OP-Pohjola Group
Report by the Executive Board and Financial Statements 2013

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Report by the Executive Board

Financial Statements

2013 in brief

- The Group's earnings before tax increased by 20% to EUR 705 million (586).
- Earnings before tax in the last quarter amounted to EUR 91 million (104), eroded by changes in the calculation bases of Non-life Insurance's insurance liability worth EUR 38 million.
- Banking improved earnings before tax towards the year and but they were, however, slightly lower than a year ago.
- A decrease in net interest income slowed down and the fourth-quarter net interest income was already clearly higher than the year before.
- Non-life Insurance improved its earnings before tax by 82%.
- Wealth Management earnings before tax improved by 12%.
- Total income increased by 6% and total expenses, excluding the bank levy, decreased by 1%.
- The Core Tier 1 ratio before the transition provisions improved markedly, being 17.3% (14.8) on 31 December.
- The Group strengthened its market position on a wide front. The loan portfolio grew by 4.8%, deposits by 5.2%, mutual fund assets by 20% and non-life insurance premiums written by 11%.
- The number of joint banking and non-life insurance customers increased by 94,000 in the year to December.
- New, more challenging capital adequacy and profitability targets have been confirmed for OP-Pohjola Group.
- Earnings before tax in 2014 are expected to be higher than in 2013. For more information, see "Outlook for 2014".
- The central institution of OP-Pohjola Group decided on 6 February 2014 to make a voluntary public bid for all shares issued by Pohjola Bank plc.

OP-Pohjola Group's key indicators

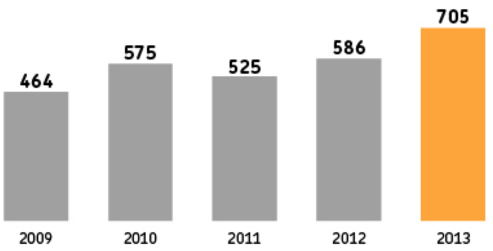
	2013	2012	Change, %
Earnings before tax, € million	705	586	20.4
Banking	411	424	-3.1
Non-life Insurance	167	92	81.7
Wealth Management	113	101	12.1
Returns to owner-members and OP bonus customers	193	192	0.7
	31 Dec 2013	**31 Dec 2012**	**Change, %**
Core Tier 1 ratio before the transition provisions, %	17.3	14.8	2.5*
Core Tier 1 ratio, %	14.3	14.1	0.2*
Ratio of capital base to minimum amount of capital base **	1.90	1.90	0.00*
Ratio of non-performing receivables to loan and guarantee portfolio, %	0.42	0.46	-0.04*
Joint banking and insurance customers (1,000)	1,518	1,425	6.6

* Change in ratio

** Under the Act on the Supervision of Financial and Insurance Conglomerates

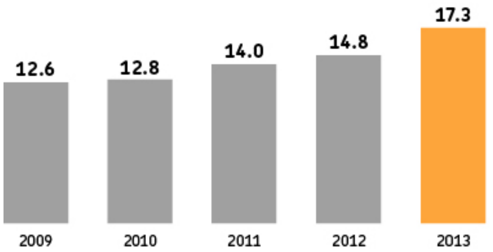
Earnings before Tax

million €



Capital adequacy ratio, Core Tier 1 before transition provisions

%



Operating environment

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

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

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

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

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

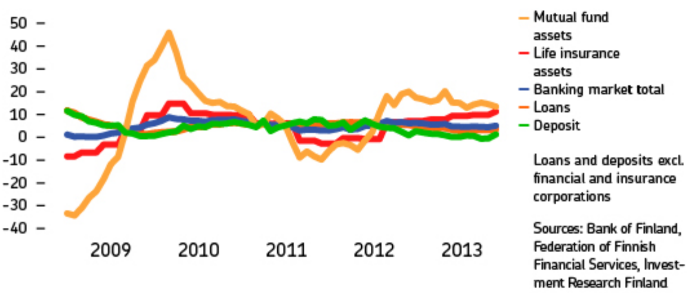
Growth in the total deposits made by private and corporate customers almost came to a halt last year. The use of current accounts increased, but the total term deposits were lower, as assets were allocated to savings products with higher investment risks because of favourable developments in financial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

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

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

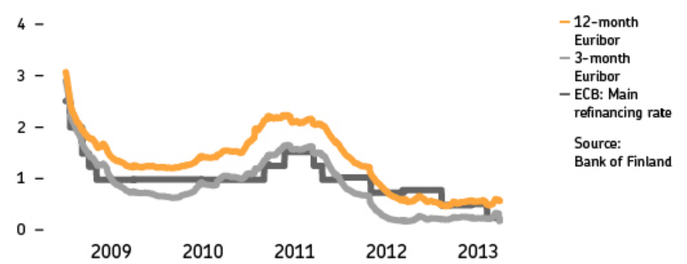
Banking business

12-month change, %



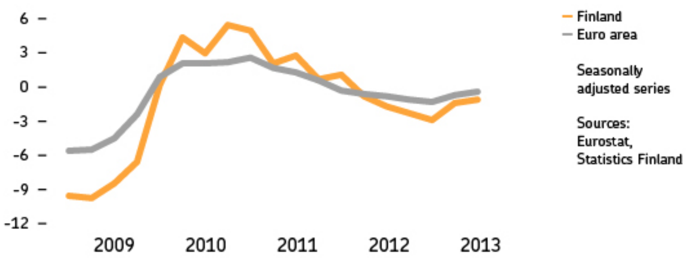
Euribor rates and ECB refi rate

%



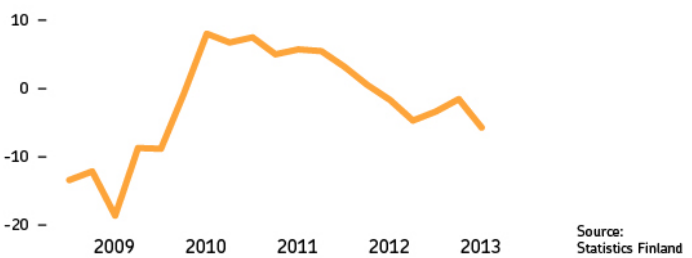
GDP

annual volume change, %



Fixed investments

annual volume change, %



OP-Pohjola Group's earnings analysis and some key balance sheet indicators

Earnings analysis

€ million	**2013**	**2012**	**Change, %**
Banking	411	424	-3.1
Non-life Insurance	167	92	81.7
Wealth Management	113	101	12.1
Earnings before tax	**705**	**586**	**20.4**
Gross change in fair value reserve	-43	698	
Earnings/loss before tax at fair value	**662**	**1,283**	**-48.4**
Return on economic capital, % *)	15.3	14.7	0.6*
Return on economic capital at fair value, % *)	15.0	27.5	-12.5*
Income			
Net interest income	913	1,002	-8.9
Net income from Non-life Insurance	524	433	21.1
Net income from Life Insurance	175	108	61.8
Net commissions and fees	625	584	6.9
Net trading and investment income	180	133	35.5
Other operating income	95	111	-14.3
Other income, total	**1,599**	**1,368**	**16.8**
Total income	**2,512**	**2,371**	**6.0**
Expenses			
Personnel costs	753	764	-1.5
Other administrative expenses	373	378	-1.4
Other operating expenses	404	352	15.0
Total expenses	**1,530**	**1,494**	**2.4**
Impairment loss on receivables	**84**	**99**	**-15.4**
Returns to owner-members and OP bonus customers			
Bonuses	182	173	5.2
Interest on ordinary and supplementary cooperative capital	11	19	-40.8
Total returns	**193**	**192**	**0.7**

*) Change in percentage

Other key indicators

€ million	31 Dec 2013	31 Dec 2012	Change, %
Receivables from customers	68,255	65,161	4.7
Life Insurance assets	9,880	9,173	7.7
Non-life Insurance assets	3,497	3,492	0.2
Liabilities to customers	50,175	49,650	1.1
Debt securities issued to the public	21,428	19,270	11.2
Equity capital	7,717	7,134	8.2
Balance sheet total	100,981	99,769	1.2
Tier 1 capital	5,902	5,352	10.3

Comparatives deriving from the income statement are based on figures reported for the corresponding period a year ago. Unless otherwise specified, balance-sheet and other cross-sectional figures on 31 December 2012 are used as comparatives. As a result of change in the recognition of defined benefit pension plans, the comparatives have been restated.

January–December

OP-Pohjola Group's earnings before tax amounted to EUR 705 million (586). Earnings were improved especially because of a solid increase in investment income due to capital gains on securities, the good performance of Non-life Insurance and an increase in net commissions and fees. The good performance of Non-life Insurance was the result of premiums written that have been increasing for a long time and of lower operating expenses. Likewise, the Life Insurance earnings were higher than a year ago, especially because of capital gains and the acquisition of Aurum Investment Insurance Ltd.

Due to low interest rates, net interest income decreased by 8.9% year on year. A decrease in net interest income slowed down during the period and the fourth-quarter net interest income was already clearly higher than the year before.

Total expenses increased by 2.4% as a result of the bank levy of EUR 46 million and growth in business volumes. Excluding the effect of the bank levy, total expenses would have decreased by less than 1%. Aurum Investment Insurance Ltd, which started its operations in autumn 2012, accounted for EUR 9 million of the growth in expenses, and Omasairaala Oy, which opened its doors on 1 January 2013, for EUR 4 million. Thanks to measures taken in the efficiency-enhancement programme, wages and salaries decreased by 3.3%. Because pension costs increased, personnel costs as a whole decreased by 1.5%.

Impairment losses recognised under various income statement items that eroded earnings amounted to EUR 131 million (141), of which EUR 84 million (99) concerned loans and receivables. Annualised net impairment loss on loans and receivables accounted for 0.12% (0.15) of the loan and guarantee portfolio.

Earnings before tax by Banking amounted to EUR 411 million (424). Financial performance by Banking was weakened by low interest rates and the bank levy. Net commissions and fees increased by 10% to EUR 600 (543) as they were higher year on year with regard to lending, payment services and wealth management.

The operating combined ratio of Non-life Insurance was 86.9% (90.5) as a result of lower operating expenses. Pre-tax earnings by Non-life Insurance increased year on year mainly as a result of higher net investment income and growth of the balance on technical account. Changes in calculation bases of insurance liability recorded during the financial year reduced earnings by EUR 38 million (52).

Earnings before tax posted by the Wealth Management segment improved as net investment income by Life Insurance increased year on year. The improved year-on-year performance of Life Insurance was also supported by the earnings of Aurum Investment Insurance, as its accounts were not consolidated until September 2012. Other operating income a year ago was increased by a non-recurring item related to income and expense synergies, EUR 19 million, recognised in connection with the acquisition of the operations of Aurum Investment Insurance Ltd.

OP-Pohjola Group's fair value reserve before tax totalled EUR 406 million (449) on 31 December. Earnings before tax at fair value were EUR 662 million (1,283).

Equity capital amounted to EUR 7.7 billion (7.1) on 31 December. Equity capital was increased by the financial year's earnings.

The Board of Directors of Pohjola Bank plc proposes a dividend per share of EUR 0.67 (0.46) payable on Series A shares and EUR 0.64 (0.43) on Series K shares, which would total EUR 212 million (145), of which dividends distributed within OP-Pohjola Group would account for 55%.

On 31 December, the cooperative capital investments and supplementary cooperative capital investments of the member cooperative banks' owner-members totalled EUR 746 million (759).

OP-Pohjola Group had 4,252,000 customers in Finland at the end of December. The number of private customers totalled 3,819,000 and that of corporate customers 433,000. The number of joint banking and non-life insurance customers increased by 94,000 from its 2012-end level to 1,518,000, as a result of cross-selling.

Bonuses to owner-members and OP bonus customers recognised in the income statement increased by 5.2% year on year to EUR 182 million (173).

Key income statement items by quarter

€ million	Q1	Q2	Q3	2013 Q4	2013	2012	Change %
Net interest income	214	221	232	247	913	1,002	-8.9
Net income from Non-life Insurance	143	137	148	97	524	433	21.1
Net income from Life Insurance	70	37	37	31	175	108	61.8
Net commissions and fees	163	154	158	149	625	584	6.9
Other income	82	71	52	70	275	243	12.8
Total income	672	620	626	593	2,512	2,371	6.0
Personnel costs	201	194	166	192	753	764	-1.5
Other administrative expenses	83	94	82	114	373	378	-1.4
Other operating expenses	98	97	96	113	404	352	15.0
Total expenses	382	384	344	419	1,530	1,494	2.4
Impairment loss on receivables	9	23	17	34	84	99	-15.4
Returns to owner-members	48	48	49	49	193	192	0.7
Earnings before tax	**234**	**164**	**216**	**91**	**705**	**586**	**20.4**

OP-Pohjola Group's long-term financial targets

	31 Dec 2013	31 Dec 2012	Target
Capital adequacy under the Act on the Supervision of Financial and Insurance Conglomerates	1.90	1.90	1.6
Return on economic capital (12-month rolling), %	15.3	14.7	18%
Growth differential between income and expenses, pps (within 3 years)	-3.4	-4.2	>0 %-points

Capital adequacy

On 31 December, OP-Pohjola Group's capital base, calculated according to the Act on the Supervision of Financial and Insurance Conglomerates, exceeded the minimum amount specified in the Act by EUR 3,359 million (3,112). The buffer under the Act was reduced by Pohjola Bank plc's redemption in March 2013 of a Lower Tier 2 subordinated note of EUR 170 million and the higher capital requirement set by the Act. On the other hand, the buffer was increased by the Group's earnings.

As a result of the financial crisis, the regulatory framework for banks' capital adequacy requirements became more rigorous in an effort, for example, to improve the quality of their capital base, to increase capital buffers, to reduce the cyclic nature of capital requirements, to decrease banks' indebtedness and to set quantitative limits to liquidity risk. These changes will take effect in 2014–2019. The most significant effects of the changes on OP-Pohjola Group's capital adequacy under the abovementioned Act will depend on the level of credit institutions' capital buffer requirements and the calculation method. The effect of the changes on capital adequacy specified in the Act on Credit Institutions is discussed in more detail below under Banking, Capital base and capital adequacy.

The solvency regulations of the insurance sector are changing, too. Changes in the insurance sector's Solvency II regulations aim to improve the quality of insurance companies' capital base, improve their risk management, increase the risk-based capital requirements and harmonise insurance sector solvency requirements in Europe. The regulations are still being processes and will come into effect at the beginning of 2016. The rules and regulations will on the one hand increase capital requirements, and increase the capital base on the other, which will decrease on a net basis the capital adequacy ratio under the Act on the Supervision of Financial and Insurance Conglomerates. According to the current estimate, capital adequacy under the Act will remain strong.

OP-Pohjola Group estimates that its non-life and life insurance businesses already completely fulfil the solvency capital requirement under the proposed Solvency II.

OP-Pohjola Group's credit institution will be subject to direct supervision by the ECB in November 2014 under the current plan. Owing to the transfer of responsibility concerning supervision, the ECB will conduct an asset quality review (AQR) and stress test of OP-Pohjola Group as credit institution during 2014.

Risk and capital adequacy management, and risk exposure

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

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

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

OP-Pohjola Group's strategy outlines the Group's risk appetite and risk management priorities that help to ensure strategy implementation. According to the strategy, the Group will secure its risk-bearing capacity in all circumstances and keep risk-taking moderate vis-à-vis the risk-bearing capacity. Each Group institution focuses on carrying out its role according to its service capabilities and risk-bearing capacities in accordance with shared business models.

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

OP-Pohjola Group's quantifiable risks are restricted by means of limits and a system of control limits that guide operations at Group level, in Group cooperative banks and institutions belonging to OP-Pohjola Group Central Cooperative Consolidated. The Supervisory Board of OP-Pohjola Group Central Cooperative has determined risk limits for 2013 concerning OP-Pohjola Group's capital adequacy as well as for credit, liquidity, market and underwriting risks. OP-Pohjola Group's Executive Board has set control limits, deriving from Group-level limits, for capital adequacy, profitability and efficiency for various types of risk which the member cooperative banks and Helsinki OP Bank Plc must observe. They may not break these limits in their operations. The cooperative banks and Helsinki OP Bank Plc use these limits to confirm their own limits, which are tighter than those set by the central institution. Similar limits are also in place concerning the capital adequacy and key risk types of institutions within OP-Pohjola Group Central Cooperative Consolidated. The indicators are confirmed annually.

A more detailed description of OP-Pohjola Group's risk and capital adequacy management principles can be found in Note 2 "OP-Pohjola Group's risk management and capital adequacy management principles".

OP-Pohjola Group's risk exposure

Risk-bearing capacity

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

OP-Pohjola Group has two risk limit indicators for its capital adequacy. The first is capital adequacy as referred to in the Act on the Supervision of Financial and Insurance Conglomerates. The Group's risk limit for this capital adequacy ratio is 1.3, while the minimum statutory requirement is 1. On 31 December 2013, this ratio was 1.90 (1.90). On 31 December 2013, OP-Pohjola Group's capital base was EUR 2,236 million (2,072) above the Group's internal risk limit and EUR 3,359 million (3,112) above the limit required by law.

The other risk limit indicator for capital adequacy is the ratio of capital base to economic capital, for which the risk limit is 1.2. On 31 December 2013, the ratio of capital base to economic capital was 1.65 (1.50). The capital buffer above the Group's internal risk limit was EUR 1,892 million (1,271). The strong capital base acts as a buffer against unexpected losses and paves the way for business growth.

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

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

Credit risks

No major changes occurred in credit risk exposure despite the poor economic development in Finland and the rest of the euro area.

On 31 December, OP-Pohjola Group's loan and guarantee portfolio amounted to EUR 71.1 billion (67.6), or 5% higher than a year ago. Households accounted for 62% (63) and companies and housing corporations 36% (35) of the loan and guarantee portfolio.

OP-Pohjola Group's industry and customer risks are diversified. On 31 December 2013, the largest single counterparty-related customer risk accounted for 5.8% (6.9) of the Group's capital base. The total amount of significant customer exposure was 5.8% (12.0) of the Group's capital base. Any customer exposure that accounts for at least 5% of the Group's capital base is taken into account in measuring significant customer exposure. The risk limit for the greatest customer exposure is 10% and for the significant customer exposure total is 75% of the capital base. OP-Pohjola Group calculates industry risk for each main sector, taking account of receivables and commitments in Banking and direct insurance companies' investments. On 31 December 2013, the highest industry risk was 11.1% (10.4) by housing corporations. The risk limit of the industry risk is 16% of corporate sector receivables and commitments.

OP-Pohjola Group's customers are given a credit rating on the basis of their risk exposure. Of corporate exposures, 46% (46) falls into the top five credit rating categories (out of the twelve categories within the loan portfolio), also known as investment grade. Of corporate exposures, 5% (5) fell into the category of the four lowest credit ratings. Of the six main categories for private customer exposure, 77% (74) of the exposures belonged to the top two categories, and 4% (4) in the two lowest.

On 31 December 2013, OP-Pohjola Group's non-performing and zero-interest receivables totalled EUR 295 million (311), which accounted for 0.42% (0.46) of the loan and guarantee portfolio. The risk limit for this key ratio is 1.2%. The ratio of expected losses to exposure at default (EAD) was 0.37% (0.41) and the risk limit for this ratio was 0.8%. Expected losses are an estimate of the average annual losses caused by credit risks calculated using OP-Pohjola Group's own credit risk models. Net impairment loss on receivables recognised in 2013 amounted to EUR 84 million (99), accounting for 0.12% of the loan and guarantee portfolio (0.15).

The majority of OP-Pohjola Group's country exposure is in EU countries. The exposures cover all balance-sheet and off-balance-sheet items and they are based on values used in capital adequacy calculations.

OP-Pohjola Group's exposure split by geographic region and exposure class on 31 December 2013

€ million	Central government and central banks	Credit institutions	Corporate	Retail	Equity investments[1])	Collateralised notes and bonds[2])	Other	Total exposure
Finland	4,216	282	34,693	49,293	778	489	979	90,732
Baltic States	214	5	642	17	0	0	0	878
Other Nordic countries	148	632	595	65	52	1,182	13	2,686
Germany	1,730	216	269	19	4	341	5	2,583
France	101	433	274	4	34	795	0	1,641
GIIPS countries[3])	27	27	151	15	18	361	0	598
Rest of EU	901	1,413	602	33	1 244[4])	544	0	4,738
Rest of Europe	0	305	136	45	89	37	0	611
USA	0	232	129	20	224	7	23	636
Asia	0	259	62	14	106	0	0	441
Other countries	10	59	94	7	330[4])	247	0	748
Total	**7,348**	**3,862**	**37,648**	**49,532**	**2,879**	**4,003**	**1,020**	**106,292**

[1]) Also include EUR 857 million in bond funds.

[2]) Comprises RMBS, ABS and Covered Bond investments.

[3]) Exposures to Spain totalled EUR 175 million and to Italy EUR 162 million.

[4]) Consist mainly of investments in European funds in the Rest of EU and Emerging Markets and Global funds in Other countries.

OP-Pohjola Group's exposure split by geographic region and exposure class on 31 December 2012

€ million	Central government and central banks	Credit institutions	Corporate	Retail	Equity investments[1])	Collateralised notes and bonds[2])	Other	Total exposure
Finland	8,009	463	33,656	47,554	753	291	1,154	91,881
Other Nordic countries	7	566	633	63	44	864	78	2,256
Baltic States	67	2	412	11	4	-	-	496
GIIPS countries	25	87	30	12	16	412	3	585
Rest of EU	1,026	2,036	855	64	1,387	1,802	408	7,577
Rest of Europe	-	411	93	39	59	37	25	665
USA	-	271	164	20	294	8	41	798
Asia	-	263	57	13	71	-	-	405
Other	10	78	85	7	765[3])	6	57	1,008
Total	**9,144**	**4,176**	**35,986**	**47,784**	**3,394**	**3,420**	**1,766**	**105,671**

[1]) Includes EUR 1,065 million in bond funds

[2]) Comprises RMBS, ABS and Covered Bond investments

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

Of exposures in GIIPS countries, those to Spain totalled EUR 196 million and those to Italy EUR 184 million.

Loan and guarantee portfolio by sector

€ million	31 Dec 2013	31 Dec 2012	Change,%	Non-performing and zero-interest rate loans	
				31 Dec 2013	% of loan and guarantee portfolio
Enterprises and housing associations	**25,448**	**23,725**	**7.3**	**104**	**0.4%**
Renting and operating of residential real estate	5,535	4,831	14.6	1	0.0%
Renting and operating of other real estate	3,262	3,021	8.0	10	0.3%
Wholesale and retail trade	2,669	2,607	2.4	17	0.6%
Construction	1,752	1,648	6.3	9	0.5%
Services	1,689	1,697	-0.5	11	0.7%
Transportation and storage	1,488	1,550	-4.0	7	0.5%
Manufacture of machinery and equipment (incl. services)	1,428	1,264	12.9	5	0.3%
Energy	1,174	617	90.4	0	0.0%
Financial and insurance services	1,086	1,095	-0.9	2	0.2%
Real estate investments	909	1,064	-14.6	6	0.7%
Agriculture, forestry and fishing	806	823	-2.1	3	0.4%
Forest Industry	696	657	6.0	9	1.4%
Metal Industry	615	647	-5.0	6	0.9%
Food Industry	578	581	-0.6	1	0.2%
Chemical Industry	333	345	-3.6	0	0.0%
Other manufacturing	265	336	-20.9	14	5.4%
Other industries	1,164	942	23.5	3	0.2%
Public corporations and non-profit organisations	**1,294**	**1,262**	**2.5**	**1**	**0.1%**
Households	**44,385**	**42,689**	**4.0**	**190**	**0.4%**
Adjustments	-26	49	-152.9	0	
Total	**71,101**	**67,726**	**5.0**	**295**	**0.42%**

Liquidity risk

OP-Pohjola Group's funding and liquidity position is strong. The loan-to-deposit ratio remained stable throughout the financial year. OP-Pohjola Group had good access to funding during the financial year.

OP-Pohjola Group secures its liquidity with a liquidity buffer which mainly consists of deposits with central banks and receivables eligible as collateral for central bank refinancing. The liquidity buffer and other sources of additional funding based on the contingency funding plan are sufficient to cover funding for at least 24 months in the event wholesale funding becomes unavailable and total deposits decrease at a moderate rate.

Liquidity buffer

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

The liquidity buffer comprises notes and bonds issued by governments, municipalities, financial institutions and companies all showing good credit ratings, securitised assets and loans eligible as collateral. The notes and bonds included in the liquidity buffer are based on mark-to-market valuations.

OP-Pohjola Group uses as the risk limit indicators for its liquidity risk both net cash flows by maturity controlling the structural funding risk and the funding liquidity risk indicator. The risk indicator for the structural funding risk indicates the maximum portion of the net cash flows in the Group's balance sheet that may mature in different maturities. On 31 December 2013, the maturing net cash flows in the Group's balance sheet were in all maturity periods within the set limits.

A funding liquidity risk indicator shows for how long the primary liquidity buffer will cover OP-Pohjola Group's net cash flows paid out daily that are known and expected, and an unexpected but moderate decline in deposits. At the end of the year, the primary liquidity buffer was sufficient to cover a period that was considerably longer than the 30 days used as a risk limit.

Market risks

OP-Pohjola Group's market risk exposure was within the set limits in 2013.

The most significant market risks within Banking are associated with notes and bonds included in the liquidity buffer and with the effect of a change in interest rates on net interest income. The interest rate risk by Banking measured as the effect of a 1-percentage point decrease on a 12-month net interest income increased slightly during the financial year, due to higher market interest rates.

In the assessment of market risks in insurance operations, the focus is on those related to investments and insurance liabilities, primarily interest rate risk. Interest rate risks associated with Life Insurance investments and insurance liabilities decreased during the financial year. The interest rate risk of Life Insurance insurance liabilities was reduced by means of hedging, and by 31 December about over half was hedged. The total risk associated with the investment portfolio was decreased by increasing fixed-income investments and reducing property, hedge fund and structured investments.

The interest rate risk for Non-life Insurance investments in the event of a one percentage point interest rate increase decreased slightly year on year and that related to insurance liabilities also decreased slightly. The sensitivity of investment to a fall in share prices was lower than the year before, while the sensitivity of notes and bonds carrying credit risk to a higher credit spread was at the same level as a year ago. The Group reduced investments in bonds in emerging fixed-income markets from their previous year's level.

In OP-Pohjola Group, the most significant currency risk lies in Life Insurance and Non-life Insurance investments. The open net currency exposure by both Life and Non-life Insurance against the euro has decreased significantly. In Banking, currency risk is centralised within Pohjola Bank plc where the currency risk was low throughout 2013.

The commodity risk and volatility risk associated with options trading that are centralised within Pohjola Bank plc are of low importance for OP-Pohjola Group.

Investment assets

€ million	31 Dec 2013	31 Dec 2012	Change
Pohjola Bank plc	10,107	11,866	-1,759
Non-life Insurance	3,168	3,078	90
Life Insurance	3,545	3,624	-79
Group member cooperative banks	950	901	49
OP-Pohjola Group Mutual Insurance Company	396	373	23
Total	**18,166**	**19,842**	**-1,676**

OP-Pohjola Group has set Group-level limits for financing interest rate risk and insurance market risk. OP-Pohjola Group limits its Trading market risk using the VaR (Value-at-Risk) indicator. On 31 December, the risk of all the above Group-level limit indicators was well below the set limit.

Operational risks

It is estimated that the level of operational risks increased over the previous year but is still moderate. The higher risk level relates to reorganisation underway within OP-Pohjola Group Central Cooperative Consolidated and to the outsourcing of the Group's application development and maintenance. In addition, personnel and building security risks are higher than usual due to the Vallila 2015 construction project underway. The abovementioned projects will also increase the risk related to business continuity. Financial losses caused by operational risks were low, some EUR 3.7 million.

Underwriting risks

No major changes took place in Non-life Insurance's or Life Insurance's underwriting risks during the financial year.

Non-life Insurance solvency remained at the previous year's level despite a reduction in the discount rate for pension liabilities and dividend distribution.

Life Insurance solvency decreased slightly caused chiefly by capital refunds.

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 amounts to EUR 135 million. In addition, retention in large claims under the short-tail insurance products had an annual aggregate protection with a maximum indemnity of EUR 10 million in 2013. This protection will be brought into use when an annual claims expenditure arising from large claims is higher than usual.

A large part of Non-life Insurance insurance liabilities consists of annuities affected by estimated mortality and the discount rate used. A one-year increase in the average life expectancy reduces solvency capital by about EUR 38 million (34). Estimated mortality is based on the mortality model commonly used by Finnish insurers, which assumes the current trend of an increase in life expectancy to continue. This model was last updated in 2011. A 0.1-percentage point decrease in the discount rate reduces solvency capital by about EUR 20 million (18).

The most significant risks in Life Insurance are associated with investment. Specific risk management instructions and operating policies apply to the risk management of investment operations. An investment plan is made annually to determine the financial targets for investment and to set quantitative and qualitative limits for investment.

Within the risk limit system, the Group limits underwriting risk using the ratio of Non-life and Life Insurance underwriting risk economic capital to capital resources. On 31 December 2013, underwriting risks were within the set limits.

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

Credit ratings

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

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

In 2013, credit ratings or outlooks on credit ratings for OP-Pohjola Group or Pohjola remained unchanged.

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

Standard & Poor's affirmed Pohjola Bank plc's long-term debt rating at AA- and short-term debt rating at A-1+ on 31 July 2013 while keeping its outlook negative.

Outlook for 2014

The global economy is strengthening but economic growth will remain slower than usual. The euro-area economy has begun to recover. An increase in exports will make the Finnish economy recover slowly. The European Central Bank will continue to pursue its expansionary monetary policy, which will keep interest rates low for an extended period. In spite of the gradual economic recovery, there is still a fairly high risk of the reversal of the budding upward trend and new financial market disruptions.

As a result of the slowly strengthening economy, the operating environment in the financial sector is gradually improving although historically low interest rates will continue to erode banks' net interest income and weaken insurance institutions' investment income. Changes in the operating environment and the more rigorous regulatory framework will highlight the role of measures to strengthen the capital base and improve profitability.

Unless the operating environment turns out to be considerably weaker than expected, OP-Pohjola Group's earnings before tax are expected to be higher than in 2013. The most significant uncertainties affecting earnings in 2014 relate to the rate of business growth, impairment loss on receivables and changes in the investment 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 on developments in the economy, and actual results may differ materially from those expressed in the forward-looking statements.

Events after the balance sheet date

The next few years will see considerably higher minimum capital requirements as a result of tightening capital adequacy regulation for banks. Higher, general capital requirements have already been reflected in a marked increase in the average capital base of banking and financial groups.

OP-Pohjola Group aims to maintain a solid capital base that creates competitive edge and stability. Due to tightening requirements in the sector, the 15% capital adequacy target for Banking decided earlier by OP-Pohjola Group no longer met the capital adequacy targets the Group had set. After the details of the capital adequacy rules relevant to the Group had become clearer, the Supervisory Board of OP-Pohjola Group's central institution as the Group's highest decision-making body decided on 5 February to raise the capital adequacy target for Banking. The new CET1 target is 18%. The Group must meet the CET1 target by the end of 2016. Because of uncertainties associated with the regulatory framework, the Group's target for capital adequacy under the Act on the Supervision of Financial and Insurance Conglomerates remains unchanged so far.

The total Group-level capital base is a combination of the capital base of Group institutions – especially Pohjola Group and member cooperative banks. For this reason, raising the capital adequacy target at Group-level means in practice that Group institutions will also raise their targets.

Achieving the new capital adequacy target and maintaining it will require stronger profitability of OP-Pohjola Group. Accordingly, the central institution's Supervisory Board decided to raise the Group's profitability target too. The new target for return on economic capital is 20%, as against the previous target of 18%. This new target requires OP-Pohjola Group to record earnings before tax above one billion euros within the next few years.

OP-Pohjola Group's other strategic targets remained unchanged.

The central institution of OP-Pohjola Group decided on 6 February 2014 to make a voluntary public bid for all shares issued by Pohjola Bank plc.

Operations and earnings by business segment

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

Summary of earnings by business segment

€ million	Income	Expenses	Other items *)	Earnings before tax 2013	Earnings before tax 2012	Change, %
Banking	1,706	1,020	-275	411	424	-3.1
Non-life Insurance	533	366	0	167	92	81.7
Wealth Management	272	159	0	113	101	12.1
Other Operations	483	471	-2	9	-13	-174.2
Eliminations	-481	-487	0	6	-18	-131.1
Total	**2,512**	**1,530**	**-277**	**705**	**586**	**20.4**

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

Banking

- Earnings before tax decreased by 3% to EUR 411 million (424), due to lower net interest income and the bank levy.
- The bank levy reduced the segment's earnings by EUR 44 million – total expenses, excluding the bank levy, were lower than a year ago.
- The growth rate of the loan and deposit portfolio, excluding loans taken out and deposits made by financial and insurance institutions, was higher than the industry average.
- Credit risk exposure was stable – impairment losses declined to EUR 81 million (96).

Banking, key figures and ratios

€ million	2013	2012	Change, %
Net interest income	915	970	-5.7
Impairment loss on receivables	81	96	-15.1
Other income	791	722	9.5
Personnel costs	444	446	-0.4
Other expenses	576	534	7.8
Returns to owner-members and OP bonus customers	193	192	0.7
Earnings before tax	**411**	**424**	**-3.1**
Cost/income ratio, %	**59.8**	**57.9**	**1.9**
€ million			
Home loans drawn down	6,340	7,601	-16.6
Corporate loans drawn down	7,235	7,375	-1.9
Net asset inflows of mutual funds	1,973	-698	
No. of brokered property transactions	13,540	16,292	-16.9

€ billion	31 Dec 2013	31 Dec 2012	Change, %
Loan portfolio			
Home loans	33.1	31.7	4.6
Corporate loans	17.9	17.0	5.0
Other loans	17.2	16.4	4.9
Total	**68.2**	**65.1**	**4.8**
Guarantee portfolio	2.9	2.6	9.8
Deposits			
Current and payment transfer	26.6	23.7	12.5
Investment deposits	20.7	21.3	-2.9
Total deposits	**47.4**	**45.0**	**5.2**
Market share,%			
Of loans*	34.6	34.0	0.6
Of deposits	36.8	36.4	0.4

* Excluding financial and insurance institutions' credit and deposits

Banking continued to grow strongly considering the economic situation. However, towards the end of the year, growth in the loan portfolio slowed down due to economic uncertainty.

OP-Pohjola Group's deposits increased by 5.2% in the year to December. Because of the prolonged period of unusually low interest rates and lower term deposit margins, investment deposits decreased by 2.9% in the year to December. The focus of growth in deposits has shifted towards payment transaction accounts, which increased by 12.5% in the year to December.

The loan portfolio grew by 4.8% during the financial year. Year on year, the volume of new home loans drawn down decreased by 17% and that of corporate loans by 1.9%. The margins of new corporate and home loans have been rising considerably in the last 12 months.

OP-Pohjola Group has continued to strengthen its market position further, especially in terms of home loans, corporate financing and deposits. OP-Pohjola Group's share in home loans increased during the financial year by 0.9 percentage points to reach 37.8% (36.9) on 31 December 2013. The market share in corporate euro loans increased by 0.8 percentage points to 36.3% (35.5).

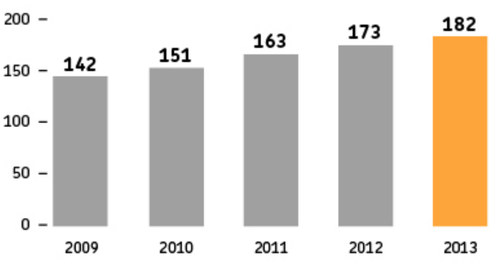
The housing market is still sluggish, with the volume of homes sold and bought through the Group's real estate agents decreasing by 17% over the previous year.

On 31 December, the cooperative member banks had 1.4 million owner-members, up by 33,000 year on year. The Group member cooperative banks and Helsinki OP Bank plc, which operates in the Helsinki Metropolitan Area, had a total of 1.3 million OP bonus customers, 48,000 more than a year ago.

The combined amount of bonuses earned by OP bonus customers during the financial year for using OP-Pohjola as their main bank was worth EUR 182 million (173). A total of EUR 93 million (92) of bonuses were used to pay for banking services and EUR 89 million (82) to pay non-life insurance premiums.

Returns to OP bonus customers

€ million



Earnings and risk exposure

Earnings before tax were EUR 411 million (424). An increase in net commissions and fees and net trading income compensated for the reduced net interest income caused by low interest rates. Total expenses grew to EUR 1,020 million (980) due to the bank levy of EUR 44 million.

The exceptionally low market interest rates resulted in lower net interest income. Net interest income decreased by 5.7% to EUR 915 million (969).

Net commissions and fees were EUR 57 million higher than a year ago because of higher commissions from lending, payment transactions and wealth management.

Net trading and investment income increased by a total of EUR 13 million year on year, or by 10%.

Major risks within Banking include credit risk, market risks and liquidity risk.

Banking's credit risk exposure remained stable with a moderate risk level. During the financial year, the loan and guarantee portfolio increased by EUR 3.3 billion to EUR 71.1 billion. Impairment loss on receivables remained low. The ratio of non-performing and zero-interest loans to the loan and guarantee portfolio was slightly lower than a year ago.

OP-Pohjola Group's non-performing and zero-interest receivables as percentage of loan and guarantee portfolio

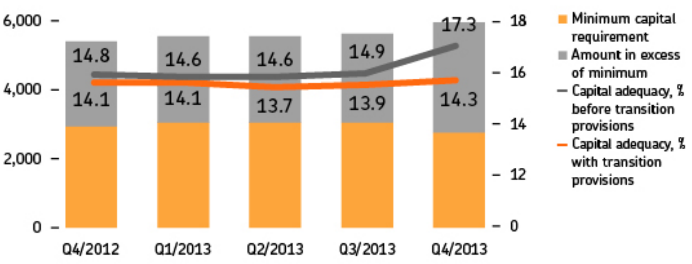
	31 Dec 2013		31 Dec 2012	
	€ million	%	€ million	%
Non-performing and zero-interest receivables, net	295	0.42	311	0.46
Impairment loss on receivables since 1 January, net	84	0.12	99	0.15

Capital base and capital adequacy

OP-Pohjola Group has a strong capital adequacy compared to the statutory requirements and those set by the authorities. The statutory minimum for the capital adequacy ratio is 8%. Moreover, the European Banking Authority (EBA) has set the minimum requirement for the Core Tier 1 ratio at 9% applying to major European banks.

Capital resources

€ million



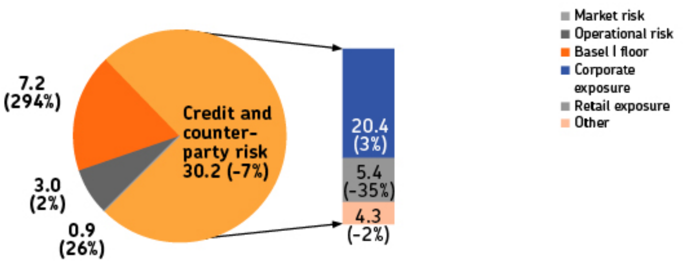
The Group's Tier 1 capital amounted to EUR 5,902 million (5,353) on 31 December. The key factors affecting the capital base were the redemption of a lower Tier 2 subordinated note worth EUR 170 million issued by Pohjola Bank plc, earnings for 2014 posted by Banking and dividends and capital refunds from the Group's insurance companies.

Insurance company investments, deducted in equal proportions from Tier 1 and 2 capital, amounted to EUR 2,309 million (2,419). A total of EUR 358 million (498) were deducted from equity capital as a shortfall of expected losses and impairment losses. Deductions from Tier 2 capital exceeded Tier 2 capital by EUR 382 million (364), which were deducted from Tier 1 capital. The effect of the deduction on the Core Tier 1 ratio is 0.9 percentage points.

The minimum capital requirement was EUR 3,307 million (3,047) on 31 December, or 8.5 higher than a year ago. The average risk weight of the total exposure portfolio decreased as a result of updated rating models for retail exposures, and the average risk weights of corporate exposure decreased slightly, too. A major reason for the growth in the minimum capital requirement has to do with the IRBA transitional provisions that increased it by EUR 433 million. Excluding the transitional provisions, the minimum capital requirement was EUR 2,727 million (2 900), or 6% lower than a year ago. The update of the internal rating models for retail exposures approved by the Financial Supervisory Authority reduced the minimum capital requirement by about EUR 230 million and increased the capital adequacy ratio without the transitional provisions by around 1.6 percentage points. The updated models for corporate exposure are expected to be adopted in 2014 following approval by the Financial Supervisory Authority. These updates are estimated to have a positive effect on capital adequacy ratios.

Risk-weighted assets 31 December 2013, Total 41.3 € billion

change from beginning of year, 8.5%

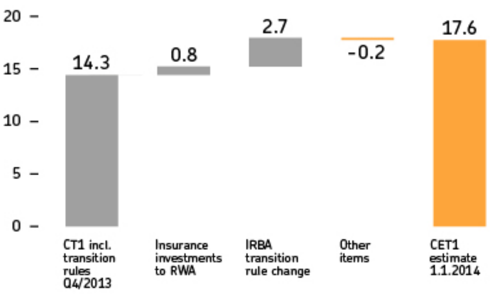


The new Capital Requirement Directive and Regulation (CRD IV/CRR was published in the EU Official Journal on 27 June 2013. These new rules and regulations will be phased in from 1 January 2014 and will implement the Basel III standards within the EU during 2014–19.

On 27 November 2013, OP-Pohjola Group received permission from the Finnish Financial Supervisory Authority to treat insurance holdings within the conglomerate as risk-weighted assets. The permission will be valid from 1 January 2014 to 31 December 2014, because the ECB will take up single supervisory responsibility. The method applied to insurance holdings leads to a risk-weight of approximately 280%. Other significant changes include the fact that IRBA transitional provisions will no longer apply to risk-weighted assets and also the transitional provisions concerning the current supplementary cooperative capital, stating that 80% of the supplementary cooperative capital issued on 31 December 2012 may be included in Common Equity Tier 1 (CET1). The other changes in regulations affecting risk-weighted assets are less significant.

Estimated effects of regulatory changes

%



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

The new regulations include an indicator on the degree of indebtedness, leverage ratio. The leverage ratio of OP-Pohjola Group's Banking is 6.8% according to the current interpretations, which is more than double the 3% minimum.

Non-life Insurance

- Earnings before tax improved to EUR 167 million (92) and earnings before tax at fair value were EUR 150 million (283). The reduction in the discount rate for pension liabilities decreased earnings by EUR (52) million.
- Insurance premium revenue increased by 11% (10).
- The balance on technical account improved. The operating combined ratio was 86.9% (90.5) and operating expense ratio 18.7% (21.5).
- Return on investments at fair value was 3.5% (10.8).
- The number of loyal customer households grew during the financial year by 45,600 (46,700).

Non-life Insurance, key figures and ratios

€ million	2013	2012	Change, %
Insurance premium revenue	1,249	1,126	10.9
Insurance claims and benefits**	809	759	6.6
Net investment income	132	115	14.4
Unwinding of discount and other items included in net income	-43	-45	-4.4
Net income from Non-life Insurance	529	438	21.0
Other net income	3	20	-82.6
Personnel costs	107	135	-20.9
Other expenses	260	231	12.3
Earnings before tax	**167**	**92**	**81.7**
Gross change in fair value reserve	-17	191	
Earnings/loss before tax at fair value	**150**	**283**	**-47.0**
Insurance premium revenue			
Private Customers	630	566	11.2
Corporate and institutional customers	567	513	10.5
Baltic States	52	46	12.5
Total insurance premium revenue	**1,249**	**1,126**	**10.9**
Key ratios, %			
Return on investments at fair value*, %	3.5	10.8	
Operating combined ratio*, %	86.9	90.5	-3.6
Operating expense ratio*, %	18.7	21.5	-2.8
Operating loss ratio*, %	68.2	69.1	-0.9

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

** Insurance claims and benefits do not include loss adjustment expenses.

Growth in insurance premium revenue remained brisk in both private and corporate customers. Insurance premium revenue rebounded in the Baltic countries too during the financial year. Sales of policies to private and corporate customers increased by 3% over the previous year.

In 2012, OP-Pohjola Group's market share in terms of non-life insurance premiums written was 29.1% (28.2). Measured by this market share, OP-Pohjola Group is Finland's largest non-life insurer. The market share is expected to have increased further during the financial year.

On 31 December 2013, the number of loyal customer households totalled 615,600 (570,000), of which 73% (69) also use OP-Pohjola Group 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 1,783,000 insurance bills (1,629,000) with 253,000 (251,000) paid in full using bonuses. Insurance premiums paid using bonuses totalled EUR 89 million (82). The number of loyal customer households increased by 45,600 (46,700) from its 2012-end level.

Earnings and risk exposure

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

The balance on technical account was better than a year ago. The operating combined ratio improved to 86.9% (90.5) year on year. The balance on technical account improved as a result of a strong increase in insurance premium revenue and a decrease in operating expenses. Profitability improved the most in the private customer segment.

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

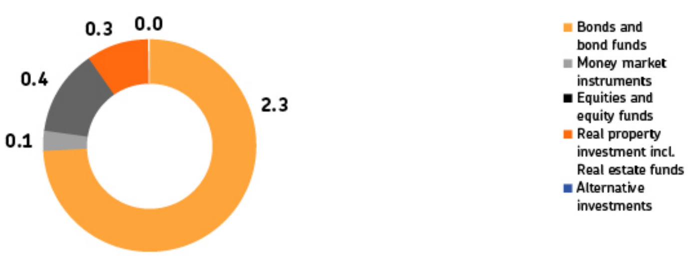
Operating expenses decreased by 3% and the operating expense ratio improved to 18.7% (21.5). The efficiency-enhancement programme launched last year decreased costs, which together with strong growth in income improved efficiency. The operating cost ratio (incl. indirect loss adjustment expenses) was 25.2% (27.8).

Because of the unfavourable interest rate environment, investment income was lower than the year before. Return on investments at fair value was 3.5% (10.8). Net investment income recognised in the income statement amounted to EUR 132 million (115). Impairment losses recognised in the income statement totalled EUR 10 million (13). Net investment income at fair value was EUR 115 million (306).

On 31 December, the investment portfolio of Non-life Insurance totalled EUR 3,219 million (3,149). The fixed-income portfolio by credit rating remained healthy, as investments in the "investment-grade" category accounted for 91% (92) and 74% of the investments were rated at least A–. The average residual term to maturity of the fixed-income portfolio was 4.4 years (4.2) and the duration 3.7 years (4.2).

Investment assets €3.2 billion, 31 Dec 2013

€ billion

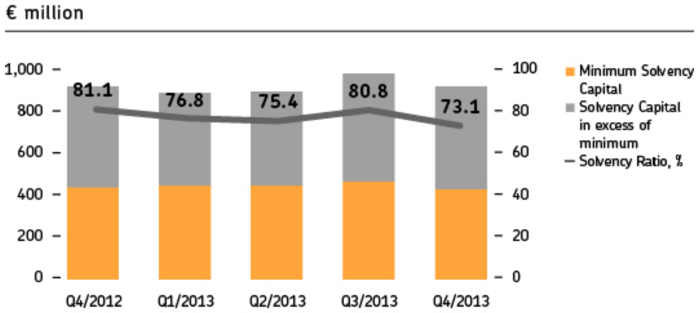


Major risks within Non-life Insurance include underwriting risks associated with claims developments, market risks associated with investment portfolios covering insurance liabilities and the discount rate applied to insurance liabilities.

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

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

Solvency Capital and Solvency Ratio



Wealth Management

- Earnings before tax increased to EUR 113 million (101); earnings before tax at fair value were EUR 96 million (315).
- Return on investments by Life Insurance at fair value was 3.5% (9.1).
- OP-Pohjola Group's assets under management totalled EUR 52.0 billion (45.1) on 31 December.
- The market share of OP-Pohjola Group's mutual funds improved from 1 January to 31 December by 1.2 percentage points to 19.2%.
- Unit-linked insurance savings increased in the year to December by 17%, and their share of all savings increased to 67%.

Wealth Management, key figures and ratios

€ million	2013	2012	Change, %
Life Insurance's net interest and risk result	50	19	162.2
Net commissions and fees			
Funds and asset management	103	102	0.9
Life insurance	131	98	32.8
Expenses	-34	-28	23.1
Total net commissions and fees	199	172	15.6
Other income	22	45	-50.6
Personnel costs	24	32	-24.6
Other expenses	135	104	29.9
Earnings before tax	**113**	**101**	**12.1**
Cross change in fair value reserve	-17	214	
Earnings before tax at fair value	**96**	**315**	**-69.6**

€ billion	31 Dec 2013	31 Dec 2012	Change, %
Insurance savings	9.4	8.6	9.0
Assets under management (gross)			
Mutual funds	14.4	11.9	20.4
Institutional Customers	20.9	19.5	7.3
Private Banking	10.5	8.3	26.2
Unit-linked insurance savings	6.3	5.3	17.0
Total assets under management (gross)	**52.0**	**45.1**	**15.5**
Market share, %			
Insurance savings	24.6	25.0	-0.5
Unit-linked insurance savings	29.1	31.8	-2.7
Mutual fund assets	19.2	18.0	1.2

OP-Pohjola Group's assets under management totalled EUR 52.0 billion (45.1). This amount contains EUR 12.1 billion in assets of the companies belonging to OP-Pohjola Group.

Life Insurance has the strategic goal of increasing unit-linked insurance savings. Unit-linked insurance savings increased between 1 January and 31 December by 17% to EUR 6.3 billion. Their share of all insurance savings increased to 67% (62).

Assets invested in mutual funds managed by OP-Pohjola Group increased in the financial year by 20.4% to EUR 14.4 billion (11.9). Net asset inflows to OP-Pohjola Group's mutual funds totalled about EUR 2.0 billion (–0.7).

Earnings and risk exposure

Earnings before tax increased to EUR 113 million year on year (101). Earnings after a change in the fair value reserve amounted to EUR 96 million (315).

Net commission and fees increased by 16% to EUR 199 million (172). Aurum Investment Insurance Ltd accounted for 11 percentage points of this increase. Investment income, excluding the valuation of derivatives that hedge the interest rate risk of insurance liabilities, totalled EUR 149 million (119).

The discount rate was reduced to less than 2.5% until the end of June 2014 in order to prepare for continued low interest rates. Supplementary interest rate provisions totalled EUR 128 million (191) at the end of the financial year.

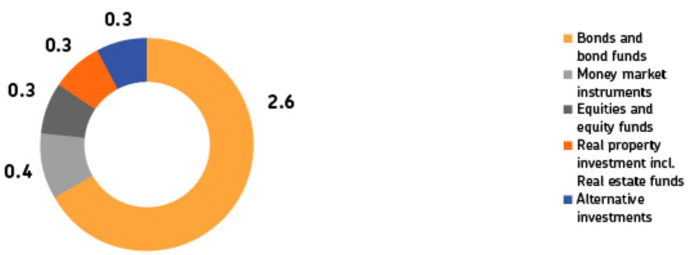
Reported expenses grew by EUR 23 million year on year. A total of EUR 13 million of the increase of expenses is related to the acquisition of Aurum Investment Insurance Ltd and EUR 8 million to an increase of Life Insurance's sales commissions. The Life Insurance cost ratio, which includes all income to cover operating expenses and in which sales channel fees are excluded, was 34.1% (36.3).

Life Insurance's return on investments at fair value, excluding that from derivatives designated as hedging instruments for interest rate risk related to insurance liabilities, was 3.5% (9.1).

Life Insurance's investment assets, excluding assets covering unit-linked insurance, amounted to EUR 3.9 billion (4.2), and were divided as follows:

Life Insurance's investment assets €3.9 billion, 31 Dec 2013

€ billion



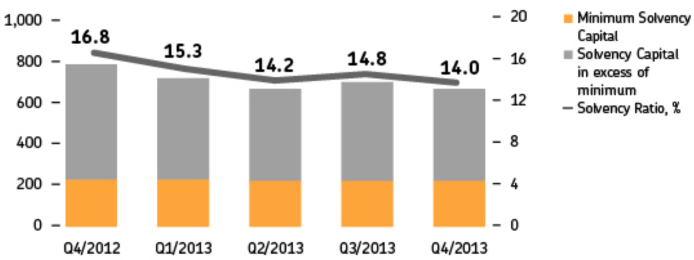
Investments within the "investment-grade" category accounted for 90% (90) of the fixed-income portfolio. The portfolio's modified duration was 2.4 years (3.2) on 31 December.

The key risks associated with Life Insurance are the market risks of investment assets and the interest rate used for the discounting of insurance liabilities. The greatest underwriting risk associated with Life Insurance is people's higher life expectancy. The level of Life Insurance's market risk was reduced in 2013 and interest rate hedge related to insurance liability was increased.

Life Insurance's solvency margin was EUR 664 million, which was three times the required minimum. The solvency ratio, or the ratio of solvency capital to weighted insurance liabilities, was 14.0% (16.8).

Solvency Capital and Solvency Ratio

€ million



Other Operations

Other Operations, key figures and ratios

€ million	2013	2012	Change, %
Net interest income	10	24	-57.4
Net trading income	-11	1	
Net investment income	41	7	510.2
Other income	443	409	8.3
Expenses	471	451	4.6
Impairment loss on receivables	2	3	-24.3
Earnings before tax	**9**	**-13**	**-174.2**
€ billion	**31 Dec 2013**	**31 Dec 2012**	**Change, %**
Receivables from credit institutions	9.5	8.5	11.4
Investment assets	8.4	6.5	30.4
Liabilities to credit institutions	4.5	4.9	-11.5
Debt securities issued to the public	16.7	14.4	16.3

Other Operations' earnings before tax were EUR 9 million (–13).

Net interest income decreased to EUR 10 million (24) because of structural changes to the liquidity buffer during the financial year. Net investment income increased to EUR 41 million (7). Capital gains in the financial year improved net investment income by EUR 15 million (–4). Dividend income totalled EUR 27 million (20). Other Income consists to a large extent of intra-Group service charges, which are presented as business segment expenses. Of the Other Operations expenses, personnel costs accounted for EUR 178 million (151) and ICT costs for EUR 136 million (127).

Major risks exposed by Other Operations include credit and market risks associated with the liquidity buffer, and liquidity risks.

Changes in OP-Pohjola Group's structure

OP-Pohjola Group's consolidated financial statements include the accounts of 183 member cooperative banks (196), OP-Pohjola Group Central Cooperative Consolidated and OP Bank Group Mutual Insurance Company.

Forssan Seudun Osuuspankki, Somerniemen Osuuspankki and Someron Osuuspankki merged into Salon Osuuspankki on 31 August 2013, changing its name to Lounaismaan Osuuspankki.

Keikyän Osuuspankki merged into Satakunnan Osuuspankki on 30 September 2013.

Uukuniemen Osuuspankki merged into Kesälahden Osuuspankki on 30 September 2013.

Ähtärin Osuuspankki merged into Etelä-Pohjanmaan Osuuspankki on 30 September 2013.

Sideby Andelsbank and Övermark Andelsbank merged into Korsnäs Andelsbank on 30 September 2013.

Ikaalisten Osuuspankki and Karvian Osuuspankki merged into Parkanon Osuuspankki on 31 December 2013, changing its name to Satapirkan Osuuspankki,

Hauhon Osuuspankki, Hämeenlinnan Seudun Osuuspankki and Lopen Osuuspankki merged into Riihimäen Seudun Osuuspankki, changing its name at the same time to Etelä-Hämeen Osuuspankki.

Koillis-Savon Seudun Osuuspankki has decided to merge into Pohjois-Savon Osuuspankki. The planned date for this is 28 February 2014.

Juuan Osuuspankki has decided to merge into Joensuun Seudun Osuuspankki, which will change its name to Pohjois-Karjalan Osuuspankki. The planned date for this is 31 March 2014.

OP IT Procurement Ltd merged with OP-Services Ltd on 31 October 2013.

OP-Pohjola Group's fully owned hospital, Omasairaala Oy, began operations at the beginning of 2013.

OP-Kotipankki Oyj's name was changed on 1 January 2014 to Korttiyhtiö Oyj (OP Card Company Plc).

Personnel and remuneration

At the end of the financial year, OP-Pohjola Group had 11,983 employees (13,290). The staff averaged 12,587 employees (13,411). The reduction in staff related to OP-Pohjola Group's efficiency-enhancement programme and a change in the operating model of ICT services.

A total of 321 people (311) retired from OP-Pohjola Group during the financial year at an average age of 61.6 years (61.5).

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

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

The management incentive scheme consists of consecutive three-year performance periods, the first of which was 2011–13. Those persons included in the scheme will be entitled to receive a certain number of Pohjola Bank plc Series A shares, if OP-Pohjola Group reaches the strategy-based targets set for the respective performance period. The bonus based on the scheme will be paid out to the beneficiary in terms of shares and cash and in three instalments in 2015–2017 after the performance period, provided that the Group's capital adequacy is higher than the internal minimum requirements on the payout date. Bonus payout includes conditions relating to the duration of employment or executive contracts.

Executive Board members' and Chief Audit Executive's executive contracts

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

OP-Pohjola Group's Executive Chairman and CEO received EUR 779,659 in salary, EUR 27,856 in fringe benefits and EUR 669,761 in bonuses under the short-term and long-term schemes, i.e. a total of EUR 1,477,276. Other Executive Board members, deputy member and the Chief Audit Executive received EUR 2,089,277 in salary, EUR 94,462 in fringe benefits and EUR 1,178,749 in bonuses under the short-term and long-term schemes, i.e. a total of EUR 3,362,488.

Salaries and bonuses include the amount of the performance-based bonuses for 2011 and 2012 and paid in 2013. A total of EUR 220,498 of the performance-based bonuses earned by the Executive Chairman and Executive Board members in 2012 has been deferred to be paid in three instalments in 2014–2016. This deferment is based on the procedures in accordance with Decree (1372/2010) of the Ministry of Finance on remuneration schemes in credit institutions and investment firms (Valtiovarainministeriön asetus luottolaitosten ja sijoituspalveluyritysten palkitsemisjärjestelmistä). A description of the procedures can be found in Note 57 "Variable remuneration" to OP-Pohjola Group's IFRS Financial Statements 2013.

	Executive Chairman and CEO	Other Executive Board members, deputy member and Chief Audit Executive	Total
Regular pay	779,659	2,089,277	2,868,936
Fringe benefits	27,856	94,462	122,318
Amount of performance-based bonuses earned for prior years and paid in 2013 *)	34,644	35,909	70,563
Earned performance-based bonus for 2012	219,070	508,561	727,632
Amount of performance-based bonuses paid in 2013	131,535	375,598	507,133
Cash-settled payment of performance-based bonuses	65,651	275,522	341,173
Equity-settled payment of performance-based bonuses	65,884	100,076	165,959
Deferred amount of performance-based bonuses **)	87,535	132,963	220,498
Equity-settled payment based on the long-term management incentive scheme for 2010	503,582	767,242	1,270,824
Total salaries, bonuses and fringe benefits paid in 2013	1,477,276	3,362,488	4,839,765
Total salaries, bonuses and fringe benefits, and deferred performance-based bonuses paid in 2013	1,564,811	3,495,452	5,060,263

*) Includes the amount of performance-based bonuses earned in 2011 and paid in 2013. The remaining portion of the 2011 bonus has been deferred for payment between 2014 and 2015. Payment of deferred amounts requires a separate decision.

**) Procedure in accordance with Decree no. 1372 of 2010 Decree of the Ministry of Finance on remuneration schemes in credit institutions and investment firms (Valtiovarainministeriön asetus luottolaitosten ja sijoituspalveluyritysten palkitsemisjärjestelmistä).

The Executive Chairman and CEO's retirement age is 62. The other Board members, deputy member and the Chief Audit Executive retire at 63. Pension benefits are determined in accordance with pension laws and OP-Pohjola Group's own pension plans.

The Executive Chairman and CEO is covered by OP Bank Group Pension Foundation's supplementary pension scheme. Pension accrued under the supplementary pension scheme may begin to be paid out as a paid-up pension before the old-age pension, if employment with OP-Pohjola Group terminates.

Supplementary pension for the other Executive Board member, deputy member and the Chief Audit Executive (8 persons) have been arranged through OP Life Assurance Company Ltd. In addition, one Executive Board member is covered by OP Bank Group Pension Foundation's supplementary pension scheme.

In 2013, no costs were recognised under the OP Bank Group Pension Foundation supplementary pension scheme. Supplementary pension insurance costs totalled EUR 383,809.

Supplementary pension costs have been published in the credit institutions' remuneration data annually collected by the European Banking Authority (EBA) in accordance with the Capital Requirements Directive (2006/48EC) and the amendments made thereto on 24 November 2010.

The maximum period of notice for the Executive Chairman and CEO, other Executive Board members, deputy member and the Chief Audit Executive and the employer is 6 months. Upon termination of their employment in cases specifically stipulated in their executive contracts, these persons are entitled to a severance pay and a sum equivalent to a maximum of 12 months' pay.

Governance of OP-Pohjola Group Central Cooperative

OP-Pohjola Group Central Cooperative's Annual Cooperative Meeting was held on 22 March 2013. Of the members who were due to resign from the Supervisory Board for the term ending 2016, Product Group Director Ola Eklund, Planner Hannu Simi and Senior Lecturer Mervi Väisänen were re-elected. The new members elected were Chairman of the Board of Directors Leif Enberg, Chairman of the Board of Directors Kalevi Korhonen and Export Coordinator Kaija Tölli. Jari Himanen, Managing Director, was elected for the remaining term of 2013–15 to replace Professor Jarmo Partanen who had requested resignation from the Supervisory Board. Moreover, Senior Lecturer Ulla Järvi was elected a new member for the term 2013–2015.

The Supervisory Board comprises 33 members.

At its first meeting following election, the Supervisory Board elected Professor Jaakko Pehkonen Chairman and Senior Lecturer Mervi Väisänen and Managing Director Vesa Lehikoinen Vice Chairmen.

OP-Pohjola Group's efficiency-enhancement programme

OP-Pohjola Group completed in late 2012 an Information and Consultation of Employees process related to the efficiency-enhancement programme of OP-Pohjola Group Central Cooperative Consolidated, resulting in personnel reductions of 561 employees and 150 jobs being outsourced.

The efficiency-enhancement programme's objective has been to achieve annual savings of EUR 150 million until the end of 2015. Within the framework of the programme, the production of services for OP-Pohjola Group Central Cooperative Consolidated and OP-Pohjola Group member cooperative banks was centralised in OP-Services Ltd that is undergoing a major transformation. Job cuts account for a third of the total cost savings targets.

Based on the actions completed by 31 December 2013, annualised savings reached about EUR 116 million, of which personnel-related costs account for EUR 55 million.

OP-Pohjola Group's efficiency-enhancement programme was expanded in autumn 2013 when the operating model of ICT services was updated by outsourcing part of application development and maintenance to Accenture and CGI. This means that a total of 460 personnel moved to the companies established with Accenture and GCI as of 1 November 2013. OP-Pohjola Group seeks to achieve annual cost savings of over EUR 20 million through this outsourcing after the transitional period.

Capital expenditure and service development

OP-Pohjola Group Central Cooperative and its subsidiaries are responsible for developing OP-Pohjola Group's services. ICT capital expenditure and related specifications make up a significant portion of costs of developing these services.

OP-Pohjola Group Central Cooperative Consolidated's development expenditure totalled EUR 108 million (121) in January–December. These include licence fees, purchased services and the payroll costs of its staff.

ICT capital expenditure capitalised in the balance sheet totalled EUR 103 million (94) in the financial year. Of the capital expenditure, EUR 85 million (66) was related to Banking, EUR 12 million (20) to Non-life Insurance and EUR 6 million (8) to Wealth Management.

OP-Pohjola Group began to rebuild its premises in the Vallila campus in 2012, due to be completed by the summer of 2015. The total costs will be almost EUR 250 million. By the end of the financial year, realised costs totalled some EUR 80 million.

Corporate social responsibility

Corporate social responsibility (CSR) forms a key part of OP-Pohjola Group's core values and strategy, according to which CSR is an integral part of business. The basis of CSR is built around OP-Pohjola Group's core 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.

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

Legal structure of the amalgamation of the cooperative banks and OP-Pohjola Group

Amalgamation of the cooperative banks and OP-Pohjola Group

The amalgamation of cooperative banks belonging to OP-Pohjola Group is formed by its central institution, OP-Pohjola Group Central Cooperative, companies belonging to its consolidation group, the central institution's member credit institutions and companies belonging to their consolidation groups, and credit institutions, financial institutions and service companies in which the abovementioned institutions jointly hold more than half of the voting rights form the amalgamation.

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

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

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

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

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

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

The amalgamation must fulfil the minimum requirements for consolidated capital resources laid down in the Act on Credit Institutions. The total minimum capital base of the companies belonging to the amalgamation must suffice to cover their aggregate exposure prescribed in more detail in the Act on Credit Institutions. Furthermore, the combined capital base of the companies belonging to the amalgamation must be sufficient relative to their aggregate customer exposure and their significant combined holdings.

Member credit institution's capital adequacy and its supervision

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

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

A member credit institution is under no obligation to publish an interim report in accordance with Section 157 of the Act on Credit Institutions.

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

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

A member credit institution has the right to withdraw from its membership of the central institutions. Even if a member credit institution withdraws from membership, the aggregate amount of capital resources of companies belonging to the amalgamation must be maintained at the level as required by the Act on the Amalgamation of Deposit Banks.

A member credit institution may also be expelled from membership of the central institution in accordance with the Co-operatives Act. A member credit institution may also be expelled if it has not complied with instructions issued by the central institution by virtue of Section 17 of the Act on the Amalgamation of Deposit Banks in a way that significantly jeopardises liquidity or capital adequacy management, the application of the standardised principles related to the preparation of financial statements or the supervision of adherence to them within the amalgamation. Expulsion is also possible if a member credit institution is in material breach of the amalgamation's general operating principles approved by the central institution.

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

OP-Pohjola Group's financial statement and audit

OP-Pohjola Group's consolidated financial statements include the accounts of all the significant companies belonging to OP-Pohjola Group. According to the Act on the Amalgamation of Deposit Banks, OP-Pohjola Group's financial statements must be prepared in compliance with the International Financial Reporting Standards, as referred to in the Accounting Act. The Financial Supervisory Authority has issued more detailed regulations on the preparation of OP-Pohjola Group's financial statements. The accounting policies applied are presented in the notes to OP-Pohjola Group's financial statements.

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

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

Supervision of the amalgamation of the cooperative banks

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

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

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

The audit of the central institution and its member credit institutions is carried out by Internal Audit, which reports to the Chairman of the central institution's Executive Board. It is responsible for the internal audit of the central institution's member credit institutions and companies belonging to their consolidation groups and the central institution and its subsidiaries.

Internal Audit ensures that the member credit institutions, including their consolidation groups, comply with the relevant laws, decrees, instructions and regulations issued by the authorities, instructions issued by the central institution as well as their own bylaws or articles of association and that they operate in a profitable and prudent manner. Internal Audit also ensures that the administration and business operations of the member credit institutions and the companies belonging to their consolidation groups are managed appropriately and efficiently and that their risk monitoring systems are in line with the requirements of their operations. Auditing is conducted in the manner required for effective supervision and in accordance with generally accepted internal auditing standards.

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

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

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

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

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

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

Under legislation concerning the Investors' Compensation Fund, the amalgamation of the cooperative banks is also considered to constitute a single credit institution in respect of investors' compensation. The Investors' Compensation Fund's assets may be used to compensate an investor's receivables from companies belonging to the amalgamation of the cooperative banks up to a total maximum of 20,000 euros.

Financial and insurance conglomerate

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

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

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

The set of norms governing financial statements under the Act on the Supervision of Financial and Insurance Conglomerates does not apply to OP-Pohjola Group on the basis of Section 30 of the Act, because the Group prepares its financial statements in compliance with IFRS.

Key income statement and balance sheet items, and financial indicators 2009–2013

€ million	2009	2010	2011	2012	2013
Key income statement items, € million					
Net interest income	1,070	917	1,030	1,002	913
Net income from Non-life Insurance	396	382	312	433	524
Net income from Life Insurance	-120	100	72	108	175
Net commissions and fees	496	563	574	584	625
Other income	208	210	173	243	275
Personnel costs	622	643	689	764	753
Other expenses	625	643	669	730	777
Impairment loss on receivables	179	149	101	99	84
Returns to owner-members	160	163	176	192	193
Earnings before tax	464	575	525	586	705
Key balance sheet items - Assets, € million					
Receivables from credit institutions	1,982	1,121	1,104	840	848
Receivables from customers	52,992	56,834	60,331	65,161	68,255
Non-life Insurance assets	3,101	3,164	3,205	3,492	3,497
Life Insurance assets	6,331	7,544	7,006	9,173	9,880
Financial assets at fair value through profit or loss and investment assets	7,731	7,958	8,624	6,954	9,149
Property, plant and equipment, and intangible assets	1,941	1,875	1,871	2,030	2,099
Other assets	6,354	5,220	9,765	12,120	7,254
Total assets	80,430	83,715	91,905	99,769	100,981
Key balance sheet items - Liabilities and equity, € million					
Liabilities to credit institutions	2,174	1,696	1,783	1,965	1,032
Liabilities to customers	37,606	39,205	45,974	49,650	50,175
Debt securities issued to the public	19,945	19,577	20,005	19,270	21,428
Subordinated liabilities	1,872	1,825	1,555	1,736	1,465
Other liabilities	12,646	14,873	16,346	20,014	19,164
Equity capital	6,187	6,539	6,242	7,134	7,717
Total liabilities	80,430	83,715	91,905	99,769	100,981

Key ratios, %					
Return on equity	5.9	6.9	6.8	7.0	9.1
Return on equity at fair value	14.7	9.5	0.4	14.1	8.8
Return on assets	0.4	0.5	0.5	0.5	0.7
Equity ratio	7.7	7.8	6.8	7.2	7.6
Cost/income ratio	61	59	63	63	61
Capital adequacy ratio	12.6	12.8	14.0	14.1	14.3
Core Tier 1 ratio, %	12.6	12.8	14.0	14.1	14.3
Core Tier 1 ratio before transition provisions, %	12.6	12.8	14.0	14.8	17.3
Capital adequacy under the Act on the Supervision of Financial and Insurance Conglomerates	1.58	1.70	1.80	1.90	1.90

Formulas for key figures and ratios

Return on equity (ROE), %

$$= \frac{\text{Profit for the financial year}}{\text{Equity capital (average of the beginning and end of year)}} \times 100$$

Return on equity at fair value, %

$$= \frac{\text{Total comprehensive income for the financial year}}{\text{Equity capital (average of the beginning and end of year)}} \times 100$$

Return on assets (ROA), %

$$= \frac{\text{Profit for the financial year}}{\text{Balance sheet total (average of the beginning and end of the year)}} \times 100$$

Equity ratio, %

$$= \frac{\text{Equity capital}}{\text{Balance sheet total}} \times 100$$

Cost/income ratio, %

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

Core Tier 1 ratio, %

$$= \frac{\text{Total Tier 1 capital, excl. hybrid capital and shortfall of Tier 2 capital covered by hybrid capital}}{\text{Total minimum capital requirement}} \times 8$$

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

$$= \frac{\text{Common Equity Tier 1 (CET1)}}{\text{Total risk exposure amount}} \times 100$$

*) Common Equity Tier 1 capital (CET1) as defined in Article 26 of EU Regulation 575/2103 and total risk exposure amount as defined in Article 92.

Tier 1 ratio, %

$$= \frac{\text{Tier 1 capital}}{\text{Total minimum capital requirement}} \times 8$$

Capital adequacy ratio, %

$$= \frac{\text{Total capital base}}{\text{Total minimum capital requirement}} \times 8$$

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

$$= \frac{\text{Conglomerate's total capital base}}{\text{Conglomerate's total minimum capital base}}$$

In addition, t following key ratios appear elsewhere in the Report by the Executive Board:

Non-life Insurance:

Combined ratio (excl. unwinding of discount), %

$$\frac{\text{Loss ratio + expense ratio}}{\text{Risk ratio + cost ratio}}$$

Loss ratio (excl. unwinding of discount), %

$$= \frac{\text{Claims and loss adjustment expenses}}{\text{Net insurance premium revenue}} \times 100$$

Expense ratio, %

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

Risk ratio (excl. unwinding of discount), %

$$= \frac{\text{Claims excl. loss adjustment expenses}}{\text{Net insurance premium revenue}} \times 100$$

Operating combined ratio

$$\frac{\text{Operating loss ratio + operating expense ratio}}{\text{Operating risk ratio + Operating cost ratio}}$$

Operating risk ratio (excl. unwinding of discount), %

$$= \frac{\text{Claims excl. loss adjustment expenses and changes in calculation bases}}{\text{Insurance premium revenue, excl. net changes in calculation bases}} \times 100$$

Operating loss ratio, %

$$= \frac{\text{Claims incurred excl. changes in calculation bases}}{\text{Insurance premium revenue, excl. net changes in calculation bases}} \times 100$$

Operating expense ratio, %

$$= \frac{\text{Operating expenses}}{\text{Insurance premium revenue, excl. net changes in calculation bases}} \times 100$$

Cost ratio, %

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

Operating cost ratio, %

$$= \frac{\text{Operating expenses and loss adjustment expenses}}{\text{Net insurance premium revenue, excl. net changes in calculation bases}} \times 100$$

Solvency ratio , %

$$= \frac{\text{Solvency capital}}{\text{Insurance premium revenue}} \times 100$$

Life Insurance:

Operating cost ratio, %

$$= \frac{\text{Operating expenses before change in deferred acquisitions costs + loss adjustment expenses}}{\text{Total expense loadings}} \times 100$$

OP-Pohjola Group's IFRS Financial Statements 2013

OP-POHJOLA GROUP INCOME STATEMENT

EUR million	Notes	2013	2012	Change, %
Interest income		2,512	3,174	-21
Interest expenses		1,599	2,171	-26
Net interest income before impairment losses	5	**913**	**1,002**	**-9**
Impairment losses on receivables	6	84	99	-15
Net interest income after impairment losses		**830**	**903**	**-8**
Net income from Non-life Insurance	7	524	433	21
Net income from Life Insurance	8	175	108	62
Net commissions and fees	9	625	584	7
Net trading income	10	114	81	41
Net investment income	11	66	52	27
Other operating income	12	95	109	-12
Total net income		**2,429**	**2,270**	**7**
Personnel costs	13	753	764	-2
Other administrative expenses	14	373	378	-1
Other operating expenses	15	404	352	15
Total expenses		**1,530**	**1,494**	**2**
Returns to owner-members	16	193	192	1
Share of associates' profits/losses		0	2	
Earnings before tax		**705**	**586**	**20**
Income tax expense	17	32	115	-72
Profit for the financial year		**673**	**471**	**43**

Attributable to, EUR million			
Profit for the period attributable to owners	672	470	43
Profit for the period attributable to non-controlling interest	0	1	
Total	**673**	**471**	**43**

OP-Pohjola Group statement of comprehensive income

EUR million	Notes	2013	2012	Change, %
Profit for the financial year		**673**	**471**	**43**
Items that will not be reclassified to profit or loss				
Gains/(losses) arising from remeasurement of defined benefit plans		19	-75	
Items that may be reclassified to profit or loss				
Change in fair value reserve				
Measurement at fair value		-13	648	
Cash flow hedge		-30	50	
Translation differences		0	0	
Income tax on other comprehensive income				
Items that will not be reclassified to profit or loss				
Gains/(losses) arising from remeasurement of defined benefit plans		26	-18	
Items that may be reclassified to profit or loss				
Measurement at fair value		-20	158	
Cash flow hedge		-9	12	
Total comprehensive income for the financial year		**651**	**942**	**-31**

Attributable to, EUR million			
Total comprehensive income for the period attributable to owners	651	941	-31
Total comprehensive income for the period attributable to non-controlling interests	0	1	
Total	**651**	**942**	**-31**

Key figures and ratios	2013	2012
Return on equity, %	9.1	7.0
Return on equity at fair value, %	8.8	14.1
Return on assets, %	0.67	0.49
Cost/income ratio, %	61	63
Average personnel	12,587	13,411
Full-time	11,662	12,393
Part-time	925	1,018

OP-POHJOLA GROUP BALANCE SHEET

EUR million	Notes	31 Dec. 2013	31 Dec. 2012	Change, %
Liquid assets	18	2,172	5,784	-62
Receivables from credit institutions	19	848	840	1
Financial assets at fair value through profit or loss	20	537	358	50
Derivative contracts	21	3,423	4,436	-23
Receivables from customers	22	68,255	65,161	5
Non-life Insurance assets	23	3,497	3,492	0
Life Insurance assets	24	9,880	9,173	8
Investment assets	25	8,613	6,596	31
Investment in associates	27	40	39	2
Intangible assets	28	1,338	1,320	1
Property, plant and equipment (PPE)	29	760	710	7
Other assets	30	1,548	1,745	-11
Tax assets	31	72	115	-38
Total assets		**100,981**	**99,769**	**1**
Liabilities to credit institutions	32	1,032	1,965	-47
Financial liabilities at fair value through profit or loss	33	4	3	29
Derivative contracts	34	3,157	4,162	-24
Liabilities to customers	35	50,175	49,650	1
Non-life Insurance liabilities	36	2,746	2,598	6
Life Insurance liabilities	37	9,771	8,970	9
Debt securities issued to the public	38	21,428	19,270	11
Provisions and other liabilities	39	2,680	3,291	-19
Tax liabilities	40	807	990	-18
Cooperative capital	41	606	622	-3
Subordinated liabilities	42	860	1,114	-23
Total liabilities		**93,265**	**92,635**	**1**
Equity capital				
Capital and reserves attributable to OP-Pohjola Group's owners				
Share and cooperative capital		339	336	1
Translation differences		0	1	-73
Reserves		3,064	3,021	1
Retained earnings		4,277	3,751	14
Non-controlling interests		36	24	46
Total equity capital	43	**7,717**	**7,134**	**8**
Total liabilities and equity capital		**100,981**	**99,769**	**1**

OP-POHJOLA GROUP CASH FLOW STATEMENT

EUR million	2013	2012
Cash flow from operating activities		
Profit for the financial year	673	471
Adjustments to profit for the financial year	710	874
Increase (-) or decrease (+) in operating assets	**-5,833**	**-3,139**
Receivables from credit institutions	215	262
Financial assets at fair value through profit or loss	-326	172
Derivative contracts	26	30
Receivables from customers	-3,217	-4,941
Non-life Insurance assets	-65	-205
Life Insurance assets	-412	-252
Investment assets	-2,310	1,754
Other assets	257	41
Increase (+) or decrease (-) in operating liabilities	**-944**	**4,081**
Liabilities to credit institutions	-913	153
Financial liabilities at fair value through profit or loss	1	2
Derivative contracts	-18	-21
Liabilities to customers	525	3,676
Non-life Insurance liabilities	48	10
Life Insurance liabilities	189	22
Provisions and other liabilities	-776	240
Income tax paid	-172	-99
Dividends received	105	118
A. Net cash from operating activities	**-5,461**	**2,306**
Cash flow from investing activities		
Increases in held-to-maturity financial assets	-4	-49
Decreases in held-to-maturity financial assets	135	334
Acquisition of subsidiaries, net of cash and cash equivalents acquired	-5	-76
Disposal of subsidiaries, net of cash and cash equivalents disposed	0	4
Purchase of PPP and intangible assets	-206	-194
Proceeds from sale of PPE and intangible assets	17	9
B. Net cash used in investing activities	**-63**	**28**
Cash flow from financing activities		
Increases in subordinated liabilities	-	500
Decreases in subordinated liabilities	-234	-313
Increases in debt securities issued to the public	24,466	24,457
Decreases in debt securities issued to the public	-22,003	-25,484
Increases in cooperative and share capital	183	221
Decrease in cooperative and share capital	-195	-219
Dividends paid and interest on cooperative capital	-81	-78
Returns to owner-members	-7	-12
C. Net cash used in financing activities	**2,129**	**-927**
Net change in cash and cash equivalents (A+B+C)	**-3,396**	**1,407**

Cash and cash equivalents at period-start	**5,872**	**4,465**
Cash and cash equivalents at period-end	**2,476**	**5,872**

EUR million	2013	2012
Interest received	**2,533**	**3,634**
Interest paid	**-1,694**	**-2,277**

Adjustments to profit for the financial year

Non-cash items and other adjustments		
Impairment losses on receivables	99	113
Unrealised net earnings in Non-life Insurance	108	164
Unrealised net earnings in Life Insurance	316	325
Change in fair value for trading	-214	191
Unrealised net gains on foreign exchange operations	2	-254
Change in fair value of investment property	-12	-15
Planned amortisation and depreciation	135	151
Share of associates' profits/losses	3	1
Other	259	170
Items presented outside cash flow from operating activities		
Capital gains, share of cash flow from investing activities	-3	-3
Interest on cooperative capital	11	19
Other returns to owner-members	7	12
Total adjustments	**710**	**874**

Cash and cash equivalents		
Liquid assets*	2,179	5,798
Receivables from credit institutions payable on demand	297	74
Total	**2,476**	**5,872**

*Of which Non-life Insurance liquid assets amount to 4 million euros (10) and Life Insurance liquid assets 3 million euros (3).

STATEMENT OF CHANGES IN OP-POHJOLA GROUP EQUITY CAPITAL

EUR million	Share and cooper-ative capital	Fair value reserve: Fair value reserve	Fair value reserve: Cash flow hedge	Other reserves	Retained earnings	Non-controlling interests	Total
	Attributable to OP-Pohjola Group's owners						
Balance at 1 January 2012	**333**	**-198**	**10**	**2,621**	**3,474**	**3**	**6,242**
Total comprehensive income for the period	-	489	38	-	414	1	**942**
Profit for the period	-	-	-	-	470	1	**471**
Other comprehensive income	-	489	38	-	-56	-	**471**
Increase in cooperative capital	4	-	-	-	-	-	**4**
Transfer of reserves	-	-	-	61	-61	-	**-**
Profit distribution	-	-	-	-	-62	-	**-62**
Share-based payments	-	-	-	-	0	-	**0**
Other	-1	-	-	1	-13	21	**8**
Balance at 31 Dec. 2012	**336**	**291**	**48**	**2,682**	**3,752**	**24**	**7,134**

EUR million	Share and cooper-ative capital	Fair value reserve: Fair value reserve	Fair value reserve: Cash flow hedge	Other reserves	Retained earnings	Non-controlling interests	Total
	Attributable to OP-Pohjola Group's owners						
Balance at 1 January 2013	**336**	**291**	**48**	**2,682**	**3,752**	**24**	**7,134**
Total comprehensive income for the period	-	7	-21	-	665	0	**651**
Profit for the period	-	-	-	-	672	0	**673**
Other comprehensive income	-	7	-21	-	-7	0	**-21**
Increase in cooperative capital	4	-	-	-	-	-	**4**
Transfer of reserves	-	-	-	40	-40	-	**-**
Profit distribution	-	-	-	-	-69	-	**-69**
Share-based payments	-	-	-	-	-1	-	**-1**
Other	-1	-	-	17	-31	11	**-3**
Balance at 31 Dec. 2013	**339**	**298**	**27**	**2,739**	**4,277**	**36**	**7,717**

NOTES TO OP-POHJOLA GROUP FINANCIAL STATEMENTS

NOTES TO THE INCOME STATEMENT

NOTES TO ASSETS

NOTES TO LIABILITIES AND EQUITY CAPITAL

OTHER NOTES TO THE BALANCE SHEET

NOTES TO CONTINGENT LIABILITIES AND DERIVATIVES

OTHER NOTES

NOTES TO RISK MANAGEMENT

Notes to OP-Pohjola Group Financial Statements

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

1. General information

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

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

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

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

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

The Executive Board of OP-Pohjola Group Central Cooperative has approved these financial statements for issue on 6 February 2014.

1.1 Basis of preparation

OP-Pohjola Group's financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS), applying IASs, IFRSs and SIC and IFRIC interpretations effective on 31 December 2013. The International Financial Reporting Standards refer to standards and their interpretations adopted in accordance with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council. OP-Pohjola Group's obligation to prepare its financial statements in accordance with IFRS is based on the Act on the Amalgamation of Deposit Banks.

OP-Pohjola Group adopted the following IFRSs, interpretations and options in 2013:

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

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

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

The financial statements are presented in millions of euro.

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

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

1.2 Use of estimates

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

1.3 Consolidation principles

1.3.1 Technical parent company

The Act on the Amalgamation of Deposit Banks prescribes that the consolidated financial statements of OP-Pohjola Group must be a combination of the financial statements or consolidated financial statements of the central institution, OP-Pohjola Group Central Cooperative, and its member credit institutions. The consolidated financial statements also include institutions over which the abovementioned institutions jointly have control as prescribed in the Accounting Act. The Group's equity capital comprises the Group member cooperative banks' equity capital and the part of Pohjola Bank plc's equity capital that is owned by others than those belonging to the amalgamation. In accordance with the above principle, OP-Pohjola Group has formed a technical parent company.

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

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

1.3.2 Subsidiaries, associates and joint ventures

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

Intra-Group holdings have been eliminated using the acquisition method. The consideration transferred and the acquiree's identifiable assets acquired and liabilities assumed are measured at fair value at the time of acquisition. Acquisition cost in excess of net assets is presented under goodwill. If the cost of acquisition is less than the fair value of the net assets of the acquiree, the difference is recognised directly in the income statement.

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

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

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

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

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

1.3.3 Non-controlling interests

Profit for the financial year attributable to the technical 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 equity capital in the balance sheet.

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

1.4 Foreign currency translation

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

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

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

1.5 Financial instruments

1.5.1 Fair value determination

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

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

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

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

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

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

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

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

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

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

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

1.5.2 Impairment of financial assets

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

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

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

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

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

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

1.5.3 Securities sale and repurchase agreements

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

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

1.5.4 Classification and recognition of financial Instruments in OP-Pohjola Group's balance sheet

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

Financial assets and liabilities are offset in the balance sheet if OP-Pohjola Group currently has a legally enforceable right of set-off in the normal course of business and in the event of default, insolvency or bankruptcy, and intends to settle the asset and liability on a net basis. OTC interest rate derivatives for central counterparty clearing are offset in the balance sheet, which are cleared in the daily clearing process with London Clearing House. The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Financial liabilities are derecognised when they are extinguished, i.e. when the obligation is discharged, cancels or expires.

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

Financial instruments at fair value through profit or loss include financial assets and liabilities held for trading, derivative contracts held for trading, financial assets at fair value through profit or loss at inception, and liabilities from investment contracts with no entitlement to discretionary participation feature granted by insurance companies. Financial assets at fair value through profit or loss are initially recognised at fair value and transaction costs are charged to expenses. A subsequent change in fair value as well as capital gains and losses, interest income and expenses, and dividend income are recognised in the item by their nature in the income statement.

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

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

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

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

Financial assets recognised at fair value through profit or loss at inception comprise bonds which the Group, in accordance with its risk management principles, manages and assesses 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.

Financial assets at fair value through profit or loss also include hybrid instruments in which the fair value of an embedded derivative cannot be determined separately, and investments related to unit-linked insurance policies.

1.5.4.2 Loans and receivables

Financial assets classified as loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Receivables related to insurance contracts, claims administration contracts and disposal of investments are presented within this asset class.

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

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

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

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

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

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

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

1.5.4.3 Investments held to maturity

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

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

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

1.5.4.4 Available-for-sale financial assets

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

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

In the case of available-for-sale financial assets, for example, a significant downgrade of the credit rating of the issuer of bonds and notes, or a significant or prolonged decline in the equity instrument's fair value below its cost, constitutes objective evidence.

If a security's market value continues to fall following impairment recognition, the impairment loss will be recognised in the income statement.

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

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.

OP-Pohjola Group has prepared methods and internal principles used for hedge accounting, whereby a financial instrument can be defined as a hedging instrument. In accordance with the hedging principles, OP-Pohjola Group can hedge against interest rate risk, currency risk and price risk by applying fair value hedge or cash flow hedge. Fair value hedging refers to hedging against changes in the value of the hedged asset, and cash flow hedging to hedging against changes in the fair value of future cash flows.

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

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

1.5.7.1 Derivatives held for trading

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

Embedded derivatives associated with structured bonds issued and certain loan agreements are separated from the host contract and measured at fair value in the balance sheet, and changes in the fair value of these embedded derivatives and 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 or cash flows fully or partially offset the corresponding changes of a hedged item.

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

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

1.5.8.1 Fair value hedges

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

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

In fair value hedge accounting, changes in the fair value of the hedging and hedged instrument are recorded under “Net interest income” (loans and own issues) and “Net investment income” (bonds included in available-for-sale financial assets) in the income statement or “Net investment income from Non-life Insurance” or “Net investment income from Life Insurance” (mutual fund investments included in available-for-sale financial assets).

1.5.8.2 Cash flow hedges

A cash flow hedge is a hedge of the exposure to the variability attributable to a particular risk associated with variable-rate debt or other variable-rate assets and liabilities. In addition, cash flow hedging is used to hedge the future interest flows of the loans defined on the basis of reference interest rate linkage. Interest rate swaps are mainly 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 equity are included in the income statement in the period when hedged items affect net income.

1.6 Investment property

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

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

If no comparable market data is available on the actual transaction prices of the property comparable with the property under review, the Group uses the income approach and internal methods based on property-specific net income to determine the fair value of commercial, office and industrial premises. The Group uses OP-Pohjola Group's internal and external information in the income approach. A property's net income comprises the difference between rental income and maintenance charges and it is based on income under current leases or, if no lease is in force, on average market rents. Expenses deducted from income are mainly based on actual expenses. Assumption of underutilisation of the property is also taken into account in the calculation. For the income approach, the Group obtains information on market rental and cost levels from sources outside OP-Pohjola Group, in addition to its own expertise. The return requirements for investment property holdings are determined on the basis of the property's purpose of use, location and condition/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 market approach, based on information on the actual transaction prices of similar properties and on OP-Pohjola Group's internal expertise. In the fair value of undeveloped plots, OP-Pohjola Group has taken account of the planning and market situation at the time of appraisal. The fair value of major property holdings is based on valuation reports drawn up by Authorised Property Valuers. External valuers use a cash flow analysis as the basis for their appraisal.

1.7 Intangible assets

1.7.1 Goodwill

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

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

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

1.7.2 Value of acquired insurance portfolio

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

1.7.3 Deferred acquisition costs of insurance contracts

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

1.7.4 Customer relationships

Identifiable customer relationships acquired through business combinations are measured at fair value upon acquisition. This intangible asset arising from customer relationships is amortised on a straight-line basis over the asset's estimated useful life. The estimated useful life of OP-Pohjola Group's acquired customer relationships is 5–13 years.

1.7.5 Brands

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

1.7.6 Other intangible assets

Other intangible assets are measured at cost less accumulated amortisation and any impairment losses. Computer software and licences are amortised over 2–10 years and other intangible assets over 5 years in general. Expenditure on the development of internally-generated intangibles (software) is capitalised starting from the time when the software is found to generate future economic benefits. The asset will be amortised from the time it is ready for use, mainly 3–10 years. An asset that is not yet ready for use is assessed annually for impairment.

1.8 Property, plant and equipment

Property, plant and equipment (PPE) are carried at cost less accumulated depreciation and any impairment losses. These assets are depreciated on a straight-line basis over their estimated useful lives. Land is not subject to depreciation. Subsequent expenditures are capitalised at the asset's carrying amount only if it is probable that the asset will generate greater economic benefits than initially estimated.

The estimated useful lives are mainly as follows:

Buildings	20–50 years
Emergency power units and generators	15 years
Machinery and equipment	3–10 years
IT equipment	3–5 years
Cars	5–6 years
Other PPE assets	3–10 years

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

1.8.1 Impairment of PPE and intangible assets

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

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

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

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

1.9 Leases

On the date of inception, leases (also when part of other arrangements) are classified as finance leases or operating leases depending on the substance of the transaction. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incident to ownership to the lessee. All other leases are classified as operating leases. Lease classification is performed at the inception of the lease.

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

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

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

1.10 Employee benefits

1.10.1 Pension benefits

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

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

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

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

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

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

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

Plan curtailments are recognised when the curtailment occurs.

1.10.2 Share-based payments

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

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

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

1.11 Insurance assets and liabilities

1.11.1 Classification of financial assets within insurance business

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

1.11.2 Classification of insurance contracts issued by insurers

An insurance contract is a contract which transfers significant insurance risk from the policyholder to the insurer, as defined in IFRS 4. Other contracts which the company may issue under its licence represent investment contracts. If a contract does not involve any significant insurance risk on the balance sheet date but the policyholder has the right to change the contract in such a way that the contract transfers significant insurance risk to the insurer, the contract is classified as an insurance contract. The contracts are categorised contract by contract or by types of contract containing homogenous risks. If several contracts are concluded simultaneously with a single counterparty or if contracts are otherwise interdependent, the significance of insurance risk is assessed jointly.

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

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

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

Insurance contracts are classified into risk groups in such a way that the risks of contracts are homogeneous in each group. This classification of non-life contracts takes account of the insured object, differences in the duration of contracts or the average length of the period between the occurrence of a loss event and the date of the fully-paid claim (claim settlement period). As to life insurance policies, the Group takes into account whether savings are accumulated, how the return of the savings is determined and whether the contract is for life or death or disability risk.

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

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

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

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

1.11.3 Recognition and measurement of insurance contracts issued by insurers

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

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

Liabilities of contracts issued by insurers and measured under IFRS 4 are calculated mainly in accordance with national accounting standards. However, equalisation provisions are not included in these liabilities but are included in equity capital. In addition, part of life insurance liability is measured by taking account of the current interest rate.

The liabilities comprise provisions for unearned premiums and claims liability. The life insurance provisions for unearned premiums consist of the net liability calculated from the expected claims and operating expenses during the contracts’ remaining maturities less future premiums during the remaining coverage periods of the recognised policies. Non-life provisions for unearned premiums equal the liabilities arising from claims and other expenses expected for the remaining coverage periods of the recognised policies. The claims liability arises from reported and non-reported incurred claims and their claims settlement expenses paid in the future.

1.11.3.1 Measurement of insurance contracts issued by non-life insurers

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

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

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

1.11.3.2 Measurement of insurance contracts issued by life insurers

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

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

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

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

The company has savings at its own risk with interest rate guarantees ranging between 1.5 and 4.5%. The insurance liability of contracts whose interest rate guarantee is 4.5% has been supplemented so that the technical interest rate of insurance liabilities in the financial statements is 3.5%. The supplementary interest provisions can be used to calculate the discount rate for a fixed term. Otherwise, the technical interest rate of discounts is the interest rate guarantee. The claims liability of life insurance policies is not discounted.

The Group reduces the interest rate risk of the life insurance liability by entering into interest rate derivative contracts that are recognised at fair value through profit or loss. The value of derivatives is included in the insurance liability, because any benefit from the derivatives is used for the guaranteed cash flows of the contracts.

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

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

1.11.4 Liability adequacy test on insurance contracts

On each balance sheet date, the 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 and acquired insurance portfolios, is inadequate, the deficiency is recognised in profit or loss primarily by recording an additional amortisation on intangible assets and secondarily by increasing the liabilities.

1.11.5 Premiums written

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

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

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

Life insurance premiums and investment contract payments are recognised under premiums written on an accrual basis in such a way that contracts other than defined benefit contracts do not generate insurance receivables. Commissions or credit losses are not deducted from premiums written.

1.11.5.1 Receivables and payables related to insurance contracts

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

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

1.11.6 Salvage and subrogation reimbursements

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

1.11.7 Reinsurance contracts

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

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

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

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

1.11.8 Coinsurance and pools

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

OP-Pohjola Group also underwrites shares of insurance contracts through pools, whose members are primarily responsible for their own proportionate share of the underwriting risk. These shares are based on contracts confirmed annually. The Group treats as insurance contracts its own proportionate share of the direct insurance business managed by pools and of the reinsurance business from the pool to its members.

The pool's share of these insurance contracts is treated as reinsurance. In some pools, members are responsible for an insolvent member's liabilities in proportion to their shares in the pool. OP-Pohjola Group recognises liabilities and receivables based on joint liability if joint liability is likely to materialise.

1.11.9 Principle of equity concerning life insurance

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

The distribution of the surplus is based on the principle of equity referred to in the Insurance Companies Act which requires that a reasonable amount of the surplus to which the contracts are entitled is distributed to these policyholders, provided the solvency requirements prevent this. It is necessary to aim at continuity with respect to the level of additional benefits. Nevertheless, the principle of equity will not enable policyholders to demand any funds as debt. OP Life Assurance Company Ltd has published its additional benefit principles and its realisation on its website. OP Life Assurance Company Ltd's Board of Directors decides on any additional benefits. Contracts with Aurum Investment Insurance Ltd have no entitlement to discretionary additional benefits.

1.12 Provisions and contingent liabilities

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

1.13 Income tax

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

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

The Group offsets deferred tax assets and liabilities by company. Deferred tax assets and liabilities resulting from consolidation are not offset. Deferred tax assets and liabilities are measured at the tax rate that is expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted by the balance sheet date. If deferred tax originates from balance sheet items whose changes have no effect on the income statement, any change in deferred tax is recognised in other 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. The difference between the nominal value and the acquisition cost of fixed-rate bonds is recognised as interest income or expenses over the residual term to maturity.

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

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

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

Summary of presentation of income statement items:

Net interest income	Received and paid interest on fixed-income instruments, the recognised difference between the nominal value and acquisition value, interest on interest-rate derivatives and fair value change in fair value hedging
Net income from Non-life Insurance	Premiums written, change in insurance liability, investment income and expenses (interest, dividends, realised capital gains and losses, impairment losses) and claims paid
Net income from Life Insurance	Premiums written, change in insurance liability, investment income and expenses (interest, dividends, realised capital gains and losses, impairment losses) and claims paid
Net commissions and fees	Commission income and expenses, and the recognition of Day 1 profit related to illiquid derivatives
Net trading income	Fair value changes in financial instruments at fair value through profit or loss, excluding accrued interest, and capital gains and losses, as well as dividends
Net investment income	Realised capital gains and losses on available-for-sale financial assets, impairment losses, dividends as well as fair value changes in investment property, capital gains and losses, rents and other property-related expenses
Other operating income	Other operating income
Personnel costs	Wages and salaries, pension costs, share-based payments, social expenses
Other administrative expenses	Office expenses, ICT costs, other administrative expenses
Other operating expenses	Bank levy, depreciation/amortisation, rents and other expenses

1.15 Segment reporting

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

OP-Pohjola Group reports income statements and balance sheets for the following segments: Banking, Non-life Insurance, and Wealth Management. Non-segment operations are presented in “Other Operations”. Segments are reported in a way that is uniform with internal reporting submitted to the management. In segment reporting, Pohjola Group’s Central Banking is reported as part of Other Operations, as are income, expenses, investment and capital not included in actual business operations.

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

1.16 Critical accounting estimates and judgements

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

Liabilities arising from insurance contracts involve several discretionary factors and uncertainty. With respect to Non-life Insurance, estimates are based on assumptions about the operating environment and on the actuarial analyses of the Group’s own claims statistics. An especially higher degree of management judgement is required for determining the discount rate and estimating claims expenditure arising from the already occurred loss events (Note 101. Risk sensitivity of Non-life Insurance).

Liabilities arising from life insurance contracts involve several discretionary factors and uncertainty. When calculating life insurance liabilities, the Group primarily uses assumptions on the date when the contract was made concerning insurance risk realisation, operating expenses and investment income. The Group follows the assumptions continuously and if it turns out that the liability calculated based on these assumptions is too small, the liability is increased to meet the latest observations. The management’s judgement is required especially in determining the discount rate of the liability, mortality assumption and operating expenses related to the future management of insurance policies (Note 113. Information on the nature of Life Insurance and sensitivity analysis of insurance liabilities).

The values of insurance contracts, customer relationships and brands acquired through business combinations are based on estimates of eg future cash flows and the applicable discount rate.

Goodwill, assets with indefinite useful lives and intangible assets not yet available for use are tested annually for impairment. The recoverable amount determined in the impairment test is usually based on value in use, and its calculation requires estimates of future cash flows and the applicable discount rate (Note 28. Intangible assets).

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

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

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

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

The present value of pension obligations depends on several factors determined based on actuarial calculations and using several assumptions. The discount rate, future increases in pay and pension and the inflation rate are the assumptions used to determine net costs (or income) arising from pensions. Changes in actuarial assumptions have an effect on the carrying amount of pension obligations (Note 39. Provisions and other liabilities).

The measurement of investment property at fair value is partially based on the management’s estimates of the market value of property holdings. Investment property is also measured using a calculation model based on the income approach utilising estimates of future net yield on property holdings (Note 49. Recurring fair value measurements by valuation technique).

1.17 New standards and interpretations

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

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

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

Notes to OP-Pohjola Group Financial Statements

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

1 General principles of risk management and capital adequacy management

OP-Pohjola Group is a financial and insurance conglomerate pursuant to the Act on the Supervision of Financial and Insurance Conglomerates and the Act on the Amalgamation of Deposit Banks. It is supervised by the Financial Supervisory Authority. OP-Pohjola Group will be subject to direct supervision by the ECB in November 2014 under the current plan.

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

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

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

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

1.1 Good corporate governance

Good corporate governance encompasses OP-Pohjola Group's senior and executive management, relationships between its owners and other stakeholders, goal-setting and decisions on ways of achieving the goals, and the monitoring of the achievement of the goals. A well-defined frame of reference, consistently and comprehensively documented instructions and clearly defined decision-making levels ensure the implementation of good corporate governance.

The principles of good corporate governance shall apply to all Group companies and institutions, all bodies and all operations. Organising good corporate governance also complies with the recommendation approved by the central institution's Supervisory Board on corporate governance applicable to Group member cooperative banks.

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

1.2. Internal control

OP-Pohjola Group's internal control is aimed at ensuring systematic and successful strategy implementation, appropriate management of risks, efficient and reliable operations and related reporting, and the supervision of regulatory compliance related to different activities. OP-Pohjola Group's internal control principles shall be approved by the central institution's Supervisory Board. Internal control covers the entire Group at all organisational levels.

The central institution's Supervisory Board makes regular updates to OP-Pohjola Group's strategy, guiding business planning and target-setting in all parts of the Group. When preparing the strategy, objectives are set for long-term performance indicators and annual indicators. The performance indicators along with limits and control limit indicators are the main sources of input for OP-Pohjola Group in setting targets and goals and monitoring them and rewarding for good results. The central institution checks regularly how successfully OP-Pohjola Group's businesses have performed in relation to their objectives and risks, and submits related reports to the management of OP-Pohjola Group's institutions.

1.3 Risk and capital adequacy management

Risk and capital adequacy management forms part of internal control. The purpose of risk and capital adequacy management is to secure OP-Pohjola Group's and its institutions' risk-bearing capacity and, thereby, ensure the continuity of operations. Risk-bearing capacity is made up of good risk management proportionate to the extent and complexity of operations and of adequate capital resources based on profitable business operations.

OP-Pohjola Group's risk and capital adequacy management principles shall be approved by OP-Pohjola Group Central Cooperative's Supervisory Board. These principles define how the Group-level risk and internal capital adequacy assessment (ICAAP) process is organised.

Risk and capital adequacy management involves:

- identifying, measuring, assessing and mitigating risks;
- determining reliably and independently how much capital is required for various risks and business operations;
- allocating capital systematically in line with current and planned risk-taking; and
- managing the Group's liquidity.

1.3.1 Risk identification, assessment and measurement

OP-Pohjola Group's risk and ICAAP process consists of the continuous identification and assessment of business and operating environment risks. The central institution's independent Risk Management follows the Group's risk exposure and risk-bearing capacity and regularly reports its observations and assessments to the Executive Board.

OP-Pohjola Group's quantifiable risks are restricted by means of limits and a system of control limits that guide operations at Group level, in Group cooperative banks and institutions belonging to OP-Pohjola Group Central Cooperative Consolidated. The Supervisory Board has determined risk limits for 2013 concerning OP-Pohjola Group's capital adequacy as well as for credit, liquidity, market and underwriting risks.

OP-Pohjola Group's Executive Board has set control limits, deriving from Group-level limits, for capital adequacy, profitability and efficiency, and for various types of risk which the member cooperative banks must observe. They may not break these limits in their operations. The cooperative banks use these control limits to confirm their own limits, which are tighter than those set by the central institution. Similar limits are also in place concerning the capital adequacy and key risk types of institutions within OP-Pohjola Group Central Cooperative Consolidated. The indicators are confirmed annually.

Member cooperative banks are guided on the basis of a system of risk categories. A bank's risk category will be determined in the system by financial factors and qualitative factors and by a statement from the central institution. When estimating qualitative factors, special emphasis is placed on any failure to adhere to the instructions. A member cooperative bank in any other than a minor breach of the instructions issued pursuant to Section 17 the Act on the Amalgamation of Deposit Banks is always placed in the second-worst risk category in the five-tier system. Such member cooperative banks will not be granted any such permission that is referred to in Sections 21 or 23.

Economic capital

Economic capital is OP-Pohjola Group's own estimate of the amount of capital sufficient to cover any annual losses with a 99.97% level of confidence that may arise from risks associated with business and the operating environment. Economic capital is calculated using models for each risk type, the results of which are combined taking account of correlations between the risk types and the resulting diversification benefits.

The central institution's Risk Management analyses the model's performance at least once a year and presents any necessary changes to the model's structure or its variables. The central institution's Executive Board approves any risks included in economic capital and the general rules related to the calculation of economic capital.

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

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

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

Stress tests

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

The central institution's Risk Management assesses the needs for changing the stress testing framework annually or whenever the Group's business or risk profile changes significantly. Sensitivity analyses are used as part of risk analysis for various risk types and the results are used to assess how, for example, changes in the basic assumptions and parameters in the economic capital model would affect the risk model outcome and the risk position. Sensitivity analyses help to understand how certain assumptions affect the risk indicator values. Sensitivity analyses conducted at different shock levels give a concrete idea of the effects of different risks and the probability of losses of various sizes.

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

1.3.2 Capital planning

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

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

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

2 Organisation of risk and capital adequacy management

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

2.1 OP-Pohjola Group Central Cooperative (central institution)

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

At least once a year, the central institution's Executive Board ensures that OP-Pohjola Group's strategy, risk limits, capital plan and proactive contingency plan for capital resources are up to date. The Executive Board also ensures that the systems and procedures for risk and capital adequacy management are sufficient and up to date and that any instructions concerning these are issued to OP-Pohjola Group institutions. The Executive Board confirms OP-Pohjola Group's risk policy which contains the risk management guidelines, actions, objectives and limitations that are used to control business in order to implement the principles confirmed in the Group strategy. The Executive Board reports to the Supervisory Board on changes in the business, risk-bearing capacity and risk status of OP-Pohjola Group, the central institution and its institutions.

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

The ALM and Risk Management Committee of OP-Pohjola Group Central Cooperative's Executive Board assists the Executive Board in controlling and managing the Group's risk-bearing capacity and risk appetite in accordance with the principles confirmed and decisions taken by the Supervisory Board. The Committee is also tasked with assisting the Executive Board in ensuring that the central institution and its consolidated group have adequate capital adequacy management and risk management systems in place covering all operations.

The Risk Management Committee, which reports to OP-Pohjola Group's Executive Board, ensures that OP-Pohjola Group has the ability to operate successfully in the long term by making sure that the principles, methodologies, models and indicators of the Group's risk and capital adequacy management systems correspond to the best estimates of the independent Risk Management and comply with the principles based on the risk modelling and stress test guidelines issued the Executive Board.

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

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

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

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

Group cooperative banks and institutions belonging to OP-Pohjola Group Central Cooperative Consolidated apply the central institution's risk and capital adequacy management principles as required by the nature and extent of their business. The Supervisory Board approves Group member banks' risk and capital adequacy management principles and supervises their implementation. In the institutions of OP-Pohjola Group Central Cooperative, this is the responsibility of the Board of Directors or Executive Board acting as the Board.

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

The management of the member cooperative banks and the institutions within the central institution are responsible for the implementation of capital adequacy management according to the agreed-upon principles and guidelines, and report regularly on the institution's business, risk-bearing capacity and risk exposure to the Board.

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

The subsidiaries' risk and capital adequacy management responsibilities were centralised in the parent institution as part of the reorganisation of OP-Pohjola Group Central Cooperative Consolidated in early 2013. This reorganisation harmonised the risk management and internal capital adequacy assessment process employed by the institutions within OP-Pohjola Group Central Cooperative Consolidated.

Within Pohjola Group, Pohjola Bank plc's Board of Directors is the highest decision-making body in matters associated with risk management. The Board of Directors has elected among its members a Risk Management Committee which monitors the company's risk exposure and assists the Board in ensuring that the company and its consolidated group have adequate risk and capital adequacy management systems in place to cover all operations. The Risk Management Committee reports to the Board of Directors. Pohjola's CRO is tasked with further developing and implementing integrated risk and capital adequacy management within Pohjola Group in cooperation with other Executive Committee members and the central institution's Risk Management. The CRO and the central institution's Risk Management assists the Board of Directors, the Risk Management Committee and the Audit Committee in the preparation and further development of Pohjola Group's risk and capital adequacy management principles and in the preparation of Pohjola Group's risk policy. The principles of Pohjola's risk and capital adequacy management are described in greater detail in Pohjola's financial statements.

The Board of Directors of OP Life Assurance Company Ltd is the highest decision-making body in matters associated with the company's risk and capital adequacy management. The Managing Director, who reports to the Board of Directors, is responsible for planning, preparing and implementing internal control and risk management according to the Board's decisions. The executive in charge of finance and risk management, who reports to the Managing Director, further develops and implements risk and capital adequacy management principles and controls related procedures in close cooperation with the central institution's Risk Management. The Chief Actuary ensures that the actuarial techniques applied by the company are appropriate and is under an obligation to report his observations to the Board of Directors.

3 Risk management in OP-Pohjola Group's strategy

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

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

4 Strategic risks

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

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

5 Operational risks

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

Forming part of operational risk, compliance risks refer to risks resulting from non-compliance with external regulations, internal policies and appropriate procedures and ethical principles governing customer relationships. Materialisation of such a risk may result not only in financial loss but also other sanctions. Such sanctions may include 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 aim of Compliance activities is to ensure that all OP-Pohjola Group institutions comply with applicable laws, official instructions and regulations, guidelines related to market self-regulation and OP-Pohjola Group's and its institutions' internal principles and guidelines.

Compliance also ensures that customer relationships are conducted with appropriate and ethically sound principles and practices.

5.1 Management tools

OP-Pohjola Group manages operational risks by identifying and analysing risks and by ensuring that controls and management tools are appropriate and adequate. Reputational risk is managed proactively and in the long term by complying with regulations, good practices in the financial sector and the Group's Code of Business Ethics and by emphasising transparent operations and communications. Operational risk management does not always aim to eliminate the risk altogether but to bring it down to an acceptable level.

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

For situations that may disrupt business operations have been prepared by means of contingency planning in key business divisions. Contingency planning also forms the basis for preparation against emergency conditions referred to in the Emergency Powers Act. The Group tests contingency plans to its testing plans.

According to OP-Pohjola Group's internal division of responsibilities, OP-Services Ltd is in charge of providing services to Group institutions on a centralised basis and of their reliability and continuity. The central institution controls and supervises OP-Services Ltd and ensures that OP-Services Ltd has sufficient systems and procedures in place to serve the entire OP-Pohjola Group. OP-Pohjola Group institutions are responsible for the management of their own operational risks associated with their business (incl. outsourced services) as required by the nature and extent of their business.

Compliance risk is managed by monitoring legislative amendments and by providing the organisation with guidelines, training and consultation. The Compliance function also supervises the organisation in respect of its procedures' conformity with regulations. Compliance risks are identified, assessed and reported regularly according to the operational risk management model described above. Before any new operating model or product is launched, their risks are assessed as laid down by the central institution's Risk Management. All products offered or business models applied to OP-Pohjola Group's customers are approved at Group level.

Institutions within OP-Pohjola Group Central Cooperative Consolidated have centralised compliance functions within the central institution's Risk Management. Group member cooperative banks have a designated person responsible for ensuring regulatory compliance.

5.2 Monitoring and reporting

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

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

6 Credit risks

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

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

The Group uses central counterparty clearing, collateral and netting agreements as well as exchange-traded products to mitigate counterparty risk. Country risk is restricted by limiting the amount of exposures of destination countries and contracting parties within them. In settlement risk management, it is vital to ensure the reliability of counterparties. The Group mitigates risks by concluding standard agreements and using only reliable clearing centres.

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

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

6.1 Credit risk management within Banking

Credit risk exposure is controlled by applying the Group's risk policy Credit risk policy defines the target exposure level, risk-taking policies, the principles governing customer selection and the use of collateral and covenants, with a view to ensuring a sufficiently diversified loan portfolio in order to avoid excessive risk concentrations by customer group or sector. Targets have been set for the Group and its banks per credit rating category concerning new lending and the credit portfolio in order to retain the credit portfolio quality as high as possible. The credit rating controls customer selection, consequences of inadequate collateral, and pricing of liabilities.

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

The repayment capacity of private customers is tested in the case of an interest rates rise, and customers are offered payment protection insurance in the case of illness or unemployment. OP-Pohjola Group avoids high financing percentages.

The assessment of corporate customers' debt servicing ability and credit risk is made by means of not only credit ratings but also payment behaviour data; financial statements analyses and forecasts; corporate analyses, statements and sector reviews; and customer needs analyses, credit rating assessments and other documents produced by the banks' customer care representatives. The corporate finance business is based on service models into which risk management has been closely integrated while ensuring that risk management remains independent.

The Group will respond to any foreseeable problems as early as possible. The operating models of weak and problem customers have been described separately to ensure uniform treatment of private, corporate and agricultural customers. Customers whose financial status performance, credit risk and payment behaviour justify a more detailed examination are subject to special observation. In this context, the Group also analyses the need to change the customer's credit rating, the probability of a credit loss and the need to recognise an impairment loss. This often means that changes must be made to credit decision levels.

Country limits determine a country's maximum exposure and maturity. Country limits are primarily based on a country's external credit rating, but other information about the country is also utilised. In addition to country limits, companies set limits on certain products based on the country's external rating.

6.2 Monitoring and reporting within Banking

Credit risk developments are monitored at least monthly in relation to the limits set and to the control limits. Credit rating reports number among other monitoring tools. Monitoring also covers major customer exposure, reports on credit portfolio quality and structure, adequacy of collateral, late payments and non-performing receivables.

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

6.3 Mitigating credit risks

In order to ensure repayment of commitments, collateral must be provided for exposure, and retail banking exposure must primarily protected through hard collateral. However, the customer's cash flow forms the basis of all lending. Collateral is assessed by an independent appraiser and using a conservative approach to fair value. The Group exercises special care in assessing the value of collateral deemed as cyclical in nature. Developments in collateral values are monitored on a regular basis. Whenever a financing decision is made, the Group will check whether the collateral must be reassessed. Similar reassessment is made when the value of collateral has changed significantly or the customer's financial standing has weakened substantially. The fair values of housing used as collateral is updated once a year on the basis of indexes deriving from official sales price statistics.

Especially in the case of the largest corporate customers, covenants in loan agreements are used in addition to collateral. Monitoring these enables the Group to ensure that it receives an accurate picture of the company's status and can reassess the loan terms and conditions, collateral requirements or pricing if the risk status changes.

6.4 Credit rating

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

CREDIT RISK INDICATORS WITHIN INTERNAL CREDIT RATINGS

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

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

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

6.4.1 Credit rating and probability of default

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

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

Assessment of a private customer's probability of default

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, the Group uses a credit rating model of the customer's loan portfolio and the rating of the application stage. The rating of private customers is based on information available from the loan application, the customer's payment behaviour and other transaction history data. The scores calculated on the basis of this data determine the exposure category. Average PD has been calculated for each category for a period of 12 months.

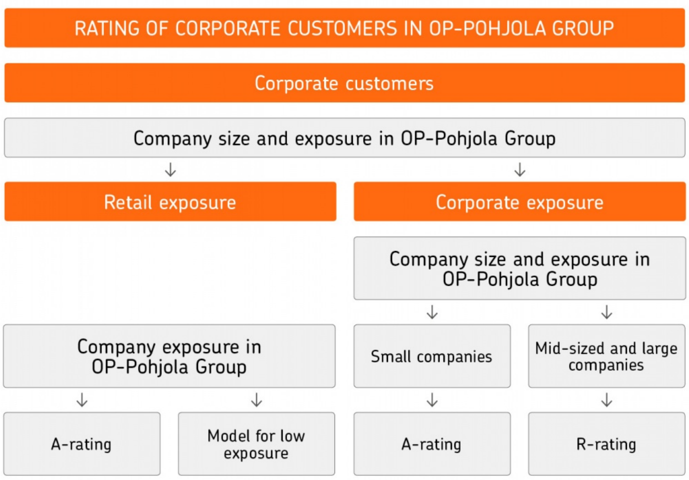
The rating model for private customers' loan portfolio is used to categorise the exposures of private customers, some of whose debtors has had loans with OP-Pohjola Group for the last six months. The loan portfolio's rating categories are updated once a month. This model was adopted in 2006 and its current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

When a member cooperative bank extends a loan, it uses the rating model for the application stage of housing loans and secured consumer loans. As to financing company products and unsecured consumer loans, the Group uses separate application stage models. In spring 2014, the Group will adopt updated versions of the application stage models.

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.

Assessing a corporate customer's probability of default

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



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

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

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

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

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

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

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

Assessing a credit institution's probability of default

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

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

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

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

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

6.4.2 Loss given default and exposure at default

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

6.4.3 Use of credit risk models in capital adequacy measurement

OP-Pohjola Group 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. The Group 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. In the main, a simple model applies to equity investments. The PD/LGD method applies to OP-Pohjola Group's strategic investments, where the PD values are based on internal models and LGD standard estimates.

6.4.4 Decision-making and assessment related to credit risk models

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

The effectiveness of the credit rating process and credit risk models is subject to regular monitoring and supervision. The central institution's Risk Management collects continuous feedback from the business lines/divisions on the effectiveness of the credit rating process and models related to credit risk parameters. It monitors monthly the models that automatically create a credit rating category, with a view to following changes in the credit portfolio and lending that may, for example, indicate errors in IT implementation.

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

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

6.5 Securitised assets

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

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

7 Liquidity risk

Banking's liquidity risk comprises structural funding risk and funding liquidity risk. The sources of liquidity risks include those arising from the difference between the maturities of short-term receivables and liabilities, from the balance sheet structure, changes in customer behaviour, and risks associated with access to wholesale funding. Moreover, liquidity risk may arise from changes in regulation governing the management of business risks, reputational risk or liquidity.

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

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

Insurance operations' funding liquidity risk is assessed individually from each insurance business's viewpoint. Insurance companies' investment assets act as a liquidity buffer for each company. In Non-life Insurance, liquidity is considered the ability to pay compensation and other operating expenses after premiums written.

In Life Insurance, there is a need to prepare for liquidity requirements that arise from changes in customer behaviour and the conversion of with-profits policies to unit-linked ones.

7.1 Management tools

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

OP-Pohjola Group manages its liquidity through proactive funding structure planning, its risk limits and limits and control limits for Group institutions deriving from such risk limits, and target levels. OP-Pohjola Group's liquidity management tools also include the monitoring of the liquidity status and well-balanced liquidity buffer, planning and management of daily liquidity, as well as effective control of the Group's liquidity status. Funding liquidity management is governed by the regulations concerning the minimum reserve and marginal lending facility systems by the European Central Bank.

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

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

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

OP-Pohjola's Executive Board is responsible for OP-Pohjola Group's liquidity risk management and controls liquidity management using various threshold levels. In cases of market disruption, liquidity management relies on the business and contingency plan. Each OP-Pohjola Group institution manages its liquidity within the framework of control limits issued by the central institution, and of the account, deposit and loan terms and conditions and limits and regulations.

Institutions engaged in insurance operations are primarily responsible for managing their own liquidity. The institutions' liquidity requirements are taken into account in the allocation of the investment portfolio.

7.2 Monitoring and reporting

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

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

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

OP-Pohjola Group's risk limits for liquidity risk have been set for net cash flows by maturity that guide the structural funding risk and for funding liquidity risk indicator. The risk indicator for the structural funding risk indicates the maximum portion of the net cash flows in the Group's balance sheet that may mature in different periods. Agreements with a maturity date are included in the analysis of structural funding risk according to the maturity date or any earlier repayment date. The maturities of accounts with no maturity date and early loan repayments have been modelled.

The funding liquidity risk indicator shows for how long a time the primary liquidity buffer can cover the known and predictable net cash flows payable daily outside the Group and any unexpected yet moderate decline in the deposit portfolio. At operational level, tighter control levels than limits are set for indicators with a view to serving as an operational buffer. In addition, the Group uses risk indicators describing various aspects of liquidity risk.

Group-level reporting also includes the liquidity coverage ratio (LCR) to be phased in from 2015 and based on the new Capital Requirements Directive and Regulation (CRD IV/CRR).

The allocation breakdown of insurance investment portfolios is subject to regular reporting. Stress tests are also used to assess sensitivity to funding liquidity risk.

8 Market risks

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

The greatest market risk for banking relates to the effect of a change in interest rates on net interest income, i.e. interest income risk. The biggest market risks related to non-life and life insurance operations concern those associated with investments and insurance liabilities, primarily interest rate risk.

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

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

8.1 Management tools

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

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

Transactions executed by Group member cooperative banks and Helsinki OP Bank Plc in the money and capital market have been restricted in such a way that the number of trading portfolios per bank does not exceed the number permitted to small trading portfolios in the capital adequacy regulations related to market risk. The trading portfolio of a single bank may account for a maximum of 5% of the total amount of items on and off the balance sheet.

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

Group member banks use derivatives to hedge Euribor-linked interest rate risk against a decrease in interest rates and fluctuations in net interest income. In hedging, the Group uses a cash flow hedging model in which future interest rate cash flows in the Euribor-linked loan portfolio are changed into fixed-rate interest by means of interest rate swaps. Group member cooperative banks also use a fair value hedging model in which the cash flow of a fixed-rate loan is changed to the Euribor-linked cash flow.

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

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

8.2 Monitoring and reporting

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

Market risk assessment tools consist of sensitivity analyses, statistical volatility and correlation analyses, VaR (Value-at-Risk) analyses, and stress tests. The Group monitors risks associated with derivatives as part of exposure risk using the same metrics as for balance sheet exposure. The specifics of monitoring and reporting for each risk type have been described in sections covering each individual risk type.

OP-Pohjola Group use three limits to restrict Group-level market risks. Interest rate, credit spread, currency, equity and commodity risk related to trading, and the price risk related to structured products, are mitigated by means of a VaR limit. The market risk limit for insurance operations has been set on the basis of the ratio between the economic capital and the Group's capital resources concerning the risk in question. Within insurance operations, the economic capital for interest rate, currency, credit spread, equity and commodity risks are calculated using the historical simulation VaR model. The third of the Group-level market risk limits has been set for interest rate risk related to financing. More detailed information on limits can be found in the section describing interest rate risk monitoring and reporting below.

8.3 Interest rate risk

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

OP-Pohjola Group's most significant interest rate risks are those related to retail banking's banking book and to insurance operations. In Non-life Insurance and Life Insurance, interest rate risk arises when changes in the interest rate affect the value of and income from investment assets and the cash flows of insurance liabilities. The Banking interest rate risk is derived from the banking book and Pohjola Bank plc's trading portfolio. The interest rate risk of items not included in the trading book is by nature related to structural interest rate risk associated with interest income from financing.

8.3.1 Management tools

The interest rate risk associated with the banking book of Group member cooperative banks is mainly managed by the choice of borrowing and lending products and their terms and conditions offered. Group member cooperative banks may also hedge against interest rate risk in their banking book using interest rate derivatives as approved within the Group. Retail banking also uses interest rate derivatives in customer business (interest rate caps, interest rate corridors and index-linked deposits).

In addition to interest rate monitoring standardised throughout the Group, Pohjola Bank plc controls interest rate risk limits using interest rate limits specific to responsibility areas. Interest rate risk related to trading and the banking book is controlled using the same principles and indicators.

In Life Insurance, interest rate risk is significant in obligations to policyholders that are included in insurance liabilities. These obligations consist of promises of fixed profits and any customer benefits. The purpose of Life Insurance's asset/liability management is to measure and manage the company's entire net interest risk exposure. Interest rate risk associated with insurance liabilities is hedged fully or partly using interest rate derivatives in order to bring the overall risk exposure to the target level.

8.3.2 Monitoring and reporting

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

When determining the interest rate risk of Banking, the impact of customer behaviour is also taken into account by modelling, on the basis of historical development of the cooperative banks' deposit portfolio, deposit maturity structures and by assessing the deposits' average repricing delay. The delay in reviewing administrative interest rates has been modelled on the basis of interest rate history. The interest rate analysis takes account of the effect of early loan repayments on the basis of statistically modelled past behaviour. The Group has set financing interest rate risk limit for interest income risk, which measures the effect of changes in the interest rate on the accrued net interest income for the following 12 months. As part of regular interest rate risk measurements and reporting, the Group carries out stress tests to analyse the effects of various interest rate changes on the present value of the interest rate risk exposure.

In Non-life and Life Insurance, an interest rate risk arises when changes in the interest rate affect the present value of investment assets and insurance liabilities. Interest rate risk arising from insurance companies' investments and insurance liabilities is managed and measured using the economic capital model as part of market risk associated with insurance operations. The Group also monitors interest rate risk by calculating the effect of a change of one percentage point or basis point on the value of investments and insurance liabilities.

8.4 Price risks

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

8.4.1 Equity risk

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

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

8.4.2 Commodity risk

Commodity risk refers to risk caused by changes in the market value of commodities. Commodity risk is included in insurance companies' investments and Pohjola Bank plc's trading. The Group manages commodity risk by selecting securities and using derivatives. Pohjola Bank plc applies the statistical VaR indicator to commodity risk, too.

8.4.3 Currency risk

In Banking, currency risk refers to the risk caused to the bank's earnings or change in market value by changes in foreign exchange rates. Open foreign exchange exposure arises when there is a difference between receivables and liabilities in the same currency. In OP-Pohjola Group member banks, the currency risk is centralised within Pohjola. Overnight currency risk is low within Banking. The currency exposure of an individual member cooperative bank is practically limited to travel exchange cash. In Non-life and Life Insurance, currency risk arises from the effect of changes in exchange rates on the value of investment assets.

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

8.4.4 Volatility risk

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

Active volatility risk within OP-Pohjola Group is taken only by Pohjola Bank plc which has limited the volatility risk associated with options trading using sensitivity and VaR indicators.

8.5 Real estate risk

Real estate risk refers to risk to an investment's market-based income caused by market changes and property occupancy rate, both with reference to property holdings and similar instruments. Real estate risk is present in insurance institutions' investment portfolios. Group member cooperative banks' real estate investments are primarily related to the banks' needs for premises.

The objective of real estate risk management is to recognise, assess, mitigate and monitor the impairment risk, rental income risk and risk of damage associated with property holdings. In Non-life and Life Insurance, the investment plan includes the confirmed principles of real estate risk management.

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

The Group monitors real estate risk through economic capital. Based on an expert assessment, economic capital for investment property accounts for 40% of the balance sheet value and for property in own use for 8% of the balance sheet value. In insurance operations, the risks of indirect, market-quoted property investments (real estate funds etc.) are included in the measurement of the economic capital in terms of market risks.

8.6 Credit spread risk

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

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

8.7 Market liquidity risk

Market liquidity risk means that the Group may not be able to realise or cover its market exposures at the prevailing market price, since the market lacks sufficient depth or are inactive due to a market disruption. Market liquidity risk arises as a result of the materialisation of some other risk: credit risk, liquidity risk or market risk.

8.8 Market risks associated with investment

Market risks associated with investment can be counterparty or market risks or operational risks.

OP-Pohjola Group's banking and insurance businesses engage in investment. The purpose of investment by Banking is to maintain OP-Pohjola Group's liquidity buffer and engage in short-term trading. Items included in the liquidity buffer are liquid notes and bonds eligible as collateral for central bank refinancing. The purpose of trading is to trade actively in various instruments and derivative contracts and to invest in Finnish and foreign notes and bonds to support customer business. Investments made by insurance companies are aimed at ensuring customer income (Life Insurance), obtaining assets covering insurance liabilities, and gaining a profit on insurance premiums invested.

8.8.1 Management tools

Managing investment risks is based on diversification through effective allocation. OP-Pohjola's risk policy controls and restricts investment risk-taking. The risk policy provides the Group and its institutions with quantitative and qualitative restrictions in terms of products, regions and creditworthiness.

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

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

8.8.2 Monitoring and reporting

In the measurement of risk exposure of investments, the Group uses allocations based on the investments' historical value performance and return, risk, VaR and correlation models. Investment assets undergo sensitivity analyses to assess the effects of changes in share prices, interest rates and the value of real estates. A sensitivity analysis of the credit risk is also carried out for each investment. In order to assess the effects of exceptional market conditions, the Group uses stress tests; for example, a scenario based on the 2008–2009 financial market crisis.

9 Underwriting risks associated with Non-life Insurance

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.

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.

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

A specific risk type consists of a claim accumulation generated by natural catastrophes or large catastrophes caused by human activity. In such a case, one catastrophic event may in practice give rise to simultaneously payable claims for a large number of insured risks at high amounts. The resulting total claims expenditure may be extremely large. However, this risk can be diversified because OP-Pohjola Group operates in an area where the risk of natural catastrophes is considered relatively low and the Group can acquire protection against the risk through reinsurance.

9.1 Management tools

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

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

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

The risk inherent in insurance liabilities lies mainly in insurance lines characterised by a long claims settlement period. The assessment of insurance liabilities always involves uncertainties which may be due, for instance, to the forecast of the claims trend, delays in verifying losses, cost inflation, legislative amendments and general economic development. The Group manages insurance liability by monitoring the sufficiency of insurance liabilities on a regular basis.

9.2 Monitoring and reporting

Non-life Insurance uses a probability model for the assessment of insurance risks to assess an optimal solvency level. As regards underwriting risks, the model takes account of the nature of insurance lines and the extent of reinsurance.

The Group monitors the adequacy of insurance liabilities on an annual basis. Insurance liabilities arising from insurance contracts are determined on the basis of estimated future cash flows. The cash flows comprise claims paid out and loss adjustment expenses. The amount of insurance liabilities has been estimated in such a way that it is, in reasonable probability, sufficient to cover the liabilities arising from insurance contracts. This has been performed by estimating an expected value for the insurance liability and then by determining a safety loading based on the degree of uncertainty related to the liability.

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

In Group-level risk limit indicators, underwriting risks are restricted using an indicator that measures the ratio between economic capital and the Group's capital base. Economic capital for underwritings risk is measured using the insurance company's own risk model.

More detailed information on Non-life Insurance risks can be found in Pohjola's financial statements.

10 Underwriting risks associated with Life Insurance

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

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

Disability risk is included in insurance contracts on the basis of which compensation is paid for reduced incapacity for work or losses caused by this.

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

Expense risk refers to a situation in which incurred insurance contract management expenses differ from those estimated in pricing.

10.1 Management tools

Underwriting risk management tools include prudent pricing, careful selection of exposure and reinsurance. Diversifying insurance between different insurance types also reduces risks. OP Life Assurance Company Ltd reinsures, when necessary, any major individual risks and risk concentrations.

Risks related to mortality and longevity are priced in a secure way on the basis of the conditions and situation prevailing when the policy is issued. The company may change the prices of these long-term contracts to a very limited extent. This is why the risk for any later changes in the pricing bases will be borne by the insurance company so that the premiums of new policies are increased and the company records an insurance liability supplement to sold policies. Offering insurance policies that have opposite risk exposures reduces the net risk of the entire insurance portfolio.

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

Termination risk related to customer behaviour and risk of a customer's option to change the profit type of his assets to one with the guaranteed interest rate are managed through a competitive range of products, suitable product structures and incentives and sanctions in the contract terms and conditions. Termination of insurance policies may also jeopardise the accuracy of cost assumptions used for pricing and thereby contribute to the materialisation of the expense risk.

The Group manages expense risk by means of sufficient cost control and appropriate pricing. The Group monitors regularly the realisation of assumptions made with regard to pricing and, if necessary, increases the premiums of new policies and records a supplement to insurance liabilities with regard to the sold policies.

10.2 Monitoring and reporting

The Group monitors changes in underwriting risks by insurance type on a monthly basis, with more detailed analyses carried out when necessary. A more detailed analysis is carried out annually, showing risk materialisation by insurance type and age group. The Group monitors operating expenses by main category on a monthly basis. A more detailed report is made annually to analyse performance by insurance type and function. The Group also monitors customer behaviour, payments, terminations and transfer of savings between different types of profit performance bases.

Legislative amendments may lead to such changes in the insurance terms and conditions that may have an effect especially on the sales of new policies and customer behaviour. Such amendments include amendments to laws or directives affecting long-term saving products or the premium rating bases of life insurance policies. Life insurance companies follow any legislative amendments and, whenever necessary, adjust their insurance contract pricing and terms and conditions as required by laws and in the manner as required by the companies' solvency management.

A Group-level limit has been set for Life Insurance's underwriting risk which describes economic capital of the underwriting risk in relation to the Group's capital base. Economic capital for underwritings risk is measured using the insurance company's own risk model.

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

Notes to OP-Pohjola Group Financial Statements

Note 3. Change in accounting policy

IAS 19 Employee Benefits

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

The table below shows the effect of the change in the accounting policy on personnel costs for Q1/2012 and financial year 2012 and on other items in comprehensive income. OP-Pohjola Group voluntarily stopped using the corridor method from the beginning of 2012.

EUR million	Old accounting policy	New accounting policy	Effect of change in accounting policy
Income statement 2012			
Personnel costs	749	764	16
Income tax expense	119	115	-4
Statement of comprehensive income 2012			
Actuarial gains/losses on post-employment benefit obligations	-90	-75	16
Income tax on actuarial gains/losses on post-employment benefit obligations	-22	-18	4

Notes to OP-Pohjola Group Financial Statements

Note 4. Business combinations during the period

OP-Pohjola Group did not acquire any new businesses during the financial year.

Business operations acquired during 2012

On 31 August 2013, OP-Pohjola Group Central Cooperative – the central institution of OP-Pohjola Group – bought the share capital of Aurum Investment Insurance Ltd, a Finnish life insurance company established in connection with the acquisition, from Skandia Life Assurance Company Ltd, a subsidiary of Old Mutual plc. On 28 August 2013 as part of the acquisition, Skandia Life's portfolio of 100,000 pension, savings and investment policies transferred to Aurum Investment Insurance Ltd which became an OP-Pohjola Group Central Cooperative subsidiary on 31 August 2013. The accounts of Aurum Investment Insurance Ltd have been included in OP-Pohjola Group's consolidated financial statements since 31 August 2013.

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

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

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

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

Notes to OP-Pohjola Group Financial Statements

NOTES TO THE INCOME STATEMENT

Note 5. Net interest income

EUR million	2013	2012
Interest income		
Receivables from credit institutions	11	20
Receivables from customers		
Loans	1,233	1,497
Finance lease receivables	22	24
Impaired loans and other commitments	3	3
Notes and bonds		
Held for trading	11	11
At fair value through profit or loss	1	1
Available for sale	157	194
Held to maturity	6	12
Loans and receivables	9	15
Derivative contracts		
Held for trading	1,134	1,475
Fair value hedge	-104	-101
Cash flow hedge	25	21
Ineffective portion of cash flow hedge	3	0
Other	2	5
Total	**2,513**	**3,175**

Interest expenses		
Liabilities to credit institutions	-16	39
Financial liabilities at fair value through profit or loss	0	0
Liabilities to customers	267	407
Notes and bonds issued to the public	77	671
Subordinated liabilities		
Subordinated loans	10	10
Other	39	58
Derivative contracts		
Held for trading	1,084	1,388
Cash flow hedge	138	-410
Other	1	10
Total	**1,599**	**2,171**
Net interest income before fair value adjustment under hedge accounting	**914**	**1,004**
Hedging derivatives	-257	270
Value changes of hedged items	257	-269
Total net interest income	**914**	**1,004**

Notes to OP-Pohjola Group Financial Statements

NOTES TO THE INCOME STATEMENT

Note 6. Impairment losses on receivables

EUR million	2013	2012
Receivables written down as loan and guarantee losses	61	67
Recoveries of receivables written down	-15	-14
Increase in impairment losses	110	108
Reversal of impairment losses	-72	-60
Collectively assessed impairment losses	-1	-2
Total	**84**	**99**

Notes to OP-Pohjola Group Financial Statements

NOTES TO THE INCOME STATEMENT

Note 7. Net income from Non-life Insurance

EUR million	2013	2012
Insurance premium revenue		
Premiums written	1,346	1,215
Change in provision for unearned premiums	-37	-32
Gross insurance premium revenue	1,309	1,183
Reinsurers' share	-60	-57
Total	1,249	1,126
Net investment income	127	110
Claims incurred		
Claims paid (excl. loss adjustment expenses)	786	786
Change in provision for unpaid claims	65	6
Gross total claims incurred	851	792
Reinsurers' share	-42	-33
Total	809	759
Other Non-life Insurance items	43	45
Net income from Non-life Insurance	**524**	**433**

Insurance premium revenue and insurance premiums ceded to reinsurers

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

Net investment income from Non-life Insurance

Loans and receivables		
Interest income	5	5
Interest expenses	-1	-1
Capital gains and losses	-	-1
Fair value gains and losses	-1	-1
Loans and receivables total	3	2
Net income from financial assets recognised at fair value through profit or loss		
Interest income		
Notes and bonds	1	0
Derivatives	0	0
Total	1	0
Capital gains and losses		
Notes and bonds	2	-
Derivatives	-1	-11
Total	1	-11
Fair value gains and losses		
Notes and bonds	3	2
Derivatives	4	-2
Total	6	0
Total net income from financial assets recognised at fair value through profit or loss	8	-10
Net income from available-for-sale financial assets		
Notes and bonds		
Interest income	52	56
Other income and expenses	0	0
Capital gains and losses	-2	35
Transferred from fair value reserve during the financial year	21	-8
Impairment losses and their reversal	-3	-2
Total	68	81
Shares and participations		
Dividends	26	29
Other income and expenses	2	2
Capital gains and losses	3	41
Transferred from fair value reserve during the financial year	19	-27
Impairment losses and their reversal	-8	-11
Total	42	33
Total net income from available-for-sale financial assets	110	114
Net income from investment property		
Rental income	15	15
Capital gains and losses	-1	0
Value changes from fair value measurement	4	3
Maintenance charges and expenses	-12	-12
Other	-1	-1
Total net income from investment property	5	4
Total net investment income from Non-life Insurance	**127**	**110**

Unwinding of discount, Non-life Insurance

The increase in the discounted insurance liabilities of Non-life Insurance due to the passage of time (Note 36) (unwinding of discount) totals EUR 43 million (44). Unwinding of discount is computed monthly applying the discount rate at the end of the previous month and the insurance liabilities at the beginning of the current month. The discount rate was 3.7% from 31 December 2003 to 30 November 2004, 3.5% from 1 December 2004 to 30 November 2005, 3.3% from 1 December 2005 to 30 November 2007, 3.5% from 1 December 2007 to 30 November 2011, 3.3% from 1 December 2011 to 31 July 2012, 3.0% from 1 August 2012 to 31 October 2013 and 2.8% from 1 November to 31 December 2013.

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

Notes to OP-Pohjola Group Financial Statements

NOTES TO THE INCOME STATEMENT

Note 8. Net income from Life Insurance

EUR million	2013	2012
Premiums written	1,074	848
Insurance premiums ceded to reinsurers	-25	-27
Net investment income	521	635
Claims incurred		
Benefits paid	750	644
Change in provision for unpaid claims	16	42
Reinsurers' share	-11	-11
Change in insurance contract liabilities		
Change in life insurance provision	597	619
Reinsurers' share	1	-6
Other	42	58
Total net income from Life Insurance	**175**	**108**

Premiums written in Life Insurance

Premiums written from insurance contracts		
Premiums written from insurance contracts with entitlement to discretionary portion of surplus (DPF)		
Savings insurance	18	30
Personal pension insurance	38	41
Group pension insurance	60	71
Term insurance		
Personal insurance	77	79
Supplementary group insurance	2	2
Employees' group life insurance	12	10
Total term insurance	92	92
Total	207	233
Premiums written from unit-linked insurance contracts		
Savings insurance	775	522
Personal pension insurance	79	83
Group pension insurance	13	9
Total	867	614
Total	**1,073**	**848**

Premiums written from investment contracts		
Premiums written from investment contracts with entitlement to discretionary portion of surplus	1	1
Premiums written from unit-linked investment contracts	130	38
Total	**131**	**38**
Total direct insurance	**1,205**	**886**
Assumed reinsurance	0	0
Total premiums written	**1,205**	**886**
Regular premiums from insurance contracts	728	521
Regular premiums from investment contracts	75	37
Single premiums from insurance contracts	345	311
Single premiums from investment contracts	56	17
Total	**1,205**	**886**

Net investment income from Life Insurance

Loans and receivables		
Interest income	7	13
Interest expenses	-1	-1
Capital gains and losses	6	1
Impairment losses	-1	0
Loans and receivables total	11	14
Net income from financial assets recognised at fair value through profit or loss		
Interest income		
Notes and bonds	8	11
Derivatives	0	1
Other	3	0
Total	11	12
Capital gains and losses		
Notes and bonds	-4	-1
Derivatives	1	-17
Total	-3	-18
Fair value gains and losses		
Notes and bonds	1	-
Derivatives	-81	129
Total	-81	129
Total net income from financial assets recognised at fair value through profit or loss	-73	123
Net income from available-for-sale financial assets		
Notes and bonds		
Interest income	38	34
Capital gains and losses	-9	19
Transferred from fair value reserve during the financial year	16	-18
Impairment losses and their reversal	-9	-1
Total	36	33

Shares and participations		
Dividends	46	61
Other income	1	2
Capital gains and losses	3	93
Transferred from fair value reserve during the financial year	55	-57
Impairment losses	-22	-31
Total	83	69
Total net income from available-for-sale financial assets	119	102
Net income from investment property		
Rental income	9	13
Capital gains and losses	4	-1
Value changes from fair value measurement	5	2
Maintenance charges and expenses	-9	-15
Other	-1	-1
Total net income from investment property	9	-2
Assets serving as cover for unit-linked policies		
Shares, participations and others		
Interest income	0	0
Capital gains and losses	86	70
Fair value gains and losses	328	303
Other	41	24
Total assets serving as cover for unit-linked policies	455	397
Exchange rate gains (losses)	**0**	**0**
Total net income from investment operations	**521**	**635**

Benefits paid in Life Insurance

Benefits paid from insurance contracts		
Benefits paid from insurance contracts entitling to discretionary portion of surplus		
Savings insurance		
Maturities	120	147
Death benefits	43	50
Surrenders	25	45
Total	187	242
Personal pension insurance		
Annuities	65	58
Death benefits	2	1
Surrenders	3	2
Total	70	61
Group pension insurance		
Annuities	65	62
Lump-sum benefits	1	1
Surrenders	2	2
Total	68	65

Term insurance		
Personal insurance	24	23
Supplementary group insurance	1	1
Employees' group life insurance	8	7
Total	32	30
Benefits paid from unit-linked insurance contracts		
Savings insurance		
Maturities	38	40
Death benefits	52	39
Surrenders	288	157
Total	378	235
Personal pension insurance		
Annuities	7	5
Death benefits	2	1
Surrenders	7	3
Total	15	9
Group pension insurance		
Annuities	0	0
Death benefits	0	0
Surrenders	0	1
Total	0	1
Total benefits paid from insurance contracts	**750**	**644**
Benefits paid from investment contracts		
Benefits paid from investment contracts entitling to discretionary portion of surplus		
Capital redemption contracts		
Maturities	-	8
Surrenders	-	0
Total	0	9
Benefits paid from investment contracts not entitling to discretionary portion of surplus		
Benefits paid from unit-linked investment contracts		
Maturities	5	13
Surrenders	39	68
Total	45	81
Total benefits paid from investment contracts	**45**	**90**
Total direct insurance	**795**	**733**
Total benefits paid in Life Insurance	**795**	**733**

Notes to OP-Pohjola Group Financial Statements

NOTES TO THE INCOME STATEMENT

Note 9. Net commissions and fees

EUR million	2013	2012
Commissions and fees		
Lending	199	176
Deposits	6	5
Payment transfers	212	175
Securities brokerage	22	21
Securities issuance	11	15
Mutual fund brokerage	90	77
Asset management and legal services	74	70
Insurance brokerage	52	54
Guarantees	23	22
Other	31	44
Total	**721**	**659**
Commission expenses		
Payment transfers	44	22
Securities	7	13
Other	45	39
Total	**96**	**74**
Net commissions and fees	**625**	**584**

The item Other commission expenses includes EUR 12 million (EUR 11 million) of commissions paid for asset management and legal assignments and EUR 33 million (EUR 28 million) of other commissions paid.

Notes to OP-Pohjola Group Financial Statements

NOTES TO THE INCOME STATEMENT

Note 10. Net trading income

EUR million	2013	2012
Financial assets and liabilities held for trading		
Capital gains and losses		
Notes and bonds	4	14
Shares and participations	5	1
Derivatives	69	-20
Total	77	-5
Fair value gains and losses		
Notes and bonds	-2	0
Shares and participations	3	6
Derivatives	12	63
Total	13	69
Dividend income from assets held for trading	1	1
Total financial assets and liabilities held for trading	90	64
Assets and liabilities recognised at fair value through profit or loss		
Capital gains and losses		
Notes and bonds	0	0
Derivatives	1	0
Total	1	0
Fair value gains and losses		
Notes and bonds	1	2
Derivatives	0	0
Total	1	3
Total assets and liabilities recognised at fair value through profit or loss	2	2
Net income from foreign exchange operations		
Exchange-rate differences	-1	257
Other	23	-242
Total net income from foreign exchange operations	22	14
Total net trading income	**114**	**81**

Notes to OP-Pohjola Group Financial Statements

NOTES TO THE INCOME STATEMENT

Note 11. Net investment income

EUR million	2013	2012
Available-for-sale financial assets		
Notes and bonds		
Capital gains and losses	14	14
Transferred from fair value reserve during the financial year	2	3
Impairment losses and their reversal	0	0
Total	16	17
Shares and participations		
Capital gains and losses	1	3
Transferred from fair value reserve during the financial year	2	5
Impairment losses	-2	-11
Total	1	-2
Carried at amortised cost		
Capital gains and losses*	1	-12
Transferred from fair value reserve during the financial year	0	0
Total	0	-12
Dividend income	31	24
Total net income from available-for-sale financial assets	47	26
Net income from investment property		
Rental income	41	38
Capital gains and losses	8	2
Gains on fair value measurement	5	13
Maintenance charges and expenses	-36	-28
Other	1	1
Net income from investment property total	18	26
Other	**0**	**0**
Total net investment income	**66**	**52**

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

Notes to OP-Pohjola Group Financial Statements

NOTES TO THE INCOME STATEMENT

Note 12. Other operating income

EUR million	2013	2012
Rental income from property in Group use	13	13
Capital gains on property in Group use	4	3
Income from corporate transactions	1	19
Insurance claims and benefits	0	0
Other income from Non-life and Life Insurance	11	10
Lease income from leased assets	4	8
ADP income	12	8
Income from debt collection	2	3
Other	48	43
Total	**95**	**109**

Notes to OP-Pohjola Group Financial Statements

NOTES TO THE INCOME STATEMENT

Note 13. Personnel costs

EUR million	2013	2012
Wages and salaries	538	629
Variable remuneration	71	0
Pension costs		
Defined contribution plans	84	82
Defined benefit plans	30	20
Other personnel related costs	31	33
Total personnel costs	**753**	**764**

Notes to OP-Pohjola Group Financial Statements

NOTES TO THE INCOME STATEMENT

Note 14. Other administrative expenses

EUR million	2013	2012
Office expenses	72	73
ICT expenses	160	141
Telecommunications	37	39
Marketing	35	49
Corporate social responsibility expenses	6	7
Other administrative expenses	62	69
Total other administrative expenses	**373**	**378**

Notes to OP-Pohjola Group Financial Statements

NOTES TO THE INCOME STATEMENT

Note 15. Other operating expenses

EUR million	2013	2012
Rental expenses	4	4
Expenses for property in Group use	87	84
Capital losses on property in Group use	1	0
Depreciation and amortisation		
Buildings	13	38
Machinery and equipment	20	20
Intangible assets	45	42
Intangible assets related to business combinations	42	34
Other	14	17
Total	134	151
Impairments		
Property in Group use	2	1
Goodwill	0	0
Total	2	1
Bank levy	46	-
Contribution to the Deposit Protection Fund	29	29
Other	101	83
Total other operating expenses	**404**	**352**

The item Other in Other operating expenses includes EUR 13 million (EUR 14 million) in supervision, inspection and membership fees, EUR 10 million (EUR 9 million) in insurance and security expenses, EUR 11 million (EUR 9 million) in other expenses of Non-life Insurance and EUR 67 million (EUR 51 million) in other operating expenses.

Audit fees paid to auditors total EUR 1.8 million (EUR 1.9 million), whereas assignments as referred to in Section 1, Sub-paragraph 1(2) of the Auditing Act were EUR 0.3 million (EUR 0.1 million), fees for legal counselling EUR 0.2 million (EUR 0.1 million) and fees for other services EUR 1.2 million (EUR 1.4 million).

Notes to OP-Pohjola Group Financial Statements

NOTES TO THE INCOME STATEMENT

Note 16. Returns to owner-members

EUR million	2013	2012
Bonuses	182	173
Interest on cooperative capital	11	19
Total returns to owner-members	**193**	**192**

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

Notes to OP-Pohjola Group Financial Statements

NOTES TO THE INCOME STATEMENT

Note 17. Income tax

EUR million	2013	2012
Current tax	133	149
Tax for previous financial years	-11	2
Deferred tax	-90	-36
Income tax expense	**32**	**115**
Corporate income tax rate	24.5	24.5

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

Earnings before tax	705	586
Tax calculated at a tax rate of 24,5% (2011 26%)	173	143
Tax for previous financial years	-11	2
Income not subject to tax	-15	-14
Expenses not deductible for tax purposes	24	18
Re-evaluation of unrecognised tax losses	8	-27
Tax adjustments	6	-1
Non-recurring item recognised at company acquisition	-	-5
Tax rate change on 1 Jan 2014	-157	0
Other items	5	-2
Tax expense	**32**	**115**

Notes to OP-Pohjola Group Financial Statements

NOTES TO ASSETS

Note 18. Liquid assets

EUR million	31 Dec. 2013	31 Dec. 2012
Cash	126	143
Deposits with central banks repayable on demand		
Pohjola Bank's minimum reserve deposit	527	531
Cheque account	1,518	5,111
Total liquid assets	**2,172**	**5,784**

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

Notes to OP-Pohjola Group Financial Statements

NOTES TO ASSETS

Note 19. Receivables from credit institutions

EUR million	31 Dec. 2013	31 Dec. 2012
Receivables from credit institutions		
Deposits		
Repayable on demand	297	74
Other	14	3
Total	311	77
Loans and receivables		
Other	316	436
Notes and bonds	222	328
Total	538	763
Total	848	840
Total receivables from credit institutions	**848**	**840**

Notes to OP-Pohjola Group Financial Statements

NOTES TO ASSETS

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

EUR million	31 Dec. 2013	31 Dec. 2012
Financial assets held for trading		
Government notes and bonds	14	11
Certificate of deposits and commercial papers	4	6
Debentures	8	2
Perpetual loans	6	1
Bonds	401	226
Other notes and bonds	6	2
Shares and participations	87	91
Total	525	339
Financial assets at fair value through profit or loss at inception		
Bonds	7	14
Other notes and bonds	5	5
Total	11	18
Total financial assets at fair value through profit or loss	**537**	**358**

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

Financial assets held for trading	31 Dec. 2013		31 Dec. 2012	
EUR million	Notes and bonds	Shares and participations	Notes and bonds	Shares and participations
Quoted				
From public corporations	9	-	7	-
From others	422	86	234	90
Other				
From public corporations	4	-	6	-
From others	4	1	1	1
Total	**438**	**87**	**248**	**91**

Financial assets at fair value through profit or loss at inception	31 Dec. 2013		31 Dec. 2012	
EUR million	Notes and bonds	Shares and participations	Notes and bonds	Shares and participations
Quoted				
From others	7	-	14	-
Other				
From others	5	-	5	-
Total	**11**	**-**	**18**	**-**
Total financial assets at fair value through profit or loss	**450**	**87**	**266**	**91**

Notes to OP-Pohjola Group Financial Statements

NOTES TO ASSETS

Note 21. Derivative contracts

EUR million	**31 Dec. 2013**	**31 Dec. 2012**
Held for trading		
Interest rate derivatives	2,592	3,470
Currency derivatives	169	28
Equity and index derivatives	108	124
Credit derivatives	3	4
Other	55	34
Total	2,927	3,659
Hedging derivative contracts		
Fair value hedging		
Interest rate derivatives	424	626
Currency derivatives	38	47
Cash flow hedge		
Interest rate derivatives	18	69
Total	479	741
Other hedging derivatives		
Interest rate derivatives	17	36
Other	0	0
Total	17	36
Total derivative contracts	**3,423**	**4,436**

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

Notes to OP-Pohjola Group Financial Statements

NOTES TO ASSETS

Note 22. Receivables from customers

EUR million	31 Dec. 2013	31 Dec. 2012
Loans to the public and public corporations	55,898	52,685
Notes and bonds	52	78
Finance lease receivables	1,148	1,048
Other receivables	11,606	11,763
Total	68,704	65,574
Impairment losses	-449	-413
Total receivables from customers	**68,255**	**65,161**

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

EUR million	Loans	Notes and bonds	Bank guarantee recei-vables	Interest recei-vables	Total
Impairment losses 1 January 2013	404	7	7	-5	413
Increase in impairments of individually assessed loans and receivables	107	-	2	-13	96
Change in impairments of collectively assessed loans and receivables	-1	-	-	-	-1
Reversal of impairments of loans and receivables individually assessed	-37	-	0	13	-24
Loans and guarantee receivables derecognised from the balance sheet, of which an individually assessed impairment was recognised	-28	-7	-	-	-35
Exchange rate difference adjustments	-	0	-	-	0
Impairment losses 31 December 2013	446	0	9	-6	449

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

Finance lease receivables

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

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

Notes to OP-Pohjola Group Financial Statements

NOTES TO ASSETS

Note 23. Non-life Insurance assets

EUR million	31 Dec. 2013	31 Dec. 2012
Investments		
Loans and receivables	61	104
Equities	471	409
Investment property	106	112
Notes and bonds	2,014	1,960
Derivative contracts	4	1
Other	318	452
Total	2,974	3,038
Other assets		
Prepayments and accrued income	40	41
Other		
From direct insurance	324	290
From reinsurance	90	91
Cash in hand and at bank	4	10
Other receivables	64	20
Total	524	454
Total Non-life Insurance assets	**3,497**	**3,492**

Non-life Insurance investments	**31 Dec. 2013**	**31 Dec. 2012**
Loans and receivables		
Loans	60	103
Deposits with ceding undertakings	1	1
Total	61	104
Financial assets recognised at fair value through profit or loss		
Notes and bonds	6	19
Derivative contracts	4	1
Total	10	20
Available-for-sale financial assets		
Notes and bonds	2,007	1,941
Shares and participations	471	409
Other participations	318	452
Total	2,797	2,802
Investment property		
Land and water areas	9	12
Buildings	97	101
Total	106	112
Total Non-life Insurance investments	**2,974**	**3,038**

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

	31 Dec. 2013			**31 Dec. 2012**		
EUR million	**Notes and bonds**	**Shares and participations**	**Derivative contracts**	**Notes and bonds**	**Shares and participations**	**Derivative contracts**
Quoted						
From others	6	-	-	19	-	-
Other						
From others	-	-	4	-	-	1
Total	**6**	**-**	**4**	**19**	**-**	**1**

Available-for-sale financial assets of Non-life Insurance, 31 December 2013

EUR million	Available-for-sale notes and bonds			Available-for-sale shares and participations		
	At fair value	At amortised cost	Total	At fair value	At cost	Total*
Quoted						
From public corporations	465	-	465	-	-	-
From others	1,527	-	1,527	581	-	581
Other						
From public corporations	-	-	-	-	-	-
From others	14	-	14	209	-	209
Total	**2,007**	**-**	**2,007**	**789**	**-**	**789**
	-3	-	-3	-8	-	-8

* Available-for-sale shares and participations include EUR 471 million (EUR 409 million) in equities and mutual funds with equity risk and EUR 338 million (EUR 459 million) in other participations. Other participations consist mainly of units in bond, money market, convertible bond, commodities, hedge funds and real estate funds.

The available-for-sale financial assets of Non-life Insurance include EUR 4 million (EUR 3 million) in pledged items. The items mainly consist of notes and bonds in collateral for derivatives trading.

Available-for-sale financial assets of Non-life Insurance, 31 December 2012

EUR million	Available-for-sale notes and bonds			Available-for-sale shares and participations		
	At fair value	At amortised cost	Total	At fair value	At cost	Total
Quoted						
From public corporations	444	-	444	-	-	-
From others	1,492	-	1,492	655	-	655
Other						
From others	5	-	5	206	-	206
Total	**1,941**	**-**	**1,941**	**861**	**-**	**861**
	-2	-	-2	-11	-	-11

Changes in Non-life Insurance investment property	2013	2012
Acquisition cost 1 January	95	84
Increase	18	15
Decrease	-7	-3
Transfers between items	-20	-1
Acquisition cost 31 December	86	95
Accumulated changes in fair value 1 January	17	14
Changes in fair value during financial year	4	3
Decrease	-2	-
Accumulated changes in fair value 31 December	19	17
Carrying amount 31 December	106	112

Constructions and repair obligations regarding investment property in the accounting period amounted to EUR 2 million (15). The fair value of investment property holdings excludes the portion of debt.

A total of 86% of Non-life Insurance's investment property holdings, or EUR 90 million, was appraised by external property valuers, all of them being authorised property valuers (AKA). These valuers were Olli Kantanen and Antti Hänninen employed by Realia Group Oy.

Notes to OP-Pohjola Group Financial Statements

NOTES TO ASSETS

Note 24. Life Insurance assets

EUR million	31 Dec. 2013	31 Dec. 2012
Investments		
Loans and receivables	80	168
Equities and shares	1,375	1,702
Investment property	107	156
Notes and bonds	1,815	1,506
Derivative contracts	71	130
Total	3,448	3,663
Investments serving as cover for unit-linked policies		
Shares, participations and other investments	6,300	5,373
Other assets		
Prepayments and accrued income	47	44
Other		
Direct insurance operations	5	12
Reinsurance operations	77	77
Cash in hand and at bank	3	3
Total	132	137
Total Life Insurance assets	**9,880**	**9,173**

Life Insurance investments	31 Dec. 2013	31 Dec. 2012
Loans and receivables		
Loans	66	158
Other receivables	14	10
Total	80	168
Financial assets recognised at fair value through profit or loss		
Notes and bonds	16	87
Derivative contracts	71	130
Total	87	217
Available-for-sale financial assets		
Notes and bonds	1,799	1,419
Shares and participations	1,375	1,702
Total	3,174	3,122

Investment property		
Land and water areas	21	21
Buildings	86	135
Total	107	156
Total investments	**3,448**	**3,663**

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

	31 Dec. 2013			31 Dec. 2012		
EUR million	Notes and bonds	Shares and participations	Derivative contracts	Notes and bonds	Shares and participations	Derivative contracts
Quoted						
From others	16	-	71	87	-	130
Total	**16**	**-**	**71**	**87**	**-**	**130**

Available-for-sale financial assets of Life Insurance, 31 December 2013

	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
Quoted						
From public corporations	522	-	522	-	-	-
From others	1,276	-	1,276	1,375		1,375
Total	**1,799**	**-**	**1,799**	**1,375**	**-**	**1,375**
Impairment losses for the financial year	-9	-	-9	-22	-	-22

Available-for-sale financial assets of Life Insurance, 31 December 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
Quoted						
From public corporations	404	-	404	-	-	-
From others	1,015	-	1,015	1,702		1,702
Total	**1,419**	**-**	**1,419**	**1,702**	**-**	**1,702**
Impairment losses for the financial year	-1	-	-1	-30	-	-30

Changes in Life Insurance investment property	2013	2012
Acquisition cost 1 January	132	99
Increase	-	47
Decrease	16	-12
Transfers between items	-59	-1
Acquisition cost 31 December	89	132
Accumulated changes in fair value 1 January	23	22
Changes in fair value during financial year	-5	2
Accumulated changes in fair value 31 December	18	23
Carrying amount	107	156

The fair value of investment property holdings excludes the portion of debt. Constructions and repair obligations regarding investment property amounted to EUR 0 million (2).

Notes to OP-Pohjola Group Financial Statements

NOTES TO ASSETS

Note 25. Investment assets

EUR million	31 Dec. 2013	31 Dec. 2012
Available-for-sale financial assets		
Notes and bonds	7,586	5,446
Shares and participations	305	327
Total	7,891	5,772
Held-to-maturity investments	271	401
Investment property		
Land and water areas	43	44
Buildings	408	379
Total	450	423
Total investment assets	**8,613**	**6,596**

Held-to-maturity investments include other bonds issued by the government totalling EUR 0 million (EUR 1 million), bonds totalling EUR 164 million (EUR 294 million), and other notes and bonds totalling EUR 107 million (EUR 106 million). Investment property contain property used as collateral worth EUR 8 million (EUR 8 million).

Available-for-sale financial assets and held-to-maturity investments, 31 December 2013

	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 invest-ments
Quoted							
From public corporations	7,511	-	7,511	-	-	-	-
From others	0	-	0	187	0	187	251
Other							
From public corporations	0	-	0	-	-	-	-
From others	75	-	75	71	48	119	20
Total	**7,586**	**-**	**7,586**	**257**	**48**	**305**	**271**
Impairment losses for the financial year	0	-	0	-2	-	-2	0

Available-for-sale financial assets include EUR 15 million (EUR 17 million) in subordinated publicly-quoted notes and bonds from others

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

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

Changes in investment property	**2013**	**2012**
Acquisition cost 1 Jan.	401	402
Increases	37	26
Decreases	-10	-24
Transfers between items	3	-2
Acquisition cost 31 Dec.	431	401
Accumulated changes in fair value	22	9
Changes in fair value during the financial year	5	13
Decreases	-5	0
Other changes	-3	-1
Accumulated changes in fair value 31 Dec.	19	22
Carrying amount 31 Dec.	450	423

Increases in investment property include EUR 3 million (EUR 1 million) in capitalised expenses recognised after the acquisition. Depreciation, impairment losses and their reversals under PPE are charged to Other operating expenses. Changes in the fair value of investment property are recognised under Net investment income. The fair value of investment property holdings excludes the portion of debt.

OP-Pohjola Group companies own investment property subject to restrictions concerning their assignment and sales price under the legislation on state-subsidized housing loans, such property being worth EUR 2 million (2). Group companies had EUR 23 million (18) in construction and repair obligations regarding investment properties that were based on preliminary agreements.

Within OP-Pohjola Group, Pohjola Bank primarily offers passenger cars through operating leases. A breakdown of investment property and tangible assets leased out under operating lease can be found in Note 50.

Notes to OP-Pohjola Group Financial Statements

NOTES TO ASSETS

Note 26. Reclassified notes and bonds

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

EUR million, 31 Dec 2013	Carrying amount	Fair value	Effective interest rate	Impair-ments arising from credit risk
Loans and receivables	354	369	5.3	-
Investments held to maturity	99	89	4.2	-
Available-for-sale financial assets	42	42	4.2	-
Total	**494**	**500**		**-**

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

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

	31 Dec. 2013		31 Dec. 2012	
EUR million	Income statement	Fair value reserve	Income statement	Fair value reserve
Banking	-1	-	1	-
Non-life Insurance	0	-1	1	4
Life Insurance	5	-2	4	-6
Group Functions	29	-3	21	10
Total	**32**	**-5**	**27**	**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 31 million (49). The price difference between the nominal value and acquisition value recognised in the income statement totalled EUR 8 million (13). Capital losses recognised on notes and bonds totalled EUR 17 million. 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. Positive mark-to-market valuations recognised on hedging derivative contracts amounted to EUR 6 million. Negative mark-to-market valuations recognised in 2012 amounted to EUR 3 million.

Notes to OP-Pohjola Group Financial Statements

NOTES TO ASSETS

Note 27. Investment in associates

EUR million	31 Dec. 2013	31 Dec. 2012
Investment 1 January	39	40
Business acquisitions	4	0
Share of profits for the financial year	-1	2
Dividends	-2	-3
Impairment losses	-	0
Investment 31 December	40	39

Notes to OP-Pohjola Group Financial Statements

NOTES TO ASSETS

Note 28. Intangible assets

			2013		
Changes in intangible assets	**Goodwill**	**Brands**	**Customer relationships related to insurance contracts and policy acquisition costs**	**Other intangible assets**	**Total**
Acquisition cost 1 January	633	179	493	638	1,943
Business operations acquired	-	-	-	-	-
Increases*	-	-	-	103	103
Decreases	-	-	-	-178	-178
Transfers between items	-	-	-	-	-
Acquisition cost 31 December	633	179	493	564	1,868
Acc. amortisation and impairments 1 January	-	-7	-217	-399	-623
Amortisation during the financial year	-	-	-42	-43	-85
Decreases	-	-	-	178	178
Other changes	-	-	-	0	0
Acc. amortisation and impairments 31 December	-	-7	-258	-265	-530
Carrying amount 31 December	633	172	234	299	1,338

* Internal development work accounts for EUR 3 million (EUR 3 million). Other intangible assets include computer software to the carrying amount of EUR 187 million (EUR 64 million) and EUR 100 million (EUR 161 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	Goodwill	Brands	2012 Customer relationships related to insurance contracts and policy acquisition costs	Other intangible assets	Total
Acquisition cost 1 January	632	179	361	556	1,728
Business operations acquired	-	-	132	-	132
Increases*	0	-	-	94	95
Decreases	0	-	-	-12	-12
Transfers between items	-	-	-	0	0
Acquisition cost 31 December	633	179	493	639	1,943
Acc. amortisation and impairments 1 January	-	-7	-183	-369	-559
Amortisation for the period	-	-	-34	-35	-69
Decreases	-	-	-	5	5
Other changes	-	-	-	0	0
Accumulated amortisation and impairments 31 December	-	-7	-217	-399	-623
Carrying amount 31 December	633	172	276	239	1,320

Intangible assets with indefinite economic lives

EUR million	31 Dec. 2013	31 Dec. 2012
Goodwill	633	633
Brands	172	172
Total	**805**	**805**

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

Other most significant intangible assets

EUR million	31 Dec. 2013 Carrying amount	31 Dec. 2012 Carrying amount
Customer relationships	114	140
Insurance contracts	120	136
Software	71	64
Software under development	100	161

Goodwill was acquired as part of the acquisition of Pohjola Group plc’s business operations in 2005 and as part of the acquisition of Pohjola Finance Ltd (formerly K-Finance Ltd) in 2008. Goodwill increased in 2011 as a result of the acquisition of Excenta Ltd, a strategic corporate wellness services provider, and in 2012 as a result of OP-Kiinteistökeskus Oy's acquisition of Espoon 1-Housing Oy's real estate business related housing in Finland. Brands, customer relationships and a significant part of computer software were acquired as part of the acquisition of the businesses of Pohjola Group plc.

Goodwill impairment test

	Goodwill	
EUR million	31 Dec. 2013	31 Dec. 2012
Non-life Insurance	390	390
Asset management	97	97
Mutual funds	71	71
Life Insurance	49	49
Systems service business	10	10
Finance company services	13	13
Wellbeing-at-work services	3	3
Other business	0	0
Total	**633**	**633**

Testing goodwill for impairment

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

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

For Life Insurance, Asset Management and mutual fund business as well as Leasing and Factoring Services and wellbeing at work services the testing period was determined to be five years under IFRS 36, including residual values. For Non-life Insurance, the testing period was determined to be the entire period of PPA amortisation plus one year free of PPA amortisation, which means a six-year testing period.

The forecasts used in cash flow statements are based on OP-Pohjola Group's business strategy, confirmed in 2012 by OP-Pohjola Group Central Cooperative's Supervisory Board, and expectations derived from them concerning business development in 2014–2016. Growth in cash flows for post-forecast periods ranges between 2 and 9%. Within Life Insurance, however, premiums written in interest-bearing investment operations are expected to fall further throughout the entire test period.

The discount rate used in the calculations was the market-based equity cost, which is in line with the applied value determination methods (i.e. through cash flows, only the value of equity belonging to investors was determined and the value was discounted by using the return requirement rate on equity capital). The discount rate used in the calculations before tax (i.e. IFRS WACC) varied from 9.9 to 15.3%. In 2012, it varied from 10.4 to 15.5%. OP-Pohjola increased the discount rate for Non-life and Life Insurance by 0.5 percentage points to correspond to the discount rate based on market information. For other business lines, the discount rate based on market information was still lower than in the PPA statement and the discount rate used in previous financial years.

The impairment testing of goodwill did not lead to recognition of impairment losses.

A sensitivity analysis was carried out separately on each CGU on the basis of essential parameters of each CGU.

The discount rate, combined ratio and net investment return (%) were used as key parameters in Non-life Insurance's sensitivity analysis – the same as in the previous year. The results of the sensitivity analysis did not undergo any major changes over the previous year. A 6.1-percentage point increase in the discount rate, a 4.1-percentage point increase in the combined ratio and a 1.6-percentage point decrease in net investment return compared with forecasts throughout the testing period, with one tested parameter changing and other parameters remaining unchanged, would entail an impairment risk. In 2012, the results were as follows: a 5.5-percentage point increase in the discount rate, a 3.5-percentage point increase in the combined ratio and a 1.3-percentage point decrease in net investment return compared with forecasts throughout the testing period, would have entailed an impairment risk.

In the sensitivity analysis, Life Insurance key parameters were the discount rate, the growth rate in operating expenses, and the margin percentage of investment. The parameters used were the same as last year. The results of the sensitivity analysis have not changed significantly from last year. A 6.1-percentage point increase in the discount rate, an 11-percentage point increase in operating expenses and a 1.1-percentage point decrease in investment 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 7.1-percentage point increase in the discount rate, a 13-percentage point increase in operating expenses and a 1.2-percentage point decrease in investment margin percentage compared with forecasts throughout the testing period would have entailed an impairment risk.

The discount rate, growth rate (%) of assets under management and growth rate (%) of expenses were used as key parameters in Asset Management's sensitivity analysis. The parameters used were the same as in the previous year. The results of the sensitivity analysis did not differ significantly from those in the previous year. A 25-percentage point increase in the discount rate, an 12-percentage point decrease in assets under management and 14-percentage point growth in expenses compared with forecasts throughout the testing period, with other parameters remaining unchanged, would entail an impairment risk. In 2012, the results were as follows: a 28-percentage point increase in the discount rate, a 13-percentage point decrease in assets under management and 15-percentage point growth in expenses compared with forecasts throughout the testing period would have entailed an impairment risk.

Mutual funds' key parameters were the discount rate, growth rate of mutual fund assets and the growth rate of fixed expenses. These parameters were the same as last year. The results of the sensitivity analysis did not change significantly from the previous year. A 8.1-percentage point increase in the discount rate, a 6.5-percentage point decrease in fund assets and a 11-percentage point growth in fixed expenses compared with forecasts throughout the testing period, with other parameters remaining unchanged, would entail an impairment risk. Last year the results were as follows: A 6.0-percentage point increase in the discount rate, a 2.9-percentage point decrease in fund assets and a 4.8-percentage point growth in fixed expenses compared with forecasts throughout the testing period would have entailed an impairment risk.

The discount rate and the growth and profit percentage of service income were used as key parameters in the sensitivity analysis of the systems service business. These parameters were the same as last year. The results of the sensitivity analysis have not changed significantly from last year. A 31-percentage point increase in the discount rate, a 30-percentage point decrease in service income and a 2.3-percentage point decrease in the margin compared with forecasts throughout the testing period, with other parameters remaining unchanged, would entail an impairment risk. Last year the results were as follows: 31-percentage point increase in the discount rate, a 29-percentage point decrease in service income and 2.2-percentage point decrease in the margin compared with forecasts throughout the testing period would have entailed an impairment risk.

The discount rate, the growth rate (%) of the loan portfolio and the growth rate (%) of expenses were used as key parameters in Leasing and Factoring Service's sensitivity analysis. The parameters used were the same as last year. The results of the sensitivity analysis did not change significantly from last year. A 9.1-percentage point increase in the discount rate, 92-percentage point decrease in the loan portfolio and a 13-percentage increase in expenses compared with forecasts throughout the testing period, with other parameters remaining unchanged, would entail an impairment risk. Last year, the results were as follows: A 10-percentage point increase in the discount rate, a 84-percentage point decrease in the loan portfolio and a 13-percentage point increase in expenses compared with forecasts throughout the testing period would have entailed an impairment risk.

The discount rate and a growth rate (%) of net sales and operating margin were used as key parameters in wellbeing-at-work services' sensitivity analysis. The parameters used were the same as last year. The results of the sensitivity analysis changed significantly from last year. A 5,4-percentage point increase in the discount rate, a 33-percentage point decrease in net sales and a 30-percentage point decrease in operating margin compared with forecasts throughout the testing period, with other parameters remaining unchanged, would entail an impairment risk. Last year the results were as follows: a 22-percentage point increase in the discount rate, a 100-percentage point decrease in net sales and a 48-percentage point decrease in operating margin compared with forecasts throughout the testing period would have entail an impairment risk.

Impairment testing of brands

OP-Pohjola Group's brands originate entirely from the acquisition of Pohjola Group plc's business operations. Impairment testing was carried out separately for the Pohjola, Eurooppalainen, A-Vakuutus (A-Insurance) and Seesam brands, in accordance with IAS 36.

The value of the brands was determined by using the 'Relief from Royalty' method. Accordingly, their value was determined to be royalty savings accrued in the future from owning the brands, discounted to the present. The discount rate used in the calculations was the market-based equity cost defined for Non-life Insurance, plus an asset-specific risk premium. OP-Pohjola increased the discount rate for Non-life Insurance by 0.5 percentage points to correspond to the discount rate based on market information. In addition, the same risk premium and the corresponding royalty percentages were applied in 2013 as in the PPA procedure and in previous years' tests.

All OP-Pohjola brands are subject to a testing period of five years under IAS 36. The forecasts used in cash flow statements are based on strategy figures for 2014–16 updated for Non-life Insurance and post-strategy-period expectations derived from them regarding the business line's future developments. A 2% inflationary expectation was used as growth in cash flows for post-forecast periods.

As a result of testing brands for any impairment, OP-Pohjola did not recognise any impairment loss on brands in its financial statements 2013. An impairment loss of EUR 1 million related to the Seesam brand was recognised in the 2011 and EUR 3 million in the 2009 and 2008 financial statements.

Impairment testing of other essential intangible assets

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

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

Notes to OP-Pohjola Group Financial Statements

NOTES TO ASSETS

Note 29. Property, plant and equipment

EUR million	31 Dec. 2013	31 Dec. 2012
Property in Group use		
Land and water areas	73	72
Buildings	603	531
Machinery and equipment	40	50
Other tangible assets	17	17
Leased-out assets	27	40
Total property, plant and equipment	**760**	**710**
of which construction in progress	60	2

	2013				
Changes in property, plant and equipment (PPE), and investment property	**Property in Group use**	**Machinery and equipment**	**Other tangible assets**	**Leased-out assets**	**Total PPE**
Acquisition cost 1 January	815	252	32	68	1,167
Increases	86	12	1	8	108
Decreases	-17	-35	0	-25	-78
Transfers between items	17	0	0	0	17
Acquisition cost 31 December	901	229	33	51	1,214
Accumulated depreciation and impairments 1 January	-212	-202	-15	-28	-457
Depreciation for the financial year	-20	-20	-1	-11	-52
Impairments for the financial year	-7	0	0	0	-7
Reversal of impairments during the financial year	1	0	0	0	1
Decreases	14	33	0	15	63
Other changes	-1	0	0	0	-1
Accumulated depreciation and impairments 31 December	-225	-189	-16	-24	-454
Carrying amount 31 December	676	40	17	27	760

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

Notes to OP-Pohjola Group Financial Statements

NOTES TO ASSETS

Note 30. Other assets

EUR million	31 Dec. 2013	31 Dec. 2012
Payment transfer receivables	35	19
Pension assets	46	49
Accrued income and prepaid expenses		
Interest	790	818
Other accrued income and prepaid expenses	29	24
Margin receivables related to derivative contracts	54	39
Other	592	797
Total	**1,548**	**1,745**

The Other item of Other assets includes EUR 71 million (EUR 46 million) of accounts receivable for securities, EUR 55 million (EUR 95 million) of derivative receivables and EUR 521 million (EUR 692 million) of other assets.

Notes to OP-Pohjola Group Financial Statements

NOTES TO ASSETS

Note 31. Tax assets

EUR million	31 Dec. 2013	31 Dec. 2012
Income tax assets	17	11
Deferred tax assets	55	104
Total tax assets	**72**	**115**

Deferred tax assets	31 Dec. 2013	31 Dec. 2012
Due to available-for-sale financial assets	1	7
Due to depreciation and impairments	1	1
Due to provisions and impairments on loans	27	24
Due to losses related to taxation	15	44
Due to hedging of interest rate risk associated with technical provisions	17	40
Due to timing difference of securities issued to the public	18	26
Due to timing difference of derivatives	5	8
Due to defined-benefit pension plans	11	12
Due to provision for reorganisation arising from personnel reduction	-	4
Due to immediate write-off for Vallila commercial property	-	8
Due to consolidation of Group accounts	6	7
Due to other items	15	14
Set-off against deferred tax liabilities	-60	-91
Total	**55**	**104**

Deferred tax liabilities	31 Dec. 2013	31 Dec. 2012
Due to appropriations	512	578
Due to available-for-sale financial assets	71	95
Cash flow hedge	8	17
Due to elimination of equalisation provision	108	139
Due to fair value measurement of investment	43	75
Allocation of price of corporate acquisitions	77	105
Defined benefit pension plans	14	13
Due to consolidation of Group accounts	4	-3
Due to other items	5	-2
Set-off against deferred tax assets	-60	-91
Total	**783**	**926**
Net deferred tax asset (+)/liability (-)	**-728**	**-822**

	31 Dec.	31 Dec.

Changes in deferred taxes	2013	2012
Deferred tax assets/liabilities 1 January	-822	-676
Recognised in the income statement		
Elimination of capital gains on securities of companies acquired	-	1
Effect of losses	-26	-17
Provisions and impairments on receivables	-4	3
Appropriations	-25	-51
Amortisation/depreciation and impairments	-8	7
Eliminations of equalisation provisions	7	18
Defined-benefit pension plans	4	-3
Due to hedging of interest rate risk associated with technical provisions	-19	25
Due to provisions and impairment losses on receivables	-4	5
Due to timing difference of derivatives	-3	-3
Investment valuation	26	37
Change in tax rate 1 Jan. 2014	157	-
Other	-14	10
Recognised in the balance sheet		
Allocation of purchase price of company acquisitions	-	-31
Recognised in statement of comprehensive income		
Available-for-sale financial assets		
Changes in fair value	-20	-125
Cash flow hedge	7	-12
Transfers to the income statement	24	-33
Change in tax rate 1 Jan. 2014	18	-
Actuarial gains/losses on post-employment benefit obligations	-5	22
Change in tax rate 1 Jan. 2014	-21	-
Other	1	2
Total deferred tax assets 31 December, asset (+)/liability (-)	**-728**	**-822**
Income tax assets, asset (+)/liability (-)	**-7**	**-52**
Total tax assets, asset (+)/liability (-)	**-735**	**-874**

Tax losses for which a deferred tax asset was not recognised came to EUR 41 million (EUR 12 million) at the end of 2013. The losses will expire before 2023.

A deferred tax liability has not been recognised for the EUR 31 million (EUR 21 million) of undistributed profits of the Baltic subsidiaries, since the assets have been permanently invested in these countries.

Notes to OP-Pohjola Group Financial Statements

NOTES TO LIABILITIES AND EQUITY CAPITAL

Note 32. Liabilities to credit institutions

EUR Million	31 Dec. 2013	31 Dec. 2012
Liabilities to central banks	73	-
Liabilities to credit institutions		
Repayable on demand		
Deposits	183	104
Other liabilities	0	0
Total	183	104
Other than repayable on demand		
Deposits	727	1,775
Other liabilities	49	86
Total	777	1,861
Total liabilities to credit institutions and central banks	**1,032**	**1,965**

Notes to OP-Pohjola Group Financial Statements

NOTES TO LIABILITIES AND EQUITY CAPITAL

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

EUR million	31 Dec. 2013	31 Dec. 2012
Financial liabilities held for trading		
Short selling of securities	4	3
Total financial liabilities at fair value through profit or loss	**4**	**3**

Notes to OP-Pohjola Group Financial Statements

NOTES TO LIABILITIES AND EQUITY CAPITAL

Note 34. Derivative contracts

EUR million	31 Dec. 2013	31 Dec. 2012
Held for trading		
Interest rate derivatives	2,634	3,627
Currency derivatives	192	6
Equity and index derivatives	32	74
Credit derivatives	0	0
Other	52	28
Total	2,910	3,734
Hedging derivative contracts		
Fair value hedging		
Interest rate derivatives	230	414
Currency derivatives	13	13
Other	0	0
Cash flow hedge		
Interest rate derivatives	4	0
Total	248	428
Total derivative contracts	**3,157**	**4,162**

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

Notes to OP-Pohjola Group Financial Statements

NOTES TO LIABILITIES AND EQUITY CAPITAL

Note 35. Liabilities to customers

EUR million	31 Dec. 2013	31 Dec. 2012
Deposits		
Repayable on demand		
Private	24,652	22,564
Companies and public corporations	13,749	11,418
Total	38,401	33,981
Other		
Private	5,969	7,615
Companies and public corporations	2,980	3,415
Total	8,949	11,030
Total deposits	47,350	45,011
Other financial liabilities		
Repayable on demand		
Private	11	13
Companies and public corporations	3	3
Total	14	16
Other		
Private	0	2
Companies and public corporations	2,811	4,621
Total	2,811	4,623
Total other financial liabilities	2,825	4,639
Total liabilities to customers	**50,175**	**49,650**

Notes to OP-Pohjola Group Financial Statements

NOTES TO LIABILITIES AND EQUITY CAPITAL

Note 36. Non-life insurance liabilities

EUR million	31 Dec. 2013	31 Dec. 2012
Insurance liabilities	2,593	2,448
Direct insurance liabilities	134	123
Reinsurance liabilities	9	13
Derivative contracts	0	3
Other	10	11
Total Non-life Insurance liabilities	**2,746**	**2,599**

Non-life Insurance contract liabilities and reinsurers' share

	31 Dec. 2013			31 Dec. 2012		
EUR million	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net
Provision for unpaid claims for annuities	1,253	-4	1,249	1,205	-4	1,201
Other provisions by case	160	-55	105	151	-52	99
Special provision for occupational diseases	25		25	28		28
Collective liability (IBNR)	603	-6	597	555	-6	550
Reserved loss adjustment expenses	60		60	54		54
Provision for unearned premiums	493	-12	481	455	-15	440
Total Non-life Insurance insurance liabilities	**2,593**	**-77**	**2,517**	**2,448**	**-76**	**2,372**

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

	2013			2012		
EUR million	**Gross**	**Reinsurance**	**Net**	**Gross**	**Reinsurance**	**Net**
Provision for unpaid claims						
Provision for unpaid claims 1 Jan.	1,993	-62	1,932	1,944	-89	1,855
Claims paid in financial year	-866	39	-827	-857	61	-797
Change in liability/receivable	931	-42	889	863	-33	830
Current period claims	908	-46	862	815	-19	796
Increase (decrease) from previous financial years	-14	4	-10	-4	-14	-18
Change in discount rate	38		38	52		52
Unwinding of discount	42		42	43		43
Foreign exchange gains (losses)	-1		-1	0	0	0
Provision for unpaid claims 31 Dec.	2,100	-65	2,035	1,993	-62	1,932
Provision for unearned premiums						
Provision for unearned premiums 1 Jan.	455	-15	440	422	-22	399
Increase	451	-9	442	418	-5	412
Decrease	-415	12	-404	-385	13	-373
Change in discount rate	1		1			
Unwinding of discount	1		1	1		1
Provision for unearned premiums 31 Dec.	493	-12	481	455	-15	440
Total Non-life Insurance insurance liabilities	**2,593**	**-77**	**2,516**	**2,448**	**-76**	**2,372**

The provision for unearned premiums represents obligations relating to insurance cover which has not yet expired at the year-end.

Determination of insurance liabilities arising from non-life insurance contracts

a) Methods and assumptions used

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

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

The provision for unpaid claims for annuities corresponds to the discounted present value of cash flow of compensation for loss of income payable as continuous annuity. The discount rate is determined taking account of the current interest rate, security required by law and the maximum discount rate set by the authorities and expected reasonable return on assets covering insurance liabilities. On 31 December 2013, the discount rate used was 2.8% (31 Dec. 2012 3.0%). The mortality model applied is the cohort mortality model which is based on Finnish demographic statistics and which assumes the current trend of an increase in life expectancy to continue.

The provision for unpaid claims includes asbestos liabilities which arise from occupational diseases coverable under statutory workers' compensation insurance. The forecasted cash flow of these claims is based on an analysis which takes account of to what extent asbestos was used annually as raw material in Finland and how the latency periods of different asbestos diseases are distributed. Trends in asbestos-related claims are monitored annually and the outcome has corresponded well to the forecast.

Determining collective liability is based on different statistical methods: Bornhuetter-Ferguson, Cape Cod and Chain Ladder. When applying these methods, other selections must also be made, in addition to the selection of the method, such as deciding on how many occurrence years' statistics the methods will be applied.

Bornhuetter-Ferguson

The Bornhuetter-Ferguson (BF) method is based on the assumption that, in each development year, a certain portion of claims is paid of the measure of exposure of the occurrence year. This measure of exposure can, for instance, be the number of policy years or insurance premium revenue adjusted by the loss ratio assumption. BF reacts slowly to changes in the development triangle of claims. In addition, BF is sensitive to the selection of the measure of exposure.

Cape Cod

The Cape Cod method corresponds to the BF method in such a way that the portion of claims paid out in a development year relative to the measure of exposure is evened out between the occurrence years. In the traditional Cape Cod method, the claims' proportion of the measure of exposure is the same evened constant for all occurrence years. In the generalised Cape Cod method, the claims' proportion of the measure of exposure for the year of occurrence is evened out on the basis of the observations made in the occurrence year and close to the occurrence year.

Chain Ladder

In the Chain Ladder (CL) method, the total claims expenditure for each occurrence year is determined by annual development factors. A development factor describes the relation between the successive development years in the cumulative claims development triangle. CL is sensitive to the observations in the first development years.

In the valuation of collective liability, the largest risks relate to

- Estimating the future rate of inflation (excl. indemnities for loss of income payable on the basis of statutory insurance)

- Adjustment of changes due to changed compensation practices and legislation in the development triangle of claims (i.e. whether history provides a correct picture of the future)

- Adequacy of historical information over dozens of years.

Of the collective liability, only the liability for annuities has been discounted.

For the assessment of collective liability, the Group's non-life insurance portfolio is divided into several categories by risk and eg maturity of the cash flow applying to compensation paid. In each category, collective liability is first calculated using each statistical method stated above, and the method that best suits the category under review is chosen. The selection criteria used includes how well the model would have predicted developments in prior years of occurrence and the sensitivity of the estimate generated by the model with respect to the number of statistical years used. The safety margin of 2−10% is added to the expected value generated by the selected model. The safety margin is determined by the uncertainty associated with future cash flows and duration, as well as the quality of historical data.

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

b) Changes in assumptions

As a result of a reduction in the lower discount rate, the provision for unpaid claims for annuities rose by EUR 38 million (52).

Effect of changes in methods and assumptions on amount of liability	**2013**	**2012**
EUR million (increase +/decrease - in liability)		
Change in discount rate	38	52
Total	**38**	**52**

c) Claims development

The claims triangle compares the actual claims incurred with previous estimates. The triangles describing claims development have been drawn up by occurrence year.

With the exception of long-term liabilities, claims development for the gross business is presented over a period of ten years. The claims triangle does not monitor the shares of pools and the trends in the rights of recourse related to statutory workers' compensation insurance. The capital value of finalised annuities is treated as if the annuities had been paid equalling the capital amount in connection with confirmation as final. For long-term liabilities, i.e. annuities confirmed as final and asbestos-related claims, information on the adequacy of insurance liabilities is provided.

Claims triangles, gross business, EUR million

Occurrence year	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**Total**
Estimated total claims expenditure											
0*	523	540	603	638	707	666	738	784	815	908	6,922
n+1	528	540	611	633	693	633	746	751	799		
n+2	521	535	591	627	691	640	744	750			
n+3	515	529	594	622	689	641	742				
n+4	518	532	594	622	704	649					
n+5	516	532	587	647	724						
n+6	517	529	587	656							
n+7	523	536	591								
n+8	528	536									
n+9	532										
Current estimate of total claims expenditure	532	536	591	656	724	649	742	750	799	908	6,887
Accumulated claims paid	-509	-515	-563	-619	-674	-586	-676	-653	-663	-469	-5,926
Provision for unpaid claims for 2004−2013	**24**	**21**	**28**	**36**	**51**	**63**	**65**	**98**	**136**	**439**	**960**
Provision for unpaid claims for previous years											138

* = at the end of the occurrence year

Development of claims due to latent occupational diseases, EUR million

Financial year	Collective liability	Known liabilities for annuities	Claims paid	Claims incurred	Changes in reserving basis*	Adequacy
2005	45	39	-4	-2	1	-1
2006	43	40	-4	-3		-3
2007	41	40	-4	-2	-1	-2
2008	40	41	-4	-4	3	-2
2009	42	43	-4	-8	4	-4
2010	38	44	-3	0		0
2011	35	50	-3	-6	5	-2
2012	32	53	-4	-4	2	-1
2013	28	53	-4	-1	1	0

Development of annuities confirmed as final, EUR million

Financial year	Year-start	Year-end	New annuity capital	Annuities paid	Changes in reserving basis*	Adequacy
2006	681	731	77	26		1
2007	731	745	60	28	-15	3
2008	745	766	55	30		4
2009	763**	771	42	32		2
2010	771	794	60	34		3
2011	794	895	66	35	77	7
2012	895	940	66	34	31	18
2013	940	965	51	37	23	12

* Effect of changes in the discount rate and the mortality model on final annuity capital.

** A small amount of healthcare and senior housing provisions was eliminated from 2009 figures.

Claims triangles, net business, EUR million

Occurrence year	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total
Estimated total claims expenditure											
0*	504	511	580	621	656	649	693	721	796	862	6,594
n+1	510	519	593	623	656	620	707	697	783		
n+2	503	509	575	619	658	629	705	706			
n+3	500	509	577	615	656	629	702				
n+4	499	513	577	615	670	636					
n+5	499	513	569	624	683						
n+6	500	513	569	632							
n+7	506	518	573								
n+8	508	520									
n+9	512										
Current estimate of total claims expenditure	512	520	573	632	683	636	702	706	783	862	6,608
Accumulated claims paid	-491	-498	-545	-597	-634	-581	-639	-617	-649	-461	-5,711
Provision for unpaid claims for 2004−2013	**22**	**22**	**28**	**35**	**49**	**55**	**62**	**89**	**134**	**401**	**897**
Provision for unpaid claims for previous years											136

* = at the end of the occurrence year

Change in claims incurred based on loss events for prior financial years

Claims incurred based on loss events for prior financial years increased by EUR 27 million (24). The change in technical interest, EUR 38 million (52), added to claims incurred. Change in claims incurred based on loss events for prior financial years describes the adequacy of insurance liabilities, which on average is positive due to the security of insurance liabilities.

Claims administration contracts

On 31 December 2013, liabilities related to claims administration contracts totalled EUR 81 million (80).

Claims administration contracts are contracts which are not insurance contracts, but on the basis of which claims are paid on behalf of another party. Among these contracts, the most important are captive arrangements in which the insured risk is reinsured with a captive company belonging to the same Group of companies with the customer; index increases in annuities of statutory workers' compensation, motor liability and patient insurance policies; certain other increases in benefits; and medical treatment indemnities payable over ten years after the occurrence of the accident; as well as public sector patient insurance.

Notes to OP-Pohjola Group Financial Statements

NOTES TO LIABILITIES AND EQUITY CAPITAL

Note 37. Life Insurance liabilities

EUR million	31 Dec. 2013	31 Dec. 2012
Unit-linked contract liabilities	6,288	5,357
Liabilities for unit-linked insurance contracts	5,039	4,288
Liabilities for unit-linked investment contracts	1,249	1,069
Other than unit-linked contract liabilities	3,400	3,592
Other insurance liability than guaranteed portion of unit-linked insurance	3,389	3,577
Liability for bonus reserves under insurance contracts	0	1
Other liability than guaranteed portion of unit-linked investment contracts	11	14
Derivative contracts	9	0
Other liabilities		
Accrued expenses and deferred income	2	3
Other		
Direct insurance operations	1	1
Reinsurance operations	2	3
Other	69	15
Total	74	21
Total Life Insurance liabilities	**9,771**	**8,970**

Changes in insurance liabilities 2013

Liabilities, EUR million	1 Jan. 2013	Growth in liability arising from insurance premiums	Dis-charged liabilities	Credited interest and changes in value	Other charges and credits	Other items	31 Dec. 2013
Unit-linked contract liabilities	**5,363**	**997**	**-440**	**414**	**-47**	**0**	**6,288**
Liabilities for unit-linked insurance contracts	4,293	867	-392	305	-31	0	5,041
Liabilities for unit-linked investment contracts	1,070	130	-48	109	-16	1	1,246
Other than unit-linked contract liabilities	**3,592**	**208**	**-343**	**103**	**-90**	**-70**	**3,400**
Other insurance liability than unit-linked liability discounted with interest rate guarantee	3,353	206	-339	103	-90	-23	3,210
Other liability than unit-linked investment contracts discounted with interest rate guarantee	14	1	-3	0	0	0	11
Liability for bonus reserves	1	-	-	-	-	-1	0
Reserve for decreased discount rate	28	-	-	-	-	16	44
Effect of discounting with market interest rate	163	-	-	-	-	-80	84
Other items	32	-	-	-	-	19	51
Total	**8,955**	**1,204**	**-783**	**517**	**-137**	**-69**	**9,688**

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

Changes in insurance liabilities 2012

Liabilities, EUR million	1 Jan. 2012	Growth in liability arising from insurance premiums	Dis-charged liabilities	Credited interest and changes in value	Other charges and credits	Other items	31 Dec. 2012
Unit-linked contract liabilities	**3,257**	**652**	**-328**	**366**	**-35**	**1,445**	**5,357**
Liabilities for unit-linked insurance contracts	3,210	600	-247	335	-26	414	4,287
Liabilities for unit-linked investment contracts	47	51	-81	31	-9	1,031	1,070
Other than unit-linked contract liabilities	**3,665**	**234**	**-392**	**109**	**-82**	**58**	**3,592**
Other insurance liability than unit-linked liability discounted with interest rate guarantee	3,548	233	-383	109	-82	-71	3,354
Other liability than unit-linked investment contracts discounted with interest rate guarantee	21	1	-9	0	0	1	14
Liability for bonus reserves	3	-	-	-	-	-1	1
Reserve for decreased discount rate	0	-	-	-	-	28	28
Effect of discounting with market interest rate	62	-	-	-	-	101	163
Other items	32	-	-	-	-	0	32
Total	**6,922**	**886**	**-720**	**475**	**-116**	**1,502**	**8,949**

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

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

Unit-linked investment contracts are measured at fair value.

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

Life insurance liabilities act as term life insurance liabilities.

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

Group pension insurance liabilities have been annually increased since 2011 owing to the higher life expectancy.

Notes to OP-Pohjola Group Financial Statements

NOTES TO LIABILITIES AND EQUITY CAPITAL

Note 38. Debt securities issued to the public

EUR million	Average interest rate %	31 Dec. 2013	Average interest rate %	31 Dec. 2012
Bonds	2.19	8,923	2.32	8,072
Covered bonds		5,698		5,692
Other				
Certificates of deposit	0.22	1,807	0.48	1,535
Commercial paper	0.28	4,994	0.49	3,979
Other	0.57	101	0.51	144
Included in own portfolio in trading (–)*		-95		-152
Total debt securities issued to the public		**21,428**		**19,270**

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

Most significant issues in 2013	Nominal amount	Interest rate
Pohjola Bank plc		
Pohjola Bank plc Issue of EUR 750,000,000 1.750 per cent. Instruments due 29 August 2018 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments	750.0	Fixed 1,750 %
Pohjola Bank plc Issue of EUR 500,000,000 1.25 per cent. Instruments due 14 May 2018 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments	500.0	Fixed 1,25 %
Pohjola Bank Plc Japanese Yen Bonds JPY 21,100,000,000 - First Series (2013)	145.8	Fixed 0,519 %
Pohjola Bank plc Issue of EUR 50,000,000 Floating Rate Instruments due 9 February 2015 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments	50.0	EUB3M

Notes to OP-Pohjola Group Financial Statements

NOTES TO LIABILITIES AND EQUITY CAPITAL

Note 39. Provisions and other liabilities

EUR million	31 Dec. 2013	31 Dec. 2012
Provisions	2	15
Other liabilities		
Payment transfer liabilities	934	1,062
Accrued expenses		
Interest payable	825	920
Other accrued expenses	375	364
Other	543	931
Total	2,677	3,276
Total provisions and other liabilities	**2,680**	**3,291**

Other' under Other liabilities includes EUR 15 million (EUR 49 million) in accounts payable on securities, EUR 50 million (EUR 55 million) in pension liabilities, EUR 360 million (EUR 703 million) in liabilities for derivative contracts and EUR 118 million (EUR 124 million) in other accounts payable.

Changes in provisions

EUR million	Reorganisation	Other provisions	Total
1 Jan. 2012	14	1	15
Provisions used	-12	-1	-13
31 Dec. 2012	2	0	2

Reorganisation

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

Defined benefit pension plans

OP-Pohjola Group has funded assets of its pension schemes through OP Bank Group Pension Fund, OP Bank Group Pension Foundation and insurance companies. Schemes related to supplementary pensions in the Pension Foundation and insurance company, as well as the TyEL (Employees' Pensions Act) funded old-age and disability pension schemes managed by the Pension Fund are treated as defined benefit plans. Contributions to the TyEL pay-as-you-go system are treated as defined contribution plans. The amount of the Group's pension liabilities is not substantial.

OP Bank Group Pension Fund

OP Bank Group Pension Fund manages statutory pension insurance for the employees of OP-Pohjola Group employers as the Fund's members.

The statutory pension scheme under TyEL (Employees Pensions Act) provides pension benefits based on the years of employment and earnings as prescribed in the Act. Benefits under the employees pension scheme comprise old-age pension, part-time pension, disability pension, survivor's pension and rehabilitation benefits. The retirement age of the old-age pension under TyEL is 63–68 years.

The TyEL pension scheme is based on a system that is partly a funded system and partly a pay-as-you go system. A pension insurance institution, which has insured each employment, manages funding for each employee. The funded portion of the pension benefits disbursed annually by the Pension Fund accounts for an average of a quarter.

The Pension Fund aims to manage statutory pension insurance in such a way that the level of contributions will remain steady year after year and be below the average contribution level of the employees pension scheme. The most significant associated risk relates to the possibility of the actual return on investment assets being lower than the actual average investment return under the pension scheme. If such a risk materialises in several consecutive years, this would result in increasing the level of insurance contributions.

The most significant actuarial risks of OP Bank Group Pension Fund are associated with interest rate and market risks, future increases in pension benefits and systematically increasing life expectancy. A change in the discount rate for pension liabilities has a substantial effect on the amount of pension liabilities.

Under the Employee Benefit Funds Act, the Pension Fund shall invest its assets securely and profitably and in view of its liquidity. The Pension Fund must cover the insurance liability arising from pension obligations. When covering the insurance liability, the Pension Fund must consider what type of insurance business it conducts and, accordingly, must ensure the security of, return on and cashability of its assets and that they are appropriately versatile and properly diversified. The Employee Benefit Funds Act specifies in greater detail the assets and commitments with which the insurance liability must cover. As prescribed by law, the Pension Fund has a specific solvency limit which is must cover through its solvency capital.

Responsible for investment, the Board of Trustees of the Pension Fund approves the Pension Fund's investment plan related to its assets. A pension institution's chief actuary prepares annually a forecast for developments in insurance liabilities and pension costs. On this basis, investment asset allocation takes account of the requirements set by the nature of insurance liabilities for investment operations with respect to the level of security, productivity and liquidity, as well as the Pension Fund's risk-bearing capacity.

OP Bank Group Pension Foundation

OP-Bank Group Pension Foundation manages supplementary pension cover for employees provided by the employers within OP-Pohjola Group. The purpose of the Pension Foundation is to grant old-age and disability pension benefits and sickness benefits to employees covered by the Pension Foundation activities, and survivors' pension benefits to their beneficiaries, and burial grant. In addition, the Pension Foundation may grant said employees benefits related to rehabilitation. Given that providing supplementary pension is voluntary, not all employers belonging to the Pension Fund belong automatically to the Pension Foundation. Supplementary pension cover provided by the Pension Foundation is fully funded.

The Pension Foundation covers every employee who has reached the age of 20 years and who has been employed, as specified by TyEL, for two consecutive years by the employer within the Pension Foundation and whose employment has begun before 1 July 1991. The salary/wage serving as the basis for the calculation of pension refers to pensionable pay based on one and the same employment and calculated under the Finnish Employees' Pensions Act, TEL, in force until 31 December 2006. The retirement age of those covered by the Pension Foundation varies from 60 to 65 years, depending on the personnel group to which the employee belongs under the Pension Foundation rules.

The most significant associated risk relates to the possibility of the actual return on investment assets being lower than the target set for the minimum return. If such a risk materialises in several consecutive years, this would result in charging contributions.

The most significant actuarial risks of OP Bank Group Pension Foundation are associated with interest rate and market risks, systematically increasing life expectancy and inflation risk. A change in the discount rate for pension liabilities has a substantial effect on the amount of pension liabilities.

Responsible for investment, the Board of Trustees of the Pension Foundation approves the Foundation's investment plan related to its assets. A pension institution’s chief actuary prepares annually a forecast for developments in insurance liabilities and pension costs. On this basis, investment asset allocation takes account of the requirements set by the nature of insurance liabilities for investment operations with respect to the level of security, productivity and liquidity, as well as the Pension Foundation’s risk-bearing capacity.

	Defined benefit obligations		Fair value of pension assets		Net liabilities (assets)	
Balance sheet value of defined benefit plans, EUR million	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
Opening balance 1 Jan.	1,400	1,233	-1,394	-1,304	6	-71
Defined benefit pension costs recognised in income statement						
Current service cost	32	26	-	-	32	26
Interest expense (income)	48	54	-48	-58	0	-4
Effect of plan curtailment or fulfilment of obligation	-8	-4	6	2	-3	-2
Administrative expenses	-	-	1	-	1	-
Total	**72**	**76**	**-42**	**-56**	**30**	**20**
Losses (gains) recognised in other comprehensive income arising from remeasurement						
Actuarial losses (gains) arising from changes in economic expectations	7	171	-	-	7	171
Return on TyEL interest rate difference and growth in old-age pension liabilities (net)	6	9	-6	-9	0	0
Experience adjustments	5	-43	-	-	5	-43
Return on plan assets, excluding amount (–) of net defined benefit liability (asset)	-	-	-31	-53	-31	-53
Total	**18**	**137**	**-37**	**-62**	**-19**	**75**
Other						
Employer contributions	-	-	-13	-17	-13	-17
Benefits paid	-48	-46	48	46	0	0
Total	**-48**	**-46**	**35**	**28**	**-13**	**-17**
Closing balance 31 Dec.	**1,441**	**1,400**	**-1,438**	**-1,394**	**4**	**6**

Liabilities and assets recognised in the balance sheet, EUR million	**31 Dec. 2013**	**31 Dec. 2012**
Net liabilities/assets (Pension Foundation)	-46	-49
Net liabilities/assets (Pension Fund)	33	39
Net liabilities/assets (Other pension plans)	18	16
Total net liabilities/assets	**4**	**6**

Pension Fund and Pension Foundation assets, grouped by valuation technique, 31 Dec. 2013, EUR million	Level 1	Level 2	Level 3	Total
Shares and participations	82	1	51	134
Notes and bonds	155	225	8	388
Real property	-	-	140	140
Mutual funds	416	28	249	693
Structured investment vehicles	-	-	11	11
Derivatives	1	0	-	1
Other assets	57	6	-	62
Total	**710**	**260**	**460**	**1,430**

Pension Fund and Pension Foundation assets, grouped by valuation technique, 31 Dec. 2012, EUR million	Level 1	Level 2	Level 3	Total
Shares and participations	62	1	61	124
Notes and bonds	192	217	8	418
Real property	-	-	107	107
Mutual funds	453	7	206	665
Structured investment vehicles	-	1	22	23
Derivatives	-	0	-	0
Other assets	42	-	6	47
Total	**748**	**226**	**410**	**1,384**

The fair value of Level 1 assets is determined on the basis of the quotes in markets.

The fair value of Level 2 assets means value derived from the market price of a financial instrument's components or similar financial instruments; or value which can be determined using commonly used valuation models and techniques if the inputs significant to the fair value measurement are based on observable market data,

The fair value Level 3 assets is determined using a pricing model whose input parameters involve uncertainty.

Proportion of the most significant assets of total fair value of plan assets, %	31 Dec. 2013	31 Dec. 2012
Shares and participations	**10**	**9**
Financial sector	5	4
Forest	3	4
Real estate	1	1
Other	1	1
Notes and bonds	**27**	**30**
Government bonds	6	10
Other	21	21
Real property	**10**	**8**
Mutual funds	**48**	**48**
Equity funds	27	18
Bond funds	11	21
Real estate funds	6	5
Hedge funds	5	5
Derivatives	**0**	**0**
Interest rate derivatives	0	-
Currency derivatives	0	0
Other	0	-
Structured investment vehicles	**1**	**2**
Other	**4**	**3**
Total	**100.0**	**100.0**

Pension plan assets include, EUR million,	31 Dec. 2013	31 Dec. 2012
Pohjola Bank plc shares	76	58
Securities issued by OP-Pohjola Group companies	15	25
Other receivables from OP-Pohjola Group companies	51	57
Real property in OP-Pohjola Group's use	16	27
Total	**158**	**167**

Contributions payable under the defined benefit pension plan in 2014 are estimated at EUR 16 million.

The duration of the defined benefit pension obligation in the Pension Fund on 31 December 2013 was 20.3 years and in the Pension Foundation 13.9 years.

Key actuarial assumptions used, 31 December 2013, EUR million	Pension Fund	Pension Foundation	Other
Discount rate, %	3.5	3.4	3.3
Future pay increase assumption, %	3.0	3.0	3.0
Future pension increases, %	2.1	2.0	2.0
Turnover rate, %	3.0	0.5	0.0
Inflation rate, %	2.0	2.0	2.0
Life expectancy for 65-year old people			
Men	19.0	19.0	19.0
Women	24.7	24.7	24.7
Life expectancy for 45-year old people after 20 years			
Men	20.6	20.6	20.6
Women	26.4	26.4	26.4

Key actuarial assumptions used, 31 December 2012, EUR million	Pension Fund	Pension Foundation	Other
Discount rate, %	3.5	3.4	3.5
Future pay increase assumption, %	3.0	3.0	3.0
Future pension increases, %	2.1	2.0	2.0
Turnover rate, %	3.0	0.5	0.0
Inflation rate, %	2.0	2.0	2.0
Life expectancy for 65-year old people			
Men	19.0	19.0	19.0
Women	24.7	24.7	24.7
Life expectancy for 45-year old people after 20 years			
Men	20.6	20.6	20.6
Women	26.4	26.4	26.4

	Change in defined benefit pension obligation			
	Pension Fund		Pension Foundation	
Sensitivity analysis of key actuarial assumptions, 31 Dec. 2013	EUR million	%	EUR million	%
Discount rate				
0.5 pp increase	-87	-8.8	-26	-6.2
0.5 pp decrease	80	8.1	25	5.8
Pension increases				
0.5 pp increase	96	9.7	25	6.0
0.5 pp decrease	-88	-8.8	-24	-5.7
Mortality				
1-year increase in life expectancy	31	3.1	11	2.6
1-year decrease in life expectancy	-30	-3.1	-11	-2.5

Notes to OP-Pohjola Group Financial Statements

NOTES TO LIABILITIES AND EQUITY CAPITAL

Note 40. Tax liabilities

EUR million	31 Dec. 2013	31 Dec. 2012
Income tax liabilities	24	64
Deferred tax liabilities	783	926
Total tax liabilities	**807**	**990**

A specification of deferred tax liabilities can be found in Note 31.

Notes to OP-Pohjola Group Financial Statements

NOTES TO LIABILITIES AND EQUITY CAPITAL

Note 41. Cooperative capital

EUR million	31 Dec. 2013	31 Dec. 2012
Cooperative capital	5	5
Supplementary cooperative capital	601	617
Total cooperative capital	**606**	**622**
of which cancelled cooperative capital	66	78

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

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

In 2006–2007, regulations on member banks' cooperative capital were amended in such a way that member banks have the right to refuse to return cooperative capital to their members.

Notes to OP-Pohjola Group Financial Statements

NOTES TO LIABILITIES AND EQUITY CAPITAL

Note 42. Subordinated liabilities

EUR million	Average interest rate %	31 Dec. 2013	Average interest rate %	31 Dec. 2012
Subordinated loans	2.68	191	3.17	210
Other				
Perpetual loans	-	-	0.00	0
Debentures	5.38	668	5.22	904
Total subordinated liabilities		**860**		**1,114**

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

Innovative instruments included in Tier 1

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

This is a perpetual loan (a loan without a due date) carrying a fixed interest rate of 4.23% until 18 June 2034 and subsequently a variable 6-month Yen Libor + 1.58% (step up). Interest will be annually payable on 18 June and 18 December. If interest cannot be paid for a given interest period, the obligation to pay interest for the period in question will lapse. The loan can be called in at the earliest in 2014 and can be annually repaid after 2014 on the interest due date on 18 June or 18 December. The loan's entire principal must be repaid in one instalment.

2) Perpetual bond of EUR 50 million

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

3) Perpetual bond of EUR 60 million

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

4) Perpetual bond of EUR 40 million

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

5) Hybrid bond of EUR 50 million

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

6) Pohjola Insurance Ltd's capital bond

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

Loans 1 and 3 are included in hybrid instruments.

The Group has used derivatives to hedge against interest-rate and exchange-rate risks, and the financial statements include EUR 13.2 million in change in fair value recognised for hedging (16.3).

Debentures

1) A debenture loan of CHF 100 million (euro equivalent 81 million), which is a ten-year bullet loan, will mature on 14 July 2021. The loan carries a fixed interest rate of 3.375% p.a.
2) A debenture loan of EUR 100 million, which is a ten-year bullet loan, will mature on 14 September 2021. The loan carries a fixed interest rate of 5.25% p.a.
3) A debenture loan of EUR 500 million, which is a 10-year bullet loan, will mature on 22 August 2022. Under the terms and conditions of the loan, the issuer will have the opportunity for early redemption in case the principal cannot be counted as part of the bank’s Tier 2 capital. The loan carries a fixed interest rate of 5.75% p.a.

Loans 1–3 were issued in international capital markets.

Fixed-rate debentures issued in Finland totalled EUR 0.7 million in 2012.

Pohjola Bank plc has no breaches of the terms and conditions of the loan contracts with respect to principal, interest and other conditions. The financial statements include EUR 0 million recognised for the price difference of the loans (2).

Other subordinated loans

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

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

Notes to OP-Pohjola Group Financial Statements

NOTES TO LIABILITIES AND EQUITY CAPITAL

43. Equity capital

EUR million	31 Dec. 2013	31 Dec. 2012
Capital and reserves attributable to OP-Pohjola Group owners		
Share and cooperative capital (incl. share issue)	339	336
Reserves		
Restricted reserves		
Share premium account	498	478
Reserve fund	805	799
Fair value reserve		
Cash flow hedge	27	48
Measurement at fair value		
Notes and bonds	63	85
Shares and participations	235	207
Other restricted reserves	1	2
Non-restricted reserves		
Reserve for invested non-restricted equity	143	143
Other non-restricted reserves	1,292	1,261
Retained earnings		
Profit (loss) for previous financial years	3,605	3,282
Profit (loss) for the financial year	672	470
Equity capital attributable to OP-Pohjola Group's owners	**7,681**	**7,110**
Non-controlling interests	**36**	**24**
Total equity capital	**7,717**	**7,134**

The fair value reserve before tax totalled EUR 406 million (449) and the related deferred tax liability EUR 81 million (110). On 31 December, positive mark-to-market valuations of equity instruments in the fair value reserve totalled EUR 293 million (260) and negative mark-to-market valuations EUR 20 million (21). In 2013, impairment loss recognised from the fair value reserve through profit or loss totalled EUR 21 million (31), of which equity instruments accounted for EUR 16 million (28).

Share capital and shares

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

Changes in shareholdings of external shareholders

	Number of shares (1,000)
1 Jan. 2012	**149,861**
Equity trades with external parties	-757
31 Dec. 2012	**149,104**
Equity trades with external parties	-597
31 Dec. 2013	**148,507**

Cooperative capital

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

Reserves

Share premium account

The share premium account was formed during the validity of regulations in force before 1 September 2006. Items entered in the share premium account include amounts exceeding the nominal value paid for shares in a rights issue; amounts paid for share subscriptions based on stock options and convertible bonds; capital gains on disposal of treasury shares; the amount of the reduction of share capital which is not used to cover confirmed loss, is not transferred to a reserve to be used in accordance with a decision by the General Meeting of Shareholders or is not distributed to shareholders; payouts on unsubscribed shares that must be paid when a limited liability company is established; any payouts to the company resulting from shares that have been sold because the shareholder has not included the shares in the book-entry system; and payment received for a share that was not claimed at the capitalisation issue.

The share premium account may be lowered in compliance with the regulations governing the reduction of share capital and may be used to increase the share capital. Since 1 September 2006, it has no longer been possible to increase the share premium account.

Reserve fund

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

Fair value reserve

The fair value reserve includes the change in the fair value of available-for-sale financial assets. Items included in this reserve will be derecognised and recorded in the income statement when an available-for-sale financial asset is disposed of or is subject to impairment. The reserve also includes the net fair value change of interest rate derivatives as cash flow hedges verified as effective and adjusted for deferred tax. Fair value changes are included in the income statement in the period when hedged cash flows affect net income.

Other restricted reserves

These reserves consist of retained earnings based on the Articles of Association or other rules describing their purpose.

Reserve for invested non-restricted equity

Capital raised by Pohjola Bank plc through its rights offering in 2009 was entered in the reserve for invested non-restricted equity.

Other non-restricted reserves

These reserves consist of retained earnings based on the Articles of Association or other rules, or decisions taken by the General Meeting, Representatives' Meeting, or Cooperative Meeting.

Retained earnings

Retained earnings also contain untaxed reserves (voluntary provisions and accelerated depreciation) included in the statutory financial statements of Group companies, and the equalisation provision of insurance companies, which have been recognised in retained earnings less deferred tax in the IFRS financial statements.

Notes to OP-Pohjola Group Financial Statements

OTHER NOTES TO THE BALANCE SHEET

Note 44. Notes and bonds eligible for central bank refinancing

EUR million	31 Dec. 2013	31 Dec. 2012
Financial assets at fair value through profit or loss	212	96
Available for sale		
Measured at fair value	6,697	4,625
Held to maturity	187	316
Total notes and bonds eligible for central bank refinancing	**7,096**	**5,037**

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

Notes to OP-Pohjola Group Financial Statements

OTHER NOTES TO THE BALANCE SHEET

Note 45. Subordinated notes and bonds

EUR million	31 Dec. 2013	31 Dec. 2012
Publicly quoted		
From others	5	3
Total	5	3
Other		
From others	9	1
Total	9	1
Total included financial assets at fair value through profit or loss	**14**	**4**
Investment assets		
Publicly quoted		
From others	15	17
Total	15	17
Other		
From others	1	1
Total	1	1
Total included in investment assets	**15**	**18**

Notes to OP-Pohjola Group Financial Statements

OTHER NOTES TO THE BALANCE SHEET

Note 46. Collateral given

EUR million	31 Dec. 2013 Balance sheet value	31 Dec. 2012 Balance sheet value
Given on behalf of own liabilities and commitments		
Mortgages	1	1
Pledges	12	14
Loans (as collateral for covered bonds)	7,542	8,173
Others	485	623
Other collateral given		
Pledges*	5,705	4,618
Total collateral given	**13,744**	**13,428**
Other secured liabilities	490	592
Covered bonds	5,698	5,692
Total secured liabilities	**6,188**	**6,284**

* of which EUR 2,000 million in intraday settlement collateral and the rest pledged but unencumbered

Notes to OP-Pohjola Group Financial Statements

OTHER NOTES TO THE BALANCE SHEET

Note 47. Financial collateral held

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

Fair value of collateral received	31 Dec. 2013	31 Dec. 2012
Other	359	568
Total	**359**	**568**

The credit risk arising from derivatives is mitigated through collateral, which means the use of ISDA Credit Support Annex (CSA) contract associated with the ISDA general agreement. In the collateral system, the counterparty provides securities or cash in security for the receivable. The amount of CSA-related collateral received in cash totalled EUR 359 million on the balance sheet date (568). The Group had no securities received as collateral on the balance sheet date.

Notes to OP-Pohjola Group Financial Statements

OTHER NOTES TO THE BALANCE SHEET

Note 48. Classification of assets and liabilities

Assets, EUR million	Loans and other receivables	Invest-ments held to maturity	Financial assets at fair value through profit or loss*	Available-for-sale financial assets	Hedging deriva-tives	Carrying amount total
Cash and balances with central banks	2,172	-	-	-	-	2,172
Receivables from credit institutions and central banks	848	-	-	-	-	848
Derivative contracts	-	-	2,943	-	479	3,423
Receivables from customers	68,255	-	-	-	-	68,255
Non-life Insurance assets**	585	-	116	2,797	-	3,497
Life Insurance assets***	212	-	6,493	3,174	-	9,880
Notes and bonds	-	271	450	7,586	-	8,307
Shares and participations	-	-	87	305	-	392
Other	3,758	-	450	-	-	4,208
Total 31 December 2013	**75,830**	**271**	**10,539**	**13,862**	**479**	**100,981**

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

Liabilities, EUR million	**Financial liabilities at fair value through profit or loss******	**Other liabilities**	**Hedging deriva-tives**	**Carrying amount total**
Liabilities to credit institutions	-	1,032	-	1,032
Financial liabilities held for trading (excl. derivatives)	4	-	-	4
Derivative contracts	2,908	-	250	3,157
Liabilities to customers	-	50,175	-	50,175
Non-life Insurance liabilities	0	2,746	-	2,746
Life Insurance liabilities	6,308	3,463	-	9,771
Debt securities issued to the public	-	21,428	-	21,428
Subordinated loans	-	860	-	860
Other liabilities	-	4,092	-	4,092
Total 31 December 2013	**9,219**	**83,796**	**250**	**93,265**

Liabilities, EUR million	**Financial liabilities at fair value through profit or loss******	**Other liabilities**	**Hedging deriva-tives**	**Carrying amount total**
Liabilities to credit institutions	-	1,965	-	1,965
Financial liabilities held for trading (excl. derivatives)	3	-	-	3
Derivative contracts	3,743	-	419	4,162
Liabilities to customers	-	49,650	-	49,650
Non-life Insurance liabilities	3	2,596	-	2,598
Life Insurance liabilities	5,371	3,600	-	8,970
Debt securities issued to the public	-	19,270	-	19,270
Subordinated loans	-	1,114	-	1,114
Other liabilities	-	4,902	-	4,902
Total 31 December 2012	**9,119**	**83,097**	**419**	**92,635**

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

**Non-life Insurance assets are specified in Note 23.

**Life Insurance assets are specified in Note 24.

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

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

On 31 December 2013, the fair value of these debt instruments was approximately EUR 403 million higher than their carrying amount, based on information available in markets and employing commonly used valuation techniques.

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

Notes to OP-Pohjola Group Financial Statements

OTHER NOTES TO THE BALANCE SHEET

Note 49. Recurring fair value measurements by valuation technique

	31 Dec. 2013			
	Fair value			
Financial assets measured at fair value, EUR million	**Level 1***	**Level 2****	**Level 3*****	**Total**
Financial assets at fair value through profit or loss				
Banking	152	383	1	537
Non-life Insurance	-	6	-	6
Life Insurance*	6,061	239	16	6,316
Derivatives				
Banking	10	3,201	212	3,423
Non-life Insurance	4	0	-	4
Life Insurance	1	70	-	71
Available-for-sale financial assets				
Banking	6,098	1,752	41	7,891
Non-life Insurance	1,648	917	232	2,797
Life Insurance	1,800	947	427	3,174
Total financial instruments	**15,774**	**7,516**	**928**	**24,218**
Investment property				
Banking	-	-	450	450
Non-life Insurance	-	-	106	106
Life Insurance	-	-	107	107
Total Investment property	**-**	**-**	**663**	**663**
Total	**15,774**	**7,516**	**1,591**	**24,881**

*Includes 6,300 million euros in the fair value of assets covering unit-linked policies, with Level 1 accounting for 6,061 million and Level 2 for 239 million euros.

Financial assets measured at fair value, EUR million	31 Dec. 2012 Fair value Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Banking	125	209	23	358
Non-life Insurance	-	13	6	19
Life Insurance*	5,169	211	80	5,460
Derivatives				
Banking	7	4,239	190	4,436
Non-life Insurance	1	0	-	1
Life Insurance	-	130	-	130
Available-for-sale financial assets				
Banking	4,517	1,209	46	5,772
Non-life Insurance	1,799	759	244	2,802
Life Insurance	1,626	789	707	3,122
Total financial instruments	**13,244**	**7,559**	**1,297**	**22,100**
Investment property				
Banking	-	-	423	423
Non-life Insurance	-	-	112	112
Life Insurance	-	-	156	156
Total Investment property	**-**	**-**	**691**	**691**
Total	**13,244**	**7,559**	**1,988**	**22,791**

*Includes 5,373 million euros in the fair value of assets covering unit-linked policies, with Level 1 accounting for 5,169 million and Level 2 for 204 million euros.

Financial liabilities measured at fair value, EUR million	31 Dec. 2013 Fair value Level 1	Level 2	Level 3	Total
Financial liabilities at fair value through profit or loss				
Banking	-	4	-	4
Life Insurance*	6,060	239	-	6,299
Derivatives				
Banking	35	2,992	131	3,157
Life Insurance	-	9	-	9
Total	**6,095**	**3,243**	**131**	**9,469**

*Includes 6,299 million euros in the fair value of liabilities of unit-linked policies and unit-linked investment contracts, with Level 1 accounting for 6,060 million euros and Level 2 for 239 million euros.

Financial liabilities measured at fair value, EUR million	31 Dec. 2012 Fair value Level 1	Level 2	Level 3	Total
Financial liabilities at fair value through profit or loss				
Banking	-	3	-	3
Non-life Insurance	-	-	-	-
Life Insurance	5,167	204	-	5,371
Derivatives				
Banking	21	3,982	159	4,162
Non-life Insurance	3	0	-	3
Life Insurance	-	-	-	-
Total	**5,190**	**4,190**	**159**	**9,539**

*Includes 5,371 million euros in the fair value of liabilities of unit-linked policies and unit-linked investment contracts, with Level 1 accounting for 5,167 million euros and Level 2 for 204 million euros.

Fair value measurement

Pohjola Bank's Middle Office is responsible for the quality and reliability of market data used in fair value measurement as part of its daily fair value measurement process. Risk Management supervises this process and regularly assesses the appropriateness of assumptions used in the fair value measurement models and the results of the models including the measurement of Level 3 hierarchy. In addition, Market and Underwriting Management performs independent verification of fair values at least once a month. Verifying fair values is based, for example, on valuation using alternative sources for market prices and other input data. In this verification process, valuation prices can be compared with prices supplied by CSA counterparties and central counterparties, and it is also possible to use valuation services provided by third parties.

The fair value measurement of interest rate derivatives is based on the discounted cash flow method in which the future cash flows of derivatives are projected using forward curves by interest rate base and the cash flows are discounted using yield curves by currency. OP-Pohjola Group uses, for example, the Black 76 option pricing model to measure the fair value of interest rate option contracts, in which the implied volatility of different interest rate bases are taken into consideration.

The fair value measurement of unsecured derivatives takes account of the credit risk of the parties to a transaction. Credit risk is adjusted with a Credit Valuation Adjustment (CVA) and with a Debt Valuation Adjustment (DVA) CVA and DVA valuation adjustments are calculated per each counterparty on the net market value of derivative position.

Level 1: Quoted prices in active markets

This level includes equities listed on major stock exchanges, quoted corporate debt instruments, bonds issued by governments and financial institutions with credit rating of at least A-, and exchange-traded derivatives. The fair value of these instruments is determined on the basis of quotes in active markets.

Level 2: Valuation techniques using observable inputs

Valuation techniques based on observable input parameters. The fair value of the instruments included within this level means value derived from the market price of a financial instrument's components or similar financial instruments; or value which can be determined using commonly used valuation models and techniques if the inputs significant to the fair value measurement are based on observable market data. The fair value hierarchy level at Pohjola Group includes OTC derivatives, treasury bills/notes, debt instruments issued by companies and financial institutions, repo agreements, and securities lent or borrowed.

Level 3: Valuation techniques using unobservable inputs

Valuation techniques whose input parameters involve special uncertainty. The fair value determination of the financial instruments included within this level contains inputs not based on observable market data (unobservable inputs). This level includes the most complex OTC derivatives, certain private equity investments, and illiquid bonds, structured bonds, including securitised bonds and structured debt securities, and hedge funds. In many cases, the Level 3 fair value is based on pricing information from a third party.

Transfers between levels of the fair value hierarchy

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

During 2013, EUR 145 million (121) in bonds were transferred from level 1 to level 2, due to changes in credit ratings.

Reconciliation of Level 3 items

Specification of financial assets and liabilities

	Financial assets at fair value through profit or loss		Available-for-sale financial assets		Derivative contracts		
Financial assets, EUR million	**Banking**	**Insurance**	**Banking**	**Insurance**	**Banking**	**Insurance**	**Total assets**
Opening balance 1 Jan 2013	23	87	46	951	190	-	1,297
Total gains/losses in profit or loss	-15	1	-2	-22	22	-	-17
Total gains/losses in other comprehensive income	-	0	2	30	-	-	32
Purchases	-	1	1	54	-	-	56
Sales	-5	-50	-6	-290	-	-	-351
Settlements	-2	-22	0	0	-	-	-24
Transfers out of Level 3	-	-	-	-65	-	-	-65
Closing balance 31 Dec 2013	**1**	**16**	**41**	**658**	**212**	**-**	**928**

	Financial assets at fair value through profit or loss		Available-for-sale financial assets		Derivative contracts		
Financial assets, EUR million	**Banking**	**Insurance**	**Banking**	**Insurance**	**Banking**	**Insurance**	**Total assets**
Opening balance 1 Jan 2012	13	99	47	993	187	-	1,339
Total gains/losses in profit or loss	11	3	0	-11	3	-	7
Total gains/losses in other comprehensive income	-	0	4	19	-	-	24
Purchases	-	-	1	132	-	-	132
Sales	0	-11	-6	-182	-	-	-199
Settlements	-1	-5	0	0	-	-	-6
Transfers out of Level 3	-	-	-	-	-	-	-
Closing balance 31 Dec 2012	**24**	**87**	**46**	**951**	**190**	**-**	**1,298**

Financial liabilities, EUR million	Banking	Insurance	Available-for-sale financial assets Banking	Available-for-sale financial assets Insurance	Derivative contracts Banking	Derivative contracts Insurance	Total assets
Opening balance 1 Jan 2013	-	-	-	-	159	-	159
Total gains/losses in profit or loss	-	-	-	-	-28	-	-28
Closing balance 31 Dec 2013	**-**	**-**	**-**	**-**	**131**	**-**	**131**

Financial liabilities, EUR million	Banking	Insurance	Available-for-sale financial assets Banking	Available-for-sale financial assets Insurance	Derivative contracts Banking	Derivative contracts Insurance	Total assets
Opening balance 1 Jan 2012	-	-	-	-	178	-	178
Total gains/losses in profit or loss	-	-	-	-	-19	-	-19
Closing balance 31 Dec 2012	**-**	**-**	**-**	**-**	**159**	**-**	**159**

Total gains/losses included in profit or loss by item for the financial year on 31 Dec 2013

EUR Million	Net interest income or net trading income	Net investment income	Net income from Non-life Insurance	Net income from Life Insurance	Statement of comprehensive income/ Change in fair value reserve	Total gains/ losses for the financial year included in profit or loss for assets/ liabilities held at year-end
Realised net gains (losses)	-15	2	-5	-17	-	-35
Unrealised net gains (losses)	50	-4	-	-	32	78
Total net gains (losses)	**35**	**-2**	**-5**	**-17**	**32**	**43**

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	Net income from Life Insurance	Statement of comprehensive income/ Change in fair value reserve	Total gains/ losses for the financial year included in profit or loss for assets/ liabilities held at year-end
Realised net gains (losses)	11	0	-4	-4	-	4
Unrealised net gains (losses)	22	-	-	-	23	46
Total net gains (losses)	**34**	**0**	**-4**	**-4**	**23**	**49**

Derivatives included in Level 3 comprise structured derivatives for customer needs, whose market risk is covered by a corresponding derivatives contract. The uncovered market risk does not have any effect on earnings. Level 3 derivatives relate to structured bonds issued by Pohjola, whose return is determined by the value performance of an embedded derivative instrument. The fair value change of these embedded derivatives is not presented in the above table.

Sensitivity of Level 3 measurements to reasonably possible alternative assumptions

No major changes occurred in valuation techniques in 2013.

Sensitivity analysis of input parameters involving uncertainty

Type of instrument, EUR million	Receivables	Liabilities	Net balance	Sensitivity analysis	Reasonably possible change in fair value
Recognised at fair value through profit or loss:					
Structured investment vehicles	17		17	1.7	10%
Derivatives:					
Index-linked bond hedges and structured derivatives*	212	-131	81	9.1	11%
Available-for-sale:					
Illiquid investments	168		168	25.2	15%
Private equity funds**	319		319	31.9	10%
Real estate funds***	213		213	42.6	20%
Investment property					
Investment property***	663		663	132.6	20%

* Following stress scenarios: the combined value change of volatility of shares (30%), dividends of shares (30%), credit risk premiums (30%) and significant correlation changes.

** The value of private equity funds depends mainly on the profit performance of portfolio companies and the PE ratios of similar listed companies. The Total Value to Paid-in (TVPI) multiple, which has changed an average of 10%, is used to monitor the progress of the fair value of private equity funds.

*** In the valuation of real estate funds and investment property, Pohjola mainly uses the income approach whose main components are yield requirement and net rent. A +/– 1 percentage point change in the yield requirement leads on average to around 20% change in the fair value.

Notes to OP-Pohjola Group Financial Statements

NOTES TO CONTINGENT LIABILITIES AND DERIVATIVES

Note 50. Off-balance-sheet commitments

	31 Dec. 2013	31 Dec. 2012
Guarantees	931	955
Other guarantee liabilities	1,967	1,684
Pledges	3	3
Loan commitments	9,772	10,856
Commitments related to short-term trade transactions	265	451
Other	490	479
Total off-balance-sheet commitments	**13,428**	**14,430**

Notes to OP-Pohjola Group Financial Statements

NOTES TO CONTINGENT LIABILITIES AND DERIVATIVES

Note 51. Contingent liabilities and assets

Insurance companies belonging to OP-Pohjola Group underwrite insurance policies through pools. Pool members are primarily responsible for their own proportionate share of the risk. Proportionate shares are based on contracts confirmed annually. In certain pools, pool members are responsible for an insolvent member's liabilities in proportion to their shares in the pool. Group insurance companies recognise liabilities and receivables based on joint liability if joint liability is likely to materialise.

In December 2010, Pohjola Bank plc sold its subsidiary Pohjola Capital Partners Ltd to its existing management. In addition to the selling price, Pohjola will be entitled to an additional price of a total of EUR 0.7 million if the size of a new limited partnership based private equity fund established by the sold company or its direct or indirect owners at a later date reaches EUR 75 million based on commitments received at the time of closing. This amount will be paid to the seller on 31 March 2014 at the earliest, as specified in the terms and conditions of the sale. Entitlement to this amount also requires that Pohjola alone or together with OP-Pohjola Group companies (excl. Group member banks) make a minimum commitment of EUR 20 million to the new fund on the same terms as other investors, provided that the new fund reaches a minimum size of EUR 50 million.

Notes to OP-Pohjola Group Financial Statements

NOTES TO CONTINGENT LIABILITIES AND DERIVATIVES

Note 52. Operating leases

OP-Pohjola Group as Lessee

Some OP-Pohjola Group companies have leased the office premises they use. The term of these leases varies between one and ten years and they usually include the option of extending the lease after the original date of termination. OP-Pohjola Group companies have subleased some of their premises. In addition, some companies have leased motor vehicles and office equipment. Other operating expenses include EUR 29 million (27) in rental expenses.

Future minimum lease payments under non-cancellable operating leases

EUR million	31 Dec. 2013	31 Dec. 2012
No later than 1 year	14	13
Later than 1 year and no later than 5 years	14	27
Later than 5 years	1	1
Total	**30**	**41**
Expected future minimum lease payments from non-cancellable subleases	5	8

OP-Pohjola Group as Lessor

OP-Pohjola Group companies have leased out investment properties they own, which generated lease income of EUR 65 million (65) in 2013. In addition, the Group has primarily leased out passenger cars, which generated lease income of EUR 4 million (8).

Future minimum lease payments receivable under non-cancellable operating leases

EUR million	31 Dec. 2013	31 Dec. 2012
No later than 1 year	44	46
Later than 1 year and no later than 5 years	97	95
Later than 5 years	85	68
Total	**227**	**209**

Notes to OP-Pohjola Group Financial Statements

NOTES TO CONTINGENT LIABILITIES AND DERIVATIVES

Note 53. Derivative contracts

Derivatives held for trading 31 December 2013

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	12,513	55,139	29,999	97,651	2,239	1,968	2,953
Cleared by the central counterparty	2,350	9,295	4,419	16,065	70	51	183
Forward rate agreements	-	-	-	-	-	-	-
OTC interest rate options							
Call and caps							
Purchased	3,113	5,330	2,179	10,623	179	4	244
Written	2,270	5,109	2,634	10,014	0	136	5
Put and floors							
Purchased	2,806	5,958	1,202	9,966	201	0	263
Written	3,276	7,285	979	11,539	0	138	27
Total OTC interest rate derivatives	23,978	78,821	36,993	139,793	2,619	2,246	3,492
Interest rate futures	4,109	6,624	-	10,733	8	3	-
Interest rate options							
Put							
Purchased	2,000	-	-	2,000	-	0	-
Written	4,000	-	-	4,000	1	-	-
Total exchange traded derivatives	10,109	6,624	-	16,733	9	3	-
Total interest rate derivatives	34,087	85,445	36,993	156,526	2,628	2,249	3,492

Currency derivatives							
Forward exchange agreements	13,553	338	84	13,976	132	143	290
Interest rate and currency swaps	344	1,353	1,303	3,001	160	177	329
Currency options							
Call							
Purchased	178	11	-	189	3	-	5
Written	208	8	-	217	0	8	0
Put							
Purchased	167	8	-	175	1	-	3
Written	101	0	-	101	-	1	-
Total OTC currency derivatives	14,552	1,719	1,387	17,659	296	328	628
Currency futures	-	-	-	-	-	-	-
Total currency derivatives	14,552	1,719	1,387	17,659	296	328	628
Equity index options							
Call							
Purchased	194	582	-	776	77	-	135
Written	-	-	-	-	-	-	-
Put							
Purchased	-	0	-	0	-	-	0
Written	-	-	-	-	-	-	-
Total OTC equity and index derivatives	194	582	-	776	77	-	135
Equity futures	-	-	-	-	-	-	-
Total exchange traded derivatives	-	-	-	-	-	-	-
Total equity and index derivatives	194	582	-	776	77	-	135
Credit derivatives							
Credit default swaps	4	99	15	118	13	0	13
Total credit derivatives	4	99	15	118	13	0	13
Other							
Other forward contracts	3	0	-	4	1	0	1
Other swaps	204	499	166	869	55	30	141
Other options							
Call							
Purchased	18	11	-	29	0	-	3
Written	18	-	-	18	-	0	-
Put							
Purchased	9	-	-	9	0	-	1
Written	9	-	-	9	-	0	-
Total other OTC derivatives	261	510	166	937	56	30	146
Other futures contracts	105	118	6	229	8	34	-
Total other derivatives	367	627	172	1,167	64	64	146
Total derivatives held for trading	**49,204**	**88,473**	**38,568**	**176,245**	**3,077**	**2,641**	**4,414**

Derivatives held for trading 31 December 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	9,939	47,776	29,189	86,904	3,364	2,840	4,040
Forward rate agreements	260	-	-	260	0	0	0
OTC interest rate options							
Call and caps							
Purchased	4,381	5,883	1,761	12,024	373	7	427
Written	3,919	4,234	1,959	10,112	0	348	-
Put and floors							
Purchased	7,805	3,078	734	11,617	147	0	173
Written	8,405	3,335	682	12,421	-	69	-
Total OTC interest rate derivatives	34,709	64,305	34,325	133,339	3,885	3,263	4,640
Interest rate futures	2,694	2,958	142	5,793	1	5	-
Interest rate options							
Put							
Purchased	1,000	-	-	1,000	-	0	-
Written	1,000	-	-	1,000	0	-	-
Total exchange traded derivatives	4,694	2,958	142	7,793	1	6	-
Total interest rate derivatives	39,403	67,263	34,467	141,133	3,886	3,269	4,640
Currency derivatives							
Forward exchange agreements	18,174	538	65	18,778	129	226	342
Interest rate and currency swaps	0	1,400	298	1,698	77	89	169
Currency options							
Call							
Purchased	123	-	-	123	2	-	4
Written	142	-	-	142	-	2	-
Put							
Purchased	108	-	-	108	1	-	2
Written	100	-	-	100	-	1	-
Total OTC currency derivatives	18,647	1,938	363	20,948	209	318	517
Currency futures	-	-	-	-	-	-	-
Total currency derivatives	18,647	1,938	363	20,948	209	318	517

Equity and index derivatives							
Equity index options							
Call							
Purchased	261	819	6	1,085	50	-	132
Put							
Purchased	42	0	-	42	0	-	0
Total OTC equity and index derivatives	303	819	6	1,127	50	-	132
Equity futures	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 forward contracts	4	2	-	6	1	0	1
Other swaps	91	399	73	563	23	18	77
Other options							
Call							
Purchased	33	16	-	49	6	-	11
Written	23	5	-	28	-	0	-
Put							
Purchased	7	5	-	11	0	-	2
Written	7	5	-	11	-	0	-
Total other OTC derivatives	165	430	73	669	30	19	90
Other futures contracts	79	130	5	215	6	18	-
Total other derivatives	244	561	78	883	36	37	90
Total derivatives held for trading	**58,719**	**70,672**	**34,915**	**164,306**	**4,191**	**3,626**	**5,391**

Derivative contracts for hedging purposes - fair value hedging 31 December 2013

	Nominal values/residual term to maturity				Fair values		Potential future
EUR million	**<1 year**	**1–5 years**	**>5 years**	**Total**	**Assets**	**Liabilities**	**exposure**
Interest rate derivatives							
Interest rate swaps	4,197	11,448	5,084	20,728	348	244	467
Cleared by the central counterparty	40	1,139	601	1,779	5	17	20
OTC interest rate options							
Call and caps							
Purchased	-	11	10	21	-	0	0
Written	0	0	0	0	-	-	-
Put and floors							
Written	-	11	10	21	-	-	-
Total OTC interest rate derivatives	4,197	11,469	5,104	20,769	348	245	468
Total interest rate derivatives	4,197	11,469	5,104	20,769	348	245	468
Currency derivatives							

Forward exchange agreements	-	-	-	-	-	-	-
Interest rate and currency swaps	1,628	803	137	2,567	46	83	113
Total OTC currency derivatives	1,628	803	137	2,567	46	83	113
Total currency derivatives	1,628	803	137	2,567	46	83	113
Total derivative contracts, fair value hedge	**5,824**	**12,272**	**5,240**	**23,337**	**394**	**328**	**580**

Derivative contracts for hedging purposes – cash flow hedge 31 Dec. 2013

	Nominal values/residual term to maturity				Fair values		Potential future
EUR million	**<1 year**	**1–5 years**	**>5 years**	**Total**	**Assets**	**Liabilities**	**exposure**
Interest rate derivatives							
Interest rate swaps	250	1,933	611	2,794	49	5	67
Cleared by the central counterparty	0	200	0	200	0	1	1
Total OTC interest rate derivatives	250	1,933	611	2,794	49	5	67
Total interest rate derivatives	**250**	**1,933**	**611**	**2,794**	**49**	**5**	**67**
Total derivative contracts, cash flow hedge	**250**	**1,933**	**611**	**2,794**	**49**	**5**	**67**
Total derivative contracts held for hedging	**6,074**	**14,205**	**5,851**	**26,131**	**443**	**332**	**647**

Derivative contracts for hedging purposes – fair value hedging 31 December 2012

	Nominal values/residual term to maturity				Fair values		Potential future
EUR million	**<1 year**	**1–5 years**	**>5 years**	**Total**	**Assets**	**Liabilities**	**exposure**
Interest rate derivatives							
Interest rate swaps	2,735	8,294	3,084	14,114	435	405	523
OTC interest rate options							
Call and caps							
Purchased	-	1	20	-	-	0	0
Written	0	0	0	0	-	-	-
Put and floors							
Written	-	1	20	21	-	-	-
Total OTC interest rate derivatives	2,735	8,295	3,124	14,134	435	406	523
Total interest rate derivatives	2,735	8,295	3,124	14,155	435	406	523

Currency derivatives							
Forward exchange agreements	90	-	-	90	0	0	1
Interest rate and currency swaps	1,122	808	153	2,083	85	22	148
Total OTC currency derivatives	1,212	808	153	2,173	85	22	149
Total currency derivatives	1,212	808	153	2,173	85	22	149
Total derivative contracts, fair value hedge	**3,947**	**9,103**	**3,277**	**16,328**	**520**	**428**	**672**

Derivative contracts for hedging purposes – cash flow hedge 31 Dec. 2012

	Nominal values/residual term to maturity				Fair values		Potential future exposure
EUR million	**<1 year**	**1–5 years**	**>5 years**	**Total**	**Assets**	**Liabilities**	
Interest rate derivatives							
Interest rate swaps	210	1,480	224	1,914	35	40	46
Total OTC interest rate derivatives	210	1,480	224	1,914	35	40	46
Total interest rate derivatives	210	1,480	224	1,914	35	40	46
Total derivative contracts, cash flow hedge	**210**	**1,480**	**224**	**1,914**	**35**	**40**	**46**
Total derivative contracts held for hedging	**4,157**	**10,584**	**3,501**	**18,242**	**555**	**467**	**718**

Total derivatives 31 December 2013

	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	38,534	98,847	42,708	180,089	3,025	2,498	4,026
Cleared by the central counterparty	2,390	10,634	5,020	18,044	76	69	204
Currency derivatives	16,180	2,522	1,524	20,226	342	411	741
Equity and index-linked derivatives	194	582	-	776	77	-	135
Credit derivatives	4	99	15	118	13	0	13
Other derivatives	367	627	172	1,167	64	64	146
Total derivatives	**55,278**	**102,678**	**44,419**	**202,375**	**3,520**	**2,974**	**5,061**

Total derivatives 31 December 2012

	Nominal values/residual term to maturity				Fair values		Potential future
EUR million	**<1 year**	**1–5 years**	**>5 years**	**Total**	**Assets**	**Liabilities**	**exposure**
Interest rate derivatives	42,348	77,038	37,815	157,202	4,356	3,715	5,210
Currency derivatives	19,859	2,746	517	23,122	294	340	666
Equity and index-linked derivatives	303	819	6	1,127	50	0	132
Credit derivatives	122	92	-	214	10	2	11
Other derivatives	244	561	78	883	36	37	90
Total derivatives	**62,876**	**81,256**	**38,416**	**182,548**	**4,746**	**4,093**	**6,109**

*Fair values include accrued interest which is shown under other assets or provisions and other liabilities in the balance sheet.

Interest rate derivatives for central counterparty clearing are offset in the balance sheet. The effects of netting can be found in Note 54 below. Other derivative contracts are presented on a gross basis in the balance sheet. In capital adequacy measurement, Pohjola Group also applies netting of derivatives. The effects of netting on counterparty risk can be found in Note 98 above. Netting would reduce the credit equivalent of Pohjola Bank plc’s derivative contracts by EUR 3,381 million (4,359).

Notes to OP-Pohjola Group Financial Statements

NOTES TO CONTINGENT LIABILITIES AND DERIVATIVES

Note 54. Financial assets and liabilities offset in the balance sheet or subject to enforceable master netting arrangements or similar agreements

Financial assets offset in the balance sheet or subject to enforceable master netting arrangements or similar agreements

				Financial assets not set off in the balance sheet		
31 Dec. 2013, EUR million	**Gross amount of financial assets**	**Gross amount of financial liabilities deducted from financial assets***	**Net amount presented in the balance sheet****	**Financial assets*****	**Collateral received**	**Net amount**
Banking derivatives	3,498	-71	3,423	-2,362	-359	702
Life Insurance derivatives	71	-	71	-9	-	62
Non-life Insurance derivatives	4	-	4	-	-	4
Total derivatives	**3,573**	**-71**	**3,498**	**-2,371**	**-359**	**768**

Financial liabilities offset in the balance sheet or subject to enforceable master netting arrangements or similar agreements

				Financial liabilities not set off in the balance sheet		
31 Dec. 2013, EUR million	**Gross amount of financial liabilities**	**Gross amount of financial assets deducted from financial liabilities***	**Net amount presented in the balance sheet****	**Financial liabilities*****	**Collateral given**	**Net amount**
Banking derivatives	3,221	-64	3,157	-2,362	-377	418
Life Insurance derivatives	9	-	9	-9	-	-
Non-life Insurance derivatives	-	-	-	-	-	-
Total derivatives	**3,230**	**-64**	**3,166**	**-2,371**	**-377**	**418**

* Incl. daily cleared derivatives on a net basis included in cash and cash equivalents, totalling 8 million euros.

**Fair values excluding accrued interest

***It is OP-Pohjola Group’s practice to enter into master agreements for derivative transactions with all derivative counterparties.

Central counterparty clearing for OTC derivatives

In anticipation of entry into force of central counterparty clearing required by the European Market Infrastructure Regulation (Regulation (EU) No. 648/2012), OP-Pohjola Group started in February 2013 central counterparty clearing in London Clearing House for new interest rate derivatives covering standardised OTC derivative transactions entered into with financial counterparties. Since OP-Pohjola Group is not a direct member of London Clearing House, it will manage central counterparty clearing for OTC derivative transactions with a few, separately selected clearing brokers with which it has concluded clearing agreements. The central counterparty will become the derivatives counterparty at the end of the daily clearing process. Based on this operating model, daily payments for derivatives are netted. In addition, collateral is paid or received daily, which corresponds to the change in the fair value of open positions (variation margin). As a result of the change in the operating model, interest rate derivatives cleared by the central counterparty are presented on a net basis in the balance sheet. This change has not yet had any substantial effect on the consolidated balance sheet.

Other bilaterally cleared OTC derivative contracts

The ISDA Master Agreement or the Master Agreement of the Federation of Finnish Financial Services or OP-Pohjola Group will apply to derivative transactions between OP-Pohjola Group and other clients and to derivative transactions to which central counterparty clearing in accordance with the Regulation does not pertain. On the basis of these agreements, derivative payments may be netted per transaction on each payment date and in the event of counterparty default and bankruptcy. It is also possible to agree on collateral on a counterparty-specific basis in the terms and conditions of the agreement. Such derivatives are presented on a gross basis in the balance sheet.

Notes to OP-Pohjola Group Financial Statements

OTHER NOTES

Note 55. Holdings in other companies

Changes in subsidiaries and associates during the financial year

OP IT Procurement Ltd merged with OP-Services Ltd. OP-Pohjola Group Central Cooperative established a new subsidiary, Pivo Wallet Oy.

Pohjola Corporate Finance Ltd, a Pohjola Bank plc subsidiary, merged with the parent company. As a result of an additional investment in Access Capital Partners Group S.A., Pohjola Bank plc holds 45% of the company's shares. Pohjola Property Management Ltd established a new subsidiary, Pohjola Asuntorahasto I GP Oy.

Subsidiaries included in the financial statements of the amalgamation of cooperative banks (OP-Pohjola Group) in 2013

Company	Domicile/home country	Shareholding, %	Votes, %
183 member cooperative banks*			
OP-Pohjola Group Central Cooperative	Helsinki	100.0	100.0
Aurum Investment Insurance Ltd	Helsinki	100.0	100.0
Helsinki OP Bank Plc	Helsinki	100.0	100.0
Helsingin Seudun OP-Kiinteistökeskus Ltd	Helsinki	100.0	100.0
OP Mortgage Bank	Helsinki	100.0	100.0
OP Life Assurance Company Ltd	Helsinki	100.0	100.0
OP-Kotipankki Oyj	Helsinki	100.0	100.0
OP-Services Ltd*)	Helsinki	100.0	100.0
OP Process Services Ltd	Helsinki	100.0	100.0
OP Fund Management Company Ltd	Helsinki	100.0	100.0
OP-Vallila Rahasto Ky	Helsinki	83.9	83.9
OP-Vallila Rahasto VYM Oy	Helsinki	100.0	100.0
OP Bank Group Mutual Insurance Company	Helsinki	100.0	100.0
Pivo Wallet Oy	Helsinki	100.0	100.0
Pohjola Bank plc	Helsinki	53.3	74.7
Real Estate Fund Finland III Ky	Helsinki	66.7	66.7
Real Estate Fund Finland III Ky (Group)	Helsinki	66.7	66.7
Pohjola Group companies :			
A-Insurance Ltd	Helsinki	100.0	100.0
Conventum Venture Finance Ltd.	Helsinki	100.0	100.0
Kaivokadun PL-hallinto Ltd	Helsinki	100.0	100.0
Omasairaala Oy	Helsinki	100.0	100.0

PAM USA Funds Oy	Helsinki	100.0	100.0
Pohjola Asset management Execution Services Oy	Helsinki	100.0	100.0
Pohjola Asuntorahasto I GP Oy	Helsinki	100.0	100.0
Pohjola Finance Estonia AS	Estonia	100.0	100.0
Pohjola Finance SIA	Latvia	100.0	100.0
Pohjola Property Management Ltd	Helsinki	100.0	100.0
Pohjola Health Ltd	Helsinki	100.0	100.0
Pohjola Insurance Ltd	Helsinki	100.0	100.0
Pohjola Asset Management Limited	Helsinki	100.0	100.0
Real Estate Debt and Secondaries GP Oy	Helsinki	100.0	100.0
Real Estate Fund	Helsinki	100.0	100.0
Real Estate Fund Finland III GP Oy	Helsinki	100.0	100.0
Real Estate Fund of Funds Finland Oy	Helsinki	100.0	100.0
Seesam Insurance AS	Estonia	100.0	100.0
UAB Pohjola Finance	Lithuania	100.0	100.0
Eurooppalainen Insurance Company Ltd	Helsinki	100.0	100.0

Name	**Balance sheet 2013, EUR million**	**Capital adequacy, % 31 Dec. 2013**	**Managing Director 31 Dec. 2013**
Akaan Seudun Op	129	39.5	Heikki Teräväinen
Alajärven Op	240	35.7	Jari Leivo
Alastaron Op	50	29.2	Sanna Metsänranta
Alavieskan Op	58	30.2	Antero Alahautala
Alavuden seudun Op	194	25.6	Jussi Ruuhela
Andelsbanken för Åland	299	16.2	Håkan Clemes
Andelsbanken Raseborg	365	17.0	Lars Björklöf
Artjärven Op	45	35.6	Reijo Hurskainen
Askolan Op	108	28.8	Tuulikki Kyyhkynen
Auran Op	83	31.4	Sauli Nuolemo
Enon Op	113	28.5	Raili Hyvönen
Etelä-Hämeen Op	1,164	24.8	Seppo Runsamo
Etelä-Karjalan Op	1,229	31.9	Jari Himanen
Etelä-Pohjanmaan Op	928	16.9	Olli Tarkkanen
Etelä-Päijänteen Op	155	21.5	Jari Laaksonen
Euran Op	169	34.6	Timo Viitanen
Haapamäen Seudun Op	55	30.0	Hannu Petjoi
Hailuodon Op	34	31.6	Eija Sipola
Halsuan Op	32	21.8	Heidi Pöyhönen
Hartolan Op	66	29.9	Kari Leskinen
Haukivuoren Op	59	29.4	Seppo Laurila
Heinäveden Op	78	41.0	Jukka Tuomisto
Himangan Op	70	18.3	Kalevi Humalajoki
Hirvensalmen Op	42	35.5	Kirsi Hännikäinen
Honkilahden Op	32	41.2	Jukka-Pekka Koivisto
Humppilan Op	60	31.5	Jari Salokangas
Ilomantsin Op	122	25.4	Raija Tahvanainen
Itä-Uudenmaan Op	347	14.4	Arto Nurmi-Aro

Janakkalan Op	327	42.3	Vesa Lehikoinen
Joensuun Seudun Op	626	19.7	Esko Mononen
Jokioisten Op	98	28.0	Vesa Rantanen
Juuan Op	123	28.2	Tuomo Mustonen
Jämsän seudun Op	240	42.9	Kyösti Myller
Kainuun Op	485	25.5	Seppo Rytivaara
Kalajoen Op	200	19.5	Leena Kälviä
Kalkkisten Op	19	30.2	Heikki Leppähaara
Kangasalan seudun Op	387	26.7	Jari Linjala
Kangasniemen Op	174	40.3	Leo Pakkanen
Kannuksen Op	89	21.9	Juha Lundström
Karjalan Op	29	27.4	Pentti Laaksonen
Karkun Op	23	32.6	Tiina Kankkio
Kaustisen Op	83	20.6	Asko Ahonen
Kemin Seudun Op	268	33.9	Pertti Stöckel
Kerimäen Op	67	38.0	Jarmo Kaivonurmi
Keski-Suomen Op	1,806	17.5	Keijo Manner
Keski-Uudenmaan Op	1,348	25.8	Juhani Rinta-Kartano
Kesälahden Op	77	34.8	Toni Ruokanen
Kihniön Op	34	31.8	Pirjo Haapa-aho Vehniä
Kiihtelysvaaran Op	93	23.4	Pasi Leppänen
Kiikoisten Op	30	35.4	Harri Vehkalahti
Kiteen Seudun Op	259	33.4	Ari Karhapää
Koillis-Savon Seudun Op	362	38.6	Seppo Pääkkö
Koitin-Pertunmaan Op	69	32.3	Jouko Iso-Kuortti
Kokkolan Op	698	15.9	Kimmo Peuranto
Korpilahden Op	83	34.4	Tuomas Kupsala
Korsnäs Andelsbank	124	31.1	Jan-Erik Westerdahl
Kronoby Andelsbank	122	34.7	Sten-Ole Nybäck
Kuhmoisten Op	50	23.5	Teemu Sarhemaa
Kuhmon Op	154	23.7	Hannu Kurkinen
Kuortaneen Op	65	27.2	Markku Jaatinen
Kurun Op	47	36.3	Marja-Leena Siuro
Kuusamon Op	178	31.7	Kari Kivelä
Kymenlaakson Op	1,410	23.2	Marjo Partio
Kärkölän Op	70	34.6	Arto Haavikko
Käylän Op	26	36.9	Katja Koskinen
Köyliön Op	63	26.0	Jari Valonen
Lapin Op	80	31.5	Juha Teerialho
Lehtimäen Op	51	17.0	Veli-Jussi Haapala
Lemin Op	75	21.9	Eero Innanen
Leppävirran Op	144	32.4	Jukka Kilpeläinen
Limingan Op	81	21.7	Petteri Juusola
Liperin Op	173	26.9	Jalo Lehtovaara
Loimaan Seudun Op	220	32.9	Juha Pullinen
Lokalahden Op	33	29.9	Ville Aarnio
Lounaismaan OP	1,296	23.0	Jukka Hulkkonen
Lounaisrannikon Op	457	28.1	Juha-Pekka Nieminen
Lounais-Suomen Op	268	34.5	Vesa Viitaniemi

Luhangan Op	46	37.0	Tuomas Puttonen
Luopioisten Op	34	35.8	Esa Jokinen
Luumäen Op	92	37.4	Mikko Antikainen
Länsi-Kymen Op	255	20.4	Pertti Olander
Länsi-Suomen Op	2,151	26.9	Simo Kauppi
Länsi-Uudenmaan Op	741	17.3	Jarmo Viitanen
Maaningan Op	86	38.1	Ari Väänänen
Marttilan Op	75	40.4	Matti Vahalahti
Mellilän Seudun Op	33	44.6	Aarre Anttila
Merimaskun Op	33	25.5	Marjo Linnakoski
Metsämaan Op	28	30.9	Jussi Nieminen
Miehikkälän Op	59	46.7	Kalevi Salonen
Mouhijärven Op	68	22.4	Rainer Sillanpää
Mynämäen Op	136	35.3	Kimmo Ranta
Myrskylän Op	21	23.5	Mikko Purmonen
Mäntsälän Op	174	30.1	Heikki Kananen
Mäntän Seudun Op	216	32.8	Janne Nuutinen
Nagu Andelsbank	43	24.2	Johan Broos
Nakkila-Luvian Op	180	36.8	Jussi Kuvaja
Niinijoen Op	35	43.9	Jouni Tammelin
Nivalan Op	180	15.2	Markku Niskala
Nousiaisten Op	181	29.9	Ville Aakula
Op Kantrisalo	89	30.2	Bo Hellen
Orimattilan Op	188	33.7	Jukka Sipilä
Oripään Op	58	20.1	Jouko Rekolainen
Oriveden seudun Op	169	31.0	Pertti Pyykkö
Oulaisten Op	186	35.2	Jari Anttila
Oulun Op	2,499	18.8	Timo Levo
Outokummun Op	109	32.7	Eero Eskelinen
Paattisten Op	82	33.7	Soile Noren
Paltamon Op	57	32.8	Jorma Niemi
Parikkalan Op	109	39.1	Tuomo Liukka
Pedersörenejdens Andelsbank	401	20.7	Thomas Hulten
Perhon Op	71	23.9	Pekka Pajula
Peräseinäjoen Op	98	33.5	Juha Mäki
Pielaveden Op	92	25.2	Jouni Karhinen
Pielisen Op	442	27.8	Jaana Reimasto-Heiskanen
Pihtiputaan Op	64	34.7	Vesa Isosalo
Pohjois-Savon Op	1,634	19.6	Jaakko Ojanperä
Pohjolan Op	891	23.2	Markku Salomaa
Polvijärven Op	116	26.7	Ari Noponen
Porvoon Op	562	19.6	Mauri Molander
Posion Op	97	43.3	Vesa Jurmu
Pudasjärven Op	163	49.5	Teuvo Perätalo
Pukkilan Op	62	36.1	Ari Talkara
Pulkkilan Op	38	37.1	Eero Keskitalo
Punkalaitumen Op	83	35.8	Petri Antila
Puolangan Op	72	31.6	Jouni Ahokumpu

Purmo andelsbank	34	24.9	Stig-Göran Jansson
Pyhälaakson Op	186	28.5	Timo Suhonen
Päijät-Hämeen Op	1,158	13.8	Timo Laine
Pöytyän Op	83	25.7	Tuomo Jokinen
Raahen seudun Op	309	31.9	Ari Pohjola
Rantasalmen Op	133	36.0	Martti Pulkkinen
Rautalammin Op	66	29.9	Esko-Pekka Markkanen
Riistaveden Op	105	19.5	Pauli Kröger
Ruoveden Op	118	17.3	Leena Selkee
Ruukin Op	122	32.4	Kalle Arvio
Rymättylän Op	61	28.5	Antero Nikki
Rääkkylän Op	82	27.9	Olli Koivula
Sallan Op	67	33.4	Anne Harju
Satakunnan Op	434	41.6	Olli Näsi
Satapirkan Op	266	26.8	Ari Heinonen
Savitaipaleen Op	103	37.5	Leo-Petteri Nevalainen
Siikajoen Op	38	28.3	Raija Fingerroos
Siikalatvan Op	79	30.0	Ismo Välijärvi
Simpeleen Op	72	46.0	Asko Imppola
Sonkajärven Op	91	34.2	Esko Nissinen
Sotkamon Op	117	35.1	Juhajouni Karttunen
Sulkavan Op	66	24.3	Kari Haverinen
Suomenselän Op	293	24.3	Kari Ahola
Suomussalmen Op	114	23.0	Timo Polo
Suonenjoen Op	118	25.5	Antti Hult
Suur-Savon Op	1,609	24.7	Kari Manninen
Sysmän Op	103	39.1	Sakari Kangas
Säkylän Op	71	29.0	Jari Katila
Taivalkosken Op	64	25.0	Riitta-Liisa Ahokumpu
Taivassalon Op	56	20.4	Sari Kaivola-Murto
Tampereen Seudun Op	2,816	14.6	Mikko Rosenlund
Tarvasjoen Op	47	29.2	Esa Hentula
Tervolan Op	67	34.7	Hannu Neuvonen
Tervon Op	53	29.5	Jani Kääriäinen
Toholammin Op	98	24.3	Juha Pajumaa
Tornion Op	250	18.1	Pentti Alaperä
Turun Seudun Op	2,452	19.4	Olli-Pekka Saario
Tuupovaaran Op	54	34.8	Simo Penttinen
Tyrnävän Op	69	24.1	Antto Joutsiniemi
Ullavan Op	38	21.1	Jarmo Hätälä
Urjalan Op	116	32.0	Sami Pietilä
Utajärven Op	186	26.1	Raimo Tuovinen
Vaasan Op	764	19.7	Ulf Nylund
Valkeakosken Op	191	28.3	Juha Luomala
Vammalan Seudun Op	208	16.5	Jyrki Rantala
Vampulan Op	76	32.0	Kari Hänti
Vehmersalmen Op	62	37.0	Petri Tyllinen
Vesannon Op	59	28.5	Esa Keränen
Vetelin Op	29	25.4	Jarmo Lehojärvi

Vetelin Ylipään Op	29	22.4	Mikael Hanhilahti
Vihannin Op	107	29.8	Jari Kantomaa
Vimpelin Op	60	27.0	Kari Jukantupa
Virtain Op	153	29.8	Ari Kakkori
Ylitornion Op	109	24.2	Terttu Hagelin
Ylivieskan Op	222	15.2	Jarmo Somero
Yläneen Op	78	37.6	Heikki Eskola
Ypäjän Op	63	35.7	Kirsi-Marja Hiidensalo
Östra Korsholms Andelsbank	8	25.1	Jussi Lahti

Associated companies

Associates (consolidated) in 2013

Name	Domicile	Assets	Liabilities	Net sales	Profit/ Loss	Holding, %
Automatia Pankkiautomaatit Oy	Helsinki	333	309	54	3	33.3
Finanssi-Kontio Oy	Helsinki	10	9	6	0	59.4
PJP-Pankkijärjestelmäpalvelut Oy	Helsinki	7	6	4	1	40.0
Access Capital Partners Group S.A.	Belgium	20	13	21	1	45.0
Autovahinkokeskus Oy	Espoo	9	1	9	0	27.8
Total		**379**	**338**	**94**	**5**	

The Group's associated companies are unquoted companies.

Associates (consolidated) in 2012

Name	Domicile	Assets	Liabilities	Net sales	Profit/ Loss	Holding, %
Automatia Pankkiautomaatit Oy	Helsinki	373	349	56	5	33.3
Realinvest Oy	Helsinki	10	1	0	0	25.3
Access Capital Partners Group S.A.	Belgium	27	17	24	5	40.0
Autovahinkokeskus Oy	Espoo	9	1	8	1	27.8
Total		**419**	**368**	**88**	**11**	

The Group's associated companies are unquoted companies.

Joint ventures

Joint ventures in 2013

Name	Domicile	Sector	Holding
FD Finanssidata Oy	Helsinki	Data processing and hardware operating and administrative services	36.0
Kiinteistö Oy Ansatie 5	Helsinki	Property holding and management	100.0
Kiinteistö Oy Arkadiankatu 23	Helsinki	Property holding and management	100.0
Kiinteistö Oy Grand Cargo Terminal 1	Helsinki	Property holding and management	100.0
Kiinteistö Oy Grand Cargo Terminal 2	Vantaa	Property holding and management	100.0
Kiinteistö Oy Hämeenkivi	Tampere	Property holding and management	100.0
Kiinteistö Oy Jyväskylän Torikulma	Jyväskylä	Property holding and management	41.7
Kiinteistö Oy Jyväskylän Kassatalo	Jyväskylä	Property holding and management	100.0
Kiinteistö Oy Kaisaniemenkatu 1	Helsinki	Property holding and management	22.4
Kiinteistö Oy Piispankalliontie 13-15	Espoo	Property holding and management	100.0
Kiinteistö Oy Quartetto Intermezzo	Helsinki	Property holding and management	100.0
Kiinteistö Oy Säästöraha	Oulu	Property holding and management	100.0
Kiinteistö Oy Tampereen Hämeenkatu 12	Tampere	Property holding and management	100.0
Kiinteistö Oy Tampereen Ratinankaari	Tampere	Property holding and management	100.0
Kiinteistö Oy Turun Asemanseutu	Turku	Property holding and management	49.5
Kiinteistö Oy Uusi Paino	Helsinki	Property holding and management	100.0
Kiinteistö Oy Vammalan Torikeskus	Vammala	Property holding and management	100.0
Mikkelin Forum Oy	Mikkeli	Property holding and management	87.1
Opset Oy	Helsinki	Other mail delivery and courier services	24.0
Companies owned by Pohjola Insurance Ltd:			Pohjola's holding %
Kiinteistö Oy Helsingin Puutarhurinkuja 2	Helsinki	Property holding and management	100.0
Kiinteistö Oy Kanta-Sarvis II	Tampere	Property holding and management	100.0
Kiinteistö Oy STC Viinikkala	Vantaa	Property holding and management	100.0
Kiinteistö Oy Vantaan Kisällintie 13	Vantaa	Property holding and management	100.0
Tikkurilan Kauppatalo Oy	Vantaa	Property holding and management	53.7

The consolidated financial statements include the share of assets and related liabilities under joint control.

Joint ventures in 2012

Name	Domicile	Sector	Holding
FD Finanssidata Oy		Data processing and hardware operating and administrative services	36.0
Kiinteistö Oy Arkadiankatu 23	Helsinki	Property holding and management	100.0
Kiinteistö Oy Kaisaniemenkatu 1	Helsinki	Property holding and management	22.4
Kiinteistö Oy Kanta-Sarvis II	Tampere	Property holding and management	100.0
Kiinteistö Oy Piispankalliontie 13-15	Espoo	Property holding and management	100.0
Kiinteistö Oy Jyväskylän Torikulma	Jyväskylä	Property holding and management	41.7
Kiinteistö Oy Jyväskylän Kassatalo	Jyväskylä	Property holding and management	100.0
Kiinteistö Oy Vammalan Torikeskus	Vammala	Property holding and management	100.0
Kiinteistö Oy Turun Asemanseutu	Turku	Property holding and management	49.5
Kiinteistö Oy Säästöraha	Oulu	Property holding and management	100.0
Kiinteistö Oy Ansatie 5	Helsinki	Property holding and management	100.0
Kiinteistö Oy Uusi Paino	Helsinki	Property holding and management	100.0
Kiinteistö Oy Quartetto Intermezzo	Helsinki	Property holding and management	100.0
Kiinteistö Oy Grand Cargo Terminal 1	Helsinki	Property holding and management	87.1
Kiinteistö Oy Grand Cargo Terminal 2	Vantaa	Property holding and management	100.0
Kiinteistö Oy Tampereen Ratinankaari	Tampere	Property holding and management	100.0
Kiinteistö Oy Tampereen Hämeenkatu 12	Tampere	Property holding and management	87.1
Mikkelin Forum Oy	Mikkeli	Property holding and management	100.0
Kiinteistö Oy Hämeenkivi	Tampere	Property holding and management	
Companies owned by Pohjola Insurance Ltd:			Pohjola's holding %
Tikkurilan Kauppatalo Oy	Vantaa	Property holding and management	53.7
Kiinteistö Oy Helsingin Puutarhurinkuja 2	Helsinki	Property holding and management	100.0
Kiinteistö Oy Vantaan Kisällintie 13	Vantaa	Property holding and management	100.0
Kiinteistö Oy STC Viinikkala	Vantaa	Property holding and management	100.0

The consolidated financial statements include the share of assets and related liabilities under joint control.

Notes to OP-Pohjola Group Financial Statements

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Note 56. Related-party transactions

OP-Pohjola Group's related parties:

The related parties of OP-Pohjola Group include associates, administrative personnel and other related party companies. The administrative personnel comprise OP-Pohjola Group's Executive Chairman (Chairman of the Executive Board of OP-Pohjola Group Central Cooperative), President of OP-Pohjola Group Central Cooperative, members and deputy members of the Executive and Supervisory Boards and their close relatives. Related parties also include companies over which a person among administrative personnel or his close family member exercises significant influence. Other communities considered as related parties include OP Bank Group Pension Fund and OP Bank Group Pension Foundation.

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

The period of notice observed by OP-Pohjola Group's Executive Chairman, other OP-Pohjola Group Central Cooperative's Board members and deputy members and the employer is a maximum of 6 months. When employment is terminated, executive contracts specify instances in which they will receive not only their regular salary but also a severance pay equal to a maximum of 12 months' salary.

Related-party transactions 2013

	Associates	Administrative personnel	Others
Loans	92	47	-
Other receivables	0	10	2
Deposits	2	97	57
Other liabilities	-	-	-
Interest income	0	0	-
Interest expenses	0	0	0
Insurance premium revenue	0	0	4
Dividend income	-	-	-
Commission income	0	0	0
Commission expenses	0	0	0
Off-balance-sheet commitments			
Guarantees	-	1	-
Salaries and other short-term benefits, and performance-based pay			
Salaries and other short-term benefits	-	6	-
Related-party holdings			
Number of shares	-	277,733	5,784,097
Number of participations	-	849	-

Related-party transactions 2012

	Associates	Administrative personnel	Others
Loans	92	7	-
Other receivables	0	-	0
Deposits	9	5	61
Other liabilities	-	-	-
Interest income	0	0	-
Interest expenses	0	0	1
Insurance premium revenue	0	0	2
Dividend income	-	-	-
Commission income	0	0	0
Commission expenses	0	0	0
Off-balance-sheet commitments			
Guarantees	-	-	-
Salaries and other short-term benefits, and performance-based pay			
Salaries and other short-term benefits	-	5	-
Related-party holdings			
Number of shares	-	250,374	5,784,097
Number of participations	-	6,896	-

Pension obligations regarding members of the Executive Board

OP-Pohjola Group Central Cooperative has an Executive Board acting as a directorate. The Executive Board comprises a chairman acting as the CEO and called as Executive Chairman and CEO; a deputy to the Executive Chairman and CEO; and a minimum of two and a maximum of five other members and a maximum of four deputy members.

The Executive Chairman and CEO's retirement age is 62, while the other Executive Board members and deputy members retire at 63. Pension benefits are determined in accordance with pension laws and OP-Pohjola Group's own pension plans. Note 39 provides more detailed information on OP-Pohjola Group's pension plans.

	Pension costs under TyEL plan*		IFRS expense of voluntary supplementary pension	
EUR 1,000	**2013**	**2012**	**2013**	**2012**
Executive Chairman and CEO Reijo Karhinen	121	120	94	74
Tony Vepsäläinen	154	165	120	113
Tom Dahlström	50	44	25	22
Carina Geber-Teir	60	53	27	23
Harri Luhtala	61	55	33	27
Erik Palmén	60	58	36	34
Teija Sarajärvi	51	7	28	-
Markku Koponen	30	26	37	34

* IFRS expense has been used for the portion of the TyEL defined benefit plan and the equalisation portion of an employee's contribution less the employee's portion of the contribution has been used for the defined contribution plan.

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Note 57. Variable remuneration

Personnel fund

About 94% of all personnel are members of OP-Pohjola Group's Personnel Fund.

Payment of profit-based bonuses to OP Personnel Fund in 2013 was based on the achievement of the following targets: OP-Pohjola Group’s pre-tax earnings with a 40% weighting, and both OP-Pohjola Group’s corporate customer business market share increase and the change in loyal customers with a weighing of 30%.Profit-based bonuses for 2013 transferred to the Fund account for some 4,6% (2%) of the combined salaries and wages earned by the Fund’s members. The bonuses recognised in 2013 totalled EUR 27 million (7).

Long-term management incentive scheme in 2010 and before

The previous long-term management incentive scheme comprised people selected by employers within OP-Pohjola Group. Depending on how well they had achieved targets set annually, those covered by the scheme were entitled to a bonus calculated on the basis of their monthly salary. The bonus will be paid in two years’ time following the end of the performance period as equity-settled transactions (Pohjola Bank plc series A shares) and cash-settled transactions. The bonus payments are recognised as personnel costs over the performance periods until 2013.

A total of EUR 5 million (4) of bonuses were entered under previous management incentive schemes in 2013.

Remuneration schemes in 2013

OP-Pohjola Group’s remuneration schemes are in compliance with regulation in the financial sector and are based on OP-Pohjola Group’s strategic targets

OP-Pohjola Group’s variable remuneration principles take account of the Group’s risk exposure and risk management methods. The performance indicator targets have been set at a level that does not encourage excessive risk-taking. Long-term variable remuneration is based on reaching OP-Pohjola Group’s targets, whereas short-term variable remuneration is based on how an individual Group company or business unit reaches its targets. The maximum amount of remuneration is limited in all schemes.

Long-term management incentive scheme

Managers and designated persons in key positions in OP-Pohjola Group Central Cooperative and Group member banks and their subsidiaries, whom the management of the company in question or the central institution’s Supervisory Board have appointed, are included in the long-term management incentive scheme, a total of 363 people (367).

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 2012–31 December 2013.

The bonus for the 2012–2013 performance period is paid after a deferral period in three equal instalments by the end of each June in 2015–2017.

The target bonus was determined at the beginning of the scheme, i.e. the maximum remuneration in terms of Pohjola Bank plc Series A shares. This target bonus for the 2012–13 performance period is 5.1 million shares (5.1) which will be partly based on cash-settled payments (the amount of tax withheld) and equity-settled payments.

OP-Pohjola Group Central Cooperative's Supervisory Board determines the performance indicators for the scheme and targets set for them separately for each performance period. The targets for 2012–2013 are based on the following criteria:
• Growth in the number of customers using OP-Pohjola as the main bank and insurer
• Change in the market share of the corporate customer business
• Return on economic capital

Bonuses will be paid to their beneficiaries provided that OP-Pohjola Group's capital adequacy ratio under the Act on the Supervision of Financial and Insurance Conglomerates is 1.3 or higher on the bonus payout date and that the person within the scheme is employed by OP-Pohjola Group up to the payout date.

Bonuses under the scheme are accounted for in all OP-Pohjola Group companies other than Pohjola Group as cash-settled payments. At Pohjola Group, bonuses under the scheme are accounted for as equity-settled payments. 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 equity capital. The portion of equity capital is based on the fair value of the share on the grant date, with expected discounted dividends included. The average of the share fair value determined on the grant date was EUR 7.59. The portion of the equity-settled payments, EUR 1.2 million (1.1) was recognised in equity on 31 December 2013. The liability is measured on each balance sheet date at fair value, amounting to EUR 15 million (15) on 31 December 2013.

OP-Pohjola Group's Supervisory Board manages the long-term scheme and supervises compliance with it. The Supervisory Board may exercise discretion to change the terms and conditions of the scheme and postpone bonus payments for compelling reasons.

Short-term incentive schemes

In short-term schemes, the performance period is one calendar year and the bonus is primarily paid in cash. Short-term incentive schemes are company-specific and cover the entire personnel of OP-Pohjola Group.

Short-term bonuses are primarily accounted for as cash-settled payments. Expenses for the schemes are recognised from the beginning of the performance period up to the date of payment (vesting period) as personnel costs, and the equivalent liability is recognised under deferred expenses. The liability is measured on each balance sheet date at fair value.

Deferment of variable remuneration

The payment of variable remuneration has been prescribed in Government decree no. 1372/2010. If a person is categorised on the basis of his duties as belonging to a group that may cause considerable risk (identified staff) to his company, the company may defer the payment of variable remuneration over three years under certain conditions.

Identified staff in OP-Pohjola Group include managing directors and other key management personnel, other people with a major impact of the company's risk exposure, Internal Control and other designated persons or special groups.

Identified staff will have their variable remuneration payment deferred and their bonuses paid half in cash and Pohjola Bank plc shares (or tied to its value) if their variable remuneration for a 12-month performance period exceeds EUR 50,000 – the maximum recommended by the Financial Supervisory Authority – or two months' fixed gross salary above this amount. The remuneration of the identified staff is reviewed up to the EUR 50.000 deferment limit as a whole, considering both long- and short-term remuneration.

If the euro maximum for deferment is exceeded, some bonus is paid immediately, while the rest is deferred and the deferred bonus will be paid in equal instalments within the next three years. In case of such deferment under the short-term scheme, half of the bonus is always paid in cash and half as Pohjola Bank plc Series A shares (or cash tied to the price of a Pohjola Bank plc Series A share).

Expenses recognised for variable remuneration*

EUR million	2013	2012
Personnel fund	27	7
Short-term schemes	31	30
Previous long-term schemes		
Schemes for 2008–10	5	4
Extended long-term schemes:		
Scheme for 2011−13	8	10
Total	**71**	**52**

* Excl. social expenses

Notes to OP-Pohjola Group Financial Statements

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Note 58. Events after the balance sheet date

The next few years will see considerably higher minimum capital requirements as a result of tightening capital adequacy regulation for banks. Higher, general capital requirements have already been reflected in a marked increase in the average capital base of banking and financial groups.

OP-Pohjola Group aims to maintain a solid capital base that creates competitive edge and stability. Due to tightening requirements in the sector, the 15% capital adequacy target for Banking decided earlier by OP-Pohjola Group no longer met the capital adequacy targets the Group had set. After the details of the capital adequacy rules relevant to the Group had become clearer, the Supervisory Board of OP-Pohjola Group's central institution as the Group's highest decision-making body decided on 5 February to raise the capital adequacy target for Banking. The new CET1 target is 18%. The Group must meet the CET1 target by the end of 2016. Because of uncertainties associated with the regulatory framework, the Group's target for capital adequacy under the Act on the Supervision of Financial and Insurance Conglomerates remains unchanged so far.

The total Group-level capital base is a combination of the capital base of Group institutions – especially Pohjola Group and member cooperative banks. For this reason, raising the capital adequacy target at Group-level means in practice that Group institutions will also raise their targets.

Achieving the new capital adequacy target and maintaining it will require stronger profitability of OP-Pohjola Group. Accordingly, the central institution's Supervisory Board decided to raise the Group's profitability target too. The new target for return on economic capital is 20%, as against the previous target of 18%. This new target requires OP-Pohjola Group to record earnings before tax above one billion euros within the next few years.

OP-Pohjola Group's other strategic targets remained unchanged.

The central institution of OP-Pohjola Group decided on 6 February 2014 to make a voluntary public bid for all shares issued by Pohjola Bank plc.

Notes to OP-Pohjola Group Financial Statements

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Note 59. Segment reporting

Segment information

OP-Pohjola Group's business segments are Banking, Non-life Insurance and Wealth Management. Non-segment operations are presented under 'Other Operations'. OP-Pohjola Group prepares its segment reporting in compliance with its accounting policies

Companies within Banking are the member banks, Helsinki OP Bank Plc, OP-Kotipankki Oyj, OP Mortgage Bank and OP Fund Management Company Ltd and certain smaller companies supporting banking services in their entirety. Pohjola Group's Banking and Asset Management segments are also included under OP-Pohjola Group's Banking. The operations of OP Bank Group Mutual Insurance Company's are also included under Banking, because the majority of the company's business consists of credit insurance to OP-Pohjola Group’s retail banks.

Net interest income is the most significant income component. Income also comes from commissions and fees, and investments. Expenses arise mainly from personnel and other administrative costs, from the network of offices and from returns to owner-members. The most significant risk category pertains to credit risks but business also involves market risks and operational risks.

The Wealth Management Segment comprises the following operations: OP Life Assurance Company Ltd and Aurum Investment Insurance Ltd engaged in the Group’s life and pension insurance business, OP Fund Management Company Ltd engaged in mutual fund business, and Pohjola Group’s Asset Management segment. The most significant items of income generated by the Wealth Management include life insurance net interest and risk results and commissions and fees arising from life insurance, asset management and mutual fund operations.

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

The Non-life Insurance segment encompasses the operations of OP-Pohjola Group's non-life insurance companies, i.e. Pohjola Insurance Ltd, Eurooppalainen Insurance Company Ltd, A-Insurance Ltd, the Seesam companies operating in the Baltic countries, as well as the operations of service companies supporting non-life insurance.

Non-life insurance products include non-life insurance policies sold to corporate and private customers. Net income generated by Non-life Insurance derives mainly from premiums written and investment income. The most significant risks in Non-life Insurance pertain to insurance risks and investment risks.

Other Operations includes operations that support the business segments, particularly the operations of OP-Pohjola Group Central Cooperative, OP-Services Ltd and OP Process Services Ltd as well as Pohjola Group’s central banking and Group administration. Costs of the services for the business segments are allocated to the segments in the form of internal service charges. The allocation of other equity capital to the business segments is carried out through an internal bank under Other Operations, which means that any positive results in excess of the target level will be shown under Other Operations.

Segment accounting policies

OP-Pohjola Group's segment reporting is based on accounting policies applied in its financial statements. Income, expenses, assets and liabilities which have been considered to relate directly to and be reasonably attributable to the segments are allocated to the segments. Income, expenses, investments and capital which have not been allocated to segments and inter-segment Group eliminations are reported under 'Group eliminations'. The segments' earnings and profitability is assessed in terms of pre-tax earnings.

Equity allocated to retail banking operations accounts for 9% of the risk-weighted assets required by the Credit Institutions Act and equity allocated to Pohjola Group's banking services operations for 7% of the risk-weighted assets. The unallocated part of equity is assigned to 'Other operations' outside the business lines.

Income statement and balance sheet by segment in 2013

Income statement, EUR million	Banking	Non-life Insurance	Wealth Management	Other operations	Elimi-nations	OP-Pohjola Group
Interest income	2,651	0	3	522	-664	2,512
Interest expenses	1,737	24	0	512	-674	1,599
Net interest income before impairment losses	**915**	**-24**	**2**	**10**	**10**	**913**
Impairment losses on receivables	81	-	-	2	0	84
Net interest income after impairment losses	**833**	**-24**	**2**	**8**	**10**	**830**
Net income from Non-life Insurance	-	529	-	-	-5	524
Net income from Life Insurance	-	-	-	-	175	175
Life Insurance’s net interest and risk result	-	-	50	-	-50	-
Net commissions and fees	600	17	-	11	-4	625
Commissions and fees from fund and asset management	-	-	116	-	-116	-
Commissions and fees from life insurance	-	-	131	-	-131	-
Commission expenses	-	-	-48	-	48	-
Net trading income	115	0	0	-11	10	114
Net investment income	31	-	0	41	-6	66
Other operating income	44	10	20	433	-412	95
Personnel costs	444	107	24	178	0	753
Other administrative expenses	322	124	43	209	-325	373
Other operating expenses	253	136	92	85	-162	404
Returns to owner-members	193	-	-	-	0	193
Share of associates' profits/losses	1	0	0	-2	0	0
Earning before tax	**411**	**167**	**113**	**9**	**6**	**705**
Income tax expense						32
Profit for the financial year						**673**

Balance sheet 31 Dec. 2013	Banking	Non-life Insurance	Wealth Management	Other operations	Elimi-nations	OP-Pohjola Group
Liquid assets	193	0	-	1,979	-	2,172
Receivables from credit institutions	4,693	4	28	9,451	-13,327	848
Financial assets at fair value through profit or loss	608	-	6,316	-41	-6,346	537
Derivative contracts	3,444	-	99	272	-391	3,423
Receivables from customers	68,895	-	54	296	-990	68,255
Non-life Insurance assets	-	3,750	-	-	-252	3,497
Life Insurance assets	-	-	0	-	9,880	9,880
Investment assets	3,351	16	3,522	8,448	-6,725	8,613
Investment in associates	8	2	27	1	1	40
Intangible assets	68	728	388	161	-5	1,338
Property, plant and equipment	549	51	9	165	-13	760
Other assets	840	2	567	984	-846	1,548
Tax assets	32	3	10	17	10	72
Total assets	**82,681**	**4,555**	**11,019**	**21,733**	**-19,007**	**100,981**

Balance sheet 31 Dec. 2013	Banking	Non-life Insurance	Wealth Management	Other operations	Elimi-nations	OP-Pohjola Group
Liabilities to credit institutions	9,702	-	-	4,487	-13,157	1,032
Financial liabilities at fair value through profit or loss	4	-	-	-	-	4
Derivative contracts	3,005	-	12	471	-331	3,157
Liabilities to customers	47,536	-	-	3,351	-712	50,175
Non-life Insurance liabilities	-	2,844	-	-	-98	2,746
Life Insurance liabilities	-	-	9,688	-	82	9,771
Debt securities issued to the public	5,773	-	-	16,700	-1,045	21,428
Provisions and other liabilities	2,069	56	140	804	-389	2,680
Tax liabilities	381	100	62	281	-16	807
Cooperative capital	797	-	-	1,443	-1,634	606
Subordinated liabilities	198	50	91	934	-413	860
Total liabilities	**69,465**	**3,050**	**9,992**	**28,471**	**-17,713**	**93,265**
Equity capital						**7,717**

Net income from the Baltic countries came to EUR 6 million and net assets to EUR 47 million.

Income statement and balance sheet by segment in 2012

Income statement, EUR Million	Banking	Non-life Insurance	Wealth Management	Other operations	Elimi- nations	OP-Pohjola Group
Interest income	3,324	0	3	859	-1,012	3,174
Interest expenses	2,354	8	0	835	-1,026	2,171
Net interest income before impairment losses	**970**	**-8**	**3**	**24**	**14**	**1,002**
Impairment losses on receivables	96	-	-	3	0	99
Net interest income after impairment losses	**874**	**-8**	**3**	**21**	**14**	**903**
Net income from Non-life Insurance	-	438	-	-	-5	433
Net income from Life Insurance	-	-	-	-	108	108
Life Insurance's net interest and risk result	-	-	19	-	-19	-
Net commissions and fees	543	24	-	16	1	584
Commissions and fees from fund and asset management	-	-	114	-	-114	-
Commissions and fees from life insurance	-	-	98	-	-98	-
Commission expenses	-	-	-40	-	40	-
Net trading income	84	0	0	1	-5	81
Net investment income	49	-	3	7	-7	52
Other operating income	44	5	39	393	-372	109
Personnel costs	446	135	32	151	0	764
Other administrative expenses	320	104	30	193	-269	378
Other operating expenses	214	127	74	107	-170	352
Returns to owner-members	192	-	-	-	0	192
Share of associates' profits/losses	2	0	0	0	0	2
Earning before tax	**424**	**92**	**101**	**-13**	**-18**	**586**
Income tax expense						115
Profit for the financial year						**471**

Balance sheet 31 Dec. 2012	Banking	Non-life Insurance	Wealth Management	Other operations	Elimi- nations	OP-Pohjola Group
Liquid assets	170	-	-	5,614	-	5,784
Receivables from credit institutions	4,539	5	26	8,484	-12,214	840
Financial assets at fair value through profit or loss	504	-	5,460	-102	-5,505	358
Derivative contracts	4,482	-	164	396	-606	4,436
Receivables from customers	65,719	-	153	286	-997	65,161
Non-life Insurance assets	-	3,627	-	-	-135	3,492
Life Insurance assets	-	-	0	-	9,173	9,173
Investment assets	3,285	16	3,465	6,480	-6,651	6,596
Investment in associates	8	2	24	3	1	39
Intangible assets	57	747	399	122	-5	1,320
Property, plant and equipment	575	22	9	102	1	710
Other assets	807	4	746	1,194	-1,007	1,745
Tax assets	34	11	23	35	12	115
Total assets	**80,183**	**4,434**	**10,471**	**22,614**	**-17,932**	**99,769**

Balance sheet 31 Dec. 2012	Banking	Non-life Insurance	Wealth Management	Other operations	Elimi-nations	OP-Pohjola Group
Liabilities to financial institutions	9,213	-	-	4,925	-12,172	1,965
Financial liabilities at fair value through profit or loss	3	-	-	-	-	3
Derivative contracts	3,959	-	0	683	-479	4,162
Liabilities to customers	46,216	-	-	4,095	-661	49,650
Non-life Insurance liabilities	-	2,657	-	-	-58	2,598
Life Insurance liabilities	-	-	8,955	-	15	8,970
Debt securities issued to the public	5,853	-	-	14,358	-941	19,270
Provisions and other liabilities	2,354	63	218	930	-274	3,291
Tax liabilities	442	170	79	321	-22	990
Cooperative capital	809	-	-	1,443	-1,630	622
Subordinated liabilities	200	50	91	1,225	-452	1,114
Total liabilities	**69,048**	**2,939**	**9,343**	**27,979**	**-16,673**	**92,635**
Equity capital						**7,134**

Net income from the Baltic countries came to EUR 5 million and net assets to EUR 45 million.

Notes to OP-Pohjola Group Financial Statements

NOTES TO RISK MANAGEMENT

OP-Pohjola Group's capital adequacy and risk management principles are described in Note 2. OP-Pohjola Group's exposure is presented in notes 60–65; Banking and Investment Services' risk exposure, including capital adequacy information in accordance with Pillar III, in notes 65–98;Non-life Insurance's risk exposure in notes 100–111 and that of Life Insurance in notes 112–120.

OP-POHJOLA GROUP'S RISK EXPOSURE

Note 60. OP-Pohjola Group's risk limits

OP-Pohjola Group's Supervisory Board confirms risk limits related to the Group's capital adequacy and credit and liquidity, market and underwriting risks. These limits are used to control the Group's risk-taking.

Indicator	Risk limit	31 Dec. 2013	31 Dec. 2012
Capital adequacy			
Capital adequacy ratio, (Act on the Supervision of Financial and Insurance Conglomerates)	1.30	1.90	1.90
Capital adequacy/economic capital requirement	1.20	1.65	1.50
Credit risks			
Largest single customer risk / capital resources, %	10.0	5.8	6.9
Total of significant customer risks / capital resources, %	75.0	5.8	12.0
Industry risk / corporate receivables and commitments, %	16.0	11.1	10.4
Ratio of doubtful receivables to loan and guarantee portfolio, %	1.20	0.42	0.46
Expected losses/EAD	0.8	0.37	0.41
Liquidity risks			
Banking structural funding risk, EUR million			
≤ 12 months net funding position	-3,000	-890	630
1−2 yrs net funding position	0	5,768	3,929
2−3 yrs net funding position	0	4,919	3,672
3−5 yrs net funding position	0	2,589	3,475
Funding liquidity risk, days	30	69	61

Market risks			
Financing interest income risk, EUR million	200	99	89
Trading VaR, 99%, 1 day, EUR million	10	2.2	2.6
Insurance market risks / capital resources, %	30	16.1	17.8
Underwriting risks			
Non-life Insurance underwriting risk / capital resources, %	8	5.0	5.1
Life Insurance underwriting risk / capital resources, %	8	5.4	5.9

Notes to OP-Pohjola Group Financial Statements

OP-POHJOLA GROUP'S RISK EXPOSURE

Note 61. OP-Pohjola Group's capital adequacy

Note 2, OP-Pohjola Group's risk and capital adequacy management principles, provides a description of how the Group organises its Group-level risk and capital-adequacy management process. OP-Pohjola Group and all of its institutions fulfil the capital adequacy requirements set by the authorities.

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

EUR million	31 Dec. 2013	31 Dec. 2012
OP-Pohjola Group's equity capital	7,717	7,134
Cooperative capital, hybrid instruments, perpetual bonds and debenture bonds	1,488	1,676
Other sector-specific items excluded from capital base	-5	-1
Goodwill and intangible assets	-1,308	-1,272
Equalisation provision	-205	-212
Proposed profit distribution	-99	-68
Items under IFRS deducted from capital base*	-127	-179
Impairments – shortfall of expected losses	-358	-498
Conglomerate's total capital base	**7,104**	**6,581**
Regulatory capital requirement for credit institutions**	3,307	3,047
Regulatory capital requirement for insurance operations***	437	421
Minimum amount of conglomerate's capital resources	**3,744**	**3,468**
Conglomerate's capital adequacy	**3,359**	**3,112**
Conglomerate's capital adequacy ratio (capital base/minimum of capital base)	**1.90**	**1.90**

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

** Risk-weighted assets x 8%

*** Minimum solvency margin

Capital adequacy

The Group has two risk limit indicators for its capital adequacy. The first is capital adequacy prescribed in the Act on the Supervision of Financial and Insurance Conglomerates. The Group's risk limit for this capital adequacy ratio is 1.3, while the minimum statutory requirement is 1. On 31 December 2013, this ratio was 1.90. On 31 December 2013, OP-Pohjola Group's capital base was EUR 2,236 million (2,072) above the Group's internal risk limit and EUR 3,359 million (3,112) above the limit required by law.

The other risk limit indicator for capital adequacy is the ratio of capital base to economic capital, for which the risk limit is 1.2. On 31 December 2013, the ratio of capital base to economic capital was 1.65 (1.50). The capital buffer above the Group's internal risk limit was EUR 1,892 million (1,271). The strong capital base acts as a buffer against unexpected losses and paves the way for business growth.

Notes to OP-Pohjola Group Financial Statements

OP-POHJOLA GROUP'S RISK EXPOSURE

Note 62. Credit risk in Banking

OP-Pohjola Group's industry and customer risks are diversified. On 31 December 2013, the largest single counterparty-related customer risk accounted for 5.8% (6.9) of the Group’s capital base. The total amount of significant customer exposure was 5.8% (12.0) of the Group’s capital base. Any customer exposure that accounts for at least 5% of the Group’s capital base is taken into account in measuring significant customer exposure. The risk limit for the greatest customer exposure is 10% and for the significant customer exposure total is 75% of the capital base. OP-Pohjola Group calculates industry risk for each main sector, taking account of receivables and commitments in Banking and direct Life and Non-life Insurance investments. On 31 December 2013, the highest industry risk was 11.1% (10.4) by housing corporations. The risk limit of the industry risk is 16% of corporate sector receivables and commitments.

On 31 December 2013, OP-Pohjola Group’s non-performing and zero-interest receivables totalled EUR 295 million (311), which accounted for 0.42% (0.46) of the loan and guarantee portfolio. The risk limit for this key ratio is 1.2%. The ratio of expected losses to exposure at default (EAD) was 0.37% (0.41) and the risk limit for this ratio was 0.8%. Expected losses are an estimate of the average annual losses caused by credit risks calculated using OP-Pohjola Group’s own credit risk models. Net impairment loss on receivables recognised in 2013 amounted to EUR 84 million (99), accounting for 0.12% of the loan and guarantee portfolio (0.15)

Notes to OP-Pohjola Group Financial Statements

OP-POHJOLA GROUP'S RISK EXPOSURE

Note 63. Liquidity risk

OP-Pohjola Group’s risk limit for liquidity risk has been set for net cash flows by maturity that guide the structural funding risk and for funding liquidity risk indicator.

The risk indicator for the structural funding risk indicates the maximum portion of the net cash flows in the Group’s balance sheet that may mature in different maturities. On 31 December 2013, the maturing net cash flows in the Group’s balance sheet were in all maturity periods within the limits of risk limits.

A funding liquidity risk indicator shows for how long the primary liquidity buffer will cover OP-Pohjola Group's net cash flows paid out daily that are known and expected, and an unexpected but moderate decline in deposits. At the end of the year, the primary liquidity buffer was sufficient to cover a period that was considerably longer than the 30 days that was used as a risk limit.

Notes to OP-Pohjola Group Financial Statements

OP-POHJOLA GROUP'S RISK EXPOSURE

Note 64. Market risks

The Group has set financing interest rate risk limit for the cooperative banks' combined interest income risk, which measures the effect of changes in the interest rate on the accrued net interest income for the following 12 months.

OP-Pohjola Group limits its Trading market risk using the VaR limit (99% confidence level, 1-day time horizon) within its risk limit system. On 31 December 2013, the VaR of Trading accounted for around a fifth of the EUR 10 million euro risk limit set for it.

The market risk limit for insurance operations has been set on the basis of the ratio between the economic capital and the Group's capital resources concerning the risk in question. On 31 December 2013, the market risk limit for insurance operations relative to capital resources accounts for around half of the 30% risk limit set for it.

Notes to OP-Pohjola Group Financial Statements

OP-POHJOLA GROUP'S RISK EXPOSURE

Note 65. Insurance risks

Within the risk limit system, the Group limits underwriting risk using the ratio of Non-life and Life Insurance underwriting risk economic capital to capital resources. On 31 December 2013, underwriting risks were within the set limits.

Notes to OP-Pohjola Group Financial Statements

RISK EXPOSURE BY BANKING

Note 66. Financial assets and impairment losses recognised on them for the financial year

	31 Dec. 2013		31 Dec. 2012	
EUR million	**Balance sheet value**	**Impair-ment losses**	**Balance sheet value**	**Impair-ment losses**
Liquid assets	2,172	-	5,784	-
Receivables from credit institutions	848	-	840	-
Financial assets recognised at fair value through profit or loss				
Notes and bonds	450	-	266	-
Shares and participations	87	-	91	-
Derivative contracts				
Held for trading	2,927	-	3,697	-
Hedging	479	-	703	-
Otherwise hedging derivatives	17	-	36	-
Loans and receivables				
Loans granted	67,104	440	64,108	406
Finance lease receivables	1,148	-	1,048	-
Bank guarantee receivables	4	9	6	7
Other receivables	7,705	-	8,223	-
Available-for-sale financial assets				
Notes and bonds	7,586	-	5,446	-
Shares and participations	305	-	327	-
Held-to-maturity investments				
Notes and bonds	271	-	401	-
Off-balance-sheet commitments				
Bank guarantees	2,898	-	2,639	-
Total financial assets	**94,000**	**449**	**93,615**	**413**

Notes to OP-Pohjola Group Financial Statements

RISK EXPOSURE BY BANKING

Note 67. Exposure

	Finland			Other countries		
31 Dec. 2013	**Balance sheet value**	**Impair-ments**	**Accrued interest**	**Balance sheet value**	**Impair-ments**	**Accrued interest**
Financial assets						
Receivables from credit institutions	24	-	0	824	-	4
Receivables from customers	66,143	430	102	965	19	1
Finance leases	1,129	-	-	19	-	-
Notes and bonds	1,671	-	30	6,636	-	63
Other	86	-	-	366	-	-
Total	**69,053**	**430**	**131**	**8,809**	**19**	**68**
Off-balance-sheet commitments						
Unused standby credit facilities	9,544	-	-	228	-	-
Guarantees and letters of credit	2,545	-	-	618	-	-
Derivative contracts	884	-	-	2,636	-	-
Other	245	-	-	247	-	-
Total	**13,219**	**-**	**-**	**3,729**	**-**	**-**
Total exposure	**82,272**	**430**	**131**	**12,538**	**19**	**68**

31 Dec. 2012	Finland			Other countries		
	Balance sheet value	Impair-ments	Accrued interest	Balance sheet value	Impair-ments	Accrued interest
Financial assets						
Receivables from credit institutions	13	-	0	827	-	10
Receivables from customers	63,096	389	101	1,017	25	2
Finance leases	1,034	-	-	14	-	-
Notes and bonds	1,346	-	23	4,767	-	61
Other	112	-	-	518	-	-
Total	**65,602**	**389**	**124**	**7,143**	**25**	**73**
Off-balance-sheet commitments						
Unused standby credit facilities	10,714	-	-	143	-	-
Guarantees and letters of credit	2,517	-	-	573	-	-
Derivative contracts	885	-	-	3,724	-	-
Other	300	-	-	183	-	-
Total	**14,415**	**-**	**-**	**4,623**	**-**	**-**
Total exposure	**80,017**	**389**	**124**	**11,766**	**25**	**73**

Positive market value was recognised for derivative contracts.

Notes to OP-Pohjola Group Financial Statements

RISK EXPOSURE BY BANKING

Note 68. Exposure by sector

	Balance sheet values		Off-balance-sheet		
31 Dec. 2013	**Domestic**	**Foreign**	**Domestic**	**Foreign**	**Total**
Non-banking corporate sector	22,520	1,054	8,378	628	32,580
Financial institutions and insurance companies	779	5,708	454	3,075	10,016
Households	44,388	39	3,444	1	47,873
Non-profit organisations	688	482	88	0	1,257
Public corporations	810	1,595	855	24	3,283
Total	**69,184**	**8,878**	**13,219**	**3,729**	**95,009**
31 Dec. 2012					
Non-banking corporate sector	20,924	988	9,337	417	31,666
Financial institutions and insurance companies	636	5,490	580	4,192	10,898
Households	42,685	34	3,574	2	46,295
Non-profit organisations	654	145	84	0	884
Public corporations	826	559	840	12	2,237
Total	**65,725**	**7,216**	**14,415**	**4,623**	**91,979**

Notes to OP-Pohjola Group Financial Statements

RISK EXPOSURE BY BANKING

Note 69. Receivables from credit institutions and customers, and doubtful receivables

31 Dec. 2013	Receivable base: Not impaired (gross)	Receivable base: Impaired (gross)	Receivable base: Total	Total impair-ments	Balance sheet value
Receivables					
Receivables from credit institutions	848	-	848	-	848
Receivables from customers	67,018	538	67,556	449	67,107
Bank guarantee receivables	4	9	13	9	4
Finance leases	1,148	-	1,148	-	1,148
Overdrafts	0	-	0	-	0
Total	**69,014**	**538**	**69,552**	**449**	**69,103**
Receivables by sector					
Non-banking corporate sector	22,342	453	22,795	375	22,420
Financial institutions and insurance companies	985	-	985	-	985
Households	44,382	79	44,462	72	44,389
Non-profit organisations	683	5	688	2	686
Public corporations	622	-	622	-	622
Total	**69,014**	**538**	**69,552**	**449**	**69,103**

31 Dec. 2012	Receivable base: Not impaired (gross)	Receivable base: Impaired (gross)	Receivable base: Total	Total impair-ments	Balance sheet value
Receivables					
Receivables from credit institutions	840	-	840	-	840
Receivables from customers	64,025	502	64,527	413	64,113
Bank guarantee receivables	4	8	12	7	6
Finance leases	1,048	-	1,048	-	1,048
Overdrafts	0	-	0	-	0
Total	**65,913**	**502**	**66,415**	**413**	**66,001**
Households	42,691	65	42,757	72	42,685
Non-profit organisations	650	5	654	2	653
Public corporations	700	-	700	-	700
Total	**65,913**	**502**	**66,415**	**413**	**66,001**

31 Dec. 2013	Not impaired (gross)	Impaired (gross)	Total	Arrears	Impairments Individually assessed	Impairments Collectively assessed
Doubtful receivables						
Receivables from customers	826	538	1,364	284	391	58
Bank guarantee receivables	4	9	13	10	9	0
Finance leases	0	-	0	0	-	-
Overdrafts	0	-	0	0	-	-
Total	**826**	**538**	**1,364**	**284**	**391**	**58**
Doubtful receivables by sector						
Non-banking corporate sector	153	453	607	145	348	27
Financial institutions and insurance companies	0	-	0	0	-	-
Households	669	79	748	137	41	31
Non-profit organisations	0	5	6	2	2	0
Public corporations	4	-	4	0	-	-
Total	**826**	**538**	**1,364**	**284**	**391**	**58**

31 Dec. 2012	Not impaired (gross)	Impaired (gross)	Total	Arrears	Impairments Individually assessed	Impairments Collectively assessed
Doubtful receivables						
Receivables from customers	615	502	1,117	265	355	59
Bank guarantee receivables	4	8	12	10	7	0
Finance leases	1	-	1	0	-	-
Overdrafts	0	-	0	0	-	-
Total	**616**	**502**	**1,118**	**266**	**355**	**59**
Doubtful receivables by sector						
Non-banking corporate sector	139	422	561	135	309	24
Financial institutions and insurance companies	0	10	10	0	7	-
Households	471	65	536	129	37	35
Non-profit organisations	1	5	6	2	2	0
Public corporations	4	-	4	0	-	-
Total	**616**	**502**	**1,118**	**266**	**355**	**59**

31 Dec. 2013	Receivables from credit institutions and customers (gross)	Individually assessed	Receivables from credit institutions and customers (net)
Doubtful receivables			
Non-performing	456	164	292
Zero-interest	10	7	3
Underpriced	175	1	174
Renegotiated	405	-	405
Impaired	318	220	99
Total	**1,364**	**391**	**973**

31 Dec. 2012	Receivables from credit institutions and customers (gross)	Individually assessed	Receivables from credit institutions and customers (net)
Doubtful receivables			
Non-performing	456	149	307
Zero-interest	12	8	4
Underpriced	130	1	129
Renegotiated	217	-	217
Impaired	305	197	108
Total	**1,120**	**355**	**765**

Doubtful receivables include non-performing, zero-interest and under-priced receivables as well as receivables that are subject to individually assessed impairment or receivables that have been renegotiated due to customer's financial difficulties. Interest on or principal of non-performing receivables has been due for payment and outstanding for three months. Zero-interest receivables have been agreed to carry zero interest for the purpose of securing customer payment capacity. Under-priced receivables have been priced below market prices to secure customer payment capacity. Impaired receivables include those that are subject to impairment but cannot be classified under any of the above categories. In addition, receivables which have not been classified under any of the above categories but the terms and conditions of the contract have been renegotiated to allow the borrower sufficient ability to service the debt are reported as renegotiated receivables. Renegotiated receivables were added to the definition of doubtful receivables in 2013 to also cover forborne receivables. Comparative information has been restated accordingly.

Key ratio, %	2013	2012
Exposures individually assessed for impairment, % of doubtful receivables	28.6%	31.7%

Past due but not impaired financial assets by maturity

31 Dec. 2013	Less than 30 days	30–90 days	90–180 days	Over 180 days.	Total
Matured receivables, not impaired	671	376	82	139	1,268

31 Dec. 2012	Less than 30 days	30–90 days	90–180 days	Over 180 days.	Total
Matured receivables, not impaired	880	400	7	1	1,288

Notes to OP-Pohjola Group Financial Statements

RISK EXPOSURE BY BANKING

Note 70. Impairment losses on receivables

	31 Dec. 2013	31 Dec. 2012
Impairment losses on receivables	171	175
Reversal of impairment losses	-72	-60
Payments on eliminated receivables	-15	-14
Net change in impairments of collectively assessed loans and receivables	-1	-2
Total	**84**	**99**
Net impairments, % of receivables portfolio	0.12	0.15

Notes to OP-Pohjola Group Financial Statements

RISK EXPOSURE BY BANKING

Note 71. Private customer exposure by credit category

	31 Dec. 2013		31 Dec. 2012	
Category	**Net exposure**	**%**	**Net exposure**	**%**
A	25,305	52.9	23,238	50.2
B	11,340	23.7	10,952	23.7
C	5,371	11.2	5,591	12.1
D	4,029	8.4	4,439	9.6
E	1,176	2.5	1,414	3.1
F	651	1.4	661	1.4
Total	**47,873**	**100.0**	**46,295**	**100.0**

Notes to OP-Pohjola Group Financial Statements

RISK EXPOSURE BY BANKING

Note 72. Corporate exposure by sector

	Net exposure			
31 Dec. 2013	Balance sheet	Off-balance sheet	Total	Percentage-distribution
Renting and operation of residential real estate	5,529	781	6,310	19.4
Operating of other real estate	3,025	449	3,474	10.7
Trade	2,568	720	3,287	10.1
Construction	1,179	1,046	2,225	6.8
Services	1,577	539	2,116	6.5
Manufacture of machinery and equipment (incl. maintenance)	946	1,032	1,978	6.1
Energy	1,010	815	1,825	5.6
Transportation and storage	1,370	333	1,704	5.2
Information and communication	695	453	1,148	3.5
Forest industry	691	450	1,140	3.5
Buying and selling of own real estate	820	304	1,124	3.5
Financial and insurance activities	881	150	1,031	3.2
Metal industry	575	438	1,012	3.1
Agriculture, forestry and fishing	862	106	969	3.0
Food industry	612	336	948	2.9
Chemical industry	352	514	866	2.7
Other manufacturing	389	238	626	1.9
Water supply and waste management	263	110	373	1.1
Mining and quarrying	146	103	250	0.8
Other sectors	84	90	174	0.5
Total	**23,574**	**9,006**	**32,580**	**100**

31 Dec. 2012	Net exposure Balance sheet	Off-balance sheet	Total	Percentage-distribution
Renting and operation of residential real estate	4,824	1,179	6,004	19.0
Operating of other real estate	2,883	346	3,229	10.2
Trade	2,489	675	3,164	10.0
Construction	1,157	1,184	2,341	7.4
Manufacture of machinery and equipment (incl. maintenance)	865	1,166	2,032	6.4
Services	1,522	441	1,962	6.2
Transportation and storage	1,399	382	1,781	5.6
Forest industry	654	888	1,542	4.9
Buying and selling of own real estate	951	317	1,268	4.0
Metal industry	632	559	1,190	3.8
Manufacture of chemicals and chemical products	609	495	1,104	3.5
Energy	562	469	1,030	3.3
Food industry	870	143	1,013	3.2
Agriculture, forestry and fishing	750	251	1,000	3.2
Information and communication	614	310	923	2.9
Financial and insurance activities	268	506	773	2.4
Other manufacturing	419	233	652	2.1
Mining and quarrying	184	104	287	0.9
Water supply and waste management	203	87	290	0.9
Other sectors	59	18	77	0.2
Total	**21,912**	**9,753**	**31,664**	**100**

Notes to OP-Pohjola Group Financial Statements

RISK EXPOSURE BY BANKING

Note 73. Corporate exposure by rating category

	31 Dec. 2013		31 Dec. 2012	
Rating	**Net exposure**	**%**	**Net exposure**	**%**
1,0–2,0	1,299	4.0	1,353	4.3
2,5–5,0	13,735	42.2	13,095	41.4
5,5–7,0	11,314	34.7	10,885	34.4
7,5-8,5	4,513	13.9	4,669	14.7
9,0–10,0	1,085	3.3	1,056	3.3
11,0–12,0	634	1.9	606	1.9
Total	**32,580**	**100.0**	**31,664**	**100.0**

Probabilities of default related to credit ratings are explained in Note 94.

Notes to OP-Pohjola Group Financial Statements

RISK EXPOSURE BY BANKING

Note 74. Corporate exposure by the amount of customer's exposure

31 Dec. 2013

Amount of exposure, EUR million	Finland	Other countries	Total	%
0–1	6,697	213	6,911	21.2
1–10	7,744	565	8,309	25.5
10–50	5,295	794	6,089	18.7
50–100	4,464	109	4,573	14.0
Over 100	6,698	-	6,698	20.6
Total	**30,898**	**1,682**	**32,580**	**100.0**

31 Dec. 2012

Amount of exposure, EUR million	Finland	Other countries	Total	%
0–1	6,474	156	6,631	20.9
1–10	7,277	504	7,781	24.6
10–50	5,783	567	6,350	20.1
50–100	3,697	177	3,874	12.2
Over 100	7,030	-	7,030	22.2
Total	**30,261**	**1,405**	**31,666**	**100.0**

Notes to OP-Pohjola Group Financial Statements

RISK EXPOSURE BY BANKING

Note 75. Secondary country risk by country risk category (excl. Finland)

		31 Dec. 2013		31 Dec. 2012	
Country risk	**Moody's equivalent**	**Net exposure**	**%**	**Net exposure**	**%**
Category 1	Aaa	6,587	52.7	9,417	79.8
Category 2	Aa1–A3	4,334	34.7	869	7.4
Category 3	Baa1–Baa3	1,475	11.8	1,259	10.7
Category 4	Ba1–B3	77	0.6	237	2.0
Category 5	Caa1–C	33	0.3	22	0.2
Total		**12,506**	**100.0**	**11,804**	**100.0**

Category 2 (excl. Finland) takes account of the transfer of contract-related, real risks to another country through agreements or otherwise. The risk may transfer on the basis of an agreement, or a guarantee in most cases, or otherwise, such as transferring receivables from a company's branch office to the country where the company is headquartered.

Notes to OP-Pohjola Group Financial Statements

RISK EXPOSURE BY BANKING

Note 76. Structure of OP-Pohjola Group funding

EUR million	31 Dec. 2013	%	31 Dec. 2012	%
Liabilities to credit institutions	1,032	1.2	1,965	2.4
Financial liabilities at fair value through profit or loss	4	0.0	3	0.0
Liabilities to customers				
Deposits	47,350	56.0	45,011	54.2
Other	2,825	3.3	4,639	5.6
Debt securities issued to the public				
Certificates of deposit, commercial papers and ECPs	6,807	8.1	5,506	6.6
Bonds	14,622	17.3	13,764	16.6
Other liabilities	2,680	3.2	3,291	4.0
Subordinated liabilities	860	1.0	1,114	1.3
Cooperative capital	606	0.7	622	0.7
Equity capital	7,717	9.1	7,134	8.6
Total	**84,501**	**100.0**	**83,049**	**100.0**

Notes to OP-Pohjola Group Financial Statements

RISK EXPOSURE BY BANKING

Note 77. Maturity of financial assets and liabilities by residual maturity

31 Dec. 2013	Less than 3 months	3–12 months	1–5 years	5–10 years	More than 10 years	Total
Financial assets						
Liquid assets	2,172	-	-	-	-	2,172
Financial assets at fair value through profit or loss						
Notes and bonds	38	36	288	80	8	450
Receivables from credit institutions	384	186	262	14	2	848
Receivables from customers	4,010	6,599	26,028	15,630	15,987	68,255
Investment assets						
Available-for-sale notes and bonds	117	414	3,844	3,185	26	7,586
Held-to-maturity notes and bonds	67	25	175	4	0	271
Total financial assets	**6,788**	**7,261**	**30,597**	**18,913**	**16,023**	**79,582**
Transfer of financial assets held for trading	-38	-36	-288	-80	-8	-450
to less-than-3-months category	450	-	-	-	-	450
Total financial assets in internal reporting	**7,200**	**7,225**	**30,309**	**18,834**	**16,014**	**79,582**

Financial liabilities	Less than 3 months	3–12 months	1–5 years	5–10 years	More than 10 years	Total
Liabilities to credit institutions	985	32	15	0	-	1,032
Financial liabilities at fair value through profit or loss	4	-	-	-	-	4
Liabilities to customers	43,752	4,667	1,057	291	407	50,175
Debt securities issued to the public	5,651	5,074	10,308	231	165	21,428
Subordinated liabilities	40	119	90	611	0	860
Total financial liabilities	**50,432**	**9,892**	**11,471**	**1,133**	**572**	**73,499**
Transfer of private customers' deposit repayable on demand from the less-than-3-months category to the 3-12-months category	-24,663	24,663	-	-	-	-
Total financial liabilities in internal reporting	**25,768**	**34,555**	**11,471**	**1,133**	**572**	**73,499**
Guarantees	80	76	486	38	251	931
Other guarantee liabilities	315	496	603	55	498	1,967
Loan commitments	9,772	-	-	-	-	9,772
Commitments related to short-term trade transactions	85	86	77	15	3	265
Other	251	2	17	222	1	492
Total off-balance-sheet commitments	**10,503**	**660**	**1,182**	**330**	**752**	**13,428**

31 Dec. 2012	Less than 3 months	3–12 months	1–5 years	5–10 years	More than 10 years	Total
Financial assets						
Liquid assets	5,784	-	-	-	-	5,784
Financial assets at fair value through profit or loss						
Notes and bonds	7	22	181	44	12	266
Receivables from credit institutions	161	354	306	17	1	840
Receivables from customers	3,764	6,493	24,469	15,315	15,120	65,161
Investment assets						
Available-for-sale notes and bonds	208	259	3,121	1,831	27	5,446
Held-to-maturity notes and bonds	20	105	265	12	0	401
Total financial assets	**9,945**	**7,232**	**28,342**	**17,219**	**15,161**	**77,899**
Transfer of financial assets at fair value through	-7	-22	-181	-44	-12	-266
profit or loss to the less-than-3-months category	266	-	-	-	-	266
Total financial assets in internal reporting	**10,204**	**7,211**	**28,161**	**17,174**	**15,149**	**77,899**

Financial liabilities	Less than 3 months	3–12 months	1–5 years	5–10 years	More than 10 years	Total
Liabilities to credit institutions	1,780	166	0	20	-	1,965
Financial liabilities at fair value through profit or loss	3	-	-	-	-	3
Liabilities to customers	40,868	5,698	2,484	461	139	49,650
Debt securities issued to the public	5,052	2,832	10,032	1,189	165	19,270
Subordinated liabilities	171	111	126	674	33	1,114
Total financial liabilities	**47,873**	**8,806**	**12,642**	**2,344**	**337**	**72,002**
Transfer of private customers' deposit repayable on demand from the less-than-3-months category to the 3-12-months category	-22,577	22,577	-	-	-	-
Total financial liabilities in internal reporting	**25,296**	**31,383**	**12,642**	**2,344**	**337**	**72,002**
Guarantees	40	97	313	77	420	948
Other guarantee liabilities	305	382	443	53	505	1,688
Loan commitments	10,856	-	-	-	-	10,856
Commitments related to short-term trade transactions	101	50	302	0	2	455
Other	183	2	29	268	2	483
Total off-balance-sheet commitments	**11,485**	**531**	**1,086**	**398**	**930**	**14,430**

Notes to OP-Pohjola Group Financial Statements

RISK EXPOSURE BY BANKING

Note 78. Maturities of financial assets and liabilities by maturity or repricing

31 Dec. 2013	1 month or less	>1–3 months	>3–12 months	>1–2 years	>2–5 years	Over 5 years	Total
Financial assets							
Liquid assets	2,172	-	-	-	-	-	2,172
Financial assets at fair value through profit or loss							
Notes and bonds	19	91	55	27	176	82	450
Receivables from credit institutions	383	224	69	5	165	2	848
Receivables from customers	20,668	18,952	24,764	679	1,886	1,306	68,255
Available-for-sale financial assets							
Notes and bonds	417	379	330	717	2,566	3,177	7,586
Held-to-maturity financial assets							
Notes and bonds	139	66	2	19	41	4	271
Total financial assets	**23,797**	**19,712**	**25,220**	**1,447**	**4,834**	**4,571**	**79,582**
Financial liabilities							
Liabilities to credit institutions	726	275	32	-	-	0	1,032
Financial liabilities at fair value through profit or loss	4	-	-	-	-	-	4
Liabilities to customers	42,093	2,418	4,652	742	88	182	50,175
Debt securities issued to the public	1,574	5,917	4,430	1,957	7,155	395	21,428
Subordinated liabilities	0	70	121	0	0	668	860
Total financial liabilities	**44,396**	**8,680**	**9,235**	**2,700**	**7,243**	**1,245**	**73,499**

31 Dec. 2012	1 month or less	>1–3 months	>3–12 months	>1–2 years	>2–5 years	Over 5 years	Total
Financial assets							
Liquid assets	5,784	-	-	-	-	-	5,784
Financial assets at fair value through profit or loss							
Notes and bonds	6	33	11	30	129	57	266
Receivables from credit institutions	85	280	327	1	148	0	840
Receivables from customers	22,519	17,502	21,755	587	1,748	1,049	65,161
Available-for-sale financial assets							
Notes and bonds	176	469	168	566	2,239	1,827	5,446
Held-to-maturity financial assets							
Notes and bonds	241	89	2	5	54	10	401
Total financial assets	**28,812**	**18,372**	**22,263**	**1,189**	**4,318**	**2,943**	**77,899**
Financial liabilities							
Liabilities to credit institutions	1,145	634	181	0	5	-	1,965
Financial liabilities at fair value through profit or loss	3	-	-	-	-	-	3
Liabilities to customers	38,357	3,114	5,676	2,220	136	147	49,650
Debt securities issued to the public	1,640	4,935	1,823	2,355	7,112	1,404	19,270
Subordinated liabilities	0	216	144	72	0	683	1,114
Total financial liabilities	**41,145**	**8,900**	**7,824**	**4,647**	**7,253**	**2,234**	**72,002**

Notes to OP-Pohjola Group Financial Statements

RISK EXPOSURE BY BANKING

Note 79. Sensitivity analysis of market risk

EUR million	Risk parameter	Change	31 Dec 2013 Effect on earnings*	31 Dec 2013 Effect on equity capital	31 Dec 2012 Effect on earnings*	31 Dec 2012 Effect on equity capital
Interest rate risk	Interest rate	1 pp	89	39	94	40
Currency risk	Market value	10 pps	5	-	4	-
Volatility risk						
Interest rate volatility	Volatility	10 pps	5	-	1	-
Currency volatility	Volatility	10 pps	1	-	0	-
Credit risk premium*	Credit risk margin	0.1 pp	1	31	1	20
Price risk						
Equity portfolio	Market value	10%	-	11	-	10
Private equity funds	Market value	10%	-	6	-	7
Property risk	Market value	10%	46	-	45	-

Interest rate risk has been calculated for each currency as the sum of the intrinsic values of Group member banks' 12-month net interest income volatility and the volatility of the present values of the Group's other balance sheet cash flows.

The credit risk premium is calculated on available-for-sale notes and bonds at fair value through profit or loss, included in the liquidity portfolio.

Notes to OP-Pohjola Group Financial Statements

PILLAR III DISCLOSURES

Notes 80–99 disclose information on the capital adequacy of the consolidated group of the amalgamation of cooperative banks, as specified in Standard 4.5 Supervisory Disclosure of capital adequacy information by the Financial Supervisory Authority (Pillar III disclosures). Given that this information is based on the consolidated capital adequacy on the amalgamation of cooperative banks, it is not directly comparable with information disclosed on OP-Pohjola Group.

The amalgamation of the cooperative banks comprises its central institution (OP-Pohjola Group Central Cooperative), the central institution's member credit institutions and companies belonging to their consolidation groups. Although OP-Pohjola Group's insurance companies do not belong to the amalgamation of the cooperative banks, investments made in them have a major impact on capital adequacy calculated in accordance with the capital adequacy regulations for credit institutions.

Pohjola has applied the Internal Ratings Based Approach (IRBA) to retail, credit institution and corporate exposures and equity investments. The Standardised Approach (SA) is used for other exposure categories.

Note 80. Capital base

EUR million	31 Dec. 2013	31 Dec. 2012
Tier 1 capital		
OP-Pohjola Group's equity capital	7,717	7,134
The effect of insurance companies on the Group's shareholders' equity is excluded (incl. OVY's equalisation provisions)	-205	-160
Fair value reserve, transfer to Tier 2	-81	-82
Supplementary cooperative capital not included in equity capital	603	620
Core Tier 1 capital before deductions	**8,035**	**7,513**
Intangible assets	-424	-372
Excess funding of pension liability and fair value measurement of investment property and deferred tax assets on previous losses	-96	-100
Dividend distribution proposed by Board of Directors	-99	-68
Investments in insurance companies and financial institutions	-1,154	-1,210
Impairments – shortfall of expected losses	-179	-249
Shortfall of other Tier 1 capital	-180	-163
Core Tier 1 capital	**5,902**	**5,352**
Hybrid capital	202	201
Shortfall of Tier 2 capital	-382	-364
Transfer to Core Tier 1 capital	180	163
Total Tier 1 capital for calculating capital adequacy	**5,902**	**5,352**

Tier 2 capital		
Fair value reserve	54	34
Perpetual bonds	-	-
OVY's equalisation provision	228	218
Debenture loans	670	842
Investments in insurance companies and financial institutions	-1,154	-1,210
Impairments – shortfall of expected losses	-179	-249
Transfer to Tier 1 capital	382	364
Tier 2 capital	**-**	**-**
Total capital base	**5,902**	**5,352**
Deductions from Tier 1 and 2 capital		
Investments in insurance companies and financial institutions	2,309	2,419
Impairments – shortfall of expected losses	358	498
Total	**2,667**	**2,917**

Investments in OP-Pohjola Group’s insurance companies have been deducted from the capital base.

Hybrid capital is included in the capital base to the amount based on the exchange rate quoted on the issue date. Hybrid capital includes hybrid instruments under the transition rules, with EUR 134 million of their total amount involving an incentive to early redemption. The equalisation provision of OP Bank Group Mutual Insurance Company (OVY) less tax liabilities are included under upper Tier 2 capital. During the following quarter, the cooperative capital returned to unitholders was not included under capital base.

Core Tier 1 capital = Total Tier 1 capital excl. excl. hybrid capital and shortfall of Tier 2 capital covered by hybrid capital

Notes to OP-Pohjola Group Financial Statements

PILLAR III DISCLOSURES

Note 81. Minimum capital requirement

Pohjola has applied the Internal Ratings Based Approach (IRBA) to retail, credit institution and corporate exposures and equity investments. The Standardised Approach (SA) is used for other exposure categories. Investments in Pohjola Group's insurance companies have been deducted from the capital base. Pohjola has used the Foundation Internal Ratings Based Approach (FIRBA) to measure capital requirement for corporate and credit institution exposures. This approach uses internal credit ratings to determine a customer's probability of default (PD), whereas loss given default (LDG) and credit conversion factor (CF) are standard estimates supplied by the authorities. Pohjola has used the Internal Ratings Based Approach (IRBA) to measure capital requirement for retail exposures. This approach uses internal credit ratings to determine a customer's PD, and LGD and CF are estimated internally. In December 2013, the Finnish Financial Supervisory Authority approved changes in models applied to OP-Pohjola's private customers with respect to determining probability of default, estimating loss given default and estimating credit conversion factor. This change increased the average risk weight of retail exposures. Pohjola used the former model version in 2012 retail exposures and the CF 100% according to special permission of the Financial Supervisory Authority.

It is possible to use various methods to measure capital adequacy requirement for equity investments. In the PD/LGD method, investments' risk-weighted exposure is calculated using PD, based on internal credit rating, and the official LDG. According to the Simple Risk Weight Approach, investments' risk-weighted exposure amount derives from multiplying each investment by the risk-weight determined by the type of investment.

OP-Pohjola Group has used the Standardised Approach to measure capital requirement for operational risks.

EUR million	31 Dec. 2013 Capital require-ment	31 Dec. 2013 Risk-weighted assets*	31 Dec. 2012 Capital require-ment	31 Dec. 2012 Risk-weighted assets*
Credit and counterparty risk	**2,414**	**30,175**	**2,606**	**32,575**
Internal Ratings-based Approach (IRB)	**2,263**	**28,290**	**2,472**	**30,902**
Credit institutions	88	1,101	95	1,189
Corporate	1,560	19,499	1,524	19,048
Retail	368	4,598	601	7,516
Secured by real estates	219	2,740	454	5,671
Other	149	1,857	148	1,845
Equity investments	121	1,511	120	1,499
PD/LGD method	1	7	1	8
Basic Indicator Approach	120	1,504	119	1,491
Private equity investments	15	192	20	255
Listed equity investments	19	243	31	384
Other	86	1,069	68	852
Securitisation positions	51	636	51	640
Other positions	76	946	81	1,009
FIRB	**151**	**1,885**	**134**	**1,673**
Central government and central banks	7	86	4	46
Credit institutions	1	17	2	19
Corporate	76	951	66	822
Retail	64	806	63	782
Other	64	806	63	782
Other positions	2	25	0	4
Market risks	**73**	**909**	**58**	**723**
Trading book	71	889	57	709
Position risk	71	889	57	709
All activities	2	20	1	15
Commodity risk	2	20	1	15
Operational risk	**241**	**3,007**	**236**	**2,954**
Requirement during transition period	**580**	**7,247**	**147**	**1,841**
Total	**3,307**	**41,339**	**3,047**	**38,093**
Total, excluding requirement during transition period	**2,727**	**34,091**	**2,900**	**36,252**

*Risk-weighted assets = Capital requirement / 0.08

Capital requirement for counterparty risk amounts to EUR 42 million (EUR 43 million).

Notes to OP-Pohjola Group Financial Statements

PILLAR III DISCLOSURES

Note 82. Capital ratios

	31 Dec. 2013		31 Dec. 2012	
	Ratios under transition provisions	Ratios excl. transition provisions	Ratios under transition provisions	Ratios excl. transition provisions
Ratios, %				
Capital adequacy ratio	14.3	17.3	14.1	14.8
Tier 1 ratio	14.3	17.3	14.1	14.8
Core Tier 1 ratio	14.3	17.3	14.1	14.8
Capital base*, EUR million				
Capital base	2,595	3,174	2,305	2,452

*Capital base above minimum capital requirement

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PILLAR III DISCLOSURES

Note 83. Total exposures by exposure class

31 Dec. 2013, EUR million	On-balance-sheet exposures	Off-balance-sheet exposures	Derivatives exposures	Gross exposures	Average exposure during the year	Average CF
Internal Ratings-based Approach (IRBA)	**74,291**	**13,722**	**1,099**	**89,112**	**87,947**	
Credit institutions	5,059	501	565	6,124	5,977	
Corporate	22,972	11,158	533	34,664	34,317	
Retail	44,635	2,035	1	46,671	45,911	81%
Corporate	1,406	199	1	1,606	1,613	65%
Private	43,228	1,836	-	45,065	44,298	83%
Equity investments	448	28	-	476	488	
Securitisation positions	231	-	-	231	276	
Other positions	946	-	-	946	978	
FIRB	**7,487**	**2,450**	**471**	**10,408**	**11,259**	
Central government and central banks	5,351	512	468	6,332	7,300	
Credit institutions	79	29	1	110	140	
Corporate	968	109	1	1,078	988	
Retail	1,061	1,800	-	2,861	2,814	
Corporate	0	0	-	0	0	
Private	1,061	1,800	-	2,861	2,813	
Other positions	27	-	-	27	17	
Total	**81,778**	**16,172**	**1,570**	**99,520**	**99,206**	

31 Dec. 2012, EUR million	On-balance-sheet expo-sures	Off-balance-sheet expo-sures	Deriva-tives expo-sures	Gross expo-sures	Average exposure during the year	Average CF
Internal Ratings-based Approach (IRBA)	**70,915**	**14,667**	**1,200**	**86,782**	**84,818**	
Credit institutions	4,733	509	587	5,830	6,912	
Corporate	21,444	11,913	613	33,970	32,156	
Retail	42,942	2,208	0	45,151	43,767	100%
Corporate	1,387	233	0	1,620	1,561	100%
Private	41,555	1,975	0	43,530	42,206	100%
Equity investments	464	36	-	500	432	
Securitisation positions	321	-	-	321	518	
Other positions	1,011	-	-	1,011	1,034	
FIRB	**9,340**	**2,396**	**374**	**12,110**	**11,269**	
Central government and central banks	7,396	501	372	8,269	7,474	
Credit institutions	71	99	1	170	217	
Corporate	839	57	2	898	842	
Retail	1,027	1,739	-	2,766	2,731	
Corporate	0	0	-	0	10	
Private	1,027	1,739	-	2,766	2,721	
Other positions	7	-	-	7	5	
Total	**80,255**	**17,063**	**1,574**	**98,892**	**96,088**	

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PILLAR III DISCLOSURES

Note 84. Exposure split by geographic region and exposure class

31 Dec. 2013, EUR million	Central government and central banks	Credit institutions	Corporate	Retail	Equity investments	Securitation positions	Other
Finland	3,943	566	34,141	49,293	449	9	973
Other Nordic countries	52	1,490	400	65	4	-	-
Baltic States	214	5	615	17	-	-	-
Rest of EU	2,113	3,192	458	71	19	222	-
Rest of Europe	-	324	57	45	5	-	-
USA	-	98	8	20	-	-	-
Asia	-	259	46	14	0	-	-
Other	9	299	16	7	-	-	-
Total exposure	**6,332**	**6,234**	**35,742**	**49,532**	**476**	**231**	**973**

31 Dec. 2012, EUR million	Central government and central banks	Credit institutions	Corporate	Retail	Equity investments	Securitation positions	Other
Finland	7,515	502	33,543	47,704	471	-	1,018
Other Nordic countries	7	1,211	415	63	3	-	-
Baltic States	67	2	385	11	-	-	0
Rest of EU	669	3,387	345	61	18	315	-
Rest of Europe	-	391	50	39	8	-	-
USA	-	167	43	17	-	-	-
Asia	-	263	55	14	-	-	-
Other	10	77	31	7	-	6	-
Total exposure	**8,269**	**6,000**	**34,868**	**47,917**	**500**	**321**	**1,018**

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PILLAR III DISCLOSURES

Note 85. Exposure split by residual maturity and exposure class

31 Dec. 2013, EUR million	< 3 months	3–12 months	1–5 yrs	5–10 yrs	> 10 yrs	Total
Internal Ratings-based Approach (IRBA)	**9,321**	**4,566**	**21,792**	**14,663**	**38,293**	**89,112**
Credit institutions	858	544	3,082	1,543	98	6,124
Corporate	6,877	3,223	13,092	4,605	6,867	34,664
Retail	1,443	770	5,511	7,618	31,327	46,671
Corporate	260	73	831	303	138	1,606
Private	1,183	697	4,680	7,315	31,189	45,065
Equity investments	-	-	-	-	-	476
Securitisation positions	33	27	104	66	1	231
Other positions	110	3	2	831	-	946
FIRB	**5,868**	**329**	**1,704**	**2,082**	**425**	**10,408**
Central government and central banks	2,965	35	935	2,024	373	6,332
Credit institutions	50	25	29	7	0	110
Corporate	682	98	195	51	52	1,078
Retail	2,153	170	537	0	-	2,861
Corporate	0	0	0	-	-	0
Private	2,153	170	537	0	-	2,861
Other positions	19	1	8	-	-	27
Total	**15,190**	**4,895**	**23,495**	**16,745**	**38,718**	**99,520**

31 Dec. 2012, EUR million	< 3 months	3–12 months	1–5 yrs	5–10 yrs	> 10 yrs	Total
Internal Ratings-based Approach (IRBA)	**9,489**	**4,647**	**20,778**	**13,809**	**37,559**	**86,782**
Credit institutions	675	678	3,106	1,280	90	5,830
Corporate	7,198	3,134	12,075	4,419	7,145	33,970
Retail	1,444	777	5,396	7,212	30,322	45,151
Corporate	295	75	818	294	138	1,620
Private	1,148	702	4,578	6,918	30,184	43,530
Equity investments	-	-	-	-	-	500
Securitisation positions	-	54	196	69	1	321
Other positions	173	3	6	829	-	1,011
FIRB	**9,238**	**360**	**1,252**	**1,019**	**240**	**12,110**
Central government and central banks	6,424	55	623	973	194	8,269
Credit institutions	79	43	33	14	1	170
Corporate	639	99	83	32	46	898
Retail	2,096	163	507	0	-	2,766
Corporate	0	0	0	0	-	0
Private	2,096	163	507	0	-	2,766
Other positions	1	0	6	-	-	7
Total	**18,727**	**5,007**	**22,030**	**14,828**	**37,799**	**98,892**

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PILLAR III DISCLOSURES

Note 86. Past due and impaired exposures by exposure class

31 Dec. 2013, EUR million	Past due loans	Impaired loans	Total	Individually assessed	Collectively assessed	Total
Internal Ratings-based Approach (IRBA)	**1,203**	**590**	**1,793**	**407**	**53**	**460**
Credit institutions	0	-	0	-	-	-
Corporate	897	449	1,346	343	53	396
Retail	306	93	399	54	-	54
Corporate	72	12	84	10	-	10
Private	234	81	315	44	-	44
Equity investments	-	48	48	11	-	11
Securitisation positions	-	-	-	-	-	-
Other positions	0	0	0	0	-	0
FIRB	**13**	**0**	**13**	**1**	**5**	**6**
Central government and central banks	0	-	0	-	-	-
Corporate	0	-	0	1	5	6
Retail	13	-	13	-	-	-
Corporate	-	-	-	-	-	-
Private	13	-	13	-	-	-
Total	**1,217**	**590**	**1,806**	**408**	**58**	**466**

31 Dec. 2012, EUR million	Past due loans	Impaired loans	Total	Individually assessed	Collectively assessed	Total
Internal Ratings-based Approach (IRBA)	**1,804**	**546**	**2,350**	**367**	**53**	**420**
Credit institutions	2	2	3	1	-	1
Corporate	875	411	1,287	301	47	348
Retail	927	77	1,004	46	6	51
Corporate	71	11	82	9	-	9
Private	855	67	922	37	6	42
Equity investments	-	46	46	12	-	12
Securitisation positions	-	10	10	7	-	7
Other positions	0	-	0	-	-	-
FIRB	**16**	**-**	**16**	**1**	**6**	**7**
Central government and central banks	0	-	0	-	-	-
Corporate	0	-	0	1	6	7
Retail	16	-	16	-	-	-
Corporate	0	-	0	-	-	-
Private	16	-	16	-	-	-
Total	**1,820**	**546**	**2,366**	**368**	**59**	**426**

Matured liabilities are liabilities in the standard method, the interest or capital of which are over 90 days overdue. In the FIRB method, matured liabilities are categorised under insolvent customers belonging to rating categories 11-12 or F.

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PILLAR III DISCLOSURES

Note 87. Corporate exposures by sector

	31 Dec. 2013		
EUR million	**Exposure**	**RWA**	**Capital require-ment**
Renting and operation of residential real estate	6,457	3,254	260
Trade	3,661	2,193	175
Operating of other real estate	3,602	2,334	187
Manufacture of machinery and equipment (incl. maintenance)	2,805	1,037	83
Services	2,779	1,676	134
Construction	2,472	1,592	127
Energy	2,150	567	45
Financial and insurance activities	1,880	812	65
Transportation and storage	1,674	1,292	103
Forest industry	1,286	880	70
Agriculture, forestry and fishing	1,142	935	75
Buying and selling of own real estate	1,140	743	59
Metal industry	1,131	895	72
Information and communication	1,073	511	41
Food industry	994	615	49
Other sectors	834	656	53
Manufacture of chemicals and chemical products	814	269	21
Other manufacturing	797	539	43
Water supply and waste management	392	122	10
Mining and quarrying	264	183	15
Total	**37,348**	**21,103**	**1,688**

	31 Dec. 2012		
EUR million	**Exposure**	**RWA**	**Capital require-ment**
Renting and operation of residential real estate	6,170	3,027	242
Trade	3,642	1,998	160
Operating of other real estate	3,351	2,134	171
Manufacture of machinery and equipment (incl. maintenance)	2,888	1,048	84
Construction	2,503	1,573	126
Services	2,489	1,647	132
Financial and insurance activities	1,944	806	64
Energy	1,886	520	42
Transportation and storage	1,758	1,370	110
Forest industry	1,298	954	76
Buying and selling of own real estate	1,283	790	63
Metal industry	1,225	888	71
Agriculture, forestry and fishing	1,218	920	74
Food industry	972	562	45
Information and communication	969	399	32
Manufacture of chemicals and chemical products	808	259	21
Other sectors	737	632	51
Other manufacturing	727	522	42
Mining and quarrying	311	204	16
Water supply and waste management	308	113	9
Total	**36,489**	**20,365**	**1,629**

Corporate exposures by sector also include corporate customers with retail exposures. This standard industrial classification is based on the latest TOL 2008 classification issued by Statistics Finland.

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PILLAR III DISCLOSURES

Note 88. Matured and depreciated corporate exposure by sector

31 Dec. 2013, EUR million	Contractual	Past due loans	Impaired loans	Individually assessed	Collectively assessed
Forest industry	205	204	123	109	-
Trade	137	136	75	50	-
Manufacture of machinery and equipment (incl. maintenance)	98	98	60	55	-
Metal industry	92	92	43	32	-
Other manufacturing	87	87	22	12	-
Services	72	68	37	25	-
Operating of other real estate	61	56	21	10	-
Construction	56	56	13	10	-
Transportation and storage	41	41	13	10	-
Mining and quarrying	33	33	20	14	-
Agriculture, forestry and fishing	24	23	7	5	-
Water supply and waste management	20	20	4	2	-
Food industry	16	16	12	9	-
Financial and insurance activities	14	14	7	6	-
Renting and operation of residential real estate	6	6	2	1	-
Buying and selling of own real estate	6	6	0	0	-
Energy	6	6	0	0	-
Manufacture of chemicals and chemical products	4	4	0	0	-
Information and communication	3	3	1	1	-
Other sectors	2	2	0	1	58
Total	**983**	**969**	**460**	**353**	**58**

31 Dec. 2012, EUR million	Contractual	Past due loans	Impaired loans	Individually assessed	Collectively assessed
Forest industry	191	190	111	96	-
Manufacture of machinery and equipment (incl. maintenance)	148	148	83	72	-
Trade	131	131	65	37	-
Other manufacturing	80	80	20	9	-
Services	71	71	30	21	-
Construction	62	62	14	12	-
Operating of other real estate	58	57	21	10	-
Metal industry	52	52	24	17	-
Transportation and storage	35	34	4	4	-
Agriculture, forestry and fishing	29	28	7	5	-
Financial and insurance activities	22	22	10	7	-
Food industry	17	17	12	8	-
Manufacture of chemicals and chemical products	14	14	11	6	-
Water supply and waste management	14	14	4	3	-
Buying and selling of own real estate	8	7	0	0	-
Renting and operation of residential real estate	7	7	1	0	-
Information and communication	6	6	2	2	-
Mining and quarrying	4	4	0	0	-
Other sectors	1	1	0	1	53
Energy	1	1	0	0	-
Total	**950**	**947**	**422**	**311**	**53**

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PILLAR III DISCLOSURES

Note 89. Past due and impaired exposures by geographic region

	31 Dec. 2013				31 Dec. 2012			
EUR million	Past due loans	Impaired loans	Individually assessed	Collectively assessed	Past due loans	Impaired loans	Individually assessed	Collectively assessed
Finland	1,150	561	389	58	1,758	506	339	59
Other Nordic countries	24	11	5	-	23	10	6	-
Baltic States	3	3	0	-	1	0	0	-
Rest of EU	37	14	14	-	35	23	18	-
Rest of Europe	2	1	1	-	2	1	1	-
USA	0	0	0	-	0	-	-	-
Asia	0	-	-	-	0	-	-	-
Other	0	-	-	-	0	6	4	-
Total	**1,217**	**590**	**408**	**58**	**1,820**	**546**	**368**	**59**

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PILLAR III DISCLOSURES

Note 90. Exposures by credit rating before and after credit risk mitigation

	31 Dec. 2013			31 Dec. 2012		
Risk weight %, EUR million	**Exposure before credit risk mitigation**	**Exposure after credit risk mitigation**	**RWA**	**Exposure before credit risk mitigation**	**Exposure after credit risk mitigation**	**RWA**
0	6,129	8,489	-	8,228	10,715	-
20	209	210	41	212	213	34
50	140	140	70	20	71	35
75	2,848	2,848	786	2,750	2,750	758
100	1,066	1,061	967	882	875	820
150	13	13	20	16	16	24
Other risk weights	1	1	0	2	2	1
Total	**10,408**	**12,763**	**1,885**	**12,110**	**14,643**	**1,673**

In its capital adequacy measurement for credit risk under the Standardised Approach to determine the exposure's risk weight, OP-Pohjola Group applies credit ratings by Moody's Investors Service or Fitch Ratings to receivables from central governments and central banks and corporations. External credit assessment determines the receivable's credit rating category. In the capital adequacy requirement for receivables, the risk weight is determined by the credit rating category. OP-Pohjola Group has also applied risk weights based on the credit rating category to government exposures.

The risk weight of international development banks' receivables may also be determined on the basis of other than credit rating based on external credit assessment. If the risk weight is affected by external credit assessment, credit ratings issued by the aforementioned rating agencies will also apply to the risk weighting of international development banks' receivables in capital adequacy measurement.

For a receivable in capital adequacy measurement, the security-specific credit rating of the issue programme or arrangement to which the receivable belongs must be used. If such a rating is not available, the issuer's general credit rating will be used, provided that it is available.

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PILLAR III DISCLOSURES

Note 91. Retail exposures by rating category (AIRB)

Retail exposures rating, private customers on 31 December 2013

Rating category	Exposure value (EAD), MEUR	Average PD*, %	Average risk weight, %	RWA	Minimum capital require-ment
A	25,562	0.0	1.5	392	31
B	10,607	0.1	4.8	504	40
C	4,255	0.5	14.4	613	49
D	2,467	2.3	36.0	887	71
E	1,629	21.3	81.9	1,334	107
F	234	100.0	91.9	215	17
Total	**44,754**	**1.0**	**8.8**	**3,945**	**316**

Retail exposures rating, private customers on 31 December 2012

Rating category	Exposure value (EAD), MEUR	Average PD*, %	Average risk weight, %	RWA	Minimum capital require-ment
A	22,175	0.1	3.3	735	59
B	10,562	0.6	13.9	1,467	117
C	5,250	2.2	29.7	1,559	125
D	3,341	7.3	50.9	1,701	136
E	1,347	24.5	69.4	935	75
F	850	100.0	73.3	623	50
Total	**43,525**	**1.8**	**16.1**	**7,021**	**562**

* The defaults, or rating category F, are not included in the average PD.

Corporate exposure of retail exposure (IRBA) by rating and PD category on 31 December 2013

Rating category	Exposure value (EAD), MEUR	Average PD, %	Average risk weight, %	RWA	Minimum capital require-ment
2,5–5,0	357	0.4	9.7	35	3
5,5–7,0	717	1.4	32.9	236	19
7,5–8,5	256	5.4	55.4	142	11
9,0–10,0	139	36.4	88.0	122	10
11,0–12,0	67	100.0	176.3	118	9
Total	**1,536**	**5.2**	**42.5**	**653**	**52**

Corporate exposure of retail exposure (IRBA) by rating and PD category on 31 December 2012

Rating category	Exposure value (EAD), MEUR	Average PD, %	Average risk weight, %	RWA	Minimum capital require-ment
2,5–5,0	211	0.4	10.2	22	2
5,5–7,0	836	1.3	21.6	180	14
7,5–8,5	348	5.3	44.9	156	13
9,0–10,0	154	35.5	71.2	110	9
11,0–12,0	66	100.0	40.9	27	2
Total	**1,615**	**5.5**	**30.6**	**495**	**40**

* The defaults, or rating categories 11.0 and 12.0, are not included in the average PD.

For defining score limits for each rating category based on models for assessing private customers' solvency and thereby PD values, payment default data from 2007 until 2012 has been used. The score limits for each rating category also take account of an adjustment using time series of the unemployment rate until 1989 and of the uncertainties associated with the data using a margin of conservatism.

Data used for defining score limits for each rating category for small exposures of corporate customer retail exposures consist of payment default data from 2007 until 2011. The score limits for small exposures have been set in such a way that the PD values within the categories correspond to the PD values within R rating. PD values have been adjusted with a margin of conservatism in the same way as PD values in R ratings. Note 92 presents the statistical data on A rating for retail exposures applicable to corporate customers.

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PILLAR III DISCLOSURES

Note 92. Corporate exposures (FIRB) by rating category

31 Dec. 2013

Rating category	Exposure value (EAD), EUR million	Average PD*, %	Average risk weight, %	RWA	Minimum capital require-ment
1.0–2.0	1,185	0.0	14.8	176	14
2.5–5.0	11,183	0.2	42.0	4,698	376
5.5–7.0	8,638	1.3	93.7	8,092	647
7.5–8.5	3,726	5.0	132.4	4,933	395
9.0–10.0	799	30.5	200.2	1,600	128
11.0–12.0	810	100.0	-	-	-
Total	**26,341**	**2.2**	**74.0**	**19,499**	**1,560**

31 Dec. 2012

Rating category	Exposure value (EAD), EUR million	Average PD*, %	Average risk weight, %	RWA	Minimum capital require-ment
1,0 - 2,0	1,134	0.0	14.9	169	13
2,5 - 5,0	10,821	0.2	42.2	4,569	366
5,5 - 7,0	8,285	1.4	92.9	7,698	616
7,5 - 8,5	3,769	5.0	133.3	5,023	402
9,0 - 10,0	789	32.1	201.4	1,590	127
11,0 - 12,0	799	100.0	-	-	-
Total	**25,597**	**2.3**	**74.4**	**19,048**	**1,524**

* The defaults, or rating categories 11.0 and 12.0, are not included in the average PD.

The assessment of PD values concerning the exposures of mid-size and large companies in 'R' rating categories has been performed using a partial 'R' category, based on key indicators, and payment default data from 2003 to 2009. Since information on payment default was available only during the economic upturn, the Group analysed the required adjustment using credit loss and bankruptcy statistics until 1991 and time series of foreign banks' defaults until 1990. PD values have also been adjusted with a margin of conservatism, which is the larger the fewer the companies in each category.

In 2013, the data used for defining A rating scores consisted of Rating Alfa scores based on Suomen Asiakastieto Oy's model, and internal payment default data between 2006 and 2010. The score limits for A rating have been set in such a way that the PD values within the categories correspond to the PD values within R rating.

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PILLAR III DISCLOSURES

Note 93. Credit institution exposures (FIRB) by rating category

31 Dec. 2013

Rating category	Exposure value (EAD), MEUR	Average PD*, %	Average risk weight, %	RWA	Minimum capital require-ment
1,0–2,0	2,037	0.0	5.4	111	9
2,5–5,0	3,598	0.1	23.2	833	67
5,5–7,0	150	1.4	66.0	99	8
7,5–8,5	101	4.5	50.5	51	4
9,0–10,0	2	27.8	263.4	6	1
11,0–12,0	0	100.0	-	-	-
Total	**5,889**	**0.2**	**18.7**	**1,101**	**88**

31 Dec. 2012

Rating category	Exposure value (EAD), MEUR	Average PD*, %	Average risk weight, %	RWA	Minimum capital require-ment
1,0–2,0	1,576	0.0	6.4	101	8
2,5–5,0	3,481	0.1	23.6	820	66
5,5–7,0	284	1.4	81.2	231	18
7,5–8,5	66	3.8	49.3	32	3
9,0–10,0	2	26.8	260.4	5	0
11,0–12,0	2	100.0	-	-	-
Total	**5,410**	**0.2**	**22.0**	**1,189**	**95**

* 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, OP-Pohjola has used L rating scores from 2008 until 2010 and external credit ratings and the corresponding payment default data from 1983 until 2010. PD values have also been adjusted with a margin of conservatism in order to take account of uncertainties associated with the data.

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Note 94. Equity investments by rating category (IRBA)

31 Dec. 2013

Rating category	Exposure value (EAD), MEUR	Average PD, %	Average risk weight, %	RWA	Minimum capital require-ment
5,5–7,0	3	1.3	248.2	7	1

Rating category	Exposure value (EAD), MEUR	Average PD, %	Average risk weight, %	RWA	Minimum capital require-ment
5,5–7,0	3	1.3	244.4	8	1

The PD/LGD method related to equity investments is applied to strategic investments outside OP-Pohjola Group.

Notes to OP-Pohjola Group Financial Statements

PILLAR III DISCLOSURES

Note 95. Expected loss and impairments

			Retail exposures			
Loss, EUR million	**Credit institution exposures***	**Corporate exposures**	**Exposures secured by real estates**	**Other**	**Equity investments**	**Total**
31 Dec. 2012						
(EL)	3	303	51	87	8	453
Impairments	-	396	19	34	11	460
31 Dec. 2011						
(EL)	4	307	53	95	8	467
Impairments	1	348	16	35	12	412
31 Dec. 2010						
(EL)	17	293	58	102	6	476
Impairments	9	284	13	29	3	339
31 Dec. 2009						
(EL)	-	219	-	-	11	229
Impairments	-	182	-	-	2	184
31 Dec. 2008						
(EL)	-	162	-	-	10	171
Impairments	-	121	-	-	2	123

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 799 million (898). 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 OP-Pohjola Group Financial Statements

PILLAR III DISCLOSURES

Note 96. Equity investments, BIA

	31 Dec. 2013			31 Dec. 2012		
EUR million	**Exposure**	**RWA**	**Minimum capital require-ment**	**Exposure**	**RWA**	**Minimum capital require-ment**
Private equity investments, risk weight 190%	101	192	15	134	255	20
Listed equity investments, 290%	84	243	19	133	384	31
Other, risk weight 370%	289	1,069	86	230	852	68
Total	**474**	**1,504**	**120**	**497**	**1,491**	**119**

Notes to OP-Pohjola Group Financial Statements

PILLAR III DISCLOSURES

Note 97. Collateral used in capital adequacy calculation

31 Dec. 2013, EUR million	Exposure	Guaran-tees	Financial collateral	Other collateral	Average LGD, %
Internal Ratings-based Approach (IRB)	**89,112**	**5,593**	**339**	**57,957**	
Credit institutions	6,124	41	-	0	25.9
Corporate	34,664	2,369	122	1,149	44.5
Exposures to which Pohjola applies its own LGD and/or CF estimates	46,671	3,184	217	56,808	15.7
Secured by real estates	40,850	1,380	100	55,949	11.6
Other	5,821	1,803	117	859	44.8
Equity investments	476	-	-	-	
Basic Indicator Approach	474	-	-	-	
PD/LGD method	3	-	-	-	
Securitisation positions	231	-	-	-	
Other positions	946	-	-	-	
FIRB	**10,408**	**18**	**-**	**-**	
Central government and central banks	6,332	17	-	-	
Credit institutions	110	1	-	-	
Corporate	1,078	-	-	-	
Retail	2,861	-	-	-	
Other	2,861	-	-	-	
Other positions	27	-	-	-	
Total	**99,520**	**5,611**	**339**	**57,957**	

31 Dec. 2012, EUR million	Exposure	Guaran-tees	Financial collateral	Other collateral	Average LGD, %
Internal Ratings-based Approach (IRB)	**86,782**	**3,512**	**390**	**54,597**	
Credit institutions	5,830	199	-	0	28.9
Corporate	33,970	2,360	170	1,159	44.5
Exposures to which Pohjola applies its own LGD and/or CF estimates	45,151	953	220	53,438	14.3
Secured by real estates	39,859	280	98	52,638	11.4
Other	5,291	673	122	800	36.3
Equity investments	500	-	-	-	
Basic Indicator Approach	497	-	-	-	
PD/LGD method	3	-	-	-	
Securitisation positions	321	-	-	-	
Other positions	1,011	-	-	-	
FIRB	**12,110**	**16**	**-**	**-**	
Central government and central banks	8,269	15	-	-	
Credit institutions	170	1	-	-	
Corporate	898	-	-	-	
Retail	2,766	-	-	-	
Other	2,766	-	-	-	
Other positions	7	-	-	-	
Total	**98,892**	**3,528**	**390**	**54,597**	

The average LDG has been calculated as the weighted average of the exposure value (EAD).

Guarantees and collateral related to retail exposures are treated as part of LGD.

In the SA and IRBA applied to credit institution and corporate exposures, Pohjola utilises the following real collateral securities specified in the capital adequacy regulations: residential buildings and shares entitling their holders to the possession of an apartment, deposits and securities (equities). Deposits and securities are financial collateral, as referred to in the regulatory framework, and alternative methods are available for their accounting treatment. OP-Pohjola Group has treated financial collateral in the above approaches using the so-called comprehensive method and volatility adjustments ordered by the relevant regulator.

In the SA and IRBA applied to credit institution and corporate exposures, only approved guarantors specified in the capital adequacy regulations may be used, such as guarantees granted by the Finnish State and other states, and those granted by municipalities and banks. Guarantees issued by companies or credit derivatives were not used. Offsetting balance-sheet or off-balance-sheet items was not applied in capital adequacy measurement.

In the IRBA applied to retail exposures, it is possible to use collateral securities on a more extensive basis than in the SA applied to credit institution and corporate exposures. In determining LDG estimates for retail exposures, Pohjola has used contract, customer, default, collateral and debt-collection data from 2003 until 2011. Pohjola applies the definition of payment default as in the PD models.

Residential buildings and shares entitling their holders to the possession of an apartment lodged as collateral constitute the largest collateral type used in capital adequacy. The effect of other real securities on the capital adequacy of credit risks is much less significant. Collateral used have been given by a number of sources, the largest single one being the State of Finland. In addition, the model uses the cash flow data on uncollateralised returns and the recovery rate of default probabilities.

Notes to OP-Pohjola Group Financial Statements

PILLAR III DISCLOSURES

Note 98. Derivative contracts and counterparty risk

Credit risk arising from derivative contracts is defined as a credit equivalent based on the daily market valuation of derivative contracts.

The size of customer limits are defined on the basis of assets included in derivative contracts and the estimated validity of the contracts.

Credit risk arising from bank counterparties is through collateral, which means the use of ISDA Credit Support Annex (CSA) contract associated with the ISDA general agreement. In the collateral system, the counterparty provides cash or securities in security for the receivable. Matching between counterparties are performed on a daily basis.

Counterparty risk associated with derivative contracts arises from receivables which Pohjola Bank plc may have from its counterparties in case they default. Pohjola Group measures counterparty risk using a fair value model, whereby the amount of liability comprises the contract market value and the expected potential future exposure.

Pohjola Bank plc manages counterparty risks associated with derivative contracts through master agreements which enables netting of contractual obligations in counterparty defaults as well as through collaterals and optional early termination clauses. There are legal opinions ensuring the enforceability of netting provisions of the master agreements in each derivative counterparty's national legislation. Pohjola Group uses netting for counterparty exposure arising from derivative contracts in both capital adequacy measurement and the monitoring of credit risk limits. With respect to credit institutions as counterparties, Pohjola also always uses credit support annex to derivative master agreements, in which case the received collateral reduces counterparty risk.

The Group confirms corporate counterparty exposure limits once a year and in this connection also checks the status of collateral applying to the limits for derivative transactions.

If S&P had downgraded Pohjola's credit rating from AA– to A on 31 December 2013, no additional collateral would have been required. If the credit rating had been downgraded in 2012, additional collateral of EUR 5 million would have been required.

Capital adequacy requirement due to counterparty risk may arise from items related to financing operations and the trading book. Capital adequacy requirement due to counterparty risk is calculated, for example, on OTC derivatives and sale and repurchase agreements.

Counterparty risk contract types, 31 Dec. 2013, EUR million	Gross exposure value	Benefits from netting	Exposure value after netting	Collateral received	Exposure value
Derivative contracts	4,821	2,844	1,977	408	1,570
Interest rate derivatives	3,784	2,408	1,376	314	1,062
Currency derivatives	742	363	379	36	343
Equity and index derivatives	194	72	122	58	64
Other	101	-	101	-	101
Total	**4,821**	**2,844**	**1,977**	**408**	**1,570**

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	3,765	2,180	606	1,574
Interest rate derivatives	5,061	3,295	1,767	488	1,278
Currency derivatives	661	401	260	79	181
Equity and index derivatives	160	70	90	39	51
Other	63	-	63	-	63
Total	**5,946**	**3,765**	**2,180**	**606**	**1,574**

Notes to OP-Pohjola Group Financial Statements

PILLAR III DISCLOSURES

Note 99. Securitisation positions

Securitisation positions by rating category, Moody's equivalent, EUR million	2013 Exposure	2013 RWA	2012 Exposure	2012 RWA
Non-trading book positions				
Securitisation positions	231	636	311	603
Aaa	48	4	99	7
Aa1–Aa3	25	2	30	3
A1–A3	19	4	52	10
Baa1–Baa3	64	54	67	50
Ba1–Ba3	44	176	31	113
B1 or lower	30	397	32	421
Re-securitisation positions	-	-	10	38
B1 or lower	-	-	10	38
Total	**231**	**636**	**321**	**640**

Matured and impaired securitisation positions by exposure type, 31 Dec. 2013, EUR million	Exposure	Matured	Impaired	Impairment losses
Non-trading book positions				
Securitisation positions	231	-	-	-
CDO	2	-	-	-
ABS	0	-	-	-
RMBS	228	-	-	-
Total	**231**	**-**	**-**	**-**

Matured and impaired securitisation positions by exposure type, 31 Dec. 2012, EUR million	Exposure	Matured	Impaired	Impairment losses
Non-trading book positions				
Securitisation positions	311	-	-	-
CDO	5	-	-	-
ABS	2	-	-	-
RMBS	303	-	-	-
Re-securitisation positions	10	-	10	7
CDO	10	-	10	7
Total	**321**	**-**	**10**	**7**

The IRBA has been applied to securitisation positions. Pohjola pays special attention to bonds' structural and collateral-related features in its investment in securitised assets.

Notes to OP-Pohjola Group Financial Statements

RISK EXPOSURE OF NON-LIFE INSURANCE

Risk exposure of Non-life Insurance

Note 100. Risk-bearing capacity

On 31 December 2013, the solvency capital of Non-life Insurance amounted to EUR 913 million (914) and the solvency ratio stood at 73% (81). The financial strength rating of Pohjola Insurance affirmed by Standard & Poor's is AA-. The Board of Directors has confirmed A as the targeted rating.

Non-life Insurance must fulfil all capital adequacy requirements set by regulatory authorities mainly at company level. All non-life insurance companies are governed by the same requirement set for their minimum solvency margin based on EU directives. In addition, Finnish legislation also lays down capital adequacy requirements for Finnish insurance companies.

The risk-bearing capacity describes the proportion of a company's solvency capital to various income statement and balance sheet items. Solvency capital proportioned to claims incurred and insurance premium revenue describes the company's ability to cope with underwriting risks. Solvency capital proportioned to insurance liabilities describes the company's ability to cope with risks related to the estimation of insurance liabilities. Similarly, solvency capital proportioned to the investment portfolio describes the company's ability to cope with the risks related to investments.

	31 Dec. 2013		31 Dec. 2012	
	EUR million	Riskbearing capacity, %	EUR million	Riskbearing capacity, %
Solvency capital	913		914	
Claims incurred*	882	104	830	110
Insurance premium revenue*	1,249	73**	1,126	81**
Insurance liabilities*	2,517	36	2,372	39
Investment portfolio	3,219	28	3,149	29

* Reinsurers' share (net business) deducted

** Solvency ratio

Notes to OP-Pohjola Group Financial Statements

RISK EXPOSURE OF NON-LIFE INSURANCE

Note 101. Sensitivity analysis

The table below shows the effect of various risk parameters on profit and solvency capital:

Risk parameter	Total in 2012, EUR million	Change in risk parameter	Effect on profit/solvency, EUR million	Effect on combined ratio
Insurance premium revenue *	1,249	Up by 1%	12	Up by 0.9 pps
Claims incurred *	882	Up by 1%	-9	Down by 0.7 pps
Large claim, over EUR 5 million	-	1 large claim	-5	Down by 0.4 pps
Personnel costs *	107	Up by 8%	-9	Down by 0.9 pps
Expenses by function *	311	Up by 4%	-12	Down by 1.0 pps
Inflation for collective liability	597	Up by 0.25 pps	-4	Down by 0.3 pps
Life expectancy for discounted insurance liabilities	1,564	Up 1 year	-38	Down by 3.0 pps
Discount rate for discounted insurance liabilities	1,564	Down by 0.1 pps	-20	Down by 1.6 pps

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

Notes to OP-Pohjola Group Financial Statements

RISK EXPOSURE OF NON-LIFE INSURANCE

Note 102. Premiums written and sums insured by class

Premiums written by EML* class in corporate property insurance

The degree of risk in property insurance can be evaluated by dividing risks into classes by their EML* amounts. The table below shows premiums written calculated for each risk class.

EUR million	5–20	20–50	50–100	100–300
2013	13	14	14	9
2012	14	15	14	6

* EML = Estimated Maximum Loss per object of insurance

Division of premiums written by TSI* class in corporate liability insurance

The degree of risk in liability insurance can be evaluated by dividing risks into classes by their TSI* amounts. The table below shows premiums written calculated for each risk class.

EUR million	2–4	4–10	10–30	30–90
2013	3	6	8	3
2012	4	6	7	2

* TSI = Total Sum Insured

Sums insured in decennial insurance

The sum insured of insurance contracts depicts the volume of decennial insurance (construction defects insurance). The gross and net amounts of the sum insured are itemised in the table below. The liability period of decennial insurance is 10 years.

	Gross		Net*	
EUR million	**2013**	**2012**	**2013**	**2012**
Decennial insurance	**2,287**	**2,110**	**2,282**	**2,105**

* For insurance company's own account after reinsurers' share but before counter guarantee

Notes to OP-Pohjola Group Financial Statements

RISK EXPOSURE OF NON-LIFE INSURANCE

Note 103. Trend in large claims

Number of detected large claims by year of detection for 2009–13

Non-life Insurance monitors carefully claims expenditure arising from large claims. The claims expenditure explains a significant part of the annual fluctuation in the underwriting result. In addition, monitoring the claims expenditure arising from large claims helps to detect any changes in risks or risk selection. In this analysis, large claims are those whose gross amount exceeds EUR 2 million. Most large claims occur in property and business interruption insurance. In statutory policies, the risk of large claim is small relative to the large volume of the line of business.

Gross amount

Number of losses exceeding EUR 2 million	Statutory lines	Other accidents and health	Hull and cargo	Property and business interruption	Liability and legal expenses	Long-term
2009	3	-	-	5	2	-
2010	1	-	-	12	-	-
2011	-	-	-	5	-	1
2012	3	-	-	7	1	-
2013	4	-	-	6	1	-
				Total claims, EUR million	216	
Gross amount, total claims, EUR million						
2009–2013	**26**			**164**	**20**	**7**

Net amount

Number of losses exceeding EUR 2 million	Statutory lines	Other accidents and health	Hull and cargo	Property and business interruption	Liability and legal expenses	Long-term
2009	3	-	-	4	1	-
2010		-	-	10		-
2011		-	-	4		1
2012	3	-	-	6	1	-
2013	4	-	-	6	1	-
				Total claims, EUR million	144	
Net amount, total claims, EUR million						
2009–2013	**24**	**-**	**-**	**106**	**10**	**4**

Notes to OP-Pohjola Group Financial Statements

RISK EXPOSURE OF NON-LIFE INSURANCE

Note 104. Insurance profitability

Trends in insurance premium revenue (gross and net) and combined ratio (net)

Insurance premium revenue describes the volume of an insurance class, enabling the evaluation of the importance of the insurance class in relation to the whole portfolio. Similarly, the combined ratio (CR) is used to evaluate fluctuations in the results of the insurance class and the profitability of the class. The combined ratio is presented separately adjusted for one-off items relating to previous insurance periods.

2013, EUR million	Gross IP revenue	Net IP revenue	Net CR*	Net** CR*
Statutory lines	459	458	93%	85%
Other accident and health	158	158	88%	88%
Hull and cargo	264	261	90%	90%
Property and business interruption	343	296	89%	88%
Liability and legal expenses	80	73	82%	82%
Long-term	5	4	15%	15%
Total	**1,309**	**1,249**	**90%**	**87%**

2012, EUR million	Gross IP revenue	Net IP revenue	Net CR*	Net** CR*
Statutory lines	422	420	95%	83%
Other accident and health	134	134	97%	97%
Hull and cargo	240	237	96%	96%
Property and business interruption	309	265	95%	94%
Liability and legal expenses	73	67	99%	99%
Long-term	5	4	0%	0%
Total	**1,183**	**1,126**	**95%**	**91%**

* The combined ratio is calculated by dividing the sum of claims incurred (net) and operating expenses of insurance business by insurance premium revenue (net). Amortisation on intangible rights has not been taken into account.

** One-off changes affecting the balance on technical account have been eliminated.

Notes to OP-Pohjola Group Financial Statements

RISK EXPOSURE OF NON-LIFE INSURANCE

Note 105. Information on the nature of insurance liabilities

Information on the nature of liabilities	2013	2012
Net insurance contract liabilities (EUR million)		
Latent occupational diseases	26	29
Other	2,491	2,343
Total (before transfers)	**2,517**	**2,372**
Duration of debt (years)		
Discounted insurance contract liabilities	12.6	12.4
Undiscounted insurance contract liabilities	2.1	2.1
Total	**8.7**	**8.6**
Discounted net debt (EUR million)		
Provision for known unpaid claims for annuities	1,252	1,206
Collective liability (IBNR)	275	240
Provision for unearned premiums	37	36
Total	**1,564**	**1,483**

Notes to OP-Pohjola Group Financial Statements

RISK EXPOSURE OF NON-LIFE INSURANCE

Note 106. Insurance contract liabilities by estimated maturity

31 Dec. 2013, EUR million	0–1 yr	1–5 yrs	5–10 yrs	10–15yrs	over 15 yrs	Total
Provision for unearned premiums*	349	100	18	5	9	481
Provision for unpaid claims						
Undiscounted	264	183	49	9	4	508
Discounted	93	418	311	232	474	1,527
Total insurance contract liabilities	**707**	**701**	**377**	**246**	**486**	**2,517**

* Includes EUR 37 million in discounted liability

31 Dec. 2012, EUR million	0–1 yr	1–5 yrs	5–10 yrs	10–15yrs	over 15 yrs	Total
Provision for unearned premiums*	320	92	16	5	8	440
Provision for unpaid claims						
Undiscounted	253	174	46	9	3	485
Discounted	90	403	297	219	437	1,446
Total insurance contract liabilities	**663**	**669**	**359**	**233**	**448**	**2,372**

* Includes EUR 36 million in discounted liability

Notes to OP-Pohjola Group Financial Statements

RISK EXPOSURE OF NON-LIFE INSURANCE

Note 107. Risk exposure of insurance investments

Allocation of investment portfolio	31 Dec. 2013 Fair value*, EUR million	%	31 Dec. 2012 Fair value*, EUR million	%
Money market total	**113**	**4**	**42**	**1**
Money market instruments and deposits**	113	3	44	1
Derivatives***	1	0	-2	0
Total bonds and bond funds	**2,309**	**72**	**2,369**	**75**
Governments	471	15	469	15
Inflation-linked bonds	90	3	71	2
Investment Grade	1,485	46	1,460	46
Emerging markets and High Yield	236	7	352	11
Structured Investments	27	1	16	1
Total equities	**426**	**13**	**367**	**12**
Finland	88	3	83	3
Developed markets	191	6	126	4
Emerging markets	47	1	53	2
Unlisted equities	4	0	6	0
Private equity investments	95	3	99	3
Total alternative investments	**41**	**1**	**82**	**3**
Hedge funds	23	1	38	1
Commodities	5	0	6	0
Convertible bonds	13	0	38	1
Total property investment	**329**	**10**	**290**	**9**
Direct property investment	219	7	186	6
Indirect property investment	110	3	103	3
Total	**3,219**	**100**	**3,149**	**100**

* Includes accrued interest income

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

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

Notes to OP-Pohjola Group Financial Statements

RISK EXPOSURE OF NON-LIFE INSURANCE

Note 108. 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 101 dealing with insurance liabilities Effects of changes in investment and insurance liabilities offset one another.

Non-life Insurance, EUR million	Portfolio at fair value, 31 Dec. 2013	Risk parameter	Change	Effect on solvency capital, EUR million 31 Dec. 2013	31 Dec. 2012
Bonds and bond funds *	2,322	Interest rate	1 pp	72	72
Equities **	349	Market value	10%	35	30
Venture capital funds and unlisted shares	100	Market value	10%	10	10
Commodities	5	Market value	10%	1	1
Real property	329	Market value	10%	33	29
Currency	136	Value of currency	10%	14	25
Credit risk premium ***	2,422	Credit risk margin	0.1 pp	8	9
Derivatives****	-	Volatility	10 pps	2	0

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

** Include hedge funds and equity derivatives

*** Includes bonds and convertible bonds and money-market investments, excluding government bonds issued by developed countries

Notes to OP-Pohjola Group Financial Statements

RISK EXPOSURE OF NON-LIFE INSURANCE

Note 109. Interest-rate risk

The market risk arising from changes in interest rates is monitored by classifying investments by instrument, in accordance with duration. The table below does not indicate the balancing effect which the insurance contract liabilities have on the interest-rate risk, because only some of the insurance contract liabilities have been discounted using an administrative interest rate (Note 36)

Fair value by duration or repricing date*, EUR million	31 Dec. 2013	31 Dec. 2012
0–1 year	331	135
>1–3 years	568	545
>3–5 years	761	909
>5–7 years	358	392
>7–10 years	225	236
>10 years	141	139
Total	**2,384**	**2,356**
Modified duration	3.7	4.2
Effective interest rate, %	2.0	1.8

* Includes money market investments and deposits, bonds, convertible bonds and bond funds

Fixed-income portfolio by maturity and credit rating on 31 Dec 2012, EUR million

Year(s)	0–1	1–3	3–5	5–7	7–10	10–	Total	Proportion, %
Aaa	27	204	310	93	150	87	872	36.6%
Aa1−Aa3	112	67	72	15	10	32	308	12.9%
A1−A3	76	167	203	115	24	0	585	24.6%
Baa1−Baa3	38	61	123	129	33	19	402	16.9%
Ba1 or lower	51	69	53	6	9	3	189	7.9%
Internally rated	27	0	0	0	-	-	27	1.2%
Total	**331**	**568**	**761**	**358**	**225**	**141**	**2,384**	**100.0%**

* Excludes credit derivatives.

The maturity is presented until the end of the term to maturity. If the paper includes a call option, the maturity is presented until the first possible Call date.

The average credit rating of the Non-life Insurance fixed-income portfolio is Moody's A1.

The term to maturity of the Non-life Insurance fixed-income portfolio averages 4.4 years (calculated on the basis of the call date and the maturity date).

Notes to OP-Pohjola Group Financial Statements

RISK EXPOSURE OF NON-LIFE INSURANCE

Note 110. Currency risk

Foreign currency exposure, EUR million	**31 Dec. 2013**	**31 Dec. 2012**
USD	54	98
SEK	-3	-4
JPY	2	11
GBP	14	8
LVL, LTL**	0	0
Other	62	132
Total*	**136**	**254**

*The currency exposure was 4.2% (8.1) of the investment portfolio. It is calculated as the sum total of individual currencies' intrinsic values.

** These are ERM2 currencies

Notes to OP-Pohjola Group Financial Statements

RISK EXPOSURE OF NON-LIFE INSURANCE

Note 111. Counterparty risk

	31 Dec. 2013		31 Dec. 2012	
Credit rating, consistent with Moody's, EUR million	**Investment***	**Insurance****	**Investment***	**Insurance****
Aaa	872	-	853	0
Aa1–Aa3	308	8	278	20
A1–A3	585	23	578	26
Baa1–Baa3	402	0	448	0
Ba1 or lower	189	-	198	-
Internal rating	27	49	1	35
Total	**2,384**	**80**	**2,356**	**82**

* Includes money market investments, deposits and bonds and bond funds.

** Includes the reinsurers' share of insurance contract liabilities, and receivables from reinsurers.

Notes to OP-Pohjola Group Financial Statements

RISK EXPOSURE BY WEALTH MANAGEMENT

Risk exposure by Wealth Management

Note 112. Asset management

Within OP-Pohjola Group, Pohjola Asset Management Limited runs asset management business and provides institutional clients and wealthy private individuals with discretionary and advisory investment 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 investment management portfolio on 31 December 2013 totalled EUR 26.1 billion (20.8) and advisory investment management portfolio EUR 9.5 billion (9.9).

Notes to OP-Pohjola Group Financial Statements

RISK EXPOSURE BY WEALTH MANAGEMENT

Note 113. Information on the nature of insurance liabilities and their sensitivity analysis

Risk-bearing capacity of Life Insurance based on statutory indicators

Life insurance companies must fulfil the solvency requirements prescribed by law. The focus is on ensuring that the solvency margin is higher than the minimum requirement and that life insurance companies' early warning supervision requirements are fulfilled. The main principles of early warning supervision are in line with Solvency II that is being prepared by the EU with the intention of preparing life insurance companies for new legislation that will replace, for example, the current solvency margin requirement.

On 31 December 2013, the life insurance companies' solvency margin amounted to EUR 664 million while year ago it amounted to EUR 780 million. The minimum solvency margin is EUR 215 million (218).

Life insurance risk-bearing capacity is measured in terms of solvency ratio, which means the ratio of the sum of solvency margin and equalisation provisions, or solvency capital, to the sum of technical provisions under FAS. Based on the Group's strategy, the target solvency ratio set for life insurance is 14 %. The Group also monitors the ratio of solvency capital in excess of the minimum of the solvency margin to the risk associated with investment.

Portfolio of insurance and investment contracts in Life Insurance 31 Dec 2013

	Liability, 31 Dec. 2013, EUR million	Number of insureds or contracts	Duration on yield curve, 31 Dec. 2013
Unit-linked contracts	**6,265**	**365,572**	**9.4**
Unit-linked insurance contracts	**5,018**	**293,292**	**9.2**
Life Insurance/Savings	3,977	158,729	8.8
Individual pension insurance	984	129,019	10.5
Group pension insurance	57	5,544	14.4
Unit-linked investment contracts	**1,246**	**72,280**	**10.2**
Pension contracts	1,138	71,663	10.6
Capital redemption contracts	108	617	6.4
Other than unit-linked contracts	**3,419**	**468,783**	**9.3**
Insurance contracts discounted with technical interest rate	**3,269**	**468,755**	**9.4**
Life Insurance/Savings	967	39,809	7.7
Rate of guaranteed interest 4.5%	64	1,894	7.1
Rate of guaranteed interest 3.5%	567	17,747	10.2
Rate of guaranteed interest 2.5%	331	19,847	4.0
Rate of guaranteed interest 1.5%	4	321	5.6
Individual pension insurance	928	59,854	8.9
Rate of guaranteed interest 4.5%	283	9,978	6.5
Rate of guaranteed interest 3.5%	432	24,259	8.6
Rate of guaranteed interest 2.5%	212	25,509	12.9
Rate of guaranteed interest 1.5%	1	108	8.3
Group pension insurance	1,193	35,468	11.7
Defined benefit 3.5%	1,115	30,847	11.6
Defined benefit 2.5%	35	1,005	10.0
Defined benefit 1.5%	5	148	10.0
Defined contribution 3.5%	5	68	14.4
Defined contribution 2.5%	29	3,110	14.8
Defined contribution 1.5%	4	290	13.7
Individual risk life insurance	167	326,444	4.0
Group life insurance	14	7,180	0.9
Other than unit-linked investment contracts discounted with technical interest rate	**11**	**28**	**2.7**
Capital redemption contracts	11	28	2.7
Rate of guaranteed interest 2.5%	11	26	2.7
Rate of guaranteed interest 1.5%	0	2	4.4
Effect of discounting with market interest rate	**84**	**-**	
Other insurance liability items	**55**	**-**	**0.5**
Total	**9,684**	**834,355**	**9.4**

In addition to other items presented in Note 37 above, Other insurance liability items include income recognised on interest rate derivatives hedging sold insurance liabilities with supplementary interest rate provisions for the derivative's residual term to maturity.

Sensitivity of life insurance liabilities to changes in calculation principles

Because a great deal of very long-term savings insurance and investment insurance policies have been sold, some policyholders surrender their policies before their maturity, if their circumstances so require. For this reason, the number of surrenders is large. The company takes account of the resulting loss of surpluses or deficits when making the early warning calculations for life insurance companies.

The risk of surrender for individual pension plans is very small, since by law this can only be done in specific cases such as divorce and long-term unemployment. The accumulated insurance savings are paid back to the policyholder upon surrender.

Many people are putting off claiming their individual pensions. Often, when taking out a pension, policyholders do not have a realistic view of when they will actually retire. Tax laws have also changed over the decades, allowing people to claim their individual pensions later.

Pension companies' mortality data show that the life expectancy figures used in calculating pensions are too low. However, the mortality risk and longevity risk of individual pensions offset each other, to the point that there is no need for a mortality supplement despite the rise in life expectancy. On the other hand, in group pension insurance, the longevity risk is higher than the mortality risk, and the liabilities have therefore had to be supplemented. If the mortality assumption is modified, by increasing the life expectancy of policyholders by one year on average, the liabilities will grow by EUR 24 million (22).

Since in savings insurance and investment insurance, the mortality and longevity risks almost offset each other, no mortality supplement has been needed.

The company has complied with the FAS in establishing insurance liabilities, with the exception of two aspects. First, equalisation provisions are not included in insurance liabilities. Second, the company has begun to use a discount rate that is closer to the current interest rate. The company has insurance contract savings at its own risk with interest rate guarantees ranging between 1.5% and 4.5%. The insurance liability of contracts whose interest rate guarantee is 4.5% has been supplemented so that the technical interest rate of insurance liabilities based on national regulation is 3.5%. In addition, the company supplemented on 30 June 2013 in the FAS-compliant financial statements the insurance liability of contracts whose interest rate guarantee is 3.5% or higher in such a way that the discount rate will be 2.5% until 30 June 2014, as well as through income from derivatives hedging the insurance liability. The company has used interest rate derivatives to hedge against some of the interest rate risk that exists between the market and discount rate. Since the benefit deriving from derivatives are used for guaranteed benefits involved in insurance and capital redemption contracts, their liability is increased to the amount under the national financial accounts by EUR 163 million (62).

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

Investment contracts come in two types: OP Life Assurance Company Ltd's investment contracts are capital redemption contracts and Aurum Investment Insurance Ltd's pension contracts. Some capital redemption contracts include entitlement to a discretionary participation feature and they are measured in the same way as insurance contracts as specified in the Insurance Contracts standard (IFRS4). Some exclude this entitlement and they are measured and classified as contracts recognised at fair value through profit or loss, in accordance with IAS 39. All pension insurance contracts issued by Aurum Investment Insurance Ltd are measured in compliance with IAS 39.

In financial statements based on national regulation, lowering the discount rate by 0.1 percentage point would increase the technical provisions by EUR 26 million (28).

Notes to OP-Pohjola Group Financial Statements

RISK EXPOSURE BY WEALTH MANAGEMENT

Note 114. Expected maturity of insurance and investment contracts

	Duration						
31 Dec. 2013, EUR million	**2014–2015**	**2016–2017**	**2018–2022**	**2023-2027**	**2028-2032**	**2033-2037**	**2038-**
Unit-linked contracts	**-899**	**-842**	**-1,546**	**-1,194**	**-872**	**-581**	**-831**
Insurance contracts	**-775**	**-709**	**-1,199**	**-875**	**-599**	**-423**	**-713**
Life Insurance/Savings	-710	-619	-970	-671	-455	-323	-590
Individual pension insurance	-61	-85	-212	-192	-133	-92	-95
Group pension insurance	-4	-5	-17	-13	-11	-7	-28
Investment contracts	**-123**	**-133**	**-347**	**-319**	**-273**	**-158**	**-119**
Pension contracts	-103	-119	-310	-309	-253	-158	-119
Capital redemption contracts	-20	-14	-37	-11	-21	0	0
Other than unit-linked contracts	**-694**	**-569**	**-1,174**	**-782**	**-529**	**-365**	**-687**
Insurance contracts	**-677**	**-554**	**-1,159**	**-776**	**-526**	**-364**	**-687**
Life Insurance/Savings	-348	-205	-335	-204	-134	-86	-176
Rate of guaranteed interest 4.5%	-12	-18	-26	-12	-11	-3	-4
Rate of guaranteed interest 3.5%	-109	-96	-220	-143	-103	-75	-162
Rate of guaranteed interest 2.5%	-226	-90	-87	-47	-20	-9	-10
Rate of guaranteed interest 1.5%	-2	-1	-2	-1	0	0	0
Individual pension insurance	-114	-175	-425	-240	-137	-85	-132
Rate of guaranteed interest 4.5%	-41	-74	-147	-69	-29	-9	-1
Rate of guaranteed interest 3.5%	-53	-77	-205	-123	-69	-46	-37
Rate of guaranteed interest 2.5%	-19	-24	-73	-48	-39	-29	-94
Rate of guaranteed interest 1.5%	0	0	0	0	0	0	0
Group pension insurance	-165	-152	-370	-322	-251	-193	-378
Defined benefit 3.5%	-154	-143	-348	-302	-235	-180	-347
Defined benefit 2.5%	-7	-6	-9	-6	-5	-4	-10
Defined benefit 1.5%	-1	-1	-1	-1	-1	0	-1
Defined contribution 3.5%	0	-1	-2	-1	-1	-1	-4
Defined contribution 2.5%	-2	-2	-8	-11	-10	-7	-14
Defined contribution 1.5%	0	0	-1	-1	-1	-1	-2
Individual pure risk insurance	-38	-21	-28	-10	-3	-1	0
Group life insurance	-12	-1	0	0	0	0	0

Investment contracts	**-4**	**-8**	**-2**	**0**	**0**	**0**	**0**
Capital redemption contracts	-4	-8	-2	0	0	0	0
Rate of guaranteed interest 3.5%	0	0	0	0	0	0	0
Rate of guaranteed interest 2.5%	-4	-8	-2	0	0	0	0
Rate of guaranteed interest 1.5%	0	0	0	0	0	0	0
Liability for bonus reserves	0	0	0	0	0	0	0
Reserve for decreased discount rate	-13	-6	-13	-6	-3	-1	0
Other items in insurance liabilities	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Total	**-1,593**	**-1,410**	**-2,720**	**-1,976**	**-1,401**	**-947**	**-1,518**

			Duration				
31 Dec. 2012 EUR million	**2013-2014**	**2015-2016**	**2017-2021**	**2022-2026**	**2027-2031**	**2032-2036**	**2037-**
Unit-linked contracts	**-705**	**-824**	**-1,449**	**-1,114**	**-860**	**-588**	**-1,070**
Insurance contracts	**-636**	**-737**	**-1,200**	**-777**	**-577**	**-435**	**-942**
Life Insurance/Savings	-569	-620	-970	-590	-426	-317	-761
Individual pension insurance	-65	-113	-220	-177	-142	-110	-155
Group pension insurance	-3	-3	-10	-10	-10	-9	-26
Investment contracts	**-70**	**-87**	**-249**	**-337**	**-283**	**-153**	**-127**
Pension contracts	-41	-74	-231	-337	-283	-153	-127
Capital redemption contracts	-28	-14	-19	-1	0	0	0
Other than unit-linked contracts	**-742**	**-627**	**-1,244**	**-843**	**-653**	**-497**	**-1,110**
Insurance contracts	**-732**	**-614**	**-1,230**	**-839**	**-652**	**-496**	**-1,110**
Life Insurance/Savings	-421	-181	-331	-184	-121	-82	-173
Rate of guaranteed interest 4.5%	-14	-18	-23	-13	-10	-6	-5
Rate of guaranteed interest 3.5%	-163	-89	-216	-135	-96	-71	-160
Rate of guaranteed interest 2.5%	-244	-74	-90	-35	-14	-5	-8
Rate of guaranteed interest 1.5%	-1	-1	-1	-1	-1	0	0
Individual pension insurance	-153	-297	-570	-348	-262	-187	-363
Rate of guaranteed interest 4.5%	-55	-101	-178	-64	-19	-3	0
Rate of guaranteed interest 3.5%	-72	-125	-231	-152	-103	-54	-43
Rate of guaranteed interest 2.5%	-26	-70	-161	-132	-140	-130	-320
Rate of guaranteed interest 1.5%	0	0	0	0	0	0	0
Group pension insurance	-117	-115	-304	-299	-266	-227	-573
Defined benefit 3.5%	-112	-109	-289	-285	-252	-214	-538
Defined benefit 2.5%	-2	-3	-7	-5	-3	-3	-10
Defined benefit 1.5%	0	0	0	0	0	0	0
Defined contribution 3.5%	0	-1	-2	-1	-1	-1	-3
Defined contribution 2.5%	-2	-2	-6	-9	-9	-9	-20
Defined contribution 1.5%	0	-1	-1	0	-1	-1	-3
Individual pure risk insurance	-30	-19	-24	-8	-2	0	0
Group life insurance	-11	-1	0	0	0	0	0

Investment contracts	**-7**	**-7**	**-1**	**0**	**0**	**0**	**0**
Capital redemption contracts	-7	-7	-1	0	0	0	0
Rate of guaranteed interest 3.5%	-1	0	0	0	0	0	0
Rate of guaranteed interest 2.5%	-6	-7	-1	0	0	0	0
Rate of guaranteed interest 1.5%	0	0	0	0	0	0	0
Liability for bonus reserves	-1	0	0	0	0	0	0
Reserve for decreased discount rate	-2	-6	-13	-4	-2	-1	0
Other items in insurance liabilities	**-32**	**0**	**0**	**0**	**0**	**0**	**0**
Total	**-1,479**	**-1,451**	**-2,693**	**-1,957**	**-1,513**	**-1,085**	**-2,180**

Notes to OP-Pohjola Group Financial Statements

RISK EXPOSURE BY WEALTH MANAGEMENT

Note 115. Life insurance profitability

	2013			2012		
EUR million	**Risk income**	**Claims incurred**	**Claim ratio**	**Risk income**	**Claims incurred**	**Claim ratio**
Life insurance	**307**	**291**	**95%**	**300**	**284**	**95%**
Pure risk insurance	31	15	50%	30	15	51%
Insurance saving	276	275	100%	271	269	99%
Pension insurance	**32**	**33**	**102%**	**30**	**28**	**94%**
Defined benefit	22	22	102%	21	19	91%
Defined contribution	11	11	103%	9	9	102%
OP Life Assurance Company	**339**	**324**	**95%**	**330**	**312**	**95%**

The defined-benefit group pension includes the longevity provision of EUR 1.8 million in 2012 and EUR 4.3 million in 2013.

In figures for 2012, the pure risk insurance reinsurer's portion of change in claims liability has been adjusted.

Notes to OP-Pohjola Group Financial Statements

RISK EXPOSURE BY WEALTH MANAGEMENT

Note 116. Risk exposure of investment operations

	31 Dec. 2013		31 Dec. 2012	
Allocation of investment property	**Fair value, EUR million**	**%**	**Fair value, EUR million**	**%**
Fixed-income investments*				
Bonds	1,811	48	1,609	40
Other money market instruments****	329	9	332	8
Mutual funds	644	17	828	21
Shares and participations				
Equities and mutual funds****	313	8	230	6
Alternative investments**	307	8	567	14
Properties***	345	9	448	11
Total	**3,749**	**100**	**4,014**	**100**

*Include accrued interest and notes and bonds reclassified into loans and receivables within financial assets. Exclude interest rate derivatives used to hedge interest rate risk associated with insurance liabilities.

**Incl. investments in hedge funds and private equity investments

***Only direct investments in properties

****Incl. effect of equity futures

Notes to OP-Pohjola Group Financial Statements

RISK EXPOSURE BY WEALTH MANAGEMENT

Note 117. Sensitivity analysis of investment property

				Effect on equity capital, EUR million	
31 Dec. 2013	**Portfolio at fair value, EUR million**	**Risk parameter**	**Change**	**31 Dec. 2013**	**31 Dec. 2012**
Bonds and bond funds	2,455	Interest rate	1 pp	70	90
Shares and alternatives	619	Market value	10 per cent	62	80
Properties	345	Market value	10 per cent	34	45

Notes to OP-Pohjola Group Financial Statements

RISK EXPOSURE BY WEALTH MANAGEMENT

Note 118. Interest-rate risk

Fair value by duration or repricing date, EUR million	31 Dec. 2013	31 Dec. 2012
0–1 year	584	644
>1–5 years	1314	1268
>5–10 years	836	716
>10–20 years	39	133
>20 years	9	6
Total	**2,783**	**2,767**
Modified duration	2.4	3.2
Average interest rate, %	1.7	2.6

Fixed-income portfolio by maturity and credit rating on 31 Dec 2013, EUR million

Year(s)	0–1	1–3	3–5	5–7	7–10	10–	Total	Proportion
Aaa	3	91	199	276	18	9	595	21.4%
Aa1−Aa3	276	25	77	20	13	19	430	15.4%
A1−A3	78	150	218	221	64	8	739	26.6%
Baa1−Baa3	114	242	197	165	32	9	760	27.3%
Ba1 or lower	50	59	55	16	6	1	188	6.7%
Internally rated	64	3	0	3	0	2	72	2.6%
Total	**584**	**569**	**745**	**702**	**134**	**48**	**2,783**	**100.0%**

The maturity is presented until the end of the term to maturity. If the paper includes a call option, the maturity is presented until the first possible Call date.

The average credit rating of a Life Insurance portfolio by Moody’s is A2.

The average residual term to maturity of a Life Insurance fixed-income portfolio is 3.6 years (calculated on the basis of the call date and maturity date)

Notes to OP-Pohjola Group Financial Statements

RISK EXPOSURE BY WEALTH MANAGEMENT

Note 119. Currency risk

Foreign currency exposure, EUR million	31 Dec. 2013	31 Dec. 2012
USD	84	153
SEK	2	2
JPY	1	0
GBP	13	17
Other	70	190
Total*	**170**	**361**

*Total net currency exposure

The currency exposure was 4.5% (9.0) of the investment portfolio.

Notes to OP-Pohjola Group Financial Statements

RISK EXPOSURE BY WEALTH MANAGEMENT

Note 120. Counterparty risk

Credit rating distribution, EUR million

Moody's equivalent	31 Dec. 2013	31 Dec. 2012
AAA	595	530
AA	430	511
A	739	509
BBB	760	934
BB+ or lower	188	249
Not Rated	72	33
Total *	**2,783**	**2,767**

* Includes money-market investments and deposits, bonds and bond funds.

Statement concerning the financial statements

We have adopted the Report of the Executive Board and the consolidated Financial Statements of the amalgamation of the cooperative banks (OP-Pohjola Group) specified in the Act on Cooperative Banks and Other Cooperative Credit Institutions and Act no. 599/2010 on the amalgamation of deposit banks the for the financial year from 1 January to 31 December 2013. The report and the Financial Statements are presented to, and passed out at, the General Meeting of OP-Pohjola Group Central Cooperative.

Helsinki, 10 February 2014

Executive Board of OP-Pohjola Group Central Cooperative

Reijo Karhinen	Tony Vepsäläinen
Tom Dahlström	Carina Geber-Teir
Harri Luhtala	Erik Palmén
Teija Sarajärvi	

Auditor's Report

This document is an English translation of the Finnish auditor's report. Only the Finnish version of the report is legally binding.

To the members of OP-Pohjola Group Central Cooperative

We have audited the consolidated financial statements and the report of the Executive Board for the year ended on 31 December 2013 of the amalgamation of the cooperative banks (the OP-Pohjola Group) pursuant to the Act on the Amalgamation of Deposit Banks as well as to the Act on Cooperative Banks and Other Cooperative Credit Institutions. The financial statements comprise the consolidated balance sheet, income statement, statement of comprehensive income, statement of changes in equity capital and cash flow statement and notes to the financial statements.

The Responsibility of the Executive Board and the President of OP-Pohjola Group Central Cooperative

The Executive Board and the President of OP-Pohjola Group Central Cooperative are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU in a manner explained in more detail in the notes to the financial statements, as well as for the preparation of the report of the Executive Board that give a true and fair view in accordance with the laws and regulations governing the preparation of the report of the Board of Directors in Finland.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements and on the report of the Executive Board based on our audit. The Auditing Act requires that we comply with the requirements of professional ethics. We conducted our audit in accordance with good auditing practice in Finland. Good auditing practice requires that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the report of the Executive Board are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report of the Executive Board. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements and report of the Executive Board that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the report of the Executive Board. In carrying out the audit, we also acquainted ourselves with the financial statement policies adopted by the Group's member institutions, as well as the auditors' reports and other related reporting submitted by their auditors.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the Consolidated Financial Statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position, financial performance, and cash flows of OP-Pohjola Group in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

Opinion on the Report of the Executive Board

In our opinion, the report of the Executive Board gives a true and fair view of OP-Pohjola Group's financial performance and financial position in accordance with the laws and regulations governing the preparation of the report of the Board of Directors in Finland. The information in the report of the Executive Board is consistent with the information in the consolidated financial statements.

Helsinki, 18 February 2014

KPMG OY AB

Sixten Nyman
Authorized Public Accountant

op-pohjola-annualreport.fi/OP-Pohjola2013/en