value changes from fair value measurement	3	3
Maintenance charges and expenses	-12	-8
Other	-1	-1
Total	**6**	**8**
Total net investment income from Non-life Insurance	**115**	**32**

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, 3.3% from 1 December 2011 to 31 July 2012 and 3.0% from 1 August 2012 to 31 December 2012.

* The item includes EUR 52 million (32) as a result of the changed discount rate for insurance liabilities and a year ago it included an increase of EUR 27 million in insurance liabilities due to higher life expectancy.

Notes to the Consolidated Financial Statements

NOTES TO THE INCOME STATEMENT

Note 7. Net commissions and fees

EUR million	2012	2011
Commissions and fees		
Lending	43	37
Deposits	0	0
Payment transfers	17	14
Securities brokerage	20	29
Mutual fund brokerage	0	0
Securities issuance	10	9
Asset management and legal services	61	56
Insurance operations	24	20
Guarantees	16	16
Other*	6	6
Total	**196**	**187**
Commission expenses		
Payment transfers	4	2
Securities brokerage	7	10
Securities issuance	7	5
Asset management and legal services	7	7
Other	3	2
Total	**27**	**27**
Net commissions and fees	**169**	**161**

* “Other” a year ago included EUR 0.2 million in deferred Day 1 profit commissions and fees and EUR 0.1 million in non-deferred commissions and fees. The counter-item is included in provisions and other liabilities.

Notes to the Consolidated Financial Statements

NOTES TO THE INCOME STATEMENT

Note 8. Net trading income

EUR million	2012	2011
Financial assets and liabilities held for trading		
Capital gains and losses		
Notes and bonds	12	5
Shares and participations	0	0
Derivatives	-30	9
Total	-18	14
Fair value gains and losses		
Notes and bonds	-1	2
Shares and participations	0	0
Derivatives	84	10
Total	83	12
Dividend income	0	0
Assets and liabilities at fair value through profit or loss		
Capital gains and losses		
Notes and bonds	-1	
Total	-1	
Fair value gains and losses		
Notes and bonds	1	0
Total	1	0
Net income from foreign exchange operations		
Currency exchange	256	-140
Other	-243	139
Total	**79**	**26**

Notes to the Consolidated Financial Statements

NOTES TO THE INCOME STATEMENT

Note 9. Net investment income

EUR million	2012	2011
Available-for-sale financial assets		
Notes and bonds		
Capital gains and losses	11	9
Transferred from fair value reserve during the financial year	3	1
Shares and participations		
Capital gains and losses	0	5
Transferred from fair value reserve during the financial year	1	
Impairments	0	-1
Dividend income	15	10
Total available-for-sale financial assets	29	24
Financial assets carried at amortised cost		
Capital gains and losses*	-17	-1
Total financial assets carried at amortised cost	-17	-1
Investment property		
Rental income	1	1
Capital gains and losses	0	
Gains and losses from fair value measurement	1	0
Maintenance charges and expenses	-1	-1
Other	0	0
Total investment property	1	0
Total net investment income	**13**	**23**

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

Notes to the Consolidated Financial Statements

NOTES TO THE INCOME STATEMENT

Note 10. Other operating income

EUR million	2012	2011
Rental income from property in own use	0	0
Capital gains on property in own use	0	0
Insurance claims and benefits		0
Central banking service fees	8	8
Realisation of repossessed items		0
Rental income from assets rented under operating lease	12	17
Reinsurance commissions of Non-life Insurance	2	2
Other	15	12
Total	**37**	**41**

Notes to the Consolidated Financial Statements

NOTES TO THE INCOME STATEMENT

Note 11. Personnel costs

EUR million	2012	2011
Wages and salaries	173	148
Variable remuneration	17	27
Pension costs	29	26
Defined contribution plans	28	26
Defined benefit plans	2	0
Other social expenses	11	11
Total	**230**	**212**

Notes to the Consolidated Financial Statements

NOTES TO THE INCOME STATEMENT

Note 12. Other administrative expenses

EUR million	2012	2011
Office expenses	34	31
ICT costs	87	81
Telecommunication expenses	10	11
Marketing expenses	13	14
Corporate social responsibility expenses	1	1
Other administrative expenses	20	20
Total	**166**	**158**

Notes to the Consolidated Financial Statements

NOTES TO THE INCOME STATEMENT

Note 13. Other operating expenses

EUR million	**2012**	**2011**
Rental expenses	4	3
Expenses for property and business premises in own use	28	26
Expenses for realisation of repossessed items	1	1
Reinsurance commissions of Non-life Insurance	3	3
Credit losses of Non-life Insurance	4	5
Depreciation and amortisation		
Buildings	1	1
Machinery and equipment	1	2
Intangible assets related to business combinations	24	24
Other intangible assets	14	14
Leased out assets	10	16
Other	0	0
Total	50	56
Impairments		
Property in own use	0	0
Other		1
Total	0	1
Other*	81	63
Total	**172**	**157**

* The item includes EUR 334,000 (339,000) in audit fees paid to auditors, EUR 230,000 (33,000) in fees for assignments as referred to in sub-paragraph 2, paragraph 1, section 1 of the Auditing Act, EUR 81,000 (74,000) in fees for legal counselling and EUR 93,000 (283,000) in fees for other services.
* The item includes EUR 48 million (43) in insurance business sales commissions paid to OP-Pohjola Group member banks.

Notes to the Consolidated Financial Statements

NOTES TO THE INCOME STATEMENT

Note 14. Income tax

EUR million	2012	2011
Current tax	110	55
Tax for previous financial years	2	0
Deferred tax	-23	-13
Income tax expense	**89**	**43**
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	374	258
Tax calculated at a tax rate of 24.5% (2011:26%)	92	67
Tax for previous financial years	2	0
Income not subject to tax	-7	-2
Expenses not deductible for tax purposes	3	1
Re-evaluation of unrecognised tax losses	0	0
Tax adjustments	0	
Change in tax rate 1 Jan. 2012		-23
Other items	-1	-1
Tax expense	**89**	**43**

Notes to the Consolidated Financial Statements

NOTES TO THE INCOME STATEMENT

Note 15. Earnings per share

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

	2012	2011
Profit for the year attributable to owners of the Parent (EUR million)	285	216
Weighted average number of shares (1,000)		
Series A shares	251,732	251,170
Series K shares	67,820	68,382
Total	**319,551**	**319,551**
Earnings per share (EPS), EUR		
Series A shares	0.90	0.68
Series K shares	0.87	0.65

Notes to the Consolidated Financial Statements

NOTES TO THE BALANCE SHEET

Note 16. Cash and cash equivalents

EUR million	31 Dec. 2012	31 Dec. 2011
Cash	2	2
Deposits with central banks repayable on demand		
Pohjola Bank's minimum reserve deposit	171	272
Other	5,470	3,974
Total cash and cash equivalents	**5,643**	**4,247**

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 the Consolidated Financial Statements

NOTES TO THE BALANCE SHEET

Note 17. Receivables from credit institutions

EUR million	31 Dec. 2012	31 Dec. 2011
Receivables from credit institutions		
Deposits		
Repayable on demand	523	359
Other	1	
Total	524	359
of which receivables from credit institutions due in less than 3 months	524	359
Loans and other receivables		
Repayable on demand		
From other credit institutions	0	1
Total	0	1
Other		
From OP-Pohjola Group institutions	7,528	6,079
From other credit institutions	763	928
Total	8,291	7,007
Total receivables from credit institutions	**8,815**	**7,367**
Receivables from credit institutions include subordinated receivables	42	72

Notes to the Consolidated Financial Statements

NOTES TO THE BALANCE SHEET

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

EUR million	31 Dec. 2012	31 Dec. 2011
Financial assets held for trading		
Government notes and bonds	5	8
Certificates of deposit and commercial papers	6	18
Debentures	1	1
Bonds	233	141
Other notes and bonds	1	1
Shares and participations	1	1
Total	246	170
Financial assets at fair value through profit or loss at inception		
Bonds	9	13
Total	9	13
Total financial assets at fair value through profit or loss	**256**	**183**

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

	31 Dec. 2012		31 Dec. 2011	
Financial assets held for trading, EUR million	**Notes and bonds**	**Shares and participations**	**Notes and bonds**	**Shares and participations**
Quoted				
From public sector entities	5		8	
From others	223	0	140	1
Other				
From public sector entities	6		16	
From others	12	1	5	
Total	**245**	**1**	**169**	**1**

	31 Dec. 2012		31 Dec. 2011	
Financial assets at fair value through profit or loss at inception, EUR million	**Notes and bonds**	**Shares and participations**	**Notes and bonds**	**Shares and participations**
Quoted				
From others	5		9	
Other				
From others	5		4	
Total	**9**		**13**	
Total financial assets at fair value through profit or loss	**255**	**1**	**182**	**1**

Financial assets at fair value through profit or loss include EUR 127 million (108) in notes and bonds eligible for central bank refinancing and EUR one million (1) in subordinated publicly-quoted notes and bonds.

Notes to the Consolidated Financial Statements

NOTES TO THE BALANCE SHEET

Note 19. Derivative contracts

EUR million	31 Dec. 2012	31 Dec. 2011
Held for trading		
Interest rate derivatives	3,894	2,877
Currency derivatives	28	83
Equity derivatives	124	138
Credit derivatives	4	2
Other	34	27
Total	4,084	3,126
Hedging derivative contracts		
Fair value hedging		
Interest rate derivatives	302	148
Currency derivatives	47	39
Cash flow hedge		
Interest rate derivatives	31	13
Total	379	200
Total derivative contracts	**4,462**	**3,326**

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

Notes to the Consolidated Financial Statements

NOTES TO THE BALANCE SHEET

Note 20. Receivables from customers

EUR million	31 Dec. 2012	31 Dec. 2011
Loans to the public and public sector entities	10,343	9,307
Notes and bonds	74	265
Finance lease receivables	1,048	902
Other receivables		
Other	2,620	2,449
Impairment losses on loans		
Based on credit risk	-238	-189
Impairment losses on notes and bonds		
Based on credit risk	-7	-33
Total receivables from customers	**13,839**	**12,701**

Changes in impairments of loans and guarantees

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

EUR million	Loans	Notes and bonds	Bank guarantee receivables	Interest receivables	Total
Impairments 1 Jan. 2011	188	21	0	-2	208
Increase in impairments of individually assessed loans and receivables	66	12	2	-16	64
Change in impairments of collectively assessed loans and receivables	4				4
Reversal of impairments of loans and receivables individually assessed	-28	0	0	16	-13
Loans and guarantee receivables derecognised from balance sheet,					
of which an individually assessed impairment was recognised	-42				-42
Exchange rate difference on impairments on loans		1			1
Impairments 31 Dec. 2011	189	33	2	-1	223

Finance lease receivables

Pohjola Group mainly offers 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**
Gross increase during the financial year	**576**	**380**

Notes to the Consolidated Financial Statements

NOTES TO THE BALANCE SHEET

Note 21. Non-life Insurance assets

EUR million	31 Dec. 2012	31 Dec. 2011
Investments		
Loans and other receivables	104	141
Shares and participations	409	435
Investment property	112	98
Notes and bonds	1,983	1,562
Derivative contracts	1	0
Other participations	459	568
Total	3,069	2,805
Other assets		
Prepayments and accrued income	42	36
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	**3,523**	**3,256**

Non-life Insurance investments		
Loans and other receivables		
Loans and other receivables	103	141
Deposits with ceding undertakings	1	0
Total	104	141
Financial assets recognised at fair value through profit or loss		
Notes and bonds	19	6
Derivative contracts	1	0
Total	20	7
Available-for-sale financial assets		
Notes and bonds	1,964	1,556
Shares and participations	409	435
Other participations	459	568
Total	2,832	2,559
Investment property		
Land and water areas	12	11
Buildings	101	86
Total	112	98
Total Non-life Insurance investments	**3,069**	**2,805**

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

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

	Available-for-sale notes and bonds			Available-for-sale shares and participations		
Available-for-sale financial assets of Non-life Insurance, 31 Dec. 2012, EUR million	**At fair value**	**At amortised cost**	**Total**	**At fair value**	**At cost**	**Total***
Quoted						
From public sector entities	444		444			
From others	1,515		1,515	655		655
Other						
From others	5		5	213		213
Total	**1,964**		**1,964**	**868**		**868**
Impairment losses for the financial year	-2		-2	-11		-11

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

	Available-for-sale notes and bonds			Available-for-sale shares and participations		
Available-for-sale financial assets of Non-life Insurance, 31 Dec. 2011, EUR million	**At fair value**	**At amortised cost**	**Total**	**At fair value**	**At cost**	**Total***
Quoted						
From public sector entities	521		521			
From others	971		971	813		813
Other						
From others	65		65	191		191
Total	**1,556**		**1,556**	**1,003**		**1,003**
Impairment losses for the financial year	-34		-34	-8		-8

Available-for-sale securities lent, EUR million	**31 Dec. 2012**	**31 Dec. 2011**
Notes and bonds		
Nominal value	125	134
Fair value	149	152

The securities lending agreement has a three-year term and the provided collateral is sufficient.

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

Construction and repair obligations regarding investment property 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 the Consolidated Financial Statements

NOTES TO THE BALANCE SHEET

Note 22. Investment assets

EUR million	31 Dec. 2012	31 Dec. 2011
Available-for-sale financial assets		
Notes and bonds	4,971	6,522
Shares and participations	105	77
Total	5,076	6,600
Financial assets held to maturity		
Notes and bonds	330	716
Total	330	716
Investment property		
Land and water areas	0	0
Buildings	24	25
Total	25	25
Total investment assets	**5,431**	**7,341**

Investment property does not include real property received as collateral in 2012 and 2011.

Available-for-sale financial assets and held-to-maturity investments on 31 Dec. 2012

	Available-for-sale notes and bonds			Available-for-sale shares and participations			
EUR million	**At fair value**	**At amortised cost**	**Total**	**At fair value**	**At cost**	**Total**	**Held-to-maturity investments**
Quoted							
From public sector entities	4,656		4,656				
From others	247		247	9		9	330
Other							
From others	68		68	16	80	96	
Total	**4,971**		**4,971**	**25**	**80**	**105**	**330**
Impairment losses for the financial year				0		0	

Available-for-sale financial assets did not include subordinated publicly-quoted notes and bonds from others or subordinated notes and bonds other than publicly quoted from others. Investments in private equity funds, worth EUR 16 million (14), were measured at fair value. Non-quoted equities measured at cost within the portfolio amounted to EUR 80 million (53), of which non-consolidated shares of subsidiaries and associates came to EUR 0 million (2). It was not possible to determine reliably a fair value for investments measured at cost. Held-to-maturity investments included EUR 315 million (576) in notes and bonds eligible for central bank refinancing and EUR 14 million (141) in other publicly-quoted notes and bonds.

Available-for-sale financial assets and held-to-maturity investments on 31 Dec. 2011

	Available-for-sale notes and bonds			Available-for-sale shares and participations			
EUR million	**At fair value**	**At amortised cost**	**Total**	**At fair value**	**At cost**	**Total**	**Held-to-maturity investments**
Quoted							
From public sector entities	6,374		6,374				
From others	131		131	11		11	716
Other							
From others	17		17	14	53	66	
Total	**6,522**		**6,522**	**24**	**53**	**77**	**716**
Impairment losses for the financial year				-1		-1	

Changes in investment property, EUR million	**2012**	**2011**
Acquisition cost 1 Jan.	27	28
Decrease	-1	-1
Acquisition cost 31 Dec.	26	27
Accumulated changes in fair value 1 Jan.	-2	-2
Changes in fair value during financial year	1	0
Accumulated changes in fair value 31 Dec.	-1	-2
Carrying amount 31 Dec.	25	25

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.

Information on investment property leased out under operating lease can be found in Note 93.

The investment property holdings were appraised by the following external property valuer: Authorised Property Valuer approved by Finland Chamber of Commerce, authorised property valuer (AKA), general authorisation, Mikko Kimpi on behalf of Corbel Oy.

Notes to the Consolidated Financial Statements

NOTES TO THE BALANCE SHEET

Note 23. Reclassified notes and bonds

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

EUR million, 31 Dec. 2012	Carrying amount	Fair value	Effective interest rate	Impairments arising from credit risk
Loans and other receivables	413	401	5.4	7
Investments held to maturity	226	207	4.2	
Available-for-sale financial assets*	38	38	4.3	
Total	**677**	**646**		**7**

EUR million, 31 Dec. 2011	Carrying amount	Fair value	Effective interest rate	Impairments arising from credit risk
Loans and other receivables	822	777	6.6	25
Investments held to maturity*	573	502	4.2	8
Total	**1,395**	**1,279**		**33**

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

	Q1–4/2012		Q1–4/2011	
EUR million	Income statement	Fair value reserve	Income statement	Fair value reserve
Banking	1		-1	
Non-life Insurance	1	4	1	-4
Group Functions	21	10	-41	-4
Total	**23**	**14**	**-41**	**-8**

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 20 million (38). The price difference between the nominal value and acquisition value recognised in the income statement totalled EUR 7 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 the Consolidated Financial Statements

NOTES TO THE BALANCE SHEET

Note 24. Investment in associates

EUR million	31 Dec. 2012	31 Dec. 2011
Investment 1 Jan.	27	25
Share of profit for the financial year	1	2
Dividends	-1	0
Investment 31 Dec.	**26**	**27**

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Note 25. Intangible assets

Changes in intangible assets, EUR million	Goodwill	Brands	Customer relationships related to insurance contracts and policy acquisition costs	Other intangible assets	Total
Acquisition cost 1 Jan. 2012	519	179	301	190	1,190
Increases	0			40	40
Decreases				0	0
Acquisition cost 31 Dec. 2012	519	179	301	230	1,230
Acc. amortisation and impairments 1 Jan. 2012		-7	-146	-116	-270
Amortisation during the financial year			-24	-14	-38
Other changes				0	0
Acc. amortisation and impairments 31 Dec. 2012		-7	-170	-131	-308
Carrying amount 31 Dec. 2012	519	172	131	99	922

Other intangible assets include computer software to the carrying amount of EUR 28 million and EUR 69 million in computer software under development.

Amortisation, impairment losses and their reversals were recognised on the income statement under Other operating expenses.

Changes in intangible assets, EUR million	Goodwill	Brands	Customer relationships related to insurance contracts and policy acquisition costs	Other intangible assets	Total
Acquisition cost 1 Jan. 2011	516	179	301	159	1,156
Increases	3			32	35
Decreases	0			-1	-1
Transfers between items				0	0
Acquisition cost 31 Dec. 2011	519	179	301	190	1,190
Acc. amortisation and impairments 1 Jan. 2011		-6	-123	-103	-231
Amortisation during the financial year			-24	-14	-38
Impairments for the financial year		-1			-1
Decreases				0	0
Other changes				0	0
Acc. amortisation and impairments 31 Dec. 2011		-7	-146	-116	-270
Carrying amount 31 Dec. 2011	519	172	155	74	920

Other intangible assets include computer software to the carrying amount of EUR 33 million and EUR 39 million in computer software under development.

Amortisation, impairment losses and their reversals were recognised on the income statement under Other operating expenses.

Intangible assets with indefinite economic lives, EUR million	31 Dec. 2012	31 Dec. 2011
Goodwill	519	519
Brands	172	172
Total	**691**	**691**

The economic lives of goodwill and brands acquired through business combinations are estimated to be indefinite, since they affect the accrual of cash flows for an indefinable period.

	31 Dec. 2012		31 Dec. 2011	
Other most significant intangible assets	Carrying amount, EUR million	Remaining amortisation period	Carrying amount, EUR million	Remaining amortisation period
Customer relationships	131	3–6 yrs	155	4–7 yrs
Software	28	2–5 yrs	33	2–5 yrs
Software under development	69		39	

Goodwill was acquired as part of the acquisition of Pohjola Group plc's business operations in 2005 and as part of the acquisition of Pohjola Finance Ltd (formerly K-Finance Ltd) in 2008. In 2011, goodwill increased as a result of the acquisition of Excenta Ltd, a strategic corporate wellness services provider. Brands, customer relationships and a significant part of computer software were acquired as part of the acquisition of the Non-life Insurance operations.

Goodwill impairment test

Goodwill, EUR million	2012	2011
Non-life Insurance	407	407
Pohjola Asset Management Ltd	97	97
Leasing and Factoring Services	13	13
Wellbeing-at-work services	3	3
Total	**519**	**519**

Goodwill of Pohjola Group originates entirely from the acquisition of the business operations of Pohjola Group plc, Pohjola Finance Ltd and Excenta Ltd. Goodwill was determined by the so-called Purchase Price Allocation process (PPA). The resulting goodwill was allocated to the cash-generating units (CGUs), which were either business segments or entities included in them. The impairment testing of goodwill was carried out in accordance with IAS 36 on those CGUs for which acquisition cost calculations in accordance with PPA were made, i.e. Non-life Insurance, Asset Management, Leasing and Factoring Services, and wellbeing-at-work services.

For the purpose of goodwill testing, the value of the CGUs of Pohjola Group was determined by using the 'Excess Returns' method. Accordingly, profits for the current period and future periods were reduced by the return requirement set for shareholders' equity. Any excess return was discounted using a discount rate corresponding to the return requirement set for shareholders' equity in order to determine the present value of cash flows.

For Asset Management, Leasing and Factoring Services, and wellbeing-at-work services, the testing period was determined to be five years under 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 an seven-year testing period.

The forecasts used in cash flow statements are based on strategy figures for 2013–15, confirmed by Pohjola in 2012, and post-strategy-period expectations derived from them regarding business developments. Growth in cash flows for post-forecast periods ranges between 2 and 15%.

The discount rate used in the calculations was the market-based equity cost, which is in line with the applied value determination methods (i.e. through cash flows, only the value of equity belonging to investors was determined and the value was discounted by using the return requirement rate on shareholders' equity). The discount rate used in the calculations before tax (i.e. IFRS WACC) varied from 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 key parameters of each CGU.

The discount rate, combined ratio and net investment return (%) were used as key parameters in Non-life Insurance's sensitivity analysis – the same as in the previous year. The results of the sensitivity analysis did not undergo any major changes over the previous year. A 5.4-percentage point increase in the discount rate, a 3.4-percentage point increase in the combined ratio and a 1.2-percentage point decrease in net investment return compared with forecasts throughout the testing period, with one tested parameter changing and other parameters remaining unchanged, would entail an impairment risk. In 2011, the results were as follows: a 4.8-percentage point increase in the discount rate, a 3.3-percentage point increase in the combined ratio and a 1.4-percentage point decrease in net investment return compared with forecasts throughout the testing period, would have entailed an impairment risk.

The discount rate, growth rate (%) of assets under management and growth rate (%) of expenses were used as key parameters in Asset Management's sensitivity analysis. The parameters used were the same as in the previous year. The results of the sensitivity analysis did not differ significantly from those in the previous year. A 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.

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 increaes in expenes 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

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 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, 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

Pohjola Group's customer relationships and a significant part of computer software were acquired as part of the acquisition of the business operations of Pohjola Group plc. Intangible assets originating from customer relationships are charged to expenses using straight-line amortisation over their estimated economic lives, and no indications of the need for their impairment recognition have been discovered. Intangible assets originating from computer software used by Non-life Insurance were charged to expenses in full in prior financial years.

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NOTES TO THE BALANCE SHEET

Note 26. Property, plant and equipment

EUR million	31 Dec. 2012	31 Dec. 2011
Property in own use		
Land and water areas	3	4
Buildings	18	18
Total	22	21
Machinery and equipment	4	4
Other tangible assets	3	3
Leased-out assets	40	54
Total property, plant and equipment	**69**	**82**
of which construction in progress	0	0

Changes in property, plant and equipment (PPE), EUR million	Property in own use	Machinery and equipment	Other tangible assets	Leased-out assets	Total PPE
Acquisition cost 1 Jan. 2012	26	36	3	89	155
Increases	3	2	0	17	22
Decreases	-3	0	0	-37	-41
Transfers between items	1				1
Acquisition cost 31 Dec. 2012	28	38	3	68	137
Accumulated depreciation and impairments 1 Jan. 2012	-5	-33	0	-35	-73
Depreciation during the financial year	-1	-1		-14	-16
Reversals of impairments for the financial year	0				0
Decreases		0		19	19
Other changes	0			2	2
Accumulated depreciation and impairments 31 Dec. 2012	-6	-34	0	-28	-68
Carrying amount 31 Dec. 2012	22	4	3	40	69

Changes in property, plant and equipment (PPE), EUR million	Property in own use	Machinery and equipment	Other tangible assets	Leased-out assets	Total PPE
Acquisition cost 1 Jan. 2011	26	55	3	112	195
Increases	1	2	0	19	22
Decreases	-1	-20	0	-42	-63
Transfers between items	0	0			0
Acquisition cost 31 Dec. 2011	26	36	3	89	155
Accumulated depreciation and impairments 1 Jan. 2011	-4	-51	0	-43	-99
Depreciation during the financial year	-1	-1		-16	-18
Reversals of impairments for the financial year	0				0
Decreases	0	20		23	43
Other changes		0		1	1
Accumulated depreciation and impairments 31 Dec. 2011	-5	-33	0	-35	-73
Carrying amount 31 Dec. 2011	21	4	3	54	82

Depreciation, impairment losses and their reversals are charged to Other operating expenses.

Pohjola Group primarily offers passenger cars through operating leases. The Group has leased out office facilities it does not need and such facilities are classified as investment property in the financial statements.

A breakdown of PPE leased out under operating lease can be found in Note 93.

Notes to the Consolidated Financial Statements

NOTES TO THE BALANCE SHEET

Note 27. Other assets

EUR million	31 Dec. 2012	31 Dec. 2011	1 Jan. 2011
Payment transfer receivables	18	28	23
Pension assets	9	10	16
Accrued income and prepaid expenses			
Interest	731	861	580
Other accrued income and prepaid expenses	17	9	53
Other	825	664	513
Total	**1,600**	**1,572**	**1,185**

The item Other includes eg EUR 47 million (5) in accounts receivable from securities and EUR 606 million (487) in CSA collateral receivables.

Notes to the Consolidated Financial Statements

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Note 28. Tax assets

EUR million	31 Dec. 2012	31 Dec. 2011	1 Jan. 2011
Income tax assets	0	4	1
Deferred tax assets	36	83	39
Total tax assets	**36**	**87**	**40**

Breakdown of tax assets and liabilities, EUR million	31 Dec. 2012	31 Dec. 2011	1 Jan. 2011
Deferred tax assets			
Due to available-for-sale financial assets	5	51	11
Due to depreciation and impairment losses	0	0	0
Due to provisions and impairment losses on loans	6	4	3
Due to cash flow hedging			2
Due to defined-benefit pension plans	3	0	0
Due to consolidation of Group accounts	1	1	2
Due to timing difference of securities issued to the public	26	21	18
Due to other items	10	12	4
Set-off against deferred tax liabilities	-16	-7	-1
Total	**36**	**83**	**39**
Deferred tax liabilities			
Due to appropriations	232	198	179
Due to available-for-sale financial assets	51	1	10
Due to cash flow hedging	7	3	
Due to elimination of equalisation provision	67	86	110
Due to defined benefit pension plans	3	2	3
Due to fair value measurement of investment	9	35	20
Due to allocation of sale price of business combinations	74	80	91
Due to other items	6	7	7
Set-off against deferred tax assets	-16	-7	-1
Total	**433**	**404**	**419**

Changes in deferred taxes, EUR million	31 Dec. 2012	31 Dec. 2011
Deferred tax assets/liabilities 1 Jan.	-321	-379
Recognised on the income statement		
Intra-Group capital gains on business combinations	1	0
Provisions and impairments on receivables	2	1
Appropriations	-35	-30
Depreciation/amortisation and impairments	6	6
Elimination of equalisation provision	20	18
Defined benefit pension plans	0	-1
Fair value changes in and sale of investments	28	-17
Change in tax rate 1 Jan. 2012		23
Other	2	13
Recognised in statement of comprehensive income		
Fair value reserve		
Fair value measurement	-88	59
Cash flow hedges	-4	-6
Transfers to the income statement	-10	-7
Change in tax rate 1 Jan. 2012		-3
Actuarial gains/losses on post-employment benefit obligations	3	3
Change in tax rate 1 Jan. 2012		-1
Total deferred tax assets/liabilities 31 Dec.	**-397**	**-321**
Income tax assets/liabilities	**-52**	**-3**
Total tax assets/liabilities	**-449**	**-323**

Tax losses for which a deferred tax asset was not recognised came to EUR 9 million (9) at the end of 2012. The losses will expire before 2022.

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

Notes to the Consolidated Financial Statements

NOTES TO THE BALANCE SHEET

Note 29. Liabilities to credit institutions

EUR million	31 Dec. 2012	31 Dec. 2011
Liabilities to central banks*		230
Liabilities to credit institutions		
Repayable on demand		
Deposits		
With OP-Pohjola Group institutions	155	151
With other credit institutions	79	67
Other liabilities		
With OP-Pohjola Group institutions	358	576
With other credit institutions	0	
Total	592	794
Other than repayable on demand		
Deposits		
With OP-Pohjola Group institutions	3,483	3,514
With other credit institutions	1,765	1,397
Total	5,248	4,911
Total liabilities to credit institutions and central banks	**5,840**	**5,935**

* Deposits from non-euro-area central banks

Notes to the Consolidated Financial Statements

NOTES TO THE BALANCE SHEET

Note 30. Financial liabilities at fair value through profit or loss

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

Notes to the Consolidated Financial Statements

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Note 31. Derivative contracts

EUR million	31 Dec. 2012	31 Dec. 2011
Held for trading		
Interest rate derivatives	4,053	2,952
Currency derivatives	6	19
Equity and index derivatives	74	84
Credit derivatives	0	2
Other	28	25
Total	4,161	3,082
Hedging derivative contracts		
Fair value hedging		
Interest rate derivatives	383	365
Currency derivatives	13	13
Cash flow hedge		
Interest rate derivatives		0
Total	396	378
Total derivative contracts	**4,557**	**3,460**

The derivative contracts balance-sheet item includes negative changes in fair value and premiums received.

Notes to the Consolidated Financial Statements

NOTES TO THE BALANCE SHEET

Note 32. Liabilities to customers

EUR million	31 Dec. 2012	31 Dec. 2011
Deposits		
Repayable on demand		
Private	2	0
Companies and public sector entities	4,603	2,415
Total	4,605	2,415
Other		
Private	0	0
Companies and public sector entities	1,706	1,159
Total	1,706	1,159
Other financial liabilities		
Repayable on demand		
Private	12	0
Total	12	0
Other		
Companies and public sector entities	4,453	4,451
Total	4,453	4,451
Total liabilities to customers	**10,775**	**8,025**

Notes to the Consolidated Financial Statements

NOTES TO THE BALANCE SHEET

Note 33. 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	5	4
Total Non-life Insurance liabilities	**2,592**	**2,508**

Non-life Insurance contract liabilities and reinsurers' share

	31 Dec. 2012			31 Dec. 2011		
EUR million	Gross	Reinsurers' share	Net	Gross	Reinsurers' 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	399
Provision for unexpired risks				0		0
Total Non-life Insurance insurance liabilities	**2,448**	**-76**	**2,372**	**2,365**	**-111**	**2,254**

Changes in insurance liabilities arising from insurance contracts and in receivables arising from reinsurance contracts

	2012			2011		
EUR million	**Gross**	**Reinsurance**	**Net**	**Gross**	**Reinsurance**	**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
Exchange rate 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 insurance 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 insurance liability has been estimated in such a way that it is, in reasonable probability, sufficient to cover the liabilities arising from insurance contracts. This has been performed by estimating an expected value for the insurance liability and, after that, by determining a safety margin based on the degree of uncertainty related to the liability.

The provision for unearned premiums arising from insurance contracts has mainly been determined in accordance with the pro rata parte temporis rule for each contract.

The provision for unpaid claims for annuities corresponds to the discounted present value of cash flow of compensation for loss of income payable as continuous annuity. The discount rate is determined taking account of the current interest rate, security required by law and the maximum discount rate set by the authorities and expected reasonable return on assets covering insurance liabilities. On 31 December 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 claims paid for losses occurred more than 10 years ago are financed through the pay-as-you-go system.

b) Changes in assumptions

As a result of a reduction in the lower discount rate, the provision for unpaid claims for annuities rose by EUR 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 the mortality model		27
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 eight years. The claims triangle does not monitor the shares of pools and the trends in the rights of recourse related to statutory workers' compensation insurance. The capital value of finalised annuities is treated as if the annuities had been paid equalling the capital amount in connection with confirmation as final. For long-term liabilities, i.e. annuities confirmed as final and asbestos-related claims, information on the adequacy of insurance liabilities is provided.

Claims triangles, gross business, EUR million

Occurrence year	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 liability	Known liabilities for annuities	Claims paid	Claims incurred	Changes in reserving basis*	Adequacy
2005	45	39	-4	-2	1	-1
2006	43	40	-4	-3		-3
2007	41	40	-4	-2	-1	-2
2008	40	41	-4	-4	3	-2
2009	42	43	-4	-8	4	-4
2010	38	44	-3	0		0
2011	35	50	-3	-6	5	-2
2012	32	53	-4	-4	2	-1

Development of annuities confirmed as final, EUR million

Financial year	Year-start	Year-end	New annuity capital	Annuities paid	Changes in reserving bases*	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									
	-492	-539	-588	-609	-565	-614	-581	-442	-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 the Consolidated Financial Statements

NOTES TO THE BALANCE SHEET

Note 34. Debt securities issued to the public

EUR million	Average interest rate, %	31 Dec. 2012	Average interest rate, %	31 Dec. 2011
Bonds	2.1	8,282	2.5	6,887
Other				
Certificates of deposit	0.5	1,516	1.6	3,424
Commercial papers	0.5	3,979	1.3	4,689
Other	0.5	144	0.8	297
Included in own portfolio in trading (–)*		–152		–119
Total debt securities issued to the public		**13,769**		**15,179**

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

Long-term loans and interest rate bases	Nominal amount	Interest rate	Maturity
Pohjola Bank plc SEK 1,500,000,000 Floating Rate Notes due 21 January 2013 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments	174.8	SES3M + 0.80%	21 Jan. 2013
Pohjola Bank plc Issue of EUR 750,000,000 Floating Rate Instruments due 25 February 2013 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments	750.0	EUB3M + 0.50%	25 Feb. 2013
Pohjola Bank plc Issue of EUR 100,000,000 Floating Rate Notes due August 2013 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments	100.0	EUB3M + 0.55%	13 Aug. 2013
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	245.1	GBL3M + 0.12%	23 Sept. 2013
Pohjola Bank plc Issue of USD 60,000,000 Floating Rate Notes due 25 November 2013 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments	45.5	USL3M + 0.46%	25 Nov. 2013
Pohjola Bank plc Issue of USD 50,000,000 Floating Rate Notes due November 2013 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments	37.9	USL3M + 0.47%	29 Nov. 2013
Pohjola Bank plc Issue of EUR 60,000,000 Floating Rate Notes due 13 January 2014 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments	60.0	EUB3M + 0.65%	13 Jan. 2014

Pohjola Bank plc Issue of EUR 750,000,000 4.50 per cent. Instruments due 2014 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments	750.0	Fixed 4.5%	22 May 2014
OKO Osuuspankkien Keskuspankki Oyj ("OKO Bank") Issue of NOK 400,000,000 Fixed Rate Notes Due16 June 2014 under the EUR 5,000,000,000 Programme for the Issuance of Debt Instruments	54.4	Fixed 5.2%	16 June 2014
Pohjola Bank plc Issue of NOK 500,000,000 5.40 per cent. Fixed Rate Notes due June 2014 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments	68.0	Fixed 5.4%	18 June 2014
Pohjola Bank plc Issue of CHF 100,000,000 Floating Rate Instruments due 11 July 2014 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments	82.8	CHL3M + 0.22%	11 July 2014
Pohjola Bank Plc Issue of GBP 59,000,000 Floating Rate Notes due 26 September 2014 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments	72.3	GBL3M + 0.36%	14 Sept. 2014
JPY 3,000,000,000 Term Loan Facility	26.4	Fixed 1.645%	17 Nov. 2014
Pohjola Bank plc Issue of EUR 750,000,000 3.125 per cent. Instruments due 25 March 2015 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments	750.0	Fixed 3.125%	25 March 2015
Pohjola Bank plc Issue of EUR 220,000,000 Floating Rate Instruments due 28 June 2015 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments	220.0	EUB3M + 0.65%	28 June 2015
Pohjola Bank plc Issue of GBP 250,000,000 Floating Rate Notes due November 2015 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments	306.3	GBL3M + 0.55%	9 Nov. 2015
Pohjola Bank plc Issue of EUR 10,000,000 2.62 per cent, Fixed Rate Instruments due 19 November 2015 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments	10.0	Fixed 2.62%	19 Nov. 2015
JPY 2,000,000,000 Term Loan Facility	17.6	Fixed 1.706%	30 Nov. 2015
Pohjola Bank plc Issue of EUR 500,000,000 3.125 per cent. Instruments due 12 January 2016 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments	500.0	Fixed 3.125%	12 Jan. 2016
OKO Osuuspankkien Keskuspankki Oyj ("OKO BANK") Issue of NOK 1,000,000,000 Fixed Rate Notes Due 15 February 2016 under the EUR 8,000,000,000 Programme for the Issuance of Debt Instruments	136.1	Fixed 4.185%	15 Feb. 2016
Pohjola Bank plc Issue of JPY 5,000,000,000 Fixed Rate Instruments under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments	44.0	Fixed 0.835%	26 Sept. 2016
Pohjola Bank plc Issue of EUR 750,000,000 2.625 per cent. Instruments due 20 March 2017 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments	750.0	Fixed 2.625%	20 March 2017
Pohjola Bank plc Issue of EUR 60,000,000 Floating Rate Instruments due 30 May 2017 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments	60.0	EUB3M + 0.90%	30 May 2017
Pohjola Bank plc Issue of EUR 750,000,000 3.00 per cent. Instruments due 8 September 2017 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments	750.0	Fixed 3.00%	8 Sept. 2017
Pohjola Bank plc Issue of EUR 10,000,000 1.965 per cent. Instruments due 19 November 2020 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments	10.0	Fixed 1.965%	19 Nov. 2020

Pohjola Bank plc Issue of JPY 8,000,000,000 Fixed Rate Instruments due December 2020 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments	70.4	Fixed 1.405%	3 Dec. 2020
Pohjola Bank plc Issue of EUR 60,000,000 3.75 per cent. Instruments due 1 March 2022 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments	60.0	Fixed 3.75%	1 March 2022
Pohjola Bank plc Issue of EUR 50,000,000 3.086 per cent. Instruments due 23 August 2027 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments	50.0	Fixed 3.086%	23 Aug. 2027

The interest rate is the rate according to the issue currency. The euro equivalents are calculated using the average rate of the European Central Bank on the balance sheet date. The nominal amount of structured bonds issued by Pohjola Bank plc was EUR 1,447 million (1,195). The bonds' interest rate is determined on the basis of interest, equity, equity index or similar underlying instruments. Any possible additional return on the bonds to the investor is hedged using a corresponding derivative structure.

Notes to the Consolidated Financial Statements

NOTES TO THE BALANCE SHEET

Note 35. Provisions and other liabilities

EUR million	31 Dec. 2012	31 Dec. 2011	1 Jan. 2011
Provisions	7		
Other liabilities			
Payment transfer liabilities	1,039	844	587
Accrued expenses			
Interest payable	754	848	546
Other accrued expenses	75	75	99
Pension liabilities	21	12	11
Other	661	455	572
Total provisions and other liabilities	**2,556**	**2,235**	**1,815**

The item Other under Other liabilities consists eg of EUR 49 million (6) in accounts payable on securities and EUR 578 million (0) in liabilities for derivatives.

Changes in provisions

EUR million	Reorganisation	Total
1 Jan. 2012		
Increase in provisions	7	7
31 Dec. 2012	**7**	**7**

Reorganisation

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

Defined benefit pension plans

Pohjola Group has funded assets of its pension schemes through OP Bank Group Pension Fund, OP Bank Group Pension Foundation and insurance companies. Schemes related to supplementary pensions in the Pension Foundation and insurance company, as well as the TyEL (Employees' Pensions Act) funded old-age and disability pension schemes managed by the Pension Fund are treated as defined benefit plans. Contributions to the TyEL pay-as-you-go system are treated as defined contribution plans.

Balance sheet values of defined benefit pension plans, EUR million	31 Dec. 2012	31 Dec. 2011	1 Jan. 2011
Fair value of assets	172	141	130
Present value of funded obligations (–)	-180	-139	-121
Present value of unfunded obligations	-4	-4	-4
Net receivable (+) / liability (–) on the balance sheet	**-12**	**-2**	**5**
Assets and liabilities recognised on the balance sheet			
Assets	9	10	16
Liabilities	21	12	11
Net assets	**-12**	**-2**	**5**
Plan assets include			
Pohjola Bank plc shares	6	4	4
Securities issued by companies included in OP-Pohjola Group	3	1	3
Other receivables from companies included in OP-Pohjola Group	7	12	
Property used by OP-Pohjola Group Central Cooperative Consolidated	3	2	1
Total	**19**	**20**	**8**
Defined benefit pension costs on the income statement			
Current service cost	5	4	
Interest cost	6	6	
Expected return on plan assets	-8	-8	
Effect of curtailment of plans or settlements	-1	-1	
Total income (–)/expenses (+) included in personnel costs	**2**	**0**	
Actuarial gains (+)/losses (–) recognised in other comprehensive income during financial year	-12	-10	
Cumulative actuarial gains (+)/losses (–) recognised in other comprehensive income	-47	-35	
Actual return on plan assets	**35**	**12**	

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, EUR million	31 Dec. 2012	31 Dec. 2011
Present value of obligation 1 Jan.	143	125
Current service cost	5	4
Interest cost	6	6
Actuarial gains and losses	38	13
Benefits paid	-5	-4
Curtailment of plan	-2	
Settlement of obligation	-2	-1
Return on TyEL interest rate difference and growth in old-age pension liabilities (net)	1	1
Present value of obligation 31 Dec.	**184**	**143**

Changes in fair value of assets, EUR million	31 Dec. 2012	31 Dec. 2011
Fair value of assets 1 Jan.	141	130
Expected return on plan assets	8	8
Actuarial gains and losses	26	3
Employer contributions	3	3
Benefits paid	-5	-4
Settlement of obligation	-2	-1
Return on TyEL interest rate difference and growth in old-age pension liabilities (net)	1	1
Fair value of assets 31 Dec.	**172**	**141**

Contributions payable to the defined benefit plan in 2013 are estimated at EUR 3 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	41
Property	13	13	19
Other assets	21	26	7

Principal actuarial assumptions used	2012	2011
Discount rate, %	3.50	4.50
Expected long-term return on plan assets, %	3.50–5.10	5.04–5.90
Assumed future salary increases, %	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+/– 3 million.

Surplus of defined benefit pension plans and experience adjustments, EUR million	**31 Dec. 2012**	**31 Dec. 2011**	**1 Jan. 2011**	**31 Dec. 2010**	**31 Dec. 2009**	**31 Dec. 2008**
Present value of obligation	184	143	125	125	124	101
Fair value of assets	-172	-141	-130	-130	-127	-106
Surplus or deficit	**12**	**2**	**-5**	**-5**	**-3**	**-6**
Experience adjustments on liabilities	14	12	-4	-4	0	-5
Experience adjustments on assets	26	3	6	6	7	-28

Notes to the Consolidated Financial Statements

NOTES TO THE BALANCE SHEET

Note 36. Tax liabilities

EUR million	31 Dec. 2012	31 Dec. 2011	1 Jan. 2011
Income tax liabilities	52	7	30
Deferred tax liabilities	433	404	419
Total tax liabilities	**485**	**411**	**449**

A specification of deferred tax liabilities can be found in Note 28.

Notes to the Consolidated Financial Statements

NOTES TO THE BALANCE SHEET

Note 37. Subordinated liabilities

	Average interest rate, %	31 Dec. 2012, EUR million	Average interest rate, %	31 Dec. 2011, EUR million
Subordinated loans	2.9	322	3.9	332
Other				
Perpetual loans			5.0	265
Debentures	5.2	954	4.9	454
Total subordinated liabilities		**1,275**		**1,050**

Hybrid bonds/subordinated loans
Hybrid bonds 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 Subordinated loan of EUR 50 million
This is a perpetual loan without interest-rate step-ups, but with an 8% interest rate cap. The loan was issued on 31 March 2005 and its interest rate for the first year was 6.5% and thereafter CMS 10 years + 0.1%.Interest payments are made annually on 11 April. If interest cannot be paid for a given interest period, the obligation to pay interest for the period in question will lapse. The loan can be called in on the interest due date as of 11 April 2010 at the earliest, subject to authorisation by the Financial Supervisory Authority. The loan's entire principal must be repaid in one instalment.

3 Hybrid bond of EUR 60 million
This perpetual bond carries a variable interest rate based on 3-month Euribor + 0.65% payable quarterly on 28 February, 30 May, 30 August and 30 November. If interest cannot be paid for a given interest period, the obligation to pay interest for the period in question will lapse. It is possible to call in the loan at the earliest on 30 November 2015, subject to authorisation by the Financial Supervisory Authority, and thereafter on the interest due dates. After 2015, the loan carries a variable interest rate based on 3-month Euribor +1.65% (step up). The entire loan principal must be repaid in one instalment.

4 Subordinated loan of EUR 40 million
This perpetual loan carries a variable interest rate based on 3-month Euribor + 1.25% payable quarterly on 28 February, 30 May, 30 August and 30 November. If interest cannot be paid for a given interest period, the obligation to pay interest for the period in question will lapse. Subject to authorisation by the Financial Supervisory Authority, the loan may be called in on the due date of interest payment of 30 October 2010. The entire loan principal must be repaid in one instalment.

5 Hybrid bond of EUR 50 million
Perpetual bond of EUR 50 million, issued on 17 June 2008, carries a variable interest rate based on 3-month Euribor + 3.05%, payable on a quarterly basis on 17 March, 17 June, 17 September and 17 December. If interest cannot be paid for a given interest period, the obligation to pay interest will lapse. Subject to authorisation by the Financial Supervisory Authority, the bond may be called in at the earliest on 17 June 2013 and thereafter on the due dates of interest payment. The entire loan principal must be repaid in one instalment.

6 Pohjola Insurance Ltd's capital bond
Pohjola Insurance Ltd's perpetual capital bond of EUR 50 million. Issued on 17 June 2008, the bond carries a variable interest rate based on 3-month Euribor + 3.20%, payable on a quarterly basis. Interest which cannot be paid on the interest payment date and interest which Pohjola Insurance Ltd could not have paid for previous interest payment dates constitute 'Unpaid interest'. Interest will accrue on unpaid interest in accordance with the interest rate applicable to the bonds and this additional interest accrued until each interest payment date will be added to unpaid interest on the interest payment date in question. The issuer agrees not to distribute dividends or other profit or to buy back own shares until unpaid interest has been paid in its entirety. The bond may be called in at the earliest in 2013 and its principal can be paid back only if the statutory terms and conditions are fulfilled. The bond will not be taken into account in the capital adequacy measurement under the Act on Credit Institutions but can be fully utilised in the capital adequacy measurement of the insurance company.

Loans 1 and 3 are included in hybrid instruments.

The Group has used derivatives to hedge against interest-rate and exchange-rate risks, and the financial statements include EUR 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 (1.9) on 31 December 2012.

Issue date	Carrying amount, EUR million	Interest rate, %	Due date
3 March 2008	0.7	4.10	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).

Notes to the Consolidated Financial Statements

NOTES TO THE BALANCE SHEET

Note 38. Shareholders' equity

EUR million	31 Dec. 2012	31 Dec. 2011	1 Jan. 2011
Capital and reserves attributable to owners of the Parent			
Share capital	**428**	**428**	**428**
Reserves			
Restricted reserves			
Share premium account	519	519	519
Reserve fund	204	204	204
Fair value reserve*			
From fair value measurement			
Notes and bonds	50	-165	-65
Shares and participations	94	7	59
From cash flow hedging	23	10	-6
Other restricted reserves	1	1	1
Non-restricted reserves			
Reserve for Invested non-restricted equity	298	298	298
Other non-restricted reserves	72	72	72
Retained earnings			
Profit (loss) for previous periods	796	718	622
Profit (loss) for the period	285	216	229
Capital and reserves attributable to owners of the Parent	**2,769**	**2,306**	**2,359**
Total shareholders' equity	**2,769**	**2,306**	**2,359**

* The fair value reserve before tax totalled EUR 221 million (–197) and the related deferred tax liability amounted to EUR 54 million (deferred tax asset of 48). On 31 December, positive mark-to-market valuations of equity instruments before tax in the fair value reserve totalled EUR 121 million (66) and negative mark-to-market valuations EUR 8 million (58). In 2012, impairments recognised from the fair value reserve in the income statement totalled EUR 8 million (31), of which equity instruments accounted for EUR 7 million (3).

	Number of shares	
	Series A	Series K
1 Jan. 2011	251,169,770	68,381,645
31 Dec. 2011	251,169,770	68,381,645
Conversion of shares	773,028	-773,028
31 Dec. 2012	251,942,798	67,608,617

Share capital and shares
Shares are divided into Series A and Series K shares. The shares have no nominal value. The stated value of each share is EUR 1.34 (not an exact figure). All issued shares have been paid up.

Series A shares available for subscription by the general public are quoted on the NASDAQ OMX Helsinki and are not subject to any purchase restrictions. Holding of Series K shares is restricted to Finnish cooperative banks, cooperative bank companies and the central institution of the amalgamation of cooperative banks, OP-Pohjola Group Central Cooperative. Series K shares may be converted into Series A shares at the written request of a shareholder or, in case of nominee-registered shares, at the written request of the asset manager registered in the book-entry register, within the limits of the minimum and maximum numbers of the share types provided for in the Articles of Association.

If a dividend is paid, Series A shares entitle their holders to an annual dividend which is at least three (3) cents higher than the dividend declared on Series K shares.

Treasury shares
At year-end, Pohjola Bank plc or its subsidiaries or associates did not hold Pohjola Bank plc treasury shares. The Annual General Meeting has not authorised Pohjola to buy back own shares.

Proposed distribution of dividend
The Board of Directors will propose to the Annual General Meeting that a dividend of EUR 0.46 (0.41) be distributed on each Series A share and EUR 0.43 (0.38) on each Series K share, totalling EUR 145 million (129).

Share premium account
The share premium account was formed during the validity of regulations in force before 1 September 2006. Items entered in the share premium account include amounts exceeding the stated value paid for shares in a rights issue and amounts exceeding the stated value of a share and paid for share subscription based on stock options.

The share premium account may be lowered in compliance with the regulations governing the reduction of share capital and may be used to increase the share capital. The amount of the subscription price exceeding the stated value of shares subscribed in September and November 2006, based on stock options, was entered in the share premium account, because the General Meeting had made the decision on issuing stock options before the entry into force of the new Companies Act. Otherwise, it has no longer been possible to increase the share premium account since 1 September 2006.

Reserve fund
The reserve fund consists of profits transferred to it during previous periods and the loan loss provisions transferred to it in 1990. The reserve fund may be used to cover losses for which the non-restricted equity is not sufficient. The reserve fund may also be used to increase the share capital and it may be reduced in the same way as the share capital. Since 1 September 2006, it has no longer been possible to increase the reserve fund.

Fair value reserve
The fair value reserve includes the change in the fair value of available-for-sale financial assets. Items included in this reserve will be derecognised and recorded in the income statement when an available-for-sale financial asset is disposed of or is subject to impairment. The reserve also includes the net fair value change of interest rate derivatives as cash

flow hedges verified as effective and adjusted for deferred tax. Fair value changes are included in the income statement in the period when hedged cash flows affect net income.

Other restricted reserves
These reserves consist of retained earnings based on the Articles of Association or rules which describe their purpose.

Reserve for Invested non-restricted equity
Capital raised through the rights offering in 2009 was entered in the reserve for invested non-restricted equity.

Other non-restricted reserves
These reserves consist of retained earnings based on decisions by the General Meeting.

Retained earnings
Retained earnings also contain untaxed reserves (voluntary provisions and accelerated depreciation) included in the statutory financial statements of Group companies, and the equalisation provision and actuarial gains/losses of insurance companies, which have been recognised in retained earnings less deferred tax in the IFRS financial statements.

Notes to the Consolidated Financial Statements

NOTES TO RISK MANAGEMENT

Note 2 covers risk management and capital adequacy management principles. Information on risk exposure by Banking and the Group Functions can be found in Notes 39–57, capital adequacy disclosures under Pillar III in Notes 58–73 and risk exposure by Non-life Insurance in Notes 74–85.

Risk exposure by Banking and the Group Functions

The classification by Statistics Finland is used in these notes, deviating partly from the classification used in the risk exposure section presented in the Report by the Board of Directors.

Note 39. Assets and impairment losses recognised on them for the financial year

EUR million	31 Dec. 2012 Balance sheet value	31 Dec. 2012 Impairment losses	31 Dec. 2011 Balance sheet value	31 Dec. 2011 Impairment losses
Cash and cash equivalents	5,643		4,247	
Receivables from credit institutions	8,815		7,367	
Financial assets at fair value through profit or loss				
Notes and bonds	255		182	
Shares and participations	1		1	
Derivative contracts				
Held for trading	4,084		3,126	
Hedging	379		200	
Loans and other receivables				
Loans granted	10,340	238	9,304	187
Bonds and notes	74	7	265	33
Finance lease receivables	1,048		902	
Repo contracts				
Guarantee receivables	3	0	3	2
Other receivables	2,620		2,449	
Available-for-sale financial assets				
Notes and bonds	4,971		6,522	
Shares and participations	105		77	
Held-to-maturity financial assets				
Notes and bonds	330		716	
Off-balance-sheet commitments				
Bank guarantees	800		936	
Total	**39,467**	**246**	**36,299**	**223**

Notes to the Consolidated Financial Statements

RISK EXPOSURE BY BANKING AND THE GROUP FUNCTIONS

Note 40. Impairments by risk type

EUR million	31 Dec. 2012	31 Dec. 2011
Based on credit risk	246	223
Total	**246**	**223**

Notes to the Consolidated Financial Statements

RISK EXPOSURE BY BANKING AND THE GROUP FUNCTIONS

Note 41. Exposure

	Finland			Other countries		
31 Dec. 2012, EUR million	**Balance sheet value**	**Impair-ments**	**Accrued interest**	**Balance sheet value**	**Impair-ments**	**Accrued interest**
Assets						
Receivables from credit institutions	7,988		6	827		10
Receivables from customers	11,796	221	29	995	24	2
Finance leases	1,034			14		
Notes and bonds	1,063		15	4,492		61
Other	144			518		
Total	**22,025**	**221**	**49**	**6,846**	**24**	**73**
Off-balance-sheet commitments						
Unused standby credit facilities	5,201			142		
Guarantees and letters of credit	2,105			571		
Derivative contracts	953			3,724		
Other	120			181		
Total	**8,379**			**4,617**		
Total exposure	**30,404**	**221**	**49**	**11,463**	**24**	**73**

31 Dec. 2011, EUR million	Finland Balance sheet value	Finland Impair-ments	Finland Accrued interest	Other countries Balance sheet value	Other countries Impair-ments	Other countries Accrued interest
Assets						
Receivables from credit institutions	6,386		9	981		8
Receivables from customers	10,955	178	38	844	45	2
Finance leases	893			9		
Notes and bonds	919		14	6,501		101
Other	110			437		
Total	**19,263**	**178**	**60**	**8,773**	**45**	**110**
Off-balance-sheet commitments						
Unused standby credit facilities	4,772			180		
Guarantees and letters of credit	2,123			409		
Derivative contracts	705			2,767		
Other	134			226		
Total	**7,733**			**3,582**		
Total exposure	**26,996**	**178**	**60**	**12,355**	**45**	**110**

The tables show the recognised positive market value of derivative contracts.

Notes to the Consolidated Financial Statements

RISK EXPOSURE BY BANKING AND THE GROUP FUNCTIONS

Note 42. Exposure by sector

	Balance sheet values		Off-balance-sheet		
31 Dec. 2012, EUR million	**Finnish**	**Foreign**	**Finnish**	**Foreign**	**Total**
Non-banking corporate sector	11,577	781	7,087	412	19,857
Financial institutions and insurance companies	8,755	5,431	485	4,192	18,863
Households	972	19	223	0	1,214
Non-profit organisations	225	145	22		391
Public sector entities	545	543	561	12	1,663
Total	**22,074**	**6,919**	**8,379**	**4,617**	**41,988**

	Balance sheet values		Off-balance-sheet		
31 Dec. 2011, EUR million	**Finnish**	**Foreign**	**Finnish**	**Foreign**	**Total**
Non-banking corporate sector	10,535	591	6,758	421	18,305
Financial institutions and insurance companies	7,188	7,452	330	3,159	18,131
Households	838	19	214	0	1,071
Non-profit organisations	232	195	44		471
Public sector entities	529	626	387	2	1,544
Total	**19,323**	**8,883**	**7,733**	**3,582**	**39,522**

The balance sheet values are carrying amounts including impairments and accrued interest income.

Notes to the Consolidated Financial Statements

RISK EXPOSURE BY BANKING AND THE GROUP FUNCTIONS

Note 43. Receivables from credit institutions and customers, and doubtful receivables

31 Dec. 2012, EUR million	Not impaired (gross)	Impaired (gross)	Total	Impair-ments	Balance sheet value
Receivables from credit institutions and customers					
Receivables from credit institutions	8,815		8,815		8,815
Receivables from customers, of which	12,741	296	13,037	246	12,792
Bank guarantee receivables	2	0	3	0	2
Finance leases	1,048		1,048		1,048
Overdrafts	0		0		0
Total	**22,604**	**296**	**22,900**	**246**	**22,654**
Receivables from credit institutions and customers by sector					
Non-banking corporate sector	11,840	285	12,125	232	11,893
Financial institutions and insurance companies	9,112	10	9,122	7	9,115
Households	996		996	6	990
Non-profit organisations	224	0	225	0	225
Public sector entities	432		432		432
Total	**22,604**	**296**	**22,900**	**246**	**22,654**

31 Dec. 2011, EUR million	Not impaired (gross)	Impaired (gross)	Total	Impair- ments	Balance sheet value
Receivables from credit institutions and customers					
Receivables from credit institutions	7,367		7,367		7,367
Receivables from customers, of which	11,758	263	12,022	223	11,799
Bank guarantee receivables	1	2	3	2	1
Finance leases	902		902		902
Overdrafts	11		11		11
Total	**20,039**	**263**	**20,302**	**223**	**20,080**
Receivables from credit institutions and customers by sector					
Non-banking corporate sector	10,746	199	10,945	183	10,761
Financial institutions and insurance companies	7,734	65	7,799	33	7,766
Households	864		864	6	858
Non-profit organisations	240	0	240	0	240
Public sector entities	454		454		454
Total	**20,039**	**263**	**20,302**	**223**	**20,080**

Collectively assessed impairments on receivables are allocated to Non-banking Corporate Sector. Their amount came to EUR 15 million (16).

31 Dec. 2012, EUR million	Not impaired (gross)	Impaired (gross)	Total	Arrears	Impairments Individually assessed	Impairments Collectively assessed
Doubtful receivables						
Receivables from credit institutions						
Receivables from customers, of which	25	296	321	21	230	15
Bank guarantee receivables	2	0	3		0	
Finance leases	1		1	0		
Overdrafts	0		0			
Total	**26**	**296**	**322**	**21**	**230**	**15**
Doubtful receivables by sector						
Non-banking corporate sector	17	285	303	17	223	9
Financial institutions and insurance companies	0	10	10		7	
Households	9		9	4		6
Non-profit organisations	0	0	0	0	0	
Public sector entities				0		
Total	**26**	**296**	**322**	**21**	**230**	**15**

31 Dec. 2011, EUR million	Not impaired (gross)	Impaired (gross)	Total	Arrears	Impairments Individually assessed	Impairments Collectively assessed
Doubtful receivables						
Receivables from customers, of which	47	264	311	23	207	16
Bank guarantee receivables	1	2	3		2	
Finance leases	2		2	0		
Overdrafts	11		11			
Total	**60**	**264**	**324**	**23**	**207**	**16**
Doubtful receivables by sector						
Non-banking corporate sector	50	199	249	19	174	9
Financial institutions and insurance companies	0	65	65		33	
Households	10		10	4		6
Non-profit organisations	1	0	1	0	0	
Public sector entities	0		0	0		
Total	**60**	**264**	**324**	**23**	**207**	**16**

31 Dec. 2012, EUR million	Total portfolio	Individually assessed	Balance sheet value
Doubtful receivables			
Non-performing	96	63	33
Zero-interest	8	7	1
Underpriced	0	0	
Other	218	160	58
Total	**322**	**230**	**92**

31 Dec. 2011, EUR million	Total portfolio	Individually assessed	Balance sheet value
Doubtful receivables			
Non-performing	120	59	62
Zero-interest	7	6	0
Underpriced	0	0	
Other	197	142	55
Total	**324**	**207**	**117**

Doubtful receivables include non-performing, zero-interest and under-priced receivables as well as 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 and unpaid principal.

Past due but not impaired financial assets by maturity

		Days			
31 Dec. 2012, EUR million	**Less than 30**	**30–90**	**Over 90–180**	**Over 180**	**Total**
Past due but not impaired loans and receivables	398	41	4		443

		Days			
31 Dec. 2011, EUR million	**Less than 30**	**30–90**	**Over 90–180**	**Over 180**	**Total**
Past due but not impaired loans and receivables	230	46	3		280

Notes to the Consolidated Financial Statements

RISK EXPOSURE BY BANKING AND THE GROUP FUNCTIONS

Note 44. Credit losses and impairments

Credit losses and impairments

EUR million	2006	2007	2008	2009	2010	2011	2012
Gross credit losses and impairments	7	11	37	155	156	132	97
Reversals	-6	-10	-9	-26	-52	-71	-40
Net credit losses and impairments	1	1	28	129	104	60	57

A total of EUR 97 million (132) in new credit and guarantee losses and impairments were recognised for the financial year. The combined credit loss reversals and decreases in impairments totalled EUR 40 million (71). The net impact of credit and guarantee losses and impairments on profit came to EUR 57 million (60).

In 2012, credit and guarantee losses and impairments accounted for 0.35% (0.40) of the credit and guarantee portfolio.

Notes to the Consolidated Financial Statements

RISK EXPOSURE BY BANKING AND THE GROUP FUNCTIONS

Note 45. Corporate exposure by sector

Net exposure, 31 Dec. 2012	Balance sheet, EUR million	Off-balance-sheet, EUR million	Total, EUR million	Percentage distribution
Renting and operation of residential real estate	1,952	191	2,143	10.8
Trade	1,444	428	1,872	9.4
Manufacture of machinery and equipment (incl. maintenance)	647	1,091	1,737	8.7
Operating of other real estate	1,405	198	1,603	8.1
Construction	595	860	1,455	7.3
Transportation and storage	1,035	317	1,352	6.8
Energy	454	815	1,269	6.4
Buying and selling of own real estate	888	312	1,200	6.0
Forest industry	477	521	998	5.0
Services	643	284	927	4.7
Financial and insurance activities	537	365	903	4.5
Metal industry	364	440	804	4.0
Information and communication	342	446	787	4.0
Food industry	458	272	730	3.7
Manufacture of chemicals and chemical products	168	493	661	3.3
Agriculture, forestry and fishing	469	105	574	2.9
Other manufacturing	226	201	427	2.2
Mining and quarrying	112	92	204	1.0
Water supply and waste management	126	63	189	1.0
Other sectors	15	6	21	0.1
Public administration and defence (incl. compulsory social security)	0		0	0.0
Total	**12,358**	**7,499**	**19,857**	**100.0**

Net exposure, 31 Dec. 2011	Balance sheet, EUR million	Off-balance-sheet, EUR million	Total, EUR million	Percentage distribution
Renting and operation of residential real estate	1,808	225	2,033	11.1
Manufacture of machinery and equipment (incl. maintenance)	587	1,221	1,808	9.9
Trade	1,233	455	1,688	9.2
Operating of other real estate	1,352	163	1,516	8.3
Construction	580	836	1,416	7.7
Transportation and storage	875	513	1,387	7.6
Buying and selling of own real estate	924	167	1,091	6.0
Energy	183	776	959	5.2
Forest industry	551	384	935	5.1
Metal industry	287	517	804	4.4
Food industry	486	300	787	4.3
Services	535	228	762	4.2
Manufacture of chemicals and chemical products	226	447	673	3.7
Information and communication	265	364	629	3.4
Financial and insurance activities	349	221	570	3.1
Agriculture, forestry and fishing	416	57	473	2.6
Other manufacturing	232	143	375	2.0
Mining and quarrying	149	109	258	1.4
Water supply and waste management	66	51	117	0.6
Other sectors	21	2	22	0.1
Public administration and defence (incl. compulsory social security)	1		1	0.0
Total	**11,126**	**7,179**	**18,305**	**100.0**

Notes to the Consolidated Financial Statements

RISK EXPOSURE BY BANKING AND THE GROUP FUNCTIONS

Note 46. Corporate exposure by rating category

	31 Dec. 2012		31 Dec. 2011	
Rating	Net exposure, EUR million	%	Net exposure, EUR million	%
1.0–2.0	1,397	7.0	1,046	5.7
2.5–5.0	10,421	52.5	10,193	55.7
5.5–7.0	5,368	27.0	4,653	25.4
7.5–8.5	1,983	10.0	1,861	10.2
9.0–10.0	386	1.9	286	1.6
11.0–12.0	302	1.5	265	1.4
Total	**19,857**	**100.0**	**18,305**	**100.0**

Information on probability of default related to rating categories can be found in Note 66.

Notes to the Consolidated Financial Statements

RISK EXPOSURE BY BANKING AND THE GROUP FUNCTIONS

Note 47. Corporate exposure by the amount of customer's exposure

Amount of net exposure, 31 Dec. 2012, EUR million	Finland	Other countries	Total	%
0–1	982	139	1,122	5.6
1–10	2,555	311	2,866	14.4
10–50	4,666	567	5,233	26.4
50–100	3,580	176	3,756	18.9
Over 100	6,881		6,881	34.7
Total	**18,664**	**1,193**	**19,857**	**100.0**

Amount of net exposure, 31 Dec. 2011, EUR million	Finland	Other countries	Total	%
0–1	931	163	1,093	6.0
1–10	2,525	239	2,765	15.1
10–50	4,177	559	4,737	25.9
50–100	3,648	50	3,698	20.2
Over 100	6,012		6,012	32.8
Total	**17,293**	**1,011**	**18,305**	**100.0**

Notes to the Consolidated Financial Statements

RISK EXPOSURE BY BANKING AND THE GROUP FUNCTIONS

Note 48. Liabilities of financial institutions and insurance companies by rating category

	31 Dec. 2012		31 Dec. 2011	
Rating	**Net exposure, EUR million**	**%**	**Net exposure, EUR million**	**%**
1.0–2.0	10,196	54.5	9,747	54.2
2.5–5.0	7,896	42.2	7,494	41.7
5.5–7.0	460	2.5	556	3.1
7.5–8.5	134	0.7	83	0.5
9.0–10.0	10	0.1	83	0.5
11.0–12.0			26	0.1
Total	**18,696**	**100.0**	**17,989**	**100.0**

Pohjola has rated its financial institution and insurance company customers based on the rating methods used in OP-Pohjola Group's capital adequacy measurement. Exposures based on international credit rating agencies' credit rating categories are shown in OP-Pohjola Group's equivalent rating categories in the table.

Notes to the Consolidated Financial Statements

RISK EXPOSURE BY BANKING AND THE GROUP FUNCTIONS

Note 49. Secondary country risk by country risk category, excl. Finland

		31 Dec. 2012		31 Dec. 2011	
Country risk	Moody's equivalent	Net exposure, EUR million	%	Net exposure, EUR million	%
Category 1	Aaa	9,150	79.5	9,966	80.4
Category 2	Aa1–A3	865	7.5	1,343	10.8
Category 3	Baa1–Baa3	1,250	10.9	798	6.4
Category 4	Ba1–B3	217	1.9	252	2.0
Category 5	Caa1–C	21	0.2	35	0.3
Total		**11,502**	**100.0**	**12,395**	**100.0**

Secondary country (excl. Finland) risk takes account of the transfer of contract-related, real risks to another country through agreements or otherwise. The risk may transfer on the basis of an agreement, or a guarantee in most cases, or otherwise, such as transferring receivables from a company's branch office to the country where the company is headquartered.

Notes to the Consolidated Financial Statements

RISK EXPOSURE BY BANKING AND THE GROUP FUNCTIONS

Note 50. Collateral received by type of collateral

EUR million	31 Dec. 2012	%	31 Dec. 2011	%
Public-sector guarantees	1,900	26.3	2,123	31.0
Object of financing as collateral	1,895	26.2	1,536	22.5
Property or lease mortgage on office or industrial property	1,715	23.8	1,640	24.0
Shares and participations, other	545	7.5	434	6.3
Shares in housing corporations, and housing associations and property companies in residential use	319	4.4	310	4.5
Business mortgage	251	3.5	249	3.6
Property or lease mortgage on residential property	176	2.4	173	2.5
Other collateral	175	2.4	103	1.5
Factoring	134	1.9	137	2.0
Bank guarantee	110	1.5	134	2.0
Total	**7,221**	**100.0**	**6,838**	**100.0**

Received collateral by type of collateral has been calculated on the basis of the values of collateral held by the bank allocated to liabilities. The collateral's fair value is used as the basis for calculating the collateral value which is derived from the fair value on the basis of valuation percentages, based on conservative estimates, by type of collateral.

Notes to the Consolidated Financial Statements

RISK EXPOSURE BY BANKING AND THE GROUP FUNCTIONS

Note 51. Funding structure

EUR million	31 Dec. 2012	%	31 Dec. 2011	%
Liabilities to credit institutions	5,840	15.8	5,935	17.1
Financial liabilities at fair value through profit or loss	3	0.0	1	0.0
Liabilities to customers				
Deposits	6,311	17.1	3,574	10.3
Other	4,464	12.1	4,452	12.8
Debt securities issued to the public				
Certificates of deposit and ECPs	5,495	14.9	8,113	23.4
Bonds	8,274	22.4	7,066	20.3
Other liabilities	2,556	6.9	2,235	6.4
Subordinated liabilities	1,275	3.4	1,050	3.0
Shareholders' equity	2,769	7.5	2,306	6.6
Total	**36,988**	**100.0**	**34,732**	**100.0**

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RISK EXPOSURE BY BANKING AND THE GROUP FUNCTIONS

Note 52. Maturity of assets and liabilities by residual term to maturity

31 Dec. 2012, EUR million	Less than 3 months	3–12 months	1–5 years	5–10 years	More than 10 years	Total
Liquid assets	5,643					5,643
Financial assets at fair value through profit or loss						
Notes and bonds	7	18	181	39	11	255
Receivables from credit institutions	5,830	743	1,544	675	23	8,815
Receivables from customers	2,182	1,772	6,867	1,653	1,364	13,839
Available-for-sale financial assets						
Notes and bonds	183	202	2,718	1,845	22	4,971
Held-to-maturity financial assets						
Notes and bonds	20	103	205	1		330
Total assets	**13,866**	**2,838**	**11,515**	**4,213**	**1,421**	**33,853**
Liabilities to credit institutions	2,752	455	1,988	646		5,840
Financial liabilities at fair value through profit or loss	3					3
Liabilities to customers	8,847	1,332	111	450	35	10,775
Debt securities issued to the public	5,053	2,547	5,785	335	50	13,769
Subordinated liabilities	171	250	132	683	40	1,275
Total liabilities	**16,825**	**4,584**	**8,016**	**2,114**	**125**	**31,662**
Guarantees	24	86	350	53	369	882
Other guarantee liabilities	250	296	339	29	444	1,359
Loan commitments	5,342					5,342
Commitments related to short-term trade transactions	94	41	300			435
Other	182	0	5	113		301
Total off-balance-sheet commitments	**5,892**	**424**	**994**	**195**	**814**	**8,319**

31 Dec. 2011, EUR million	Less than 3 months	3–12 months	1–5 years	5–10 years	More than 10 years	Total
Liquid assets	4,247					4,247
Financial assets at fair value through profit or loss						
Notes and bonds	33	34	110	4	1	182
Receivables from credit institutions	3,987	970	1,298	1,089	23	7,367
Receivables from customers	1,893	1,527	6,154	1,832	1,295	12,701
Available-for-sale financial assets						
Notes and bonds	67	162	4,491	1,783	19	6,522
Held-to-maturity financial assets						
Notes and bonds	166	185	341	25		716
Total assets	**10,393**	**2,878**	**12,394**	**4,733**	**1,338**	**31,736**
Liabilities to credit institutions	3,307	473	1,421	734		5,935
Financial liabilities at fair value through profit or loss	1					1
Liabilities to customers	6,894	456	85	435	155	8,025
Debt securities issued to the public	6,426	3,446	4,382	926		15,179
Subordinated liabilities	0	315	513	182	40	1,050
Total liabilities	**16,628**	**4,689**	**6,401**	**2,277**	**195**	**30,191**
Guarantees	1	10	436	55	501	1,004
Other guarantee liabilities	205	340	356	31	371	1,303
Loan commitments	4,952					4,952
Commitments related to short-term trade transactions	64	70	91			225
Other	226	1	1	132		359
Total off-balance-sheet commitments	**5,448**	**421**	**884**	**218**	**872**	**7,844**

Financial assets at fair value through profit or loss consist of notes and bonds which may be sold anytime. Notes and bonds included in available-for-sale financial assets may be sold whenever necessary. Notes and bonds included in financial assets at fair value through profit or loss and those included in available-for-sale financial assets are, however, presented within the sub-category determined on the basis of the remaining term to maturity in the table. Nominal amounts of debt are presented under categories by maturity. Financial liabilities held for trading are presented under the shortest maturity category. In its financial risk management, Pohjola Group uses forward exchange contracts and interest-rate and currency swaps. Since their net effect on the financial risk in euro countervalue is insignificant, they are not specifically presented.

Debt repayable on demand, included in the shortest maturity category, totalled EUR 5.2 billion (3.2).

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RISK EXPOSURE BY BANKING AND THE GROUP FUNCTIONS

Note 53. Liquidity buffer

Liquidity buffer by maturity and credit rating on 31 December 2012, EUR million

Year(s)	0–1	1–3	3–5	5–7	7–10	10–	Total	Proportion, %
Aaa*	5,721	868	683	409	751	22	8,452	57.9
Aa1–Aa3	86	270	156	315	254	11	1,092	7.5
A1–A3	244	458	234	14	13	1	964	6.6
Baa1–Baa3	106	192	123	4	7		432	3.0
Ba1 or lower	55	33	67	31	36	0	221	1.5
Internally rated**	575	707	1,047	408	203	504	3,443	23.6
Total	**6,787**	**2,527**	**2,308**	**1,181**	**1,264**	**538**	**14,605**	**100.0**

The liquidity buffer's (excl. deposits with the central bank) residual term to maturity averages 4.6 years.

* incl. deposits with the central bank

** PD </= 0.40%

Notes to the Consolidated Financial Statements

RISK EXPOSURE BY BANKING AND THE GROUP FUNCTIONS

Note 54. Maturities of assets and liabilities by maturity or repricing

31 Dec. 2012, EUR million	1 month or less	>1–3 months	>3–12 months	>1–2 years	>2–5 years	>5 years	Total
Cash and cash equivalents	5,643						5,643
Financial assets at fair value through profit or loss							
Notes and bonds	6	33	6	24	136	49	255
Receivables from credit institutions	5,897	1,379	813	99	439	188	8,815
Receivables from customers	5,864	4,100	1,894	394	812	776	13,839
Available-for-sale financial assets							
Notes and bonds	176	433	111	488	1,927	1,836	4,971
Held-to-maturity financial assets							
Notes and bonds	241	88					330
Total assets	**17,827**	**6,032**	**2,824**	**1,005**	**3,315**	**2,850**	**33,853**
Liabilities to credit institutions	2,468	1,475	610	250	680	358	5,840
Financial liabilities at fair value through profit or loss	3						3
Liabilities to customers	7,584	1,821	1,329	1		40	10,775
Debt securities issued to the public	1,702	4,962	1,990	1,146	3,718	251	13,769
Subordinated liabilities		371	150	72		683	1,275
Total liabilities	**11,757**	**8,628**	**4,080**	**1,468**	**4,398**	**1,331**	**31,662**

Debt repayable on demand totalled EUR 5.2 billion, consisting mainly of public deposits.

31 Dec. 2011, EUR million	1 month or less	>1–3 months	>3–12 months	>1–2 years	>2–5 years	>5 years	Total
Cash and cash equivalents	4,247						4,247
Financial assets at fair value through profit or loss							
Notes and bonds	38	30	22	39	48	4	182
Receivables from credit institutions	4,196	1,591	882	109	259	330	7,367
Receivables from customers	5,953	3,249	1,975	270	546	707	12,701
Available-for-sale financial assets							
Notes and bonds	394	548	108	197	3,473	1,802	6,522
Held-to-maturity financial assets							
Notes and bonds	411	305					716
Total assets	**15,239**	**5,724**	**2,987**	**615**	**4,327**	**2,844**	**31,736**
Liabilities to credit institutions	3,451	997	527	91	560	307	5,935
Financial liabilities at fair value through profit or loss	1						1
Liabilities to customers	6,139	1,387	455	4	1	40	8,025
Debt securities issued to the public	3,036	5,773	2,354	159	3,008	850	15,179
Subordinated liabilities		200	415	171	82	182	1,050
Total liabilities	**12,627**	**8,358**	**3,750**	**426**	**3,651**	**1,379**	**30,191**

Debt repayable on demand totalled EUR 3.2 billion, consisting mainly of public deposits.

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RISK EXPOSURE BY BANKING AND THE GROUP FUNCTIONS

Note 55. Sensitivity analysis of market risk

On 31 December 2012, market risks accounted for 4.7% (4.2) of the risk-weighted assets.

			31 Dec. 2012		31 Dec. 2011	
EUR million	**Risk parameter**	**Change**	**Effect on results**	**Effect on share-holders' equity**	**Effect on results**	**Effect on share-holders' equity**
Interest-rate risk	Interest rate	1 pp	29		29	0
Currency risk	Market value	10%	2		4	
Volatility risk						
Interest rate volatility	Volatility	10 pps	1		1	
Currency volatility	Volatility	10 pps	0		0	
Credit risk premium*	Credit spread	0.1 pps	1	20	0	24
Price risk						
Equity portfolio	Market value	10%		0		0
Private equity funds	Market value	10%		3		3
Real estate risk	Market value	10%	3		3	

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

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

Notes to the Consolidated Financial Statements

RISK EXPOSURE BY BANKING AND THE GROUP FUNCTIONS

Note 56. Equity risk

On 31 December 2012, the market value of equity and venture capital funds totalled EUR 31 million (31), of which the equity portfolio represented EUR 4 million (6) and the venture capital funds including their investment commitments EUR 27 million (25). The three proportionally largest sectors in the equity portfolio were as follows: basic industry 32% (28), consumer goods and services 24% (13) and energy 19% (10).

Investments in venture capital funds totalled EUR 16 million (14) and binding unexecuted investment commitments EUR 12 million (11).

Notes to the Consolidated Financial Statements

RISK EXPOSURE BY BANKING AND THE GROUP FUNCTIONS

Note 57. Real estate risk

On 31 December 2012, capital invested in property holdings amounted to EUR 28 million (28), with properties in own use representing EUR 3 million (3).

In 2012, the Group obtained an external appraisal's estimates of the fair value of property holdings, on the basis of which their combined fair value corresponds to capital tied to the property holdings. It is estimated that real estate risks are low.

Note 22 and Note 26 (Property in own use) provide detailed information on changes in investment property during the financial year.

Notes to the Consolidated Financial Statements

PILLAR III DISCLOSURES

Notes 58–73 present a summary of the capital adequacy of consolidation group of the amalgamation of cooperative banks, as specified in Standard 4.5 (Supervisory Disclosure of capital adequacy information) by the Finnish Financial Supervisory Authority (Pillar III disclosures). Given that this information is based on the consolidated credit institution capital adequacy, it is not directly comparable with other information disclosed on Pohjola Group. Complete Pillar III information can be found in OP-Pohjola Group's financial statements.

The consolidation group that forms the basis of Pohjola Bank plc's capital adequacy comprises Pohjola Group companies excluding insurance companies and their subsidiaries.

Since September 2008, Pohjola Bank plc has applied the Internal Ratings Based Approach (IRBA) to corporate exposures and equity investments. 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 December 2011, Pohjola Bank plc has also applied IRBA to retail and credit institution exposures. The Standardised Approach (SA) is used for other exposure categories.

Note 58. Capital base

EUR million	31 Dec. 2012	31 Dec. 2011
Tier 1 capital		
Equity capital	2,769	2,306
Elimination of insurance companies' effect in equity capital (equity capital and Group eliminations)	-6	112
Fair value reserve, transfer to Tier 2	-36	136
Core Tier 1 capital before deductions	**2,728**	**2,554**
Intangible assets	-182	-171
Excess funding of pension liability and fair value measurement of investment property	-7	-8
Dividend distribution proposed by Board of Directors	-145	-129
Investments in insurance companies and financial institutions	-703	-704
Impairments – shortfall of expected losses	-60	-56
Core Tier 1 capital	**1,631**	**1,486**
Hybrid capital	274	274
Shortfall of Tier 2 capital		-238
Total Tier 1 capital for calculating capital adequacy	**1,904**	**1,521**

Tier 2 capital		
Fair value reserve	13	-146
Perpetual bonds		294
Debenture loans	853	375
Investments in insurance companies and financial institutions	-703	-704
Impairments – shortfall of expected losses	-60	-56
Transfer to Tier 1 capital		238
Total Tier 2 capital for calculating capital adequacy	**103**	
Total capital base	**2,007**	**1,521**
Deductions from Tier 1 and 2 capital		
Investments in insurance companies and financial institutions	-1,406	-1,408
Impairments – shortfall of expected losses	-121	-112
Total	-1,527	-1,521

Investments in Pohjola Group's insurance companies and non-consolidated financial institutions have been deducted from the capital base. 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.

Core Tier 1 capital = Total Tier 1 capital excl. hybrid capital and shortfall of Tier 2 capital covered by hybrid capital

Notes to the Consolidated Financial Statements

PILLAR III DISCLOSURES

Note 59. Minimum capital requirement

Pohjola has 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 (LGD) 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.

Pohjola has used the Standardised Approach to measure capital requirement for operational risks.

	31 Dec. 2012		31 Dec. 2011	
EUR million	**Capital requirement**	**Risk-weighted assets***	**Capital requirement**	**Risk-weighted assets***
Credit and counterparty risk	**1,086**	**13,576**	**1,031**	**12,890**
Internal Ratings Based Approach (IRBA)	**1,039**	**12,993**	**992**	**12,401**
Credit institutions	95	1,185	113	1,415
Corporate	828	10,347	766	9,571
Retail	46	571	32	404
Secured by real estates	0	2	0	3
Other	46	569	32	401
Equity investments	17	207	12	151
PD/LGD method	5	60	5	62
Basic Indicator Approach	12	146	7	89
Private equity investments	9	114	4	45
Listed equity investments	1	11	2	20
Other	2	21	2	24
Securitisation positions	51	640	65	809
Other positions	3	42	4	52
Standardised Approach (SA)	**47**	**583**	**39**	**489**
Central government and central banks	3	41	14	170
Credit institutions	1	8	2	19
Corporate	37	466	19	233
Retail	5	64	5	64
Other	5	64	5	64
Other positions	0	4	0	2
Market risks	**58**	**723**	**48**	**606**
Trading book	57	709	44	551
Position risk	57	709	44	551
All activities	1	15	4	55
Foreign exchange risk (incl. gold)			3	36
Commodity risk	1	15	2	20
Operational risk	**82**	**1,020**	**73**	**913**
Total	**1,226**	**15,320**	**1,153**	**14,409**

* Risk-weighted assets = Capital requirement / 0.08

Capital requirement for counterparty risk amounts to EUR 43 million (35).

Notes to the Consolidated Financial Statements

PILLAR III DISCLOSURES

Note 60. Capital ratios

	31 Dec. 2012	31 Dec. 2011
Ratios, %		
Capital adequacy ratio	13.1	10.6
Tier 1 capital ratio	12.4	10.6
Core Tier 1 capital ratio	10.6	10.3
Capital base*, EUR million	781	369

* Capital base above the minimum capital requirement

The IRBA transitional provision (Basel 1 floor) has no effect on capital adequacy ratios.

Notes to the Consolidated Financial Statements

PILLAR III DISCLOSURES

Note 61. 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
Internal Ratings Based Approach (IRBA)	**18,894**	**10,213**	**1,200**	**30,308**	**30,340**
Credit institutions	4,721	505	587	5,814	6,894
Corporate	12,185	9,580	613	22,378	21,276
Retail	1,508	117	0	1,625	1,492
Corporate	528	52	0	580	538
Private	981	65	0	1,045	954
Equity investments	116	12		127	111
Securitisation positions	321			321	518
Other positions	43			43	48
Standardised Approach (SA)	**15,552**	**7,796**	**536**	**23,885**	**22,596**
Central government and central banks	6,922	240	372	7,533	6,788
Credit institutions	8,136	7,258	163	15,557	15,118
Corporate	472	81	2	555	446
Retail	15	217		233	238
Corporate	0			0	10
Private	15	217		233	228
Other positions	7			7	5
Total	**34,447**	**18,010**	**1,736**	**54,193**	**52,935**

31 Dec. 2011, EUR million	On-balance-sheet exposures	Off-balance-sheet exposures	Derivatives exposures	Gross exposures	Average exposure during the year
Internal Ratings Based Approach (IRBA)	**20,316**	**8,937**	**1,118**	**30,371**	
Credit institutions	6,910	426	638	7,974	
Corporate	11,222	8,472	480	20,173	19,275
Retail	1,331	28	0	1,360	
Corporate	484	12	0	496	
Private	846	17	0	863	
Equity investments	84	11		95	97
Securitisation positions	715			715	
Other positions	54			54	
Standardised Approach (SA)	**12,512**	**8,415**	**380**	**21,307**	
Central government and central banks	5,648	114	280	6,042	4,874
Credit institutions	6,591	7,991	98	14,680	
Corporate	252	84	1	338	320
Retail	17	227		244	
Corporate	0	20		20	
Private	17	207		224	
Other positions	4			4	
Total	**32,828**	**17,352**	**1,498**	**51,678**	

Exposures on average have not been presented from exposure classes which underwent IRBA transition in 2011.

Notes to the Consolidated Financial Statements

PILLAR III DISCLOSURES

Note 62. Exposure split by geographic region and exposure class

31 Dec. 2012, EUR million	Central government and central banks	Credit institutions	Corporate	Retail	Equity invest- ments	Securitisation positions	Other
Finland	6,790	15,882	21,628	1,848	116		50
Other Nordic countries	7	1,202	403	9	0		
Baltic States	67	2	383	0			0
Rest of EU	668	3,386	341	0	3	315	
Rest of Europe		391	50	0	8		
USA		166	42	0			
Asia		263	55	0			
Other	1	77	31	0		6	
Total exposure	**7,533**	**21,370**	**22,933**	**1,858**	**127**	**321**	**50**

31 Dec. 2011, EUR million	Central government and central banks	Credit institutions	Corporate	Retail	Equity invest- ments	Securitisation positions	Other
Finland	5,276	15,166	19,281	1,596	87		58
Other Nordic countries		1,689	407	6	0		
Baltic States	6	4	203	0			0
Rest of EU	758	5,035	463	1	4	668	0
Rest of Europe		303	46	0	4		
USA		226	38	0			
Asia		155	40	0			
Other	1	76	34	0		48	
Total exposure	**6,042**	**22,654**	**20,511**	**1,603**	**95**	**715**	**58**

Notes to the Consolidated Financial Statements

PILLAR III DISCLOSURES

Note 63. 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)	**6,588**	**3,365**	**14,370**	**3,283**	**2,573**	**30,308**
Credit institutions	675	674	3,098	1,279	87	5,814
Corporate	5,587	2,578	9,861	1,881	2,470	22,378
Retail	293	56	1,209	54	14	1,625
Corporate	70	25	438	32	14	580
Private	223	30	771	21	0	1,045
Equity investments						127
Securitisation positions		54	196	69	1	321
Other positions	34	3	6			43
Standardised Approach (SA)	**14,971**	**5,160**	**1,971**	**1,609**	**174**	**23,885**
Central government and central banks	5,925	40	578	853	137	7,533
Credit institutions	8,449	5,011	1,326	742	28	15,557
Corporate	364	108	60	13	10	555
Retail	233	0				233
Corporate		0				0
Private	233					233
Other positions	0	0	6			7
Total	**21,559**	**8,526**	**16,341**	**4,892**	**2,748**	**54,193**

31 Dec. 2011, EUR million	< 3 months	3–12 months	1–5 yrs	5–10 yrs	> 10 yrs	Total
Internal Ratings Based Approach (IRBA)	**6,138**	**3,091**	**15,034**	**3,838**	**2,176**	**30,371**
Credit institutions	1,114	673	4,591	1,515	81	7,974
Corporate	4,731	2,212	8,909	2,243	2,079	20,173
Retail	179	66	1,055	46	15	1,360
Corporate	27	25	401	28	15	496
Private	152	40	654	17		863
Equity investments						95
Securitisation positions	76	132	471	34	1	715
Other positions	39	7	8			54
Standardised Approach (SA)	**11,365**	**3,154**	**4,806**	**1,805**	**177**	**21,307**
Central government and central banks	4,455	12	731	704	141	6,042
Credit institutions	6,458	3,091	4,008	1,097	26	14,680
Corporate	208	50	65	4	10	338
Retail	244		0			244
Corporate	20		0			20
Private	224					224
Other positions	1	1	2			4
Total	**17,503**	**6,244**	**19,840**	**5,642**	**2,354**	**51,678**

Notes to the Consolidated Financial Statements

PILLAR III DISCLOSURES

Note 64. Corporate exposures by sector

31 Dec. 2012, EUR million	Exposure	RWA	Capital requirement
Manufacture of machinery and equipment (incl. maintenance)	2,579	861	69
Trade	2,336	1,027	82
Renting and operation of residential real estate	2,272	508	41
Operating of other real estate	1,679	747	60
Financial and insurance activities	1,670	599	48
Energy	1,615	431	34
Construction	1,578	904	72
Transportation and storage	1,321	1,031	82
Buying and selling of own real estate	1,214	729	58
Services	1,144	673	54
Forest industry	1,094	803	64
Metal industry	919	651	52
Food industry	820	452	36
Information and communication	795	292	23
Manufacture of chemicals and chemical products	695	200	16
Other manufacturing	568	408	33
Agriculture, forestry and fishing	565	283	23
Mining and quarrying	244	154	12
Other sectors	206	190	15
Water supply and waste management	198	73	6
Total	**23,513**	**11,016**	**881**

31 Dec. 2011, EUR million	Exposure	RWA	Capital requirement
Manufacture of machinery and equipment (incl. maintenance)	2,495	784	63
Renting and operation of residential real estate	2,117	471	38
Trade	1,970	827	66
Construction	1,565	854	68
Operating of other real estate	1,561	640	51
Transportation and storage	1,356	1,010	81
Energy	1,251	335	27
Financial and insurance activities	1,178	426	34
Buying and selling of own real estate	1,117	665	53
Forest industry	1,014	856	68
Services	984	661	53
Food industry	864	479	38
Metal industry	852	518	41
Manufacture of chemicals and chemical products	714	286	23
Information and communication	617	262	21
Other manufacturing	484	385	31
Agriculture, forestry and fishing	452	240	19
Mining and quarrying	253	160	13
Water supply and waste management	127	36	3
Other sectors	56	45	4
Total	**21,027**	**9,939**	**795**

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.

Notes to the Consolidated Financial Statements

PILLAR III DISCLOSURES

Note 65. Exposures (credit risk under SA) by risk weight before and after credit risk mitigation

Risk weight %, 31 Dec. 2012, EUR million	Exposure before credit risk mitigation	Exposure after credit risk mitigation	RWA
0	22,947	24,663	
20	152	152	23
50	11	62	31
75	233	233	64
100	540	538	465
Other risk weights	2	2	1
Total	**23,885**	**25,650**	**583**

Risk weight %, 31 Dec. 2011, EUR million	Exposure before credit risk mitigation	Exposure after credit risk mitigation	RWA
0	20,570	22,250	
20	177	290	51
50	4	5	1
75	244	244	64
100	312	452	372
Other risk weights	1	1	0
Total	**21,307**	**23,241**	**489**

In its capital adequacy measurement for credit risk under the Standardised Approach to determine the exposure’s risk weight, Pohjola Group applies credit ratings by Moody’s Investors Service or Fitch Ratings to receivables from central governments and central banks and corporations. External credit assessment determines the receivable’s credit rating category. In the capital adequacy requirement for receivables, the risk weight is determined by the credit rating category. Pohjola has also applied risk weights based on the credit rating category to government exposures.

The risk weight of international development banks' receivables may also be determined on the basis of other than credit rating based on external credit assessment. If the risk weight is affected by external credit assessment, credit ratings issued by the aforementioned rating agencies will also apply to the risk weighting of international development banks' receivables in capital adequacy measurement.

For a receivable in capital adequacy measurement, the security-specific credit rating of the issue programme or arrangement, to which the receivable belongs, must be used. If such a rating is not available, the issuer's general credit rating will be used, provided that it is available.

Notes to the Consolidated Financial Statements

PILLAR III DISCLOSURES

Note 66. Corporate exposures (FIRBA) by rating category

Rating category, 31 Dec. 2012	Exposure value (EAD), MEUR	Average PD, %*	Average risk weight, %	RWA, MEUR	Minimum capital requirement, MEUR
1.0–2.0	1,028	0.0	15.1	155	12
2.5–5.0	8,806	0.2	40.6	3,577	286
5.5–7.0	3,876	1.4	100.3	3,887	311
7.5–8.5	1,445	4.9	147.0	2,124	170
9.0–10.0	266	30.7	227.2	605	48
11.0–12.0	490	100.0			
Total	**15,911**	**1.4**	**65.0**	**10,347**	**828**

Rating category, 31 Dec. 2011	Exposure value (EAD), MEUR	Average PD, %*	Average risk weight, %	RWA, MEUR	Minimum capital requirement, MEUR
1.0–2.0	796	0.0	14.9	119	10
2.5–5.0	8,621	0.2	41.1	3,546	284
5.5–7.0	3,185	1.4	101.1	3,219	258
7.5–8.5	1,434	5.0	150.2	2,155	172
9.0–10.0	238	20.3	224.1	533	43
11.0–12.0	404	100.0			
Total	**14,678**	**1.3**	**65.2**	**9,571**	**766**

* 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' defauls 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.

Notes to the Consolidated Financial Statements

PILLAR III DISCLOSURES

Note 67. Credit institution exposures (FIRBA) by rating category

Rating category, 31 Dec. 2012	Exposure value (EAD), MEUR	Average PD, %*	Average risk weight, %	RWA, MEUR	Minimum capital requirement, MEUR
1.0–2.0	1,573	0.0	6.4	100	8
2.5–5.0	3,474	0.1	23.5	817	65
5.5–7.0	283	1.4	81.2	230	18
7.5–8.5	66	3.8	49.3	32	3
9.0–10.0	2	26.8	260.3	5	0
Total	**5,398**	**0.2**	**22.0**	**1,185**	**95**

Rating category, 31 Dec. 2011	Exposure value (EAD), MEUR	Average PD, %*	Average risk weight, %	RWA, MEUR	Minimum capital requirement, MEUR
1.0–2.0	2,192	0.0	7.7	169	14
2.5–5.0	4,887	0.1	18.5	905	72
5.5–7.0	290	1.7	99.3	288	23
7.5–8.5	33	4.2	119.6	40	3
9.0–10.0	6	22.2	220.4	12	1
11.0–12.0	27	100.0			
Total	**7,437**	**0.2**	**19.0**	**1,415**	**113**

* 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 1983 and 2010. PD values have also been adjusted with a margin of conservatism in order to take account of uncertainties associated with the data.

Notes to the Consolidated Financial Statements

PILLAR III DISCLOSURES

Note 68. Equity investments (IRBA) by rating category

Rating category, 31 Dec. 2012	Exposure value (EAD), MEUR	Average PD, %	Average risk weight, %	RWA, MEUR	Minimum capital requirement, MEUR
1.0–2.0	54	0.1	96.5	52	4
5.5–7.0	3	1.3	244.4	8	1
Total	**58**	**0.2**	**104.9**	**60**	**5**

Rating category, 31 Dec. 2011	Exposure value (EAD), MEUR	Average PD, %	Average risk weight, %	RWA, MEUR	Minimum capital requirement, MEUR
1.0–2.0	54	0.1	96.4	52	4
5.5–7.0	4	1.3	233.0	10	1
Total	**58**	**0.2**	**106.0**	**62**	**5**

The Group applies the PD/LGD method for equity investments to Pohjola Bank plc's strategic investments.

Notes to the Consolidated Financial Statements

PILLAR III DISCLOSURES

Note 69. Expected loss and impairments

			Retail exposures				
EUR million	Credit institution exposures	Corporate exposures	Exposures secured by real estates	Renewable	Other	Equity investments	Total
31 Dec. 2012							
EL	4	180	0		19	1	203
Impairments		231	0		6		237
31 Dec. 2011							
EL	16	179	1		13	0	209
Impairments	8	186	0		0		194
31 Dec. 2010							
EL		219				0	218
Impairments		182					182
31 Dec. 2009							
EL		162				1	162
Impairments		121					121
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, Pohjola uses only PD parameters in capital adequacy measurement.

Capital adequacy measurement parameters include a larger number of factors of conservatism compared with the internal credit risk models. Due to the factors of conservatism involved in the parameters, the expected loss of capital adequacy measurement was substantially high, EUR 357 million (306). 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.

Notes to the Consolidated Financial Statements

PILLAR III DISCLOSURES

Note 70. Equity investments, BIA

	31 Dec. 2012			31 Dec. 2011		
EUR million	Exposure	RWA	Minimum capital requirement	Exposure	RWA	Minimum capital requirement
Private equity investments, risk weight 190%	60	114	9	23	45	4
Listed equity investments, risk weight 290%	4	11	1	7	20	2
Other, risk weight 370%	6	21	2	7	24	2
Total	**70**	**146**	**12**	**37**	**89**	**7**

Notes to the Consolidated Financial Statements

PILLAR III DISCLOSURES

Note 71. Collateral used in capital adequacy measurement

31 Dec. 2012, EUR million	Exposure	Guaran-tees	Financial collateral	Other collateral	Average LGD, %
Internal Ratings Based Approach (IRBA)	**30,308**	**1,808**	**51**	**1,477**	
Credit institutions	5,814	199		0	28.9
Corporate	22,378	1,587	51	792	44.6
Retail	1,625	22	0	685	28.2
Secured by real estates	5	0		5	27.0
Other	1,620	22	0	680	28.2
Equity investments	127				
Basic Indicator Approach	70				
PD/LGD method	58				
Securitisation positions	321				
Other positions	43				
Standardised Approach (SA)	**23,885**	**9**			
Central government and central banks	7,533	9			
Credit institutions	15,557				
Corporate	555				
Retail	233				
Other	233				
Other positions	7				
Total	**54,193**	**1,817**	**51**	**1,477**	

31 Dec. 2011, EUR million	Exposure	Guaran-tees	Financial collateral	Other collateral	Average LGD, %
Internal Ratings Based Approach (IRBA)	**30,371**	**1,980**	**21**	**1,384**	
Credit institutions	7,974	369		0	28.6
Corporate	20,173	1,611	21	749	44.7
Retail	1,360			635	23.9
Secured by real estates	5			5	28.9
Other	1,354			630	23.9
Equity investments	95				
Basic Indicator Approach	37				
PD/LGD method	58				
Securitisation positions	715				
Other positions	54				
Standardised Approach (SA)	**21,307**	**57**			
Central government and central banks	6,042	57			
Credit institutions	14,680				
Corporate	338				
Retail	244				
Other	244				
Other positions	4				
Total	**51,678**	**2,037**	**21**	**1,384**	

The average LGD has been calculated as the weighted average of the exposure value (EAD).

Guarantees and collateral related to retail exposures are treated as part of LGD.

In the SA and IRBA applied to credit institution and corporate exposures, Pohjola utilises the following real 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, Pohjola has used contract, security and debt-collection data from 2003 until 2009. Applying the definition of payment default is consistent with the PD models.

Notes to the Consolidated Financial Statements

PILLAR III DISCLOSURES

Note 72. Derivative contracts and counterparty risk

Credit risk arising from derivative contracts is defined as a credit equivalent based on the daily market valuation of derivative contracts.

The size of customer limits are defined on the basis of assets included in derivative contracts and the estimated validity of the contracts.

Credit risk arising from bank counterparties is through collateral, which means the use of ISDA Credit Support Annex (CSA) contract associated with the ISDA general agreement. In the collateral system, the counterparty provides cash or securities in security for the receivable. Matching between counterparties are performed on a daily basis.

Counterparty risk associated with derivative contracts arises from receivables which Pohjola Bank plc may have from its counterparties in case they default. Pohjola Group measures counterparty risk using a fair value model, whereby the amount of liability comprises the contract market value and the expected potential future exposure.

Pohjola Bank plc manages counterparty risks associated with derivative contracts through master agreements which enables netting of contractual obligations in counterparty defaults as well as through collaterals and optional early termination clauses. There are legal opinions ensuring the enforceability of netting provisions of the master agreements in each derivative counterparty’s national legislation. Pohjola Group uses netting for counterparty exposure arising from derivative contracts in both capital adequacy measurement and the monitoring of credit risk limits. With respect to credit institutions as counterparties, Pohjola also always uses credit support annex to derivative master agreements, in which case the received collateral reduces counterparty risk.

The Group confirms corporate counterparty exposure limits once a year and in this connection also checks the status of collateral applying to the limits for derivative transactions.

If S&P had downgraded Pohjola's credit rating from AA– to A, additional collateral of EUR 5 million (5) would have been required.

Capital adequacy requirement due to counterparty risk may arise from items related to financing operations and the trading book. Capital adequacy requirement due to counterparty risk is calculated, for example, on OTC derivatives and sale and repurchase agreements.

Counterparty risk contract types, 31 Dec. 2012, EUR million	**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		181
Equity and index derivatives	155	105	50		50
Other	68	4	65		65
Total	**5,946**	**4,381**	**1,565**	**0**	**1,565**

Counterparty risk contract types, 31 Dec. 2011, EUR million	**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 the Consolidated Financial Statements

PILLAR III DISCLOSURES

Note 73. Securitisation positions

Securitisation positions by rating category, Moody's equivalent, EUR million	2012 Exposure	2012 RWA	2011 Exposure	2011 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
A1–A3			2	0
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	Matured	Impaired	Impairment losses
Internal Ratings Based Approach (IRBA)				
Non-trading book positions				
Securitisation positions	311			
CDO	5			
ABS	2			
RMBS	303			
Re-securitisation positions	10		10	7
CDO	10		10	7
Total	**321**		**10**	**7**

Matured and impaired securitisation positions by exposure type, 31 Dec. 2011, EUR million	Exposure	Matured	Impaired	Impairment losses
Internal Ratings Based Approach (IRBA)				
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. Pohjola pays special attention to bonds' structural and collateral-related features in its investment in securitised assets.

Notes to the Consolidated Financial Statements

RISK EXPOSURE BY NON-LIFE INSURANCE

Note 74. 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). The financial strength rating of Pohjola Insurance affirmed by Standard & Poor's is AA-. The Board of Directors has confirmed A as the targeted rating.

Non-life Insurance must fulfil all capital adequacy requirements set by regulatory authorities mainly at company level. All non-life insurance companies are governed by the same requirement set for their minimum solvency margin based on EU directives. In addition, Finnish legislation also lays down capital adequacy requirements for Finnish insurance companies.

The risk-bearing capacity describes the proportion of a company's solvency capital to various income statement and balance sheet items. Solvency capital proportioned to claims incurred and insurance premium revenue describes the company's ability to cope with underwriting risks. Solvency capital proportioned to insurance liabilities describes the company's ability to cope with risks related to the estimation of insurance liabilities. Similarly, solvency capital proportioned to the investment portfolio describes the company's ability to cope with the risks related to investments.

	31 Dec. 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 liabilities*	2,372	39	2,254	35
Investment portfolio	3,149	29	2,863	27

* Reinsurers' share (net business) deducted

** Solvency ratio

Notes to the Consolidated Financial Statements

RISK EXPOSURE BY NON-LIFE INSURANCE

Note 75. Sensitivity analysis of Non-life insurance

The table below shows the effect of various risk parameters on profit and solvency capital:

Risk parameter	Total in 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 0.4 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
Inflation for collective liability	550	Up by 0.25 pps	-4	Down by 0.3 pps
Life expectancy for discounted insurance liabilities	1,483	Up 1 year	-34	Down by 3.0 pps
Discount rate for discounted insurance liabilities	1,483	Down by 0.1 pps	-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 the Consolidated Financial Statements

RISK EXPOSURE BY NON-LIFE INSURANCE

Note 76. 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

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.

	Gross		Net*	
EUR million	**2012**	**2011**	**2012**	**2011**
Contract guarantees	1	1	1	1
Loan guarantees	1	3	1	3
Other	2	3	2	3
Guarantee insurance	**4**	**7**	**4**	**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 the Consolidated Financial Statements

RISK EXPOSURE BY NON-LIFE INSURANCE

Note 77. 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 claims exceeding EUR 2 million	Statutory lines	Other accident and health	Hull and cargo	Property and business interruption	Liability and legal expenses	Longterm
2008				4	1	
2009	3			5	2	
2010	1			12		
2011				5		1
2012	3			7	1	
				Total claims, EUR million	241	
Gross amount, total claims, EUR million						
2008–12	**14**			**190**	**30**	**7**

Net amount Number of claims exceeding EUR 2 million	Statutory lines	Other accident and health	Hull and cargo	Property and business interruption	Liability and legal expenses	Longterm
2008				4	1	
2009	3			4	1	
2010				10		
2011				4		1
2012	3			6	1	
				Total claims, EUR million	135	
Net amount, total claims, EUR million						
2008–12	**13**			**107**	**11**	**4**

Notes to the Consolidated Financial Statements

RISK EXPOSURE BY NON-LIFE INSURANCE

Note 78. 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.

2012, EUR million	Gross IP revenue	Net IP revenue	Net CR*	Net** CR*
Statutory lines	422	420	95%	83%
Other accident and health	134	134	97%	97%
Hull and cargo	240	237	96%	96%
Property and business interruption	309	265	95%	94%
Liability and legal expenses	73	67	99%	99%
Long-term	5	4	0%	0%
Total	**1,183**	**1,126**	**95%**	**91%**

2011, EUR million	Gross IP revenue	Net IP revenue	Net CR*	Net** 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	**1,076**	**1,024**	**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 is excluded from the calculation.
** One-off changes affecting the balance on technical account have been eliminated.

Notes to the Consolidated Financial Statements

RISK EXPOSURE BY NON-LIFE INSURANCE

Note 79. Information on the nature of insurance liabilities

Information on the nature of liabilities	2012	2011
Net liabilities due to insurance contracts (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 liabilities	12.4	12.1
Undiscounted insurance liabilities	2.1	2.1
Total	**8.6**	**8.3**
Discounted net debt (EUR million)		
Known provision for claims for annuities	1,206	1,157
Collective liability	240	235
Provision for unearned premiums	36	35
Total	**1,483**	**1,427**

Notes to the Consolidated Financial Statements

RISK EXPOSURE BY NON-LIFE INSURANCE

Note 80. Insurance 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 liabilities	**663**	**669**	**359**	**233**	**448**	**2,372**

* Includes EUR 36 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 liabilities	**625**	**644**	**347**	**223**	**414**	**2,254**

* Includes EUR 35 million in discounted liability,

Notes to the Consolidated Financial Statements

RISK EXPOSURE BY NON-LIFE INSURANCE

Note 81. Risk exposure of insurance investments

	31 Dec. 2012		31 Dec. 2011	
Allocation of investment portfolio	**Fair value, EUR million***	**%**	**Fair value, EUR million***	**%**
Money market total	42	1	48	2
Money market instruments and deposits**	44	1	83	3
Derivative instruments***	-2	0	-34	-1
Total bonds and bond funds	2,369	75	2,050	72
Governments	469	15	672	23
Inflation-indexed 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
Fixed assets and unlisted equities	6	0	5	0
Private equity investments	99	3	91	3
Equity derivatives***			-16	-1
Total alternative investments	82	3	132	5
Hedge funds	38	1	69	2
Commodities	6	0		
Convertible bonds	38	1	64	2
Total property investments	290	9	254	9
Direct property investments	186	6	161	6
Indirect property investments	103	3	92	3
Total	**3,149**	**100**	**2,863**	**100**

* Includes accrued interest income

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

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

Notes to the Consolidated Financial Statements

RISK EXPOSURE BY NON-LIFE INSURANCE

Note 82. Sensitivity analysis of investment risks

The table below shows the sensitivity of investment risks by investment category. The discount rate sensitivity analysis related to the calculation of insurance liabilities is presented in Note 75. Effects of changes in investments and insurance liabilities offset one another.

	Portfolio at fair value, EUR million			Effect on solvency capital, EUR million	
Non-life Insurance	**31 Dec. 2012**	**Risk parameter**	**Change**	**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
Capital investments and unquoted equities	105	Market value	10%	10	10
Commodities	6	Market value	10%	1	
Real property	290	Market value	10%	29	25
Currency	254	Currency value	10%	25	20
Credit risk premium***	2,428	Credit spread	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 the Consolidated Financial Statements

RISK EXPOSURE BY NON-LIFE INSURANCE

Note 83. Interest-rate risk

The market risk arising from changes in interest rates is monitored by classifying investments by instrument, in accordance with duration. The table below does not indicate the balancing effect which the insurance liabilities have on the interest-rate risk, because only some insurance liabilities have been discounted using an administrative interest rate (Note 33).

Fair value by duration or repricing date, EUR million*	31 Dec. 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. 2012, 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 A1.
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 the Consolidated Financial Statements

RISK EXPOSURE BY NON-LIFE INSURANCE

Note 84. 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 8.1% (6.8) of the investment portfolio. It is calculated as the sum total of individual currencies' intrinsic values.
** ERM2 currencies

Notes to the Consolidated Financial Statements

RISK EXPOSURE BY NON-LIFE INSURANCE

Note 85. Counterparty risk

	31 Dec. 2012		31 Dec. 2011	
Credit rating, consistent with Moody's, EUR million	**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	
Internally rated	1	35	17	35
Total	**2,356**	**82**	**2,085**	**112**

* Include money-market investments and deposits, bonds and bond funds

** Includes the reinsurers' share of insurance liabilities, and receivables from reinsurers

Notes to the Consolidated Financial Statements

OTHER NOTES TO THE BALANCE SHEET

Note 86. Classification of assets and liabilities

Assets 31 Dec. 2012, EUR million	Loans and receivables	Held to maturity	At fair value through profit or loss*	Available for sale	Hedging derivatives	Carrying amount total
Cash and balances with central banks	5,643					5,643
Receivables from credit institutions and central banks	8,815					8,815
Derivative contracts			4,084		379	4,462
Receivables from customers	13,839					13,839
Non-life Insurance assets**	558		132	2,832		3,523
Notes and bonds***		330	255	4,971		5,555
Shares and participations			1	105		107
Other receivables	2,654		25			2,678
Total	**31,509**	**330**	**4,496**	**7,909**	**379**	**44,623**

Assets 31 Dec. 2011, EUR million	Loans and receivables	Held to maturity	At fair value through profit or loss*	Available for sale	Hedging derivatives	Carrying amount total
Cash and balances with central banks	4,247					4,247
Receivables from credit institutions and central banks	7,367					7,367
Derivative contracts			3,126		200	3,326
Receivables from customers	12,701					12,701
Non-life Insurance assets**	592		104	2,559		3,256
Notes and bonds***		716	182	6,522		7,420
Shares and participations			1	77		78
Other receivables	2,689		25			2,714
Total	**27,597**	**716**	**3,439**	**9,159**	**200**	**41,111**

Liabilities 31 Dec. 2012, EUR million	At fair value through profit or loss	Other liabilities	Hedging deriva-tives	Carrying amount total
Liabilities to credit institutions		5,840		5,840
Financial liabilities held for trading (excl. derivatives)	3			3
Derivative contracts	4,161		396	4,557
Liabilities to customers		10,775		10,775
Non-life Insurance liabilities	3	2,589		2,592
Debt instruments issued to the public		13,769		13,769
Subordinated liabilities		1,275		1,275
Other liabilities		3,042		3,042
Total	**4,167**	**37,291**	**396**	**41,854**

Liabilities 31 Dec. 2011, EUR million	At fair value through profit or loss	Other liabilities	Hedging deriva-tives	Carrying amount total
Liabilities to credit institutions		5,935		5,935
Financial liabilities held for trading (excl. derivatives)	1			1
Derivative contracts	3,082		378	3,460
Liabilities to customers		8,025		8,025
Non-life Insurance liabilities	1	2,507		2,508
Debt instruments issued to the public		15,179		15,179
Subordinated liabilities		1,050		1,050
Other liabilities		2,646		2,646
Total	**3,084**	**35,342**	**378**	**38,804**

* Assets at fair value through profit or loss include financial assets held for trading, financial assets at fair value through profit or loss at inception and investment property.
** Non-life Insurance assets are specified in Note 21.
*** On 31 December 2012, notes and bonds included EUR 9 million (13) in notes and bonds recognised using the fair value option. Notes and bonds of EUR 74 million (265) within loans and other receivables include in "Receivables from customers".

Debt securities issued to the public are carried at amortised cost. On 31 December 2012, the fair value of these debt instruments was EUR 243 million (14) higher than their carrying amount, based on information available in markets and employing commonly used valuation techniques. Subordinated liabilities are carried at amortised cost. Their fair values are higher than their carrying amount, but determining reliable fair values involves uncertainty.

Notes to the Consolidated Financial Statements

OTHER NOTES TO THE BALANCE SHEET

Note 87. Financial instruments recognised at fair value, grouped by valuation technique

Financial assets recognised at fair value on 31 December 2012, EUR million	Level 1*	Level 2**	Level 3***	Total
Recognised at fair value through profit or loss				
Banking	125	115	16	256
Non-life Insurance		13	6	19
Derivative financial instruments				
Banking	7	4,427	28	4,462
Non-life Insurance	1	0		1
Available-for-sale				
Banking	4,060	1,001	16	5,076
Non-life Insurance	1,822	759	251	2,832
Total	**6,015**	**6,315**	**317**	**12,647**

Financial assets recognised at fair value on 31 December 2011, EUR million	Level 1*	Level 2**	Level 3***	Total
Recognised at fair value through profit or loss				
Banking	105	74	4	183
Non-life Insurance			6	6
Derivative financial instruments				
Banking	15	3,303	9	3,326
Non-life Insurance	0	0		0
Available-for-sale				
Banking	5,516	1,070	14	6,600
Non-life Insurance	1,743	557	259	2,559
Total	**7,379**	**5,004**	**292**	**12,675**

Financial liabilities recognised at fair value on 31 December 2012, EUR million	**Level 1***	**Level 2****	**Level 3*****	**Total**
Recognised at fair value through profit or loss				
Banking		3		3
Derivative financial instruments				
Banking	21	4,452	85	4,557
Non-life Insurance	3	0		3
Total	**23**	**4,455**	**85**	**4,563**

Financial liabilities recognised at fair value on 31 December 2011, EUR million	**Level 1***	**Level 2****	**Level 3*****	**Total**
Recognised at fair value through profit or loss				
Banking	1			1
Derivative financial instruments				
Banking	23	3,353	85	3,460
Non-life Insurance	0	0		1
Total	**24**	**3,353**	**85**	**3,462**

* 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 121 million (67) in bonds were transferred from level 1 to level 2, due to changes in credit ratings.

Valuation techniques whose input parameters involve uncertainty

Specification of financial assets and liabilities

	Recognised at fair value through profit or loss		Derivative financial instruments		Available-for-sale		
Financial assets, EUR million	**Banking**	**Non-life Insurance**	**Banking**	**Non-life Insurance**	**Banking**	**Non-life Insurance**	**Total assets**
Opening balance 1 Jan. 2012	4	6	9		14	259	292
Total gains/losses in profit or loss	11		20		0	-4	28
Total gains/losses in other comprehensive income		0			2	9	11
Purchases						37	37
Sales						-51	-51
Closing balance 31 Dec. 2012	**16**	**6**	**28**		**16**	**251**	**317**

	Recognised at fair value through profit or loss		Derivative financial instruments		Available-for-sale		
Financial assets, EUR million	**Banking**	**Non-life Insurance**	**Banking**	**Non-life Insurance**	**Banking**	**Non-life Insurance**	**Total assets**
Opening balance 1 Jan. 2011	4	8	65		14	223	314
Total gains/losses in profit or loss	0		-56			-5	-60
Total gains/losses in other comprehensive income		0			1	10	11
Purchases						58	58
Sales		-2			-1	-27	-30
Closing balance 31 Dec. 2011	**4**	**6**	**9**		**14**	**259**	**292**

	Recognised at fair value through profit or loss		Derivative financial instruments		
Financial liabilities, EUR million	**Banking**	**Non-life Insurance**	**Banking**	**Non-life Insurance**	**Total liabilities**
Opening balance 1 Jan. 2012			85		85
Total gains/losses in profit or loss			0		0
Closing balance 31 Dec. 2012			**85**		**85**

Financial liabilities, EUR million	Recognised at fair value through profit or loss Banking	Non-life Insurance	Derivative financial instruments Banking	Non-life Insurance	Total liabilities
Opening balance 1 Jan. 2011			56		56
Total gains/losses in profit or loss			28		28
Closing balance 31 Dec. 2011			**85**		**85**

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

EUR million	Net interest income or net trading income	Net investment income	Net income from Non-life Insurance	Statement of compre-hensive income	Total gains/losses for the financial year included in profit or loss for assets/liabilities held at year-end
Total gains/losses in profit or loss	31	0	-4	11	39

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

EUR million	Net trading income	Net investment income	Net income from Non-life Insurance	Statement of compre-hensive income	Total gains/losses for the financial year included in profit or loss for assets/liabilities held at year-end
Total gains/losses in profit or loss	-27		-5	11	-21

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.

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

Notes to the Consolidated Financial Statements

OTHER NOTES TO THE BALANCE SHEET

Note 88. Collateral given

Balance sheet value, EUR million	31 Dec. 2012	31 Dec. 2011
Given on behalf of own liabilities and commitments		
Mortgages	1	1
Pledges	4,630	6,832
Other	583	492
Total	5,214	7,325
Total collateral given		
Mortgages	1	1
Pledges	4,630	6,832
Other	583	492
Total	**5,214**	**7,325**
Total collateralised liabilities	592	765

Notes to the Consolidated Financial Statements

OTHER NOTES TO THE BALANCE SHEET

Note 89. Financial collateral held

EUR million	31 Dec. 2012	31 Dec. 2011
Fair value of collateral received		
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 the Consolidated Financial Statements

NOTES TO CONTINGENT LIABILITIES AND DERIVATIVES

Note 90. Off-balance-sheet commitments

EUR million	31 Dec. 2012	31 Dec. 2011
Guarantees	882	1,004
Other guarantee liabilities	1,359	1,303
Loan commitments	5,342	4,952
Commitments related to short-term trade transactions	435	225
Other	301	359
Total off-balance-sheet commitments	**8,319**	**7,844**

Notes to the Consolidated Financial Statements

NOTES TO CONTINGENT LIABILITIES AND DERIVATIVES

Note 91. Derivative contracts

Derivatives held for trading 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							
Interest rate swaps	15,028	62,342	30,426	107,796	3,264	3,333	4,032
Forward rate agreements	260			260	0	0	0
OTC interest rate options							
Call and caps							
Purchased	4,381	5,884	1,701	11,965	373	7	426
Written	3,963	4,761	2,367	11,091		348	
Put and floors							
Purchased	7,849	3,605	1,142	12,596	191		226
Written	8,405	3,336	722	12,462		69	
Total OTC interest rate derivatives	39,885	79,928	36,358	156,171	3,828	3,757	4,683
Interest rate futures	2,621	2,958	142	5,721	1	5	
Interest rate options							
Put							
Purchased	1,000			1,000		0	
Written	1,000			1,000	0		
Total exchange traded derivatives	4,621	2,958	142	7,721	1	6	
Total interest rate derivatives	44,506	82,886	36,499	163,891	3,829	3,762	4,683

Currency derivatives							
Forward exchange agreements	18,238	539	65	18,842	129	226	343
Interest rate and currency swaps		1,400	298	1,698	77	89	169
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	18,711	1,939	363	21,013	209	318	518
Total currency derivatives	18,711	1,939	363	21,013	209	318	518

Equity and index derivatives							
Equity index options							
Call							
Purchased	261	819	6	1,085	50		132
Put							
Purchased	42			42	0		
Total OTC equity and index derivatives	303	819	6	1,127	50		132
Equity futures and forward contracts	0			0		0	
Total exchange traded derivatives	0			0		0	
Total equity and index derivatives	303	819	6	1,127	50	0	132

Credit derivatives							
Credit default swaps	122	92		214	10	2	11
Total credit derivatives	122	92		214	10	2	11
Other							
Other swaps	135	423	73	631	24	19	82
Other options							
Call							
Purchased	33	16		49	6		11
Written	23	5		28		0	
Put							
Purchased	7	5		11	0		2
Written	7	5		11		0	
Total other OTC derivatives	205	453	73	732	30	20	95
Other forward agreements and futures	83	132	5	220	7	18	1
Total other derivatives	288	585	78	952	37	37	96
Total derivatives held for trading	**63,930**	**86,320**	**36,947**	**187,197**	**4,135**	**4,120**	**5,440**

Derivatives held for trading 31 Dec. 2011

EUR million	Nominal values/ residual term to maturity <1 year	1–5 years	>5 years	Total	Fair values* Assets	Liabilities	Potential future exposure
Interest rate derivatives							
Interest rate swaps	20,390	50,720	31,246	102,356	2,125	2,221	2,847
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	2,167	6,369	2,485	11,021		239	
Put and floors							
Purchased	3,494	10,348	711	14,554	145	0	207
Written	3,226	10,930	267	14,423		67	
Total OTC interest rate derivatives	33,216	85,246	36,522	154,984	2,533	2,536	3,379
Interest rate futures	3,636	261		3,897	0	1	
Interest rate options							
Call							
Purchased	2,000			2,000		0	
Written	2,000			2,000		2	
Put							
Written	8,000			8,000	2		
Total exchange traded derivatives	15,636	261		15,897	2	3	
Total interest rate derivatives	48,852	85,507	36,522	170,881	2,535	2,539	3,379
Currency derivatives							
Forward exchange agreements	15,942	558	89	16,590	412	277	606
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	17,344	1,743	570	19,657	511	389	808
Total currency derivatives	17,344	1,743	570	19,657	511	389	808

Equity and index derivatives							
Equity index options							
Call							
Purchased	95	1,110	6	1,211	55		150
Total OTC equity and index derivatives	95	1,110	6	1,211	55		150
Equity futures and forward contracts	1			1		1	
Equity index futures	65			65	0	0	
Total exchange traded derivatives	66			66	0	1	
Total equity and index derivatives	161	1,110	6	1,277	55	1	150
Credit derivatives							
Credit default swaps	45	191		236	2	2	4
Total credit derivatives	45	191		236	2	2	4
Other							
Other swaps	142	200	16	357	13	5	44
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	143	241	16	400	14	6	49
Other forward agreements and futures	96	119	7	221	13	20	0
Total other derivatives	239	360	22	621	27	26	49
Total derivatives held for trading	**66,641**	**88,910**	**37,120**	**192,671**	**3,131**	**2,957**	**4,390**

Derivative contracts for hedging purposes – fair value hedge 31 Dec. 2012

EUR million	Nominal values /residual term to maturity <1 year	1–5 years	>5 years	Total	Fair values* Assets	Liabilities	Potential future exposure
Interest rate derivatives							
Interest rate swaps	494	8,240	3,053	11,787	429	405	516
Total OTC interest rate derivatives	494	8,240	3,053	11,787	429	405	516
Total interest rate derivatives	494	8,240	3,053	11,787	429	405	516
Currency derivatives							
Forward exchange agreements	11			11	0	0	0
Interest rate and currency swaps	1,122	808	153	2,083	85	22	148
Total OTC currency derivatives	1,133	808	153	2,095	85	22	148
Total currency derivatives	1,133	808	153	2,095	85	22	148
Total derivative contracts, fair value hedge	**1,627**	**9,048**	**3,207**	**13,882**	**513**	**427**	**664**

Derivative contracts for hedging purposes – cash flow hedge 31 Dec. 2012

EUR million	Nominal values /residual term to maturity <1 year	1–5 years	>5 years	Total	Fair values* Assets	Liabilities	Potential future exposure
Interest rate derivatives							
Interest rate swaps	200	800		1,000	35		39
Total OTC interest rate derivatives	200	800		1,000	35		39
Total interest rate derivatives	200	800		1,000	35		39
Total derivative contracts, cash flow hedge	**200**	**800**		**1,000**	**35**		**39**
Total derivative contracts held for hedging	**1,827**	**9,848**	**3,207**	**14,882**	**549**	**427**	**703**

Derivative contracts for hedging purposes – fair value hedge 31 Dec. 2011

	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							
Interest rate swaps	651	8,088	3,225	11,965	224	400	313
Total OTC interest rate derivatives	651	8,088	3,225	11,965	224	400	313
Total interest rate derivatives	651	8,088	3,225	11,965	224	400	313
Currency derivatives							
Forward exchange agreements	49			49	0	0	0
Interest rate and currency swaps	711	595	162	1,468	114	30	164
Total OTC currency derivatives	760	595	162	1,517	114	31	164
Total currency derivatives	760	595	162	1,517	114	31	164
Total derivative contracts, fair value hedge	**1,411**	**8,684**	**3,387**	**13,482**	**338**	**431**	**477**

Derivative contracts for hedging purposes – cash flow hedge 31 Dec. 2011

	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							
Interest rate swaps	200	800		1,000	17		21
Total OTC interest rate derivatives	200	800		1,000	17		21
Total interest rate derivatives	200	800		1,000	17		21
Total derivative contracts, cash flow hedge	**200**	**800**		**1,000**	**17**		**21**
Total derivative contracts held for hedging	**1,611**	**9,484**	**3,387**	**14,482**	**356**	**431**	**498**

Total derivative contracts 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	45,199	91,926	39,553	176,678	4,293	4,168	5,238
Currency derivatives	19,844	2,747	517	23,107	294	340	666
Equity and index-linked derivatives	303	819	6	1,127	50	0	132
Credit derivatives	122	92		214	10	2	11
Other derivatives	288	585	78	952	37	37	96
Total derivatives	**65,757**	**96,168**	**40,154**	**202,079**	**4,684**	**4,547**	**6,143**

Total derivative contracts 31 Dec. 2011

	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	49,703	94,395	39,747	183,845	2,777	2,939	3,713
Currency derivatives	18,104	2,339	732	21,174	626	419	972
Equity and index-linked derivatives	161	1,110	6	1,277	55	1	150
Credit derivatives	45	191		236	2	2	4
Other derivatives	239	360	22	621	27	26	49
Total derivatives	**68,252**	**98,394**	**40,507**	**207,153**	**3,487**	**3,388**	**4,888**

* 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 72 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 adequance purposes.

Notes to the Consolidated Financial Statements

NOTES TO CONTINGENT LIABILITIES AND DERIVATIVES

Note 92. Contingent liabilities and assets

Insurance companies belonging to the Group underwrite insurance policies through pools. Pool members are primarily responsible for their own proportionate share of the risk. Proportionate shares are based on contracts confirmed annually. In certain pools, pool members are responsible for an insolvent member's liabilities in proportion to their shares in the pool. Group insurance companies recognise liabilities and receivables based on joint liability if joint liability is likely to materialise.

In December 2010, Pohjola Bank plc sold its subsidiary Pohjola Capital Partners Ltd to its existing management. In addition to the selling price, Pohjola will be entitled to an additional price of a total of EUR 0.7 million if the size of a new limited partnership based private equity fund established by the sold company or its direct or indirect owners at a later date reaches EUR 75 million based on commitments received at the time of closing. This amount will be paid to the seller on 31 March 2014 at the earliest, as specified in the terms and conditions of the sale. Entitlement to this amount also requires that Pohjola alone or together with OP-Pohjola Group companies (excl. Group member banks) make a minimum commitment of EUR 20 million to the new fund on the same terms as other investors, provided that the new fund reaches a minimum size of EUR 50 million.

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 EBITDA. The additional purchase price (acquisition cost) will be calculated after the adoption of the financial statements for the year concerned.

Notes to the Consolidated Financial Statements

NOTES TO CONTINGENT LIABILITIES AND DERIVATIVES

Note 93. Operating leases

Pohjola Group as Lessee
Some Group companies have leased the premises they use. The term of these leases varies between one and ten years and they usually include the option of extending the lease after the original date of termination. The Group has subleased some of its premises. In addition, some Group companies have leased motor vehicles and office equipment. Rental expenses of EUR 26 million (23) due to the abovementioned items were recognised under Other operating expenses.

Future minimum lease payments under non-cancellable operating leases

EUR million	31 Dec. 2012	31 Dec. 2011
No later than 1 year	13	12
Later than 1 year and no later than 5 years	25	29
Later than 5 years	1	2
Total	**39**	**43**
Expected future minimum lease payments from non-cancellable subleases	25	36

Pohjola Group as Lessor
Pohjola Group companies have leased out investment properties they own, which generated lease income of EUR 17 million (15). In addition to investment properties, the Group has primarily leased out passenger cars, which generated lease income of EUR 10 million (17).

Future minimum lease payments receivable under non-cancellable operating leases

EUR million	31 Dec. 2012	31 Dec. 2011
No later than 1 year	30	35
Later than 1 year and no later than 5 years	53	50
Later than 5 years	37	23
Total	**120**	**108**

Notes to the Consolidated Financial Statements

NOTES TO CONTINGENT LIABILITIES AND DERIVATIVES

Note 94. Asset management

Within Pohjola Group, Pohjola Asset Management Limited runs asset management business and provides institutional customers and wealthy private individuals with discretionary and advisory portfolio management services. Pohjola Asset Management Limited is responsible for the financial management of most of OP Fund Management Company's mutual funds.

Pohjola Asset Management Ltd's discretionary asset management portfolio on 31 December 2012 totalled EUR 20.8 billion (19.4) and advisory asset management portfolio EUR 9.9 billion (9.8).

Notes to the Consolidated Financial Statements

NOTES TO CONTINGENT LIABILITIES AND DERIVATIVES

Note 95. Ownership in other companies

Changes in subsidiaries and associates in 2012
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.

Subsidiaries (consolidated) in 2012

Company	Domicile	% of shareholding	% of votes
A-Insurance Ltd	Helsinki	100	100
Conventum Venture Finance Ltd	Helsinki	100	100
Eurooppalainen Insurance Company Ltd	Helsinki	100	100
Kaivokadun PL-hallinto Oy	Helsinki	100	100
Omasairaala Oy	Helsinki	100	100
PAM USA Funds Ltd	Helsinki	100	100
Pohjola Asset Management Ltd	Helsinki	100	100
Pohjola Asset Management Execution Services Ltd	Helsinki	100	100
Pohjola Corporate Finance Ltd	Helsinki	100	100
Pohjola Finance Estonia AS	Estonia	100	100
Pohjola Finance SIA	Latvia	100	100
Pohjola Health Ltd	Helsinki	100	100
Pohjola Insurance Ltd	Helsinki	100	100
Pohjola Property Management Ltd	Helsinki	100	100
Real Estate Debt and Secondaries GP Oy	Helsinki	100	100
Real Estate Fund Finland Oy	Helsinki	100	100
Real Estate Fund Finland III GP Oy	Helsinki	100	100
Real Estate Fund of Funds Finland Oy	Helsinki	100	100
Seesam Insurance AS	Estonia	100	100
UAB Pohjola Finance	Lithuania	100	100

Subsidiaries (consolidated) in 2011

Company	Domicile	% of shareholding	% of votes
A-Insurance Ltd	Helsinki	100	100
Conventum Venture Finance Ltd	Helsinki	100	100
Excenta Ltd	Helsinki	100	100
Eurooppalainen Insurance Company Ltd	Helsinki	100	100
Kaivokadun PL-hallinto Oy	Helsinki	100	100
PAM USA Funds Ltd	Helsinki	100	100
Pohjola Asset Management Execution Services Ltd	Helsinki	100	100
Pohjola Finance Estonia AS	Estonia	100	100
Pohjola Finance SIA	Latvia	100	100
Pohjola Health Ltd	Helsinki	100	100
Pohjola Insurance Ltd	Helsinki	100	100
Pohjola Property Management Ltd	Helsinki	100	100
Real Estate Fund Finland Oy	Helsinki	100	100
Real Estate Fund Finland III GP Oy	Helsinki	100	100
Real Estate Fund of Funds Finland Oy	Helsinki	100	100
Seesam Insurance AS	Estonia	100	100
UAB Pohjola Finance	Lithuania	100	100
Pohjola Asset Management Ltd	Helsinki	93	93
Pohjola Corporate Finance Ltd	Helsinki	65	65

Associates (consolidated) in 2012

Name	Domicile	Assets, EUR million	Liabilities, EUR million	Net sales, EUR million	Profit/Loss, EUR million	% of shareholding
Access Capital Partners Group S.A.	Belgium	27	17	24	5	40
Autovahinkokeskus Oy	Espoo	9	1	8	1	27.8

Associates (consolidated) in 2011

Name	Domicile	Assets, EUR million	Liabilities, EUR million	Net sales, EUR million	Profit/Loss, EUR million	% of shareholding
Access Capital Partners Group S.A.	Belgium	28	23	16	2	40
Autovahinkokeskus Oy	Espoo	8	1	7	1	27.8

Joint ventures in 2012

Name	Domicile	% of shareholding
Kiinteistö Oy Helsingin Puutarhurinkuja 2	Helsinki	100
Kiinteistö Oy Kanta-Sarvis II	Tampere	100
Kiinteistö Oy STC Viinikkala	Vantaa	100
Kiinteistö Oy Vantaan Kisällintie 13	Helsinki	100
Tikkurilan Kauppatalo Oy	Helsinki	53.7

Joint ventures in 2011

Name	Domicile	% of shareholding
Kiinteistö Oy Helsingin Puutarhurinkuja 2	Helsinki	100
Kiinteistö Oy Kanta-Sarvis II	Tampere	100
Kiinteistö Oy STC Viinikkala	Vantaa	100
Kiinteistö Oy Vantaan Kisällintie 13	Helsinki	100
Tikkurilan Kauppatalo Oy	Helsinki	53.7

The consolidated financial statements include the share of assets and related liabilities under joint control.

Notes to the Consolidated Financial Statements

OTHER NOTES

Note 96. Related-party transactions

Pohjola Group's related parties comprise its parent company OP-Pohjola Group Central Cooperative, subsidiaries consolidated into the Group, associates and administrative personnel and other related-party entities. The list of Pohjola Group's associates can be found in Note 95. Pohjola Group's administrative personnel comprises Pohjola Bank plc's President and CEO, members of the Board of Directors and their close family members. Related parties also include companies over which a person among administrative personnel or his close family member exercises significant influence. Other related-party entities include OP Pension Fund, OP Pension Foundation and sister companies within OP-Pohjola Group Central Cooperative Consolidated.

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

Related-party transactions in 2012

EUR million	Parent company	Associates	Adminis-trative personnel	Others*
Loans	70	3		4,576
Other receivables	4			247
Deposits	12	0		781
Other liabilities	0			572
Interest income	1	0		297
Interest expenses	4			309
Dividend income	0			3
Net income from Non-life Insurance	0			5
Net commissions and fees	0	0	0	27
Net trading income				-130
Other operating income	0			8
Operating expenses	13			100
Contingent liabilities and derivatives				
Off-balance-sheet commitments				
Guarantees				70
Other guarantee liabilities				6
Loan commitments	8			26
Derivative contracts				
Nominal values		4		17,073
Credit equivalents		0		136
Salaries, other short-term benefits, performance-based pay and pension obligations				
Salaries, other short-term benefits and performance-based pay			1	
Pension obligations**			3	
Related-party holdings				
Number of shares	118,992,151		146,842	6,610,338

Related-party transactions in 2011

EUR million	Parent company	Associates	Adminis-trative personnel	Others*
Loans	10	5		3,492
Other receivables	34			274
Deposits	4	0		475
Other liabilities	0			549
Interest income	2	0		310
Interest expenses	5			312
Dividend income	0			6
Net income from Non-life Insurance	0			6
Net commissions and fees	1	0	0	28
Net trading income				-143
Other operating income	0			8
Operating expenses	4			90
Contingent liabilities and derivatives				
Off-balance-sheet commitments				
Guarantees				68
Other guarantee liabilities				6
Loan commitments	8			11
Derivative contracts				
Nominal values		5		15,379
Credit equivalents		0		93
Salaries, other short-term benefits, performance-based pay and pension obligations				
Salaries, other short-term benefits and performance-based pay			1	
Pension obligations**			3	
Related-party holdings				
Number of shares	118,992,151		128,855	6,609,338

* Other related-party entities include OP Bank Group Pension Fund, OP Bank Group Pension Foundation and their sister companies within OP-Pohjola Group Central Cooperative Consolidated.

** Pension obligations include those of administrative staff employed by OP-Pohjola Group.

Board member fees 2012

The Annual General Meeting approved the following Board emoluments:
Monthly fees and attendance allowance paid to Board members in 2012 totalled EUR 578,050. As of 27 March 2012, the Chairman's monthly fees totalled EUR 8,000, the Vice Chairman's EUR 5,500 and other members' EUR 4,500. An additional monthly emolument of EUR 1,000 is paid to a Board committee chair who is not the Chairman or Vice Chairman of the Board. All Board members received an attendance allowance of EUR 550 for each meeting. Monthly Board fees are treated as pensionable salary.

Reijo Karhinen, Chairman	EUR 104,400
Tony Vepsäläinen, Vice Chairman	EUR 79,050
Board members:	
Merja Auvinen	EUR 64,550
Jukka Hienonen	EUR 63,400
Jukka Hulkkonen (since 27 March 2012)	EUR 46,550
Simo Kauppi (until 27 March 2012)	EUR 18,000
Mirja-Leena Kullberg (since 27 March 2012)	EUR 44,350
Satu Lähteenmäki (until 27 March 2012)	EUR 19,500
Harri Sailas	EUR 62,850
Tom von Weymarn	EUR 75,400

In the financial year 2012, the members of the Board of Directors did not receive any share-based payments from the Company.

Salaries and performance-based bonuses paid to the President and CEO and his deputy in the financial year ending 31 December 2012 were as follows:

Mikael Silvennoinen, President and CEO	EUR 850,963*

The period of notice applicable under the President and CEO's executive contract is six months. According to this contract, the Company must pay the President and CEO severance pay equalling his 12-month total salary, in addition to compensation for loss of office, if the Company dismisses him or he has to resign or terminate the contract due to a reason attributable to the Company. In case the executive contract terminates due to reasons attributable to the Company, the President and CEO will be entitled to bonuses under the short- and long-term incentive schemes for the year of contract termination, provided that the schemes' performance criteria and the criteria for payment under the schemes' terms and conditions are fulfilled and his executive contract has been effective throughout the performance year.

The CEO employment contract does not stipulate any specific retirement age for the President and CEO. The President and CEO is covered by TyEL (the Finnish Employees Pensions Act) which provides pension benefits based on the years of employment and earnings as prescribed in the Act. The retirement age is 63–68 years, depending on his choice. In addition to the statutory pension scheme, Mr Silvennoinen is covered by OP Bank Group Pension Foundation's supplementary pension scheme.

* Includes a portion of the amount paid in 2012 and earned in 2011 based on the short-term incentive scheme. Payment of the remaining amount of EUR 48,104 has been deferred for 2013–15. Note 97 describes the deferral procedure. In addition, the President and CEO is covered by the long-term share-based management incentive scheme (2011–13), the related payments being made between 2015 and 2017.

Notes to the Consolidated Financial Statements

OTHER NOTES

Note 97. Variable remuneration

Personnel fund
On 26 October 2004, Pohjola Bank plc joined OP Personnel Fund. On 31 December 2012, the Fund had some 2,800 Pohjola Group employees. No members of the staff of Group subsidiaries were included in the Fund, excluding Pohjola Insurance Ltd's and Pohjola Health Ltd's personnel.

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 weighting 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 1.7 million (3.8).

Long-term management incentive scheme in 2010 and before
The Group's previous long-term management incentive scheme (2008–10) applied to Pohjola Bank plc's President and CEO, Senior Vice Presidents, Executive Vice Presidents, heads of departments and those in charge of separately defined managerial, supervisory and expert duties. On 31 December 2010, the scheme covered 136 people. The Board of Directors confirmed the inclusion of the President and CEO and members of the Executive Committee in the scheme, and the selection principles with respect to other people in the scheme. Pohjola Group's Executive Committee confirmed the selection of the other people in the scheme.

Those included in the long-term management incentive scheme had the opportunity to receive Pohjola Bank plc shares as annual bonuses, provided that the Company achieved the targets based on its strategy set for the year in question. Those covered by the scheme will receive shares (after tax) they have earned in three years' time following the beginning of the performance year.

Equity-settled and cash-settled bonus payments are recognised as personnel costs over the performance periods. Expenses charged under the scheme for the financial year amounted to EUR 1.4 million (1.2).

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
In 2011, Pohjola Bank plc's Board of Directors decided that the company would join OP-Pohjola Group's long-term management incentive scheme with OP-Pohjola Group-level targets. These targets conform to those of OP Personnel Fund for the entire OP-Pohjola Group's personnel.

Pohjola Bank plc's directors and designated persons in key positions are included in the long-term management share-based incentive scheme. OP-Pohjola Group Central Cooperative's Supervisory Board has decided that a maximum of 75 people be included in the scheme.

The bonus is determined by the management position. If the set targets are annually achieved at 100%, the management and key employees will be entitled to a bonus equalling their regular 2–12-month salary subject to PAYE tax.

The scheme consists of consecutive three-year performance periods, the first of which is 1 January 2011–31 December 2013. The bonus for the 2011–13 performance period will be paid after a deferral period in three equal instalments by the end of each June in 2015–17.

The target bonus was determined at the beginning of the scheme, i.e. the maximum remuneration in terms of Pohjola Bank plc Series A shares. The target bonus for the 2011–13 performance period amounts to 1.2 million shares, around half of it based on cash-settled payments and half on equity-settled payments.

OP-Pohjola Group Central Cooperative's Supervisory Board determines the performance indicators for the scheme and targets set for them separately for each performance period. The targets for 2011–2013 are based on the following criteria:
- Growth in the number of customers using OP-Pohjola as the main bank and insurer
- Change in the market share of corporate customer business
- Return on economic capital

Bonuses will be paid to their beneficiaries provided that OP-Pohjola Group's capital adequacy ratio under the Act on the Supervision of Financial and Insurance Conglomerates is 1.3 or higher on the bonus payout date and that the person within the scheme is employed by OP-Pohjola Group up to the payout date.

Under the scheme, Pohjola Bank plc shares are accounted for as equity-settled transactions and cash that covers the taxes is accounted for as cash-settled transactions. Expenses for the scheme are recognised from the beginning of the performance period up to the date of payment (vesting period) as personnel costs, and the corresponding liability is recognised under deferred expenses or shareholders' equity. The equity-settled portion is based on the fair value of the share on the grant date, with expected discounted dividends factored in. The weighted average share price on the grant date was 7.59 euros. On 31 December 2012, the amount of equity-settled payments recognised in equity totalled EUR 1.1 million (0.6). Liability arising from the amount of cash-settled payments is measured at fair value on each balance sheet date, totalling EUR 1.8 million (0.6) 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. The short-term incentive schemes are based on performance and other business targets specified for each business unit, covering all Pohjola Group's staff.

Bonuses under the short-term schemes are primarily accounted for as cash-settled transactions. Expenses for the schemes are recognised from the beginning of the performance period up to the date of payment (vesting period) as personnel costs, and the equivalent liability is recognised under deferred expenses. Liability is measured at fair value on each balance sheet date, totalling EUR 12.0 million (19.7) on 31 December 2012.

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 Pohjola Group include managing directors and other key management personnel, other people with a material impact on 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 within the next three years. In case of such deferral under the short-term scheme, half of the bonus is paid in cash and half as Pohjola Bank plc Series A shares (or cash tied to the price of a Pohjola Bank plc Series A share). This means that the accounting treatment of bonus payments based on equity-settled payments under the scheme will change to equity-settled transactions.

Management shareholdings in two subsidiaries

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	2	4
Short-term schemes**	12	21
Previous long-term schemes		
Schemes for 2007–10	1	1
Extended long-term schemes		
Scheme for 2011–13	2	1
Total	**17**	**27**

* Excl. social expenses
** The figure for 2011 includes EUR 1.6 million in expenses arising from the share ownership plans.

Notes to the Consolidated Financial Statements

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Note 98. 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.

Parent Company Financial Statements (FAS)

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Income statement

EUR million	2012	2011
Interest income	2,288	2,404
Net lease income	28	29
Interest expenses	-2,064	-2,145
Net interest income	**252**	**288**
Income from equity investments	134	40
From subsidiaries	118	28
From affiliates	2	3
From other companies	13	9
Commissions and fees	114	114
Commission expenses	-25	-25
Net income from securities and foreign exchange trading	64	12
Net income from securities trading	41	22
Net income from foreign exchange trading	23	-9
Net income from available-for-sale financial assets	15	14
Net income from hedge accounting	4	-4
Net income from investment property	0	0
Other operating income	25	21
Administrative expenses	-135	-126
Personnel costs	-80	-73
Wages and salaries	-66	-60
Social expenses	-14	-13
Pension costs	-10	-10
Other social expenses	-4	-3
Other administrative expenses	-55	-53
Depreciation/amortisation and write-downs on tangible and intangible assets	-8	-8
Other operating expenses	-21	-17
Impairment losses on loans and other commitments	-58	-61
Operating profit	**360**	**247**
Appropriations	-142	-117

Income taxes	-23	-26
Taxes for the financial year	-27	-30
Taxes for previous financial years	-2	0
Change in deferred taxes	6	4
Profit from operations after taxes	**195**	**104**
Profit for the financial year	**195**	**104**

Balance sheet

Assets

EUR million	**31 Dec. 2012**	**31 Dec. 2011**
Cash and cash equivalents	5,643	4,247
Notes and bonds eligible for refinancing with central banks	5,426	7,557
Treasury bills		
Other	5,426	7,557
Receivables from credit institutions	8,486	6,875
Repayable on demand	522	358
Other	7,964	6,517
Receivables from the public and public sector entities	12,876	11,842
Repayable on demand		0
Other	12,876	11,842
Lease assets	1,009	911
Notes and bonds	596	466
From public sector entities	7	17
From other	589	449
Shares and participations	99	70
Shares and participations in affiliates	28	28
Shares and participations in subsidiaries	1,252	1,248
Derivative contracts	4,476	3,375
Intangible assets	43	33
Tangible assets	17	17
Investment property and shares and participations in investment property	10	10
Other property and shares and participations in property companies	3	3
Other tangible assets	3	3
Other assets	889	688
Deferred income and advances paid	742	872
Deferred tax assets	20	70
Total assets	**41,602**	**38,298**

Liabilities

EUR million	31 Dec. 2012	31 Dec. 2011
Liabilities		
Liabilities to credit institutions	5,840	5,935
Central banks		230
Credit institutions	5,840	5,705
Repayable on demand	592	794
Other	5,248	4,911
Liabilities to the public and public sector entities	10,841	8,073
Deposits	6,377	3,621
Repayable on demand	4,671	2,463
Other	1,706	1,159
Other liabilities	4,464	4,452
Repayable on demand	12	0
Other	4,453	4,451
Debt securities issued to the public	13,969	15,321
Bonds	8,321	6,911
Other	5,648	8,410
Derivative contracts and other liabilities held for trading	4,577	3,507
Other liabilities	1,691	1,278
Other liabilities	1,691	1,278
Deferred expenses and advances received	797	895
Subordinated liabilities	1,225	1,005
Subordinated loans	272	282
Other	954	724
Total liabilities	**38,940**	**36,014**
Appropriations	**943**	**801**
Depreciation difference	126	109
Voluntary provisions	816	691
Shareholders' equity		
Share capital	428	428
Share capital	428	428
Share premium account	524	524
Other restricted reserves	197	26
Reserve fund	164	164
Fair value reserve	34	-137

Cash flow hedging	23	10
Fair value measurement	11	-147
Non-restricted reserves	331	331
Reserve for invested non-restricted equity	308	308
Other reserves	23	23
Retained earnings	45	70
Profit for the financial year	195	104
Total shareholders' equity	**1,720**	**1,483**
Total liabilities and shareholders' equity	**41,602**	**38,298**
Off-balance-sheet commitments	**8,216**	**7,726**
Commitments given to a third party on behalf of customers	2,676	2,532
Guarantees and pledges	2,676	2,307
Other		225
Irrevocable commitments given on behalf of customers	5,541	5,194
Securities repurchase commitments	11	11
Other	5,182	5,182

Cash flow statement

EUR million	31 Dec. 2012	31 Dec. 2011
Cash flow from operating activities		
Profit for the financial year	195	104
Adjustments to profit for the financial year	214	305
Increase (-) or decrease (+) in operating assets	**-706**	**-971**
Notes and bonds eligible for refinancing with central banks	1,915	-510
Receivables from financial institutions	-1,447	520
Receivables from the public and public sector entities	-1,058	-241
Lease assets	-341	-275
Notes and bonds	251	-170
Shares and participations	1	7
Derivative contracts	35	-22
Investment property	0	0
Other assets	-62	-280
Increase (+) or decrease (-) in operating liabilities	**2,932**	**5,164**
Liabilities to credit institutions and central banks	-124	954
Liabilities to the public and public sector entities	2,768	3,768
Derivative contracts and other liabilities held for trading	-28	47
Other liabilities	316	395
Income tax paid	-27	-24
Dividends received	134	40
A. Net cash from operating activities	**2,741**	**4,618**
Cash flow from investing activities		
Increases in held-to-maturity financial assets		
Decreases in held-to-maturity financial assets	320	217
Acquisition of subsidiaries and associates	-4	-1
Disposal of subsidiaries and associates		6
Purchase of tangible and intangible assets	-19	-12
Proceeds from sale of tangible and intangible assets	0	0
B. Net cash used in investing activities	**298**	**209**
Cash flow from financing activities		
Increases in subordinated liabilities	502	186
Decreases in subordinated liabilities	-274	-388
Increases in debt securities issued to the public	22,516	36,493
Decreases in debt securities issued to the public	-24,095	-38,136
Dividends paid	-129	-126
Other monetary decreases in equity items	0	0

C. Net cash used in financing activities	**-1,480**	**-1,970**
Cash and cash equivalents transferred due to combination	**1,559**	**2,856**
Cash and cash equivalents at year-start	**4,605**	**1,749**
Cash and cash equivalents at year-end	**6,165**	**4,605**
Interest received	**2,417**	**2,124**
Interest paid	**-1,738**	**-1,840**
Adjustments to profit for the financial year		
Non-cash items		
Change in fair value for trading	220	63
Unrealised net gains on foreign exchange operations	-254	142
Change in fair value of investment assets	-45	-232
Depreciation/amortisation, change in depreciation/amortisation difference and voluntary provisions	365	314
Impairment losses on receivables	60	62
Other	-143	-43
Items presented outside cash flow from operating activities		
Capital gains, share of cash flow from investing activities	0	0
Capital losses, share of cash flow from investing activities	12	
Total adjustments	**214**	**305**
Cash and cash equivalents		
Liquid assets	5,643	4,247
Receivables from credit institutions payable on demand	522	358
Total	**6,165**	**4,605**

Notes to Parent Company Financial Statements (FAS)

Parent Company's (Pohjola Bank plc) Accounting Policies

NOTES TO THE INCOME STATEMENT

NOTES TO THE BALANCE SHEET

OTHER NOTES

Notes to Parent Company Financial Statements (FAS)

Parent Company's (Pohjola Bank plc) Accounting Policies

General information

Pohjola Bank plc is a Finnish credit institution whose organisation is based on business lines and shared services and support functions required by the Group and the business lines.

The business lines of Pohjola Bank plc (parent company) comprise Corporate Banking, Markets, Central Banking and Group Treasury. In addition, the Company includes Other Operations involving administrative functions.

Pohjola Bank plc (hereinafter Pohjola or the Company) is part of OP-Pohjola Group which currently consists of 196 independent cooperative banks and their central institution OP-Pohjola Group Central Cooperative and other member credit institutions. OP-Pohjola Group's member credit institutions comprise Pohjola, Helsinki OP Bank Plc, OP-Kotipankki Oyj, OP Mortgage Bank and the member cooperative banks of OP-Pohjola Group Central Cooperative.

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

Pohjola is domiciled in Helsinki and the street address of its registered office is Teollisuuskatu 1 B, FI-00510 Helsinki, Finland. A copy of Pohjola's consolidated financial statements is available at www.pohjola.com or the Company's head office whose street address is Vääksyntie 4, FI-00510 HELSINKI.

Basis of preparation

Pohjola Bank plc's financial statements based on national regulation are prepared and presented according to the Act on Credit Institutions, the Ministry of Finance Decree on the Financial Statements and Consolidated Financial Statements of a Credit Institution and Investment Firm, the Accounting Act and the Financial Supervisory Authority's Standard on financial statements and annual report. In addition, the central institution of the amalgamation of cooperative banks, OP-Pohjola Group Central Cooperative, issues instructions for compliance with unified accounting principles and the preparation of the financial statements.

Pohjola Bank plc's financial statements are presented in millions of euros and prepared at historical cost, with the exception of financial assets and liabilities held for trading, financial assets at fair value through profit or loss at inception, available-for-sale financial assets and hedged items in fair value hedging

The preparation of financial statements requires the management to make assessments and estimates and exercise its judgement in the process of applying the accounting policies.

Foreign currency translation

Pohjola Bank plc's financial statements are prepared in euros, which is the presentation currency. Non-euro transactions are recognised in euros at the exchange rate quoted on the transaction date or at the average exchange rate of the month of recognition. On the balance sheet date, non-euro monetary balance sheet items are translated into euros at the exchange rate quoted on the balance sheet date. Non-monetary balance sheet items measured at cost are presented at the exchange rate quoted on the transaction date.

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

Financial instruments

Fair value determination

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

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

If the valuation technique is not a well-established method in the financial 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 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.

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

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 Pohjola 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.

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 disposal.

Classification and recognition

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

The purchase and sale of financial assets and liabilities at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets are recognised in the balance sheet on the transaction date, or the date on which the 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. Pohjola Bank plc did not apply the off-set procedure during the financial year.

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

Financial assets and liabilities held for trading

All financial assets and liabilities that are expected to generate short-term profits arising from fluctuations in interest rates, prices and quotations or in which an embedded derivative contract cannot be separated from the host contract are classified as held for trading. Liabilities held for trading refer to the obligation to deliver securities which have been sold but which have not been owned at the time of selling (short selling).

Financial assets and liabilities held for trading include derivatives other than those used for hedging purposes.

Financial assets and liabilities held for trading are recognised at fair value in the balance sheet, and subsequent changes in the fair value are recognised under “Net income from securities trading” in the income statement.

Financial assets at fair value through profit or loss at inception

Financial assets at fair value through profit or loss at inception include financial assets which are designated as at fair value through profit or loss upon their initial recognition. These financial assets are measured at fair value and any change in their fair value and any capital gains and losses, interest income and expenses as well as dividend income are recognised in the income statement.

Financial assets recognised at fair value through profit or loss at inception comprise bonds which Pohjola, in accordance with its risk management principles, manages and assesses their 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.

In addition, this asset class includes hybrid instruments in which the fair value of an embedded derivative cannot be determined separately. These financial assets are measured at fair value in the balance sheet, and any subsequent changes in the fair value are recognised under “Net income from securities trading” in the income statement.

Loans and receivables

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

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. Impairment will be assessed on an individual basis if the debtor’s total exposure is significant. In other respects, impairment is assessed on a collective basis.

Impairment losses on loans are presented as an allowance of loans in the balance sheet. Recognition of interest on the impaired amount continues after the recognition of impairment. 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.

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 are recognised as an allowance of loans in the balance sheet and as "Impairment losses on loans and other commitments" in the income statement. Recognition of interest on the impaired amount continues after the recognition of impairment.

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

Investments held to maturity

Investments held to maturity are non-derivative financial assets with fixed or determinable payments that the Company 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 those of loans and receivables. The difference between the carrying amount of an investment 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, and the Company may not classify these securities into the financial assets held to maturity category for the subsequent two years.

Available-for-sale financial assets

Available-for-sale financial assets include non-derivative financial assets which have been directly categorised as available for sale or which are not classified as the abovementioned financial assets, consisting mainly of notes and bonds, long-term equity investments and other shares and participations necessary for operations.

At the time of their acquisition, available-for-sale financial assets are recognised at cost, which equals the fair value of the consideration paid plus transaction costs directly attributable to their acquisition. Available-for-sale financial assets are subsequently measured at fair value.

If the fair value cannot be determined reliably, shares and participations necessary for operations and other unquoted shares and participations are measured at cost. Any changes in their fair value are recognised in the "Fair value reserve" under shareholders' equity, from where they, including any capital gain or loss, are transferred to "Net income from available-for-sale financial assets" in the income statement when the asset is derecognised or impaired. Interest income and dividends are recorded in the income statement.

In the case of available-for-sale financial assets, for example, a significant downgrade of the credit rating of the issuer of bonds and notes, or a significant or prolonged decline in the equity instrument's fair value below its cost, constitutes objective evidence of an impaired asset.

If an equity instrument's market value continues to fall following impairment recognition, the impairment loss will be recognised in the income statement.

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

Interest income and dividends related to available-for-sale financial assets are recognised in the income statement.

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

Participating interests, and shares and holdings in Group companies

Participating interests, and shares and holdings and other equity investments in Group companies are recognised at cost or, if the item's value on the balance sheet date is found to be lower than the acquisition cost due to impairment, at cost less impairment loss.

Impairment losses are recognised under "Impairment losses on other financial assets" in the income statement.

Cash and cash equivalents

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

Other assets

Other assets comprise receivables repayable on demand arising from payment transfers, receivables in various clearing accounts, marginal account receivables related to derivative contracts and all other receivables that cannot be presented under any other suitable balance sheet item, such as various accounts receivable and rental receivables.

Other financial liabilities

Other financial liabilities include financial liabilities other than those held for trading.

After initial recognition, they are carried at cost.

The difference between the nominal value and the acquisition cost of fixed-rate bonds is recognised in interest expenses over the residual term to maturity, using the effective interest method. The counterpart is recognised as an increase or decrease in the liability's book value.

Other liabilities

Other liabilities consist mainly of payment transfer liabilities, accounts payable and liabilities related to securities trading.

Derivative contracts

Derivatives are divided into hedging and non-hedging contracts. Both hedging and non-hedging derivatives are recognised at fair value in the balance sheet. Accrued interest on non-hedging interest rate swaps is recognised in interest income and interest carried forward corresponding to them in deferred income and deferred expenses. Changes in the fair value of non-hedging interest-rate, loan, currency, equity and commodity derivatives are recognised under "Net income from securities trading" in the income statement. Positive fair value changes and premiums paid for derivative contracts are recognised as assets under "Derivative contracts" while negative fair value changes and premiums received from derivative contracts are recognised under "Derivative contracts and other liabilities held for trading".

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

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

Pohjola Bank plc concludes derivative contracts which are in fact used to hedge against financial risks but which do not fulfil these criteria.

Embedded derivatives associated with structured bonds issued and housing loans with an interest-rate cap are separated from the host contract and measured at fair value, and changes in the fair value of these embedded derivatives and derivatives designated as hedging instruments are recognised in interest income or expenses.

Hedge accounting

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

Fair value hedges

Fair value hedging against interest rate risk involves long-term fixed-rate debt instruments (Pohjola's own issues), individual bond and loan portfolios, as well as individual loans. The Company uses forward exchange contracts and interest-rate and currency swaps as hedging instruments.

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

Cash flow hedges

A cash flow hedge is a hedge of the exposure to the variability attributable to a particular risk associated with variable-rate debt or other variable-rate assets and liabilities. For example, interest rate swaps are used as hedging instruments.

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

Lease assets

Leased out assets and lease assets' advance payments are recognised at non-depreciated cost and presented under "Lease assets" in the balance sheet. As a rule, lease assets are depreciated according to the annuity depreciation method.

Lease income from leased out assets based on lease contracts less planned depreciation on the lease assets are recognised under "Net lease income". In addition, the item includes impairment losses on lease assets, capital gains and losses on the disposal of lease assets, commissions charged from customers and other income and expenses directly attributable to lease contracts. Other income and expenses due to leases are included in the income statement item that corresponds to the nature of the income or expense item.

Intangible assets

Intangible assets are stated at cost less amortisation and write-downs. These assets are amortised over their estimated useful lives, which is 2–10 years for computer software and licences and 5 years in general for other intangible assets. The useful lives of assets are reviewed on each balance sheet date.

Planned amortisation and write-downs on intangible assets are recognised under “Depreciation/amortisation and write-downs on tangible and intangible assets” in the income statement.

Tangible assets

Investment property

Investment property is land and/or building or part thereof held to earn rental income and/or for capital appreciation. Property, a minor part of which is occupied by the owner company or its personnel, is also accounted for as investment property.

Investment property is stated at cost less planned depreciation and write-downs. Land and shares and holdings in property companies can be subject to revaluation if their probable selling price on the balance sheet date is permanently higher than the original acquisition cost. Expenses incurred after the original acquisition will be capitalised only if it is probable that the resulting economic benefit from the property will be higher than initially estimated.

The fair value of business, office and industrial premises classified as investment property holdings and presented in the related note to the financial statements is primarily determined using the income capitalisation approach based on direct capitalisation. The fair value of investment property under construction can be presented only if its fair value can be determined reliably. The fair value of land, water and forest areas and residential buildings is primarily determined using the sales comparison approach. Recognition of write-downs is based on their consistency and materiality.

Income, expenses, capital gains and losses, planned depreciation and write-downs related to investment property are recognised under “Net income from investment property” in the income statement.

Other tangible assets

Tangible assets are stated at cost less depreciation and any write-downs. Assets are depreciated according to plan on a straight-line basis over their estimated useful lives. Planned depreciation is not applicable to land and shares in property companies. Subsequent expenditures are capitalised at the asset’s book value only if it is probable that the asset will generate greater economic benefits than initially estimated.

The estimated useful lives are mainly as follows:

Buildings	30–50 years
Machinery and equipment	4–10 years
IT equipment	3–5 years
Cars	6 years
Other tangible assets	5–10 years

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

Assets’ planned depreciation and write-downs are recognised under “Depreciation/amortisation and write-downs on tangible and intangible assets” in the income statement. Income from and capital gains on property in the Company’s own use are recognised under “Other operating income and expenses” and capital losses under “Other operating expenses” in the income statement.

Employee benefits

Pension benefits

The statutory pension cover for Pohjola Bank plc’s employees is managed through payments to OP Bank Group Pension Fund and supplementary pension cover through OP Bank Group Pension Foundation. The Pension Foundation has been closed to new employees since 1 July 1991. Expenses arising from pension plans are recognised under “Personnel costs” in the income statement. Pension liabilities are fully covered.

Share-based payments

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

Equity-settled share-based payments are measured at fair value on the grant date and the amount charged to expenses is recognised in personnel costs and an increase in 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.

Personnel fund

Pohjola Bank plc belongs to OP-Pohjola Group’s OP Personnel Fund into which bonuses are paid on the basis of pre-agreed principles, depending on the achievement of targets. Bonuses transferred to the Fund are recognised under “Wages and salaries” in the income statement and the counterpart as “Deferred expenses” in the balance sheet.

Statutory provisions

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

Hybrid capital

Hybrid capital instruments are recorded as a separate balance-sheet item under “Subordinated liabilities”. In capital adequacy measurement, these instruments are included in Tier 1 capital. Interest on these instruments may be paid only within the limits of distributable funds.

Appropriations

The depreciation difference under appropriations in the balance sheet includes the accumulated difference between depreciation made and planned depreciation. Voluntary provisions contain voluntary appropriations made which are appropriations permitted by tax legislation. Such a provision is eg the loan loss provision permitted for deposit banks by the Business Income Tax Act. According to this Act, a deposit bank may deduct a credit loss provision made during the tax year, the amount of which accounts for a maximum of 0.6% of the total amount of receivables at the end of the tax year.

The total amount of non-reversed credit loss provisions made during the tax year and earlier may account for a maximum of 5% of the total amount of receivables at the end of the tax year.

An increase and decrease in depreciation made and planned depreciation as well as voluntary provisions are recognised under appropriations in the income statement. Appropriations in the income statement and balance sheet also include deferred tax liabilities. The amount of and change in voluntary provisions do not reflect Pohjola's calculated risks.

Income taxes

Income taxes shown in the income statement include current tax, based on the taxable income of Pohjola Bank plc, income tax for prior financial years and deferred tax expense or income.

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

The Company offsets deferred tax assets and liabilities. Deferred tax assets and liabilities are measured at the tax rate that is expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted by the balance sheet date. If deferred tax originates from balance sheet items not recognised in the income statement, any change in deferred tax is recognised in shareholders' equity, not in the income statement.

Revenue recognition

Interest income and expenses for interest-bearing assets and liabilities are recognised on an accrual basis. Interest on receivables with non-settled, due payments is also recognised as revenue and this interest receivable is tested for impairment.

The difference (price difference) between the receivable's acquisition cost and its nominal value is allocated to interest income and that between the amount received and nominal value of the liability to interest expenses.

Commission income and expenses for services are recognised when the service is rendered. One-off commissions covering several years and including a possible refund obligation are recognised as revenue on a cash basis and statutory provision is recognised for the refund obligation.

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

Offsetting income statement items

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

Off-balance-sheet commitments

Off-balance-sheet commitments include commitments made for a third party on behalf of customers, such as guarantees and various guarantee engagements, and irrevocable commitments made for customers, such as binding supplementary loan arrangements, loan commitments, standby credit facilities and underwritings.

Commitments made for a third party on behalf of customers are recognised as off-balance-sheet commitments to the amount to which guarantee corresponds at most from time to time. Irrevocable commitments made for customers are recognised to the maximum amount which may have to be paid on the basis of them.

Notes to Parent Company Financial Statements (FAS)

NOTES TO THE INCOME STATEMENT

Notes concerning an entity under the Group's control

Note 1. Interest income and expenses

EUR million	2012	2011
Interest income		
Receivables from credit institutions	93	144
Receivables from the public and public sector entities	317	346
Notes and bonds	204	245
Derivative contracts	1,670	1,665
Trading items	1,761	1,744
Hedge accounting	-90	-80
of which cash flow hedge	9	2
Other	4	4
Total	**2,288**	**2,404**
Of which interest income from impaired receivables	2	3
Interest expenses		
Liabilities to credit institutions	90	90
Liabilities to the public and public sector entities	44	53
Debt securities issued to the public	263	312
Derivative contracts and other liabilities held for trading	1,596	1,647
Subordinated liabilities	70	39
Other	1	4
Total	**2,064**	**2,145**

Interest income received from Group and associated companies and interest expenses paid to them

	2012		2011	
EUR million	**Subsidiaries**	**Associates**	**Subsidiaries**	**Associates**
Interest income	2		3	
Interest expenses	3		4	

Notes to Parent Company Financial Statements (FAS)

NOTES TO THE INCOME STATEMENT

Note 2. Net lease income

EUR million	2012	2011
Lease income	249	226
Planned depreciation	-217	-189
Leased asset write-downs	0	0
Capital gains and losses (net) on the disposal of lease assets	2	0
Commissions and fees	1	2
Other income	0	1
Other expenses	-8	-10
Total	**28**	**29**

Notes to Parent Company Financial Statements (FAS)

NOTES TO THE INCOME STATEMENT

Note 3. Income from equity investments

EUR million	2012	2011
Available for sale	13	9
Subsidiaries	118	28
Affiliates	2	3
Total	**134**	**40**

Notes to Parent Company Financial Statements (FAS)

NOTES TO THE INCOME STATEMENT

Note 4. Commissions and fees

EUR million	2012	2011
Commissions and fees		
Lending	42	36
Deposits	0	0
Payment transfers	17	14
Mutual funds		
Asset management	9	10
Legal services	0	0
Securities brokerage	20	29
Securities issuance	7	6
Guarantees	16	16
Other	2	2
Total	**114**	**114**
Commission expenses		
Service fees paid	4	2
Other	21	23
Total	**25**	**25**

Notes to Parent Company Financial Statements (FAS)

NOTES TO THE INCOME STATEMENT

Note 5. Net income from securities and foreign exchange trading

Net income from securities and foreign exchange trading 2012

EUR million	Capital gains and losses	Due to fair value changes	Other income	Total
Notes and bonds	-6	0		-5
Fair value option	-1	1		1
Shares and participations	0			0
Other	0	-2		-2
Derivative contracts		87	-40	48
Liabilities held for trading	0	0		0
Total net income from securities trading	**-6**	**86**	**-40**	**41**
Net income from foreign exchange trading				**23**
Total net income from securities and foreign exchange trading				**64**

Net income from securities and foreign exchange trading 2011

EUR million	Capital gains and losses	Due to fair value changes	Other income	Total
Notes and bonds	4	2		6
Fair value option		0		0
Shares and participations	0			0
Other	0	0		0
Derivative contracts		15	1	16
Liabilities held for trading	0	0		0
Total net income from securities trading	**4**	**17**	**1**	**22**
Net income from foreign exchange trading				**-9**
Total net income from securities and foreign exchange trading				**12**

Notes to Parent Company Financial Statements (FAS)

NOTES TO THE INCOME STATEMENT

Note 6. Net income from available-for-sale financial assets

EUR million	**2012**	**2011**
Notes and bonds		
Capital gains and losses	11	9
Transferred from fair value reserve during the financial year	3	1
Total	14	10
Shares and participations		
Capital gains and losses	0	5
Impairment losses	0	-1
Transferred from fair value reserve during the financial year	1	
Total	0	4
Total net income from available-for-sale financial assets	**15**	**14**

Notes to Parent Company Financial Statements (FAS)

NOTES TO THE INCOME STATEMENT

Note 7. Net income from hedge accounting

EUR million	2012	2011
Net income from hedging instruments	-14	-111
Net income from hedged items	18	108
Total	**4**	**-4**

Notes to Parent Company Financial Statements (FAS)

NOTES TO THE INCOME STATEMENT

Note 8. Net income from investment property

EUR million	2012	2011
Rental and dividend income	1	1
Other income	0	0
Capital gains	0	
Rental expenses	0	0
Planned depreciation		
Capital losses		
Write-downs and their reversals		
Other expenses	0	0
Total	**0**	**0**

Notes to Parent Company Financial Statements (FAS)

NOTES TO THE INCOME STATEMENT

Note 9. Other operating income

EUR million	2012	2011
Rental income from property in own use	0	0
Capital gains on property in own use	0	0
Other	24	21
Total	**25**	**21**

Notes to Parent Company Financial Statements (FAS)

NOTES TO THE INCOME STATEMENT

Note 10. Depreciation/amortisation and write-downs on tangible and intangible assets

EUR million	2012	2011
Planned depreciation	8	8
Write-down	0	0
Total	**8**	**8**

Notes to Parent Company Financial Statements (FAS)

NOTES TO THE INCOME STATEMENT

Note 11. Other operating expenses

EUR million	2012	2011
Rental expenses	7	6
Expenses for property in own use	0	1
Other	13	10
Total	**21**	**17**

Notes to Parent Company Financial Statements (FAS)

NOTES TO THE INCOME STATEMENT

Note 12. Impairment losses on loans and other commitments and other financial assets

EUR million	Gross impairment losses on individually assessed receivable	Gross impairment losses on collectively assessed receivable	Reductions	Entered in income statement
Impairment losses on loans and other commitments				
Receivables from credit institutions				
Receivables from the public and public sector entities	96	1	-39	58
Guarantees and other off-balance-sheet items				
Other				
Total	96	1	-39	58
Impairment losses on other financial assets				
Held-to-maturity debt securities				
Shares and interests in group entities				
Participating interests				
Total				
Total impairment losses	**96**	**1**	**-39**	**58**

Notes to Parent Company Financial Statements (FAS)

NOTES TO THE INCOME STATEMENT

Note 13. Income taxes

EUR million	2012	2011
Income taxes from operations	23	26
Total income taxes	**23**	**26**

Notes to Parent Company Financial Statements (FAS)

NOTES TO THE INCOME STATEMENT

Note 14. Income, operating profit or loss and assets and liabilities by Division

EUR million	Corporate Banking	Markets	Group Treasury	Baltia	Other	Total
Income*	258	135	79	4	131	606
Operating profit	132	69	63	-4	100	360
Assets	14,043	4,971	20,647	433	1,509	41,602
Liabilities	6,546	6,628	25,392	229	144	38,940
Personnel	430	207	48	47	74	806

*Income consists of the following items in the income statement: interest income, income from equity investments, commissions and fees, net income from securities and foreign exchange trading, net income from available-for-sale assets, net income from hedge accounting, net income from investment property and other operating income.

Notes to Parent Company Financial Statements (FAS)

NOTES TO THE BALANCE SHEET

Note 15. Receivables from credit institutions

EUR million	31 Dec. 2012	31 Dec. 2011
Repayable on demand		
Deposits	457	293
Other	65	66
Total	**522**	**358**
Other than those repayable on demand		
Deposits	1	
Other	7,963	6,517
Total	**7,964**	**6,517**
Total receivables from credit institutions	**8,486**	**6,875**
of which subordinated receivables	42	72

Pohjola Bank plc has only receivables repayable on demand from central banks.

Notes to Parent Company Financial Statements (FAS)

NOTES TO THE BALANCE SHEET

Note 16. Receivables from the public and public sector entities

EUR million	31 Dec. 2012	31 Dec. 2011
Receivables from the public and public sector entities by sector		
Non-banking corporate sector and housing corporations	10,357	9,684
Financial institutions and insurance companies	82	21
Public sector entities	203	240
Non-profit organisations serving households	212	219
Households	973	841
Foreign	1,003	850
Collective impairments	-14	-14
Total	**12,817**	**11,842**
of which subordinated receivables	55	67

The balance-sheet item includes EUR 6.5 million in loans for which interest income is not recognised (6.7).

Write-downs on loans		
Write-downs at year-start	219	203
+ Write-downs on individually assessed receivables during the financial year	61	80
+/- Write-downs on collectively assessed receivables during the financial year	1	4
- Write-downs reversed for individually assessed receivables during the financial year	-6	-27
- Actual impairment losses recorded during the financial year		
of which write-downs on individually assessed receivables were made previously	-31	-41
Exchange rate difference on write-downs on loans	0	1
Write-downs at year-end	**244**	**219**

Notes to Parent Company Financial Statements (FAS)

NOTES TO THE BALANCE SHEET

Note 17. Lease assets

EUR million	31 Dec. 2012	31 Dec. 2011
Advance payments	95	127
Machinery and equipment	722	604
Real property and buildings	150	150
Other assets	42	31
Total	**1,009**	**911**

Notes to Parent Company Financial Statements (FAS)

NOTES TO THE BALANCE SHEET

Note 18. Notes and bonds

Notes and bonds eligible for refinancing with central banks and other notes and bonds 31 December 2011

EUR million	Eligible for refinancing with central banks	Other notes and bonds	Total	Of which subordinated
Financial assets at fair value through profit or loss	127	281	408	1
Available for sale	4,656	300	4,956	
Held to maturity	315	14	330	
Held in another portfolio	328		328	
Total	**5,426**	**596**	**6,022**	**1**

Publicly-quoted and other notes and bonds 31 December 2011

EUR million	Publicly quoted	Other	Total
Financial assets at fair value through profit or loss	356	52	408
Available for sale	4,903	53	4,956
Held to maturity	330		330
Held in another portfolio		328	328
Total	**5,589**	**433**	**6,022**

The Financial assets through profit or loss at fair value category includes EUR 12.9 million in financial assets at fair value through profit or loss at inception, all of them quoted publicly.

Notes and bonds by type, EUR million	31 Dec. 2012	31 Dec. 2011
Financial assets at fair value through profit or loss		
Treasury bills		
Local authority papers	6	13
Commercial papers		5
Certificates of deposit		
Convertible bonds	5	5
Other bonds	397	279
Total	**408**	**302**
Available for sale		
Convertible bonds	1	2
Other bonds	4,955	6,504
Total	**4,956**	**6,505**
Held to maturity		
Other bonds	330	716
Total	**330**	**716**
Held in another portfolio		
Other bonds	328	499
Total	**328**	**499**

By 31 December 2012, all Pohjola Bank plc's notes and bonds accrued interest recognised in accounting.

Notes to Parent Company Financial Statements (FAS)

NOTES TO THE BALANCE SHEET

Note 19. Reclassified notes and bonds

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

31 Dec 2012, EUR million	Carrying amount	Fair value	Effective interest rate	Impairments arising from credit risk
Loans and other receivables	394	380	5.3	7
Investments held to maturity	226	207	4.2	
Available-for-sale financial assets*	38	38	4.3	
Total	**659**	**626**		**7**

31 Dec 2011, EUR million	Carrying amount	Fair value	Effective interest rate	Impairments arising from credit risk
Loans and other receivables	757	713	6.6	25
Investments held to maturity	573	502	4.2	8
Total	**1,329**	**1,215**		**33**

Value changes as shown below, if notes and bonds were not reclassified and had been measured at fair value:

	Q1–4/2012		Q1–4/2011	
EUR million	Income statement	Fair value reserve	Income statement	Fair value reserve
Banking	1		-1	
Group Functions	21	10	-41	-4
Total	**22**	**10**	**-42**	**-4**

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 19 million (34). The price difference between the nominal value and acquisition value recognised in the income statement totalled EUR 7 million (12). 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 Company 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 3.0 million (3.6).

Notes to Parent Company Financial Statements (FAS)

NOTES TO THE BALANCE SHEET

Note 20. Shares and participations

EUR million	Publicly quoted	Other	Total
Shares and participations			
Available for sale	4	124	127
Shares in subsidiaries		1,252	1,252
Total	**4**	**1,376**	**1,380**

EUR 36.7 million in shares and participations other than those quoted publicly was measured at fair value and the rest at cost.

EUR million	31 Dec. 2012	31 Dec. 2011
Shares and participations by sector		
Non-banking corporate sector and housing corporations	24	24
Financial institutions and insurance companies	1,311	1,279
Foreign entities	45	44
Total	**1,380**	**1,346**

Notes to Parent Company Financial Statements (FAS)

NOTES TO THE BALANCE SHEET

Note 21. Derivative contracts

Derivative contracts for hedging purposes – fair value hedge in 2012

	Nominal values/residual term to maturity				Fair values	
EUR million	<1 year	1–5 years	>5 years	Total	Positive	Negative
Interest rate derivatives	**494**	**8,240**	**3,053**	**11,787**	**429**	**405**
Interest rate swaps	494	8,240	3,053	11,787	429	405
Currency derivatives	**1,122**	**808**	**153**	**2,083**	**85**	**22**
Interest rate and currency swaps	1,122	808	153	2,083	85	22

Derivative contracts for hedging purposes – cash flow hedge in 2012

	Nominal values/residual term to maturity				Fair values	
EUR million	<1 year	1–5 years	>5 years	Total	Positive	Negative
Interest rate derivatives	**200**	**800**		**1,000**	**35**	
Interest rate swaps	200	800		1,000	35	

Derivative contracts held for trading in 2012

	Nominal values/residual term to maturity				Fair values	
EUR million	<1 year	1–5 years	>5 years	Total	Positive	Negative
Interest rate derivatives	**45,829**	**83,618**	**36,599**	**166,046**	**3,836**	**3,779**
Futures and forwards	1,375	2,958	142	4,474	0	3
Options	**29,334**	**18,086**	**5,932**	**53,352**	**565**	**424**
Called	15,087	9,989	2,843	27,919	564	7
Put	14,246	8,097	3,089	25,432	0	417
Interest rate swaps	15,028	62,342	30,475	107,845	3,267	3,339
Other swap contracts	93	232	51	375	4	12
Currency derivatives	**18,725**	**1,939**	**363**	**21,027**	**209**	**318**
Futures and forwards	18,252	539	65	18,856	129	226
Options	**473**			**473**	**3**	**3**
Called	231			231	3	
Put	241			241		3
Interest rate and currency swaps		1,400	298	1,698	77	89
Equity derivatives	**261**	**819**	**6**	**1,085**	**50**	**0**
Futures and forwards	0			**0**		0
Options	**261**	**819**	**6**	**1,085**	**50**	**0**
Called	261	819	6	1,085	50	0
Put						
Other derivatives	**318**	**442**	**28**	**787**	**43**	**27**
Futures and forwards	83	132	5	220	7	18
Options	**70**	**30**		**100**	**6**	**1**
Called	40	21		61	6	
Put	30	10		39		1
Other swap contracts	42	191	23	256	20	7
Credit derivatives	122	89		211	10	2

The underlying value for interest rate derivative contracts is the nominal value, for currency derivative contracts the euro-denominated stated value of the purchased currency on the balance sheet date, and for equity derivative contracts the probable value of equities on the balance sheet date. The values are expressed in gross amounts. Interest from market value is presented in deferred income and deferred expenses.

Credit equivalents of contracts in 2012

EUR million	Made for hedging purposes		Held for trading
	Fair value hedge	Cash flow hedge	
Interest rate derivatives	**516**	**39**	**4,723**
Futures and forward contracts			0
Options			**654**
Called			654
Put			
Interest rate swaps	516	39	4,036
Other swap contracts			33
Currency derivatives	**148**		**518**
Futures and forwards			343
Options			**5**
Called			5
Put			
Interest rate and currency swaps	148		169
Equity derivatives			**132**
Futures and forwards			
Options			**132**
Called			132
Put			
Other derivatives			**74**
Futures and forwards			1
Options			**13**
Called			13
Put			
Other swap contracts			49
Credit derivatives			11

Derivative contracts for hedging purposes in 2011

	Nominal values/residual term to maturity				Fair values	
EUR million	**<1 year**	**1–5 years**	**>5 years**	**Total**	**Positive**	**Negative**
Interest rate derivatives	**651**	**8,088**	**3,225**	**11,965**	**224**	**400**
Interest rate swaps	651	8,088	3,225	11,965	224	400
Currency derivatives	**711**	**595**	**162**	**1,468**	**114**	**30**
Interest rate and currency swaps	711	595	162	1,468	114	30

Derivative contracts for hedging purposes – cash flow hedge in 2011

	Nominal values/residual term to maturity				Fair values	
EUR million	**<1 year**	**1–5 years**	**>5 years**	**Total**	**Positive**	**Negative**
Interest rate derivatives	**200**	**800**		**1,000**	**17**	
Interest rate swaps	200	800		1,000	17	

Derivative contracts held for trading in 2011

	Nominal values/residual term to maturity				Fair values	
EUR million	<1 year	1–5 years	>5 years	Total	Positive	Negative
Interest rate derivatives	**50,157**	**89,886**	**36,704**	**176,747**	**2,575**	**2,576**
Futures and forward contracts	4,036	261		4,297	3	1
Options	**25,617**	**38,615**	**5,276**	**69,508**	**438**	**342**
Called	9,741	20,280	2,524	32,545	436	9
Put	15,876	18,335	2,752	36,963	2	334
Interest rate swaps	17,068	50,920	31,429	99,416	2,132	2,217
Other swap contracts	3,436	90		3,525	2	16
Currency derivatives	**17,346**	**1,743**	**570**	**19,659**	**511**	**389**
Futures and forwards	15,944	558	89	16,592	412	277
Options	**1,289**			**1,289**	**8**	**9**
Called	617			617	8	
Put	673			673		9
Interest rate and currency swaps	112	1,185	480	1,778	91	103
Equity derivatives	**96**	**1,110**	**6**	**1,212**	**55**	**1**
Futures and forwards	1			**1**		1
Options	**95**	**1,110**	**6**	**1,211**	**55**	
Called	95	1,110	6	1,211	55	
Put						
Other derivatives	**165**	**416**	**22**	**603**	**27**	**26**
Futures and forwards	96	119	7	221	13	20
Options	**1**	**42**		**43**	**1**	**1**
Called	1	26		27	1	
Put	1	16		16		1
Other swap contracts	29	110	16	154	11	2
Credit derivatives	40	146		186	2	2

The underlying value for interest rate derivative contracts is the nominal value, for currency derivative contracts the euro-denominated stated value of the purchased currency on the balance sheet date, and for equity derivative contracts the probable value of equities on the balance sheet date. The values are expressed in gross amounts. Interest from market value is presented in deferred income and deferred expenses.

Credit equivalents of contracts in 2011

	Made for hedging purposes		Held for trading
EUR million	Fair value hedge	Cash flow hedge	
Interest rate derivatives	**208**	**4**	**3,452**
Futures and forward contracts			3
Options			**575**
Called			575
Put			
Interest rate swaps	313	21	2,858
Other swap contracts			16
Currency derivatives	**164**		**808**
Futures and forwards			606
Options			**14**
Called			14
Put			
Interest rate and currency swaps	164		188
Equity derivatives			**150**
Futures and forwards			
Options			**150**
Called			150
Put			
Other derivatives			**37**
Futures and forwards			0
Options			**5**
Called			5
Put			
Other swap contracts			28
Credit derivatives			4

Pohjola Bank plc's derivatives business adopted netting of derivatives during 2011. However, derivative contracts are presented in gross amounts in this note. Netting would reduce the credit equivalent of Pohjola Bank plc's derivative contracts by EUR 4,359 million (3,446).

Notes to Parent Company Financial Statements (FAS)

NOTES TO THE BALANCE SHEET

Note 22. Intangible assets and tangible assets and changes during the financial year

Intangible assets

EUR million	31 Dec. 2012	31 Dec. 2011
Goodwill	4	6
IT costs	13	13
Other long-term expenditure	26	14
Total	**43**	**33**

Tangible assets

		Investment property	
EUR million	**In own use**	**Book value**	**Fair value**
Property holdings			
Land and water	0	0	0
Buildings	1		
Shares and holdings in property companies	3	10	31
Total	**3**	**10**	**31**
Other tangible assets		**3**	

Changes in intangible and tangible assets during the financial year

EUR million	Goodwill	Other intangible assets	Investment property	Property in own use	Other tangible assets
Acquisition cost 1 January	12	78	14	4	50
+ increases during the year		18	0	1	0
- decreases during the year			0	0	
+/- transfers between items					
- planned depreciation/amortisation	-2	-5		0	0
-/+ impairment losses and their reversals				0	
+ accumulated depreciation/ amortisation and write-downs on adjustments and transfers 1 January					
- accumulated depreciation/amortisation 1 January	-5	-51	0	-1	-47
- accumulated impairment 1 January			-3	0	
Book value 31 December	**4**	**39**	**10**	**3**	**3**

Notes to Parent Company Financial Statements (FAS)

NOTES TO THE BALANCE SHEET

Note 23. Other assets

EUR million	31 Dec. 2012	31 Dec. 2011
Sales receivables from securities	47	5
Margin receivables related to derivative contracts	78	43
Receivables from payment transfers	18	28
Other	746	612
Total	**889**	**688**

The item Other includes EUR 462 million (388) in foreign CSA collateral receivables.

Notes to Parent Company Financial Statements (FAS)

NOTES TO THE BALANCE SHEET

Note 24. Deferred income and advances paid

EUR million	31 Dec. 2012	31 Dec. 2011
Interest		
Interest receivables	734	864
Interest advances paid	4	3
Total	**738**	**867**
Other		
Other advances paid	2	0
Other deferred income	2	5
Total	**4**	**5**
Total deferred income and advances paid	**742**	**872**

Notes to Parent Company Financial Statements (FAS)

NOTES TO THE BALANCE SHEET

Note 25. Deferred tax assets and liabilities

EUR million	Deferred tax assets	Deferred tax liabilities	Net
From timing differences	31	0	31
From other temporary differences	5	16	-11
Total	**36**	**16**	**20**

Deferred tax assets include a total of EUR 0.00 in deferred tax assets recognised on losses confirmed in taxation.

Deferred tax assets and liabilities arising from other temporary differences comprise deferred tax assets and liabilities based on revaluations of available-for-sale financial assets recognised in the fair value reserve under equity and of derivatives designated as cash flow hedges.

Revaluations 31 December 2012
The balance sheet does not include any revaluation.

Appropriations

EUR million	Balance sheet value	Deferred tax liability	Net
Depreciation difference	126	31	95
Voluntary provisions	816	200	616
Total	**943**	**231**	**712**

Depreciation difference and voluntary provisions have been entered in the balance sheet to the amount of non-deducted deferred tax.

Notes to Parent Company Financial Statements (FAS)

NOTES TO THE BALANCE SHEET

Note 26. Debt securities issued to the public

EUR million	Book value 31 Dec. 2012	Nominal value 31 Dec. 2012	Book value 31 Dec. 2011	Nominal value 31 Dec. 2011
Certificates of deposit	1,525	1,526	3,424	3,445
Bonds	8,465	8,380	7,208	7,075
Other	3,979	3,982	4,689	4,699
Total	**13,969**	**13,889**	**15,321**	**15,218**

Notes to Parent Company Financial Statements (FAS)

NOTES TO THE BALANCE SHEET

Note 27. Other liabilities

EUR million	31 Dec. 2012	31 Dec. 2011
Payment transfer liabilities	1,039	844
Accounts payable on securities	49	6
Margin liabilities related to derivative contracts	568	409
Other	36	18
Total	**1,691**	**1,278**

Other' includes EUR 10 million equity and derivative liabilities (-).

Notes to Parent Company Financial Statements (FAS)

NOTES TO THE BALANCE SHEET

Note 28. Statutory provisions

EUR million	Reorganisation	Total
1 Jan. 2012		
Increase in provisions	2	2
31 Dec. 2012	**2**	**2**

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

Notes to Parent Company Financial Statements (FAS)

NOTES TO THE BALANCE SHEET

Note 29. Deferred expenses and advances received

EUR million	31 Dec. 2012	31 Dec. 2011
Interest		
Interest liabilities	757	851
Interest advances received	0	0
Total	**757**	**851**
Other		
Other advance payments received	0	0
Other deferred expenses	40	44
Total	**40**	**44**
Total deferred expenses and advances received	**797**	**895**

Notes to Parent Company Financial Statements (FAS)

NOTES TO THE BALANCE SHEET

Note 30. Subordinated liabilities

EUR million	Book value	Nominal value
Subordinated loans	272	288
Other		
Perpetual loans		
Debenture loans	954	954
Total	**1,225**	**1,242**

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 (1.9) on 31 December 2012.

Issue date	Book value, EUR million	Interest rate, %	Due date
3 March 2008	0.7	4.10	3 March 2013

Pohjola Bank plc has no violations of the terms and conditions of the loan contracts with respect to principal, interest and other conditions. The financial statements include EUR 2 million recognised for the price difference of the loans (0).

Hybrid bonds/subordinated loans

Hybrid bonds 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) Subordinated loan of EUR 50 million
This is a perpetual loan without interest-rate step-ups, but with an 8% interest rate cap. The loan was issued on 31 March 2005 and its interest rate for the first year was 6.5% and thereafter CMS 10 years + 0.1%. Interest payments are made annually on 11 April. If interest cannot be paid for a given interest period, the obligation to pay interest for the period in question will lapse. The loan can be called in on the interest due date as of 11 April 2010 at the earliest, subject to authorisation by the Financial Supervisory Authority. The loan's entire principal must be repaid in one instalment.

3) Hybrid bond of EUR 60 million
This perpetual bond carries a variable interest rate based on 3-month Euribor + 0.65% payable quarterly on 28 February, 30 May, 30 August and 30 November. If interest cannot be paid for a given interest period, the obligation to pay interest for the period in question will lapse. It is possible to call in the loan at the earliest on 30 November 2015, subject to authorisation by the Financial Supervisory Authority, and thereafter on the interest due dates. After 2015, the loan carries a variable interest rate based on 3-month Euribor +1.65% (Step up). The entire loan principal must be repaid in one instalment.

4) Subordinated loan of EUR 40 million
This perpetual loan carries a variable interest rate based on 3-month Euribor + 1.25% payable quarterly on 28 February, 30 May, 30 August and 30 November. If interest cannot be paid for a given interest period, the obligation to pay interest for the period in question will lapse. Subject to authorisation by the Financial Supervisory Authority, the loan may be called in on the due date of interest payment of 30 October 2010. The entire loan principal must be repaid in one instalment.

5) Hybrid bond of EUR 50 million
Perpetual bond of EUR 50 million, issued on 17 June 2008, carries a variable interest rate based on 3-month Euribor + 3.05%, payable on a quarterly basis on 17 March, 17 June, 17 September and 17 December. If interest cannot be paid for a given interest period, the obligation to pay interest will lapse. Subject to authorisation by the Financial Supervisory Authority, the bond may be called in on 17 June 2013 at the earliest and thereafter on the due dates of interest payment. The entire loan principal must be repaid in one instalment.

Loans 1 and 3 are included in hybrid instruments.

Derivatives have been used 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 (17.6).

Notes to Parent Company Financial Statements (FAS)

NOTES TO THE BALANCE SHEET

Note 31. Shareholders' equity

EUR million	Shareholder's equity at year-start	Increases	Decreases	Transfers between items	Shareholder's equity at year-end
Total shareholders' equity	**1,483**				**1,720**
Share capital	428				428
Share issue					
Share premium account	524				524
Other restricted reserves	**26**				**197**
Reserve fund	164				164
Fair value reserve	-137	171			34
Fair value measurement	-147	158			11
Cash flow hedge	10	13			23
Non-restricted funds	**331**				**331**
Reserve for invested non-restricted equity	308				308
Other funds	23				23
Retained earnings or losses after adjustments	174	0	125	-4	45
Profit or loss for the financial year		195			195

Changes in fair value reserve

EUR million	At year-start	Increases	Decreases	Transferred to income statement	At year-end
Notes and bonds	**-149**	**178**	**40**	**-3**	**-15**
Deferred tax	48		44		5
Shares and participations	**2**	**31**	**7**	**-1**	**26**
Deferred tax	-1		8		-8
Other	**10**	**17**	**4**		**23**
Cash flow hedge	13	17			31
Deferred tax	-3		4		-7
Total	**-137**	**227**	**51**	**-4**	**34**

Notes to Parent Company Financial Statements (FAS)

NOTES TO THE BALANCE SHEET

Note 32. Restricted and non-restricted equity and non-distributable equity items

EUR million	31 Dec. 2012
Shareholders' equity	
Restricted equity	1,149
Non-restricted equity	571
Total shareholders' equity	**1,720**
Distributable funds	
Non-restricted equity	571
Fair value reserve	
Distributable funds	**571**

Notes to Parent Company Financial Statements (FAS)

NOTES TO THE BALANCE SHEET

Note 33a. Financial assets and liabilities by maturity 31 December 2012

Remaining term to maturity	Less than 3 months	3–12 months	1–5 years	5–10 years	over 10 years
Notes and bonds eligible for refinancing with central banks	225	360	3,044	1,765	33
Receivables from credit institutions	5,794	698	1,313	658	23
Receivables from the public and public sector entities	2,189	1,616	6,319	1,393	1,299
Notes and bonds	32	21	405	137	
Liabilities to credit institutions and central banks	2,752	455	1,988	646	0
Liabilities to the public and public sector entities	8,913	1,332	111	446	39
Debt securities issued to the public	5,100	2,577	5,901	334	50
Subordinated liabilities	171	200	132	683	40
Total	**25,175**	**7,259**	**19,213**	**6,062**	**1,484**

Deposits other than fixed-term deposits are included in the maturity class 'less than 3 months'.

Notes to Parent Company Financial Statements (FAS)

NOTES TO THE BALANCE SHEET

Note 33b. Classification of assets and liabilities

Assets, EUR million	Loans and receivables	Held to maturity	At fair value through profit or loss*	Available for sale	Hedging derivatives	Total
Cash and balances with central banks	5,643					5,643
Receivables from credit institutions and central banks	8,814					8,814
Derivative contracts			4,097		379	4,476
Receivables from customers	13,244					13,244
Notes and bonds**		330	408	4,956		5,694
Shares and participations			0	1,352		1,352
Other receivables	2,370		10			2,380
Total 31 Dec. 2012	**30,070**	**330**	**4,516**	**6,308**	**379**	**41,602**

Assets, EUR million	Loans and receivables	Held to maturity	At fair value through profit or loss*	Available for sale	Hedging derivatives	Total
Cash and balances with central banks	4,247					4,247
Receivables from credit institutions and central banks	7,365					7,365
Derivative contracts			3,175		200	3,375
Receivables from customers	12,005					12,005
Notes and bonds**		716	302	6,505		7,524
Shares and participations			1	1,317		1,318
Other receivables	2,453		10			2,463
Total 31 Dec. 2011	**26,070**	**716**	**3,488**	**7,823**	**200**	**38,298**

Liabilities, EUR million	At fair value through profit or loss	Other liabilities	Hedging derivatives	Total
Liabilities to credit institutions		5,840		5,840
Financial liabilities held for trading (excl. derivatives)	3			3
Derivative conctracts	4,177		396	4,574
Liabilities to customers		10,841		10,841
Debt instruments issued to the public		13,969		13,969
Subordinated liabilities		1,225		1,225
Other liabilities		3,431		3,431
Total 31 Dec. 2012	**4,180**	**35,306**	**396**	**39,883**

Liabilities, EUR million	At fair value through profit or loss	Other liabilities	Hedging derivatives	Total
Liabilities to credit institutions		5,935		5,935
Financial liabilities held for trading (excl. derivatives)	1			1
Derivative conctracts	3,128		378	3,506
Liabilities to customers		8,073		8,073
Debt instruments issued to the public		15,321		15,321
Subordinated liabilities		1,005		1,005
Other liabilities		2,973		2,973
Total 31 Dec. 2011	**3,129**	**33,307**	**378**	**36,815**

* Assets at fair value through profit or loss include financial assets held for trading, financial assets at fair value through profit or loss at inception and investment property.
** On 31 December 2012, notes and bonds included EUR 9 million (13) in notes and bonds recognised using the fair value option.

Debt securities issued to the public are carried at amortised cost. On 31 December 2012, the fair value of these debt instruments was EUR 243 million (14) higher than their carrying amount, based on information available in markets and employing commonly used valuation techniques. Subordinated liabilities are carried at amortised cost. Their fair values are higher than their carrying amount, but determining reliable fair values involves uncertainty.

Notes to Parent Company Financial Statements (FAS)

NOTES TO THE BALANCE SHEET

Note 34. Assets and liabilities denominated in euros and foreign currencies 31 December 2012

			Of which	
EUR million	**Euros**	**Foreign currencies**	**Subsidiaries**	**Associates**
Receivables from credit institutions	8,235	250		
Receivables from the public and public sector entities	11,957	860	185	
Notes and bonds	6,004	18		
Derivative contracts	4,189	287	13	
Other assets	9,757	46	1,312	28
Liabilities to credit institutions and central banks	4,838	1,002		
Liabilities to the public and public sector entities	9,362	1,479	66	
Debt securities issued to the public	9,670	4,299	48	
Derivative contracts and liabilities held for trading	4,321	255	16	
Subordinated liabilities	1,054	171		
Other liabilities	2,429	59	0	
Total	**71,816**	**8,726**	**1,641**	**28**

Notes to Parent Company Financial Statements (FAS)

OTHER NOTES

Note 35. Share series at year-end and authorisations given to the Board of Directors

	Series A	Series K	Total
Share capital, EUR	337,144,932	90,472,531	427,617,463
No. of shares	251,942,798	67,608,617	319,551,415
Percentage of share capital	78.8	21.2	100
Votes per share	1	5	
Percentage of votes	42.7	57.3	100

The number of issued shares has doubled without altering the share capital, based on the Annual General Meeting's decision on 31 March 2004. Based on the Annual General Meeting's decision on 27 March 2009, Pohjola issued 91,179,502 new Series A shares and 25,021,013 new Series K shares amounting to EUR 307,931,364 entered in the reserve for invested non-restricted equity. A total of 25,080 Series K shares were converted into Series A shares during 2010 and a total of 773,028 Series K shares into Series A shares during 2012.

Restrictions on share acquisition:

- Series A shares quoted on NASDAQ OMX Helsinki are intended for the general public.
- Series A shares are not subject to any purchase restrictions.
- Holding of series K shares is restricted to Group cooperative banks and OP-Pohjola Group Central Cooperative.
- Series K shares may be converted into Series A shares at the written request of the shareholder or, in case of nominee-registered shares, at the written request of the asset manager registered with the book-entry register.

If a dividend is paid, Series A shares entitle their holders to an annual dividend which is at least three (3) cents higher than the dividend paid on Series K shares.

Authorisations granted to the Board of Directors

Pohjola Bank plc's Annual General Meeting of 27 March 2012 authorised the Board of Directors to decide, until the closing of the following Annual General Meeting, on one or several rights issues. The total number of Series A and Series K shares offered for subscription in such a rights issue may not exceed 24,000,000 and 6,000,000, respectively. The Board of Directors is also authorised to waive the shareholders' pre-emptive right (private placement), should there be, from the Company's perspective, a financially cogent reason to do so, in accordance with the Limited Liability Companies Act. In such a case, this authorisation may be exercised for the purpose of financing and executing company acquisitions or other transactions relating to the Company's business. The authorisation contains the Board of Directors' right of stipulating the terms and conditions of a share issue and on other matters relating to these measures. The Board of Directors also has the right to determine whether the subscription price is to be entered in full or in part in the Company's reserve for invested non-restricted equity or in share capital.

Notes to Parent Company Financial Statements (FAS)

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Note 36. Variable remuneration

Personnel fund
On 26 October 2004, Pohjola Bank plc joined OP Personnel Fund. On 31 December 2012, some 800 Pohjola Bank plc's employees were its members.

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 the number of 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 0.5 million (1.4).

Long-term management incentive scheme in 2010 and before
The Group's previous long-term management incentive scheme (2008–10) applied to Pohjola Bank plc's President and CEO, Senior Vice Presidents, Executive Vice Presidents, heads of departments and those in charge of separately defined managerial, supervisory and expert duties. On 31 December 2010, the scheme covered 136 people within the Group. The Board of Directors confirmed the inclusion of the President and CEO and members of the Executive Committee in the scheme, and the selection principles with respect to other people in the scheme. Pohjola Group's Executive Committee confirmed the selection of the other people in the scheme.

Those included in the long-term management incentive scheme had the opportunity to receive Pohjola Bank plc shares as annual bonuses, provided that the company achieved the targets based on its strategy set for the year in question. Those covered by the scheme will receive shares (after tax) they have earned in three years' time following the beginning of the performance year.

Bonuses in the form equity-settled and cash-settled payments are recognised as personnel costs. In the parent company financial statements, expenses charged under the scheme for the financial year amounted to EUR 0.9 million (0.6).

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 incentives are based on reaching OP-Pohjola Group's targets, whereas short-term variable incentives are based on how an individual Group company or business unit reaches its targets. The maximum amount of remuneration is limited in all schemes.

Long-term management incentive scheme from 2011
In 2011, Pohjola Bank plc's Board of Directors decided that the company would join OP-Pohjola Group's long-term management incentive scheme with OP-Pohjola Group-level targets. These targets conform to those of OP Personnel Fund for the entire Group's personnel.

The directors of Pohjola Bank plc and its subsidiaries and designated persons in key positions are included in the long-term management share-based incentive scheme. OP-Pohjola Group Central Cooperative's Supervisory Board has designated a maximum of 75 people in the scheme.

The bonus is determined by the management position. If the set targets are annually achieved at 100%, the management and key employees will be entitled to a bonus equalling their regular 2–12-month salary subject to PAYE tax.

The scheme consists of consecutive three-year performance periods, the first of which is 1 January 2011–31 December 2013. The bonus for the 2011–13 performance period will be paid after a deferral period in three equal instalments by the end of each June in 2015–17.

The target bonus was determined at the beginning of the scheme, i.e. the maximum remuneration in terms of Pohjola Bank plc Series A shares. This target bonus for the 2011–13 performance period is 1.2 million shares which will be partly based on cash-settled payments (the amount of tax withheld) and equity-settled payments.

OP-Pohjola Group Central Cooperative's Supervisory Board determines the performance indicators for the scheme and targets set for them separately for each performance period. The targets for 2011–13 are based on the following criteria:
- Growth in the number of customers using OP-Pohjola as the main bank and insurer
- Change in the market share of corporate customer business
- Return on economic capital

Bonuses will be paid to their beneficiaries provided that OP-Pohjola Group's capital adequacy ratio under the Act on the Supervision of Financial and Insurance Conglomerates is 1.3 or higher and that the person within the scheme is employed by OP-Pohjola Group up to the payment date.

Under the scheme, Pohjola Bank plc shares are accounted for as equity-settled transactions and cash that covers the taxes is accounted for as cash-settled transactions. Expenses for the scheme are recognised from the beginning of the performance period up to the date of payment (vesting period) as personnel costs, and the equivalent liability is recognised under deferred expenses or shareholders' equity. The portion of shareholders' equity is based on the fair value of the share on the grant date, with expected discounted dividends factored in. The fair value determined on the grant date averaged 7.59 euros. On 31 December 2012, the amount of equity-settled payments recognised in equity totalled EUR 0.7 million (0.4). Liability arising from the amount of cash-settled payments is measured at fair value on each balance sheet date, totalling EUR 1.1 million (0.4) 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. The short-term incentive schemes are based on performance and other business targets specified for each business unit, covering all Pohjola Bank plc's staff.

Bonuses under the short-term schemes are primarily accounted for as cash-settled transactions. Expenses for the schemes are recognised from the beginning of the performance period up to the date of payment (vesting period) as personnel costs, and the equivalent liability is recognised under deferred expenses. Liability is measured at fair value on each balance sheet date, totalling EUR 8.9 million (10.5) on 31 December 2012.

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 Pohjola Bank plc include managing directors and other key management personnel, other people with a major impact of the company's risk exposure, Internal Control and other designated persons or special groups.

People who may affect the company's risk profile will have their variable remuneration payment deferred and their bonuses paid half in cash and Pohjola Bank plc shares (or tied to its value) if their variable remuneration for a 12-month performance period exceeds €50,000 – the maximum recommended by the Financial Supervisory Authority – or two months' fixed gross salary above this amount. The remuneration of the person affecting the company's risk profile is viewed up to the €50.000 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 paid in cash and half as Pohjola Bank plc shares (or cash tied to the price of a Pohjola Bank plc share). This means that the accounting treatment of bonus payments based on equity-settled transactions under the scheme will change to equity-settled payments.

Expenses charged for variable remuneration *)

EUR million	**2012**	**2011**
Personnel fund	0	1
Short-term schemes	9	10
Previous long-term schemes		
Schemes for 2007–2010	1	1
New long-term scheme		
Scheme for 2011–2013	1	1
Total	**11**	**13**

*) Excluding social expenses

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Note 37. Major shareholders and breakdown of shareholding

Major shareholders in terms of votes

(10 largest shareholders based on the Shareholder Register on 31 December 2012)

		No. of shares	shares overall	% of shares	No. of votes	% of votes
OP-Pohjola Group Central Cooperative	A	58,351,020				
	K	60,641,131	118,992,151	37.2	361,556,675	61.3
Ilmarinen Mutual Pension Insurance Company	A	31,955,142				
	K		31,955,142	10.0	31,955,142	5.4
Oulun Osuuspankki	A	2,777,969				
	K	1,590,916	4,368,885	1.4	10,732,549	1.8
Keski-Suomen Osuuspankki	A	12,572				
	K	717,448	730,020	0.2	3,599,812	0.6
OP Bank Group Pension Fund	A	3,455,529				
	K		3,455,529	1.1	3,455,529	0.6
Länsi-Suomen Osuuspankki	A	1,048,958				
	K	395,716	1,444,674	0.5	3,027,538	0.5
Varma Mutual Pension Insurance Company	A	2,881,569				
	K		2,881,569	0.9	2,881,569	0.5
Pohjois-Savon Osuuspankki	A	654,908				
	K	379,936	1,034,844	0.3	2,554,588	0.4
OP Bank Group Pension Foundation	A	2,328,568				
	K		2,328,568	0.7	2,328,568	0.4
The State Pensionfund	A	2,200,000				
	K		2,200,000	0.7	2,200,000	0.4
Total			**169,391,382**	**53.0**	**424,291,970**	**71.9**
Nominee-registered shares	A		51,400,987	16.1	51,400,987	8.7
Total number of shareholders			32,278			

Major shareholders in terms of shareholdings

(10 largest shareholders based on the Shareholder Register on 31 December 2012)

	No. of shares	% of shares	% of votes
OP-Pohjola Group Central Cooperative	118,992,151	37.2	61.3
Ilmarinen Mutual Pension Insurance Company	31,955,142	10.0	5.4
Oulun Osuuspankki	4,368,885	1.4	1.8
OP Bank Group Pension Fund	3,455,529	1.1	0.6
Varma Mutual Pension Insurance Company	2,881,569	0.9	0.5
OP Bank Group Pension Foundation	2,328,568	0.7	0.4
The State Pensionfund	2,200,000	0.7	0.4
Turun Seudun Osuupankki	1,832,354	0.6	0.3
Tampereen Seudun Osuuspankki	1,617,046	0.5	0.3
Sijoitusrahasto Nordea Suomi	1,545,000	0.5	0.3
Total	**171,176,244**	**53.6**	**71.3**
Nominee-registered shares	51,400,987	16.1	8.7

Shareholdings by number of shares held (based on the Shareholder Register on 31 December 2012)

Number of shares (Series A and K shares)

	No. of shareholders	% of shareholders	No. of shares	% of shares
1–100	4,231	13.1	259,688	0.1
101–1000	21,239	65.8	7,974,387	2.5
1001–10 000	6,059	18.8	16,649,113	5.2
10 001–100 000	595	1.8	16,804,431	5.3
100 001–1 000 000	131	0.4	43,845,920	13.7
1 000 001–	23	0.1	234,017,876	73.2
In joint account				
Total	**32,278**	**100**	**319,551,415**	**100**

Shareholdings by sector (based on the Shareholder Register on 31 December 2012)

Shareholder type	Shareholders	% of shareholders	% of shares	No. of votes	% of votes
Non-banking corporate sector	853	2.6	2.6	8,207,500	1.4
OP-Pohjola Group Central Cooperative and member cooperative banks	197	0.6	53.1	440,056,166	74.6
Other financial institutions and insurance companies	57	0.2	16.2	51,739,763	8.8
Public sector entities	11	0.0	0.1	277,878	0.0
Non-profit organisations	333	1.0	1.5	4,632,974	0.8
Households	30,756	95.3	9.6	30,523,100	5.2
Foreign	56	0.2	1.0	3,147,515	0.5
Nominee-registered shareholders	15	0.0	16.1	51,400,987	8.7
In joint account					
Total	**32,278**	**100**	**100**	**589,985,883**	**100**

Notes to Parent Company Financial Statements (FAS)

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Note 38. Assets pledged as collateral 31 December 2012

Assets pledged as collateral

EUR million	Pledges	Mortgages	Total
Collateral pledged on behalf of own debt			
Other liabilities	583		583
Total	**583**		**583**
Other collateral given on own behalf	**4,618**		**4,618**
Total collateral given	**5,201**		**5,201**

Secured liabilities totalled EUR 591 million.

Other collateral given on own behalf consists of collateral required for the maintenance of liquidity.

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Note 39. Pension liabilities

EUR million	31 Dec. 2012	31 Dec. 2011
Direct liabilities from pension commitments	3	3
Share of the excess margin of pension liabilities on the pension fund and on other liabilities		
Repayment of the excess margin of the pension fund recorded as pension cost adjustment		

The statutory pension cover for Pohjola Bank plc employees is managed through the OP Bank Group Pension Fund and the supplementary pension cover through the OP Bank Group Pension Foundation. The Foundation has not accepted new beneficiaries since 30 June 1991. Pohjola Bank plc's pension liabilities are fully covered.

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Note 40. Lease and other rental liabilities

Material contract terms and conditions regarding termination and redemption

Pohjola Bank plc has no significant lease or other rental liabilities. The contracts primarily cover personnel car leases with a maturity of three years.

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Note 41. Off-balance-sheet commitments

EUR million	On behalf of subsidiaries	On behalf of affiliates	On behalf of others	Total
Off-balance-sheet commitments 31 December 2012	**8**		**8,209**	**8,216**
Commitments given to a third party on behalf of customers	**0**		**2,676**	**2,676**
Guarantees and pledges	0		2,676	
Other				
Irrevocable commitments given on behalf of customers	**8**		**5,533**	**5,541**
Loan commitments	8		5,342	
Other			191	

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Note 42. Other contingent liabilities and commitments at the year-end

On 31 December 2012, Pohjola Bank plc's commitments to private equity funds amounted to EUR 11.6 million and relate to those presented in Note 41.

Client assets related to brokerage amounted to EUR 0.2 million included in 'Liabilities to the public and public sector entities'.

Accounts payable related to brokerage totalled EUR 47.7 million and accounts receivable EUR 47.4 million.

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Note 43. Personnel and members of administrative bodies, and related parties

Average personnel in 2012	Average no.	Change during the year
Permanent full-time personnel	791	45
Permanent part-time personnel	0	0
Fixed-term personnel	63	-5
Total	**854**	**40**

Remuneration paid to members of administrative bodies in 2012	Wages and salaries, EUR million
Members of the Board of Directors, President and CEO, and Deputy CEO	1

The Annual General Meeting approved the following Board emoluments:
Monthly emoluments and attendance allowance paid to Board members in 2012 totalled EUR 578,050.
As of 27 March 2012, the Chairman's monthly emoluments totalled EUR 8,000, the Vice Chairman's EUR 5,500 and other members' EUR 4,500. An additional monthly emolument of EUR 1,000 is paid to a Board committee chair who is not the Chairman or Vice Chairman of the Board. All Board members received an attendance allowance of EUR 550 for each meeting.
Monthly Board emoluments are treated as pensionable salary.

Reijo Karhinen, Chairman EUR 104,400
Tony Vepsäläinen, Vice Chairman EUR 79,050
Members of the Board of Directors:
Merja Auvinen EUR 64,550
Jukka Hienonen EUR 63,400
Jukka Hulkkonen EUR 46,550 (member since 27 March 2012)
Simo Kauppi EUR 18,000 (member until 27 March 2012)
Mirja-Leena Kullberg EUR 44,350 (member since 27 March 2012)
Satu Lähteenmäki EUR 19,500 (member until 27 March 2012)
Harri Sailas EUR 62,850
Tom von Weymarn EUR 75,400

In the financial year 2012, the members of the Board of Directors did not receive any share-based bonuses from the Company.

Salaries and performance-based bonuses paid to the President and CEO in the financial year ending 31 December 2012 were as follows:
Mikael Silvennoinen, President and CEO EUR 850,963*
*) Includes a portion of the amount paid in 2012 and earned in 2011 based on the short-term incentive scheme. Payment of the remaining amount of EUR 48,104 has been deferred for 2013–15. Note 36 describes the deferral procedure. In addition, the President and CEO is covered by the long-term share-based management incentive scheme (2011–13), the related payments being made between 2015 and 2017.

The period of notice applicable under the President and CEO's executive contract is six months. According to this contract, the Company must pay the President and CEO severance pay equalling his 12-month total salary, in addition to compensation for loss of office, if the Company dismisses him or he has to resign or terminate the contract due to a reason attributable to the Company. In case the executive contract terminates due to reasons attributable to the Company, the President and CEO will be entitled to bonuses under the short- and long-term incentive schemes for the year of contract termination, provided that the schemes' performance criteria and the criteria for payment under the schemes' terms and conditions are fulfilled and his executive contract has been effective throughout the performance year.

The CEO employment contract does not stipulate any specific retirement age for the President and CEO. The President and CEO is covered by TyEL (the Finnish Employees Pensions Act) which provides pension benefits based on the years of employment and earnings as prescribed in the Act. The retirement age is 63–68 years, depending on his choice. In addition to the statutory pension scheme, Mr Silvennoinen is covered by OP Bank Group Pension Foundation's supplementary pension scheme.

Loans, guarantees and collateral granted to members of the administrative bodies on 31 December 2012

As at 31 December 2012 and 31 December 2011, Pohjola Bank plc had not granted loans or guarantees to members of the Board of Directors.

Auditors' remuneration	**2012**	**2011**
Audit	EUR 137,516	EUR 162,976
Other services based on legislation*	EUR 190,497	EUR 31,214
Tax counselling	EUR 30,421	EUR 30,203
Other services	EUR 60,009	EUR 194,627
Total	**EUR 418,443**	**EUR 419,021**

*Assignments as referred to in sub-paragraph 2, paragraph 1, Section 1 of the Auditing Act

Related parties

Pohjola Bank plc's related parties include the President and CEO, deputy CEO, members of the Board of Directors, the auditor and deputy auditor or the chief auditor representing the firm of authorised public accountants, and the abovementioned persons' spouses or persons living in a spousal-type relationship with them and their underaged children.

In addition, the related parties include those who, on the basis of shareholdings, hold a minimum of 20% of Pohjola Bank plc shares or, on the basis of shareholdings, stock options or convertible bonds, have or may have the equivalent shareholding or voting rights in Group entities, unless the entity to which the shareholding applies is of minor significance to the entire Group. These entities' corresponding persons mentioned in the previous paragraph are also included in the related parties.

The related parties also include entities and foundations over which the aforementioned persons have control, alone or together with the other person.

Transactions based on ownership, EUR million	2012	2011
Loans and other receivables	74	14
Deposits and other debts	12	4
Net interest income	-1	-1
Dividend income	0	0
Net commissions and fees	0	1
Net other operating income	-4	-3
Guarantees and other off-balance-sheet commitments	8	8

No impairments have been recognised for the items.

Management holdings

On 31 December 2012, Pohjola Bank plc's Board members and President and CEO held a total of 146,842 Series A shares, accounting for 0.046% of all shares and 0.025% of votes conferred by all shares.

Notes to Parent Company Financial Statements (FAS)

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Note 44. Holdings in other companies 31 December 2012

Subsidiaries	Holding, %	Equity capital	Profit or loss for the financial year
Pohjola Corporate Finance Ltd Helsinki	60	2	0
Pohjola Asset Management Ltd Helsinki	85	34	23
Pohjola Insurance Ltd Helsinki	100	372	216
A-Insurance Ltd Helsinki	100	57	16
Pohjola Property Management Ltd Helsinki	100	2	2
Kaivokadun PL-hallinto Oy Helsinki	100	5	0
Vakuutuspalvelu Otava Oy Helsinki	100	0	0
Conventum Venture Finance Ltd. Helsinki	100	10	0
Northclaims Oy Helsinki	100	0	0
Keyholdco Oy Helsinki	100	1	1
VH-Holding 1 Oy Helsinki	100	6	3
Pohjola Finance Estonia AS Estonia	100	2	1
Pohjola Finance SIA Latvia	100	6	1
UAB Pohjola Finance Lithuania	100	2	1

Participating interests	Holding, %	Equity capital	Profit or loss for the financial year
Suomi Välirahoitusrahasto I Ky Helsinki	22.08	7	0
Promotion Equity I Ky Helsinki	29.41	5	1
Access Capital Partners Group SA Belgium	40	10	5
Finnmezzanine Rahasto III B Ky Helsinki	49.49	4	1

Pohjola Bank plc has no shareholdings in companies in which it would have unlimited liability.

Notes to Parent Company Financial Statements (FAS)

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Note 45. Trustee Services

Pohjola Bank plc provides the general public with investment services and asset management and custodian services.

Notes concerning an entity under the Group’s control

Pohjola Bank plc's parent company is OP-Pohjola Group Central Cooperative and Pohjola's consolidated accounts are included in its consolidated financial statements. Copies of the financial statements of OP-Pohjola Group Central Cooperative Consolidated are available from OP-Pohjola, Teollisuuskatu 1 b, FI-00150 Helsinki, Finland.

Signatures

Helsinki, 6 February 2013

The Report by the Board of Directors and the Financial Statements signed by:

Reijo Karhinen

Merja Auvinen

Jukka Hienonen

Jukka Hulkkonen

Mirkku Kullberg

Harri Sailas

Tony Vepsäläinen

Tom von Weymarn

Mikael Silvennoinen
President and CEO

We today issued a report on the audit performed.

Helsinki, 6 February 2013

KPMG Oy Ab
Authorized Public Accountants

Sixten Nyman
Authorized Public Accountant

This document is an English translation of the Finnish auditor's report. Only the Finnish version of the report is legally binding.

Auditor's Report

To the Annual General Meeting of Pohjola Bank plc

We have audited the accounting records, the financial statements, the report by the Board of Directors, and the administration of Pohjola Bank plc for the financial year ended on 31 December 2012. The financial statements comprise the consolidated balance sheet, income statement, statement of comprehensive income, statement of changes in equity, cash flow statement, and notes to the consolidated financial statements, as well as the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements.

Responsibility of the Board of Directors and the President and CEO

The Board of Directors and the President and CEO are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU, as well as for the preparation of financial statements and the report by the Board of Directors that give a true and fair view in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The Board of Directors is responsible for the appropriate arrangement of the control of the company's accounts and finances, and the President and CEO shall see to it that the accounts of the company are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements, on the consolidated financial statements and on the report by the Board of Directors based on our audit. The Auditing Act requires that we comply with the requirements of professional ethics. We conducted our audit in accordance with good auditing practice in Finland. Good auditing practice requires that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the report by the Board of Directors are free from material misstatement, and whether the members of the Board of Directors of the parent company or the President and CEO are guilty of an act or negligence which may result in liability in damages towards the company or have violated the Limited Liability Companies Act, the Act on Credit Institutions or the Articles of Association of the company.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report by the Board of Directors. The procedures selected depend on the auditor's judgement, 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 Board of Directors that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the report by the Board of Directors.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position, financial performance, and cash flows of the Group in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU.

Opinion on the company's financial statements and the report by the Board of Directors

In our opinion, the financial statements and the report by the Board of Directors give a true and fair view of both the consolidated and the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The information in the report by the Board of Directors is consistent with the information in the financial statements.

Opinion on discharge from liability and distribution of profit

We recommend that the financial statements should be adopted. The proposal by the Board of Directors regarding the use of the profit shown on the balance sheet is in compliance with the Limited Liability Companies Act. We recommend that the members of the Board of Directors of the parent company and the President and CEO should be discharged from liability for the financial period audited by us.

Helsinki, 6 February 2013

KPMG OY AB

Sixten Nyman
Authorized Public Accountant in Finland