# Pohjola Bank plc
# Report by the Board of Directors and Financial Statements 2014

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# Report by the Board of Directors for 2014

- Consolidated earnings before tax amounted to EUR 584 million (479) and consolidated earnings before tax at fair value to EUR 663 million (464). Return on equity was 14.3% (14.4). The Common Equity Tier 1 ratio (CET1) was 12.4% (11.9*) as against the target of 15%.
- Strong growth in income improved Banking earnings. The loan portfolio grew by 5% to EUR 14.9 billion (14.2). The average margin on the corporate loan portfolio was 1.44% (1.57). Earnings included EUR 25 million (35) in impairment loss on receivables.
- Within Non-life Insurance, insurance premium revenue increased by 5% (11). The combined ratio was 91.0% (91.6). A reduction in the discount rate for pension liabilities decreased earnings by EUR 62 million (38). Excluding changes in reserving bases and amortisation on intangible assets arising from company acquisition, the operating combined ratio improved to 84.7% (86.9). Return on investments at fair value was 6.7% (3.5).
- Asset Management earnings improved due to higher performance-based management fees. Assets under management increased by 14% to EUR 43.3 billion (37.9).
- The Board of Directors proposes a dividend per share of EUR 0.43. This means a dividend payout ratio of 30%.
- OP Cooperative completed its public voluntary bid announced in February 2014 and obtained ownership of all Pohjola Bank plc shares by decision of the Arbitral Tribunal. Pohjola's series A shares were delisted from the Helsinki Stock Exchange on 30 September 2014. OP Cooperative was entered as the only shareholder in Pohjola's shareholder register on 7 October 2014.
- Outlook for 2015: Consolidated earnings from continuing operations before tax in 2015 are expected to be at the same level as in 2014. For more detailed information on the outlook, see “Outlook for 2015” below.

| **Earnings before tax, € million** | **2014** | **2013** | **Change %** |
|---|---|---|---|
| Banking | 303 | 251 | 21 |
| Non-life Insurance | 223 | 166 | 34 |
| Group Functions | 20 | 39 | -48 |
| Asset Management | 38 | 24 | 59 |
| **Group total** | **584** | **479** | **22** |
| Change in fair value reserve | 79 | -15 | |
| **Earnings before tax at fair value** | **663** | **464** | **43** |
| | | | |
| Equity per share, € | 10.38 | 9.54 | |
| Average personnel | 2,563 | 2,632 | |

The above figures describe Pohjola Group as a whole without the division into continuing and discontinued operations.

| **Financial targets** | **2014** | **2013** | **Target** |
|---|---|---|---|
| Return on equity, % | 14.3 | 14.4 | 13 |
| Common Equity Tier 1 ratio (CET1), % *) | 12.4 | 11.9 | 15 |
| Operating cost/income ratio by Banking, % | 33 | 36 | < 35 |
| Operating combined ratio by Non-life Insurance, % | 84.7 | 86.9 | < 92 |
| Operating expense ratio by Non-life Insurance, % | 18.4 | 18.7 | 18 |
| Non-life Insurance solvency ratio (under Solvency II framework), % **) | 117 | 125 | 120 |
| Operating cost/income ratio by Asset Management, % | 42 | 53 | < 45 |
| Total expenses in 2015 at the same level as at the end of 2012 | 598 | 581 | 569 |
| AA rating affirmed by at least two credit rating agencies or credit ratings at least at the main competitors’ level | 2 | 2 | 2 |
| Dividend payout ratio at least 50%, provided that CET 1 ratio is at least 15%. Dividend payout ratio is 30% until CET1 ratio of 15% has been achieved. | 30***) | 50 | ≥ 50 (30) |

*) In accordance with the Capital Requirements Regulation (EU 575/2013) (CRR) since 1 January 2014.
**) According to the Solvency II draft (EU 138/2009).
***) Board proposal

## Operating environment

The world economy continued to grow in 2014 at a below-average rate, with considerable differences from country to country. In the euro area, the economy first began to recover after a two-year recession, but confidence in the recovery suffered setbacks during the year owing to the crisis in Ukraine, for example.

Inflation in the euro area slowed down during the year, ending up being negative when oil prices suddenly plummeted. The European Central Bank (ECB) reduced its main refinancing rate to as low as 0.05 per cent in September, bringing down Euribor rates. The ECB went to unusual lengths towards the end of the year to boost the economy, such as by buying covered bonds on the market.

The Finnish economy was sluggish, with GDP failing to grow, investments decreasing and employment increasing. Home prices fell by almost one per cent, and home sales decreased. Later in the year, the economy improved a fraction as industrial orders increased and exports were up by a little towards the end of the year. The fall of oil prices slowed down inflation to 0.5% in December.

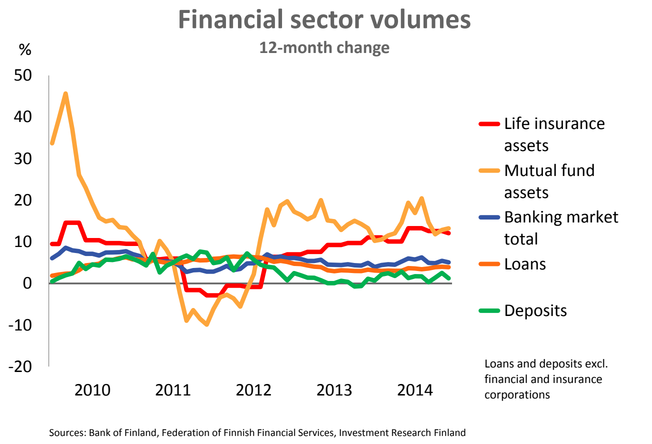
Banks' total consumer loan volumes grew last year at a slow annual rate of 2%. The number of new home mortgages levelled off closer to the year-end. Corporate loans increased slightly more than household loans owing to a greater volume of working capital financing. Demand for credit is expected to be below average in 2015.

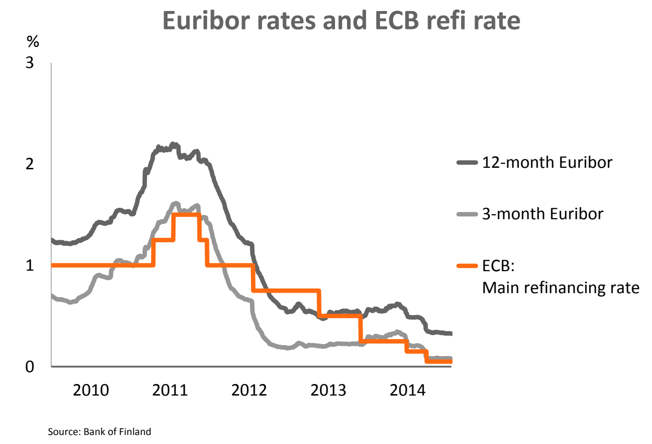
Deposits made by private and corporate customers increased in the low-interest-rate environment by only a fraction year on year. Term deposits continued to decrease vigorously, as assets were allocated to current accounts and riskier savings and investments.

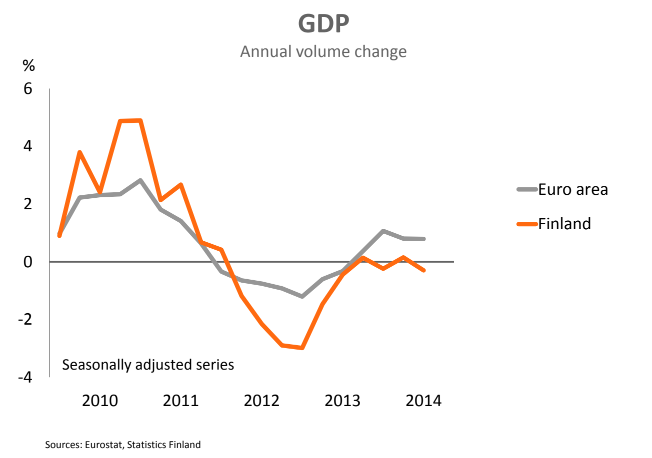
Capital markets developed favourably, although the markets' risk indicators increased a little in the second half of the year. Mutual fund assets and insurance savings in Finland increased by 13%. Net asset inflows continued to develop favourably throughout the year, with the highest demand being for corporate bond funds. Life Insurance's premiums written increased by 10% year on year. The trend in insurance savings continued as people shifted away from products with guaranteed technical interest in favour of unit-linked products.

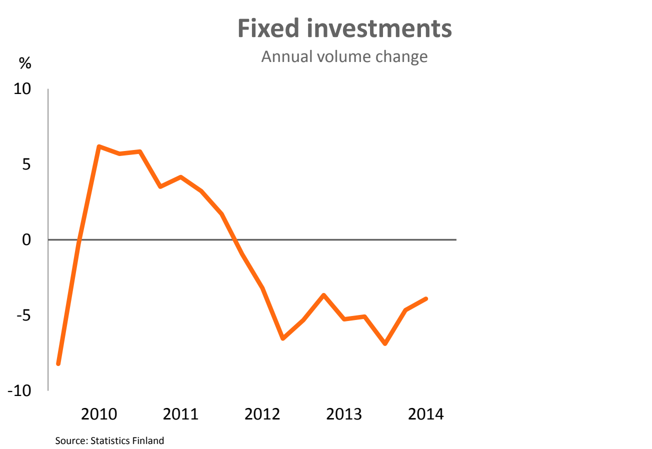
Non-life Insurance's premiums written increased according to preliminary figures by 5% in 2014. The growth of claims expenditure was still slower than the growth of premiums written.

World economy prospects have improved thanks to the lower price of oil, but there are still a number of exceptional risks that cast a shadow on economic development. The euro area economy is still growing slowly and is susceptible to disturbances. The ECB will commence an asset purchase programme in March, set to continue until at least September 2016. Euribor rates will probably remain near zero throughout the year. An increase in exports will give a boost to the Finnish economy, but economic development will on the whole remain weak.



## Consolidated earnings analysis

| € million | 2014 | 2013 | Change % |
|---|---|---|---|
| **Continuing operations *)** | | | |
| Net interest income | | | |
| Corporate and Baltic Banking | 255 | 227 | 12 |
| Markets | 28 | -3 | |
| Other operations | -26 | 6 | |
| Total | 257 | 230 | 12 |
| Net commissions and fees | 114 | 111 | 2 |
| Net trading income | 77 | 93 | -16 |
| Net investment income | 64 | 46 | 37 |
| Net income from Non-life Insurance | | | |
| Insurance operations | 466 | 440 | 6 |
| Investment operations | 173 | 131 | 33 |
| Other items | -42 | -43 | -3 |
| Total | 597 | 528 | 13 |
| Other operating income | 32 | 36 | -12 |
| **Total income** | **1,141** | **1,045** | **9** |
| Personnel costs | 163 | 170 | -4 |
| ICT costs | 94 | 87 | 7 |
| Depreciation and amortisation | 52 | 52 | 0 |
| Other expenses | 258 | 241 | 7 |
| **Total expenses** | **567** | **550** | **3** |
| **Earnings before impairment loss on receivables** | **574** | **495** | **16** |
| Impairment loss on receivables | 25 | 37 | -31 |
| **Earnings of continuing operations before tax** | **548** | **458** | **20** |
| **Discontinued operations *)** | | | |
| Asset Management net income | | | |
| Net commissions and fees | 64 | 51 | 25 |
| Share of associates' profit/loss | 1 | 0 | |
| Other Asset Management income and expenses, net | -30 | -30 | -1 |
| Other | | | |
| **Earnings of discontinued operations before tax** | **36** | **21** | **69** |
| **Total earnings before tax** | **584** | **479** | **22** |
| Change in fair value reserve | 79 | -15 | |
| **Earnings before tax at fair value** | **663** | **464** | **43** |

*) Following the realisation of OP Cooperative's public voluntary bid, Pohjola Group is planning structural changes, meaning, for example, that the Non-life Insurance segment and the Asset Management segment would be transferred from Pohjola Group to be directly owned by OP Cooperative. For this reason, the Non-life Insurance and Asset Management segments were reported as discontinued operations in accordance with IFRS 5. The structural change relating to the Non-life Insurance segment is delayed for over a year, which is why it has returned to be reported under continuing operations together with Banking and the Group Functions. The Asset Management segment is still being reported, according to IFRS 5, as discontinued operations in the income statement and as assets and liabilities classified as held for distribution to owners in the balance sheet.

***2014 earnings***

Consolidated earnings before tax improved by EUR 105 million to EUR 584 million (479). Total income and total expenses rose by 11% and 3%, respectively. Impairment loss on receivables decreased to EUR 25 million (37).

The fair value reserve before tax increased by EUR 79 million, amounting to EUR 289 million on 31 December. Earnings before tax at fair value were EUR 663 million (464).

*Continuing operations*

Earnings of continuing operations before tax improved by EUR 90 million to EUR 548 million (458).

Net interest income from continuing operations increased by a total of EUR 27 million, or by 12%. Combined net interest income from Corporate Banking and Baltic Banking grew by 12% year on year. The loan portfolio increased by 5% to EUR 14.9 billion. The average margin on the corporate loan portfolio decreased by 13 basis points to 1.44% (1.57).

Net interest income from Markets and net trading income improved as a result of growth in client trading and income from trading. A change in the credit and counterparty risk model applied to the fair value measurement of derivatives eroded net trading income by EUR 16 million.

In the Group Functions, net interest income from the liquidity buffer was reduced by persistently low interest rates and as the Group was preparing for tighter liquidity regulation.

Net commissions and fees increased by EUR 3 million, or by 2%. This increase came from commissions and fees related to lending and securities issuance.

Net investment income increased by EUR 17 million. Capital gains on notes and bonds amounted to EUR 11 million (14) and capital gains on shares to EUR 12 million (1). Dividend income totalled EUR 43 million (28). Dividend income includes EUR 14 million (16) in interest paid on cooperative capital by Suomen Luotto-osuuskunta and EUR 12 million (5) of dividends paid by OP Life Assurance.

Net income from Non-life Insurance improved by 13%. Insurance premium revenue increased by 5% and claims incurred by 5%. The reduction in the discount rate for pension liabilities increased claims incurred by EUR 62 million (38). Excluding the effect of the reduced discount rate, claims incurred would have increased by 2%.Investment income was EUR 43 million higher than the year before. Investment income included EUR 114 million (41) in capital gains and EUR 2 million (10) in impairment loss on investments. Return on investments at fair value was 6.7% (3.5).

Other operating income declined by EUR 4 million, due mainly to lower income related to maintenance lease.

Expenses rose by 3%. Other expenses were increased by advisory fees related to the public voluntary bid for Pohjola shares and tax penalty payment, amounting to a total of EUR 4 million. Furthermore, sales commissions paid by Non-life Insurance increased.

*Discontinued operations*

Earnings of discontinued operations before tax improved by EUR 14 million to EUR 36 million (21) due to higher performance-based management fees.

Asset Management net commissions and fees increased by EUR 13 million year on year, or by 25%.

## Risk management

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

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

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

## Group risk exposure

The Group's risk-bearing capacity and risk exposure remained stable despite the poor economic development in Finland.

No major changes occurred in credit risk exposure. Investment-grade exposures remained high. Receivables over 90 days overdue and zero-interest receivables increased but nevertheless remained low. Impairment losses decreased.

| | 2014 | 2013 |
|---|---|---|
| Net loan losses and impairment losses, € million | 25 | 37 |
| % of the loan and guarantee portfolio | 0.14 | 0.21 |
| Receivables more than 90 days past due zero-interest and under-priced receivables, € million | 46 | 40 |
| % of the loan and guarantee portfolio | 0.25 | 0.23 |
| Past due payments, € million | 14 | 27 |
| % of the loan and guarantee portfolio | 0.07 | 0.16 |

Final loan losses recognised totalled EUR 35 million (27) and impairment losses EUR 40 million (55). Loan loss recoveries and reversal of allowances for impairment losses totalled EUR 49 million (45).

No major changes took place in the Non-life Insurance underwriting risk exposure nor in the total risk exposure of its investment portfolio. Low market interest rates increased the risk level of the discount rate associated with Non-life Insurance's insurance liability.

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

**Liquidity buffer**

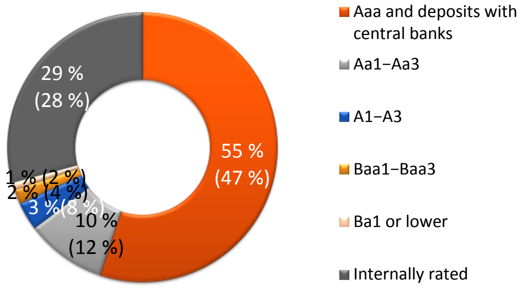
| € billion | 31 Dec. 2014 | 31 Dec. 2013 | Change, % |
|---|---|---|---|
| Deposits with central banks | 3.8 | 2.0 | 90 |
| Notes and bonds eligible as collateral | 7.8 | 7.4 | 6 |
| Corporate loans eligible as collateral | 4.3 | 3.3 | 31 |
| **Total** | **15.9** | **12.7** | **26** |
| Receivables ineligible as collateral | 0.7 | 0.7 | 6 |
| **Liquidity buffer at market value** | **16.6** | **13.3** | **25** |
| Collateral haircut | -1.1 | -1.0 | 12 |
| **Liquidity buffer at collateral value** | **15.5** | **12.3** | **26** |

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

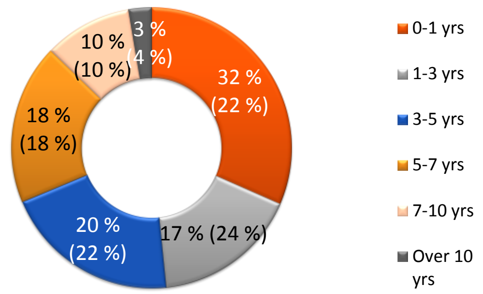
Measurement of the notes and bonds included in the liquidity buffer is based on market-to-market valuations.

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

Financial assets included in the liquidity buffer by credit rating 31 Dec. 2014, % (31 Dec. 2013, %)




Financial assets included in the liquidity buffer by maturity on 31 Dec. 2014, % (31 Dec. 2013, %)



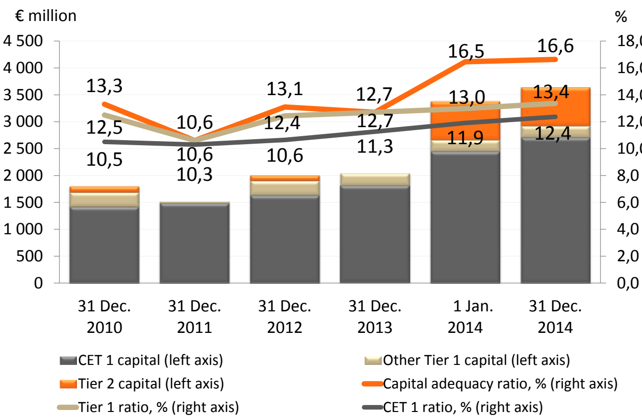

Major risks related to the Group's business are associated with developments in the overall economic environment and capital markets, as well as the discount rate applied to insurance liabilities.

## Operational risks

The most significant operational risks pertain to systems and related outsourcing activities and changes in organising business processes. Materialised operational risks resulted in EUR 3 million (2) in costs in 2014.

## Group's capital adequacy

### Capital base and capital adequacy

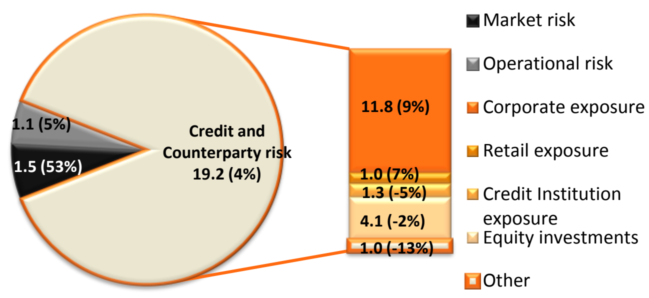



Pohjola Group's Common Equity Tier 1 (CET1) ratio was 12.4% (11.9) on 31 December. In December, Pohjola Insurance Ltd decided to distribute EUR 130 million in interim dividends for 2014 profit to Pohjola Bank plc, which increased the CET1 ratio by 0.6 percentage points. Pohjola Group's minimum CET1 target is 15% by the end of 2016. The capital adequacy ratio was 16.6% (16.5), as against the minimum regulatory requirement of 8%. The capital adequacy ratios have been presented in accordance with the new Capital Requirements Regulation (CRR) since 1 January 2014, and the comparatives have not been restated.

The CET1 capital increased by EUR 259 million to EUR 2,700 million because of strong earnings performance in Banking and the interim dividend paid by Pohjola Insurance Ltd.

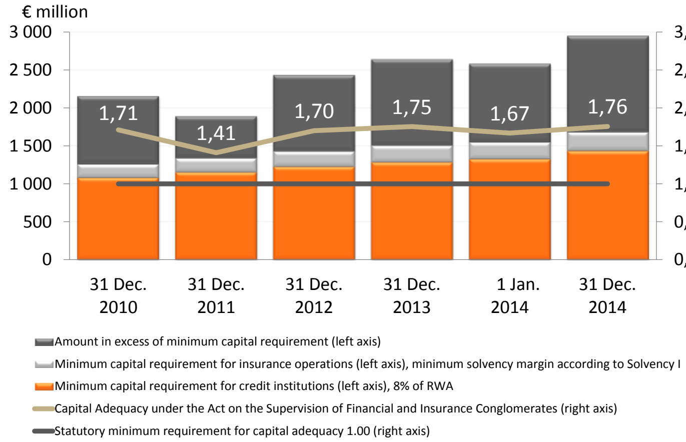
Risk-weighted assets increased by EUR 1,341 million to EUR 22 billion at the end of December, thanks to growth in the corporate loan portfolio and the additional requirement for market risk set by EBA. The quality of the loan portfolio improved slightly. Of the risk-weighted assets, EUR 3.9 billion included intra-Group insurance holdings.

Risk-weighted assets 31 Dec. 2014
Total 21.8 € billion
(change from year end +7%)




Pohjola Group belongs to OP Financial Group, whose capital adequacy is supervised in accordance with the Act on the Supervision of Financial and Insurance Conglomerates. Pohjola Group's capital adequacy ratio under the Act was 1.76 (1.67) on 31 December.

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




### Regulatory changes under Basel III and Solvency II

As a result of the financial crisis, the regulatory framework for banks' capital adequacy requirements became more rigorous. The Capital Requirements Directive and Regulation (CRD IV/CRR) were published in the EU Official Journal on 27 June 2013. These new rules and regulations entered into force on 1 January 2014, implementing the Basel III standards in phases within the EU during 2014–19. These regulatory changes are aimed, for example, at improving the quality of the capital base of banks, reducing the cyclic nature of capital requirements, decreasing banks' indebtedness and setting quantitative limits on liquidity risk.

From Pohjola's perspective, the most important individual change in the regulations relates to the treatment of insurance holdings within a banking-led financial and insurance conglomerate. On 27 November 2013, Pohjola and OP Financial Group received permission from the Finnish Financial Supervisory Authority to treat insurance holdings within the conglomerate as risk-weighted assets. The method applied to insurance holdings leads to a risk weight of approximately 280%. The permission will be valid from 1 January 2014 until 31 December 2014 at the latest. The European Central Bank is considering an extension to the permission.

The requirements for capital buffers implemented through national legislation will add to capital requirements. As of the beginning of 2015, the fixed additional capital requirement is 2.5 per cent of risk-weighted assets. The additional capital requirement as of the beginning of 2016, applying to other credit institutions relevant for financial stability, is still unconfirmed. The Finnish Financial Supervisory Authority may also set a variable additional capital requirement to reduce cyclicality. The upcoming liquidity regulation will add liquidity management costs. Profitability will play a key role when preparing for regulatory changes.

As part of OP Financial Group, Pohjola as a credit institution was transferred under European Central Bank's (ECB) supervision in November 2014. In 2014, the ECB carried out a supervisory risk assessment , comprehensive asset quality review and stress test on OP Financial Group as a banking institution, including Pohjola as a credit institution.

The ECB's comprehensive assessment and stress tests were aimed at making European banks more transparent and ensuring that they have sufficient capital. A total of 130 European banks took part in the new type of comprehensive assessment carried out using uniform principles and a tight schedule.

The results of the comprehensive assessment were published on 26 October 2014. According to the results, OP Financial Group's risk-bearing capacity was strong. Based on the comprehensive assessment results, the credit and counterparty risk model applied to the fair value measurement of derivatives and the model for collective impairment for receivables were updated. These changes had no significant effect on the financial statements or accounting policies.

Changes in the insurance sector's Solvency II regulations aim to improve the quality of insurance companies' capital base, improve their risk management, increase the risk-based capital requirements and harmonise insurance sector solvency requirements in Europe. The regulations are still being processed, and are scheduled to come into effect at the beginning of 2016.

The estimated solvency ratio on 31 December under the Solvency II framework, excluding the effect of transition provisions, was 117% (125). The estimated buffer relative to the solvency capital requirement under Solvency II was EUR 119 million (181). The transition provisions are expected to improve the capital buffer.

**Non-life Insurance capital base and solvency ratio *) under Solvency II**

| € million | 31 Dec. 2014 | 31 Dec. 2013 | Target |
|---|---|---|---|
| Tier 1 | 754 | 844 | |
| Tier 2 | 50 | 50 | |
| Capital base (Solvency II) | 804 | 894 | |
| Solvency capital requirement (SCR) | 685 | 713 | |
| Solvency ratio (Solvency II), % *) | 117 | 125 | 120 |

*) According to the Solvency II draft (EU 138/2009)

## Capital base and capital adequacy

The Group has presented its capital base and capital adequacy of 31 December 2014 in accordance with the EU capital requirement regulation and directive (EU 575/2013) (CRR) entered into force on 1 January 2014. Comparatives for 2013 are presented according to CRD III in force on 31 December 2013. In addition, an estimate of the figures a year ago under CRR is presented in column CRR 1 Jan. 2014.

| | CRR | CRR | CRD3 |
|---|---|---|---|
| **EUR million** | **31 Dec 2014** | **1 Jan 2014** | **31 Dec 2013** |
| Shareholders' equity | 3,408 | 3,150 | 3,150 |
| Elimination of insurance companies' effect in equity capital (equity capital and Group eliminations) | -183 | -137 | -137 |
| Fair value reserve, cash flow hedging | -17 | -11 | -11 |
| **Common Equity Tier 1 (CET1) before deductions** | **3,209** | **3,001** | **3,001** |
| Intangible assets | -195 | -193 | -193 |
| Excess funding of pension liability, valuation adjustments, indirect holdings and deferred tax assets for losses | -1 | -8 | -4 |
| Planned profit distribution / profit distribution as proposed by the Board | -141 | -212 | -212 |
| Unrealised gains under transitional provisions | -50 | -31 | -31 |
| Investments in insurance companies and financial institutions | | | -703 |
| Shortfall of impairments – expected losses | -122 | -115 | -50 |
| **Common Equity Tier 1 (CET1)*)** | **2,700** | **2,441** | **1,808** |
| Subordinated loans to which transitional provision applies | 219 | 219 | 274 |
| Shortfall of Tier 2 capital | | | -38 |
| **Additional Tier 1 capital (AT1)** | **219** | **219** | **235** |
| **Tier 1 capital (T1)** | **2,919** | **2,660** | **2,043** |
| Debenture loans | 663 | 683 | 683 |
| Unrealised gains under transitional provisions | 50 | 31 | 31 |
| Investments in insurance companies and financial institutions | | | -703 |
| Shortfall of impairments – expected losses | | | -50 |
| Reclassification into AT1 | | | 38 |
| **Tier 2 Capital (T2)** | **713** | **714** | |
| **Total capital base** | **3,633** | **3,375** | **2,043** |
| **Risk-weighted assets** | | | |
| Credit and counterparty risk | | | |
| Central government and central banks exposure | 26 | 82 | 82 |
| Credit institution exposure | 1,305 | 1,368 | 1,140 |
| Corporate exposure | 11,831 | 10,848 | 10,965 |
| Retail exposure | 1,010 | 941 | 941 |
| Equity investments**) | 4,132 | 4,205 | 195 |
| Other ***) | 931 | 1,013 | 684 |
| Market risk | 1,467 | 958 | 958 |
| Operational risk | 1,137 | 1,083 | 1,083 |
| **Total** | **21,839** | **20,499** | **16,048** |
| **Ratios, %** | | | |
| CET1 capital ratio | 12.4 | 11.9 | 11.3 |
| Tier 1 ratio | 13.4 | 13.0 | 12.7 |
| Capital adequacy ratio | 16.6 | 16.5 | 12.7 |
| **Basel I floor, EUR million** | | | |
| Capital base | 3,633 | 3,375 | |
| Basel I capital requirements floor | 1,441 | 1,239 | |
| Capital buffer for Basel I floor | 2,192 | 2,136 | |

*) The row of CET1 based on CRD III figures shows Core Tier as defined by the EBA

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

| EUR million | 31 Dec 2014 | 1 Jan 2014 | 31 Dec 2013 |
|---|---|---|---|
| Pohjola Group's equity capital | 3,408 | 3,150 | 3,150 |
| Hybrid instruments, perpetual bonds and debenture bonds | 932 | 952 | 1 007 |
| Other sector-specific items excluded from capital base | -91 | -107 | -5 |
| Goodwill and intangible assets | -863 | -880 | -880 |
| Equalisation provision | -172 | -198 | -198 |
| Proposed profit distribution | -141 | -212 | -212 |
| Items under IFRS deducted from capital base* | -19 | -24 | -122 |
| Shortfall of impairments – expected losses | -106 | -99 | -99 |
| **Conglomerate's capital base, total** | **2,948** | **2,581** | **2,639** |
| Regulatory capital requirement for credit institutions** | 1,433 | 1,326 | 1,284 |
| Regulatory capital requirement for insurance operations*** | 247 | 222 | 222 |
| **Conglomerate's total minimum capital requirement** | **1,680** | **1,548** | **1,506** |
| **Conglomerate's capital adequacy** | **1,269** | **1,033** | **1,134** |
| **Conglomerate's capital adequacy ratio (capital resources/minimum of capital resources)** | **1.76** | **1.67** | **1.75** |

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

OP Financial Group's capital adequacy ratio was 1.89 (1.90).

## Credit ratings

**Pohjola Bank plc's credit ratings on 31 December 2014**

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

**Pohjola Insurance Ltd's financial strength ratings on 31 December 2014**

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

In 2014, no changes occurred in the credit rating of Pohjola Bank plc and the financial strength rating of Pohjola Insurance Ltd affirmed by Fitch Ratings Limited, Standard & Poor's Credit Market Services Europe Limited and Moody's Investors Services Ltd, including their rating outlook.

On 22 October 2014, S&P affirmed Pohjola Bank plc's long-term and short-term debt ratings, and on 31 October 2014 it affirmed Pohjola Insurance Ltd's financial strength rating. The outlook for both companies remained negative.

Moody's affirmed on 29 May 2014 Pohjola Bank plc's long-term and short-term debt rating and changed the outlook from stable to negative as part of its extensive review of the European banking sector. Moody's affirmed Pohjola Insurance Ltd's credit rating on 26 June 2014 while keeping the outlook stable.

On 24 June 2014, Fitch Ratings affirmed OP Financial Group's and Pohjola Bank plc's long-term and short-term debt rating and kept the outlook stable.

## Pohjola's efficiency-enhancement programme

The efficiency-enhancement programme launched within Pohjola in late 2012 is aimed at achieving annual cost savings of around EUR 50 million by the end of 2015. The programme aims at annual cost savings of EUR 150 million within the whole OP Cooperative by the end of 2015.

A total of 55% of the annual savings target of EUR 50 million was achieved in 2013 and a total of 20% in 2014. The Group expects to achieve the rest of the target in 2015.

As its financial target, Pohjola Group aims to keep its total expenses at the end of 2015 at the levels recorded at the end of 2012. Cost savings out of the EUR 12 million estimated for 2014 based on the efficiency-enhancement programme amounted to EUR 10 million.

# Financial performance and risk exposure by business segment

## Continuing operations

## Banking

- Earnings before tax improved to EUR 303 million (251) because of strong growth in income and a reduction in impairment losses.
- The loan portfolio grew by 5% to EUR 14.9 billion (14.2) and the average corporate loan portfolio margin decreased by 13 basis points to 1.44%.
- Impairment loss on receivables decreased to EUR 25 million (35), accounting for 0.14% of the loan and guarantee portfolio (0.20).
- The operating cost/income ratio was 33% (36).

**Banking: financial results and key figures and ratios**

| **€ million** | **2014** | **2013** | **Change %** |
|---|---|---|---|
| Net interest income | | | |
| Corporate and Baltic Banking | 255 | 227 | 12 |
| Markets | 28 | -3 | |
| Total | 283 | 224 | 26 |
| Net commissions and fees | 103 | 100 | 3 |
| Net trading income | 84 | 101 | -17 |
| Other income | 18 | 17 | 5 |
| **Total income** | **488** | **443** | **10** |
| Expenses | | | |
| Personnel costs | 55 | 57 | -5 |
| ICT costs | 34 | 31 | 12 |
| Depreciation and amortisation | 14 | 15 | -8 |
| Other expenses | 57 | 54 | 5 |
| **Total expenses** | **160** | **157** | **2** |
| **Earnings before impairment loss on receivables** | **328** | **285** | **15** |
| Impairment loss on receivables | 25 | 35 | -27 |
| **Earnings before tax** | **303** | **251** | **21** |
| Earnings before tax at fair value | 301 | 260 | 16 |
| Loan portfolio, € billion | 14.9 | 14.2 | 5 |
| Guarantee portfolio, € billion | 2.7 | 2.7 | 1 |
| Risk-weighted assets *), € billion | 16.0 | 14.3 | |
| Margin on corporate loan portfolio, % | 1.44 | 1.57 | -8 |
| Ratio of receivables more than 90 days past due and zero-interest receivables to loan and guarantee portfolio, % | 0.26 | 0.23 | |
| Ratio of impairment loss on receivables to loan and guarantee portfolio, % | 0.14 | 0.20 | |
| Operating cost/income ratio, % | 33 | 36 | |
| Personnel | 616 | 634 | |

*) In accordance with the EU capital requirements regulation and directive (EU 575/2013) (CRR) entered into force on 1 January 2014

***2014 earnings***

Earnings before tax improved to EUR 303 million (251). Total income increased by 10% and expenses by 2%. Impairment loss on receivables decreased to EUR 25 million (35).

The loan portfolio grew by 5% to EUR 14.9 billion mainly due to increased demand for working capital products. Demand for corporate loans remained weak, and as a result of toughening competition, the average margin on the corporate loan portfolio decreased by 13 basis points to 1.44% (1.57).

Net interest income from Markets and net trading income improved as a result of growth in client trading and income from trading. A change in the credit and counterparty risk model applied to the fair value measurement of derivatives eroded net trading income by EUR 16 million.

The guarantee portfolio remained unchanged from the year before, totalling EUR 2.7 billion. Committed standby credit facilities amounted to EUR 3.2 billion (3.1).

Net commissions and fees increased by 3% to EUR 103 million as a result of higher fees on lending, securities issuance and custody.

Total expenses increased by 2% to EUR 160 million due to higher ICT costs.

**Earnings before tax by division**

| € million | 2014 | 2013 | Change % |
|---|---|---|---|
| Corporate Banking | 220 | 184 | 19 |
| Markets | 82 | 66 | 24 |
| Baltic Banking | 0 | 0 | |
| **Total** | **303** | **251** | **21** |

## Risk exposure by Banking

Within Banking, key risks are associated with credit risk arising from customer business, and market risks.

### Credit risk exposure

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

Risk exposure by Banking remained favourable. The exposure rating distribution remained good. In 2014, total exposure increased by EUR 1.8 billion to EUR 26.9 billion.

**Total exposure by countereparty**

| € billion | 31 Dec 2014 | 31 Dec 2013 | Change, % |
|---|---|---|---|
| Corporates and housing associations | 21.3 | 20.4 | 5 |
| Financial institutions and insurance companies | 2.7 | 2.2 | 22 |
| Member banks and OP Cooperative | 0.2 | 0.2 | 8 |
| Public-sector entities | 1.3 | 1.0 | 32 |
| Households | 1.2 | 1.1 | 6 |
| Non-profit organisations | 0.2 | 0.2 | 1 |
| **Total** | **26.9** | **25.1** | **7** |

Total exposure is divided by counterparty into six customer groups. The largest customer group was corporate customers (including housing corporations) exposures representing 79% (81) of total Banking exposures. Corporate customer exposures increased by EUR 0.9 billion i.e. 5% during the year.

**Total exposure by rating category**

| Rating category | 31 Dec 2014 | 31 Dec 2013 | Change, € bn |
|---|---|---|---|
| 1–2 | 2.7 | 2.4 | 0.2 |
| 3–5 | 13.7 | 12.3 | 1.4 |
| 6–7 | 6.6 | 6.5 | 0.0 |
| 8–9 | 2.1 | 2.0 | 0.1 |
| 10 | 0.1 | 0.2 | -0.1 |
| 11–12 | 0.2 | 0.3 | -0.1 |
| Non-rated | 0.3 | 0.2 | 0.1 |
| Households | 1.2 | 1.1 | 0.1 |
| **Total** | **26.9** | **25.1** | **1.7** |

The ratio of investment-grade exposure – i.e. rating categories 1–5 – to total exposure, excluding households, remained at a healthy level, standing at 64% (62). The proportion of rating categories 11–12 was 0.9% (1.3).

Of corporate customer exposure, the investment-grade exposure accounted for 58% (56) and the exposure of the lowest two rating categories amounted to EUR 234 million (310), accounting for 1.1% (1.5) of the total corporate exposure.

**Corporate and housing association exposure by rating category**

| Rating category | 31 Dec 2014 | 31 Dec 2013 | Change, € bn |
|---|---|---|---|
| 1–2 | 1.0 | 1.1 | 0.0 |
| 3–5 | 11.4 | 10.4 | 1.0 |
| 6–7 | 6.3 | 6.3 | 0.0 |
| 8–9 | 2.0 | 2.0 | 0.0 |
| 10 | 0.1 | 0.2 | -0.1 |
| 11–12 | 0.2 | 0.3 | -0.1 |
| Non-rated | 0.3 | 0.2 | 0.1 |
| **Total** | **21.3** | **20.4** | **0.9** |

Corporate exposure by industry remained highly diversified. The most significant industries included Energy 11.0% (7.5), Wholesale and Retail Trade 10.7% (10.2) and Renting and Operating of Residential Real Estate 9.9% (9.9). A total of 45% of exposures within Renting and Operating of Residential Real Estate were guaranteed by general government.

Baltic Banking exposures totalled EUR 1.2 billion (0.8), accounting for 4.3% (3.2) of total Banking exposures.

### Large customer risks

Large customer risks include customer risks whose direct exposure exceeds 10% of the Group's capital base. The amount of large corporate customer exposures totalled EUR 0.4 billion (2.7) at the end of 2014. Pohjola's own funds covering the Group's large customer exposure increased to EUR 3.6 billion (2.1).

**Past due payments, doubtful receivables and impairment loss**

Past due payments decreased by EUR 13 million to EUR 14 million and their ratio to the total loan and guarantee portfolio was 0.07% (0.16).

Net loan losses and impairment losses within Banking amounted to EUR 25 million (35), accounting for 0.14% (0.20) of the loan and guarantee portfolio. Final loan losses recognised totalled EUR 35 million (17) and impairment losses EUR 40 million (55). Loan loss recoveries and reversal of allowances for impairment losses totalled EUR 49 million (38).

The Baltic Banking net loan losses and impairment charges amounted to EUR 0.1 million (-0.8).

In Banking, the definition of doubtful receivables was aligned with EBA's guideline on forbearance that will enter into force in 2015. Compared to the earlier definition, this increased the amount of receivebles reported as doubtful. The redefined doubtful receivables of Banking totalled EUR 263 million, as against EUR 278 million calculated in a comparable manner a year earlier.

**Market risk exposure**

The Markets division within Banking is mostly exposed to interest rate risk.The interest rate risk by Banking in the event of a one-percentage-point change in the interest rate averaged EUR 13.2 million (12.4).

**Derivatives business**

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

## Non-life Insurance

- Earnings before tax amounted to EUR 223 million (166). Earnings before tax at fair value were EUR 272 million (149). A reduction in the discount rate for pension liabilities decreased earnings by EUR 62 million (38).
- Insurance premium revenue increased by 5% (11).
- The number of loyal customer households increased by 39,658 (45,612).
- Operating profitability improved from the previous year. The operating combined ratio was 84.7% (86.9) and operating expense ratio 18.4% (18.7).
- Return on investments at fair value was 6.7% (3.5).

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

| € million | 2014 | 2013 | Change % |
|---|---|---|---|
| Insurance premium revenue | 1,310 | 1,249 | 5 |
| Claims incurred | -930 | -889 | 5 |
| Operating expenses | -242 | -234 | 3 |
| Amortisation adjustment of intangible assets | -21 | -21 | 0 |
| **Balance on technical account** | **117** | **104** | |
| Net investment income | 171 | 131 | 30 |
| Other income and expenses | -66 | -70 | -6 |
| **Earnings before tax** | **223** | **166** | **34** |
| Earnings before tax at fair value | 272 | 149 | 82 |
| Combined ratio, % | 91.0 | 91.6 | |
| Operating combined ratio, % | 84.7 | 86.9 | |
| Operating loss ratio, % | 66.3 | 68.1 | |
| Operating expense ratio, % | 18.4 | 18.7 | |
| Operating risk ratio, % | 60.2 | 61.7 | |
| Operating cost ratio, % | 24.4 | 25.2 | |
| Return on investments at fair value, % | 6.7 | 3.5 | |
| Solvency ratio , % | 75 | 73 | |
| Solvency ratio (Solvency II), % *) | 117 | 125 | |
| Large claims incurred retained for own account | -79 | -73 | |
| Changes in claims for previous years (run off result) | 27 | 10 | |
| Personnel | 1,766 | 1,872 | |

*) According to the Solvency II draft (EU 138/2009)

***2014 earnings***

Earnings before tax improved to EUR 223 million (166) as a result of the operating balance on technical account that was better than a year ago as well as the strong investment performance. The reduction in the discount rate for pension liabilities from 2.8% to 2.5% increased claims incurred by EUR 62 million. A year earlier, the reduced discount rate for technical provisions increased claims incurred by EUR 38 million.

Excluding the effect of the reduced discount rate, profitability improved as a result of the increase in insurance premium revenue and favourable claims developments. Insurance premium revenue increased by 5%. The operating balance on technical account improved to EUR 201 million (164) and the operating combined ratio was 84.7% (86.9). These key operating figures exclude changes in reserving bases and amortisation on intangible assets arising from the corporate acquisition. The combined ratio, including the above-mentioned items, was 91.0% (91.6).

**Insurance premium revenue**

| € million | 2014 | 2013 | Change % |
|---|---|---|---|
| Private Customers | 687 | 630 | 9.1 |
| Corporate Customers | 568 | 567 | 0.1 |
| Baltics | 55 | 52 | 6.1 |
| **Total** | **1,310** | **1,249** | **4.9** |

Developments in insurance premium revenue were twofold. Growth in insurance premium revenue remained strong among private customers and in the Baltic States. Among corporate customers, the general economic situation affected developments and insurance premium revenue remained at the previous year's level.

In 2013, Pohjola's market share in terms of Non-life insurance premiums written was 30.3% (29.1). Measured in terms of the market share in premiums written, Pohjola is Finland's largest non-life insurer.

The number of loyal customer households increased by 39,658 (45,612) from the levels recorded at the end of 2013. On 31 December, the number of loyal customer households totalled 655,264 (615,606), of which up to 75% (73) also use OP Financial Group cooperative banks as their main bank. Customers of OP Financial Group member cooperative banks and Helsinki OP Bank used OP bonuses that they had earned through the use of banking and insurance services to pay 1,912,000 insurance bills (1,783,000), with 255,000 (253,000) paid in full using bonuses. Insurance premiums paid using bonuses totalled EUR 95 million (89).

Pohjola has decided to expand the business of Omasairaala Oy, which started operations in 2013 in the Helsinki Metropolitan Area, by opening four new private hospitals in Finland. It will also expand to new fields of specialised medicine and occupational healthcare. The nationwide hospital network is built under the Pohjola brand. Omasairaala will change its name to Pohjola Health Ltd in the autumn of 2015.

Sales of policies to private and corporate customers increased by 1% over the previous year.

Excluding the reduction in the discount rate for pension liabilities, claims incurred would have increased by 2%. Excluding large claims, claims development was favourable. Claims incurred arising from new large claims were higher than a year ago. The reported number of large claims under property and business liability insurance (in excess of EUR 0.3 million) amounted to 82 (77), with their claims incurred retained for own account totalling EUR 79 million (73). The change in provisions for unpaid claims under statutory pension increased to EUR 62 million (59).

Changes in claims for previous years, excluding the effect of changes to the discount rate, improved the balance on technical account by EUR 27 million (10). The operating loss ratio was 66.3% (68.1) and the risk ratio (excluding indirect loss adjustment expenses) 60.2% (61.7).

Operating expenses increased by 3%. Thanks to increased earnings, the operating expense ratio improved to 18.4% (18.7). Higher sales commissions paid in non-life insurance added to operating expenses. The operating cost ratio (incl. indirect loss adjustment expenses) was 24.4% (25.4).

Other income and expenses decreased by EUR 4 million, which improved the financial results.

**Operating balance on technical account and combined ratio (CR)**

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | **Balance, € million** | **CR, %** | **Balance, € million** | **CR, %** |
| Private Customers | 142 | 79.4 | 111 | 82.4 |
| Corporate Customers | 54 | 90.5 | 48 | 91.5 |
| Baltics | 6 | 90.0 | 5 | 90.2 |
| **Total** | **201** | **84.7** | **164** | **86.9** |

Profitability was improved by the positive growth in premium income from private customers and the favourable development of losses. With respect to corporate customers, lower operating expenses improved the financial results. In the Baltic countries, profitability improved slightly from the previous year.

**Investment**

Investment income at fair value was better than a year ago because of a significant decline in interest rates. Investment income at fair value amounted to EUR 220 million (115), or 6.7% (3.5). Net investment income recognised in the income statement amounted to EUR 171 million (131).

## Risk exposure by Non-life Insurance

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

The Solvency II Directive regulating the solvency requirements of insurance companies will come into force at the beginning of 2016. On 31 December, the Non-life Insurance capital base under Solvency II totalled EUR 804 million (894) and capital requirement EUR 685 million (713). The solvency ratio conforming to Solvency II was 117% (125). These figures do not include the effects of transitional provisions. The transitional provisions are expected to improve the capital buffer.

The capital adequacy of Non-life Insurance amounted to EUR 988 million (913) at the end of December. The ratio between solvency capital and insurance premium revenue (solvency ratio) was 75% (73). Equalisation provisions were EUR 215 million (248).

### Underwriting risk exposure

No significant changes took place in Non-life Insurance's underwriting risks. Low market interest rates increased the risk level of the discount rate associated with Non-life Insurance's insurance liability.

The reinsurance of Non-life Insurance is managed on a centralised basis. Retention in both risk-specific reinsurance and catastrophe reinsurance is a maximum of EUR 5 million. The capacity of catastrophe reinsurance covering loss accumulation amounted to EUR 150 million. In addition, retention in large claims under the short-tail insurance products had an annual aggregate protection with a capacity of EUR 15 million in 2014. This protection will be brought into use when an annual claims expenditure arising from large claims is higher than usual.

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

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

The duration of insurance liabilities was 12.7 years (12.6) Discounted insurance liabilities amounted to EUR 1,658 million (1,568). They were discounted using the discount rate of 2.5% (2.8). Part of the insurance liabilities are hedged with insterst rate derivatives. The positive fair values of these derivatives totalling to EUR 12 million (0) have been added to insurance liabilities and excluded from solvency margin as exceptional items. The remaining part of insurance liabilities, EUR 947 million (953), were undiscounted, with a duration of 2.1 years (2.1).

### Investment risk exposure

Non-life Insurance's investment portfolio totalled to EUR 3,522 million (3,219) on December 31.

**Investment portfolio by asset class**

| % | 31 Dec. 2014 | 31 Dec. 2013 |
|---|---|---|
| Bonds and bond funds | 73 | 72 |
| Alternative investments | 1 | 1 |
| Equities | 7 | 10 |
| Private equity | 3 | 3 |
| Real property | 11 | 10 |
| Money market instruments | 5 | 4 |
| **Total** | **100** | **100** |

The fixed-income portfolio by credit rating remained healthy, considering that investments within the "investment-grade" category represented 94% (91), and 71% (74) of the investments were rated at least A–. The average residual term to maturity of the fixed-income portfolio was 4.5 years (4.4) and the duration 4.3 years (3.7).

The running yield for direct bond investments averaged 1.9% (2.7) at the end of December.

Non-life Insurance's open currency position was EUR 157 million (136), accounting for 4% of the investment portfolio.

As a whole, no major changes took place to investment risk levels. Pohjola reduced slightly the equity risk associated with the investment portfolio. The risk level of bonds and illiquid investments was slightly increased.

## Group Functions

- Earnings before tax amounted to EUR 20 million (39). These included EUR 7 million (14) in capital gains on notes and bonds and EUR 43 million (28) in dividend income.
- Earnings before tax at fair value were EUR 53 million (33).
- Liquidity and access to funding remained good.

**Group Functions: financial results and key figures and ratios**

| **€ million** | **2014** | **2013** | **Change %** |
|---|---|---|---|
| Net interest income | -3 | 27 | |
| Net commissions and fees | 4 | -1 | |
| Net trading income | -8 | -12 | -34 |
| Net investment income | 55 | 46 | 18 |
| Other income | 9 | 9 | -4 |
| **Total income** | **56** | **69** | **-18** |
| Personnel costs | 6 | 6 | 1 |
| Other expenses | 30 | 21 | 43 |
| **Total expenses** | **36** | **27** | **33** |
| **Earnings before impairment loss on receivables** | **20** | **41** | **-51** |
| Impairment loss on receivables | | 2 | |
| **Earnings before tax** | **20** | **39** | **-48** |
| Earnings before tax at fair value | 53 | 33 | 60 |
| Liquidity buffer, € billion | 16.6 | 13.3 | 25 |
| Risk-weighted assets, € billion *) | 5.7 | 6.0 | |
| Receivables and liabilities from/to OP Cooperative entities, net position, € billion | 3.8 | 4.7 | |
| Central Banking earnings, € million | 17 | 9 | 93 |
| Personnel | 33 | 26 | |

*) In accordance with the EU capital requirements regulation and directive (EU 575/2013) (CRR) entered into force on 1 January 2014

***2014 earnings***

Group Functions's earnings before tax were EUR 20 million, or EUR 19 million lower than a year ago. Earnings before tax at fair value totalled EUR 53 million, or EUR 20 million higher than the year before.

Net interest income was reduced by persistently low interest rates and as the Group was preparing for tighter liquidity regulation.

A credit limit granted to OP Cooperative relating to financing for the bid for Pohjola shares added to net commissions and fees.

Net investment income included EUR 7 million in capital gains on notes and bonds (14), EUR 43 million (28) in dividend income and EUR 7 million (0) in income recognised from mutual fund investments. Dividend income includes EUR 14 million (16) in interest paid on cooperative capital by Suomen Luotto-osuuskunta and EUR 12 million (5) of dividends paid by OP Life Assurance.

Other expenses included EUR 2 million of tax-related penalty interest and EUR 2 million of advisory fees related to the public voluntary bid for Pohjola shares. The total expenses decreased in the last quarter as the amounts of expense provisions were revised.

Pohjola's access to funding remained good. In January-December, Pohjola issued long-term bonds worth EUR 3.5 billion. In March, Pohjola issued two senior bonds in the international capital market, each worth EUR 750 million with a maturity of three and seven years. In June, Pohjola issued a senior bond worth EUR 750 million with a maturity of five years and two Samurai bonds in the Japanese market worth a total of EUR 60 billion yen (EUR 432 million).

OP Mortgage Bank, which is part of OP Financial Group, issued three covered bonds each worth EUR 1.0 billion. The maturity of the bond issued in March is seven years, that of the bond issued in June five years and that of the bond issued in November ten years.

On 31 December, the average margin of senior wholesale funding was 39 basis points (40).

### Risk exposure by Group Functions

**Credit risk exposure**

Major risks exposed by the Group Functions include credit and market risks associated with the liquidity buffer, and liquidity risks.

The Group Functions exposure totalled EUR 22.7 billion (19.8), consisting of notes and bonds to secure OP Financial Group's liquidity, deposits with central banks and receivables from OP Financial Group cooperative banks. A total of 99% (99) of the exposure came from investment-grade counterparties.

Group member cooperative banks and OP Cooperative with its subsidiaries form a significant customer group for Pohjola Bank plc acting as OP Financial Group's central financial institution. Group member cooperative banks' and

OP Cooperative's exposure increased by EUR 0.9 billion, or roughly 9%, year on year. All of their exposure was investment-grade exposure.

**Total exposure by rating category, EUR billion**

| Rating category | 31 Dec 2014 | 31 Dec 2013 | Change |
|---|---|---|---|
| 1–2 | 19.2 | 16.8 | 2.3 |
| 3–5 | 3.3 | 2.7 | 0.5 |
| 6–7 | 0.1 | 0.1 | 0.0 |
| 8–9 | 0.1 | 0.1 | 0.0 |
| 10 | 0.0 | | 0.0 |
| **Total** | **22.7** | **19.8** | **2.8** |

The share of central bank deposits in liquidity buffer investments was increased and that of notes and bonds eligible as collateral increased.

**Market risk exposure**

In January-December, the interest rate risk by Group Functions in the event of a one percentage-point change in the interest rate averaged EUR 14.9 million (28.4).

# Financial performance and risk exposure by business segment

## Discontinued operations

## Asset Management

- Asset Management earnings before tax improved to EUR 38 million (24) due to higher performance-based management fees.
- Assets under management increased by 14% to EUR 43.3 billion (37.9).
- The operating cost/income ratio was 42% (53).

**Asset Management: financial results and key figures and ratios**

| € million | 2014 | 2013 | Change % |
|---|---|---|---|
| Net commissions and fees | 64 | 51 | 25 |
| Other income | 4 | 4 | -8 |
| **Total income** | **67** | **55** | **22** |
| Personnel costs | 14 | 14 | -1 |
| Other expenses | 17 | 17 | -1 |
| **Total expenses** | **31** | **32** | **-1** |
| Share of associate's profit/loss | 1 | 0 | |
| **Earnings before tax** | **38** | **24** | **59** |
| Earnings before tax at fair value | 38 | 24 | 59 |
| | | | |
| Assets under management, € billion | 43.3 | 37.9 | 14 |
| Operating cost/income ratio, % | 42 | 53 | |
| Personnel | 88 | 88 | |

***2014 earnings***

Earnings before tax amounted to EUR 38 million (24). Earnings included EUR 11.5 million (3.8) in performance-based management fees. Earnings before tax include net profit shown by Access Capital Partners Group SA, an associated company, in proportion to Pohjola's shareholding.

The operating cost/income ratio was 42% (53).

Assets under management increased by 14% to EUR 43.3 billion (37.9).

**Assets under management**

| € billion | 31 Dec. 2014 | 31 Dec. 2013 |
|---|---|---|
| Institutional clients | 24 | 21 |
| OP Mutual Funds | 14 | 12 |
| Private | 6 | 5 |
| Total | 43 | 38 |

**Assets under management by asset class**

| % | 31 Dec. 2014 | 31 Dec. 2013 |
|---|---|---|
| Money market investments | 14 | 15 |
| Notes and bonds | 36 | 37 |
| Equities | 36 | 32 |
| Other | 14 | 15 |
| **Total** | **100** | **100** |

The increase in assets under management was based on good progress in net asset inflows and improved market values.

## Personnel and remuneration

On 31 December 2014, the Group had a staff of 2,503, or 117 less than on 31 December 2013.

**Personnel by segment**

| | 31 Dec. 2014 | 31 Dec. 2013 |
|---|---|---|
| Banking | 616 | 634 |
| Non-Life Insurance | 1,766 | 1,872 |
| Asset Management | 88 | 88 |
| Group Functions | 33 | 26 |
| **Total** | **2,503** | **2,620** |

A total of 468 Group employees (462) worked abroad.

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

## Capital expenditure

Capital expenditure for 2014 totalled EUR 28 million (45), Banking accounting for EUR 10 million (15), Non-life Insurance for EUR 14 million (27), Asset Management for EUR 2 million (2) and Group Functions for EUR 2 million (1). Capital expenditure mainly came from ICT investments.

## Corporate social responsibility

Corporate social responsibility (CSR) is an integral part of Pohjola's business and, according to the strategy, is further developed as part of OP Financial Group's CSR programme.

More detailed information on OP Financial Group's CSR programme can be found in OP's Year 2014 report and OP Financial Group's GRI appendix which form CSR raport based on GRI G4 Guidelines.

## Management

On 23 September 2014, Pohjola Bank plc's Board of Directors gave its approval to the plans to change OP Financial Group's management system and to renew the OP Financial Group Central Cooperative's organisation.

The new organisation of OP Financial Group Central Cooperative entered into force on 1 October 2014. OP Financial Group's new management system will be founded on three business segments: Banking, Non-life Insurance and Wealth Management. As part of the reorganisation, Pohjola's Board of Directors decided to dissolve Pohjola Bank's Executive Committee. At the same time, the Audit Committee, Risk Management Committee and Remuneration Committee established by Pohjola's Board of Directors were dissolved. Pohjola's operations will be managed in the future in accordance with the new management system through three business segments.

In the Annual Ggeneral Meeting the following members elected to the Board of Directors: Jukka Hienonen, President and CEO; Jukka Hulkkonen, Managing Director; Mirja-Leena (Mirkku) Kullberg, Managing Director; Marjo Partio, Managing Director; Harri Sailas, President and CEO; and Tom von Weymarn, M.Sc. (Eng.). Their term of the Board ended 7 October 2014.

On 8 October 2014, OP Financial Group Central Cooperative made a unanimous decision, as referred to in Chapter 5, Subsection 1(2) of the Limited Liability Companies Act, to change Pohjola Bank plc's Articles of Association so that the Board's Chairman will be the Chairman of the Board of the amalgamation's central organisation, with at least two but no more than three other members appointed by the Annual General Meeting. Pohjola Bank plc's Chairman of the Board is President, Group Executive Chairman of OP Reijo Karhinen, and Executive Vice President of Operations of OP Tony Vepsäläinen, Chief Financial Officer of OP Harri Luhtala and Chief Risk Officer of OP Erik Palmén were appointed Board members.

Jouko Pölönen has acted as Pohjola's President and CEO.

## Corporate Governance Statement

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

On 16 December 2014, Pohjola Bank plc's Board of Directors approved OP Financial Group's Group-level Communications and Disclosure Policy. This replaces the Disclosure Policy issued by Pohjola on 17 December 2013.

## Decisions by the Annual General Meeting

Pohjola Bank plc's Annual General Meeting (AGM) of 20 March 2014 adopted the Financial Statements for 2013, discharged members of the Board of Directors and the President and CEO from liability and decided to distribute a dividend of EUR 0.67 per Series A share and EUR 0.64 per Series K share.

KPMG Oy Ab, a firm of authorised public accountants, was elected to act as the auditor with Raija-Leena Hankonen, APA, acting as the chief auditor, appointed by KPMG Oy Ab.

## Pohjola Bank plc became wholly-owned by OP Cooperative

OP Cooperative completed its public voluntary bid announced in February 2014 and obtained ownership of all Pohjola Bank plc shares by decision of the Arbitral Tribunal in accordance with Chapter 18, Section 6 of the Finnish Limited Liability Companies Act. As a result of the decision of the Arbitration Court, trading in the series A shares of Pohjola Bank plc ceased on 29 September 2014, and the shares were delisted from the Helsinki Stock Exchange on 30 September 2014. OP Cooperative was entered as the only shareholder in Pohjola Bank plc's shareholder register on 7 October 2014.

On 29 October 2014, OP Cooperative announced that it had received permission from the arbitrators to pay minority shareholders 16.13 euros per Pohjola Bank plc share that it considered as a fair price plus statutory interest, prior to the close of the arbitration proceedings. OP Cooperative paid the undisputed part of the redemption price to Pohjola Bank plc's minority shareholders on 29 October 2014. Interest was paid on the squeeze-out price since 6 May 2014. The interest was the statutory reference interest rate of 0.5%.

According to the Redemption Committee, the arbitration procedure will last an average of approximately six months. On this basis, the overall redemption proceedings pertaining to Pohjola's minority shares are expected to last until the first half of 2015.

## Group restructuring

Pohjola Group is planning to carry out structural changes in accordance with the tender offer made by OP Cooperative, in practice, for example, by transferring the Non-life Insurance and Asset Management segments from Pohjola Group to direct ownership of OP Cooperative. The transfer of Asset Management is scheduled during 2015. In addition, the businesses of Helsinki OP Bank Plc and Pohjola Bank plc will be combined under the shared management.

The process of planning and examination of different options regarding the restructuring of OP Financial Group Central Cooperative and the implementation of legal structures of the organisation is still underway. In the context of further planning of the restructuring, the separation of OP Financial Group's central banking operations, being presently part of Pohjola Bank plc, as a detached subsidiary fully owned by OP Financial Group Central Cooperative, is also under consideration. OP Financial Group's banking operations in their entirety will continue to fall within the scope of joint liability as laid down in the applicable law. The specific manner to implement these changes or schedule have not yet been decided.

On 30 October 2014, Pohjola Health Ltd merged with Pohjola Insurance Ltd.

The new name of the OP-Pohjola Group, OP Financial Group, was adopted on 1 January 2015.

## Shares and shareholders

As a result of the completion of OP Cooperative's public voluntary bid for Pohjola Bank plc, the shares of Pohjola Bank plc were removed from the book-entry system on 28 November 2014, and Series A and K shares were combined into a single share class.

**Shares, votes and share capital on 31 December 2014**

| Number of shares | Votes | Share capital, € |
|---|---|---|
| 319,551,415 | 319,551,415 | 427,617,463.01 |

## Representative offices and branches abroad

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

## Joint liability

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

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

The member credit institutions within the amalgamation (181 OP Financial Group's member cooperative banks, Pohjola Bank plc, Helsinki OP Bank Plc, OP Mortgage Bank, OP-Card Company Oyj and OP-Process Services Ltd) and the central institution are jointly and severally liable for each other's debts. A creditor who has not received payment of an overdue amount (principal debt) may demand payment from the central institution when the principal debt falls due. In such a case, the central institution must produce a statement referred to in said Act, showing the amount of liability apportioned to each member credit institution. This liability between the credit institutions is determined in proportion to the total assets shown in their most recently adopted balance sheets.

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

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

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

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

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

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

From the beginning of 2015, the deposit guarantee will be at a responsibility of a nw authority: Office of Financial Stability whic operations will be managed under the Ministry of Finance.

## Outlook for 2015

The euro area economy will continue to grow at a slow rate and remains prone to disturbances despite the loose financial policy of the European Central Bank and other measures taken to support economic growth. Similarly, economic growth in Finland is expected to remain weak, although exports have begun to grow slowly. The tension in international politics will continue to cause uncertainty for the Finnish economy, slowing the country's recovery from recession.

Modest economic development combined with the tensions of international politics are weakening growth prospects in the financial sector. Historically low interest rates will erode banks' net interest income and weaken insurance institutions' investment income. The significance of measures that support capital adequacy and profitability is heightened by changes in the operating environment and the tightening of regulation.

Despite the challenging operating environment, Pohjola Group's consolidated earnings from continuing operations before tax in 2015 are expected to be at the same level as in 2014. The most significant uncertainties affecting earnings in 2015 relate to the rate of business growth, impairment loss on receivables, developments in bond and capital markets, the effect of large claims on claims expenditure and to the discount rate applied to insurance liabilities.

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

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

On 31 December 2014, the shareholders' equity of Pohjola Bank plc totalled EUR 2,095,123,453.54, EUR 915,384,812.75 of which represented distributable equity.

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

| | **EUR** |
|---|---:|
| Profit for 2014 | 425,089,296.01 |
| Retained earnings | 158,914,679.68 |
| Reserve for invested non-restricted equity | 307,931,364.75 |
| Other non-restricted reserves | 23,449,472.31 |
| Total | **915,384,812.75** |

The Board of Directors proposes that the Company's distributable funds be distributed to shareholders as a dividend of EUR 0.43 per share, i.e. EUR 137,407,108.45. Accordingly, EUR 777,977,704.30 remains in the Company's distributable equity.

The Company's financial position has not undergone any material changes since the end of the financial year 2014. The Company's liquidity is good and will not be jeopardised by the proposed profit distribution, in the Board of Directors' view.

## Financial indicators and share-related figures and ratios

| | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|
| Return on equity (ROE), % | 9.9 | 9.2 | 11.2 | 14.4 | 14.3 |
| Return on equity at fair value (ROE), % | 9.3 | 3.1 | 23.3 | 14.1 | 16.0 |
| Return on assets (ROA), % | 0.6 | 0.6 | 0.7 | 1.0 | 1.0 |
| Equity ratio, % | 6.6 | 5.6 | 6.2 | 7.2 | 6.7 |
| Average personnel | 3,005 | 3,189 | 3,421 | 2,632 | 2,563 |
| Cost/income ratio, % | 56 | 62 | 57 | 53 | 50 |

| Share-related figures and ratios | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|
| Equity per share, € | 7.44 | 7.22 | 8.67 | 9.54 | 10.38 |
| Dividend per share, €* | 0.39 | 0.40 | 0.45 | 0.66 | 0.43 |
| Dividend payout ratio, %*, | 54.9 | 59.9 | 50.9 | 50.0 | 30.0 |
| Number of shares (all) | | | | | |
| Year average | 319,551,415 | 319,551,415 | 319,551,415 | 319,551,415 | 319,551,415 |
| Year end | 319,551,415 | 319,551,415 | 319,551,415 | 319,551,415 | 319,551,415 |

*) Board proposal 2014

## Formulas for key figures and ratios

**Return on equity (ROE), %**
Profit for the period / Shareholders' equity (average of the beginning and end of period) x 100

**Return on equity (ROE) at fair value, %**
Comprehensive income for the period /
Shareholders' equity (average of the beginning and end of period) x 100

**Return on assets (ROA), %**
Profit for the period / Average balance sheet total (average of the beginning and end of the period) x 100

**Equity ratio, %**
Shareholders' equity / Balance sheet total x 100

**Cost/income ratio, %**
Personnel costs + Other administrative expenses + Other operating expenses /
(Net interest income + net income from Non-life Insurance + net commissions and fees + net trading income + net investment income+ other operating income + share of associates' profit) x 100

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

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

**Dividend payout ratio, %**
Dividend per share / Earnings per share x 100

**Capital adequacy ratio under the Act on the Supervision of Financial and Insurance Conglomerates**
Conglomerate's total capital base / Conglomerate's total minimum capital base

**Capital adequacy ratio, %**
Total capital base / Total minimum capital requirement x 8

**Tier 1 ratio, %**
Total Tier 1 capital / Total minimum capital requirement x 8

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

**Common Equity Tier 1 capital ratio, % (CET1)*)**
Common Equity Tier 1 (CET1)/Total risk exposure amount x 100

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

## Key ratios for Non-life Insurance

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

**Loss ratio (excl. unwinding of discount)**
Claims and loss adjustment expenses / Net insurance premium revenue x 100

**Expense ratio**
Operating expenses + Amortisation/adjustment of intangible assets related to company acquisition /
Net insurance premium revenue x 100

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

**Solvency ratio**
(+ Non-life Insurance net assets
+ Subordinated loans
+ Net tax liability for the period
- Deferred tax to be realised in the near future and other items deducted from the solvency margin
- Intangible assets)/
Insurance premium revenue x 100

## Operating key ratios

**Operating cost/income ratio**
(+ Personnel costs
+ Other administrative expenses
+ Other operating expenses excl. amortisation on intangible assets and goodwill
related to Pohjola acquisition) /
(+ Net interest income
+ Net income from Non-life Insurance
+ Net commissions and fees
+ Net trading income
+ Net investment income
+ Other operating income
+ Share of associates' profit) x 100

**Operating loss ratio**
Claims incurred, excl. changes in reserving bases /
Insurance premium revenue, excl. net changes in reserving bases x 100

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

**Operating combined ratio**
Operating loss ratio + operating expense ratio
Operating risk ratio + Operating cost ratio
**Operating risk ratio**
Claims excl. loss adjustment expenses and changes in reserving bases / Net insurance premium revenue excl. changes in reserving bases x 100

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

## Values used in calculating the ratios

| EUR million | 2014 | 2013 |
|---|---|---|
| **Non-life Insurance** | | |
| Non-life Insurance net assets | 1,661 | 1,603 |
| Net tax liabilities for the period | -18 | -8 |
| Own subordinated loans | 50 | 50 |
| Deferred tax to be realised in the near future and other items deducted from the solvency margin of the companies | 0 | 4 |
| Intangible assets | -704 | -728 |

| Changes in reserving bases and other non-recurring items | 2014 | 2013 |
|---|---|---|
| Change in discount rate | -62 | -38 |

Consolidated financial statements, IFRS

# Financial statements

## Consolidated income statement

| EUR million | Note | 2014 | 2013 Restated* |
|---|---|---|---|
| **Continuing operations** | | | |
| Net interest income | 4 | 257 | 230 |
| Impairment of receivables | 5 | 25 | 37 |
| **Net interest income after impairments** | | **231** | **193** |
| Net income from Non-life Insurance | 6 | 597 | 528 |
| Net commissions and fees | 7 | 114 | 111 |
| Net trading income | 8 | 77 | 93 |
| Net investment income | 9 | 64 | 46 |
| Other operating income | 10 | 32 | 36 |
| **Total income** | | **1,116** | **1,008** |
| Personnel costs | 11 | 163 | 170 |
| ICT costs | | 94 | 87 |
| Depreciation/amortisation | 12 | 52 | 52 |
| Other expenses | 13 | 258 | 241 |
| **Total expenses** | | **567** | **550** |
| Share of associates' profits/losses accounted for using the equity method | | 0 | 0 |
| **Earnings before tax** | | **548** | **458** |
| Income tax expense | 14 | 107 | 43 |
| **Results of continuing operations** | | **441** | **415** |
| **Discontinued operations** | | | |
| Results of discontinued operations | 15 | 29 | 15 |
| **Profit for the period** | | **470** | **430** |
| | | | |
| **Attributable to:** | | | |
| Attributable to owners of the Parent | | 461 | 426 |
| Attributable to non-controlling interest | | 9 | 4 |
| **Profit for the period** | | **470** | **430** |

*Comparative figures have been restated as a result of the adoption of IFRS 10 Consolidated Financial Statements

## Consolidated statement of comprehensive income

| EUR million | Note | 2014 | 2013 Restated* |
|---|---|---|---|
| **Profit for the period** | | **470** | **430** |
| Items that will not be reclassified to profit or loss | | | |
| Gains/(losses) arising from remeasurement of defined benefit plans | | -50 | 0 |
| Items that may be reclassified to profit or loss | | | |
| Change in fair value reserve | | | |
| Measurement at fair value | | 73 | 1 |
| Cash flow hedge | | 7 | -16 |
| Translation differences | | 0 | 0 |
| Income tax on other comprehensive income | | | |
| Items that will not be reclassified to profit or loss | | | |
| Gains/(losses) arising from remeasurement of defined benefit plans | | 10 | -2 |
| Items that may be reclassified to profit or loss | | | |
| Measurement at fair value | | -14 | 9 |
| Cash flow hedge | | -1 | 5 |
| **Total comprehensive income for the period** | | **493** | **426** |
| | | | |
| **Attributable to:** | | | |
| Total comprehensive income attributable to owners of the Parent | | 484 | 421 |
| Total comprehensive income attributable to non-controlling interest | | 9 | 6 |
| **Total comprehensive income for the period** | | **493** | **426** |
| | | | |
| **Comprehensive income attributable to owners of the parent is divided as follows:** | | | |
| Continuing operations | | 455 | 405 |
| Discontinued operations | | 28 | 15 |
| **Total** | | **484** | **421** |

*Comparative figures have been restated as a result of the adoption of IFRS 10 Consolidated Financial Statements

## Consolidated balance sheet

| EUR million | Note | 31 Dec. 2014 | 31 Dec. 2013 Restated* | 1 Jan. 2013 Restated* |
|---|---|---|---|---|
| Liquid assets | 16 | 3,774 | 2,046 | 5,643 |
| Receivables from financial institutions | 17 | 10,257 | 9,899 | 8,816 |
| Financial assets at fair value through profit or loss | 18 | | | |
| Financial assets held for trading | | 360 | 435 | 246 |
| Financial assets at fair value through profit or loss at inception | | 0 | 9 | 9 |
| Derivative contracts | 19 | 5,946 | 3,444 | 4,462 |
| Receivables from customers | 20 | 15,513 | 14,510 | 13,834 |
| Non-life Insurance assets | 21 | 3,854 | 3,502 | 3,500 |
| Investment assets | 22 | 8,112 | 7,574 | 5,548 |
| Investment accounted for using the equity method | 24 | 2 | 29 | 26 |
| Intangible assets | 25 | 786 | 910 | 922 |
| Property, plant and equipment (PPE) | 26 | 72 | 82 | 67 |
| Other assets | 27 | 1,789 | 1,369 | 1,598 |
| Tax assets | 28 | 34 | 15 | 37 |
| **Total** | | **50,498** | **43,824** | **44,710** |
| | | | | |
| Assets classified as held for distribution to owners | 15 | 205 | | |
| **Total assets** | | **50,703** | **43,824** | **44,710** |

| EUR million | Note | 31 Dec. 2014 | 31 Dec. 2013 Restated* | 1 Jan. 2013 Restated* |
|---|---|---|---|---|
| Liabilities to financial institutions | 29 | 5,241 | 4,789 | 5,840 |
| Financial liabilities at fair value through profit or loss | 30 | | | |
| Financial liabilities held for trading | | 4 | 4 | 3 |
| Derivative contracts | 31 | 5,889 | 3,420 | 4,557 |
| Liabilities to customers | 32 | 11,442 | 10,183 | 10,767 |
| Non-life Insurance liabilities | 33 | 2,972 | 2,746 | 2,599 |
| Debt securities issued to the public | 34 | 17,587 | 16,097 | 13,769 |
| Provisions and other liabilities | 35 | 2,479 | 2,076 | 2,572 |
| Tax liabilities | 36 | 391 | 378 | 487 |
| Subordinated liabilities | 37 | 1,084 | 984 | 1,275 |
| **Total** | | **47,090** | **40,675** | **41,869** |
| | | | | |
| Liabilities associated with assets classified held as distribution to owners | 15 | 205 | | |
| **Total liabilities** | | **47,295** | **40,675** | **41,869** |
| | | | | |
| **Shareholders' equity** | 38 | | | |
| **Capital and reserves attributable to owners of the Parent** | | | | |
| Share capital | | 428 | 428 | 428 |
| Reserves | | 1,324 | 1,261 | 1,264 |
| Retained earnings | | 1,564 | 1,358 | 1,080 |
| **Non-controlling interest** | | **92** | **103** | **69** |
| **Total shareholders' equity** | | **3,408** | **3,150** | **2,841** |
| **Total liabilities and shareholder's equity** | | **50,703** | **43,824** | **44,710** |

*Comparative figures have been restated as a result of the adoption of IFRS 10 Consolidated Financial Statements

## Consolidated statement of changes in equity

| | Attributable to owners of Pohjola Group | | | | | | |
|---|---|---|---|---|---|---|---|
| **EUR million** | **Share capital** | **Fair value reserve** | **Other reserves** | **Retained earnings** | **Total** | **Non-controlling interests** | **Total equity** |
| **Balance at 1 Jan. 2013** | **428** | **167** | **1,093** | **1,081** | **2,769** | | **2,769** |
| Effect of the adoption of IFRS 10 Consolidated Financial Statements, less taxes | | 4 | 0 | -1 | 2 | 69 | 72 |
| **Restated shareholders' equity 1 Jan. 2013** | **428** | **171** | **1,093** | **1,080** | **2,771** | **69** | **2,841** |
| Total comprehensive income for the period | | -3 | | 424 | 421 | 6 | 427 |
| Profit for the period | | | | 426 | 426 | 4 | 430 |
| Other comprehensive income | | -3 | | -2 | -5 | 1 | -3 |
| Profit distribution | | | | -145 | -145 | | -145 |
| EUR 0.46 per Series A share | | | | -116 | -116 | | -116 |
| EUR 0.43 per Series K share | | | | -29 | -29 | | -29 |
| Equity-settled share-based transactions | | | | -1 | -1 | | -1 |
| Other | | | 0 | 0 | 0 | 28 | 28 |
| **Balance at 31 December 2013** | **428** | **168** | **1,093** | **1,358** | **3,047** | **103** | **3,150** |

| | Attributable to owners of Pohjola Group | | | | | | |
|---|---|---|---|---|---|---|---|
| **EUR million** | **Share capital** | **Fair value reserve** | **Other reserves** | **Retained earnings** | **Total** | **Non-controlling interests** | **Total equity** |
| **Restated shareholders' equity 1 Jan. 2014** | **428** | **168** | **1,093** | **1,358** | **3,047** | **103** | **3,150** |
| Total comprehensive income for the period | | 63 | | 421 | 484 | 9 | 493 |
| Profit for the period | | | | 461 | 461 | 9 | 470 |
| Other comprehensive income | | 63 | | -40 | 23 | 0 | 23 |
| Profit distribution | | | | -212 | -212 | | -212 |
| EUR 0.67 per Series A share | | | | -169 | -169 | | -169 |
| EUR 0.64 per Series K share | | | | -43 | -43 | | -43 |
| Equity-settled share-based transactions | | | | | | | |
| Other | | | 0 | -2 | -2 | -20 | -22 |
| **Balance at 31 December 2014** | **428** | **231** | **1,093** | **1,564** | **3,316** | **92** | **3,408** |

## Consolidated cash flow statement incl. discontinued operations

| EUR million | 2014 | 2013 Restated* |
|---|---|---|
| **Cash flow from operating activities** | | |
| Profit for the period | 461 | 426 |
| Adjustments to profit for the period | 97 | 159 |
| **Increase (-) or decrease (+) in operating assets** | **-2,133** | **-4,135** |
| Receivables from financial institutions | -494 | -986 |
| Financial asset at fair value through profit or loss | 405 | -338 |
| Derivative contracts | 63 | 28 |
| Receivables from customers | -1,008 | -736 |
| Non-life Insurance assets | -232 | -62 |
| Investment assets | -281 | -2,285 |
| Other assets | -584 | 244 |
| **Increase (+) or decrease (-) in operating liabilities** | **2,323** | **-2,058** |
| Liabilities to financial institutions | 447 | -1,031 |
| Financial liabilities at fair value through profit or loss | 0 | 1 |
| Derivative contracts | 70 | -10 |
| Liabilities to customers | 1,259 | -584 |
| Non-life Insurance liabilities | 149 | 48 |
| Provisions and other liabilities | 396 | -482 |
| | | |
| Income tax paid | -92 | -126 |
| Dividends received | 63 | 55 |
| **A. Net cash from operating activities** | **719** | **-5,680** |
| **Cash flow from investing activities** | | |
| Increases in held-to-maturity financial assets | -10 | |
| Decreases in held-to-maturity financial assets | 69 | 129 |
| Acquisition of subsidiaries and associates, net of cash acquired | 0 | -4 |
| Purchase of PPE and intangible assets | -28 | -45 |
| Proceeds from sale of PPE and intangible assets | 3 | 3 |
| **B. Net cash used in investing activities** | **34** | **83** |
| **Cash flow from financing activities** | | |
| Increases in subordinated liabilities | | |
| Decreases in subordinated liabilities | | -271 |
| Increases in debt securities issued to the public | 34,709 | 24,340 |
| Decreases in debt securities issued to the public | -33,616 | -21,833 |
| Dividends paid | -212 | -145 |
| Other monetary decreases in equity items | | 0 |
| **C. Net cash provided by (used in) financing activities** | **881** | **2,092** |
| **Net increase/decrease in cash and cash equivalents (A+B+C)** | **1,634** | **-3,506** |
| | | |
| **Cash and cash equivalents at year-start** | **2,672** | **6,177** |
| **Cash and cash equivalents at year-end** | **4,306** | **2,672** |
| | | |
| **Interest received** | **2,000** | **1,790** |
| **Interest paid** | **-1,722** | **-1,582** |

| EUR million | | |
|---|---|---|
| **Adjustments to profit for the financial year** | | |
| | | |
| **Non-cash items and other adjustments** | | |
| Impairment losses on receivables | 26 | 40 |
| Unrealised net earnings in Non-life Insurance | 50 | 108 |
| Change in fair value for trading | 160 | -199 |
| Unrealised net gains on foreign exchange operations | 79 | 2 |
| Change in fair value for investment assets | 2 | -3 |
| Planned amortisation/depreciation | 55 | 55 |
| Share of associates' profits | 0 | 1 |
| Other | -275 | 156 |
| | | |
| **Items presented outside cash flow from operating activities** | | |
| Capital gains, share of cash flow from investing activities | | -1 |
| **Total adjustments** | **97** | **159** |
| | | |
| **Cash and cash equivalents** | | |
| Liquid assets** | 3,815 | 2,051 |
| Receivables from financial institutions payable on demand | 491 | 621 |
| **Total** | **4,306** | **2,672** |

*Comparative figures have been restated as a result of the adoption of IFRS 10 Consolidated Financial Statements

** Of which EUR 41 million (11) consists of Non-life Insurance cash and cash equivalents.

## Segment information

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

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

Following the realisation of OP Cooperative's public voluntary bid, Pohjola Group is planning structural changes, meaning for example, that the Asset Management segment would be transferred from Pohjola Group to be directly owned by OP Cooperative during 2015. For this reason, the Asset Management segment is reported, according to IFRS 5, as discontinued operations in the income statement and assets and liabilities classified as held for distribution to owners in the balance sheet. Banking, Non-life and the Group Functions segments are reported under continuing operations.

**Segment accounting policies**

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

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

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

**Banking**

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

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

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

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

**Non-life Insurance**

The following three Group companies conduct Non-life Insurance business in Finland: Pohjola Insurance Ltd is a general non-life insurance company, A-Insurance Ltd focuses on non-life insurance for commercial transport and Eurooppalainen Insurance Company Ltd specialises in travel insurance. Non-life insurance business in Estonia is conducted by Seesam Insurance AS with a branch in both Latvia and Lithuania. On 30 October 2014, Pohjola Health Ltd merged with Pohjola Insurance Ltd.

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

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

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

**Asset Management**

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

**Group Functions**

Group Functions supports Pohjola Group's and its business segments financing.

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

**Eliminations**

Inter-segment eliminations are presented under the “Eliminations” column.

## Segment information

| 2014, EUR million | Banking | Continuing operations<br>Group Functions | Non-life Insurance | Discon-tinued operations<br>Asset Manage-ment | Elimi-nations | Group total |
|---|---|---|---|---|---|---|
| Net interest income | | | | | | |
| Corporate Banking and Baltic Banking | 255 | | | | | 255 |
| Markets | 28 | | | | | 28 |
| Other operations | | -3 | -26 | 2 | 1 | -26 |
| Total | 283 | -3 | -26 | 2 | 1 | 257 |
| Net commissions and fees | 103 | 4 | 15 | 64 | -8 | 178 |
| Net trading income | 84 | -8 | 0 | 0 | 1 | 77 |
| Net investment income | 5 | 55 | | 0 | 4 | 64 |
| Net income from Non-life Insurance | | | | | | |
| From insurance operations | | | 466 | | 0 | 466 |
| From investment operations | | | 171 | | 2 | 173 |
| From other items | | | -42 | | | -42 |
| Total | | | 595 | | 2 | 597 |
| Other operating income | 13 | 9 | 11 | 1 | -1 | 33 |
| **Total income** | **488** | **56** | **595** | **67** | **-1** | **1,206** |
| Personnel costs | 55 | 6 | 102 | 14 | 0 | 177 |
| ICT costs | 34 | 5 | 53 | 3 | 1 | 97 |
| Amortisation on intangible assets related to company acquisitions | | | 21 | 2 | | 24 |
| Other depreciation/amortisation and impairments | 14 | 1 | 16 | 1 | | 31 |
| Other expenses | 57 | 24 | 180 | 11 | -2 | 269 |
| **Total expenses** | **160** | **36** | **372** | **31** | **-1** | **598** |
| **Earnings/loss before impairment of receivables** | **328** | **20** | **223** | **36** | **0** | **608** |
| Impairments of receivables | 25 | | | | | 25 |
| Share of associates' profits/losses | | | 0 | 1 | 0 | 2 |
| **Earnings before tax** | **303** | **20** | **223** | **38** | **0** | **584** |
| Change in fair value reserve | -1 | 33 | 49 | 0 | -1 | 79 |
| Gains/(losses) arising from remeasurement of defined benefit plans | -42 | -5 | -2 | 0 | | -50 |
| **Total comprehensive income for the period, before tax** | **259** | **48** | **270** | **37** | **-1** | **613** |

| 2013, EUR million | Banking | Group Functions | Non-life Insurance | Discon-tinued operations Asset Manage-ment | Elimi-nations | Group total |
|---|---|---|---|---|---|---|
| | | Continuing operations | | | | |
| Net interest income | | | | | | |
| Corporate Banking and Baltic Banking | 227 | | | | | 227 |
| Markets | -3 | | | | | -3 |
| Other operations | | 27 | -24 | 3 | 1 | 6 |
| Total | 224 | 27 | -24 | 3 | 1 | 230 |
| Net commissions and fees | 100 | -1 | 17 | 51 | -4 | 162 |
| Net trading income | 101 | -12 | 0 | 0 | 3 | 93 |
| Net investment income | 0 | 46 | | 0 | | 46 |
| Net income from Non-life Insurance | | | | | | |
| From insurance operations | | | 440 | | | 440 |
| From investment operations | | | 131 | | -1 | 131 |
| From other items | | | -43 | | | -43 |
| Total | | | 529 | | -1 | 528 |
| Other operating income | 17 | 9 | 10 | 1 | 0 | 38 |
| **Total income** | **443** | **69** | **532** | **55** | **-1** | **1,097** |
| Personnel costs | 57 | 6 | 107 | 14 | | 184 |
| ICT costs | 31 | 5 | 50 | 3 | 1 | 90 |
| Amortisation on intangible assets related to company acquisitions | | | 21 | 2 | | 24 |
| Other depreciation/amortisation and impairments | 15 | 1 | 14 | 1 | | 31 |
| Other expenses | 54 | 15 | 174 | 11 | -2 | 252 |
| **Total expenses** | **157** | **27** | **366** | **32** | **-1** | **581** |
| **Earnings/loss before impairment of receivables** | **285** | **41** | **166** | **24** | **0** | **516** |
| Impairments of receivables | 35 | 2 | | | | 37 |
| Share of associates' profits/losses | | | 0 | 0 | 0 | 0 |
| **Earnings before tax** | **251** | **39** | **166** | **24** | **0** | **479** |
| Change in fair value reserve | 9 | -6 | -17 | 0 | -1 | -15 |
| Gains/(losses) arising from remeasurement of defined benefit plans | 0 | 0 | 0 | 0 | | |
| **Total comprehensive income for the period, before tax** | **260** | **33** | **149** | **24** | **-1** | **465** |

| 31 Dec 2014, EUR million | Banking | Group Functions | Non-life Insurance | For distri-bution to owners **Asset Manage-ment** | Elimi-nations | Group total |
|---|---|---|---|---|---|---|
| Receivables from customers | 15,222 | 537 | | | -246 | 15,513 |
| Receivables from credit institutions | 483 | 13,566 | 5 | 7 | -24 | 14,037 |
| Financial assets at fair value through profit or loss | 373 | -13 | | | | 360 |
| Non-life Insurance assets | | | 4,150 | | -297 | 3,854 |
| Investment assets | 553 | 7,581 | 16 | 9 | -9 | 8,151 |
| Investments in associates | | | 2 | 27 | | 29 |
| Other assets | 6,335 | 1,721 | 732 | 136 | -165 | 8,759 |
| **Total assets** | **22,968** | **23,392** | **4,905** | **180** | **-741** | **50,703** |
| Liabilities to customers | 8,434 | 3,233 | | | -226 | 11,442 |
| Liabilities to credit institutions | 609 | 4,878 | | | -246 | 5,241 |
| Non-life Insurance liabilities | | | 3,116 | | -144 | 2,972 |
| Debt securities issued to the public | 1,672 | 16,157 | | | -46 | 17,782 |
| Subordinated liabilities | -20 | 1,054 | 50 | | | 1,084 |
| Other liabilities | 7,043 | 1,685 | 79 | 10 | -44 | 8,773 |
| **Total liabilities** | **17,738** | **27,007** | **3,245** | **10** | **-705** | **47,295** |
| **Shareholders' equity** | | | | | | **3,408** |
| | | | | | | |
| Average personnel | 616 | 33 | 1,766 | 88 | | 2503 |
| Capital expenditure, EUR million | 10 | 2 | 14 | 2 | | 28 |

| 31 Dec 2013, EUR million | Banking | Group Functions | Non-life Insurance | Asset Manage-ment | Elimi-nations | Group total |
|---|---|---|---|---|---|---|
| Receivables from customers | 14,432 | 291 | | | -213 | 14,510 |
| Receivables from credit institutions | 659 | 11,300 | 4 | 3 | -21 | 11,945 |
| Financial assets at fair value through profit or loss | 487 | -42 | | | | 444 |
| Non-life Insurance assets | | | 3,750 | | -248 | 3,502 |
| Investment assets | 524 | 7,025 | 16 | 22 | -14 | 7,574 |
| Investments in associates | | | 2 | 27 | | 29 |
| Other assets | 3,792 | 1,242 | 780 | 114 | -109 | 5,819 |
| **Total assets** | **19,894** | **19,816** | **4,552** | **166** | **-604** | **43,824** |
| Liabilities to customers | 7,035 | 3,309 | | | -160 | 10,183 |
| Liabilities to credit institutions | 614 | 4,387 | | | -213 | 4,789 |
| Non-life Insurance liabilities | | | 2,844 | | -98 | 2,746 |
| Debt securities issued to the public | | 16,159 | | | -62 | 16,097 |
| Subordinated liabilities | | 934 | 50 | | | 984 |
| Other liabilities | 4,381 | 1,463 | 56 | 9 | -33 | 5,877 |
| **Total liabilities** | **12,029** | **26,252** | **2,950** | **9** | **-566** | **40,675** |
| **Shareholders' equity** | | | | | | **3,150** |
| | | | | | | |
| Average personnel | 634 | 26 | 1,872 | 88 | | 2,620 |
| Capital expenditure, EUR million | 15 | 1 | 27 | 2 | | 45 |

# Notes to the consolidated financial statements

## Contents

**Other notes to the balance sheet**



**Notes to contingent liabilities and derivatives**



**Other notes**

## Note 1. Pohjola Group's Accounting Policies

### 1. General

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

OP Cooperative completed its public voluntary bid announced in February 2014 and obtained ownership of all Pohjola Bank plc shares by decision of the Arbitral Tribunal in accordance with Chapter 18, Section 6 of the Finnish Limited Liability Companies Act. As a result of the decision of the Arbitration Court, trading in the series A shares of Pohjola Bank plc ceased on 29 September 2014, and the shares were delisted from the Helsinki Stock Exchange on 30 September 2014. On 7 October 2014, OP Cooperative was entered as the only shareholder in Pohjola Bank plc's shareholder register.

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

Following the realisation of OP Cooperative's public voluntary bid, Pohjola Group is planning structural changes, meaning, for example, that the Asset Management segment would be transferred from Pohjola Group to be directly owned by OP Cooperative. As a result, the Asset Management segment has been reported, according to IFRS 5, as discontinued operations in the income statement and as assets and liabilities classified as held for distribution to owners in the balance sheet. Banking, Non-Life Insurance and the Group Functions are reported as continuing operations in the income statement.

Pohjola Bank plc belongs to OP Financial Group, which consists of 181 cooperative banks and their central institution, OP Cooperative with its subsidiaries. OP Financial Group's member credit institutions comprise Pohjola, Helsinki OP Bank Plc, OP Card Company Plc, OP Mortgage Bank and OP Cooperative's member cooperative banks.

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

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

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

Copies of the financial statements of OP Cooperative are available at the following address: Vääksyntie 4, FI-00510 HELSINKI, Finland. OP Financial Group financial statements are available at www.op.fi or at the company's office at Vääksyntie 4, 00510 Helsinki.

The Board of Directors approved the consolidated financial statements for issue on 5 February 2015.

### 1.1 Basis of preparation

These consolidated financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS), applying IASs, IFRSs and SIC and IFRIC interpretations effective on 31 December 2014. The International Financial Reporting Standards refer to standards and their interpretations adopted in accordance with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council. Pohjola's notes also conform to the requirements of Finnish accounting and company legislation that complement IFRS regulations.

In 2014, Pohjola adopted the following standards and interpretations:

- IFRS 10 – Consolidated Financial Statements builds on the existing principles according to which control determines whether the parent company consolidates an entity. The standard includes new guidance on circumstances where control is difficult to assess. As a result of the change in the standard, the number of subsidiaries to be consolidated in Pohjola Group's financial statements increased by two real estate funds. The effects of the change in the standard are presented in Note 3, Changes to accounting policies in financial statements.
- IFRS 11 – Joint Arrangements focuses on the accounting treatment of joint arrangements on the rights and obligations arising from such arrangements rather than on their legal form. The standard classifies joint arrangement into two types: joint operations and joint ventures. In addition, the standard requires that joint ventures be accounted for only using the equity method. This amendment only had a minor effect on Pohjola's balance sheet and statement of comprehensive income. Property companies owned by Pohjola have been reported as joint operations and consolidated proportionally. The effects of the change in the standard are presented in Note 3, Changes to accounting policies in financial statements.
- IFRS 12 – Disclosure of Interests in Other Entities includes disclosure requirements for all forms of interests in other entities, including subsidiaries, associates, joint arrangements, structured entities and other unconsolidated entities. The new standard expanded Note 97 Ownership in subsidiaries, structured entities and joint operations.
- IAS 32 – Financial Instruments: amendment to the presentation of Offsetting Financial Assets and Financial Liabilities. The amendment clarified the regulations on the net presentation of financial assets and liabilities and added application guidance concerning the subject. The amendment did not have a significant effect on OP Financial Group's financial statements.
- IAS 36 Asset impairment change "Information in the financial statements concerning recoverable amount disclosures for non-financial assets". The change clarified disclosure requirements for cash generating units that have been subject to impairment.
- IAS 39 – Financial Instruments: change in recognition and measurement "Novation of derivatives and the continuation of hedge accounting". The amendment concerned hedge accounting application criteria when a derivative contract is novated to a central counterparty. As a result of the amendment, hedge accounting can continue in such novation cases if specific conditions are met.
- IFRIC 21 Interpretation Levies applied to the accounting treatment for an obligation to pay a levy. The interpretation addressed what the obligating event is that gives rise to pay the levy and when a liability should be recognised. In Pohjola, this interpretation was applied, for example, to the recognition of bank levy liability and to liability arising from contribution to the Deposit Guarantee Fund.

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

The financial statements are presented in millions of euro.

Pohjola Group's presents Pillar 3 capital adequacy information, consistent with EU Regulation No. 575/2013 of the European Parliament and of the Council is presented as part of OP Financial Group's financial statements. Pohjola Group presents its capital base, total minimum capital requirement, key indicators for capital adequacy and derivative contracts and counterparty risk.

**1.2 Use of estimates**

The preparation of the financial statements in conformity with IFRS requires the Group's management to make judgements, estimates and assumptions in the application of the accounting policies. Section 1.6 "Critical accounting estimates and judgements" provides more detailed information on applying accounting policies requiring management assessment and judgement.

**1.3 Consolidation principles**

The Consolidated Financial Statements contains the parent company Pohjola Bank plc and any subsidiaries which the parent company controls. Pohjola Group has control over an entity if it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity (including structured entities). Most of the subsidiaries are fully owned by the Group, which means that control is based on votes.

Pohjola both acts as investor and manages various mutual funds in order to gain investment income and various commissions. Funds that have been classified as structured entities have been consolidated into the Group's financial statements when the Group's control is not based on votes but the control of significant operations, exposure to variable returns from the fund, and organising the fund's management. Changes in control concerning various fund investments consolidated into the Group are monitored quarterly. When estimating the amount of control, we take into account the investor's power to direct relevant activities over an investee and the investor's exposure to variable returns.

Once the Group's control ceases, any retained interest in the entity is remeasured at fair value at the date when control was lost, and the change in carrying amount is recognised in the income statement. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial assets. Any amounts entered previously from the fund in the comprehensive income are treated as if the Group had directly transferred the related assets and liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to the income statement.

Intra-Group shareholding has been eliminated using the acquisition method. The consideration transferred and the acquiree’s identifiable assets acquired and liabilities assumed are measured at fair value at the time of acquisition. Acquisition cost in excess of net assets is presented under goodwill. If the acquisition cost is lower than the fair value of net assets, the difference is entered in the profit and loss.

Acquisition-related costs are expensed as incurred. Any contingent consideration is measured at fair value and classified as a liability or equity. Contingent consideration classified as a liability is measured at fair value in the income statement on the balance sheet date.

Associated companies, in which Pohjola holds 20–50% of voting shares and over which Pohjola exercises significant influence but not control, are accounted for using the equity method. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor’s share of the profit or loss of the investee after the date of acquisition. If the Group's share of losses in an associate exceeds its interest in the associate, the investment is entered in the balance sheet at zero value, and further losses exceeding the carrying amount are not recognised unless the Group is committed to fulfil the obligations of associates.

A joint arrangement is an arrangement of which two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. A joint arrangement is either a joint operation or a joint venture. A joint venture is an arrangement in which the Group has rights to the arrangement's net assets, while in a joint operation the Group has both rights to assets and obligations for the liabilities relating to the arrangement. Property companies are incorporated into Pohjola Group's financial statements as joint operations by consolidating the proportionate share of the Group's holding of the property company's assets and liabilities.

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

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

### 1.3.1 Non-controlling interests

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

Profit shown in the income statement and the statement of comprehensive income is also attributed to non-controlling interests in the event that their share, as a result, would become negative. Non-controlling interests are presented as part of equity capital in the balance sheet. If the investee's equity does not fulfil the equity classification criteria under IAS 32, the non-controlling parties' share of the net assets is presented as liability.

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

### 1.4 Assets and liabilities classified as held for distribution to owners and discontinued operations

Assets (or a group of items to be distributed) and related liabilities are classified to be held for distribution to owners if they have been decided to be transferred at carrying amount within OP Financial Group as a result of structural arrangements. The conditions for classification of asset distributable to owners is considered to have been fulfilled when the transfer is highly probable, the asset (or group of items to be distributed) is available for immediate sale in its present condition subject only to terms that are usual and customary, the management is committed to the transfer and the transfer is expected to be completed within one year from the date of classification.

A discontinued operation is a part of the Group which has been classified to be distributed to owners and which fulfils one of the following conditions:
1. It represents a separate major line of business.
2. It is part of a single coordinated plan concerning the transfer of a key business segment.

The earnings of discontinued operations are presented as a separate line item in the income statement and the statement of comprehensive income. Assets distributed to owners (or group of items to be distributed) and any liabilities related to them are presented in the balance sheet separately from other items.

If it is found out later that the criteria for an asset (or a group of assets) classified held for distribution to owners are no longer fulfilled, the asset (or group assets) is reclassified to continuing operations and measured according to the applicable IFRS standards.

**1.5 Foreign currency translation**

The consolidated 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 other comprehensive income. For foreign subsidiaries, translation differences arising from the use of the acquisition method and from post-acquisition equity items are recognised in other comprehensive income. If a subsidiary is sold, any accumulated translation differences will be recognised as part of capital gain or loss in the income statement.

**1.6 Financial instruments**

**1.6.1 Fair value determination**

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

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

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

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

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

The fair values of financial instruments are categorised into three hierarchy levels, depending on the inputs used in valuation techniques:

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

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

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

**1.6.2 Impairment of financial assets**

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

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

The criteria used to determine whether 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;
- a bona fide bid for the same or similar investment from the market below acquisition value;
- events or circumstances that significantly weaken the issuer's ability to operate on a going concern basis, such as negative cash flows resulting from operations, insufficient capital and shortage of working capital;
- debtor's bankruptcy or other reorganisation becomes probable;
- debtor's breach of contract;
- a concession granted to the borrower;
- impairment loss recognised earlier; and
- the disappearance of an active market for a financial asset.

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

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

**1.6.3 Securities sale and repurchase agreements**

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

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

### 1.6.4 Classification and recognition

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

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

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

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

#### 1.6.4.1 Financial assets and liabilities at fair value through profit or loss

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

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

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

##### 1.6.4.1.2 Financial assets at fair value through profit or loss at inception

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

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

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

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

#### 1.6.4.2 Loans and receivables

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

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

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

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

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

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

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

Loans and receivables are categorised in the notes to evaluate the credit quality also on the basis of how the debtor is estimated to be able to fulfil its payment obligations. A loan is categorised as non-performing if payments are more than 90 days past due, if the customer has been rated in the Group's internal 12-grade rating system in the weakest two categories (11 or 12) or if an individual impairment loss has been recognised. In all other cases the loan is reported under performing category.

Both individual and collective impairments are recorded in a separate allowance account to reduce the carrying amount of receivables in the balance sheet. Impairment losses on loans are presented in the income statement in a separate line item “Impairment losses on receivables”. Recognition of interest on the reduced amount continues after the recognition of impairment.

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

#### 1.6.4.3 Investments held to maturity

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

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

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

#### 1.6.4.4 Available-for-sale financial assets

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

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

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

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

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

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

### 1.6.5 Cash and cash equivalents

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

### 1.6.6 Other financial liabilities

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

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

### 1.6.7 Derivative contracts

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

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

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

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

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

#### 1.6.7.1 Derivatives held for trading

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

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

### 1.6.8 Hedge accounting

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

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

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

#### 1.6.8.1 Fair value hedges

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

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

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

#### 1.6.8.2 Cash flow hedges

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

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

### 1.7 Investment property

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

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

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

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

### 1.8 Intangible assets

#### 1.8.1 Goodwill

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

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

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

#### 1.8.2 Customer relationships

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

#### 1.8.3 Brands

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

#### 1.8.4 Deferred acquisition costs of insurance contracts

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

#### 1.8.5 Other intangible assets

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

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

### 1.9 Property, plant and equipment

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

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

The estimated useful lives are mainly as follows:

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

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

#### 1.9.1 Impairment of PPE and intangible assets

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

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

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

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

### 1.10 Leases

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

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

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

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

## 1.11 Employee benefits

### 1.11.1 Pension benefits

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

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

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

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

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

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

Items resulting from remeasurements of the net defined benefit liability are recognised in other comprehensive income in the period they occur. Remeasurements of the net defined benefit liability recognised in other comprehensive income will not be reclassified to income statement in later financial periods.

Plan curtailments are recognised when the curtailment occurs.

### 1.11.2 Long-term incentive scheme

The 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 fully in cash or as a reward settled as a combination of cash and a debenture loan issued by OP. The maximum amount of the incentive scheme is calculated at the grant date and the amount charged to expenses is recognised in personnel costs and deferred expenses over the vesting period.

The amount of compensation corresponding to the objectives reached is reviewed quarterly. Any effects resulting from reviewing the original estimates are recognised in personnel costs and the corresponding adjustment is made in deferred expenses.

## 1.12 Insurance assets and liabilities

### 1.12.1 Classification of Non-life Insurance financial assets and liabilities

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

### 1.12.2 Classification of insurance contracts issued by insurers

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

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

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

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

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

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

### 1.12.3 Recognition and measurement of insurance contracts issued by insurers

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

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

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

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

#### 1.12.3.1 Measurement of insurance contracts issued by non-life insurers

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

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

Provision for unearned premiums for decennial insurance and perpetual insurance policies and provision for unpaid claims for annuities are discounted based on a constant discount rate for the entire pension period. When specifying the rate, the general trend for the interest rate is taken into account. The discount rate may not exceed the expected return on the assets covering the liability or the level set by the authorities. An increase in liabilities due to the passage of time (unwinding of discount) is shown in the income statement as a separate item within “Other Non-life Insurance items” under “Net income from Non-life Insurance”. Non-life Insurance's interest rate risk of the insurance liability is reduced by entering into interest rate derivative contracts that are recognised at fair value through profit or loss. The value of derivatives is included in the insurance liability, because any benefit from the derivatives is used for the cash flows payable from the contracts.

#### 1.12.4 Liability adequacy test on insurance contracts

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

#### 1.12.5 Premiums written

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

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

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

##### 1.12.5.1 Receivables and payables related to insurance contracts

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

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

#### 1.12.6 Salvage and subrogation reimbursements

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

#### 1.12.7 Reinsurance contracts

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

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

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

### 1.12.8 Coinsurance and pools

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

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

### 1.13 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.

A contingent liability is a possible obligation arising from past events, whose existence will be confirmed only by the realisation of an uncertain future event beyond the Group's control. A present obligation which probably does not require fulfilment of payment obligation or the amount of which cannot be defined reliably is also considered as contingent liability. A contingent liability is presented as a note.

### 1.14 Income tax and deferred tax

Income tax expense shown in the income statement includes current tax, based on the taxable income of Pohjola Group companies for the financial year, and income tax for prior financial years and deferred tax expense or income. Taxes are recognised in the profit and loss except when they are directly linked to items entered into equity capital or other items in the statement of comprehensive income. In this case also the tax will be entered in the items in question. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Group companies operate and generate taxable income.

Deferred tax liabilities are recognised for all temporary differences between the carrying amount and tax base of assets and liabilities. Deferred tax assets are calculated on tax-deductible temporary differences between the carrying amount and taxable value included in the financial statements, and on losses confirmed for tax purposes. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. The greatest temporary differences in the Group are caused by tax provisions (such as loan loss provision), valuation of investments at fair value, and elimination of equalisation provision within non-life insurance.

Deferred tax assets and liabilities are offset separately for each company. Deferred tax assets and liabilities resulting from consolidation are not offset. Deferred tax assets and liabilities are measured at the tax rate that is expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted by the balance sheet date.

### 1.15 Revenue recognition

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

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 by the distributing entity.

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

Summary of presentation of income statement items:

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

### 1.16 Segment reporting

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

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

### 1.17 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 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 Group's own claims statistics. An especially high degree of management judgement is required for determining the discount rate and estimating claims expenditure arising from the already occurred loss events. Information on uncertainties included in assumptions related to insurance contracts and their effects can be found in Notes 33 and 76.

When estimating the control over structured entities, the Group takes into account the investor's power to direct investee's relevant activities and the exposure or right to variable returns from its involvement with the investee. Discretion is exercised when estimating power to direct relevant activities and variable returns. The control is evaluated in more detail when the investment accounts for 10–20% of the investee's net assets and returns. The investee is consolidated as a subsidiary at the latest when the Group's share of the variable returns exceeds 37% and there is a link between the power and the returns.

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

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

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

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

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

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

The present value of pension obligations depends on several factors determined based on actuarial calculations and using several assumptions. The discount rate, future increases in salaries and pension payments and the inflation rate are the assumptions used to determine net costs (or income) arising from pensions. Changes in actuarial assumptions have an effect on the carrying amount of pension obligations (Note 35. Provisions and other liabilities).

The measurement of investment property at fair value is partially based on the management's estimates of the market value of property holdings. Investment property is also measured using a calculation model based on the income capitalisation approach utilising estimates of future net yield on property holdings. This is presented in more detail in Note 88.

**1.18 New standards and interpretations**

In 2015, Pohjola Group will adopt the following standards and interpretations:

- IAS 19, Change in employee benefits, Defined Benefit Plans: Employee Contributions (effective for accounting periods beginning on or after 1 July 2014). These changes have clarified accounting treatment when a defined benefit pension plan requires the employees or third parties to contribute. These standard changes have no effect on Pohjola Group's financial statements.

The IASB (International Accounting Standards Board) has also issued other significant future IFRS amendments.

- IFRS 9 Financial Instruments and amendments to it (effective for accounting periods beginning on or after January 2018). The new standard replaces the current IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 changes the classification and measurement of financial assets and includes a new expected credit losses model for the assessment of financial asset impairments. The classification and valuation of financial liabilities correspond to a large extent with the existing IAS 39 requirements. The hedge accounting types remain unchanged. A larger number of risk positions can be included in hedge accounting, and the hedge accounting principles have been aligned with risk management. Pohjola Group is currently evaluating the effects of the standard.
- IFRS 15 Revenue from Contracts with Customers (effective for accounting periods beginning on or after 1 January 2017). The new standard is not applied to the recognition of financial instruments or insurance policies, and mainly concerns various commissions and fees. The standard contains 5-stage guidelines for revenue recognition, and replaces the current IAS 18 standard. The revenue is recognised over a period or at a specific time, and the key criterion is transfer of control. The standard will also increase the number of notes to be disclosed. Pohjola Group is currently evaluating any effects the standard may have.

These standard changes have not yet been adopted in the EU.

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

Pohjola's core values, strategic goals and financial targets form the basis for risk and capital adequacy management. The purpose of risk management is to identify threats and opportunities affecting strategy implementation. The objective is to help achieve the targets set in the strategy by ensuring that risks are proportional to risk-bearing capacity.

Pohjola is a moderate risk taker and its business operations are based on a reasoned risk/return approach. Pohjola applies integrated risk management aimed at identifying, assessing and mitigating all major business-related risks to an acceptable level.

Risk-taking is controlled by means of the risk policy approved by Pohjola Group, which in turn is based on OP Financial Group's risk policy. The risk policy confirms annually the risk management guidelines, targets and restrictions that business functions must follow in order to steer business operations in the direction specified in OP Financial Group's and Pohjola Group's strategies. In addition, Non-life Insurance is guided by risk policies applied to private and corporate customers, reinsurance principles, investment plans and the policy governing hedging against interest rate risk associated with insurance liabilities.

**1. General principles of risk and capital adequacy management**

Risk and capital adequacy management forms part of internal control. The purpose of risk and capital adequacy management is to secure OP Financial Group's and its institutions' risk bearing capacity and, thereby, ensure the continuity of operations.

Risk-bearing capacity is made up of good risk management that is proportionate to the extent and complexity of operations and of adequate capital resources based on profitable business operations. Capital adequacy management is based on a proactive approach based on the Group's business strategy and plans. Well-balanced risk-taking, the capital structure, strong earnings power and proactive risk management secure Pohjola Group's risk-bearing capacity. Risk and capital adequacy management has been integrated as an integral part of its business and management.

Pohjola Group adheres to the risk and capital adequacy management principles approved by OP Cooperative's Supervisory Board. The principles provide guidelines on how OP Financial Group and its companies organise their risk management and internal capital adequacy assessment (ICAAP) process.

**1.1 Risk identification, assessment, measurement and restriction**

The risk and ICAAP process consists of the continuous identification and assessment of business and operating environment risks. Before any new operating model or product is launched, their risks are assessed as laid down by the central cooperative's Risk Management.

Quantifiable risks are controlled through limits set by the central cooperative's Executive Board for capital adequacy and major risks. The limits ensure that Pohjola Group does not take excessive risks to endanger its own or OP Financial Group's capital adequacy, profitability, liquidity and continued operations.

The capital base of Pohjola Group is assessed in relation to the economic capital requirement and the existing and predictable regulatory minimum capital requirements. Such assessment also makes use of the results of stress tests.

The central cooperative's independent Risk Management monitors the development of Pohjola Group's and its subsidiaries' risk exposure and risk-bearing capacity. It provides regular reports on its observations and assessments to Pohjola Bank plc's Board of Directors, OP Cooperative's Executive Board and the Supervisory Board's Risk Management Committee.

**1.2 Economic capital requirement**

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

Economic capital requirement is divided into quantitative and qualitative, i.e assessed, risks. Quantitative risks include credit risk; interest rate, equity, property and investment spread risk associated with Banking; and market and underwriting risks associated with insurance operations. The risks assessed are divided into operational risks and other risks. 'Other risks' include any major risks that have not been taken into consideration in any other risk-specific models related to economic capital requirement. These risks are typically caused by external factors, such as changes in competition or the market situation or official regulations. About a third of Pohjola Group's economic capital requirement consists of credit risks and about a fifth of market risks associated with insurance operations.

In the model for economic capital requirement, several risk types are assessed in more detail than required by the authorities in capital adequacy measurement. Such risk types include banking interest rate risk, insurance market risks and other risks. The key difference in the calculation of economic capital for credit risks is related to concentration risk. Moreover, the calculation of economic capital differs from capital adequacy measurement in that many risk types are calculated separately in terms of economic capital, while in capital adequacy calculations they are included in the credit risk of capital requirement.

Indicators based on economic capital requirements are used in, for example, target, limit and control limit indicators, credit and insurance policy pricing and capital planning when defining the capital conservation buffer.

**1.3 Capital planning**

The purpose of capital planning is to ensure sufficient capital adequacy even under exceptional conditions so that operations can continue without interruption. Capital planning consists of, for example, quantitative and qualitative targets concerning capital adequacy, a contingency plan, and capital adequacy monitoring and control procedures per threshold level.

Capital adequacy management places emphasis on profitability and effective capital management. Pohjola Bank plc's parent company OP Cooperative is responsible for capital management on a coordinated basis.

**2. Organisation of risk management**

Pohjola's Board of Directors decides on the goals and organisation of risk management and capital adequacy management, confirms the risk and capital adequacy management principles, risk policy, investment plans and the main principles governing risk management in line with the principles adopted by the Central Cooperative's Executive Board.

In addition, the Board supervises and monitors the implementation of risk management and capital adequacy management. The Board ensures the adequacy of risk management systems, confirms business goals, assesses the need for the Group’s and Group companies’ capital buffers, confirms capital plans and a proactive contingency plan for the capital base, and decides on principles for ensuring that the Company and its consolidated group operate in compliance with external regulation and internal instructions (compliance). It also decides on reporting procedures which senior management uses to monitor the Group’s and subsidiaries’ business, risk-bearing capacity and risk status.
The Board assesses the appropriateness, extent and reliability of Pohjola Group’s capital adequacy management on a holistic basis at least once a year.

The Board also approves the Group’s decision-making system and appoints members of Pohjola’s Senior Credit Committee, and confirms the description of the Underwriting Executives’ duties and appointments. In the aforementioned tasks, the Board of Directors acts in line with the principles adopted by the Central Cooperative's Executive Board.

The Board supervises the scope and performance of the Company’s risk management systems and the quantity and quality of the Company’s and its consolidated group’s capital base, developments in their financial performance, risk exposure and compliance with the risk policy, credit limits and other instructions. The Board also supervises the Company to ensure that risk management is in conformity with laws and regulations and instructions issued by the relevant authorities.

Tasked with the management of Pohjola Bank Group's credit risks, the Senior Credit Committee takes decisions – within the framework of its authorisations – on exposure limits, credit limits and exposures concerning customer, bank and country risks, and decides on impairment losses on loans, with input provided by the Credit Committee and Risk Management function. The Senior Credit Committee reports of its decisions to OP Cooperative's Balance Sheet and Risk Management Committee. The Underwriting Executives make decisions within their authorisations concerning underwriting decisions, annual pricing, reinsurance and other major issues on granting insurance contracts. The Underwriting Executives report to the Board of Directors of Pohjola Insurance Ltd.

Pohjola's President and CEO takes charge of the overall control of the company in such a way that the company as a whole achieves its profit, risk-bearing capacity and other targets and goals by following shared strategies and policies. Pohjola Group's business lines shall bear primary responsibility for their risk-taking, financial performance and compliance with the principles of internal control and risk management and capital adequacy management. The business lines have the right to take decisions on risk-taking within the approved decision-making powers, exposure limits and credit limits.

The new organisation of OP Cooperative Consolidated entered into force on 1 October 2014. The new management system will be founded on three business segments: Banking, Non-life Insurance, and Wealth Management. As part of the reorganisation, Pohjola's Board of Directors dissolved Pohjola Bank plc's Management Group. At the same time, the Audit Committee, Risk Management Committee and Remuneration Committee established by Pohjola’s Board of Directors were dissolved. Pohjola's operations will be managed in the future in accordance with the central cooperative's new management system through three business segments.

The central cooperative 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.

OP Financial Group's risk management is a function-independent business that defines policy, and steers and supervises the overall risk management of the Group and its institutions, and analyses their risk exposure. Risk management focuses on preventive work, preparation and predictive analysis of risk exposure. The objective is to secure the Group's and its entities' sufficient risk-bearing capacity and to ensure that any business risks taken do not threaten profitability, capital adequacy, liquidity, continued operations and the reaching of strategic targets.

Pohjola Group's risk and capital adequacy management duties have been centralised to the parent company, OP Cooperative.

OP Financial Group's Internal Audit function is tasked with assisting Pohjola's Board of Directors and the Company's senior management in controlling, supervising and assuring operations by carrying out operational audits. Internal audit is based on an independent and objective assessment, assurance and consulting activities. It supports the management in their efforts to achieve objectives by providing a systematic, disciplined approach to assessing and upgrading the efficiency of the organisation's risk management, control and management and governance processes, with the focus on the identification of risk factors and the assessment of the performance of internal control.

**3. Pohjola Group's risks**

The table below presents Pohjola Group's major risks. The paragraphs after the table describe the nature of the risks and how they can be managed.

| | |
|---|---|
| STRATEGIC RISKS | • Risk caused by changes in the competitive environment, slow reaction to changes, poor choice of strategy or poor strategy implementation. |
| OPERATIONAL RISKS | • Risk of financial loss or other detrimental consequences caused by inadequate or failed processes, inadequate or flawed procedures or systems or some external factor. |
| COMPLIANCE RISK | • Risks caused by non-compliance with external regulations, internal policies and appropriate procedures and ethical principles governing customer relationships. |
| REPUTATIONAL RISK | • Risk of deterioration of reputation or trust caused by negative publicity or realisation of some risk. |
| CREDIT RISK | • Credit risk refers to a risk of the counterparty not being able to fulfil its obligations. |
| MARKET RISK | • Market risk consists of interest rate risk, investment risk and real estate risk |
| LIQUIDITY RISK | • Liquidity risk and structural funding risk |
| NON-LIFE INSURANCE RISKS | • Risk of loss or damage and provision risk |

### 4. Strategic risk and business risks

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

#### 4.1 Management of strategic and business risks

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

#### 4.2 Methods of the management of strategic and business risks, and their measurement

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

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

#### 4.3 Monitoring and reporting strategic and business risks

The Group monitors strategic and business risks and the related risk-management measures by using risk maps and risk registers in which identified and assessed risks have been registered. The Group draws up strategy and business risk reviews twice a year.

### 5 Management of operational risks

Operational risk management ensures that operations have been organised appropriately and that risks do not result in unforeseeable financial losses or other negative consequences, such as loss of reputation. OP Financial Group maintains and strengthens a corporate culture that takes a positive approach to operational risk management and internal control.

No risk limit in terms of risk-taking has been set for operational risks, but the target level for risk management is moderate. The key in operational risk management is to identify and assess risks and to assess the effectiveness and adequacy of risk control and management tools. Risk identification also involves paying attention to the illegal use of the banking system (money laundering and terrorism financing) as well as regulatory compliance-related risks. Before any new operating models (including outsourcing) are carried out or products or services are launched, their risks are assessed as laid down by the central cooperative's Risk Management. OP Financial Group only offers to customers products and applies business models that have been approved at Group level. Risks that may disrupt business operations continuity are prepared against by means of contingency planning in key business divisions. Contingency planning also forms the basis for preparation against emergency conditions referred to in the Emergency Powers Act. Contingency plans are tested according to testing plans that have been made.

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

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

The coordination, monitoring and reporting related to the identification and assessment of Pohjola Group's operational risks are carried out by Risk Management.

### 5.1 Monitoring and reporting operational risks

For reporting purposes, operational risks are divided into different categories. Identified and materialised risks are reported to the executive management.

## 6. Compliance risks

Forming part of operational risk, the objective of compliance operations is to ensure that all Group entities comply with laws, official instructions and orders, self-regulation of the markets, and internal guidelines, policies and instructions of the OP Financial Group and the entities. Compliance also ensures that customer relationships are conducted with appropriate and ethically sound principles and practices.

Realisation of a compliance risk may result not only in financial loss but also other sanctions. Such sanctions may include a corporate fine and separate administrative fines for violation of obligations, and public warnings and reprimands. Compliance risk may also materialise in terms of loss or deterioration of reputation or trust.

Responsibility for regulatory compliance and its controls within Group entities rests with the senior and line management and all supervisors and managers. Everyone employed by the Group is also responsible for their own part for compliance with regulations.

Guidelines, advice and support concerning compliance within OP Financial Group are the responsibility of a risk management function that is independent of the central cooperative. Institutions within the central cooperative, just like Pohjola Group, have centralised compliance functions within Risk Management.

### 6.1 Management tools

Managing compliance risks forms part of sound corporate governance practices and internal control and, as such, an integral part of business management duties and the corporate culture. Compliance risk is managed by monitoring legislative amendments and by providing the organisation with guidelines, training and consultation. The Compliance function also supervises that the procedures chosen conform to the regulations.

### 6.2 Monitoring and reporting

Compliance risks are identified, assessed and reported regularly according to the operational risk management model. Any observations made by Compliance are reported regularly to the senior and executive management.

## 7. Reputational risk

Reputational risk is managed proactively and in the long term by following regulations, good practices of the financial sector and the Group's Code of Business Ethics and by emphasising transparency of operations and communications. The Group adheres to international financial, social and environmental responsibility principles and international commitments.

A report on reputational risks is made to the management of the Group's parent company and subsidiaries. Any threat to imminent reputational risk will be reported immediately.

## 8. Risk management: Banking

### 8.1 Credit risk management

Credit risk refers to a risk of loss arising from the inability of the bank's counterparties to meet their obligations. Credit risk also includes country risks and settlement risks, the former representing a credit risk associated with foreign receivables by country and the latter relating to the clearing and settlement process involving the risk of losing a receivable being settled.

Credit risk management aims to restrict losses due to credit risks arising from customer and other exposures to an acceptable level whilst seeking to optimise the risk/return ratio.

Credit approval and the effectiveness of the credit approval process play a key role in the management of credit risks. The process is guided by risk policy, decision-making powers and operating guidelines. Pohjola mitigates credit risks by diversifying its loan portfolio and defining collateral and covenant policies on a customer-specific basis and through active customer relationship management. It also mitigates credit risks by using netting agreements and exchange-traded products in derivatives trading. In order to further mitigate credit risks, Pohjola has defined a maximum customer exposure on the basis of its capital base, and has a credit limit system in place.

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

**8.2 Credit risk policy**

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

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

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

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

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

**8.3 Credit risk limits**

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

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

**8.4 Credit process**

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

**8.5 Credit rating**

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

**Credit risk parameters within internal ratings**

| CREDIT RISK INDICATORS WITHIN INTERNAL CREDIT RATINGS | | |
|---|---|---|
| Probability of loan defaults within 12 months | = | PROBABILITY OF DEFAULT (PD), % |
| Estimate of the loss caused by a loan default | = | LOSS GIVEN DEFAULT (LGD), % |
| Estimate of the sum the customer would owe the bank in case of insolvency | = | EXPOSURE AT DEFAULT (EAD), € |

Credit risk models are utilised, for example, in

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

### 8.5.1 Probability of default

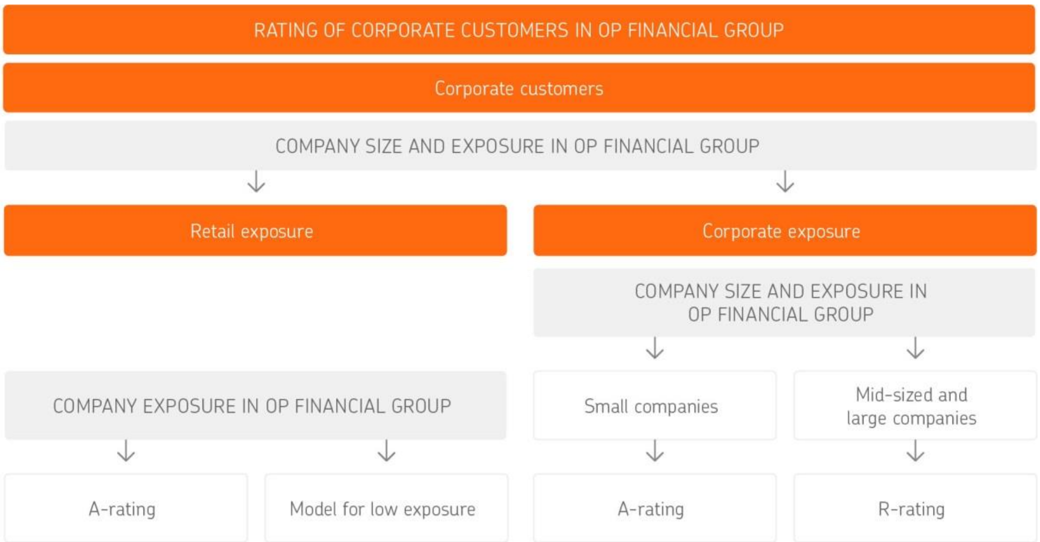
The purpose of credit rating is to divide customers into different groups according to the risk involved. A customer's credit rating is an estimate of the risk of some of the customer's exposures becoming non-performing receivables to OP Financial Group within 12 months, or of the customer having more serious payment defaults. The size of this risk for OP Financial Group 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, during a good economy cycle, the actual proportion of defaulted customers in a given credit rating category is lower than the estimated PD, and when economic trends are poor, higher than the estimated PD.

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

### 8.5.2 Assessment of corporate customer creditworthiness

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

**Rating of corporate customers in OP Financial Group**




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

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

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

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

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

**Correspondence between corporate exposure rating categories and S&P ratings**

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

**8.5.3 Assessment of credit institution creditworthiness**

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

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

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

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

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

**8.5.4 Assessment of private customer creditworthiness**

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

The rating model for private customers' loan portfolio is used to categorise the exposures of private customers. The loan portfolio's rating categories are updated once a month. This model was adopted in 2006 and its current version dates back to 2013. The rating model for the loan portfolio is used in the assessment of credit risk and the measurement of capital requirement.

Pohjola's private customers' exposures are categorised, before any credit rating model is applied, using for the application stage of finance-company products, with updated versions being adopted in spring 2014. The models for assessing creditworthiness in use are as follows: car finance, trade finance and accounts with credit facility, and merchant MasterCard.

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

**8.5.5 Country rating**

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

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

In addition to the models used for assessing the probability of default, Pohjola uses models for predicting loss given default (LGD) and exposure at default (EAD) to measure credit risk. In OP Financial 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 would default within one year. EAD refers to the estimated amount of the bank's receivable from the customer at 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 assessed to be utilised at the time of default.

**8.6 Credit decision**

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

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

**8.6.1 Measuring, monitoring and reporting credit risk**

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

The credit risk associated with a loan portfolio is also measured by the amount of expected and unexpected losses and the development of expected losses in relation to the loan and guarantee portfolio. Customer monitoring consists of an annual analysis of financial statements and interim reports, and continuous monitoring of the customer's payment behaviour and business. Customer credit record, past due payments and non-performing loans are monitored continuously on the basis of information obtained from both the OP Financial Group's internal monitoring service, as well as from external services.

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

**8.6.2 Decision-making and assessment related to credit risk models**

OP Financial Group's Risk Management Committee decides on the adoption of 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 Cooperative's Executive Board. The models are developed and maintained by the Central Cooperative's Risk Management, independent of business lines/divisions.

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

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

The central cooperative's Internal Audit ensures that validation is performed independent of businesses. It also reviews the credit risk models and their use in the central cooperative's companies and member cooperative banks as a part of their regular audit.

**8.6.3 Use of credit risk models in capital adequacy measurement**

OP Financial Group uses the Foundations Internal Ratings Based Approach (FIRBA) to measure its capital adequacy requirement for credit risk on corporate and credit institution exposures. In FIRBA, an estimate of probability of default (PD) generated by OP Financial 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).

When FIRBA is used to measure the capital requirement for credit risk on retail exposures, PD, LDG and EAD values based on OP Financial Group's internal models are used to calculate the risk weight. Pohjola uses the Standardised Approach (SA) for government and central bank exposures and for some other exposure categories (like those of the Baltic countries). As a rule, a simple model applies to equity investments. The PD/LGD method applies to OP Financial Group's strategic investments, where the PD values are based on internal models and LGD values on standard estimates.

**8.7 Securitised assets**

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

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

**9. Liquidity risk management**

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

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

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

For the management of funding liquidity risks, Pohjola maintains a liquidity portfolio consisting of liquid notes and bonds. Funding liquidity management is governed by the regulations of the minimum reserve and marginal lending facility systems by the European Central Bank.

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

As the central financial institution of OP Financial Group, Pohjola Bank plc is responsible for the liquidity and sufficient liquidity buffer of OP Financial Group. The liquidity buffer consists mainly of notes and bonds, issued by entities of high credit rating, which may be used as collateral for central bank debt or sold on the secondary markets.

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

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

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

Pohjola Group's risk policy describes the principles and methods of liquidity risk management and the limitation of structural funding risk. Group Functions is responsible, on a centralised basis, for Pohjola's liquidity risk and funding liquidity risk management, long-term funding as well as the maintenance of liquidity portfolios.

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

### 9.1 Measuring, monitoring and reporting liquidity risks

The Group monitors structural funding risk on the basis of net cash flows by maturity, for which it has set limits. The Group monitors long-term funding maturity using a maturity distribution, for which it has set limits. Funding liquidity management is based on the scenarios of maturing cash flows and the liquidity buffer, Limits have been set to liquidity scenarios. Liquidity is also measured by means of stress tests.

Financing risks are reported both to the business lines/divisions and the management on a monthly basis. A liquidity risk report must be prepared on a daily basis.

## 10. Market risk management

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

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

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

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

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

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

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

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

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

### 10.1 Measuring, monitoring and reporting market risks

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

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

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

Pohjola mitigates its total market risk exposure by means of the Value-at-Risk limit (VaR), which is allocated to business divisions and covers all key market risk exposures.

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

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

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

### 10.2 Interest rate risk

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

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

### 10.3 Credit spread risk

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

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

**10.4 Currency risk**

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

**10.5 Price risk associated with structured products and securitised assets**

Pohjola follows the price risk of structured investments with a separate VaR indicator, and the price risk of securitised bonds and notes as part of the VaR indicator. Investments in securitised assets are included in long-term investment assets.

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

**10.6 Commodity risk**

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

Commodity exposures are subject to daily reporting.

**10.7 Equity risk**

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

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

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

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

**10.8 Volatility risk**

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

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

**10.9 Real estate risk**

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

The risk policy specifies the principles regulating the composition of the real estate portfolio and the selection of investments. The Group makes annually value estimates and action plans for each property holding.

**10.10 Derivatives business**

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

Counterparty risk involved in the derivatives business is monitored using credit equivalents determined on the basis of the repurchase cost of contracts (market value) and product-specific future credit risk factors. Credit risk caused by derivatives is reduced by entering into a master agreement for derivative contracts and through collateral received on the basis of Credit Support Annex. Counterparty risk is also limited by means of central counterparty clearing.

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

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

## 11. Risk management of Non-life Insurance

### 11.1 Risks of insurance operations

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

### 11.2 Underwriting risks

Underwriting risks in non-life insurance comprise risk of loss or damage, and provision risk.

Risk of loss or damage occurs when there is an above-average number of losses or they are exceptionally extensive. This results in profits made of the policies being reduced owing to higher claims expenditure.

Provision risk occurs when the claims expenditure of incurred losses are higher than forecast on the balance sheet date. The uncertainty concerning the timing of compensation payments also has an effect on the amount of claims liability.

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

Unidentified background factors may also affect underwriting risks. Examples from recent history include cases of occupational diseases caused by exposure to asbestos dust, and the effect of higher life expectancy than predicted on the pension portfolio of statutory insurance.

#### 11.2.1 Underwriting risk management

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

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

#### 11.2.2 Risk selection and pricing

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

### 11.2.3 Reinsurance

The reinsurance principles and the Group’s maximum retention levels for different type of risks are annually approved by the Board of Directors. In practice, the Group’s own retention levels can be kept lower than the maximum retention levels approved by the Board of Directors, if the reinsurance pricing supports this. The actual retention level is a maximum of EUR 5 million on a property per risk basis and EUR 5 million on a per event (accumulation) basis. The per event reinsurance cover had a capacity of EUR 150 million in 2014. In addition, claims under the short-tail business have an annual aggregate protection with a capacity of EUR 15 million.

Reinsurance has an effect on the solvency capital requirement. Only reinsurance companies with a sufficient rating are accepted as reinsurers. The reinsurer's counterparty risk is managed by means of reinsurance diversification limits.

### 12.2.4 Risk concentrations

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

### 11.2.5 Evaluation of insurance liabilities

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

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

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

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

The provision for unpaid claims for annuities corresponds to the discounted present value of cash flow of compensation for loss of income payable as continuous annuity. The discount rate is determined taking account of the current interest rate, security required by law and the maximum discount rate set by the authorities. On 31 December 2014, the discount rate used was 2.5% (31 December 2013: 2.8%). As a result of a reduction in the lower discount rate for pension liabilities, the provision for unpaid claims for annuities rose by EUR 62 million.

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

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

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

### 11.3 Statutory insurance

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

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

#### 11.3.1 Number and size of claims

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

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

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

In addition to accidental injuries, statutory workers’ compensation insurance covers occupational diseases, which tend to develop slowly and therefore the evaluation of the related claims expenditure involves more uncertainty than accidents. Latent occupational diseases are an extreme example of this, in which the period from exposure until the actual outbreak of the disease may take several decades, such as asbestos-induced diseases. Any latent occupational diseases diagnosed after 2007, with at least five years since exposure, are financed under the pay-as-you-go system (see Pay-as-you-go system).

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

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

#### 11.3.2 Uncertainties related to future cash flows

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

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

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

Losses coverable as occupational diseases resulting from exposure to asbestos fall, almost without exception, within the scope of occupational diseases covered under statutory workers' compensation insurance. The related compensation paid mainly covers medical expenses, loss of income and survivors' pensions. Assessing liabilities due to asbestos losses is difficult, since the latent period of various asbestos-induced diseases, i.e. the symptom-free period from asbestos exposure until the outbreak of an occupational disease, is long varying from 15 to 40 years on average, depending on the type of asbestos disease. The use of asbestos was stopped in Finland primarily in the 1980s. The estimate of liabilities resulting from asbestos losses is based on the average amount and estimated number of losses. The transfer of latent occupational disease since 2007 to be financed under the pay-as-you-go system will decrease uncertainty related to estimated cash flows concerning potential occupational diseases which have not yet been diagnosed but for which liability exists as a result of exposure.

**11.3.3 Pay-as-you-go system**

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

Pay-as-you-go benefits include index increments in annuities, medical treatment expenses paid under statutory workers' compensation insurance and motor liability insurance over ten years after the accident occurred, latent occupational diseases (diagnosed after 2007) under statutory workers' compensation insurance and certain other benefits and increases in benefits, as provided in special laws on various statutory lines of insurance.

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

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

**11.4 Voluntary accident and health insurance**

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

**11.4.1 Number and size of claims**

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

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

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

Pohjola has taken out reinsurance cover against catastrophe accumulation in statutory and voluntary accident and health insurance. Retention under reinsurance amounts to EUR 5 million and claims are paid up to EUR 25 million. In addition, the amount remaining for own account has been reinsured under general catastrophe cover.

**11.4.2 Uncertainties related to future cash flows**

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

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

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

**11.5 Comprehensive and cargo insurance**

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

**11.5.1 Number and size of claims**

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

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

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

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

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

**11.5.2 Uncertainties related to future cash flows**

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

### 11.6 Property and business interruption/consequential loss insurance

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

#### 11.6.1 Number and size of claims

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

The risk of natural catastrophes has been considered minor in Finland and the Baltic region. On the basis of our current knowledge based on studies, it is still uncertain whether the recent storms are due to climate change or natural variations in climatic conditions. However, the studies have suggested that there are indications of a change in climatic conditions in the Group's operating region at least in the long term. The projected temperature increase will probably be reflected in changes in summer and winter conditions and, for instance, in higher precipitation, although there is no clear proof of higher temperatures intensifying storms in our region.

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

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

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

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

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

#### 11.6.2 Uncertainties related to future cash flows

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

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

### 11.7 Liability and legal expenses insurance

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

#### 11.7.1 Number and size of claims

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

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

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

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

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

#### 11.7.2 Uncertainties related to future cash flows

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

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

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

### 11.8. Long-term insurance contracts

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

#### 11.8.1 Number and size of claims

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

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

### 11.9 Investment risks

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

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

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

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

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

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

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

#### 11.9.1 Market risk

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

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

#### 11.9.2 Interest rate risk

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

#### 11.9.3 Currency risk

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

#### 11.9.4 Use of derivatives

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

### 11.9.5 Credit risk

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

### 11.9.6 Liquidity risk

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

## Note 3. Change in accounting policy

**Assets and liabilities classified as held for distribution to owners and discontinued operations**

Following the realisation of OP Cooperative's public voluntary bid, Pohjola Group is planning structural changes, meaning for example, that the Non-life Insurance segment and the Asset Management segment would be transferred from Pohjola Group to be directly owned by OP Cooperative. As to asset management, the transfer has been scheduled to take place during 2015. For this reason, the Asset Management segment is reported, according to IFRS 5, as discontinued operations in the income statement and assets and liabilities classified as held for distribution to owners in the balance sheet. The Non-life Insurance and Asset Management segments were reported as discontinued operations in accordance with IFRS 5. The structural change relating to the Non-life Insurance segment is delayed for over a year, which is why it is reported under continuing operations together with Banking and the Group Functions. A more detailed description of the effects can be found in note 15.

**Consolidated financial statements**

Pohjola Group has applied the following standards since 1 January 2014: IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint arrangements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures" revised as a result of the standards. According to IFRS 10, control determines whether the parent company consolidates an entity. The Group has control over an entity if it is exposed, or has rights, to variable returns from its involvement with the enity and has the ability to affect those returns through its power over the entity. As a result of the adoption of the standards, the accounts of two property investment funds have been included in Pohjola Group's financial statements as new subsidiaries. In addition, 42 property companies are now reported as joint operations to wich proportionate consolidation applies. The new companies are reported under the Group Functions and Non-life Insurance operating segments. in addition, the proportion of the owners of non-controlling interests has increased.

The table below shows the effect of the change in the accounting policy on the income statement, statement of comprehensive income, balance sheet and cash flow statement for the financial year 2013. Changes in the accounting policy also include discontinued operations.

**Effect on the consolidated income statement for 1 Jan. - 31 Dec. 2013**

| EUR million | Previous accounting policy | New accounting policy | Effect of change in accounting policy |
|---|---|---|---|
| Net interest income | 229 | 230 | 1 |
| Impairment of receivables | 37 | 37 | |
| **Net interest income after impairments** | **193** | **193** | **1** |
| Net income from Non-life insurance | 529 | 528 | 0 |
| Net commissions and fees | 162 | 162 | 0 |
| Net trading income | 93 | 93 | 0 |
| Net investment income | 39 | 46 | 7 |
| Other operating income | 38 | 38 | 0 |
| **Total income** | **1,053** | **1,060** | **7** |
| Personnel costs | 184 | 184 | |
| ICT costs | 90 | 90 | |
| Depreciation/amortisation | 55 | 55 | 0 |
| Other expenses | 251 | 252 | 1 |
| **Total expenses** | **580** | **581** | **1** |
| Share of associates' profits/losses accounted for using the equity method | 0 | 0 | |
| **Earnings before tax** | **473** | **479** | **6** |
| Income tax expense | 49 | 49 | 1 |
| **Profit for the period** | **424** | **430** | **6** |
| | | | |
| Atributable to: | | | |
| Owners of the parent | 424 | 426 | 1 |
| Non-controlling interests | | 4 | 4 |
| **Total** | **424** | **430** | **6** |

**Effect on the consolidated statement of comprehensive income for 1 Jan. - 31 Dec. 2013**

| EUR million | Previous accounting policy | New accounting policy | Effect of change in accounting policy |
|---|---|---|---|
| **Profit for the period** | 424 | 430 | 6 |
| Items that will not be reclassified to profit or loss | | | |
| Gains/(losses) arising from remeasurement of defined benefit plans | 0 | 0 | |
| Items that may be reclassified to profit or loss | | | |
| Change in fair value reserve | | | |
| Measurement at fair value | -1 | 1 | 2 |
| Cash flow hedge | -16 | -16 | |
| Translation differences | 0 | 0 | 0 |
| Income tax on other comprehensive income | | | |
| Items that will not be reclassified to profit or loss | | | |
| Gains/(losses) arising from remeasurement of defined benefit plans | -2 | -2 | |
| Items that may be reclassified to profit or loss | | | |
| Measurement at fair value | 9 | 9 | 0 |
| Cash flow hedge | 5 | 5 | |
| **Total comprehensive income for the period** | **419** | **426** | **7** |
| | | | |
| Attributable to: | | | |
| Owners of the parent | 419 | 421 | 2 |
| Non-controlling interests | | 6 | 6 |
| **Total** | **419** | **426** | **7** |

**Effect on the consolidated balance sheet on 1 January 2013**

| EUR million | Previous accounting policy | New accounting policy | Effect of change in accounting policy |
|---|---|---|---|
| Cash and cash equivalents | 5,643 | 5,643 | |
| Receivables from credit institutions | 8,815 | 8,816 | 1 |
| Financial assets at fair value through profit or loss | | | |
| Financial assets held for trading | 246 | 246 | |
| Financial assets at fair value through profit or loss at inception | 9 | 9 | |
| Derivative contracts | 4,462 | 4,462 | |
| Receivables from customers | 13,839 | 13,834 | -5 |
| Non-life insurance assets | 3,523 | 3,500 | -23 |
| Investment assets | 5,431 | 5,548 | 117 |
| Investment accounted for using the equity method | 26 | 26 | |
| Intangible assets | 922 | 922 | |
| Property, plant and equipment (PPE) | 69 | 67 | -2 |
| Other assets | 1,600 | 1,598 | -1 |
| Tax assets | 36 | 37 | 1 |
| **Total assets** | **44,623** | **44,710** | **87** |

| EUR million | Previous accounting policy | New accounting policy | Effect of change in accounting policy |
|---|---|---|---|
| Liabilities to credit institutions | 5,840 | 5,840 | |
| Financial liabilities at fair value through profit or loss | | | |
| Financial liabilities held for trading | 3 | 3 | |
| Derivative contracts | 4,557 | 4,557 | |
| Liabilities to customers | 10,775 | 10,767 | -8 |
| Non-life insurance liabilities | 2,599 | 2,599 | |
| Debt securities issued to the public | 13,769 | 13,769 | |
| Provisions and other liabilities | 2,550 | 2,572 | 22 |
| Tax liabilities | 485 | 487 | 2 |
| Subordinated liabilities | 1,275 | 1,275 | |
| **Total liabilities** | **41,854** | **41,869** | **16** |
| | | | |
| **Shareholders' equity** | | | |
| **Capital and reserves attributable to** | | | |
| Share capital | 428 | 428 | |
| Fair value reserve | 167 | 171 | 4 |
| Other reserves | 1,093 | 1,093 | 0 |
| Retained earnings | 1,081 | 1,080 | -1 |
| **Non-controlling interest** | | **69** | **69** |
| **Total shareholders' equity** | **2,769** | **2,841** | **72** |
| **Total liabilities and shareholders' equity** | **44,623** | **44,710** | **87** |

**Effect on the consolidated balance sheet on 31 December 2013**

| EUR million | Previous accounting policy | New accounting policy | Effect of change in accounting policy |
|---|---|---|---|
| Cash and cash equivalents | 2,046 | 2,046 | |
| Receivables from credit institutions | 9,899 | 9,899 | 0 |
| Financial assets at fair value through profit or loss | | | |
| Financial assets held for trading | 435 | 435 | |
| Financial assets at fair value through profit or loss at inception | 9 | 9 | |
| Derivative contracts | 3,444 | 3,444 | |
| Receivables from customers | 14,515 | 14,510 | -5 |
| Non-life insurance assets | 3,539 | 3,502 | -37 |
| Investment assets | 7,427 | 7,574 | 147 |
| Investment accounted for using the equity method | 29 | 29 | |
| Intangible assets | 910 | 910 | |
| Property, plant and equipment (PPE) | 84 | 82 | -2 |
| Other assets | 1,367 | 1,369 | 2 |
| Tax assets | 15 | 15 | 0 |
| **Total assets** | **43,720** | **43,824** | **105** |

| EUR million | Previous accounting policy | New accounting policy | Effect of change in accounting policy |
|---|---|---|---|
| Liabilities to credit institutions | 4,789 | 4,789 | |
| Financial liabilities at fair value through profit or loss | | | |
| Financial liabilities held for trading | 4 | 4 | |
| Derivative contracts | 3,420 | 3,420 | |
| Liabilities to customers | 10,188 | 10,183 | -5 |
| Non-life insurance liabilities | 2,746 | 2,746 | |
| Debt securities issued to the public | 16,097 | 16,097 | |
| Provisions and other liabilities | 2,075 | 2,076 | 0 |
| Tax liabilities | 375 | 378 | 3 |
| Subordinated liabilities | 984 | 984 | |
| **Total liabilities** | **40,677** | **40,675** | **-2** |
| | | | |
| **Shareholders' equity** | | | |
| **Capital and reserves attributable to** | | | |
| Share capital | 428 | 428 | |
| Fair value reserve | 164 | 168 | 4 |
| Other reserves | 1,093 | 1,093 | 0 |
| Retained earnings | 1,358 | 1,358 | 0 |
| **Non-controlling interest** | | **103** | **103** |
| **Total shareholders' equity** | **3,043** | **3,150** | **107** |
| **Total liabilities and shareholders' equity** | **43,720** | **43,824** | **105** |

**Effect on the consolidated cash flow statement 1 Jan. - 31 Dec. 2013**

| EUR million | Previous accounting policy | New accounting policy | Effect of change in accounting policy |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Profit for the period | 424 | 426 | 1 |
| Adjustments to profit for the period | 161 | 159 | -2 |
| **Increase (-) or decrease (+) in operating assets** | **-4,150** | **-4,135** | **15** |
| Receivables from credit institutions | -986 | -986 | |
| Financial assets at fair value through profit or loss | -338 | -338 | |
| Derivative contracts | 28 | 28 | |
| Receivables from customers | -736 | -736 | |
| Non-life Insurance assets | -77 | -62 | 15 |
| Investment assets | -2,289 | -2,285 | 4 |
| Other assets | 248 | 244 | -3 |
| **Increase (+) or decrease (-) in operating liabilities** | **-2,040** | **-2,058** | **-19** |
| Liabilities to credit institutions | -1,031 | -1,031 | |
| Financial liabilities at fair value through profit or loss | 1 | 1 | |
| Derivative contracts | -10 | -10 | |
| Liabilities to customers | -588 | -584 | 3 |
| Non-life Insurance liabilities | 48 | 48 | |
| Provisions and other liabilities | -460 | -482 | -22 |
| | | | |
| Income tax paid | -126 | -126 | |
| Dividends received | 51 | 55 | 3 |
| **A. Net cash from operating activities** | **-5,680** | **-5,680** | **0** |
| **Cash flow from investing activities** | | | |
| Decreases in held-to-maturity financial assets | 129 | 129 | |
| Acquisition of subsidiaries and associates, net of cash acquired | -4 | -4 | |
| Purchase of PPE and intangible assets | -45 | -45 | |
| Proceeds from sale of PPE and intangible assets | 3 | 3 | |
| **B. Net cash used in investing activities** | **83** | **83** | |
| **Cash flow from financing activities** | | | |
| Decreases in subordinated liabilities | -271 | -271 | |
| Increases in debt securities issued to the public | 24,340 | 24,340 | |
| Decreases in debt securities issued to the public | -21,833 | -21,833 | |
| Dividends paid | -145 | -145 | |
| Other decreases in equity items | 0 | 0 | |
| **C. Net cash used in financing activities** | **2,092** | **2,092** | |
| **Net increase/decrease in cash and cash** | **-3,505** | **-3,506** | **0** |
| | | | |
| **Cash and cash equivalents at period-start** | **6,177** | **6,177** | **1** |
| **Cash and cash equivalents at period-end** | **2,671** | **2,672** | **0** |
| | | | |
| **Interest received** | **1,790** | **1,790** | |
| **Interest paid** | **-1,582** | **-1,582** | |

| | | | |
|---|---|---|---|
| **Adjustments to profit for the financial year** | | | |
| **Non-cash items and other adjustments** | | | |
| Impairment losses on receivables | 40 | 40 | |
| Unrealised net earnings in Non-life Insurance | 108 | 108 | |
| Change in fair value for trading | -199 | -199 | |
| Unrealised net gains on foreign exchange operations | 2 | 2 | |
| Change in fair value of investment property | 1 | -3 | -3 |
| Planned amortisation/depreciation | 55 | 55 | 0 |
| Share of associates' profits | 1 | 1 | |
| Other | 155 | 157 | 2 |
| | | | |
| **Items presented outside cash flow from operating activities** | | | |
| Capital gains, share of cash flow from investing activities | -1 | -1 | 0 |
| **Total adjustments** | **161** | **159** | **-2** |
| | | | |
| **Cash and cash equivalents** | | | |
| Liquid assets | 2,051 | 2,051 | |
| Receivables from credit institutions payable on demand | 620 | 621 | 0 |
| **Total** | **2,671** | **2,672** | **0** |

**Other changes**

**Levies**

In addition, the Group has used IFRIC interpretation 21: Levies since the beginning of 2014 before its entry into force and EU approval. According to the interpretation, the bank levy liability and the liability arising from contributions to the Deposti Guarantee Fund are recognised in full in accrued income and prepaid expenses and accrued expenses and deferred income in the balance sheet when the levy is imposed under said legislation, i.e on 1 January 2014. The change in the accounting policy does not change the recognition principle applied to these expenses through profit or loss.

# NOTES TO THE INCOME STATEMENT

## Note 4. Net interest income

| EUR million | 2014 | 2013* |
|---|---|---|
| **Interest income** | | |
| Receivables from credit institutions | 68 | 65 |
| Receivables from customers | 319 | 305 |
| Loans | 294 | 282 |
| Finance lease receivables | 24 | 22 |
| Impaired loans and other commitments | 1 | 2 |
| Notes and bonds | 166 | 154 |
| Held for trading | 14 | 10 |
| At fair value through profit or loss | 0 | 0 |
| Available for sale | 142 | 133 |
| Held to maturity | 1 | 2 |
| Loans and other receivables | 8 | 9 |
| Derivative contracts | 1,369 | 1,246 |
| Held for trading | 1,471 | 1,335 |
| Fair value hedge | -114 | -103 |
| Cash flow hedge | 12 | 13 |
| Ineffective portion of cash flow hedge | -1 | 1 |
| Other | 12 | 2 |
| **Total** | **1,933** | **1,771** |
| | | |
| **Interest expenses** | | |
| Liabilities to credit institutions | 59 | 68 |
| Financial liabilities at fair value through profit or loss | 0 | 0 |
| Liabilities to customers | 26 | 27 |
| Debt securities issued to the public | 247 | 183 |
| Subordinated liabilities | 45 | 50 |
| Subordinated loans | 8 | 8 |
| Other | 37 | 42 |
| Derivative contracts | 1,288 | 1,213 |
| Held for trading | 1,428 | 1,362 |
| Cash flow hedge | -140 | -149 |
| Other | 9 | 1 |
| **Total** | **1,675** | **1,542** |
| | | |
| **Net interest income before fair value adjustment under hedge accounting** | **259** | **230** |
| Hedging derivatives | -185 | -135 |
| Value changes of hedged items | 183 | 135 |
| **Total net interest income** | **257** | **230** |

* Comparative figures have been restated as a result of the adoption of IFRS 10 Consolidated Financial Statements.

## Note 5. Impairment loss on receivables

| EUR million | 2014 | 2013 |
|---|---|---|
| Receivables written off as loan or guarantee losses | 35 | 27 |
| Recoveries of receivables written off | -1 | -4 |
| Increase in impairment losses on individually assessed receivables | 35 | 53 |
| Decrease in impairment losses on individually assessed receivables | -48 | -42 |
| Collectively assessed impairment losses | 5 | 2 |
| **Total** | **25** | **37** |

## Note 6. Net income from Non-life Insurance

| EUR million | 2014 | 2013* |
|---|---|---|
| Insurance premium revenue | | |
| Premiums written | 1,393 | 1,346 |
| Change in provision for unearned premiums | -29 | -37 |
| Gross insurance premium revenue | 1,364 | 1,309 |
| Reinsurers' share | -54 | -60 |
| Total | 1,310 | 1,249 |
| Net investment income | 173 | 131 |
| Claims incurred | | |
| Claims paid (excl. loss adjustment expenses) | 828 | 786 |
| Change in provision for unpaid claims** | 61 | 65 |
| Gross total claims incurred | 889 | 851 |
| Reinsurers' share | -44 | -42 |
| Total | 845 | 809 |
| Other Non-life Insurance items | 42 | 43 |
| **Net income from Non-life Insurance** | **597** | **528** |
| | | |
| **Insurance premium revenue and insurance premiums ceded to reinsurers** | | |
| Short-term insurance contracts | | |
| Premiums written | 1,390 | 1,342 |
| Change in provision for unearned premiums | -31 | -38 |
| Long-term insurance contracts | | |
| Premiums written | 3 | 4 |
| Change in provision for unearned premiums | 2 | 1 |
| **Gross insurance premium revenue** | **1,364** | **1,309** |

| | | |
|---|---|---|
| Reinsurers’ shares of short-term insurance contracts | | |
| Premiums written | -54 | -56 |
| Change in provision for unearned premiums | 1 | -3 |
| Reinsurers’ share of long-term insurance contracts | | |
| Premiums written | -1 | -1 |
| Change in provision for unearned premiums | 0 | 0 |
| Total reinsurers´ share | -54 | -60 |
| **Net insurance premium revenue** | **1,310** | **1,249** |

**Net investment income from Non-life Insurance**

| | | |
|---|---|---|
| Loans and receivables | | |
| Interest income | 5 | 5 |
| Interest expenses | -1 | -1 |
| Capital gains and losses | 0 | |
| Fair value gains and losses | 1 | -1 |
| Impairments | | 0 |
| **Total** | **5** | **3** |

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

| | | |
|---|---|---|
| Interest income | | |
| Notes and bonds | 0 | 1 |
| Derivatives | 0 | 0 |
| Capital gains and losses | | |
| Notes and bonds | | 2 |
| Derivatives | -22 | -1 |
| Fair value gains and losses | | |
| Notes and bonds | 1 | 3 |
| Derivatives | -2 | 4 |
| **Total** | **-24** | **8** |

| | | |
|---|---|---|
| **Net income from available-for-sale financial assets** | | |
| Notes and bonds | | |
| Interest income | 51 | 53 |
| Capital gains and losses | 35 | -2 |
| Transferred from fair value reserve during financial year | 25 | 21 |
| Fair value gains and losses | 1 | 0 |
| Impairments | 0 | -2 |
| Total | 112 | 69 |
| Shares and participations | | |
| Dividends | 18 | 25 |
| Other income and expenses | 3 | 4 |
| Capital gains and losses | 13 | 3 |
| Transferred from fair value reserve during financial year | 41 | 19 |
| Fair value gains and losses | -1 | |
| Impairments | -2 | -8 |
| Total | 72 | 44 |
| **Total** | **184** | **113** |
| | | |
| **Net income from investment property** | | |
| Rental income | 17 | 17 |
| Capital gains and losses | 0 | -1 |
| Value changes from fair value measurement | 2 | 4 |
| Maintenance charges and expenses | -10 | -12 |
| Other | -1 | -1 |
| **Total** | **8** | **7** |
| | | |
| **Total net investment income from Non-life Insurance** | **173** | **131** |

**Unwinding of discount, Non-life Insurance**

The increase in the discounted insurance liabilities of Non-life Insurance due to the passage of time (Note 33) (unwinding of discount) totals EUR 41 million (43). Unwinding of discount is computed monthly applying the discount rate at the end of the previous month and the insurance liabilities at the beginning of the current month. The discount rate was 3.7% from 31 December 2003 to 30 November 2004, 3.5% from 1 December 2004 to 30 November 2005, 3.3% from 1 December 2005 to 30 November 2007, 3.5% from 1 December 2007 to 30 November 2011, 3.3% from 1 December 2011 to 31 July 2012, 3.0% from 1 August 2012 to 31 October 2013, 2.8% from 1 November 2013 to 31 July 2014 and 2,5% from 1 August to 31 December 2014.

* Comparative figures have been restated as a result of the adoption of IFRS 10 Consolidated Financial Statements.

** The item includes EUR 62 million (38) as a result of the changed discount rate for insurance liabilities.

## Note 7. Net commissions and fees

| EUR million | 2014 | 2013* |
|---|---|---|
| **Commissions and fees** | | |
| Lending | 53 | 45 |
| Deposits | 0 | 0 |
| Payment transfers | 36 | 31 |
| Securities brokerage | 22 | 21 |
| Mutual fund brokerage | 0 | 0 |
| Securities issuance | 10 | 8 |
| Asset management and legal services | 1 | 2 |
| Insurance operations | 16 | 17 |
| Guarantees | 15 | 16 |
| Other | 5 | 6 |
| **Total** | **158** | **148** |
| | | |
| **Commission expenses** | | |
| Payment transfers | 20 | 14 |
| Securities brokerage | 8 | 8 |
| Securities issuance | 3 | 4 |
| Asset management and legal services | 3 | 3 |
| Other | 9 | 8 |
| **Total** | **44** | **37** |
| | | |
| **Net commissions and fees** | **114** | **111** |

* Comparative figures have been restated as a result of the adoption of IFRS 10 Consolidated Financial Statements.

## Note 8. Net trading income

| EUR million | 2014 | 2013* |
|---|---|---|
| Financial assets and liabilities held for trading | | |
| Capital gains and losses | | |
| Notes and bonds | 4 | 2 |
| Shares and participations | 0 | 0 |
| Derivatives | 35 | 100 |
| Total | 39 | 102 |
| Fair value gains and losses | | |
| Notes and bonds | 2 | -1 |
| Shares and participations | | 0 |
| Derivatives | 10 | -30 |
| Total | 12 | -31 |
| Dividend income | | |
| Assets and liabilities at fair value through profit or loss | | |
| Capital gains and losses | | |
| Notes and bonds | 0 | |
| Total | 0 | |
| Fair value gains and losses | | |
| Notes and bonds | -1 | 0 |
| Total | -1 | 0 |
| Net income from foreign exchange operations | | |
| Currency exchange | -78 | -1 |
| Other | 106 | 22 |
| **Total** | **77** | **93** |

* Comparative figures have been restated as a result of the adoption of IFRS 10 Consolidated Financial Statements.

## Note 9. Net investment income

| EUR million | 2014 | 2013* |
|---|---|---|
| **Available-for-sale financial assets** | | |
| Notes and bonds | | |
| Capital gains and losses | 11 | 14 |
| Transferred from fair value reserve during the financial year | 0 | 1 |
| Shares and participations | | |
| Capital gains and losses | 5 | 1 |
| Transferred from fair value reserve during the financial year | 9 | 1 |
| Impairments | -1 | 0 |
| Dividend income | 43 | 28 |
| Total available-for-sale financial assets | 67 | 44 |
| | | |
| **Financial assets carried at amortised cost** | | |
| Loans and other receivables | | |
| Capital gains and losses | -1 | 0 |
| Total financial assets carried at amortised cost | -1 | 0 |
| | | |
| **Investment property** | | |
| Rental income | 6 | 4 |
| Gains and losses from fair value measurement | -2 | 3 |
| Maintenance charges and expenses | -5 | -4 |
| Other | 0 | 0 |
| Total investment property | -2 | 2 |
| | | |
| **Total net investment income** | **64** | **46** |

* Comparative figures have been restated as a result of the adoption of IFRS 10 Consolidated Financial Statements.

## Note 10. Other operating income

| EUR million | 2014 | 2013* |
|---|---|---|
| Rental income from property in own use | 0 | 0 |
| Capital gains on property in own use | 0 | 1 |
| Central banking service fees | 8 | 8 |
| Realisation of repossessed items | 0 | |
| Rental income from assets rented under operating lease | 6 | 10 |
| Reinsurance commissions of Non-life Insurance | 2 | 2 |
| Other | 16 | 15 |
| **Total** | **32** | **36** |

* Comparative figures have been restated as a result of the adoption of IFRS 10 Consolidated Financial Statements.

## Note 11. Personnel costs

| EUR million | 2014 | 2013 |
|---|---|---|
| Wages and salaries | 116 | 118 |
| Variable remuneration | 15 | 18 |
| Pension costs | 24 | 26 |
| Defined contribution plans | 19 | 20 |
| Defined benefit plans | 4 | 6 |
| Other social expenses | 9 | 9 |
| **Total** | **163** | **170** |

## Note 12. Depreciation and amortisation

| EUR million | 2014 | 2013* |
|---|---|---|
| Depreciation and amortisation | | |
| Buildings | 3 | 1 |
| Machinery and equipment | 1 | 1 |
| Intangible assets related to business combinations | 21 | 21 |
| Other intangible assets | 21 | 19 |
| Leased out assets | 5 | 7 |
| Other | 0 | 0 |
| Total | 52 | 51 |
| Impairment loss | | |
| Property in own use | 0 | 1 |
| Total | 0 | 1 |
| **Total** | **52** | **52** |

* Comparative figures have been restated as a result of the adoption of IFRS 10 Consolidated Financial Statements.

## Note 13. Other expenses

| EUR million | 2014 | 2013* |
|---|---|---|
| Other administrative expenses | | |
| Office expenses | 47 | 33 |
| Telecommunication expenses | 9 | 9 |
| Marketing expenses | 6 | 7 |
| Corporate social responsibility expenses | 1 | 1 |
| Other administrative expenses | 41 | 51 |
| Total | 104 | 101 |
| Rental expenses | 2 | 3 |
| Expenses for property and business premises in own use | 24 | 25 |
| Capital losses on property in own use | 0 | |
| Expenses for realisation of repossessed items | 1 | 1 |
| Reinsurance commissions of Non-life Insurance | 2 | 3 |
| Credit losses of Non-life Insurance | 4 | 6 |
| Bank levy | 20 | 19 |
| Other** | 100 | 83 |
| **Total** | **258** | **241** |

* Comparative figures have been restated as a result of the adoption of IFRS 10 Consolidated Financial Statements.

** The item includes EUR 321,000 (292,000) in audit fees paid to auditors, EUR 119,000 (143,000) in fees for assignments as referred to in sub-paragraph 2, paragraph 1, section 1 of the Auditing Act, EUR 20,000 (154,000) in fees for legal counselling and EUR 118,000 (386,000) in fees for other services.

** The item includes EUR 61 million (51) in insurance business sales commissions paid to OP Financial Group member banks.

## Note 14. Income tax

| EUR million | 2014 | 2013* |
|---|---|---|
| Current tax | 105 | 90 |
| Tax for previous financial years | 24 | -6 |
| Deferred tax | -21 | -40 |
| **Income tax expense** | **107** | **43** |
| | | |
| Corporate income tax rate | 20.0 | 24.5 |

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

| | 2014 | 2013* |
|---|---|---|
| Earnings before tax | 548 | 456 |
| | | |
| Tax calculated at a tax rate of 20.0% (2013:24.5%) | 110 | 112 |
| Tax for previous financial years | 24 | -6 |
| Income not subject to tax | -25 | -9 |
| Expenses not deductible for tax purposes | 10 | 7 |
| Re-evaluation of unrecognised tax losses | -1 | 0 |
| Tax adjustments | -9 | 6 |
| Change in tax rate 1 Jan. 2014 | | -65 |
| Other items | -1 | 0 |
| **Tax expense** | **107** | **43** |

* Comparative figures have been restated as a result of the adoption of IFRS 10 Consolidated Financial Statements.

## Note 15. Assets and liabilities classified as held for distribution to owners and discontinued operations

As a result of OP Cooperative's execution of the public voluntary bid for Pohjola Bank plc shares, Pohjola Group is planning to make structural changes. In the plan OP Cooperative will become the owner of the Asset Management segment and the transfer will be implemented as a demerger at carrying amounts. The demerger is estimated to take place during 2015. As a result, the assets and liabilities of the Asset Management segment will be presented as of 30 June 2014 separately in the balance sheet as assets and liabilities classified as held for distribution to owners and in the income statement as discontinued operations, in accordance with IFRS 5.

**a) Results of discontinued operations**

**Asset Management**

| EUR million | 2014 | 2013 |
|---|---|---|
| Net commissions and fees | 64 | 51 |
| Share of associates' profits/losses accounted for using the equity method | 1 | 0 |
| Other income and expenses | -30 | -30 |
| **Earnings before tax** | **36** | **21** |
| Taxes | 7 | 6 |
| **Results of discontinued operations for the period** | **29** | **15** |
| | | |
| Share of parent company owners of discontinued operations | 29 | 15 |
| **Total** | **29** | **15** |

**b) Assets classified as held for distribution to owners and associated liabilities**

**Asset Management segment assets**

| EUR million | 2014 |
|---|---|
| Receivables from credit institutions | 7 |
| Investment assets | 0 |
| Investment accounted for using the equity method* | 27 |
| Intangible assets | 102 |
| Property, plant and equipment (PPE) | 0 |
| Other assets | 30 |
| **Total Asset Management segment assets** | **167** |

* The Asset Management segment has one significant associated company, Access Capital Partners Group S.A., with Note 54 of OP Financial Group's 2014 financial statements presenting specified information on the company.

Intangible assets include EUR 97 million in goodwill and EUR 5 million in other intangible assets.

| **Other holdings** | |
|---|---|
| Other assets classified as held for distribution to owners | **39** |
| | |
| **Total assets classified as held for distribution to owners** | **205** |

**Asset Management segment liabilities**

| EUR million | 2014 |
|---|---|
| Provisions and other liabilities | 10 |
| **Total Asset Management segment liabilities** | **10** |
| | |
| **Other liabilities for transfer** | |
| Liabilities allocated in demerger | **195** |
| | |
| **Total liabilities associated with assets classified as held for distribution to owners** | **205** |

**Shareholder's equity associated with assets classified as held for distribution to owners**

| EUR million | 2014 |
|---|---|
| Fair value reserve | 0 |
| Retained earnings | 0 |
| **Total** | **0** |

# NOTES TO THE BALANCE SHEET

## Note 16. Cash and cash equivalents

| EUR million | 31 Dec. 2014 | 31 Dec. 2013 |
|---|---|---|
| Cash | 1 | 1 |
| Deposits with central banks repayable on demand | | |
| Pohjola Bank's minimum reserve deposit | 537 | 527 |
| Cheque account | 3,236 | 1,518 |
| **Total cash and cash equivalents** | **3,774** | **2,046** |

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

## Note 17. Receivables from credit institutions

| EUR million | 31 Dec. 2014 | 31 Dec. 2013* |
|---|---|---|
| Receivables from credit institutions | | |
| Deposits | | |
| Repayable on demand | 484 | 621 |
| Other | | 1 |
| Total | 484 | 622 |
| of which receivables from credit institutions due in less than 3 months | 484 | 622 |
| Loans and other receivables | | |
| Repayable on demand | | |
| From other credit institutions | | 0 |
| Total | | 0 |
| Other | | |
| From OP Financial Group institutions | 9,323 | 8,740 |
| From other credit institutions | 449 | 537 |
| Total | 9,772 | 9,277 |
| **Total receivables from credit institutions** | **10,257** | **9,899** |
| | | |
| Receivables from credit institutions include subordinated receivables | 42 | 42 |

* Comparative figures have been restated as a result of the adoption of IFRS 10 Consolidated Financial Statements.

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

| EUR million | 31 Dec. 2014 | 31 Dec. 2013 |
|---|---|---|
| **Financial assets held for trading** | | |
| Government notes and bonds | 3 | 8 |
| Certificates of deposit and commercial papers | 29 | 4 |
| Debentures | 19 | 6 |
| Bonds | 308 | 409 |
| Other notes and bonds | 0 | 7 |
| Shares and participations | 0 | 1 |
| Total | 360 | 435 |
| **Financial assets at fair value through profit or loss at inception** | | |
| Bonds | 0 | 9 |
| Total | 0 | 9 |
| **Total financial assets at fair value through profit or loss** | **360** | **444** |

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

| | 31 Dec. 2014 | | 31 Dec. 2013 | |
|---|---|---|---|---|
| **Financial assets held for trading, EUR million** | **Notes and bonds** | **Shares and partici-pations** | **Notes and bonds** | **Shares and partici-pations** |
| Quoted | | | | |
| From public sector entities | 3 | | 8 | |
| From others | 310 | | 399 | |
| Other | | | | |
| From public sector entities | 29 | | 4 | |
| From others | 18 | 0 | 23 | 1 |
| **Total** | **360** | **0** | **434** | **1** |

| Financial assets at fair value through profit or loss at inception, EUR million | 31 Dec. 2014 Notes and bonds | 31 Dec. 2014 Shares and partici-pations | 31 Dec. 2013 Notes and bonds | 31 Dec. 2013 Shares and partici-pations |
|---|---|---|---|---|
| Quoted | | | | |
| From others | | | 4 | |
| Other | | | | |
| From others | 0 | | 5 | |
| **Total** | **0** | | **9** | |
| | | | | |
| **Total financial assets at fair value through profit or loss** | **360** | **0** | **443** | **1** |

Financial assets at fair value through profit or loss include EUR 205 million (234) in notes and bonds eligible for central bank refinancing and EUR 19 million (11) in subordinated publicly-quoted notes and bonds.

## Note 19. Derivative contracts

| EUR million | 31 Dec. 2014 | 31 Dec. 2013 |
|---|---|---|
| Held for trading | | |
| Interest rate derivatives | 4,867 | 2,836 |
| Currency derivatives | 652 | 169 |
| Equity derivatives | 62 | 108 |
| Credit derivatives | 2 | 3 |
| Other | 54 | 55 |
| Total | 5,637 | 3,171 |
| Hedging derivative contracts | | |
| Fair value hedging | | |
| Interest rate derivatives | 216 | 218 |
| Currency derivatives | 83 | 38 |
| Cash flow hedge | | |
| Interest rate derivatives | 10 | 17 |
| Total | 309 | 273 |
| **Total derivative contracts** | **5,946** | **3,444** |

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

## Note 20. Receivables from customers

| EUR million | 31 Dec. 2014 | 31 Dec. 2013* |
|---|---|---|
| Loans to the public and public sector entities | 11,183 | 10,698 |
| Notes and bonds | 19 | 50 |
| Finance lease receivables | 1,162 | 1,148 |
| Other receivables | | |
| Other | 3,401 | 2,874 |
| Impairment losses on loans | | |
| Based on credit risk | -252 | -259 |
| **Total receivables from customers** | **15,513** | **14,510** |

* Comparative figures have been restated as a result of the adoption of IFRS 10 Consolidated Financial Statements.

**Changes in impairments of loans and guarantees**

| EUR million | Loans | Notes and bonds | Bank guarantee receivables | Interest receivables | Total |
|---|---|---|---|---|---|
| Impairments 1 Jan. 2014 | 260 | 0 | 1 | -3 | 259 |
| Increase in impairments of individually assessed loans and receivables | 27 | | 10 | -13 | 24 |
| Change in impairments of collectively assessed loans and receivables | 5 | | | | 5 |
| Reversal of impairments of loans and receivables individually assessed | -22 | | | 15 | -7 |
| Loans and guarantee receivables derecognised from balance sheet, | | | | | |
| of which an individually assessed impairment was recognised | -29 | | | | -29 |
| Exchange rate difference on impairments on loans | | | | | |
| Impairments 31 Dec. 2014 | 241 | 0 | 12 | -1 | 252 |

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

### Finance lease receivables

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

| EUR million | 31 Dec. 2014 | 31 Dec. 2013 |
|---|---|---|
| Maturity of finance leases | | |
| Not later than one year | 307 | 322 |
| 1–5 years | 550 | 528 |
| Over 5 years | 393 | 390 |
| Gross investment in finance leases | 1,250 | 1,240 |
| Unearned finance income (–) | -88 | -93 |
| Present value of minimum lease payments | 1,162 | 1,148 |
| **Present value of minimum lease payment receivables** | | |
| Not later than one year | 288 | 302 |
| 1–5 years | 509 | 487 |
| Over 5 years | 365 | 358 |
| **Total** | **1,162** | **1,148** |
| | | |
| **Gross increase during the financial year** | **359** | **487** |

## Note 21. Non-life Insurance assets

| EUR million | 31 Dec. 2014 | 31 Dec. 2013* |
|---|---|---|
| **Investments** | | |
| Loans and other receivables | 15 | 16 |
| Shares and participations | 463 | 471 |
| Investment property | 161 | 152 |
| Notes and bonds | 2,330 | 2,035 |
| Derivative contracts | 12 | 4 |
| Other participations | 231 | 300 |
| Total | 3,211 | 2,979 |
| **Other assets** | | |
| Prepayments and accrued income | 33 | 40 |
| Other | | |
| From direct insurance | 404 | 324 |
| From reinsurance | 100 | 90 |
| Cash in hand and at bank | 41 | 4 |
| Other receivables | 66 | 64 |
| Total | 643 | 523 |
| **Total Non-life Insurance assets** | **3,854** | **3,502** |

| | | |
|---|---|---|
| **Non-life Insurance investments** | | |
| **Loans and other receivables** | | |
| Loans and other receivables | 14 | 15 |
| Deposits with ceding undertakings | 1 | 1 |
| Total | 15 | 16 |
| **Financial assets recognised at fair value through profit or loss** | | |
| Notes and bonds | 7 | 6 |
| Derivative contracts | 12 | 4 |
| Total | 19 | 10 |
| **Available-for-sale financial assets** | | |
| Notes and bonds | 2,323 | 2,029 |
| Shares and participations | 463 | 471 |
| Other participations | 231 | 300 |
| Total | 3,016 | 2,800 |
| **Investment property** | | |
| Land and water areas | 23 | 22 |
| Buildings | 138 | 131 |
| Total | 161 | 152 |
| **Total Non-life Insurance investments** | **3,211** | **2,979** |

* Comparative figures have been restated as a result of the adoption of IFRS 10 Consolidated Financial Statements.

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

| EUR million | 31 Dec. 2014 Notes and bonds | Shares and partici-pations | Derivative contracts | 31 Dec. 2013 Notes and bonds | Shares and partici-pations | Derivative contracts |
|---|---|---|---|---|---|---|
| Quoted | | | | | | |
| From others | 7 | | | 6 | | |
| Other | | | | | | |
| From others | | | 12 | | | 4 |
| **Total** | **7** | | **12** | **6** | | **4** |

| Available-for-sale financial assets of Non-life Insurance, 31 Dec. 2014, 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 sector entities | 503 | | 503 | | | |
| From others | 1,819 | | 1,819 | 435 | | 435 |
| Other | | | | | | |
| From others | 0 | | 0 | 258 | | 258 |
| **Total** | **2,323** | | **2,323** | **693** | | **693** |
| Impairment losses for the financial year | 0 | | 0 | -2 | | -2 |

* Available-for-sale shares and participations include EUR 463 million (471) in equities and mutual funds with equity risk and EUR 231 million (300) 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 2 million (4) in pledged items, consisting mainly of collateral for derivatives trading.

| Available-for-sale financial assets of Non-life Insurance, 31 Dec. 2013**, 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 sector entities | 465 | | 465 | | | |
| From others | 1,549 | | 1,549 | 581 | | 581 |
| Other | | | | | | |
| From others | 14 | | 14 | 191 | | 191 |
| **Total** | **2,029** | | **2,029** | **771** | | **771** |
| Impairment losses for the financial year | -2 | | -2 | -8 | | -8 |

** Comparative figures have been restated as a result of the adoption of IFRS 10 Consolidated Financial Statements.

| Changes in Non-life Insurance investment property, EUR million | 2014 | 2013* |
|---|---|---|
| Acquisition cost 1 Jan. | 133 | 143 |
| Increase | 11 | 18 |
| Decrease | -5 | -8 |
| Transfers between items | 0 | -20 |
| Acquisition cost 31 Dec. | 138 | 133 |
| Accumulated changes in fair value 1 Jan. | 19 | 17 |
| Changes in fair value during financial year | 2 | 4 |
| Decrease | 1 | -2 |
| Accumulated changes in fair value 31 Dec. | 22 | 19 |
| **Carrying amount 31 Dec.** | **161** | **152** |

* Comparative figures have been restated as a result of the adoption of IFRS 10 Consolidated Financial Statements.

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

A total of 94% of Non-life Insurance's investment property, or EUR 150 million, was appraised by an external property valuer, Antti Huotari, authorised property valuer, (AKA), from Realia Group Oy.

## Note 22. Investment assets

| EUR million | 31 Dec. 2014 | 31 Dec. 2013* |
|---|---|---|
| Available-for-sale financial assets | | |
| Notes and bonds | 7,782 | 7,108 |
| Shares and participations | 101 | 175 |
| Total | 7,882 | 7,283 |
| Financial assets held to maturity | | |
| Notes and bonds | 144 | 202 |
| Total | 144 | 202 |
| Investment property | | |
| Land and water areas | 5 | 5 |
| Buildings | 80 | 83 |
| Total | 85 | 88 |
| **Total investment assets** | **8,112** | **7,574** |

* Comparative figures have been restated as a result of the adoption of IFRS 10 Consolidated Financial Statements.

Investment property does not include real property received as collateral in 2014 and 2013.

**Available-for-sale financial assets and held-to-maturity investments on 31 Dec. 2014**

| | Available-for-sale notes and bonds | | | Available-for-sale shares and participations | | | |
|---|---|---|---|---|---|---|---|
| EUR million | At fair value | At amortised cost | Total | At fair value | At cost | Total | Held-to-maturity investments |
| Quoted | | | | | | | |
| From public sector entities | 7,302 | | 7,302 | | | | |
| From others | 398 | | 398 | 7 | | 7 | 144 |
| Other | | | | | | | |
| From others | 82 | | 82 | 83 | 11 | 94 | |
| **Total** | **7,782** | | **7,782** | **90** | **11** | **101** | **144** |
| Impairment losses for the financial year | | | | -1 | | -1 | |

Available-for-sale financial assets did not include subordinated publicly-quoted notes and bonds from others or subordinated notes and bonds other than publicly quoted from others. Investments in private equity funds, worth EUR 16 million (14), were measured at fair value. It was not possible to determine reliably a fair value for investments measured at cost. Held-to-maturity investments included EUR 130 million (187) in notes and bonds eligible for central bank refinancing and EUR 14 million (15) in other publicly-quoted notes and bonds.

**Available-for-sale financial assets and held-to-maturity investments on 31 Dec. 2013***

| EUR million | Available-for-sale notes and bonds At fair value | At amortised cost | Total | Available-for-sale shares and participations At fair value | At cost | Total | Held-to-maturity investments |
|---|---|---|---|---|---|---|---|
| Quoted | | | | | | | |
| From public sector entities | 6,725 | | 6,725 | | | | |
| From others | 322 | | 322 | 7 | | 7 | 202 |
| Other | | | | | | | |
| From others | 61 | | 61 | 105 | 64 | 169 | |
| **Total** | **7,108** | | **7,108** | **111** | **64** | **175** | **202** |
| Impairment losses for the financial year | | | | 0 | | 0 | |

* Comparative figures have been restated as a result of the adoption of IFRS 10 Consolidated Financial Statements.

| Changes in investment property, EUR million | 2014 | 2013* |
|---|---|---|
| Acquisition cost 1 Jan. | 86 | 67 |
| Increase | | 19 |
| Decrease | -2 | |
| Transfers between items | | |
| Acquisition cost 31 Dec. | 84 | 86 |
| Accumulated changes in fair value 1 Jan. | 3 | 0 |
| Changes in fair value during financial year | -2 | 3 |
| Decrease | 1 | |
| Accumulated changes in fair value 31 Dec. | 2 | 3 |
| Carrying amount 31 Dec. | 85 | 88 |

* Comparative figures have been restated as a result of the adoption of IFRS 10 Consolidated Financial Statements.

Any changes in the fair value of investment property are recognised under 'Net investment income'. The fair value of investment property holdings includes the portion of debt.

Information on investment property leased out under operating lease can be found in Note 81.

The investment property holdings were appraised by the following external property valuer: Raino Pesu, M.Sc. Tech, authorised property valuer (AKA), authorised real estate agent (LKV), appraisal expert, and Ville Vaarala, M.Sc. Tech, appraisal expert, on behalf of Catella Property Oy.

## Note 23. Reclassified notes and bonds

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

| EUR million, 31 Dec. 2014 | Carrying amount | Fair value | Effective interest rate | Impairments arising from credit risk |
|---|---|---|---|---|
| Loans and other receivables | 231 | 245 | 5.5 | |
| Investments held to maturity | 59 | 56 | 4.3 | |
| Available-for-sale financial assets | 45 | 45 | 4.2 | |
| **Total** | **335** | **347** | | |

| EUR million, 31 Dec. 2013 | Carrying amount | Fair value | Effective interest rate | Impairments arising from credit risk |
|---|---|---|---|---|
| Loans and other receivables | 298 | 306 | 5.2 | |
| Investments held to maturity | 99 | 89 | 4.2 | |
| Available-for-sale financial assets | 42 | 42 | 4.2 | |
| **Total** | **438** | **436** | | |

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

| | 2014 | | 2013 | |
|---|---|---|---|---|
| EUR million | Income statement | Fair value reserve | Income statement | Fair value reserve |
| Banking | 2 | | -1 | |
| Non-life Insurance | 0 | 0 | 0 | -1 |
| Group Functions | 12 | -1 | 29 | -3 |
| **Total** | **13** | **-1** | **27** | **-3** |

Loans and receivables and held-to-maturity investments were reclassified in 2008. Available-for-sale financial assets were reclassified in 2012.

Interest accrued on reclassified notes and bonds in January–December totalled EUR 8 million (10). The price difference between the nominal value and acquisition value recognised in the income statement totalled EUR 2 million (3). Capital losses recognised on notes and bonds totalled EUR 1 million (2). Impairment losses recognised on notes and bonds amounted to EUR 0 million (0). The Group used derivatives to hedge against interest rate risks, applying hedge accounting from 1 October 2008. Positive mark-to-market valuations recognised on hedging derivative contracts amounted to EUR 3 million (6).

## Note 24. Investment accounted for using the equity method

**Amounts entered in the balance sheet:**

| EUR million | 31 Dec. 2014 | 31 Dec. 2013 |
|---|---|---|
| Associates | 2 | 29 |
| Total | 2 | 29 |

**Amounts entered in the income statement:**

| EUR million | 2014 | 2013 |
|---|---|---|
| Associates | 0 | 0 |
| Total | 0 | 0 |

**Investments in associates and joint ventures**

Pohjola Group's continuing operations include as at 31 December 2014 one (1) associated company which is individually immaterial. The Group has a 27.75% interest (27.75) in Autovahinkokeskus Oy. Pohjola Group has no investments in joint ventures.

Pohjola Group's investments in associated have no quoted market price and no contingent liabilities are involved in them.

**Summary of financial information on all individually immaterial associates and joint ventures included in the consolidated financial statements**

| | Associates consolidated using equity method | |
|---|---|---|
| Milj. e | 2014 | 2013 |
| Profit of continuing operations | 0 | 0 |
| Comprehensive income | 0 | 0 |

## Note 25. Intangible assets

| Changes in intangible assets, EUR million | Goodwill | Brands | Customer relationships related to insurance contracts and policy acquisition costs | Other intangible assets | Total |
|---|---|---|---|---|---|
| Acquisition cost 1 Jan. 2014 | 519 | 179 | 301 | 259 | 1,258 |
| Increases | | | | 24 | 24 |
| Decreases | | | | -1 | -1 |
| Transfers to assets distributed to owners | -97 | | | -39 | -136 |
| Transfers between items | | | | 0 | 0 |
| Acquisition cost 31 Dec. 2014 | 422 | 179 | 301 | 243 | 1,146 |
| Accumulated amortisation and impairments 1 Jan. 2014 | | -7 | -194 | -148 | -349 |
| Amortisation during the financial year | | | -24 | -22 | -45 |
| Decreases | | | | 0 | 0 |
| Depreciation on assets distributed to owners | | | | 33 | 33 |
| Other changes | | | | 0 | 0 |
| Accumulated amortisation and impairments 31 Dec. 2014 | | -7 | -218 | -136 | -360 |
| Carrying amount 31 Dec. 2014 | 422 | 172 | 84 | 107 | 786 |

Other intangible assets include computer software to the carrying amount of EUR 81 million and EUR 27 million in computer software under development.

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

| Changes in intangible assets, EUR million | Goodwill | Brands | Customer relationships related to insurance contracts and policy acquisition costs | Other intangible assets | Total |
|---|---|---|---|---|---|
| Acquisition cost 1 Jan. 2013 | 519 | 179 | 301 | 230 | 1,230 |
| Increases | | | | 31 | 31 |
| Decreases | | | | -3 | -3 |
| Transfers between items | | | | | |
| Acquisition cost 31 Dec. 2013 | 519 | 179 | 301 | 259 | 1,258 |
| Accumulated amortisation and impairments 1 Jan. 2013 | | -7 | -170 | -131 | -308 |
| Amortisation during the financial year | | | -24 | -20 | -43 |
| Decreases | | | | 3 | 3 |
| Other changes | | | | | |
| Accumulated amortisation and impairments 31 Dec. 2013 | | -7 | -194 | -148 | -349 |
| Carrying amount 31 Dec. 2013 | 519 | 172 | 108 | 111 | 910 |

Other intangible assets include computer software to the carrying amount of EUR 92 million and EUR 17 million in computer software under development.

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

| Intangible assets with indefinite economic lives, EUR million | 31 Dec. 2014 | 31 Dec. 2013 |
|---|---|---|
| Goodwill | 422 | 519 |
| Brands | 172 | 172 |
| **Total** | **595** | **691** |

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

| | 31 Dec. 2014 | | 31 Dec. 2013 | |
|---|---|---|---|---|
| Other most significant intangible assets | Carrying amount, EUR million | Remaining amortisation period | Carrying amount, EUR million | Remaining amortisation period |
| Customer relationships | 84 | 1–4 yrs | 108 | 2–5 yrs |
| Software | 81 | 2–5 yrs | 92 | 2–5 yrs |
| Software under development | 27 | | 17 | |

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

### Goodwill impairment test

| Goodwill, EUR million | 2014 | 2013 |
|---|---|---|
| Non-life Insurance | 410 | 410 |
| Pohjola Asset Management Ltd* | | 97 |
| Leasing and Factoring Services | 13 | 13 |
| **Total** | **422** | **519** |

* Discontinued operation

Goodwill of Pohjola Group originates entirely from the acquisition of the business operations of Pohjola Group Plc, Pohjola Finance Ltd and Excenta Oy. 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. Non-life Insurance, Asset Management and finance company services. During the financial year, Pohjola Health Ltd merged into Pohjola Insurance Ltd. For testing goodwill of wellbeing-at-work services, the Group no longer determine a separate CGU, which is why said goodwill has been tested as part of the goodwill of Non-life Insurance.

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

The testing period was determined to be five years under IAS 36, including residual values.

The forecasts used in cash flow statements are based on strategy figures for 2015–17, confirmed by Pohjola in 2012, and post-strategy-period expectations derived from them regarding business developments. Growth in cash flows for post-forecast periods ranges between 2 and 9%.

The discount rate used in the calculations was the market-based equity cost, which is in line with the applied value determination methods (i.e. through cash flows, only the value of equity belonging to investors was determined and the value was discounted by using the return requirement rate on equity capital). The discount rate used in the calculations before tax (i.e. IFRS WACC) varied from 6.7 to 11.3%. In 2013, it varied from 9.9 to 15.3%. Pohjola decreased the discount rate for Non-life Insurance by 0.9 percentage points and that for finance company services by 1.1 percentage points to correspond to the discount rate based on market information.

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

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

The discount rate, combined ratio and net investment return (%) were used as key parameters in Non-life Insurance's sensitivity analysis – the same as in the previous year. The results of the sensitivity analysis did not undergo any major changes over the previous year. A 8.4-percentage point increase in the discount rate, a 6.7-percentage point increase in the combined ratio and a 2.4-percentage point decrease in net investment return compared with forecasts throughout the testing period, with one tested parameter changing and other parameters remaining unchanged, would entail an impairment risk. In 2013, the results were as follows: a 5.9-percentage point increase in the discount rate, a 3.9-percentage point increase in the combined ratio and a 1.6-percentage point decrease in net investment return compared with forecasts throughout the testing period, would have entailed an impairment risk.

The discount rate, growth rate (%) of the loan portfolio and a growth rate (%) of expenses were used as key parameters in Leasing and Factoring Service's sensitivity analysis. The parameters used were the same as in the previous year. The results of the sensitivity analysis did not change significantly on a year earlier. A 11-percentage point increase in the discount rate, a 16-percentage point decrease in the loan portfolio and a 23-percentage point increase in expenses compared with forecasts throughout the testing period, with other parameters remaining unchanged, would entail an impairment risk. In 2013, the results were as follows: a 7.5-percentage point increase in the discount rate, a 9.7-percentage point decrease in the loan portfolio and a 10-percentage point increase in expenses compared with forecasts throughout the testing period would have entailed an impairment risk.

**Impairment testing of brands**

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

The value of the brands was determined by using the 'Relief from Royalty' method. Accordingly, their value was determined to be royalty savings accrued in the future from owning the brands, discounted to the present. The discount rate used in the calculations was the market-based equity cost defined for Non-life Insurance, plus an asset-specific risk premium. Pohjola decreased the discount rate for Non-life Insurance by 0.9 percentage points to correspond to the discount rate based on market information. In addition, the same risk premium and the corresponding royalty percentages were applied in 2014 as in the PPA procedure and in previous years' tests.

The testing period of brands was mainly determined to be five years under IAS 36. The testing period of the Pohjola brand was determined to be an exceptional period of 15 years because the use of the brand will be extended to cover a completely new business that will grow in the next few years. The forecasts used in cash flow statements are based on strategy figures for 2015-17 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.

In the autumn of 2014, OP Financial Group Central Cooperative's Supervisory Board decided to put Non-life Insurance together with Banking and Wealth Management under the OP brand. The Pohjola brand will be used mainly in the healthcare and wellbeing business and the closely related non-life products. As part of testing the Pohjola brand for impairment, the Group assessed the effect of the abovementioned change on the useful life and the length of the testing period, the discount rate, risk premium and royalty rate used in testing- As a result, the Group stated that the brand is in accordance with IAS 36, an intangible asset with indefinite useful life. Because the brand will be used in the new business that is expected to grow strongly in the initial stage, the testing period was extended to 15 years. The Group did not make any major changes in parameters because the new healthcare and wellbeing business is closely related to Non-life Insurance. In the testing of the brand, the Group took account of the cash flows comparable with the net sales of the businesses that will operate under the brand.

As a result of testing brands for any impairment, Pohjola did not recognise any impairment loss on brands in its financial statements 2014. An impairment loss of EUR 1 million related to the Seesam brand was recognised in the 2011 and EUR 3 million in the 2009 and 2008 financial statements.

**Impairment testing of other essential intangible assets**

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

## Note 26. Property, plant and equipment

| EUR million | 31 Dec. 2014 | 31 Dec. 2013* |
|---|---|---|
| Property in own use | | |
| Land and water areas | 6 | 6 |
| Buildings | 43 | 42 |
| Total | 49 | 48 |
| Machinery and equipment | 3 | 4 |
| Other tangible assets | 3 | 3 |
| Leased-out assets | 17 | 27 |
| **Total property, plant and equipment** | **72** | **82** |
| of which construction in progress | 0 | 0 |

* Comparative figures have been restated as a result of the adoption of IFRS 10 Consolidated Financial Statements.

| Changes in property, plant and equipment (PPE), EUR million | Property in own use | Machinery and equipment | Other tangible assets | Leased-out assets | Total PPE |
|---|---|---|---|---|---|
| Acquisition cost 1 Jan. 2014 | 58 | 39 | 3 | 51 | 151 |
| Increases | 3 | 0 | 1 | 2 | 6 |
| Decreases | -1 | -1 | -1 | -17 | -19 |
| Transfers to assets distributed to owners | | -1 | | | |
| Transfers between items | 0 | | | | 0 |
| Acquisition cost 31 Dec. 2014 | 60 | 37 | 3 | 36 | 137 |
| Accumulated depreciation and impairments 1 Jan. 2014 | -10 | -35 | 0 | -24 | -69 |
| Depreciation during the financial year | -1 | -1 | 0 | -8 | -10 |
| Impairments for the financial year | 0 | | | | 0 |
| Reversals of impairments for the financial year | 0 | | | | 0 |
| Decreases | 0 | 0 | 0 | 12 | 13 |
| Depreciation on assets distributed to owners | | 1 | | | |
| Other changes | 0 | 0 | | | 0 |
| Accumulated depreciation and impairments 31 Dec. 2014 | -10 | -34 | 0 | -20 | -66 |
| Carrying amount 31 Dec. 2014 | 49 | 3 | 3 | 17 | 72 |

| Changes in property, plant and equipment (PPE), EUR million | Property in own use | Machinery and equipment | Other tangible assets | Leased-out assets | Total PPE |
|---|---|---|---|---|---|
| Acquisition cost 1 Jan. 2013* | 28 | 38 | 3 | 68 | 137 |
| Increases | 13 | 1 | 0 | 8 | 22 |
| Decreases | -3 | 0 | 0 | -25 | -29 |
| Transfers between items | 20 | | | | 20 |
| Acquisition cost 31 Dec. 2013* | 58 | 39 | 3 | 51 | 151 |
| Accumulated depreciation and impairments 1 Jan. 2013* | -8 | -34 | 0 | -28 | -70 |
| Depreciation during the financial year | -2 | -1 | 0 | -11 | -14 |
| Impairments for the financial year | -2 | | | | -2 |
| Reversals of impairments for the financial year | 0 | | | | 0 |
| Decreases | 2 | 0 | 0 | 15 | 18 |
| Other changes | 0 | | | | 0 |
| Accumulated depreciation and impairments 31 Dec. 2013* | -10 | -35 | 0 | -24 | -69 |
| Carrying amount 31 Dec. 2013* | 48 | 4 | 3 | 27 | 82 |

* Comparative figures have been restated as a result of the adoption of IFRS 10 Consolidated Financial Statements.

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

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

A breakdown of PPE leased out under operating lease can be found in Note 81.

## Note 27. Other assets

| EUR million | 31 Dec. 2014 | 31 Dec. 2013* |
|---|---|---|
| Payment transfer receivables | 7 | 35 |
| Pension assets | 0 | 5 |
| Accrued income and prepaid expenses | | |
| Interest | 642 | 711 |
| Other accrued income and prepaid expenses | | 9 |
| Margin receivables related to derivative contracts | 104 | 54 |
| Other | 1,036 | 554 |
| **Total** | **1,789** | **1,369** |

* Comparative figures have been restated as a result of the adoption of IFRS 10 Consolidated Financial Statements.

The item Other includes eg EUR 29 million (70) in accounts receivable from securities and EUR 862 million (408) in CSA collateral receivables.

## Note 28. Tax assets

| EUR million | 31 Dec. 2014 | 31 Dec. 2013* |
|---|---|---|
| Income tax assets | 10 | 2 |
| Deferred tax assets | 24 | 14 |
| **Total tax assets** | **34** | **15** |

| Breakdown of tax assets and liabilities, EUR million | 31 Dec. 2014 | 31 Dec. 2013* |
|---|---|---|
| **Deferred tax assets** | | |
| Due to available-for-sale financial assets | 0 | 0 |
| Due to depreciation and impairment losses | 0 | 1 |
| Due to provisions and impairment losses on receivables | 9 | 3 |
| Due to timing difference of securities issued to the public | 13 | 18 |
| Due to defined-benefit pension plans | 12 | 3 |
| Due to consolidation of Group accounts | 0 | 1 |
| Due to other items | 6 | 3 |
| Set-off against deferred tax liabilities | -18 | -16 |
| **Total** | **24** | **14** |
| | | |
| **Deferred tax liabilities** | | |
| Due to appropriations | 208 | 212 |
| Due to available-for-sale financial assets | 54 | 37 |
| Due to cash flow hedging | 4 | 3 |
| Due to elimination of equalisation provision | 43 | 50 |
| Due to fair value measurement of investment | 7 | 13 |
| Due to allocation of sale price of business combinations | 49 | 54 |
| Due to defined benefit pension plans | 0 | 1 |
| Due to consolidation of Group accounts | | 0 |
| Due to other items | 6 | 6 |
| Set-off against deferred tax assets | -18 | -16 |
| **Total** | **354** | **360** |

| Changes in deferred taxes, EUR million | 31 Dec. 2014 | 31 Dec. 2013* |
|---|---|---|
| Deferred tax assets/liabilities 1 Jan. | -347 | -397 |
| Effect of changes in accounting policies | 1 | -1 |
| Deferred tax assets/liabilities 1 Jan. | -346 | -398 |
| Recognised on the income statement | | |
| Effect of losses | 0 | |
| Provisions and impairments on receivables | 10 | -1 |
| Appropriations | 0 | -22 |
| Elimination of equalisation provision | 7 | 6 |
| Fair value changes in and sale of investments | 3 | -4 |
| Depreciation/amortisation and impairments | 4 | 7 |
| Timing difference of securities issued to the public | -5 | -4 |
| Defined benefit pension plans | 1 | 1 |
| Change in tax rate 1 Jan. 2014 | | 65 |
| Other | 2 | -8 |
| Recognised in statement of comprehensive income | | |
| Fair value reserve | | |
| Fair value measurement | -30 | -10 |
| Cash flow hedges | -1 | 4 |
| Transfers to the income statement | 16 | 10 |
| Change in tax rate 1 Jan. 2014 | | 9 |
| Actuarial gains/losses on post-employment benefit obligations | 10 | 0 |
| Change in tax rate 1 Jan. 2014 | | -2 |
| Other | | 1 |
| **Total deferred tax assets/liabilities 31 Dec.** | **-330** | **-347** |
| **Income tax assets/liabilities** | **-27** | **-16** |
| **Total tax assets/liabilities** | **-357** | **-362** |

* Comparative figures have been restated as a result of the adoption of IFRS 10 Consolidated Financial Statements.

Tax losses for which a deferred tax asset was not recognised came to EUR 1 million (7) at the end of 2014. The losses will expire before 2024.

A deferred tax liability has not been recognised for the EUR 38 million (31) of undistributed profits of the Baltic subsidiaries, since the assets have been permanently invested in these countries.

## Note 29. Liabilities to credit institutions

| EUR million | 31 Dec. 2014 | 31 Dec. 2013 |
|---|---|---|
| Liabilities to central banks* | 250 | 73 |
| Liabilities to credit institutions | | |
| Repayable on demand | | |
| Deposits | | |
| With OP Financial Group institutions | 350 | 233 |
| With other credit institutions | 54 | 130 |
| Other liabilities | | |
| With OP Financial Group institutions | 494 | 361 |
| Total | 898 | 725 |
| Other than repayable on demand | | |
| Deposits | | |
| With OP Financial Group institutions | 2,822 | 3,270 |
| With other credit institutions | 1,271 | 722 |
| Total | 4,094 | 3,992 |
| **Total liabilities to credit institutions and central banks** | **5,241** | **4,789** |

* Deposits from non-euro-area central banks

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

| EUR million | 31 Dec. 2014 | 31 Dec. 2013 |
|---|---|---|
| Financial liabilities held for trading | | |
| Short selling of securities | 4 | 4 |
| **Total financial liabilities at fair value through profit or loss** | **4** | **4** |

## Note 31. Derivative contracts

| EUR million | 31 Dec. 2014 | 31 Dec. 2013 |
|---|---|---|
| Held for trading | | |
| Interest rate derivatives | 4,752 | 2,910 |
| Currency derivatives | 686 | 193 |
| Equity and index derivatives | 25 | 32 |
| Other | 52 | 52 |
| Total | 5,516 | 3,186 |
| Hedging derivative contracts | | |
| Fair value hedging | | |
| Interest rate derivatives | 373 | 220 |
| Currency derivatives | | 13 |
| Cash flow hedge | | |
| Interest rate derivatives | 0 | 1 |
| Total | 373 | 234 |
| **Total derivative contracts** | **5,889** | **3,420** |

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

## Note 32. Liabilities to customers

| EUR million | 31 Dec. 2014 | 31 Dec. 2013* |
|---|---|---|
| Deposits | | |
| Repayable on demand | | |
| Private | 63 | 34 |
| Companies and public sector entities | 7,437 | 5,800 |
| Total | 7,500 | 5,834 |
| Other | | |
| Private | | 0 |
| Companies and public sector entities | 1,680 | 1,665 |
| Total | 1,680 | 1,665 |
| Other financial liabilities | | |
| Repayable on demand | | |
| Private | 8 | 10 |
| Total | 8 | 10 |
| Other | | |
| Companies and public sector entities | 2,254 | 2,674 |
| Total | 2,254 | 2,674 |
| **Total liabilities to customers** | **11,442** | **10,183** |

* Comparative figures have been restated as a result of the adoption of IFRS 10 Consolidated Financial Statements.

## Note 33. Non-life insurance liabilities

| EUR million | 31 Dec. 2014 | 31 Dec. 2013 |
|---|---|---|
| Insurance liabilities | 2,737 | 2,593 |
| Direct insurance liabilities | 203 | 134 |
| Reinsurance liabilities | 9 | 9 |
| Derivative contracts | 2 | 0 |
| Other | 21 | 10 |
| **Total Non-life Insurance liabilities** | **2,972** | **2,746** |

**Non-life Insurance contract liabilities and reinsurers' share**

| | | 31 Dec. 2014 | | | 31 Dec. 2013 | |
|---|---|---|---|---|---|---|
| EUR million | Gross | Reinsurers' share | Net | Gross | Reinsurers' share | Net |
| Provision for unpaid claims for annuities | 1,316 | -7 | 1,308 | 1,253 | -4 | 1,249 |
| Other provisions by case | 188 | -65 | 124 | 160 | -55 | 105 |
| Special provision for occupational diseases | 22 | | 22 | 25 | | 25 |
| Collective liability (IBNR) | 612 | -7 | 605 | 603 | -6 | 597 |
| Reserved loss adjustment expenses | 63 | | 63 | 60 | | 60 |
| Provision for unearned premiums | 523 | -13 | 511 | 493 | -12 | 481 |
| Interest rate hedge for insurance liabilities | 12 | | 12 | | | |
| **Total Non-life Insurance insurance liabilities** | **2,737** | **-92** | **2,645** | **2,593** | **-77** | **2,517** |

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

| | | 2014 | | | 2013 | |
|---|---|---|---|---|---|---|
| EUR million | Gross | Reinsurance | Net | Gross | Reinsurance | Net |
| **Provision for unpaid claims** | | | | | | |
| Provision for unpaid claims 1 Jan. | 2,100 | -65 | 2,035 | 1,993 | -62 | 1,932 |
| Claims paid in financial year | -913 | 29 | -884 | -866 | 39 | -827 |
| Change in liability/receivable | 974 | -44 | 930 | 931 | -42 | 889 |
| Current period claims | 931 | -34 | 897 | 908 | -46 | 862 |
| Increase (decrease) from previous financial years | -16 | -10 | -27 | -14 | 4 | -10 |
| Change in discount rate | 60 | | 60 | 38 | | 38 |
| Unwinding of discount | 40 | | 40 | 42 | | 42 |
| Value change in interest rate hedges | 12 | | 12 | | | |
| Foreign exchange gains (losses) | 0 | 0 | 0 | -1 | | -1 |
| Provision for unpaid claims 31 Dec. | 2,213 | -79 | 2,134 | 2,100 | -65 | 2,035 |
| | | | | | | |
| **Provision for unearned premiums** | | | | | | |
| Provision for unearned premiums 1 Jan. | 493 | -12 | 481 | 455 | -15 | 440 |
| Increase | 483 | -13 | 470 | 451 | -9 | 442 |
| Decrease | -456 | 12 | -444 | -415 | 12 | -404 |
| Change in discount rate | 2 | | 2 | 1 | | 1 |
| Unwinding of discount | 1 | | 1 | 1 | | 1 |
| Provision for unearned premiums 31 Dec. | 523 | -13 | 511 | 493 | -12 | 481 |
| **Total Non-life Insurance insurance liabilities** | **2,737** | **-92** | **2,645** | **2,593** | **-77** | **2,516** |

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

**Determination of insurance liabilities arising from non-life insurance contracts**

**a) Methods and assumptions used**

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

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

The provision for unpaid claims for annuities corresponds to the discounted present value of cash flow of compensation for loss of income payable as continuous annuity. The discount rate is determined taking account of the current interest rate, security required by law and the maximum discount rate set by the authorities and expected reasonable return on assets covering insurance liabilities. On 31 December 2014, the discount rate used was 2.5% (31 Dec. 2013: 2.8%). The mortality model applied is the cohort mortality model which is based on Finnish demographic statistics and which assumes the current trend of an increase in life expectancy to continue.

The provision for unpaid claims includes asbestos liabilities which arise from occupational diseases coverable under statutory workers' compensation insurance. The forecasted cash flow of these claims is based on an analysis which takes account of to what extent asbestos was used annually as raw material in Finland and how the latency periods of different asbestos diseases are distributed. Trends in asbestos-related claims are monitored annually and the outcome has corresponded well to the forecast.

Determining collective liability is based on different statistical methods: Bornhuetter-Ferguson, Cape Cod and Chain Ladder. When applying these methods, other selections must also be made, in addition to the selection of the method, such as deciding on how many occurrence years' statistics the methods will be applied.

**Bornhuetter-Ferguson**

The Bornhuetter-Ferguson (BF) method is based on the assumption that, in each development year, a certain portion of claims is paid of the measure of exposure of the occurrence year. This measure of exposure can, for instance, be the number of policy years or insurance premium revenue adjusted by the loss ratio assumption. BF reacts slowly to changes in the development triangle of claims. In addition, BF is sensitive to the selection of the measure of exposure.

**Cape Cod**

The Cape Cod method corresponds to the BF method in such a way that the portion of claims paid out in a development year relative to the measure of exposure is evened out between the occurrence years. In the traditional Cape Cod method, the claims’ proportion of the measure of exposure is the same evened constant for all occurrence years. In the generalised Cape Cod method, the claims’ proportion of the measure of exposure for the year of occurrence is evened out on the basis of the observations made in the occurrence year and close to the occurrence year.

**Chain Ladder**

In the Chain Ladder (CL) method, the total claims expenditure for each occurrence year is determined by annual development factors. A development factor describes the relation between the successive development years in the cumulative claims development triangle. CL is sensitive to the observations in the first development years.

In the valuation of collective liability, the largest risks relate to

- Estimating the future rate of inflation (excl. indemnities for loss of income payable on the basis of statutory insurance)
- Adjustment of changes due to changed compensation practices and legislation in the development triangle of claims (i.e. whether history provides a correct picture of the future)
- Adequacy of historical information over dozens of years.

Of the collective liability, only the liability for annuities has been discounted.

For the assessment of collective liability, the Group's non-life insurance portfolio is divided into several categories by risk and eg maturity of the cash flow applying to compensation paid. In each category, collective liability is first calculated using each statistical method stated above, and the method that best suits the category under review is chosen. The selection criteria used includes how well the model would have predicted developments in prior years of occurrence and the sensitivity of the estimate generated by the model with respect to the number of statistical years used. The safety margin of 2−10% is added to the expected value generated by the selected model. The safety margin is determined by the uncertainty associated with future cash flows and duration, as well as the quality of historical data.

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

### b) Changes in assumptions

As a result of a reduction in the lower discount rate, the provision for unpaid claims for annuities rose by EUR 62 million (38).

| Effect of changes in methods and assumptions on amount of liability | 2014 | 2013 |
|---|---|---|
| EUR million (increase +/decrease - in liability) | | |
| Change in discount rate | 62 | 38 |
| **Total** | **62** | **38** |

### c) Claims development

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

With the exception of long-term liabilities, claims development for the gross business is presented over a period of ten years. The claims triangle does not monitor the shares of pools and the trends in the rights of recourse related to statutory workers' compensation insurance. The capital value of finalised annuities is treated as if the annuities had been paid equalling the capital amount in connection with confirmation as final. For long-term liabilities, i.e. annuities confirmed as final and asbestos-related claims, information on the adequacy of insurance liabilities is provided.

**Claims triangles, gross business, EUR million**

| Occurrence year | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Estimated total claims expenditure | | | | | | | | | | | |
| 0* | 540 | 603 | 638 | 707 | 666 | 738 | 784 | 815 | 903 | 931 | 7,325 |
| n+1 | 540 | 611 | 633 | 693 | 633 | 746 | 751 | 802 | 879 | | |
| n+2 | 535 | 591 | 627 | 691 | 640 | 744 | 752 | 805 | | | |
| n+3 | 529 | 594 | 622 | 689 | 641 | 743 | 757 | | | | |
| n+4 | 532 | 594 | 622 | 704 | 651 | 750 | | | | | |
| n+5 | 532 | 587 | 647 | 726 | 653 | | | | | | |
| n+6 | 529 | 587 | 657 | 734 | | | | | | | |
| n+7 | 536 | 591 | 661 | | | | | | | | |
| n+8 | 536 | 594 | | | | | | | | | |
| n+9 | 540 | | | | | | | | | | |
| Current estimate of total claims expenditure | | | | | | | | | | | |
| | 540 | 594 | 661 | 734 | 653 | 750 | 757 | 805 | 879 | 931 | 7,304 |
| Accumulated claims paid | | | | | | | | | | | |
| | -516 | -561 | -615 | -669 | -576 | -684 | -662 | -696 | -704 | -484 | -6,167 |
| **Provision for unpaid claims for 2005−2014** | **24** | **33** | **46** | **66** | **76** | **66** | **95** | **109** | **175** | **447** | **1,136** |
| | | | | | | | | | | | |
| Provision for unpaid claims for previous years | | | | | | | | | | | 155 |

* = at the end of the occurrence year

**Development of claims due to latent occupational diseases, EUR million**

| Financial year | Collective liability | Known liabilities for annuities | Claims paid | Claims incurred | Changes in reserving basis* | Adequacy |
|---|---|---|---|---|---|---|
| 2005 | 45 | 39 | -4 | -2 | 1 | -1 |
| 2006 | 43 | 40 | -4 | -3 | | -3 |
| 2007 | 41 | 40 | -4 | -2 | -1 | -2 |
| 2008 | 40 | 41 | -4 | -4 | 3 | -2 |
| 2009 | 42 | 43 | -4 | -8 | 4 | -4 |
| 2010 | 38 | 44 | -3 | 0 | | 0 |
| 2011 | 35 | 50 | -3 | -6 | 5 | -2 |
| 2012 | 32 | 53 | -4 | -4 | 2 | -1 |
| 2013 | 28 | 53 | -4 | -1 | 1 | 0 |
| 2014 | 22 | 53 | -4 | -2 | 2 | 0 |

**Development of annuities confirmed as final, EUR million**

| Financial year | Year-start | Year-end | New annuity capital | Annuities paid | Changes in reserving basis* | Adequacy |
|---|---|---|---|---|---|---|
| 2006 | 681 | 731 | 77 | 26 | | 1 |
| 2007 | 731 | 745 | 60 | 28 | -15 | 3 |
| 2008 | 745 | 766 | 55 | 30 | | 4 |
| 2009 | 763** | 771 | 42 | 32 | | 2 |
| 2010 | 771 | 794 | 60 | 34 | | 3 |
| 2011 | 794 | 895 | 66 | 35 | 77 | 7 |
| 2012 | 895 | 940 | 66 | 34 | 31 | 18 |
| 2013 | 940 | 965 | 51 | 37 | 23 | 12 |
| 2014 | 965 | 1,010 | 54 | 40 | 36 | 5 |

* Effect of changes in the discount rate and the mortality model on final annuity capital.

** A small amount of healthcare and senior housing provisions was eliminated from 2009 figures.

**Claims triangles, net business, EUR million**

| Occurrence year | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Estimated total claims expenditure | | | | | | | | | | | |
| 0* | 511 | 580 | 621 | 656 | 649 | 693 | 721 | 796 | 861 | 897 | 6,987 |
| n+1 | 519 | 593 | 623 | 656 | 620 | 707 | 697 | 782 | 829 | | |
| n+2 | 509 | 575 | 619 | 658 | 629 | 705 | 710 | 786 | | | |
| n+3 | 509 | 577 | 615 | 656 | 629 | 705 | 714 | | | | |
| n+4 | 513 | 577 | 615 | 670 | 633 | 712 | | | | | |
| n+5 | 513 | 569 | 624 | 684 | 633 | | | | | | |
| n+6 | 513 | 569 | 634 | 691 | | | | | | | |
| n+7 | 518 | 573 | 637 | | | | | | | | |
| n+8 | 519 | 576 | | | | | | | | | |
| n+9 | 522 | | | | | | | | | | |
| Current estimate of total claims expenditure | | | | | | | | | | | |
| | 522 | 576 | 637 | 691 | 633 | 712 | 714 | 786 | 829 | 897 | 6,996 |
| Accumulated claims paid | | | | | | | | | | | |
| | -499 | -543 | -592 | -628 | -569 | -647 | -624 | -681 | -677 | -479 | -5,939 |
| **Provision for unpaid claims for 2005−2014** | **23** | **33** | **45** | **63** | **64** | **65** | **90** | **104** | **152** | **418** | **1,057** |
| | | | | | | | | | | | |
| Provision for unpaid claims for previous years | | | | | | | | | | | 155 |

* = 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 36 million (27). The change in technical interest, EUR 62 million (38), added to claims incurred. Change in claims incurred based on loss events for prior financial years describes the adequacy of insurance liabilities, which on average is positive due to the security of insurance liabilities.

### Claims administration contracts

On 31 December 2014, liabilities related to claims administration contracts totalled EUR 80 million (81).

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.

## Note 34. Debt securities issued to the public

| EUR million | Average interest rate, % | 31 Dec. 2014 | Average interest rate, % | 31 Dec. 2013 |
|---|---|---|---|---|
| Bonds | 1.57 | 10,808 | 1.91 | 9,322 |
| Liabilities allocated to assets for distribution to owners as part of demerger | | -195 | | |
| Other | | | | |
| Certificates of deposit | 0.14 | 828 | 0.21 | 1,775 |
| Commercial papers | 0.37 | 6,198 | 0.28 | 4,994 |
| Other | 1.71 | 14 | 0.57 | 101 |
| Included in own portfolio in trading (–)* | | -66 | | -95 |
| **Total debt securities issued to the public** | | **17,587** | | **16,097** |

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

| Long-term loans and interest rate bases | Nominal amount | Interest rate | Maturity |
|---|---|---|---|
| Pohjola Bank plc Issue of EUR 50,000,000 Floating Rate Instruments due 9 February 2015 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments | 50.0 | EUB3M | 9 Feb. 2015 |
| Pohjola Bank plc Issue of USD 60,000,000 Floating Rate Instruments due 13 March 2015 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments | 49.4 | USL3M + 0.17% | 13 March 2015 |
| Pohjola Bank plc Issue of EUR 750,000,000 3.125 per cent. Instruments due 25 March 2015 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments | 750.0 | Fixed 3.125 % | 25 March 2015 |
| Pohjola Bank plc Issue of EUR 220,000,000 Floating Rate Instruments due 28 June 2015 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments | 220.0 | EUB3M + 0.65% | 28 June 2015 |
| Pohjola Bank plc Issue of EUR 50,000,000 Floating Rate Notes due 7 October 2015 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments | 50.0 | EUB3M + 0.05% | 7 Oct. 2015 |
| Pohjola Bank plc Issue of GBP 250,000,000 Floating Rate Notes due November 2015 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments | 321.0 | GBL3M + 0.55% | 9 Nov. 2015 |
| Pohjola Bank plc Issue of EUR 10,000,000 2.62 per cent, Fixed Rate Instruments due 19 November 2015 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments | 10.0 | Fixed 2.62 % | 19 Nov. 2015 |
| JPY 2,000,000,000 Term Loan Facility | 13.8 | Fixed 1.706 % | 30 Nov. 2015 |
| Pohjola Bank plc Issue of USD 150,000,000 Floating Rate Instruments due 18 December 2015 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments | 123.5 | USL3M + 0.13% | 18 Dec. 2015 |
| Pohjola Bank plc Issue of EUR 500,000,000 3.125 per cent. Instruments due 12 January 2016 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments | 500.0 | Fixed 3.125 % | 12 Jan. 2016 |
| OKO Osuuspankkien Keskuspankki Oyj ("OKO BANK") Issue of NOK 1,000,000,000 Fixed Rate Notes Due 15 February 2016 under the EUR 8,000,000,000 Programme for the Issuance of Debt Instruments | 110.6 | Fixed 4.185 % | 15 Feb. 2016 |
| Pohjola Bank Plc Japanese Yen Bonds JPY 21,100,000,000 - First Series (2013) | 145.3 | Fixed 0.519% | 24 June 2016 |

| | | | |
|---|---|---|---|
| Pohjola Bank plc Issue of JPY 5,000,000,000 Fixed Rate Instruments under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments | 34.4 | Fixed 0.835 % | 26 Sept. 2016 |
| Pohjola Bank plc Issue of EUR 750,000,000 Floating Rate Instruments due 3 March 2017 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments | 750.0 | EUB3M + 0.35% | 3 March 2017 |
| Pohjola Bank plc Issue of EUR 750,000,000 2.625 per cent. Instruments due 20 March 2017 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments | 750.0 | Fixed 2.625 % | 20 March 2017 |
| Pohjola Bank plc Issue of EUR 60,000,000 Floating Rate Instruments due 30 May 2017 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments | 60.0 | EUB3M + 0.90% | 30 May 2017 |
| Pohjola Bank Plc Japanese Yen Bonds JPY 17,600,000,000 - Third Series (2014) | 121.2 | Fixed 0.303% | 16 June 2017 |
| Pohjola Bank plc Issue of EUR 750,000,000 3.00 per cent. Instruments due 8 September 2017 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments | 750.0 | Fixed 3.00 % | 8 Sept. 2017 |
| Pohjola Bank plc Issue of JPY 2,000,000,000 Floating Rate Instruments due 28 March 2018 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments | 13.8 | JPL3M + 0.20% | 28 March 2018 |
| Pohjola Bank plc Issue of EUR 500,000,000 1.25 per cent. Instruments due 14 May 2018 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments | 500.0 | Fixed 1.25% | 14 May 2018 |
| Pohjola Bank Plc Japanese Yen Bonds JPY 6,900,000,000 - Second Series (2013) | 47.5 | Fixed 0.698% | 26 June 2018 |
| Pohjola Bank Plc Japanese Yen Floating Rate Bonds JPY 2,000,000,000 - Second Series (2013) | 13.8 | JPL3M + 0.27% | 26 June 2018 |
| Pohjola Bank plc Issue of EUR 750,000,000 1.750 per cent. Instruments due 29 August 2018 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments | 750.0 | Fixed 1.750% | 29 Aug. 2018 |
| Pohjola Bank plc Issue of EUR 10,000,000 Floating Rate Instruments due 20 September 2018 under the EUR 15,000,000,0000 Programme for the Issuance of Debt Instruments | 10.0 | EUB3M + 0.39% | 20 Sept. 2018 |
| Pohjola Bank plc Issue of EUR 20,000,000 1.50 per cent. Fixed Rate Notes due 16 November 2018 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments | 20.0 | Fixed 1.50% | 16 Nov. 2018 |
| Pohjola Bank plc Issue of EUR 750,000,000 1.125 per cent. Instruments due 17 June 2019 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments | 750.0 | Fixed 1.125% | 17 June 2019 |
| Pohjola Bank Plc Japanese Yen Bonds JPY 42,400,000,000 - Fourth Series (2014) | 292.0 | Fixed 0.434% | 18 June 2019 |
| Pohjola Bank plc Issue of AUD 20,000,000 3.925 per cent Fixed Rate Notes due 27 June 2019 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments | 13.5 | Fixed 3.925 % | 27 June 2019 |
| Pohjola Bank plc Issue of SEK 750,000,000 Floating Rate Note due September 2019 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments | 79.8 | SES3M+0.52% | 16 Sept. 2019 |
| Pohjola Bank plc Issue of EUR 10,000,000 1.965 per cent. Instruments due 19 November 2020 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments | 10.0 | Fixed 1.965 % | 19 Nov. 2020 |
| Pohjola Bank plc Issue of JPY 8,000,000,000 Fixed Rate Instruments due December 2020 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments | 55.1 | Fixed 1.405 % | 3 Dec. 2020 |
| Pohjola Bank plc Issue of EUR 750,000,000 2 per cent. Instruments due 3 March 2021 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments | 750.0 | Fixed 2.000% | 3 March 2021 |
| Pohjola Bank plc Issue of CHF 300,000,000 1.000 per cent. Instruments due 14 July 2021 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments | 249.5 | Fixed 2.000 % | 14 July 2021 |

| | | | |
|---|---|---|---|
| Pohjola Bank plc Issue of EUR 60,000,000 3.75 per cent. Instruments due 1 March 2022 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments | 60.0 | Fixed 3.75 % | 1 March 2022 |
| Pohjola Bank plc Issue of EUR 50,000,000 3.086 per cent. Instruments due 23 August 2027 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments | 50.0 | Fixed 3.086 % | 23 Aug. 2027 |
| Pohjola Bank plc Issue of NOK 200,000,000 3.80 per cent. Instruments due 27 May 2029 under the €15,000,000,000 Programme for Debt Instruments | 22.1 | Fixed 3.800% | 27 May 2029 |
| Pohjola Bank plc Issue of EUR 30,000,000 3.068 per cent. Instruments due 21 March 2034 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments | 30.0 | Fixed 3.068 % | 21 March 2034 |
| Pohjola Bank plc Issue of EUR 30,000,000 Fixed Rate Notes due 2034 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments | 30.0 | Fixed 3.015 % | 31 March 2034 |
| Pohjola Bank plc Issue of EUR 40,000,000 Fixed Rate Notes due 2034 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments | 40.0 | Fixed 3.000 % | 11 Apr. 2034 |

The interest rate is the rate according to the issue currency. The euro equivalents are calculated using the average rate of the European Central Bank on the balance sheet date. The nominal amount of structured bonds issued by Pohjola Bank plc was EUR 1,303 million (1,448). The bonds' interest rate is determined on the basis of interest, equity, equity index or similar underlying instruments. Any possible additional return on the bonds to the investor is hedged using a corresponding derivative structure.

## Note 35. Provisions and other liabilities

| EUR million | 31 Dec. 2014 | 31 Dec. 2013* |
|---|---|---|
| Provisions | 0 | 1 |
| Other liabilities | | |
| Payment transfer liabilities | 819 | 869 |
| Accrued expenses | | |
| Interest payable | 665 | 712 |
| Other accrued expenses | 56 | 64 |
| Pension liabilities | 68 | 20 |
| Margin liabilities related to derivative contracts | 0 | 0 |
| Other | 870 | 408 |
| **Total provisions and other liabilities** | **2,479** | **2,076** |

* Comparative figures have been restated as a result of the adoption of IFRS 10 Consolidated Financial Statements.

The item Other under Other liabilities includes EUR 29 million (15) in accounts payable on securities and EUR 722 million (359) in CSA collateral liabilities.

**Changes in provisions**

| EUR million | Reorganisation | Total |
|---|---|---|
| 1 Jan. 2014 | 1 | 1 |
| Provisions used | -1 | -1 |
| **31 Dec. 2014** | **0** | **0** |

**Changes in provisions**

| EUR million | Reorganisation | Total |
|---|---|---|
| 1 Jan. 2013 | 7 | 7 |
| Provisions used | -7 | -7 |
| **31 Dec. 2013** | **1** | **1** |

**Reorganisation**

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

**Defined benefit pension plans**

Pohjola Group has funded assets of its pension schemes through OP Bank Group Pension Fund, OP Bank Group Pension Foundation and insurance companies. Schemes related to supplementary pensions in the Pension Foundation and insurance company, as well as the TyEL (Employees' Pensions Act) funded old-age and disability pension schemes managed by the Pension Fund are treated as defined benefit plans. Contributions to the TyEL pay-as-you-go system are treated as defined contribution plans. The amount of the Group's pension liabilities is not substantial.

**OP Bank Group Pension Fund**

OP Bank Group Pension Fund manages statutory pension insurance for the employees of Pohjola Group employers as the Fund's members.

The statutory pension scheme under TyEL (Employees Pensions Act) provides pension benefits based on the years of employment and earnings as prescribed in the Act. Benefits under the employees pension scheme comprise old-age pension, part-time pension, disability pension, survivor's pension and rehabilitation benefits. The retirement age of the old-age pension under TyEL is 63–68 years.

The TyEL pension scheme is based on a system that is partly a funded system and partly a pay-as-you go system. A pension insurance institution, which has insured each employment, manages funding for each employee. The funded portion of the pension benefits disbursed annually by the Pension Fund accounts for an average of a quarter.

The Pension Fund aims to manage statutory pension insurance in such a way that the level of contributions will remain steady year after year and be below the average contribution level of the employees pension scheme. The most significant associated risk relates to the possibility of the actual return on investment assets being lower than the actual average investment return under the pension scheme. If such a risk materialises in several consecutive years, this would result in increasing the level of insurance contributions.

The most significant actuarial risks of OP Bank Group Pension Fund are associated with interest rate and market risks, future increases in pension benefits and systematically increasing life expectancy. A change in the discount rate for pension liabilities has a substantial effect on the amount of pension liabilities.

Under the Employee Benefit Funds Act, the Pension Fund shall invest its assets securely and profitably and in view of its liquidity. The Pension Fund must cover the insurance liability arising from pension obligations. When covering the insurance liability, the Pension Fund must consider what type of insurance business it conducts and, accordingly, must ensure the security of, return on and cashability of its assets and that they are appropriately versatile and properly diversified. The Employee Benefit Funds Act specifies in greater detail the assets and commitments with which the insurance liability must cover. As prescribed by law, the Pension Fund has a specific solvency limit which is must cover through its solvency capital.

Responsible for investment, the Board of Trustees of the Pension Fund approves the Pension Fund's investment plan related to its assets. A pension institution's chief actuary prepares annually a forecast for developments in insurance liabilities and pension costs. On this basis, investment asset allocation takes account of the requirements set by the nature of insurance liabilities for investment operations with respect to the level of security, productivity and liquidity, as well as the Pension Fund's risk-bearing capacity.

**OP Bank Group Pension Foundation**

OP-Bank Group Pension Foundation manages supplementary pension cover for employees provided by the employers within Pohjola Group. The purpose of the Pension Foundation is to grant old-age and disability pension benefits and sickness benefits to employees covered by the Pension Foundation activities, and survivors' pension benefits to their beneficiaries, and burial grant. In addition, the Pension Foundation may grant said employees benefits related to rehabilitation. Given that providing supplementary pension is voluntary, not all employers belonging to the Pension Fund belong automatically to the Pension Foundation. Supplementary pension cover provided by the Pension Foundation is fully funded.

The Pension Foundation covers every employee who has reached the age of 20 years and who has been employed, as specified by TyEL, for two consecutive years by the employer within the Pension Foundation and whose employment has begun before 1 July 1991. The salary/wage serving as the basis for the calculation of pension refers to pensionable pay based on one and the same employment and calculated under the Finnish Employees' Pensions Act, TEL, in force until 31 December 2006. The retirement age of those covered by the Pension Foundation varies from 60 to 65 years, depending on the personnel group to which the employee belongs under the Pension Foundation rules.

The most significant associated risk relates to the possibility of the actual return on investment assets being lower than the target set for the minimum return. If such a risk materialises in several consecutive years, this would result in charging contributions.

The most significant actuarial risks of OP Bank Group Pension Foundation are associated with interest rate and market risks, systematically increasing life expectancy and inflation risk. A change in the discount rate for pension liabilities has a substantial effect on the amount of pension liabilities.

Responsible for investment, the Board of Trustees of the Pension Foundation approves the Foundation's investment plan related to its assets. A pension institution's chief actuary prepares annually a forecast for developments in insurance liabilities and pension costs. On this basis, investment asset allocation takes account of the requirements set by the nature of insurance liabilities for investment operations with respect to the level of security, productivity and liquidity, as well as the Pension Foundation's risk-bearing capacity.

| Balance sheet value of defined benefit plans, EUR million | Defined benefit obligations | | Fair value of pension assets | | Net liabilities (assets) | |
|---|---|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| **Opening balance 1 Jan.** | **186** | **184** | **-171** | **-172** | **15** | **12** |
| **Defined benefit pension costs recognised** | | | | | | |
| Current service cost | 4 | 5 | | | 4 | 5 |
| Interest expense (income) | 6 | 6 | -6 | -6 | 0 | 0 |
| Effect of plan curtailment or fulfilment of obligation | 0 | -4 | | 4 | 0 | |
| Administrative expenses | | | 0 | 0 | 0 | 0 |
| **Total** | **10** | **8** | **-6** | **-2** | **4** | **6** |
| **Losses (gains) recognised in other comprehensive income arising from remeasurement** | | | | | | |
| Actuarial losses (gains) arising from changes in economic expectations | 64 | 2 | | | 64 | 2 |
| Actuarial losses (gains) arising from changes in demographic expectations | | | | | | |
| Return on TyEL interest rate difference and growth in old-age pension liabilities (net) | 1 | 1 | -1 | -1 | | |
| Experience adjustments | 12 | -3 | | | 12 | -3 |
| Return on plan assets, excluding amount (–) of net defined benefit liability (asset) | | | -26 | 0 | -26 | 0 |
| **Total** | **77** | **0** | **-27** | **-1** | **50** | **0** |
| **Other** | | | | | | |
| Employer contributions | | | -1 | -2 | -1 | -2 |
| Benefits paid | -6 | -5 | 6 | 5 | | |
| **Total** | **-6** | **-5** | **5** | **3** | **-1** | **-2** |
| **Closing balance 31 Dec.** | **267** | **186** | **-199** | **-171** | **68** | **15** |

| **Liabilities and assets recognised in the balance sheet, EUR million** | **31 Dec. 2014** | **31 Dec. 2013** |
|---|---|---|
| Net liabilities/assets (Pension Foundation) | 3 | -5 |
| Net liabilities/assets (Pension Fund) | 46 | 5 |
| Net liabilities/assets (Other pension plans) | 20 | 15 |
| **Total net liabilities/assets*** | **68** | **15** |

*) The figures include EUR 42 thousand (78) in defined benefit pension costs of the portion of Pohjola Asset Management as discontinued operations, EUR 183 thousand (-147) in losses (profits) arising from the remeasurement that were recognised in other comprehensive income and EUR 596 thousand (382) in pension liabilities recognised in the balance sheet.

| **Pension Fund and Pension Foundation assets, grouped by valuation technique, 31 Dec. 2014, EUR million** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| Shares and participations | 4 | 2 | 4 | 10 |
| Notes and bonds | 17 | 28 | 1 | 46 |
| Real property | | | 14 | 14 |
| Mutual funds | 59 | | 32 | 90 |
| Structured investment vehicles | | | 1 | 1 |
| Derivatives | 0 | | | 0 |
| Other assets | 11 | 1 | | 12 |
| **Total** | **91** | **31** | **52** | **173** |

| **Pension Fund and Pension Foundation assets, grouped by valuation technique, 31 Dec. 2013, EUR million** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| Shares and participations | 9 | 0 | 6 | 16 |
| Notes and bonds | 18 | 26 | 1 | 45 |
| Real property | | | 16 | 16 |
| Mutual funds | 48 | 3 | 29 | 80 |
| Structured investment vehicles | | | 1 | 1 |
| Derivatives | 0 | 0 | | 0 |
| Other assets | 7 | 1 | | 7 |
| **Total** | **82** | **30** | **53** | **166** |

The fair value of Level 1 assets is determined on the basis of the quotes in markets.

The fair value of Level 2 assets means value derived from the market price of a financial instrument's components or similar financial instruments; or value which can be determined using commonly used valuation models and techniques if the inputs significant to the fair value measurement are based on observable market data.

The fair value Level 3 assets is determined using a pricing model whose input parameters involve uncertainty.

| Proportion of the most significant assets of total fair value of plan assets, % | 31 Dec. 2014 | 31 Dec. 2013 |
|---|---|---|
| Shares and participations | 6 | 10 |
| Financial sector | | 5 |
| Forest | 3 | 3 |
| Real estate | 0 | 1 |
| Other | 3 | 1 |
| Notes and bonds | 26 | 27 |
| Government bonds | 1 | 6 |
| Other | 25 | 21 |
| Real property | 8 | 10 |
| Mutual funds | 52 | 48 |
| Equity funds | 33 | 27 |
| Bond funds | 8 | 11 |
| Real estate funds | 5 | 6 |
| Hedge funds | 7 | 5 |
| Derivatives | 0 | 0 |
| Interest rate derivatives | 0 | 0 |
| Currency derivatives | 0 | 0 |
| Other | 0 | 0 |
| Structured investment vehicles | 1 | 1 |
| Other | 7 | 4 |
| **Total** | **100** | **100** |

| Pension plan assets include, EUR million | 31 Dec. 2014 | 31 Dec. 2013 |
|---|---|---|
| Pohjola Bank plc shares | | 9 |
| Securities issued by OP Financial Group companies | 3 | 2 |
| Other receivables from OP Financial Group companies | 15 | 6 |
| Real property in Pohjola Group's use | 1 | 2 |
| **Total** | **19** | **18** |

Contributions payable under the defined benefit pension plan in 2015 are estimated at EUR 3 million.

The duration of the defined benefit pension obligation in the Pension Fund on 31 December 2014 was 24.3 years and in the Pension Foundation 15.3 years.

| Key actuarial assumptions used, 31 Dec. 2014 | Pension Fund | Pension Foundation | Other |
|---|---|---|---|
| Discount rate, % | 2.0 | 1.8 | 1.9 |
| Future pay increase assumption, % | 2.5 | 2.5 | 2.5 |
| Future pension increases, % | 2.1 | 2.0 | 2.0−2.1 |
| Turnover rate, % | 3.0 | 0.5 | |
| Inflation rate, % | 2.0 | 2.0 | 2.0 |
| Life expectancy for 65-year old people | | | |
| Men | 19.0 | 19.0 | 19.0 |
| Women | 24.7 | 24.7 | 24.7 |
| Life expectancy for 45-year old people after 20 years | | | |
| Men | 20.6 | 20.6 | 20.6 |
| Women | 26.4 | 26.4 | 26.4 |

| Key actuarial assumptions used, 31 Dec. 2013 | Pension Fund | Pension Foundation | Other |
|---|---|---|---|
| Discount rate, % | 3.5 | 3.4 | 3.3 |
| Future pay increase assumption, % | 3.0 | 3.0 | 3.0 |
| Future pension increases, % | 2.1 | 2.0 | 2.0−2.1 |
| Turnover rate, % | 3.0 | 0.5 | 0.0 |
| Inflation rate, % | 2.0 | 2.0 | 2.0 |
| Life expectancy for 65-year old people | | | |
| Men | 19.0 | 19.0 | 19.0 |
| Women | 24.7 | 24.7 | 24.7 |
| Life expectancy for 45-year old people after 20 years | | | |
| Men | 20.6 | 20.6 | 20.6 |
| Women | 26.4 | 26.4 | 26.4 |

| | Change in defined benefit pension obligation | | | |
|---|---|---|---|---|
| | Pension Fund | | Pension Foundation | |
| Sensitivity analysis of key actuarial assumptions, 31 Dec. 2014 | EUR million | % | EUR million | % |
| Discount rate | | | | |
| 0.5 pp increase | -17 | -10.3 | -4 | -6.8 |
| 0.5 pp decrease | 20 | 12.2 | 4 | 7.7 |
| Pension increases | | | | |
| 0.5 pp increase | 19 | 11.4 | 4 | 6.9 |
| 0.5 pp decrease | -17 | -10.3 | -4 | -6.4 |
| Mortality | | | | |
| 1-year increase in life expectancy | 7 | 3.9 | 2 | 3.0 |
| 1-year decrease in life expectancy | -6 | -3.8 | -2 | -2.9 |

| | Change in defined benefit pension obligation | | | |
|---|---|---|---|---|
| | Pension Fund | | Pension Foundation | |
| **Sensitivity analysis of key actuarial assumptions, 31 Dec. 2013** | **EUR million** | **%** | **EUR million** | **%** |
| Discount rate | | | | |
| 0.5 pp increase | -11 | -9.1 | -3 | -6.2 |
| 0.5 pp decrease | 12 | 10.6 | 3 | 6.9 |
| Pension increases | | | | |
| 0.5 pp increase | 12 | 10.1 | 3 | 6.2 |
| 0.5 pp decrease | -11 | -9.1 | -3 | -5.9 |
| Mortality | | | | |
| 1-year increase in life expectancy | 4 | 3.3 | 1 | 2.5 |
| 1-year decrease in life expectancy | -4 | -3.2 | -1 | -2.5 |

## Note 36. Tax liabilities

| EUR million | 31 Dec. 2014 | 31 Dec. 2013* |
|---|---|---|
| Income tax liabilities | 37 | 17 |
| Deferred tax liabilities | 354 | 360 |
| **Total tax liabilities** | **391** | **378** |

* Comparative figures have been restated as a result of the adoption of IFRS 10 Consolidated Financial Statements.

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

## Note 37. Subordinated liabilities

| | Average interest rate, % | 31 Dec. 2014, EUR million | Average interest rate, % | 31 Dec. 2013, EUR million |
|---|---|---|---|---|
| Subordinated loans | 2.55 | 315 | 2.75 | 303 |
| Other | | | | |
| Debentures | 5.39 | 769 | 5.39 | 681 |
| **Total subordinated liabilities** | | **1,084** | | **984** |

**Hybrid bonds/subordinated loans**

**Hybrid bonds included in Tier 1**

1 Subordinated loan of 10 billion Japanese yen (equivalent of EUR 68.9 million)
This is a perpetual loan (a loan without a due date) carrying a fixed interest rate of 4.23% until 18 June 2034 and subsequently a variable 6-month Yen Libor + 1.58% (step up). Interest will be annually payable on 18 June and 18 December. If interest cannot be paid for a given interest period, the obligation to pay interest for the period in question will lapse. The loan can be called in at the earliest in 2014 and can be annually repaid after 2014 on the interest due date on 18 June or 18 December. The loan's entire principal must be repaid in one instalment.

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

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

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

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

6 Pohjola Insurance Ltd's capital bond

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

Loans 1 and 3 are included in hybrid instruments.

The difference between the nominal value and carrying amount is due to the fair value hedge related to interest rate risk measurement.

**Debentures**

1 A debenture loan of CHF 100 million (euro equivalent 83 million), which is a ten-year bullet loan, will mature on 14 July 2021. The loan carries a fixed interest rate of 3.375% p.a.
2 A debenture loan of EUR 100 million, which is a ten-year bullet loan, will mature on 14 September 2021. The loan carries a fixed interest rate of 5.25% p.a.
3 A debenture loan of EUR 500 million, which is a 10-year bullet loan, will mature on 28 February 2022. Under the terms and conditions of the loan, the issuer will have the opportunity for early redemption in case the principal cannot be counted as part of the bank's Tier 2 capital. The loan carries a fixed interest rate of 5.75% p.a.

Loans 1–3 were issued in international capital markets.

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

## Note 38. Shareholders' equity

| EUR million | 31 Dec. 2014 | 31 Dec. 2013* | 1 Jan. 2013* |
|---|---|---|---|
| **Capital and reserves attributable to owners of the Parent** | | | |
| **Share capital** | **428** | **428** | **428** |
| **Reserves** | | | |
| Restricted reserves | | | |
| Share premium account | 519 | 519 | 519 |
| Reserve fund | 204 | 204 | 204 |
| Reserves provided for by Articles of Association | | | |
| Fair value reserve | | | |
| From fair value measurement | | | |
| Notes and bonds | 102 | 44 | 50 |
| Shares and participations | 112 | 113 | 97 |
| From cash flow hedging | 17 | 11 | 23 |
| Other restricted reserves | 1 | 1 | 1 |
| Non-restricted reserves | | | |
| Reserve for Invested non-restricted equity | 298 | 298 | 298 |
| Other non-restricted reserves | 72 | 72 | 72 |
| **Retained earnings** | | | |
| Profit (loss) for previous periods | 1,104 | 933 | 796 |
| Profit (loss) for the period | 461 | 426 | 283 |
| **Capital and reserves attributable to owners of the Parent** | **3,316** | **3,047** | **2,771** |
| **Non-controlling interest** | **92** | **103** | **69** |
| **Total shareholders' equity** | **3,408** | **3,150** | **2,841** |

* Comparative figures have been restated as a result of the adoption of IFRS 10 Consolidated Financial Statements.

**Share capital and shares**

As a result of the completion of OP Cooperative's public voluntary bid for Pohjola Bank plc, the shares of Pohjola Bank plc were removed from the book-entry system on 28 November 2014, and Series A and K shares were combined into a single share class. The number of shares remained unchanged, 319,551,415. The shares have no nominal value and their stated value (not an exact figure) is 1.34 euros per share. All of the shares issued have been paid in full.

**Proposed distribution of dividend**

The Board proposes to the Annual General Meeting that a dividend of EUR 0.43 be distributed per share, totalling EUR 137 million.

### Share premium account

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

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

### Reserve fund

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

### Fair value reserve

The fair value reserve includes the change in the fair value of available-for-sale financial assets. Items included in this reserve will be derecognised and recorded in the income statement when an available-for-sale financial asset is disposed of or is subject to impairment. The reserve also includes the net fair value change of interest rate derivatives as cash flow hedges verified as effective and adjusted for deferred tax. Fair value changes are included in the income statement in the period when hedged cash flows affect net income.

*Fair value reserve after income tax*

| | Available-for-sale financial assets | | | |
|---|---|---|---|---|
| **EUR million** | **Notes and bonds** | **Shares, partici-pations and mutual funds** | **Cash flow hedging** | **Total** |
| Opening balance 1 Jan. 2013 restated* | 50 | 97 | 23 | 171 |
| Fair value changes | -12 | 51 | -2 | 37 |
| Transfers to net interest income | | | -15 | -15 |
| Capital gains transferred to income statement | | -42 | | -42 |
| Impairment loss transferred to income statement | | 3 | | 3 |
| Deferred tax | 5 | 3 | 5 | 13 |
| **Closing balance 31 December 2013** | **44** | **113** | **11** | **168** |

*Comparative figures have been restated as a result of the adoption of IFRS 10 Consolidated Financial Statements.

| EUR million | Available-for-sale financial assets<br>Notes and bonds | <br>Shares, partici-pations and mutual funds | Cash flow hedging | Total |
|---|---|---|---|---|
| Opening balance 1 Jan. 2014 | 44 | 113 | 11 | 168 |
| Fair value changes | 73 | 77 | 18 | 168 |
| Transfers to net interest income | | | -12 | -12 |
| Capital gains transferred to income statement | | -78 | | -78 |
| Impairment loss transferred to income statement | | 0 | | 0 |
| Deferred tax | -15 | 0 | -1 | -16 |
| **Closing balance 31 December 2014** | **102** | **112** | **17** | **231** |

| | |
|---|---|
| Fair value reserve after tax is as follows: | |
| Continuing operations | 231 |
| Discontinued operations | 0 |
| **Total** | **231** |

The fair value reserve before tax totalled EUR 288 million (210) and the related deferred tax liability EUR 57 million (42). On 31 December, positive mark-to-market valuations of equity instruments before tax in the fair value reserve totalled EUR 149 million (154) and negative mark-to-market valuations EUR 8 million (13). In January-December, impairment losses recognised through profit or loss in the fair value reserve totalled EUR 1 million (1), of wich equity instruments accounted for EUR 0 million (1).

The negative fair value reserve may recover by means of asset appreciation, capital losses and recognised impairments.

### Other restricted reserves

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

### Reserve for Invested non-restricted equity

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

### Other non-restricted reserves

These reserves consist of retained earnings based on decisions by the General Meeting.

### Retained earnings

Retained earnings also contain untaxed reserves (voluntary provisions and accelerated depreciation) included in the statutory financial statements of Group companies, and the equalisation provision and actuarial gains/losses of insurance companies, which have been recognised in retained earnings less deferred tax in the IFRS financial statements.

# NOTES TO RISK MANAGEMENT

Note 2 covers risk management and capital adequacy management principles. Notes 40–56 present the risk exposure within Banking and the Group Functions, Pohjola Group's capital adequacy information is disclosed as part of OP Financial Group's financial statements. Pohjola Group's capital base, minimum capital requirements, derivative contracts and counterparty risk are presented in Notes 57–60 and Non-life Insurance risk exposure in Notes 61–72.

## Note 39. Pohjola Group's exposure split by geographic region and exposure class

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

**Exposure split by geographic region 31 Dec. 2014, EUR million**

| Geographic region | Exposure to central governments and central banks | Exposures to credit institutions | Exposures to corporates | Retail exposures | Equity investments* | Collateralised notes and bonds** | Other | Total |
|---|---|---|---|---|---|---|---|---|
| Finland | 5,273 | 18,349 | 23,759 | 1,968 | 279 | 461 | 25 | 50,114 |
| Baltic countries | 189 | 2 | 775 | 4 | 0 | | | 971 |
| Other Nordic countries | 0 | 483 | 504 | 23 | 4 | 1,165 | 0 | 2,180 |
| Germany | 1,569 | 182 | 32 | 106 | 4 | 424 | | 2,316 |
| France | 220 | 494 | 58 | 39 | 22 | 894 | | 1,726 |
| GIIPS countries*** | 15 | 23 | 126 | 1 | 16 | 362 | | 544 |
| Other EU countries | 1,256 | 1,190 | 263 | 192 | 220**** | 639 | 2 | 3,763 |
| Rest of Europe | | 157 | 57 | 14 | 5 | 87 | | 320 |
| USA | | 194 | 61 | 81 | 48 | | | 385 |
| Russia | | 79 | 37 | 0 | 1 | | | 117 |
| Asia | | 381 | 74 | 15 | 24 | | | 494 |
| Other countries | 1 | 64 | 12 | 28 | 204**** | 515 | | 824 |
| **Total** | **8,524** | **21,598** | **25,759** | **2,472** | **828** | **4,547** | **28** | **63,755** |

* Also include €160 million in bond funds.
** Consist of RMBS, ABS and Covered Bond investments.
*** Exposures to Spain totalled EUR 148 million and to Italy EUR 142 million.
**** Consist mainly of investments in European funds in Other EU countries and Emerging Markets and Global funds in Other countries.

**Exposure split by geographic region 31 Dec. 2013, EUR million**

| Geographic region | Exposure to central governments and central banks | Exposures to credit institutions | Exposures to corporates | Retail exposures | Equity investments* | Collateralised notes and bonds** | Other | Total |
|---|---|---|---|---|---|---|---|---|
| Finland | 3,334 | 16,446 | 22,085 | 1,935 | 327 | 493 | 56 | 44,675 |
| Baltic countries | 214 | 5 | 627 | 0 | | | | 846 |
| Other Nordic countries | 52 | 534 | 441 | 7 | 19 | 1,164 | 8 | 2,225 |
| Germany | 1,420 | 194 | 118 | 0 | 4 | 338 | | 2,074 |
| France | 101 | 373 | 78 | 0 | 25 | 779 | | 1,355 |
| GIIPS countries*** | 26 | 27 | 17 | 0 | 17 | 379 | | 466 |
| Other EU countries | 896 | 1,283 | 303 | 0 | 305**** | 514 | | 3,301 |
| Rest of Europe | | 305 | 83 | 0 | 44 | 37 | | 468 |
| USA | | 181 | 60 | 0 | 68 | | 14 | 324 |
| Asia | | 259 | 57 | 0 | 52 | | | 369 |
| Other countries | 1 | 52 | 61 | | 153**** | 247 | | 515 |
| **Total** | **6,045** | **19,658** | **23,931** | **1,942** | **1,014** | **3,950** | **78** | **56,619** |

* Also include €231 million in bond funds.

** Consist of RMBS, ABS and Covered Bond investments.

*** EUR 33 million of exposures to the GIIPS countries will mature in 2014. Exposures to Spain totalled EUR 157 million and to Italy EUR 159 million.

**** Consist mainly of investments in European funds in Other EU countries and Emerging Markets and Global funds in Other countries.

## *Risk exposure by Banking and the Group Functions*

The classification by Statistics Finland is used in these notes, deviating partly from the classification used in the risk exposure section presented in the Report by the Board of Directors.

## Note 40. Loans and receivables and cumulative impairment losses recognised on them

| EUR million | 31 Dec. 2014 Impairment losses | 31 Dec. 2013 Impairment losses |
|---|---|---|
| Loans and other receivables | | |
| Loans granted | 240 | 257 |
| Guarantee receivables | 12 | 1 |
| **Total** | **252** | **259** |

## Note 41. Exposure

| 31 Dec. 2014, EUR million | Finland | | | Other countries | | |
|---|---|---|---|---|---|---|
| | Balance sheet value | Impair-ments | Accrued interest | Balance sheet value | Impair-ments | Accrued interest |
| **Assets** | | | | | | |
| Receivables from credit institutions | 9,638 | | 10 | 618 | | 4 |
| Receivables from customers | 13,107 | 238 | 41 | 1,244 | 14 | 1 |
| Finance leases | 1,136 | | | 26 | | |
| Notes and bonds | 1,210 | | 17 | 7,076 | | 68 |
| Other | 114 | | | 879 | | |
| **Total** | **25,205** | **238** | **68** | **9,843** | **14** | **73** |
| **Off-balance-sheet commitments** | | | | | | |
| Unused standby credit facilities | 3,822 | | | 543 | | |
| Guarantees and letters of credit | 2,139 | | | 610 | | |
| Derivative contracts | 1,230 | | | 5,138 | | |
| Other | 87 | | | 249 | | |
| **Total** | **7,278** | | | **6,540** | | |
| **Total exposure** | **32,484** | **238** | **68** | **16,383** | **14** | **73** |

| 31 Dec. 2013, EUR million* | Finland | | | Other countries | | |
|---|---|---|---|---|---|---|
| | Balance sheet value | Impair-ments | Accrued interest | Balance sheet value | Impair-ments | Accrued interest |
| **Assets** | | | | | | |
| Receivables from credit institutions | 9,074 | | 10 | 824 | | 4 |
| Receivables from customers | 12,420 | 240 | 33 | 943 | 19 | 1 |
| Finance leases | 1,129 | | | 19 | | |
| Notes and bonds | 1,408 | | 22 | 6,345 | | 63 |
| Other | 111 | | | 366 | | |
| **Total** | **24,143** | **240** | **65** | **8,497** | **19** | **68** |
| **Off-balance-sheet commitments** | | | | | | |
| Unused standby credit facilities | 4,501 | | | 227 | | |
| Guarantees and letters of credit | 2,112 | | | 617 | | |
| Derivative contracts | 858 | | | 2,636 | | |
| Other | 114 | | | 246 | | |
| **Total** | **7,585** | | | **3,725** | | |
| **Total exposure** | **31,728** | **240** | **65** | **12,221** | **19** | **68** |

* Comparative figures have been restated as a result of the adoption of IFRS 10 Consolidated Financial Statements.

The tables show the recognised positive market value of derivative contracts.

## Note 42. Exposure by sector

| | Balance sheet values | | Off-balance-sheet | | |
|---|---|---|---|---|---|
| **31 Dec. 2014, EUR million** | **Finnish** | **Foreign** | **Finnish** | **Foreign** | **Total** |
| Non-banking corporate sector | 12,595 | 1,191 | 6,241 | 697 | 20,723 |
| Financial institutions and insurance companies | 10,924 | 5,492 | 264 | 5,675 | 22,354 |
| Households | 1,202 | 22 | 247 | 0 | 1,471 |
| Non-profit organisations | 176 | 210 | 8 | | 394 |
| Public sector entities | 378 | 3,003 | 518 | 167 | 4,066 |
| **Total** | **25,274** | **9,916** | **7,278** | **6,540** | **49,008** |

| | Balance sheet values | | Off-balance-sheet | | |
|---|---|---|---|---|---|
| **31 Dec. 2013, EUR million** | **Finnish** | **Foreign** | **Finnish** | **Foreign** | **Total** |
| Non-banking corporate sector | 12,446 | 869 | 6,441 | 625 | 20,381 |
| Financial institutions and insurance companies | 9,890 | 5,622 | 380 | 3,075 | 18,967 |
| Households | 1,098 | 22 | 235 | 0 | 1,355 |
| Non-profit organisations | 224 | 482 | 14 | | 719 |
| Public sector entities | 550 | 1,571 | 514 | 24 | 2,659 |
| **Total** | **24,208** | **8,564** | **7,585** | **3,725** | **44,081** |

* Comparative figures have been restated as a result of the adoption of IFRS 10 Consolidated Financial Statements.

The balance sheet values are carrying amounts including impairments and accrued interest income.

## Note 43. Receivables from credit institutions and customers, and doubtful receivables

| **31 Dec. 2014, EUR million** | **Not impaired (gross)** | **Impaired (gross)** | **Total** | **Impair-ments** | **Balance sheet value** |
|---|---|---|---|---|---|
| **Receivables from credit institutions and customers** | | | | | |
| Receivables from credit institutions | 10,257 | | 10,257 | | 10,257 |
| Receivables from customers, of which | 14,338 | 266 | 14,603 | 252 | 14,351 |
| Bank guarantee receivables | 0 | 12 | 12 | 12 | 1 |
| Finance leases | 1,162 | | 1,162 | | 1,162 |
| **Total** | **25,756** | **266** | **26,022** | **252** | **25,770** |
| **Receivables from credit institutions and customers by sector** | | | | | |
| Non-banking corporate sector | 12,661 | 265 | 12,926 | 242 | 12,683 |
| Financial institutions and insurance companies | 11,341 | | 11,341 | | 11,341 |
| Households | 1,233 | | 1,233 | 9 | 1,223 |
| Non-profit organisations | 177 | 0 | 177 | 0 | 177 |
| Public sector entities | 345 | | 345 | | 345 |
| **Total** | **25,756** | **266** | **26,022** | **252** | **25,770** |

| 31 Dec. 2013, EUR million* | Not impaired (gross) | Impaired (gross) | Total | Impair-ments | Balance sheet value |
|---|---|---|---|---|---|
| **Receivables from credit institutions and customers** | | | | | |
| Receivables from credit institutions | 9,899 | | 9,899 | | 9,899 |
| Receivables from customers, of which | 13,333 | 289 | 13,622 | 259 | 13,363 |
| Bank guarantee receivables | 1 | 1 | 3 | 1 | 1 |
| Finance leases | 1,148 | | 1,148 | | 1,148 |
| **Total** | **24,379** | **289** | **24,668** | **259** | **24,409** |
| **Receivables from credit institutions and customers by sector** | | | | | |
| Non-banking corporate sector | 12,619 | 289 | 12,908 | 253 | 12,655 |
| Financial institutions and insurance companies | 10,047 | | 10,047 | | 10,047 |
| Households | 1,125 | | 1,125 | 6 | 1,119 |
| Non-profit organisations | 223 | 0 | 223 | 0 | 223 |
| Public sector entities | 365 | | 365 | | 365 |
| **Total** | **24,379** | **289** | **24,668** | **259** | **24,409** |

* Comparative figures have been restated as a result of the adoption of IFRS 10 Consolidated Financial Statements.

Collectively assessed impairments on receivables are allocated to Non-banking Corporate Sector. Their amount came to EUR 22 million (17).

| | | | | | Impairments | |
|---|---|---|---|---|---|---|
| **31 Dec. 2014, EUR million** | **Not impaired (gross)** | **Impaired (gross)** | **Total** | **Arrears** | **Individually assessed** | **Collectively assessed** |
| **Doubtful receivables** | | | | | | |
| Receivables from customers, of which | 227 | 266 | 493 | 13 | 230 | 22 |
| Bank guarantee receivables | 0 | 12 | 12 | | 12 | |
| Finance leases | | | | 0 | | |
| **Total** | **227** | **266** | **493** | **14** | **230** | **22** |
| **Doubtful receivables by sector** | | | | | | |
| Non-banking corporate sector | 215 | 265 | 480 | 12 | 230 | 13 |
| Financial institutions and insurance companies | 0 | | 0 | | | |
| Households | 11 | | 11 | 2 | | 9 |
| Non-profit organisations | 1 | 0 | 2 | 0 | 0 | |
| Public sector entities | | | | 0 | | |
| **Total** | **227** | **266** | **493** | **14** | **230** | **22** |

| 31 Dec. 2013, EUR million | Not impaired (gross) | Impaired (gross) | Total | Arrears | Impairments Individually assessed | Collectively assessed |
|---|---|---|---|---|---|---|
| **Doubtful receivables** | | | | | | |
| Receivables from credit institutions | | | | | | |
| Receivables from customers, of which | 231 | 289 | 519 | 27 | 241 | 17 |
| Bank guarantee receivables | 1 | 1 | 3 | | 1 | |
| Finance leases | | | | 0 | | |
| **Total** | **231** | **289** | **519** | **27** | **241** | **17** |
| **Doubtful receivables by sector** | | | | | | |
| Non-banking corporate sector | 220 | 289 | 509 | 22 | 241 | 11 |
| Financial institutions and insurance companies | 0 | | 0 | 0 | | |
| Households | 10 | | 10 | 5 | | 6 |
| Non-profit organisations | 0 | 0 | 0 | 0 | 0 | |
| Public sector entities | | | | 0 | | |
| **Total** | **231** | **289** | **519** | **27** | **241** | **17** |

**Doubtful receivables**

| 31 Dec. 2014, EUR million | Performing receivables from credit institutions and customers (gross) | Non-performing receivables from credit institutions and customers (gross) | Receivables from credit institutions and customers, total (gross) | Individually assessed impairment | Receivables from credit institutions and customers (net) |
|---|---|---|---|---|---|
| Over 90 days past due | | 158 | 158 | 118 | 40 |
| Classified as defaulted | | 245 | 245 | 107 | 138 |
| Forborne loans: | | | | | |
| Zero-interest | 6 | 0 | 6 | | 6 |
| Underpriced | | 0 | 0 | 0 | |
| Renegotiated | 61 | 23 | 84 | 5 | 79 |
| **Total** | **67** | **426** | **493** | **230** | **263** |

**Doubtful receivables**

| 31 Dec. 2013, EUR million | Receivables from credit institutions and customers (gross) | Individually assessed impairment | Receivables from credit institutions and customers (net) |
|---|---|---|---|
| Over 90 days past due | 99 | 60 | 40 |
| Classified as defaulted | 395 | 171 | 225 |
| Forborne loans: | | | |
| Zero-interest | 6 | 6 | 0 |
| Underpriced | 0 | 0 | |
| Renegotiated | 19 | 5 | 14 |
| **Total** | **519** | **241** | **278** |

The Group reports as the amount of a receivable that is more than 90 days past due whose interest or principal amount has been past due and outstanding for more than three months. Contracts with the lowest two credit ratings (11-12) are reported as defaulted. Forborne receivables include zero-interest and under-priced receivables as well as receivables that have been renegotiated due to the customer's financial difficulties. 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. The loan terms and conditions of renegotiated receivables have been eased due to the customer's financial difficulties for example by trasferring to interest only terms for a period of 6-12 months. The definitions of non-performing and renegotiated receivables in the 2014 financial statements have been changed to correspond with the European Banking Authority's guidelines on forborne and non-performing receivables. According to the new definition, for example, the probation period of forborne receivables has been extended considerably, increasing the level of doubtful receivables compared to the previous definition. Comparative information has been restated accordingly.

| Key ratio, % | 2014 | 2013 |
|---|---|---|
| Exposures individually assessed for impairment, % of doubtful receivables | 46.7 % | 46.5 % |

**Past due but not impaired financial assets by maturity**

| 31 Dec. 2014, EUR million | Less than 30 | 30–90 | Over 90–180 | Over 180 | Total |
|---|---|---|---|---|---|
| | Days | | | | |
| Past due but not impaired loans and receivables | 228 | 33 | 20 | 25 | 305 |

| 31 Dec. 2013, EUR million | Less than 30 | 30–90 | Over 90–180 | Over 180 | Total |
|---|---|---|---|---|---|
| | Days | | | | |
| Past due but not impaired loans and receivables | 312 | 63 | 10 | 25 | 409 |

## Note 44. Credit losses and impairments

**Credit losses and impairments**

| EUR million | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|---|
| Gross credit losses and impairments | 37 | 155 | 156 | 132 | 97 | 82 | 75 |
| Reversals | -9 | -26 | -52 | -71 | -40 | -45 | -49 |
| Net credit losses and impairments | 28 | 129 | 104 | 60 | 57 | 37 | 25 |

A total of EUR 75 million (82) in new credit and guarantee losses and impairments were recognised for the financial year. The combined credit loss reversals and decreases in impairments totalled EUR 49 million (45). The net impact of credit and guarantee losses and impairments on profit came to EUR 25 million (37).

In 2014, credit and guarantee losses and impairments accounted for 0.14% (0.21) of the credit and guarantee portfolio.

## Note 45. Corporate exposure by sector

| Net exposure, 31 Dec. 2014 | Balance sheet, EUR million | Off-balance-sheet, EUR million | Total, EUR million | Percentage distribution |
|---|---|---|---|---|
| Renting and operation of residential real estate | 2,106 | 173 | 2,280 | 11.0 |
| Trade | 1,653 | 376 | 2,028 | 9.8 |
| Energy | 941 | 1,118 | 2,059 | 9.9 |
| Operating of other real estate | 1,242 | 302 | 1,545 | 7.5 |
| Manufacture of machinery and equipment (incl. maintenance) | 751 | 847 | 1,597 | 7.7 |
| Transportation and storage | 1,049 | 365 | 1,414 | 6.8 |
| Construction | 544 | 693 | 1,237 | 6.0 |
| Services | 818 | 359 | 1,177 | 5.7 |
| Financial and insurance activities | 877 | 109 | 986 | 4.8 |
| Forest industry | 666 | 306 | 972 | 4.7 |
| Buying and selling of own real estate | 639 | 312 | 951 | 4.6 |
| Food industry | 460 | 320 | 779 | 3.8 |
| Information and communication | 408 | 367 | 774 | 3.7 |
| Agriculture, forestry and fishing | 605 | 115 | 720 | 3.5 |
| Manufacture of chemicals and chemical products | 243 | 397 | 640 | 3.1 |
| Metal industry | 268 | 351 | 619 | 3.0 |
| Other manufacturing | 179 | 127 | 306 | 1.5 |
| Water supply and waste management | 152 | 103 | 254 | 1.2 |
| Other sectors | 102 | 94 | 196 | 0.9 |
| Mining and quarrying | 86 | 55 | 141 | 0.7 |
| Public administration and defence (incl. compulsory social security) | 0 | 50 | 50 | 0.2 |
| **Total** | **13,785** | **6,938** | **20,723** | **100.0** |

| Net exposure, 31 Dec. 2013 | Balance sheet, EUR million | Off-balance-sheet, EUR million | Total, EUR million | Percentage distribution |
|---|---|---|---|---|
| Renting and operation of residential real estate | 2,003 | 100 | 2,104 | 10.3 |
| Trade | 1,541 | 469 | 2,010 | 9.9 |
| Operating of other real estate | 1,401 | 345 | 1,746 | 8.6 |
| Manufacture of machinery and equipment (incl. maintenance) | 698 | 952 | 1,650 | 8.1 |
| Energy | 787 | 728 | 1,515 | 7.4 |
| Construction | 588 | 778 | 1,365 | 6.7 |
| Transportation and storage | 1,023 | 273 | 1,296 | 6.4 |
| Buying and selling of own real estate | 762 | 299 | 1,062 | 5.2 |
| Services | 675 | 388 | 1,062 | 5.2 |
| Financial and insurance activities | 863 | 191 | 1,054 | 5.2 |
| Forest industry | 549 | 410 | 959 | 4.7 |
| Information and communication | 489 | 418 | 907 | 4.4 |
| Food industry | 450 | 299 | 749 | 3.7 |
| Manufacture of chemicals and chemical products | 215 | 498 | 713 | 3.5 |
| Metal industry | 320 | 379 | 699 | 3.4 |
| Agriculture, forestry and fishing | 436 | 67 | 502 | 2.5 |
| Other manufacturing | 212 | 207 | 418 | 2.1 |
| Water supply and waste management | 179 | 89 | 268 | 1.3 |
| Mining and quarrying | 88 | 92 | 181 | 0.9 |
| Other sectors | 39 | 87 | 126 | 0.6 |
| Public administration and defence (incl. compulsory social security) | 0 | | 0 | 0.0 |
| **Total** | **13,320** | **7,066** | **20,386** | **100.0** |

## Note 46. Corporate exposure by rating category

| | 31 Dec. 2014 | | 31 Dec. 2013 | |
|---|---|---|---|---|
| Rating | Net exposure, EUR million | % | Net exposure, EUR million | % |
| 1.0–2.0 | 1,176 | 5.7 | 1,391 | 6.8 |
| 2.5–5.0 | 11,036 | 53.3 | 10,264 | 50.3 |
| 5.5–7.0 | 6,079 | 29.3 | 6,186 | 30.3 |
| 7.5–8.5 | 1,946 | 9.4 | 1,842 | 9.0 |
| 9.0–10.0 | 259 | 1.2 | 361 | 1.8 |
| 11.0–12.0 | 228 | 1.1 | 343 | 1.7 |
| **Total** | **20,723** | **100.0** | **20,386** | **100.0** |

## Note 47. Corporate exposure by the amount of customer's exposure

| Amount of net exposure, 31 Dec. 2014, EUR million | Finland | Other countries | Total | % |
|---|---|---|---|---|
| 0–1 | 1,025 | 249 | 1,274 | 6.1 |
| 1–10 | 2,504 | 388 | 2,892 | 14.0 |
| 10–50 | 4,258 | 821 | 5,079 | 24.5 |
| 50–100 | 4,304 | 430 | 4,733 | 22.8 |
| Over 100 | 6,745 | | 6,745 | 32.5 |
| **Total** | **18,835** | **1,888** | **20,723** | **100.0** |

| Amount of net exposure, 31 Dec. 2013, EUR million | Finland | Other countries | Total | % |
|---|---|---|---|---|
| 0–1 | 988 | 200 | 1,187 | 5.8 |
| 1–10 | 2,629 | 393 | 3,022 | 14.8 |
| 10–50 | 4,302 | 794 | 5,096 | 25.0 |
| 50–100 | 4,338 | 108 | 4,446 | 21.8 |
| Over 100 | 6,635 | | 6,635 | 32.5 |
| **Total** | **18,892** | **1,494** | **20,386** | **100.0** |

## Note 48. Liabilities of financial institutions and insurance companies by rating category

| | 31 Dec. 2014 | | 31 Dec. 2013 | |
|---|---|---|---|---|
| Rating | Net exposure, EUR million | % | Net exposure, EUR million | % |
| 1.0–2.0 | 12,574 | 56.5 | 11,550 | 61.3 |
| 2.5–5.0 | 9,089 | 40.8 | 6,887 | 36.6 |
| 5.5–7.0 | 444 | 2.0 | 252 | 1.3 |
| 7.5–8.5 | 151 | 0.7 | 125 | 0.7 |
| 9.0–10.0 | 14 | 0.1 | 17 | 0.1 |
| **Total** | **22,273** | **100.0** | **18,831** | **100.0** |

Pohjola has rated its financial institution and insurance company customers based on the rating methods used in OP Financial Group's capital adequacy measurement. Exposures based on international credit rating agencies' credit rating categories are shown in OP Financial Group's equivalent rating categories in the table.

## Note 49. Collateral received by type of collateral

| EUR million | 31 Dec. 2014 | % | 31 Dec. 2013 | % |
|---|---|---|---|---|
| Public-sector guarantees | 2,249 | 28.9 | 1,613 | 23.4 |
| Object of financing as collateral | 2,011 | 25.8 | 1,870 | 27.1 |
| Property or lease mortgage on office or industrial property | 1,692 | 21.7 | 1,655 | 24.0 |
| Shares and participations, other | 595 | 7.6 | 614 | 8.9 |
| Shares in housing corporations, and housing associations and property companies in residential use | 428 | 5.5 | 332 | 4.8 |
| Property or lease mortgage on residential property | 288 | 3.7 | 164 | 2.4 |
| Business mortgage | 202 | 2.6 | 258 | 3.7 |
| Factoring | 153 | 2.0 | 142 | 2.1 |
| Bank guarantee | 94 | 1.2 | 89 | 1.3 |
| Other collateral | 76 | 1.0 | 157 | 2.3 |
| **Total** | **7,789** | **100.0** | **6,893** | **100.0** |

Received collateral by type of collateral has been calculated on the basis of the values of collateral held by the bank allocated to liabilities. The collateral's fair value is used as the basis for calculating the collateral value which is derived from the fair value on the basis of valuation percentages, based on conservative estimates, by type of collateral.

## Note 50. Funding structure

| EUR million | 31 Dec. 2014 | % | 31 Dec. 2013* | % |
|---|---|---|---|---|
| Liabilities to credit institutions | 5,241 | 12.7 | 4,789 | 12.8 |
| Financial liabilities at fair value through profit or loss | 4 | 0.0 | 4 | 0.0 |
| Liabilities to customers | | | | |
| Deposits | 9,180 | 22.3 | 7,504 | 20.1 |
| Other | 2,262 | 5.5 | 2,678 | 7.2 |
| Debt securities issued to the public | | | | |
| Certificates of deposit and ECPs | 7,026 | 17.0 | 6,769 | 18.2 |
| Bonds | 10,561 | 25.6 | 9,328 | 25.0 |
| Other liabilities | 2,479 | 6.0 | 2,075 | 5.6 |
| Subordinated liabilities | 1,084 | 2.6 | 984 | 2.6 |
| Shareholders' equity | 3,408 | 8.3 | 3,150 | 8.4 |
| **Total** | **41,246** | **100.0** | **37,281** | **100.0** |

* Comparative figures have been restated as a result of the adoption of IFRS 10 Consolidated Financial Statements.

## Note 51. Maturity of assets and liabilities by residual term to maturity

| 31 Dec. 2014, EUR million | Less than 3 months | 3–12 months | 1–5 years | 5–10 years | More than 10 years | Total |
|---|---|---|---|---|---|---|
| Liquid assets | 3,774 | | | | | 3,774 |
| Financial assets at fair value through profit or loss | | | | | | |
| Notes and bonds | 29 | 56 | 211 | 62 | 1 | 360 |
| Receivables from credit institutions | 5,181 | 809 | 3,709 | 536 | 22 | 10,257 |
| Receivables from customers | 2,919 | 1,850 | 7,858 | 1,382 | 1,504 | 15,513 |
| Available-for-sale financial assets | | | | | | |
| Notes and bonds | 193 | 447 | 3,050 | 4,068 | 24 | 7,782 |
| Held-to-maturity financial assets | | | | | | |
| Notes and bonds | 50 | 36 | 36 | 22 | | 144 |
| **Total assets** | **12,145** | **3,198** | **14,865** | **6,070** | **1,552** | **37,829** |
| | | | | | | |
| Liabilities to credit institutions | 2,637 | 592 | 1,781 | 232 | | 5,241 |
| Financial liabilities at fair value through profit or loss | 4 | | | | | 4 |
| Liabilities to customers | 10,159 | 784 | 205 | 265 | 30 | 11,442 |
| Debt securities issued to the public | 5,199 | 4,174 | 6,666 | 1,375 | 172 | 17,587 |
| Subordinated liabilities | | 150 | 201 | 733 | | 1,084 |
| **Total liabilities** | **17,998** | **5,701** | **8,852** | **2,605** | **202** | **35,359** |
| | | | | | | |
| Guarantees | 24 | 213 | 598 | 1 | 38 | 874 |
| Other guarantee liabilities | 220 | 339 | 383 | 37 | 599 | 1,578 |
| Loan commitments | 4,365 | | | | | 4,365 |
| Commitments related to short-term trade transactions | 72 | 170 | 56 | | | 297 |
| Other | 259 | 1 | 2 | 74 | | 336 |
| **Total off-balance-sheet commitments** | **4,939** | **723** | **1,039** | **112** | **637** | **7,450** |

| 31 Dec. 2013, EUR million* | Less than 3 months | 3–12 months | 1–5 years | 5–10 years | More than 10 years | Total |
|---|---|---|---|---|---|---|
| Liquid assets | 2,046 | | | | | 2,046 |
| Financial assets at fair value through profit or loss | | | | | | |
| Notes and bonds | 37 | 34 | 293 | 73 | 6 | 443 |
| Receivables from credit institutions | 5,399 | 672 | 3,303 | 500 | 24 | 9,899 |
| Receivables from customers | 2,344 | 1,755 | 7,593 | 1,347 | 1,472 | 14,510 |
| Available-for-sale financial assets | | | | | | |
| Notes and bonds | 82 | 375 | 3,453 | 3,177 | 21 | 7,108 |
| Held-to-maturity financial assets | | | | | | |
| Notes and bonds | 64 | 22 | 115 | 0 | | 202 |
| **Total assets** | **9,973** | **2,858** | **14,757** | **5,098** | **1,523** | **34,209** |
| | | | | | | |
| Liabilities to credit institutions | 2,148 | 537 | 1,692 | 412 | | 4,789 |
| Financial liabilities at fair value through profit or loss | 4 | | | | | 4 |
| Liabilities to customers | 9,055 | 372 | 209 | 280 | 267 | 10,183 |
| Debt securities issued to the public | 5,694 | 3,910 | 6,029 | 414 | 50 | 16,097 |
| Subordinated liabilities | 40 | 169 | 94 | 681 | | 984 |
| **Total liabilities** | **16,941** | **4,988** | **8,023** | **1,788** | **317** | **32,056** |
| | | | | | | |
| Guarantees | 77 | 67 | 540 | 21 | 210 | 914 |
| Other guarantee liabilities | 257 | 402 | 473 | 25 | 410 | 1,568 |
| Loan commitments | 4,728 | | | | | 4,728 |
| Commitments related to short-term trade transactions | 80 | 79 | 73 | 15 | | 247 |
| Other | 251 | 1 | 4 | 104 | | 359 |
| **Total off-balance-sheet commitments** | **5,392** | **549** | **1,090** | **165** | **619** | **7,816** |

* Comparative figures have been restated as a result of the adoption of IFRS 10 Consolidated Financial Statements.

Financial assets at fair value through profit or loss consist of notes and bonds which may be sold anytime. Notes and bonds included in available-for-sale financial assets may be sold whenever necessary. Notes and bonds included in financial assets at fair value through profit or loss and those included in available-for-sale financial assets are, however, presented within the sub-category determined on the basis of the remaining term to maturity in the table. Nominal amounts of debt are presented under categories by maturity. Financial liabilities held for trading are presented under the shortest maturity category. In its financial risk management, Pohjola Group uses forward exchange contracts and interest-rate and currency swaps. Since their net effect on the financial risk in euro countervalue is insignificant, they are not specifically presented.

Debt repayable on demand, included in the shortest maturity category, totalled EUR 8.4 billion (6.6).

## Note 52. Liquidity buffer

**Liquidity buffer by maturity and credit rating on 31 December 2014, EUR million**

| Year(s) | 0–1 | 1–3 | 3–5 | 5–7 | 7–10 | 10– | Total | Proportion, % |
|---|---|---|---|---|---|---|---|---|
| Aaa* | 4,146 | 543 | 1,488 | 1,981 | 965 | 24 | 9,145 | 55.1 |
| Aa1−Aa3 | 109 | 33 | 437 | 556 | 469 | 0 | 1,605 | 9.7 |
| A1−A3 | 223 | 268 | 42 | 13 | 10 | 1 | 557 | 3.4 |
| Baa1−Baa3 | 38 | 116 | 32 | 59 | 52 | 1 | 298 | 1.8 |
| Ba1 or lower | 14 | 95 | 24 | 1 | 11 | 0 | 146 | 0.9 |
| Internally rated** | 712 | 1,736 | 1,349 | 460 | 176 | 414 | 4,848 | 29.2 |
| **Total** | **5,243** | **2,791** | **3,371** | **3,069** | **1,684** | **440** | **16,598** | **100.0** |

* incl. deposits with the central bank

** PD </= 0.40%

The liquidity buffer's (excl. deposits with the central bank) residual term to maturity averages 4.6 years.

## Note 53. Maturities of assets and liabilities by maturity or repricing

| 31 Dec. 2014, EUR million | 1 month or less | >1–3 months | >3–12 months | >1–2 years | >2–5 years | >5 years | Total |
|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | 3,774 | | | | | | 3,774 |
| Financial assets at fair value through profit or loss | | | | | | | |
| Notes and bonds | 6 | 115 | 47 | 15 | 114 | 62 | 360 |
| Receivables from credit institutions | 4,849 | 2,561 | 1,870 | 375 | 479 | 122 | 10,257 |
| Receivables from customers | 6,049 | 5,573 | 1,919 | 169 | 976 | 828 | 15,513 |
| Available-for-sale financial assets | | | | | | | |
| Notes and bonds | 277 | 287 | 279 | 511 | 2,382 | 4,046 | 7,782 |
| Held-to-maturity financial assets | | | | | | | |
| Notes and bonds | 95 | 39 | | 10 | | | 144 |
| **Total assets** | **15,050** | **8,576** | **4,115** | **1,080** | **3,950** | **5,059** | **37,829** |
| | | | | | | | |
| Liabilities to credit institutions | 2,338 | 1,198 | 673 | 237 | 633 | 162 | 5,241 |
| Financial liabilities at fair value through profit or loss | 4 | | | | | | 4 |
| Liabilities to customers | 8,835 | 1,794 | 772 | | | 40 | 11,442 |
| Debt securities issued to the public | 1,625 | 5,714 | 3,395 | 994 | 4,603 | 1,255 | 17,587 |
| Subordinated liabilities | | 200 | 50 | 65 | | 769 | 1,084 |
| **Total liabilities** | **12,803** | **8,907** | **4,890** | **1,296** | **5,236** | **2,226** | **35,359** |

Debt repayable on demand totalled EUR 8.4 billion, consisting mainly of public deposits.

| 31 Dec. 2013, EUR million* | 1 month or less | >1–3 months | >3–12 months | >1–2 years | >2–5 years | >5 years | Total |
|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | 2,046 | | | | | | 2,046 |
| Financial assets at fair value through profit or loss | | | | | | | |
| Notes and bonds | 18 | 96 | 48 | 28 | 176 | 76 | 443 |
| Receivables from credit institutions | 4,924 | 2,816 | 1,171 | 268 | 542 | 177 | 9,899 |
| Receivables from customers | 4,919 | 5,282 | 2,079 | 441 | 1,006 | 784 | 14,510 |
| Available-for-sale financial assets | | | | | | | |
| Notes and bonds | 404 | 348 | 296 | 544 | 2,351 | 3,165 | 7,108 |
| Held-to-maturity financial assets | | | | | | | |
| Notes and bonds | 139 | 63 | | | | | 202 |
| **Total assets** | **12,451** | **8,605** | **3,595** | **1,281** | **4,075** | **4,202** | **34,209** |
| | | | | | | | |
| Liabilities to credit institutions | 2,113 | 1,064 | 535 | 183 | 643 | 251 | 4,789 |
| Financial liabilities at fair value through profit or loss | 4 | | | | | | 4 |
| Liabilities to customers | 8,414 | 1,364 | 364 | 0 | | 40 | 10,183 |
| Debt securities issued to the public | 1,659 | 5,853 | 3,150 | 1,001 | 4,112 | 322 | 16,097 |
| Subordinated liabilities | | 184 | 119 | | | 681 | 984 |
| **Total liabilities** | **12,190** | **8,465** | **4,169** | **1,183** | **4,755** | **1,294** | **32,056** |

* Comparative figures have been restated as a result of the adoption of IFRS 10 Consolidated Financial Statements.

Debt repayable on demand totalled EUR 6.6 billion, consisting mainly of public deposits.

## Note 54. Sensitivity analysis of market risk

On 31 December 2014, market risks accounted for 6.8% (6.0) of the risk-weighted assets.

| | | | 31 Dec. 2014 | | 31 Dec. 2013 | |
|---|---|---|---|---|---|---|
| **EUR million** | **Risk parameter** | **Change** | **Effect on results** | **Effect on shareholders' equity** | **Effect on results** | **Effect on shareholders' equity** |
| Interest-rate risk | Interest rate | 1 pp | 18 | | 39 | |
| Currency risk | Market value | 10% | 7 | | 3 | |
| Volatility risk | | | | | | |
| Interest rate volatility | Volatility | 10 basis points | 1 | | 2 | |
| Currency volatility | Volatility | 10 pps | 1 | | 1 | |
| Credit risk premium* | Credit spread | 0.1 pps | 1 | 36 | 1 | 31 |
| Price risk | | | | | | |
| Equity portfolio | Market value | 10% | | 0 | | 0 |
| Private equity funds | Market value | 10% | 1 | 2 | 1 | 2 |
| Real estate risk | Market value | 10% | 3 | | 3 | |

## Note 55. Equity risk

On 31 December 2014, the market value of equity and private equity funds totalled EUR 24 million (31), of which the equity portfolio accounted for EUR 1 million (1) and the private equity funds including their investment commitments EUR 23 million (30). The year-end equity portfolio was divided into two sectors: information technology 89% (87) and telecommunication services 11% (13).

Investments in private equity funds totalled EUR 16 million (21) and binding unexecuted investment commitments EUR 7 million (9).

## Note 56. Real estate risk

On 31 December 2014, capital invested in property holdings amounted to EUR 88 million (91), with properties in own use representing EUR 3 million (3).

In 2014, the Group obtained an external appraisal's estimates of the fair value of property holdings, on the basis of which their combined fair value corresponds to capital tied to the property holdings. It is estimated that real estate risks are low.

Note 22 and Note 26 (Property in own use) provide detailed information on changes in investment property during the financial year.

Notes 57–60 disclose a summary of information on the capital adequacy of the consolidation group, as specified in the Capital Requirements Regulation of the European Parliament and of the Council (Pillar III disclosures). Figures for the previous year have been calculated in accordance with the rules in force on 31 December 2013. Capital base, risk-weighted assets and capital adequacy ratios are also presented as estimates in compliance with regulation in force since 1 January 2014. Given that this information is based on the consolidated capital adequacy, it is not directly comparable with other information disclosed on Pohjola Group. Complete Pillar III information can be found in OP Financial Group's financial statements.

The consolidation group that forms the basis of Pohjola Bank plc's capital adequacy comprises Pohjola Group companies excluding insurance companies and their subsidiaries.

Pohjola has applied the Internal Ratings Based Approach (IRBA) to retail, credit institution and corporate exposures and equity investments. The Standardised Approach (SA) is used for other exposure categories.

## Note 57. Capital base

The Group has presented its capital base of 31 December 2014 in accordance with the EU capital requirement regulation and directive (EU 575/2013) (CRR) entered into force on 1 January 2014. Comparatives for 2013 are presented according to CRD III in force on 31 December 2013. In addition, an estimate of the figures a year ago under CRR is presented in column CRR 1 Jan. 2014.

| EUR million | CRR 31 Dec. 2014 | CRR 1 Jan. 2014 | CRD3 31 Dec. 2013 |
|---|---|---|---|
| **Shareholders' equity** | 3,408 | 3,150 | 3,150 |
| Elimination of insurance companies' effect in equity capital (equity capital and Group eliminations) | -183 | -137 | -137 |
| Fair value reserve, cash flow hedging | -17 | -11 | -11 |
| **Common Equity Tier 1 (CET1) before deductions** | **3,209** | **3,001** | **3,001** |
| Intangible assets | -195 | -193 | -193 |
| Excess funding of pension liability, valuation adjustments and indirect holdings | -1 | -8 | -4 |
| Dividend distribution proposed by Board of Directors | -141 | -212 | -212 |
| Unrealised gains under transitional provisions | -50 | -31 | -31 |
| Investments in insurance companies and financial institutions | | | -703 |
| Shortfall of impairments – expected losses | -122 | -115 | -50 |
| **Common Equity Tier 1 (CET1)*** | **2,700** | **2,441** | **1,808** |
| Subordinated loans to which transitional provisions applies | 219 | 219 | 274 |
| Shortfall of Tier 2 capital | | | -38 |
| **Additional Tier 1 capital (AT1)** | **219** | **219** | **235** |
| **Tier 1 capital (T1)** | **2,919** | **2,660** | **2,043** |
| Debenture loans | 663 | 683 | 683 |
| Unrealised gains under transitional provisions | 50 | 31 | 31 |
| Investments in insurance companies and financial institutions | | | -703 |
| Shortfall of impairments – expected losses | | | -50 |
| Reclassification into AT1 | | | 38 |
| **Tier 2 capital (T2)** | **713** | **714** | |
| **Total capital base** | **3,633** | **3,375** | **2,043** |

Pohjola has applied transitional provisions regarding old capital instruments to subordinated loans. A total of 80% of the amounts outstanding on 31 December 2012 are included in the capital base.

Negative unrealised valuations are included in common equity tier 1 capital. Positive unrealised valuations are included in tier 2 capital according to a statement issued by the Financial Supervisory Authority.

* The row of CET1 based on CRD III figures shows Core Tier as defined by the EBA

## Note 58. Minimum capital requirement

Pohjola has applied the Internal Ratings Based Approach (IRBA) to retail, credit institution and corporate exposures and equity investments. The Standardised Approach (SA) is used for other exposure categories. Investments in Pohjola Group's insurance companies have been deducted from the capital base. Pohjola has used the Foundation Internal Ratings Based Approach (FIRBA) to measure capital requirement for corporate and credit institution exposures. This approach uses internal credit ratings to determine a customer's probability of default (PD), whereas loss given default (LDG) and credit conversion factor (CF) are standard estimates supplied by the authorities. Pohjola has used the Internal Ratings Based Approach (IRBA) to measure capital requirement for retail exposures. This approach uses internal credit ratings to determine a customer's PD, and LGD and CF are estimated internally.

It is possible to use various methods to measure capital adequacy requirement for equity investments. In the PD/LGD method, investments' risk-weighted exposure is calculated using PD, based on internal credit rating, and the official LGD. According to the Simple Risk Weight Approach, investments' risk-weighted exposure amount derives from multiplying each investment by the risk-weight determined by the type of investment.

Pohjola has used the Standardised Approach to measure capital requirement for operational risks.

| | 31 Dec. 2014 | | 31 Dec. 2013 | |
|---|---|---|---|---|
| **EUR million** | **Capital requirement*** | **Risk-weighted assets** | **Capital requirement*** | **Risk-weighted assets** |
| **Credit and counterparty risk** | **1,506** | **18,829** | **1,121** | **14,007** |
| **Standardised Approach (SA)** | **102** | **1,271** | **65** | **814** |
| Exposures to central government and central banks | 1 | 11 | 7 | 82 |
| Exposures to regional government or local authorities | 1 | 15 | | |
| Exposures to institutions | 5 | 61 | 3 | 44 |
| Exposures to corporates | 83 | 1,043 | 48 | 598 |
| Retail exposures | 6 | 72 | 5 | 67 |
| Other items | 6 | 69 | 2 | 24 |
| **Internal Ratings Based Approach (IRB)** | **1,405** | **17,559** | **1,055** | **13,192** |
| Exposures to institutions | 100 | 1,245 | 88 | 1,096 |
| Exposures to corporates | 863 | 10,788 | 829 | 10,367 |
| Retail exposures | 75 | 938 | 70 | 874 |
| Exposures secured by mortgages on immovable property | 0 | 1 | 0 | 2 |
| Other retail exposures | 75 | 936 | 70 | 873 |
| Equity investments | 331 | 4,132 | 16 | 195 |
| PD/LGD method | 326 | 4,072 | 5 | 59 |
| Basic Indicator Approach | 5 | 61 | 11 | 136 |
| Private equity investments | 4 | 49 | 4 | 54 |
| Listed equity investments | 0 | 4 | 0 | 3 |
| Other | 1 | 8 | 6 | 79 |
| Securitisation positions | 35 | 436 | 51 | 636 |
| Other non-credit obligations | 2 | 21 | 2 | 23 |
| **Clearing/settlement risk** | | | **0** | **1** |

| | | | | |
|---|---|---|---|---|
| **Market risk (Standardised Approach)** | **117** | **1,467** | **77** | **957** |
| Notes and bonds | 106 | 1,327 | 71 | 889 |
| Equities | 0 | 5 | | |
| Foreign currency | 7 | 90 | 4 | 49 |
| Commodities | 4 | 45 | 2 | 20 |
| **Operational risk** | **91** | **1,137** | **87** | **1,083** |
| **Risk associated with exposure value adjustment** | **32** | **405** | | |
| **Total risk** | **1,747** | **21,839** | **1,284** | **16,048** |

* Capital requirement = Risk-weighted assets * 0.08

Total risk-weighted asset on 31 December 2013 would have amounted to EUR 20,499 million in accordance with regulation that entered into force on 1 January 2014. Risk-weighted assets were increased by treatment of insurance holdings in equity investments instead of deduction from CET1. Risk-weighted assets and capital requirement in the table are shown as exposure categories in compliance with new regulation, which is why comparatives do not correspond to new exposure categories in all respects.

The risk weight of equity investments includes EUR 3.9 billion in insurance holdings within OP Financial Group. Based on permission from the Financial Supervisory Authority, OP Financial Group treats insurance holdings as risk-weighted assets according to the PD/LGD method.

EUR 46 million of Other exposures represent deferred tax assets that are treated with a risk weight of 250% instead of a deduction from common equity tier 1 capital.

Capital requirement for counterparty risk amounts to EUR 59 million (42).

## Note 59. Capital ratios

| | 31 Dec. 2014 | 1 Jan. 2014 | 31 Dec. 2013 |
|---|---|---|---|
| **Ratios, %** | | | |
| CET1 ratio | 12.4 | 11.9 | 11.3 |
| Tier 1 ratio | 13.4 | 13.0 | 12.7 |
| Capital adequacy ratio | 16.6 | 16.5 | 12.7 |

## Note 60. 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.

Counterparty risk associated with derivative contracts arises from receivables which Pohjola Bank plc may have from its counterparties in case they default. Pohjola Group measures counterparty risk using a fair value model, whereby the amount of liability comprises the contract market value and the expected potential future exposure.

Pohjola Bank plc manages counterparty risks associated with derivative contracts through master agreements which enables netting of contractual obligations in counterparty defaults as well as through collaterals and optional early termination clauses. There are legal opinions ensuring the enforceability of netting provisions of the master agreements in each derivative counterparty's national legislation. Pohjola Group uses netting for counterparty exposure arising from derivative contracts in both capital adequacy measurement and the monitoring of credit risk limits. With respect to credit institutions as counterparties, Pohjola also always uses credit support annex to derivative master agreements, in which case the received collateral reduces counterparty risk.

The Group confirms corporate counterparty exposure limits once a year and in this connection also checks the status of collateral applying to the limits for derivative transactions.

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.

If S&P had downgraded Pohjola's credit rating from AA– to A on 31 December 2014, an additional collateral worth EUR 4 million would have been required. Downgrading credit rating a year ago would not have required additional collateral.

Capital adequacy requirement due to counterparty risk may arise from items related to financing operations and the trading book. Capital adequacy requirement due to counterparty risk is calculated, for example, on OTC derivatives and sale and repurchase agreements.

| **Counterparty risk contract types, 31 Dec. 2014, EUR million** | **Gross exposure** | **Benefits from netting** | **Present netted credit risk** | **Collateral held** | **Net credit risk** |
|---|---|---|---|---|---|
| Derivative contracts | 8,733 | 5,415 | 3,318 | 722 | 2,596 |
| Interest rate derivatives | 6,423 | 4,146 | 2,277 | 445 | 1,831 |
| Currency derivatives | 2,063 | 1,189 | 874 | 261 | 613 |
| Equity and index derivatives | 147 | 80 | 68 | 16 | 52 |
| Other | 100 | | 100 | | 100 |
| **Total** | **8,733** | **5,415** | **3,318** | **722** | **2,596** |

| Counterparty risk contract types, 31 Dec. 2013, EUR million | Gross exposure | Benefits from netting | Present netted credit risk | Collateral held | Net credit risk |
|---|---|---|---|---|---|
| Derivative contracts | 4,935 | 2,844 | 2,091 | 408 | 1,683 |
| Interest rate derivatives | 3,893 | 2,404 | 1,489 | 318 | 1,171 |
| Currency derivatives | 742 | 363 | 379 | 36 | 343 |
| Equity and index derivatives | 198 | 76 | 122 | 54 | 68 |
| Other | 101 | | 101 | | 101 |
| **Total** | **4,935** | **2,844** | **2,091** | **408** | **1,683** |

Note 79 presents the positive gross fair value of contracts.

## *Risk exposure by Non-life Insurance*

### Note 61. Risk-bearing capacity

On 31 December 2014, the solvency capital of Non-life Insurance amounted to EUR 988 million (913) and the solvency ratio stood at 75% (73). The financial strength rating of Pohjola Insurance affirmed by Standard & Poor's is AA-. The Board of Directors has confirmed A as the targeted rating.

Non-life Insurance must fulfil all capital adequacy requirements set by regulatory authorities mainly at company level. All non-life insurance companies are governed by the same requirement set for their minimum solvency margin based on EU directives. In addition, Finnish legislation also lays down capital adequacy requirements for Finnish insurance companies.

The risk-bearing capacity describes the proportion of a company's solvency capital to various income statement and balance sheet items. Solvency capital proportioned to claims incurred and insurance premium revenue describes the company's ability to cope with underwriting risks. Solvency capital proportioned to insurance liabilities describes the company's ability to cope with risks related to the estimation of insurance liabilities. Similarly, solvency capital proportioned to the investment portfolio describes the company's ability to cope with the risks related to investments.

| | 31 Dec. 2014 | | 31 Dec. 2013 | |
|---|---|---|---|---|
| | EUR million | Risk-bearing capacity, % | EUR million | Risk-bearing capacity, % |
| Solvency capital | 988 | | 913 | |
| Claims incurred* | 930 | 106 | 882 | 104 |
| Insurance premium revenue* | 1,310 | 75** | 1,249 | 73** |
| Insurance liabilities* | 2,645 | 37 | 2,517 | 36 |
| Investment portfolio | 3,534 | 28 | 3,219 | 28 |

* Reinsurers' share (net business) deducted

** Solvency ratio

## Note 62. Sensitivity analysis of Non-life insurance

The table below shows the effect of various risk parameters on profit and solvency capital

| Risk parameter | Total in 2014, EUR million | Change in risk parameter | Effect on share-holders' equity, EUR million | Effect on combined ratio |
|---|---|---|---|---|
| Insurance portfolio or insurance premium revenue* | 1,310 | Up by 1% | 13 | Up by 0.9 pps |
| Claims incurred* | 930 | Up by 1% | -9 | Down by 0.7 pps |
| Large claim, over EUR 5 million | | 1 loss | -5 | Down by 0.4 pps |
| Personnel costs* | 102 | Up by 8% | -8 | Down by 0.6 pps |
| Expenses by function*/** | 320 | Up by 4% | -13 | Down by 1.0 pps |
| Inflation for collective liability | 603 | Up by 0.25 pps | -4 | Down by 0.3 pps |
| Life expectancy for discounted insurance liabilities | 1,658 | Up 1 year | -40 | Down by 3.0 pps |
| Discount rate for discounted insurance liabilities | 1,658 | Down by 0.1 pps | -21 | Down by 1.6 pps |

* Moving 12-month

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

## Note 63. 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 |
|---|---|---|---|---|
| 2014 | 14 | 14 | 11 | 11 |
| 2013 | 13 | 14 | 14 | 9 |

* EML = Estimated Maximum Loss per object of insurance

**Premiums written by TSI* class in corporate liability insurance**

The degree of risk in liability insurance can be evaluated by dividing risks into classes by their TSI* amounts. The table below shows premiums written calculated for each risk class.

| EUR million | 2–4 | 4–10 | 10–30 | 30–90 |
|---|---|---|---|---|
| 2014 | 3 | 6 | 7 | 3 |
| 2013 | 3 | 6 | 8 | 3 |

* TSI = Total Sum Insured

### Sums insured in decennial insurance

The sum insured of insurance contracts depicts the volume of decennial insurance (construction defects insurance). The gross and net amounts of the sum insured are itemised in the table below. The liability period of decennial insurance is 10 years.

| | Gross | | Net* | |
|---|---|---|---|---|
| **EUR million** | **2014** | **2013** | **2014** | **2013** |
| Decennial insurance | 2,249 | 2,287 | 2,249 | 2,282 |

* For insurance company's own account after reinsurers' share but before counter guarantee

## Note 64. Trend in large claims

### Number of detected large claims by year of detection for 2010–14

Non-life Insurance monitors carefully claims expenditure arising from large claims. The claims expenditure explains a significant part of the annual fluctuation in the underwriting result. In addition, monitoring the claims expenditure arising from large claims helps to detect any changes in risks or risk selection. In this analysis, large claims are those whose gross amount exceeds EUR 2 million. Most large claims occur in property and business interruption insurance. In statutory policies, the risk of large claim is small relative to the large volume of the line of business.

| **Gross amount**<br>**Number of claims exceeding EUR 2 million** | **Statutory lines** | **Other accident and health** | **Hull and cargo** | **Property and business interruption** | **Liability and legal expenses** | **Long term** |
|---|---|---|---|---|---|---|
| 2010 | 1 | | | 12 | | |
| 2011 | | | | 5 | | 1 |
| 2012 | 3 | | | 7 | 1 | |
| 2013 | 4 | | | 6 | 1 | |
| 2014 | 6 | | | 8 | 1 | |
| | | | | Total claims, EUR million | 256 | |
| **Gross amount, total claims, EUR million** | | | | | | |
| **2010−14** | **32** | | | **189** | **27** | **8** |

| **Net amount**<br>**Number of claims exceeding EUR 2 million** | **Statutory lines** | **Other accident and health** | **Hull and cargo** | **Property and business interruption** | **Liability and legal expenses** | **Long term** |
|---|---|---|---|---|---|---|
| 2010 | | | | 10 | | |
| 2011 | | | | 4 | | 1 |
| 2012 | 3 | | | 6 | 1 | |
| 2013 | 4 | | | 6 | 1 | |
| 2014 | 6 | | | 7 | | |
| | | | | Total claims, EUR million | 175 | |
| **Net amount, total claims, EUR million** | | | | | | |
| **2010−14** | **30** | | | **123** | **19** | **3** |

## Note 65. 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.

| 2014, EUR million | Gross IP revenue | Net IP revenue | Net CR* | Net** CR* |
|---|---|---|---|---|
| Statutory lines | 457 | 455 | 96 % | 82 % |
| Other accident and health | 180 | 180 | 86 % | 86 % |
| Hull and cargo | 287 | 285 | 81 % | 81 % |
| Property and business interruption | 353 | 312 | 89 % | 89 % |
| Liability and legal expenses | 83 | 76 | 97 % | 97 % |
| Long-term | 5 | 4 | 1 % | 1 % |
| **Total** | **1,364** | **1,310** | **89 %** | **85 %** |

| 2013, EUR million | Gross IP revenue | Net IP revenue | Net CR* | Net** CR* |
|---|---|---|---|---|
| Statutory lines | 459 | 458 | 93 % | 85 % |
| Other accident and health | 158 | 158 | 88 % | 88 % |
| Hull and cargo | 264 | 261 | 90 % | 90 % |
| Property and business interruption | 343 | 296 | 89 % | 88 % |
| Liability and legal expenses | 80 | 73 | 82 % | 82 % |
| Long-term | 5 | 4 | 15 % | 15 % |
| **Total** | **1,309** | **1,249** | **90 %** | **87 %** |

* The combined ratio is calculated by dividing the sum of claims incurred (net) and operating expenses of insurance business by insurance premium revenue (net). Amortisation on intangible rights is excluded from the calculation.

** One-off changes affecting the balance on technical account have been eliminated.

## Note 66. Information on the nature of insurance liabilities

| Information on the nature of liabilities | 2014 | 2013 |
|---|---|---|
| Net liabilities due to insurance contracts (EUR million) | | |
| Latent occupational diseases | 22 | 26 |
| Other | 2,622 | 2,491 |
| **Total (before transfers)** | **2,645** | **2,517** |
| | | |
| Duration of debt (years) | | |
| Discounted insurance liabilities | 12.7 | 12.6 |
| Undiscounted insurance liabilities | 2.1 | 2.1 |
| **Total** | **9.0** | **8.7** |
| | | |
| Discounted net debt (EUR million) | | |
| Known provision for claims for annuities | 1,308 | 1,252 |
| Collective liability | 313 | 275 |
| Provision for unearned premiums | 38 | 37 |
| **Total** | **1,658** | **1,564** |

## Note 67. Insurance liabilities by estimated maturity

| 31 Dec. 2014, EUR million | 0–1 yr | 1–5 yrs | 5–10 yrs | 10–15 yrs | Over 15 yrs | Total |
|---|---|---|---|---|---|---|
| Provision for unearned premiums* | 371 | 107 | 19 | 5 | 9 | 511 |
| Provision for unpaid claims | | | | | | |
| Undiscounted | 261 | 180 | 48 | 9 | 3 | 501 |
| Discounted | 95 | 431 | 325 | 246 | 523 | 1,621 |
| **Total insurance liabilities** | **727** | **717** | **392** | **261** | **536** | **2,633** |

* Includes EUR 38 million in discounted liability.

**Excluding the value of derivatives hedging the interest rate risk associated with insurance liabilities.

| 31 Dec. 2013, EUR million | 0–1 yr | 1–5 yrs | 5–10 yrs | 10–15 yrs | Over 15 yrs | Total |
|---|---|---|---|---|---|---|
| Provision for unearned premiums* | 349 | 100 | 18 | 5 | 9 | 481 |
| Provision for unpaid claims | | | | | | |
| Undiscounted | 264 | 183 | 49 | 9 | 4 | 508 |
| Discounted | 93 | 418 | 311 | 232 | 474 | 1,527 |
| **Total insurance liabilities** | **707** | **701** | **377** | **246** | **486** | **2,517** |

* Includes EUR 37 million in discounted liability.

## Note 68. Risk exposure of insurance investments

| Allocation of investment portfolio | 31 Dec. 2014 Fair value, EUR million* | % | 31 Dec. 2013 Fair value, EUR million* | % |
|---|---|---|---|---|
| Money market total | 173 | 5 | 113 | 4 |
| Money market instruments and deposits** | 173 | 5 | 113 | 3 |
| Derivative instruments*** | -1 | 0 | 1 | 0 |
| Total bonds and bond funds | 2,557 | 73 | 2,309 | 72 |
| Governments | 507 | 14 | 471 | 15 |
| Inflation-indexed bonds | 46 | 1 | 90 | 3 |
| Investment Grade | 1,779 | 51 | 1,485 | 46 |
| Emerging markets and High Yield | 200 | 6 | 236 | 7 |
| Structured investments | 24 | 1 | 27 | 1 |
| Total equities | 373 | 11 | 426 | 13 |
| Finland | 67 | 2 | 88 | 3 |
| Developed markets | 143 | 4 | 191 | 6 |
| Emerging markets | 43 | 1 | 47 | 1 |
| Fixed assets and unlisted equities | 3 | 0 | 4 | 0 |
| Private equity investments | 117 | 3 | 95 | 3 |
| Equity derivatives*** | 0 | 0 | | |
| Total alternative investments | 35 | 1 | 41 | 1 |
| Hedge funds | 23 | 1 | 23 | 1 |
| Commodities | 4 | 0 | 5 | 0 |
| Convertible bonds | 7 | 0 | 13 | 0 |
| Total property investments | 386 | 11 | 329 | 10 |
| Direct property investments | 230 | 7 | 219 | 7 |
| Indirect property investments | 156 | 4 | 110 | 3 |
| **Total** | **3,522** | **100** | **3,219** | **100** |

* Includes accrued interest income

** Includes settlement receivables and liabilities and market value of derivatives

*** Effect of derivatives on the allocation of the asset class (delta-weighted equivalents)

## Note 69. Sensitivity analysis of investment risks

The table below shows the sensitivity of investment risks by investment category. The discount rate sensitivity analysis related to the calculation of insurance liabilities is presented in Note 62. Effects of changes in investments and insurance liabilities offset one another.

| Non-life Insurance | Portfolio at fair value, EUR million 31 Dec. 2014 | Risk parameter | Change | Effect on solvency capital, EUR million 31 Dec. 2014 | 31 Dec. 2013 |
|---|---|---|---|---|---|
| Bonds and bond funds* | 2,564 | Interest rate | 1 pp | 101 | 72 |
| Equities** | 276 | Market value | 10% | 28 | 35 |
| Capital investments and unquoted equities | 120 | Market value | 10% | 12 | 10 |
| Commodities | 4 | Market value | 10% | 0 | 1 |
| Real property | 386 | Market value | 10% | 39 | 33 |
| Currency | 157 | Currency value | 10% | 16 | 14 |
| Credit risk premium*** | 2,729 | Credit spread | 0.1 pp | 11 | 8 |
| Derivatives | | Volatility | 10 pps | 0 | 2 |

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

** Include hedge funds and equity derivatives

*** Includes bonds and convertible bonds and money-market investments, excluding government bonds issued by developed countries

## Note 70. Interest-rate risk

The market risk arising from changes in interest rates is monitored by classifying investments by instrument, in accordance with duration. The table below does not indicate the balancing effect which the insurance liabilities have on the interest-rate risk, because only some insurance liabilities have been discounted using an administrative interest rate (Note 33).

| Fair value by duration or repricing date, EUR million* | 31 Dec. 2014 | 31 Dec. 2013 |
|---|---|---|
| 0–1 year | 332 | 331 |
| >1–3 years | 618 | 568 |
| >3–5 years | 699 | 761 |
| >5–7 years | 700 | 358 |
| >7–10 years | 281 | 225 |
| >10 years | 70 | 141 |
| **Total** | **2,700** | **2,384** |
| Modified duration | 4.3 | 3.7 |
| Effective interest rate, % | 1.1 | 2.0 |

* Includes money-market investments and deposits, bonds, convertible bonds and bond funds.

**Fixed-income portfolio by maturity and credit rating on 31 Dec. 2014*, EUR million**

| Year(s) | 0–1 | 1–3 | 3–5 | 5–7 | 7–10 | 10– | Total | Proportion, % |
|---|---|---|---|---|---|---|---|---|
| Aaa | 62 | 181 | 87 | 266 | 57 | 47 | 698 | 25.9 |
| Aa1−Aa3 | 179 | 66 | 70 | 82 | 34 | 15 | 445 | 16.5 |
| A1−A3 | 27 | 215 | 269 | 165 | 111 | 0 | 786 | 29.1 |
| Baa1−Baa3 | 26 | 88 | 246 | 159 | 75 | 4 | 600 | 22.2 |
| Ba1 or lower | 38 | 68 | 28 | 28 | 4 | 4 | 170 | 6.3 |
| Internally rated | 1 | 0 | | 0 | | | 1 | 0.0 |
| **Total** | **332** | **618** | **699** | **700** | **281** | **70** | **2,700** | **100.0** |

* Excludes credit derivatives.

The maturity is presented until the end of the term to maturity. If the paper includes a call option, the maturity is presented until the first possible Call date.

The average credit rating of the Non-life Insurance fixed-income portfolio is Moody's A3.

The term to maturity of the Non-life Insurance fixed-income portfolio averages 4.5 years (calculated on the basis of the call date and the maturity date).

## Note 71. Currency risk

| Foreign currency exposure, EUR million | 31 Dec. 2014 | 31 Dec. 2013 |
|---|---|---|
| USD | 40 | 54 |
| SEK | 5 | -3 |
| JPY | 1 | 2 |
| GBP | 21 | 14 |
| Other | 89 | 62 |
| **Total*** | **157** | **136** |

* The currency exposure was 4.4% (4.2) of the investment portfolio. It is calculated as the sum total of individual currencies' intrinsic values.

## Note 72. Counterparty risk

| | 31 Dec. 2014 | | 31 Dec. 2013 | |
|---|---|---|---|---|
| Credit rating, consistent with Moody's, EUR million | Investment* | Insurance** | Investment* | Insurance** |
| Aaa | 698 | | 872 | |
| Aa1–Aa3 | 445 | 14 | 308 | 8 |
| A1–A3 | 786 | 38 | 585 | 23 |
| Baa1–Baa3 | 600 | 0 | 402 | 0 |
| Ba1 or lower | 170 | | 189 | |
| Internally rated | 1 | 41 | 27 | 49 |
| **Total** | **2,700** | **93** | **2,384** | **80** |

* Include money-market investments and deposits, bonds and bond funds

** Includes the reinsurers' share of insurance liabilities, and receivables from reinsurers

# OTHER NOTES TO THE BALANCE SHEET

## Note 73. Classification of financial assets and liabilities

| Assets 31 Dec. 2014, EUR million | Loans and receivables | Held to maturity | At fair value through profit or loss* | Available for sale | Hedging derivatives | Carrying amount total |
|---|---|---|---|---|---|---|
| Cash and balances with central banks | 3,774 | | | | | 3,774 |
| Receivables from credit institutions and central banks | 10,257 | | | | | 10,257 |
| Derivative contracts | | | 5,637 | | 309 | 5,946 |
| Receivables from customers | 15,513 | | | | | 15,513 |
| Non-life Insurance assets** | 658 | | 180 | 3,016 | | 3,854 |
| Notes and bonds*** | | 144 | 360 | 7,781 | | 8,285 |
| Shares and participations | | | 0 | 101 | | 101 |
| Other financial assets | 1,698 | | 85 | | | 1,783 |
| **Financial assets** | **31,899** | **144** | **6,263** | **10,898** | **309** | **49,513** |
| Other than financial instruments | | | | | | 985 |
| **Total** | **31,899** | **144** | **6,263** | **10,898** | **309** | **50,498** |

| Assets 31 Dec. 2013, EUR million | Loans and receivables | Held to maturity | At fair value through profit or loss* | Available for sale | Hedging derivatives | Carrying amount total |
|---|---|---|---|---|---|---|
| Cash and balances with central banks | 2,046 | | | | | 2,046 |
| Receivables from credit institutions and central banks | 9,899 | | | | | 9,899 |
| Derivative contracts | | | 3,171 | | 273 | 3,444 |
| Receivables from customers | 14,510 | | | | | 14,510 |
| Non-life Insurance assets** | 539 | | 162 | 2,800 | | 3,502 |
| Notes and bonds*** | | 202 | 443 | 7,108 | | 7,754 |
| Shares and participations | | | 1 | 175 | | 176 |
| Other financial assets | 1,255 | | 88 | | | 1,344 |
| **Financial assets** | **28,251** | **202** | **3,865** | **10,084** | **273** | **42,675** |
| Other than financial instruments | | | | | | 1,149 |
| **Total restated******* | **28,251** | **202** | **3,865** | **10,084** | **273** | **43,824** |

| Liabilities 31 Dec. 2014, EUR million | At fair value through profit or loss | Other liabilities | Hedging derivatives | Carrying amount total |
|---|---|---|---|---|
| Liabilities to credit institutions | | 5,241 | | 5,241 |
| Financial liabilities held for trading (excl. derivatives) | 4 | | | 4 |
| Derivative contracts | 5,516 | | 373 | 5,889 |
| Liabilities to customers | | 11,442 | | 11,442 |
| Non-life Insurance liabilities**** | 2 | 2,970 | | 2,972 |
| Debt instruments issued to the public | | 17,587 | | 17,587 |
| Subordinated liabilities | | 1,084 | | 1,084 |
| Other financial liabilities | | 2,257 | | 2,257 |
| **Financial liabilities** | **5,522** | **40,582** | **373** | **46,478** |
| Other than financial liabilities | | | | 612 |
| **Total** | **5,522** | **40,582** | **373** | **47,090** |

| Liabilities 31 Dec. 2013, EUR million | At fair value through profit or loss | Other liabilities | Hedging derivatives | Carrying amount total |
|---|---|---|---|---|
| Liabilities to credit institutions | | 4,789 | | 4,789 |
| Financial liabilities held for trading (excl. derivatives) | 4 | | | 4 |
| Derivative contracts | 3,186 | | 234 | 3,420 |
| Liabilities to customers | | 10,183 | | 10,183 |
| Non-life Insurance liabilities**** | 0 | 2,746 | | 2,746 |
| Debt instruments issued to the public | | 16,097 | | 16,097 |
| Subordinated liabilities | | 984 | | 984 |
| Other financial liabilities | | 1,971 | | 1,971 |
| **Financial liabilities** | **3,190** | **36,768** | **234** | **40,192** |
| Other than financial liabilities | | | | 483 |
| **Total restated******* | **3,190** | **36,768** | **234** | **40,675** |

* Assets at fair value through profit or loss include financial assets held for trading, financial assets at fair value through profit or loss at inception and investment property.

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

*** The notes as of 31 December 2014 did not include notes recognised in accordance with the Fair Value Option. The notes as of 31 December 2013 regonised in accordance with the Fair Value Option totalled EUR 9 million.

**** Non-life Insurance liabilities are specified in Note 33.

***** Comparative figures have been restated as a result of the adoption of IFRS 10 Consolidated Financial Statements.

Bonds included in debt securities issued to the public are carried at amortised cost. On 31 December 2014, the fair value of these debt instrument was EUR 232 million (147) 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 higer than their amortised costs, but determining reliable fair values involves uncertainty.

## Note 74. Recurring fair value measurements by valuation technique

| Financial assets recognised at fair value on 31 Dec. 2014, EUR million | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Recognised at fair value through profit or loss | | | | |
| Banking | 183 | 178 | | 360 |
| Non-life Insurance | | 7 | | 7 |
| Derivative financial instruments | | | | |
| Banking | 7 | 5,737 | 202 | 5,946 |
| Non-life Insurance | 1 | 11 | | 12 |
| Available-for-sale | | | | |
| Banking | 5,899 | 1,968 | 15 | 7,882 |
| Non-life Insurance | 1,579 | 1,156 | 281 | 3,016 |
| **Total financial instruments** | **7,668** | **9,057** | **499** | **17,224** |
| Investment property | | | | |
| Banking | | | 85 | 85 |
| Non-life Insurance | | | 161 | 161 |
| **Total Investment property** | | | **246** | **246** |
| **Total** | **7,668** | **9,057** | **745** | **17,470** |

| Financial assets recognised at fair value on 31 Dec. 2013, EUR million* | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Recognised at fair value through profit or loss | | | | |
| Banking | 152 | 292 | | 444 |
| Non-life Insurance | | 6 | | 6 |
| Derivative financial instruments | | | | |
| Banking | 10 | 3,222 | 212 | 3,444 |
| Non-life Insurance | 4 | 0 | | 4 |
| Available-for-sale | | | | |
| Banking | 5,632 | 1,631 | 21 | 7,283 |
| Non-life Insurance | 1,670 | 917 | 214 | 2,800 |
| **Total financial instruments** | **7,468** | **6,067** | **446** | **13,981** |
| Investment property | | | | |
| Banking | | | 88 | 88 |
| Non-life Insurance | | | 152 | 152 |
| **Total Investment property** | | | **241** | **241** |
| **Total** | **7,468** | **6,067** | **687** | **14,222** |

* Comparative figures have been restated as a result of the adoption of IFRS 10 Consolidated Financial Statements.

| Financial liabilities recognised at fair value on 31 Dec. 2014, EUR million | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Recognised at fair value through profit or loss | | | | |
| Banking | | 4 | | 4 |
| Derivative financial instruments | | | | |
| Banking | 57 | 5,703 | 130 | 5,889 |
| Non-life Insurance | 2 | 0 | | 2 |
| **Total** | **59** | **5,707** | **130** | **5,896** |

| Financial liabilities recognised at fair value on 31 Dec. 2013, EUR million* | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Recognised at fair value through profit or loss | | | | |
| Banking | | 4 | | 4 |
| Derivative financial instruments | | | | |
| Banking | 35 | 3,254 | 131 | 3,420 |
| **Total** | **35** | **3,258** | **131** | **3,423** |

## Fair value measurement

### Banking derivatives

Pohjola obtains the price of listed derivatives directly from markets. In the fair value measurement of OTC derivatives, Pohjola uses models and techniques commonly used in markets. These are needed, for instance, to create yield curves and currency conversion charts and volatility surfaces as well as for option valuation. The input data of these models can generally be derived from markets. In the fair value measurement of some contracts, however, Pohjola has to use models where input data cannot be observed in the market and therefore they must be assessed. Such contracts are included in Level 3.

Pohjola Bank's Middle Office is responsible for the fair value measurement of Banking derivatives and the quality and reliability of market data, valuation curves and volatility surfaces used in them, as part of its daily fair value measurement process, including the measurement of Level 3 hierarchy. Middle Office compares regularly at contract level valuation prices with valuations supplied by CSA counterparties and central counterparties and, whenever necessary, determine any possible significant valuation differences.

OP Financial Group's Risk Management Control is responsible for approval of new fair value measurement models and techniques and supervision of the fair value measurement process. Verifying fair values is based, for example, on valuation using alternative sources for market prices and other input data. In this verification process, valuation prices can be compared with prices supplied by CSA counterparties and central counterparties. In addition, it is possible to use valuation services provided by third parties.

The fair value measurement of OTC derivatives takes account of the credit risk of the parties to a transaction. Credit risk is adjusted with a Credit Valuation Adjustment (CVA) and with a Debt Valuation Adjustment (DVA). CVA and DVA valuation adjustments are calculated for each counterparty.

### Non-life Insurance's available-for-sale financial investments

The prices of securities are primarily obtained from market information sources and valued on a daily basis. Some securities are subject to less frequent pricing, such as once a month. In such a case, pricing is based on official valuations published by brokers, issuers or other market participants or their estimates. Such contracts are included in Level 3.

### Level 1: Quoted prices in active markets

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

**Level 2: Valuation techniques using observable inputs**

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

**Level 3: Valuation techniques using unobservable inputs**

Valuation techniques whose input parameters involve special uncertainty. The fair value determination of the financial instruments included within this level contains inputs not based on observable market data (unobservable inputs). This level includes the most complex OTC derivatives, certain private equity investments, and illiquid bonds, structured bonds, including securitised bonds and structured debt securities, and hedge funds. In many cases, the Level 3 fair value is based on pricing information from a third party.

**Transfers between levels of the fair value hierarchy**

Transfers between the levels of the fair value hierarchy are considered to take place on the date when an event causes such transfer or when circumstances change.

During 2014, EUR 56.3 million (145) in bonds were transferred from level 1 to level 2 and EUR 55.0 million in bonds were transferred from level 2 to level 1, due to changes in credit ratings.

**Valuation techniques whose input parameters involve uncertainty**

**Specification of financial assets and liabilities**

| | Recognised at fair value through profit or loss | | Derivative financial instruments | | Available-for-sale | | |
|---|---|---|---|---|---|---|---|
| **Financial assets, EUR million** | **Banking** | **Non-life Insurance** | **Banking** | **Non-life Insurance** | **Banking** | **Non-life Insurance** | **Total assets** |
| Opening balance 1 Jan. 2014 | | | 212 | | 21 | 214 | 446 |
| Total gains/losses in profit or loss | | | -10 | | -2 | 6 | -6 |
| Total gains/losses in other comprehensive income | | | | | -3 | 38 | 35 |
| Purchases | | | | | | 57 | 57 |
| Sales | | | | | | -34 | -34 |
| **Closing balance 31 Dec. 2014** | | | **202** | | **15** | **281** | **499** |

| Financial assets, EUR million | Recognised at fair value through profit or loss<br>Banking | <br>Non-life Insurance | Derivative financial instruments<br>Banking | <br>Non-life Insurance | Available-for-sale<br>Banking | <br>Non-life Insurance | Total assets |
|---|---|---|---|---|---|---|---|
| Opening balance 1 Jan. 2013 | 16 | 6 | 190 | | 16 | 229 | 457 |
| Total gains/losses in profit or loss | -16 | | 22 | | -1 | -5 | 0 |
| Total gains/losses in other comprehensive income | | | | | 6 | 14 | 20 |
| Purchases | | | | | | 17 | 17 |
| Sales | | | | | | -41 | -41 |
| Settlements | | -6 | | | | | -6 |
| **Closing balance 31 Dec. 2013** | | | **212** | | **21** | **214** | **446** |

* Comparative figures have been restated as a result of the adoption of IFRS 10 Consolidated Financial Statements.

| Financial liabilities, EUR million | Recognised at fair value through profit or loss<br>Banking | <br>Non-life Insurance | Derivative financial instruments<br>Banking | <br>Non-life Insurance | Total liabilities |
|---|---|---|---|---|---|
| Opening balance 1 Jan. 2014 | | | 131 | | 131 |
| Total gains/losses in profit or loss | | | -1 | | -1 |
| **Closing balance 31 Dec. 2014** | | | **130** | | **130** |

| Financial liabilities, EUR million | Recognised at fair value through profit or loss<br>Banking | <br>Non-life Insurance | Derivative financial instruments<br>Banking | <br>Non-life Insurance | Total liabilities |
|---|---|---|---|---|---|
| Opening balance 1 Jan. 2013 | | | 159 | | 159 |
| Total gains/losses in profit or loss | | | -28 | | -28 |
| **Closing balance 31 Dec. 2013** | | | **131** | | **131** |

**Total gains/losses included in profit or loss by item for the financial year on 31 Dec. 2014**

| EUR million | Net interest income or net trading income | Net investment income | Net income from Non-life Insurance | Statement of comprehensive income/ Change in fair value reserve | Net gains/losses on assets and liabilities held at year-end |
|---|---|---|---|---|---|
| Realised net gains (losses) | | | 6 | | 6 |
| Unrealised net gains (losses) | -8 | -2 | | 35 | 24 |
| **Total net gains (losses)** | **-8** | **-2** | **6** | **35** | **31** |

**Total gains/losses included in profit or loss by item for the financial year on 31 Dec. 2013***

| EUR million | Net interest income or net trading income | Net investment income | Net income from Non-life Insurance | Statement of comprehensive income/ Change in fair value reserve | Net gains/losses on assets and liabilities held at year-end |
|---|---|---|---|---|---|
| Realised net gains (losses) | -16 | 2 | -5 | | -19 |
| Unrealised net gains (losses) | 50 | -3 | | 20 | 67 |
| **Total net gains (losses)** | **34** | **-1** | **-5** | **20** | **48** |

* Comparative figures have been restated as a result of the adoption of IFRS 10 Consolidated Financial Statements.

Derivatives included in Level 3 comprise structured derivatives for customer needs, whose market risk is covered by a corresponding derivatives contract. The uncovered market risk does not have any effect on earnings. Level 3 derivatives relate to structured bonds issued by Pohjola, whose return is determined by the value performance of an embedded derivative instrument. The fair value change of these embedded derivatives is not presented in the above table.

### Changes in the levels of hierarchy

No major changes occurred in valuation techniques in 2014.

### Sensitivity analysis of input parameters involving uncertainty

| Type of instrument 31 Dec. 2014, EUR million | Receivables | Liabilities | Net balance | Sensitivity analysis | Reasonably possible change in fair value |
|---|---|---|---|---|---|
| Derivatives | | | | | |
| Index-linked bond hedges and structured derivatives* | 202 | -130 | 72 | 7.7 | 11 % |
| Available-for-sale | | | | | |
| Illiquid investments | 92 | | 92 | 13.7 | 15 % |
| Private equity funds** | 156 | | 156 | 15.6 | 10 % |
| Real estate funds*** | 49 | | 49 | 9.8 | 20 % |
| Investment property*** | 246 | | 246 | 49.2 | 20 % |

* Following stress scenarios: the combined value change of volatility of shares (30%), dividends of shares (30%), credit risk premiums (30%) and significant correlation changes.

** The value of private equity funds depends mainly on the profit performance of portfolio companies and the PE ratios of similar listed companies. The Total Value to Paid-in (TVPI) multiple is used to monitor the progress of the fair value of private equity funds. It is estimated that the fair value sensitivity of private equity funds is 10%.

*** In the valuation of real estate funds and investment property, Pohjola mainly uses the income approach whose main components are yield requirement and net rent. A +/– 1 percentage point change in the yield requirement leads on average to around 20% change in the fair value.

## Note 75. Collateral given

| Balance sheet value, EUR million | 31 Dec. 2014 | 31 Dec. 2013 |
|---|---|---|
| Given on behalf of own liabilities and commitments | | |
| Mortgages | 1 | 1 |
| Pledges | 4 | 5 |
| Other | 981 | 485 |
| Other collateral given | | |
| Pledges* | 6,273 | 5,705 |
| Total | 7,259 | 6,196 |
| Total collateral given | | |
| Mortgages | 1 | 1 |
| Pledges | 6,277 | 5,711 |
| Other | 981 | 485 |
| **Total** | **7,259** | **6,196** |
| | | |
| Total collateralised liabilities | 474 | 490 |

* Of which EUR 2,000 million in intraday settlement collateral.

## Note 76. Financial collateral held

| EUR million | 31 Dec. 2014 | 31 Dec. 2013 |
|---|---|---|
| Fair value of collateral received | | |
| Other | 722 | 359 |
| **Total** | **722** | **359** |

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 722 million on the balance sheet date (359). The Group had no securities received as collateral on the balance sheet date.

# NOTES TO CONTINGENT LIABILITIES AND DERIVATIVES

## Note 77. Off-balance-sheet commitments

| EUR million | 31 Dec. 2014 | 31 Dec. 2013 |
|---|---|---|
| Guarantees | 874 | 914 |
| Other guarantee liabilities | 1,578 | 1,568 |
| Loan commitments | 4,365 | 4,728 |
| Commitments related to short-term trade transactions | 297 | 247 |
| Other | 336 | 359 |
| **Total off-balance-sheet commitments** | **7,450** | **7,816** |

## Note 78. Derivative contracts

**Derivatives held for trading 31 Dec. 2014**

| EUR million | Nominal values/ residual term to maturity <1 year | 1–5 years | >5 years | Total | Fair values* Assets | Liabilities | Potential future exposure |
|---|---|---|---|---|---|---|---|
| **Interest rate derivatives** | | | | | | | |
| Interest rate swaps | 24,618 | 71,169 | 39,382 | 135,169 | 4,113 | 4,144 | 5,037 |
| Cleared by the central counterparty | 4,207 | 21,163 | 11,936 | 37,305 | 697 | 665 | 980 |
| OTC interest rate options | | | | | | | |
| Call and caps | | | | | | | |
| Purchased | 3,731 | 4,555 | 2,441 | 10,727 | 398 | 2 | 464 |
| Written | 2,669 | 4,022 | 3,617 | 10,308 | | 360 | 6 |
| Put and floors | | | | | | | |
| Purchased | 5,480 | 4,505 | 2,506 | 12,492 | 195 | 8 | 275 |
| Written | 5,903 | 5,787 | 1,812 | 13,503 | 7 | 102 | 51 |
| Total OTC interest rate derivatives | 42,402 | 90,039 | 49,759 | 182,200 | 4,713 | 4,617 | 5,833 |
| Interest rate futures | 12,461 | 4,602 | | 17,063 | 3 | 14 | |
| Interest rate options | | | | | | | |
| Call | | | | | | | |
| Written | 500 | | | 500 | | 0 | |
| Put | | | | | | | |
| Purchased | 2,000 | | | 2,000 | | 0 | |
| Total exchange traded derivatives | 14,961 | 4,602 | | 19,563 | 3 | 15 | |
| Total interest rate derivatives | 57,363 | 94,641 | 49,759 | 201,763 | 4,716 | 4,632 | 5,833 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Currency derivatives** | | | | | | | |
| Forward exchange agreements | 13,535 | 307 | 65 | 13,908 | 276 | 168 | 432 |
| Interest rate and currency swaps | 360 | 7,728 | 5,164 | 13,252 | 669 | 697 | 1,447 |
| Currency options | | | | | | | |
| Call | | | | | | | |
| Purchased | 188 | 17 | | 205 | 4 | | 7 |
| Written | 226 | 17 | | 243 | | 5 | |
| Put | | | | | | | |
| Purchased | 496 | 8 | | 504 | 11 | | 17 |
| Written | 426 | 9 | | 436 | | 8 | |
| Total OTC currency derivatives | 15,233 | 8,086 | 5,229 | 28,548 | 961 | 878 | 1,903 |
| Total currency derivatives | 15,233 | 8,086 | 5,229 | 28,548 | 961 | 878 | 1,903 |
| **Equity and index derivatives** | | | | | | | |
| Equity options | | | | | | | |
| Call | | | | | | | |
| Purchased | 266 | 271 | | 537 | 35 | 0 | 73 |
| Equity index options | | | | | | | |
| Call | | | | | | | |
| Purchased | | 9 | | 9 | 2 | | 3 |
| Written | | 2 | | 2 | | 0 | |
| Put | | | | | | | |
| Purchased | | 2 | | 2 | 0 | | 0 |
| Written | | 2 | | 2 | | 0 | |
| Total OTC equity and index derivatives | 266 | 285 | | 551 | 37 | 1 | 76 |
| Total equity and index derivatives | 266 | 285 | | 551 | 37 | 1 | 76 |
| **Credit derivatives** | | | | | | | |
| Credit default swaps | 9 | 73 | 102 | 184 | 12 | 5 | 12 |
| Total credit derivatives | 9 | 73 | 102 | 184 | 12 | 5 | 12 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Other** | | | | | | | |
| Other swaps | 70 | 794 | 56 | 920 | 67 | 29 | 153 |
| Other options | | | | | | | |
| Call | | | | | | | |
| Purchased | 17 | 11 | | 28 | 0 | | 3 |
| Written | 17 | | | 17 | | 0 | |
| Put | | | | | | | |
| Purchased | 10 | | | 10 | 2 | | 3 |
| Written | 10 | | | 10 | | 2 | |
| Total other OTC derivatives | 123 | 805 | 56 | 984 | 69 | 31 | 159 |
| Other forward agreements and futures | 109 | 70 | 0 | 179 | 4 | 36 | 0 |
| Total other derivatives | 233 | 874 | 56 | 1,163 | 73 | 67 | 160 |
| **Total derivatives held for trading** | **73,103** | **103,959** | **55,146** | **232,209** | **5,800** | **5,582** | **7,984** |

**Derivatives held for trading 31 Dec. 2013**

| | Nominal values/ residual term to maturity | | | | Fair values* | | Potential future |
|---|---|---|---|---|---|---|---|
| **EUR million** | **<1 year** | **1–5 years** | **>5 years** | **Total** | **Assets** | **Liabilities** | **exposure** |
| **Interest rate derivatives** | | | | | | | |
| Interest rate swaps | 19,446 | 68,860 | 30,033 | 118,339 | 2,231 | 2,288 | 3,022 |
| Cleared by the central counterparty | 2,350 | 9,295 | 4,419 | 16,065 | 70 | 51 | 183 |
| OTC interest rate options | | | | | | | |
| Call and caps | | | | | | | |
| Purchased | 3,113 | 5,351 | 2,119 | 10,584 | 173 | 4 | 237 |
| Written | 2,324 | 5,807 | 3,099 | 11,230 | 0 | 137 | 5 |
| Put and floors | | | | | | | |
| Purchased | 2,909 | 6,655 | 1,667 | 11,232 | 230 | 1 | 302 |
| Written | 3,318 | 7,306 | 1,094 | 11,717 | 0 | 145 | 27 |
| Total OTC interest rate derivatives | 31,111 | 93,979 | 38,011 | 163,101 | 2,634 | 2,575 | 3,593 |
| Interest rate futures | 3,966 | 6,624 | | 10,591 | 7 | 3 | |
| Interest rate options | | | | | | | |
| Put | | | | | | | |
| Purchased | 2,000 | | | 2,000 | | 0 | |
| Written | 4,000 | | | 4,000 | 1 | | |
| Total exchange traded derivatives | 9,966 | 6,624 | | 16,591 | 8 | 3 | |
| Total interest rate derivatives | 41,077 | 100,603 | 38,011 | 179,692 | 2,642 | 2,578 | 3,593 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Currency derivatives** | | | | | | | |
| Forward exchange agreements | 13,644 | 338 | 84 | 14,067 | 132 | 143 | 291 |
| Interest rate and currency swaps | 344 | 1,353 | 1,303 | 3,001 | 160 | 177 | 329 |
| Currency options | | | | | | | |
| Call | | | | | | | |
| Purchased | 178 | 11 | | 189 | 3 | | 5 |
| Written | 208 | 8 | | 217 | 0 | 8 | 0 |
| Put | | | | | | | |
| Purchased | 167 | 8 | | 175 | 1 | | 3 |
| Written | 101 | 0 | | 101 | | 1 | |
| Total OTC currency derivatives | 14,643 | 1,719 | 1,387 | 17,750 | 296 | 328 | 629 |
| Total currency derivatives | 14,643 | 1,719 | 1,387 | 17,750 | 296 | 328 | 629 |
| | | | | | | | |
| **Equity and index derivatives** | | | | | | | |
| Equity index options | | | | | | | |
| Call | | | | | | | |
| Purchased | 194 | 582 | | 776 | 77 | | 135 |
| Total OTC equity and index derivatives | 194 | 582 | | 776 | 77 | | 135 |
| Total equity and index derivatives | 194 | 582 | | 776 | 77 | | 135 |
| | | | | | | | |
| **Credit derivatives** | | | | | | | |
| Credit default swaps | 4 | 99 | 15 | 118 | 13 | 0 | 13 |
| Total credit derivatives | 4 | 99 | 15 | 118 | 13 | 0 | 13 |
| | | | | | | | |
| **Other** | | | | | | | |
| Other swaps | 227 | 523 | 166 | 917 | 56 | 30 | 145 |
| Other options | | | | | | | |
| Call | | | | | | | |
| Purchased | 18 | 11 | | 29 | 0 | | 3 |
| Written | 18 | | | 18 | | 0 | |
| Put | | | | | | | |
| Purchased | 9 | | | 9 | 0 | | 1 |
| Written | 9 | | | 9 | | 0 | |
| Total other OTC derivatives | 281 | 534 | 166 | 981 | 56 | 30 | 150 |
| Other forward agreements and futures | 109 | 118 | 6 | 233 | 9 | 34 | 1 |
| Total other derivatives | 390 | 652 | 172 | 1,214 | 65 | 64 | 151 |
| **Total derivatives held for trading** | **56,307** | **103,656** | **39,586** | **199,549** | **3,092** | **2,971** | **4,521** |

**Derivative contracts for hedging purposes – fair value hedge 31 Dec. 2014**

| EUR million | Nominal values/ residual term to maturity <1 year | 1–5 years | >5 years | Total | Fair values* Assets | Liabilities | Potential future exposure |
|---|---|---|---|---|---|---|---|
| **Interest rate derivatives** | | | | | | | |
| Interest rate swaps | 1,597 | 10,671 | 5,754 | 18,022 | 473 | 564 | 612 |
| Cleared by the central counterparty | 163 | 2,964 | 3,072 | 6,199 | 165 | 202 | 226 |
| Total OTC interest rate derivatives | 1,597 | 10,671 | 5,754 | 18,022 | 473 | 564 | 612 |
| Total interest rate derivatives | 1,597 | 10,671 | 5,754 | 18,022 | 473 | 564 | 612 |
| **Currency derivatives** | | | | | | | |
| Interest rate and currency swaps | 1,044 | 942 | 410 | 2,396 | 75 | 97 | 163 |
| Total OTC currency derivatives | 1,044 | 942 | 410 | 2,396 | 75 | 97 | 163 |
| Total currency derivatives | 1,044 | 942 | 410 | 2,396 | 75 | 97 | 163 |
| **Total derivative contracts, fair value hedge** | **2,642** | **11,613** | **6,163** | **20,418** | **548** | **661** | **776** |

**Derivative contracts for hedging purposes – cash flow hedge 31 Dec. 2014**

| EUR million | Nominal values/ residual term to maturity <1 year | 1–5 years | >5 years | Total | Fair values* Assets | Liabilities | Potential future exposure |
|---|---|---|---|---|---|---|---|
| **Interest rate derivatives** | | | | | | | |
| Interest rate swaps | 200 | 700 | | 900 | 26 | | 29 |
| Cleared by the central counterparty | | 400 | | 400 | 14 | | 16 |
| Total OTC interest rate derivatives | 200 | 700 | | 900 | 26 | | 29 |
| Total interest rate derivatives | 200 | 700 | | 900 | 26 | | 29 |
| **Total derivative contracts, cash flow hedge** | **200** | **700** | | **900** | **26** | | **29** |
| **Total derivative contracts held for hedging** | **2,842** | **12,313** | **6,163** | **21,318** | **574** | **661** | **805** |

**Derivative contracts for hedging purposes – fair value hedge 31 Dec. 2013**

| EUR million | Nominal values/ residual term to maturity <1 year | 1–5 years | >5 years | Total | Fair values* Assets | Liabilities | Potential future exposure |
|---|---|---|---|---|---|---|---|
| **Interest rate derivatives** | | | | | | | |
| Interest rate swaps | 2,248 | 11,378 | 5,060 | 18,686 | 335 | 242 | 453 |
| Cleared by the central counterparty | 40 | 1,139 | 601 | 1,779 | 5 | 17 | 20 |
| Total OTC interest rate derivatives | 2,248 | 11,378 | 5,060 | 18,686 | 335 | 242 | 453 |
| Total interest rate derivatives | 2,248 | 11,378 | 5,060 | 18,686 | 335 | 242 | 453 |
| **Currency derivatives** | | | | | | | |
| Interest rate and currency swaps | 1,628 | 803 | 137 | 2,567 | 46 | 83 | 113 |
| Total OTC currency derivatives | 1,628 | 803 | 137 | 2,567 | 46 | 83 | 113 |
| Total currency derivatives | 1,628 | 803 | 137 | 2,567 | 46 | 83 | 113 |
| **Total derivative contracts, fair value hedge** | **3,876** | **12,181** | **5,197** | **21,254** | **381** | **325** | **565** |

**Derivative contracts for hedging purposes – cash flow hedge 31 Dec. 2013**

| EUR million | Nominal values/ residual term to maturity <1 year | 1–5 years | >5 years | Total | Fair values* Assets | Liabilities | Potential future exposure |
|---|---|---|---|---|---|---|---|
| **Interest rate derivatives** | | | | | | | |
| Interest rate swaps | 200 | 800 | | 1,000 | 21 | 1 | 25 |
| Cleared by the central counterparty | | 200 | | 200 | 0 | 1 | 1 |
| Total OTC interest rate derivatives | 200 | 800 | | 1,000 | 21 | 1 | 25 |
| Total interest rate derivatives | 200 | 800 | | 1,000 | 21 | 1 | 25 |
| **Total derivative contracts, cash flow hedge** | **200** | **800** | | **1,000** | **21** | **1** | **25** |
| **Total derivative contracts held for hedging** | **4,076** | **12,981** | **5,197** | **22,254** | **402** | **326** | **590** |

**Total derivative contracts 31 Dec. 2014**

| EUR million | Nominal values/ residual term to maturity <1 year | 1–5 years | >5 years | Total | Fair values* Assets | Liabilities | Potential future exposure |
|---|---|---|---|---|---|---|---|
| Interest rate derivatives | 59,160 | 106,012 | 55,513 | 220,684 | 5,215 | 5,196 | 6,475 |
| Cleared by the central counterparty | 4,370 | 24,526 | 15,008 | 43,904 | 876 | 867 | 1,222 |
| Currency derivatives | 16,277 | 9,028 | 5,639 | 30,944 | 1,036 | 975 | 2,066 |
| Equity and index-linked derivatives | 266 | 285 | | 551 | 37 | 1 | 76 |
| Credit derivatives | 9 | 73 | 102 | 184 | 12 | 5 | 12 |
| Other derivatives | 233 | 874 | 56 | 1,163 | 73 | 67 | 160 |
| **Total derivatives** | **75,945** | **116,272** | **61,310** | **253,527** | **6,374** | **6,243** | **8,788** |

**Total derivative contracts 31 Dec. 2013**

| EUR million | Nominal values/ residual term to maturity <1 year | 1–5 years | >5 years | Total | Fair values* Assets | Liabilities | Potential future exposure |
|---|---|---|---|---|---|---|---|
| Interest rate derivatives | 43,525 | 112,782 | 43,071 | 199,378 | 2,997 | 2,821 | 4,071 |
| Cleared by the central counterparty | 2,390 | 10,634 | 5,020 | 18,044 | 76 | 69 | 204 |
| Currency derivatives | 16,270 | 2,522 | 1,524 | 20,317 | 342 | 412 | 742 |
| Equity and index-linked derivatives | 194 | 582 | | 776 | 77 | | 135 |
| Credit derivatives | 4 | 99 | 15 | 118 | 13 | 0 | 13 |
| Other derivatives | 390 | 652 | 172 | 1,214 | 65 | 64 | 151 |
| **Total derivatives** | **60,383** | **116,637** | **44,783** | **221,803** | **3,494** | **3,297** | **5,112** |

* Fair values include accrued interest which is shown under other assets or provisions and other liabilities. In addition, the fair value of derivatives for central counterparty clearing is offset in the balance sheet.

Interest rate derivatives for central counterparty clearing are offset in the balance sheet. Note 79 below presents the effects of netting. Other derivative contracts are presented on a gross basis in the balance sheet. In capital adequacy measurement, Pohjola Group also applies netting of derivatives. Note 60 above presents the effects of netting. Netting would reduce the credit equivalent of Pohjola Bank plc's derivative contracts by EUR 6,233 million (3,381).

## Note 79. Financial assets and liabilities offset in the balance sheet or subject to enforceable master netting arrangements or similar agreements

**Financial assets offset in the balance sheet or subject to enforceable master netting arrangements or similar agreements**

| 31 Dec. 2014, EUR million | Gross amount of financial assets | Gross amount of financial liabilities deducted from financial assets* | Net amount presented in the balance sheet** | Financial assets not set off in the balance sheet: Financial assets*** | Financial assets not set off in the balance sheet: Collateral received | Net amount |
|---|---|---|---|---|---|---|
| Banking derivatives | 6,817 | -871 | 5,946 | -4,008 | -722 | 1,216 |
| Non-life Insurance derivatives | 12 | | 12 | -1 | | 11 |
| **Total derivatives** | **6,829** | **-871** | **5,958** | **-4,009** | **-722** | **1,227** |

| 31 Dec. 2013, EUR million | Gross amount of financial assets | Gross amount of financial liabilities deducted from financial assets* | Net amount presented in the balance sheet** | Financial assets not set off in the balance sheet: Financial assets*** | Financial assets not set off in the balance sheet: Collateral received | Net amount |
|---|---|---|---|---|---|---|
| Banking derivatives | 3,515 | -71 | 3,444 | -2,393 | -359 | 691 |
| Non-life Insurance derivatives | 4 | | 4 | | | 4 |
| **Total derivatives** | **3,518** | **-71** | **3,447** | **-2,393** | **-359** | **695** |

**Financial liabilities offset in the balance sheet or subject to enforceable master netting arrangements or similar agreements**

| 31 Dec. 2014, EUR million | Gross amount of financial liabilities | Gross amount of financial assets deducted from financial liabilities* | Net amount presented in the balance sheet** | Financial liabilities not set off in the balance sheet: Financial liabilities*** | Financial liabilities not set off in the balance sheet: Collateral given | Net amount |
|---|---|---|---|---|---|---|
| Banking derivatives | 6,751 | -862 | 5,889 | -4,008 | -862 | 1,019 |
| Non-life Insurance derivatives | 2 | | 2 | -1 | | 2 |
| **Total derivatives** | **6,753** | **-862** | **5,892** | **-4,009** | **-862** | **1,020** |

| 31 Dec. 2013, EUR million | Gross amount of financial liabilities | Gross amount of financial assets deducted from financial liabilities* | Net amount presented in the balance sheet** | Financial liabilities not set off in the balance sheet: Financial liabilities*** | Financial liabilities not set off in the balance sheet: Collateral given | Net amount |
|---|---|---|---|---|---|---|
| Banking derivatives | 3,484 | -64 | 3,420 | -2,393 | -408 | 619 |
| **Total derivatives** | **3,484** | **-64** | **3,420** | **-2,393** | **-408** | **619** |

* Incl. daily cleared derivatives on a net basis included in cash and cash equivalents, totalling 9 million euros (8).

** Fair values excluding accrued interest.

*** It is Pohjola Bank plc's practice to enter into master agreements for derivative transactions with all derivative counterparties.

**Central counterparty clearing for OTC derivatives**

In anticipation of entry into force of central counterparty clearing required by the European Market Infrastructure Regulation (Regulation (EU) No. 648/2012), Pohjola Bank plc adopted in February 2013 central counterparty clearing in London Clearing House for new interest rate derivatives covering standardised OTC derivative transactions entered into with financial counterparties. Bassed on this model, the central counterparty will become the derivatives counterparty at the end of the daily clearing process, with whom daily payments for derivatives are netted. In addition, collateral is paid or received daily, which corresponds to the change in the fair value of open positions (variation margin). Interest rate derivatives cleared by the central counterparty are presented on a net basis in the balance sheet.

**Other bilaterally cleared OTC derivative contracts**

The ISDA Master Agreement or the Master Agreement of the Federation of Finnish Financial Services or Pohjola Bank plc will apply to derivative transactions between Pohjola Bank plc and other clients and to derivative transactions to which central counterparty clearing in accordance with the Regulation does not pertain. On the basis of these agreements, derivative payments may be netted per transaction on each payment date and in the event of counterparty default and bankruptcy. It is also possible to agree on collateral on a counterparty-specific basis in the terms and conditions of the agreement. Such derivatives are presented on a gross basis in the balance sheet.

## Note 80. Contingent liabilities and assets

Insurance companies belonging to the Group underwrite insurance policies through pools. Pool members are primarily responsible for their own proportionate share of the risk. Proportionate shares are based on contracts confirmed annually. In certain pools, pool members are responsible for an insolvent member's liabilities in proportion to their shares in the pool. Group insurance companies recognise liabilities and receivables based on joint liability if joint liability is likely to materialise.

## Note 81. Operating leases

**Pohjola Group as Lessee**
Some Group companies have leased the premises they use. The term of these leases varies between one and ten years and they usually include the option of extending the lease after the original date of termination. The Group has subleased some of its premises. In addition, some Group companies have leased motor vehicles and office equipment. Rental expenses of EUR 21 million (20) due to the abovementioned items were recognised under Other operating expenses.

**Future minimum lease payments under non-cancellable operating leases**

| EUR million | 31 Dec. 2014 | 31 Dec. 2013 |
|---|---|---|
| No later than 1 year | 7 | 13 |
| Later than 1 year and no later than 5 years | 4 | 11 |
| Later than 5 years | 0 | 0 |
| **Total** | **11** | **25** |
| | | |
| Expected future minimum lease payments from non-cancellable subleases | 5 | 15 |

**Pohjola Group as Lessor**
Pohjola Group companies have leased out investment properties they own, which generated lease income of EUR 23 million (20).

**Future minimum lease payments receivable under non-cancellable operating leases**

| EUR million | 31 Dec. 2014 | 31 Dec. 2013 |
|---|---|---|
| No later than 1 year | 28 | 30 |
| Later than 1 year and no later than 5 years | 49 | 52 |
| Later than 5 years | 34 | 40 |
| **Total** | **111** | **123** |

## Note 82. Ownership interests in subsidiaries, structured entities and joint operations

### Changes in subsidiaries and associates in 2014

Pohjola Health Ltd merged into Pohjola Insurance Ltd. Pohjola Property Management Ltd established a new subsidiary, Suomi Toimitilakiinteistöt GP Oy. The financial year saw no reductions in the ownership interests in subsidiaries.

### Material subsidiaries included in the consolidated financial statements in 2014 and 2013

Material subsidiaries include companies whose business is subject to licence and other companies relevant to business operations. All major consolidated subsidiaries are wholly owned and accordingly they have no material non-controlling interests.

| Company (2014) | Domicile | % of share-holding | % of votes | Company belongs to the consolidation group with respect to capital adequacy |
|---|---|---|---|---|
| A-Insurance Ltd | Helsinki | 100 | 100 | |
| Eurooppalainen Insurance Company Ltd | Helsinki | 100 | 100 | |
| Omasairaala Oy | Helsinki | 100 | 100 | |
| Pohjola Asset Management Ltd* | Helsinki | 100 | 100 | x |
| Pohjola Finance Estonia AS | Estonia | 100 | 100 | x |
| Pohjola Finance SIA | Latvia | 100 | 100 | x |
| Pohjola Insurance Ltd | Helsinki | 100 | 100 | |
| Pohjola Property Management Ltd* | Helsinki | 100 | 100 | |
| Seesam Insurance AS | Estonia | 100 | 100 | |
| UAB Pohjola Finance | Lithuania | 100 | 100 | x |

The number of other subsidiaries included in the consolidated financial statements was 14, in addition to material subsidiaries.

* Discontinued operation

| Company (2013) | Domicile | % of share-holding | % of votes | Company belongs to the consolidation group with respect to capital adequacy |
|---|---|---|---|---|
| A-Insurance Ltd | Helsinki | 100 | 100 | |
| Eurooppalainen Insurance Company Ltd | Helsinki | 100 | 100 | |
| Omasairaala Oy | Helsinki | 100 | 100 | |
| Pohjola Asset Management Ltd | Helsinki | 100 | 100 | x |
| Pohjola Finance Estonia AS | Estonia | 100 | 100 | x |
| Pohjola Finance SIA | Latvia | 100 | 100 | x |
| Pohjola Health Ltd | Helsinki | 100 | 100 | |
| Pohjola Insurance Ltd | Helsinki | 100 | 100 | |
| Pohjola Property Management Ltd | Helsinki | 100 | 100 | |
| Seesam Insurance AS | Estonia | 100 | 100 | |
| UAB Pohjola Finance | Lithuania | 100 | 100 | x |

The number of other subsidiaries included in the consolidated financial statements was 13, in addition to material subsidiaries.

**Structured entities included in the consolidated financial statements**

Pohjola Group acts as an investor in various mutual funds in order to gain investment income. The consolidated financial statements of Pohjola Group include the accounts of two (2) real estate funds. These funds that have been classified as structured entities because Pohjola Group's control is not based on votes but the control of significant operations, exposure to variable returns from the fund, and organising the fund's management. These funds also involve non-controlling interests.

The table below shows companies with non-controlling interests.

| Name | Place of business | Main line of business | Interest, % 2014 | Interest, % 2013 | Non-controlling interests, % |
|---|---|---|---|---|---|
| Real Estate Funds of Funds II Ky | Helsinki | Real estate fund | 22.2 | 22.2 | 77.8 |
| Real Estate Fund Finland III Ky | Helsinki | Real estate fund | 33.3 | 33.3 | 66.7 |

Pohjola Group companies have no agreements on giving financial support to structured entities included in the consolidated financial statements. Such support was not given during the financial year.

**Summary of financial information on subsidiaries with a significant proportion of non-controlling interests**

The table below presents a summary of financial information on subsidiaries with a significant proportion of non-controlling interests. The financial information corresponds to the figures presented in the financial statements of the subsidiaries to which, for example, fair value adjustments have been made to correspond to Pohjola Group's accounting policies. The figures below are before the elimination of internal transactions.

| Balance sheet in summary | Real Estate Funds of Funds II Ky | | Real Estate Fund Finland III Ky | |
|---|---|---|---|---|
| **EUR million** | **2014** | **2013** | **2014** | **2013** |
| Cash and cash equivalents | 6 | 0 | 2 | 5 |
| Investments | 65 | 80 | 53 | 55 |
| **Total assets** | **72** | **81** | **55** | **60** |
| Financial liabilities | | | | |
| **Total liabilities** | | | | |
| **Net assets (100%)** | **72** | **81** | **55** | **60** |
| Accrued share of non-controlling interests | 55 | 62 | 37 | 40 |
| | | | | |
| **Statement of comprehensive income in summary** | | | | |
| Net sales | 11 | 4 | 5 | 3 |
| Profit or loss of continuing operations after tax | 10 | 3 | 1 | 3 |
| Other comprehensive income | 1 | 2 | | |
| **Comprehensive income (100%)** | **11** | **5** | **1** | **3** |
| Comprehensive income attributable to non-controlling interests | 8 | 4 | 1 | 2 |
| Share of profit paid to non-controlling interests | 5 | 2 | 4 | |

| Cash flows in summary | | | | |
|---|---|---|---|---|
| Net cash flow from operating activities | -1 | -1 | 2 | -4 |
| Net cash flow from investing activities | 27 | -4 | 2 | -35 |
| Net cash flow from financing activities | -20 | 5 | -7 | 36 |
| **Net change in cash flows** | **6** | **0** | **-2** | **-3** |
| | | | | |
| Cash and cash equivalents at year start | 0 | 1 | 5 | 8 |
| Cash and cash equivalents at year end | 6 | 0 | 2 | 5 |

### Joint operations

A total of 43 (42) property companies are incorporated into Pohjola Group's financial statements as joint operations by consolidating the proportionate share of Pohjola Group's holding of the property company's assets. Classification into joint operations has been made according to the nature of the business although Pohjola Group has control over some of the property companies. The shares of the property companies entitle to the occupancy of certain apartments some of which are in Pohjola Group's own use. These apartments are included in property, plant and equipment in the balance sheet, shown in Note 26. Each shareholder of the mutual property company is responsible for its/his/her share of the company's loans. The rest of the property companies are investment property included in Notes 21 and 22.

### Summary of the effect of consolidation of joint operations on the balance sheet

| Milj. e | 31.12.2014 | 31.12.2013 |
|---|---|---|
| Land | 27 | 25 |
| Buildings | 247 | 240 |
| Total assets | 273 | 266 |

### Most significant joint operations included in the consolidated financial statements in 2014

| Name | Domicile | % of shareholding |
|---|---|---|
| Kiinteistö Oy Helsingin Puutarhurinkuja 2 | Helsinki | 100 |
| Kiinteistö Oy Kanta-Sarvis II | Tampere | 100 |
| Kiinteistö Oy STC Viinikkala | Helsinki | 100 |
| Kiinteistö Oy Vantaan Kisällintie 13 | Helsinki | 100 |
| Tikkurilan Kauppatalo Oy | Helsinki | 53.7 |
| Kiinteistö Oy Grand Cargo Terminal 1 | Vantaa | 100 |
| Kiinteistö Oy Grand Cargo Terminal 2 | Vantaa | 100 |
| Kiinteistö Oy Tampereen Ratinankaari | Tampere | 100 |
| Kiinteistö Oy Vuosaaren Pohjoinen Ostoskeskus | Helsinki | 100 |

**Most significant joint operations included in the consolidated financial statements in 2013**

| Name | Domicile | % of shareholding |
|---|---|---|
| Kiinteistö Oy Helsingin Puutarhurinkuja 2 | Helsinki | 100 |
| Kiinteistö Oy Kanta-Sarvis II | Tampere | 100 |
| Kiinteistö Oy STC Viinikkala | Helsinki | 100 |
| Kiinteistö Oy Vantaan Kisällintie 13 | Helsinki | 100 |
| Tikkurilan Kauppatalo Oy | Helsinki | 53.7 |
| Kiinteistö Oy Grand Cargo Terminal 1 | Vantaa | 100 |
| Kiinteistö Oy Grand Cargo Terminal 2 | Vantaa | 100 |
| Kiinteistö Oy Tampereen Ratinankaari | Tampere | 100 |

The consolidated financial statements include the share of assets and related liabilities under joint control.

**Interests in unconsolidated structured entities**

OP Fund Management Company Ltd within OP Financial Group manages OP Mutual Funds. OP Fund Management Company Ltd uses Pohjola Asset Management Ltd as the portfolio manager for many of the mutual funds it manages. In addition, Pohjola Property Management Ltd within OP Financial Group manages several real estate funds. In many funds, the fund management company controls significant operations by making investment decisions in accordance with the fund rules. OP Financial Group companies have no interests in the funds managed by the abovementioned companies that would significantly expose OP Financial Group to the variable returns on the investment and would thereby cause a consolidation obligation.

Pohjola Group's investments in OP Mutual Funds and the funds of Pohjola Property Management Ltd have been recognised in Non-life Insurance assets and investment property in the balance sheet. Pohjola Group's risk of loss is limited to the investment's balance sheet value.

| EUR million | 2014 | 2013 |
|---|---|---|
| Non-life Insurance assets | 294 | 329 |
| Total investments in mutual funds | 294 | 329 |

# OTHER NOTES

## Note 83. Related-party transactions

Pohjola Group's related parties comprise its parent company OP Financial Group Central Cooperative, subsidiaries consolidated into the Group, associates and administrative personnel and other related-party entities. The list of Pohjola Group's associates can be found in Note 24. Pohjola Group's administrative personnel comprises Pohjola Bank plc's President and CEO, members of the Board of Directors and their close family members. Related parties also include companies over which a person among administrative personnel or his close family member exercises significant influence. Other related-party entities include OP Pension Fund, OP Pension Foundation and sister companies within OP Financial Group Central Cooperative Consolidated.

Normal loan terms and conditions apply to loans granted to related parties. These loans are tied to generally used reference rates.

**Related-party transactions in 2014**

| EUR million | Parent company | Associates | Adminis-trative personnel | Others* |
|---|---|---|---|---|
| Loans | | 2 | | 2,535 |
| Other receivables | 11 | | | 207 |
| Deposits | 191 | 0 | | 800 |
| Other liabilities | 0 | | | 461 |
| | | | | |
| Interest income | 0 | 0 | | 205 |
| Interest expenses | 3 | | | 290 |
| Dividend income | 0 | | | 14 |
| Net income from Non-life Insurance | | | | 4 |
| Net commissions and fees | 7 | 0 | | 17 |
| Net trading income | | | | -108 |
| Other operating income | 0 | | | 8 |
| Operating expenses | 16 | | | 150 |
| | | | | |
| **Contingent liabilities and derivatives** | | | | |
| **Off-balance-sheet commitments** | | | | |
| Guarantees | | | | 79 |
| Other guarantee liabilities | | | | 7 |
| Loan commitments | | | | |
| **Derivative contracts** | | | | |
| Nominal values | | 2 | | 20,227 |
| Credit equivalents | | 0 | | 154 |
| | | | | |
| **Salaries, other short-term benefits and performance-based pay** | | | | |
| Salaries, other short-term benefits and performance-based pay | | | 1 | |
| | | | | |
| **Related-party holdings** | | | | |
| Number of shares | 319,551,415 | | | |

**Related-party transactions in 2013**

| EUR million | Parent company | Associates | Adminis-trative personnel | Others* |
|---|---|---|---|---|
| Loans | | 3 | | 4,335 |
| Other receivables | 7 | | | 215 |
| Deposits | 71 | 0 | | 664 |
| Other liabilities | 0 | | | 436 |
| | | | | |
| Interest income | 0 | 0 | | 183 |
| Interest expenses | 3 | | | 250 |
| Dividend income | 0 | | | 6 |
| Net income from Non-life Insurance | | | | 5 |
| Net commissions and fees | 0 | 0 | 0 | 15 |
| Net trading income | | | | 119 |
| Other operating income | 0 | | | 7 |
| Operating expenses | 17 | | | 131 |
| | | | | |
| **Contingent liabilities and derivatives** | | | | |
| **Off-balance-sheet commitments** | | | | |
| Guarantees | | | | 74 |
| Other guarantee liabilities | | | | 6 |
| Loan commitments | 20 | | | 171 |
| **Derivative contracts** | | | | |
| Nominal values | | 3 | | 16,884 |
| Credit equivalents | | 0 | | 94 |
| | | | | |
| **Salaries, other short-term benefits and performance-based pay** | | | | |
| Salaries, other short-term benefits and performance-based pay | | | 2 | |
| | | | | |
| **Related-party holdings** | | | | |
| Number of shares | 118,992,151 | | 150,359 | 6,612,043 |

* Other related-party entities include OP Bank Group Pension Fund, OP Bank Group Pension Foundation and their sister companies within OP Cooperative Consolidated.

**Board member fees 2014**

The Annual General Meeting approved the following Board emoluments:

Monthly fees and attendance allowance paid to Board members in 2014 totalled EUR 497,250 The Chairman's monthly emoluments totalled EUR 8,000, the Vice Chairman's EUR 5,500 and other members' EUR 4,500. An additional monthly emolument of 1,000 euros is paid to a Board committee chair who is not the Chairman or Vice Chairman of the Board. All Board members received an attendance allowance of EUR 550 for each meeting. Monthly Board emoluments are treated as pensionable salary.

| | |
|---|---|
| Reijo Karhinen, Chairman | EUR 90,150 |
| Tony Vepsäläinen, Vice Chairman | EUR 70,950 |
| Board members: | |
| Jukka Hienonen ( until 7 Oct. 2014) | EUR 56,450 |
| Jukka Hulkkonen (until 7 Oct. 2014) | EUR 54,250 |
| Mirja-Leena Kullberg (until 7 Oct. 2014) | EUR 53,700 |
| Marjo Partio (until 7 Oct. 2014) | EUR 52,050 |
| Harri Sailas (until 7 Oct. 2014) | EUR 55,350 |
| Tom von Weymarn (until 7 Oct. 2014) | EUR 64,350 |
| Harri Luhtala (since 8 Oct. 2014) | EUR 0 |
| Erik Palmén (since 8 Oct. 2014) | EUR 0 |

In the financial year 2014, the members of the Board of Directors did not receive any share-based payments from the Company.

Salaries and performance-based bonuses paid to the President and CEO and his deputy in the financial year ending 31 December 2014 were as follows:

| | |
|---|---|
| Jouko Pölönen, President and CEO | EUR 450,491* |
| Mikael Silvennoinen, President and CEO (until 14 Nov. 2013) | EUR 175,716** |

The period of notice applicable under the President and CEO's executive contract is six months. According to this contract, the Company must pay the President and CEO severance pay equalling his 12-month total salary, in addition to compensation for loss of office, if the Company dismisses him or he has to resign or terminate the contract due to a reason attributable to the Company. In case the executive contract terminates due to reasons attributable to the Company, the President and CEO will be entitled to bonuses under the short- and long-term incentive schemes for the year of contract termination, provided that the schemes' performance criteria and the criteria for payment under the schemes' terms and conditions are fulfilled and his executive contract has been effective throughout the performance year. In addition, the President and CEO belongs to the long-term management incentive scheme (2014–16), under which bonuses will be paid from 2018 until 2020. He has unlimited company car benefit.

* Includes salaries and bonuses paid to the President and CEO for 2014. Includes a portion of the amount paid in 2014 and earned in 2013 based on the short-term remuneration scheme. Of the remaining portion of the 2013 bonus, EUR 33,600 has been deferred for payment between 2015 and 2016. Payment of deferred amounts requires a Board decision. Detailed information on the deferment procedure can be found in Note 84 below.

** Includes salaries and bonuses earned by the President and CEO that were paid in 2014. Includes the amounts earned for the performance period of 2011–12 under the short-term incentive scheme and paid in 2014.

**Pension obligations regarding President and CEO and Board members**

The CEO employment contract does not stipulate any specific retirement age for the President and CEO. The President and CEO is covered by TyEL (the Finnish Employees Pensions Act) which provides pension benefits based on the years of employment and earnings as prescribed in the Act. The retirement age is 63–68 years, depending on his choice. In addition to the statutory pension scheme, President and CEO Mikael Silvennoinen was covered by OP Bank Group Pension Foundation's supplementary pension scheme. Under that scheme, the retirement age applied to the President and CEO is 64 years. Pension accrued under the supplementary pension scheme may begin to be paid out as a paid-up pension before the old-age pension, if employment with OP Financial Group terminates. In such a case, the minimum retirement age for men is 57 years. No supplementary pension scheme applies to President and CEO Pölönen. Board members' attendance allowances are treated as pensionable salary. More detailed information on Pohjola Group's pension arrangements can be found in Note 35 Provisions and other liabilities.

| | Pension costs under TyEL plan* | | IFRS expense of voluntary supplementary pension | |
|---|---|---|---|---|
| **EUR 1,000** | **2014** | **2013** | **2014** | **2013** |
| Jouko Pölönen, President and CEO | 60 | 49 | | |
| Mikael Silvennoinen, President and CEO (until 14 Nov. 2013) | 3 | 87 | 68 | 62 |

* IFRS expense has been used for the portion of the TyEL defined benefit plan and the equalisation portion of an employee's contribution less the employee's portion of the contribution has been used for the defined contribution plan.

## Note 84. Variable remuneration

**Personnel fund**

On 26 October 2004, Pohjola Bank plc joined OP Personnel Fund. On 31 December 2014, the Fund had some 1,990 Pohjola Group employees. The Personnel Fund covers all those not included in the management incentive scheme or Baltic operations.

Payment of profit-based bonuses to OP Personnel Fund in 2014 was based on the achievement of the following targets: OP Financial Group's EBT and CET1, both having a weight of 30%, and growth in the number of loyal customers with a weight of 40%. Profit-based bonuses for 2014 transferred to the Fund account for about 4.2% (4.6%) of the combined salaries and wages earned by the Fund's members. The bonuses recognised in 2014 totalled EUR 2.9 million (5.9).

**Terminated long-term management incentive scheme in 2010 and before**

The Group's previous long-term management incentive scheme (2008–10) applied to Pohjola Bank plc's President and CEO, Senior Vice Presidents, Executive Vice Presidents, heads of departments and those in charge of separately defined managerial, supervisory and expert duties. On 31 December 2010, the scheme covered 136 people. The Board of Directors confirmed the inclusion of the President and CEO and members of the Executive Committee in the scheme, and the selection principles with respect to other people in the scheme. Pohjola Group's Executive Committee confirmed the selection of the other people in the scheme.

Those included in the long-term management incentive scheme had the opportunity to receive Pohjola Bank plc shares as annual bonuses, provided that the Company achieved the targets based on its strategy set for the year in question. Those covered by the scheme will receive shares (after tax) they have earned in three years' time following the beginning of the performance year.

Equity-settled and cash-settled bonus payments were recognised as personnel cost over the performance period until 2013. Expenses charged under the scheme for 2013 amounted to EUR 1.2 million (1.4).

**Valid long-term management incentive schemes**

Pohjola belongs to the long-term incentive scheme within OP Financial Group, which has OP Financial Group level targets. These targets conform to those of OP Personnel Fund for all of the Group's personnel.

OP Financial 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 Financial 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 scheme**

Pohjola belongs to the long-term incentive scheme within OP Financial Group, which has OP Financial Group level targets. These targets conform to those of OP Personnel Fund for all of the Group's personnel.

Pohjola Bank plc's directors and designated persons in key positions are included in the long-term management share-based incentive scheme whom the Supervisory Board of OP Cooperative has appointed. The 2011–13 scheme covered a total of 52 (59) persons and the 2014–16 42 persons.

The bonus is determined by the management position. If the set targets are annually achieved at 100%, the management and key employees will be entitled to a bonus equalling their regular 2–12-month salary subject to PAYE tax.

The scheme consists of consecutive three-year performance periods, the first of which is 1 January 2011–31 December 2013. The bonus for the 2011–13 performance period will be paid after a deferral period in three equal instalments by the end of each June in 2015–17. The second performance period is 1 January 2014–31 December 2016 and the bonuses will be paid after a deferall period in three equal instalments by the end of June in 2018–20.

The target bonus was determined at the beginning of the 2011–13 scheme, i.e. the maximum remuneration in terms of Pohjola Bank plc Series A shares. This target bonus for the 2011–13 performance period was 1.2 million shares which would be partly based on cash-settled payments (the amount of tax withheld) and equity-settled payments. OP Cooperative executed a public voluntary bid for all Series A and K shares issued by Pohjola Bank plc and not held by OP Cooperative. As a result, the bonus payout for the performance period of 2011–13 applies the scheme's condition under which bonuses will be fully paid in cash if any of Pohjola's shareholders has the right, under Chapter 18, Section 1 of the Limited Liability Companies Act, to redeem (right of squeeze-out) the shares on the grounds that the shareholder has more than 90% of the company's shares and of the votes conferred by the shares. Bonuses that were to be paid as a combination of Pohjola's series A shares and cash will be paid in cash in 2015, 2016 and 2017 according to the original payout schedule. The bonus was converted into cash by multiplying the number of shares by the redemption price.

Provided that the targets are achieved at the maximum levels set for them for the 2014–16 scheme, those included in the scheme have the opportunity to receive annually a bonus equalling their 2–8-month regular salary subject to PAYE tax. The bonus amount depends on the achievement of the target after the performance period and will be paid in three equal instalments in 2018–20. Bonuses that may be paid under the scheme will be paid in terms of debentures issued by OP. The earned euro bonus will be converted into the number of debentures once the outcome of the scheme is known. An amount paid in cash will be deducted from the bonus to cover related taxes and fiscal charges.

The Supervisory Board of OP Cooperative shall determine the performance metrics for the scheme and targets set for them separately for each performance period. The targets for the 2011–2013 scheme were based on the following criteria:

- Growth in the number of customers using OP as the main bank and insurer
- Change in the market share of corporate customer business
- Return on economic capital

In setting targets for the 2014–16 scheme, OP has taken account of the Capital Requirements Directive IV (CRD IV) of the European Parliament and of the Council, which will limit the maximum variable remuneration to the amount of a person's annual fixed remuneration. The targets for the 2014–16 are based on the following criteria:

- OP Financial Group's earnings before taxes
- OP Financial Group's CET1
- Growth in the number of customers using OP as their main bank and insurer

Bonuses will be paid to their beneficiaries provided that OP 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 Financial Group up to the payout date.

In the 2011–13 scheme, shares were accounted for as equity-settled payments in Pohjola Group. Due to the change in the method of payment under the scheme, the scheme's accounting treatment has been changed to correspond to treatment of employee benefits under IAS 19. Expenses for both 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. A liability recognised under the scheme amounted to EUR 5.6 million on 31 December 2014.

OP Cooperative's Supervisory Board manages the long-term scheme and supervises compliance with it. The Supervisory Board may exercise discretion to change the terms and conditions of the scheme and postpone bonus payments for compelling reasons.

**Short-term incentive schemes**

In short-term schemes, the performance period is one calendar year and the bonus is primarily paid in cash. The short-term incentive schemes are based on performance and other business targets specified for each business unit, covering all Pohjola Group's staff.

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.

**Deferral of variable remuneration**

The payment of variable remuneration has been prescribed in the Act on Credit Institutions (610/2014). If a person is categorised on the basis of his duties as belonging to a group that may cause considerable risk (identified staff) to his company, the company may defer the payment of variable remuneration over three years under certain conditions.

Identified staff in Pohjola Group include managing directors and other key management personnel, other people with a major impact on the company's risk exposure, Internal Control and other designated persons or special groups.

The deferment of variable remuneration payment applies to identified staff if their variable remuneration for a 12-month performance period exceeds EUR 50,000 – the maximum recommended by the Financial Supervisory Authority – or two months' fixed gross salary above this amount. The remuneration of the identified staff is reviewed up to the EUR 50,000 deferment limit as a whole, considering both long- and short-term remuneration.

If the euro maximum for 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 such a case of deferral, any short-term scheme bonuses are always paid half in cash and half as debenture loans issued by OP.

**Expenses recognised for variable remuneration***

| EUR million | 2014 | 2013 |
|---|---|---|
| Personnel fund | 3 | 6 |
| Short-term schemes | 14 | 12 |
| Previous long-term schemes | | |
| Schemes for 2008–10 | | 1 |
| Revamped long-term schemes | | |
| Scheme for 2011−13 | 1 | 1 |
| Scheme for 2014−16 | 1 | |
| **Total** | **18** | **20** |

* Excl. social expenses

The figures in the table above includes expenses relating to discontinued operations of 3 million euro (3).

# Financial Statements

## Income statement

| EUR million | 2014 | 2013 |
|---|---|---|
| Interest income | 1 903 | 1 740 |
| Net lease income | 27 | 27 |
| Interest expenses | -1 680 | -1 545 |
| **Net interest income** | **249** | **222** |
| Income from equity investments | 237 | 184 |
| From subsidiaries | 195 | 158 |
| From affiliates | 3 | 3 |
| From other companies | 38 | 23 |
| Commissions and fees | 152 | 133 |
| Commission expenses | -46 | -43 |
| Net income from securities and foreign exchange trading | 83 | 102 |
| Net income from securities trading | 47 | 76 |
| Net income from foreign exchange trading | 36 | 26 |
| Net income from available-for-sale financial assets | 13 | 15 |
| Net income from hedge accounting | -2 | -1 |
| Net income from investment property | -1 | 0 |
| Other operating income | 21 | 21 |
| Administrative expenses | -137 | -128 |
| Personnel costs | -62 | -62 |
| Wages and salaries | -51 | -51 |
| Social expenses | -11 | -11 |
| Pension costs | -8 | -8 |
| Other social expenses | -3 | -2 |
| Other administrative expenses | -75 | -66 |
| Depreciation/amortisation and write-downs on tangible and intangible assets | -11 | -11 |
| Other operating expenses | -46 | -40 |
| Impairment losses on loans and other commitments | -25 | -38 |
| **Operating profit** | **486** | **417** |
| Appropriations | -3 | -86 |
| Income taxes | -58 | -52 |
| Taxes for the financial year | -41 | -38 |
| Taxes for previous financial years | -23 | 0 |
| Change in deferred taxes | 6 | -14 |
| **Profit from operations after taxes** | **425** | **279** |
| **Profit for the financial year** | **425** | **279** |

## Balance sheet

### Assets

| EUR million | 31 Dec. 2014 | 31 Dec. 2013 |
|---|---|---|
| Cash and cash equivalents | 3 774 | 2 046 |
| Notes and bonds eligible for refinancing with central banks | 7 825 | 7 368 |
| Treasury bills | | |
| Other | 7 825 | 7 368 |
| Receivables from credit institutions | 10 066 | 9 676 |
| Repayable on demand | 481 | 620 |
| Other | 9 584 | 9 056 |
| Receivables from the public and public sector entities | 14 393 | 13 398 |
| Repayable on demand | | |
| Other | 14 393 | 13 398 |
| Lease assets | 1 152 | 1 153 |
| Notes and bonds | 714 | 695 |
| From public sector entities | 29 | 4 |
| From other | 685 | 691 |
| Shares and participations | 63 | 82 |
| Shares and participations in affiliates | 32 | 32 |
| Shares and participations in subsidiaries | 1 250 | 1 249 |
| Derivative contracts | 5 395 | 3 332 |
| Intangible assets | 51 | 49 |
| Tangible assets | 15 | 17 |
| Investment property and shares and participations in investment property | 9 | 10 |
| Other property and shares and participations in property companies | 3 | 3 |
| Other tangible assets | 3 | 3 |
| Other assets | 1 879 | 847 |
| Deferred income and advances paid | 659 | 722 |
| Deferred tax assets | 8 | 8 |
| **Total assets** | **47 274** | **40 675** |

**Liabilities**

| EUR million | 31 Dec. 2014 | 31 Dec. 2013 |
|---|---|---|
| **Liabilities** | | |
| Liabilities to credit institutions | 5 241 | 4 789 |
| Central banks | 250 | |
| Credit institutions | 4 991 | 4 716 |
| Repayable on demand | 898 | 725 |
| Other | 4 094 | 3 992 |
| Liabilities to the public and public sector entities | 11 668 | 10 343 |
| Deposits | 9 406 | 7 660 |
| Repayable on demand | 7 726 | 5 995 |
| Other | 1 680 | 1 665 |
| Other liabilities | 2 262 | 2 683 |
| Repayable on demand | 8 | 10 |
| Other | 2 254 | 2 674 |
| Debt securities issued to the public | 17 980 | 16 255 |
| Bonds | 10 941 | 9 384 |
| Other | 7 040 | 6 870 |
| Derivative contracts and other liabilities held for trading | 5 268 | 3 256 |
| Other liabilities | 2 317 | 1 452 |
| Other liabilities | 2 317 | 1 452 |
| Statutory provisions | 0 | 0 |
| Deferred expenses and advances received | 727 | 762 |
| Subordinated liabilities | 948 | 934 |
| Subordinated loans | 265 | 253 |
| Other | 683 | 681 |
| **Total liabilities** | **44 150** | **38 940** |
| **Appropriations** | **1 032** | **1 029** |
| Depreciation difference | 141 | 138 |
| Voluntary provisions | 891 | 891 |
| **Shareholders' equity** | | |
| Share capital or cooperative capital | 428 | 428 |
| Share capital | 428 | 428 |
| Share premium account | 524 | 524 |
| Other restricted reserves | 225 | 200 |
| Reserve fund | 164 | 164 |
| Fair value reserve | 61 | 36 |
| Cash flow hedging | 17 | 12 |
| Fair value measurement | 44 | 24 |
| Non-restricted reserves | 331 | 331 |
| Reserve for invested non-restricted equity | 308 | 308 |
| Other reserves | 23 | 23 |
| Retained earnings | 159 | 93 |
| Profit for the financial year | 425 | 279 |
| **Total shareholders' equity** | **2 092** | **1 855** |
| **Total liabilities and shareholders' equity** | **47 274** | **40 675** |
| **Off-balance-sheet commitments** | **7 379** | **7 725** |
| Commitments given to a third party on behalf of customers | 2 749 | 2 727 |
| Guarantees and pledges | 2 451 | 2 479 |
| Other | 297 | 247 |
| Irrevocable commitments given on behalf of customers | 4 630 | 4 999 |
| Securities repurchase commitments | 7 | 9 |
| Other | 4 622 | 4 989 |

## Cash flow statement

| EUR million | 31 Dec. 2014 | 31 Dec. 2013 |
|---|---|---|
| **Cash flow from operating activities** | | |
| Profit for the financial year | 425 | 279 |
| Adjustments to profit for the financial year | -222 | 1 |
| **Increase (-) or decrease (+) in operating assets** | **-1 685** | **-4 047** |
| Notes and bonds eligible for refinancing with central banks | -200 | -2 255 |
| Receivables from financial institutions | -528 | -1 092 |
| Receivables from the public and public sector entities | -1 000 | -641 |
| Lease assets | 6 | -78 |
| Notes and bonds | 399 | -260 |
| Shares and participations | 6 | 4 |
| Derivative contracts | 31 | 26 |
| Investment property | | 0 |
| Other assets | -398 | 249 |
| **Increase (+) or decrease (-) in operating liabilities** | **2 136** | **-2 004** |
| Liabilities to credit institutions and central banks | 447 | -1 031 |
| Liabilities to the public and public sector entities | 1 325 | -496 |
| Derivative contracts and other liabilities held for trading | 32 | -22 |
| Other liabilities | 332 | -454 |
| | | |
| Income tax paid | -54 | -28 |
| Dividends received | 107 | 99 |
| **A. Net cash from operating activities** | **708** | **-5 700** |
| **Cash flow from investing activities** | | |
| Increases in held-to-maturity financial assets | | |
| Decreases in held-to-maturity financial assets | 69 | 129 |
| Acquisition of subsidiaries and associates | 0 | -4 |
| Disposal of subsidiaries and associates | | |
| Purchase of tangible and intangible assets | -12 | -16 |
| Proceeds from sale of tangible and intangible assets | 0 | 0 |
| **B. Net cash used in investing activities** | **47** | **109** |
| **Cash flow from financing activities** | | |
| Increases in subordinated liabilities | | |
| Decreases in subordinated liabilities | 0 | -271 |
| Increases in debt securities issued to the public | 34 663 | 24 340 |
| Decreases in debt securities issued to the public | -33 616 | -21 833 |
| Dividends paid | -212 | -145 |
| Other monetary decreases in equity items | 0 | 0 |
| **C. Net cash used in financing activities** | **835** | **2 092** |
| **Cash and cash equivalents transferred due to combination** | **1 589** | **-3 499** |
| | | |
| **Cash and cash equivalents at year-start** | **2 666** | **6 165** |
| **Cash and cash equivalents at year-end** | **4 255** | **2 666** |
| | | |
| **Interest received** | **1 974** | **1 758** |
| **Interest paid** | **-1 726** | **-1 585** |

| | | |
|---|---|---|
| **Adjustments to profit for the financial year** | | |
| **Non-cash items** | | |
| Change in fair value for trading | 169 | -166 |
| Unrealised net gains on foreign exchange operations | 79 | 2 |
| Change in fair value of investment assets | -454 | 85 |
| Depreciation/amortisation, change in depreciation/amortisation difference and voluntary provisions | 9 | 90 |
| Impairment losses on receivables | 26 | 41 |
| Other | -50 | -52 |
| | | |
| **Items presented outside cash flow from operating activities** | | |
| Capital gains, share of cash flow from investing activities | 0 | 0 |
| Capital losses, share of cash flow from investing activities | | 0 |
| Gains/losses on merger, portion of cash flow from investing activities | 0 | |
| **Total adjustments** | **-222** | **1** |

| | | |
|---|---|---|
| **Cash and cash equivalents** | | |
| Liquid assets | 3 774 | 2 046 |
| Receivables from credit institutions payable on demand | 481 | 620 |
| **Total** | **4 255** | **2 666** |

## Parent Company’s (Pohjola Bank plc) Accounting Policies

### General

Pohjola Bank plc is a Finnish credit institution whose businesses comprise Corporate Banking, Markets, Central Banking and Group Treasury. In addition, the Company includes Other Operations involving administrative functions.

Pohjola Bank plc (hereinafter Pohjola or the Company) is part of OP Financial Group which currently consists of 181 independent cooperative banks and their central institution OP Cooperative and other member credit institutions. OP Financial Group's member credit institutions comprise Pohjola, Helsinki OP Bank Plc, OP Card Company Plc, OP Mortgage Bank and OP Cooperative's member cooperative banks.

OP Cooperative completed its public voluntary bid announced in February 2014 and gained ownership of all Pohjola Bank plc shares by decision of the Arbitral Tribunal in accordance with Chapter 18, Section 6 of the Finnish Limited Liability Companies Act. As a result of the decision of the Arbitration Court, trading in the series A shares of Pohjola Bank plc ceased on 29 September 2014, and the shares were removed from the Helsinki Stock Exchange on 30 September 2014. On 7 October 2014, OP Cooperative was entered as the only shareholder in Pohjola Bank plc's shareholder register.

Pohjola Bank plc's parent company is OP Cooperative and Pohjola's consolidated accounts are included in its consolidated financial statements. Copies of the financial statements of OP Cooperative are available at the following address: Vääksyntie 4, FI-00510 Helsinki, Finland. The accounts of Pohjola Bank plc are also consolidated into those of Pohjola Group. A copy of Pohjola’s consolidated financial statements is available at www.pohjola.com or the Company’s head office whose street address is Vääksyntie 4, FI-00510 Helsinki.

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

Pohjola is domiciled in Helsinki and the street address of its registered office is Teollisuuskatu 1 B, FI-00510 Helsinki, Finland,

### Basis of preparation

Pohjola Bank plc's financial statements based on national regulation are prepared and presented according to the Act on Credit Institutions, the Ministry of Finance Decree on the Financial Statements and Consolidated Financial Statements of a Credit Institution and Investment Firm, the Accounting Act and the set of the Financial Supervisory Authority’s regulations and guidelines governing financial sector account, financial statements and the report of board of directors. In addition, the central institution of the amalgamation of cooperative banks, OP Cooperative, issues instructions for compliance with unified accounting principles and the preparation of the financial statements.

Pohjola Bank plc’s financial statements are presented in millions of euros and have been prepared on the basis of historical costs, with the exception of financial assets and liabilities held for trading, financial assets at fair value through profit or loss at inception, available-for-sale financial assets, derivative contracts and hedged items (for hedged risk) in fair value hedging and derivative instruments measured at fair value.

The preparation of financial statements requires the management to make assessments and estimates and exercise its judgement in the process of applying the accounting policies.

### Foreign currency translation

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

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

**Financial instruments**

**Fair value determination**

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

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

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

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

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

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

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

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

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

**Impairment of financial assets**

At the end of each reporting period, the Group assesses whether there is objective evidence that a financial asset other than that carried at fair value through profit or loss is impaired. A financial asset is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that the loss event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

The criteria used to determine whether 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;
- a bona fide bid for the same or similar investment from the market below acquisition value;
- events or circumstances that significantly weaken the issuer's ability to operate on a going concern basis, such as negative cash flows resulting from operations, insufficient capital and shortage of working capital

- debtor's bankruptcy or other reorganisation becomes probable.
- debtor’s breach of contract;
- a concession granted to the debtor;
- impairment recognised earlier; and
- the disappearance of an active market for the financial asset.

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

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

**Securities sale and repurchase agreements**

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

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

**Classification and recognition**

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

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

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

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 held for trading**

All financial assets and liabilities that are expected to generate short-term profits arising from fluctuations in interest rates, prices and quotations or in which an embedded derivative contract cannot be separated from the host contract are classified as held for trading. Liabilities held for trading refer to the obligation to deliver securities which have been sold but which have not been owned at the time of selling (short selling).

Financial assets and liabilities held for trading include derivatives other than those used for hedging purposes.

Financial assets and liabilities held for trading are recognised at fair value in the balance sheet, and subsequent changes in the fair value are recognised under “Net income from securities trading” in the income statement.

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

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

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

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

Financial assets at fair value through profit or loss also include hybrid instruments in which the fair value of an embedded derivative cannot be determined separately. These financial assets are measured at fair value in the balance sheet, and any subsequent changes in the fair value are recognised under “Net income from securities trading” in the income statement.

**Loans and receivables**

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

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

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

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

Impairment assessment is a two-phase process. Impairment is assessed individually for significant loans and receivables. If loans and receivables are not assessed individually, they will be assessed collectively for impairment. Collectively assessed impairment includes losses incurred but not yet reported, which cannot yet be allocated to a certain loan. Collectively assessed impairment provisions are based on a statistical model used in the measurement of economic capital requirement. In the model, receivables are classified into groups with similar credit risk by rating category. Collectively assessed impairment is measured based on the expected loss by rating category, and the measurement also takes account of the discounted present values of collateral and the average past loss experience.

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

Both receivable-specific and collectively assessed impairments are recognised by means of separate account, presenting as a reduction under receivables. Impairment losses on loans are presented in the balance sheet under “Impairment losses on receivables”. Recognition of interest on the reduced amount continues after the recognition of impairment.

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

**Investments held to maturity**

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

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

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

**Available-for-sale financial assets**

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

At the time of their acquisition, available-for-sale financial assets are recognised at cost, which equals the fair value of the consideration paid plus transaction costs directly attributable to their acquisition. Available-for-sale financial assets are subsequently measured at fair value.

If the fair value cannot be determined reliably, shares and participations necessary for operations and other unquoted shares and participations are measured at cost. Any changes in their fair value are recognised in the "Fair value reserve" under shareholders' equity, from where they, including any capital gain or loss, are transferred to "Net income from available-for-sale financial assets" in the income statement when the asset is derecognised or impaired. Interest income and dividends are recorded in the income statement.

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

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

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

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

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

**Participating interests, and shares and holdings in Group companies**

Participating interests, and shares and holdings and other equity investments in Group companies are recognised at cost or, if the item's value on the balance sheet date is found to be lower than the acquisition cost due to impairment, at cost less impairment loss.

Impairment losses are recognised under "Impairment losses on other financial assets" in the income statement.

**Cash and cash equivalents**

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

### Other assets

Other assets comprise receivables repayable on demand arising from payment transfers, receivables in various clearing accounts, marginal account receivables related to derivative contracts and all other receivables that cannot be presented under any other suitable balance sheet item, such as various accounts receivable and rental receivables.

### Other financial liabilities

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

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

### Other liabilities

Other liabilities consist mainly of payment transfer liabilities, accounts payable and liabilities related to securities trading.

### Derivative contracts

Derivatives are divided into hedging and non-hedging contracts. Both hedging and non-hedging derivatives are recognised at fair value in the balance sheet. Accrued interest on non-hedging interest rate swaps is recognised in interest income and interest carried forward corresponding to them in deferred income and deferred expenses. Changes in the fair value of non-hedging interest-rate, loan, currency, equity and commodity derivatives are recognised under “Net income from securities trading” in the income statement. Positive fair value changes and premiums paid for derivative contracts are recognised as assets under “Derivative contracts” while negative fair value changes and premiums received from derivative contracts are recognised under “Derivative contracts and other liabilities held for trading”.

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

In accordance with the hedging principles, the Group’s Parent Company, Pohjola Bank plc, can hedge against interest rate risk, currency risk and price risk by applying fair value hedge or cash flow hedge. Cash flow hedge refers hedging against changes in the fair value of future cash flows. Fair value hedge refers to hedging against changes in the fair value of a hedged asset/liability.

Pohjola Bank plc enters into derivative contracts which are in fact used to hedge against financial risks but which do not fulfil these criteria.

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

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

### Hedge accounting

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

**Fair value hedges**

Fair value hedging against interest rate risk involves long-term fixed-rate debt instruments (Pohjola's own issues), individual bond and loan portfolios, as well as individual loans. Pohjola uses forward exchange contracts and interest-rate and currency swaps as hedging instruments.

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

**Cash flow hedges**

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

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

**Lease assets**

Leased out assets and lease assets' advance payments are recognised at non-depreciated cost and presented under "Lease assets" in the balance sheet. As a rule, lease assets are depreciated according to the annuity depreciation method.

Lease income from leased out assets based on lease contracts less planned depreciation on the lease assets are recognised under "Net lease income". In addition, the item includes impairment losses on lease assets, capital gains and losses on the disposal of lease assets, commissions charged from customers and other income and expenses directly attributable to lease contracts. Other income and expenses due to leases are included in the income statement item that corresponds to the nature of the income or expense item.

**Intangible assets**

Intangible assets are stated at cost less amortisation and write-downs. These assets are amortised over their estimated useful lives, which is 2–10 years for computer software and licences and 5 years in general for other intangible assets. The useful lives of assets are reviewed on each balance sheet date.

Planned amortisation and write-downs on intangible assets are recognised under "Depreciation/amortisation and write-downs on tangible and intangible assets" in the income statement.

**Tangible assets**

**Investment property**

Investment property is land and/or building or part thereof held to earn rental income and/or for capital appreciation. Property, a minor part of which (less than five per cent of the area) is used by the owner company or its personnel, is also accounted for as investment property.

Investment property is stated at cost less planned depreciation and write-downs. Land and shares and holdings in property companies can be subject to revaluation if their probable selling price on the balance sheet date is permanently higher than the original acquisition cost. Expenses incurred after the original acquisition will be capitalised only if it is probable that the resulting economic benefit from the property will be higher than initially estimated.

If the probable selling price of investment property is permanently lower than the carrying amount, the difference between the carrying amount and probably selling price is expensed during the financial year when the impairment is detected.

The fair value of business, office and industrial premises classified as investment property holdings and presented in the related note to the financial statements is primarily determined using the income approach based on direct capitalisation. The fair value of investment property under construction can be presented only if its fair value can be determined reliably. The fair value of land, water and forest areas and residential buildings is primarily determined using the market approach. Recognition of write-downs is based on their consistency and materiality.

Income, expenses, capital gains and losses, planned depreciation and write-downs related to investment property are recognised under “Net income from investment property” in the income statement.

**Other property holdings**

By other property holdings we refer to property in own use as an office, storage or other such facility, or for the personnel’s accommodation, recreation or other such purpose, as well as shares in housing corporations that entitle holding in these facilities. Also, property in own use comprises partly-leased properties in direct ownership of which the leased share cannot be sold separately and in which the Bank occupies more than 5% of the floor space. The shares of an ordinary property company are considered to be in own use if the Company uses over five per cent of the premises.

When determining the balance sheet value of property in own use, the company's starting point is the value of the asset in terms of expected income of ordinary operations. The buildings are recognised on the balance sheet at acquisition cost deducted by depreciation according to plan. Holdings in property companies and land, water and forest areas are recognised at cost. Property modernisation costs are capitalised and recognised as depreciation according to plan.

Income from and capital gains on property in the Company’s own use are recognised under “Other operating income and expenses” and capital losses under “Other operating expenses” in the income statement. Planned depreciation and write-downs are recognised under “Depreciation/amortisation and write-downs on tangible and intangible assets” in the income statement.

**Other tangible assets**

Tangible assets are stated at cost less accumulated depreciation and any write-downs. Assets are depreciated on a straight-line basis over their estimated useful lives. Planned depreciation is not applicable to land and shares in property companies.

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

The estimated useful lives are mainly as follows:

| | |
|---|---|
| Buildings | 30–50 years |
| Machinery and equipment | 4–10 years |
| IT equipment | 3–5 years |
| Cars | 6 years |
| Other PPE assets | 5–10 years |

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

Assets’ planned depreciation and write-downs are recognised under “Depreciation/amortisation and write-downs on tangible and intangible assets” in the income statement. Income from and capital gains on property in the Company’s own use are recognised under “Other operating income and expenses” and capital losses under “Other operating expenses” in the income statement.

**Employee benefits**

**Pension benefits**

The statutory pension cover for Pohjola Bank plc's employees is managed through payments to OP Bank Group Pension Fund and supplementary pension cover through OP Bank Group Pension Foundation. The Pension Foundation has been closed to new employees since 1 July 1991. Expenses arising from pension plans are recognised under “Personnel costs” in the income statement. Pension liabilities are fully covered.

**Long-term incentive scheme**

Pohjola Bank plc has short-term and long-term management incentive schemes in place, on the basis of which the person covered by the schemes may receive the related compensation for services rendered during each performance period fully in cash or a reward settled as a combination of cash and debenture loan issued by OP. The maximum amount of the incentive scheme is calculated on the date when it is granted. and the amount charged to expenses is recognised in personnel costs and deferred expenses over the vesting period.

The amount of compensation corresponding to the objectives reached is reviewed quarterly. Any effects resulting from checking the original estimates are recognised in personnel costs and the corresponding adjustment is made in deferred expenses.

**Personnel fund**

Pohjola Bank plc belongs to OP Financial Group's OP Personnel Fund. into which bonuses are paid on the basis of pre-agreed principles, depending on the achievement of targets. Bonuses transferred to the Fund are recognised under "Wages and salaries" in the income statement and the counterpart as "Deferred expenses" in the balance sheet.

**Statutory provisions**

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

**Bank levy**

Pohjola Bank plc is subject to the Laki väliaikaisesta pankkiverosta Act (Act on Temporary Bank Levy), according to which it shall annually pay a bank levy accounting for 0.125% of its risk-weighted assets. The bank levy is recognised in other operating expenses during the calendar year.

**Hybrid capital**

Hybrid capital instruments are recorded as a separate balance-sheet item under "Subordinated liabilities". In capital adequacy measurement, these instruments are included in Tier 1 capital. Interest on these instruments may be paid only within the limits of distributable funds.

**Appropriations**

The depreciation difference under appropriations in the balance sheet includes the accumulated difference between depreciation made and planned depreciation. Voluntary provisions contain voluntary appropriations made which are appropriations permitted by tax law. Such a provision is eg the loan loss provision permitted for deposit banks by the Business Income Tax Act. According to this Act, a deposit bank may deduct a credit loss provision made during the tax year, the amount of which accounts for a maximum of 0.6% of the total amount of receivables at the end of the tax year.

The total amount of non-reversed credit loss provisions made during the tax year and earlier may account for a maximum of 5% of the total amount of receivables at the end of the tax year.

An increase and decrease in depreciation made and planned depreciation as well as voluntary provisions are recognised under appropriations in the income statement. Appropriations in the income statement and balance sheet also include deferred tax liabilities. The amount of and change in voluntary provisions do not reflect Pohjola's calculated risks.

**Income taxes**

Income taxes shown in the income statement include current tax, based on the taxable income of Pohjola Bank plc, income tax for prior financial years and deferred tax expense or income.

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

The Company offsets deferred tax assets and liabilities. Deferred tax assets and liabilities are measured at the tax rate that is expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted by the balance sheet date. If deferred tax originates from balance sheet items not recognised in the income statement, any change in deferred tax is recognised in shareholders' equity, not in the income statement.

**Revenue recognition**

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

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

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

**Offsetting income statement items**

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

**Off-balance-sheet commitments**

Off-balance-sheet commitments include commitments made for a third party on behalf of customers, such as guarantees and various guarantee engagements, and irrevocable commitments made for customers, such as binding supplementary loan arrangements, loan commitments, standby credit facilities and underwritings.

Commitments made for a third party on behalf of customers are recognised as off-balance-sheet commitments to the guaranteed amount at the balance sheet date. Irrevocable commitments made for customers are recognised to the maximum amount which may have to be paid on the basis of them.

# Notes to Parent Company Financial Statements

## Contents

### Notes to the Income Statement



### Notes to the Balance Sheet



### Other notes

# Notes to the Income Statement

## *Notes concerning an entity under the Group's control*

### Note 1. Interest income and expenses

| EUR million | 2014 | 2013 |
|---|---|---|
| **Interest income** | | |
| Receivables from credit institutions | 68 | 65 |
| Receivables from the public and public sector entities | 290 | 278 |
| Notes and bonds | 171 | 157 |
| Derivative contracts | 1 362 | 1 239 |
| Trading items | 1 463 | 1 329 |
| Hedge accounting | -102 | -90 |
| of which cash flow hedge | 12 | 13 |
| Other | 11 | 2 |
| **Total** | **1 903** | **1 740** |
| Of which interest income from impaired receivables | 1 | 2 |
| | | |
| **Interest expenses** | | |
| Liabilities to credit institutions | 59 | 68 |
| Liabilities to the public and public sector entities | 26 | 27 |
| Debt securities issued to the public | 254 | 187 |
| Derivative contracts and other liabilities held for trading | 1 289 | 1 215 |
| Subordinated liabilities | 43 | 48 |
| Other | 9 | 1 |
| **Total** | **1 680** | **1 545** |

**Interest income received from Group and associated companies and interest expenses paid to them**

| | 2014 | | 2013 | |
|---|---|---|---|---|
| EUR million | Subsidiaries | Associates | Subsidiaries | Associates |
| Interest income | 3 | 0 | 2 | 0 |
| Interest expenses | 2 | | 2 | |

### Note 2. Net lease income

| EUR million | 2014 | 2013 |
|---|---|---|
| Lease income | 293 | 285 |
| Planned depreciation | -262 | -254 |
| Capital gains and losses (net) on the disposal of lease assets | 2 | 2 |
| Commissions and fees | 1 | 1 |
| Other income | 0 | 1 |
| Other expenses | -7 | -6 |
| **Total** | **27** | **27** |

### Note 3. Income from equity investments

| EUR million | 2014 | 2013 |
|---|---|---|
| Available for sale | 38 | 23 |
| Subsidiaries | 195 | 158 |
| Affiliates | 3 | 3 |
| **Total** | **237** | **184** |

## Note 4. Commissions and fees

| EUR million | 2014 | 2013 |
|---|---|---|
| **Commissions and fees** | | |
| Lending | 52 | 45 |
| Deposits | 0 | 0 |
| Payment transfers | 36 | 31 |
| Asset management | 12 | 11 |
| Legal services | 0 | 0 |
| Securities brokerage | 22 | 21 |
| Securities issuance | 10 | 7 |
| Guarantees | 15 | 16 |
| Other | 4 | 2 |
| **Total** | **152** | **133** |
| | | |
| **Commission expenses** | | |
| Service fees paid | 20 | 15 |
| Securities brokerage and issuance | 8 | 8 |
| Refunds of fees for shares | 6 | 6 |
| Other | 12 | 15 |
| **Total** | **46** | **43** |

## Note 5. Net income from securities and foreign exchange trading

**Net income from securities and foreign exchange trading 2014**

| EUR million | Capital gains and losses | Due to fair value changes | Other income | Total |
|---|---|---|---|---|
| Notes and bonds | 3 | 1 | - | 4 |
| Fair value option | 0 | -1 | - | -1 |
| Shares and participations | 0 | 0 | - | 0 |
| Other | -1 | 21 | - | 20 |
| Derivative contracts | - | 43 | -20 | 22 |
| Liabilities held for trading | 0 | 0 | - | 0 |
| **Total net income from securities trading** | **3** | **64** | **-20** | **47** |
| | | | | |
| **Net income from foreign exchange trading** | | | | **36** |
| | | | | |
| **Total net income from securities and foreign exchange trading** | | | | **83** |

**Net income from securities and foreign exchange trading 2013**

| EUR million | Capital gains and losses | Due to fair value changes | Other income | Total |
|---|---|---|---|---|
| Notes and bonds | 2 | -2 | - | 0 |
| Fair value option | - | 0 | - | 0 |
| Shares and participations | 0 | 0 | - | 0 |
| Other | -4 | -2 | - | -6 |
| Derivative contracts | - | -2 | 83 | 82 |
| Liabilities held for trading | 0 | 0 | - | 0 |
| **Total net income from securities trading** | **-2** | **-5** | **83** | **76** |
| | | | | |
| **Net income from foreign exchange trading** | | | | **26** |
| | | | | |
| **Total net income from securities and foreign exchange trading** | | | | **102** |

## Note 6. Net income from available-for-sale financial assets

| EUR million | 2014 | 2013 |
|---|---|---|
| **Notes and bonds** | | |
| Capital gains and losses | 11 | 14 |
| Transferred from fair value reserve during the financial year | 0 | 1 |
| **Total** | **11** | **14** |
| **Shares and participations** | | |
| Capital gains and losses | 1 | 0 |
| Impairment losses | -1 | 0 |
| Transferred from fair value reserve during the financial year | 2 | 1 |
| **Total** | **2** | **1** |
| **Total net income from available-for-sale financial assets** | **13** | **15** |

## Note 7. Net income from hedge accounting

| EUR million | 2014 | 2013 |
|---|---|---|
| Net income from hedging instruments | -185 | -14 |
| Net income from hedged items | 183 | 13 |
| **Total** | **-2** | **-1** |

## Note 8. Net income from investment property

| EUR million | 2014 | 2013 |
|---|---|---|
| Rental and dividend income | 1 | 1 |
| Other income | 0 | 0 |
| Rental expenses | -1 | -1 |
| Capital losses | -1 | - |
| Other expenses | 0 | 0 |
| **Total** | **-1** | **0** |

## Note 9. Other operating income

| EUR million | 2014 | 2013 |
|---|---|---|
| Rental income from property in own use | 0 | 0 |
| Capital gains on property in own use | 0 | 0 |
| Income from central banking services | 8 | 8 |
| Other | 13 | 13 |
| **Total** | **21** | **21** |

## Note 10. Depreciation/amortisation and write-downs on tangible and intangible assets

| EUR million | 2014 | 2013 |
|---|---|---|
| Planned depreciation | 11 | 11 |
| Write-down | 0 | 0 |
| **Total** | **11** | **11** |

## Note 11. Other operating expenses

| EUR million | 2014 | 2013 |
|---|---|---|
| Rental expenses | 7 | 6 |
| Expenses for property in own use | 0 | 0 |
| Bank levy | 20 | 19 |
| Merger loss | - | 1 |
| Other | 19 | 14 |
| **Total** | **46** | **40** |

## Note 12. Impairment losses on loans and other commitments and other financial assets

| 31 Dec 2014, EUR million | Gross impairment losses on individually assessed receivable | Gross impairment losses on collectively assessed receivable | Reductions | Entered in income statement |
|---|---|---|---|---|
| **Impairment losses on loans and other commitments** | | | | |
| Receivables from credit institutions | | | | |
| sector entities | 69 | 5 | -49 | 38 |
| Guarantees and other off-balance-sheet items | | | | |
| Other | | | | |
| **Total** | **69** | **5** | **-49** | **38** |
| **Impairment losses on other financial assets** | | | | |
| Held-to-maturity debt securities | | | | |
| Shares and interests in group entities | | | | |
| Participating interests | | | | |
| **Total** | | | | |
| **Total impairment losses** | **69** | **5** | **-49** | **38** |

| 31 Dec 2013, EUR million | Gross impairment losses on individually assessed receivable | Gross impairment losses on collectively assessed receivable | Reductions | Entered in income statement |
|---|---|---|---|---|
| **Impairment losses on loans and other commitments** | | | | |
| Receivables from credit institutions | | | | |
| sector entities | 80 | 2 | -45 | 38 |
| Guarantees and other off-balance-sheet items | | | | |
| Other | | | | |
| **Total** | **80** | **2** | **-45** | **38** |
| **Impairment losses on other financial assets** | | | | |
| Held-to-maturity debt securities | | | | |
| Shares and interests in group entities | | | | |
| Participating interests | | | | |
| **Total** | | | | |
| **Total impairment losses** | **80** | **2** | **-45** | **38** |

## Note 13. Income taxes

| EUR million | 2014 | 2013 |
|---|---|---|
| Income taxes from operations | 58 | 52 |
| **Total income taxes** | **58** | **52** |

## Note 14. Income, operating profit or loss and assets and liabilities by Division

| 31 Dec 2014, EUR | Corporate Banking | Markets | Group Treasury | Baltics | Other | Total |
|---|---|---|---|---|---|---|
| Income* | 327 | 153 | 46 | 10 | 215 | 751 |
| Operating profit | 195 | 77 | 30 | -4 | 189 | 486 |
| Assets | 15 056 | 6 845 | 23 165 | 791 | 1 418 | 47 274 |
| Liabilities | 8 242 | 8 678 | 26 663 | 528 | 39 | 44 150 |
| Personnel | 344 | 184 | 30 | 56 | 31 | 644 |

| 31 Dec 2013, EUR | Corporate Banking | Markets | Group Treasury | Baltics | Other | Total |
|---|---|---|---|---|---|---|
| Income* | 289 | 139 | 71 | 7 | 172 | 677 |
| Operating profit | 154 | 63 | 51 | -4 | 153 | 417 |
| Assets | 14 599 | 4 457 | 19 584 | 590 | 1 444 | 40 675 |
| Liabilities | 7 087 | 4 383 | 25 852 | 338 | 131 | 37 790 |
| Personnel | 352 | 182 | 33 | 60 | 5 | 631 |

* Income consists of the following items in the income statement: interest income, income from equity investments, commissions and fees, net income from securities and foreign exchange trading, net income from available-for-sale assets, net income from hedge accounting, net income from investment property and other operating income.

# Notes to the Balance Sheet

## Note 15. Receivables from credit institutions

| EUR million | 31 Dec. 2014 | 31 Dec. 2013 |
|---|---|---|
| **Repayable on demand** | | |
| Deposits | 293 | 333 |
| Other | 189 | 287 |
| **Total** | **481** | **620** |
| **Other than those repayable on demand** | | |
| Deposits | - | 1 |
| From OP-Pohjola Group institutions | 7 818 | 6 855 |
| Other | 1 766 | 2 201 |
| **Total** | **9 584** | **9 056** |
| **Total receivables from credit institutions** | **10 066** | **9 676** |
| of which subordinated receivables | 42 | 42 |

Pohjola Bank plc has only receivables repayable on demand from central banks.

## Note 16. Receivables from the public and public sector entities

| EUR million | 31 Dec. 2014 | 31 Dec. 2013 |
|---|---|---|
| **Receivables from the public and public sector entities by sector** | | |
| Non-banking corporate sector and housing corporations | 10 620 | 10 876 |
| Financial institutions and insurance companies | 941 | 23 |
| Public sector entities | 230 | 168 |
| Non-profit organisations serving households | 160 | 212 |
| Households | 1 206 | 1 099 |
| Foreign | 1 257 | 1 036 |
| Collective impairments | -21 | -17 |
| **Total** | **14 393** | **13 398** |
| of which subordinated receivables | 30 | 35 |

The balance-sheet item includes EUR 6.3 million in loans for which interest income is not recognised (6.3).

| | | |
|---|---|---|
| **Write-downs on loans** | | |
| Write-downs at year-start | 258 | 244 |
| + Write-downs on individually assessed receivables during the financial year | 35 | 53 |
| +/- Write-downs on collectively assessed receivables during the financial year | 5 | 2 |
| - Write-downs reversed for individually assessed receivables during the financial year | -18 | -22 |
| - Actual impairment losses recorded during the financial year | | |
| of which write-downs on individually assessed receivables were made previously | -28 | -19 |
| Exchange rate difference on write-downs on loans | 0 | 0 |
| **Write-downs at year-end** | **251** | **258** |

Final loan losses of EUR 35 million (27) were recognised from receivables.

## Note 17. Asset leased out under finance leases

| EUR million | 31 Dec. 2014 | 31 Dec. 2013 |
|---|---|---|
| Advance payments | 23 | 37 |
| Machinery and equipment | 793 | 811 |
| Real property and buildings | 262 | 245 |
| Other assets | 74 | 59 |
| **Total** | **1 152** | **1 153** |

## Note 18. Notes and bonds

**Notes and bonds eligible for refinancing with central banks and other notes and bonds 31 December 2014**

| EUR million | Eligible for refinancing with central banks | Other notes and bonds | Total | Of which subordinated |
|---|---|---|---|---|
| Financial assets at fair value through profit or loss | 205 | 221 | 426 | 19 |
| Available for sale | 7 302 | 479 | 7 782 | - |
| Held to maturity | 130 | 14 | 144 | - |
| Held in another portfolio | 188 | - | 188 | - |
| **Total** | **7 825** | **714** | **8 539** | **19** |

**Notes and bonds eligible for refinancing with central banks and other notes and bonds 31 December 2013**

| EUR million | Eligible for refinancing with central banks | Other notes and bonds | Total | Of which subordinated |
|---|---|---|---|---|
| Financial assets at fair value through profit or loss | 234 | 306 | 540 | 11 |
| Available for sale | 6 725 | 375 | 7 100 | - |
| Held to maturity | 187 | 15 | 202 | - |
| Held in another portfolio | 222 | - | 222 | - |
| **Total** | **7 368** | **695** | **8 064** | **11** |

**Publicly-quoted and other notes and bonds 31 December 2014**

| EUR million | Publicly quoted | Other | Total |
|---|---|---|---|
| Financial assets at fair value through profit or loss | 369 | 56 | 426 |
| Available for sale | 7 700 | 82 | 7 782 |
| Held to maturity | 144 | - | 144 |
| Held in another portfolio | - | 188 | 188 |
| **Total** | **8 213** | **326** | **8 539** |

**Publicly-quoted and other notes and bonds 31 December 2013**

| EUR million | Publicly quoted | Other | Total |
|---|---|---|---|
| Financial assets at fair value through profit or loss | 493 | 47 | 540 |
| Available for sale | 7 047 | 53 | 7 100 |
| Held to maturity | 202 | - | 202 |
| Held in another portfolio | - | 222 | 222 |
| **Total** | **7 743** | **321** | **8 064** |

The Financial assets through profit or loss at fair value category includes EUR 0 (9,4) million in financial assets at fair value through profit or loss at inception, all of them quoted publicly.

| Notes and bonds by type, EUR million | 31 Dec. 2014 | 31 Dec. 2013 |
|---|---|---|
| Financial assets at fair value through profit or loss | | |
| Treasury bills | - | - |
| Local authority papers | 29 | 4 |
| Commercial papers | - | - |
| Certificates of deposit | - | - |
| Convertible bonds | - | 7 |
| Other bonds | 396 | 529 |
| **Total** | **426** | **540** |
| Available for sale | | |
| Convertible bonds | 1 | 1 |
| Other bonds | 7 781 | 7 099 |
| **Total** | **7 782** | **7 100** |
| Held to maturity | | |
| Other bonds | 144 | 202 |
| **Total** | **144** | **202** |
| Held in another portfolio | | |
| Other bonds | 188 | 222 |
| **Total** | **188** | **222** |

By 31 December 2014, all Pohjola Bank plc's notes and bonds accrued interest recognised in accounting.

## Note 19. Reclassified notes and bonds

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

| 31 Dec 2014, EUR million | Carrying amount | Fair value | Effective interest rate | Impairments arising from credit risk |
|---|---|---|---|---|
| Loans and other receivables | 219 | 233 | 5,5 | 0 |
| Investments held to maturity | 59 | 56 | 4,3 | 0 |
| Available-for-sale financial assets | 45 | 45 | 4,2 | 0 |
| **Total** | **324** | **335** | | **0** |

| 31 Dec 2013, EUR million | Carrying amount | Fair value | Effective interest rate | Impairments arising from credit risk |
|---|---|---|---|---|
| Loans and other receivables | 285 | 292 | 5,3 | 0 |
| Investments held to maturity | 99 | 89 | 4,2 | 0 |
| Available-for-sale financial assets* | 42 | 42 | 4,2 | 0 |
| **Total** | **426** | **423** | | **0** |

Value changes as shown below, if notes and bonds were not reclassified and had been measured at fair value:

| | Q1–4/2014 | | Q1–4/2013 | |
|---|---|---|---|---|
| EUR million | Income statement | Fair value reserve | Income statement | Fair value reserve |
| Banking | 2 | | -1 | |
| Group Functions | 12 | -1 | 29 | -3 |
| **Total** | **13** | **-1** | **28** | **-3** |

Loans and receivables and held-to-maturity investments were reclassified in 2008. Available-for-sale financial assets were reclassified in 2012.

* Of the held-to-maturity investments, Pohjola sold Irish RMBS with a carrying amount of EUR 36 million in the third quarter of 2012, due to a probable local legislative amendment. In this connection, Pohjola reclassified EUR 38 million in Irish RMBS within held-to-maturity investments to available-for-sale financial assets.

Interest accrued on reclassified notes and bonds in January–December totalled EUR 8 million (9). The price difference between the nominal value and acquisition value recognised in the income statement totalled EUR 2 million (3). Capital losses on bonds and notes totalled EUR 1 million (2) and impairment loss amounted to EUR 0 million (0). Pohjola used derivatives to hedge against interest rate risks, applying hedge accounting from 1 October 2008. Positive mark-to-market valuations recognised on hedging derivative contracts amounted to EUR 3 million (6).

## Note 20. Shares and participations

| 31 Dec 2014, EUR million | Publicly quoted | Other | Total |
|---|---|---|---|
| **Shares and participations** | | | |
| Available for sale | 1 | 93 | 94 |
| Shares in subsidiaries | | 1 250 | 1 250 |
| **Total** | **1** | **1 343** | **1 344** |

| 31 Dec 2013, EUR million | Publicly quoted | Other | Total |
|---|---|---|---|
| **Shares and participations** | | | |
| Available for sale | 1 | 109 | 110 |
| Shares in subsidiaries | | 1 249 | 1 249 |
| **Total** | **1** | **1 358** | **1 360** |

EUR 3,9 (19) million in shares and participations other than those quoted publicly was measured at fair value and the rest at cost.

| EUR million | 31 Dec. 2014 | 31 Dec. 2013 |
|---|---|---|
| **Shares and participations by sector** | | |
| Non-banking corporate sector and housing corporations | 9 | 20 |
| Financial institutions and insurance companies | 1 286 | 1 293 |
| Foreign entities | 49 | 50 |
| **Total** | **1 344** | **1 363** |

## Note 21. Derivative contracts

**Derivative contracts for hedging purposes – fair value hedge in 2014**

| | Nominal values/residual term to maturity | | | | Fair values | |
|---|---|---|---|---|---|---|
| EUR million | <1 year | 1–5 years | >5 years | Total | Positive | Negative |
| **Interest rate derivatives** | **1 597** | **10 671** | **5 754** | **18 022** | **473** | **564** |
| Interest rate swaps | 1 597 | 10 671 | 5 754 | 18 022 | 473 | 564 |
| **Currency derivatives** | **1 044** | **942** | **410** | **2 396** | **75** | **97** |
| Interest rate and currency swaps | 1 044 | 942 | 410 | 2 396 | 75 | 97 |

**Derivative contracts for hedging purposes – cash flow hedge in 2014**

| | Nominal values/residual term to maturity | | | | Fair values | |
|---|---|---|---|---|---|---|
| EUR million | <1 year | 1–5 years | >5 years | Total | Positive | Negative |
| **Interest rate derivatives** | **200** | **700** | **-** | **900** | **26** | **-** |
| Interest rate swaps | 200 | 700 | - | 900 | 26 | - |

**Derivative contracts held for trading in 2014**

| EUR million | Nominal values/residual term to maturity <1 year | 1–5 years | >5 years | Total | Fair values Positive | Negative |
|---|---|---|---|---|---|---|
| **Interest rate derivatives** | **57 730** | **95 736** | **49 758** | **203 224** | **4 732** | **4 640** |
| Futures and forwards | 10 196 | 4 602 | - | 14 798 | 2 | 12 |
| **Options** | **22 916** | **19 455** | **10 430** | **52 801** | **606** | **480** |
| Called | 12 808 | 9 584 | 4 948 | 27 340 | 599 | 11 |
| Put | 10 108 | 9 871 | 5 482 | 25 461 | 7 | 469 |
| Interest rate swaps | 24 618 | 71 239 | 39 287 | 135 144 | 4 103 | 4 144 |
| Other swap contracts | - | 441 | 41 | 481 | 20 | 4 |
| **Currency derivatives** | **15 274** | **8 086** | **5 229** | **28 589** | **962** | **878** |
| Futures and forwards | 13 576 | 307 | 65 | 13 948 | 277 | 168 |
| **Options** | **1 337** | **51** | **0** | **1 388** | **15** | **13** |
| Called | 685 | 25 | - | 710 | 15 | - |
| Put | 653 | 26 | - | 678 | - | 13 |
| Interest rate and currency swaps | 360 | 7 728 | 5 164 | 13 252 | 669 | 697 |
| **Equity derivatives** | **266** | **285** | **0** | **551** | **37** | **1** |
| Futures and forwards | - | - | - | - | - | - |
| **Options 266** | | **285** | **0** | **551** | **37** | **1** |
| Called | 266 | 281 | - | 547 | 37 | 0 |
| Put | - | 4 | - | 4 | - | 1 |
| **Other derivatives** | **242** | **507** | **117** | **866** | **66** | **68** |
| Futures and forwards | 109 | 70 | 0 | 179 | 4 | 36 |
| **Options 53** | | **11** | **0** | **64** | **2** | **2** |
| Called | 26 | 11 | - | 37 | 2 | - |
| Put | 26 | - | - | 26 | - | 2 |
| Other swap contracts | 70 | 353 | 15 | 439 | 47 | 25 |
| Credit derivatives | 9 | 73 | 102 | 184 | 12 | 5 |

The underlying value for interest rate derivative contracts is the nominal value, for currency derivative contracts the euro-denominated stated value of the purchased currency on the balance sheet date, and for equity derivative contracts the probable value of equities on the balance sheet date. The values are expressed in gross amounts. Interest from market value is presented in deferred income and deferred expenses.

**Credit equivalents of contracts in 2014**

| EUR million | Made for hedging purposes: Fair value hedge | Cash flow hedge | Held for trading |
|---|---|---|---|
| **Interest rate derivatives** | **612** | **29** | **5 908** |
| Futures and forward contracts | **-** | **-** | - |
| **Options** | **-** | **-** | **812** |
| Called | **-** | **-** | 752 |
| Put | **-** | **-** | 60 |
| Interest rate swaps | 612 | 29 | 5 037 |
| Other swap contracts | - | - | 58 |
| **Currency derivatives** | **163** | - | **1 904** |
| Futures and forwards | - | - | 433 |
| **Options** | - | - | **23** |
| Called | - | - | 23 |
| Put | - | - | - |
| Interest rate and currency swaps | 163 | - | 1 447 |
| **Equity derivatives** | - | - | **76** |
| Futures and forwards | - | - | **-** |
| **Options** | - | - | **76** |
| Called | - | - | 76 |
| Put | - | - | - |
| **Other derivatives** | - | - | **113** |
| Futures and forwards | - | - | 0 |
| **Options** | - | - | **6** |
| Called | - | - | 6 |
| Put | - | - | - |
| Other swap contracts | - | - | 94 |
| Credit derivatives | - | - | 12 |

**Derivative contracts for hedging purposes – fair value hedge in 2013**

| | Nominal values/residual term to maturity | | | | Fair values | |
|---|---|---|---|---|---|---|
| EUR million | <1 year | 1–5 years | >5 years | Total | Positive | Negative |
| **Interest rate derivatives** | **2 248** | **11 378** | **5 060** | **18 686** | **335** | **242** |
| Interest rate swaps | 2 248 | 11 378 | 5 060 | 18 686 | 335 | 242 |
| **Currency derivatives** | **1 628** | **803** | **137** | **2 567** | **46** | **83** |
| Interest rate and currency swaps | 1 628 | 803 | 137 | 2 567 | 46 | 83 |

**Derivative contracts for hedging purposes – cash flow hedge in 2013**

| | Nominal values/residual term to maturity | | | | Fair values | |
|---|---|---|---|---|---|---|
| EUR million | <1 year | 1–5 years | >5 years | Total | Positive | Negative |
| **Interest rate derivatives** | **200** | **800** | **-** | **1 000** | **21** | **1** |
| Interest rate swaps | 200 | 800 | **-** | 1 000 | 21 | 1 |

**Derivative contracts held for trading in 2013**

| EUR million | Nominal values/residual term to maturity <1 year | 1–5 years | >5 years | Total | Fair values Positive | Negative |
|---|---|---|---|---|---|---|
| **Interest rate derivatives** | **41 842** | **104 754** | **38 194** | **184 790** | **2 657** | **2 600** |
| Futures and forward contracts | 3 680 | 6 624 | - | 10 304 | 3 | 3 |
| **Options** | **18 669** | **28 742** | **7 979** | **55 390** | **412** | **295** |
| Called | 8 828 | 14 312 | 3 786 | 26 926 | 411 | 5 |
| Put | 9 842 | 14 430 | 4 192 | 28 464 | 1 | 289 |
| Interest rate swaps | 19 446 | 69 110 | 30 082 | 118 638 | 2 231 | 2 291 |
| Other swap contracts | 46 | 278 | 134 | 458 | 10 | 12 |
| **Currency derivatives** | **14 684** | **1 719** | **1 387** | **17 791** | **296** | **329** |
| Futures and forwards | 13 686 | 338 | 84 | 14 108 | 132 | 144 |
| **Options 654** | | **28** | **-** | **682** | **4** | **8** |
| Called | 345 | 19 | - | 365 | 4 | - |
| Put | 309 | 8 | - | 318 | 0 | 8 |
| Interest rate and currency swaps | 344 | 1 353 | 1 303 | 3 001 | 160 | 177 |
| **Equity derivatives** | **194** | **582** | **-** | **776** | **77** | **-** |
| Futures and forwards | - | - | - | - | - | - |
| **Options 194** | | **582** | **-** | **776** | **77** | **-** |
| Called | 194 | 582 | - | 776 | 77 | - |
| Put | - | - | - | | - | - |
| **Other derivatives** | **348** | **473** | **54** | **874** | **67** | **53** |
| Futures and forwards | 109 | 118 | 6 | 233 | 9 | 34 |
| **Options 53** | | **11** | **-** | **64** | **0** | **0** |
| Called | 27 | 11 | - | 38 | 0 | - |
| Put | 27 | - | **-** | 27 | - | 0 |
| Other swap contracts | 181 | 245 | 32 | 459 | 46 | 18 |
| Credit derivatives | 4 | 99 | 15 | 118 | 13 | 0 |

The underlying value for interest rate derivative contracts is the nominal value, for currency derivative contracts the euro-denominated stated value of the purchased currency on the balance sheet date, and for equity derivative contracts the probable value of equities on the balance sheet date. The values are expressed in gross amounts. Interest from market value is presented in deferred income and deferred expenses.

**Credit equivalents of contracts in 2013**

| EUR million | Made for hedging purposes<br>Fair value hedge | <br>Cash flow hedge | Held for trading |
|---|---|---|---|
| **Interest rate derivatives** | **453** | **25** | **3 668** |
| Futures and forward contracts | - | - | 0 |
| **Options** | **-** | **-** | **595** |
| Called | **-** | **-** | 560 |
| Put | **-** | **-** | 35 |
| Interest rate swaps | 453 | 25 | 3 025 |
| Other swap contracts | - | - | 49 |
| **Currency derivatives** | **113** | **-** | **630** |
| Futures and forwards | - | - | 292 |
| **Options** | **-** | **-** | **9** |
| Called | - | - | 9 |
| Put | - | - | 0 |
| Interest rate and currency swaps | **113** | **-** | **329** |
| **Equity derivatives** | **-** | **-** | 135 |
| Futures and forwards | **-** | **-** | **-** |
| **Options** | **-** | **-** | |
| Called | **-** | **-** | **135** |
| Put | **-** | **-** | - |
| **Other derivatives** | **-** | **-** | 115 |
| Futures and forwards | **-** | **-** | **1** |
| **Options** | **-** | **-** | 4 |
| Called | **-** | **-** | **4** |
| Put | **-** | **-** | - |
| Other swap contracts | **-** | **-** | 96 |
| Credit derivatives | **-** | **-** | 13 |

Pohjola Bank plc's derivatives business adopted netting of derivatives during 2011. However, derivative contracts are presented in gross amounts in this note. Netting would reduce the credit equivalent of Pohjola Bank plc's derivative contracts by EUR 6,233 million (3,381).

## Note 22. Intangible assets and tangible assets and changes during the financial year

**Intangible assets**

| EUR million | 31 Dec. 2014 | 31 Dec. 2013 |
|---|---|---|
| Goodwill | 0 | 2 |
| IT costs | 35 | 39 |
| Other long-term expenditure | 15 | 9 |
| **Total** | **51** | **49** |

**Tangible assets**

| 31 Dec 2014, EUR million | In own use | Investment property<br>Book value | <br>Fair value |
|---|---|---|---|
| **Property holdings** | | | |
| Land and water | 0 | 0 | 0 |
| Buildings | 0 | | |
| Shares and holdings in property companies | 3 | 9 | 32 |
| **Total** | **3** | **9** | **32** |
| | | | |
| **Other tangible assets** | | **3** | |

| 31 Dec 2013, EUR million | In own use | Investment property<br>Book value | Fair value |
|---|---|---|---|
| **Property holdings** | | | |
| Land and water | 0 | 0 | 0 |
| Buildings | 0 | | |
| Shares and holdings in property companies | 3 | 10 | 33 |
| **Total** | **3** | **10** | **33** |
| | | | |
| **Other tangible assets** | | **3** | |

**Changes in intangible and tangible assets during the financial year**

| EUR million | Goodwill | Other intangible assets | Investment property | Property in own use | Other tangible assets |
|---|---|---|---|---|---|
| **Acquisition cost 1 January 2014** | 12 | 109 | 14 | 4 | 50 |
| + increases during the year | | 12 | 0 | 0 | 0 |
| - decreases during the year | | | -2 | 0 | 0 |
| +/- transfers between items | | | | | 0 |
| - planned depreciation/amortisation | -2 | -9 | | 0 | 0 |
| -/+ impairment losses and their reversals | | | | 0 | |
| + accumulated depreciation/amortisation and write-downs on adjustments and transfers 1 | | | | | 0 |
| - accumulated depreciation/amortisation 1 January | -10 | -62 | 0 | -1 | -47 |
| - accumulated impairment 1 January | | | -3 | 0 | |
| **Book value 31 December 2014** | **0** | **51** | **9** | **3** | **3** |

## Note 23. Other assets

| EUR million | 31 Dec. 2014 | 31 Dec. 2013 |
|---|---|---|
| Accounts receivable from securities | 29 | 70 |
| Payment transfer receivables | 7 | 35 |
| Derivative contracts | 597 | 125 |
| Margin receivables related to derivative contracts | 104 | 54 |
| Accounts receivable | 136 | 92 |
| Emissions allowances | 75 | 18 |
| Other | 931 | 453 |
| **Total** | **1 879** | **847** |

"Other" under Other assets includes EUR 862 million (408) in CSA collateral receivables.

## Note 24. Deferred income and advances paid

| EUR million | 31 Dec. 2014 | 31 Dec. 2013 |
|---|---|---|
| **Interest** | | |
| Interest receivables | 645 | 714 |
| Interest advances paid | 4 | 6 |
| **Total** | **649** | **720** |
| | | |
| **Other** | | |
| Other advances paid | 0 | 1 |
| Other deferred income | 11 | 1 |
| **Total** | **11** | **2** |
| **Total deferred income and advances paid** | **659** | **722** |

## Note 25. Deferred tax assets and liabilities

| 31 Dec 2014, EUR million | Deferred tax assets | Deferred tax liabilities | Net |
|---|---|---|---|
| From timing differences | 23 | 0 | 23 |
| From other temporary differences | 0 | 16 | -15 |
| **Total** | **24** | **16** | **8** |

| 31 Dec 2013, EUR million | Deferred tax assets | Deferred tax liabilities | Net |
|---|---|---|---|
| From timing differences | 41 | 24 | 17 |
| From other temporary differences | 0 | 9 | -9 |
| **Total** | **41** | **33** | **8** |

Deferred tax assets include a total of EUR 0.00 in deferred tax assets recognised on losses confirmed in taxation (-).

Deferred tax assets and liabilities arising from other temporary differences comprise deferred tax assets and liabilities based on revaluations of available-for-sale financial assets recognised in the fair value reserve under equity and of derivatives designated as cash flow hedges.

**Revaluations 31 December 2014**

The balance sheet does not include any revaluation (-).

**Appropriations**

| 31 Dec 2014, EUR million | Balance sheet value | Deferred tax liability | Net |
|---|---|---|---|
| Depreciation difference | 141 | 28 | 113 |
| Voluntary provisions | 891 | 178 | 713 |
| **Total** | **1 032** | **206** | **826** |

| 31 Dec 2013, EUR million | Balance sheet value | Deferred tax liability | Net |
|---|---|---|---|
| Depreciation difference | 138 | 28 | 110 |
| Voluntary provisions | 891 | 178 | 713 |
| **Total** | **1 029** | **206** | **823** |

Depreciation difference and voluntary provisions have been entered in the balance sheet to the amount of non-deducted deferred tax.

## Note 26. Debt securities issued to the public

| EUR million | Book value 31 Dec. 2014 | Nominal value 31 Dec. 2014 | Book value 31 Dec. 2013 | Nominal value 31 Dec. 2013 |
|---|---|---|---|---|
| Certificates of deposit | 828 | 828 | 1 775 | 1 776 |
| Bonds | 10 954 | 10 953 | 9 486 | 9 430 |
| Other | 6 198 | 6 204 | 4 994 | 4 997 |
| **Total** | **17 980** | **17 985** | **16 255** | **16 203** |

## Note 27. Other liabilities

| EUR million | 31 Dec. 2014 | 31 Dec. 2013 |
|---|---|---|
| Payment transfer liabilities | 819 | 869 |
| Accounts payable on securities | 29 | 15 |
| Margin liabilities related to derivative contracts | 0 | 0 |
| Other | 1 468 | 567 |
| **Total** | **2 317** | **1 452** |

Other' includes EUR 675 million in equity and derivative liabilities (183) and EUR 722 million (359) in CSA collateral liabilities.

## Note 28. Statutory provisions

| EUR million | Reorganisation | Total |
|---|---|---|
| 1 Jan. 2014 | 0 | 0 |
| Decrease in provisions | 0 | 0 |
| **31 Dec. 2014** | **0** | **0** |

| EUR million | Reorganisation | Total |
|---|---|---|
| 1 Jan. 2013 | 2 | 2 |
| Increase in provisions | 2 | 2 |
| **31 Dec. 2013** | **0** | **0** |

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

## Note 29. Deferred expenses and advances received

| EUR million | 31 Dec. 2014 | 31 Dec. 2013 |
|---|---|---|
| **Interest** | | |
| Interest liabilities | 672 | 717 |
| Interest advances received | 0 | 0 |
| **Total** | **672** | **717** |
| | | |
| **Other** | | |
| Other advance payments received | 1 | 1 |
| Vacation pay liabilities | 8 | 8 |
| Tax liabilities | 19 | 10 |
| Other deferred expenses | 28 | 26 |
| **Total** | **55** | **45** |
| **Total deferred expenses and advances received** | **727** | **762** |

## Note 30. Subordinated liabilities

| EUR million | Book value | Nominal value |
|---|---|---|
| Subordinated loans | 265 | 269 |
| Other | | |
| Perpetual loans | - | - |
| Debenture loans | 683 | 683 |
| **Total** | **948** | **952** |

**Perpetual loans and debentures**

1. A debenture loan of CHF 100 million (euro equivalent 83 million), which is a ten-year bullet loan, will mature on 14 July 2021. The loan carries a fixed interest rate of 3.375% p.a.

2. A debenture loan of EUR 100 million, which is a ten-year bullet loan, will mature on 14 September 2021. The loan carries a fixed interest rate of 5.25% p.a.

3. A debenture loan of EUR 500 million, which is a 10-year bullet loan, will mature on 22 August 2022. Under the terms and conditions of the loan, the issuer will have the opportunity for early redemption in case the principal cannot be counted as part of the bank's Tier 2 capital. The loan carries a fixed interest rate of 5.75% p.a.

Loans were issued in international capital markets.

**Hybrid bonds/subordinated loans**

**Hybrid bonds included in Tier 1**

1) Subordinated loan of 10 billion Japanese yen (equivalent of EUR 68.9 million)

This is a perpetual loan (a loan without a due date) carrying a fixed interest rate of 4.23% until 18 June 2034 and subsequently a variable 6-month Yen Libor + 1.58% (Step up). Interest will be annually payable on 18 June and 18 December. If interest cannot be paid for a given interest period, the obligation to pay interest for the period in question will lapse. The loan can be called in at the earliest in 2014 and can be annually repaid after 2014 on the interest due date on 18 June or 18 December. The loan's entire principal must be repaid in one instalment.

2) Subordinated loan of EUR 50 million

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

3) Hybrid bond of EUR 60 million

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

4) Subordinated loan of EUR 40 million

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

5) Hybrid bond of EUR 50 million

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

Loans 1 and 3 are included in hybrid instruments.

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

The difference between the nominal value and carrying amount is due to the fair value hedge related to interest rate risk measurement.

## Note 31. Shareholders’ equity

| EUR million | Shareholder's equity 1 Jan. 2014 | Increases | Decreases | Transfers between items | Shareholder's equity 31 Dec. 2014 |
|---|---|---|---|---|---|
| **Total shareholders’ equity** | **1 855** | 0 | 0 | 0 | **2 092** |
| Share capital | 428 | 0 | 0 | 0 | 428 |
| Share premium account | 524 | 0 | 0 | 0 | 524 |
| Other restricted reserves | 200 | 0 | 0 | 0 | 225 |
| Reserve fund | 164 | 0 | 0 | 0 | 164 |
| Fair value reserve | 36 | 25 | 0 | 0 | 61 |
| Fair value measurement | 24 | 20 | 20 | 0 | 44 |
| Cash flow hedge | 12 | 5 | 5 | 0 | 17 |
| Non-restricted funds | 331 | 0 | 0 | 0 | 331 |
| restricted equity | 308 | 0 | 0 | 0 | 308 |
| Other funds | 23 | 0 | 0 | 0 | 23 |
| adjustments | 372 | 0 | 213 | 0 | 159 |
| Profit or loss for the financial year | 0 | 425 | 0 | 0 | 425 |

**Changes in fair value reserve**

| EUR million | At year-start 1 Jan. 2014 | Increases | Decreases | Transferred to income statement | At year-end 31 Dec. 2014 |
|---|---|---|---|---|---|
| **Notes and bonds** | **8** | **40** | **8** | **0** | **40** |
| Deferred tax | -2 | 0 | 8 | 0 | -10 |
| **Shares and participations** | **16** | **3** | **13** | **-2** | **4** |
| Deferred tax | -4 | 3 | **0** | **0** | -1 |
| **Other** | **12** | **6** | **1** | **0** | **17** |
| Cash flow hedge | 15 | 6 | 0 | 0 | 21 |
| Deferred tax | -3 | 0 | 1 | 0 | -4 |
| **Total 36** | | **49** | **22** | **-2** | **67** |

| EUR million | Shareholder's equity 1 Jan. 2013 | Increases | Decreases | Transfers between items | Shareholder's equity 31 Dec. 2013 |
|---|---|---|---|---|---|
| **Total shareholders’ equity** | **1 720** | | | | **1 855** |
| Share capital | 428 | | | | 428 |
| Share premium account | 524 | | | | 524 |
| Other restricted reserves | 197 | | | | 200 |
| Reserve fund | 164 | | | | 164 |
| Fair value reserve | 34 | 13 | 11 | | 36 |
| Fair value measurement | 11 | 13 | | | 24 |
| Cash flow hedge | 23 | | 11 | | 12 |
| Non-restricted funds | 331 | | | | 331 |
| restricted equity | 308 | | | | 308 |
| Other funds | 23 | | | | 23 |
| adjustments | 239 | | 146 | | 93 |
| Profit or loss for the financial year | | 279 | | | 279 |

**Changes in fair value reserve**

| EUR million | At year-start 1 Jan. 2013 | Increases | Decreases | Transferred to income statement | At year-end 31 Dec. 2013 |
|---|---|---|---|---|---|
| **Notes and bonds** | **-15** | **29** | **6** | **-1** | **8** |
| Deferred tax | 5 | | 7 | | -2 |
| **Shares and participations** | **26** | **4** | **13** | **-1** | **16** |
| Deferred tax | -8 | 4 | | | -4 |
| **Other** | **23** | **4** | **15** | | **12** |
| Cash flow hedge | 31 | | 15 | | 15 |
| Deferred tax | -7 | 4 | 0 | | -3 |
| **Total 34** | | **38** | **34** | **-1** | **36** |

## Note 32. Restricted and non-restricted equity and distributable funds

| EUR million | 31 Dec. 2014 | 31 Dec. 2013 |
|---|---|---|
| **Shareholders' equity** | | |
| Restricted equity | 1 177 | 1 152 |
| Non-restricted equity | 915 | 704 |
| **Total shareholders' equity** | **2 092** | **1 855** |

| EUR million | 31 Dec. 2014 | 31 Dec. 2013 |
|---|---|---|
| **Distributable funds** | | |
| Accumulated earnings | 584 | 372 |
| **Total distributable funds** | **584** | **372** |

## Note 33a. Financial assets and liabilities by residual term to maturity

| 31 Dec 2014, EUR million | Less than 3 months | 3–12 months | 1–5 years | 5–10 years | over 10 years |
|---|---|---|---|---|---|
| Notes and bonds eligible for refinancing with central banks | 253 | 476 | 3 027 | 4 045 | 24 |
| Receivables from credit institutions | 5 178 | 788 | 3 542 | 528 | 30 |
| Receivables from the public and public sector entities | 2 847 | 1 674 | 7 262 | 1 256 | 1 353 |
| Notes and bonds | 22 | 94 | 489 | 107 | 1 |
| **Total assets** | **8 300** | **3 031** | **14 321** | **5 937** | **1 409** |
| | | | | | |
| Liabilities to credit institutions and central banks | 2 637 | 592 | 1 781 | 227 | 5 |
| Liabilities to the public and public sector entities | 10 384 | 784 | 205 | 232 | 62 |
| Debt securities issued to the public | 5 206 | 4 383 | 6 841 | 1 376 | 175 |
| Subordinated liabilities | - | 150 | 115 | 683 - | |
| **Total liabilities** | **18 226** | **5 909** | **8 941** | **2 519** | **242** |

| 31 Dec 2013, EUR million | Less than 3 months | 3–12 months | 1–5 years | 5–10 years | over 10 years |
|---|---|---|---|---|---|
| Notes and bonds eligible for refinancing with central banks | 170 | 392 | 3 672 | 3 110 | 25 |
| Receivables from credit institutions | 5 380 | 664 | 3 109 | 499 | 24 |
| Receivables from the public and public sector entities | 2 403 | 1 498 | 6 932 | 1 260 | 1 304 |
| Notes and bonds | 45 | 58 | 447 | 142 | 2 |
| **Total assets** | **7 999** | **2 613** | **14 160** | **5 011** | **1 355** |
| | | | | | |
| Liabilities to credit institutions and central banks | 2 148 | 537 | 1 692 | 406 | 6 |
| Liabilities to the public and public sector entities | 9 215 | 372 | 209 | 258 | 289 |
| Debt securities issued to the public | 5 742 | 3 933 | 6 110 | 420 | 50 |
| Subordinated liabilities | 40 | 119 | 94 | 681 - | |
| **Total liabilities** | **17 145** | **4 962** | **8 104** | **1 765** | **345** |

Deposits other than fixed-term deposits are included in the maturity class 'less than 3 months'.

## Note 33b. Classification of assets and liabilities

| 31 Dec 2014, EUR million | Loans and receivables | Held to maturity | At fair value through profit or loss* | Available for sale | Hedging derivatives | Carrying amount total |
|---|---|---|---|---|---|---|
| Cash and balances with central banks | 3 774 | | | | | 3 774 |
| Receivables from credit institutions and central banks | 10 254 | | | | | 10 254 |
| Derivative contracts | | | 5 086 | | 309 | 5 395 |
| Receivables from customers | 14 939 | | | | | 14 939 |
| Notes and bonds** | | 144 | 426 | 7 782 | | 8 351 |
| Shares and participations | | | | 1 312 | | 1 312 |
| Other receivables | 2 643 | | 605 | | | 3 248 |
| **Total assets** | **31 610** | **144** | **6 117** | **9 094** | **309** | **47 274** |

| 31 Dec 2014, EUR million | At fair value through profit or loss | Other liabilities | Hedging derivatives | Carrying amount total |
|---|---|---|---|---|
| Liabilities to credit institutions | | 5 241 | | 5 241 |
| Financial liabilities held for trading (excl. derivatives) | 4 | | | 4 |
| Derivative contracts | 4 890 | | 373 | 5 264 |
| Liabilities to customers | | 11 668 | | 11 668 |
| Debt instruments issued to the public | | 17 980 | | 17 980 |
| Subordinated liabilities | | 948 | | 948 |
| Other liabilities | | 4 076 | | 4 076 |
| **Total liabilities** | **4 895** | **39 914** | **373** | **45 182** |

| 31 Dec 2013, EUR million | Loans and receivables | Held to maturity | At fair value through profit or loss* | Available for sale | Hedging derivatives | Carrying amount total |
|---|---|---|---|---|---|---|
| Cash and balances with central banks | 2 046 | | | | | 2 046 |
| Receivables from credit institutions and central banks | 9 898 | | | | | 9 898 |
| Derivative contracts | | | 3 059 | | 273 | 3 332 |
| Receivables from customers | 13 860 | | | | | 13 860 |
| Notes and bonds** | | 202 | 540 | 7 100 | | 7 842 |
| Shares and participations | | | | 1 331 | | 1 331 |
| Other receivables | 2 230 | | 135 | | | 2 365 |
| **Total assets** | **28 034** | **202** | **3 734** | **8 431** | **273** | **40 675** |

| 31 Dec 2013, EUR million | At fair value through profit or loss | Other liabilities | Hedging derivatives | Carrying amount total |
|---|---|---|---|---|
| Liabilities to credit institutions | | 4 789 | | 4 789 |
| Financial liabilities held for trading (excl. derivatives) | 4 | | | 4 |
| Derivative conctracts | 3 018 | | 234 | 3 252 |
| Liabilities to customers | | 10 343 | | 10 343 |
| Debt instruments issued to the public | | 16 255 | | 16 255 |
| Subordinated liabilities | | 934 | | 934 |
| Other liabilities | | 3 243 | | 3 243 |
| **Total liabilities** | **3 022** | **35 564** | **234** | **38 820** |

* Assets at fair value through profit or loss include financial assets held for trading, financial assets at fair value through profit or loss at inception and investment property.

** On 31 December 2013, notes and bonds included EUR 9 million (9) in notes and bonds recognised using the fair value option.

Debt securities issued to the public are carried at amortised cost. On 31 December 2013, the fair value of these debt instruments was EUR 232 million (147) higher than their carrying amount, based on information available in markets and employing commonly used valuation techniques. Subordinated liabilities are carried at amortised cost. Their fair values are higher than their carrying amount, but determining reliable fair values involves uncertainty.

## Liite 33c. Financial instruments measured at fair value, grouped by valuation technique

| Financial instruments measured at fair value in the balance sheet, 31 Dec. 2014, EUR million | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Recognised at fair value through profit or loss | 183 | 243 | | 426 |
| Derivative contracts | 7 | 5 186 | 202 | 5 395 |
| Available-for-sale | 5 899 | 3 180 | 15 | 9 094 |
| **Total assets** | **6 088** | **8 609** | **218** | **14 915** |
| | | | | |
| **Liabilities** | | | | |
| Recognised at fair value through profit or loss | | | | |
| Derivative contracts | 57 | 5 078 | 130 | 5 264 |
| **Total liabilities** | **57** | **5 078** | **130** | **5 264** |

| Financial instruments measured at fair value in the balance sheet, 31 Dec. 2013, EUR million | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Recognised at fair value through profit or loss | 152 | 388 | | 540 |
| Derivative contracts | 10 | 3 110 | 212 | 3 332 |
| Available-for-sale | 5 632 | 2 787 | 12 | 8 431 |
| **Total assets** | **5 794** | **6 285** | **224** | **12 303** |
| | | | | |
| **Liabilities** | | | | |
| Recognised at fair value through profit or loss | | 4 | | 4 |
| Derivative contracts | 35 | 3 086 | 131 | 3 252 |
| **Total liabilities** | **35** | **3 090** | **131** | **3 256** |

**Level 1: Quoted prices in active markets**

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

**Level 2: Valuation techniques using observable inputs**

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

**Level 3: Valuation techniques using unobservable inputs**

Valuation techniques whose input parameters involve special uncertainty. The fair value determination of the financial instruments included within this level contains inputs not based on observable market data (unobservable inputs). This level includes the most complex OTC derivatives, certain private equity investments, and illiquid bonds, structured bonds, including securitised bonds and structured debt securities, and hedge funds. In many cases, the Level 3 fair value is based on pricing information from a third party.

| EUR million | 31 Dec. 2014 | 31 Dec. 2013 |
|---|---|---|
| **Net income for the financial year from Level 3** | | |
| Realised net income | -2 | -14 |
| Unrealised net income | -11 | 46 |
| **Total net income** | **-13** | **33** |

## Note 34. Assets and liabilities denominated in euros and foreign currencies

| 31 Dec 2014, EUR million | Euros | Foreign currencies | Of which Subsidiaries | Of which Associates |
|---|---|---|---|---|
| Receivables from credit institutions | 9 687 | 378 | - | - |
| Receivables from the public and public sector entities | 13 633 | 760 | 272 | - |
| Notes and bonds | 8 539 | 1 | - | - |
| Derivative contracts | 4 784 | 612 | 15 | - |
| Other assets | 8 376 | 505 | 1 392 | 32 |
| **Total assets** | **45 019** | **2 256** | **1 680** | **32** |
| | | | | |
| Liabilities to credit institutions and central banks | 4 740 | 502 | - | - |
| Liabilities to the public and public sector entities | 10 616 | 1 051 | 226 | - |
| Debt securities issued to the public | 11 628 | 6 352 | 46 | - |
| Derivative contracts and liabilities held for trading | 4 701 | 567 | 14 | - |
| Subordinated liabilities | 796 | 152 | - | - |
| Other liabilities | 2 907 | 137 | 2 | - |
| **Total liabilities** | **35 389** | **8 761** | **289** | - |

| 31 Dec 2013, EUR million | Euros | Foreign currencies | Of which Subsidiaries | Of which Associates |
|---|---|---|---|---|
| Receivables from credit institutions | 9 264 | 412 | - | - |
| Receivables from the public and public sector entities | 12 586 | 811 | 232 | - |
| Notes and bonds | 8 050 | 14 | - | - |
| Derivative contracts | 2 988 | 345 | 13 | - |
| Other assets | 6 149 | 57 | 1 351 | 32 |
| **Total assets** | **39 036** | **1 639** | **1 597** | **32** |
| | | | | |
| Liabilities to credit institutions and central banks | 4 371 | 418 | - | - |
| Liabilities to the public and public sector entities | 9 426 | 917 | 156 | - |
| Debt securities issued to the public | 11 301 | 4 953 | 62 | - |
| Derivative contracts and liabilities held for trading | 2 942 | 314 | 15 | - |
| Subordinated liabilities | 784 | 151 | - | - |
| Other liabilities | 2 152 | 62 | 2 | - |
| **Total liabilities** | **30 975** | **6 816** | **236** | - |

# Other notes

## Note 35. Variable remuneration

**Personnel fund**
On 26 October 2004, Pohjola Bank plc joined OP Personnel Fund.

Payment of profit-based bonuses to OP Personnel Fund in 2014 was based on the achievement of the following targets: OP Financial Group's pre-tax earnings and OP Financial Group's Common Equity Tier (CET 1),
both weighted at 30% and the change in the number of loyal customers weighted at 40%.
Profit-based bonuses for 2014 transferred to the Fund account for some 4.2 % (4.6 %) of the combined salaries and wages earned by the Fund's members. The bonuses recognised in 2014 totalled EUR 1.0 (2.1) million.

**Remuneration schemes**
OP Financial Group's remuneration comprises short-term company-specific remuneration and long-term Group-wide remuneration.
The maximum amount of remuneration is limited in all schemes.

In the short-term incentive scheme, the performance period is one calendar year and the bonus is primarily paid in cash. This short-term scheme covers all personnel.

Separately defined executives and key employees, appointed by the Executive Board, are included in the long-term management incentive scheme.
OP Cooperative's Supervisory Board shall determine OP's Group-level performance metrics for the scheme and targets set for them separately for each performance period.

The long-term scheme consists of consecutive three-year performance periods. The amount of remuneration depends on how well the targets have been reached at the end of the performance period.
The bonus for the first performance period from 2011 to 2013 will be paid after a deferment period in three equal instalments by the end of each June in 2015–2017.
Owing to the tender offer made by OP Cooperative for Pohjola shares, the entire target bonus is paid in cash under the terms of the remuneration system.

Bonuses that may be paid under the remuneration scheme for performance period 2014–2016 will be paid as debentures issued by OP. The earned euro bonus will be converted into the number of debentures once the outcome of the scheme is known. An amount will be deducted from the bonus to cover related taxes and fiscal charges. The bonus will be paid in three equal instalments between 2018 and 2020.

**Deferred payment of variable remuneration**
The payment of variable remuneration has been prescribed in the Act on Credit Institutions (610/2014). 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.

People who may affect the company's risk profile will have their variable remuneration payment deferred 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 such a case of deferral, any short-term scheme bonuses are paid half in cash and half as debenture loans issued by OP.

**Expenses charged for variable remuneration *)**

| **EUR million** | **2014** | **2013** |
|---|---|---|
| Personnel fund | 1 | 2 |
| Short-term schemes | 8 | 7 |
| Previous long-term schemes | | |
| Schemes for 2007–2010 | 0 | 1 |
| Long-term scheme underway | | |
| Scheme for 2011–2013 | 0 | 0 |
| **Total** | **10** | **10** |

*) Excluding social expenses

## Note 36. Assets pledged as collateral

**Assets pledged as collateral**

| EUR million | 31 Dec. 2014 | 31 Dec. 2013 |
|---|---|---|
| **Given on behalf of own debts and commitments** | | |
| Mortgages | | |
| Pledges | | |
| Other | 981 | 485 |
| **Total** | **981** | **485** |
| **Other given on own behalf** | | |
| Mortgages | | |
| Pledges* | 6 273 | 5 705 |
| Other | | |
| **Total** | **6 273** | **5 705** |
| **Total assets pledged as collateral** | **7 254** | **6 190** |

* of which EUR 2,000 million in intraday settlement collateral and the rest pledged but unencumbered.

Secured liabilities totalled EUR 473 (489) million.
Other collateral given on own behalf consists of collateral required for the maintenance of liquidity.

## Note 37. Pension liabilities

| EUR million | 31 Dec. 2014 | 31 Dec. 2013 |
|---|---|---|
| Direct liabilities from pension commitments | 3 | 3 |
| Share of the excess margin of pension liabilities on the pension fund and on other liabilities | | |
| Repayment of the excess margin of the pension fund recorded as pension cost adjustment | | |

The statutory pension cover for Pohjola Bank plc employees is managed through the OP Bank Group Pension Fund and the supplementary pension cover through the OP Bank Group Pension Foundation. The Foundation has not accepted new beneficiaries since 30 June 1991. Pohjola Bank plc's pension liabilities are fully covered.

## Note 38. Lease and other rental liabilities

**Material contract terms and conditions regarding termination and redemption**

Pohjola Bank plc has no significant lease or other rental liabilities. The contracts primarily cover personnel car leases with a maturity of three years.

## Note 39. Off-balance-sheet commitments

| EUR million | On behalf of subsidiaries | On behalf of affiliates | On behalf of others | Total |
|---|---|---|---|---|
| **Off-balance-sheet commitments 31 December 2014** | **0** | | **7 378** | **7 379** |
| **Commitments given to a third party on behalf of customers** | | | **2 749** | **2 749** |
| Guarantees and pledges | | | 2 451 | |
| Other | | | 297 | |
| **Irrevocable commitments given on behalf of customers** | **0** | | **4 629** | **4 630** |
| Loan commitments | 0 | | 4 365 | |
| Other | | | 264 | |

| EUR million | On behalf of subsidiaries | On behalf of affiliates | On behalf of others | Total |
|---|---|---|---|---|
| **Off-balance-sheet commitments 31 December 2013** | **12** | | **7 713** | **7 725** |
| **Commitments given to a third party on behalf of customers** | | | **2 727** | **2 727** |
| Guarantees and pledges | | | 2 479 | |
| Other | | | 247 | |
| **Irrevocable commitments given on behalf of customers** | **12** | | **4 986** | **4 999** |
| Loan commitments | 12 | | 4 728 | |
| Other | | | 258 | |

## Note 40. Other contingent liabilities and commitments at the year-end

On 31 December 2013, Pohjola Bank plc's commitments to private equity funds amounted to EUR 7.4 (9.5) million and relate to those presented in Note 41.

Client assets related to brokerage amounted to EUR -0.5 (0.3) million included in 'Liabilities to the public and public sector entities'.

Accounts payable related to brokerage totalled EUR 26.6 (53.3) million and accounts receivable EUR 27.1 (53.1) million.

## Note 41. Personnel and members of administrative bodies, and related parties

| Average personnel in 2014 | Average no. | Change during the year |
|---|---|---|
| Permanent full-time personnel | 592 | -16 |
| Permanent part-time personnel | 19 | 2 |
| Fixed-term personnel | 46 | 7 |
| **Total** | **657** | **7** |

| Remuneration paid to members of administrative bodies in 2014 | Wages and salaries, EUR million |
|---|---|
| Members of the Board of Directors, President and CEO, and Deputy CEO | 1 |

The Annual General Meeting approved the following Board emoluments:

Monthly emoluments and attendance allowance paid to Board members in 2014 totalled EUR 497,250 until 30.9.2014. The Chairman's monthly emoluments totalled EUR 8,000, the Vice Chairman's EUR 5,500 and other members' EUR 4,500. An additional monthly emolument of EUR 1,000 is paid to a Board committee chair who is not the Chairman or Vice Chairman of the Board. All Board members received an attendance allowance of EUR 550 for each meeting. Monthly Board emoluments are treated as pensionable salary. Starting 1 October 2014 monthly emoluments nor attendance allowance were no longer paid.

| | |
|---|---|
| Reijo Karhinen, Chairman | EUR 90,150 |
| Tony Vepsäläinen, Vice Chairman | EUR 70,950 |

Members of the Board of Directors:

| | |
|---|---|
| Jukka Hienonen (member until 7 October 2014) | EUR 56,450 |
| Jukka Hulkkonen (member until 7 October 2014) | EUR 54,250 |
| Mirja-Leena Kullberg (member until 7 October 2014) | EUR 53,700 |
| Marjo Partio (member until 7 October 2014) | EUR 52,050 |
| Harri Sailas (member until 7 October 2014) | EUR 55,350 |
| Tom von Weymarn (member until 7 October 2014) | EUR 64,350 |
| Harri Luhtala (member since 8 October 2014) | EUR 0 |
| Erik Palmén (member since 8 October 2014) | EUR 0 |

In the financial year 2014, the members of the Board of Directors did not receive any share-based bonuses from the Company.

Salaries and performance-based bonuses paid to the President and CEO in the financial year ending 31 December 2014 were as follows:

Jouko Pölönen, President and CEO, EUR 450,491.*

Mikael Silvennoinen, President and CEO until 14 November 2013, EUR 175,716.

* Includes salaries and bonuses paid to the President and CEO for the year 2014. Includes a portion of the amount paid in 2014 and earned in 2013 based on the short-term incentive scheme. Of the remaining portion of the 2013 bonus, EUR 33,600 has been deferred for payment between 2015 and 2017. Payment of deferred amounts requires a Board decision. Detailed information on the deferment procedure can be found in Note 36.

The period of notice applicable under the President and CEO's executive contract is six months. According to this contract, the Company must pay the President and CEO severance pay equalling his 12-month total salary, in addition to compensation for loss of office, if the Company dismisses him or he has to resign or terminate the contract due to a reason attributable to the Company. In case the executive contract terminates due to reasons attributable to the Company, the President and CEO will be entitled to bonuses under the short- and long-term incentive schemes for the year of contract termination, provided that the schemes' performance criteria and the criteria for payment under the schemes' terms and conditions are fulfilled and his executive contract has been effective throughout the performance year. In addition, the President and CEO belongs to the long-term incentive scheme (2011-2013), under which bonuses will be paid from 2015 until 2017. He has unlimited company car benefit.

The CEO executive contract does not stipulate any specific retirement age for the President and CEO. The President and CEO is covered by TyEL (the Finnish Employees Pensions Act) which provides pension benefits based on the years of employment and earnings as prescribed in the Act. The retirement age is 63–68 years, depending on his choice. In addition to the statutory pension scheme, President and CEO Mikael Silvennoinen was covered by OP Bank Group Pension Foundation's supplementary pension scheme. Under that scheme, the retirement age applied to the President and CEO is 64 years. Pension accrued under the supplementary pension scheme may begin to be paid out as a paid-up pension before the old-age pension, if employment with OP-Pohjola Group terminates. In such a case, the minimum retirement age for men is 57 years. No supplementary pension scheme applies to President and CEO Pölönen. Attendance fees payable to Board members for each meeting do not accrue pension.

**Loans, guarantees and collateral granted to members of the administrative bodies on 31 December 2014**

As at 31 December 2014 and 31 December 2013, Pohjola Bank plc had not granted loans or guarantees to members of the Board of Directors.

**Pension commitments**

Members of the administrative and supervisory bodies are not covered by any pension commitments. Furthermore, no pension commitments have been made for previous members of these bodies.

| Auditors' remuneration | 2014 | 2013 |
|---|---|---|
| Audit | EUR 135,212 | EUR 136,308 |
| Other services based on legislation* | EUR 117,676 | EUR 131,120 |
| Tax counselling | EUR 8,072 | EUR 102,784 |
| Other services | EUR 99,804 | EUR 304,601 |
| **Total** | **EUR 360,764** | **EUR 674,813** |

* Assignments as referred to in sub-paragraph 2, paragraph 1, Section 1 of the Auditing Act.

**Related parties**

Pohjola Bank plc's related parties include the President and CEO, deputy CEO, members of the Board of Directors, the auditor and deputy auditor or the chief auditor representing the firm of authorised public accountants, and the abovementioned persons' spouses or persons living in a spousal-type relationship with them and their underage children.

The related parties also include entities and foundations over which the aforementioned persons have control, alone or together with the other person.

| Transactions based on ownership, EUR million | 2014 | 2013 |
|---|---|---|
| Loans and other receivables | 11 | 7 |
| Deposits and other debts | 192 | 72 |
| Net interest income | -2 | -2 |
| Dividend income | 0 | |
| Net commissions and fees | 7 | |
| Net other operating income | -8 | -9 |
| | | |
| Guarantees and other off-balance-sheet commitments | 20 | 20 |

No impairments have been recognised for the items.

## Note 42. Holdings in other companies 31 December 2014

| Subsidiaries | Holding, % | Equity capital | Profit or loss for the financial year |
|---|---|---|---|
| Pohjola Asset Management Ltd<br>Helsinki | 85 | 38 | 27 |
| Pohjola Insurance Ltd<br>Helsinki | 100 | 441 | 228 |
| A-Insurance Ltd<br>Helsinki | 100 | 77 | 14 |
| Pohjola Property Management Ltd<br>Helsinki | 100 | 4 | 3 |
| Kaivokadun PL-hallinto Oy<br>Helsinki | 100 | 5 | 0 |
| Vakuutuspalvelu Otava Oy<br>Helsinki | 100 | 0 | 0 |
| Conventum Venture Finance Ltd.<br>Helsinki | 100 | 11 | 2 |
| Northclaims Oy<br>Helsinki | 100 | 0 | 0 |
| VH-Holding 1 Oy<br>Helsinki | 100 | 7 | 2 |
| Pohjola Finance Estonia AS<br>Estonia | 100 | 3 | 1 |
| Pohjola Finance SIA<br>Latvia | 100 | 8 | 1 |
| UAB Pohjola Finance<br>Lithuania | 100 | 5 | 1 |

| Participating interests | Holding, % | Equity capital | Profit or loss for the financial year |
|---|---|---|---|
| Promotion Equity I Ky<br>Helsinki | 29,41 | 4 | 0 |
| Access Capital Partners Group SA<br>Belgium | 45 | 6 | 1 |
| Finnmezzanine Rahasto III B Ky<br>Helsinki | 49,49 | 2 | 0 |

Pohjola Bank plc has no shareholdings in companies in which it would have unlimited liability.

## Note 43. Trustee Services

Pohjola Bank plc provides the general public with investment services and asset management and custodian services. Pohjola Bank plc holds no assets based on discretionary investment management or on another agreement.

## *Notes concerning an entity under the Group's control*

Pohjola Bank plc's parent company is OP-Pohjola Group Central Cooperative and Pohjola's consolidated accounts are included in its consolidated financial statements. Copies of the financial statements of OP-Pohjola Group Central Cooperative are available at OP-Pohjola, Vääksyntie 4, Vallila, Helsinki.

The accounts of Pohjola Bank plc are consolidated into those of Pohjola Group. Copies of the financial statements of Pohjola Group are available at www.pohjola.com or OP-Pohjola, Vääksyntie 4, Vallila, Helsinki.

Helsinki, 5 February 2015

The Report by the Board of Directors and the Financial Statements signed by:

| | |
|---|---|
| Reijo Karhinen | Tony Vepsäläinen |
| Harri Luhtala | Erik Palmén |

Jouko Pölönen
President and CEO

A report on the audit performed has been issued today.

Helsinki, 10 February 2015

KPMG Oy Ab
Authorized Public Accountants

Raija-Leena Hankonen
Authorized Public Accountant

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*This document is an English translation of the Finnish auditor's report. Only the Finnish version of the report is legally binding.*

# AUDITOR'S REPORT

## *To the Annual General Meeting of Pohjola Bank plc*

We have audited the accounting records, the financial statements, the report of the Board of Directors, and the administration of Pohjola Bank plc for the year ended 31 December 2014. The financial statements comprise the consolidated balance sheet, income statement, statement of comprehensive income, statement of changes in equity, cash flow statement, and notes to the consolidated financial statements, as well as the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements.

### *Responsibility of the Board of Directors and the President and CEO*

The Board of Directors and the President and CEO are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, as well as for the preparation of financial statements and the report of the Board of Directors that give a true and fair view in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The Board of Directors is responsible for the appropriate arrangement of the control of the company's accounts and finances, and the President and CEO shall see to it that the accounts of the company are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on the financial statements, on the consolidated financial statements and on the report of the Board of Directors based on our audit. The Auditing Act requires that we comply with the requirements of professional ethics. We conducted our audit in accordance with good auditing practice in Finland. Good auditing practice requires that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the report of the Board of Directors are free from material misstatement, and whether the members of the Board of Directors of the parent company or the President and CEO are guilty of an act or negligence which may result in liability in damages towards the company or have violated the Limited Liability Companies Act, Act on Credit Institutions or the articles of association of the company.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report of the Board of Directors. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements and report of the Board of Directors that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the report of the Board of Directors.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion on the consolidated financial statements*

In our opinion, the consolidated financial statements give a true and fair view of the financial position, financial performance, and cash flows of the group in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

*Opinion on the company's financial statements and the report of the Board of Directors*

In our opinion, the financial statements and the report of the Board of Directors give a true and fair view of both the consolidated and the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The information in the report of the Board of Directors is consistent with the information in the financial statements.

Helsinki, 10 February 2015

KPMG OY AB

[*signed*]
Raija-Leena Hankonen
*Authorized Public Accountant in Finland*