OP-Pohjola Group
Report by the Executive Board and Financial Statements 2011

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OP-Pohjola Group's Financial Statements

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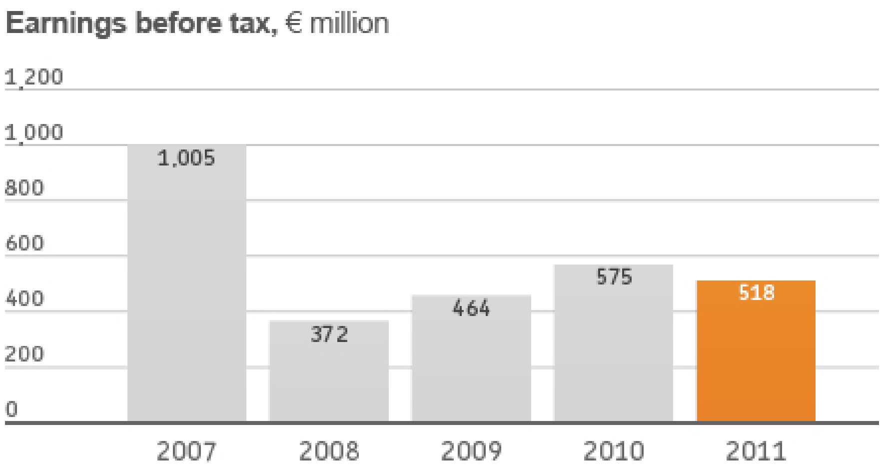
2011 in Brief

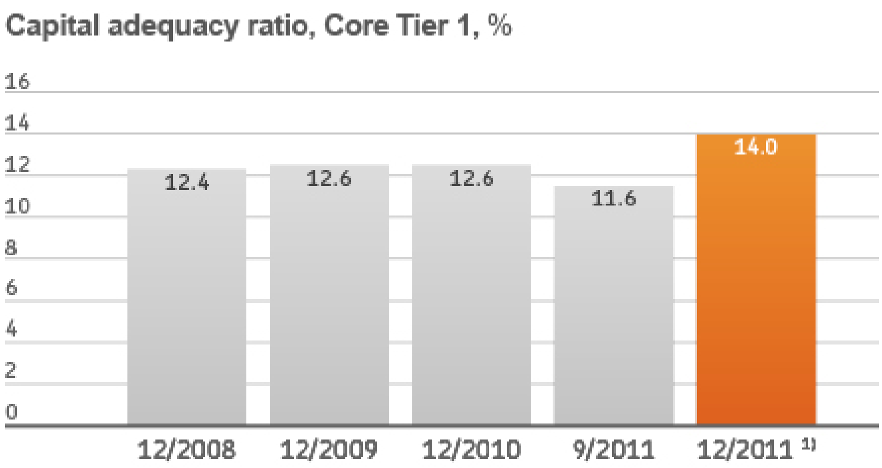
- The Group's earnings before tax amounted to EUR 518 million.
- Earnings in Q4 were eroded by the changes in reserving bases of technical provisions concerning insurance operations that were already reported earlier. Excluding these items, the Group's full-year earnings before tax would have been somewhat better than the year before (575).
- Banking’s earnings before tax grew strongly and were 30% higher year on year. Results for Non-life and Life Insurance segments shrank clearly.
- Net interest income continued on a good growth path and was 12%, while expenses increased by 6%.
- Impairment losses on receivables shrank by EUR 47 million, amounting to 0.16% of the loan and guarantee portfolio.
- Deposits increased notably faster than the market average. Non-life Insurance’s premiums written and both home mortgage and corporate loan portfolios grew at a rate higher than the market average.
- Good progress was made in the strategic focus areas: OP-Pohjola Group's joint banking and insurance customers increased in the report period by 102,000, corporate deposits by 22% and the corporate loan portfolio by 11%.
- OP-Pohjola Group was for the first time chosen as the primary intermediary of the Finnish state’s payment transfers as of 1 December 2012.
- OP-Pohjola Group's capital adequacy is very strong. The Core Tier 1 ratio stood at 14.0%. The Group’s capital base exceeded the statutory minimum by EUR 2.5 billion.
- Subject to there being no material weakening of the operating environment and no new turn for the worse in the management of the debt crisis in the euro area, OP-Pohjola Group’s 2012 results are expected to be at the same or even a better level than the year before.

OP-Pohjola Group's key indicators

	2011	2010	Change, %
Earnings before tax, € million	518	575	-9.9
Banking	478	367	30.0
Non-life Insurance	8	83	-90.5
Life Insurance	10	43	-76.4
Returns to owner-members and OP bonus customers	176	163	8.1
	31 Dec 2011	**31 Dec 2010**	**Change, %**
Ratio of capital base to minimum amount of capital base **	1.80	1.70	0.10*
Core Tier 1 ratio, %	14.0	12.6	1.4*
Non-performing receivables within loan and guarantee portfolio, %	0.47	0.34	0.13*
Joint banking and insurance customers, 1,000	1,299	1,197	8.5

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





1) Effect of IRBA adoption around 2.6 percentage points

Operating environment

On average, the world economy grew at a fairly brisk rate in 2011. However, economic growth characterised by uncertainty slowed down clearly during the year and was uneven. The European sovereign debt crisis escalated during the second half, which substantially deteriorated the operating environment.

The Finnish economy showed fair growth in 2011. Following the favourable first half of the year, economic sentiment worsened dramatically during the second half due to the euro-area debt crisis. Nevertheless, this was not so strongly reflected in spending or investment decisions among consumers although exports slowed down markedly in the second half.

The euro-area sovereign debt crisis weighed on financial markets in 2011. After their rise in the first half of the year, market rates began to fall in the summer. The European Central Bank (ECB) cut its benchmark interest rate to 1.00 per cent in December 2011 and also supported markets by providing banks with additional enhanced credit support and buying government bonds in the market.

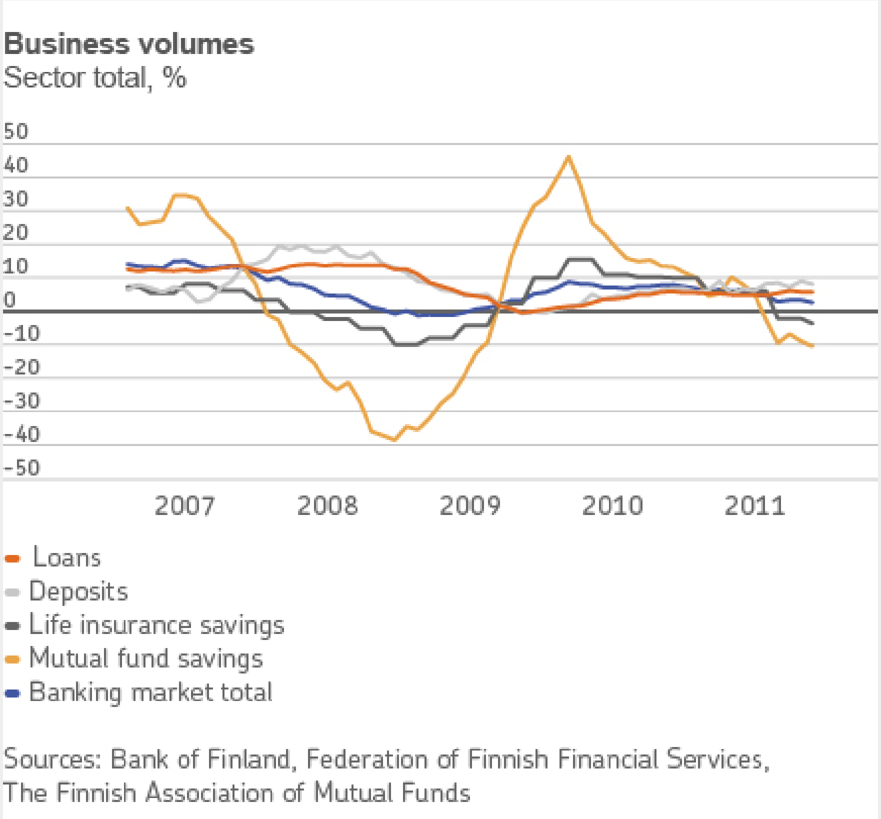
The world economic outlook for 2012 is uneven. The debt crisis will continue to cast a shadow over the euro-area outlook, and economic growth is likely to remain feeble. The Finnish economic prospects for 2012 look weak. The ECB is still supporting economic development by increasing market liquidity. The Euribor rates are exceptionally low.

The euro-area sovereign debt crisis had only a minor effect on bank lending in Finland in 2011, as evidenced by lending growing at an annual rate of 6%. Despite weaker consumer confidence, home sales remained brisk and consumer loans showed a steady growth rate. Growth in corporate loans accelerated somewhat towards the year end because companies sought to secure their liquidity in the face of unstable financial markets.

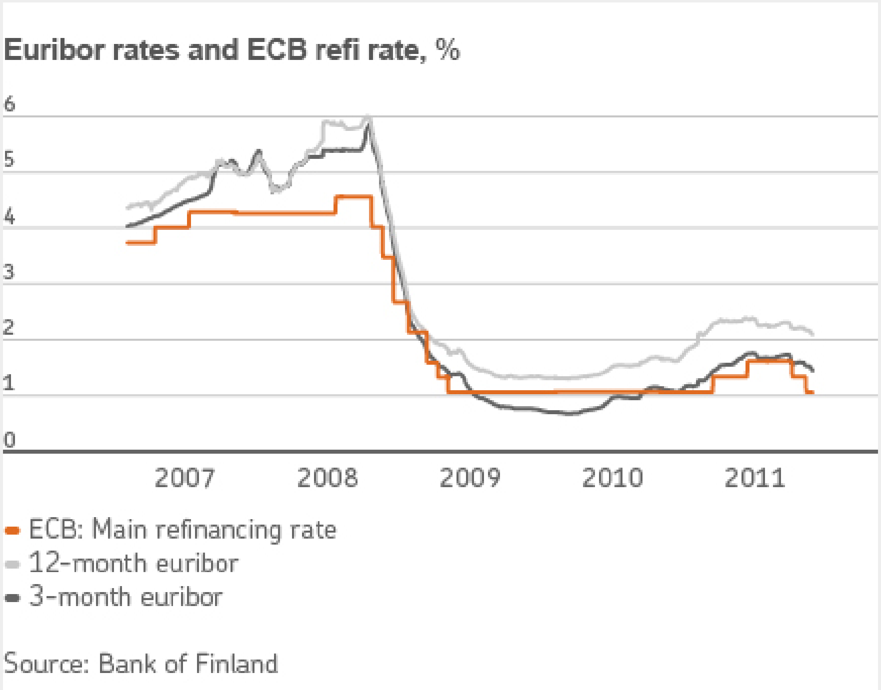
In 2011, the combined assets invested in mutual funds and insurance declined by 7% in Finland as a result of weak developments in capital markets. Share prices fell by an average of around 10% globally and by almost 30% in Finland. Mutual funds and the sale of new life insurance policies experienced a decline in their net asset inflows. However, growth in deposits increased to an annual rate of 8%. The term deposit growth rate decelerated slightly towards the year end because money market rates turned down.

Non-life insurance premiums written rose at an annual steady rate of around 4%. Claims expenditure increased much more than premiums written, or by well over 10%. For the second year in a row, unusually heavy storms and a very snowy winter led to higher claims expenditure. The uncertain outlook in capital markets and low interest rates will continue to present challenges to insurance companies' investment operations.

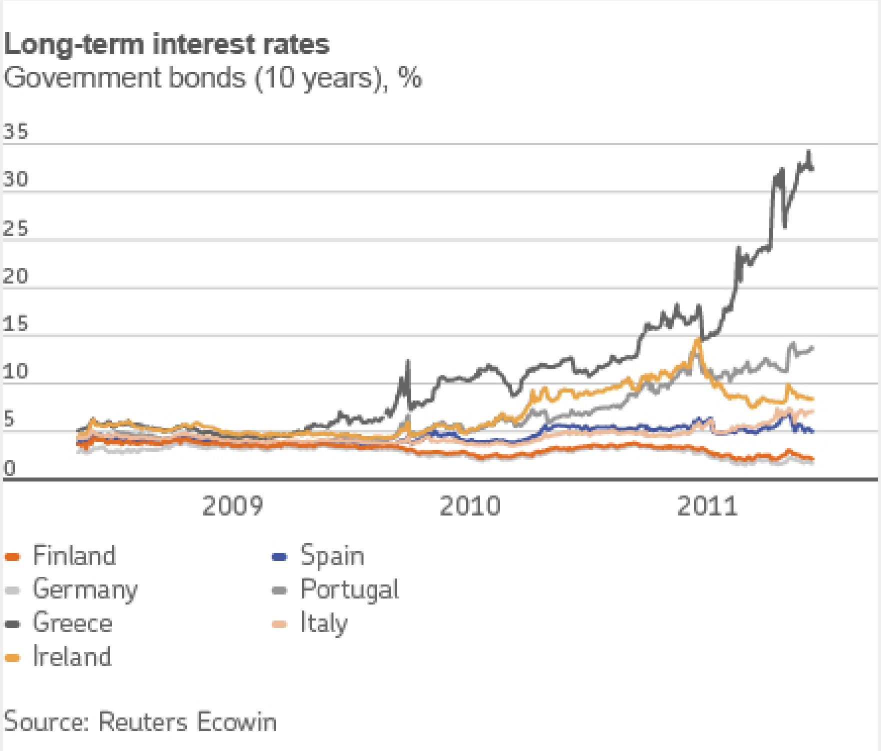
Graph: Business volumes Sector total, %



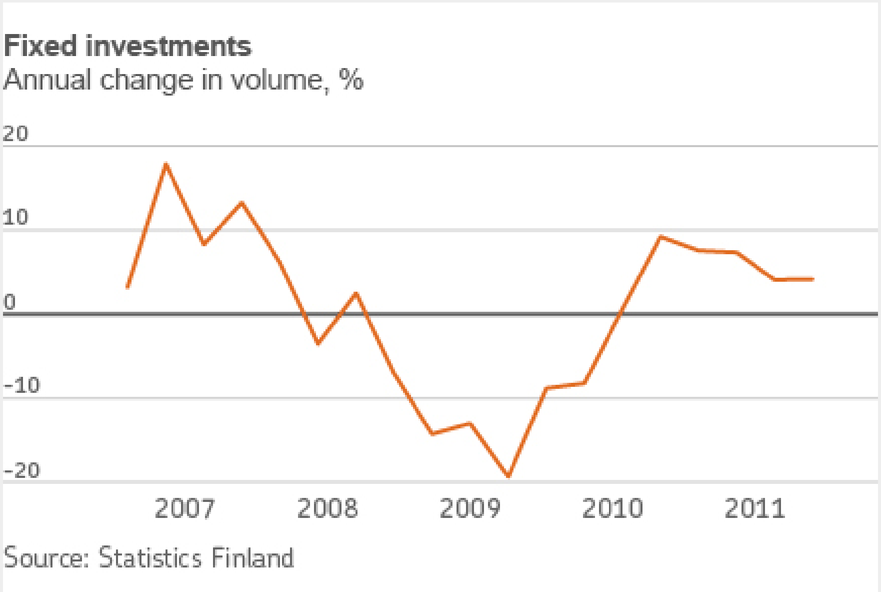
Graph: Euribor rates and ECB refi rate, %



Graph: Long-term interest rates Government bonds (10 years), %



Graph: Fixed investments Annual change in volume, %



OP-Pohjola Group's Earnings and Total Assets

Earnings analysis

€ million	1-12/2011	1-12/2010	Change, %	10-12/2011	10-12/2010	Change, %	7-9/2011
Banking	478	367	30.0	121	100	20.7	131
Non-life Insurance	8	83	-90.5	-63	-2		3
Life Insurance	10	43	-76.4	-25	20		-17
Earnings before tax	**518**	**575**	**-9.9**	**35**	**137**	**-74.2**	**120**
Gross change in fair value reserve	-400	225		55	-31		-340
Earnings/loss before tax at fair value	**117**	**800**	**-85.3**	**91**	**106**	**-14.3**	**-220**
Return on economic capital, % *)	13.6	14.4	-0.8*				
Return on economic capital at fair value, % *)	6.2	18.7	-12.6*				
Income							
Net interest income	1,030	917	12.3	275	238	15.5	261
Net income from Non-life Insurance	312	382	-18.5	20	73	-71.9	75
Net income from Life Insurance	72	100	-28.7	-6	39		0
Net commissions and fees	574	563	1.9	138	146	-5.1	138
Net trading and investment income	80	109	-26.5	38	37	3.4	-19
Other operating income	93	101	-7.7	25	32	-22.5	20
Other income, total	**1,131**	**1,256**	**-10.0**	**215**	**326**	**-34.0**	**214**
Total income	**2,160**	**2,172**	**-0.6**	**490**	**564**	**-13.1**	**476**
Expenses							
Personnel costs	696	643	8.2	181	166	9.3	149
Other administrative expenses	351	319	10.0	104	94	9.9	79
Other operating expenses	318	324	-1.8	88	85	4.6	75
Total expenses	**1,365**	**1,286**	**6.1**	**374**	**345**	**8.3**	**303**
Impairment losses on receivables	**101**	**149**	**-31.7**	**37**	**41**	**-8.3**	**10**
Returns to owner-members and OP bonus customers							
Bonuses	163	151	7.4	42	39	6.6	41
Interest on ordinary and supplementary cooperative capital	14	12	16.9	2	3	-0.5	2
Total returns	**176**	**163**	**8.1**	**44**	**42**	**6.2**	**43**

*) 12-month rolling, change in percentage points

Other key figures

€ million	31 Dec 2011	31 Dec 2010	Change, %
Receivables from customers	60,331	56,834	6.2
Life Insurance assets	7,006	7,544	-7.1
Non-life Insurance assets	3,205	3,164	1.3
Liabilities to customers	45,974	39,205	17.3
Debt securities issued to the public	20,005	19,577	2.2
Equity capital	6,531	6,726	-2.9
Balance sheet total	92,287	83,969	9.9
Tier 1 capital	4,753	5,454	-12.8

January–December

The Group's earnings before tax amounted to EUR 518 million (575). In 2011, the changes in reservation bases recorded in non-life and life insurance weakened the Group's earnings by EUR 74 million. In 2010, similar changes in reservation bases were recorded by EUR 50 million in net terms. Pre-tax earnings adjusted for changes in reserving bases contracted in the challenging operating environment by 5.3% year on year.

The result made in the report period was boosted by increased net interest income and net commissions and fees in Banking as well as by decreased impairment losses on receivables. Earnings were eroded by falling investment income and the changes in reserving bases referred to above. Bonuses to owner-members and OP bonus customers that were recognised in the profit and loss grew by 7.4% year on year to EUR 163 million.

Earnings before tax at fair value were eroded by falling market prices owing to the uncertainty in the investment market.

Pre-tax earnings by Banking went up by 30% and income by 6.9%. Net commissions and fees increased by 1.7% year on year owing to the favourable development of commissions and fees related to lending and payment transfer services in the first half of the year.

Earnings before taxes for the Group's non-life insurance segment were eroded as a result of increased life expectancy among policyholders and a technical provision of EUR 59 million (35) made due to the lower discount rate used for calculation of technical provisions and also as a result of lower investment income than the year before. The operating combined ratio of Non-life Insurance was 89.8% (89.7). Earnings for the life insurance segment were eroded by EUR 15 million owing to increased life expectancy among policyholders.

Expenses increased year on year by 6.1% mainly because of higher ICT and personnel costs. The personnel increased by some 700, increasing personnel costs considerably.

Impairment losses recognised under various income statement items that eroded the report period's performance amounted to EUR 178 million (298), of which EUR 101 million (149) concerned loans and other receivables. The greatest single impairment, EUR 45 million, concerned the Group's direct Greek government exposure. At the end of the year, the Group's balance sheet contained a total of EUR 16 million in direct Greek government exposure. Net impairment losses on loans and other receivables were 0.16% (0.25) of the loan and guarantee portfolio.

Equity capital stood at EUR 6,531 million on 31 December. Equity capital was on the one hand boosted by the report period's performance but on the other hand eroded by a shrunken fair value reserve, a higher percentage of ownership by the central institution in Pohjola Bank plc, and dividend payments.

On 31 December, the cooperative capital investments and supplementary cooperative capital investments of the member cooperative banks' owner-members totalled EUR 756 million (778).

The Board of Directors of Pohjola Bank plc proposes that a per-share dividend of EUR 0.41 (0.40) be paid on Series A shares and EUR 0.38 (0.37) on Series K shares, which would total EUR 129 million (126), of which the Group's internal divided would account for 52%.

OP-Pohjola Group had 4,163,000 customers in Finland at the end of December. Private customers totalled 3,733,000 and corporate customers 430,000. Year on year, the number of joint banking and non-life insurance customers in Finland increased by 102,000 to 1,299,000 as a result of cross-selling.

Key income statement items by quarter

€ million	**Q1**	**Q2**	**Q3**	**2011 Q4**	**2011**	**2010**	**Change %**
Net interest income	238	255	261	275	1,030	917	12.3
Net income from Non-life Insurance	92	124	75	20	312	382	-18.5
Net income from Life Insurance	50	28	0	-6	72	100	-28.7
Net commissions and fees	156	141	138	138	574	563	1.9
Other income	73	37	1	62	173	210	-17.4
Total income	609	585	476	490	2,160	2,172	-0.6
Personnel costs	178	188	149	181	696	643	8.2
Other administrative expenses	80	88	79	104	351	319	10.0
Other operating expenses	78	76	75	88	318	324	-1.8
Total expenses	336	352	303	374	1,365	1,286	6.1
Impairments of receivables	23	31	10	37	101	149	-31.7
Returns to owner-members	42	47	43	44	176	163	8.1
Earnings before tax	**208**	**155**	**120**	**35**	**518**	**575**	**-9.9**

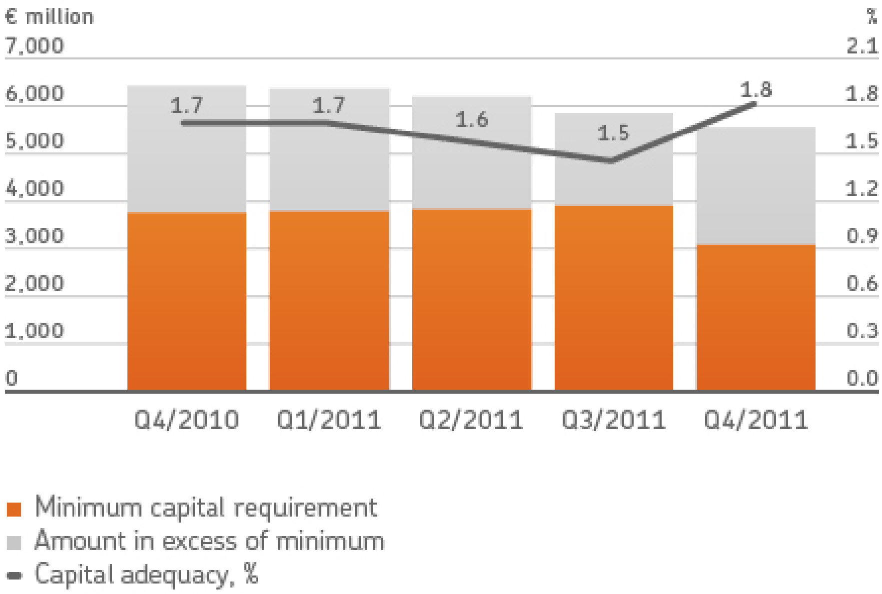
OP-Pohjola Group's long-term financial targets

	12/2011	**12/2010**	**Target**
Capital adequacy under the Act on the Supervision of Financial and Insurance Conglomerates	1.80	1.70	1.5
Return on economic capital (12-month rolling)	13.6	14.4	17
Growth differential between income and expenses, percentage points (12-month rolling)	-6.7	2.9	>0

Capital Adequacy

On 31 December, OP-Pohjola Group's capital resources calculated according to the Act on the Supervision of Financial and Insurance Conglomerates exceeded the minimum amount specified in the Act by EUR 2,486 million (2,666). The permission we received from the Financial Supervisory Authority in October 2011 enabled us to extend the use of the Internal Ratings-based Approach (IRBA) to the capital requirement calculation concerning credit risk by Banking. The capital buffer increased mainly as a result of the extended use of IRBA in capital adequacy measurement under the Act on Credit Institutions. The Group’s higher percentage of holdings in Pohjola Bank plc and changes in debenture loans decreased the capital buffer. During the report period, debenture loans classified as Tier 2 capital were redeemed for a total of EUR 396 million and issued for a total of EUR 184 million. The effect of the above carried out by the Group itself on the capital adequacy ratio was about 0.2 points.

Conglomerate's capital adequacy ratio



As a result of the financial crisis, banks' capital adequacy requirements will be tightened, in an effort to improve the quality of their capital base, to increase capital conservation buffers, to reduce the cyclic nature of capital requirements, to decrease banks' indebtedness and to set quantitative limits to liquidity risk. These changes have been planned to be implemented in 2013–2019. According to OP-Pohjola Group's analysis based on the current interpretations, the Group can fulfil the capital adequacy requirements in any eventuality. From OP-Pohjola Group's viewpoint, the major changes in the new regulations are related to how insurance company investments and supplementary cooperative capital are treated in terms of capital base calculation concerning capital adequacy, to the leverage ratio and to liquidity risk requirements.

Management of Risks and Solvency, and Risk Position

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

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

The purpose of risk management within OP-Pohjola Group is to identify threats and opportunities that impact the implementation of the Group's strategy. The purpose of capital adequacy management is to ensure OP-Pohjola Group's risk-bearing capacity and to ensure that the Group's operations are not jeopardised in the long run. Capital adequacy management is composed of putting in proportion the estimated risk exposure and its forecast trend with the available funds. Minimum capital requirement is estimated with the economic capital model. Profitability development and capital planning also play a key role in capital adequacy assessment.

OP-Pohjola Group's strategy defines the Group's risk-bearing capacity and risk appetite and decides on other significant risk management principles. The Group has a moderate attitude towards risk-taking. The long-term indicator for success in terms of capital adequacy is the capital adequacy ratio under the Act on the Supervision of Financial and Insurance Conglomerates. The aim is that OP-Pohjola Group's capital resources, calculated according to this Act, should be 1.5 fold in relation to the minimum amount specified in the Act.

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

OP-Pohjola Group's risk limit system plays a key risk management role. OP-Pohjola Group's Supervisory Board has confirmed limits for risk-bearing capacity and different types of risk for 2011. The indicator calculations have been changed for 2012. Risk limits were set for the risk types as previously, and a new risk, underwriting risk, was included in the Group-level risks. On the basis of these Group-level risk limits, the OP-Pohjola Group's Executive Board has set limits which the member cooperative banks, Helsinki OP Bank Plc and its entities must observe. The member 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 have also been set for entities within OP-Pohjola Group Central Cooperative Consolidated. The coverage of the indicators and any needs for development are reviewed annually.

OP-Pohjola Group's risk exposure

Risk-bearing capacity

Despite the weakened economic situation, OP-Pohjola Group's risk exposure has remained stable. The Group's risk-bearing capacity is high and sufficient to safeguard that we can continue operating even if the market jitters continue.

Two risk limit indicators are in place for risk-bearing capacity in the OP-Pohjola Group strategy. The first is capital adequacy prescribed in the Act on the Supervision of Financial and Insurance Conglomerates. The Group's risk limit for this capital adequacy ratio is 1.2, while the minimum statutory requirement is 1. On 31 December, this ratio stood at 1.80, as against 1.70 a year earlier. OP-Pohjola Group's capital resources were EUR 1,864 million (1,904) above the Group's internal risk limit and EUR 2,486 million (2,666) more than the limit required by law.

Another risk limit measure for risk-bearing capacity that has been set in the strategy is a ratio of 1.1. between capital resources and economic capital. At year-end, the ratio of capital resources to economic capital was 1.54 (1.71). The capital resources buffer exceeded the Group's internal risk limit and was EUR 1,739 million (2,315). The high risk-bearing capacity acts as a buffer against unexpected losses and paves the way for business growth.

OP-Pohjola Group assesses the sufficiency of capital resources at regular intervals. 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, which measures risk-bearing capacity. The amount of capital required to cover the risks is assessed by means of OP-Pohjola Group's internal economic capital model.

As part of normal business planning and management, OP-Pohjola Group creates a number of stress tests and scenario analyses. Stress tests assess the Group's development in terms of result and capital adequacy a few years ahead in a potential but particularly deep recession. According to the tests, OP-Pohjola Group's ability to absorb losses is sufficient and its capital adequacy would fulfil the current legal requirements in the coming years even in the event of deep recession.

Credit risks

Credit risk exposure remained stable although economic growth in Finland slowed down towards the end of the year.

On 31 December, OP-Pohjola Group's loan and guarantee portfolio stood at EUR 62.8 billion (59.4), or 6% higher year on year. Households accounted for 64% (64) and companies and housing associations 35% (34) of the entire loan and guarantee portfolio.

OP-Pohjola Group's industry and customer risks are diversified. At the end of the year, the largest single counterparty-related customer risk accounted for 7.1% (6.5) of the Group's capital resources. The total amount of significant customer exposure was 24.4% (27.9) of the Group’s equity capital. Any customer exposure that is at least 5 per cent of the Group equity capital is considered significant. The risk limit for the greatest customer exposure is 15 per cent, and the significant customer total is 100 per cent. At OP-Pohjola Group, industry risk is calculated for each main line of business, with the following factored in: receivables and commitments in banking, and direct investments in life and non-life insurance. On 30 December, the highest industry risk was 11.3% (11.1) by Operation of Other Real Estates. The industry risk limit is 18%.

OP-Pohjola Group's customers are given a credit rating on the basis of their risk exposure. At the end the year, 98% (98) of corporate exposures were rated. 47% (50) of the exposures, divided into 12 main categories, fell into the top five corporate loan portfolios, also known as investment grade. 5% (5) of the customers were rated under the four poorest credit ratings. By the end of the year, 98% (95) of the liabilities of private customers had been rated. Of the six main categories, 7.% (74) of the exposures belonged to the top two categories, and 5% (4) in the two poorest.

At year-end, OP-Pohjola Group's non-performing and zero-interest receivables came to EUR 296 million (204), which was 0.5% (0.4) of the loan and guarantee portfolio. The risk limit for this key ratio is 2.0%. The ratio of expected losses to receivables and commitments was 0.5% (0.3), with the risk limit set at 1.00%. Expected losses is an estimate of the average annual amount of losses caused by credit risks calculated with OP-Pohjola Group’s own credit risk models. Net impairments of receivables in 2011 came to EUR 101 million (149), which was 0.16% (0.25) of the loan and guarantee portfolio.

Loan and guarantee portfolio by sector

€ million	31 Dec 2011	31 Dec 2010	Change,%	Non-performing and zero-interest rate loans 31 Dec 2011	Non-performing and zero-interest rate loans % of loan and guarantee portfolio
Enterprises and housing associations	**21,709**	**20,103**	**8.0**	**115**	**0.5%**
Renting and operation of residential real estate incl. housing associations	4,195	3,859	8.7	3	0.1%
Other renting and operating of real estate	2,761	2,448	12.8	3	0.1%
Wholesale and retail trade	2,314	2,092	10.6	11	0.5%
Construction	1,637	1,497	9.3	14	0.9%
Services	1,571	1,524	3.1	12	0.8%
Transportation and storage	1,411	1,311	7.6	7	0.5%
Manufacture of machinery and equipment (incl. services)	1,324	1,199	10.4	22	1.7%
Buying and selling of own real estate	1,034	888	16.4	0	0.0%
Agriculture, forestry and fishing	773	625	23.8	5	0.7%
Forest Industry	718	711	1.0	14	1.9%
Financial and insurance services	695	666	4.4	1	0.2%
Metal Industry	645	628	2.8	6	0.9%
Food Industry	626	598	4.7	4	0.7%
Energy	476	479	-0.5	0	0.0%
Other manufacturing	425	440	-3.5	3	0.8%
Chemical Industry	382	513	-25.4	0	0.1%
Other industries	721	625	15.4	8	1.1%
Public corporations and non-profit organisations	**1,132**	**1,068**	**6.0**	**4**	**0.4%**
Households	**39,909**	**37,735**	**5.8**	**178**	**0.4%**
Adjustments	37	473	-92.1	-1	
Total	**62,788**	**59,379**	**5.7**	**296**	**0.47%**

Liquidity risk

The Group's funding and liquidity position is good. The share of deposits in funding has increased to a little over two-thirds. Short-term wholesale funding worked well throughout the year.

Although long-term funding markets were tense, especially during the second half of the year, the Group issued long-term bonds totalling EUR 2.6 billion. Of this amount, bonds issued by OP Mortgage Bank account for EUR 2.0 billion while Pohjola Bank plc, which acts as the Group's central bank, accounts for EUR 0.6 billion.

OP-Pohjola Group ensures its liquidity with a liquidity reserve and other sources of finance referred to in the contingency plan. The liquidity reserve mainly comprises notes and bonds, securitised assets and loans eligible as collateral issued by governments, municipalities, financial institutions and companies in the euro area all showing good credit ratings. The liquidity reserve can be used as collateral for central bank funding. The liquidity reserve portfolio's interest rate and currency risks have been hedged.

The liquidity reserve and other sources of additional funding included in the Group's contingency funding plan ensure the Group's liquidity for at least two years should wholesale funding become unavailable and deposits fall moderately.

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

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

Market risks

OP-Pohjola Group’s market risk exposure was, despite the increasing uncertainty in the markets, within the set limits in the report period.

The most significant market risks affecting Banking are the effects of interest rate level changes on net interest income and the effect of change of credit spreads on the liquidity reserve value. The interest rate risk by Banking measured as the effect of a 1 percentage point increase in a 12-month net interest income and value of investments was stable. Credit spread risk affects investments in bonds and notes issued by either governments or companies. Within Banking, credit spread risk is highest in notes and bonds included in the liquidity buffer. Credit spread risk related to Banking remained unchanged, because uncertainty continued in the bond market.

In the assessment of market risks for insurance operations, the focus is on those related to investments and technical provisions, primarily interest rate risk. Life Insurance’s interest-rate risk of investments was reduced, while the interest rate risk on technical provisions increased, as was the interest rate risk for technical provisions. The sensitivity of investments to a fall in share prices was, thanks to hedging, lower than a year ago.

The interest rate risk for Non-life Insurance’s investments in the event of a one percentage point interest rate rise fell somewhat year on year, as did the interest rate risk related to technical provisions. The sensitivity of investments with respect to falling share prices was, thanks to hedging, lower than the year before, while the sensitivity of notes and bonds carrying credit risk to a higher credit spread was somewhat lower than a year ago.

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

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

OP-Pohjola Group's investment assets at fair value totalled EUR 20.3 billion (18.2) on 31 December 2011. with Pohjola Bank plc accounting for EUR 12.6 billion, making up most of the Group's liquidity buffer. Non-life Insurance's investment assets came to EUR 2.8 billion and those of Life Insurance to EUR 3.7 billion at year-end. Insurance operations' investment assets, profits and technical provisions are covered in more detail below in the sections dealing with individual business segments. Group member banks' investment assets totalled EUR 0.9 billion and those of OP-Pohjola Group Mutual Insurance Company EUR 0.4 billion.

On 31 December, OP-Pohjola Group's direct investments in bonds issued by GIIPS governments had a market value of EUR 141 million, representing 0.2 %of the Group's balance sheet. These investments have been made by Non-life and Life Insurance to cover technical provisions.

In the risk limit system, interest rate risk exposure in banking, market risk in insurance operations and property risk are measured by the ratio of the economic capital for the risk type to the economic capital for all risk types (before diversification benefits). On 31 December 2009, the share of all the abovementioned risk types of the economic capital requirement for OP-Pohjola Group was clearly below the risk limit set for the types of risk in question.

In addition to the abovementioned risk limit measures applied to market risk, the amount of alternative investments is also limited by OP-Pohjola Group's risk limit system. This risk limit measure indicates the ratio of the market value of alternative and structured investments to the Group's economic capital. At year-end, the market value of these investments was approximately half of the maximum amount set for the risk limit measure.

Operational risks

The risk exposure of operational risks was stable. Risk assessments have identified problems related to information systems as the greatest operational risks. Financial losses caused by operational risks were small.

Underwriting risks

No significant changes took place in Non-life Insurance's or Life Insurance's underwriting risks. The insurance companies' solvency has remained good, albeit that the unfavourable investment markets have eroded return on investments.

On 31 December 2011, Non-life Insurance solvency capital stood EUR 787 million (832), that is, the solvency ratio was 77% (85) of insurance premium revenue.

The reinsurance of Non-life Insurance is managed on a centralised basis. Retention in both risk-specific reinsurance and catastrophe reinsurance is a maximum of EUR 5 million. The capacity of catastrophe reinsurance covering loss accumulation stands at EUR 95 million. In addition, retention in major claims under the short-tail insurance products had an annual aggregate protection with a capacity of EUR 11 million in 2011. This protection will be brought into use when an annual claims expenditure arising from major losses is higher than usual.

A large part of Non-life Insurance technical provisions consists of annuities affected by the inflation rate, estimated mortality and the discount rate used. A rise in inflation by 0.25 percentage points reduces equity capital by about EUR 4 million (3). A one-year increase in the average life expectancy reduces equity capital by about EUR 33 million (32). A fall in inflation by 0.1 percentage points reduces equity capital by about EUR 16 million (17).

In their joint actuarial project launched in the spring of 2010, the Federation of Accident Insurance Institutions and the Finnish Motor Insurers' Centre have examined whether the mortality model commonly used by Finnish insurers and applied to motor liability insurance and statutory workers' compensation insurance is up to date, considering that the average life expectancy has increased. The preliminary findings based on the first stage of the project and received in October 2010 reveal that life expectancy has increased in Finland and the commonly used mortality model needs some update. According to the preliminary estimate, Pohjola's technical provisions increased by EUR 35 million in 2012. The second stage of the project involved updating the commonly used mortality model, with the related outcome published in October 2011. On the basis of the second stage findings, life expectancy has risen more than estimated in the first stage of the project. As a result of the new mortality model, growth in the provision for unpaid claims for annuities totalled EUR 62 million for 2010–11, of which EUR 27 million was recognised in 2011.

On 31 December, Life Insurance's solvency margin was EUR 552 million (737), which was 2.7-fold the required minimum. The most significant risks in Life Insurance operations are associated with investments. Specific risk management instructions and operating policies have been laid down for the risk management of investment operations. An investment plan is made annually to determine the financial targets and to set quantitative and qualitative limits.

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

Credit ratings

Rating agency	Short-term funding	Long-term funding
Fitch Ratings (OP-Pohjola Group and Pohjola Bank plc)	F1	A+
Standard & Poor's (Pohjola Bank plc)	A-1+	AA-
Moody's (Pohjola Bank plc)	P-1	Aa2

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

As part of its extensive review of the global and European banking sector, Fitch Ratings has reduced OP-Pohjola Group's and Pohjola Bank plc's long-term IDR from 'AA-' to 'A+' and short-term IDR from 'F1+' to 'F1', with a stable outlook for these ratings.

Standard & Poor's Ratings Services affirmed on 8 December 2011 Pohjola Bank plc's long-term counterparty rating at AA- and short-term counterparty rating at A-1+, considering the outlook as stable.

In August, Moody's placed OP-Pohjola Group and Pohjola Bank plc on review for a possible credit rating downgrade.

Operations and Earnings by Business Segment

OP-Pohjola Group's business segments are Banking, Non-life Insurance and Life Insurance. Non-segment operations are presented under 'Other Operations'. OP-Pohjola Group's segment reporting is based on accounting policies applied in its financial statements.

Summary of performance by business segment

€ million	Income	Expenses	Other items *)	Earnings before tax 1–12/2011	Earnings before tax 1–12/2010	Change, %
Banking	1,708	964	-267	478	367	30.0
Non-life Insurance	344	336	0	8	83	-90.5
Life Insurance	105	94	0	10	43	-76.4
Other Operations	421	379	-11	31	86	-63.7
Eliminations	-417	-408	0	-9	-4	119.8
Total	**2,160**	**1,365**	**-278**	**518**	**575**	**-9.9**

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

Banking

- Earnings before tax grew by 30% to EUR 478 million.
- Income increased by a total of 6.9%. Net interest income increased by 16% and net commissions and fees by 1.7%.
- Impairment losses on receivables reduced even more, by 40%, in the report period.
- Banking's performance continued to grow at a good rate. Growth was particularly brisk in deposits and corporate loans.
- Capital adequacy improved further: on 31 December, the Core Tier 1 ratio stood at 14%.
- OP-Pohjola Group was for the first time chosen as the primary intermediary of the Finnish state's payment transfers as of 1 December 2012.

Banking, key figures

€ million	2011	2010	Change, %
Net interest income	988	852	15.9
Impairment losses on receivables	90	149	-39.5
Other income	721	745	-3.2
Personnel costs	430	405	6.4
Other expenses	533	513	4.0
Returns to owner-members and OP bonus customers	176	163	8.1
Earnings before tax	**478**	**367**	**30.0**
€ million			
Home mortgages drawn down	7,435	6,651	11.8
Corporate loans drawn down	6,699	6,554	2.2
Net subscriptions to mutual funds	-1,709	497	
No. of brokered property transactions	17,240	17,009	1.4

€ billion	31 Dec 2011	31 Dec 2010	Change, %
Loan portfolio			
Home mortgages	29.3	27.3	7.3
Corporate loans	15.6	14.0	11.3
Other loans	15.2	15.2	0.0
Total	**60.1**	**56.5**	**6.3**
Guarantee portfolio	2.7	2.8	-5.2
Deposits			
Current and payment transfer	21.6	19.2	12.4
Investment deposits	19.7	17.2	14.4
Total deposits	**41.3**	**36.4**	**13.3**
Market share,%			
Of loan portfolio	32.9	33.0	-0.1
Of deposits	34.4	32.5	1.9
Of capital invested in mutual funds	20.7	23.4	-2.7

The effects of the protracted sovereign debt crisis in the euro area on Banking's operating environment started to materialise towards the end of the year mainly in the form of lower interest rates. The fall in short-term market rates accelerated after the European Central Bank cut its main refinancing rate twice in late 2011. Competition continued to be tough especially in the deposits market. The key factors heating up competition for deposits are the general capital market jitters on the one hand and tightening of banks' liquidity regulations on the other. The additional measures in support of banks’ liquidity and ability to provide credit announced by ECB in December have had a positive effect on capital markets.

OP-Pohjola Group's deposits increased in the year to December by 13.3%. Payment transfer accounts increased by 12.4% and investment deposits by 14.4%. The growth of deposits in euro terms exceeded credit growth, thereby reducing the Group's need to acquire funding from the wholesale market.

The number of housing deals brokered by OP-Kiinteistökeskus real estate agents in 2011 reached a record high. The deals totalled 17,200, thus exceeding last year’s figures by about 200, and this despite the uncertainties in the operating environment.

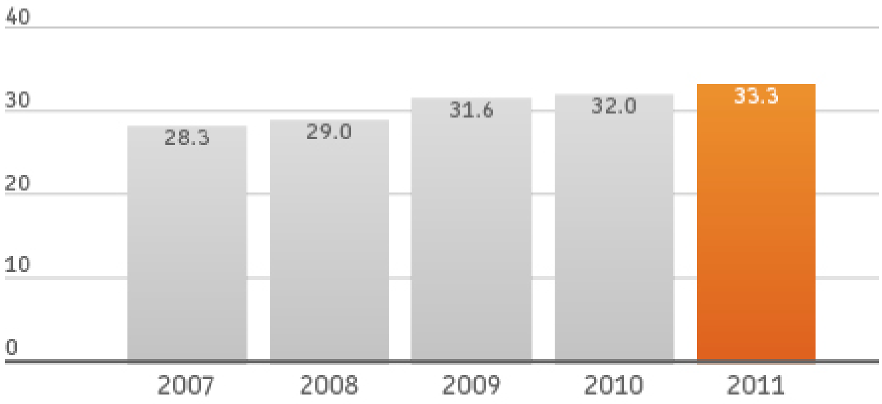
The volume of home mortgages issued in 2011 increased by 11.8% year on year. The margins of new home mortgages turned upward towards the end of the year and are forecast to continue increasing owing to tighter capital adequacy regulations and higher funding costs. On 31 December, the Group held 36.0% (35.8) of the home mortgage portfolio. The consumer loan portfolio grew by 3.7% from last year's figure.

The volume of payment transfers intermediated by OP-Pohjola Group increased somewhat. Pohjola Bank plc was chosen as the primary intermediary of the Finnish state's payment transfers as of 1 December 2012 having been acting as a secondary intermediary until now.

The corporate loan portfolio grew in the year to December by 11.3%. The Group's market share of the loan portfolio by businesses and housing corporations increased in the year to December from 29.2% to 29.7%.

Capital invested in mutual funds managed by OP-Pohjola Group decreased in the year to December to EUR 11.5 billion (14.4) as a result of a lower volume of net subscriptions and lower market values.

Market share of corporate loans (excl. housing corporations), %



Net subscriptions to OP-Pohjola Group's mutual funds were EUR 1,709 million in the negative, while a year ago they increased by EUR 497 million.

On 31 December, assets managed by OP-Pohjola Group's Asset Management were worth EUR 31.3 billion (35.0), of which EUR 9.9 billion (12.0) was invested in the Group's mutual funds. OP-Pohjola Group companies accounted for EUR 7.9 billion of the managed assets.

The cooperative member banks had 1.3 million owner-members on 31 December, or 28,000 more than a year earlier. Group member banks and Helsinki OP Bank plc, which operates in the Greater Helsinki area, had a total of 1,243,000 OP bonus customers at the end of December.

Loyal customer bonuses earned by OP bonus customers totalled EUR 163 million, up by 7.4% year on year. In 2011, OP bonus customers used a total of EUR 78 million (74) of bonuses on banking services and EUR 66 million (56) on Pohjola non-life insurance premiums. Bonuses were used for the payment of 1,434,000 insurance premium bills, and 15% of these were paid using solely OP bonuses.

At the end of 2011, the Tax Administration changed its guidelines concerning corporate bonus practices. Following changes in taxation law, OP-Pohjola Group has changed its bonus system so that customers no longer have the option of selecting what their bonuses are used for and neither can they take out their bonuses as cash.

Earnings and risk exposure

The Banking result improved clearly and earnings before tax rose by 30% to EUR 478 million (367). Banking income grew by 6.9 per cent, reaching EUR 1,708 million. Net interest income increased by 16% (-13). Rising market rates on the previous year along with a growth of business volumes pushed up net interest income. Growth in net commissions and fees slowed down to 1.7% (10.6). mainly resulting from a fall in the growth in Asset Management net commissions and fees brought on by the debt crisis. Net trading and investment income contracted by a total of EUR 23 million, or almost 28% year on year. Banking had a cost/income ratio of 56 (57).

Banking retained a stable credit risk exposure, because the debt crisis has not reflected on our customers' financial situation. Impairment losses on receivables for the whole Group shrank by EUR 47 million year on year and accounted for just 0.16% of the loan and guarantee portfolio. Non-performing and zero-interest receivables were also low in relation to the loan and guarantee portfolio, even though they increased somewhat. Of the growth in non-performing loan losses, over half was technical, resulting from a change in the recognition principles for collective impairments. 46% of OP-Pohjola Group's corporate exposure portfolio, which is divided into 12 main categories, belong to the top five (Investment-grade).

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

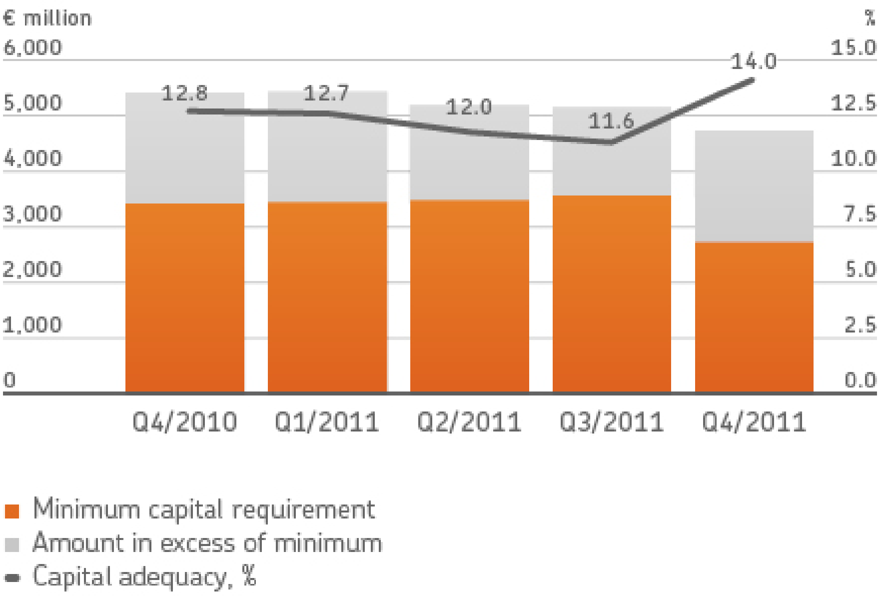
		31 Dec 2011		31 Dec 2010
	€ million	%	€ million	%
Non-performing and zero-interest receivables, net	296	0.47	204	0.34
Impairments on receivables since 1 January, net	101	0.16	149	0.25

Capital adequacy

Following permission from the Financial Supervisory Authority, IRBA has been applied to the conglomerate's retail, corporate and credit institution exposures as of December 2011. As regards credit risk for corporate and credit institution exposures, Pohjola uses the Foundations Internal Ratings Based Approach (FIRBA). The capital requirement a year ago was calculated using the Standardised Approach, except for Pohjola Bank plc's capital requirement for credit risks related to corporate exposure which was calculated using IRBA.

On 31 December, OP-Pohjola Group's capital adequacy ratio under the Act on Credit Institutions and the Tier 1 capital adequacy ratio both stood at 14,0% (12.8). The Core Tier 1 capital adequacy ratio stood at 14%. The statutory minimum for capital adequacy ratio is 8%, and for Tier 1 ratio 4%. In the autumn of 2011, the European Banking Authority (EBA) set the minimum requirement for the Core Tier 1 ratio at 9% applying to major European banks.

Capital resources



The Group's Tier 1 capital amounted to EUR 4,753 million (5,454) on 31 December. The fall in this capital was primarily caused by the fact that OP-Pohjola Group Central Cooperative bought Pohjola Bank plc shares from Suomi Mutual, by the early redemption of debenture loans and by an increase in the shortfall of expected losses and impairments deducted from the capital base.

Insurance company investments, deducted in equal proportions from Tier 1 and 2 capital, came to EUR 2,314 million (2,330). EUR 542 million (131) have been deducted from equity capital as a shortfall of expected losses and impairments. The increase was a result of the extended use of IRBA. Deductions on Tier 2 capital exceeded Tier 2 capital by EUR 706 million (135), which were deducted from Tier 1 capital.

The minimum capital requirement was EUR 2,722 million on 31 December (3,418), decreasing by 20.4% in the report period. The extended use of IRBA was the most significant factor contributing to the decrease in minimum capital requirement. The increased loan portfolio, on the other hand, led to a higher minimum capital requirement. Credit and counterparty risk accounted for 89.8% (92.2) of the capital requirement. Operational risk accounts for 8.5% (6.7) of the capital requirement, and market risk for 1.7% (1.1).

The use of IRBA reduces the Group's capital requirement, but, compared to the Standardised Approach, makes it more susceptible to market fluctuations. The Standardised Approach will continue to be used for exposure related to governments and public-sector entities. As to market risks, OP-Pohjola Group will continue to use the Standardised Approach. The Standardised Approach will also be used for operational risks.

Non-life Insurance

- Earnings before tax amounted to EUR 8 million (83). Excluding changes in the calculation bases for technical provisions which affected comparability, earnings before tax would have been EUR 66 million (103).
- Insurance premium revenue increased by 6.2% (2.3).
- The balance on technical account, excluding changes in the calculation bases for technical provisions, was at about the same level as reported a year earlier. The operating combined ratio stood at 89.8% (89.7).
- Owing to the difficult investment environment, return on investments at fair value was -0.4% (5.1).
- There were 523,000 loyal customer households on 31 December, increasing by 42,700 (46,500) in the report period.

Non-life Insurance, key figures

€ million	2011	2010	Change, %
Insurance premium revenue	1,024	964	6.2
Insurance claims	692	637	8.5
Net investment income	36	87	-58.6
Unwinding of discount and other items included in net income	-46	-30	-52.8
Net income from Non-life Insurance	321	383	-16.1
Other net income	22	16	38.8
Personnel costs	125	109	15.5
Other expenses	211	208	1.4
Earnings before tax	**8**	**83**	**-90.5**
Gross change in fair value reserve	-47	56	
Earnings/loss before tax at fair value	**-39**	**139**	
Insurance premium revenue			
Private Customers	503	470	7.1
Corporate customers	472	445	6.2
Baltic States	48	49	-2.1
Total insurance premium revenue	**1,024**	**964**	**6.2**
Key ratios for Non-life Insurance			
Return on investments at fair value*, %	-0.4	5.1	
Operating combined ratio*, %	89.8	89.7	
Operating expense ratio*, %	21.8	21.3	
Operating loss ratio*, %	68.0	68.4	

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

Non-Life Insurance continued to perform favourably in the report period. We enjoyed growth in terms of private customers, and premium revenue from corporate customers rebounded as well, the strongest growth coming from SMEs.

There were 523,300 loyal customer households at the end of the reporting period, increasing by 42,700 (46,500) in the report period. Up to 66% of these loyal customer households also use OP-Pohjola Group member cooperative banks as their main bank. OP-Pohjola Group member banks' owner-members and Helsinki OP Bank's bonus customers can use their OP bonuses earned through banking transactions to pay Pohjola non-life insurance premiums. Bonuses were used in the report period to pay 1,391,000 insurance bills, with 209,000 of them paid in full using bonuses. Insurance premiums paid using bonuses totalled EUR 66 million.

In terms of premiums written, OP-Pohjola Group is the non-life insurance market leader in Finland. Its market position improved among private customers during the report period. The Group became the market leader during the report period as insurer of private customers’ vehicles.

Earnings and risk exposure

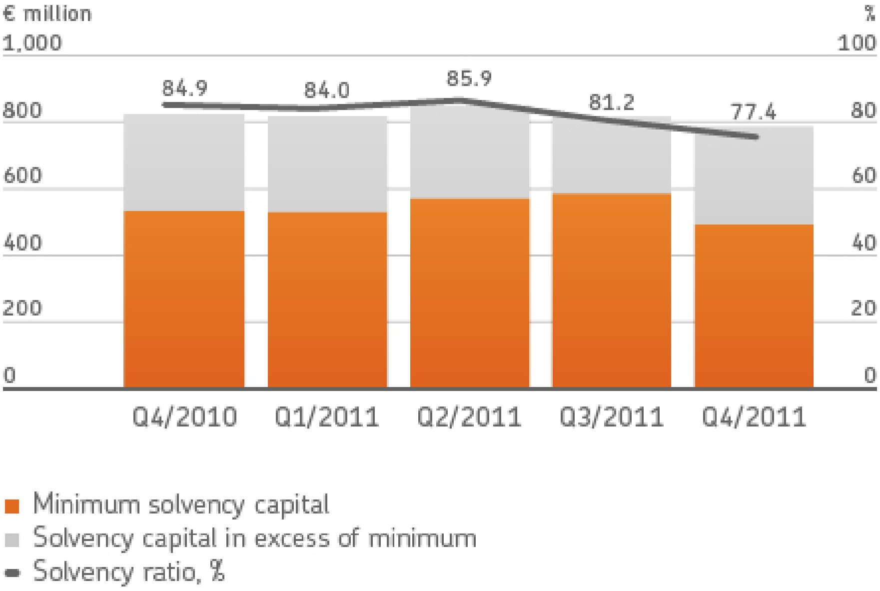
Insurance premium revenue continued to grow and the balance on technical account excluding the change in the mortality model and the lower discount rate was on a par with last year. Within Private Customers, profitability remained good despite higher claims incurred. The operating combined ratio of corporate customers improved year on year.

Growth in the insurance portfolio and especially the larger number of property claims from private customers increased claims expenditure. As a result of the lower discount rate and the change in the mortality model, claims incurred increased totalling EUR 59 million. The year before, the change in the mortality model and the removal of provision for the joint guarantee system eroded earnings by EUR 20 million, in net terms. The number of losses reported increased by 8%. Thanks to reinsurance, the effect on the result by the damage caused by the violent storm at the end of December was no more than EUR 8 million. The risk ratio excluding loss adjustment expenses stood at 61.9% (62.5). The reported number of major or medium–sized losses (in excess of EUR 0.1 million and over EUR 0.5 million in pension liabilities) came to 234 (224) in January–December, with their claims incurred retained for own account totalling EUR 92 million (109).

Return on investments at fair value was -0.4% (5.1). Impairment charges recognised from the fair value reserve in the income statement totalled EUR 42 million (40), of which EUR 34 million were related to Greek government bonds.

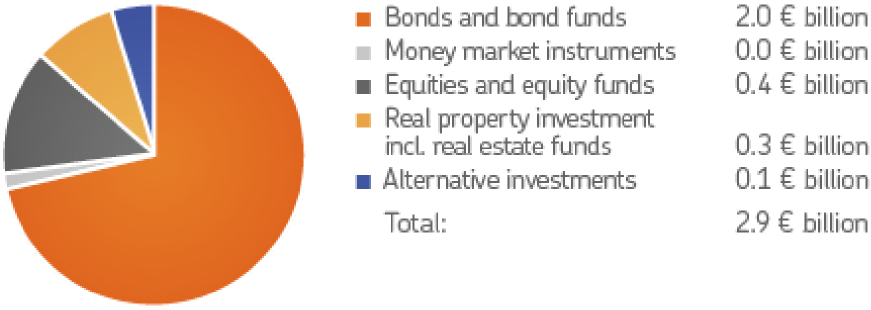
Non-life Insurance's risk-bearing capacity was still good. Non-life Insurance's solvency capital stood at EUR 787 million (832) on 31 December. The equalisation provision that is included under capital adequacy decreased to EUR 353 million (424).

Solvency capital and solvency ratio



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

Investment assets 31 December 2011



The fixed-income portfolio by credit rating was healthy, with investment-grade exposure accounting for 91% (91), and 75% of the exposure being receivables in at least category A–. The average residual term to maturity of the fixed-income portfolio was 4.8 years (5.3) and the duration 3.9 years (4.1).

Life Insurance

- Earnings before tax were EUR 10 million (43); earnings at fair value turned negative owing to investment market instability.
- Market share in unit-linked insurance savings improved year on year by 0,9 percentage points.
- The share of unit-linked insurance of insurance savings increased to 48.0% (44.0).
- Owing to the challenging operating environment, return on investments at fair value was -1.5% (9.5).
- The acquisition of Skandia Life Finland's life insurance business makes OP-Pohjola Group the major provider of unit-linked insurance in Finland.

Life Insurance, key figures

€ million	2011	2010	Change, %
Premiums written	721	1,287	-44.0
Unit-linked	507	508	-0.2
Other premiums written	214	779	-72.5
Net investment income	-203	539	-137.6
Unit-linked	-395	374	-205.7
Other	192	166	16.1
Change in insurance contract liabilities	-270	1,119	-124.1
Unit-linked	121	755	-84.0
Other change	-391	365	-207.1
Claims incurred	701	588	19.3
Other items	0	-11	104.5
Net income from Life Insurance	87	109	-19.7
Other income	17	16	7.2
Personnel costs	10	9	12.8
Other expenses	84	72	16.2
Earnings before tax	**10**	**43**	**-76.4**
Gross change in fair value reserve	-191	220	
Earnings/loss before tax at fair value	**-181**	**263**	

	31 Dec 2011	31 Dec 2010	Change, %
Market share of insurance savings, %	20.9	21.3	
Market share of unit-linked insurance savings, %	25.3	24.5	
€ billion			
Insurance savings	6.7	7.1	-4.9
Unit-linked	3.3	3.1	3.6

Non-life insurance has the strategic goal of increasing unit-linked insurance savings. Unit-linked insurance now account for 48.0% of the insurance portfolio, up by 4.0 percentage points year on year. Interest-bearing insurance savings were transferred to unit-linked savings to a total of EUR 302 million (84), in net terms.

In order to strengthen unit-linked insurance business, OP-Pohjola Group acquired Skandia Life Finland's business in December 2011. As a result, unit-linked insurance savings are expected to increase by over EUR 1 billion, and OP-Pohjola Group is expected to become the largest provider of unit-linked insurance in Finland.

Unit-linked premiums written were at the level reported a year earlier. Unit-linked insurance savings increased by 3.6%.

Earnings and risk exposure

Earnings before tax amounted to EUR 10 million (43). The supplementation of technical provisions owing to increased life expectancy and the change in provisions for future supplementary benefits eroded earnings by EUR 15 million (28), in net terms. Net investment income excluding the income from unit-linked insurance came to EUR 192 million (166). Investment income was improved particularly by income from derivatives, smaller impartments on investments (by EUR 64 million), and higher dividends.

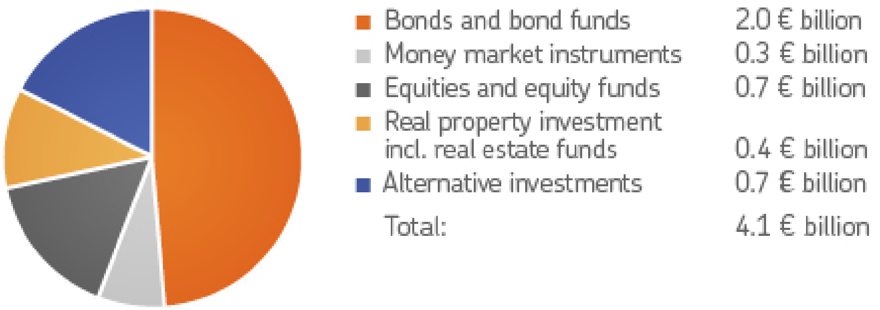
The company's balance sheet management was intensified during the report period by hedging interest rate risk associated with technical provisions by means of interest rate swaps. The hedging has no significant impact on earnings, but it increases both investment income and the change in insurance contract liabilities by about EUR 62 million.

Operating efficiency decreased somewhat as investment income shrunk. The cost ratio, which includes all income to cover business expenses and in which sales channel fees are excluded, was 29.4% (28.6).

However, jittery investment markets created a negative result at fair value. Investment income at fair value excluding that from derivatives designated as hedging instruments was 1.5% negative (9.5).

Life insurance investment assets, excluding assets covering unit-linked insurance, amounted to EUR 4.1 billion (4.7), divided as follows:

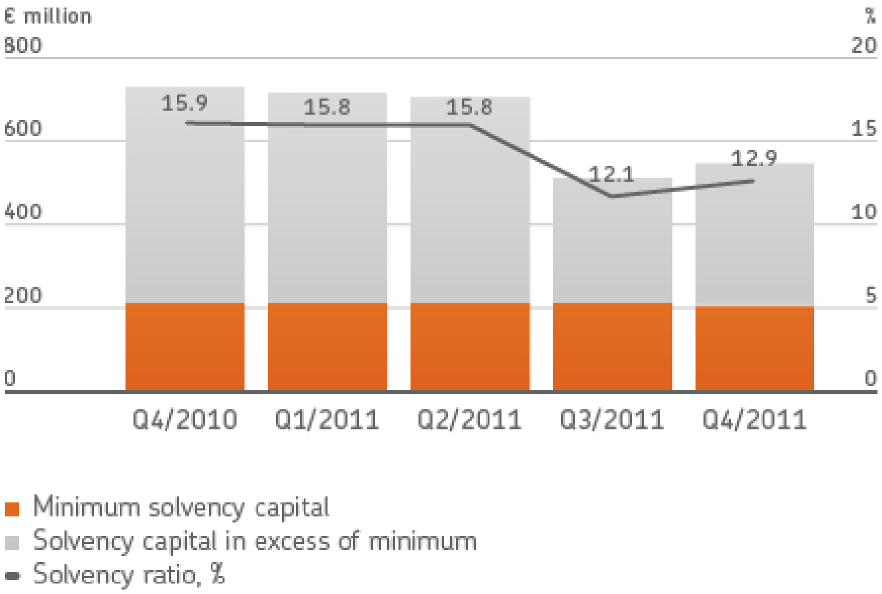
Investment assets 31 December 2011



Investments under the 'investment grade' accounted for 76% (72) of the fixed-income portfolio. The portfolio's modified duration was 3.0 (3.8) on 31 December.

Life Insurance's solvency declined as the market values of investment assets fell, but was nevertheless at a good level: its solvency margin was EUR 552 million, which was 2.7-fold the required minimum. The solvency ratio, meaning the ratio of solvency capital to weighted technical provisions, was 12.9% (15.9).

Solvency capital and solvency ratio



Other Operations

Other Operations, key figures

€ million	2011	2010	Change, %
Net interest income	31	61	-48.7
Net trading income	2	-8	
Net investment income	22	40	-43.7
Other income	365	342	6.8
Expenses	379	349	8.5
Impairment losses on receivables	11	-1	
Earnings before tax	**31**	**86**	**-63.7**

€ billion	31 Dec 2011	31 Dec 2010	Change, %
Receivables from financial institutions	7.0	7.8	-9.9
Financial assets held for trading	-0.1	-0.1	-11.3
Investment assets	8.5	7.3	15.5
Liabilities to credit institutions	5.2	4.0	27.7
Debt securities issued to the public	15.7	17.0	-8.0

Other Operations' pre-tax earnings for January–December were EUR 31 million (86).

Net interest income decreased as a result of funding costs. Investment income included EUR 8,7 million (28.8) in capital gains on notes and bonds. EUR 1.2 (4.3) million in impairment charges were recognised on shares and participations included in available-for-sale financial assets in the report period.

Most of the other income in Other Operations came from within the Group as internal service charges, which are recorded as business segment expenses. Of the Other Operations expenses, EUR 130 million (120) were personnel costs and EUR 109 million (91) ICT costs.

The Executive Board has decided to launch a project for rebuilding OP-Pohjola Group's Vallila premises. The project will be finished in 2015.

Outlook for 2012

The world economic outlook for 2012 is uneven. Economic growth in the euro area is likely to remain feeble. The Finnish economic prospects for 2012 also look weak. Economic growth in the euro area and in Finland is significantly affected by the euro-area debt crisis, which has a considerable impact on the financial sector's operating environment, too. Low market rates, the general uncertainty in investment markets and weak economic growth in combination with tighter regulation concerning the financial sector increase the uncertainties related to the outlook.

The uncertainty related to economic growth and the euro-area debt crisis also significantly hamper any forecasts about OP-Pohjola Group's financial performance in 2012. Subject to there being no material weakening of the operating environment and no new turn for the worse in the management of the debt crisis in the euro area, OP-Pohjola Group's 2012 results are expected to be at the same or even a better level than the year before.

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

In January, The Finnish Competition Authority approved OP-Pohjola Group Central Cooperative's acquisition of Skandia Life Finland's business. This regulatory approval was a major step forward in the implementation of the acquisition although its completion will require other regulatory approvals too.

Changes in OP-Pohjola Group's Structure

OP-Pohjola Group's consolidated financial statements include the accounts of 205 member cooperative banks (213), OP-Pohjola Group Central Cooperative Consolidated and OP Bank Group Mutual Insurance Company.

OP-Pohjola Group's central institution, OP-Pohjola Group Central Cooperative, has decided to acquire Skandia Life Finland's business from Skandia Life Assurance Company Ltd, a subsidiary of Old Mutual plc. The target date of the acquisition is 30 June 2012, provided that all the required regulatory approvals can be gained within these timescales. The acquisition will involve the transfer to OP-Pohjola of some 100,000 customers' unit-linked life and pension policies with unaudited total assets of around 1.3 billion euros as of 30 September 2011.

OP-Pohjola Group Central Cooperative (OP-Pohjola) bought in May all Pohjola Bank plc (Pohjola) Series A shares held by Suomi Mutual Life Assurance Company, these shares accounting for 7.26% of all Pohjola shares and 3.91% of all votes conferred by the shares. As a result of this transaction, holding by OP-Pohjola, the central institution of OP-Pohjola Group, in Pohjola shares increased from 29.98% to 37.24% and votes conferred by the shares from 57.05% to 60.96%.

In May, Pohjola Insurance Ltd acquired Excenta, a strategic corporate wellness services provider, from its management and Elisa Corporation.

Kestilän Osuuspankki and Rantsilan Osuuspankki merged on 31 March 2011 to create Siikalatvan Osuuspankki. Pieksämäen Osuuspankki, Etelä-Savon Osuuspankki, Juvan Osuuspankki and Savonlinnan Osuuspankki merged and became Suur-Savon Osuuspankki on 31 May 2011. Varpaisjärven Osuuspankki merged with Koillis-Savon Osuuspankki on 31 August 2011. The bank changed its name to Koillis-Savon Seudun Osuuspankki.

Kokemäen Osuuspankki and Harjavallan Osuuspankki merged with Huittisten Osuuspankki on 31 December 2011. The bank’s name was changed to Satakunnan Osuuspankki. Haapajärven Osuuspankki merged with Pyhäjärven Osuuspankki on 31 December 2011, changing its name to Suomenselän Osuuspankki.

Luvian Osuuspankki has decided to merge with Nakkilan Osuuspankki on 31 March 2012. The new name will be Nakkila-Luvian Osuuspankki. Haminan Seudun Osuuspankki, Kotkan Seudun Osuuspankki, Kouvolan Seudun Osuuspankki, Kymijoen Osuuspankki and Virolahden Osuuspankki have decided to merge on 31 May 2012 to create Kymenlaakson Osuuspankki. Maskun Osuuspankki has decided to merge with Vakka-Suomen osuuspankki on 31 March 2012. The bank’s name will be changed to Lounaisrannikon Osuuspankki. Huhtamon Osuuspankki has decided to merge with Vampulan Osuuspankki on 30 April 2012.

Personnel and Remuneration

At the end of December, OP-Pohjola Group had 13,229 employees (12,504). The staff averaged 12,858 employees (12,468). 370 employees (336) retired from the Group during the report period at an average age of 61.5 years (61.4).

OP-Pohjola Group’s scheme for variable remuneration comprises short-term company-specific short-term incentives and long-term Group-wide incentives. In the financial statements 2011, provisions for variable bonuses payable for the year that ended have been made for a total of EUR 56 million (53). Of this amount, the share of short-term schemes concerning the whole personnel was EUR 35 million (37).

A new long-term incentive system for the entire OP-Pohjola Group consists of a management incentive scheme, and a personnel fund for other staff. Deferred bonuses for 2011 in accordance with the long-term management incentive scheme amount to EUR 5 million (5) and the deferred bonus to OP-Pohjola Personnel Fund comes to EUR 15 million (11).

The management incentive scheme has a three-year performance period, the first one of which is 2011–13. The share-based scheme covers 372 people within OP-Pohjola Group. Those covered by the scheme will be entitled to receiving a certain number of Pohjola Bank plc Series A shares, if OP-Pohjola Group attains its strategy-based targets set for the performance period in question. The bonus based on the scheme will be paid out to the beneficiary in terms of shares and cash and in three instalments in 2015, 2016 and 2017 after the vesting period, provided that the Group’s capital adequacy is higher than the internal minimum requirements on the payout date. Conditions related to employment or executive contracts have been attached to the bonus payout. For more detailed information on remuneration schemes, please see Note 55 to the Financial Statements 2011.

Executive Board members' contract

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

OP-Pohjola Group’s Executive Chairman and OP-Pohjola Group Central Cooperative's Executive Chairman and CEO received EUR 952,354 in salary and emoluments and EUR 36,623 in fringe benefits, that is, a total of EUR 988,977. The other Executive Board members received EUR 2,500,055 in salary and emoluments and EUR 79,802 in fringe benefits, i.e. a total of EUR 2,579,857.

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 legislation and OP-Pohjola Group’s own pension plans. The period of notice for the above and the employer is a maximum of 6 months. A regular salary will be paid to them during a notice period added with a severance pay equivalent to a 12-month salary.

Senior Management of OP-Pohjola Group Central Cooperative

OP-Pohjola Group Central Cooperative's Annual Cooperative Meeting was held on 29 March 2011. Of the members who were due to resign, Senior Nursing Officer Marita Marttila, Professor Jaakko Pehkonen and Chairman of the Board of Directors Timo Parmasuo, were re-appointed for the term ending 2014 as Supervisory Board members. New members appointed for the Board were Managing Director Ari Kakkori, Principal Seppo Laaninen and Managing Director Vesa Lehikoinen. In addition, the Meeting elected Managing Director Juha Pullinen for the term ending 2012. The Supervisory Board comprises 33 members.

At is first meeting after the Annual Cooperative Meeting, the Supervisory Board re-elected Paavo Haapakoski Chairman. Professor Jaakko Pehkonen was re-elected Vice Chairman, and Managing Director Vesa Lehikoinen was elected as a new Vice Chairman.

Corporate Social Responsibility

Corporate social responsibility is an integral part of OP-Pohjola Group's business operations. Executive Board of OP-Pohjola Group Central Cooperative decides on the CSR outline and accepts the Group's CSR programme. Pohjola enhances corporate social responsibility as part of OP-Pohjola Group's corporate responsibility and strategy.

The strategy and the CSR programme outline OP-Pohjola Group's common guidelines related to international economic, social and environmental principles. The Group is committed to acting in a way that promotes corporate social responsibility. The programme determines the Group's corporate social responsibility themes, focus areas and proposed measures and their targets and indicators.

In the financial sector, economic responsibility issues are emphasised, and OP-Pohjola Group has an extensive range of management and monitoring tools for these. Fulfilling economic responsibility may relate, for example, to effective risk management and good corporate governance.

Social responsibility includes taking care of employee wellbeing and competence development, respecting human rights, product liability and consumer protection issues, and fair business practices in the corporate network, as well as in relations with society and local communities.

Environmental responsibility, in turn, refers to responsibility for the ecological environment. It covers the reduction of an organisation's environmental impacts, as well as taking account of the environmental impacts of the whole value chain.

OP-Pohjola Group respects and is committed to promoting the principles of the United Nations Global Compact initiative. Moreover, Pohjola Asset Management Ltd and OP Fund Management Company Ltd have signed the UN Principles for Responsible Investment (UN PRI) and been accredited by the Carbon Disclosure Project (CDP) and Water Disclosure Project (WDP). OP-Pohjola Group reports regularly on corporate social responsibility issues according to the Global Reporting Initiative (GRI) guidelines.

Read more about OP-Pohjola Group's CSR programme in the Group's 2011 annual report.

Capital Expenditure and Service Development

The Central Cooperative and its subsidiaries are responsible for developing OP-Pohjola Group's services. ICT investments and related specifications make up a significant portion of costs of developing these services. EUR 54 million (40) of these expenses consisted of ICT procurement capitalised in the balance sheet in the accounting period. Of these investments, EUR 30 million (28) was allocated to banking operations, EUR 18 million (8) to non-life insurance operations and EUR 6 million (3) to life insurance operations.

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

Amalgamation of the cooperative banks and OP-Pohjola Group

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

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

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

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

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

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

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

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

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

Member credit institution’s capital adequacy and its supervision

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

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

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

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

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

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

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

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

OP-Pohjola Group's financial statement and audit

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

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

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

Supervision of the amalgamation of the cooperative banks

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

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

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

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

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

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

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

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

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

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

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

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

Financial and insurance conglomerate

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

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

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

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

Key Income Statement and Balance Sheet Items, and Financial Ratios 2007–2011

€ million	2007	2008	2009	2010	2011
Key income statement items, € million					
Net interest income	1,048	1,189	1,070	917	1,030
Net income from Non-life Insurance	427	345	396	382	312
Net income from Life Insurance	172	-139	-120	100	72
Net commissions and fees	430	433	496	563	574
Other income	177	-5	208	210	173
Personnel costs	553	598	622	643	696
Other expenses	576	640	625	643	669
Impairments of receivables	13	58	179	149	101
Returns to owner-members	107	154	160	163	176
Earnings before tax	1,005	372	464	575	518
Key balance sheet items – Assets, € million					
Receivables from financial institutions	285	2,450	1,982	1,121	1,104
Receivables from customers	44,776	51,708	52,992	56,834	60,331
Non-life Insurance assets	2,750	2,670	3,101	3,164	3,205
Life Insurance assets	6,361	5,093	6,331	7,544	7,006
Financial assets at fair value through profit or loss and investment assets	6,761	5,754	7,731	7,958	8,624
Property, plant and equipment, and intangible assets	1,945	1,973	1,941	1,875	1,871
Other assets	2,838	6,097	6,354	5,473	10,146
Total assets	65,716	75,746	80,430	83,969	92,287
Key balance sheet items – Liabilities and equity, € million					
Liabilities to financial institutions	949	693	2,174	1,696	1,783
Liabilities to customers	31,224	37,082	37,606	39,205	45,974
Debt securities issued to the public	14,074	18,164	19,945	19,577	20,005
Subordinated liabilities	1,613	1,874	1,872	1,825	1,555
Other liabilities	12,218	12,717	12,646	14,939	16,439
Equity capital	5,638	5,215	6,187	6,726	6,531
Total liabilities	65,716	75,746	80,430	83,969	92,287
Key ratios, %					
Return on equity	13.7	4.1	5.9	6.8	6.5
Return on equity at fair value	10.9	-6.0	14.7	9.4	2.0
Return on assets	1.2	0.3	0.4	0.5	0.5
Equity ratio	8.6	6.9	7.7	8.0	7.1
Cost/income ratio	50	68	61	59	63
Capital adequacy ratio	13.8	12.6	12.6	12.8	14.0
Tier 1 ratio	12.6	12.6	12.6	12.8	14.0

Capital adequacy under the Act on the Supervision of Financial and Insurance Conglomerates	1.52	1.40	1.58	1.70	1.80

Calculation of Key Ratios

Return on equity (ROE), %

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

Return on equity at fair value, %

$$\frac{\text{Profit for the financial year + change in fair value reserve less deferred taxes (difference between the beginning and end of the year)}}{\text{Equity capital (average of the beginning and end of year)}} \times 100$$

Return on assets (ROA), %

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

Equity ratio, %

$$\frac{\text{Equity capital}}{\text{Total assets}} \times 100$$

Cost/income ratio, %

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

Capital adequacy ratio, %

(Basel I until end of 2007)

$$\frac{\text{Tier 1 capital + Tier 2 capital – allowances}}{\text{Risk-weighted assets, investments and off-balance-sheet items}} \times 100$$

Tier I ratio, %

(Basel I until end of 2007)

$$\frac{\text{Tier 1 capital}}{\text{Risk-weighted assets, investments and off-balance-sheet items}} \times 100$$

Capital adequacy ratio, % (Basel II from the beginning of 2008)

$$\frac{\text{Total capital base}}{\text{Minimum requirement of total capital base}} \times 100$$

Primärkapitalrelation, % (Basel II from the beginning of 2008)

$$\frac{\text{Total Tier 1 capital}}{\text{Minimum requirement of total capital base}} \times 100$$

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

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

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

Non-life Insurance:

Combined ratio (excl. unwinding of discount), %

Loss ratio + expense ratio
Risk ratio + cost ratio

Loss ratio (excl. unwinding of discount), %

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

Expense ratio, %

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

Risk ratio (excl. unwinding of discount), %

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

Cost ratio, %

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

Life Insurance:

Operating cost ratio, %

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

Banking:

Cost/income ratio, %

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

OP-Pohjola Group's Financial Statements

OP-POHJOLA GROUP INCOME STATEMENT

EUR million	Notes	2011	2010	Change, %
Interest income		3,294	2,412	37
Interest expenses		2,264	1,495	51
Net interest income before impairment losses	3	**1,030**	**917**	**12**
Impairment losses on receivables	4	101	149	-32
Net interest income after impairment losses		**928**	**768**	**21**
Net income from Non-life Insurance	5	312	382	-18
Net income from Life Insurance	6	72	100	-29
Net commissions and fees	7	574	563	2
Net trading income	8	17	46	-63
Net investment income	9	63	62	0
Other operating income	10	90	99	-10
Personnel costs	11	696	643	8
Other administrative expenses	12	351	319	10
Other operating expenses	13	318	324	-2
Returns to owner-members	14	176	163	8
Share of associates' profits/losses		4	2	99
Earnings before tax		**518**	**575**	**-10**
Income tax expense	15	87	135	-35
Profit for the financial year		**430**	**440**	**-2**

Attributable to, EUR million				
Profit for the period attributable to owners		430	440	**-2**
Profit for the period attributable to non-controlling interest		0	-	
Total		430	440	**-2**

OP-Pohjola group statement of comprehensive income

EUR million	Notes	2011	2010	Change, %
Profit for the financial year		**430**	**440**	**-2**
Change in fair value reserve				
Measurement at fair value		-422	234	
Cash flow hedge		22	-8	
Translation differences		1	0	
Income tax on other comprehensive income				
Measurement at fair value		-106	61	
Cash flow hedge		5	-2	
Total comprehensive income for the financial year		**131**	**606**	**-78**

Attributable to, EUR million			
Profit for the period attributable to owners	131	606	**-78**
Profit for the period attributable to non-controlling interest	0	-	
Total	131	606	**-78**

Key figures and ratios	2011	2010
Return on equity, %	6.5	6.8
Return on equity at fair value, %	2.0	9.4
Return on assets, %	0.49	0.53
Cost/income ratio, %	63	59
Average personnel	12,858	12,468
Full-time	11,701	11,394
Part-time	1,157	1,074

OP-POHJOLA GROUP BALANCE SHEET

EUR million	Notes	31 Dec. 2011	31 Dec. 2010	Change, %
Liquid assets	16	4,376	1,628	
Receivables from financial institutions	17	1,104	1,121	-1
Financial assets at fair value through profit or loss	18	281	519	-46
Derivative contracts	19	3,307	1,933	71
Receivables from customers	20	60,331	56,834	6
Non-life Insurance assets	21	3,205	3,164	1
Life Insurance assets	22	7,006	7,544	-7
Investment assets	23	8,343	7,438	12
Investment in associates	25	40	38	4
Intangible assets	26	1,169	1,159	1
Property, plant and equipment (PPE)	27	702	716	-2
Other assets	28	2,266	1,749	30
Tax assets	29	158	125	27
Total assets		**92,287**	**83,969**	**10**
Liabilities to financial institutions	30	1,783	1,696	5
Financial liabilities at fair value through profit or loss	31	1	0	
Derivative contracts	32	3,232	1,951	66
Liabilities to customers	33	45,974	39,205	17
Non-life Insurance liabilities	34	2,508	2,350	7
Life Insurance liabilities	35	6,932	7,290	-5
Debt securities issued to the public	36	20,005	19,577	2
Provisions and other liabilities	37	2,839	2,333	22
Tax liabilities	38	928	1,014	-9
Cooperative capital	39	624	647	-3
Subordinated liabilities	40	931	1,178	-21
Total liabilities		**85,756**	**77,243**	**11**
Equity capital				
Capital and reserves attributable to OP-Pohjola Group's owners				
Share and cooperative capital		333	368	-9
Share issue account		-	-	
Translation differences		0	0	
Reserves		2,433	2,768	-12
Retained earnings		3,763	3,590	5
Non-controlling interests		3	-	
Total equity capital	41	**6,531**	**6,726**	**-3**
Total liabilities and equity capital		**92,287**	**83,969**	**10**

OP-POHJOLA GROUP CASH FLOW STATEMENT

EUR million	2011	2010
Cash flow from operating activities		
Profit for the financial year	430	440
Adjustments to profit for the financial year	432	1,440
Increase (-) or decrease (+) in operating assets	**-4,751**	**-4,576**
Receivables from financial institutions	40	869
Financial assets at fair value through profit or loss	161	865
Derivative contracts	-8	-89
Receivables from customers	-3,581	-4,037
Non-life Insurance assets	-181	-113
Life Insurance assets	419	-715
Investment assets	-1,070	-1,177
Other assets	-531	-180
Increase (+) or decrease (-) in operating liabilities	**6,936**	**1,520**
Liabilities to financial institutions	66	-482
Financial liabilities at fair value through profit or loss	1	-71
Derivative contracts	33	91
Liabilities to customers	6,769	1,598
Non-life Insurance liabilities	102	54
Life Insurance liabilities	-358	-8
Provisions and other liabilities	323	337
Income tax paid	-108	-120
Dividends received	131	88
A. Net cash from operating activities	**3,071**	**-1,210**
Cash flow from investing activities		
Increases in held-to-maturity financial assets	-66	-53
Decreases in held-to-maturity financial assets	297	244
Acquisition of subsidiaries, net of cash and cash equivalents acquired	-6	-28
Disposal of subsidiaries, net of cash and cash equivalents disposed	1	17
Purchase of PPP and intangible assets	-109	-83
Proceeds from sale of PPE and intangible assets	3	7
B. Net cash used in investing activities	**119**	**104**
Cash flow from financing activities		
Increases in subordinated liabilities	181	82
Decreases in subordinated liabilities	-430	-163
Increases in debt securities issued to the public	39,026	47,351
Decreases in debt securities issued to the public	-38,837	-47,704
Increases in cooperative and share capital	216	248
Decrease in cooperative and share capital	-238	-220
Dividends paid and interest on cooperative capital	-84	-75
Returns to owner-members	-22	-8
Holdings in Pohjola Bank plc purchased from non-controlling interests	-227	-
Increases in invested unrestricted equity	-	-
Other	-	-
C. Net cash used in financing activities	**-415**	**-488**
Net change in cash and cash equivalents (A+B+C)	**2,776**	**-1,593**
Cash and cash equivalents at period-start	**1,689**	**3,282**
Cash and cash equivalents at period-end	**4,465**	**1,689**

EUR million	2011	2010
Interest received	**2,979**	**2,324**
Interest paid	**–1,927**	**–1,435**
Adjustments to profit for the financial year		
Non-cash items and other adjustments		
Impairment losses on receivables	112	158
Unrealised net earnings in Non-life Insurance	147	123
Unrealised net earnings in Life Insurance	-71	843
Change in fair value for trading	70	94
Unrealised net gains on foreign exchange operations	142	-114
Change in fair value of investment property	2	-1
Planned amortisation and depreciation	119	136
Share of associates' profits/losses	-2	0
Other	-120	189
Items presented outside cash flow from operating activities		
Capital gains, share of cash flow from investing activities	-2	-9
Interest on cooperative capital	14	15
Other returns to owner-members	22	8
Total adjustments	**432**	**1,440**
Cash and cash equivalents		
Liquid assets	136	132
Receivables from financial institutions payable on demand	4,329	1,557
Total	**4,465**	**1,689**

STATEMENT OF CHANGES IN OP-POHJOLA GROUP EQUITY CAPITAL

	Attributable to OP-Pohjola Group's owners						
		Fair value reserve					
EUR million	Share and cooper-ative capital	Fair value reserve	Cash flow hedge	Other reserves	Retained earnings	Non-controlling interests	Total
Balance at 1 January 2010	**358**	**-54**	**-**	**2,604**	**3,280**	-	**6,187**
Transfer of cooperative capital to equity capital	4	-	-	-	-	-	**4**
Transfers between reserves	-	-	-	57	-57	-	**-**
Profit distribution	-	-	-	-	-62	-	**-62**
Total comprehensive income for the financial year	-	173	-6	-	440	-	**606**
Equity-settled share-based payment transactions	-	-	-	-	1	-	**1**
Other	6	-	-	-5	-11	-	**-10**
Balance at 31 Dec. 2010	**368**	**118**	**-6**	**2,656**	**3,590**	-	**6,726**

	Attributable to OP-Pohjola Group's owners						
		Fair value reserve					
EUR million	Share and cooper-ative capital	Fair value reserve	Cash flow hedge	Other reserves	Retained earnings	Non-controlling interests	Total
Balance at 1 January 2011	**368**	**118**	**-6**	**2,656**	**3,590**	**-**	**6,726**
Transfer of cooperative capital to equity capital	1	-	-	-	-	-	**1**
Holdings in Pohjola Bank plc purchased from non-controlling interests 1)	-31	-	-	-79	-117	-	**-227**
Transfers between reserves	-	-	-	43	-43	-	**-**
Profit distribution	-	-	-	-	-74	-	**-74**
Total comprehensive income for the financial year	-	-316	16	1	430	-	**131**
Equity-settled share-based payment transactions	-	-	-	-	2	-	**2**
Other	-4	-	-	2	-26	3	**-26**
Balance at 31 Dec. 2011	**333**	**-198**	**10**	**2,621**	**3,763**	**3**	**6,531**

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

Notes to OP-Pohjola Group Financial Statements

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Notes to OP-Pohjola Group Financial Statements

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

General information

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

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

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

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

A copy of OP-Pohjola Group's consolidated financial statements is available at or the Group's head office at Teollisuuskatu 1b PL 308, 00101 Helsinki.

The Executive Board of the Central Cooperative has approved these financial statements for issue on 8 February 2012.

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 2011. 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. In addition to IFRS, OP-Pohjola Group applies paragraph 6, subsection 146, section 9 of the Act on Credit Institutions to the preparation of its consolidated financial statements.

The accounting policies and calculation methods are fundamentally the same as in the 2010 financial statements, with the exception of the change in valuation practices of life insurance contracts. This change has been described in more detail under section 'Valuation and recognition of insurance contracts'.

In 2011, OP-Pohjola Group adopted the following IFRSs and interpretations:

- Improvements to IFRSs (issued in May 2010). These amendments have a minor effect on OP-Pohjola Group's consolidated financial statements.

The following standards and interpretations do not have any impact on OP-Pohjola Group's financial statements:

- Amended IAS 32 Classification of Rights Issues (effective as of 1 February 2010)
- IAS 24 (revised) Related Party Disclosures (effective as of 1 January 2011)
- IFRIC 14 IAS 19 (amended). The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their

Interaction (effective as of 1 January 2011)

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

The financial statements are presented in millions of euros.

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

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

Use of estimates

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

Presentation and reclassification

OP-Pohjola Group reclassified in late 2008 some of its investments and notes and bonds acquired to secure liquidity, with a view to providing a clearer picture of their actual purpose of use. This reclassification was enabled by Commission Regulation (EC) No. 1004/2008 of 15 October 2008 applying to IAS 39 and IFRS 7 and the Regulation is aimed at making it easier to reclassify certain financial instruments in rare circumstances. The underlying reason for adopting this Regulation lay in the financial turmoil, which is why reliable market prices were not available to all financial instruments. Companies have been allowed to reclassify certain financial instruments since 1 July 2008. The reclassification had no effect on the results recorded for previous periods. Reclassifying financial instruments was based on their fair values on 1 July 2008.

Consolidation principles

Technical parent company

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

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

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

Subsidiaries, associates and joint ventures

The financial statements of the technical parent company and companies over which it exercises control are consolidated into those of OP-Pohjola Group. Control over a company arises if the Group holds more than half of the votes or it otherwise exercises control over the company. Control refers to the right to determine another company's financial and business 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. The consideration given excludes transactions treated separately from the acquisition but their effect is accounted for separately. Any additional acquisition cost is measured at fair value and classified as a liability or equity. An additional acquisition cost classified as a liability is measured at fair value in the income statement on the balance sheet date.

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

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

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

Intra-Group transactions, receivables, liabilities and profit distribution are eliminated in the preparation of the financial statements. Unrealised gains arising from transactions between the Group and its associates or jointly controlled entities are eliminated to the extent of interest in the entities. Unrealised losses are eliminated unless the transaction provides evidence of impairment of the asset transferred.

Acquisitions made before 1 January 2010 are accounted for according to the standards effective at that time.

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 the shareholders' equity in the balance sheet.

Non-controlling interests, which involve OP-Pohjola Group's absolute liability to redeem their investments, are treated as a debt instrument.

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.

Foreign currency translation

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

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

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

Financial instruments

Fair value determination

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

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

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

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

The valuation techniques used include recent arm's length market transactions between knowledgeable, willing parties, 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 premature repayment and other factors affecting the reliable measurement of the fair value of financial instruments.

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

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

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

Impairment of financial assets

At the end of each reporting period, the Company assesses whether there is objective evidence that a financial asset other than that recognised through profit or loss is impaired.

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

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

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

A significant impairment of an equity instrument, or its impairment over a long period, below its acquisition cost represents objective evidence of impairment.

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

Securities sale and repurchase agreements

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

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

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

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

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

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

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

Financial assets and liabilities at fair value through profit or loss

Financial instruments at fair value through profit or loss include financial assets and liabilities held for trading, derivative contracts held for trading and financial assets at fair value through profit or loss at inception.

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

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

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

Financial assets at fair value through profit or loss at inception

Financial assets at fair value through profit or loss at inception include financial assets which are designated as at fair value through profit or loss upon their initial recognition. These financial assets are measured at fair value and any change in their fair value and any capital gains and losses, interest income and expenses as well as dividend income are recognised in the income statement.

Financial assets recognised at fair value through profit or loss at inception mainly comprise bonds used in the management of liquidity. In accordance with the Group's risk management principles, the Group manages these investments 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 in associates in insurance operations made by venture capital investors and investments in unit-linked insurance policies.

Loans and receivables

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

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

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

Impairment will be recognised and impairment losses incurred if there is objective evidence of a debtor's reduced solvency after the initial recognition of the receivable. A receivable is impaired if the present value of estimated future cash flows – including the fair value of collateral – is lower than the aggregate carrying amount of the loan and the related unpaid interest. Estimated future cash flows are discounted at the loan's original interest rate. If the loan carries a variable interest rate, the discount rate for measuring any impairment is the current effective interest rate determined under the agreement. The difference between the carrying amount of the loan and a lower recoverable amount is recognised as an impairment loss in the income statement. For notes and bonds classified as loans and receivables, the difference between the carrying amount of the note/bond and a lower recoverable amount is recognised as an impairment loss in the income statement.

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

Impairment losses on loans are presented as an allowance of loans in the balance sheet and under "Impairments of 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.

Some notes and bonds were reclassified out of the financial assets held for trading category into the loans and receivables category in connection with the reclassification performed in the autumn of 2008. Notes and bonds were also reclassified out of the available-for-sale financial assets category into the loans and receivables category to their fair value on 1 July 2008.

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. These investments are carried at amortised cost after their initial recognition.

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

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

Some notes and bonds were reclassified out of the financial assets held for trading category into the financial assets held to maturity category in the process of reclassification performed in the autumn of 2008. The reclassification of these notes and bonds was performed at their fair value on 1 July 2008.

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 measured at fair value. Any changes in their fair value are recognised in the income statement, from where they are transferred to the income statement when the asset is derecognised or there is objective evidence that the asset is impaired.

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

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

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

Interest income and dividends related to available-for-sale financial assets are recognised in the income statement.

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

As part of the reclassification performed in the autumn of 2008, some notes and bonds were reclassified out of the financial assets held for trading category into the available-for-sale financial assets category at their fair value on 1 July 2008.

Cash and cash equivalents

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

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.

In the consolidated financial statements, key personnel's shareholdings in subsidiaries are classified as financial liabilities in conformity with IAS 32, under the terms and conditions of the shareholder agreements. The portion of dividends corresponding to financial liability is treated as interest expenses.

Derivative contracts

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

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

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

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

Derivative instruments held for trading

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

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

Hedge accounting

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

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

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).

Cash flow hedges

A cash flow hedge is a hedge of the exposure to the variability attributable to a particular risk associated with variable-rate debt or other variable-rate assets and liabilities. Interest rate swaps are among those used as hedging instruments.

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

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 and 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.

The fair value of investment property is mainly based on its market value. The fair value of major property holdings is based on a valuation performed by an independent external appraiser while that of other property holdings is based on OP-Pohjola Group's own experts, income estimates based on market data or the management's estimate of the property's market value. The fair value of business, office and industrial premises owned by Group member banks is primarily determined using the income capitalisation approach. The income capitalisation approach is based on market return requirements drawn up by an outside expert. The fair value of business, office and industrial premises owned by Non-life Insurance is also determined using the cash flow statement. The fair value of residential buildings and land areas is primarily determined using the sales comparison approach.

Intangible assets

Goodwill

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

For acquisitions between 1 January 2004 and 31 December 2009, goodwill represents at the time of acquisition the excess of the cost of an acquisition over the fair value of the Group’s share of the net identifiable assets, liabilities and contingent liabilities of an acquiree.

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

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, and an intangible asset. Subsequent to the acquisition, the intangible asset is amortised 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 10 years for life insurance. An intangible asset is tested annually in connection with testing the adequacy of the liability associated with insurance contracts.

Deferred acquisition costs of insurance contracts

OP-Pohjola Group defers some of the commission costs and other costs that are 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. The amortisation period within Non-life Insurance is the insurance period and within Life Insurance five years. An intangible asset is tested annually in connection with testing the adequacy of the liability associated with insurance contracts.

Customer relationships

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

Brands

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

Other intangible assets

Other intangible assets are measured at cost less accumulated amortisation and any impairment losses. Computer software and licences are amortised over 2–6 years and other intangible assets over 5 years in general. The useful lives of assets are reviewed on each balance sheet date and, if necessary, their value is tested for impairment.

Expenditure on the development of internally-generated intangibles (products and services) is capitalised starting from the time when the product or service is found to generate future economic benefits. The asset will be amortised from the time it is ready for use, mainly 3–6 years. An asset that is not yet ready for use is tested annually for impairment.

Property, plant and equipment

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

The estimated useful lives are mainly as follows:

Buildings 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 tangible 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.

Depreciation ceases when a PPE asset is classified as available for sale under IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

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.

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. For sale and leaseback transactions, any excess of proceeds over the carrying amount is deferred and amortised over the lease term.

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.

Employee benefits

Pension benefits

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

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

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

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

The asset recognised in the balance sheet in respect of the defined benefit plan is the present value of the defined benefit obligation on the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs.

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

Actuarial gains and losses are recognised in the income statement over the employees' expected average remaining working lives to the extent that they exceed 10% of the greater of the present value of the defined benefit obligation or the fair value of plan assets.

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.

Insurance assets and liabilities

Classification of financial assets and liabilities within insurance business

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

Classification of insurance contracts

Insurance contracts are contracts under which the insurer accepts significant insurance risk from the policyholder. They are classified by contract or contract type. If several contracts are concluded simultaneously with a single counterparty or if contracts are otherwise interdependent, the significance of insurance risk is assessed collectively. As a general rule, financial guarantee contracts are treated as insurance contracts or, if the insurance risk transfer is not significant, as financial instruments at fair value through profit or loss.

Investment contracts are contracts which transfer financial risk with no significant insurance risk. Since capital redemption contracts do not involve insurance risk, they are classified as investment contracts.

Intra-Group insurance contracts within OP-Pohjola Group are eliminated, since they do not meet the criteria set for insurance contracts.

Insurance contracts are classified into main categories based on differences in either the nature of the insured object or the contract terms and conditions, involving a material effect on the risk's nature. In addition, this classification into categories takes account of differences in the duration of contract periods or the average length of the period between the occurrence of a loss event and the date of the fully-paid claim (speed of claims settlement).

Non-life insurance contracts

Short-term contracts

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

Long-term contracts

Long-term insurance contracts refer to contracts with an average minimum validity period of two years.

Life insurance contracts

Life insurance contracts include single and regular life insurance contracts with a focus on savings; individual pension insurance contracts; group pension insurance contracts supplementing statutory pension cover; and term insurance policies issued mainly against death or disability. Savings under life and pension insurance can be entitled to a guaranteed technical interest and a discretionary share of surplus (DPF, non-linked), or they can be unit-linked. For the time being, group pension policies are mostly non-linked and entitled to DPF.

Valuation and recognition of insurance contracts

Non-life insurance contracts

Premiums are primarily recognised as revenue proportionally over the contract's period of validity. However, revenue recognition in decennial (construction defects) and perpetual insurance is based on the proportional distribution of underwriting risk. The portion of premiums written for the post-balance sheet date is recognised as provision for unearned premiums in the balance sheet. If the provision for unearned premiums is not sufficient to cover future claims and expenses attributable to effective insurance contracts, a supplementary amount (provision for unexpired risks) corresponding to the difference is reserved in the provision for unearned premiums. Insurance premium tax and public charges collected on behalf of external parties, excluding commissions and credit loss on premiums, are deducted from premiums written.

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

Provision for unearned premiums for statutory decennial insurance and perpetual insurance and provision for unpaid claims for annuities are discounted based on a fixed discount rate applied by the Group. Determined in view of the underlying trend in interest rates, the discount rate may not exceed the expected return on the assets covering the liability or the level set by the authorities. An increase in technical provisions 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".

Life insurance contracts

Insurance premiums received are recognised in the income statement. Premium receivables are recognised only if the insurance cover is effective on the balance sheet date. Term insurance premiums are recognised as revenue proportionally over the premium payment period. Commissions or credit losses are not deducted from premiums written.

Benefits based on insurance contracts are charged to expenses in the income statement. Technical provisions are determined by calculating the capital value of future benefits, policy administration costs and future premiums, using actuarial assumptions related to compounding, mortality, disability and operating expenses. The liability is redetermined on every balance sheet date using assumptions related to rating of policies. Fixed in nature, the interest rate applicable to discounting may not exceed the rate used in the rating of policies. The discount rate may not exceed the expected return on the assets covering the liability or the level set by the authorities.

In 2011, the Group changed its business model in the Life insurance segment. The objective of the new business model is to actively diminish the interest rate risk by acquiring interest rate swaps. This will be done systematically and in accordance with the strategy for the management of the interest rate risk associated with technical provisions.

The interest rate swaps used for this are valued at fair value through profit or loss. For any point in time, the business line has a target proportion of interest rate risk associated with technical provisions that must be managed through interest rate swaps. In this respect, the Group has shifted towards more market-consistent valuation of technical provisions. In this valuation model, the effect of a change in the discount rate on the value of technical provisions is recognised as part of technical provisions. The discount rate applied is the swap interest.

Any customer bonus decisions will result in an increase in technical provisions. Technical provisions for unit-linked policies are, however, measured at fair value in the same way as the assets covering the liability.

Investment contracts

The investment contracts of OP-Pohjola Group's insurance companies are the so-called capital redemption contracts.

However, the exemption permitted by IFRS 4 applies to investment contracts with a DPF component or which can be exchanged for such contracts. Therefore, capital redemption contracts are measured and presented in the same way as insurance contracts.

Investment contracts in the balance sheet are presented under "Life Insurance liabilities" as part of other liabilities.

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. Life Insurance premium receivables are primarily recognised in connection with the closing of accounts. 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.

Principle of equity

With the exception of unit-linked insurance contracts, almost all life insurance contracts and some capital redemption contracts entitle to a discretionary share of surplus (customer bonus or other benefits), in addition to guaranteed benefits, which is likely to account for a significant portion of the total contractual benefits, but whose amount and timing are at the discretion of the Group under the contract. Some unit-linked policies include an option for a discretionary share of surplus and this option can be exercised by transferring insurance savings to an interest-bearing portion.

The distribution of surplus is based on the so-called principle of equity under the Insurance Companies Act, which requires that an equitable portion of the surplus generated by these contracts be refunded as bonuses to these policyholders, provided that the solvency requirements do not prevent such a procedure. It is necessary to aim at continuity with respect to the level of bonuses. Nevertheless, the principle of equity will not enable either the owners or policyholders to demand any funds as debt.

OP-Pohjola Group's life insurance company applies the principle of equity. The objectives set for its application can be found in OP Life Assurance Company Ltd's financial statements and at www.op.fi. OP Life Assurance Company Ltd's Board of Directors decides on any additional benefits.

Liability adequacy test on insurance contracts

On each balance sheet date, the Group tests for the adequacy of technical provisions in the balance sheet, using current estimates of future cash flows from insurance contracts. If the test shows that the carrying amount of insurance contract 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 performing an additional amortisation of intangible assets and secondarily by increasing technical provisions.

Provision for joint guarantee system

The Finnish Workers Compensation Insurance Act, the Motor Liability Insurance Act and the Patient Injury Act previously included provisions on joint liability on the basis of which insurance companies engaged in the business of the line of insurance concerned assumed joint liability should one of them fail to pay claims in the event of liquidation or bankruptcy. For this purpose, insurance companies made a provision for this joint guarantee system.

As a result of the abolition of the joint guarantee system on 31 December 2010, insurance companies do not need to make such a provision in their balance sheet. However, insurers providing statutory workers' compensation policies continue to be jointly and severally liable for claims of an insurance company put into liquidation or declared bankrupt.

Funds tied to the joint guarantee system under statutory workers' compensation insurance will be returned evenly to the pay-as-you-go system within three years. Funds under the joint guarantee system for motor liability insurance will be returned to equalisation provisions which are included in shareholders' equity in the IFRS-compliant financial statements.

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).

Non-life Insurance

Benefits received under reinsurance contracts held are included in "Loans and other receivables" or receivables "From reinsurance under Other assets", with the latter receivables corresponding to reinsurers' share of provision for unearned premiums and provision for unpaid claims of the insurance contracts reinsured by the Group. Items included in "Loans and other 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.

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.

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.

Salvage and subrogation reimbursements

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

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.

Contingent liability is a potential obligation arising from past events, whose existence will not become certain until an uncertain event beyond the control of OP-Pohjola Group actually occurs.

Non-current assets held for sale and discontinued operations

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

A discontinued operation is a component of the Group's entity that either has been disposed of or is classified as held for sale, and represents a separate major line of business or geographical area of operations.

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 rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted by the balance sheet date. If deferred tax originates from balance sheet items whose changes have no effect on the income statement, any change in deferred tax is recognised in other items in the statement of comprehensive income, not in the income statement.

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 provision for unearned premiums and for unpaid claims, investment income, expenses (interest, dividends, realised capital gains and losses) and impairments
Net income from Life Insurance	Premiums written, change in provision for unearned premiums and for unpaid claims, investment income, expenses (interest, dividends, realised capital gains and losses) and impairments
Net commissions and fees	Commission income and expenses, and the recognition of Day 1 profit related to illiquid derivatives
Net trading income	Fair value changes in financial instruments at fair value through profit or loss, excluding accrued interest, and capital gains and losses, as well as dividends
Net investment income	Realised capital gains and losses on available-for-sale financial assets, impairment losses, dividends as well as fair value changes in investment property, capital gains and losses, rents and other property-related expenses
Other operating income	Other operating income
Personnel costs	Wages and salaries, pension costs, share-based payments, social expenses
Other administrative expenses	Office expenses, IT costs, other administrative expenses
Other operating expenses	Depreciation/amortisation, rents, other expenses

Segment reporting

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

OP-Pohjola Group reports income statements and balance sheets for the following segments: Banking and Investment Services, Non-life Insurance and Life Insurance. Non-segment operations are presented in "Other Operations". A business segment is a group of assets and operations engaged in providing products or services subject to risks and returns that differ from those of other business segments. In segment reporting, Pohjola Group's Central Bank and Treasury are reported as part of Other Operations, as are income, expenses, investment and capital not included in actual business operations.

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

Critical accounting estimates and judgements

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

Liabilities arising from insurance contracts involve several discretionary factors and uncertainty. With respect to Non-life Insurance, estimates are based on assumptions about the operating environment and on the actuarial analyses of the Group's own claims statistics. Liabilities arising from life insurance contracts are established using calculation bases which are in compliance with Finnish regulations and based on the same future assumptions as the insurance rating. The Group monitors the appropriateness of future assumptions on an ongoing basis.

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

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

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

For the purpose of a collective assessment of impairment on receivables, receivables are grouped on the basis of similar credit risk characteristics. Impairment losses on receivables recognised collectively are based on estimates of future losses based on historical data. In such a case, the management's judgement is required to assess how estimates of future losses based on historical data correspond to realised losses and whether any adjustments for these estimates are needed.

Available-for-sale financial assets, notes and bonds included in loans and receivables, and investments held to maturity must be tested for impairment on each balance sheet date. If there is objective evidence of an impaired asset, the impairment will be recognised in the income statement. Impairment of an equity instrument must also be recognised if such impairment is significant or long-term in nature. Determining significant and long-term impairment forms part of the normal management judgement, performed for each instrument taking account of general accounting policies and the criteria of standards.

The management must assess when markets for financial instruments are not active. The management must also assess whether an individual financial instrument is actively traded and whether the price obtained from the market is a reliable indication of the instrument's fair value. Otherwise, the fair value of financial instruments is determined using a valuation technique. In such a case, the 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 Group regularly monitors the effectiveness of valuation techniques.

The asset recognised in the balance sheet with respect to defined benefit pension plans is the present value of the defined benefit obligation less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. This calculation uses actuarial assumptions for the future, involving the discount rate, the expected return on assets, future increases in pay and pension, the employee turnover rate and the inflation rate. The Note regarding Defined benefit pension plans presents this matter in greater detail.

The measurement of investment property at fair value is partially based on the management's estimates of the market value of property holdings. Investment property is also measured using a calculation model based on the income capitalisation approach utilising estimates of future net yield on property holdings. The Notes regarding Investment property present this matter in greater detail.

New standards and interpretations

In 2012, OP-Pohjola Group will adopt the following standards and interpretations:

- Amendments to IFRS 7 Financial Instruments – Disclosures: The Transfers of Financial Assets amendment requires enhanced disclosure requirements related to risk exposures arising from transferred financial assets. This amendment will enhance detailed disclosure requirements to also cover transfer transactions of financial assets derecognised in their entirety but where the transferor retains a continuing involvement in such assets. This change may increase the extent of the disclosures in future financial statements. The amended IFRS 7 is effective for annual periods beginning on or after 1 July 2011 but has not yet adopted by the EU.
- Amendments to IAS 12 Deferred Tax: Recovery of Underlying Assets (effective as of 1 January 2012 or subsequent financial periods). This amendment will have no effect on Pohjola’s consolidated financial statements.

The International Accounting Standards Board's (IASB) financial instruments accounting reform programme is scheduled for completion by the end of 2012, these changes relating to the disclosure and measurement of financial instruments, accounting for impairment, hedge accounting and the offsetting of financial assets and liabilities. Other significant changes relate to presentation of financial statements, employee benefits, leases, insurance contracts, fair value measurement, consolidated financial statements and joint arrangements. In addition, the IASB is also expected to issue other changes in financial statements disclosures. 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 and capital adequacy management principles

General Principles of Risk and Capital Adequacy Management

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

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

OP-Pohjola Group Central Cooperative (hereinafter the hereinafter the Central Institution) as the Group’s central institution guides the amalgamation's operations and issues instructions to the companies that belong to it pursuant to the Act on the Amalgamation of Deposit Banks, and ensure that the companies follow these instructions. The Central Institution fulfils these obligations through Group-level instructions and a system that reaches each bank. The Central Institution’s Supervisory Board has accepted the key principles of the control system but can also decide on the use of more effective means of control which include a written warning issued by the Supervisory Board or, as a last resort, making a proposal to the Central Institution’s Cooperative Meeting to expel a member credit institution from the amalgamation.

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

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

Good corporate governance

Good corporate governance encompasses OP-Pohjola Group’s senior and executive management, the relationships between its owners and other stakeholders, the setting of targets and deciding on ways of achieving them, and monitoring that the targets are achieved. It is the OP-Pohjola Group’s senior management that approves the principles of good corporate governance, while the executive management is responsible for ensuring that operations are organised according to these principles. Good corporate governance is ensured by means of a clear frame of reference, systematically and comprehensively documented instructions and clearly defined decision-making processes.

The principles of good corporate governance are adhered to in all Group companies and entities, all bodies and all operations. OP-Pohjola Group entities approve their own good corporate governance principles. Good corporate governance principles also include the recommendation of the central institution's Board on corporate governance.

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

Internal control

Internal control is a comprehensive process that covers control over financial and all other operations. Its core is formed by OP-Pohjola Group’s management system and the comprehensive control and supervision network. Internal control is carried out in the entire Group at all levels of organisation.

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

A separate capital plan and proactive contingency plan for capital base is made annually for OP-Pohjola Group. All OP-Pohjola Group entities also make result forecasts and capital plans to draw attention in good time to what consequences business decisions have on capital adequacy, profit development and success indicator values.

Risk and capital adequacy management

Risk and capital adequacy management is part of the control and supervision framework of internal control. The purpose of risk and capital adequacy management is to ensure OP-Pohjola Group's risk-bearing capacity, which is made up of good risk management that is proportionate to the extent and complexity of operations and of sufficient capital adequacy based on profitable business operations.

OP-Pohjola Group’s risk and capital adequacy management principles are approved by OP-Pohjola Group Central Cooperative’s Supervisory Board. The principles define the general framework for meeting the statutory and regulated obligations related to the risk and capital adequacy management, and the general application of the Financial Supervisory Authority’s instructions at OP-Pohjola Group level and in organisations belonging to OP-Pohjola Group.

Risk management

The purpose of risk management within OP-Pohjola Group is to identify threats and opportunities that impact the implementation of the Group’s strategy. The primary objective of risk management within OP-Pohjola Group is to secure the risk-bearing capacity of all entities belonging to the Group and to ensure that they do not take on excessive risk that might endanger the profitability, capital adequacy or continuity of the operations of an individual entity or the entire Group.

The risk management process includes the recognition, measurement and evaluation of risks, and their limitation, reporting and supervision. The qualitative and non-quantifiable risks threatening OP-Pohjola Group and its entities are controlled, for example, by ensuring adherence to the central institution's general capital adequacy management instructions and operating procedures and instructions issued by the top management. OP-Pohjola Group's quantifiable risks are restricted by means of limits and supervision limits (in 2011 by means of a risk and control limits) that steer operations in member banks, OP-Pohjola Group Central Cooperative Consolidated entities and throughout the Group.

The Central Cooperative’s Supervisory Board has determined risk limits for OP-Pohjola Group’s capital adequacy as well as for credit, liquidity and market risks. The indicator calculations have been changed for 2012. A new Group-level risk limit has been adopted: underwriting risk. The OP-Pohjola Group’s Executive Board has set limits for capital adequacy, profitability and efficiency, and control limits for various types of risk which the member cooperative banks and Helsinki OP Bank Plc must observe. The member banks and Helsinki OP Bank Plc use these limits to confirm their own limits, which are tighter than those set by the central institution. Similar limits are also in place concerning the capital adequacy and key risk types of companies within OP-Pohjola Group Central Cooperative Consolidated. The coverage of the indicators and any needs for development are reviewed annually.

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

All entities within OP-Pohjola Group have a set of written risk management instructions approved by the top management that have been adjusted according to the nature and extent of the business. OP-Pohjola Group is determined to develop risk management, its methods and information systems on the basis of its business needs, observing any changes in the operating environment and requirements set by the authorities.

Capital adequacy management

The purpose of capital adequacy management is to ensure OP-Pohjola Group's risk-bearing capacity and to ensure that the Group's operations are not jeopardised in the long run. Capital adequacy management is composed of putting in proportion the estimated risk exposure and its forecast trend with the available funds. Minimum capital requirement is estimated with the economic capital model. Profitability development and capital planning also have a key role to play in capital adequacy management.

Economic capital

The economic capital is OP-Pohjola Group's estimate of the amount of capital sufficient to cover unexpected losses arising from risks. In this economic capital model, the Group's internal risk models are used to calculate the required economic capital, with a 12-month time horizon and a 99.97% confidence level.

Economic capital is calculated on the following risks: credit risk; interest rate, equity and property risk within banking; investment and underwriting risk within non-life and life insurance; and operational risk. OP-Pohjola Group's performance indicators and limit measures make use of indicators that are based on economic capital.

Stress tests

Stress tests are used to assess how various exceptionally serious situations may affect OP-Pohjola Group. Stress tests can be used to identify the most essential risks for the Group and assess the vulnerability of the Group's financial standing to these risks.

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

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

Risk and capital adequacy management

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

OP-Pohjola Group Central Cooperative (Central Institution)

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

At least once a year, the central institution's Executive Board ensures that OP-Pohjola Group's strategy, risk limits, capital plan and proactive contingency plan for capital resources are up to date. The Executive Board also ensures that the systems and procedures for risk and capital adequacy management are sufficient and up to date and that any instructions concerning these are issued to OP-Pohjola Group entities. The Executive Board approves OP-Pohjola Group's risk policy and general policies for risk and capital adequacy management. The Executive Board reports to the Supervisory Board on changes in the business, risk-bearing capacity and risk situation of OP-Pohjola Group, the central institution and entities belonging to it, and the Group member banks.

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

OP-Pohjola Group's Risk Management Committee, which reports to OP-Pohjola Group’s Executive Board, ensures that OP-Pohjola Group has the ability to operate successfully in the long term. It guides and control's the Group's risk and capital adequacy management and supervises adherence to OP-Pohjola Group's capital adequacy management policies. The Risk Management Committee makes proposals to OP-Pohjola Group’s Executive Board concerning general principles of risk and capital adequacy management and supervises that risk management aspects are sufficiently taken into consideration in business and its development.

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

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

OP Bank Group Mutual Insurance Company (OVY) analyses the sufficiency of the customer's debt-servicing ability, the solidity of collateral and the quality of the member bank's financing process for customer entities that exceed a specific amount of liability. The processing of insurance decisions helps OVY receive detailed information about the risks and credit decision procedures of Group member banks' retail banking operations' largest groups of connected customers. The insurance decisions of OVY also guide bank-specific credit risk-taking.

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

Member banks, insurance institutions and other subsidiaries of OP-Pohjola Group Central Cooperative Consolidated

The member banks, insurance institutions and other entities of 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. In member banks, the Supervisory Board approves the risk and capital adequacy management principles and supervises the operation of the bank and the Group. In entities of the central institution, this is the responsibility of the Board of Directors or Executive Board acting as the Board. The management of the member banks and the central institution's entities are responsible for the implementation of capital adequacy management according to the principles and operating policies that have been agreed on, and report regularly on the entity's business, risk-bearing capacity and risk exposure to the Board.

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

Within Pohjola Group, Pohjola Bank plc’s Board of Directors is the highest decision-making body in matters associated with risk management. The Board of Directors has elected from amongst its number a Risk Management Committee which has the duty of tracking and controlling risk exposure. The risk management executives, who report to the Risk Management Committee, coordinate and guide risk and capital adequacy management principles and policies. The Risk Management Committee also receives reports from the Balance Sheet Management Executives, which coordinate and guide the use of Pohjola Group's balance sheet. The Risk Management function, which is independent of actual risk-taking and business, develops and carries out risk and capital adequacy management in Pohjola Group in cooperation with the Finance function. The principles of risk and capital adequacy management within Pohjola are described in more detail in Pohjola’s financial statements.

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

Risk management in OP-Pohjola Group’s strategy

OP-Pohjola Group’s strategy process defines the Group’s risk-bearing capacity and risk appetite and decides on other significant risk management principles.

According to the strategy approved in the summer of 2009, OP-Pohjola Group is a moderate risk taker. The objective is that banks and entities in OP-Pohjola Group grow above the average market rate. When seeking growth, we will secure the continuity of business, safeguard our profitability and improve our efficiency on an on-going basis. We seek growth primarily by increasing sales to our clientele. Each entity is responsible for its own risk management, and independent operations are based on the member banks' own risk-bearing capacity and service ability.

Correctly dimensioned capital holds a key role both in banking and insurance operations: the license requires fulfilment of capital adequacy requirements prescribed by law. The amount of capital impacts both return on equity and capital adequacy. Good profitability in turn supports both targets. The long-term indicator for success in terms of capital adequacy is the capital adequacy ratio under the Act on the Supervision of Financial and Insurance Conglomerates. The aim is that OP-Pohjola Group's capital resources, calculated according to this Act, should be 1.5 fold in relation to the minimum amount specified in the Act. The success indicator for profitability is return on economic capital, which is calculated as the ratio of profit, adjusted with OP bonuses, to the average economic capital. The target is to achieve return of at least 17% on the economic capital.

OP-Pohjola Group's most significant business risks are strategic risk, liquidity risk and market risks, of which interest rate risk and investment risks. Insurance risks, operational risks and compliance risks are significant for the financial services group's business.

Strategic risks

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

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

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.

Management tools

Operational risks are managed in OP-Pohjola Group by identifying and analysing risks and by ensuring that control and management measures are appropriate and sufficient. Operational risk management does not always aim to remove the risk altogether but to bring it down to an acceptable level.

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

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

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

Monitoring and reporting

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

Risk assessments are made throughout the Group, the findings being used to make development plans. Operational risks are reported regularly to the management of the central institution and the entities. The information obtained is used to support planning, decision-making and management.

Compliance risks

Forming part of operational risk, compliance risks refer to risks resulting from non-compliance with external regulations, internal policies and appropriate procedures and ethical principles governing customer relationships. Realisation of such as risk may result not only in financial but also other sanctions. Such sanction may include a corporate fine and separate administrative fines for violation of obligations, and reminders. Compliance risk may also materialise in terms of loss or deterioration of reputation or trust.

Our aim is to ensure that all OP-Pohjola Group entities comply with applicable legislation, official instructions and regulations, guidelines related to market self-regulation and OP-Pohjola Group's and its entities' internal principles and guidelines. Compliance operations also ensure that customer relationships are conducted with appropriate and ethically sound principles and practices.

Management tools

Compliance risk is managed in OP-Pohjola Group by monitoring changes in legislation and by providing the organisation with guidelines, training and consultation. The compliance function also supervises that the procedures chosen conform with the regulations. Compliance risks are identified, assessed and reported regularly according to the operational risk management model described above. Compliance of new products and business models are evaluated as part of their approval process.

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

Credit risks

Credit risk refers to a counterparty risk, that is, is risk of losses arising from the failure of the contracting parties to meet their obligations, and from the collateral not being able to secure the receivables. Credit risk also includes country risks and settlement risks. Counterparty risk is reduced by the use of exchange-traded products and netting agreements and, in derivatives trade by the use of collateral. Country risk is restricted by limiting the amount of exposures of target countries and contracting parties within them. In settlement risk management, it is vital to ensure the reliability of counterparties. The Group mitigates risks by concluding standard agreements and using only reliable clearing centres.

Credit risk management aims to restrict losses due to credit risks arising from customer exposure to an acceptable level. 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. Credit risk in banking is managed in practice through customer selection, collateral, covenants and avoidance of risk concentrations.

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

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

Credit risk management methods within banking

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

Lending will primarily be carried out on the basis of the customer's sufficient and verified debt servicing ability. The starting point for credit risk management and the biggest strength of OP-Pohjola Group's member banks is their local and thorough understanding of their customers.

The authority to make financing decisions has been set at a certain level in Group member banks on the basis of the total amount of exposure of a group of connected clients and also on the basis of insufficient collateral and credit rating category. The credit rating controls the granting of exposure, consequences of insufficient collateral, and pricing of liabilities.

The debt servicing ability and credit risk associated with private customers are estimated on the basis of their credit ratings, solvency assessments and payment behaviour. Solvency assessments ensure that private customers will be able to meet their obligations. Whether a loan will be granted also depends on the reference calculation made during the financing negotiations and the financing percentage calculated for the customer. We offer credit repayment cover in case of illness or unemployment.

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

In order to stabilise debt servicing costs upon a possible rise in the interest rate level, OP-Pohjola Group offers interest rate caps and fixed-rate mortgages in financing for households and for corporate loans.

Improvement of corporate customer services is one of the key areas of OP-Pohjola Group's strategy. On the basis of this strategy, credit risk management resources have been increased and operations have been developed especially in larger Group member banks. The corporate customer business is based on service models into which risk management has been closely integrated while at the same time ensuring that risk management remains independent.

Any foreseeable problems will be reacted to as early as possible. For the benefit of member banks, typical characteristics of weak and problem customers –private, corporate and agricultural – have been described to ensure that the entire Group uses uniform ways to deal with any problem situations. Customers whose financial status performance, credit risk and payment behaviour justify a more detailed examination are subject to special observation. In this context, the Group also analyses the need to change the customer's credit rating, the probability of a credit loss and the need to recognise an impairment loss. This often means that the credit approval decision is made by a higher-level decision-making body.

Risks related to individual countries are monitored on the basis of external credit rating. Pohjola Bank plc and the Group's insurance institutions limit risk-taking in their risk policies and investment plans both in terms of volume and time through the use of country limits. When determining the country limit, we consider the country's risk exposure, the counterparties operating in the country, and the business needs. In addition to imposing country limits, companies set limits on certain products based on the country's external rating. In countries where the external rating is Ba1 or poorer, the Group's business is only limited to certain types of business that promote customer operations and reciprocity.

Monitoring and reporting

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

For Group member banks, the central institution produces information about their risk exposure. Comparisons are made with other banks of the same size, banks in the same region and with respect to member banks' averages.

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

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

Reducing credit risks

In order to ensure repayment of commitments, collateral must be provided for customer exposure, and any retail banking carried out by Group member banks must primarily have collateral security. OP-Pohjola Group’s Executive Board confirms maximum valuation percentages for each type of collateral. Collateral is evaluated by an independent party and using a conservative approach to fair value. The Group exercises special care in assessing the value of collateral deemed as cyclical in nature, and its usability. OP-Pohjola Group Board of Directors also approves the procedures for the acceptance of real estate, various shares, deposits and securities and any other assets or guarantees for use as collateral. Adherence to these guidelines also ensures that collateral has been properly pledged, is comprehensive and sufficient and can be converted into cash.

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

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

The member cooperative banks have a loan portfolio insurance policy with OP Bank Group Mutual Insurance Company (OVY) covering the loan portfolio and bank guarantees. This policy reduces losses to individual Group member banks as a result of loan losses. Insurance decisions are made separately for each group of connected clients that have a large exposure, in increased exposure and an elevated credit risk detected by means of risk factor analysis. Banks which the Central Institution's Risk Management function estimate to have a higher credit risk or weakened financing process have a separate threshold for action when the total exposure of the group of connected clients is €300,000 or more.

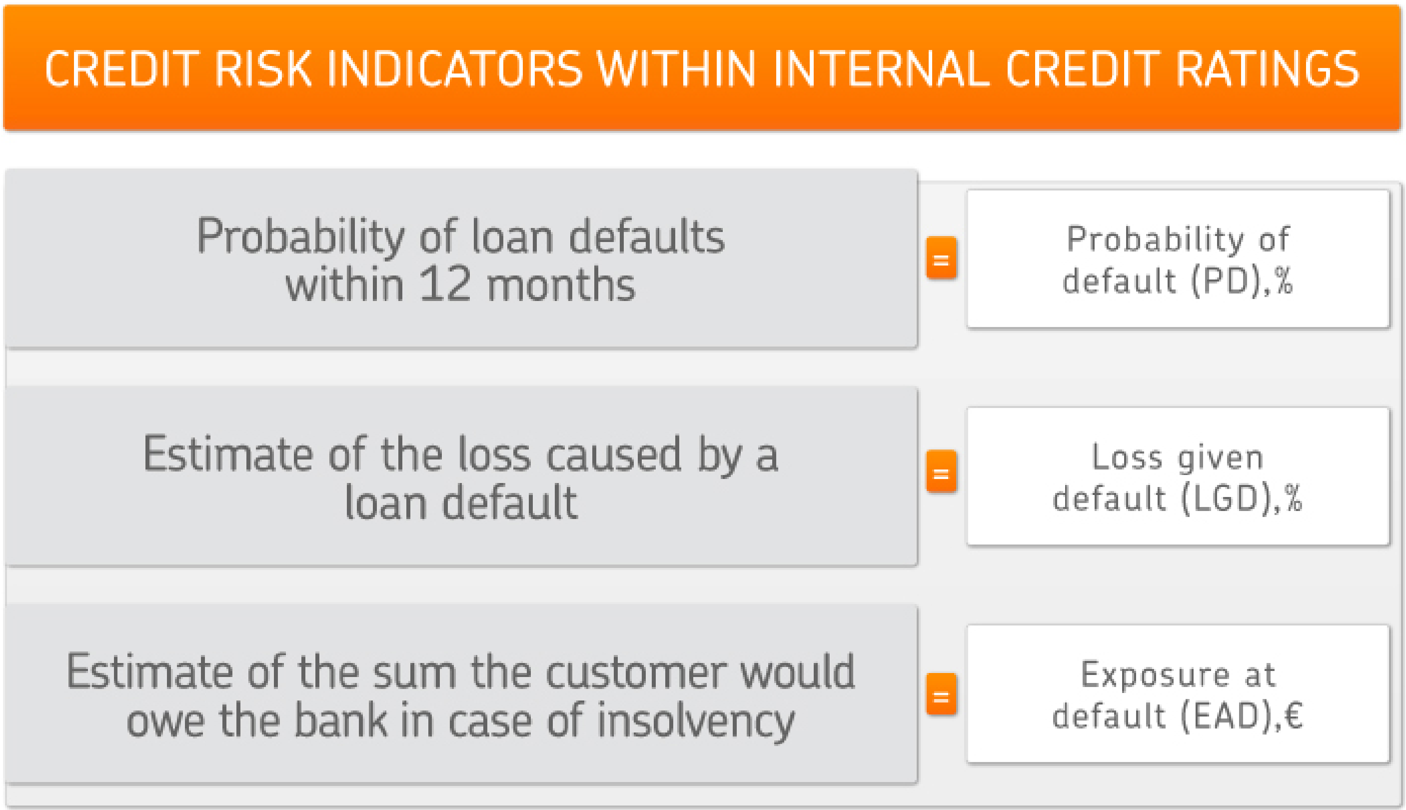
Loan insurance risks are limited by means of exposure selection based on OP-Pohjola Group’s credit and collateral instructions: the commitment of a group of connected clients can be excluded from the policy owing to excessive risk related to debt servicing ability, collateral or insufficient financing process. The separate processing of insurance decisions provides detailed information to the Central Institution's Risk Management on the loans, debt servicing ability and collateral of the largest retail banking customers.

Credit insurance operations play a key role in OP-Pohjola Group's internal credit risk management and loss-balancing procedure, accounting for about 90% of OVY's technical provisions and premiums written. OVY also offers OP-Pohjola Group's entities collateral, liability and security insurance.

Credit rating

The taking of credit risk is controlled and the amount of risk is assessed at OP-Pohjola Group by means of credit risk models. Credit rating covers models, in addition to models evaluating the client's solvency, for risk parameters involving Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD).

Credit risk parameters within internal credit ratings



In practice credit risk models have an effect on, for example

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

Credit rating and probability of insolvency

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

Private customer solvency assessment

In the assessment of private customer solvency, exposures are divided into 16 rating categories from A+ to F, the latter representing exposures of insolvent customers. In this assessment, Pohjola uses a credit rating of the customer's loan portfolio or, if no such rating exists, rating of the application stage. The rating is based on information available from the loan application, the customer's payment behaviour and other transaction history data that are scored. The combined scores are used to create rating categories and average PD has been calculated for each category for a period of 12 months.

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

If a private customer's exposure does not yet have an exposure category, Group member banks' home and consumer loans are put in the same category as in the application stage that is based on the scoring model made in 2008. Calibration of probability of default was last done in the summer of 2011, and the calibrated model was adopted in the same autumn. As to Pohjola's financing company products and OP-Kotipankki's unsecured consumer loans, we use separate application stage models that were made in 2010.

The rating based on the application stage supports the credit approval process, credit risk assessment and the pricing of new loans. This rating takes place as part of OP-Pohjola Group's credit process. The credit rating based on the application stage is valid for six months after which it will be replaced with the credit rating set for the loan portfolio if the customer had not previously have such credit rating.

Corporate customer creditworthiness assessment

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

Creditworthiness assessment of mid-size large corporate customers (R rating) is based on the companies' financial indicators and qualitative background information transferred into a statistical scoring model. An expert familiar with the customer will make a rating proposal on the basis of what is suggested by the model and of any other information available. Any changes and uncertainties relating to the future outlook will be considered as warning signs and exceptions to the rating provided by the model. Based on the expert's proposal, OP-Pohjola Group's Rating Committee will at least once year make the final decision on the customer's credit rating. The model used in R-rating today was adopted in 2008 and updated in 2011.

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 creditworthiness. The model has been used since the beginning of 2008 and was updated in March 2011.

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 OP-Pohjola Group's information systems Each rating is updated once a month. The rating model for low exposures was adopted in 2009 and updated in 2011.

Score limits have been set for credit rating categories based on the model for low exposures and 'A' rating model, and average PD has been calculated for each category for a period of 12 months. Irrespective of the model, each credit rating category is subject to the same probability of default, i.e. credit rating categories deriving from various models are comparable with one another. In deriving probability of default, Pohjola has used recent years' actual payment default data, long-term credit loss data and bankruptcy statistics and the cyclical nature of the model. The need for updating probabilities of default for each category is assessed annually.

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

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

S&P Rating	AAA…AA+	AA…BBB+	BBB…BBB-	BB+…BB-	B+…B	B-..CCC
OP-Pohjola 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

Credit institution creditworthiness assessment

A specific 'L' rating model used to assess the solvency of credit institutions is based on the probability of default deriving from qualitative and quantitative factors The resultant probabilities are divided into 20 categories that form the basis of credit rating categories.

The statistical model that forms the basis of credit ratings is based on empirical data on Pohjola's international credit institutions as counterparties. The model is based on the so-called sovereign ceiling rule according to which a private-sector counterparty cannot have a higher credit rating than the government. OP-Pohjola Group's Rating Committee makes decisions on the ratings of credit institutions. The 'L' credit rating is valid for 12 months after which it is updated. Whenever necessary, the credit rating may be updated earlier in the case of any changes in the credit institution's creditworthiness. The 'L' credit rating model was adopted in 2009.

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

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

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

Loss given default (LGD) and exposure at default (EAD)

In addition to the model for customer creditworthiness assessment, Pohjola uses models for predicting loss given default (LGD) and exposure at default (EAD) to measure credit risk. In OP-Pohjola Group's credit risk models, LGD is an estimate of a financial loss (as a share of customer exposures at default) which the bank would incur if the customer became insolvent within one year. EAD refers to the amount of liabilities in the balance sheet based on the insolvent customer's agreement at the time of default. Off-balance-sheet exposures are assessed by means of a Conversion Factor (CF), which describes how much of off-balance-sheet exposures have been utilised at the time of default.

Use of credit risk models in capital adequacy measurement

In September 2008, the Finnish Financial Supervisory Authority granted OP-Pohjola Group Central Cooperative permission to use the Internal Ratings Based Approach (IRBA) to measure its capital adequacy requirement for credit risk on equity investments at OP-Pohjola Group level and on Pohjola Bank plc's corporate exposures. In October 2011, OP-Pohjola Group Central Cooperative and the member credit institutions that belong to the amalgamation of cooperative banks (excl. OP-Kotipankki Oyj) and the companies belonging to their consolidation groups were allowed to extend the use of IRBA to retail and credit institution exposure and the Group's other corporate exposure.

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

Within IRBA to measuring the capital requirement for credit risk on retail exposures, PD, LDG and EAD values based on OP-Pohjola Group’s internal models are used to calculate the risk weight of each customer’s exposure.

Decision-making and assessment related to credit risk models

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

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

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

OP-Pohjola Group Central Cooperative’s Internal Audit is responsible for ensuring that validation is performed independent of businesses. It also inspects the credit risk models and their use in the central institution’s companies and member banks as a matter of regular auditing.

Securitisation positions

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

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

Liquidity risk

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

OP-Pohjola Group's liquidity refers to the Group's Banking Operations' ability to meet its daily payment obligations without risking the business continuity, profitability or capital adequacy of the Group or a Group entity. Funding liquidity management is governed by the regulations concerning the minimum reserve and marginal lending facility systems by the European Central Bank. Structural funding risk management has the primary objective of controlling the funding structure of Banking Operations and its entities in such a way that the liquidity risk will not materialise as a result of the Group's own operations. Funding liquidity risk management aims to secure the availability of funding to the financial services group's Banking Operations in a cost-effective way and in all circumstances.

The sources of liquidity risks include those arising from the balance sheet structure and changes in customer behaviour as well as risks associated with wholesale funding performance. Moreover, liquidity risk may arise from changes in regulation governing the management of business risks, reputational risk or liquidity.

Management tools

OP-Pohjola Group's liquidity management tools include the proactive planning of the funding structure, the Group's risk limits and control limits and monitoring indicators derived from them, the monitoring of the liquidity status and well-balanced liquidity buffer, planning and management of daily liquidity, as well as effective control of the Group's liquidity status.

Liquidity risk management is based on the Group's risk policy and approved risk limits and control limit indicators. OP-Pohjola Group Central Cooperative approves the qualitative targets set for the liquidity buffer, a funding plan, a contingency funding plan in case of threat scenarios and a liquidity status control model. The contingency funding plan involves a control model based on threshold levels, a contingency plan containing funding sources, and a contingency funding plan at operational level. The liquidity buffer’s quantitative and qualitative targets, the contingency plan and the control model based on threshold levels have been determined on the basis of threat-scenario stress tests. In case of market disruptions, the Group applies its contingency funding plan. The internal central banking services provided by Pohjola support the Group's liquidity management.

The Group's wholesale funding is based on the proactive planning of the refinancing 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 need for wholesale funding is determined as the difference between deposit funding and increase in lending. In order to secure funding on an on-going basis, the Group utilises a diverse range of financial instruments while diversifying the sources of funding by maturity, geographic location, market and investor. Any surplus deposits to member banks are mainly channelled to Central Cooperative Consolidated accounts or instruments it has issued in order not to increase the Group’s wholesale funding unnecessarily.

The liquidity buffer ensures that the financial services group's banking business can continue normally for at least a month in a situation in which wholesale funding has dried up altogether and deposits have begun to fall. Liquid funding may be made available by selling notes and bonds in the liquidity reserve or using them as collateral. The liquidity buffer consists of a notes and bonds portfolio eligible as collateral for central bank refinancing.

OP-Pohjola Group aims to ensure its liquidity by means of a liquidity buffer, long-term financing planning 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.

OP-Pohjola Group’s Executive Board is responsible for the management of OP-Pohjola Group's liquidity risks. The Executive Board annually confirms the risk policy providing guidelines for OP-Pohjola Group's liquidity management, and control limits, deriving from the risk limits set for Group member banks and other entities by the Supervisory Board, which put constraints on Group entities' taking of structural funding and funding liquidity risks. OP-Pohjola Group’s Executive Board monitors regularly the liquidity risk and funding liquidity position of OP-Pohjola Group and its member banks and other entities, and takes any corrective measures if required and decides on changes in the threshold levels pertaining to liquidity management.

Each OP-Pohjola Group entity is responsible for its liquidity management within the framework of control limits and guidelines issued by the central institution.

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 bank or Group entity. The Group's daily liquidity management refers to managing liquidity of the Group's companies engaged in banking operations. Any changes in their liquidity position will change Pohjola's liquidity position. The liquidity reserve of the entire OP-Pohjola Group's banking operations is managed at Pohjola. Pohjola manages centrally the wholesale financing in the form of senior bonds and equity capital, while OP Mortgage Bank handles funding based on mortgage-backed securities.

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

Monitoring and reporting

Monitoring and reporting liquidity risks exposed by Group entities vary from real-time to quarterly practices, depending on the nature and extent of their business. Monitoring and reporting are based on the Group's risk limits and target figures. Depending on the entity and reporting level, reporting practices may vary from daily cash flow monitoring (funding liquidity) to the monitoring and forecasting of long-term refinancing structure (refinancing risk). Monitoring and reporting practices correspond to the threshold level required by the prevailing liquidity status. 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 daily progress reporting practices whenever necessary. Group entities report liquidity risks to their boards of directors regularly, applying at least the level which has been set for control limit indicators and limits.

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

OP-Pohjola Group's risk limit for liquidity risk has been set for the ratio between net cash flows under time category which guide the structural financing risk and the Banking balance sheet, and for the indicator concerning liquidity risk. The risk indicator for the structural funding risk indicates the maximum portion of the net cash flows in the Group's balance sheet that may have a maturity within less than one, within less than three years and within less than five years. Items having a maturity date as shown in the agreement are included in the analysis of structural financing risk according to the maturity date or any earlier repayment date. The maturities of accounts with no maturity date have been modelled. The indicator concerning liquidity risk shows how well the primary liquidity reserve can cover the known or predictable net cash flows payable to parties outside the Group. At operational level, tighter control levels than the limit are set for indicators with a view to serving as an operational buffer. In addition, the Group uses monitoring indicators describing various aspects of liquidity risk.

The control and monitoring of OP-Pohjola Group's liquidity status is based on threshold levels defined on the basis of market conditions and the Group's funding performance. For each of those levels, the Group has specified control and monitoring practices which become more rigorous when moving up to the next level.

Market risks

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

The greatest risk for Banking is interest rate risk which is realised when a change in the interest rates affects the net interest income. In the assessment of market risks related to non-life and life insurance operations, the focus is on those related to investments and technical provisions, primarily interest rate risk.

Management tools

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

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

The management of the interest rate risk associated with the banking book of banking operations is aimed at securing sufficient net interest income in case of changes in interest rates. In respect of trading and investment portfolios, the objective is to safeguard the annual return and the market value of the portfolio.

In accordance with the division of tasks within the banking operations, the member banks and Helsinki OP Bank Plc focus on retail banking. Their active trading in the money and capital markets has been restricted in order that the number of trading portfolios per bank does not exceed the number permitted to small trading portfolios in the capital adequacy regulations related to market risk. The trading portfolio of a single bank may be a maximum of 5% of the total amount of items on and off the balance sheet.

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

As the central bank of OP-Pohjola Group, Pohjola Bank plc manages the Group's payment transfers and Banking's currency risk, obtains wholesale funding, maintains international banking relationships, and is responsible for Banking's liquidity and centralised liquidity buffer maintenance. The extent of market risks taken by Pohjola is controlled by the company's risk policy, capital adequacy management principles, overall risk policy, as well as the market risk policy which determines the principles applicable to the structure and diversification of the exposure, the maximum risk amounts permitted, and the targets set for risk and return.

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

Group member banks use derivatives to protect euribor-linked interest rate risk positions against sinking interest rates and net interest income fluctuations. This is done by means of cash flow hedging in which part of the interest rate flows in the euribor-linked credit portfolio has been changed into fixed-rate interest by means of interest rate swaps. Some member banks have also protected their net interest income interest rate floor contracts under the principle of financial protection.

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

Member banks carry out their money market and derivatives operations with Pohjola Bank plc.

Insurance institutions manage their investment and market risk related to technical provisions by means of derivatives contracts. The extent of use and principles concerning interest rate, equity, exchange rate and credit risk derivatives are determined annually in the companies' investment plans. 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 contract are only signed with a counterparty whose long-term rating is at least A3 (Moody's) or A– (Standard & Poor's). In addition to various derivatives contracts, insurance institution's long-term fixed-income investments include embedded derivatives that are not separated from host contracts in the financial statements. Contracts containing embedded derivatives are valued in the balance sheet at fair value and their value changes are recognised in the profit and loss.

Monitoring and reporting

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

Market risks are evaluated by means of sensitivity analyses, statistical volatility and correlation analyses, VaR (Value-at-Risk) analyses, and stress tests. The Group monitors derivative risks as part of the total exposure using the same benchmarks as for balance sheet exposure.

We use four limits to restrict market risks at Group level. 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. (In 2011 the basis was the total economic capital of all risk types.) Within insurance operations, the economic capital for interest rate, exchange rate, credit spread, equity and commodity risks are calculated using the historical simulation VaR model. Another limit used for market risks focuses on interest rate, credit spread, currency, equity and commodity risk related to trading, and the price risk related to structured products. This limit was not yet used in 2011.

Market risk limits to financing interest risk and real estate risk is explained in more detail below in this Note in connection with the description of monitoring and reporting concerning each risk type.

Market risks related to investments

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

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

Management tools

Achieving long-term return targets for investment requires controlled risk-taking. The Central Institution defines the Group's liquidity reserve allocation, and Pohjola Bank plc will make a more detailed investment plan to the liquidity buffer portfolio.

The boards of insurance companies confirm separate instructions and policies related governing the risk management of investments. Annual investment plans, confirmed by the boards of directors of Group entities, determining the desired risk and return level are also very important. These investment plans also specify the mix, range and benchmark indices for investment assets as well as other restrictions on investment.

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

Monitoring and reporting

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

The amount of alternative investments was restricted in 2011 with a risk limit whereby the market value of alternative and structured investments was presented in proportion to the economic capital of all risk types. Alternative investments included private equity funds, unlisted equity instruments, hedge funds, equity-related structured credit products, unlisted real estate funds, infrastructure funds, commodities and convertible bonds. Structured investments referred to investments whose return differs substantially from that of other asset categories and, in many cases, that of the underlying asset. Structured investments also include ABS (asset-backed securities). This was removed from Group-level limits and will not be applied in 2012, because alternative investments are already covered by insurance operations' market risks.

Interest rate risk

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

OP-Pohjola Group's greatest interest rate risks are those related to retail Banking's banking book and to insurance operations. In non-life and life insurance operations, an interest rate risk is created when changes in the interest rate affect the value and earnings of investment assets and the cash-flows of technical provisions.

The banking interest rate risk is derived from the banking book and Pohjola Bank plc's trading portfolio. The interest rate risk of items not in the trading book is by nature related to structural interest income from financing. 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.

Management tools

The interest rate risk associated with the banking book of Group member banks is mainly managed by the choice of borrowing and lending products and the terms and conditions offered. Group member banks also may protect against interest rate risk in their balance sheet by means of interest-rate derivatives as approved within the Group. In retail banking, interest rate derivatives are also used in customer business (interest rate caps, interest rate corridors and index-linked deposits) and banks' own investment operations falling under small trading books. Pohjola uses derivatives in trading and hedging against interest rate risk.

In addition to the interest rate monitoring standardised throughout the Group, Pohjola Bank plc interest rate risk is reduced by means of interest rate risk limits specific to responsibility areas. Interest rate risk related to trading and the banking book are limited using the same principles and indicators.

In life insurance operations, liabilities to policyholders included in technical provisions carry a considerable interest rate risk. These obligations consist of both a binding income promise in insurance contracts and customer bonuses. The purpose of Life Insurance's balance sheet management is to measure and control the company's entire net interest risk exposure. Interest rate risk for technical provisions is covered entirely or party with interest rate derivatives in order to bring the overall risk exposure to the target level. Chapter 12 of the Insurance Companies Act on proactive capital adequacy supervision sets a capital requirement for the net risk exposure of a life insurance company's balance sheet. Interest rate risk concerning technical provisions within Non-life Insurance will not affect earnings or the capital adequacy requirement set by the supervising authorities before the adoption of Solvency II.

Monitoring and reporting

When analysing the interest rate risk, items sensitive to changes in interest rates are categorised in the cash flow analysis in accordance with interest-rate adjustment times. The interest-rate adjustment date for fixed-rate items is the same as their date of maturity. The future interest cash flows of floating-rate items are calculated on the current interest rate curve using the forward method based on the interest rate information in the agreement. The estimated re-pricing delays in administrative interest rates are considered in this analysis.

When determining the interest rate risk of banking operations, the impact of customer behaviour is also observed by assessing the average re-pricing delay based on the historical development of the deposit portfolio. The delay in reviewing administrative interest rates has been modelled on the basis of interest rate history, whereas premature repayment of loans has not been modelled.

The interest rate risk measurement methods and frequency of follow-up in Group entities vary on the basis and nature and extent of their operations. In addition to sensitivity indicators related interest rate risk, Pohjola measures and reports on interest rate risk by means of a statistical VaR model. Pohjola adopted a VaR-based interest rate restriction method in 2011.

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

The Group’s financing interest rate risk limit is set on the basis of the interest rate risk's economic capital and the Group’s capital resources. (In 2011, the economic capital requirement of the entire interest rate risk by Banking was presented in proportion to the total economic capital of all risk types.)

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

Price risks

Price risks are the effects of market price changes on the value or profit of investments or the entire balance sheet. Price risks also include share, commodity, currency and volatility risks. Options trading, index-linked bonds and notes with option structures, and the technical provisions under life insurance involve volatility risks.

Equity risk

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

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

The equity exposure is calculated at fair value, but if this is not available, using balance sheet values. Within OP-Pohjola Group's set of risk limit indicators, equity risk within Non-life Insurance is included under its market risks. The economic capital of equity risk within Insurance is calculated by using the historical simulation VaR model as part of insurance market risk. Equity risk by Banking is marginal, and it is measured with the equity portfolio's market value. Pohjola Bank plc applies the statistical VaR indicator to equity risk, too.

Commodity risk

Commodity risk refers to risk to Group earnings caused by changes in commodity prices. Commodity risk is linked to insurance companies' investments and Pohjola Bank plc's trading. Commodity risk is controlled by means of securities selection and derivatives.

Pohjola Bank plc applies the statistical VaR indicator to commodity risk, too. The economic capital of insurance companies' exchange traded commodities is calculated by using the historical simulation VaR model as part of insurance market risk.

Currency risk

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

Pohjola Bank plc manages currency risk as total exposure by means of foreign exchange transactions and derivative contracts. In Non-life and Life Insurance, currency risk is managed by diversifying the investment allocation and through hedging currency derivatives. In non-life and life insurance, foreign currency exposure has a maximum limit in the investment plan.

Currency risk is measured by means of total net foreign currency exposure, currency pair exposures or VaR indicator. The economic capital of currency risk within Insurance is calculated by using the historical simulation VaR model as part of insurance market risk.

Volatility risk

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

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

Real estate risk

By property risk we refer to risk to an investment's market-based profit caused by market changes and property occupancy rate, both with reference to property and to similar instruments.

Management tools

The objective of property exposure management is to recognise, evaluate, limit and monitor the impairment risk, rental income risk and risk of damage associated with property holdings. In order to reduce risks associated with property holdings and improve the earnings level, member banks have confirmed principles and management systems for the management of property exposure. In non-life and life insurance, the principles of property risk management have been laid down in the investment plan.

Monitoring and reporting

The Group’s real estate risk limit has been set on the basis of the ratio between economic capital and the Group’s capital base. (In 2011 the basis was the total economic capital of all risk types.) The economic capital for investment property is based on an expert assessment (40% of balance sheet value), while property in own use is based on capital requirements in the capital adequacy measurement (8% of the balance sheet value). In insurance operations, the risks of indirect, market-quoted property investments (property funds etc.), are included in the calculation of the economic capital in terms of market risks (historical simulation VaR model).

The amount and earnings level of the member banks’ and OP-Pohjola Group’s property holdings are reported at least quarterly.

Credit spread risk

Credit spread risk refers to a change in the value of financial instrument owing to a change in the credit spread. Credit spread risk materialises either as a price risk or when probability of default or market liquidity changes.

Management tools

Credit spread risk is controlled by means of investment selection, diversification and credit risk derivatives.

Monitoring and reporting

Credit spread is priced in the market as a return requirement which is added to the interest rates of interest rate swaps. Credit spread is measured as a change of 10 basis points in the credit spread, using the VaR method. Credit spread risk is measured in the Group's insurance companies as part of the stress test for the investment portfolio's overall risk exposure, while economic capital is calculated by using the historical simulation VaR model as part of insurance market risk.

Market liquidity risk

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

Underwriting risks associated with Non-life Insurance

With an insurance contract, the policyholder transfers the insurance risk to the insurer. The underwriting risk associated with an individual non-life insurance contract comprises two components. The first one is the occurrence of one or more loss events coverable under the contract and the second one is the size of the coverable loss.

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

Risks are, however, never fully independent, as, for example, the level of insurance risk in a given geographic area will to some extent depend on the current external conditions. Moreover, market fluctuations, mortality rate changes and concealed and unidentified risk for losses may have an effect on several insurance contracts simultaneously. Recent examples include asbestos losses and the effect of longer life expectancy on the pension portfolio of statutory insurance. Fluctuations in external circumstances therefore cause dependence between insurance risks.

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

Management tools

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

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

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

The risk inherent in technical provisions lies mainly in insurance lines characterised by a long claims settlement period. The evaluation of insurance contract liabilities always involves uncertainties which may be due, for instance, to the prediction of the claims trend, delays in verifying losses, cost inflation, legislative amendments and general economic development.

Monitoring and reporting

A new Group-level limit was set for Non-life Insurance's underwriting risk for 2012 which limits the economic capital of the underwriting risk in relation to the Group's capital base. The economic capital for underwriting risk is calculated with the company's own risk model.

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

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

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

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

Underwriting risks associated with Life Insurance

The greatest underwriting risks associated with Life Insurance have to do with mortality, life expectancy and work disability. Other key risks for Life Insurance include expense risk and business interruption risk.

Management tools

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

Risk related to mortality and life expectancy is called biometric risk. In pure life insurance and pension insurance policies, the risk exposure of biometric risk is opposite, because with the former it is high mortality that constitutes the risk, while with the latter it is lower mortality that reduces profitability. Offering insurance types that have opposite risk exposures reduces the net risk of our entire insurance portfolio.

Work disability risk is included in insurance contracts on the basis of which we pay compensation for reduced work ability or losses caused by this. Such insurance is priced on the basis of conditions and the situation on the granting date. Any later changes in the pricing bases will be carried by the insurance company during the validity of the policy.

Expense risk arises from assumptions on insurance portfolio management expenses that are used for the pricing of the policy. Expense risk is controlled by sufficiently high expense discipline and appropriate pricing. The realisation of assumptions made with regard to pricing are monitored regularly, and if necessary, the pricing of new policies sold is reviewed, and the technical provisions with regard to the old policies supplemented accordingly.

Business interruption risk arises when customers have the right to surrender the policy, to transfer it to another company or to interrupt payment of insurance premiums. Business interruption risk is managed by means of a competitive product range, suitable product structures and incentives and sanctions in the insurance terms and conditions. Interruption of insurance policies may also jeopardise the accuracy of cost assumptions used for the pricing and thereby contribute to the realisation of the expense risk. Savings insurance policies and capitalisation agreements with right of surrender are particularly susceptible to business interruption risk. Surrender of pension insurance is only possible under exceptional circumstances.

Monitoring and reporting

A new Group-level limit was set for Life Insurance's underwriting risk for 2012 which describes the economic capital of the underwriting risk in relation to the Group's capital base. The economic capital for underwriting risk is calculated with the company's own risk model.

Legislative changes may lead to such changes in the insurance terms and conditions that may have an effect especially on the policy sales. Such changes include law and directive amendments affecting long-term saving products or the pricing bases of life insurance policies. OP Life Assurance Company follows any changes to the legislation and whenever necessary reviews its insurance contract pricing and terms and conditions as required and also to ensure that the company's capital adequacy position is assessed.

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

Notes to OP-Pohjola Group Financial Statements

NOTES TO THE INCOME STATEMENT

Note 3. Net interest income

EUR million	2011	2010
Interest income		
Receivables from financial institutions	37	23
of which value changes of hedged items	–	–
Receivables from customers		
Loans	1,594	1,257
of which value changes of hedged items	27	–6
Finance lease receivables	21	17
of which value changes of hedged items	0	–2
Impaired loans and other commitments	4	4
Notes and bonds		
Held for trading	9	15
At fair value through profit or loss	0	0
Available for sale	441	228
of which value changes of hedged items	224	57
Held to maturity	23	24
Loans and other receivables	20	31
Derivative contracts		
Held for trading	1,457	923
of which hedging derivatives	–16	–58
Hedge accounting	–321	–116
of which hedging derivatives	–239	4
Cash flow hedge	5	3
of which hedging derivatives	0	–
Other	5	3
Total	**3,294**	**2,412**

Interest expenses		
Liabilities to financial institutions	37	16
of which value changes of hedged items	20	4
Financial liabilities at fair value through profit or loss	0	1
of which value changes of hedged items	–	–
Liabilities to customers	397	269
of which value changes of hedged items	0	–1
Notes and bonds issued to the public	726	326
of which value changes of hedged items	253	–24
Subordinated liabilities		
Subordinated loans	8	7
of which value changes of hedged items	0	–1
Other	31	32
of which value changes of hedged items	0	0
Derivative contracts		
Held for trading	1,389	867
of which hedging derivatives	–1	0
Hedge accounting	–329	–30
of which hedging derivatives	–273	21
Other	2	0
Other	3	6
Total	**2,264**	**1,495**
Net interest income	**1,030**	**917**

Hedging instruments in hedge accounting showed net profit of EUR 18.9 million (a loss of -74.5) and net income from hedged contracts came to EUR -22.6 million (69.7).

Notes to OP-Pohjola Group Financial Statements

NOTES TO THE INCOME STATEMENT

Note 4. Impairment losses on receivables

EUR million	2011	2010
Receivables eliminated as loan and guarantee losses	85	89
Recoveries of eliminated receivables	–11	–10
Increase in impairment losses	115	141
Reversal of impairment losses	–97	–79
Group-specific impairment losses	10	7
Impairment losses on interest receivables	–	–
Total	**101**	**149**

Notes to OP-Pohjola Group Financial Statements

NOTES TO THE INCOME STATEMENT

Note 5. Net income from Non-life Insurance

EUR million	2011	2010
Insurance premium revenue		
Premiums written	1,120	1,023
Change in provision for unearned premiums	-44	-13
Gross insurance premium revenue	1,076	1,010
Reinsurers' share	-53	-46
Total	1,024	964
Net investment income	26	86
Claims incurred		
Claims paid (excl. loss adjustment expenses)	703	655
Change in provision for unpaid claims	51	19
Gross total claims incurred	754	674
Reinsurers' share	-62	-37
Total	692	637
Other Non-life Insurance items	46	30
Net income from Non-life Insurance	**312**	**382**

Insurance premium revenue and insurance premiums ceded to reinsurers

Short-term insurance contracts		
Premiums written	1,116	1,021
Change in provision for unearned premiums	-45	-13
Change in provision for unexpired risks	1	-1
Long-term insurance contracts		
Premiums written	4	3
Change in provision for unearned premiums	0	1
Gross insurance premium revenue	**1,076**	**1,010**
Reinsurers’ share of short-term insurance contracts		
Premiums written	-54	-40
Change in provision for unearned premiums	3	-5
Reinsurers’ share of long-term insurance contracts		
Premiums written	-1	0
Change in provision for unearned premiums	0	-1
Total reinsurers' share	-53	-46
Net insurance premium revenue	**1,024**	**964**

Net investment income from Non-life Insurance

Loans and other receivables		
Interest income	8	13
Interest expenses	–3	1
Capital gains and losses	0	1
Fair value gains and losses	–1	–4
Loans and other receivables total	4	9
Net income from financial assets recognised at fair value through profit or loss		
Interest income		
Notes and bonds	0	0
Derivatives	0	0
Other	–	0
Total	0	0
Capital gains and losses		
Notes and bonds	0	–
Shares and participations	–	–
Derivatives	–18	–20
Other	–	–
Total	–18	–20
Fair value gains and losses		
Notes and bonds	0	0
Shares and participations	–	–
Derivatives	0	0
Other	–	–
Total	0	0
Total net income from financial assets recognised at fair value through profit or loss	–18	–20
Net income from available-for-sale financial assets		
Notes and bonds		
Interest income	54	53
Other income and expenses	0	0
Capital gains and losses	5	28
Transferred from fair value reserve during the financial year	–13	25
Impairment losses and their reversal	–34	0
Total	12	105
Shares and participations		
Dividends	30	21
Other income and expenses	2	1
Capital gains and losses	–22	49
Transferred from fair value reserve during the financial year	20	–47
Impairment losses and their reversal	–8	–37
Total	22	–13
Total net income from available-for-sale financial assets	34	92
Net income from investment property		
Rental income	13	10
Capital gains and losses	0	3
Value changes from fair value measurement	3	1
Maintenance charges and expenses	–8	–8
Other	–1	–1
Total net income from investment property	6	5
Total net investment income from Non-life Insurance	**26**	**86**

Unwinding of discount, Non-life Insurance

The increase in the discounted technical provisions of Non-life Insurance due to the passage of time (Note 34) (unwinding of discount) totals EUR 46 million (45). Unwinding of discount is computed monthly applying the discount rate at the end of the previous month and the technical provisions at the beginning of the current month. The discount rate was 3.7% from 31 December 2003 to 30 November 2004, 3.5% from 1 December 2004 to 30 November 2005, 3.3% from 1 December 2005 to 30 November 2007, 3.5% from 1 December 2007 to 30 November 2011 and 3.3% from 1 December 2011 to 31 December 2011.

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

** In 2010, this included income of EUR 16 million arising from the removal of provision for the joint guarantee system.

Notes to OP-Pohjola Group Financial Statements

NOTES TO THE INCOME STATEMENT

Note 6. Net income from Life Insurance

EUR million	2011	2010
Premiums written	748	1,315
Insurance premiums ceded to reinsurers	-27	-28
Net investment income	-219	531
Claims incurred		
Benefits paid	711	595
Change in provision for unpaid claims	-15	414
Reinsurers' share	-9	-7
Other	-	-
Change in insurance contract liabilities		
Change in life insurance provision	-218	698
Reinsurers' share	-11	-10
Other	-28	29
Total net income from Life Insurance operations	**72**	**100**

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	36	56
Personal pension insurance	45	50
Group pension insurance	74	613
Term insurance		
Personal insurance	74	75
Supplementary group insurance	2	2
Employees' group life insurance	9	12
Total term insurance	86	89
Total	241	808
Premiums written from unit-linked insurance contracts		
Savings insurance	413	411
Personal pension insurance	85	91
Group pension insurance	9	6
Total	507	507
Total	**748**	**1,315**

Premiums written from investment contracts		
Premiums written from investment contracts with entitlement to discretionary portion of surplus		
Capital redemption contracts	15	413
Premiums written from investment contracts without entitlement to discretionary portion of surplus		
Capital redemption contracts	-	-
Premiums written from unit-linked investment contracts		
Capital redemption contracts	61	118
Total	**75**	**531**

Total direct insurance	**823**	**1,846**
Assumed reinsurance	–	0
Total premiums written	**823**	**1,846**

Regular premiums from insurance contracts	464	502
Regular premiums from investment contracts	0	0
Single premiums from insurance contracts	284	813
Single premiums from investment contracts	75	531
Total	**823**	**1,846**

Net investment income from Life Insurance

Loans and other receivables		
Interest income	12	15
Interest expenses	–1	–1
Capital gains and losses	4	1
Impairment losses	–8	–3
Loans and other receivables total	8	13
Net income from financial assets recognised at fair value through profit or loss		
Interest income		
Notes and bonds	13	13
Derivatives	1	0
Other	–	–
Total	14	13
Capital gains and losses		
Notes and bonds	3	–4
Shares and participations	–	–
Derivatives	–38	–43
Other	0	0
Total	–35	–46
Fair value gains and losses		
Notes and bonds	4	17
Shares and participations	–	–
Derivatives	62	2
Other	–	–
Total	66	19
Dividend income	–	–
Total net income from financial assets recognised at fair value through profit or loss	44	–15
Net income from available-for-sale financial assets		
Notes and bonds		
Interest income	30	18
Capital gains and losses	3	6
Transferred from fair value reserve during the financial year	1	4
Impairment losses and their reversal	–10	–1
Total	23	28
Shares and participations		
Dividends	73	49
Other income	6	11
Capital gains and losses	–30	109
Transferred from fair value reserve during the financial year	57	43
Impairment losses	–6	–81
Total	99	130
Total net income from available-for-sale financial assets	122	158

Net income from investment property		
Rental income	11	9
Capital gains and losses	1	0
Value changes from fair value measurement	–1	3
Maintenance charges and expenses	–7	–7
Other	–1	–4
Total net income from investment property	3	1
Assets serving as cover for unit-linked policies		
Shares, participations and others		
Interest income	0	1
Capital gains and losses	–123	53
Fair value gains and losses	–296	297
Other	24	23
Total assets serving as cover for unit-linked policies	–395	374
Exchange rate gains (losses)	**0**	**0**
Total net income from investment operations	**–219**	**531**

Benefits paid in Life Insurance

Benefits paid from insurance contracts		
Benefits paid from insurance contracts entitling to discretionary portion of surplus		
Savings insurance		
Maturities	174	192
Death benefits	67	74
Surrenders	69	57
Total	310	323
Personal pension insurance		
Annuities	52	44
Death benefits	2	2
Surrenders	2	2
Total	56	48
Group pension insurance		
Annuities	60	40
Lump-sum benefits	1	0
Surrenders	5	1
Total	66	41
Term insurance		
Personal insurance	22	18
Supplementary group insurance	1	1
Employees' group life insurance	7	10
Total	29	28

Benefits paid from unit-linked insurance contracts		
Savings insurance		
Maturities	29	34
Death benefits	30	21
Surrenders	182	93
Total	241	148
Personal pension insurance		
Annuities	5	3
Death benefits	1	1
Surrenders	3	3
Total	10	6
Group pension insurance		
Annuities	0	0
Death benefits	0	0
Surrenders	0	0
Total	0	0
Total benefits paid from insurance contracts	**711**	**595**
Benefits paid from investment contracts		
Benefits paid from investment contracts entitling to discretionary portion of surplus		
Capital redemption contracts		
Maturities	9	28
Surrenders	21	466
Total	30	495
Benefits paid from investment contracts not entitling to discretionary portion of surplus		
Capital redemption contracts		
Maturities	–	–
Surrenders	–	–
Total	–	–
Benefits paid from unit-linked investment contracts		
Maturities	2	6
Surrenders	45	115
Total	47	120
Total benefits paid from investment contracts	**77**	**615**
Total direct insurance	**789**	**1,210**
Assumed reinsurance	–	–
Total benefits paid in Life Insurance	**789**	**1,210**

Notes to OP-Pohjola Group Financial Statements

NOTES TO THE INCOME STATEMENT

Note 7. Net commissions and fees

EUR million	2011	2010
Commissions and fees		
Lending	160	153
Deposits	5	5
Payment transfers	160	150
Securities brokerage	31	30
Securities issuance	13	13
Mutual fund brokerage	88	89
Asset management and legal services	64	65
Insurance brokerage	53	57
Guarantees	22	23
Other	42	39
Total	**638**	**624**
Commission expenses		
Payment transfers	16	14
Securities	9	7
Other	39	40
Total	**64**	**61**
Net commissions and fees	**574**	**563**

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

Notes to OP-Pohjola Group Financial Statements

NOTES TO THE INCOME STATEMENT

Note 8. Net trading income

EUR million	2011	2010
Financial assets and liabilities held for trading		
Capital gains and losses		
Notes and bonds	7	20
Shares and participations	1	2
Derivatives	26	-16
Other	-	-
Total	34	6
Fair value gains and losses		
Notes and bonds	2	1
Shares and participations	-9	5
Derivatives	-10	12
Other	-	-
Total	-17	17
Dividend income from assets held for trading	1	1
Total financial assets and liabilities held for trading	17	24
Assets and liabilities recognised at fair value through profit or loss		
Capital gains and losses		
Notes and bonds	0	0
Shares and participations	-	-
Derivatives	2	3
Other	-	-
Total	3	3
Fair value gains and losses		
Notes and bonds	0	3
Shares and participations	-	-
Derivatives	-2	0
Other	-	-
Total	-2	3
Dividend income from assets recognised at fair value through profit or loss	-	-
Total assets and liabilities recognised at fair value through profit or loss	1	6
Financial assets and liabilities amortised at cost		
Capital gains and losses		
Loans and other receivables	-	-
Total financial assets and liabilities amortised at cost	-	-
Net income from foreign exchange operations		
Exchange-rate differences	-140	116
Other	139	-99
Total net income from foreign exchange operations	-1	17
Total net trading income	**17**	**46**

Notes to OP-Pohjola Group Financial Statements

NOTES TO THE INCOME STATEMENT

Note 9. Net investment income

EUR million	2011	2010
Available-for-sale financial assets		
Notes and bonds		
Capital gains and losses	9	30
of which those amortised at cost	–	–
Transferred from fair value reserve during the financial year	3	2
Impairment losses and their reversal	–1	–11
Total	11	21
Shares and participations		
Capital gains and losses	3	6
of which those measured at cost	–	–
Transferred from fair value reserve during the financial year	14	7
Impairment losses	–4	–6
Total	14	7
Dividend income	26	15
Total net income from available-for-sale financial assets	51	43
Held-to-maturity notes and bonds		
Impairment losses and their reversal	–	0
Carried at amortised cost		
Capital gains and losses		
Loans and other receivables	1	1
Total net income carried at amortised cost	1	–
Net income from investment property		
Rental income	40	45
Capital gains and losses	2	5
Gains on fair value measurement	–5	–3
Maintenance charges and expenses	–27	–29
Other	1	1
Net income from investment property total	11	18
Other	–	–
Total net investment income	**63**	**62**

Notes to OP-Pohjola Group Financial Statements

NOTES TO THE INCOME STATEMENT

Note 10. Other operating income

EUR million	2011	2010
Rental income from property in Group use	13	13
Capital gains on property in Group use	2	1
Insurance claims and benefits	0	0
Other	75	85
Total	**90**	**99**

Other operating income' includes EUR 2 million (2) in other income from Non-life Insurance, EUR 7 million (5) in reinsurance fees from Life Insurance, EUR 16 million (21) in lease income from leased assets, EUR 6 million (5) in ADP income, EUR 5 million (7) in income from credit risk management and EUR 39 million (45) in other operating income.

Notes to OP-Pohjola Group Financial Statements

NOTES TO THE INCOME STATEMENT

Note 11. Personnel costs

EUR million	2011	2010
Wages and salaries	582	538
Share-based payments	11	4
Pension costs		
Defined contribution plans	76	69
Defined benefit plans	-3	6
Other personnel related costs	30	25
Total personnel costs	**696**	**643**

Notes to OP-Pohjola Group Financial Statements

NOTES TO THE INCOME STATEMENT

Note 12. Other administrative expenses

EUR million	2011	2010
Office expenses	67	63
IT expenses	124	110
Telecommunications	37	38
Marketing	49	47
Corporate social responsibility expenses	7	6
Other administrative expenses	67	55
Total other administrative expenses	**351**	**319**

Notes to OP-Pohjola Group Financial Statements

NOTES TO THE INCOME STATEMENT

Note 13. Other operating expenses

EUR million	2011	2010
Rental expenses	4	3
Expenses for property in Group use	89	82
Capital losses on property in Group use	0	0
Depreciation and amortisation		
Buildings	12	12
Machinery and equipment	19	19
Intangible assets	34	39
Intangible assets related to company acquisition	30	37
Other	23	29
Total	118	136
Impairments		
Property in Group use	0	0
Goodwill	0	0
Other	1	0
Total	1	0
Contribution to the Deposit Protection Fund	30	25
Other	76	78
Total other operating expenses	**318**	**324**

The item Other in Other operating expenses includes EUR 14 million (EUR 13 million) in supervision, inspection and membership fees, EUR 8 million (EUR 9 million) in insurance and security expenses, EUR 9 million (EUR 9 million) in other expenses of Non-life Insurance and EUR 44 million (EUR 46 million) in other operating expenses.

Audit fees paid to auditors total EUR 1.9 million (EUR 1.7 million), whereas assignments as referred to in Section 1, Sub-paragraph 1(2) of the Auditing Act were EUR 0.1 million (EUR 0.1 million), fees for legal counselling EUR 0.1 million (EUR 0.1 million) and fees for other services EUR 0.9 million (EUR 0.7 million).

Notes to OP-Pohjola Group Financial Statements

NOTES TO THE INCOME STATEMENT

Note 14. Returns to owner-members

EUR million	2011	2010
Bonuses	163	151
Interest on cooperative capital	14	12
Total returns to owner-members	**176**	**163**

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 15. Income tax

EUR million	2011	2010
Current tax	107	118
Tax for previous financial year	1	1
Deferred tax	-21	17
Income tax expense	**87**	**135**
Corporate income tax rate	26	26

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

Earnings before tax	519	575
Tax calculated at a tax rate of 26%	135	149
Tax for previous financial years	1	1
Income not subject to tax	-16	-5
Expenses not deductible for tax purposes	19	6
Re-evaluation of unused losses	0	-15
Tax adjustments	1	0
Tax rate change on 1 Jan 2012	-51	-
Other items	-1	-1
Tax expense	**87**	**135**

Notes to OP-Pohjola Group Financial Statements

NOTES TO ASSETS

Note 16. Liquid assets

EUR million	31 Dec. 2011	31 Dec. 2010
Cash	130	128
Deposits with central banks repayable on demand		
Overnight deposits	4,050	-
Pohjola Bank's minimum reserve deposit	272	233
Other	-76	1,267
Total liquid assets	**4,376**	**1,628**

In accordance with the minimum reserve system under the euro system, credit institutions are obligated to have a minimum reserve deposit with their national central bank. The reserve deposit equals the required percentage of the reserve base, as specified by the European Central Bank. The reserve base includes deposits (extensive) and debt securities with a maximum maturity of two years. The reserve base does not include deposits from other parties subject to the minimum reserve obligation. The reserve deposit accounted for 2% of the reserve base on 31 December 2011. From the maintenance period starting on 18 January 2012 the required minimum reserve is 1%. Credit institutions within OP-Pohjola Group place a reserve deposit with Pohjola Bank plc, which acts as an intermediary authorised by OP-Pohjola Group credit institutions and is responsible for OP-Pohjola Group's obligation to place a deposit with the Bank of Finland.

Notes to OP-Pohjola Group Financial Statements

NOTES TO ASSETS

Note 17. Receivables from financial institutions

EUR million	31 Dec. 2011	31 Dec. 2010
Deposits with central banks		
Other than repayable on demand	–	–
Receivables from financial institutions		
Deposits		
Repayable on demand	76	52
Other	-1	1
Total	75	53
Loans and other receivables		
Repayable on demand	–	–
Other	539	325
Notes and bonds	490	743
Total	1,029	1,067
Total	1,104	1,121
Impairment losses	–	–
Total receivables from financial institutions	**1,104**	**1,121**

Notes to OP-Pohjola Group Financial Statements

NOTES TO ASSETS

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

EUR million	31 Dec. 2011	31 Dec. 2010
Financial assets held for trading		
Government notes and bonds	12	348
Certificate of deposits and commercial papers	18	36
Debentures	1	5
Bonds	160	44
Other notes and bonds	7	6
Shares and participations	69	67
Loans acquired and other receivables	–	–
Total	267	505
Financial assets at fair value through profit or loss at inception		
Government notes and bonds	–	–
Certificate of deposits and commercial papers	–	–
Debentures	–	–
Bonds	10	14
Other notes and bonds	4	–
Shares and participations	–	–
Loans acquired and other receivables	–	–
Total	14	14
Total financial assets at fair value through profit or loss	**281**	**519**

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. 2011		31 Dec. 2010	
EUR million	Notes and bonds	Shares and participations	Notes and bonds	Shares and participations
Quoted				
From public corporations	15	–	273	–
From others	164	69	127	67
Other				
From public corporations	13	–	34	–
From others	6	–	5	–
Total	**198**	**69**	**439**	**67**

Financial assets at fair value through profit or loss at inception	31 Dec. 2011		31 Dec. 2010	
EUR million	Notes and bonds	Shares and participations	Notes and bonds	Shares and participations
Quoted				
From public corporations	–	–	–	–
From others	10	–	14	–
Other				
From public corporations	–	–	–	–
From others	4	–	–	–
Total	**14**	**–**	**14**	**–**
Total financial assets at fair value through profit or loss	**212**	**69**	**453**	**67**

Notes to OP-Pohjola Group Financial Statements

NOTES TO ASSETS

Note 19. Derivative contracts

EUR million	31 Dec. 2011	31 Dec. 2010
Held for trading		
Interest rate derivatives	2,637	1,497
Currency derivatives	82	45
Equity and index derivatives	138	178
Credit derivatives	2	5
Commodity derivatives	27	28
Other	6	0
Total	2,892	1,753
Hedging derivative contracts		
Fair value hedging		
Interest rate derivatives	357	183
Currency derivatives	39	16
Equity and index derivatives	–	–
Credit derivatives	–	–
Cash flow hedge		
Interest rate derivatives	13	–
Total	410	199
Other hedging derivatives		
Interest rate derivatives	6	–19
Other	–	0
Total	6	–19
Total derivative contracts	**3,307**	**1,933**

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 20. Receivables from customers

EUR million	31 Dec. 2011	31 Dec. 2010
Loans to the public and public corporations	49,175	48,655
Notes and obonds	272	319
Finance lease receivables	775	624
Other receivables	10,478	7,578
Total	60,700	57,176
Impairment losses	-369	-343
Total receivables from customers	**60,331**	**56,834**

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

EUR million	Loans	Notes and bonds	Bank guarantee recei-vables	Interest recei-vables	Total
Impairment losses 1 January 2011	322	21	3	-4	343
Increases in receivable-specific impairment losses	101	12	2	-18	97
Increases in impairment losses by receivable group	9	-	-	-	9
Reversal of receivable-specific impairment losses	-42	0	-1	18	-25
Loans and guarantee receivables derecognised from the balance sheet, for a which receivable-specific impairment loss was recognised	-55	0	-	-	-55
Exchange rate difference adjustments	-	1	-	-	1
Impairment losses 31 December 2011	335	33	5	-4	369

EUR million					
Impairment losses 1 January 2010	224	48	3	-4	271
Increases in receivable-specific impairment losses	141	0	0	-13	129
Increases in impairment losses by receivable group	7	-	-	-	7
Reversal of receivable-specific impairment losses	-20	-8	0	13	-16
Loans and guarantee receivables derecognised from the balance sheet, for a which receivable-specific impairment loss was recognised	-29	-21	-	-	-50
Exchange rate difference adjustments	-	2	-	-	2
Impairment losses 31 December 2010	322	21	3	-4	343

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. 2011	31 Dec. 2010
Maturity of finance leases		
Not later than one year	235	195
1-5 years	381	324
Over 5 years	280	193
Gross investment in finance leases	897	712
Unearned finance income (-)	-122	-88
Present value of minimum lease payments	**775**	**624**
Present value of minimum lease payment receivables		
Not later than one year	211	178
1-5 years	330	293
Over 5 years	233	153
Total	**775**	**624**
Unguaranteed residual value due to the lessor	-	-
Variable rent recognised as revenue during the financial year	-	-
Adjustment recognised under minimum rent receivables	-	-
Gross increase in the financial period	**380**	**206**

Notes to OP-Pohjola Group Financial Statements

NOTES TO ASSETS

Note 21. Non-life Insurance assets

EUR million	31 Dec. 2011	31 Dec. 2010
Investments		
Loans and other receivables	117	229
Equities	435	400
Property	98	87
Notes and bonds	1,540	1,490
Derivative contracts	0	1
Other	565	561
Total	2,754	2,768
Other assets		
Prepayments and accrued income	35	38
Other		
From direct insurance	262	228
From reinsurance	121	87
Cash in hand and at bank	6	4
Other receivables	26	39
Total	451	396
Total Non-life Insurance assets	**3,205**	**3,164**

Non-life Insurance investments	31 Dec. 2011	31 Dec. 2010
Loans and other receivables		
Loans	116	228
Deposits with ceding undertakings	0	1
Total	117	229
Financial assets recognised at fair value through profit or loss		
Notes and bonds	6	8
Equities	-	-
Derivative contracts	0	1
Total	7	9
Available-for-sale financial assets		
Notes and bonds	1,533	1,482
Shares and participations	435	400
Other participations	565	561
Total	2,534	2,442
Investment property		
Land and water areas	11	12
Buildings	86	76
Total	98	87
Total Non-life Insurance investments	**2,754**	**2,768**

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

EUR million	31 Dec. 2011 Notes and bonds	31 Dec. 2011 Shares and parti-cipations	31 Dec. 2011 Derivative contracts	31 Dec. 2010 Notes and bonds	31 Dec. 2010 Shares and parti-cipations	31 Dec. 2010 Derivative contracts
Quoted						
From public corporations	–	–	–	–	–	–
From others	6	–	–	8	–	–
Other						
From public corporations	–	–	–	–	–	–
From others	–	–	0	–	–	1
Total	**6**	**–**	**0**	**8**	**–**	**1**

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

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

* Available-for-sale shares and participations include EUR 435 million (EUR 400 million) in equities and mutual funds with equity risk and EUR 568 million (EUR 561 million) in other participations. Other participations consist mainly of units in bond, money market, convertible bond, commodities, hedge funds and real estate funds.

The available-for-sale financial assets of Non-life Insurance include EUR 3 million (EUR 5 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 2010

	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	558	-	558	-	-	-
From others	912	-	912	809	-	809
Other						
From public corporations	-	-	-	-	-	-
From others	11	-	11	152	-	152
Total	**1,482**	**-**	**1,482**	**961**	**-**	**961**
	0	-	0	-37	-	-37

Changes in Non-life Insurance investment property	**2011**	**2010**
Acquisition cost 1 January	76	70
Increase	9	21
Decrease	-2	-14
Transfers between items	-	0
Acquisition cost 31 December	84	76
Accumulated changes in fair value 1 January	11	8
Changes in fair value during financial year	3	1
Decrease	-	
Other changes	-	2
Accumulated changes in fair value 31 December	14	11
Carrying amount 31 December	98	87

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

A total of 56% of Non-life Insurance's investment property holdings, or EUR 84 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 22. Life Insurance assets

EUR million	31 Dec. 2011	31 Dec. 2010
Investments		
Loans and other receivables	226	418
Equities and shares	2,470	2,818
Investment property	120	135
Notes and bonds	762	927
Derivative contracts	50	0
Other		
Total	3,628	4,298
Investments serving as cover for unit-linked policies		
Shares and participations	3,262	3,147
Other assets		
Prepayments and accrued income	32	32
Other		
Direct insurance operations	12	7
Reinsurance operations	71	61
Cash in hand and at bank	0	0
Total	115	99
Total Life Insurance assets	**7,006**	**7,544**

Life Insurance investments	31 Dec. 2011	31 Dec. 2010
Loans and other receivables		
Loans	216	407
Deposits with ceding undertakings	–	–
Other receivables	10	11
Total	226	418
Financial assets recognised at fair value through profit or loss		
Notes and bonds	93	116
Shares and participations	–	–
Derivative contracts	50	0
Total	143	116
Available-for-sale financial assets		
Notes and bonds	669	812
Shares and participations	2,470	2,818
Total	3,139	3,629
Investment property		
Land and water areas	17	20
Buildings	103	115
Total	120	135
Total investments	**3,628**	**4,298**

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

EUR million	31 Dec. 2011 Notes and bonds	31 Dec. 2011 Shares and parti-cipations	31 Dec. 2011 Derivative contracts	31 Dec. 2010 Notes and bonds	31 Dec. 2010 Shares and parti-cipations	31 Dec. 2010 Derivative contracts
Quoted						
From public corporations	–	–	–	–	–	–
From others	93	–	50	116	–	0
Other						
From public corporations	–	–	–	–	–	–
From others	–	–	–	–	–	–
Total	**93**	**–**	**50**	**116**	**–**	**–**

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

EUR million	Available-for-sale notes and bonds At fair value	Available-for-sale notes and bonds At amortised cost	Available-for-sale notes and bonds Total	Available-for-sale shares and participations At fair value	Available-for-sale shares and participations At cost	Available-for-sale shares and participations Total
Quoted						
From public corporations	102	–	102	–	–	–
From others	567	–	567	2,470		2,470
Other						
From public corporations	–	–	–	–	–	–
From others	0	–	0	–	–	–
Total	**669**	**–**	**669**	**2,470**	**–**	**2,470**
Impairment losses for the financial year	-10	–	-10	-6	–	-6

Available-for-sale financial assets of Life Insurance, 31 December 2010

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	207	–	207	–	–	–
From others	605	–	605	2,818		2,818
Other						
From public corporations	–	–	–	–	–	–
From others	0	–	0	–	–	–
Total	**812**	**–**	**812**	**2,818**	**–**	**2,818**
Impairment losses for the financial year	–1	–	–1	–81	–	–81

Changes in Life Insurance investment property	2011	2010
Acquisition cost 1 January	111	97
Increase	14	20
Decrease	–24	–6
Transfers between items	–2	0
Acquisition cost 31 December	99	111
Accumulated changes in fair value 1 January	24	25
Changes in fair value during financial year	–3	–1
Decrease	–	–
Other changes	–	–
Accumulated changes in fair value 31 December	22	24
Carrying amount	120	135

The fair value of investment property holdings excludes the portion of debt. Constructions and repair obligations regarding investment property amounted to EUR 17 million (38).

Notes to OP-Pohjola Group Financial Statements

NOTES TO ASSETS

Note 23. Investment assets

EUR million	31 Dec. 2011	31 Dec. 2010
Available-for-sale financial assets		
Notes and bonds	6,923	5,581
Shares and participations	256	451
Total	7,179	6,032
Held-to-maturity investments	753	978
Investment property		
Land and water areas	43	42
Buildings	368	386
Total	411	428
Total investment assets	**8,343**	**7,438**

Held-to-maturity investments include other bonds issued by the government totalling EUR 1 million (EUR 42 million), bonds totalling EUR 613 million (EUR 772 million), and other notes and bonds totalling EUR 139 million (EUR 213 million). Investment property contain property used as collateral worth EUR 7 million (EUR 8 million).

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

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

Available-for-sale financial assets include EUR 0 million (EUR 11 million) in subordinated publicly-quoted notes and bonds from others.

Available-for-sale financial assets and held-to-maturity investments, 31 December 2010

	Available-for-sale notes and bonds			Available-for-sale shares and participations			
EUR million	At fair value	At amortised cost	Total	At fair value	At cost	Total	Held-to-maturity investments
Quoted							
From public corporations	58	–	58	–	–	–	0
From others	5,514	–	5,514	354	0	354	974
Other							
From public corporations	1	–	1	–	–	–	–
From others	8	–	8	64	32	97	3
Total	**5,581**	**–**	**5,581**	**418**	**32**	**451**	**978**
Impairment losses for the financial year	-11	–	-11	-6	–	-6	–

Changes in investment property	2011	2010
Acquisition cost 1 Jan.	413	433
Business operations acquired	–	–
Increases	23	29
Decreases	-29	-51
Transfers between items	-5	1
Acquisition cost 31 Dec.	402	413
Accumulated changes in fair value	16	23
Changes in fair value during the financial year	-5	-3
Decreases	-1	-1
Other changes	-1	-2
Accumulated changes in fair value 31 Dec.	9	16
Carrying amount 31 Dec.	411	428

Increases in investment property include EUR 0 million (EUR 0 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 11 million (20) in construction and repair obligations regarding investment properties that were based on preliminary agreements.

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

Notes to OP-Pohjola Group Financial Statements

NOTES TO ASSETS

Note 24. Reclassified notes and bonds

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

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

EUR million, 31 Dec 2010	Carrying amount	Fair value	Effective interest rate	Impairments arising from credit risk
Loans and other receivables	1,549	1,543	5.5	93
Investments held to maturity	677	626	4.2	–
Available-for-sale financial assets	–	–	–	–
Total	**2,226**	**2,169**		**93**

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

	31 Dec. 2011		31 Dec. 2010	
EUR million	Income statement	Fair value reserve	Income statement	Fair value reserve
Banking	–1	–1	8	8
Non-life Insurance	1	–4	3	–1
Life Insurance	4	–10	4	5
Group Functions	–41	–4	–14	1
Total	**–37**	**–19**	**1**	**13**

Interest accrued on reclassified notes and bonds in January–December totalled EUR 49 million (65). The price difference between the nominal value and acquisition value recognised under profit and loss totalled EUR 13 million (16). Impairment charges recognised on notes and bonds totalled EUR 12 million. In 2010, impairment loss recoveries recognised on notes and bonds totalled EUR 8 million. The Group used derivatives to hedge against interest rate risks, applying hedge accounting from 1 October 2008. Negative mark-to-market valuations recognised on hedging derivative contracts amounted to EUR 3.6 million. In 2010, positive mark-to-market valuations recognised on hedging derivative contracts amounted to EUR 1.4 million.

Notes to OP-Pohjola Group Financial Statements

NOTES TO ASSETS

Note 25. Investment in associates

EUR million	31 Dec. 2011	31 Dec. 2010
Investment 1 January	38	17
Business acquisitions	0	23
Share of profits for the financial year	4	2
Dividends	-2	-2
Impairment losses	0	-
Dissolved associated companies	-	0
Value change	-	-2
Investment 31 December	40	38

Notes to OP-Pohjola Group Financial Statements

NOTES TO ASSETS

Note 26. Intangible assets

			2011		
Changes in intangible assets	**Goodwill**	**Brands**	**Customer relationships related to insurance contracts and policy acquisition costs**	**Other intangible assets**	**Total**
Acquisition cost 1 January	630	179	361	486	1,655
Business operations acquired	–	–	–	–	–
Increases*	3	–	–	53	56
Decreases	0	–	–	-1	-1
Transfers between items	–	–	–	18	18
Acquisition cost 31 December	632	179	361	556	1,728
Acc. amortisation and impairments 1 January	–	-6	-153	-337	-496
Amortisation during the financial year	–	–	-30	-32	-62
Impairments during the financial year	–	-1	–	–	-1
Reversal of impairments during the financial year	–	–	–	–	–
Decreases	–	–	–	0	0
Other changes	–	–	–	0	0
Acc. amortisation and impairments 31 December	–	-7	-183	-369	-559
Carrying amount 31 December	632	172	178	186	1,169

* Internal development work accounts for EUR54 million (EUR 4 million). Other intangible assets include computer software to the carrying amount of EUR 71 million (EUR 69 million) and EUR 95 million (EUR 64 million) in computer software under development. Amortisation, impairment losses and their reversals were recognised on the income statement under Other operating expenses.

			2010		
Changes in intangible assets	**Goodwill**	**Brands**	**Customer relationships related to insurance contracts and policy acquisition costs**	**Other intangible assets**	**Total**
Acquisition cost 1 January	630	179	361	435	1,604
Business operations acquired	–	–	–	–	–
Increases*	0	–	–	41	41
Decreases	0	–	–	-3	-3
Transfers between items	–	–	–	13	13
Acquisition cost 31 December	630	179	361	486	1,655
Acc. amortisation and impairments 1 January	–	-6	-124	-295	-425
Amortisation for the period	–	–	-30	-42	-72
Impairments for the period	–	–	–	–	–
Reversal of impairments during the financial year	–	–	–	–	–
Decreases	–	–	–	0	0
Other changes	–	–	–	0	0
Accumulated amortisation and impairments 31 December	–	-6	-153	-337	-496
Carrying amount 31 December	630	173	208	149	1,159

Intangible assets with indefinite economic lives

EUR million	**31 Dec. 2011**	**31 Dec. 2010**
Goodwill	632	630
Brands	172	173
Total	**804**	**803**

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

Other most significant intangible assets

	31 Dec. 2011	**31 Dec. 2010**
EUR million	**Carrying amount**	**Carrying amount**
Customer relationships	160	185
Insurance contracts	18	22
Software	71	69
Software under development	95	64

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

Goodwill impairment test

	Goodwill	
EUR million	**31 Dec. 2011**	**31 Dec. 2010**
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	-
Total	632	630

Testing goodwill for impairment

Goodwill of 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 the OP Bank 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 an eight-year testing period.

Predictions used for the cash flow statements are based on OP-Pohjola Group's business strategy, confirmed in June 2009 by OP-Pohjola Group Central Cooperative's Supervisory Board, and expectations derived from them concerning business development in 2012–2014. Growth in cash flows for post-forecast periods ranges between 2 and 15%. Within Life Insurance, however, premiums written in interest-bearing investment operations are expected to fall further throughout the entire test period.

The discount rate used in the calculations was the market-based equity cost, which is in line with the applied value determination methods (i.e. through cash flows, only the value of equity belonging to investors was determined and the value was discounted by using the return requirement rate on shareholders' equity). The discount rate used in the calculations before tax (i.e. IFRS WACC) varied from 10.4 to 15.9%. In 2010, it varied from 10.1 to 11.6%. For testing the wellbeing-at-work services, Pohjola used the same discount rate as in the PPA performed at the time of Excenta's acquisition. For all the business line, the discount rates based on market data had risen from their 2010 level but the discount rates were still lower than those used in the original PPA procedures.

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. Major parameters by CGU are:

Non-life Insurance key parameters used in the sensitivity analysis were the discount rate, combined ratio and net investment income. These parameters were the same as last year. The results of the sensitivity analysis have not changed significantly from last year. A 5.0-percentage point increase in the discount rate, a 3.5-percentage point increase in the combined ratio and a 1.5-percentage point decrease in net investment income compared with forecasts throughout the testing period, with other parameters remaining unchanged, would entail an impairment risk. In 2010, the results were as follows: a 4.3-percentage point increase in the discount rate, a 3.8-percentage point increase in the combined ratio and a 1.6-percentage point decrease in investment return compared with forecasts throughout the testing period, would have entailed an impairment risk.

Life Insurance key parameters were the discount rate, the percentage of growth in operating expenses, and the margin of investment percentage. These parameters were the same as last year. The results of the sensitivity analysis have not changed significantly from last year. A 13-percentage point increase in the discount rate, a 17-percentage point increase in operating expenses and a 2.3-percentage point decrease in net investment income percentage compared with forecasts throughout the testing period, with other parameters remaining unchanged, would entail an impairment risk. Last year the results were as follows: Correspondingly, last year a 17 percentage point increase in discount rate, a 23 percentage point increase in operating expenses and a 2.1 percentage point decrease in net investment income percentage would have entailed an impairment risk.

The discount rate, growth rate (%) of assets under management and growth rate (%) of expenses were used as key parameters in Asset Management's sensitivity analysis. The parameters used were the same as in the previous year. The results of the sensitivity analysis did not differ significantly from those in the previous year. A 30-percentage point increase in the discount rate, an 13-percentage point decrease in assets under management and 16-percentage point growth in expenses compared with forecasts throughout the testing period, with other parameters remaining unchanged, would entail an impairment risk. In 2010, the results were as follows: an 25-percentage point increase in the discount rate, a 27-percentage point decrease in assets under management and 11-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 percentage in mutual fund capital and the growth percentage of fixed-nature expenses. These parameters were the same as last year. The results of the sensitivity analysis were significantly poorer than the year before. A 5.1percentage point increase in the discount rate, a 2.4-percentage point decrease in fund assets and a 4.2-percentage point growth in fixed-nature 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 5.9-percentage point decrease the growth of fund assets and a 9.3-percentage point growth in fixed-nature 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. The results of the sensitivity analysis have not changed significantly from last year. A 37-percentage point increase in the discount rate, a 31-percentage point decrease in the service income and a 3.1-percentage point decrease in profits compared with forecasts throughout the testing period, with other parameters remaining unchanged, would entail an impairment risk. Last year the corresponding figures were: 56-percentage point increase in the discount rate, a 38-percentage point decrease in service income and 5-percentage point decrease in profits 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 28-percentage point decrease in the service income and a 2.2-percentage point decrease in profits compared with forecasts throughout the testing period, with other parameters remaining unchanged, would entail an impairment risk. Last year the results were as follows: 39-percentage point increase in the discount rate, a 32-percentage point decrease in service income and 3.1-percentage point decrease in profits 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. In 2011, Pohjola tested the goodwill of the wellbeing-at-work services for the first time. A 6.1-percentage point increase in the discount rate, a 24-percentage point decrease in net sales and a 6.0-percentage point decrease in operating margin compared with forecasts throughout the testing period, with other parameters remaining unchanged, would entail an impairment risk.

Impairment testing of brands

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

The value of the brands was determined by using the 'Relief from Royalty' method. Accordingly, their value was determined to be royalty savings accrued in the future from owning the brands, discounted to the present. The discount rate used in the calculations was the market-based equity cost defined for Non-life Insurance, plus an asset-specific risk premium. Pohjola used the same discount rate for Non-life Insurance as in the 2010 test. In addition, the same risk premium and the corresponding royalty percentages were applied in 2011 as in the PPA procedure and in previous years' tests.

All Pohjola brands are subject to a testing period of five years under IAS 36. The forecasts used in cash flow statements are based on strategy figures for 2012–14 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, EUR 1 million in impairment charges related to the Seesam brand was recognised in the 2011 financial statements. An impairment charge of EUR 3 million related to the Seesam brand was recognised in the 2009 and 2008 financial statements. Testing other brands for any impairment did not result in any recognition of impairment charges in the 2011 financial statements and prior 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 Non-life Insurance operations of what was Pohjola Group plc. Intangible assets originating from customer relationships and insurance contracts are charged to expenses using straight-line amortisation over their estimated economic 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 have been recognised as expenses in full in prior financial years.

Notes to OP-Pohjola Group Financial Statements

NOTES TO ASSETS

Note 27. Property, plant and equipment

EUR million	31 Dec. 2011	31 Dec. 2010
Property in Group use		
Land and water areas	61	59
Buildings	522	525
Machinery and equipment	48	46
Other tangible assets	17	17
Leased-out assets	54	69
Total property, plant and equipment	**702**	**716**
of which construction in progress	3	1

	2011				
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	747	275	31	112	1,165
Business operations acquired	–	–	–	–	–
Increases	34	21	1	19	75
Decreases	–14	–58	0	–42	–115
Transfers between items	–15	0	0	–	–15
Acquisition cost 31 December	752	238	32	89	1,111
Accumulated depreciation and impairments 1 January	–163	–229	–14	–43	–449
Depreciation for the financial year	–20	–18	–1	–16	–55
Impairments for the financial year	–1	–	–	–	–1
Reversal of impairments during the financial year	1	–	–	–	1
Decreases	6	57	0	23	86
Other changes	9	0	–	1	10
Accumulated depreciation and impairments 31 December	–169	–190	–14	–35	–409
Carrying amount 31 December	583	48	17	54	702

	2010				
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	758	342	31	129	1,261
Business operations acquired	–	–	–	–	–
Increases	21	15	1	19	56
Decreases	–18	–83	–1	–36	–137
Transfers between items	–15	0	0	–	–15
Acquisition cost 31 December	747	275	31	112	1,165
Accumulated depreciations and impairments 1 January	–153	–292	–13	–40	–500
Depreciation for the financial year	–24	–19	–1	–21	–64
Impairments for the financial year	-3	–	–	1	-2
Reversal of impairments during the financial year	1	–	–	–	1
Decreases	16	82	1	18	117
Other changes	–1	–	–	0	–1
Accumulated depreciations and impairments 31 December	–163	–229	–14	–43	–449
Carrying amount 31 December	584	46	17	69	716

Notes to OP-Pohjola Group Financial Statements

NOTES TO ASSETS

Note 28. Other assets

EUR Million	31 Dec. 2011	31 Dec. 2010
Payment transfer receivables	30	24
Pension assets	468	448
Accrued income and prepaid expenses		
Interest	972	657
Other accrued income and prepaid expenses	36	76
Other	761	546
Total	**2,266**	**1,749**

The Other item of Other assets includes EUR 5 million (EUR 47 million) of accounts receivable for securities, EUR 122 million (EUR 48 million) of derivative receivables and EUR 634 million (EUR 451 million) of other assets.

Defined benefit pension plans

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

Balance sheet values of defined benefit pension plans	31 Dec. 2011	31 Dec. 2010
Fair value of assets	1,304	1,410
Present value of funded obligations (-)	-1,229	-1,224
Present value of unfunded obligations	-4	-4
Unrecognised actuarial gains (+) and losses (-)	383	253
Net receivable	455	434
Assets and liabilities recognised in the balance sheet		
Assets	468	448
Liabilities	-14	-13
Net assets	**455**	**434**

Plan assets include		
Pohjola Bank plc shares	40	49
Securities issued by companies included in OP-Pohjola Bank Group	10	46
Other receivables from companies included in OP-Pohjola Bank Group	117	-
Properties used by OP-Pohjola Bank Group	23	12
Total	190	107

Defined benefit pension costs in the income statement		
Current service cost	25	24
Interest cost	54	55
Expected return on plan assets	-90	-81
Actuarial gains and losses	7	10
Transfer from TEL pooling liability	-	-
Past service costs	-	-
Effect of curtailment of plans or settlements	0	0
Total defined benefit pension costs in income statement	**-3**	**6**
Actual return on plan assets	**-75**	**157**

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

Changes in present value of obligation	**31 Dec. 2011**	**31 Dec. 2010**
Present value of obligation 1 January	**1,228**	**1,119**
Current service cost	25	24
Interest cost	54	55
Actuarial gains and losses	-34	68
Exchange rate differences	-	-
Benefits paid	-45	-44
Past service cost	-	-
Business combinations	-	-
Curtailment of plan	-	-
Settlement of obligation	-2	-1
Return on TyEL interest rate difference and growth in old-age pension liabilities (net)	6	6
Change in division ratio	-	1
Present value of obligation 31 December	**1,233**	**1,228**

Changes in fair value of assets	**31 Dec. 2011**	**31 Dec. 2010**
Fair value of assets 1 January	**1,410**	**1,278**
Expected return on plan assets	90	81
Actuarial gains and losses	-171	70
Employer contributions	17	17
Benefits paid	-45	-44
Settlement of obligation	-1	-1
Return on TyEL interest rate difference and growth in old-age pension liabilities (net)	6	6
Change in division ratio	-	1
Fair value of assets 31 December	**1,304**	**1,410**

Contributions payable to the defined benefit plan in 2012 are estimated at EUR 14 million.

Proportion of most important asset groups of total fair value of plan assets, %	31 Dec. 2011	31 Dec. 2010
Shares and participations	20	33
Notes and bonds	41	42
Property	13	18
Other assets	26	7
Total	**100**	**100**

Principal actuarial assumptions used	2011	2010
Discount rate, %	4.5	4.5
Expected long-term return on plan assets, %	4.61-5.90	4.63-6.60
Assumed future salary increase, %	3.00	3.00
Future pension increases, %	2.00-2.40	2.00-2.40
Turnover rate, %	0.00-3.00	0.00-3.00
Inflation, %	2.00	2.
Average remaining service time in years	1.0-19.0	1.0-16.0

Surplus of defined benefit pension plans and experience adjustments	31 Dec. 2011	31 Dec. 2010	31 Dec. 2009	31 Dec. 2008	31 Dec. 2007
Present value of obligation	1,233	1,228	1,119	992	1,129
Fair value of assets	-1,304	-1,410	-1,278	-1,148	-1,386
Surplus or deficit	**-71**	**-182**	**-159**	**-156**	**-257**
Experience adjustment on liabilities	-35	-14	-24	-52	25
Experience adjustments on assets	-171	63	60	-299	-16

Notes to OP-Pohjola Group Financial Statements

NOTES TO ASSETS

Note 29. Tax assets

EUR Million	31 Dec. 2011	31 Dec. 2010
Income tax assets	20	35
Deferred tax assets	139	90
Total tax assets	**158**	**125**

Deferred tax assets	31 Dec. 2011	31 Dec. 2010
Due to available-for-sale financial assets	66	22
Due to depreciation and impairments	1	1
Due to provisions and impairments on loans	24	26
Cash flow hedge	-	2
Due to losses related to taxation	61	36
Due to hedging of interest rate risk associated with technical provisions	15	-
Due to consolidation of Group accounts	8	8
Due to other items	43	35
Set-off against deferred tax liabilities	-80	-40
Total	**139**	**90**

Deferred tax liabilities	31 Dec. 2011	31 Dec. 2010
Due to appropriations	598	584
Due to available-for-sale financial assets	2	57
Cash flow hedge	5	0
Due to elimination of equalisation provision	88	116
Defined benefit pension plans	114	115
Due to fair value measurement of investment	103	53
Allocation of price of corporate acquisitions	79	91
Due to consolidation of Group accounts	-1	2
Due to other items	0	2
Set-off against deferred tax assets	-80	-40
Total	**908**	**981**
Net deferred tax asset (+)/liability (-)	**-770**	**-891**

Changes in deferred taxes	**31 Dec. 2011**	**31 Dec. 2010**
Deferred tax assets/liabilities 1 January	-891	-817
Recognised in the income statement		
Elimination of capital gains on securities of companies acquired	0	0
Effect of losses	29	-26
Provisions and impairments on receivables	3	0
Appropriations	-50	-53
Amortisation/depreciation and impairments	7	9
Eliminations of equalisation provisions	23	-2
Due to hedging of interest rate risk associated with technical provisions	16	-
Investment valuation	-64	55
Change in tax rate 1 Jan. 2012	51	-
Other	6	-1
Recognised in statement of comprehensive income		
Available-for-sale financial assets		
Changes in fair value	101	-42
Cash flow hedge	-6	2
Transfers to the income statement	8	-17
Change in tax rate 1 Jan. 2012	-4	-
Other	-	-
Total deferred tax assets 31 December, asset (+)/liability (-)	**-770**	**-891**
Income tax assets, asset (+)/liability (-)	**0**	**1**
Total tax assets, asset (+)/liability (-)	**-769**	**-890**

Tax losses for which a deferred tax asset was not recognised came to EUR 112 million (EUR 108 million) at the end of 2011. The losses will expire before 2021.

A deferred tax liability has not been recognised for the EUR 21 million (EUR 34 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 30. Liabilities to financial institutions

EUR Million	31 Dec. 2011	31 Dec. 2010
Liabilities to central banks	230	355
Liabilities to financial institutions		
Repayable on demand		
Deposits	90	64
Other liabilities	0	0
Due and ordered for collection from other banks	–	–
Total	90	64
Other than repayable on demand		
Deposits	1,403	1,260
Other liabilities	59	18
Repo liabilities	–	–
Total	1,462	1,278
Total liabilities to financial institutions and central banks	**1,783**	**1,696**

Notes to OP-Pohjola Group Financial Statements

NOTES TO LIABILITIES AND EQUITY CAPITAL

Note 31. Financial liabilities at fair value through profit or loss

EUR Million	31 Dec. 2011	31 Dec. 2010
Financial liabilities held for trading		
Repo liabilities	-	-
Short selling of securities	1	0
Other	-	0
Total financial liabilities at fair value through profit or loss	**1**	**0**

Notes to OP-Pohjola Group Financial Statements

NOTES TO LIABILITIES AND EQUITY CAPITAL

Note 32. Derivative contracts

EUR Million	31 Dec. 2011	31 Dec. 2010
Held for trading		
Interest rate derivatives	2,689	1,632
Currency derivatives	19	4
Equity and index derivatives	84	52
Credit derivatives	2	0
Other	25	27
Total	2,820	1,715
Hedging derivative contracts		
Fair value hedging		
Interest rate derivatives	399	214
Currency derivatives	13	13
Equity and index derivatives	-	-
Credit derivatives	-	-
Other	0	0
Cash flow hedge		
Interest rate derivatives	0	8
Other	-	-
Total	412	236
Total derivative contracts	**3,232**	**1,951**

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 33. Liabilities to customers

EUR million	31 Dec. 2011	31 Dec. 2010
Deposits		
Repayable on demand		
Private	20,865	20,127
Companies and public corporations	9,624	8,061
Total	30,489	28,187
Other		
Private	8,527	7,338
Companies and public corporations	2,288	918
Total	10,815	8,256
Total deposits	41,304	36,443
Other financial liabilities		
Repayable on demand		
Private	2	1
Companies and public corporations	9	2
Total	10	3
Other		
Private	2	3
Companies and public corporations	4,657	2,756
Total	4,659	2,759
Total other financial liabilities	4,670	2,762
Total liabilities to customers	**45,974**	**39,205**

Notes to OP-Pohjola Group Financial Statements

NOTES TO LIABILITIES AND EQUITY CAPITAL

Note 34. Non-life Insurance liabilities

EUR million	31 Dec. 2011	31 Dec. 2010
Insurance contract liabilities	2,365	2,224
Direct insurance liabilities	122	110
Reinsurance liabilities	15	10
Derivative contracts	1	2
Other	4	5
Total Non-life Insurance liabilities	**2,508**	**2,350**

Non-life Insurance contract liabilities and reinsurers' share

	31 Dec. 2011			31 Dec. 2010		
EUR million	Gross	Rein-surers' share	Net	Gross	Rein-surers' share	Net
Provision for unpaid claims for annuities	1,155	-3	1,152	1,108	-2	1,106
Other provisions by case	147	-80	67	151	-53	98
Special provision for occupational diseases	31	-	31	35	-	35
Collective liability (IBNR)	559	-6	553	502	-5	497
Reserved loss adjustment expenses	52	-	52	52	-	52
Provision for unearned premiums	422	-22	400	375	-19	356
Provision for unexpired risks	0	-	0	1	-	1
Total Non-life Insurance contract liabilities	**2,365**	**-111**	**2,254**	**2,224**	**-79**	**2,145**

Changes in insurance contract liabilities and reinsurance contract receivables

	31 Dec. 2011			31 Dec. 2010		
EUR million	Gross	Rein-surers' share	Net	Gross	Rein-surers' share	Net
Provision for unpaid claims						
Provision for unpaid claims 1 Jan.	1,847	-60	1,788	1,783	-52	1,731
Claims paid in financial year	-765	33	-733	-712	29	-683
Change in liability/receivable	816	-62	754	731	-37	694
Current period claims	784	-63	721	737	-45	692
Increase(decrease) from previous financial years	-27	1	-25	-41	8	-33
Change in discount rate	32	-	32	-	-	-
Other change in reserving basis	27	-	27	35	-	35
Unwinding of discount	45	-	45	44	-	44
Foreign exchange gains (losses)	0	0	0	1	-	1
Provision for unpaid claims 31 Dec.	1,944	-89	1,855	1,847	-60	1,788

Provision for unearned premiums						
Provision for unearned premiums 1 Jan.	377	-19	357	362	-25	337
Increase	386	-8	378	341	-3	338
Decrease	-342	5	-337	-328	9	-319
Foreign exchange gains (losses)	0	-	0	0	-	0
Unwinding of discount	1	-	1	1	-	1
Provision for unearned premiums 31 Dec.	422	-22	399	377	-19	357
Total Non-life Insurance contract liabilities	**2,365**	**-111**	**2,254**	**2,224**	**-79**	**2,145**

The provision for unearned premiums represents obligations relating to insurance cover which has not yet expired at the year-end.

Valuation of Non-life Insurance contract liabilities

a) Methods and assumptions used

The amount of liability has been estimated in such a way that it is, in reasonable probability, sufficient to cover the liabilities arising from insurance contracts. This has been performed by estimating an expected value for the liability and, after that, by determining a safety loading 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 upper limit of the discount rate set by the authorities. On 31 December 2011, the discount rate used was 3.3% (31 Dec. 2010: 3.5%). 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.

The valuation of collective liability is based on different statistical methods: Bornhuetter-Ferguson, Chain Ladder, Hovinen, PPCI and the average payment method. When applying these methods, other selections must also be made, in addition to the selection of 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.

Hovinen
In the Hovinen method, the collective liability is based on the weighted average of the evaluations provided by the BF and CL methods. The Hovinen method takes account of how much information has accumulated on the occurrence year to date and, accordingly, weights the estimate obtained on liability between BF and CL.

PPCI
The PPCI (Payments per Claim Incurred) method corresponds to the BF method but the risk measure is the number of claims occurred. Use of the PPCI method requires that the estimates of the number of claims be known by occurrence year.

Average payment
The average payment method (AP) corresponds to the BF method, but the claims paid in the development year are assumed to be comparable with the number of losses detected in the development year concerned. Use of the AP method requires that the numbers of detected claims for previous development years be known. In addition, estimates of future detected claims must be available. The AP method is effective in insurance lines where the cash flows of paid claims have a long maturity, because in such case it is possible to stabilise the average payment and concentrate on the development of the number of paid claims.

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 loading of 2–10% is added to the expected value generated by the selected model. The safety loading is determined by the quality of historical data, the estimate's sensitivity to the number of history years and the deviation between estimates generated by various methods.

In the valuation of the collective liability, the Group has taken account of the fact that historical data do not in all circumstances provide any information at all regarding the foreseeable future. In such cases, attempts have been made to estimate safely the behaviour of the distribution of cash flows from paid claims in areas from where there are no observations and which are in a distant future (over 15 years).

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

b) Changes in assumptions and methods

In their joint actuarial project launched in the spring of 2010, the Federation of Accident Insurance Institutions and the Finnish Motor Insurers' Centre have examined whether the mortality model commonly used by Finnish non-life insurers and applied to motor liability insurance and statutory workers' compensation insurance is up to date, considering that the average life expectancy has increased. The preliminary findings based on the first stage of the project and received in October 2010 reveal that life expectancy has increased in Finland and the commonly used mortality model needs some update. According to the preliminary estimate, Pohjola's technical provisions increased by EUR 35 million in 2010. The second stage of the project involved updating the commonly used mortality model, with the related outcome published in October 2011. On the basis of the second stage findings, life expectancy has increased more than estimated in the first stage of the project. As a result of the new mortality model, growth in the provision for unpaid claims for annuities totalled EUR 62 million for 2010–11, of which EUR 27 million was recognised in 2011.

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

Effect of changes in methods and assumptions on amount of liability	2011	2010
EUR million (increase +/decrease - in liability)	–	–
Change in discount rate	32	–
Change in reserving basis of collective liability	–	–
Adjustment to calculation of unearned premium provision	–	–
Change in the mortality model	27	–
Provision for change in the mortality model	–	35
Total	59	35

c) Claims development

The claims triangle compares the actual claims incurred with previous estimates. The triangles describing claims development have been drawn up by occurrence year.

With the exception of long-term liabilities, claims development for the gross business is presented over a period of five years. The claims triangle does not monitor the shares of pools and the trends in the rights of recourse related to statutory workers' compensation insurance. The capital values of confirmed pensions were recognised as if they had been paid to the amount confirmed. As to the long-term liabilities, that is, confirmed pensions and asbestos damage, information on the sufficiency of contract liability has been presented.

Claims triangles, gross business (EUR million)

Occurrence year	2004	2005	2006	2007	2008	2009	2010	2011	Total
Estimated total claims expenditure									
0*	523	540	603	638	707	666	738	784	5,199
n+1	528	540	611	633	693	633	746	–	–
n+2	521	535	591	627	691	640	–	–	–
n+3	515	529	594	622	689	–	–	–	–
n+4	518	532	594	622	–	–	–	–	–
n+5	516	532	587	–	–	–	–	–	–
n+6	517	529	–	–	–	–	–	–	–
n+7	523	–	–	–	–	–	–	–	–
Current estimate of accumulated claims expenditure	523	529	587	622	689	640	746	784	5,119
Accumulated claims paid	-495	-502	-543	-575	-623	-542	-596	-392	-4,266
Provision for unpaid claims for 2004-2011	28	27	44	47	66	98	150	392	853
Provision for unpaid claims for previous years									164

* = 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

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

* 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	Total
Estimated total claims expenditure									
0*	504	511	580	621	656	649	693	721	4,936
n+1	510	519	593	623	656	620	707	-	-
n+2	503	509	575	619	658	629	-	-	-
n+3	500	509	577	615	656	-	-	-	-
n+4	499	513	577	615	-	-	-	-	-
n+5	499	513	569	-	-	-	-	-	-
n+6	500	513	-	-	-	-	-	-	-
n+7	506	-	-	-	-	-	-	-	
Current estimate of accumulated claims expenditure	506	513	569	615	656	629	707	721	4,916
Accumulated claims paid	-481	-489	-525	-569	-592	-538	-565	-392	-4,150
Provision for unpaid claims for 2004-2011	**25**	**24**	**44**	**46**	**64**	**91**	**142**	**329**	**765**
Provision for unpaid claims for previous years									163

* = 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 34 million (2). The change in technical interest, EUR 32 million, and in the mortality model, EUR 27 million, added to claims incurred. In anticipation of the change in the mortality model, claims incurred increased by EUR 35 million in 2010. Change in claims incurred based on loss events for prior financial years describes the adequacy of technical provisions, which on average is positive due to the security of technical provisions.

Provision for joint guarantee system

As a result of the abolition of the joint guarantee system on 31 December 2010, insurance companies do not need to make such a provision in their balance sheet. However, insurers providing statutory workers' compensation policies continue to be jointly and severally liable for claims of an insurance company put into liquidation or declared bankrupt. Funds tied to the joint guarantee system under statutory workers' compensation insurance will be returned evenly to the pay-as-you-go system within three years.

Claims administration contracts

On 31 December 2011, liabilities related to claims administration contracts totalled EUR 80 million (EUR 78 million).

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 35. Life Insurance liabilities

EUR million	31 Dec. 2011	31 Dec. 2010
Insurance contract liabilities	3,644	4,024
Insurance contract liabilities for unit-linked insurance policies	3,210	3,090
Derivative contracts	0	0
Other liabilities		
Accrued expenses and deferred income	1	5
Other		
Direct insurance operations	1	1
Reinsurance operations	3	2
Other	73	168
Total	77	176
Total Life Insurance liabilities	**6,932**	**7,290**

Changes in Insurance contract liabilities 31 Dec. 2011

Liabilities, EUR million	1 Jan. 2011	Growth in liability arising from insurance premiums	Dis- charged liabilities	Credited interest and changes in value	Other charges and credits	Other items	31 Dec. 2011
Insurance contracts	**7,084**	**736**	**-693**	**-285**	**-102**	**9**	**6,749**
Entitled to discretionary surplus	3,853	182	-427	122	-44	-301	3,385
Not entitled to discretionary surplus	141	60	-14	0	-34	0	154
Unit-linked	3,090	495	-252	-408	-24	310	3,210
Investment contracts	**72**	**75**	**-75**	**-5**	**0**	**0**	**67**
Entitled to discretionary surplus	25	15	-21	1	0	0	21
Not entitled to discretionary surplus	0	-	0	0	0	0	0
Unit-linked	47	61	-54	-6	0	0	47
Other items	30					75	105
Total	**7,186**	**811**	**-767**	**-290**	**-103**	**84**	**6,922**

Liabilities, EUR million	1 Jan. 2010	Growth in liability arising from insurance premiums	Dis-charged liabilities	Credited interest and changes in value	Other charges and credits	Other items	31 Dec. 2010
Insurance contracts	**5,972**	**1,313**	**-581**	**476**	**-100**	**4**	**7,084**
Entitled to discretionary surplus	3,519	741	-415	133	-44	-82	3,853
Not entitled to discretionary surplus	118	66	-11	0	-32	-1	141
Unit-linked	2,335	506	-155	343	-25	86	3,090
Investment contracts	**136**	**533**	**-606**	**10**	**-1**	**0**	**72**
Entitled to discretionary surplus	93	414	-485	3	0	0	25
Not entitled to discretionary surplus	1	-	-1	0	0	0	0
Unit-linked	42	119	-120	6	0	0	47
Provision for unexpired risks and provision for future supplementary benefits	12	-	-	-	-	18	30
Total	**6,120**	**1,846**	**-1,187**	**485**	**-101**	**22**	**7,186**

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

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

Life insurance liabilities act as term life insurance liabilities.

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

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

Notes to OP-Pohjola Group Financial Statements

NOTES TO LIABILITIES AND EQUITY CAPITAL

Note 36. Debt securities issued to the public

EUR million	Average interest rate %	31 Dec. 2011	Average interest rate %	31 Dec. 2010
Bonds	2.86	11,644	2.48	9,804
Other				
Certificates of deposit	1.59	3,493	0.96	3,481
Commercial paper holdings	1.31	4,689	0.84	6,141
Money market debt securities	–	–	–	–
Other	0.75	297	0.78	262
Included in own portfolio in trading (–)*		–119		–111
Total debt securities issued to the public		**20,005**		**19,577**

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

Most significant issues in 2011	Nominal amount	Interest rate
OP Mortgage Bank		
OP Mortgage Bank Coverage Bond 7/2011	1,000	Fixed 3,500
OP Mortgage Bank Coverage Bond 4/2011	1,000	Fixed 3,250
Pohjola Bank plc		
Issue of EUR 50,000,000 Floating Rate Notes due 28 December 2012 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments	50	EUB3M + 0.15 %
Pohjola Bank plc SEK 1.500.000.000 Floating Rate Notes due 21 January 2013	168.3	3M STIBOR + 0.80%
Issue of CHF 100,000,000 Floating Rate Instruments fue 11 July 2014 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments	32.9	CHL3M + 0.22 %
Pohjola Bank plc EUR 500.000.000 Senior Unsecured Issue	500.0	Fixed 3.125 %
Pohjola Bank plc JPY 5.000.000.000 Fixed Private Placement EUR 15.000.000.000 Programme for the Issuance of Debt Instruments dated 5 November 2010	49.9	Fixed 0.835 %
Pohjola Bank plc issue of EUR 100.000.000 Auto-Extendable Floating Rate Notes due June 2016 under the EUR 15,000,000,000 programme for the Issuance of Debt Instruments	100.0	EUB3M-0,25%

Notes to OP-Pohjola Group Financial Statements

NOTES TO LIABILITIES AND EQUITY CAPITAL

Note 37. Provisions and other liabilities

EUR million	31 Dec. 2011	31 Dec. 2010
Provisions	1	1
Other liabilities		
Payment transfer liabilities	864	607
Accrued expenses		
Interest payable	1,026	689
Other accrued expenses	356	368
Other	592	668
Total	2,838	2,331
Total provisions and other liabilities	**2,839**	**2,333**

Other' under Other liabilities includes EUR 7 million (EUR 103 million) in accounts payable on securities, EUR 14 million (EUR 13 million) in pension liabilities, EUR 34 million (EUR 94 million) in liabilities for derivative contracts and EUR 538 million (EUR 458 million) in other accounts payable.

Changes in provisions

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

Notes to OP-Pohjola Group Financial Statements

NOTES TO LIABILITIES AND EQUITY CAPITAL

Note 38. Tax liabilities

EUR million	31 Dec. 2011	31 Dec. 2010
Income tax liabilities	19	34
Deferred tax liabilities	908	981
Total tax liabilities	**928**	**1,014**

Notes to OP-Pohjola Group Financial Statements

NOTES TO LIABILITIES AND EQUITY CAPITAL

Note 39. Cooperative capital

EUR million	31 Dec. 2011	31 Dec. 2010
Cooperative capital	5	5
Supplementary cooperative capital	619	642
Total cooperative capital	**624**	**647**
of which cancelled cooperative capital	90	92

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

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

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

Notes to OP-Pohjola Group Financial Statements

NOTES TO LIABILITIES AND EQUITY CAPITAL

Note 40. Subordinated liabilities

EUR million	Average interest rate %	31 Dec. 2011	Average interest rate %	31 Dec. 2010
Subordinated loans	3.77	241	3.48	233
Other				
Perpetual loans	5.08	256	5.06	262
Debentures	4.86	433	2.52	683
Other	–	–	–	–
Total subordinated liabilities		**931**		**1,178**

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 99,8 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 on 17 June 2013 at the earliest and thereafter on the due dates of interest payment. The entire loan principal must be repaid in one instalment.

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 + 3.05%, 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 17.6 million in change in fair value recognised for hedging (17.1).

Perpetual loans and debentures
1) A perpetual loan of GBP 100 million (euro equivalent 119.7 million) which can be called in at the earliest on 28 December 2012, subject to authorisation by the Financial Supervision Authority. A fixed 6.5% interest is paid on the loan semiannually. If the loan is not called in prematurely, the accrued interest will be based on 3-month GBP Libor +1.88%.
2) A perpetual loan of EUR150 million which can be called in at the earliest on 30 November 2012, subject to authorisation by the Financial Supervision Authority. A fixed 3.875% interest is paid on the loan annually. If the loan is not called in prematurely, the accrued interest will be based on 3-month Euribor +1.50%.
3) A debenture loan of EUR 170 million which can be called in at the earliest on 25 March 2013, subject to authorisation by the Financial Supervisory Authority. The loan carries a fixed interest of 5.75%. If the loan is not called in prematurely, the accrued interest will be based on 3-month Euribor + 1.9% + 1.50%.
4) A debenture loan of EUR 100 million, which is a five-year bullet loan, will mature on 23 December 2013. The loan carries a variable 12-month Euribor rate + 2.25%.
5) A debenture loan of CHF 100 million (euro equivalent 82 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.
6) 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.

Loans 1–6 were issued in international capital markets.

Fixed-rate debentures issued in Finland totalled EUR 1.9 million (EUR 9.2 million) on 31 December 2011.

Issue date	Carrying amount, EUR million	Interest rate, %	Due date
3/8/2006	0.3	3.25	8 March 2012
9/20/2006	0.229	3.85	20 September 2012
3/3/2008	1.4	4.1	3 March 2013

Pohjola Bank plc has no violations of the terms and conditions of the loan contracts with respect to principal, interest and other conditions. The financial statements include EUR 0 million recognised for the price difference of the loans (0).

Other subordinated loans

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

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

Notes to OP-Pohjola Group Financial Statements

NOTES TO LIABILITIES AND EQUITY CAPITAL

Note 41. Equity capital

EUR million	31 Dec. 2011	31 Dec. 2010
Capital and reserves attributable to OP-Pohjola Group owners		
Share and cooperative capital (incl. share issue)	333	368
Reserves		
Restricted reserves		
Share premium account	477	514
Reserve fund	793	803
Reserves according to the Articles of Association/regulations	-	-
Fair value reserve		
Cash flow hedge	10	-6
Translation differences	-	-
Measurement at fair value		
Notes and bonds	-181	-75
Shares and participations	-17	194
Other restricted reserves	1	1
Non-restricted reserves		
Reserve for invested non-restricted equity	143	164
Other non-restricted reserves	1,207	1,174
Retained earnings		
Profit (loss) for previous financial years	3,333	3,150
Profit (loss) for the financial year	430	440
Equity capital attributable to OP-Pohjola Group's owners	6,529	6,726
Non-controlling interests	3	0
Total equity capital	**6,531**	**6,726**

The fair value reserve before tax amounted to minus €249 million (151) and the related deferred tax liability to €61 million (deferred tax asset €39 million). On 31 December, positive mark-to-market valuations of equity instruments in the fair value reserve totalled €198 million (287) million and negative mark-to-market valuations €211 million (24). During 2007-10, impairment charges recognised from the fair value reserve in the income statement totalled EUR 577 million, of which EUR 68 million were recognised in 2011.

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. 2010	**177,019**
Exercise of stock options	-
Equity trades with external parties	-614
31 Dec. 2010	**176,405**
Exercise of stock options	-
Equity trades with external parties	-26,544
31 Dec. 2011	**149,861**

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 financial 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 separate 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 42. Notes and bonds eligible for central bank refinancing

EUR million	31 Dec. 2011	31 Dec. 2010
Financial assets at fair value through profit or loss	109	332
Available for sale		
Measured at fair value	6,258	5,104
Measured at cost	–	–
Held to maturity	577	888
Total notes and bonds eligible for central bank refinancing	**6,943**	**6,324**

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 43. Subordinated notes and bonds

EUR million	31 Dec. 2011	31 Dec. 2010
Publicly quoted		
From public corporations	1	4
From others	–	–
Total	1	4
Other		
From public corporations	–	–
From others	1	1
Total	1	1
Total included financial assets at fair value through profit or loss	**2**	**5**
Investment assets		
Publicly quoted		
From public corporations	–	–
From others	0	11
Total	0	11
Other		
From public corporations	–	–
From others	18	18
Total	18	18
Total included in investment assets	**18**	**28**

Notes to OP-Pohjola Group Financial Statements

OTHER NOTES TO THE BALANCE SHEET

Note 44. Collateral given

EUR million	31 Dec. 2011 Balance sheet value	31 Dec. 2010 Balance sheet value
Given on behalf of own liabilities and commitments		
Mortgages	1	1
Pledges	6,834	6,027
Others	492	349
Total	7,327	6,377
Given on behalf of associates		
Mortgages	–	–
Pledges	–	–
Others	–	–
Total	–	–
Given on behalf of others		
Mortgages	–	–
Pledges	–	–
Others	–	–
Total	–	–
Total collateral given		
Mortgages	1	1
Pledges	6,834	6,027
Others	492	349
Total	**7,327**	**6,377**
Total collateralised liabilities	765	651

Growth in pledges was due to growth in collateral required for the maintenance of liquidity.

Notes to OP-Pohjola Group Financial Statements

OTHER NOTES TO THE BALANCE SHEET

Note 45. 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. 2011**	**31 Dec. 2010**
Notes and bonds	–	–
Equities	–	–
Other	406	343
Total	**406**	**343**

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 409 million on the balance sheet date (343). 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 46. Classification of financial instruments

Assets, EUR million	Loans and other recei-vables	Invest-ments held to maturity	Financial assets at fair value through profit or loss*	Available-for-sale financial assets	Hedging deriva-tives	Total
Cash and balances with central banks	4,376	–	–	–	–	4,376
Receivables from credit institutions and central banks	1,104	–	–	–	–	1,104
Derivative contracts	–	–	2,897	–	410	3,307
Receivables from customers	60,331	–	–	–	–	60,331
Non-life Insurance assets**	567	–	104	2,534	–	3,205
Life Insurance assets***	342	–	3,525	3,139	–	7,006
Notes and bonds	–	753	212	6,923	–	7,888
Shares and participations	–	–	69	256	–	325
Other receivables	4,335	–	411	–	–	4,746
Total 31 December 2011	**71,054**	**753**	**7,219**	**12,852**	**410**	**92,287**

Assets, EUR million	Loans and other recei-vables	Invest-ments held to maturity	Financial assets at fair value through profit or loss*	Available-for-sale financial assets	Hedging deriva-tives	Total
Cash and balances with central banks	1,628	–	–	–	–	1,628
Receivables from credit institutions and central banks	1,121	–	–	–	–	1,121
Derivative contracts	–	–	1,734	–	199	1,933
Receivables from customers	56,834	–	–	–	–	56,834
Non-life Insurance assets**	625	–	96	2,442	–	3,164
Life Insurance assets***	517	–	3,398	3,629	–	7,544
Notes and bonds	–	978	453	5,581	–	7,012
Shares and participations	–	–	67	451	–	517
Other receivables	3,787	–	428	–	–	4,216
Total 31 December 2010	**64,512**	**978**	**6,177**	**12,104**	**199**	**83,969**

Liabilities, EUR million	Financial liabilities at fair value through profit or loss****	Other liabilities	Hedging deriva-tives	Total
Liabilities to credit institutions	-	1,783	-	1,783
Financial liabilities held for trading (excl. derivatives)	1	-	-	1
Derivative contracts	2,837	-	395	3,232
Liabilities to customers	-	45,974	-	45,974
Non-life Insurance liabilities	1	2,507	-	2,508
Life Insurance liabilities	3,211	3,721	-	6,932
Debt securities issued to the public	-	20,005	-	20,005
Subordinated loans	-	931	-	931
Other liabilities	-	4,391	-	4,391
Total 31 December 2011	**6,050**	**79,311**	**395**	**85,756**

Liabilities, EUR million	Financial liabilities at fair value through profit or loss****	Other liabilities	Hedging deriva-tives	Total
Liabilities to credit institutions	-	1,696	-	1,696
Financial liabilities held for trading (excl. derivatives)	0	-	-	0
Derivative contracts	1,723	-	228	1,951
Liabilities to customers	-	39,205	-	39,205
Non-life Insurance liabilities	2	2,349	-	2,350
Life Insurance liabilities	3,090	4,200	-	7,290
Debt securities issued to the public	-	19,577	-	19,577
Subordinated loans	-	1,178	-	1,178
Other liabilities	-	3,993	-	3,993
Total 31 December 2010	**4,815**	**72,200**	**228**	**77,243**

*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 insurance policies.

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

**Life Insurance assets are specified in Note 22.

****Includes the balance sheet value of technical provisions related to unit-linked insurance policies.

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

On 31 December 2011, the fair value of these debt instruments was approximately EUR 198 million higher than their carrying amount, based on information available in markets and employing commonly used valuation techniques.

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

Notes to OP-Pohjola Group Financial Statements

OTHER NOTES TO THE BALANCE SHEET

Note 47. Assets and liabilities by hierarchy of valuation techniques

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

	31 Dec. 2010			
	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	307	199	14	519
Non-life Insurance	–	–	8	8
Life Insurance	–	–	116	116
Derivatives				
Banking	32	1,836	65	1,933
Non-life Insurance	–	1	–	1
Life Insurance	–	0	–	0
Available-for-sale financial assets				
Banking	5,379	592	61	6,032
Non-life Insurance	1,563	648	231	2,442
Life Insurance	2,428	496	705	3,629
Total	**9,709**	**3,772**	**1,199**	**14,681**

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

Financial liabilities measured at fair value, EUR million	31 Dec. 2010 Fair value Level 1*	Level 2**	Level 3***	Total
Financial liabilities at fair value through profit or loss				
Banking	0	–	–	0
Non-life Insurance	–	–	–	–
Life Insurance	–	–	–	–
Derivatives				
Banking	22	1,873	56	1,951
Non-life Insurance	1	0	–	2
Life Insurance	–	–	–	–
Yhteensä	**24**	**1,873**	**56**	**1,953**

* This level includes equities listed on major stock exchanges, quoted corporate debt instruments, bonds issued by governments and financial institutions with credit rating of at least A–, and exchange-traded derivatives. The fair value of these instruments is determined on the basis of market quotes.

** Valuation techniques based on observable input parameters. The fair value of the instruments included within this level means value derived from the market price of a financial instrument's components or similar financial instruments; or value which can be determined using commonly used valuation models and techniques if the inputs significant to the fair value measurement are based on observable market data. The fair value hierarchy level at Pohjola Group includes OTC derivatives, treasury bills/notes, debt instruments issued by companies and financial institutions, repo agreements, and securities lent or borrowed.

*** Valuation techniques whose input parameters involve special uncertainty. The fair value determination of the financial instruments included within this level contains inputs not based on observable market data (unobservable inputs). This level includes the most complex OTC derivatives, certain private equity investments, illiquid bonds, structured bonds, including securitised bonds and structured debt securities, and hedge funds.

Transfers between levels of the fair value hierarchy

During 2011, EUR 67 million in bonds were transferred from level 1 to level 2, due to changes in credit ratings.

Reconciliation of Level 3 items

Specification of financial assets and liabilities

	Financial assets 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 2011	14	124	61	936	65	–	1,199
Total gains/losses in profit or loss	1	4	-1	-10	-43	–	-50
Total gains/losses in other comprehensive income	–	0	2	37	–	–	38
Purchases	–	–	3	229	–	–	232
Sales	-2	-28	-15	-195	–	–	-241
Issues	–	–	–	–	–	–	–
Settlements	0	-1	0	-3	–	–	-5
Transfers into Level 3	–	–	–	–	–	–	–
Transfers out of Level 3	–	–	–	–	–	–	–
Closing balance 31 Dec 2011	**13**	**99**	**47**	**993**	**21**	–	**1,173**

	Financial 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 2010	21	190	65	832	37	–	1,145
Total gains/losses in profit or loss	0	17	3	-20	27	–	27
Total gains/losses in other comprehensive income	–	–	0	95	–	–	95
Purchases	–	–	7	272	–	–	279
Sales	-5	-57	-15	-241	–	–	-319
Issues	–	–	–	–	–	–	–
Settlements	-1	-26	0	-2	–	–	-28
Transfers into Level 3	–	–	–	–	–	–	–
Transfers out of Level 3	–	–	–	–	–	–	–
Closing balance 31 Dec 2010	**14**	**124**	**61**	**936**	**65**	**–**	**1,199**

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

Financial liabilities, EUR Million	Banking	Insurance	Available-for-sale financial assets Banking	Insurance	Derivative contracts Banking	Insurance	Total assets
Opening balance 1 Jan 2010	–	–	–	–	59	–	59
Total gains/losses in profit or loss	–	–	–	–	-2	–	-2
Total gains/losses in other comprehensive income	–	–	–	–	–	–	–
Purchases	–	–	–	–	–	–	–
Sales	–	–	–	–	–	–	–
Issues	–	–	–	–	–	–	–
Settlements	–	–	–	–	–	–	–
Transfers into Level 3	–	–	–	–	–	–	–
Transfers out of Level 3	–	–	–	–	–	–	–
Closing balance 31 Dec 2010	**–**	**–**	**–**	**–**	**56**	**–**	**56**

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

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 compre-hensive income	Total gains/losses for the financial year included in profit or loss for assets/liabilities held at year-end
Total gains/losses in profit or loss	-3	-1	-5	-2	38	28
Total	**-3**	**-1**	**-5**	**-2**	**38**	**28**

Total gains/losses included in profi or loss by item for the financial year on 31 Dec 2010

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 compre-hensive income	Total gains/ losses for the financial year included in profit or loss for assets/ liabilities held at year-end
Total gains/losses in profit or loss	24	3	-16	14	95	120
Total	**24**	**3**	**-16**	**14**	**95**	**120**

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

Sensitivity of Level 3 measurements to reasonably possible alternative assumptions

The Group did not change classification between the levels of hierarchy in 2010.

Notes to OP-Pohjola Group Financial Statements

NOTES TO CONTINGENT LIABILITIES AND DERIVATIVES

Note 48. Off-balance-sheet commitments

	31 Dec. 2011	31 Dec. 2010
Guarantees	1,084	1,223
Other guarantee liabilities	1,612	1,621
Pledges	2	1
Loan commitments	10,363	8,805
Commitments related to short-term trade transactions	248	164
Other	606	783
Total off-balance-sheet commitments	**13,914**	**12,595**

Notes to OP-Pohjola Group Financial Statements

NOTES TO CONTINGENT LIABILITIES AND DERIVATIVES

Note 49. Contingent liabilities and assets

Insurance companies belonging to OP-Pohjola Group underwrite insurance policies through pools. Pool members are primarily responsible for their own proportionate share of the risk. Proportionate shares are based on contracts confirmed annually. In certain pools, pool members are responsible for an insolvent member's liabilities in proportion to their shares in the pool. Group insurance companies recognise liabilities and receivables based on joint liability if joint liability is likely to materialise.

In December 2010, Pohjola Bank plc sold its subsidiary Pohjola Capital Partners Ltd to its existing management. In addition to the selling price, Pohjola will be entitled to an additional price of a total of EUR 0.7 million if the size of a new limited partnership based private equity fund established by the sold company or its direct or indirect owners at a later date reaches EUR 75 million based on commitments received at the time of closing. This amount will be paid to the seller on 31 March 2014 at the earliest, as specified in the terms and conditions of the sale. Entitlement to this amount also requires that Pohjola alone or together with OP-Pohjola Group companies (excl. Group member banks) make a minimum commitment of EUR 20 million to the new fund on the same terms as other investors, provided that the new fund reaches a minimum size of EUR 50 million.

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

In May 2011, Pohjola Insurance Ltd acquired Excenta Ltd, a strategic corporate wellness services provider, from its management and Elisa Corporation. For the financial years 2012–13, Pohjola Insurance Ltd is obliged pay an additional purchase price to sellers as private persons, if Pohjola Group’s wellbeing business achieves its net sales target. The operating margin will also affect the additional purchase price for 2013. The additional purchase price (acquisition cost) will be calculated separately for each of these years after the adoption of the financial statements for the year concerned.

Notes to OP-Pohjola Group Financial Statements

NOTES TO CONTINGENT LIABILITIES AND DERIVATIVES

Note 50. 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 26 million (25) in rental expenses.

Future minimum lease payments under non-cancellable operating leases

EUR Million	31 Dec. 2011	31 Dec. 2010
No later than 1 year	13	14
Later than 1 year and no later than 5 years	30	35
Later than 5 years	1	3
Total	**44**	**52**
Expected future minimum lease payments from non-cancellable subleases	11	14

OP-Pohjola Group as Lessor

OP-Pohjola Group companies have leased out investment properties they own, which generated lease income of EUR 63 million (65) in 2011. In addition, the Group has primarily leased out passenger cars, which generated lease income of EUR 16 million (21).

Future minimum lease payments receivable under non-cancellable operating leases

EUR Million	31 Dec. 2011	31 Dec. 2010
No later than 1 year	52	59
Later than 1 year and no later than 5 years	87	88
Later than 5 years	53	56
Total	**191**	**203**

Notes to OP-Pohjola Group Financial Statements

NOTES TO CONTINGENT LIABILITIES AND DERIVATIVES

Note 51. Asset management

Within OP-Pohjola Group, Pohjola Asset Management Limited runs asset management business and provides institutional customers and wealthy private individuals with discretionary and consultative portfolio management services. Pohjola Asset Management Limited is responsible for the financial management of most of OP Fund Management Company's mutual funds.

Pohjola Asset Management Ltd's discretionary asset management portfolio on 31 December 2011 totalled EUR 19.4 billion (20.0) and consultative asset management portfolio EUR 9.8 billion (10.7).

Notes to OP-Pohjola Group Financial Statements

NOTES TO CONTINGENT LIABILITIES AND DERIVATIVES

Note 52. Derivative contracts

Derivatives held for trading 31 December 2011

	Nominal values/residual maturity				Fair values		Potential future
EUR million	<1 year	1–5 years	>5 years	Total	Assets	Liabilities	exposure
Interest rate derivatives							
Interest rate swaps	12,758	42,779	28,895	84,432	2,159	1,931	2,806
Forward rate agreements	400	–	–	400	3	0	3
OTC interest rate options							
Call and caps							
Purchased	3,539	6,879	1,813	12,230	261	9	322
Written	2,146	5,983	2,291	10,419	0	239	–
Put and floors							
Purchased	3,473	9,963	517	13,953	128	0	185
Written	3,146	10,930	267	14,343	–	66	–
Total OTC interest rate derivatives	25,462	76,534	33,782	135,777	2,550	2,245	3,316
Interest rate futures	3,691	261	–	3,952	0	1	–
Interest rate options							
Call							
Purchased	2,000	–	–	2,000	–	0	–
Written	2,000	–	–	2,000	–	2	–
Put							
Purchased	–	–	–	–	–	–	–
Written	8,000	–	–	8,000	2	–	–
Total exchange traded derivatives	15,691	261	–	15,952	2	3	–
Total interest rate derivatives	41,153	76,795	33,782	151,729	2,553	2,248	3,316
Currency derivatives							
Forward exchange agreements	15,833	558	89	16,480	412	277	605
Interest rate and currency swaps	112	1,185	480	1,778	91	103	188
Currency options							
Call							
Purchased	341	–	–	341	2	–	6
Written	382	–	–	382	–	3	–
Put							
Purchased	276	–	–	276	5	–	8
Written	290	–	–	290	–	6	–
Total OTC currency derivatives	17,235	1,743	570	19,547	511	389	806
Currency futures	–	–	–	–	–	–	–
Total currency derivatives	17,235	1,743	570	19,547	511	389	806

Equity and index derivatives							
Forward equity agreements	–	–	–	–	–	–	–
Forward equity index agreements	–	–	–	–	–	–	–
Equity options							
Call							
Purchased	–	–	–	–	–	–	–
Written	–	–	–	–	–	–	–
Put							
Purchased	–	–	–	–	–	–	–
Written	–	–	–	–	–	–	–
Equity index options							
Call							
Purchased	95	1,110	6	1,211	55	–	150
Written	–	–	–	–	–	–	–
Put							
Purchased	–	0	–	0	0	–	0
Written	–	–	–	–	–	–	–
Total OTC equity and index derivatives	95	1,110	6	1,211	55	–	150
Equity futures	53	–	–	53	–	1	–
Equity index futures	65	–	–	65	0	0	–
Total exchange traded derivatives	117	–	–	117	0	1	–
Total equity and index derivatives	213	1,110	6	1,328	55	1	150
Credit derivatives							
Credit default swaps	45	191	–	236	2	2	4
Credit-linked notes	–	–	–	–	–	–	–
Total return swaps	–	–	–	–	–	–	–
Other credit derivatives	–	–	–	–	–	–	–
Total credit derivatives	45	191	–	236	2	2	4
Other							
Other forward contracts	0	–	–	0	0	–	0
Other swaps	85	154	16	255	11	5	35
Other options							
Call							
Purchased	0	20	–	20	1	–	3
Written	0	9	–	10	–	1	–
Put							
Purchased	0	6	–	7	0	–	1
Written	0	6	–	7	–	0	–
Total other OTC derivatives	87	195	16	298	12	6	39
Other futures contracts	96	119	7	221	13	20	–
Total other derivatives	182	314	22	519	25	26	39
Total derivatives held for trading	**58,828**	**80,152**	**34,379**	**173,359**	**3,145**	**2,666**	**4,316**

Derivatives held for trading 31 December 2010

	Nominal values/residual maturity				Fair values		Potential future
EUR million	<1 year	1–5 years	>5 years	Total	Assets	Liabilities	exposure
Interest rate derivatives							
Interest rate swaps	12,724	32,867	19,969	65,559	1,046	970	1,508
Forward rate agreements	505	400	–	905	0	3	2
OTC interest rate options							
Call and caps							
Purchased	3,567	6,661	1,822	12,051	107	15	167
Written	3,398	3,798	2,283	9,479	–	83	–
Put and floors							
Purchased	3,175	2,655	579	6,409	169	1	190
Written	3,816	2,645	216	6,677	–	114	–
Total OTC interest rate derivatives	27,185	49,026	24,869	101,080	1,322	1,186	1,867
Interest rate futures	3,439	–	–	3,439	0	3	–
Interest rate options							
Call							
Purchased	–	–	–	–	–	–	–
Written	4,000	–	–	4,000	0	0	–
Put							
Purchased	4,745	–	–	4,745	0	1	–
Written	5,490	–	–	5,490	0	0	–
Total exchange traded derivatives	17,675	–	–	17,675	1	4	–
Total interest rate derivatives	44,859	49,026	24,869	118,754	1,322	1,189	1,867
Currency derivatives							
Forward exchange agreements	14,897	423	–	15,320	183	181	353
Interest rate and currency swaps	74	1,190	473	1,737	53	65	149
Currency options							
Call							
Purchased	72	–	–	72	1	–	2
Written	81	–	–	81	–	1	–
Put							
Purchased	45	–	–	45	1	–	1
Written	43	–	–	43	–	1	–
Total OTC currency derivatives	15,211	1,613	473	17,297	238	249	505
Currency futures	–	–	–	–	–	–	–
Total currency derivatives	15,211	1,613	473	17,297	238	249	505

Equity and index derivatives							
Forward equity agreements	–	–	–	–	–	–	–
Forward equity index agreements	–	–	–	–	–	–	–
Equity options							
Call							
Purchased	–	–	–	–	–	–	–
Written	–	–	–	–	–	–	–
Put							
Purchased	–	–	–	–	–	–	–
Written	–	–	–	–	–	–	–
Equity index options							
Call							
Purchased	105	967	29	1,101	128	–	214
Written	–	–	–	–	–	–	–
Put							
Purchased	1	–	–	1	0	–	0
Written	–	–	–	–	–	–	–
Total OTC equity and index derivatives	106	967	29	1,102	128	–	215
Equity futures	–	–	–	–	–	–	–
Equity index futures	54	–	–	54	0	0	–
Total exchange traded derivatives	54	–	–	54	0	0	–
Total equity and index derivatives	160	967	29	1,156	128	0	215
Credit derivatives							
Credit default swaps	13	162	–	175	5	0	8
Credit-linked notes	–	–	–	–	–	–	–
Total return swaps	–	–	–	–	–	–	–
Other credit derivatives	–	–	–	–	–	–	–
Total credit derivatives	13	162	–	175	5	0	8
Other							
Other forward contracts	–	–	–	–	–	–	–
Other swaps	124	111	–	235	1	15	20
Other options							
Call							
Purchased	–	20	–	20	2	–	4
Written	–	10	–	10	–	1	–
Put							
Purchased	–	7	–	7	0	–	1
Written	–	7	–	7	–	0	–
Total other OTC derivatives	124	156	–	280	3	15	25
Other futures contracts	27	49	–	76	24	0	–
Total other derivatives	151	204	–	355	27	16	25
Total derivatives held for trading	**60,395**	**51,973**	**25,371**	**137,738**	**1,722**	**1,455**	**2,620**

Derivative contracts held for hedging purposes – fair value hedging 31 December 2011

	Nominal values/residual maturity				Fair values		Potential future
EUR million	**<1 year**	**1–5 years**	**>5 years**	**Total**	**Assets**	**Liabilities**	**exposure**
Interest rate derivatives							
Interest rate swaps	684	8,150	3,282	12,117	229	400	319
Forward rate agreements	–	–	–	–	–	–	–
OTC interest rate options							
Call and caps							
Purchased	–	–	–	–	–	–	–
Written	21	386	194	601	–	0	–
Put and floors							
Purchased	21	386	194	601	17	0	22
Written	–	–	–	–	–	–	–
Total OTC interest rate derivatives	727	8,921	3,671	13,319	245	400	340
Interest rate futures	–	–	–	–	–	–	–
Interest rate options							
Call							
Purchased	–	–	–	–	–	–	–
Written	–	–	–	–	–	–	–
Put							
Purchased	–	–	–	–	–	–	–
Written	–	–	–	–	–	–	–
Total exchange traded derivatives	–	–	–	–	–	–	–
Total interest rate derivatives	727	8,921	3,671	13,319	245	400	340
Currency derivatives							
Forward exchange agreements	49	–	–	49	0	0	0
Interest rate and currency swaps	711	595	162	1,468	114	30	164
Currency options							
Call							
Purchased	–	–	–	–	–	–	–
Written	–	–	–	–	–	–	–
Put							
Purchased	–	–	–	–	–	–	–
Written	–	–	–	–	–	–	–
Total OTC currency derivatives	760	595	162	1,517	114	31	164
Currency futures	–	–	–	–	–	–	–
Total currency derivatives	760	595	162	1,517	114	31	164

Equity and index derivatives							
Forward equity agreements	–	–	–	–	–	–	–
Forward equity index agreements	–	–	–	–	–	–	–
Equity options							
Call							
Purchased	–	–	–	–	–	–	–
Written	–	–	–	–	–	–	–
Put							
Purchased	–	–	–	–	–	–	–
Written	–	–	–	–	–	–	–
Equity index options							
Call							
Purchased	–	–	–	–	–	–	–
Written	–	–	–	–	–	–	–
Put							
Purchased	–	–	–	–	–	–	–
Written	–	–	–	–	–	–	–
Total OTC equity and index derivatives	–	–	–	–	–	–	–
Equity futures	–	–	–	–	–	–	–
Equity index futures	–	–	–	–	–	–	–
Total exchange traded derivatives	–	–	–	–	–	–	–
Total equity and index derivatives	–	–	–	–	–	–	–
Credit derivatives							
Credit default swaps	–	–	–	–	–	–	–
Credit-linked notes	–	–	–	–	–	–	–
Total return swaps	–	–	–	–	–	–	–
Other credit derivatives	–	–	–	–	–	–	–
Total credit derivatives	–	–	–	–	–	–	–
Other							
Other forward contracts	–	–	–	–	–	–	–
Other swaps	2,746	44	–	2,790	2	11	9
Other options							
Call							
Purchased	–	–	–	–	–	–	–
Written	–	–	–	–	–	–	–
Put							
Purchased	–	–	–	–	–	–	–
Written	–	–	–	–	–	–	–
Total other OTC derivatives	2,746	44	–	2,790	2	11	9
Other futures contracts	–	–	–	–	–	–	–
Total other derivatives	2,746	44	–	2,790	2	11	9
Total derivatives held for hedging	**4,233**	**9,560**	**3,833**	**17,626**	**362**	**442**	**513**

Derivative contracts held for hedging – cash flow hedge 31 Dec. 2011

	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							
Total OTC interest rate derivatives	200	1,170	175	1,545	18	6	26
Total interest rate derivatives	**200**	**1,170**	**175**	**1,545**	**18**	**6**	**26**

Derivative contracts held for hedging – fair value hedging 31 December 2010

	Nominal values/residual maturity				Fair values		Potential future
EUR million	<1 year	1–5 years	>5 years	Total	Assets	Liabilities	exposure
Interest rate derivatives							
Interest rate swaps	698	6,777	2,994	10,469	134	209	213
Forward rate agreements	–	–	–	–	–	–	–
OTC interest rate options							
Call and caps							
Purchased	–	–	–	–	–	–	–
Written	5	229	98	332	–	–	–
Put and floors							
Purchased	5	229	98	332	5	2	7
Written	–	–	–	–	–	–	–
Total OTC interest rate derivatives	709	7,235	3,190	11,134	138	211	220
Interest rate futures	–	–	–	–	–	–	–
Interest rate options							
Call							
Purchased	–	–	–	–	–	–	–
Written	–	–	–	–	–	–	–
Put							
Purchased	–	–	–	–	–	–	–
Written	–	–	–	–	–	–	–
Total exchange traded derivatives	–	–	–	–	–	–	–
Total interest rate derivatives	709	7,235	3,190	11,134	138	211	220
Currency derivatives							
Forward exchange agreements	116	–	–	116	0	0	1
Interest rate and currency swaps	749	468	202	1,419	86	160	132
Currency options							
Call							
Purchased	22	–	–	22	0	–	–
Written	21	–	–	21	–	0	–
Put							
Purchased	–	–	–	–	–	–	–
Written	23	–	–	23	–	0	–
Total OTC currency derivatives	931	468	202	1,601	86	161	133
Currency futures	–	–	–	–	–	–	–
Total currency derivatives	931	468	202	1,601	86	161	133

Equity and index derivatives							
Forward equity agreements	–	–	–	–	–	–	–
Forward equity index agreements	–	–	–	–	–	–	–
Equity options							
Call							
Purchased	–	–	–	–	–	–	–
Written	–	–	–	–	–	–	–
Put							
Purchased	–	–	–	–	–	–	–
Written	–	–	–	–	–	–	–
Equity index options							
Call							
Purchased	–	–	–	–	–	–	–
Written	–	–	–	–	–	–	–
Put							
Purchased	–	–	–	–	–	–	–
Written	–	–	–	–	–	–	–
Total OTC equity and index derivatives	–	–	–	–	–	–	–
Equity futures	–	–	–	–	–	–	–
Equity index futures	–	–	–	–	–	–	–
Total exchange traded derivatives	–	–	–	–	–	–	–
Total equity and index derivatives	–	–	–	–	–	–	–
Credit derivatives							
Credit default swaps	–	–	–	–	–	–	–
Credit-linked notes	–	–	–	–	–	–	–
Total return swaps	–	–	–	–	–	–	–
Other credit derivatives	–	–	–	–	–	–	–
Total credit derivatives	–	–	–	–	–	–	–
Other							
Other forward contracts	–	–	–	–	–	–	–
Other swaps	3,410	57	–	3,467	2	28	14
Other options							
Call							
Purchased	–	–	–	–	–	–	–
Written	–	–	–	–	–	–	–
Put							
Purchased	–	–	–	–	–	–	–
Written	–	–	–	–	–	–	–
Total other OTC derivatives	3,410	57	–	3,467	2	28	14
Other futures contracts	–	–	–	–	–	–	–
Total other derivatives	3,410	57	–	3,467	2	28	14
Total derivatives held for hedging	**5,050**	**7,760**	**3,392**	**16,202**	**227**	**400**	**366**

Derivative contracts held for hedging – cash flow hedge 31 Dec. 2010

	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	–	900	–	900	1	6	5
Total OTC interest rate derivatives	–	900	–	900	1	6	5
Total interest rate derivatives	–	900	–	900	1	6	5

Total derivatives 31 December 2011

	Nominal values/residual maturity				Fair values		Potential future
EUR million	<1 year	1–5 years	>5 years	Total	Assets	Liabilities	exposure
Interest rate derivatives	42,080	86,886	37,628	166,593	2,798	2,648	3,682
Currency derivatives	17,995	2,338	732	21,065	625	419	970
Equity and index-linked derivatives	213	1,110	6	1,328	55	1	150
Credit derivatives	45	191	–	236	2	2	4
Other derivatives	2,929	358	22	3,309	27	37	48
Total derivatives	**63,261**	**90,882**	**38,388**	**192,531**	**3,507**	**3,108**	**4,855**

Total derivatives 31 December 2010

	Nominal values/residual maturity				Fair values		Potential future
EUR million	<1 year	1–5 years	>5 years	Total	Assets	Liabilities	exposure
Interest rate derivatives	45,568	57,161	28,059	130,788	1,461	1,400	2,087
Currency derivatives	16,143	2,081	675	18,898	324	409	638
Equity and index-linked derivatives	160	967	29	1,156	128	0	215
Credit derivatives	13	162	–	175	5	0	8
Other derivatives	3,561	261	–	3,822	30	44	39
Total derivatives	**65,445**	**60,632**	**28,763**	**154,840**	**1,948**	**1,854**	**2,986**

* Fair values include accrued interest which is shown under other assets or provisions and other liabilities in the balance sheet.

Pohjola Group’s derivatives business adopted netting of derivatives during 2011. However, derivative contracts are presented in gross amounts in this note. Netting would reduce the credit equivalent of Pohjola Bank plc’s derivative contracts by EUR 3,446 million.

Notes to OP-Pohjola Group Financial Statements

OTHER NOTES

Note 53. Holdings in other companies

Changes in subsidiaries and associates during the financial year

Pohjola Insurance Ltd acquired Excenta Ltd, a strategic corporate wellness services provider. Pohjola Asset Management established two subsidiaries, Pohjola Asset Management Execution Services Ltd and PAM USA Funds Ltd. Pohjola Property Management Ltd's new subsidiary is called Real Estate Fund Finland III GP Oy. Pohjola Insurance Ltd's three Seesam subsidiaries operating in the Baltic countries merged into Seesam Insurance AS providing services in Estonia, Latvia and Lithuania. Pohjola Bank plc's subsidiary Pohjola IT Procurement Ltd was dissolved. Real Estate Fund Finland III Ky (Group) was included in OP-Pohjola Group's 2011 financial statements.

Subsidiaries included in the financial statements of the amalgamation of cooperative banks (OP-Pohjola Group) in 2011

Company	Domicile/home country	Shareholding, %	Votes, %
205 member cooperative banks*			
OP-Pohjola Group Central Cooperative	Helsinki	100.0	100.0
Pohjola Bank plc	Helsinki	53.1	74.7
Real Estate Fund Finland III Ky (Group)	Helsinki	66.7	66.7
Helsinki OP Bank Plc	Helsinki	100.0	100.0
OP-Kotipankki Oyj	Helsinki	100.0	100.0
OP Mortgage Bank	Helsinki	100.0	100.0
OP Fund Management Company Ltd	Helsinki	100.0	100.0
OP Life Assurance Company Ltd	Helsinki	100.0	100.0
Helsingin Seudun OP-Kiinteistökeskus Ltd	Helsinki	100.0	100.0
OP IT Procurement Ltd	Helsinki	100.0	100.0
OP Bank Group Mutual Insurance Company	Helsinki	100.0	100.0
OP-Services Ltd*)	Helsinki	100.0	100.0
OP Process Services Ltd *)			

*) The company did not operate in 2011

Pohjola Group companies :			
Pohjola Asset Management Limited	Helsinki	93.0	93.0
Pohjola Corporate Finance Ltd	Helsinki	65.0	65.0
Pohjola Insurance Ltd	Helsinki	100.0	100.0
A-Insurance Ltd	Helsinki	100.0	100.0
Seesam Insurance AS	Estonia	100.0	100.0
Eurooppalainen Insurance Company Ltd	Helsinki	100.0	100.0
Pohjola Property Management Ltd	Helsinki	100.0	100.0
Pohjola Health Ltd	Helsinki	100.0	100.0
Excenta Oy	Helsinki	100.0	100.0
Real Estate Fund	Helsinki	100.0	100.0
Real Estate Fund of Funds Finland Oy	Helsinki	100.0	100.0
Real Estate Fund Finland III GP Oy	Helsinki	100.0	100.0
Conventum Venture Finance Ltd.	Helsinki	100.0	100.0
Kaivokadun PL-hallinto Ltd	Helsinki	100.0	100.0
PAM USA Funds Oy	Helsinki	100.0	100.0
Pohjola Asset management Execution Services Oy	Helsinki	100.0	100.0
Pohjola Finance Estonia AS	Estonia	100.0	100.0
Pohjola Finance SIA	Latvia	100.0	100.0
UAB Pohjola Finance	Lithuania	100.0	100.0

Name	Balance sheet 2011, EUR million	Capital adequacy, % 31 Dec. 2011	Managing Director 31 Dec. 2011
Akaan Seudun Op	122	41.0	Heikki Teräväinen
Alajärven Op	217	35.35	Jari Leivo
Alastaron Op	48	29.6	Timo Viitanen
Alavieskan Op	53	28.3	Antero Alahautala
Alavuden Seudun Op	173	25.3	Jussi Ruuhela
Andelsbanken för Åland	218	16.7	Håkan Clemes
Andelsbanken Raseborg	347	15.1	Lars Björklöf
Artjärven Op	43	36.8	Reijo Hurskainen
Askolan Op	85	39.5	Tuulikki Kyyhkynen
Auran Op	78	27.6	Sauli Nuolemo
Enon Op	106	29.4	J. Reimasto-Heiskanen
Etelä-Karjalan Op	1,093	32.8	Jari Himanen
Etelä-Pohjanmaan Op	752	18.6	Olli Tarkkanen
Etelä-Päijänteen Op	137	25.1	Jari Laaksonen
Euran Op	158	33.2	Lenni Kankaanpää
Forssan Seudun Op	300	24.7	Jouni Hautala
Haapamäen Seudun Op	52	38.0	Hannu Petjoi
Hailuodon Op	34	28.1	Eija Sipola
Halsuan Op	28	25.7	Tapio Jokela
Haminan Seudun Op	214	41.6	Juha Korhonen
Hartolan Op	58	28.6	Olli Asikainen
Hauhon Op	43	35.2	Timo Metsola
Haukivuoren Op	53	30.0	Seppo Laurila
Heinäveden Op	72	39.7	Jukka Tuomisto
Himangan Op	66	17.3	Kalevi Humalajoki
Hirvensalmen Op	39	34.4	Pertti Severinkangas
Honkilahden Op	29	45.1	Jukka-Pekka Koivisto
Huhtamon Op	17	44.7	Päivikki Järvinen
Humppilan Op	57	33.8	Jari Salokangas
Hämeenlinnan Seudun Op	632	20.6	Olli Liusjärvi

Ikaalisten Op	97	22.9	Antero Sorri
Ilomantsin Op	99	27.5	Raija Tahvanainen
Itä-Uudenmaan Op	292	15.5	Arto Nurmi-Aro
Janakkalan Op	309	45.8	Vesa Lehikoinen
Joensuun Seudun Op	573	19.6	Esko Mononen
Jokioisten Op	97	33.2	Vesa Rantanen
Juuan Op	107	21.9	Tuomo Mustonen
Jämsän Seudun Op	228	43.0	Heikki Rosti
Kainuun Op	402	25.5	Seppo Rytivaara
Kalajoen Op	178	18.4	Pertti Sarkkinen
Kalkkisten Op	17	30.6	Heikki Leppähaara
Kangasalan Seudun Op	333	21.9	Jari Linjala
Kangasniemen Op	155	41.0	Leo Pakkanen
Kannuksen Op	78	22.4	Juha Lundström
Karjalan Op	30	36.2	Pentti Laaksonen
Karkun Op	21	38.7	Kaarina Sacklén
Karvian Op	62	23.6	Antti Suomijärvi
Kaustisen Op	77	21.6	Asko Ahonen
Keikyän Op	31	34.1	Heikki Nelimarkka
Kemin Seudun Op	250	37.2	Pertti Stöckel
Kerimäen Op	60	45.2	Jarmo Kaivonurmi
Keski-Suomen Op	1,771	18.9	Keijo Manner
Keski-Uudenmaan Op	1,182	31.8	Juhani Rinta-Kartano
Kesälahden Op	55	43.2	Martti Pulkkinen
Kihniön Op	33	29.5	Pirjo Haapa-aho Vehniä
Kiihtelysvaaran Op	75	26.6	Pasi Leppänen
Kiikoisten Op	28	35.2	Harri Vehkalahti
Kiteen Seudun Op	258	30.1	Ari Karhapää
Koillis-Savon Seudun Op	349	42.0	Seppo Pääkkö
Koitin-Pertunmaan Op	66	32.5	Unto Aikasalo
Kokkolan Op	659	14.3	Kimmo Peuranto
Korpilahden Op	75	38.3	Tuomas Kupsala
Korsnäs Andelsbank	69	38.0	Jan-Erik Westerdahl
Kotkan Seudun Op	375	24.5	Pentti Leisti
Kouvolan Seudun Op	514	21.0	Marjo Partio
Kronoby Andelsbank	115	37.7	Sten-Ole Nybäck
Kuhmoisten Op	49	24.8	Teemu Sarhemaa
Kuhmon Op	146	32.5	Hannu Kurkinen
Kuortaneen Op	59	25.6	Markku Jaatinen
Kurun Op	45	39.1	Marja-Leena Siuro
Kuusamon Op	160	25.3	Kari Kivelä
Kymijoen Op	150	33.3	Pekka Raivisto
Kärkölän Op	62	37.7	Arto Haavikko
Käylän Op	25	36.2	Katja Koskinen
Köyliön Op	64	29.3	Jari Valonen
Lapin Op	72	31.7	Eero Laiho
Lappo Andelsbank	7	24.1	Torsten Nordberg
Lehtimäen Op	46	15.4	Veli-Jussi Haapala
Lemin Op	69	20.9	Eero Innanen
Leppävirran Op	138	36.3	Jukka Kilpeläinen
Limingan Op	62	24.3	Petteri Juusola
Liperin Op	162	28.5	Jalo Lehtovaara
Loimaan Seudun Op	224	33.7	Juha Pullinen
Lokalahden Op	33	32.3	Irma Sirén

Lopen Op	100	39.2	Keijo Bragge
Lounais-Suomen Op	191	33.1	Vesa Viitaniemi
Luhangan Op	45	37.5	Pekka Pietilä
Luopioisten Op	30	32.2	Esa Jokinen
Luumäen Op	86	37.7	Mikko Antikainen
Luvian Op	60	24.3	Jyrki Suoja
Länsi-Kymen Op	234	24.2	Pertti Olander
Länsi-Suomen Op	1,872	30.2	Simo Kauppi
Länsi-Uudenmaan Op	694	17.7	Jarmo Viitanen
Maaningan Op	81	41.6	Ari Väänänen
Marttilan Op	71	42.8	Matti Vahalahti
Maskun Op	112	16.7	Jarmo Nurmi
Mellilän Seudun Op	30	46.0	Aarre Anttila
Merimaskun Op	31	27.6	Marjo Linnakoski
Metsämaan Op	26	31.4	Jussi Nieminen
Miehikkälän Op	52	47.8	Kalevi Salonen
Mouhijärven Op	58	25.1	Rainer Sillanpää
Mynämäen Op	130	34.4	Kimmo Ranta
Myrskylän Op	19	27.3	Jorma Rouhiainen
Mäntsälän Op	160	33.2	Heikki Kananen
Mäntän Seudun Op	208	29.5	Janne Nuutinen
Nagu Andelsbank	40	22.1	Johan Broos
Nakkilan Op	106	47.1	Jussi Kuvaja
Niinijoen Op	33	42.7	Jouni Tammelin
Nivalan Op	162	14.7	Markku Niskala
Nousiaisten Op	176	32.4	Ville Aakula
Orimattilan Op	175	34.1	Jukka Sipilä
Oripään Op	55	14.3	Jouko Rekolainen
Oriveden Seudun Op	157	31.4	Pertti Pyykkö
Op Kantrisalo	89	32.8	Bo Hellen
Oulaisten Op	180	28.7	Jari Anttila
Oulun Op	2,186	17.4	Timo Levo
Outokummun Op	94	28.1	Eero Eskelinen
Paattisten Op	81	32.4	Soile Norén
Paltamon Op	55	37.8	Jorma Niemi
Parikkalan Op	102	34.9	Tuomo Liukka
Parkanon Op	90	28.1	Ari Heinonen
Pedersörenejdens Andelsbank	345	18.4	Ulf Löf
Perhon Op	65	23.6	Pekka Pajula
Peräseinäjoen Op	91	36.6	Juha Mäki
Pielaveden Op	83	29.5	Jouni Karhinen
Pielisen Op	394	27.2	Mikko Vepsäläinen
Pihtiputaan Op	57	36.0	Vesa Isosalo
Pohjois-Savon Op	1,399	21.3	Jaakko Ojanperä
Pohjolan Op	755	21.1	Markku Salomaa
Polvijärven Op	103	28.1	Ari Noponen
Porvoon Op	499	21.7	Mauri Molander
Posion Op	92	47.2	Vesa Jurmu
Pudasjärven Op	155	52.1	Teuvo Perätalo
Pukkilan Op	56	32.6	Ari Talkara
Pulkkilan Op	36	42.5	Eero Keskitalo
Punkalaitumen Op	81	34.1	Petri Antila
Puolangan Op	73	28.8	Jouni Ahokumpu
Purmo Andelsbank	32	24.4	Stig-Göran Jansson

Pyhälaakson Op	169	22.5	Timo Suhonen
Päijät-Hämeen Op	1,031	13.3	Timo Laine
Pöytyän Op	77	27.1	Tuomo Jokinen
Raahen Seudun Op	312	32.3	Ari Pohjola
Rantasalmen Op	130	43.5	Vesa Auvinen
Rautalammin Op	63	31.1	Esko-Pekka Markkanen
Riihimäen Seudun Op	297	34.0	Seppo Runsamo
Riistaveden Op	89	20.6	Pauli Kröger
Ruoveden Op	113	15.5	Leena Selkee
Ruukin Op	102	34.6	Kalle Arvio
Rymättylän Op	57	30.8	Antero Nikki
Rääkkylän Op	83	24.2	Olli Koivula
Sallan Op	58	32.0	Esa Junno
Salon Op	754	27.4	Jukka Hulkkonen
Satakunnan Op	383	37.9	Olli Näsi
Sauvon Op	58	40.0	Tiina Itälä
Savitaipaleen Op	92	35.9	Leo-Petteri Nevalainen
Sideby Andelsbank	13	31.8	Johan Ingves
Siikajoen Op	38	30.5	Raija Fingerroos
Siikalatvan Op	78	30.2	Ismo Välijärvi
Simpeleen Op	70	40.2	Kalevi Lehti
Somerniemen Op	30	25.7	Pertti Kujala
Someron Op	137	22.5	Pertti Purola
Sonkajärven Op	89	34.3	Esko Nissinen
Sotkamon Op	103	39.8	Juhajouni Karttunen
Sulkavan Op	64	24.6	Kari Haverinen
Suomenselän Op	241	31.0	Matti Martikainen
Suomussalmen Op	97	26.8	Timo Polo
Suonenjoen Op	103	26.7	Antti Hult
Suur-Savon Op	1,444	26.4	Kari Manninen
Sysmän Op	101	40.9	Sakari Kangas
Säkylän Op	65	33.6	Jari Katila
Taivalkosken Op	54	25.8	Riitta-Liisa Ahokumpu
Taivassalon Op	53	23.1	Jari Katila
Tampereen Seudun Op	2,255	14.6	Mikko Rosenlund
Tarvasjoen Op	47	29.5	Esa Hentula
Tervolan Op	62	33.3	Hannu Neuvonen
Tervon Op	44	34.7	Jani Kääriäinen
Toholammin Op	93	24.3	Leena Kälviä
Tornion Op	216	21.5	Pentti Alaperä
Turun Seudun Op	2,271	17.8	Risto Korpela
Tuupovaaran Op	48	36.9	Aune Parviainen
Tyrnävän Op	63	23.6	Antto Joutsiniemi
Ullavan Op	32	23.1	Jarmo Hätälä
Urjalan Op	109	32.7	Sami Pietilä
Utajärven Op	152	25.6	Raimo Tuovinen
Uukuniemen Op	12	26.1	Pauli Loikkanen
Vaasan Op	630	23.1	Ulf Nylund
Vakka-Suomen Op	343	29.9	Juha-Pekka Nieminen
Valkeakosken Op	172	28.8	Juha Luomala
Vammalan Seudun Op	201	16.0	Jyrki Rantala
Vampulan Op	57	24.3	Kari Hänti
Vehmersalmen Op	55	36.5	Petri Tyllinen
Vesannon Op	52	20.0	Esa Keränen

Vetelin Op	28	28.9	Jarmo Lehojärvi
Vetelin Ylipään Op	31	25.7	Jari Siirilä
Vihannin Op	97	31.5	Jari Kantomaa
Vimpelin Op	67	26.4	Simo Ilomäki
Virolahden Op	65	30.1	Jyrki Gerlander
Virtain Op	137	34.4	Ari Kakkori
Ylitornion Op	98	28.3	Heikki Eteläaho
Ylivieskan Op	191	13.0	Jarmo Somero
Yläneen Op	76	34.5	Heikki Eskola
Ypäjän Op	59	37.9	Kirsi-Marja Hiidensalo
Ähtärin Op	55	14.7	Markku Kallio
Östra Korsholms Andelsbank	7	36.3	Jussi Lahti
Övermark Andelsbank	31	20.3	Mårten Vikberg

Associated companies

Associates (consolidated) in 2011

Name	Domicile	Assets	Liabilities	Net sales	Profit/ Loss	Holding, %
Realinvest Oy	Helsinki	10	2	0	-1	25.3
Finanssidata Oy	Helsinki	13	10	53	0	36.0
Automatia Pankkiautomaatit Oy	Helsinki	290	266	57	4	33.3
Autovahinkokeskus Oy	Espoo	8	1	7	1	27.8
Access Capital Partners Group S.A.	Belgium	27	17	24	5	40.0
Total		**348**	**296**	**141**	**9**	

The Group's associated companies are unquoted companies.

Associates (consolidated) in 2010

Name	Domicile	Assets	Liabilities	Net sales	Profit/ Loss	Holding, %
Realinvest Oy	Helsinki	11	2	0	-1	25.3
Finanssidata Oy	Helsinki	9	7	50	0	36.0
Automatia Pankkiautomaatit Oy	Helsinki	277	252	57	6	33.3
Autovahinkokeskus Oy	Espoo	8	1	7	1	27.8
Access Capital Partners Group S.A.	Belgium	25	20	16	2	40.0
Total		**330**	**282**	**130**	**8**	

The Group's associated companies are unquoted companies.

Joint ventures

Joint ventures in 2011

Name	Domicile	Sector	Holding
Kiinteistö Oy Arkadiankatu 23	Helsinki	Property holding and management	100.0
Kiinteistö Oy Kaisaniemenkatu 1	Helsinki	Property holding and management	22.4
Kiinteistö Oy Kanta-Sarvis II	Tampere	Property holding and management	100.0
Kiinteistö Oy Piispankalliontie 13-15	Espoo	Property holding and management	100.0
Kiinteistö Oy Jyväskylän Torikulma	Jyväskylä	Property holding and management	41.7
Kiinteistö Oy Jyväskylän Kassatalo	Jyväskylä	Property holding and management	100.0
Kiinteistö Oy Vammalan Torikeskus	Vammala	Property holding and management	100.0

Kiinteistö Oy Turun Asemanseutu	Turku	Property holding and management	49.5
Kiinteistö Oy Säästöraha	Oulu	Property holding and management	100.0
Kiinteistö Oy Ansatie 5	Helsinki	Property holding and management	100.0
Kiinteistö Oy Tampereen Sähkökortteli	Tampere	Property holding and management	100.0
Kiinteistö Oy Tampereen Hämeenkatu 12	Tampere	Property holding and management	100.0
Mikkelin Forum Oy	Mikkeli	Property holding and management	87.1
Kiinteistö Oy Hämeenkivi	Tampere	Property holding and management	100.0
Companies owned by Pohjola Insurance Ltd:			Pohjola's holding %
Tikkurilan Kauppatalo Oy	Vantaa	Property holding and management	53.7
Kiinteistö Oy Helsingin Puutarhurinkuja 2	Helsinki	Property holding and management	100.0
Kiinteistö Oy Vantaan Kisällintie 13	Vantaa	Property holding and management	100.0
Kiinteistö Oy STC Viinikkala	Vantaa	Property holding and management	100.0

The consolidated financial statements include the share of assets and related liabilities under joint control.

Joint ventures in 2010

Name	Domicile	Sector	Holding
Kiinteistö Oy Arkadiankatu 23	Helsinki	Property holding and management	100.0
Kiinteistö Oy Kaisaniemenkatu 1	Helsinki	Property holding and management	22.4
Kiinteistö Oy Kanta-Sarvis II	Tampere	Property holding and management	100.0
Kiinteistö Oy Säterinkatu 6	Espoo	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 Biocity	Turku	Property holding and management	30.5
Kiinteistö Oy Turun Asemanseutu	Turku	Property holding and management	49.5
Kiinteistö Oy Säästöraha	Oulu	Property holding and management	100.0
Kiinteistö Oy Ansatie 5	Helsinki	Property holding and management	100.0
Kiinteistö Oy Tampereen Sähkökortteli	Tampere	Property holding and management	100.0
Kiinteistö Oy Tampereen Hämeenkatu 12	Tampere	Property holding and management	100.0
Mikkelin Forum Oy	Mikkeli	Property holding and management	87.1
Kiinteistö Oy Hämeenkivi	Tampere	Property holding and management	100.0
Companies owned by Pohjola Insurance Ltd:			Pohjola's holding %
Tikkurilan Kauppatalo Oy	Vantaa	Property holding and management	53.7
Kiinteistö Oy Helsingin Puutarhurinkuja 2	Helsinki	Property holding and management	100.0
Kiinteistö Oy Vantaan Kisällintie 13	Vantaa	Property holding and management	100.0
Kiinteistö Oy STC Viinikkala	Vantaa	Property holding and management	100.0

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Note 54. Related-party transactions

OP Bank Group's related parties:
The related parties of OP-Pohjola Group include associates, administrative personnel and other related party companies. The administrative personnel comprise OP-Pohjola Group's Executive Chairman (Chairman of the Executive Board of OP-Pohjola Group Central Cooperative), President of OP-Pohjola Group Central Cooperative, members and deputy members of the Executive and Supervisory Boards and their close relatives. Related parties also include companies over which a person among administrative personnel or his close family member exercises significant influence. Other communities considered as related parties include OP Bank Group Pension Fund and OP Bank Group Pension Foundation.

Standard terms and conditions for credit are applied to loans granted to the related parties. Loans are tied to generally used reference rates.

The period of notice observed by OP-Pohjola Group's Executive Chairman, other OP-Pohjola Group Central Cooperative's Board members and deputy members and the employer is a maximum of 6 months. When employment is terminated, executive contracts specify instances in which they will receive not only their regular salary but also a severance pay equal to a maximum of 12 months' salary.

Related-party transactions 2011

	Associates	Admini-strative personnel	Others
Loans	93	15	–
Other receivables	0	3	0
Deposits	5	12	121
Other liabilities	–	–	–
Interest income	0	0	–
Interest expenses	0	0	1
Insurance premium revenue	0	0	2
Dividend income	–	–	–
Commission income	0	0	0
Commission expenses	0	0	0
Other operating income	–	–	–
Impairment losses on loans	–	–	–
Impairment losses on loans at year-end	–	–	–
Off-balance-sheet commitments			
Guarantees	–	–	–
Irrevocable commitments	–	–	–
Other off-balance-sheet commitments	–	0	–
Salaries and other short-term benefits, and performance-based pay			
Salaries and other short-term benefits	–	5	–
Performance-based pay	–	–	–
Related-party holdings			
Number of stock options	–	–	–
Number of shares	–	211,450	5,784,097
Number of participations	–	4,899	–

Related-party transactions 2010

	Associates	Admini-strative personnel	Others
Loans	84	11	–
Other receivables	0	2	0
Deposits	1	12	42
Other liabilities	–	–	–
Interest income	0	0	–
Interest expenses	0	0	1
Insurance premium revenue	0	0	2
Dividend income	–	–	–
Commission income	0	0	0
Commission expenses	0	0	0
Other operating income	–	–	–
Impairment losses on loans	–	–	–
Impairment losses on loans at year-end	–	–	–
Off-balance-sheet commitments			
Guarantees	–	–	–
Irrevocable commitments	–	–	–
Other off-balance-sheet commitments	–	0	–
Salaries and other short-term benefits, and performance-based pay			
Salaries and other short-term benefits	–	5	–
Performance-based pay	–	–	–
Related-party holdings			
Number of stock options	–	–	–
Number of shares	–	183,841	5,784,097
Number of participations	–	4,898	–

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Note 55. Variable remuneration

Personnel fund
About 94 of the central institution's personnel are members of OP-Pohjola Group's Personnel Fund.

Payment of profit-based bonuses to OP Personnel Fund in 2011 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 2011 transferred to the Fund account for some 3% (3%) of the combined salaries and wages earned by the Fund's members. The bonuses recognised in 2011 totalled EUR 15 million (11).

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 €9 million (5) of bonuses were entered under previous management incentive schemes in 2011.

New incentive schemes in 2011
The new, specified financial sector's EU-level variable remuneration regulations came into effect on 1 January 2011. OP-Pohjola Group's remuneration schemes conform to these and are based on OP-Pohjola Group's strategic goals.

OP-Pohjola Group's variable remuneration principles take account of the Group's risk exposure and risk management methods. The performance indicator targets have been set at a level that does not encourage excessive risk-taking. Long-term variable remuneration is based on reaching OP-Pohjola Group's targets, whereas short-term variable remuneration is based on how an individual Group company or business unit reaches its targets. The maximum amount of remuneration is limited in all schemes.

Long-term management incentive scheme from 2011
Managers and designated persons in key positions under the long-term management incentive scheme in OP-Pohjola Group Central Cooperative and Group member banks and their subsidiaries who the management of the company in question or the Central Institution's Supervisory Board have named, a total of 372 people.

The bonus is determined by the management position. If the set targets are annually achieved at 100%, the management and key employees will be entitled to a bonus equalling their regular 2–12-month salary subject to PAYE tax.

The scheme consists of consecutive three-year performance periods, the first of which is 1 January 2011–31 December 2013. The bonus for the 2011–2013 performance period is paid after a deferral period in three equal instalments by the end of each June in 2015–2017.

The target bonus was determined at the beginning of the scheme, i.e. the maximum remuneration in terms of Pohjola Bank plc Series A shares. This target bonus for the 2011–13 performance period is 5.1 million shares which will be partly based on cash-settled payments (the amount of tax withheld) and equity-settled payments.

OP-Pohjola Group Central Cooperative's Supervisory Board determines the performance indicators for the scheme and targets set for them separately for each performance period. The targets for 2011–2013 are based on the following criteria: • Growth in the number of customers using OP-Pohjola as the main bank and insurer • Change in the market share of the corporate customer business • Return on economic capital

Bonuses will be paid to their beneficiaries provided that OP-Pohjola Group's capital adequacy ratio under the Act on the Supervision of Financial and Insurance Conglomerates is 1.3 or higher on the bonus payout date and that the person within the scheme is employed by OP-Pohjola Group up to the payout date.

The bonus is accounted for in bookkeeping in all other OP-Pohjola Group companies except Pohjola Group as cash. At Pohjola Group, share bonuses are accounted for in bookkeeping as equity-settled transactions. Expenses for the scheme are recognised from the beginning of the performance period up to the date of payment (vesting period) as personnel costs, and the equivalent liability is recognised under deferred expenses or shareholders' equity. The portion of shareholders' equity is based on the fair value of the share on the grant date, with expected discounted dividends factored in. The average price of a share on payment date was €7.59. The liability is valued on each balance sheet date at fair value, amounting to €5 million on 31 December 2011.

OP-Pohjola Group's Supervisory Board manages the long-term scheme and supervises compliance with it. The Supervisory Board may exercise discretion to change the terms and conditions of the scheme and postpone bonus payments for compelling reasons.

Short-term incentive schemes

In short-term schemes, the performance period is one calendar year and the bonus is primarily paid in cash. Short-term incentive schemes are company-specific and cover the entire personnel of OP-Pohjola Group.

Short-term bonuses are primarily accounted for in bookkeeping as cash-settled transactions. Expenses for the schemes are recognised from the beginning of the performance period up to the date of payment (vesting period) as personnel costs, and the equivalent liability is recognised under deferred expenses. The liability is valued at each balance sheet date at fair value.

Deferral of variable remuneration

The payment of variable remuneration has been prescribed in Government decree no. 1372. If a person is categorised on the basis of his duties as belonging to a group that may cause considerable risk (person affecting risk profile) to his company, the company may defer the payment of variable remuneration over three years under certain conditions.

These persons affecting the risk profile in OP-Pohjola Group include managing directors and other key management personnel, other people with a major impact of the company's risk exposure, Internal Control and other designated persons or special groups.

People who may affect the company's risk profile will have their variable remuneration payment deferred and their bonuses paid half in cash and Pohjola Bank plc shares (or tied to its value) if their variable remuneration for a 12-month performance period exceeds EUR 50,000 – the maximum recommended by the Financial Supervisory Authority – or two months' fixed gross salary above this amount. The remuneration of the person affecting the company's risk profile is viewed up to the EUR 50.000 deferral limit as a whole, considering both long- and short-term remuneration.

If the euro maximum for deferral is exceeded, some bonus is paid immediately, while the rest is deferred and the deferred bonus will be paid in equal instalments within the next three years. In case of such deferral under the short-term scheme, half of the bonus is always paid in cash and half as Pohjola Bank plc Series A shares (or cash tied to the price of a Pohjola Bank plc Series A share).

Incentive schemes based on ownership

The management of Pohjola Asset Management and Pohjola Corporate Finance Ltd own shares of such companies indirectly. These schemes pertain to the share ownership plan for the companies' key employees, with a view to enabling their long-term engagement. All ownership-based incentive schemes will be dismantled by the end of 2012.

Expenses recognised of variable remuneration *)

*) Excluding social expenses

€ million	2011	2010
Personnel fund	15	11
Short-term schemes	35	37
Previous long-term schemes		
Schemes for 2007–2010	9	5
Extended long-term schemes:		
2011 scheme	5	–
Total	65	53

Notes to OP-Pohjola Group Financial Statements

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Note 56. Events after the balance sheet date

No significant events after the balance sheet date.

Notes to OP-Pohjola Group Financial Statements

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Note 57. Segment reporting

Segment information
OP-Pohjola Group's business segments are Banking, Non-life Insurance and Life Insurance. Non-segment operations are presented in 'Other Operations'. Defining segments and presentation are based on management reporting.

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 Life Insurance segment comprises OP Life Assurance Company Ltd engaged in the Group's life and pension insurance business.

Net income generated by the life insurance companies is based on the difference between insurance premium revenue and benefits paid and changes in insurance contract liabilities, and net investment income. The most significant risk involved in the life insurance business is the investment risk. The most significant insurance risks pertain to mortality and disability.

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 and Pohjola Group's 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 assts 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 2011

Income statement, EUR Million	Banking	Non-life Insurance	Life Insurance	Other operations	Elimi-nations	OP-Pohjola Group
Interest income	3,406	0	-	1,184	-1,295	3,294
Interest expenses	2,418	2	-	1,153	-1,309	2,264
Net interest income before impairment losses	**988**	**-2**	**-**	**31**	**13**	**1,030**
Impairment losses on receivables	90	-	-	11	-	101
Net interest income after impairment losses	**897**	**-2**	**-**	**20**	**13**	**928**
Net income from Non-life Insurance	-	321	-	-	-9	312
Net income from Life Insurance	-	-	87	-	-16	72
Net commissions and fees	605	20	-	13	-65	574
Net trading income	11	-	-	2	4	17
Net investment income	48	0	-	22	-8	63
Other operating income	53	5	17	352	-337	90
Personnel costs	430	125	10	130	0	696
Other administrative expenses	331	99	17	172	-267	351
Other operating expenses	202	112	67	77	-141	318
Returns to owner-members	176	-	-	-	-	176
Share of associates' profits/losses	4	0	-	0	0	4
Earning before tax	**478**	**8**	**10**	**31**	**-9**	**518**
Income tax expense						87
Profit for the financial year						**430**

Balance sheet 31 Dec. 2011	Banking	Non-life Insurance	Life Insurance	Other operations	Elimi-nations	OP-Pohjola Group
Liquid assets	138	-	-	4,238	-	4,376
Receivables from financial institutions	4,708	0	-	7,045	-10,650	1,104
Financial assets at fair value through profit or loss	356	-	-	-66	-9	281
Derivative contracts	3,392	-	-	215	-300	3,307
Receivables from customers	60,665	-	-	207	-541	60,331
Non-life Insurance assets	-	3,352	-	-	-147	3,205
Life Insurance assets	-	-	7,442	-	-436	7,006
Investment assets	3,096	16	-	8,468	-3,237	8,343
Investment in associates	33	2	-	3	1	40
Intangible assets	221	756	92	105	-5	1,169
Property, plant and equipment	589	21	69	20	3	702
Other assets	1,356	2	11	1,098	-202	2,266
Tax assets	47	15	15	79	2	158
Total assets	**74,601**	**4,166**	**7,629**	**21,412**	**-15,521**	**92,287**

Balance sheet 31 Dec. 2011	Banking	Non-life Insurance	Life Insurance	Other operations	Elimi- nations	OP-Pohjola Group
Liabilities to financial institutions	7,312	–	–	5,153	-10,682	1,783
Financial liabilities at fair value through profit or loss	1	–	–	–	–	1
Derivative contracts	2,841	–	–	699	-308	3,232
Liabilities to customers	41,189	–	–	5,028	-243	45,974
Non-life Insurance liabilities	–	2,543	–	–	-36	2,508
Life Insurance liabilities	–	–	6,946	–	-13	6,932
Debt securities issued to the public	5,199	–	–	15,664	-858	20,005
Provisions and other liabilities	2,154	67	35	794	-212	2,839
Tax liabilities	501	122	2	320	-17	928
Cooperative capital	807	–	–	1,443	-1,625	624
Subordinated liabilities	223	50	91	1,005	-438	931
Total liabilities	**60,227**	**2,783**	**7,074**	**30,106**	**-14,434**	**85,756**
Equity capital						**6,531**

Net income from the Baltic countries came to EUR 1 million and net assets to EUR 31 million.

Income statement and balance sheet by segment in 2010

Income statement, EUR Million	Banking	Non-life Insurance	Life Insurance	Other operations	Elimi- nations	OP-Pohjola Group
Interest income	2,466	0	–	732	-786	2,412
Interest expenses	1,614	6	–	671	-796	1,495
Net interest income before impairment losses	**852**	**-6**	**-**	**61**	**10**	**917**
Impairment losses on receivables	149	0	–	-1	–	149
Net interest income after impairment losses	**703**	**-6**	**-**	**61**	**10**	**768**
Net income from Non-life Insurance	–	383	–	–	-1	382
Net income from Life Insurance	–	–	109	–	-8	100
Net commissions and fees	595	19	–	8	-60	563
Net trading income	52	–	–	-8	2	46
Net investment income	30	–	–	40	-8	62
Other operating income	66	3	16	333	-319	99
Personnel costs	405	109	9	120	0	643
Other administrative expenses	313	88	17	153	-253	319
Other operating expenses	200	119	55	76	-126	324
Returns to owner-members	163	–	–	–	–	163
Share of associates' profits/losses	2	0	–	0	–	2
Earning before tax	**367**	**83**	**43**	**86**	**-4**	**575**
Income tax expense						135
Profit for the financial year						**440**

Balance sheet 31 Dec. 2010	Banking	Non-life Insurance	Life Insurance	Other operations	Elimi- nations	OP-Pohjola Group
Liquid assets	133	–	–	1,495	–	1,628
Receivables from financial institutions	3,570	2	–	7,819	–10,270	1,121
Financial assets at fair value through profit or loss	587	–	–	–59	–9	519
Derivative contracts	1,972	–	–	107	–146	1,933
Receivables from customers	56,375	–	–	977	–519	56,834
Non-life Insurance assets	–	3,307	–	–	–143	3,164
Life Insurance assets	–	–	8,017	–	–473	7,544
Investment assets	2,665	16	–	7,335	–2,578	7,438
Investment in associates	31	2	–	5	–	38
Intangible assets	216	767	91	90	–5	1,159
Property, plant and equipment	596	21	67	25	6	716
Other assets	1,090	–1	6	858	–204	1,749
Tax assets	62	3	16	42	2	125
Total assets	**67,299**	**4,118**	**8,198**	**18,694**	**–14,340**	**83,969**

Balance sheet 31 Dec. 2010	Banking	Non-life Insurance	Life Insurance	Other operations	Elimi- nations	OP-Pohjola Group
Liabilities to financial institutions	8,139	–	–	4,034	–10,477	1,696
Financial liabilities at fair value through profit or loss	0	–	–	0	–	0
Derivative contracts	1,618	–	–	476	–142	1,951
Liabilities to customers	36,590	–	–	2,953	–339	39,205
Non-life Insurance liabilities	–	2,357	–	–	–6	2,350
Life Insurance liabilities	–	–	7,316	–	–25	7,290
Debt securities issued to the public	3,179	–	–	17,032	–633	19,577
Provisions and other liabilities	1,821	143	2	579	–212	2,333
Tax liabilities	502	153	49	324	–14	1,014
Cooperative capital	829	–	–	1,143	–1,325	647
Subordinated liabilities	269	50	91	1,205	–437	1,178
Total liabilities	**52,947**	**2,703**	**7,457**	**27,746**	**–13,611**	**77,243**
Equity capital						**6,726**

Net income from the Baltic countries came to EUR 2 million and net assets to EUR 43 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 58–65; Banking and Investment Services' risk exposure, including capital adequacy information in accordance with Pillar III, in notes 66–100;Non-life Insurance's risk exposure in notes 101–112 and that of Life Insurance in notes 113–119.

OP-Pohjola Group’s risk exposure

Note 58. OP-Pohjola Group's risk limit system, based on OP-Pohjola Group's 2009 business strategy, and risk indicator values

OP-Pohjola Group’s Supervisory Board confirms risk limits concerning the Group’s capital adequacy and credit and liquidity and market risks. These limits are used to control the Group's risk-taking. OP-Pohjola Group's risk limit system is based on the business strategy approved in the summer of 2009.

Indicator	Risk limit	31 Dec. 2011	31 Dec. 2010
Risk-bearing capacity			
OP-Pohjola Group risk limits			
Capital adequacy ratio, (Act on the Supervision of Financial and Insurance Conglomerates)	1.20	1.80	1.70
Capital base/economic capital	1.10	1.54	1.71
Credit risks, %			
Largest single customer risk / capital resources	15.0	7.1	6.5
Total of large customer risks / capital resources	100.0	24.4	27.9
Industry risk / receivables and commitments (including direct investments)	18.0	11.3	11.1
Non-performing loans/loan and guarantee portfolio	2.0	0.5	0.3
Expected losses/receivables and commitments	1.0	0.5	0.3
Liquidity risks, %			
Funding position (cumulative) / balance sheet, banking			
≤ 12 kk	-10	-5.0	-4.7
≤ 3 v	-10	-4.8	-5.1
≤ 5 v	-5	0.9	-1.2
Liquidity risk, days	30	58	51
Market risks, %			
Interest rate risk exposure, banking / economic capital	20	5.5	4.2
Market risk in insurance operations / economic capital	35	20.9	27.1
Alternative investments / economic capital	80	39.9	41.8
Property risk / economic capital	10	4.7	5.0

Notes to OP-Pohjola Group Financial Statements

NOTES TO RISK MANAGEMENT

Note 59. OP-Pohjola Group's risk-bearing capacity

Note 2, OP-Pohjola Group's Risk and Capital Adequacy Management Principles, provides a description of goals, key principles and processes related to capital management. OP-Pohjola Group and all companies providing banking and investment services fulfil all capital adequacy requirements set by regulatory authorities.

Own funds and capital adequacy under the Act on the Supervision of Financial and Insurance Conglomerates

EUR million	31 Dec. 2011	31 Dec. 2010
OP-Pohjola Group's equity capital	6,531	6,726
Cooperative capital, hybrid instruments, perpetual bonds and debenture bonds	1,518	1,783
Other sector-specific items excluded from capital base	-12	-
Goodwill and intangible assets	-1,114	-1,094
Equalisation provision	-271	-331
Proposed profit distribution	-61	-69
Items under IFRS deducted from capital base*	-453	-403
Impairments – shortfall of expected losses	-542	-131
Conglomerate's total capital base	**5,596**	**6,480**
Regulatory capital requirement for credit institutions**	2,722	3,418
Regulatory capital requirement for insurance operations***	388	396
Minimum amount of conglomerate's capital resources	**3,111**	**3,814**
Conglomerate's capital adequacy	**2,486**	**2,666**
Conglomerate's capital adequacy ratio (capital base/minimum of capital base)	**1.80**	**1.70**

* * 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

Risk-bearing capacity

Two risk limit indicators are in place for risk-bearing capacity in the OP-Pohjola Group strategy. The first is capital adequacy prescribed in the Act on the Supervision of Financial and Insurance Conglomerates. The Group's risk limit for this capital adequacy ratio is 1.2, while the minimum statutory requirement is 1. On 31 December, this ratio stood at 1.80, as against 1.70 a year earlier. OP-Pohjola Group's capital resources were EUR 1,864 million (1,904) above the Group's internal risk limit and EUR 2,486 million (2,666) more than the limit required by law.

Another risk limit measure for risk-bearing capacity that has been set in the strategy is a ratio of 1.1.between capital resources and economic capital. At year-end, the ratio of capital resources to economic capital was 1.54 (1.71). The capital resources buffer exceeded the Group's internal risk limit and was EUR 1,739 million (2,315). The high risk-bearing capacity acts as a buffer against unexpected losses and paves the way for business growth.

Notes to OP-Pohjola Group Financial Statements

NOTES TO RISK MANAGEMENT

Note 60. Credit risk in banking

OP-Pohjola Group's industry and customer risks are diversified. At the end of the year, the largest single counterparty-related customer risk accounted for 7.1% (6.5) of the Group's capital resources. The total amount of significant customer exposure was 24.4% (27.9) of the Group's equity capital. Any customer exposure that is at least 5 per cent of the Group equity capital is considered significant. The risk limit for the greatest customer exposure is 15 per cent, and the significant customer total is 100 per cent. At OP-Pohjola Group, industry risk is calculated for each main line of business, with the following factored in: receivables and commitments in banking, and direct investments in life and non-life insurance. On 30 December, the highest industry risk was 11.3% (11.1) by Operation of Other Real Estates. The industry risk limit is 18%.

At year-end, OP-Pohjola Group's non-performing and zero-interest receivables came to EUR 296 million (204), which was 0.5% (0.4) of the loan and guarantee portfolio. The risk limit for this key ratio is 2.0%. The ratio of expected losses to receivables and commitments was 0.5% (0.3), with the risk limit set at 1.00%. Expected losses is an estimate of the average annual amount of losses caused by credit risks calculated with OP-Pohjola Group's own credit risk models. Net impairments of receivables in 2011 came to EUR 101 million (149), which was 0.16% (0.25) of the loan and guarantee portfolio.

Notes to OP-Pohjola Group Financial Statements

NOTES TO RISK MANAGEMENT

Note 61. Liquidity risk

The risk limit measure for OP-Pohjola Group's liquidity risk is the ratio of the cumulative funding position controlling the structural funding risk, to the banking balance sheet as well as the ratio of the liquidity portfolio to the liquidity portfolio reserve requirement.

The risk indicator for the structural funding risk indicates the maximum portion of the net cash flows in the Group's balance sheet that may have a maturity within less than one year and within three and five years. On 31 December, the maturing net cash flows in the Group's balance sheet were in all maturity periods with upper limits clearly under the maximum amounts specified by the risk limits.

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

Notes to OP-Pohjola Group Financial Statements

NOTES TO RISK MANAGEMENT

Note 62. Interest rate risk, banking

In the risk limit system, interest rate risk exposure in banking is measured by the ratio of the economic capital for the risk type to the economic capital for all risk types (before diversification benefits). On 31 December 2011, the share of interest rate risk in banking of OP-Pohjola Group's economic capital was 5.5%, while the risk limit was 20%.

Notes to OP-Pohjola Group Financial Statements

NOTES TO RISK MANAGEMENT

Note 63. Market risk in insurance operations

In the risk limit system, market risks in insurance operations is measured by the ratio of the economic capital for the risk type to the economic capital for all risk types (before diversification benefits). On 31 December 2011, the share of market risk in insurance operations of OP-Pohjola Group's economic capital was 20.9%, while the risk limit was 35%.

Notes to OP-Pohjola Group Financial Statements

NOTES TO RISK MANAGEMENT

Note 64. Alternative investments

OP-Pohjola Group's risk limit system restricts the volume of alternative investments by means of a risk limit indicator, which shows the ratio of the market value of alternative and structured investments to the Group's economic capital. On 31 December 2011, the ratio of the market value of such investments to the economic capital of all risk types was 39.9%, while the risk limit was 80%.

Notes to OP-Pohjola Group Financial Statements

NOTES TO RISK MANAGEMENT

Note 65. Property risk

In the risk limit system, property risk is measured by the ratio of the economic capital for the risk type to the economic capital for all risk types (before diversification benefits). On 31 December 2011, the share of property risk of OP-Pohjola Group's economic capital was 4.7%, while the risk limit was 10%.

Notes to OP-Pohjola Group Financial Statements

NOTES TO RISK MANAGEMENT

Risk exposure by Banking and Investment Services

Note 66. Financial assets and impairment losses recognised on them for the financial year

	31 Dec. 2011		31 Dec. 2010	
EUR million	**Balance sheet value**	**Impair-ment losses**	**Balance sheet value**	**Impair-ment losses**
Liquid assets	4,376	-	1,628	-
Receivables from financial institutions	1,104	-	1,121	-
Financial assets at fair value through profit or loss				
Notes and bonds	212	-	453	-
Shares and participations	69	-	67	-
Other	-	-	-	-
Derivative contracts				
Held for trading	2,892	-	1,753	-
Hedging	410	-	199	-
Recognised at fair value through profit or loss	6	-	-19	-
Loans and other receivables				
Loans granted	59,551	365	56,207	340
Finance lease receivables	775	-	624	-
Repo contracts	-	-	-	-
Bank guarantee receivables	6	4	2	3
Other receivables	0	-	0	-
Available-for-sale financial assets				
Notes and bonds	6,923	-	5,581	-
Shares and participations	256	-	451	-
Other	-	-	-	-
Held-to-maturity investments				
Notes and bonds	753	-	978	-
Off-balance-sheet commitments				
Bank guarantees	2,696	-	2,843	-
Total financial assets	**80,026**	**369**	**71,888**	**343**

Notes to OP-Pohjola Group Financial Statements

NOTES TO RISK MANAGEMENT

Note 67. Exposure

	Finland			Other countries		
31 Dec. 2011	**Balance sheet value**	**Impair-ments**	**Accrued interest**	**Balance sheet value**	**Impair-ments**	**Accrued interest**
Financial assets						
Receivables from financial institutions	123	–	0	981	–	8
Receivables from customers	58,688	324	152	868	45	2
Finance leases	766	–	–	9	–	–
Notes and bonds	1,108	–	20	6,780	–	101
Other	112	–	–	437	–	–
Total	**60,796**	**324**	**172**	**9,075**	**45**	**111**
Off-balance-sheet commitments						
Unused standby credit facilities	10,182	–	–	181	–	–
Guarantees and letters of credit	2,533	–	–	411	–	–
Derivative contracts	725	–	–	2,767	–	–
Other	379	–	–	229	–	–
Total	**13,819**	**–**	**–**	**3,587**	**–**	**–**
Total exposure	**74,616**	**324**	**172**	**12,662**	**45**	**111**

	Finland			Other countries		
31 Dec. 2010	**Balance sheet value**	**Impair-ments**	**Accrued interest**	**Balance sheet value**	**Impair-ments**	**Accrued interest**
Financial assets						
Receivables from financial institutions	9	–	0	1,112	–	11
Receivables from customers	55,426	311	158	783	32	2
Finance leases	624	–	–	0	–	–
Notes and bonds	1,219	–	20	5,793	–	79
Other	88	–	–	323	–	–
Total	**57,366**	**311**	**178**	**8,011**	**32**	**92**
Off-balance-sheet commitments						
Unused standby credit facilities	8,686	–	–	119	–	–
Guarantees and letters of credit	2,695	–	–	313	–	–
Derivative contracts	377	–	–	1,547	–	–
Other	456	–	–	328	–	–
Total	**12,213**	**–**	**–**	**2,306**	**–**	**–**
Total exposure	**69,580**	**311**	**178**	**10,317**	**32**	**92**

Positive market value was recognised for derivative contracts.

Notes to OP-Pohjola Group Financial Statements

NOTES TO RISK MANAGEMENT

Note 68. Exposure by sector

	Balance sheet values		Off-balance-sheet		
31 Dec. 2011	**Domestic**	**Foreign**	**Domestic**	**Foreign**	**Total**
Non-banking corporate sector	18,873	750	8,830	422	28,875
Financial institutions and insurance companies	787	7,553	590	3,163	12,092
Households	39,984	35	3,640	1	43,660
Non-profit organisations	579	195	142	0	916
Public corporations	745	653	617	2	2,017
Total	**60,968**	**9,186**	**13,819**	**3,587**	**87,561**
31 Dec. 2010					
Non-banking corporate sector	17,203	546	7,739	320	25,808
Financial institutions and insurance companies	284	6,662	620	1,983	9,549
Households	37,746	37	3,435	1	41,219
Non-profit organisations	512	4	69	0	586
Public corporations	1,798	854	350	1	3,003
Total	**57,544**	**8,103**	**12,213**	**2,306**	**80,166**

Notes to OP-Pohjola Group Financial Statements

NOTES TO RISK MANAGEMENT

Note 69. Receivables from credit institutions and customers, and doubtful receivables

	Receivable base				
31 Dec. 2011	Not impaired (gross)	Impaired (gross)	Total	Total impair-ments	Balance sheet value
Receivables					
Receivables from financial institutions	1,104	–	1,104	–	1,104
Receivables from customers	59,485	440	59,925	369	59,556
Bank guarantee receivables	6	4	10	4	6
Finance leases	775	–	775	–	775
Overdrafts	13	–	13	–	13
Total	**61,377**	**440**	**61,817**	**369**	**61,448**
Receivables by sector					
Non-banking corporate sector	18,730	307	19,038	264	18,774
Financial institutions and insurance companies	1,462	65	1,527	33	1,494
Households	39,949	62	40,011	72	39,939
Non-profit organisations	580	6	587	0	586
Public corporations	655	–	655	–	655
Total	**61,377**	**440**	**61,817**	**369**	**61,448**

	Receivable base				
31 Dec. 2010	Not impaired (gross)	Impaired (gross)	Total	Total impair-ments	Balance sheet value
Receivables					
Receivables from financial institutions	1,121	–	1,121	–	1,121
Receivables from customers	56,073	479	56,552	343	56,209
Bank guarantee receivables	2	3	5	3	2
Finance leases	624	–	624	–	624
Overdrafts	7	–	7	–	7
Total	**57,825**	**479**	**58,304**	**343**	**57,961**
Receivables by sector					
Non-banking corporate sector	17,081	355	17,436	251	17,185
Financial institutions and insurance companies	1,313	64	1,376	21	1,355
Households	37,715	57	37,772	70	37,702
Non-profit organisations	511	4	515	1	515
Public corporations	1,204	–	1,204	–	1,204
Total	**57,825**	**479**	**58,304**	**343**	**57,961**

31 Dec. 2011	Not impaired (gross)	Impaired (gross)	Total	Arrears	Impairments Receivable-specific	Impairments By receivable group
Doubtful receivables						
Receivables from financial institutions	0	-	0	-	-	-
Receivables from customers	360	441	801	226	308	61
Bank guarantee receivables	6	4	10	6	4	0
Finance leases	2	-	2	0	-	-
Overdrafts	13	-	13	0	-	-
Total	**375**	**441**	**816**	**226**	**308**	**61**
Doubtful receivables by sector						
Non-banking corporate sector	109	308	417	105	240	23
Financial institutions and insurance companies	0	65	65	0	33	-
Households	258	62	319	118	34	38
Non-profit organisations	1	6	8	3	0	0
Public corporations	7	-	7	0	-	-
Total	**375**	**441**	**816**	**226**	**308**	**61**

31 Dec. 2010	Not impaired (gross)	Impaired (gross)	Total	Arrears	Impairments Receivable-specific	Impairments By receivable group
Doubtful receivables						
Receivables from financial institutions	0	-	0	-	-	-
Receivables from customers	313	479	792	211	291	52
Bank guarantee receivables	2	3	5	4	2	0
Finance leases	0	-	0	0	-	-
Overdrafts	7	-	7	0	-	-
Total	**320**	**479**	**799**	**212**	**291**	**52**
Doubtful receivables by sector						
Non-banking corporate sector	90	355	444	96	236	15
Financial institutions and insurance companies	0	64	64	0	21	-
Households	221	57	278	113	33	37
Non-profit organisations	0	4	4	3	0	0
Public corporations	8	-	8	0	-	-
Total	**320**	**479**	**799**	**212**	**291**	**52**

31 Dec. 2011	Portfolio	Impair-ments	Balance sheet value
Doubtful receivables			
Non-performing	415	122	293
Zero-interest	10	7	4
Underpriced	113	1	111
Other	278	178	100
Total	**816**	**308**	**508**

31 Dec. 2010	Portfolio	Impair-ments	Balance sheet value
Doubtful receivables			
Non-performing	328	75	252
Zero-interest	11	7	3
Underpriced	90	2	88
Other	371	206	164
Total	**799**	**291**	**508**

Doubtful receivables include non-performing, zero-interest, under-priced receivables and other doubtful receivables. Interest on or principal of non-performing receivables has been due for payment and outstanding for three months. Zero-interest receivables have been agreed to carry zero interest for the purpose of securing customer payment capacity. Under-priced receivables have been priced below market prices to secure customer payment capacity. Other doubtful receivables include those that are subject to impairment but cannot be classified under any of the above categories, and overdrafts and guarantee receivables. Arrears include unpaid interest on receivables and unpaid instalments.

31 Dec. 2011	30–90 days	90–180 days	Over 180 days.	Total
Matured receivables, not impaired	378	6	1	385

31 Dec. 2010	30–90 days	90–180 days	Over 180 days.	Total
Matured receivables, not impaired	331	11	0	342

Notes to OP-Pohjola Group Financial Statements

NOTES TO RISK MANAGEMENT

Note 70. Impairment losses on receivables

EUR million	31 Dec. 2011	31 Dec. 2010
Impairment losses on receivables	200	231
Reversal of impairment losses	–97	–79
Payments on eliminated receivables	–11	–10
Net change in group-specific impairment losses	10	7
Total	**101**	**149**
Net impairments, % of receivables portfolio	0.17	0.26

Notes to OP-Pohjola Group Financial Statements

NOTES TO RISK MANAGEMENT

Note 71. Private customer exposure by credit category

	31 Dec. 2011		31 Dec. 2010	
Category	**Net exposure**	**%**	**Net exposure**	**%**
A	22,144	50.7	18,094	43.9
B	10,156	23.3	12,416	30.1
C	5,115	11.7	4,696	11.4
D	3,342	7.7	2,294	5.6
E	1,343	3.1	1,040	2.5
F	669	1.5	643	1.6
Non-rated	892	2.0	2,036	4.9
Total	**43,660**	**100.0**	**41,219**	**100.0**

The probability of default (PD) of exposures with a credit rating of A and B is a maximum of 0.01%.

Notes to OP-Pohjola Group Financial Statements

NOTES TO RISK MANAGEMENT

Note 72. Corporate exposure by sector

	Net exposure			
31 Dec. 2011	**Balance sheet**	**Off-balance sheet**	**Total**	**Percentage-distribution**
Renting and operation of residential real estate	4,132	929	5,061	17.5
Operating of other real estate	2,680	266	2,946	10.2
Trade	2,171	707	2,878	10.0
Construction	1,109	1,105	2,214	7.7
Manufacture of machinery and equipment (incl. maintenance)	794	1,302	2,096	7.3
Transportation and storage	1,222	578	1,800	6.2
Services	1,385	413	1,798	6.2
Energy	345	855	1,200	4.2
Bying and selling of own real estate	983	170	1,153	4.0
Forest industry	712	428	1,140	3.9
Metal industry	522	571	1,093	3.8
Food industry	638	341	979	3.4
Agriculture, forestry and fishing	781	92	874	3.0
Financial and insurance activities	594	269	863	3.0
Information and communication	437	388	825	2.9
Manufacture of chemicals and chemical products	308	461	769	2.7
Other manufacturing	424	181	605	2.1
Mining and quarrying	188	117	306	1.1
Water supply and waste management	141	75	216	0.7
Other sectors	56	4	61	0.2
Total	**19,623**	**9,252**	**28,875**	**100**

31 Dec. 2010	Net exposure			
	Balance sheet	Off-balance sheet	Total	Percentage-distribution
Renting and operation of residential real estate	3,695	751	4,446	17.2
Operating of other real estate	2,447	197	2,644	10.2
Trade	1,972	628	2,600	10.1
Construction	991	1,055	2,047	7.9
Manufacture of machinery and equipment (incl. maintenance)	672	1,166	1,837	7.1
Services	1,325	447	1,772	6.9
Transportation and storage	1,015	480	1,495	5.8
Forest industry	711	453	1,164	4.5
Bying and selling of own real estate	903	154	1,057	4.1
Metal industry	474	564	1,038	4.0
Manufacture of chemicals and chemical products	374	629	1,003	3.9
Energy	369	450	818	3.2
Food industry	524	235	759	2.9
Agriculture, forestry and fishing	627	67	694	2.7
Information and communication	333	346	679	2.6
Financial and insurance activities	578	74	652	2.5
Other manufacturing	374	235	609	2.4
Mining and quarrying	179	51	230	0.9
Water supply and waste management	138	67	205	0.8
Other sectors	48	10	58	0.2
Total	**17,749**	**8,059**	**25,808**	**100**

Notes to OP-Pohjola Group Financial Statements

NOTES TO RISK MANAGEMENT

Note 73. Corporate exposure by rating category

	31 Dec. 2011		31 Dec. 2010	
Rating	**Net exposure**	**%**	**Net exposure**	**%**
1,0–2,0	1,161	4.0	974	3.8
2,5–5,0	12,325	42.7	11,926	46.2
5,5–7,0	9,804	34.0	7,427	28.8
7,5–8,5	3,662	12.7	3,587	13.9
9,0–10,0	804	2.8	788	3.1
11,0–12,0	550	1.9	625	2.4
Non-rated	569	2.0	481	1.9
Total	**28,875**	**100.0**	**25,808**	**100.0**

Probabilities of default related to credit ratings are explained in Note 92.

Notes to OP-Pohjola Group Financial Statements

NOTES TO RISK MANAGEMENT

Note 74. Corporate exposure by the amount of customer's exposure

31 Dec. 2011

Amount of exposure, EUR million	Finland	Other countries	Total	%
0–1	6,102	173	6,275	21.7
1–10	6,417	390	6,806	23.6
10–50	5,135	559	5,694	19.7
50–100	3,811	50	3,861	13.4
Over 100	6,239	–	6,239	21.6
Total	**27,704**	**1,172**	**28,875**	**100.0**

31 Dec. 2010

Amount of exposure, EUR million	Finland	Other countries	Total	%
0–1	5,835	119	5,954	23.1
1–10	5,714	219	5,933	23.0
10–50	5,017	475	5,492	21.3
50–100	3,426	53	3,479	13.5
Over 100	4,950	–	4,950	19.2
Total	**24,942**	**866**	**25,808**	**100.0**

Notes to OP-Pohjola Group Financial Statements

NOTES TO RISK MANAGEMENT

Note 75. Secondary country risk by country risk category (excl. Finland)

		31 Dec. 2011		31 Dec. 2010	
Country risk	**Moody's equivalent**	**Net exposure**	**%**	**Net exposure**	**%**
Category 1	Aaa	10,202	80.4	8,183	79.6
Category 2	Aa1–A3	1,387	10.9	1,317	12.8
Category 3	Baa1–Baa3	805	6.3	674	6.5
Category 4	Ba1–B3	263	2.1	109	1.1
Category 5	Caa1–C	35	0.3	4	0.0
Total		**12,692**	**100.0**	**10,286**	**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

NOTES TO RISK MANAGEMENT

Note 76. Structure of OP-Pohjola Group funding

EUR million	**31 Dec. 2011**	**%**	**31 Dec. 2010**	**%**
Liabilities to financial institutions	1,783	2.3	1,696	2.4
Financial liabilities at fair value through profit or loss	1	0.0	0	0.0
Liabilities to customers				
Deposits	41,304	52.5	36,443	51.1
Other	4,670	5.9	2,762	3.9
Debt securities issued to the public				
Certificates of deposit, commercial papers and ECPs	8,361	10.6	9,773	13.7
Bonds	11,644	14.8	9,804	13.7
Other liabilities	2,839	3.6	2,333	3.3
Subordinated liabilities	931	1.2	1,178	1.7
Cooperative capital	624	0.8	647	0.9
Equity capital	6,531	8.3	6,726	9.4
Total	**78,688**	**100.0**	**71,362**	**100.0**

Notes to OP-Pohjola Group Financial Statements

NOTES TO RISK MANAGEMENT

Note 77. Maturity of financial assets and liabilities by residual maturity

31 Dec. 2011	Less than 3 months	3–12 months	1–5 years	5–10 years	More than 10 years	Total
Financial assets						
Liquid assets	4,376	–	–	–	–	4,376
Financial assets at fair value through profit or loss						
Notes and bonds	33	36	129	13	1	212
Receivables from financial institutions	172	296	528	108	1	1,104
Receivables from customers	3,540	5,802	21,974	14,043	14,973	60,331
Investment assets						
Available-for-sale notes and bonds	96	248	4,769	1,786	25	6,923
Held-to-maturity notes and bonds	167	195	353	38	0	753
Total financial assets	**8,383**	**6,576**	**27,752**	**15,988**	**15,000**	**73,698**
Transfer of financial assets held for trading	-33	-36	-129	-13	-1	-212
to less-than-3-months category	212	–	–	–	–	212
Total financial assets in internal reporting	**8,563**	**6,540**	**27,623**	**15,975**	**14,999**	**73,698**

Financial liabilities	Less than 3 months	3–12 months	1–5 years	5–10 years	More than 10 years	Total
Liabilities to financial institutions	1,707	61	0	15	–	1,783
Financial liabilities at fair value through profit or loss	1	–	–	–	–	1
Liabilities to customers	37,779	5,477	2,032	440	247	45,974
Debt securities issued to the public	6,428	4,495	7,336	1,746	–	20,005
Subordinated liabilities	4	315	393	183	36	931
Total financial liabilities	**45,918**	**10,348**	**9,761**	**2,384**	**282**	**68,693**
Transfer of private customers' deposit repayable on demand from the less-than-3-months category to the 3-12-months category	-20,867	20,867	–	–	–	–
Total financial liabilities in internal reporting	**25,051**	**31,215**	**9,761**	**2,384**	**282**	**68,693**
Guarantees	13	27	398	86	560	1,084
Other guarantee liabilities	260	422	458	51	421	1,612
Loan commitments	10,363	–	–	–	–	10,363
Commitments related to short-term trade transactions	69	81	95	0	3	248
Other	227	3	3	373	3	608
Total off-balance-sheet commitments	**10,931**	**532**	**954**	**510**	**987**	**13,914**

31 Dec. 2010	Less than 3 months	3–12 months	1–5 years	5–10 years	More than 10 years	Total
Financial assets						
Liquid assets	1,628	–	–	–	–	1,628
Financial assets at fair value through profit or loss						
Notes and bonds	41	65	159	186	3	453
Receivables from financial institutions	69	181	618	252	0	1,121
Receivables from customers	3,777	5,578	21,104	13,601	12,773	56,834
Investment assets						
Available-for-sale notes and bonds	11	106	3,767	1,681	16	5,581
Held-to-maturity notes and bonds	46	158	734	40	0	978
Total financial assets	**5,572**	**6,088**	**26,382**	**15,760**	**12,792**	**66,594**
	-41	-65	-159	-186	-3	-453
Transfer of financial assets at fair value through profit or loss to the less-than-3-months category	453	–	–	–	–	453
Total financial assets in internal reporting	**5,984**	**6,023**	**26,223**	**15,574**	**12,790**	**66,594**

Financial liabilities	Less than 3 months	3–12 months	1–5 years	5–10 years	More than 10 years	Total
Liabilities to financial institutions	1,625	56	–	15	0	1,696
Financial liabilities at fair value through profit or loss	0	–	–	–	–	0
Liabilities to customers	32,088	4,320	2,136	383	277	39,205
Debt securities issued to the public	7,578	3,663	7,456	881	–	19,577
Subordinated liabilities	157	250	674	11	87	1,178
Total financial liabilities	**41,449**	**8,289**	**10,266**	**1,290**	**364**	**61,657**
Transfer of private customers' deposit repayable on demand from the less-than-3-months category to the 3-12-months category	-20,128	20,128	–	–	–	–
Total financial liabilities in internal reporting	**21,321**	**28,417**	**10,266**	**1,290**	**364**	**61,657**
Guarantees	16	45	385	134	642	1,223
Other guarantee liabilities	312	453	450	48	357	1,621
Loan commitments	8,805	–	–	–	–	8,805
Commitments related to short-term trade transactions	41	105	16	0	2	164
Other	394	38	118	219	15	784
Total off-balance-sheet commitments	**9,568**	**640**	**969**	**402**	**1,016**	**12,595**

Notes to OP-Pohjola Group Financial Statements

NOTES TO RISK MANAGEMENT

Note 78. Maturities of financial assets and liabilities by maturity or repricing

31 Dec. 2011	1 month or less	>1–3 months	>3–12 months	>1–2 years	>2–5 years	Over 5 years	Total
Financial assets							
Liquid assets	4,376	–	–	–	–	–	4,376
Financial assets at fair value through profit or loss							
Notes and bonds	39	32	31	42	59	9	212
Receivables from financial institutions	268	301	311	38	114	72	1,104
Receivables from customers	23,237	15,056	19,441	439	1,148	1,010	60,331
Available-for-sale financial assets							
Notes and bonds	415	603	143	317	3,616	1,831	6,923
Held-to-maturity financial assets							
Notes and bonds	413	309	6	2	10	13	753
Total financial assets	**28,746**	**16,300**	**19,932**	**838**	**4,946**	**2,935**	**73,698**
Financial liabilities							
Liabilities to financial institutions	1,456	251	76	–	0	0	1,783
Financial liabilities at fair value through profit or loss	1	–	–	–	–	–	1
Liabilities to customers	35,585	2,863	5,467	1,644	284	131	45,974
Debt securities issued to the public	3,064	5,533	3,481	155	5,998	1,774	20,005
Subordinated liabilities	–	109	387	171	82	182	931
Total financial liabilities	**40,106**	**8,756**	**9,410**	**1,970**	**6,365**	**2,087**	**68,693**

31 Dec. 2010	1 month or less	>1–3 months	>3–12 months	>1–2 years	>2–5 years	Over 5 years	Total
Financial assets							
Liquid assets	1,628	–	–	–	–	–	1,628
Financial assets at fair value through profit or loss							
Notes and bonds	43	38	75	36	79	181	453
Receivables from financial institutions	201	383	243	47	64	183	1,121
Receivables from customers	22,708	13,482	18,272	444	936	991	56,834
Available-for-sale financial assets							
Notes and bonds	304	660	48	558	2,327	1,683	5,581
Held-to-maturity financial assets							
Notes and bonds	447	374	125	7	10	14	978
Total financial assets	**25,331**	**14,937**	**18,764**	**1,093**	**3,416**	**3,053**	**66,594**
Financial liabilities							
Liabilities to financial institutions	807	818	71	–	–	0	1,696
Financial liabilities at fair value through profit or loss	0	–	–	–	–	–	0
Liabilities to customers	30,983	1,894	4,219	1,831	162	116	39,205
Debt securities issued to the public	2,661	8,132	2,248	1,325	4,269	942	19,577
Subordinated liabilities	0	491	172	269	246	0	1,178
Total financial liabilities	**34,451**	**11,335**	**6,710**	**3,425**	**4,678**	**1,058**	**61,657**

Notes to OP-Pohjola Group Financial Statements

NOTES TO RISK MANAGEMENT

Note 79. Sensitivity analysis of market risk

			31 Dec 2011		31 Dec 2010	
EUR million	**Risk parameter**	**Change**	**Effect on earnings***	**Effect on equity capital**	**Effect on earnings***	**Effect on equity capital**
Interest rate risk	Interest rate	1 percentage point	123	5.2	135	12
Currency risk	Market value	10 percentage points	17	-	16	-
Volatility risk						
Interest rate volatility	Volatility	20 percentage points	1	-	2	-
Currency volatility	Volatility	10 percentage points	0	-	-	-
Credit risk premium*	Credit risk margin	0.1 percentage point	1	23	2	24
Price risk						
Equity portfolio	Market value	20 percentage points	-	15	-	22
Private equity funds	Market value	20 percentage points	-	14	-	12
Property risk	Market value	10 percentage points	3	42	4	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

NOTES TO RISK MANAGEMENT

Note 80. Derivatives business

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.

The Group confirms corporate counterparty exposure limits once a year when it also checks the status of collateral applying to limits for derivatives.

If S&P had downgraded Pohjola's credit rating from AA– to A, additional collateral of EUR 5 million (9) would have been required.

Capital adequacy requirement due to counterparty risk may arise from items related to financing operations and the trading book.

OP-Pohjola Group's derivative contracts are specified in Note 52.

Notes to OP-Pohjola Group Financial Statements

NOTES TO RISK MANAGEMENT

Pillar III disclosures

Notes 81–100 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.

The amalgamation of OP-Pohjola Group member cooperative banks received permission from the Financial Supervisory Authority on 18 October 2011 to use the Internal Ratings Based Approach (IRBA). Previously, Pohjola had applied IRBA to its corporate exposures and equity investments. Since 31 December 2011, IRBA has been applied by the amalgamation of member cooperative banks for retail and credit institution exposure and the corporate exposure of member credit institutions other than Pohjola Bank plc. The figures for 2011 exclude the effects of the IRBA permission granted on 18 October 2011.

Note 81. Capital base

EUR million	31 Dec. 2011	31 Dec. 2010
Tier 1 capital		
OP-Pohjola Group's equity capital	6,531	6,726
The effect of insurance companies on the Group’s shareholders’ equity is excluded (incl. OVY's technical provisions)	173	–28
Fair value reserve, transfer to Tier 2	144	21
Supplementary cooperative capital not included in equity capital	622	644
Core Tier 1 capital before deductions	**7,471**	**7,363**
Intangible assets	–342	–323
Excess funding of pension liability and change in fair value of investment property	–403	–373
Dividend distribution proposed by Board of Directors	–61	–69
Investments in insurance companies and financial institutions	–1,157	–1,165
Impairments – shortfall of expected losses	–271	–65
Shortfall of other Tier 1 capital	–484	–
Total Core Tier 1 capital	**4,753**	**5,367**
Hybrid capital	223	222
Shortfall of Tier 2 capital	–706	–135
Transfer to Core Tier 1 capital	484	0
Total Tier 1 capital for calculating capital adequacy	**4,753**	**5,454**

Tier 2 capital		
Fair value reserve	–154	–15
Perpetual bonds	285	295
OVY's equalisation provision	215	207
Debenture loans	375	609
Investments in insurance companies and financial institutions	–1,157	–1,165
Impairments – shortfall of expected losses	–271	–65
Transfer to Tier 1 capital	706	135
Total Tier 2 capital for calculating capital adqeuacy	**-**	**-**
Total capital base	**4,753**	**5,454**
Deductions from Tier 1 and 2 capital		
Investments in insurance companies and financial institutions	2,314	2,330
Impairments – shortfall of expected losses	542	131
Total	**2,856**	**2,461**

Investments in OP-Pohjola Group's insurance companies and non-consolidated financial institutions have been deducted from the capital base. Pohjola has also deducted as investments in financial institutions over 10%-investments in private equity funds, excluding funds managed by Vaaka Partners Ltd (formerly Pohjola Capital Partners Ltd) based on special permission given by the Financial Supervisory Authority.

Hybrid capital is included in the capital base to the amount based on the exchange rate quoted on the issue date. Hybrid capital includes hybrid instruments under the transition rules, with EUR 134 million of their total amount involving an incentive to early redemption. The equalisation provision of OP Bank Group Mutual Insurance Company (OVY) less tax liabilities are included under upper Tier 2 capital. 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

NOTES TO RISK MANAGEMENT

Note 82. Minimum capital requirement

OP-Pohjola Group has used the Foundation Internal Ratings Based Approach (FIRB) to measure capital requirement for corporate and credit institution exposures. This approach uses internal credit ratings to determine a customer's probability of default (PD), whereas loss given default (LDG) and conversion factor (CF) are standard estimates supplied by the authorities. Pohjola has used the Internal Ratings Based Approach (IRBA) to measure capital requirement for retail exposures. This approach uses internal credit ratings to determine a customer's PD, and LGD and CF are estimated internally. Based on special permission given by the Financial Supervisory Authority, 100% has been used as CF for retail exposures.

It is possible to use various methods to measure capital adequacy requirement for equity investments. In the PD/LGD method, investments' risk-weighted exposure is calculated using PD, based on internal credit rating, and the official 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. 2011 Capital require-ment	31 Dec. 2011 Risk-weighted assets*	31 Dec. 2010 Capital require-ment	31 Dec. 2010 Capital require-ment
Credit and counterparty risk	2,445	30,556	3,153	39,416
Internal Ratings-based Approach (IRB)	2,317	28,965	835	10,436
Credit institutions	114	1,421	-	-
Corporate	1,415	17,681	694	8,671
Retail	550	6,876	-	-
Secured by real estates	406	5,077	-	-
Other	144	1,799	-	-
Equity investments	90	1,122	141	1,765
PD/LGD method	1	10	0	6
Basic Indicator Approach	89	1,112	141	1,759
Private equity investments	14	176	16	196
Listed equity investments	14	176	17	208
Other	61	761	108	1,355
Securitisation positions	65	809	-	-
Other positions	84	1,055	-	-
FIRB	127	1,591	2,318	28,980
Central government and central banks	14	175	7	94
Credit institutions	2	29	131	1,635
Corporate	55	688	594	7,429
Retail	56	696	1,459	18,237
Secured by real estates	.	.	766	9,579
Other	56	696	693	8,658
Securitisation positions	-	-	39	485
Other positions	0	2	88	1,102
Market risks	46	571	37	467
Trading book	44	551	35	443
Position risk	44	551	35	443
All activities	2	20	2	24
Foreign exchange risk (incl. gold)	-	-	-	-
Commodity risk	2	20	2	24
Settlement/delivery risk	-	-	-	-
Operational risk	**232**	**2,903**	**228**	**2,845**
Capital requirement during transition period	-	-	-	-
Total	**2,722**	**34,030**	**3,418**	**42,728**

*Risk-weighted assets = Capital requirement / 0.08

Capital requirement for counterparty risk amounts to EUR 35 million (EUR 62 million).

Notes to OP-Pohjola Group Financial Statements

NOTES TO RISK MANAGEMENT

Note 83. Capital ratios

Capital adaquacy, EUR million	**31 Dec. 2011**	**31 Dec. 2010**
Total regulatory capital	4,753	5,454
Total minimum capital requirement	2,722	3,418
Capital excess (+) / shortfall (-)	2,031	2,035
Core Tier 1 ratio, %*	14.0	12.6
Tier 1 ratio, %	14.0	12.8
Total capital ratio, %	14.0	12.8

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

Notes to OP-Pohjola Group Financial Statements

NOTES TO RISK MANAGEMENT

Note 84. Total exposures by exposure class

31 Dec. 2011, EUR million	On-balance-sheet exposures	Off-balance-sheet exposures	Derivatives exposures	Gross exposures	Average exposure during the year
Internal Ratings-based Approach (IRBA)	**68,653**	**13,084**	**1,118**	**82,855**	**-**
Credit institutions	6,926	430	638	7,994	-
Corporate	19,344	10,519	480	30,343	-
Retail	40,287	2,095	0	42,382	-
Corporate	1,311	190	0	1,501	-
Private	38,976	1,906	0	40,881	-
Equity investments	323	40	-	363	453
Securitisation positions	715	-	-	715	-
Other positions	1,058	-	-	1,058	-
FIRB	**7,872**	**2,275**	**282**	**10,429**	**-**
Central government and central banks	6,072	326	280	6,678	5,491
Credit institutions	168	96	1	265	-
Corporate	719	66	1	785	-
Retail	910	1,787	-	2,697	-
Corporate	0	20	-	20	-
Private	910	1,767	-	2,677	-
Securitisation positions	-	-	-	-	-
Other positions	3	-	-	3	-
Total	**76,525**	**15,358**	**1,400**	**93,284**	**-**

Exposures on average have not been presented from exposure classes which underwent IRBA transition in 2011.

31 Dec. 2010, EUR million	On-balance-sheet exposures	Off-balance-sheet exposures	Derivatives exposures	Gross exposures	Average exposure during the year
Internal Ratings-based Approach (IRBA)	**10,721**	**7,738**	**453**	**18,912**	**19,220**
Credit institutions	–	–	–	–	–
Corporate	10,225	7,691	453	18,369	18,686
Retail	–	–	–	–	–
Corporate	–	–	–	–	–
Private	–	–	–	–	–
Equity investments	496	48	–	543	534
Securitisation positions	–	–	–	–	–
Other positions	–	–	–	–	–
FIRB	**58,485**	**11,292**	**2,521**	**72,298**	**71,154**
Central government and central banks	4,013	198	92	4,304	4,569
Credit institutions	6,002	5,768	2,429	14,199	14,224
Corporate	7,711	1,786	–	9,498	9,527
Retail	38,912	3,539	0	42,451	40,993
Corporate	1,288	206	0	1,494	1,804
Private	37,624	3,333	0	40,957	39,189
Securitisation positions	742	–	–	742	731
Other positions	1,104	–	–	1,104	1,110
Total	**69,205**	**19,031**	**2,974**	**91,210**	**90,374**

Notes to OP-Pohjola Group Financial Statements

NOTES TO RISK MANAGEMENT

Note 85. Exposure split by geographic region and exposure class

31 Dec. 2011, EUR million	Central government and central banks	Credit institutions	Corporate	Retail	Equity investments	Securitation positions	Other
Finland	5,902	756	29,878	44,884	348	–	1,058
Other Nordic countries	–	1,701	421	55	3	–	–
Baltic States	6	4	204	8	–	–	3
Rest of EU	760	5,037	468	61	7	668	0
Rest of Europe	–	303	46	39	4	–	–
USA	–	226	39	15	0	–	–
Asia	–	155	40	12	0	–	–
Ohter	10	76	34	5	–	48	–
Total exposure	**6,678**	**8,258**	**31,129**	**45,079**	**363**	**715**	**1,061**

31 Dec. 2010, EUR million	Central government and central banks	Credit institutions	Corporate	Retail	Equity investments	Securitation positions	Other
Finland	3,699	5,747	26,548	42,285	526	–	1,101
Other Nordic countries	–	1,650	389	47	3	–	–
Baltic States	5	3	191	5	–	–	3
Rest of EU	589	6,254	614	60	13	686	0
Rest of Europe	–	220	25	26	0	4	–
USA	–	189	23	14	1	–	–
Asia	–	121	48	9	0	–	–
Ohter	10	15	30	6	–	53	–
Total exposure	**4,304**	**14,199**	**27,867**	**42,451**	**543**	**742**	**1,104**

Notes to OP-Pohjola Group Financial Statements

NOTES TO RISK MANAGEMENT

Note 86. Exposure split by residual maturity and exposure class

31 Dec. 2011, EUR million	< 3 months	3–12 months	1–5 yrs	5–10 yrs	> 10 yrs	Total
Internal Ratings-based Approach (IRBA)	**8,806**	**4,256**	**21,171**	**13,290**	**34,967**	**82,855**
Credit institutions	1,114	674	4,601	1,521	84	7,994
Corporate	6,032	2,748	11,008	4,527	6,028	30,343
Retail	1,309	695	5,082	6,440	28,856	42,382
Corporate	244	71	767	279	141	1,501
Private	1,066	625	4,314	6,161	28,715	40,881
Equity investments	–	–	–	–	–	363
Securitisation positions	76	132	471	34	1	715
Other positions	274	7	8	768	–	1,058
FIRB	**7,601**	**281**	**1,448**	**860**	**238**	**10,429**
Central government and central banks	4,898	15	753	808	205	6,678
Credit institutions	110	47	78	29	2	265
Corporate	583	60	88	23	32	785
Retail	2,009	159	528	0	–	2,697
Corporate	20	0	0	0	–	20
Private	1,989	159	528	0	–	2,677
Securitisation positions	–	–	–	–	–	–
Other positions	1	1	2	–	–	3
Total	**16,407**	**4,537**	**22,619**	**14,151**	**35,205**	**93,284**

31 Dec. 2010, EUR million	< 3 months	3–12 months	1–5 yrs	5–10 yrs	> 10 yrs	Total
Internal Ratings-based Approach (IRBA)						
Credit institutions	–	–	–	–	–	–
Corporate	4,063	2,477	7,555	2,312	1,962	18,369
Retail	–	–	–	–	–	–
Corporate	–	–	–	–	–	–
Private	–	–	–	–	–	–
Equity investments	–	–	–	–	–	543
Securitisation positions	–	–	–	–	–	–
Other positions	–	–	–	–	–	–
FIRB	**12,548**	**4,750**	**12,440**	**11,637**	**30,923**	**72,298**
Central government and central banks	2,593	73	627	872	139	4,304
Credit institutions	4,837	3,259	4,000	1,928	175	14,199
Corporate	1,472	572	1,890	2,090	3,474	9,498
Retail	3,241	812	5,271	5,993	27,135	42,451
Corporate	258	75	744	275	142	1,494
Private	2,983	737	4,527	5,718	26,993	40,957
Securitisation positions	–	6	636	100	–	742
Other positions	406	29	16	654	–	1,104
Total	**16,611**	**7,227**	**19,994**	**13,950**	**32,885**	**91,210**

Notes to OP-Pohjola Group Financial Statements

NOTES TO RISK MANAGEMENT

Note 87. Past due and impaired exposures by exposure class

31 Dec. 2011, EUR million	Past due loans	Impaired loans	Total	Individually assessed	Collectively assessed	Total
Internal Ratings-based Approach (IRBA)	**1,692**	**396**	**2,088**	**285**	**53**	**339**
Credit institutions	29	9	38	9	–	9
Corporate	768	313	1,081	231	53	284
Retail	896	70	966	43	–	43
Corporate	74	10	84	9	–	9
Private	821	60	881	34	–	34
Equity investments	–	3	3	3	–	3
Other positions	0	–	0	–	–	–
FIRB	**19**	**9**	**28**	**3**	**7**	**10**
Central government and central banks	0	1	1	1	–	1
Credit institutions	0	–	0	–	–	–
Corporate	0	8	8	2	7	9
Retail	19	–	19	–	–	–
Corporate	–	–	–	–	–	–
Private	19	–	19	–	–	–
Other positions	–	–	0	–	–	–
Total	**1,711**	**405**	**2,116**	**288**	**60**	**349**

31 Dec. 2010, EUR million	Past due loans	Impaired loans	Total	Individually assessed	Collectively assessed	Total
Internal Ratings-based Approach (IRBA)	**515**	**264**	**778**	**174**	**10**	**184**
Credit institutions	–	–	–	–	–	–
Corporate	515	261	776	172	10	182
Retail	–	–	–	–	–	–
Corporate	–	–	–	–	–	–
Private	–	–	–	–	–	–
Equity investments	–	2	2	2	–	2
Other positions	–	–	–	–	–	–
FIRB	314	161	475	109	43	152
Central government and central banks	0	–	0	–	–	–
Credit institutions	0	2	2	1	–	1
Corporate	85	100	185	65	43	108
Retail	229	59	288	43	–	43
Corporate	29	12	41	10	–	10
Private	199	47	247	32	–	32
Other positions	0	–	0	–	–	–
Total	**828**	**425**	**1,253**	**283**	**53**	**336**

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.

Notes to OP-Pohjola Group Financial Statements

NOTES TO RISK MANAGEMENT

Note 88. Corporate exposures by sector

	31 Dec. 2011		
EUR million	**Exposure**	**RWA**	**Capital require-ment**
Renting and operation of residential real estate	5,164	2,633	211
Operating of other real estate	3,023	1,915	153
Trade	3,175	1,740	139
Services	2,307	1,649	132
Construction	2,391	1,486	119
Transportation and storage	1,776	1,335	107
Forest industry	1,228	1,010	81
Manufacture of machinery and equipment (incl. maintenance)	2,794	974	78
Agriculture, forestry and fishing	1,064	911	73
Bying and selling of own real estate	1,179	736	59
Metal industry	1,143	721	58
Financial and insurance activities	1,478	653	52
Food industry	1,008	578	46
Other sectors	666	557	45
Other manufacturing	648	510	41
Energy	1,481	399	32
Information and communication	782	364	29
Manufacture of chemicals and chemical products	810	340	27
Mining and quarrying	298	192	15
Water supply and waste management	234	82	7
Total	**32,650**	**18,785**	**1,503**

	31 Dec. 2010		
EUR million	Exposure	RWA	Capital require-ment
Renting and operation of residential real estate	4,543	2,569	205
Manufacture of machinery and equipment (incl. maintenance)	2,656	1,620	130
Trade	2,924	1,539	123
Operating of other real estate	2,142	1,494	119
Services	2,236	1,318	105
Transportation and storage	1,531	1,202	96
Financial and insurance activities	1,287	1,053	84
Construction	2,379	1,008	81
Agriculture, forestry and fishing	904	678	54
Metal industry	1,123	660	53
Energy	1,075	645	52
Other manufacturing	732	563	45
Forest industry	1,162	526	42
Manufacture of chemicals and chemical products	1,047	478	38
Food industry	847	434	35
Information and communication	553	403	32
Other sectors	684	303	24
Bying and selling of own real estate	1,087	264	21
Mining and quarrying	230	175	14
Water supply and waste management	215	75	6
Total	**29,361**	**17,007**	**1,361**

Corporate exposures by sector also include corporate customers with retail exposures. This standard industrial classification is based on the latest TOL 2008 classification issued by Statistics Finland.

Notes to OP-Pohjola Group Financial Statements

NOTES TO RISK MANAGEMENT

Note 89. Matured and depreciated corporate exposure by sector

31 Dec. 2011, EUR million	Contactual	Past due loans	Impaired loans	Indivi-dually assessed	Collecti-vely assessed
Forest industry	114	114	59	45	–
Trade	179	178	73	56	–
Manufacture of machinery and equipment (incl. maintenance)	149	149	79	61	–
Metal industry	37	37	17	13	–
Other manufacturing	52	52	10	3	–
Construction	69	68	20	18	–
Services	73	73	25	17	–
Operating of other real estate	43	43	15	8	–
Financial and insurance activities	18	18	3	2	–
Food industry	19	19	10	7	–
Agriculture, forestry and fishing	25	24	6	4	–
Transportation and storage	33	33	4	3	–
Renting and operation of residential real estate	7	7	0	0	–
Information and communication	6	6	2	1	–
Bying and selling of own real estate	1	1	0	0	–
Water supply and waste management	13	13	1	1	–
Mining and quarrying	4	4	0	0	–
Other sectors	8	0	6	0	60
Manufacture of chemicals and chemical products	1	1	0	0	–
Energy	2	2	–	–	–
Total	**854**	**842**	**331**	**242**	**60**

31 Dec. 2010, EUR million	Contactual	Past due loans	Impaired loans	Indivi-dually assessed	Collecti-vely assessed
Other manufacturing	237	212	148	90	–
Forest industry	125	120	65	42	–
Operating of other real estate	84	81	48	32	–
Financial and insurance activities	46	45	11	10	–
Trade	39	38	10	4	–
Services	33	30	11	8	–
Food industry	31	24	21	15	–
Construction	21	10	17	9	–
Manufacture of machinery and equipment (incl. maintenance)	14	4	11	11	–
Transportation and storage	14	14	9	6	–
Agriculture, forestry and fishing	9	8	5	4	–
Other sectors	7	7	3	2	–
Manufacture of chemicals and chemical products	3	2	0	0	–
Renting and operation of residential real estate	2	1	1	1	–
Information and communication	1	1	0	0	–
Metal industry	1	1	1	1	–
Water supply and waste management	1	1	–	–	–
Mining and quarrying	1	0	0	2	53
Energy	1	0	0	0	–
Bying and selling of own real estate	0	0	0	0	0
Total	**669**	**599**	**362**	**237**	**53**

Notes to OP-Pohjola Group Financial Statements

NOTES TO RISK MANAGEMENT

Note 90. Past due and impaired exposures by geographic region

	31 Dec. 2011				31 Dec. 2010			
EUR million	**Past due loans**	**Impaired loans**	**Indivi-dually assessed**	**Collecti-vely assessed**	**Past due loans**	**Impaired loans**	**Indivi-dually assessed**	**Collecti-vely assessed**
Finland	1,650	372	262	60	775	416	275	53
Other Nordic countries	13	10	9	–	30	2	2	–
Baltic States	0	0	0	–	0	0	0	–
Rest of EU	39	20	16	–	19	6	6	–
Rest of Europe	5	3	1	–	2	–	–	–
USA	0	0	0	–	0	–	–	–
Asia	1	–	–	–	0	–	–	–
Other	3	–	–	–	2	–	–	–
Total	**1,711**	**405**	**288**	**60**	**828**	**425**	**283**	**53**

Notes to OP-Pohjola Group Financial Statements

NOTES TO RISK MANAGEMENT

Note 91. Exposures by credit rating before and after credit risk mitigation

	31 Dec. 2011			31 Dec. 2010		
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	6,730	9,067	-	9,458	9,325	0
10	-	-	-	2,205	2,205	220
20	230	344	61	6,299	5,899	1,150
35	-	-	-	27,840	27,840	9,636
50	13	13	6	171	135	108
75	2,678	2,678	669	14,784	13,873	8,494
100	757	892	827	10,586	9,810	8,613
150	20	19	28	164	154	226
350	-	-	-	-	-	-
1250	-	-	-	-	-	-
Other risk weights	1	1	0	-	-	-
Total	**10,429**	**13,013**	**1,591**	**71,506**	**69,239**	**28,448**

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 assesssment, credit ratings issued by the aforementioned rating agencies will also apply to the risk weighting of international development banks' receivables in capital adequacy measurement.

For a receivable in capital adequacy measurement, the security-specific credit rating of the issue programme or arrangement to which the receivable belongs must be used. If such a rating is not available, the issuer's general credit rating will be used, provided that it is available.

Notes to OP-Pohjola Group Financial Statements

NOTES TO RISK MANAGEMENT

Note 92. Corporate exposures (FIRB) by rating category

Corporate exposures by rating category and PD grade 31 Dec. 2011

Rating category	Exposure value (EAD), EUR million	Average PD, %	Average risk weight, %	RWA	Minimum capital require-ment
1.0–2.0	884	0.0	14.9	131	11
2.5–5.0	10,249	0.2	42.4	4,348	348
5.5–7.0	7,386	1.4	95.4	7,047	564
7.5–8.5	3,105	5.1	138.1	4,289	343
9.0–10.0	659	28.0	206.2	1,358	109
11.0–12.0	686	100.0	-	-	-
Non-rated	343	4.9	148.1	508	41
Total	**23,312**	**5.0**	**75.8**	**17,681**	**1,415**

Corporate exposures by rating category and PD grade 31 Dec. 2010

Rating category	Exposure value (EAD), EUR million	Average PD, %	Average risk weight, %	RWA	Minimum capital require-ment
1,0 - 2,0	756	0.0	14.8	109	9
2,5 - 5,0	7,658	0.2	40.7	3,139	251
5,5 - 7,0	2,544	1.4	99.9	2,508	201
7,5 - 8,5	1,423	5.5	154.5	2,231	178
9,0 - 10,0	220	17.5	214.7	473	38
11,0 - 12,0	482	100.0	-	-	-
Non-rated	139	4.4	142.7	212	17
Total	**13,223**	**4.0**	**65.9**	**8,671**	**694**

The Internal Ratings Based Approach (IRBA) was used for Pohjola Bank plc’s corporate exposures in 2010.

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’ insolvency until 1990. PD values have also been adjusted with a margin of conservatism, which is the larger the fewer the companies in each category. This model was updated in 2010 and the related changes took effect in 2011.

In 2011, the data used for defining A rating scores consisted of Rating Alfa scores based on Suomen Asiakastieto Oy’s model, and internal payment default data between 2006 and 2009. The score limits for A rating have been set in such a way that the PD values within the categories correspond to the PD values within R rating.

Notes to OP-Pohjola Group Financial Statements

NOTES TO RISK MANAGEMENT

Note 93. Credit institution exposures (FIRB) by rating category

31 Dec. 2011

Rating category	Exposure value (EAD), MEUR	Average PD, %	Average risk weight, %	RWA	Minimum capital require-ment
1,0–2,0	2,200	0.0	7.7	170	14
2,5–5,0	4,893	0.1	18.5	906	73
5,5–7,0	292	1.7	99.3	290	23
7,5–8,5	34	4.2	119.2	40	3
9,0–10,0	6	22.2	219.4	13	1
11,0–12,0	29	100.0	-	-	-
Non-rated	3	0.7	86.4	2	0
Total	**7,456**	0.5	19.1	**1,421**	**114**

For defining the score limits for each rating category and PD values, Pohjola has used L rating scores from 2008 until 2010 and external credit ratings and the corresponding payment default data between 193 and 2010. PD values have also been adjusted with a margin of conservatism in order to take account of uncertainties associated with the data.

Notes to OP-Pohjola Group Financial Statements

NOTES TO RISK MANAGEMENT

Note 94. Retail exposures by rating category (IRBA)

Retail exposures rating, private customers on 31 December 2011

Rating category	Exposure value (EAD), MEUR	Average PD, %	Average risk weight, %	RWA	Minimum capital require-ment
A	20,915	0.1	3.5	722	58
B	9,551	0.6	14.2	1,360	109
C	4,702	2.2	30.9	1,451	116
D	3,064	7.4	52.9	1,621	130
E	1,270	24.4	72.8	924	74
F	815	100.0	4.6	33	3
Non-rated	559	7.5	62.6	350	28
Total	**40,875**	3.9	15.8	**6,460**	**517**

Corporate exposure of retail exposure (IRBA) by rating and PD category on 31 December 2011

Rating category	Exposure value (EAD), MEUR	Average PD, %	Average risk weight, %	RWA	Minimum capital require-ment
1,0–2,0	-	-	-	-	-
2,5–5,0	129	0.4	7.1	9	1
5,5–7,0	868	1.4	20.7	180	14
7,5–8,5	278	5.5	42.2	117	9
9,0–10,0	116	36.1	71.3	83	7
11,0–12,0	69	100.0	18.5	12	1
Non-rated	35	4.9	41.7	15	1
Total	**1,496**	9.4	27.8	**416**	**33**

For defining score limits for each rating category based on models for assessing private customers' solvency, payment default data from 2005 until 2010 has been used. In assessing PD values for each rating category, we have analysed the required adjustment equivalent to corporate customer rating using time series of the unemployment rate until 1989. PD values have also been adjusted with a margin of conservatism in order to take account of the uncertainties associated with the data.

Data used for defining score limits for each rating category for small exposures of corporate customer retail exposures consist of parameters and internal payment default data from 2007 until 2010. The score limits for small exposures have been set in such a way that the PD values within the categories correspond to the PD values within R rating. PD values have been adjusted with a margin of conservatism in the same way as PD values in R ratings. Note 93 presents the statistical data on A rating for retail exposures applicable to corporate customers.

Notes to OP-Pohjola Group Financial Statements

NOTES TO RISK MANAGEMENT

Note 95. Equity investments by rating category

31 Dec. 2011

Rating category	Exposure value (EAD), MEUR	Average PD, %	Average risk weight, %	RWA	Minimum capital require-ment
5,5–7,0	4	1.3	233.0	10	1

31 Dec. 2010

Rating category	Exposure value (EAD), MEUR	Average PD, %	Average risk weight, %	RWA	Minimum capital require-ment
5,5–7,0	2	1.3	279.7	6	0

The PD/LGD method related to equity investments is applied to strategic investments outside OP-Pohjola Group.

Notes to OP-Pohjola Group Financial Statements

NOTES TO RISK MANAGEMENT

Note 96. Expected loss and impairments

Loss, EUR million	Credit institution exposures*	Corporate exposures*	Retail exposures** Exposures secured by real estates	Retail exposures** Other	Equity investments	Total
31 Dec. 2011						
(EL)	17	293	58	102	6	476
Impairments	9	284	13	29	3	339
31 Dec. 2010						
(EL)	-	219	-	-	11	229
Impairments	-	182	-	-	2	184
31 Dec. 2009						
(EL)	-	162	-	-	10	171
Impairments	-	121	-	-	2	123
31 Dec. 2008						
(EL)	-	68	-	-	1	69
Impairments	-	24	-	-	-	24

The expected loss shown in the above table is based on parameters generated by OP-Pohjola Group's internal credit risk models. These parameters include a considerable number of various factors of conservatism preventing risk underestimation but do not fully correspond to those used in capital adequacy measurement. For corporate and credit institution exposures, 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 878 million (313). 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

NOTES TO RISK MANAGEMENT

Note 97. Equity investments, BIA

	31 Dec. 2011			31 Dec. 2010		
EUR million	Exposure	RWA	Minimum capital require-ment	Exposure	RWA	Minimum capital require-ment
Private equity investments, risk weight 190%	92	176	14	103	196	16
Listed equity investments, 290%	61	176	14	72	208	17
Other, risk weight 370%	206	761	61	366	1,355	108
Total	**359**	**1,112**	**89**	**541**	**1,759**	**141**

Notes to OP-Pohjola Group Financial Statements

NOTES TO RISK MANAGEMENT

Note 98. Collateral used in capital adequacy calculation

31 Dec. 2011, EUR million	Exposure	Guaran-tees	Financial collateral	Other collateral	Average LGD, %
Internal Ratings-based Approach (IRB)	**82,855**	**2,640**	**305**	**50,477**	
Credit institutions	7,994	369	–	0	28.7
Corporate	30,343	2,271	92	1,093	44.6
Exposures to which Pohjola applies its own LGD and/or CF estimates	42,382	–	213	49,384	14.8
Secured by real estates	37,251	–	97	48,632	11.7
Other	5,132	–	116	753	37.2
Equity investments	363	–	–	–	
Basic Indicator Approach	359	–	–	–	
PD/LGD method	4	–	–	–	
Securitisation positions	715	–	–	–	
Other positions	1,058	–	–	–	
FIRB	**10,429**	**69**	**-**	**-**	
Central government and central banks	6,678	68	–	–	
Credit institutions	265	1	–	–	
Corporate	785	–	–	–	
Retail	2,697	–	–	–	
Secured by real estates	–	–	–	–	
Other	2,697	–	–	–	
Securitisation positions	–	–	–	–	
Other positions	3	–	–	–	
Total	**93,284**	**2,709**	**305**	**50,477**	

31 Dec. 2010, EUR million	Exposure	Guaran-tees	Financial collateral	Other collateral	Average LGD, %
Internal Ratings-based Approach (IRB)	**18,912**	**1,616**	**73**	**590**	
Credit institutions	–	–	–	–	
Corporate	18,369	1,616	73	590	44.6
Exposures to which Pohjola applies its own LGD and/or CF estimates	–	–	–	–	
Secured by real estates	–	–	–	–	
Other	–	–	–	–	
Equity investments	543	–	–	–	
Basic Indicator Approach	541	–	–	–	
PD/LGD method	2	–	–	–	
Securitisation positions	–	–	–	–	
Other positions	–	–	–	–	
FIRB	**72,298**	**2,114**	**338**	**27,932**	
Central government and central banks	4,304	114	–	–	
Credit institutions	14,199	550	–	–	
Corporate	9,498	545	127	408	
Retail	42,451	906	211	27,524	
Secured by real estates	27,524	–	–	27,524	
Other	14,928	906	211	–	
Securitisation positions	742	–	–	–	
Other positions	1,104	–	–	–	
Total	**91,210**	**3,730**	**411**	**28,521**	

The average LDG has been calculated as the weighted average of the exposure value (EAD).

In the SA and IRBA applied to credit institution and corporate exposures, Pohjola utilises the following real securities specified in the capital adequacy regulations: residential buildings and shares entitling their holders to the possession of a flat, deposits and stocks (equities). Deposits and stocks are financial collateral, as referred to in the regulatory framework, and alternative methods are available for their accounting treatment. OP-Pohjola Group applies the so-called comprehensive method to financial collateral in the above approaches, using volatility adjustments ordered by the relevant regulator.

In the SA and IRBA applied to credit institution and corporate exposures, only approved guarantors specified in the capital adequacy regulations may be used, such as guarantees granted by the Finnish State and other states, and those granted by municipalities and banks. Guarantees issued by companies or credit derivatives were not used. Offsetting balance-sheet or off-balance-sheet items was not applied in capital adequacy measurement.

In the IRBA applied to retail exposures, it is possible to use securities on a more extensive basis than in the SA applied to retail exposures and credit institution and corporate exposures. In determining LDG estimates for retail exposures, Pohjola has used contract, security and debt-collection data from 2003 until 2009. Applying the definition of payment default is consistent with the PD models.

Residential buildings acting as guarantee and shares entitling their holders to the possession of a flat constitute the largest collateral type used in capital adequacy. The effect of other real securities on the capital adequacy of credit risks is much less significant. Collateral which has been used has come from a number of sources, the largest single one being the State of Finland.

Notes to OP-Pohjola Group Financial Statements

NOTES TO RISK MANAGEMENT

Note 99. 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.

The Group confirms corporate counterparty exposure limits once a year and in this connection also checks the status of collateral applying to the limits for derivative transactions.

If S&P had downgraded Pohjola's credit rating from AA– to A, additional collateral of EUR 5 million (9) would have been required.

Capital adequacy requirement due to counterparty risk may arise from items related to financing operations and the trading book. Capital adequacy requirement due to counterparty risk is calculated, for example, on OTC derivatives and sale and repurchase agreements.

Note 52 presents counterparty risks associated with OTC derivatives. The exposure value of sale and repurchase agreements amounted to EUR 0 million.

Counterparty risk contract types, 31 Dec. 2011, MEUR	Gross exposure value	Benefits from netting	Exposure value after netting	Collateral received	Exposure value
Derivative contracts	4,939	3,037	1,902	408	1,494
Interest rate derivatives	3,769	2,392	1,377	273	1,104
Currency derivatives	972	578	394	104	290
Equity and index derivatives	150	63	86	30	56
Other	49	3	46	1	44
Credit derivatives	4	-	4	-	4
Long settlement transactions	-	-	-	-	-
Transactions related to security-backed financing	-	-	-	-	-
Total	**4,943**	**3,037**	**1,906**	**408**	**1,498**

Notes to OP-Pohjola Group Financial Statements

NOTES TO RISK MANAGEMENT

Note 100. Securitisation positions

Securitisation positions by rating category, Moody's equivalent, 31 Dec. 2011, EUR million	Exposure	RWA
Non-trading book positions		
Securitisation positions	698	600
Aaa	391	29
Aa1–Aa3	57	5
A1–A3	73	12
Baa1–Baa3	92	55
Ba1–Ba3	68	286
B1 or lower	16	213
Non-rated	–	–
Re-securitisation positions	18	209
Aaa	–	–
Aa1–Aa3	–	–
A1–A3	2	0
Baa1–Baa3	–	–
Ba1–Ba3	–	–
B1 or lower	16	209
Non-rated	–	–
Total	**715**	**809**

Matured and impaired securitisation positions by exposure type, 31 Dec. 2011, EUR million	Exposure	Matured	Impaired	Impairment losses
Internal Ratings Based Approach (IRBA)				
Non-trading book positions				
Securitisation positions	698	–	23	15
CDO	49	–	23	15
ABS	81	–	–	–
RMBS	568	–	–	–
Re-securitisation positions	18	–	17	11
CDO	18	–	17	11
ABS	–	–	–	–
RMBS	–	–	–	–
Total	**715**	**–**	**40**	**25**

The IRBA has been applied to securitisation positions. Pohjola pays special attention to bonds' structural and collateral-related features in its investment in securitised assets.

Notes to OP-Pohjola Group Financial Statements

NOTES TO RISK MANAGEMENT

Risk exposure of Non-life Insurance

Note 101. Risk-bearing capacity

On 31 December 2011, the solvency capital of Non-life Insurance amounted to EUR 787 million (832) and the solvency ratio stood at 77% (86). Moody's downgraded The financial strength rating of Pohjola Insurance is AA- affirmed by Standard & Poor's in December 2011. The Board of Directors has confirmed A as the targeted rating.

Non-life Insurance must fulfil all capital adequacy requirements set by regulatory authorities mainly at company level. All non-life insurance companies are governed by the same requirement set for their minimum solvency margin based on EU directives. In addition, Finnish legislation also lays down capital adequacy requirements for Finnish insurance companies.

The risk-bearing capacity describes the proportion of a company's solvency capital to various income statement and balance sheet items. Solvency capital proportioned to claims incurred and insurance premium revenue describes the company's ability to cope with underwriting risks. Solvency capital proportioned to insurance contract liabilities describes the company's ability to cope with risks related to the estimation of insurance contract liabilities. Similarly, solvency capital proportioned to the investment portfolio describes the company's ability to cope with the risks related to investments.

	31 Dec. 2011		31 Dec. 2010	
	EUR million	**Risk-bearing capacity, %**	**EUR million**	**Risk-bearing capacity, %**
Solvency capital	787		832	
Claims incurred*	754	104	694	120
Insurance premium revenue*	1024	77**	964	86**
Insurance contract liabilities*	2,254	35	2,145	39
Investment portfolio	2,863	27	2,924	28

* Reinsurers' share (net business) deducted

** Solvency ratio

Notes to OP-Pohjola Group Financial Statements

NOTES TO RISK MANAGEMENT

Note 102. Sensitivity analysis

The table below shows the effect of various risk parameters on profit and solvency capital:

Risk parameter	Total in 2011, EUR million	Change in risk parameter	Effect on profit/solvency, EUR million	Effect on combined ratio
Insurance portfolio or insurance premium revenue	1,024	Up by 1%	10	Up by 0.9 percentage point
Claims incurred	754	Up by 1%	-8	Down by 0.7 percentage point
Major loss in exceess of EUR 5 million	-	1 major loss	-5	Down by 0.5 percentage point
Personnel costs	120	Up by 8%	-10	Down by 0.9 percentage point
Expenses by function *	286	Up by 4%	-11	Down by 1.1 percentage point

* 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

NOTES TO RISK MANAGEMENT

Note 103. 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
2011	15	12	15	4
2010	9	11	11	5

* 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
2011	2	6	4	3
2010	2	7	7	2

* TSI = Total Sum Insured

Sums insured in guarantee and decennial insurance

The sum insured of insurance contracts depicts the volume of guarantee and decennial insurance (construction defects insurance). The gross and net amounts of the sum insured are itemised by contract type in the table below. The liability period of decennial insurance is 10 years.

	Gross		Net*	
EUR million	**2011**	**2010**	**2011**	**2010**
Contract guarantees	1	6	1	6
Loan guarantees	3	7	3	7
Other	3	4	3	4
Guarantee insurance	**7**	**17**	**7**	**17**
Decennial insurance	**1,937**	**1,853**	**1,904**	**1,735**

* For insurance company's own account after reinsurers' share but before counter guarantee

Notes to OP-Pohjola Group Financial Statements

NOTES TO RISK MANAGEMENT

Note 104. Trend in major losses

Number of detected major losses by year of detection for 2007–2011
Non-life Insurance monitors carefully claims expenditure arising from major losses. The claims expenditure explains a significant part of the annual fluctuation in the underwriting result. In addition, monitoring the claims expenditure arising from major losses helps to detect any changes in risks or risk selection. In this analysis, major losses are those whose gross amount exceeds EUR 2 million. Most major losses occur in property and business interruption insurance. In statutory policies, the risk of major loss 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
2007	1	–	–	5	3	–
2008	–	–	–	4	1	–
2009	3	–	–	5	2	–
2010	1	–	–	12	–	–
2011	–	–	–	7	–	1
				Total claims, EUR million		239
Gross amount, total claims, EUR million						
2007–2011	**12**	**–**	**–**	**202**	**18**	**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
2007	1	–	–	4	3	–
2008	–	–	–	4	1	–
2009	3	–	–	4	1	–
2010	–	–	–	10	–	–
2011	–	–	–	7	–	1
				Total claims, EUR million		129
Net amount, total claims, EUR million						
2007–2011	**9**	**–**	**–**	**100**	**16**	**4**

Notes to OP-Pohjola Group Financial Statements

NOTES TO RISK MANAGEMENT

Note 105. 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.

2011, EUR million	Gross IP revenue	Net IP revenue	Net CR*	Net** CR*
Statutory lines	385	384	98%	83%
Other accident and health	124	124	91%	91%
Hull and cargo	217	214	95%	95%
Property and business interruption	280	239	97%	97%
Liability and legal expenses	65	59	88%	88%
Long-term	4	3	24%	24%
Total	**1076**	**1024**	**96%**	**90%**

2010, EUR million	Gross IP revenue	Net IP revenue	Net CR*	Net** CR*
Statutory lines	366	364	98%	89%
Other accident and health	111	110	90%	90%
Hull and cargo	210	208	91%	91%
Property and business interruption	256	222	95%	95%
Liability and legal expenses	63	57	70%	70%
Long-term	3	2	93%	93%
Total	**1010**	**964**	**93%**	**90%**

* The combined ratio is calculated by dividing the sum of claims incurred (net) and operating expenses of insurance business by insurance premium revenue (net).

Amortisation on intangible rights has not been taken into account.

** One-off changes affecting the balance on technical account have been eliminated.

Notes to OP-Pohjola Group Financial Statements

NOTES TO RISK MANAGEMENT

Note 106. Sensitivity analysis of insurance contract liabilities and information on the nature of insurance contract liabilities

	Portfolio at fair value, EUR million			Effect on solvency capital, EUR million	
Non-life Insurance	**31 Dec. 2011**	**Risk parameter**	**Change**	**31 Dec. 2011**	**31 Dec. 2010**
Collective liability	553	Inflation	0.25 percentage points	−4	−3
Discounted insurance contract liabilities	1,427	Life expectancy	1 year	−33	−32
Discounted insurance contract liabilities	1,427	Discount rate	−0.1 percentage point	−16	−17

Information on the nature of liabilities	**2011**	**2010**
Net insurance contract liabilities (EUR million)		
Latent occupational diseases	32	38
Other	2,222	2,107
Total (before transfers)	2,254	2,145
Duration of debt (years)		
Discounted insurance contract liabilities	12.1	11.9
Undiscounted insurance contract liabilities	2.1	2.4
Total	8.3	8.5
Discounted net debt (EUR million)		
Provision for known unpaid claims for annuities	1,157	1,111
Collective liability (IBNR)	235	233
Provision for unearned premiums	35	34
Total	1,427	1,378

Notes to OP-Pohjola Group Financial Statements

NOTES TO RISK MANAGEMENT

Note 107. Insurance contract liabilities by estimated maturity

31 Dec. 2011, EUR million	0–1 yr	1–5 yrs	5–10 yrs	10–15yrs	over 15 yrs	Total
Provision for unearned premiums*	291	83	15	4	7	400
Provision for unpaid claims						
Undiscounted	244	163	44	8	3	462
Discounted	90	398	289	211	404	1,392
Total insurance contract liabilities	**625**	**644**	**347**	**223**	**414**	**2,254**

* Includes EUR 34 million in discounted provision

31 Dec. 2010, EUR million	0–1 yr	1–5 yrs	5–10 yrs	10–15yrs	over 15 yrs	Total
Provision for unearned premiums*	256	72	18	4	7	357
Provision for unpaid claims						
Undiscounted	260	107	52	12	12	443
Discounted	89	324	295	218	418	1,344
Total insurance contract liabilities	**606**	**502**	**365**	**234**	**437**	**2,145**

* Includes EUR 33 million in discounted provision

Notes to OP-Pohjola Group Financial Statements

NOTES TO RISK MANAGEMENT

Note 108. Risk exposure of insurance investments

	31 Dec. 2011		31 Dec. 2010	
Allocation of investment portfolio	**Fair value*, EUR million**	**%**	**Fair value*, EUR million**	**%**
Money market total	**48**	**2**	**14**	**0**
Money market instruments and deposits**	83	3	68	2
Derivatives***	-34	-1	-54	-2
Total bonds and bond funds	**2,050**	**72**	**2,074**	**71**
Governments	672	23	636	22
Inflation-linked bonds	96	3	83	3
Investment Grade	988	35	1,098	38
Emerging markets and High Yield	287	10	242	8
Structured Investments	6	0	15	1
Total equities	**379**	**13**	**422**	**14**
Finland	92	3	86	3
Developed markets	153	5	118	4
Emerging markets	53	2	86	3
Unlisted equities	5	0	5	0
Private equity investments	91	3	73	2
Equity derivatives***	-16	-1	54	2
Total alternative investments	**132**	**5**	**207**	**7**
Hedge funds	69	2	69	2
Commodities	0	0	26	1
Convertible bonds	64	2	112	4
Total property investment	**254**	**9**	**207**	**7**
Direct property investment	161	6	132	5
Indirect property investment	92	3	75	3
Total	**2,863**	**100**	**2,924**	**100**

* Includes accrued interest income

** Includes notes and bonds recategorised under loans and receivables related to financial receivables, settlement receivables and liabilities and market value of derivatives.

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

Notes to OP-Pohjola Group Financial Statements

NOTES TO RISK MANAGEMENT

Note 109. Sensitivity analysis of investment risks

The table below shows the sensitivity of investment risks by investment category. The discount rate sensitivity analysis related to the calculation of technical provisions is presented in Note 107 dealing with technical provisions. Effects of changes in investment and insurance contract liabilities offset one another.

				Effect on solvency capital, EUR million	
Non-life Insurance, EUR million	**Portfolio at fair value, 31 Dec. 2011**	**Risk parameter**	**Change**	**31 Dec. 2011**	**31 Dec. 2010**
Bonds and bond funds *	2,146	Interest rate	1 percentage point	84	92
Equities **	351	Market value	20 percentage points	70	83
Venture capital funds and unlisted shares	97	Market value	20 percentage points	19	16
Commodities	-	Market value	20 percentage points	0	5
Real property	254	Market value	10 percentage points	25	21
Currency	196	Value of currency	20 percentage points	39	48
Credit risk premium ***	2,085	Credit risk margin	0.5 percentage points	42	47
Derivatives****	-	Volatility	10 percentage points	4	-

* Include money market investments, convertible bonds and interest-rate derivatives
** Include hedge funds and equity derivatives

*** Includes bonds and convertible bonds and money-market investments, excluding government bonds by developed countries
****20 percentage points in equity derivatives, 10 percentage points in interest rate derivatives and 5 percentage points in currency derivatives

Notes to OP-Pohjola Group Financial Statements

NOTES TO RISK MANAGEMENT

Note 110. 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 34)

Fair value by duration or repricing date*, EUR million	**31 Dec. 2011**	**31 Dec. 2010**
0–1 year	249	395
>1–3 years	612	701
>3–5 years	629	652
>5–7 years	265	197
>7–10 years	257	188
>10 years	134	122
Total	**2,146**	**2,256**
Modified duration	3.9	4.1
Effective interest rate, %	3.4	4.1

* Includes money market investments and deposits, bonds, convertible bonds and bond funds

Fixed-income portfolio by maturity and credit rating on 31 Dec 2011, EUR million

Year(s)	**0–1**	**1–3**	**3–5**	**5–7**	**7–10**	**10–**	**Total**	**Proportion, %**
Aaa	40	202	215	125	116	86	784	37.6%
Aa1–Aa3	132	50	94	30	11	29	345	16.6%
A1–A3	24	171	142	32	25	31	426	20.4%
Baa1–Baa3	48	123	57	69	23	14	334	16.0%
Ba1 or lower	28	56	47	29	16	3	180	8.6%
Internally rated	2	1	0	8	5	-	17	0.8%
Total	**273**	**603**	**556**	**294**	**196**	**163**	**2,085**	**100.0%**

The maturity is presented until the end of the term to maturity. If the paper includes a call option, the maturity is presented until the first possible Call date.

The average credit rating of the Non-life Insurance fixed-income portfolio is Moody's Aa3.

The term to maturity of the Non-life Insurance fixed-income portfolio averages 4.8 years (calculated on the basis of the call date and the maturity date).

Notes to OP-Pohjola Group Financial Statements

NOTES TO RISK MANAGEMENT

Note 111. Currency risk

Foreign currency exposure, EUR million	31 Dec. 2011	31 Dec. 2010
USD	64	35
SEK	9	4
JPY	-7	-2
GBP	4	-1
EEK, LVL, LTL**	-22	-22
Other	90	177
Total*	**196**	**242**

*The currency exposure was 6.8% (8.3) of the investment portfolio. It is calculated as the sum total of individual currencies' intrinsic values.

** These are ERM2 currencies

Notes to OP-Pohjola Group Financial Statements

NOTES TO RISK MANAGEMENT

Note 112. Counterparty risk

	31 Dec. 2011		31 Dec. 2010	
Credit rating, consistent with Moody's, EUR million	**Investment***	**Insurance****	**Investment***	**Insurance****
Aaa	784	0	514	0
Aa1–Aa3	345	39	413	27
A1–A3	426	38	732	29
Baa1–Baa3	334	0	290	0
Ba1 or lower	180	0	180	-
Internal rating	17	35	16	25
Total	**2,085**	**112**	**2,145**	**81**

* 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

NOTES TO RISK MANAGEMENT

Risk exposure of Life Insurance

Note 113. Information on the nature of insurance contract liabilities and their sensitivity analysis

Risk-bearing capacity of life insurance operations
Life insurance companies must fulfil the capital adequacy requirements prescribed by law. The focus is on ensuring that the solvency margin is higher than the minimum requirement and that life insurance companies' proactive supervision requirements are fulfilled. The main principles of proactive supervision are in line with Solvency II that is being prepared by the EU with the intention of preparing life insurance companies to new legislation that will, for example, replace the former solvency margin requirement.

Following a financially difficult year, the life insurance company's solvency margin stood at EUR 552 million on 31 December 2011, down from EUR 737 million year on year. The minimum solvency margin is EUR 202 million (218).

Life insurance risk-bearing capacity is measured in terms of solvency ratio, which is the ratio between solvency margin and equalisation provision on the one hand and technical provisions on the other. The Government has set a strategic level of 12% for solvency ratio. The ratio between solvency capital in excess of the minimum and the amount of risk from investment operations is also monitored.

Insurance and capital redemption portfolio in Life Insurance 31 Dec 2011

	Technical rate of interest	Number of insureds or contracts	Exposure on 31 December 2009	Average duration in years*
Life Insurance/Savings				
Technical rate of interest 4.5%	4.50%	2,961	69	7.0
Technical rate of interest 3.5%	3.50%	32,228	791	6.0
Technical rate of interest 2.5%	2.50%	42,975	518	2.8
Technical rate of interest 1.5%	1.50%	315	4	4.3
Unit-linked		108,780	2,496	
Total		187,259	3,878	
Individual pension insurance				Until the beginning of pension entitlement
Technical rate of interest 4.5%	4.50%	12,762	275	10.2
Technical rate of interest 3.5%	3.50%	42,239	424	7.4
Technical rate of interest 2.5%	2.50%	115,003	190	11.9
Technical rate of interest 1.5%	1.50%	97	1	17.3
Unit-linked (pension insurance)		2,031	686	
Total		172,132	1,576	
Group pension insurance				
Supplementary employee pension	3.50%	32,093	1,034	16.2
Supplementary employee pension	2.50%	745	24	16.2
Technical rate of interest 3.5 %	3.50%	70	17	13.5
Technical rate of interest 2.5 %	2.50%	2,461	17	15.6
Technical rate of interest 1.5%	1.50%	52	3	14.1
Unit-linked	1.50%	incl. above	29	
Total		35,421	1,111	

Term insurance contracts				
Individual contracts	-	292,464	148	N.A
Group contracts	-	6,193	19	N.A
Total		298,657	167	
Capital redemption contracts				
Technical rate of interest 3.5%	3.50%	19	9	0.6
Technical rate of interest 2.5%	2.50%	76	12	3.7
Pohjola Tuotto	1.50%	1	0	0.6
Pohjola Tuotto		4	0	0.1
Unit-linked		incl. above	47	
Total		100	68	
Other items in underwriting reserves/ insurance contract liabilities		-	122	
Total		**693,569**	**6,922**	**10.5**

Susceptibility 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 and still growing. The company takes account of the resulting loss of surpluses or deficits when making the requisite 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 provisions 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 technical provisions will grow by €22 million (€23 million).

Since in savings insurance and unit-linked insurance, the mortality and longevity risks almost offset each other, no mortality supplement is needed.

When determining the level of liability relating to insurance and capital redemption contracts, the company has followed national accounting policies with the exception of two principles. The equalisation provision is not included under insurance liability. Secondly, the company's discount rate is closer to the current interest rate level. The company has at its own risk a total of EUR 3,375 million of insurance and capital redemption contract savings with their interest rate guarantees ranging between 1.5 and 4.5% and discounted to the amount of the interest rate guarantee in the national financial accounts' technical provisions. Part of the interest rate risk between the market and discount rates have been hedged with interest rate derivatives. Since what is gained from the derivatives is used for the benefits guaranteed by insurance and capital redemption contracts, their liability is increased from the value of the national financial statements by the value of the derivatives, that is, EUR 62 million (0).

In financial statements based on national regulation, lowering the discount rate by 0.1 percentage point would increase the technical provisions by EUR 32 million (35).

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

Notes to OP-Pohjola Group Financial Statements

NOTES TO RISK MANAGEMENT

Note 114. Claims charged to expenses due to insurance contract liabilities

31 dec. 2011, EUR million	0–1	1–5	5–10	10–15	Over 15	Total
Interest-bearing insurance savings	305	989	686	489	1,052	**3,521**
Unit-linked insurance savings	156	841	615	474	1,125	**3,211**
Interest-bearing investment contracts	7	10	4	0	0	**21**
Unit-linked investment contracts	12	23	12	0	0	**47**
Other insurance contract liabilities	–	–	–	–	–	**60**
Total	**481**	**1,863**	**1,317**	**963**	**2,177**	**6,860**

31 Dec. 2010 EUR million	0–1	1–5	5–10	10–15	Over 15	Total
Interest-bearing insurance savings	471	1,118	678	534	1,216	**4,018**
Unit-linked insurance savings	105	500	497	367	1,622	**3,091**
Interest-bearing investment contracts	6	15	1	0	3	**25**
Unit-linked investment contracts	3	15	27	0	2	**45**
Other insurance contract liabilities	–	–	–	–	–	**7**
Yhteensä	**585**	**1,648**	**1,203**	**901**	**2,842**	**7,186**

Notes to OP-Pohjola Group Financial Statements

NOTES TO RISK MANAGEMENT

Note 115. Risk exposure of investment operations

	31 Dec. 2011		31 Dec. 2010	
Allocation of investment property	**Fair value, EUR million**	**%**	**Fair value, EUR million**	**%**
Fixed-income investments 1)				
Bonds	959	24	1,109	24
Other money market instruments*	232	6	409	9
Mutual funds	1,036	26	1,260	27
Shares and participations				
Equities and mutual funds	601	15	855	18
Alternative investments 2)	710	18	734	16
Properties3)	438	11	349	7
Total	**3,976**	**100**	**4,716**	**100**

1) Contains accrued interest and notes and bonds recategorised under loans and receivables related to financial receivables

2) Incl. investments in hedge funds and capital investments

3) Only direct investments in properties

* Incl. effect of equity futures

Notes to OP-Pohjola Group Financial Statements

NOTES TO RISK MANAGEMENT

Note 116. Sensitivity analysis of investment property

31 Dec. 2011	Portfolio at fair values, EUR million	Risk parameter	Change	Effect on solvency margin, EUR million 31 Dec. 2011	Effect on solvency margin, EUR million 31 Dec. 2010
Bonds and bond funds	1,854	Interest rate	1 percentage point	63	82
Shares and alternatives	1,311	Market value	10 percentage point	131	159
Properties	438	Market value	15 percentage point	66	52

Notes to OP-Pohjola Group Financial Statements

NOTES TO RISK MANAGEMENT

Note 117. Interest-rate risk

Fair value by duration or repricing date, EUR million	31 Dec. 2011	31 Dec. 2010
0–1 year	840	1038
>1–5 years	1074	1272
>5–10 years	207	395
>10–20 years	44	75
>20 years	9	0
Total	**2,176**	**2,780**
Modified duration	3.0	3.0
Average interest rate, %	4.1	4.0

Fixed-income portfolio by maturity and credit rating on 31 Dec 2011, EUR million

Year(s)	0–1	1–3	3–5	5–7	7–10	10–	Total	Proportion, %
Aaa	5	75	85	29	29	51	274	12.6%
Aa1–Aa3	257	100	92	30	4	24	505	23.2%
A1–A3	131	96	75	20	31	19	372	17.1%
Baa1–Baa3	214	160	87	23	14	9	508	23.3%
Ba1 or lower	144	169	68	35	14	14	445	20.5%
Internally rated	47	15	3	3	3	0	71	3.3%
Total	**798**	**615**	**411**	**140**	**96**	**116**	**2,176**	**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 A1.

The average residual term to maturity of a Life Insurance fixed-income portfolio is 5.3 years (calculated on from the call date and maturity date)

Notes to OP-Pohjola Group Financial Statements

NOTES TO RISK MANAGEMENT

Note 118. Currency risk

Foreign currency exposure, EUR million	31 Dec. 2011	31 Dec. 2010
USD	303	323
SEK	2	9
JPY	0	22
GBP	14	2
Other	19	2
Total*	**337**	**358**

*Total net currency exposure

The currency exposure was 8.5% (7.6) of the investment portfolio.

Notes to OP-Pohjola Group Financial Statements

NOTES TO RISK MANAGEMENT

Note 119. Counterparty risk

Credit rating distribution, EUR million

Moody's equivalent	31 Dec. 2011	31 Dec. 2010
AAA	274	450
AA	505	767
A	372	421
BBB	508	339
BB+ or lower	445	556
Not Rated	71	246
Total *	**2,176**	**2,780**

* 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 2011. The report and the Financial Statements are presented to, and passed out at, the General Meeting of OP-Pohjola Group Central Cooperative.

Helsinki, 14 February 2012

Executive Board of OP-Pohjola Group Central Cooperative

Reijo Karhinen Tony Vepsäläinen

Tom Dahlström Carina Geber-Teir

Harri Luhtala Erik Palmén

Heikki Vitie

Auditor's Report

This document is an English translation of the Finnish auditor's report. Only the Finnish version of the report is legally binding.

To the members of OP-Pohjola Group Central Cooperative

We have audited the consolidated financial statements and the report by the Executive Board for the year ended on 31 December 2011 of the amalgamation of the cooperative banks (OP-Pohjola Group) pursuant to the Act on the Amalgamation of Deposit Banks as well as to the Act on Cooperative Banks and Other Cooperative Credit Institutions. The financial statements comprise the consolidated balance sheet, income statement, statement of comprehensive income, statement of changes in equity and cash flow statement and notes to the financial statements.

The Responsibility of the Executive Board and the President of OP-Pohjola Group Central Cooperative

The Executive Board and the President of OP-Pohjola Group Central Cooperative are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU in a manner explained in more detail in the notes to the financial statements, as well as for the preparation of the report by the Executive Board that give a true and fair view in accordance with the laws and regulations governing the preparation of the report of the Board of Directors in Finland.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements and on the report by the Executive Board based on our audit. The Auditing Act requires that we comply with the requirements of professional ethics. We conducted our audit in accordance with good auditing practice in Finland. Good auditing practice requires that we plan and perform the audit to obtain reasonable assurance about whether the financial statements on the report by the Executive Board are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report by the Executive Board. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements and report by the Executive Board that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the report by the Executive Board. In carrying out the audit, we also acquainted ourselves with the financial statement policies adopted by the Group's member institutions, as well as the auditors' reports and other related reporting submitted by their auditors.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the Consolidated Financial Statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position, financial performance, and cash flows of OP-Pohjola Group in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU.

Opinion on the Report of the Executive Board

In our opinion, the report by the Executive Board gives a true and fair view of OP-Pohjola Group's financial performance and financial position in accordance with the laws and regulations governing the preparation of the report of the Board of Directors in Finland. The information in the report by the Executive Board is consistent with the information in the consolidated financial statements.

Helsinki, 22 February 2012

KPMG OY AB

Sixten Nyman
Authorized Public Accountant