OP-Pohjola

# The mark of a good group *

OP-Pohjola Group Report
by the Executive Board and Financial Statements 2010

# Contents

## OP-Pohjola Group's Report by the Executive Board 2010



## OP-Pohjola Group (amalgamation of the cooperative banks) IFRS financial statements 2010



## Interim Reports 2011

The OP-Pohjola Group and Pohjola Bank plc each will publish three Interim Reports in 2011:

- for January-March on 4 May 2011,
- for January-June on 3 August 2011
- for January-September on 2 November 2011

The Interim Reports will be published in Finnish, Swedish and English. The Interim Reports are available on our website at the address op.fi/english and pohjola.fi/english. Paper copies can be ordered by calling +358 (0)10 252 7167 or by e-mail: viestinta@op.fi.

Since all the figures in this report have been rounded off, adding up individual figures may yield a different result from the sum presented.

## OP-Pohjola Group's Report by the Executive Board 2010

## OP-Pohjola Group – the year in brief

- The Group's performance was enjoying robust growth: Earnings before tax grew by 24% to EUR 575 million (464). Last-quarter earning doubled year on year.
- Income increased by 6%. Net interest income bottomed out and began to grow again in the fourth quarter. Growth of Other income was very strong. Expenses increased by 3%.
- Impairments of receivables contracted by 17% to EUR 149 million (179).
- OP-Pohjola Group's joint banking and insurance customers increased in 2010 by more than ever before, bringing the growth during the last five years to 65%.
- OP-Pohjola Group's market share improved considerably in life insurance, increased in credit, remained unchanged in mutual funds, and declined in deposits. Strong growth of private customers' premiums written continued in non-life insurance.
- The Group's capital adequacy improved further: Tier 1 ratio stood at 12.8% (12.6). This boosts the Group's competitive edge as the financial sector has to cope with tighter regulation.
- The economic outlook has clearly improved. The Group's full-year earnings for 2011 are expected exceed those of 2010, with the greatest uncertainty related to developments in international investment and financial markets.

## OP-Pohjola Group's key indicators

| | 1–12/2010 | 1–12/2009 | Change* |
|---|---|---|---|
| Earnings before tax, € million | 575 | 464 | 24 |
| Banking and Investment Services | 367 | 471 | -22 |
| Non-life Insurance | 83 | 102 | -19.4 |
| Life insurance | 43 | -159 | |
| Bonuses paid to customers, € million | 151 | 142 | 6.3 |
| Return on equity (ROE), % | 6.8 | 5.9 | 0.9 |
| Return on equity at fair value, % | 9.4 | 14.7 | -5.3 |
| Cost/income, % (Banking and Investment Services) | 57 | 53 | 4.4 |
| Average personnel | 12,468 | 12,632 | -1.3 |

| | 31 Dec 2010 | 31 Dec 2009 | Change* |
|---|---|---|---|
| Total assets, € billion | 84.0 | 80.4 | 4.4 |
| Capital adequacy, %** | 12.8 | 12.6 | 0.2 |
| Tier 1 ratio, %** | 12.8 | 12.6 | 0.2 |
| Ratio of capital base to minimum amount of capital base*** | 1.7 | 1.58 | 0.12 |
| Non-performing loan losses within loan and guarantee portfolio, % | 0.3 | 0.4 | -0.1 |
| Market share, % | | | |
| Total loans | 33.0 | 32.7 | 0.3 |
| Total deposits | 32.5 | 33.2 | -0.7 |
| Capital invested in mutual funds | 23.4 | 23.4 | 0.0 |
| Of insurance savings through life and pension insurance | 21.3 | 20.0 | 1.3 |

| | 2010 | 2009 | Change* |
|---|---|---|---|
| Of premiums written in life and pension insurance, % | 38.6 | 25.2 | 13.4 |

* The change is presented as a percentage point, except for earnings before tax, customer bonuses, total assets and average number of personnel, for which the change is stated in percentages, as well as the ratio of capital resources to the minimum amount of capital resources, for which the change is stated as a change in the ratio.

** Pursuant to the Act on Credit Institutions.

*** Pursuant to the Act on the Supervision of Financial and Insurance Conglomerates.

## Operating environment

World economic growth in 2010 was almost as brisk as during the best years of the last few decades. However, it started from the recession and the recovery was exceptionally uneven between countries. The recovery of economies continued to involve uncertainty, and confidence indicators varied a lot throughout the year.

In 2011, the world economy is expected to grow at a rate above the long-term average. US economic growth will be supported by stronger consumer spending, buttressed by improved employment. Monetary stimulation will also contribute to economic growth. Economic outlook in the euro area is relatively favourable despite the debt crisis in some EU member countries. Growth in emerging economies is expected to remain brisk, with some economies aiming to avoid overheating by tightening their economic policy.

The Finnish economy recovered swiftly in 2010, supported not only by livelier exports but also higher consumer spending and housing investment. The unemployment rate began its decrease in the first half of 2010. The number of bankruptcies decreased notably after a short increase. Public deficit also turned out to be a positive surprise. The Finnish economy is expected to continue its recovery at a brisk pace in 2011. Economic growth will be more broad-based than last year because of stronger capital spending. Unemployment is expected to continue decreasing and the public deficit to remain small.

The Euribor rates began to edge up during 2010 when liquidity in the market gradually started to normalise. The European Central Bank (ECB) kept the main refinancing rate unchanged. In order to ensure the performance of government bond markets, the ECB launched its government bond purchase programme. The inflation outlook remains moderate but energy and food price increases may keep the inflation rate above the ECB's target. The Euribor rates will probably rise somewhat during 2011.

The economic recovery gave an impetus to growth in the Finnish financial market in 2010. Developments in capital markets were characterised by unevenness and greater uncertainty. The Finnish stock market made strong relatively good progress as evidenced by the 22% rise in the weight capped OMX Helsinki Cap Index from its year-start level. However, the recovery in the global stock market faltered over the previous year. The debt crisis hit by some euro-zone peripheral economies added to debt market uncertainty considerably while hampering wholesale funding among banks and investment among insurers.

In 2010, the total loan portfolio in the Finnish banking sector rebounded, with the corporate loan portfolio recovering from the year start as a result of companies' greater needs for working capital, buttressed by the economic recovery. A gradual recovery in corporate investments is expected to boost growth in the corporate loan portfolio in 2011. Growth in personal loans also intensified slightly during 2010 and this upward trend is expected to continue steadily in 2011 supported by low interest rates, improved employment and buoyant home sales.

Growth in deposits picked up slightly in 2010. Strong growth in payment transfer accounts slowed down whereas the marked decline in the number of fixed-term accounts bottomed out in early autumn. Total deposits are expected to increase steadily in 2011.

Capital invested in mutual funds registered in Finland continued to grow strongly in 2010 although the growth rate levelled off slightly year on year. Net asset inflows remained positive but fell considerably from their previous year's level in the wake of the European sovereign debt crisis. Mutual funds investing in emerging equity markets and international long-term fixed-income securities showed the strongest growth.

The recovery of the financial markets boosted insurance savings, as was the case in the year before. The premiums written of life insurance companies increased significantly in 2010, especially thanks to capital redemption contracts and pension liability transfers. The sale of personal pension insurance policies was low despite the change in the legislation concerning bound long-term savings. The percentage of unit-linked policies of premiums written increased in 2010 and is forecast to do so in 2011, too.

Non-life insurance's good profitability fell in 2010 owing to exceptional weather conditions. An increase in premiums written remained low as in the previous year, due to the declining premiums paid by the corporate sector. Greater economic activity is expected to increase claims incurred more than premiums written during 2011.

## OP-Pohjola Group's earnings and total assets

### January–December

Earnings before tax increased by 24% and came to EUR 575 million (464).* The Group's income increased by 6% despite a 14% contraction of net interest income. The fall in net interest income bottomed out late in 2010 and began growing at a slow rate. Earnings before tax at fair value contracted to EUR 800 million (1,140), but it was still the Group's second-highest figure of all times.

The Banking pre-tax earnings contracted year on year by 22% mainly as a result of lower net interest income. Impairments of receivables fell by 17% on the report period and came to EUR 149 million (179). OP-Pohjola Group's non-life insurance pre-tax earnings contracted to EUR 83 million (102) as a result of a technical provision made because of higher life expectancy. The operating combined ratio** was 89.7%, which is still good, although not as good as in the comparison period (87.7%). Life Insurance earnings increased, even after higher future supplementary benefits, by over EUR 200 million to EUR 43 million (loss of EUR 159 million), thanks to a good return of investments. Net investment income by Life Insurance stood at 9.5% (8.8).

The Group's net interest income declined by 14% to EUR 917 million (1,070). Other income continued to increase substantially, reaching EUR 1,256 million (981), up by 28% year on year. Banking investment and net trading income remained on the whole almost unchanged. Net commissions and fees, totalling EUR 563 million (496), were 14% higher than last year owing mainly to higher asset management and payment transfer fees.

Expenses totalled EUR 1,286 million (1,248). Total personnel costs increased by 3.3% mainly because pension costs went up by EUR 18 million. Other expenses increased by 2.8% mainly due to immediate write-offs concerning information systems and other information system expenses.

Bonuses paid to owner-members and OP bonus customers rose by 6.3% and totalled EUR 151 million (142).

Impairments and fair value changes reducing the earnings were recognised in 2010 to an amount of EUR 298 million (467). EUR 40 million of these were recorded under Non-life Insurance net income, EUR 89 million under Life Insurance net income, EUR 149 under impairments of receivables, and EUR 20 million under other income. Impairment losses on loans and receivables turned downward, coming to 0.25% of the loan and guarantee portfolio (0.32%). The final credit losses were recognised to an amount of EUR 89 million EUR (52) and impairment losses to EUR 148 million (183). The majority of credit losses derived from corporate exposure.

### Earnings analysis

| € million | 1–12/2010 | 1–12/2009 | Change, € mill | Change, % |
|---|---|---|---|---|
| **Earnings before tax** | **575** | **464** | **111** | **24.0** |
| Gross change in fair value reserve | 225 | 677 | -451 | -66.7 |
| **Earnings/loss before tax at fair value** | **800** | **1,140** | **-340** | **-29.8** |
| | | | | |
| **Return on equity (ROE), %** | **6.8** | **5.9** | | **0.9*** |
| **Return on equity at fair value, %** | **9.4** | **14.7** | | **-5.3*** |
| | | | | |
| **Income** | | | | |
| Net interest income | 917 | 1,070 | -154 | -14.4 |
| Net income from Non-life Insurance | 382 | 396 | -14 | -3.5 |
| Net income from Life Insurance | 100 | -120 | 220 | |
| Net commissions and fees | 563 | 496 | 67 | 13.6 |
| Net trading and investment income | 109 | 103 | 5 | 5.3 |
| Other operating income | 99 | 104 | -5 | -4.5 |
| Share of associates' profits/losses | 2 | 1 | 1 | 45.2 |
| Other income, total | 1,256 | 981 | 275 | 28.1 |
| **Total income** | **2,172** | **2,051** | **122** | **5.9** |
| | | | | |
| **Expenses** | | | | |
| Personnel costs | 643 | 622 | 21 | 3.3 |
| Other administrative expenses | 319 | 310 | 9 | 3.0 |
| Other operating expenses | 324 | 316 | 8 | 2.5 |
| **Total expenses** | **1,286** | **1,248** | **38** | **3.0** |
| | | | | |
| **Impairment losses on receivables** | **149** | **179** | **-31** | **-17.2** |

| Returns to owner-members and OP bonus customers | | | | |
|---|---|---|---|---|
| Bonuses | 151 | 142 | 9 | 6.3 |
| Interest on ordinary and supplementary cooperative capital | 12 | 18 | -6 | -32.7 |
| **Total returns** | **163** | **160** | **3** | **1.9** |

* Percentage points

OP-Pohjola Group's total assets amounted to EUR 84 billion (80.4) on 31 December 2010. Receivables from customers stood at EUR 56.8 billion (53) and deposits at EUR 36.4 billion (34.6). Debt securities issued to the public fell by 1.8% to EUR 19.6 billion (19.9). In addition to a five-year mortgage-backed covered bond worth EUR 1 billion issued by OP Mortgage Bank, Pohjola Bank plc issued three senior bonds during the report period, with maturities of three, five and seven years, worth a total of EUR 2,250 million.

The Group's capital base increased by 8.7% to EUR 6.7 billion (6.2) mainly owing to the report period's performance and an increase in the value of various assets. The fair value reserve, adjusted for deferred tax, increased to EUR 112 million (-54) owing to changes in market prices. The size of the reserve was also affected by impairments recognised in the profit and loss, and by realisation of assets. Only the fair value changes in the fair value reserve have been recognised which the management have deemed to fulfil the relevant requirements. Impairments of EUR 142 million (276) were recognised in the accounting period.

On 31 December, the cooperative capital investments and supplementary cooperative capital investments of the member cooperative banks' owner-members totalled EUR 778 million (750).

The Board of Directors of Pohjola Bank plc proposes that a per-share dividend of EUR 0.40 (0.34) be paid on Series A shares and EUR 0.37 (0.31) on Series K shares, which would total EUR 126 million (107).

## Key income statement items by quarter

| | | | | 2010 | 2010 | 2009 | Change |
|---|---|---|---|---|---|---|---|
| **€ million** | **Q1** | **Q2** | **Q3** | **Q4** | | | **%** |
| Net interest income | 224 | 228 | 226 | 238 | 917 | 1,070 | -14.4 |
| Net income from Non-life Insurance | 78 | 113 | 119 | 73 | 382 | 396 | -3.5 |
| Net income from Life Insurance | 14 | 32 | 15 | 39 | 100 | -120 | |
| Net commissions and fees | 143 | 139 | 135 | 146 | 563 | 496 | 13.6 |
| Other income | 63 | 33 | 46 | 68 | 210 | 208 | 0.7 |
| Total income | 523 | 545 | 541 | 564 | 2,172 | 2,051 | 5.9 |
| Personnel costs | 164 | 171 | 142 | 166 | 643 | 622 | 3.3 |
| Other administrative expenses | 75 | 80 | 70 | 94 | 319 | 310 | 3.0 |
| Other operating expenses | 78 | 75 | 86 | 85 | 324 | 316 | 2.5 |
| Total expenses | 317 | 326 | 298 | 345 | 1,286 | 1,248 | 3.0 |
| Impairments of receivables | 38 | 40 | 31 | 41 | 149 | 179 | -17.2 |
| Returns to owner-members | 39 | 42 | 41 | 42 | 163 | 160 | 1.9 |
| Earnings before tax | 128 | 137 | 172 | 137 | 575 | 464 | 24.0 |

* Comparatives for 2009 are given in brackets. For income-statement and other aggregated figures, January-December 2009 figures serve as comparatives. For balance-sheet and other cross-sectional figures, figures at the end of the previous reporting period (31 December 2009) serve as comparatives.
**The combined cost ratio excluding amortisation on intangible assets arising from the Pohjola acquisition and allocated to the business segment without the effect of changes in calculation bases.

## Capital adequacy

Two sets of capital adequacy ratios are calculated for OP-Pohjola Group. The Group's operations are based on Act no. 599/2010 on the amalgamation of deposit banks which became effective as of 1 July 2010. At the beginning of the accounting period, the Group was still operating under the principles of the Act on Cooperative Banks and other Cooperative Institutions. This law change has no significant effect on the Group's operations.

Owing to the regulations on joint responsibility and security conditions prescribed in the Act, a minimum amount of capital resources has been set for the amalgamation of the cooperative banks calculated according to the regulations for capital adequacy specified in the Act on Credit Institutions. The amalgamation of the cooperative banks comprises its central institution (OP-Pohjola Group Central Cooperative), the central institution's member credit institutions and companies belonging to their consolidation groups. Although OP-Pohjola Group's insurance companies do not belong to the amalgamation of the cooperative banks, investments made in them have a major impact on capital adequacy calculated in accordance with the capital adequacy regulations for credit institutions. This capital adequacy figure is called the amalgamation of cooperative banks' capital adequacy.

OP-Pohjola Group is also a financial and insurance conglomerate, pursuant to the Act on the Supervision of Financial and Insurance Conglomerates. The conglomerate is governed by specific provisions of the capital adequacy requirement.

In view of both capital adequacy requirements, OP-Pohjola Group's risk-bearing capacity is strong.

In its calculation of capital requirement for credit risk, OP-Pohjola Group will phase in the Internal Ratings Based Approach (IRBA). OP-Pohjola Group uses the Internal Ratings Based Approach (IRBA) in its capital adequacy measurement for Pohjola Bank plc's corporate and institutional customers' credit risks. IRBA will probably be adopted for all other liabilities in September 2011, but until then the capital requirement for credit risk such items will be calculated using the Standardised Approach. The use of internal ratings reduces the Group's capital requirement, but makes it more susceptible to market fluctuations. As to market risks, OP-Pohjola Group will continue to use the Standardised Approach, With respect to the capital adequacy requirement for operational risks, the Standardised Approach was adopted in the last quarter of 2010. This change reduced the capital requirement for operational risk by 19%, that is, about EUR 55 million compared with the capital requirement based on the Basic Indicator Approach (BIA) that was used until 30 September 2010.

As a result of the financial crisis, the regulatory framework for banks' capital requirements is becoming more rigorous in an effort to improve the quality of their capital base, to increase capital conservation buffers, to reduce the cyclic nature of capital requirements, to decrease banks' indebtedness and to set quantitative limits to liquidity risk. These changes are still under preparation, due to be effective between 2013 and 2019, and it is too early to predict precisely what their effects will be. According to OP-Pohjola Group's analysis based on the current interpretations, the Group can fulfil the capital adequacy requirements in any eventuality. From OP-Pohjola Group's viewpoint, the major changes in the new regulations are related to how insurance company investments and supplementary cooperative capital are treated in terms of capital base calculation concerning capital adequacy, to the leverage ratio and to liquidity risk requirements.

### Capital adequacy of the amalgamation of cooperative banks

On 31 December, OP-Pohjola Group's capital adequacy ratio under the Credit Institutions Act and the Tier 1 ratio stood at 12.8%, that is, somewhat higher than on 31 December 2009. The statutory minimum for capital adequacy ratio is 8%, and for Tier 1 ratio 4%.

### Capital structure and capital adequacy

| € million | 31 Dec 2010 | 31 Dec 2009 | Change, € million | Change, % |
|---|---|---|---|---|
| **Capital base** | | | | |
| Tier 1 capital | 5,454 | 5,227 | 227 | 4.3 |
| Tier 2 capital | - | - | | |
| **Total capital base** | **5,454** | **5,227** | **227** | **4.3** |
| **Risk-weighted assets, total** | **42,728** | **41,480** | **1,249** | **3.0** |
| **Minimum capital requirement** | | | | |
| Credit and counterparty risk | 3,153 | 3,005 | 148 | 4.9 |
| Market risk | 37 | 36 | 2 | 4.2 |
| Operational risk | 228 | 277 | -49 | -17.9 |
| **Total** | **3,418** | **3,318** | **100** | **3.0** |
| **Capital adequacy ratio, %** | **12.8** | **12.6** | | **0.2*** |

| | | | |
|---|---|---|---|
| **Tier 1 ratio, %** | **12.8** | **12.6** | **0.2*** |

* Percentage points

December-end Tier 1 capital totalled EUR 5,454 million (5,227). Net profit for the accounting period, less estimated profit distribution, is included in Tier 1 capital. OP-Pohjola Group's Tier 1 capital increased by 4.3% during 2010. On 31 December, the ratio of hybrid capital to Tier 1 capital before adjustments was 3.1% (3.2). Tier 1 capital does not include equity capital growth resulting from the IFRS-compliant measurement of pension liabilities and the assets covering them, and from the measurement at fair value of investment property.

Tier 2 capital came to zero following deductions from the item at the end of the year. The deductions actually exceeded Tier 2 capital by EUR 135 million (251), which were deducted from Tier 1 capital. The consolidation group's fair value reserve, which is included in the capital base, was EUR -15 million (14).

Pohjola Bank plc repurchased on 18 October 2010, with permission from the Financial Supervisory Authority, a EUR 70 million lower Tier 2 capital loan. This reduced the Group's capital adequacy by 0.2 percentage points.

Insurance company investments, deducted in equal proportions from Tier 1 and 2 capital, came to EUR 2,320 million (2,341). EUR 131 million have been deducted from equity capital as a shortfall of expected losses and impairments. On the basis of the exemptions granted by the Financial Supervisory Authority, investments by OP-Pohjola Group entities in venture capital funds, managed by Vaaka Partners Ltd (former Pohjola Capital Partners Ltd), are treated in the capital adequacy calculation in the same way as investments in shares in business or industrial corporations.

The minimum capital requirement was EUR 3,418 million on 31 December (3,318), increasing by 3% during the year. The most significant factor that contributed to this growth was the higher capital requirement concerning the loan and guarantee portfolio. Adopting the standard method for operational risks reduced the increase of minimum capital requirement by 1.5 percentage points.

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

OP-Pohjola Group's capital adequacy pursuant to the Act on the Supervision of Financial and Insurance Conglomerates is calculated using the consolidation method, whereby assets included in capital resources but not included in equity capital, under the regulations for the banking or insurance industry, are added to the equity capital in the conglomerate's balance sheet. Capital resources may not include items not available for covering the losses of other companies belonging to the conglomerate.

The financial and insurance conglomerate's minimum capital requirement consists of the credit institutions' consolidated minimum capital requirement and the insurance companies' joint minimum operating capital.

On 31 December, OP-Pohjola Group's capital resources calculated according to the Act on the Supervision of Financial and Insurance Conglomerates exceeded the minimum amount specified in the Act by EUR 2,666 million (2,121).

The insurance companies' equalisation provision is not included in the financial and insurance conglomerate's capital resources. On 31 December 2010, the combined non-life and life insurance equalisation provision less tax liabilities stood at EUR 331 million. The equalisation provision acts as a buffer for insurance companies in case of years with heavy losses and is therefore part of the financial services group's actual buffer against losses. Act no. 599/2010 on the amalgamation of deposit banks came into effect on 1 July 2010 and consequently the equalisation provision of OP-Pohjola Group Mutual Insurance Company less tax liabilities, totalling EUR 207 million, is included under the credit institution sector's Tier 2 capital.

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

| € million | 31 Dec 2010 | 31 Dec 2009 | Change, € million | Change, % |
|---|---|---|---|---|
| OP-Pohjola Group's equity capital | 6,726 | 6,187 | 539 | 8.7 |
| Business-segment-specific items | 1,783 | 1,843 | -60 | -3.2 |
| Goodwill and intangible assets | -1,094 | -1,084 | -10 | -0.9 |
| Equalisation provision | -331 | -527 | 197 | 37.3 |
| Other items included in equity capital and business-segment-specific items, but not included in the conglomerate's capital resources | -604 | -627 | 23 | 3.6 |
| **Conglomerate's capital base, total** | **6,480** | **5,792** | **689** | **11.9** |
| Regulatory capital requirement for credit institutions | 3,418 | 3,300 | 118 | 3.6 |
| Regulatory capital requirement for insurance operations | 396 | 371 | 24 | 6.6 |
| Total minimum amount of conglomerate's capital base | 3,814 | 3,671 | 143 | 3.9 |
| **Conglomerate’s capital adequacy** | **2,666** | **2,121** | **546** | **25.7** |
| **Conglomerate's capital adequacy ratio (capital** | | | | |

| | | | |
|---|---|---|---|
| **resources/minimum of capital resources)** | **1.7** | **1.58** | **0.12*** |

* Change in ratio

## Management of risks and solvency, and risk position

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

The purpose of capital adequacy management is to secure the financial services group's risk-bearing capacity and to ensure continuity of operations, relying on stress testing concerning financial capital and sufficiency of capital, and also making use of capital plans and a backup plan made in connection with the strategy to protect company capital. Risk and capital adequacy management has been integrated as part of business control and management, but its control and supervision is carried out regardless of business area.

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

OP-Pohjola Group Central Cooperative (hereinafter the central institution) is responsible for Group-level capital adequacy management and ensuring that the Group's risk management systems are adequate and appropriate. The central institution issues Group entities with guidelines for ensuring risk management, and supervises the operation of the entities. Group entities are responsible for their own risk and capital adequacy management in accordance with the nature and extent of their operations.

OP-Pohjola Group's risk limit system plays a key risk management role. The central institution's Supervisory Board sets limits for risk-bearing capacity and different types of risk. On the basis of these risk limits, the central institution's Executive Board has set limits which the member cooperative banks, Helsinki OP Bank Plc and central institution entities must observe. The aforementioned entities set themselves stricter limits than the supervision limits imposed by the central institution and any control and supervision of the member banks by the central institution is based on this supervision limit system.

### OP-Pohjola Group's risk exposure

**Risk-bearing capacity**

OP-Pohjola Group retained its strong risk-bearing capacity, with stable risk exposure. Both impairment losses on receivables and non-performing and zero-interest receivables decreased as a result of the economic recovery. The Group's financial position and liquidity remained strong.

Two risk limit indicators were put in place for risk-bearing capacity in OP-Pohjola Group's new group strategy. The first is capital adequacy prescribed in the Act on the Supervision of Financial and Insurance Conglomerates. The Group's risk limit for this capital adequacy ratio is 1.2, while the legal minimum requirement is 1. On 31 December 2010, the ratio of capital resources to the minimum amount of capital resources was 1.70 (1.58). On 31 December 2010, OP-Pohjola Group's capital resources were EUR 1,904 million (1,386) above the Group's internal risk limit and EUR 2,666 million (2,121) more than the limit required by law.

Another risk limit measure for risk-bearing capacity that has been set in the strategy is the ratio between capital resources and economic capital. At year-end, the ratio of capital resources to economic capital was 1.71 (1.60). The capital resources buffer exceeded the Group's internal risk limit and was EUR 2,315 million (1,823). The high risk-bearing capacity acts as a buffer against unexpected losses and paves the way for business growth.

OP-Pohjola Group assesses the sufficiency of capital resources at regular intervals. Capital management follows the principles of the Group's risk limit system. The primary risk indicator for capital planning is capital adequacy, as defined in the Act on the Supervision of Financial and Insurance Conglomerates, which measures risk-bearing capacity. The amount of capital required to cover the risks is assessed by means of OP-Pohjola Group's internal economic capital model.

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

**Credit risks**

OP-Pohjola Group's credit risk exposure is stable. Thanks to positive developments in the operating environment, both impairment losses on receivables and non-performing and zero-interest receivables reduced.

On 31 December, OP-Pohjola Group's loan and guarantee portfolio stood at EUR 59.4 billion (55.6), or 7% higher year on year. Households accounted for 64% (64) and companies and housing associations 34% (34) of the entire loan and guarantee portfolio.

OP-Pohjola Group's industry and customer risks are diversified. At the end of the year, the largest single counterparty-related customer risk accounted for 8.1% (5.9) of the Group's capital resources. The risk limit for the biggest customer risk is 15%. At OP-Pohjola Group, industry risk is calculated for each main line of business, with the following factored in: receivables and commitments in banking and investments, and direct investments in life and non-life insurance. On 31 December 2010, the highest industry risk was 14.9% (15.6) by 'lease and management of flats'. The industry risk limit is 18%.

OP-Pohjola Group's customers are given a credit rating on the basis of their risk exposure. At the end the year, 97% (97) of corporate exposures were rated. 50% (49) of the exposures, divided into 12 main categories, fell into the top five corporate loan portfolios, also known as investment grade. 5% (6) of the customers were rated under the four poorest credit ratings. By the end of 2010, 96% (92) of the liabilities of private customers had been rated. Of the six main categories, 75% (71) of the exposures belonged to the top two categories, and 4% (4) in the two poorest.

On 31 December 2010, OP-Pohjola Group's non-performing and zero-interest receivables came to EUR 204 million, down by 9% on the previous year. The ratio of non-performing and zero-interest loans to the loan and guarantee portfolio was 0.3% at the end of the reporting period (0.4). The risk limit for this key ratio is 2.0%. Net impairments of receivables in 2010 came to EUR 149 million (179), which was 0.25% (0.32) of the loan and guarantee portfolio.

## OP-Pohjola Group's risk limits

| | 12/2009 | 12/2010 | Risk limit |
|---|---|---|---|
| **Risk-bearing capacity** | | | |
| Capital adequacy ratio (RAVA) | 1.58 | 1.70 | **1.20** |
| Capital base/economic capital | 1.60 | 1.71 | **1.10** |
| **Credit risk (%)** | | | |
| Biggest individual customer risk/capital base | 5.9 | 8.1 | **15.0** |
| Aggregate amount of large customer risks/capital base | 0 | 0 | **100** |
| Industry risk / receivables and com-mitments | 15.6 | 14.9 | **18.0** |
| Non-performing loan losses w ithin loan and guarantee portfolio, % | 0.4 | 0.3 | **2.0** |
| **Liquidity risk (%)** | | | |
| Funding position (cumulative) / bal-ance sheet, banking | | | |
| ≤12 months | -5.9 | -4.7 | **-13.0** |
| ≤ 3 years | -8.5 | -5.1 | **-15.0** |
| ≤ 5 years | -3.3 | -1.2 | **-8.0** |
| Liquidity portfolio / reserve require-ment | 134 | 116 | **100** |
| **Market risks (%)** | | | |
| Interest rate risk exposure, banking / economic capital | 0.3 | 4.2 | **20.0** |
| Investment risks, Non-life insurance / economic capital | 26.8 | 27.1 | **35.0** |
| Alternative investments / economic capital | 39.7 | 41.8 | **80.0** |
| Underw riting risk, Non-life insurance / economic capital | 7.3 | 7.0 | **15.0** |
| Property risk / economic capital | 5.5 | 5.0 | **10.0** |

## Loan and guarantee portfolio by sector

| | | | | Non-performing and zero-interest receivables | |
|---|---|---|---|---|---|
| | | | | **€ million** | **% of loan and** |
| **€ million** | **31 Dec 2010** | **31 Dec 2009** | **Change, %** | **31 Dec 2010** | **guarantee portfolio** |
| **Enterprises and housing associations** | **20,103** | **19,010** | **5.7** | **86** | **0.4%** |
| Renting and operation of residential real estate incl. housing associations | 3,859 | 3,411 | 13.1 | 2 | 0.1% |
| Other renting and operating of real estate | 2,448 | 1,947 | 25.8 | 4 | 0.2% |
| Wholesale and retail trade | 2,092 | 2,050 | 2.1 | 9 | 0.4% |
| Services | 1,524 | 1,472 | 3.5 | 11 | 0.7% |
| Construction | 1,497 | 1,544 | -3.0 | 13 | 0.9% |
| Transportation and storage | 1,311 | 1,223 | 7.2 | 5 | 0.4% |
| Manufacture of machinery and equipment (incl. maintenance) | 1,199 | 1,009 | 18.8 | 7 | 0.6% |
| Buying and selling of ow n real estate | 888 | 876 | 1.4 | 1 | 0.1% |
| Forest industry | 711 | 824 | -13.8 | 14 | 2.0% |
| Financial and insurance services | 666 | 632 | 5.4 | 4 | 0.6% |
| Metal industry | 628 | 654 | -3.9 | 5 | 0.7% |
| Agriculture, forestry and fishing | 625 | 581 | 7.6 | 4 | 0.7% |

| | | | | | |
|---|---|---|---|---|---|
| Food industry | 598 | 562 | 6.4 | 1 | 0.2% |
| Chemical industry | 513 | 523 | -2.0 | 0 | 0.1% |
| Energy | 479 | 562 | -14.9 | 0 | 0.0% |
| Other manufacturing | 440 | 515 | -14.5 | 2 | 0.6% |
| Other industries | 625 | 625 | 0.0 | 2 | 0.4% |
| **Public corporations and non-profit organisations** | **1,068** | **992** | **7.7** | **3** | **0.3%** |
| **Households** | **37,735** | **35,719** | **5.6** | **164** | **0.4%** |
| Adjustments | 473 | -162 | | -50 | |
| **Total** | **59,379** | **55,559** | **6.9** | **204** | **0.3%** |

**Liquidity risk**
Demand for long-term bonds varied considerably in 2010, but OP-Pohjola Group's funding operations performed well.

Deposits accounts for about two-thirds of funding, this proportion being almost the same throughout the year, although deposit accounts have become less lucrative as the interest rates fell and the investment markets picked up. Pohjola Bank plc and OP Mortgage Bank issued four bonds worth a total of EUR 3.25 billion. Pohjola's short-term funding has been excellent.

OP-Pohjola Group ensures its liquidity with a liquidity reserve and other sources of finance referred to in the contingency plan. OP-Pohjola Group's liquidity reserve was EUR 12.2 billion with a collateral value of EUR 11.3 billion.

The key part of the Group's liquidity buffer is made up of Pohjola Bank plc's liquidity reserve portfolio, which totalled EUR 9.5 billion (11.7) at the end of the year. In addition to the above, the contingency plan includes other sources of finance for the securitisation of credit portfolios. The liquidity reserve and sources of finance included in OP-Pohjola Group's liquidity management strategy ensure the Group's liquidity for at least 24 months if wholesale funding became unavailable and deposits fell moderately.

The risk limit measure for OP-Pohjola Group's liquidity risk is the ratio of the cumulative funding position controlling the structural funding risk, to the banking balance sheet as well as the ratio of the liquidity portfolio to the liquidity portfolio reserve requirement. The risk indicator for the structural funding risk indicates the maximum portion of the net cash flows in the Group's balance sheet that may have a maturity within less than one year and within three and five years. On 31 December, the maturing net cash flows in the Group's balance sheet were in all maturity periods with upper limits clearly under the maximum amounts specified by the risk limits.

A liquidity risk indicator shows for how long the liquidity buffer will cover OP-Pohjola Group's daily payable net cash flows that are known, and an unexpected but moderate decline in deposits. On 31 December 2010, the liquidity buffer was amply sufficient to last the one-month period set by the regulators. The liquidity buffer indicator confirmed for 2010 – which was based on the maturity of wholesale funding and a reduction of deposits caused by mild stress – was within the approved limits.

**Market risks**
OP-Pohjola Group's market risk exposure was strong. Low interest rates and higher funding costs eroded net interest income.

Pohjola Bank plc's interest risk exposure has been described in more detail in Pohjola Bank plc's Report by the Board of Directors.

OP-Pohjola Group's investment assets totalled EUR 19.2 billion on 31 December 2010, with Pohjola Bank plc accounting for EUR 9.5 billion, making up most of the Group's liquidity buffer. Non-life Insurance's investment assets came to EUR 2.9 billion and those of Life Insurance to EUR 4.7 billion on 31 December 2010. Insurance operations' investment assets, profits and technical provisions are covered in more detail below in the sections dealing with individual business segments. Group member banks' investment assets totalled EUR 1.7 billion and those of OP-Pohjola Group Mutual Insurance Company EUR 0.4 billion. The investment assets of OP Bank Group Pension Fund and OP Bank Group Pension Foundation totalled EUR 1.6 billion. The pension entities are not consolidated into OP-Pohjola Group's financial statements.

OP-Pohjola Group's exposure to foreign public corporation bonds is relatively low, with Banking's exposure to government bonds amounting to EUR 563 million on 31 December, of which the French and German governments accounted for EUR 368 million. Investments by Insurance operations in government bonds totalled EUR 687 million. The biggest foreign investments were in bonds issued by Germany and France, totalling EUR 360 million.

Credit spread risk affects investments in bonds and notes issued by either governments or companies. Within Banking, credit spread risk is highest in notes and bonds included in the liquidity buffer. On 31 December, the credit spread risk for an 0.1 percentage point credit spread change was EUR 27 million (16).

In OP-Pohjola Group, the most significant currency risk lies in life insurance and non-life insurance investments.

Within Life Insurance, the open net currency exposure against the euro was EUR 358 million (341), and within Non-life Insurance EUR 242 million (107). Within Banking in OP-Pohjola Group, currency risk has been concentrated in Pohjola Bank plc, where this risk was low throughout the year, and foreign exchange trading focused on intraday trading. On 31 December, Pohjola Bank plc's net currency exposure totalled EUR 6 million (2).

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

In the risk limit system, interest rate risk exposure in banking, market risk in insurance operations and property risk are measured by the ratio of the economic capital for the risk type to the economic capital for all risk types (before diversification benefits). On 31 December 2010, the share of all the abovementioned risk types of the economic capital requirement for OP-Pohjola Group was clearly below the risk limit set for the types of risk in question.

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

**Operational risks**

Financial losses caused by operational risks were small.

**Underwriting risks**

The Insurance solvency capital was EUR 832 million (827) and the solvency ratio 86% (88). The equalisation provision rose to EUR 424 million (417).

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 mil-lion. The capacity of catastrophe reinsurance covering loss accumulation stands at EUR 95 million. In addition, retention in major claims under the short-tail insurance products had an annual aggregate protection with a capacity of EUR 11 million in 2010. This protection will be brought into use when an annual claims expenditure arising from major losses is higher than usual.

A large part of Non-life Insurance technical provisions consists of annuities affected by the inflation rate, estimated mortality and the discount rate used. A rise in infltion by 0.25 percentage points reduces equity capital by about EUR 3 million (3). A one-year increase in the average life expectancy reduces equity capital by about EUR 32 million (30). A fall in inflation by 0.1 percentage points reduces equity capital by about EUR 17 million (16).

In their joint actuarial project launched in the spring of 2010, the Federation of Accident Insurance Institutions and the Finnish Motor Insurers' Centre examine whether the mortality model commonly used by Finnish insurers and applied to motor liability insurance and statutory workers' compensation insurance is up to date. The preliminary findings based on the first stage of the project reveals that life expectancy has increased in Finland, which is why Non-life Insurance increased its technicalprovisions by EUR 35 million on a non-recurring basis.

In the risk limit system, Non-life Insurance underwriting risk is measured by the ratio of the economic capital for the risk type to the economic capital for all risk types (before diversification benefits). At the end of 2010, the share of the economic capital for Non-life Insurance underwriting risks of the economic capital for all types of risk was approximately half of the maximum limit set.

On 31 December, Life Insurance's solvency margin was EUR 737 million (551), which was 3.4-fold the required minimum. The higher capital adequacy has been achieved through good return of investments. The most significant risks in Life Insurance operations are associated with investments. Specific risk management instructions and operating policies have been laid down for the risk management of investment operations. An investment plan is made annually to determine the financial targets and to set quantitative and qualitative limits.

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

The credit ratings are as follows:

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

Fitch Ratings issues a rating for both OP-Pohjola Group and Pohjola Bank plc. OP-Pohjola Group's financial position also has a considerable impact on credit ratings issued for Pohjola Bank plc alone.

Pohjola's credit rating outlook issued by Standard & Poor's is stable. Fitch Rating has issued a negative outlook for the long-term debt ratings of Pohjola and Moody's Investor Service has affirmed negative outlook on Pohjola's credit rating.

The main reason for the negative outlook was the rapid deterioration of the Finnish economy in 2009 and its potential effects on Pohjola and OP-Pohjola Group that mainly operate in Finland.

## OP-Pohjola Group's long-term financial targets

At Group level, targets have been set for long-term risk-bearing capacity, profitability and efficiency. OP-Pohjola Group's long-term financial targets have been defined so as to ensure the Group's operational capacity.

The targets for capital adequacy and operational efficiency were achieved in the accounting period. The Group's profitability is below the long-term target.

### OP-Pohjola Group's success indicators:

| | Dec 2010 | Dec 2009 | Target |
|---|---|---|---|
| Capital adequacy ratio (under the Act on the Supervision of Financial and Insurance Conglomerates) | 1.70 | 1.58 | 1.5 |
| Return on economic capital, % (12-month rolling) | 14.4 | 12.7 | 17 |
| Growth differential between income and expenses, percentage points (12-month rolling) | 2.9 | 11.7 | > 0 |

## Changes in OP-Pohjola Group's structure

OP-Pohjola Group's consolidated financial statements include the accounts of 213 member cooperative banks (220), OP-Pohjola Group Central Cooperative Consolidated and OP Bank Group Mutual Insurance Company.

Kiukaisten Osuuspankki and Hinnerjoen Osuuspankki merged with Euran Osuuspankki on 31 May 2010. In another combination merger, Nilsiän Osuuspankki and Koillis-Savon Osuuspankki became Koillis-Savon Osuuspankki on 31 October 2010.Kuopion Osuuspankki, Iisalmen Osuuspankki and Varkauden Osuuspankki merged on 31 December 2010 to create Pohjois-Savon Osuuspankki and Pälkäneen Osuuspankki and Kuhmalahden Osuuspankki merged with Kangasalan Osuuspankki on 31 December 2010.

Kestilän Osuuspankki and Rantsilan Osuuspankki will merge on 31 March 2011 to create Siikalatvan Osuuspankki. Pieksämäen Osuuspankki, Etelä-Savon Osuuspankki, Juvan Osuuspankki and Savonlinnan Osuuspankki will merge to become Suur-Savon Osuuspankki on 31 May 2011.

On 14 June 2010, the Supervisory Board of OP-Pohjola Group Central Cooperative took a decision in principle on the structural reorganisation the Central Cooperative acting as the Group's central institution. This reorganisation involved the establishment of a new service company (OP-Services Ltd) separate from the central institution, which has been responsible for the development and provision of centralised services for OP-Pohjola Group and its member cooperative banks since 1 January 2011. This change simplified the central organisation's former role on the one hand as an organisation in charge of Group control and supervision and on the other hand as a provider of centralised services.

The merger of Pohjola Insurance Ltd and Pohjantähti Mutual Insurance Company was cancelled when Pohjantähti's Extraordinary General Meeting rejected the merger plan on 8 December 2010.

The entire share capital of private equity firm Pohjola Capital Partners Ltd was sold to its executive management in December 2010. Pohjola Capital Partners Ltd was renamed as Vaaka Partners after the transaction. After the management buyout, the company's investment operations and the management of its existing private equity funds remain unchanged. The sale has no significant effect on the Group's financial statements.

In December, Pohjola Bank plc bought a 40% shareholding in Access Capital Partners Group SA, a manager and advisor of private equity funds of funds, for EUR 28 million. At the same time, Pohjola sold Pohjola Private Equity Funds Ltd to Access Capital for EUR 16 million.

## Owner-members and customers

The cooperative member banks had 1.3 million owner-members on 31 December, or 34,000 more than a year earlier. Group member banks and Helsinki OP Bank plc, which operates in the Greater Helsinki area, had a total of 1,139,000 OP bonus customers at the end of December.

Loyal customer bonuses earned by OP bonus customers totalled EUR 151 million, up by 6.3% on the previous year. Bonuses earned by owner-members are stated in OP-Pohjola Group's income statement under 'Returns to owner-members'. In January-December, OP bonus customers used a total of EUR 74 million (51) of bonuses on banking services and EUR 56 million (44) on Pohjola non-life insurance premiums. Bonuses were used for the payment of 1,088,800 insurance premium bills, with almost 18% of these were paid using solely OP bonuses.

OP-Pohjola Group had 4,133,000 customers in Finland at the end of December. The number of private customers totalled 3,713,000 and that of corporate customers 420,000. In the year to December, the number of joint banking and non-life insurance customers in Finland increased by 99,000 to 1,166,000 as a result of cross-selling.

The strategic target for the number of Pohjola's loyal insurance customers was reached, the number of loyal customer households increasing by 46,600 to 471,000 by 31 December. Up to 60% of these loyal customer households also use OP-Pohjola Group member cooperative banks as their main bank.

## Personnel and incentive system

At the end of December, the Group had 12,504 employees (12,504). In 2010, there were 335 people (259) who retired from OP-Pohjola Group, at an average age of 61.3 years (60.4).

About 94% of the Group's personnel are members of the Group's Personnel Fund. A long-term management incentive scheme is also in place within the Group. A total of EUR 9.6 million was used in 2010 for long-term incentive systems, and EUR 35 million for short-term.

## Central Cooperative's corporate governance

As proposed by Central Cooperative's Executive Board, the Meeting decided on 20 October 2010 to change the Finnish corporate name to OP-Pohjola osk, while the English name remains as OP-Pohjola Group Central Cooperative. The Meeting also decided to increase the number of Board members, and made a few changes of technical nature. These changes are related to the central institution's structural reform and they came into effect on 31 December 2010.

OP-Pohjola Group Central Cooperative is the central institution of the amalgamation of the cooperative banks, the parent company of OP-Pohjola Group Central Cooperative Consolidated and the company heading the financial and insurance conglomerate formed by OP-Pohjola Group. The Central Cooperative acts as the entire OP-Pohjola Group's strategic owner institution and as a central institution in charge of Group control and supervision.

The Annual Cooperative Meeting was held of 26 March 2010.It re-elected the following Supervisory Board members who were due to resign, for the term ending in 2013: Pekka Ahvenjärvi, Attorney; Ola Eklund, Product Director; Paavo Haapakoski, liikuntaneuvos (Finnish honorary title); and Bo Storsjö, farmer. The new members elected to the Supervisory Board were as follows: Hannu Simi, planner; and Mervi Väisänen, Senior Lecturer. In addition, the Meeting elected Matti Pulkkinen, Director of the Northern Savo Hospital District, for the term ending in 2012. Managing Director Olli Lehtilä resigned from the Board in June having been appointed as Managing Director of Helsinki OP Bank Plc, a subsidiary of OP-Pohjola Group Central Cooperative. The Supervisory Board comprises 32 members.

At is first meeting after the Annual Cooperative Meeting, the Supervisory Board re-elected Paavo Haapakoski Chairman. Professor Jaakko Pehkonen and President Jukka Hulkkonen were elected Vice Chairmen.

The Annual Cooperative Meeting re-elected KPMG Oy Ab, a firm of authorised public accountants, the auditor of OP-Pohjola Group Central Cooperative and OP-Pohjola Group for the financial year 2010.

On 14 June 2010, the Central Cooperative's Supervisory Board made changes in the Executive Board, with Chief Communications Officer Carina Geber-Teir, Chief Strategy Officer Tom Dahlström and Chief Risk Officer Erik Palmén as new members, the last two acting as vice Board members until 31 December 2010. Harri Nummela became full-time CEO of the new service on company 1 January 2011 and gave up his Board membership on the same date.

## Executive Board members' contract

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

The Executive Chairman was paid EUR 1,038,919 in salary and emoluments and EUR 35,227 in fringe benefits, or a total of EUR 1,074,146 in 2010. The other Executive Board members received EUR 2,410,321 in salary and emoluments and EUR 83,582 in fringe benefits, i.e. a total of EUR 2,493,903.

The Executive Chairman's retirement age is 62, while the other Board members and vice members retire at 63. The pension benefits are determined in accordance with pension legislation and OP-Pohjola Group's own pension plans. The period of notice for the above and the employer is a maximum of 6 months. A regular salary will be paid to them during a notice period added with a severance pay equivalent to a 12-month salary.

## Capital expenditure and service development

The Central Cooperative and its subsidiaries are responsible for developing OP-Pohjola Group's services. ICT investments and related specifications make up a significant portion of costs of developing these services. EUR 39 million (46) of these expenses consisted of ICT procurement capitalised in the balance sheet in the accounting period. Of these investments, EUR 28 million (31) was allocated to banking and investment operations, EUR 8 million (9) to non-life insurance operations and EUR 3 million (6) to life insurance operations.

## Joint responsibility and joint security

Under the Act on Cooperative Banks and Other Cooperative Credit Institutions, the amalgamation of the cooperative banks comprises the organisation's central institution (OP-Pohjola Group Central Cooperative), the Central Cooperative's member credit institutions and the companies belonging to their consolidation groups. This amalgamation is supervised on a consolidated basis. The central institution and its member banks are ultimately responsible for each other's liabilities and commitments. The central institution's members at the end of the year comprised OP-Pohjola Group's 213 member banks as well as Pohjola Bank plc, Helsinki OP Bank Plc, OP Mortgage Bank and OP-Kotipankki Oyj. OP-Pohjola Group's insurance companies do not fall within the scope of joint responsibility.

Deposit banks belonging to OP-Pohjola Group, i.e. its member cooperative banks, Pohjola Bank plc, Helsinki OP Bank Plc and OP-Kotipankki Oyj, are regarded as a single bank with respect to deposit protection. Under legislation governing the Investors' Compensation Fund, OP-Pohjola Group is also considered a single entity for purposes of compensation protection.

## Outlook for 2011

World economic growth is forecast to slow down but nevertheless remain strong, and the Finnish economy is expected to develop favourably, too. In the wake of economic recovery, short-term market rates are set to rise somewhat to their current level until the end of the year. The greatest risks that may overshadow the economic outlook are caused by public finance crises in certain euro countries and the consequent financial market jitters.

Financial sector performance will be boosted in 2011 by what is likely to be a moderate increase in interest rates from an already low level, and a probable contraction of credit losses. OP-Pohjola Group's 2011 earnings before taxes are expected to be better than in 2010. The greatest uncertainty is related to developments in international investment and financial markets.

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

## Operations and earnings by business segment

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

Companies within the Banking and Investment Services segment are the member banks, Helsinki OP Bank Plc, OP-Kotipankki Oyj, OP Mortgage Bank and OP Fund Management Company Ltd and certain smaller companies supporting banking and investment services in their entirety. Pohjola Group's Banking and Asset Management segments are also included in the Banking and Investment Services segment as are the operations of OP-Pohjola Group Mutual Insurance Company, because most of the company's business consists of credit insurance granted to the Group's retail banks.

The Non-life Insurance segment encompasses the operations of OP-Pohjola Group's non-life insurance companies, i.e. Pohjola Insurance Ltd, Eurooppalainen Insurance Company Ltd, A-Insurance Ltd, the Seesam companies operating in the Baltic countries, as well as the operations of service companies supporting non-life insurance.

The Life Insurance segment comprises OP Life Assurance Company Ltd engaged in the Group's life and pension insurance business.

Other Operations includes operations that support all business segments, particularly the operations of OP-Pohjola Group Central Cooperative and Pohjola's Group management. Costs of the services for the business segments are allocated to the segments in the form of internal service charges. The allocation of equity capital to the business segments is carried out through an internal bank under Other Operations, which means that any positive results in excess of the target level will be shown under Other Operations.

### Summary of performance by business segment

| € million | Income | Expenses | Other items | Earnings/loss before tax 2010 | Earnings/loss before tax 2009 |
|---|---|---|---|---|---|
| Banking and Investment Services | 1,597 | 918 | -312 | 367 | 471 |
| Non-life Insurance | 399 | 316 | 0 | 83 | 102 |
| Life Insurance | 125 | 81 | 0 | 43 | -159 |
| Other Operations | 434 | 349 | 1 | 86 | 51 |
| Eliminations | -383 | -378 | 0 | -4 | -1 |
| **Total** | **2,172** | **1,286** | **-312** | **575** | **464** |

### Banking and Investment Services

- Earnings before tax narrowed from EUR 471 million to EUR 367 million as a result of lower net interest income.
- Net interest income began to grow during the accounting period, although year on year it fell by 13%. Net commissions and fees increased by 11%.
- Credit losses were reduced, being EUR 18 million lower than the year before. Credit losses reached their highest point in the second half of 2009.
- The Group's market share remained unchanged in mutual funds and credit, and declined in deposits.

The general improvement in the financial situation had a beneficial effect on banking and investment operations. Impairment losses on credit reduced even more. Credit losses following the financial crisis seemed to have peaked in the latter half of 2009 when impairments of receivables were recorded to an amount that was EUR 28 million higher than during the latter half of 2010.

The growth of credit and deposits intensified during the accounting period but remained relatively low. The low interest rates throughout the year sent net interest income on a steep downward trend compared with 2009. As the year went on, the net interest income seemed to increase by every quarter. Confidence in the economy continued to increase, and the equity market continued on a path of recovery despite debt crises in euro-zone's peripheral economies. This increased investment volumes and demand for asset management services.

The Group's market share increased in credit, remained unchanged in mutual funds, and declined in deposits.

On 31 December, the Group's loan portfolio stood at EUR 56.5 billion (52.6) and the guarantee portfolio at EUR 2.8 billion (3). The loan portfolio grew by 7.4% (3.2) year on year. The market share of the loan portfolio increased to 33.0% (32.7).

The portfolio of home mortgages on 31 December amounted to EUR 26.9 billion (25.7). In the year to December, home mortgages increased by 6.4% (6.4). OP-Pohjola Group held 35.8% of the home mortgage portfolio on 31 December, or almost the same as in 2009.

The housing market improved clearly year on year. Housing brokered by OP-Kiinteistökeskus was up by 11 per cent on the comparison period, and the volume of new home mortgages was 16% higher that a year ago.

The margin for new home mortgages decreased a fraction more. The average margin on new home mortgages taken out in 2010 was 0.1 percentage points lower than a year ago.

On 31 December, the consumer credit portfolio amounted to EUR 4.0 billion (3.7), showing an increase of 8.0% in the year to December (2.3).

On 31 December, the Group's corporate loan portfolio stood at EUR 14 billion (13.4), and the guarantee portfolio at EUR 2.6 billion (2.7). The corporate loan portfolio increased by 4.3% (decrease of 5.0) in 2010. The market share of corporate loans on 31 December was 29.2%, or 0.5 percentage points higher year on year. The average margin on new corporate loans during the accounting period was somewhat lower than at the end of 2009.

On 31 December, deposits totalled EUR 36.4 billion (34.6), or 5.3% higher than the previous year. Competition on customer deposits was tight, but in the second half of 2010 there were signs that deposit pricing was back to healthier figures. Deposit growth was impeded because of low interest rates and the fact that assets were being channelled to recovering investment markets. Investment deposits turned upward, increasing in 2010 by 3.1% (-12.2). Current accounts increased by 7.3% (15.5). The Group held a 32.5% market share of deposits on 31 December, down by 0.7 percentage points year on year.

Capital invested in OP-Pohjola Group's mutual funds stood at EUR 14.4 billion (12.7). The amount of capital increased along with the market trends by 13% in 2010. On 31 December, OP-Pohjola Group held a 23.4% market share of the capital of mutual funds registered in Finland, which was at the same level as a year earlier. Net subscriptions to OP-Pohjola Group's mutual funds totalled EUR 496.5 million (1,618).

On 31 December, assets managed by Pohjola Bank plc's Asset Management were worth EUR 35 billion (33.1), of which EUR 12 billion11(4.4) was invested in OP-Pohjola Group's mutual funds. OP-Pohjola Group companies accounted for EUR 8.7 billion of assets managed by Pohjola.

Assets managed in accordance with the OP-Private operating model totalled EUR 4.7 billion (3.6), and the number of customers increased by 28%. Stockbroking for households totalled 1.1 million trades during the report period, or 16.6% more than a year earlier.

**Earnings and risk exposure**
Banking and Investment Services reported pre-tax earnings of EUR 367 million (471) for January-December. Customer bonuses recognised in the income statement during the accounting period rose by 6.3% to EUR 151 million (142).

Net interest income decreased by 13% to EUR 852 million (981). Net commissions and fees increased by 11% to EUR 595 million (538) especially owing to higher asset management fees. The fall in net interest income was caused by exceptionally low interest rates. Net trading and investment income totalled EUR 82 million (116). Net trading income decreased because exceptionally high trading income that realised a year ago had normalised. Investment income at fair values totalled EUR 30 million (EUR 5 million). Personnel costs increased by 2.3% and other expenses by 1.1%. The cost/income ratio stood at 57.4% (53.1).

Impairments on receivables came to EUR 149 million (167), decreasing from the comparison period by EUR 18 million, or 11%. The amount of impairment losses was low considering the business volume and the current economic cycle.

The Group's non-performing and zero-interest receivables shrank but remained low, totalling EUR 204 million on 31 December, down by 8.7% year on year. Non-performing and zero-interest loans are stated net of impairments of specific receivables and groups of receivables, which amounted to EUR 134 million (131). The ratio of non-performing and zero-interest receivables to the loan and guarantee portfolio was lower than a year ago, at 0.3% (0.4).

### Banking and Investment Services, key figures

| € million | 1–12/2010 | 1–12/2009 | Change, % |
|---|---|---|---|
| Net interest income | 852 | 981 | -13.1 |
| Impairment losses on receivables | 149 | 167 | -11.0 |
| Other income | 745 | 720 | 3.4 |
| Personnel costs | 405 | 396 | 2.3 |
| Other expenses | 513 | 507 | 1.1 |
| Returns to owner-members and OP bonus customers | 163 | 160 | 1.9 |

| **Earnings before tax** | **367** | **471** | **-22.0** |
|---|---|---|---|

| **€ million** | **1–12/2010** | **1–12/2009** | **Change, %** |
|---|---|---|---|
| Home mortgages drawn down | 6,651 | 5,723 | 16.2 |
| Corporate loans drawn down | 6,554 | 6,325 | 3.6 |
| Net subscriptions to mutual funds | 497 | 1,618 | -69.3 |
| No. of brokered property transactions | 17,009 | 15,303 | 11.1 |

| **€ billion** | **31 Dec 2010** | **31 Dec 2009** | **Change, %** |
|---|---|---|---|
| Loan portfolio | | | |
| Home loans | 27 | 26 | 6.4 |
| Other loans to households | 10 | 10 | 3.9 |
| Corporate loans | 14 | 13 | 4.3 |
| Other loans | 5 | 4 | 36.7 |
| **Total** | **57** | **53** | **7.4** |
| Guarantee portfolio | 3 | 3 | -3.2 |
| | | | |
| Deposits | | | |
| Total current and payment transfer | | | |
| Households | 12 | 12 | 6.1 |
| Companies | 4 | 4 | 6.9 |
| Others | 3 | 2 | 14.7 |
| Total current and payment transfer | 19 | 18 | 7.3 |
| Investment deposits | 17 | 17 | 3.1 |
| **Total deposits** | **36** | **35** | **5.3** |
| | | | |
| Mutual funds | | | |
| Equity and hedge funds | 4.9 | 3.9 | 25.6 |
| Balanced funds | 1.5 | 1.5 | 0.8 |
| Long-term bond funds | 5.9 | 5.0 | 17.8 |
| Money market funds | 2.1 | 2.3 | -8.9 |
| **Total value of mutual funds** | **14.4** | **12.7** | **13.4** |

| **Market share, %** | **31 Dec 2010** | **31 Dec 2009** | **Change, percentage points** |
|---|---|---|---|
| Total loans | 33.0 | 32.7 | 0.3 |
| Home mortgages | 35.8 | 35.9 | -0.1 |
| Corporate loans | 29.2 | 28.7 | 0.5 |
| Total deposits | 32.5 | 33.2 | -0.7 |
| Capital invested in mutual funds | 23.4 | 23.4 | 0.0 |

| **€ million** | | | **Change, %** |
|---|---|---|---|
| Non-performing and zero-interest receivables | | | |
| Households | 164 | 175 | -6 |
| Companies and housing associations | 86 | 92 | -6.4 |
| Others | 3 | 3 | -3.9 |
| Collectively assessed impairments | -50 | -47 | 5.7 |
| **Total non-performing and zero-interest re-ceivables** | **204** | **223** | **-8.7** |
| Non-performing and zero-interest receivables within loan and guarantee portfolio, % | 0.3 | 0.4 | -0.1* |

* Percentage points

## Non-life Insurance

- Growth in insurance premium revenue intensified, increasing by 2% in January-September and by 4% in October-December.
- Customers used OP bonuses to pay over one million insurance premiums.
- Non-life Insurance recorded very good profitability. The operating combined ratio stood at 89.7% (87.7).

- Return on investments at fair value was 5.1% (10.7).
- Earnings before tax amounted to EUR 83 million (102) and those without non-recurring items amounted to EUR 103 million.

The non-life insurance business improved well in 2010. Growth remained strong within Private Customers and the decline in insurance premium revenue from Corporate Customers levelled off. This downward trend slowed down as the year progressed and the second-half premium revenue reached the level reported a year earlier. Insurance premium revenue increased by 2% to EUR 964 million (943). OP-Pohjola Group is the non-life insurance market leader in Finland in terms of premiums written.

Insurance premium revenue from Private Customers improved by 11% to EUR 470 million (424). The number of loyal customer households grew by 46,500 (35,400). Insurance policies sold well both in OP-Pohjola Group member banks and at car dealerships. Pohjola improved its market position among private customers.

Insurance premium revenue from Corporate Customers fell by 4% to EUR 445 million (461). This fall ended in the last quarter, bringing the insurance premium revenue to the same level as last year, EUR 114 million. The recession affected the corporate sector, reducing insurance premiums based on companies' payroll bills, net sales and operating profit. Statutory workers' compensation insurance was affected the most, with the level of premiums being lowered for 2010.

In the Baltic States, insurance premium revenue decreased by 14% to EUR 49 million (57). The economic recession has strongly affected the insurance market in the Baltic region with the result that the total market in the region shrank by almost one fifth in 2010.

Non-life Insurance had 334,000 loyal customer households in 2005. Pohjola set at the time a strategic target to have 450,000 loyal customer households by the end of 2010. This target was already reached in August, and by the end of the year, loyal customer households already numbered 471,000.

Up to 60% of these loyal customer households also use OP-Pohjola Group member cooperative banks as their main bank. OP-Pohjola Group member banks' and Helsinki OP Bank's bonus customers can use their OP bonuses earned through banking transactions to pay Pohjola non-life insurance premiums. Bonuses were used in 2010 to pay 1,088,800 insurance bills, with 195,400 of them paid in full using bonuses. Insurance premiums paid using bonuses totalled EUR 56 million.

**Earnings and risk exposure**
Profitability remained good despite the larger number of losses reported. Pre-tax earnings from Non-life Insurance amounted to EUR 83 million (102). This figure includes a net amount of EUR 20 million of non-recurring items. Higher life expectancy in the mortality model commonly used by insurance companies added to technical provisions and increased claims incurred by EUR 35 million. As a result of legislative amendments, removing a provision for the guarantee scheme under statutory workers' compensation insurance and motor liability insurance, for its part, increased other income by EUR 15 million. Without non-recurring, pre-tax earnings would be have been EUR 103 million.

The operating combined ratio stood at 89.7% (87.7). These operating figures exclude changes in reserving bases and amortisation on intangible assets arising from the corporate acquisition.

Insurance premium revenue totalled EUR 964 million (943) and indemnities EUR 637 million (560). Earnings before tax at fair value was EUR 139 million (291). Net investment income recognised in the income statement amounted to EUR 87 million (61) and net investment income at fair value was EUR 143 million (249). Impairment charges recognised in the income statement totalled EUR 40 million.

Customer indemnities totalled EUR 637 million (560). EUR 35 million of the higher indemnities is caused by the change in the mortality model. Without this extraordinary item, the growth of claims incurred would have been 7%. Claims reported due to bad winter conditions and late-summer storms and the increasing number of major losses together with strong growth in the private customer insurance portfolio added to claims incurred. The operating loss ratio deteriorated to 68.4% (65.5) and the risk ratio (excl. loss adjustment expenses) stood at 62.5% (59.4). The reported number of major or medium-sized losses (in excess of EUR 0.1 million and over EUR 0.5 million in pension liabilities) came to 224 (190) in January-December, with their claims incurred retained for own account totalling EUR 109 million (85).

Non-life Insurance expenses decreased by EUR 0.2 million EUR 316 million (317). Personnel costs shrank by 0.9%, while other expenses increased by 0.5%.

Operating expenses as specified in the insurance company's profit and loss account were EUR 205 million (210). The operating expense ratio stood at 21.3% (22.2) and the operating cost ratio (incl. loss adjustment expenses) at 27.2 (28.2).

On 31 December, Non-life Insurance solvency capital rose to EUR 832 million (827) and the ratio of solvency capital to insurance premium revenue (solvency ratio) stood at 86% (88).

On 31 December, non-life insurance investment portfolio amounted to EUR 2.9 billion (2.9) and the return of investments at fair value was 5.1% (10.7). Fixed-income investments accounted for 71% (76), listed equities for

12% (10) and equities, including unlisted investments, represented 14% (13). The fixed-income portfolio by credit rating remained healthy, with investment-grade exposure reaching 91% (94) and 77% of the exposure being at least A- grade receivables. The average residual term to maturity of the fixed-income portfolio was 5.3 years and the duration 4.1 years (3.4).

### Non-life Insurance, key figures

| € million | 1–12/2010 | 1–12/2009 | Change, % |
|---|---|---|---|
| Insurance premium revenue | 964 | 943 | 2.3 |
| Insurance claims and benefits | 637 | 560 | 13.8 |
| Net investment income | 87 | 61 | 42.6 |
| Unwinding of discount and other items included in net income | -30 | -44 | 30.4 |
| **Net income from Non-life Insurance** | **383** | **400** | **-4.1** |
| Other net income | 16 | 20 | -18.2 |
| Personnel costs | 109 | 110 | -0.9 |
| Other expenses | 208 | 207 | 0.4 |
| **Earnings/loss before tax** | **83** | **102** | **-19.4** |
| Gross change in fair value reserve | 56 | 188 | -70.1 |
| **Earnings/loss before tax at fair value** | **139** | **291** | **-52.2** |

| € million | 1–12/2010 | 1–12/2009 | Change, % |
|---|---|---|---|
| Insurance premium revenue | | | |
| Private Customers | 470 | 424 | 10.8 |
| Corporate Customers | 445 | 461 | -3.5 |
| Baltic States | 49 | 57 | -14.2 |
| **Total insurance premium revenue** | **964** | **943** | **2.3** |

| € billion | 31 Dec 2010 | 31 Dec 2009 | Change, % |
|---|---|---|---|
| Insurance contract liabilities | | | |
| Discounted insurance contract liabilities | 1.4 | 1.3 | 3.8 |
| Other insurance contract liabilities | 0.8 | 0.8 | 3.5 |
| **Total** | **2.2** | **2.1** | **3.7** |
| | | | |
| Investments portfolio | | | |
| Bonds and bond funds | 2.1 | 2.1 | 0.4 |
| Money market instruments | 0.0 | 0.1 | -86.6 |
| Equities and equity funds | 0.4 | 0.4 | 16.2 |
| Real property investment *) | 0.2 | 0.2 | 26.2 |
| Alternative investments | 0.2 | 0.2 | 33.4 |
| **Total investments** | **2.9** | **2.9** | **2.6** |

*) Includes real estate funds

### Life Insurance

- The market share of premiums written in life and pension insurance rose to 38.6%.
- The market position improved in unit-linked premiums written, as set in the strategy as a target.
- Return on investments at fair value was 9.5% (8.8).
- The segment's earnings increased by EUR 203 million to EUR 43 million (-159), and earnings before tax at fair value improved to EUR 203 million (194).
- The solvency margin was 3.4-fold compared with the required minimum.

The operating environment for the life insurance business developed favourably in 2010. Continued equity market recovery paved the way for good performance and capital adequacy. Premiums written rose to EUR 4.8 billion (3.1), or up by 56% year on year. The key factors that contributed to the growth were capital redemption contracts, with more than double the premiums written at EUR 1.6 billion (0.7). Premiums written in group pension insurance grew significantly especially owing to major portfolio transfers.

OP-Pohjola Group's Life Insurance segment continued to enjoy positive volume and earnings performance, with an even better market position in 2010. Insurance contract premiums written increased by 90% and came to EUR 1,287 million (678). Unit-linked premiums written increased by 38% to EUR 508 million (368). Investment contracts were made in the accounting period worth EUR 531 million (69). When calculating market share, investment contracts are considered equivalent to premiums written. The increase in volume is mostly related to two one-off group pension schemes, which contributed considerably to the rise in market share.

In terms of premiums written, OP-Pohjola Group is the clear market leader. The Group's market share of premiums written was 38.6% (25.2) and 21.3% (20) of insurance savings. Our market share of unit-linked premiums written was 22.5% (20.5) and 24.5% (24.6) of unit-linked insurance savings.

**Earnings and risk exposure**
Pre-tax earnings came to EUR 43 million, improving on the comparison period by EUR 203 million. Earnings before tax at fair value came to EUR 263 million (194). Earnings in the accounting period are eroded by an EUR 18 million net increase in provisions for supplementary benefits and any changes in reserving bases. Net investment income without the income from unit-linked insurance came to EUR 166 million (-63). Investment income was improved particularly by smaller impairments on investments, and higher capital gains.

Life insurance investment assets, excluding assets covering unit-linked insurance, amounted to EUR 4.7 billion (4.1). Fixed-income investments accounted for 59% (57.5), equity investments 18% (17), property investments 8% (8) and alternative investments 15% (17) of the portfolio. Investments under the 'investment grade' accounted for approximately 71% (77) of the fixed-income portfolio. The portfolio's modified duration was 3.7 (3.6) on 31 December. Return on investments at fair value was 9.5% (8.8).

Life Insurance's operating efficiency remained good. The cost ratio, in which sales channel fees are excluded and in which all income to cover business expenses are included as income, came to 28.6% (31.7). Thanks to higher sales volumes, sales commissions included in Other expenses increased to EUR 41 million (30).

Life Insurance's solvency improved in the accounting period. The solvency ratio, meaning the ratio of solvency capital to weighted technical provisions, was 15.9% (13.3). Technical provisions excluding investment contracts increased by 18.9% and came to EUR 7.1 billion (6). Unit-linked technical provisions accounted for 43.4% (39).

## Life Insurance, key figures

| € million | 1–12/2010 | 1–12/2009 | Change, % |
|---|---|---|---|
| Premiums written | 1,287 | 678 | 89.9 |
| Unit-linked | 508 | 368 | 38.1 |
| Net investment income | 539 | 371 | 45.5 |
| Unit-linked | 374 | 433 | -13.8 |
| Change in insurance contract liabilities | 1,119 | 653 | 71.4 |
| Unit-linked | 755 | 761 | -0.8 |
| Claims incurred | 588 | 499 | 17.7 |
| Other items | -11 | -7 | -59.4 |
| **Net income from Life Insurance** | **109** | **-110** | **198.5** |
| Other income | 16 | 16 | -2.7 |
| Personnel costs | 9 | 9 | 6.5 |
| Other expenses | 72 | 57 | 27.4 |
| **Earnings/loss before tax** | **43** | **-159** | **127.2** |
| Gross change in fair value reserve | 220 | 354 | -37.8 |
| **Earnings/loss before tax at fair value** | **263** | **194** | **35.5** |

| € billion | 31 Dec 2010 | 31 Dec 2009 | Change, % |
|---|---|---|---|
| Assets (excluding assets covering unit-linked insurance) | | | |
| Bonds and bond funds | 2.4 | 2.2 | 7.9 |
| Money market instruments | 0.4 | 0.2 | 104.4 |
| Equities and equity funds | 0.9 | 0.7 | 20.8 |
| Real property investment **) | 0.4 | 0.3 | 16.1 |
| Alternative investments | 0.7 | 0.7 | -3.0 |
| **Total investment portfolio** | **4.7** | **4.1** | **13.4** |

| € million | 1–12/2010 | 1–12/2009 | Change, % |
|---|---|---|---|
| Premiums written, FAS | | | |
| Endowment insurance, unit-linked | 410 | 270 | 51.9 |
| Endowment insurance, interest-bearing | 56 | 116 | -51.3 |
| Pension insurance | 759 | 235 | 223.7 |

| | | | |
|---|---|---|---|
| Term life insurance | 88 | 83 | 6.3 |
| Others | 533 | 69 | 676.8 |
| **Total premiums written, FAS** | **1,846** | **771** | **139.4** |
| Unit-linked | 625 | 377 | 66.0 |
| | | | |
| Market share of premiums written in life and pension insurance, % | 38.6 | 25.2 | 13.4 |

| € billion | 31 Dec 2010 | 31 Dec 2009 | Change, % |
|---|---|---|---|
| Insurance savings | | | |
| Endowment insurance, unit-linked | 2.3 | 1.7 | 33.4 |
| Endowment insurance, interest-bearing | 2.1 | 2.3 | -12.3 |
| Pension insurance | 2.7 | 1.9 | 43.0 |
| Others | 0.1 | 0.2 | -48.6 |
| **Total insurance savings** | **7.1** | **6.1** | **16.7** |
| Unit-linked | 3.1 | 2.4 | 31.9 |
| | | | |
| Market share of insurance savings in life and pension insurance, % | 21.3 | 20.0 | 1.3 |

* Percentage points

** Includes real estate funds

## Other Operations

Other Operations' pre-tax earnings for January–December were EUR 86 million, that is, EUR 35 million higher than a year earlier (51).

Net interest income was EUR 61 million (72), net trading losses EUR 8 million (loss of EUR 7 million) and net investment income EUR 40 million (loss of EUR 5 million). Net investment income totalled EUR 29 million (1). This figure includes realised capital gains of EUR 1 million recognised on the notes and bonds (-5). Impairments recognised on shares and participations categorised under available-for-sale financial assets totalled EUR 4 million (9), while a year ago impairments recognised on bonds, which we categorised under loans and other receivables, totalled EUR 12 million.

Most of the other income in Other Operations came from within the Group as internal service charges, which are recorded as business segment expenses. Of the Other Operations expenses, EUR 120 million (108) were personnel costs and EUR 229 million (225) other costs.

The availability of funding remained good. The amount of long-term funding was increased during the accounting period by Pohjola Bank plc issuing bonds totalling EUR 2.25 billion in international capital markets.

## Other Operations, key figures

| € million | 1–12/2010 | 1–12/2009 | Change, % |
|---|---|---|---|
| Net interest income | 61 | 72 | -15.0 |
| Net trading income | -8 | -7 | -21.2 |
| Net investment income | 40 | -5 | |
| Other income | 342 | 336 | 1.6 |
| Expenses | 349 | 333 | 4.8 |
| Impairment losses on receivables | -1 | 12 | -104.3 |
| **Earnings before tax** | **86** | **51** | **67.8** |

| € billion | 31 Dec 2010 | 31 Dec 2009 | Change, % |
|---|---|---|---|
| Receivables from financial institutions | 7.8 | 7.4 | 5.9 |
| Financial assets held for trading | 0.0 | 0.4 | -116.8 |
| Investment assets | 7.3 | 6.5 | 13.4 |
| | | | |
| Liabilities to credit institutions | 4.0 | 4.6 | -11.7 |
| Debt securities issued to the public | 17.0 | 17.5 | -2.7 |

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

### Amalgamation of the cooperative banks and OP-Pohjola Group

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

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

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

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

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

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

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

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

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

### Member credit institution's capital adequacy and its supervision

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

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

A member credit institution does not bear the obligation of publishing an interim report in accordance with Section

157 of the Act on Credit Institutions.

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

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

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

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

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

## OP-Pohjola Group's financial statement and audit

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

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

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

## Supervision of the amalgamation of the cooperative banks

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

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

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

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

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

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

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

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

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

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

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

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

### Financial and insurance conglomerate

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

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

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

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

## Key income statement and balance sheet items, and financial ratios 2006–2010

| | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|
| **Key income statement items, EUR million** | | | | | |
| Net interest income | 883 | 1,048 | 1,189 | 1,070 | 917 |
| Net income from Non-life Insurance | 328 | 427 | 345 | 396 | 382 |
| Net income from Life Insurance | 110 | 172 | -139 | -120 | 100 |
| Net commissions and fees | 401 | 430 | 433 | 496 | 563 |
| Other income | 238 | 177 | -5 | 208 | 210 |
| Personnel costs | 527 | 553 | 598 | 622 | 643 |
| Other expenses | 556 | 576 | 640 | 625 | 643 |
| Impairments of receivables | 9 | 13 | 58 | 179 | 149 |
| Returns to owner-members | 69 | 107 | 154 | 160 | 163 |
| Earnings before tax | 800 | 1,005 | 372 | 464 | 575 |
| **Key balance sheet items - assets, EUR million** | | | | | |
| Receivables from financial institutions | 344 | 285 | 2,450 | 1,982 | 1,121 |
| Receivables from customers | 39,595 | 44,776 | 51,708 | 52,992 | 56,834 |
| Non-life Insurance assets | 2,761 | 2,750 | 2,670 | 3,101 | 3,164 |
| Life Insurance assets | 6,061 | 6,361 | 5,093 | 6,331 | 7,544 |
| Financial assets at fair value through profit or loss and investment assets | 6,229 | 6,761 | 5,754 | 7,731 | 7,958 |
| Property, plant and equipment, and intangible assets | 1,957 | 1,945 | 1,973 | 1,941 | 1,875 |
| Other items | 2,588 | 2,838 | 6,097 | 6,354 | 5,473 |
| Total assets | 59,535 | 65,716 | 75,746 | 80,430 | 83,969 |
| **Key balance sheet items - liabilities and equity, EUR million** | | | | | |
| Liabilities to credit institutions | 1,088 | 949 | 693 | 2,174 | 1,696 |
| Liabilities to customers | 27,715 | 31,224 | 37,082 | 37,606 | 39,205 |
| Debt securities issued to the public | 13,500 | 14,074 | 18,164 | 19,945 | 19,577 |
| Subordinated liabilities | 1,660 | 1,613 | 1,874 | 1,872 | 1,825 |
| Other liabilities | 10,448 | 12,218 | 12,717 | 12,646 | 14,939 |
| Equity capital | 5,124 | 5,638 | 5,215 | 6,187 | 6,726 |
| Total liabilities | 59,535 | 65,716 | 75,746 | 80,430 | 83,969 |
| **Key ratios, %** | | | | | |
| Return on equity | 12.1 | 13.7 | 4.1 | 5.9 | 6.8 |
| Return on equity at fair value | 11.4 | 10.9 | -6.0 | 14.7 | 9.4 |
| Return on assets | 1.1 | 1.2 | 0.3 | 0.4 | 0.5 |
| Equity ratio | 8.6 | 8.6 | 6.9 | 7.7 | 8.0 |
| Cost / income ratio | 55.0 | 50.0 | 68.0 | 61.0 | 59.0 |
| Capital adequacy ratio | 14.3 | 13.8 | 12.6 | 12.6 | 12.8 |
| Tier 1 ratio | 12.7 | 12.6 | 12.6 | 12.6 | 12.8 |
| Capital adequacy under the Act on the Supervision of Financial and Insurance Conglomerates | 1.56 | 1.52 | 1.40 | 1.58 | 1.70 |

### Formulas for key figures and ratios

**Return on equity (ROE), %**

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

**Return on equity at fair value, %**

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

**Return on assets (ROA), %**

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

**Equity ratio, %**

$$\frac{\text{Shareholders' equity}}{\text{Total assets}} \times 100$$

| | | |
|---|---|---|
| **Cost/income ratio, %** | Personnel costs + Other administrative expenses + Other operating expenses / Net interest income + net income from Non-life Insurance operations + net income from Life Insurance + net commissions and fees + net trading income + net investment income + other operating income + share of associates' profits/losses | x 100 |
| **Capital adequacy ratio, %** **(Basel I until end of 2007)** | Tier 1 capital + Tier 2 capital - allowances / Risk-weighted assets, investments and off-balance-sheet items | x 100 |
| **Tier I ratio, %** **(Basel I until end of 2007)** | Tier 1 capital / Risk-weighted assets, investments and off-balance-sheet items | x 100 |
| **Capital adequacy ratio, %** **(Basel II from the beginning of 2008)** | Total capital base / Minimum requirement of total capital base | x 8 % |
| **Tier I ratio, %** **(Basel II from the beginning of 2008)** | Total Tier 1 capital / Minimum requirement of total capital base | x 8 % |
| **Capital adequacy ratio under the Act on the Supervision of Financial and Insurance Conglomerates** | Conglomerate's total capital base / Total minimum amount of conglomerate's capital base | |

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

**Non-life Insurance:**

| | | |
|---|---|---|
| **Combined ratio (excl. unwinding of discount), %** | Loss ratio + expense ratio<br>Risk ratio + cost ratio | |
| **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 |
| **Risk ratio (excl. unwinding of discount), %** | Claims excl. loss adjustment expenses / Net insurance premium revenue | x 100 |
| **Cost ratio, %** | Operating expenses and loss adjustment expenses / Net insurance premium revenue | x 100 |

**Life Insurance:**

| | | |
|---|---|---|
| **Operating cost ratio, %** | Operating expenses before change in deferred acquisitions costs + loss adjustment expenses / Expense loading | x 100 |

## OP-Pohjola Group's Financial Statements

# OP-Pohjola group income statement

| EUR million | Notes | 2010 | 2009 | Change, % |
|---|---|---|---|---|
| Interest income | | 2,412 | 3,072 | -21 |
| Interest expenses | | 1,495 | 2,002 | -25 |
| **Net interest income before impairment losses** | 3 | **917** | **1,070** | **-14** |
| Impairment losses on receivables | 4 | 149 | 179 | -17 |
| **Net interest income after impairment losses** | | **768** | **891** | **-14** |
| Net income from Non-life Insurance | 5 | 382 | 396 | -3 |
| Net income from Life Insurance | 6 | 100 | -120 | |
| Net commissions and fees | 7 | 563 | 496 | 14 |
| Net trading income | 8 | 46 | 112 | -59 |
| Net investment income | 9 | 62 | -9 | |
| Other operating income | 10 | 99 | 104 | -4 |
| Personnel costs | 11 | 643 | 622 | 3 |
| Other administrative expenses | 12 | 319 | 310 | 3 |
| Other operating expenses | 13 | 324 | 316 | 3 |
| Returns to owner-members | 14 | 163 | 160 | 2 |
| Share of associates' profits/losses | | 2 | 1 | 45 |
| **Earnings before tax** | | **575** | **464** | **24** |
| Income tax expense | 15 | 135 | 126 | 8 |
| **Profit for the financial year** | | **440** | **338** | **30** |

## OP-Pohjola group statement of comprehensive income

| EUR million | Notes | 2010 | 2009 | Change, % |
|---|---|---|---|---|
| **Profit for the financial year** | | **440** | **338** | **30** |
| Change in fair value reserve | | | | |
| Measurement at fair value | | 234 | 677 | -65 |
| Cash flow hedge | | -8 | - | |
| Translation differences | | 0 | 0 | |
| Income tax on other comprehensive income | | | | |
| Measurement at fair value | | 61 | 175 | -65 |
| Cash flow hedge | | -2 | - | |
| **Total comprehensive income for the financial year** | | **606** | **839** | **-28** |

| Key figures and ratios | 2010 | 2009 |
|---|---|---|
| Return on equity, % | 6.8 | 5.9 |
| Return on equity at fair value, % | 9.4 | 14.7 |
| Return on assets, % | 0.53 | 0.43 |
| Cost/income ratio, % | 59 | 61 |
| Average personnel | 12,468 | 12,632 |
| Full-time | 11,394 | 11,520 |
| Part-time | 1,074 | 1,112 |

# OP-Pohjola group balance sheet

| EUR million | Notes | 31 Dec. 2010 | 31 Dec. 2009 | Change, % |
|---|---|---|---|---|
| Liquid assets | 16 | 1,628 | 3,235 | -50 |
| Receivables from financial institutions | 17 | 1,121 | 1,982 | -43 |
| Financial assets at fair value through profit or loss | 18 | 519 | 1,263 | -59 |
| Derivative contracts | 19 | 1,933 | 1,423 | 36 |
| Receivables from customers | 20 | 56,834 | 52,992 | 7 |
| Non-life Insurance assets | 21 | 3,164 | 3,101 | 2 |
| Life Insurance assets | 22 | 7,544 | 6,331 | 19 |
| Investment assets | 23 | 7,438 | 6,468 | 15 |
| Investment in associates | 25 | 38 | 17 | |
| Intangible assets | 26 | 1,159 | 1,179 | -2 |
| Property, plant and equipment (PPE) | 27 | 716 | 761 | -6 |
| Other assets | 28 | 1,749 | 1,572 | 11 |
| Tax assets | 29 | 125 | 108 | 16 |
| **Total assets** | | **83,969** | **80,430** | **4** |
| | | | | |
| Liabilities to financial institutions | 30 | 1,696 | 2,174 | -22 |
| Financial liabilities at fair value through profit or loss | 31 | 0 | 71 | |
| Derivative contracts | 32 | 1,951 | 1,360 | 43 |
| Liabilities to customers | 33 | 39,205 | 37,606 | 4 |
| Non-life Insurance liabilities | 34 | 2,350 | 2,279 | 3 |
| Life Insurance liabilities | 35 | 7,290 | 6,179 | 18 |
| Debt securities issued to the public | 36 | 19,577 | 19,945 | -2 |
| Provisions and other liabilities | 37 | 2,333 | 1,832 | 27 |
| Tax liabilities | 38 | 1,014 | 925 | 10 |
| Cooperative capital | 39 | 647 | 622 | 4 |
| Subordinated liabilities | 40 | 1,178 | 1,250 | -6 |
| **Total liabilities** | | **77,243** | **74,243** | **4** |
| **Equity capital** | | | | |
| **Capital and reserves attributable to OP-Pohjola Group's owners** | | | | |
| Share and cooperative capital | | 368 | 358 | 3 |
| Share issue account | | - | - | |
| Translation differences | | 0 | 0 | |
| Reserves | | 2,768 | 2,550 | 9 |
| Retained earnings | | 3,590 | 3,280 | 9 |
| **Total equity capital** | 41 | **6,726** | **6,187** | **9** |
| **Total liabilities and equity capital** | | **83,969** | **80,430** | **4** |

## OP-Pohjola group cash flow statement

| EUR million | 2010 | 2009 |
|---|---|---|
| **Cash flow from operating activities** | | |
| Profit for the financial year | 440 | 338 |
| Adjustments to profit for the financial year | 1,440 | 1,211 |
| **Increase (-) or decrease (+) in operating assets** | **-4,576** | **-4,041** |
| Receivables from financial institutions | 869 | 391 |
| Financial assets at fair value through profit or loss | 865 | 1,901 |
| Derivative contracts | -89 | -36 |
| Receivables from customers | -4,037 | -1,479 |
| Non-life Insurance assets | -113 | -350 |
| Life Insurance assets | -715 | -849 |
| Investment assets | -1,177 | -3,894 |
| Other assets | -180 | 275 |
| **Increase (+) or decrease (-) in operating liabilities** | **1,520** | **1,375** |
| Liabilities to financial institutions | -482 | 1,481 |
| Financial liabilities at fair value through profit or loss | -71 | -67 |
| Derivative contracts | 91 | -9 |
| Liabilities to customers | 1,598 | 524 |
| Non-life Insurance liabilities | 54 | 43 |
| Life Insurance liabilities | -8 | 113 |
| Provisions and other liabilities | 337 | -710 |
| Income tax paid | -120 | -65 |
| Dividends received | 88 | 58 |
| **A. Net cash from operating activities** | **-1,210** | **-1,125** |
| **Cash flow from investing activities** | | |
| Increases in held-to-maturity financial assets | -53 | -416 |
| Decreases in held-to-maturity financial assets | 244 | 482 |
| Acquisition of subsidiaries, net of cash and cash equivalents acquired | -28 | 0 |
| Disposal of subsidiaries, net of cash and cash equivalents disposed | 17 | 1 |
| Purchase of PPP and intangible assets | -83 | -88 |
| Proceeds from sale of PPE and intangible assets | 7 | 5 |
| **B. Net cash used in investing activities** | **104** | **-16** |
| **Cash flow from financing activities** | | |
| Increases in subordinated liabilities | 82 | 211 |
| Decreases in subordinated liabilities | -163 | -267 |
| Increases in debt securities issued to the public | 47,351 | 55,596 |
| Decreases in debt securities issued to the public | -47,704 | -53,823 |
| Increases in cooperative and share capital | 248 | 276 |
| Decrease in cooperative and share capital | -220 | -221 |
| Dividends paid and interest on cooperative capital | -75 | -52 |
| Returns to owner-members | -8 | -7 |
| Increases in invested unrestricted equity | 0 | 171 |
| Other | 0 | 0 |
| **C. Net cash used in financing activities** | **-488** | **1,885** |
| **Net change in cash and cash equivalents (A+B+C)** | **-1,593** | **744** |
| | | |
| **Cash and cash equivalents at period-start** | **3,282** | **2,538** |
| **Cash and cash equivalents at period-end** | **1,689** | **3,282** |

| EUR million | 2010 | 2009 |
|---|---|---|
| **Interest received** | **2,324** | **3,345** |
| **Interest paid** | **-1,435** | **-2,474** |

**Adjustments to profit for the financial year**

| | | |
|---|---|---|
| **Non-cash items and other adjustments** | | |
| Impairment losses on receivables | 158 | 190 |

| | | |
|---|---|---|
| Unrealised net earnings in Non-life Insurance | 123 | 106 |
| Unrealised net earnings in Life Insurance | 843 | 501 |
| Change in fair value for trading | -5 | 42 |
| Unrealised net gains on foreign exchange operations | -15 | -23 |
| Change in fair value of investment property | -1 | 11 |
| Planned amortisation and depreciation | 136 | 135 |
| Share of associates' profits/losses | 0 | 0 |
| Other | 189 | 225 |
| | | |
| **Items presented outside cash flow from operating activities** | | |
| Capital gains, share of cash flow from investing activities | -9 | -1 |
| Interest on cooperative capital | 15 | 18 |
| Other returns to owner-members | 8 | 7 |
| **Total adjustments** | **1,440** | **1,211** |
| | | |
| **Cash and cash equivalents** | | |
| Liquid assets | 132 | 140 |
| Receivables from financial institutions payable on demand | 1,557 | 3,143 |
| **Total** | **1,689** | **3,282** |

# Statement of changes in OP-Pohjola group equity capital

| | Attributable to OP-Pohjola Group's owners | | | | | |
|---|---|---|---|---|---|---|
| EUR million | Share and cooper-ative capital | Fair value reserve | Cash flow hedge | Other reserves | Retained earnings | Total |
| **Balance at 1 January 2009** | **362** | **-556** | - | **2,375** | **3,034** | **5,215** |
| Rights issue | - | - | - | 176 | - | 176 |
| Transfer of cooperative capital to equity capital | 4 | - | - | - | - | 4 |
| Issue expenses | - | - | - | -7 | - | -7 |
| Transfers between reserves | - | - | - | 62 | -62 | - |
| Profit distribution | - | - | - | - | -31 | -31 |
| Total comprehensive income for the financial year | - | 501 | - | - | 338 | 839 |
| Equity-settled share-based payment transactions | - | - | - | - | 0 | 0 |
| Other | -7 | - | - | -2 | 0 | -9 |
| **Balance at 31 Dec. 2009** | **358** | **-54** | **-** | **2,604** | **3,280** | **6,187** |
| | | | | | | |
| **Balance at 1 January 2010** | **358** | **-54** | **-** | **2,604** | **3,280** | **6,187** |
| Transfer of cooperative capital to equity capital | 4 | - | - | - | - | 4 |
| Transfers between reserves | - | - | - | 57 | -57 | - |
| Profit distribution | - | - | - | - | -62 | -62 |
| Total comprehensive income for the financial year | - | 173 | -6 | - | 440 | 606 |
| Equity-settled share-based payment transactions | - | - | - | - | 1 | 1 |
| Other | 6 | - | - | -5 | -11 | -10 |
| **Balance at 31 Dec. 2010** | **368** | **118** | **-6** | **2,656** | **3,590** | **6,726** |

## Notes to OP-Pohjola group financial statements

### INDEX



### NOTES TO THE INCOME STATEMENT



### NOTES TO ASSETS



### NOTES TO LIABILITIES AND EQUITY CAPITAL



### OTHER NOTES TO THE BALANCE SHEET

**NOTES TO CONTINGENT LIABILITIES AND DERIVATIVES**



**OTHER NOTES**



**NOTES TO RISK MANAGEMENT**

# Notes to OP-Pohjola Group financial statements

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

### General information

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

OP-Pohjola Group Central Cooperative was reorganised. As of 1 January 2011, OP-Services Ltd, a service company fully owned by the Central Cooperative, has been responsible for the development and provision of centralised services for OP-Pohjola Group and its member banks. The Central Cooperative acts as the entire OP-Pohjola Group's strategic owner institution and as a central institution in charge of Group control and supervision.

The Act on the Amalgamation of Deposit Banks requires the Central Cooperative, as the central institution, to prepare consolidated financial statements for OP-Pohjola Group. The Central Cooperative's Executive Board is responsible for preparing the financial statements in accordance with applicable regulations. The auditors of the Central Cooperative audit OP-Pohjola Group's consolidated financial statements. In order to ensure uniformity in the accounting policies of entities within OP-Pohjola Group, the Central Cooperative shall issue guidelines on the preparation of financial statements to its member credit institutions.

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

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

The Executive Board of the Central Cooperative has approved these financial statements for issue on 9 February 2010.

### Basis of preparation

OP-Pohjola Group's financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS), applying IASs, IFRSs and SIC and IFRIC interpretations effective on 31 December 2010. The International Financial Reporting Standards refer to standards and their interpretations adopted in accordance with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council. OP-Pohjola Group's obligation to prepare its financial statements in accordance with IFRS is based on the Act on the Amalgamation of Deposit Banks. In addition to IFRS, OP-Pohjola Group applies paragraph 6, subsection 146, section 9 of the Act on Credit Institutions to the preparation of its consolidated financial statements.

The accounting policies and calculation methods are fundamentally the same as in the 2009 financial statements.

In 2010, OP-Pohjola Group adopted the following IFRSs and interpretations:

- Amended IFRS 3 Business Combinations (effective as of 1 July 2009). The revised standard contains major amendments. These amendments have widened the scope of application of IFRS 3 with an effect, for example, on the amount of goodwill recognised for acquisitions and on gains and losses on disposal of businesses. The contingent consideration is measured at fair value at the time of the business combination and any subsequent change in the consideration is recognised in profit or loss. Costs associated with an acquisition, such as consulting fees, must be expensed, not capitalised. Non-controlling interests (NCI) can be measured at fair value or the NCI's proportionate share of net assets of the acquiree on a transaction by transaction basis. These amendments may have an effect on OP-Pohjola Group's future financial statements.
- Amended IAS 27 Consolidated and Separate Financial Statements (effective as of 1 July 2009). The amended standard requires that any changes in subsidiaries' ownership be accounted for in equity in case OP-Pohjola Group retains control. In case the Group loses control, investment that remains with the Group is recognised at fair value through profit or loss. These amendments may have an effect on OP-Pohjola Group's future financial statements.

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

- IFRIC 17 Distribution of Non-cash Assets to Owners (effective as of 1 July 2009).
- IFRIC 18 Transfer of Assets from Customers (effective as of 1 July 2009).

- Improvements to IFRSs (issued in April 2009, effective dates vary).
- Amended IAS 39 Financial Instruments: Recognition and Measurement - Eligible Hedged Items (effective as of 1 July 2009).
- Amended IFRS 2 Share-based Payment - Group Cash-settled Share-based Payment Transactions (effective as of 1 January 2010).

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

The financial statements are presented in millions of euros.

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

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

## Use of estimates

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

## Presentation and reclassification

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

## Consolidation principles

### Technical parent company

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

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

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

### Subsidiaries, associates and joint ventures

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

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

Transaction costs are expensed as incurred. The consideration given excludes transactions treated separately from the acquisition but their effect is accounted for separately. Any additional acquisition cost is measured at fair value and classified as a liability or equity. An additional acquisition cost classified as a liability is measured at fair value in the income statement on the balance sheet date.

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

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

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

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

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

**Non-controlling interests**
Profit for the financial year attributable to the technical owners of the parent and non-controlling interests is presented in the income statement, and total comprehensive income attributable to the owners of the parent and non-controlling interests is presented in the statement of comprehensive income. Profit shown in the income statement and the statement of comprehensive income is attributed to non-controlling interests even in the event that their share would become negative. Non-controlling interests are presented as part of the shareholders' equity in the balance sheet.

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

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

## Foreign currency translation

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

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

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

## Financial instruments

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

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

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

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

The valuation techniques used include recent arm's length market transactions between knowledgeable, willing parties, the discounted cash flow method and reference to the current fair value of another instrument that is substantially the same. The valuation techniques take account of estimated credit risk, applicable discount rates, the possibility of premature repayment and other factors affecting the reliable measurement of the fair value of financial instruments.

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

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

It is typical of illiquid instruments that their price calculated using a pricing model differs from theactual 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, is recognised in the income statement over the term of the agreement. However, the non-recognised amount will be recognised as soon as there is a genuine market price for the instrument or a well-established pricing practice is created in the market. The amount of these financial assets is insignificant in OP-Pohjola Group's balance sheet.

**Impairment of financial assets**
On the balance sheet date, the Group assesses whether there is objective evidence that a financial asset other than that recognised through profit or loss is impaired.

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

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

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

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

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

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

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

**Classification and recognition of financial Instruments in OP-Pohjola Group's balance sheet**
On the basis of their initial recognition, financial assets and liabilities are classified as financial assets and liabilities at fair value through profit or loss, loans and other receivables, held-to-maturity investments, available-for-sale financial assets and other financial liabilities, in accordance with their measurement practice.

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 other receivables are recognised as financial assets on the transaction date and loans granted on the date on which the customer draws down the loan.

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

Financial assets are derecognised when the contractual right to receive cash flows from the financial asset has expired or the Group has transferred all risks and rewards of ownership. Financial liabilities are derecognised when they are extinguished, i.e. when the obligation is discharged, cancels or expires.

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

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

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

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

Financial assets recognised at fair value through profit or loss at inception mainly comprise bonds used in the management of liquidity. In accordance with the Group's risk management principles, the Group manages these investments and assesses their performance at fair value in order to receive a true and real-time picture of investment operations. Reporting to the Group's management is based on fair values. Since the business involves investment on a long-term basis, financial assets are presented separately from those held for trading.

Financial assets at fair value through profit or loss also include hybrid instruments in which the fair value of an embedded derivative cannot be determined separately, and investments in associates in insurance operations made by venture capital investors and investments in unit-linked insurance policies.

**Loans and other receivables**
Financial assets classified as loans and other receivables are non-derivative financial assets with fixed or determinable payments that have been created by lending money, delivering products or rendering services. Receivables related to insurance contracts, claims administration contracts and disposal of investments are presented within this asset class. Not quoted in an active market, loans and other receivables are carried at cost.

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

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

Impairments are recognised as an allowance of loans in the balance sheet. Recognition of interest on the impaired amount continues after the recognition of impairment. For notes and bonds classified as loans and other receivables, the difference between the carrying amount of the note/bond and a lower recoverable amount is recognised as an impairment loss in the income statement.

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

For the purpose of a collective assessment of impairment, receivables are grouped on the basis of similar credit risk characteristics. The amount recognised as an impairment loss for each group is determined by average estimated future losses based on historical loss experience.

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

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

**Investments held to maturity**

Investments held to maturity are non-derivative financial assets with fixed or determinable payments that the Group has the positive intention and ability to hold to maturity. These investments are carried at amortised cost after their initial recognition.

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

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

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

**Available-for-sale financial assets**

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

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

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

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

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

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

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

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

**Cash and cash equivalents**

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

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

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

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

**Derivative contracts**
A derivative instrument represents a financial instrument or another contract whose value changes as a result of changes in specific interest rates, the price of financial instruments or commodities, foreign exchange rates, price or interest-rate indices, credit ratings, credit indices or other similar underlying instruments. At the time of entering into the contract, a derivative requires only minor initial net investment and will be settled on a predetermined future date.

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

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

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

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

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

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

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

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

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

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

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

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

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

## Investment property

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

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

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

## Intangible assets

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

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

Goodwill on prior business combinations equals the carrying amount recorded under the previous accounting standards, the Finnish Accounting Standards (FAS), which has been used as deemed cost permitted by the exemption of IFRS 1. Goodwill on acquisition of subsidiaries is included in intangible assets and goodwill on acquisition of associates is included in investment in associates.

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

### Value of acquired insurance portfolio
An intangible asset corresponding to the value of an acquired insurance portfolio is recognised if the insurance portfolio is acquired directly from another insurance company or through the acquisition of a subsidiary. The fair value of acquired insurance policies is determined by estimating the present value of future cash flows on the basis of the insurance portfolio on the date of acquisition. Upon initial recognition, the fair value of acquired insurance policies is divided into two parts; a liability associated with insurance contracts measured in accordance with the applicable principles, and an intangible asset. Subsequent to the acquisition, the intangible asset is amortised on a straight-line basis over the estimated effective lives of the acquired contracts. The effective lives are reviewed annually and the value is amortised over 1-4 years for non-life insurance and 10 years for life insurance. An intangible asset is tested annually in connection with testing the adequacy of the liability associated with insurance contracts.

### Deferred acquisition costs of insurance contracts
OP-Pohjola Group defers some of the commission costs and other costs that are associated with the acquisition of

new insurance contracts or the renewal of existing contracts. The resulting intangible asset is amortised on a straight-line basis over the effective lives of the contracts. The amortisation period within Non-life Insurance is the insurance period and within Life Insurance five years. An intangible asset is tested annually in connection with testing the adequacy of the liability associated with insurance contracts.

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

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

**Other intangible assets**
Other intangible assets are measured at cost less accumulated amortisation and any impairment losses. These assets are amortised over their estimated useful lives, which is 2-6 years for computer software and licences and 5-10 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 internally-generated intangibles (products and services) is capitalised starting from the time when the product or service is found to generate future economic benefits. The asset will be amortised from the time it is ready for use, mainly 3-5 years. An asset not yet ready for use is tested annually for impairment.

Property, plant and equipment

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

In accordance with the exemption permitted by IFRS 1 (First-time Adoption), FAS-compliant revaluations of land and property in own use were not cancelled during the IFRS transition on 1 January 2004 but were included in these assets' deemed cost.

The estimated useful lives are mainly as follows:

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

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

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

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

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

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

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

## Leases

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

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

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

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

## Employee benefits

### Pension benefits

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

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

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

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

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

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

On the transition date of 1 January 2004, the Group applied the exemption permitted under IFRS 1, whereby it recognised all actuarial gains or losses in equity capital on the opening IFRS balance sheet. Subsequent actuarial gains and losses are recognised in the income statement over the employees' expected average remaining working lives to the extent that they exceed 10% of the greater of the present value of the defined benefit obligation or the fair value of plan assets.

### Share-based compensation

OP-Pohjola Group has a management incentive scheme in place, on the basis of which the person covered by the scheme may receive the related compensation for services rendered during the vesting period partly in terms of Pohjola Bank plc shares and partly in cash.

Equity-settled share-based payments are measured at fair value on the grant date and charged to expenses and an increase in equity capital over the vesting period. Share-based compensation paid in cash and the corresponding liability are measured at fair value at the end of each period until the liability is settled. Both the share-based payment and cash-based compensation are charged to personnel costs.

## Insurance assets and liabilities

### Classification of financial assets and liabilities within insurance business

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

### Classification of insurance contracts

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

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

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

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

### Non-life insurance contracts

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

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

### Life insurance contracts

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

### Measurement and recognition of insurance contracts

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

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

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

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

Benefits based on insurance contracts are charged to expenses in the income statement. Technical provisions are determined by calculating the capital value of future benefits, policy administration costs and future premiums, using actuarial assumptions related to compounding, mortality, disability and operating expenses. The liability is redetermined on every balance sheet date using assumptions related to rating of policies. Fixed in nature, the interest rate applicable to discounting may not exceed the rate used in the rating of policies. the discount rate may not exceed the expected return on the assets covering the liability or the level set by the authorities. Any customer bonus decisions will result in an increase in technical provisions. Technical provisions for unit-linked policies are, however, measured at fair value in the same way as the assets covering the liability.

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

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

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

*Receivables and payables related to insurance contracts*
Non-life Insurance premium receivables are recognised at the beginning of the insurance period when the right to the receivable is established. Life Insurance premium receivables are primarily recognised in connection with the closing of accounts. Receivables are mainly those from policyholders and only to a minor extent from insurance intermediaries. Prepaid insurance premiums are included in "Direct insurance liabilities" under Non-life Insurance and Life Insurance liabilities.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## Provisions and contingent liabilities

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

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

## Non-current assets held for sale and discontinued operations

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

A discontinued operation is a component of the Group's entity that either has been disposed of or is classified as held for sale, and represents a separate major line of business or geographical area of operations. Income and expense items of discontinued operations are presented on a separate column in the income statement.

## Income tax

Income tax expense shown in the income statement includes current tax, based on the taxable income of OP-

Pohjola Group companies for 2007, and income tax for prior financial years and deferred tax expense or income.

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

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

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

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

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

Summary of presentation of income statement items:

| | |
|---|---|
| Net interest income | Received and paid interest on fixed-income instruments, the recognised difference betw een the nominal value and acquisition value, interest on interest-rate derivatives and fair value change in fair value hedging |
| Net income from Non-life Insurance | Premiums w ritten, change in provision for unearned premiums and for unpaid claims, investment income, expenses (interest, dividends, realised capital gains and losses) and impairments |
| Net income from Life Insurance | Premiums w ritten, change in provision for unearned premiums and for unpaid claims, investment income, expenses (interest, dividends, realised capital gains and losses) and impairments |
| Net commissions and fees | Commission income and expenses, and the recognition of Day 1 profit related to illiquid derivatives |
| Net trading income | Fair value changes in financial instruments at fair value through profit or loss, exluding accrued interest, and capital gains and losses, as w ell as dividends |
| Net investment income | Realised capital gains and losses on available-for-sale financial assets, impairments, dividends as w ell as fair value changes in investment property, capital gains and losses, rents and other property-related expenses |
| Other operating income | Other operating income |
| Personnel costs | Wages and salaries, pension costs, social expenses |
| Other administrative expenses | Office expenses, IT costs, other administrative expenses |
| Other operating expenses | Depreciation/amortisation, rents, other expenses |

## Segment reporting

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

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

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

## Critical accounting estimates and judgements

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

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

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

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

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

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

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

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

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

The measurement of investment property at fair value is partially based on the management's estimates of the market value of properties. Investment property is also measured using a calculation model based on the income capitalisation approach utilising estimates of future net yield on properties.

### New standards and interpretations

In 2011, OP-Pohjola Group will adopt the following standards and interpretations:

- Amended IAS 32 Financial Instruments: Presentation - Classification of Rights Issues (effective as of 1 February 2010 or subsequent financial periods). This amendment will have no effect on OP-Pohjola Group's consolidated financial statements.
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective as of 1 July 2010 or subsequent financial periods). This amendment will have no effect on OP-Pohjola Group's consolidated financial statements.
- Revised IAS 24 Related Party Disclosures (effective as of 1 January 2011). This revision will have no effect on OP-Pohjola Group's consolidated financial statements.
- Amended IFRIC 14: IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective as of 1 January 2011). This amendment will have no effect on OP-Pohjola Group's consolidated financial statements.
- Improvements to IFRSs (issued in May 2010, generally effective as of 1 January 2011)

The International Accounting Standards Board's (IASB) financial instruments accounting reform programme is scheduled for completion by the end of 2011, these changes relating to the disclosure and measurement of financial instruments, accounting for impairments, hedge accounting and the offsetting of financial assets and liabilities. Other significant changes related to presentation of financial statements, employee benefits, leases and insurance contracts. In addition, the IASB is also expected to issue other changes in financial statements disclosures. OP-Pohjola Group is actively monitoring the progress of these changes.

# Notes to OP-Pohjola Group financial statements

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

### General principles

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

Internal control, good corporate governance principles, and the capital adequacy management process are regulated by the Act on Credit Institutions, Act on Cooperative Banks and Other Cooperative Credit Institutions, Insurance Companies Act, Act on the Amalgamation of Deposit Banks, and standards, regulations and guidelines issued by the Financial Supervisory Authority. The Act on the Amalgamation of Deposit Banks prescribes that OP-Pohjola Group Central Cooperative, acting as the central institution, guides the amalgamation's operations and issues instructions to the companies that belong to it, and monitors the entities that are part of the amalgamation of the cooperative banks on a consolidated basis for capital adequacy, liquidity and customer risks. OP-Pohjola Group is a financial and insurance conglomerate pursuant to the Act on the Supervision of Financial and Insurance Conglomerates and the Act on the Amalgamation of Deposit Banks. It is supervised by the Financial Supervisory Authority.

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

**Internal control**
Internal control ensures that OP-Pohjola Group achieves its goals and targets and uses resources cost-effectively and efficiently. Internal control is ensured by means of good corporate governance and capital adequacy management. Implemented at all organisational levels, it is standard practice within OP-Pohjola Group.

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

OP-Pohjola Group's strategic plan and annual planning includes a separate capital plan and a proactive contingency plan for own funds. All OP-Pohjola Group entities also make result forecasts and capital plans to draw attention in good time to what consequences business decisions have on capital adequacy, profit development and success indicator values.

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

OP-Pohjola Group entities approve their own good corporate governance principles. Good corporate governance principles also include the recommendation of the central institution's Supervisory Board on cooperative banks' corporate governance.

**Capital adequacy management**
The purpose of capital adequacy management is to secure OP-Pohjola Group's risk-bearing capacity and ensure continuity of operations. Capital adequacy management is integrated as part of business control and management.

OP-Pohjola Group's solvency management principles are approved by central institution's Supervisory Board. The principles define the general framework for meeting the statutory and regulated obligations related to the management of solvency, and the general application of the Financial Supervisory Authority's instructions at OP-Pohjola Group level and in organisations belonging to OP-Pohjola Group.

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

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

The central institution's Supervisory Board has determined risk limits for OP-Pohjola Group's risk-bearing capacity as well as for credit, liquidity and market risks and non-life insurance underwriting risk. The central institution's Executive Board has set limits for risk-bearing capacity, profitability and different types of risks which the member cooperative banks and Helsinki OP Bank Plc must observe. The member banks and Helsinki OP Bank Plc use these limits to confirm their own risk limits, which are tighter than those set by the central institution. A similar supervision and risk limit system is in place for the risk-bearing capacity and key risk types of entities of OP-Pohjola Group Central Cooperative Consolidated. The coverage of the indicators and any needs for development are reviewed annually.

The member cooperative banks were controlled and supervised in 2010 primarily on the basis of the risk limit system. Different degrees of bank-specific controls were applicable to member banks if risk limits were exceeded. The limits held a key role in this system when member banks were rated according to intra-Group risk categories. The risk categorisation observed the number of times the risk limits were exceeded, the severity of the breaches as well as conformance with risk management instructions.

A new risk category system was introduced in 2010 alongside the old system. A bank's risk category will be determined in the new system by financial factors (risk-bearing capacity, profitability and risk exposure), qualitative factors (the bank's management system and quality of risk management and internal control) and by a statement from the central institution. The new risk category system has been in place since the beginning of 2011. The central institution analyses the Group member banks' risk exposure and revises the risk categorisation regularly as part of the supervision process. The risk exposure assessment also includes stress tests.

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

**Economic capital**
Economic capital is OP-Pohjola Group's own calculated estimate on the amount of capital that is sufficient to cover the business risks. In this economic capital model, the Group's internal risk models are used to calculate the necessary economic capital, with a 12-month time horizon and a 99.97% confidence interval.

Economic capital is calculated on the following risks: credit risk; interest rate risk within banking; equity and property risk; investment and underwriting risk within insurance; and operational risk. The model also makes a provision for economic capital to cover funding and business risks and risk caused by the operating environment. OP-Pohjola Group's performance and risk limit indicators are derived from indicators based on economic capital.

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

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

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

## Risk and capital adequacy management

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

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

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

OP-Pohjola Group's risk management is a function independent of business area that defines, steers and supervises the overall risk management of the Group and its entities, and analyses their risk exposure, and is responsible for maintaining and developing risk management systems and methods at Group level and for the entities. It maintains, develops and prepares risk management principles for approval by the central institution's Executive Board and Supervisory Board. Risk Management makes a regular capital adequacy management report on OP-Pohjola Group containing a description of OP-Pohjola Group's internal capital adequacy assessment process, and assesses the adequacy of capital in relation to the strategy's long-term success indicators and risk limits.

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

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

Since December 2010, it has been OP-Pohjola Group's Rating Committee that has been determining the credit ratings of the Group's medium-sized and large corporate customers and credit institution counterparties. The Committee consists of members from the central institution's credit risk management function and Pohjola Bank plc's Credit Risk Unit. Proposals for customers' credit ratings are made by experts in the central institution and Pohjola Bank plc that are specialised in a specific customer or a group of connected customers. People involved in proposing credit ratings or deciding about them cannot make actual credit decisions. Up until the end of November 2010, the credit ratings of Group member banks' medium-sized and large corporate customers were determined by the central institution's Rating Committee. In Pohjola Bank plc, the credit ratings of corporate customers were determined until the end of November by Pohjola's Rating Committee, and those of credit institution counterparties by Pohjola's credit institution rating committee.

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

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

**Member banks, insurance institutions and other subsidiaries of OP-Pohjola Group Central Cooperative Consolidated**
The member banks, insurance institutions and other entities of OP-Pohjola Group Central Cooperative Consolidated apply the central institution's risk and capital adequacy management principles as required by the nature and extent of their business. In member banks, the Supervisory Board approves the capital adequacy management principles and supervises the operation of the bank and the Group. In entities of the central institution, this is the responsibility of the Board of Directors or Executive Board acting as the Board. The

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

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

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

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

### Risk management in OP-Pohjola Group's strategy

OP-Pohjola Group's strategy process defines the major risk management policies and decides how the risk limit indicators will be developed. The strategy also defines the Group's targets for risk-bearing capacity and risk appetite.

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

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

OP-Pohjola Group's major business risk are liquidity risk, credit risk related to banking and investment operations, and interest rate risk related to retail banking. Further risks include credit and market risks related to insurance and pension institutions, insurance risk in insurance operations, interest rate risks related to technical provisions, and operational risks.

### Strategic risks

By strategic risk we refer to one which has been caused by poorly chosen business strategy or which is the result implementing such a strategy.

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

### Operational risks

Operational risk refers to the risk of loss resulting from inadequate or failed processes, systems or external events causing financial loss or other harmful consequences. Operational risk also includes compliance risk but not strategic risk. Operational risk may also materialise in terms of loss or deterioration of reputation or trust. Operational risks are managed in OP-Pohjola Group by identifying and analysing risks and by ensuring that control and management measures are appropriate and sufficient. Operational risk management does not always aim to remove the risk altogether but to bring it down to an acceptable level.

According to the division of tasks within OP-Pohjola Group, the central institution is responsible for the operation and continuity of OP-Pohjola Group's centralised operations and services. This means that the central institution must have in place sufficient systems and procedures to cater for the entire OP-Pohjola Group. OP-Pohjola Group entities are responsible for the management of their own operational risks as required by the nature and extent of their business.

OP-Pohjola Group entities identify operational risks associated with all major products, services, functions, processes and systems, including outsourcing. Risk identification also involves paying attention to the illegal use of banking systems (money laundering and financing of terrorism) as well as risks related to non-compliance. The Group assesses the significance of identified risks on the basis of their financial effect and probability, and this assessment also takes account of reputational risk. Situations that may disrupt business operations have been prepared against by means of contingency planning in key business divisions. Contingency planning also forms the basis for preparation against emergency conditions referred to in the Emergency Powers Act.

OP-Pohjola Group adopted in stages in 2010 a common, system-supported operating model for operational risk management. In this model, OP-Pohjola Group entities assess operational risks, that is, identify and analyse business risks and define and follow up on measures designed to reduce them. They also analyse risk events that have occurred and any close calls. Thanks to the system-supported operating model, the central institution's risk management can more reliably link risks and losses up to the Group level.

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

## Compliance risks

Failure to comply with regulations will result in compliance risk, which, if realised, may cause not only financial loss but also administrative or criminal justice sanctions. Compliance risk materialisation may also result in loss or weakening of reputation.

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

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

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

## Credit risks

### Objectives and general principles of credit risk management
Credit risk refers to a risk arising from the failure of the contracting parties to meet their obligations, and from the collateral not being able to secure the receivables. Credit risk management aims to restrict losses due to credit risks arising from customer exposure to an acceptable level. A controlled and uniform financing process, guided by credit risk policies, decision-making authorisations and operating instructions, plays a key role in credit risk management. Credit risk in banking is managed in practice through customer selection, collateral, covenants and avoidance of risk concentrations.

In order to avoid risk concentrations, three risk limit indicators are employed by the Group. The indicator for individual customer risk shows the customer entity's exposure in relation to the Group's capital base. The indicator for the total amount of major customer risks encompasses all customer risks that are at least 10% of the Group's capital base. The indicator for industry risk shows an individual sector's share of all of OP-Pohjola Group's corporate-sector receivables and commitments by Banking and Investment Services and of direct equity and bond investments by Non-life and Life Insurance. For credit risks there are not only concentration risk indicators but another indicator in which non-performing loan losses are compared with the loan and guarantee portfolio.

In view of various business environment scenarios, any consequences concerning credit risk exposure, credit losses and the capital requirement to cover credit risk will be assessed at least once a year at OP-Pohjola Group.

Stress test results are used, for example, in evaluating the size of capital conservation buffers.

Investments in non-life and life insurance operations also involve a credit risk. In non-life insurance operations, credit risk management is based not only on customer selection but also on credit control and investment plans. Reinsurance credit risk is managed by using companies that have a sufficient credit rating.

Credit risk involves counterparty, country and settlement risks. Counterparty risk is reduced in derivatives trade by the use of exchange-traded products, netting agreements and collateral. Country risk is controlled by limiting the amount of liabilities per country and by contracting party operating in each country. In settlement risk management, it is vital to ensure the reliability of counterparties. The Group mitigates the risks by concluding standard agreements and using only reliable clearing centres.

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

The authorisation to grant credit at OP-Pohjola Group has been set in each member bank according to the amount of liability and the risk level.

The debt servicing ability and credit risk associated with private customers are estimated on the basis of the credit rating of private customers' financing projects and the customers' solvency assessments. The credit rating controls the granting of exposure, consequences of insufficient collateral, and pricing of liabilities.

Solvency assessments ensure that private customers will be able to meet their obligations. In financing negotiations, the effect of a rise in interest rates on the monthly instalment is taken into account by using a 6% interest in the reference calculation. We offer credit repayment cover in case of illness or unemployment.

Financing negotiations take into account the financing percentage of a group of connected clients. If the financing percentage exceeds 90%, credit is granted only on exception and for a well-founded reason.
The assessment of corporate customers' debt servicing ability and credit risk is done by means of credit ratings; payment behaviour; financial statement analyses and predictions; statements and sector reviews issued by the central institution; and surveys of customer needs, credit rating assessments and other documents produced by Group member banks. Any foreseeable problems will be reacted to as early as possible.

Improvement of corporate customer services is one of the key areas of OP-Pohjola Group's strategy. In the biggest Group member banks, this strategic policy affects the fine-tuning of credit risk management processes.

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

In practice, the only entity taking foreign risk in banking and investment operations within OP-Pohjola Group is Pohjola Bank plc. Pohjola Bank plc's Senior Credit Committee confirms country limits based on international credit ratings and the bank's own analyses regarding the economic and political situation in different countries.

At OP-Pohjola Group level, credit risk developments are monitored at least monthly, mainly by means of risk and control limits. Other things monitored include major customers' liabilities, loan portfolio, payment plan changes, arrears and non-performing loan losses, and the amount of receivables for which OVY loan portfolio insurance has been declined. Other things monitored regularly include credit ratings; sufficiency of collateral; risk-based pricing; and other reports describing the quality and structure of the credit portfolio.

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

For the benefit of member banks, typical characteristics of weak and problem customers, both private and corporate, have been described to ensure that the entire Group uses uniform ways to deal with any problem situations.

**Credit rating**
The taking of credit risk is controlled and the amount of risk is assessed at OP-Pohjola Group by means of credit risk models. Other matters affecting credit rating include collateral status and exposure amount. In practice, the models have an effect on:

- credit decisions and pricing
- the level at which credit decisions are made
- the setting and follow up on credit portfolios' qualitative objectives
- the amount of loan portfolio premium charged by OVY from the banks
- credit risk reporting
- capital adequacy calculations using the Internal Ratings Based Approach (IRBA) for Pohjola's corporate exposure and

- the calculation of economic capital.

*Credit rating and probability of insolvency*
The purpose of credit rating is to put customers in different groups according to the risk. A customer's credit rating is an estimate of the risk of some of the customer's exposures becoming non-performing receivables within 12 months or of the customer having more serious payment defaults. This risk is measured in OP-Pohjola Group by means of probability of default, or PD, which is determined for each credit rating category. PD is the average probability of insolvency in a given credit rating category over a period of 12 months over the economic cycle. In other words, when the economy is thriving, the proportion of insolvent customers in a given credit rating category is lower than PD in the model, and when economic trends are poor, higher than PD.

OP-Pohjola Group uses several methods to evaluate customers' solvency. Private individuals' credit are categorised with their own models in the application stage and as part of the bank's loan portfolio. The liabilities of medium-sized and large companies are categorised by what is known as the 'R' rating. The liabilities of small businesses are categorised using 'A' rating or a system applicable to small liabilities. An internal credit rating model is used for credit institution counterparties.

If a customer is applying for new funding, a rating model for private customers' credit applications is used to evaluate the credit risk. The rating is based on information in the credit application and information available in OP-Pohjola Group's systems on the creditor's payment behaviour and transaction history. The credit rating comprises 16 categories.

The rating model for private customers' loan portfolio is applied to the exposures of private customers whose debtors have been members of OP-Pohjola Group for the last six months. The credit rating of a customer's loan portfolio based on the customer's payment behaviour or other transaction history is updated once a month. The categories are the same as with applications. An equivalent rating model is used for the rating of the smallest corporate customer.

The credit rating of SMEs and large corporate customers (R rating) is based on companies' key figures and qualitative background information that is transferred into a statistical points model. An expert familiar with the customer will make a rating proposal on the basis of what is suggested by the model and on any other information available. Any changes and uncertainties relating to future outlook will be considered as warning signs and exceptions to the rating provided by the model. Based on the expert's proposal, the final credit rating decision will be made in OP-Pohjola Group's Rating Committee.

Points limits have been set for credit rating categories based on 'R' rating points, and a probability of default (PD) has been calculated for each category for a period of 12 months. As input for PD value calculation, we have used recent years' realised insolvency statistics, long-term credit loss data and bankruptcy statistics and the cyclic nature of the model. The need for updating PD values for each category is assessed annually.

Suomen Asiakastieto Oy's rating model, Rating Alfa, which it has been using since 1999, forms the basis of corporate customer's 'A' ratings. This is a statistical regression model in which the 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 by safety and condition clauses restricting the credit rating of a company if, for example, no financial statements are available. Values provided by Rating Alfa have been calibrated with OP-Pohjola Group's internal credit ratings. The rating given to corporate exposure by the statistical model may be adjusted to correspond with the company's actual solvency.

The score limits are set for A rating in such a manner that the PD values within the categories correspond to the PD values within R rating.

All corporate exposure is put into categories ranging from 1 to 12, with insolvent customers falling under categories 11 or 12. In order to obtain a more detailed rating, categories 2 to 9 have been divided into two subcategories, bringing the total number of categories to 20. Customers' credit ratings are reassessed at least once a year.

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

The correlation between OP-Pohjola Group's and Standard & Poor's (S&P) rating categories

| S&P Rating | AAA...AA+ | AA...BBB+ | BBB...BBB- | BB+...BB- | B+...B | B-..CCC |
|---|---|---|---|---|---|---|
| OP-Pohjola Group rating | 1–2 | 2.5–4.0 | 4.5–5.0 | 5.5–7.0 | 7.5–8.5 | 9–10 |

An 'L' rating model is used for the categorisation of credit institution counterparties; this process is very similar to R ratings. Credit institution's rating decisions are made in the Group's Rating Committee, using the same 20-level system as with companies. The L-rating has different PD values than in the corporate rating.

*Loss given default (LGD) and exposure at default (EAD)*
In OP-Pohjola Group's credit risk models, loss given default (LGD) is used to assess the financial loss (as part of the customer's total exposure) sustained by the bank should the customer become insolvent within a year. When assessing the probability of a customer becoming insolvent on the basis of the PD value corresponding to the

credit rating, the share of credit loss expected within a year related to the customer's exposure can be estimated as PD and LGD earnings.

LGD has been assessed factoring in recession, because voluntary payment of past due payments and the value of collateral vary considerably depending on the economic cycle. The loss is forecast for each customer as a direct percentage, which is used, for example, in minimum recommended price for loans.

Predicting loan losses in monetary terms requires an assessment on the amount of the customer's liability when they became insolvent. OP-Pohjola Group's credit risk models try to predict changes in the customer's exposure at default within the next 12 months. When the average percentage of the customer's exposure resulting in a loss in the following twelve months is known, the euro credit losses can be predicted by multiplying the percentage by EAD.

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

The Finnish Financial Supervisory Authority has granted OP-Pohjola Group permission to phase in the Internal Ratings-based Approach (IRBA) in its capital adequacy measurement for credit risks. In September 2008, OP-Pohjola Group began to apply the Foundation Internal Ratings-based Approach to Group-level equity investments and Pohjola's corporate exposure.

Within the Foundation Internal Ratings-based Approach, the risk weight of each customer's exposure depends on the probability of default (PD) calculated using OP-Pohjola Group's internal credit risk models. Loss given default (LGD) and exposure at default (EAD) are calculated using models supplied by regulators.

IRBA is scheduled to be adopted for the solvency calculation of other major exposure classes in September 2011.

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

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

The models are validated through a quality assurance carried out at least once a year in accordance with the validation instructions approved by OP-Pohjola Group's Risk Management Committee. The set of validation instructions contains requirements for quality assurance that must be carried out when adopting the models. 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 analysis of user feedback, and a peer group analysis. The results of validation and any recommendations for required measures are reported to the Risk Management Committee, which decides on any improvements on the basis of the validation.

The central institution's Risk Management is responsible for validation. The independence of the validation is ensured by allowing the central institution's Audit function to audit each validation. It also inspects the credit risk models and their applications and use in the central institution's companies and Group member banks as a matter of regular auditing.

**Reducing credit risks**

In order to ensure repayment of commitments, collateral is sought whenever possible for customer exposure, and any retail banking carried out by Group member banks must primarily have collateral security. OP-Pohjola Group follows collateral approval procedures issued by the central institution's Executive Board concerning real estate, various shares, deposits and securities and any other assets or guarantees. Adherence to these guidelines also ensures that collateral has been properly pledged, is comprehensive and sufficient and can be converted into cash. OP-Pohjola Group follows uniform principles for collateral evaluation and valuation of various assets collateralised. Collateral is evaluated by an independent party and using a conservative approach to fair value.

OP-Pohjola Group monitors developments in collateral values regularly. The value of collateral is re-assessed, for instance, when it has significantly changed or the client's financial standing has weakened substantially. The Group exercises special care in assessing the value of collateral deemed as cyclical in nature, and its usability. With larger corporate customers, the Group also uses covenants to ensure the availability of information and an option to re-evaluate loan terms and conditions, collateral requirements or pricing should the risks increase.

The central institution's Executive Board confirms maximum valuation percentages for each type of collateral.

The member cooperative banks and Helsinki OP Bank Plc have a loan portfolio insurance policy with OP Bank Group Mutual Insurance Company (OVY) covering the loan portfolio and bank guarantees. This insurance helps reduce a loss incurred by an individual member bank due to credit losses and defer the loss over several years in its income statement. Insurance decisions are taken separately in respect of exposure by a group of connected clients in excess of EUR 350,000 or which account for more than 10% of the member bank's capital. The limit is EUR 300,000 for banks whose credit risk has increased based on an assessment made by the central institution's Risk Management. The processing of insurance decisions will be made more risk-based in 2011: in addition to the amount of liability as processing criteria, a few key risk-based variables will be included.

OP-Pohjola Group mitigates risk associated with credit insurance operations by screening liabilities based on OP-Pohjola Group's credit and collateral instructions: the commitments for a group of connected customers can be

rejected outside the scope of the insurance if the risks associated with repayment capacity or collateral are excessively large. The separate processing of insurance decisions provides detailed information to the central institution's Risk Management on the loans, debt servicing ability and collateral of the largest retail banking customers.
Credit insurance operations play a key role in OP-Pohjola Group's internal credit risk management and loss-balancing procedure, accounting for about 90% of OVY's technical provisions and premiums written. OVY also offers OP-Pohjola Group's entities collateral, liability and security insurance.

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

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

## Liquidity risk

Liquidity risk comprises structural funding risk and funding liquidity risk. Structural funding risk refers to uncertainty related to long-term lending, arising from the refinancing risk due to the structure of funding. OP-Pohjola Group's structural funding risk arises mainly from the difference between long-term lending inherent in retail banking and the maturity of deposit funding largely dependent on customer behaviour. Funding liquidity risk refers to the risk that an entity will not be able to meet its current and future cash flow and collateral needs, both expected and unexpected, without affecting its daily operations or overall financial position.

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

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

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

The liquidity and structural funding risk of OP-Pohjola Group's Banking function is controlled by means of liquidity management strategy. The management strategy is based on the Group's risk policy and approved risk and control limits. The liquidity management strategy defines qualitative targets for the liquidity reserve, wholesale funding plan, and - in case of threat scenarios - a contingency funding plan and liquidity control management. The contingency funding plan involves a control model based on threshold levels, a contingency plan containing funding sources, and a liquidity contingency plan at operational level. The liquidity reserve's quantitative and qualitative targets, contingency plan and control model based on threshold levels have been determined in the strategy on the basis of threat-scenario stress tests. In case of market disruptions, the Group applies its contingency funding plan. The internal central banking services provided by Pohjola Bank support the Group's liquidity management.

The Group's wholesale funding is based on the proactive planning of the refinancing structure and on the risk limit set for the asset/liability structure. Deposits from the general public and wholesale funding form the basis of the Group's funding. The need for wholesale funding is on the one hand determined by the difference between deposit funding and lending growth, and the monitoring indicators set for the structural funding risk on the other. In order to secure funding on an ongoing basis, the Group utilises a diverse range of financial instruments while diversifying the sources of funding by maturity, geographic region, market and investor. The Group's entities' surplus of refinancing and deposits are channelled for use by the Group through either Pohjola Bank plc's market-based fixed-income instruments or accounts with a view to avoiding an excessive increase in the Group's wholesale funding.

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

OP-Pohjola Group aims to ensure its liquidity for one year by means of a liquidity buffer and sources of finance referred to in the contingency plan in the event of a situation where both money and capital markets were to close and deposit funding was to decrease moderately. The liquidity buffer has the size required for the time to implement the contingency plan in a liquidity crisis.

The risk limit indicators for OP-Pohjola Group's liquidity risk are the ratio of the funding risk controlling the structural funding risk to the Banking balance sheet and the ratio of the liquidity portfolio to the liquidity portfolio requirement. The risk indicator for the structural funding risk indicates the maximum portion of the net cash flows in the Group's balance sheet that may have a maturity within less than one year and within three and five years. The liquidity buffer indicator shows how well the buffer can cover the known or predictable net cash flows payable within a month to parties outside the Group. At operational level, tighter control levels are set for risk limit indicators with a view to serving as an operational buffer. In addition to risk limit indicators, the Group uses monitoring indicators describing various aspects of liquidity risk.

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

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

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

As the financial services group's central bank, Pohjola Bank is tasked with securing the liquidity of the entire Group and each Group member bank or Group entity. The Group's daily liquidity management refers to managing liquidity of the Group's companies engaged in banking operations. Any changes in their liquidity position will change Pohjola Bank plc's liquidity position. Pohjola Bank plc is responsible for balancing liquidity either in money and capital markets or, ultimately, through its account with the Bank of Finland. Pohjola Bank plc is in charge of the management of the Group's liquidity buffer and of wholesale funding while OP Mortgage Bank plc is responsible for Group funding based on mortgage-backed securities.

Entities engaged in insurance operations are primarily responsible for managing their liquidity. The entities' liquidity requirements are considered in the allocation of the investment portfolio. However, Pohjola Bank assumes responsibility on a centralised basis for securing the insurance and pension institutions' liquidity with a view to ultimately safeguarding the Group's reputation.

Monitoring and reporting liquidity risks exposed by Group entities vary from real-time to quarterly practices, depending on the nature and extent of their business. Such monitoring and reporting are based on the Group's risk limits and target values set in the liquidity management strategy. Depending on the entity and reporting level, reporting practices may vary from daily cash flow monitoring (funding liquidity) to the monitoring and forecasting of long-term refinancing structure (refinancing risk). Monitoring and reporting practices correspond to the threshold level required by the prevailing liquidity status. The Group reports liquidity risks to the central institution's Executive Board on a regular basis and, with a heightened threshold level of liquidity status, will adopt daily progress reporting practices whenever necessary. Group entities report liquidity risks to their boards of directors regularly, applying at least the level which has been set for the control limit indicators.

During the annual review of its liquidity management strategy and as part of its capital adequacy management process, OP-Pohjola Group stress-tests the effects of threats and future scenarios related to structural funding risk and funding liquidity risk on the Group's liquidity, financial performance and capital adequacy.

## Market risks

### Objectives and general principles of market risk management

By market risk at OP-Pohjola Group we refer to all interest rate, exchange rate, credit spread, equity, commodity, real estate and volatility risks concerning items both on and off the balance sheet. The key task of market risk management is to identify and assess market risks included in business operations, limit them to an acceptable level, and report them regularly and efficiently. This ensures that changes in market prices or other external market factors will not excessively deteriorate the long-term profitability or capital adequacy of any individual entity within the Group or of OP-Pohjola Group as a whole.

OP-Pohjola Group's capital adequacy management principles and the central institution's risk management guidelines that supplement the principles, and OP-Pohjola Group's risk limit and control system control and mitigate market risks taken by each individual OP-Pohjola Group entity. The board of directors of each entity has defined the objectives of market risk management, the principles of risk-taking and the organisation of market risk management.

Insurance operations' risk limit indicator for market risk is the ratio of the economic capital's market risk to the combined economic capital of all risk types. Within insurance operations, the economic capital for interest rate, exchange rate, credit spread, equity and commodity risks are calculated using the historical simulation VaR model.

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

In accordance with the division of tasks within the banking operations, the member banks and Helsinki OP Bank Plc focus on retail banking. Their active trading in the money and capital markets is restricted by a central institution recommendation specifying that the value of a bank-specific trading portfolio may not exceed 5% of the aggregate amount of total assets, plus off-balance-sheet commitments.

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

Member banks engage in the derivatives business only to a small extent, limiting it to the hedging of the interest flows of individual credits, the financial hedging of net interest income or the hedging of the interest flows of credit at Euribor rates. Some member banks have protected their net interest income either by means of interest rate floor contracts (financial hedging) or interest rate swaps (cash flow hedging). The portfolio of credit with an interest-rate cap and any additional returns from index-linked term deposits are also always hedged with OTC swaps under hedge accounting principles. The interest rate corridor options for credit are separated from the host contract, with their interest rate and volatility risk always covered with opposite options. Long-term investments involve embedded derivatives, but they are not separated from the host contracts, because the investment is valued as a combination to fair value. Member banks carry out their money market and derivatives operations with Pohjola Bank plc.

As the central bank of OP-Pohjola Group, Pohjola Bank plc manages the Group's payment transfers and Banking's currency risk, obtains wholesale funding, maintains international banking relationships, and is responsible for Banking's liquidity and centralised liquidity buffer maintenance. The extent of market risks taken by Pohjola is controlled by the company's capital adequacy management principles and overall risk policy, as well as the market risk policy which determines the principles applicable to the structure and diversification of the exposure, the maximum risk amounts permitted, and the targets set for risk and return. Within the financial services group, it is its central bank, Pohjola Bank plc, that mostly uses derivatives; it uses interest rate and currency derivatives both for trading and hedging purposes. In addition, Pohjola uses equity, equity and equity index derivatives to a small extent to protect against market risk. More detailed information on Pohjola's market risk management can be found in Pohjola's financial statements.

Stress tests are used to assess market risks exposure by banking operations. In addition, OP-Pohjola Group prepares various funding risk scenarios and related recovery plans.

The Group's non-life and life insurance institutions are taking a market risk in their investment operations. Life Insurance's technical provisions also include market risks arising from insurance contract payment obligations and guarantees, the largest of which is interest rate risk.

In non-life and life insurance, derivatives are used for market risk management. The principles of the use of derivatives are annually defined in the companies' investment plans. Interest rate, credit and equity derivatives may be used both for hedging purposes and to increase the portfolio's risk level within defined limits. Currency derivatives may be used for hedging purposes only. Embedded derivatives are used in long-term fixed income investments, but these have not been separated from the host contracts. These instruments are recognised at fair value through profit or loss. The derivatives are mainly standardised. Non-standardised derivative contract may only be signed with a counterparty whose long-term rating is at least A3 (Moody's) or A- (Standard & Poor's).

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

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

Achieving long-term return targets for investment requires controlled risk-taking. OP-Pohjola Group's liquidity management strategy defines the liquidity buffer's allocation, and Pohjola Bank plc will make a more detailed investment plan to the liquidity buffer portfolio. The boards of insurance companies confirm separate instructions and policies related governing the risk management of investments. Annual investment plans, confirmed by the boards of directors of Group entities, determining the desired risk and return level are also very important. These investment plans also specify the mix, range and benchmark indices for investment assets as well as other restrictions on investment.

Insurance's investment assets are allocated under restrictions set by the insurance companies' technical provisions in terms of return on investment property, investment asset liquidity and the company's risk-bearing capacity. In Life Insurance, application of the principle of equity also affects investment targets and the amount of risk taken. Investments are effectively diversified among various asset classes and investment instruments, both by region and industry. Investment assets undergo sensitivity analyses to assess the effects of changes in share prices, interest rates and property values. A sensitivity analysis of the credit risk is also carried out for each investment.

The risk exposure of investments by Non-life and Life Insurance is measured by means of the profit, risk and correlation models based on the investments' historical value performance. In order to take into account exceptional market conditions, stress tests are factored in; for example, a simulation of the 2008-2009 financial market crisis.

The risk limit system is used to limit alternative investments. The ratio of the market value of alternative and structured investments to the economic capital for all risk types is used as the risk limit indicator. Alternative investments include private equity funds, unlisted equity instruments, hedge funds, equity-related structured credit products, unlisted real estate funds, infrastructure funds, commodities and convertible bonds. Structured investments refer to investments whose return differs substantially from that of other asset categories and, in many cases, that of the underlying asset. Structured investments also include ABS (asset-backed securities).

**Interest rate risk**
Interest rate risk refers to changes in earnings, profitability and capital adequacy caused by interest rate fluctuations. Interest rate risk is manifested as the price risk of marketable securities portfolios, risk of a change in the present value of an insurance company's technical-provisions cash flows, and the banking book's repricing risk. Price risk materialises when a change in market rates results in a change in the market value of securities portfolios. Risk of a change in the present value of technical provisions materialises when the technical provisions' present value changes as a result of changes in market rates. Repricing risk arises from interest-rate bases and interest rate adjustment times differing between investment and acquisition. A change in interest rates makes repricing risk materialise as a change in the present value of interest rate exposure and interest income risk, which measures the effect of interest rate changes on net interest income.

OP-Pohjola Group's greatest interest rate risks are those related to retail Banking's banking book and to insurance operations.

The banking interest rate risk is derived from the banking book and Pohjola Bank's trading portfolio. The interest rate risk of items not in the trading book is by nature related to structural interest income from financing. In banking operations, all interest-bearing balance-sheet items and off-balance-sheet items are included in the interest rate risk analysis. Interest-rate risk is analysed for an exposure from which items will exit upon maturity, i.e. no assumptions will be made of the replacement of maturing items or business growth.

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

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

The interest rate risk measurement methods and frequency of follow-up in Group entities vary on the basis and nature and extent of their operations. The risk limit indicator for the Group's interest rate risk exposure by Banking Operations is the ratio of the required economic capital for interest rate risk to the required combined economic capital for all risk types. The economic capital for interest rate risk is calculated on the basis of the effect of a 4-percentage point parallel and unfavourable change in interest rates on the present value of interest rate risk position.

In addition to the interest rate monitoring standardised throughout the Group, Pohjola Bank plc interest rate risk is reduced by means of interest rate risk limits specific to responsibility areas. Interest rate risk related to trading and the banking book are limited using the same principles and indicators. In addition to traditional sensitivity indicators related interest rate risk, Pohjola Bank plc measures and reports on interest rate risk by means of a statistical VaR model. Pohjola Bank plc will adopt VaR based interest rate risk limiting in 2011.

In controlling member bank businesses, the control limit indicator used by the Group is the effect of a one-percentage-point parallel increase in market interest rates on the present value of risk exposure in proportion to the bank's capital base. The Group monitors interest income risk by evaluating the effect of interest rate changes on net interest income during the following twelve months. As part of regular interest rate risk measurements and reporting, the Group carries out stress tests to analyse the effects of various interest rate changes on the present value of the interest rate risk position.

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

The interest rate risk follow-up and reporting frequencies vary from real-time portfolio-specific interest rate risk monitoring to daily and monthly monitoring.

In non-life and life insurance operations, an interest rate risk is created when changes in the interest rate affect the present value of investment assets and the cash-flows of technical provisions. Interest rate risk arising from insurance companies' investments and technical provisions are measured by means of the economic capital method as part of market risk by insurance operations. Interest rate risk is also monitored by the effect of a change of one percentage point in the yield curve on the value of investments and the technical provisions. The market risk of investments is controlled by limiting the amount and duration of fixed-income investments in the investment allocation.

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

**Currency risk**

Currency risk refers in banking to the risk to the bank's earnings or change in market value due to changes in exchange rates. Open foreign exchange exposure arises when there is a difference between receivables and liabilities in the same currency. In OP-Pohjola Group member banks, the currency risk is concentrated in Pohjola Bank plc. Over night currency risk is low within banking. The foreign exchange exposure of an individual member bank is practically limited to travel exchange cash.

In non-life and life insurance, currency risk is created as a result of changes to investment asset value caused by currency changes. Currency risk is managed by diversifying the investment allocation and by means of hedging currency derivatives. In non-life and life insurance, foreign currency exposure has a maximum limit in the investment plan.

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

**Credit spread risk**

By credit risk spread we refer to the potential value change of a bond caused by a change in a bond's return requirement, or credit spread. A change in a credit spread may also be caused by a change in one of the following: probability of default, market liquidity or general pricing of risk in the market.

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

**Equity risk**

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

The equity risk related to investments is managed by diversifying investment allocations and by means of derivatives. In order to obtain efficient diversification in terms of geography, sector, currency and individual companies, equity investments have been made through domestic and foreign funds.

### Commodity risk
Commodity risk refers to risk to Group earnings caused by changes in commodity prices. Commodity risk is linked to insurance companies' investments and Pohjola Bank plc's trading. Pohjola Bank plc applies the statistical VaR indicator to commodity risk, too. The economic capital of insurance companies' exchange traded commodities is calculated by using the historical simulation VaR model as part of insurance market risk. Commodity risk is controlled by means of securities selection and derivatives.

### Property risk
By property risk we refer to risk to an investment's market-based profit caused by market changes and property occupancy rate, both with reference to property and to similar instruments. The risk limit indicator for the Group's property risk is the ratio of the property risk's economic capital to the economic capital of all risk types. The economic capital requirement for investment property is based on an expert assessment (40% of balance sheet value), while property in own use is based on capital requirements in the capital adequacy measurement (8% of the balance sheet value). In insurance operations, the risks of indirect, market-quoted property investments (property funds etc.), are included in the calculation of the economic capital of market risks (historical simulation VaR model).

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

### Volatility risk
Volatility risks refer to risks caused by a change in the volatility of a traded asset to the Group's earnings. Options trading and index-linked bonds and notes with option structures involve volatility risks. It is only Pohjola Bank plc in OP-Pohjola Group that is taking an active volatility risk, but limiting this in options trading by means of sensitivity and VaR indicators. Volatility risk is limited through options.

## Underwriting risks

### Non-life Insurance
The insurance business is based on taking and managing risks. The largest technical insurance risks pertain to risk selection and rating, to the acquisition of reinsurance cover, and to the sufficiency of insurance contract liabilities. The risk inherent in technical provisions lies mainly in insurance lines characterised by a long claims settlement period.

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

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

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

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

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

OP-Pohjola Group's risk limit indicator for non-life insurance underwriting risk is the ratio of the economic capital's non-life insurance underwriting risk to the economic capital of all risk types. The economic capital for underwriting risk is calculated with the company's own risk model.

The role of risk selection and rating is emphasised in operational models. The Group has limited the size and extent of risk for each insurance line and risk concentration. Insurance terms and conditions are a vital tool in controlling risks. In addition, customer or insurance line specific risk analyses are performed to limit risks.

The reinsurance principles and the maximum risk per claim retained for own account are annually approved by Pohjola's Board of Directors. In practice, this amount is kept lower if justifiable considering the price of reinsurance. The Group aims to take account of local risk concentrations in EML (Estimated Maximum Loss) estimates for property risks and through EML breakthrough cover included in reinsurance cover. The Group has protected against catastrophe accumulation losses through an extensive catastrophe reinsurance cover.

The level of reinsurance protection has an impact on the need of solvency capital. Only companies with a sufficiently high credit rating are accepted as reinsurers. Moreover, maximum limits have been confirmed for the amounts of risk that can be ceded to any one reinsurer. These limits depend on the nature of the risk involved and on the company's solvency. The Group has mainly placed its reinsurance agreements with companies with at least 'A' rating in accordance with Standard & Poor's.

The Group monitors the adequacy of technical provisions on an annual basis. The evaluation of insurance contract liabilities always involves uncertainties which may be due, for instance, to the prediction of the claims trend, delays in verifying losses, cost inflation, legislative amendments and general economic development.

**Life Insurance**
The main technical insurance risks in life-insurance operations are mortality and the onset of disability. The risk in term insurance is high mortality, but for annuities and pure endowment policies, the risk is lower-than-assumed mortality. Risks are managed by defining the premiums collected on policies as being cover-providing, by keeping risk selection instructions up to date and by transferring risks to reinsurers. The company reinsures the largest individual risks and protects its earnings by means of catastrophe insurance.

Because premium rating may only be changed under exceptional circumstances after insurance has been granted, unfavourable fluctuation in costs, underwriting risks and investment income must be provided for. The realisation of assumptions is tracked systematically and, if needed, the rating is adjusted or insurance contract liabilities are strengthened. The range of life insurance products mainly includes products intended for long-term savings, which contain only a minor technical risk. An expense risk is realised if actual operating expenses exceed the cost assumptions applied in rating. The means of managing this are cost discipline and adequate premium rating.

The option for customers to surrender insurance policies creates a risk for life insurance companies: if long-term assets are withdrawn prematurely, the earnings base is reduced. In conjunction with surrenders, the insurance company may have to liquidate its investments in a poor market situation, or may not be able to amortise accelerated operating expenses by the time of the surrender.

Surrender risk is managed by means of a suitable product structure, and by means of contract terms and sanctions. Savings insurance and capitalisation agreements are susceptible to surrender. On the other hand, surrender of pension insurance has only been possible under exceptional circumstances. Surrenders and transfers of savings to another service provider may increase once the Act on bound long-term savings and related tax legislation changes will provide consumers with more tax-deductible savings options than the current voluntary pension insurance policies offered by insurance companies. These acts came into force from the beginning of 2010. Market developments are monitored so that any changes is customer behaviour can be reacted to in time.

# Notes to OP-Pohjola Group financial statements

## NOTES TO THE INCOME STATEMENT

### Note 3. Net interest income

| EUR million | 2010 | 2009 |
|---|---|---|
| **Interest income** | | |
| Receivables from financial institutions | 23 | 31 |
| Receivables from customers | | |
| Loans | 1,257 | 1,696 |
| Finance lease receivables | 17 | 20 |
| Impaired loans and other commitments | 4 | 2 |
| Notes and bonds | | |
| Held for trading | 15 | 53 |
| At fair value through profit or loss | 0 | 1 |
| Available for sale | 228 | 146 |
| Held to maturity | 24 | 38 |
| Loans and other receivables | 31 | 63 |
| Derivative contracts | | |
| Held for trading | 925 | - |
| Hedge accounting | -116 | -103 |
| Cash flow hedge | 3 | - |
| Other | -2 | 1,121 |
| Other interest income | 3 | 5 |
| **Total** | **2,412** | **3,072** |
| | | |
| **Interest expenses** | | |
| Liabilities to financial institutions | 16 | 13 |
| Financial liabilities at fair value through profit or loss | 1 | 5 |
| Liabilities to customers | 269 | 472 |
| Notes and bonds issued to the public | 326 | 430 |
| Subordinated liabilities | | |
| Subordinated loans | 7 | 11 |
| Other | 32 | 36 |
| Derivative contracts | | |
| Held for trading | 874 | - |
| Hedge accounting | -30 | -8 |
| Cash flow hedge | 0 | |
| Other | -7 | 1,038 |
| Other interest expenses | 6 | 5 |
| **Total** | **1,495** | **2,002** |
| | | |
| **Net interest income** | **917** | **1,070** |

Hedging instruments in hedge accounting showed net loss of EUR 68.7 million (a loss of 12.6) and net income from hedged contracts came to EUR 63.8 million (5.3).

## Notes to OP-Pohjola Group financial statements

## NOTES TO THE INCOME STATEMENT

### Note 4. Impairment losses on receivables

| EUR million | 2010 | 2009 |
|---|---|---|
| Receivables eliminated as loan and guarantee losses | 89 | 52 |
| Recoveries of eliminated receivables | -10 | -11 |
| Increase in impairment losses | 141 | 171 |
| Reversal of impairment losses | -79 | -46 |
| Group-specific impairment losses | 7 | 12 |
| Impairment losses on interest receivables | - | - |
| **Total** | **149** | **179** |

## Notes to OP-Pohjola Group financial statements

## NOTES TO THE INCOME STATEMENT

### Note 5. Net income from Non-life Insurance

| EUR million | 2010 | 2009 |
|---|---|---|
| Insurance premium revenue | | |
| Premiums written | 1,023 | 1,005 |
| Change in provision for unearned premiums | -13 | -15 |
| Gross insurance premium revenue | 1,010 | 990 |
| Reinsurers' share | -46 | -47 |
| Total | 964 | 943 |
| Net investment income | 86 | 58 |
| Claims incurred | | |
| Claims paid (excl. loss adjustment expenses) | 655 | 595 |
| Change in provision for unpaid claims | 19 | -30 |
| Gross total claims incurred | 674 | 565 |
| Reinsurers' share | -37 | -5 |
| Total | 637 | 560 |
| Other Non-life Insurance items | 30 | 44 |
| **Net income from Non-life Insurance** | **382** | **396** |

**Insurance premium revenue and insurance premiums ceded to reinsurers**

| | | |
|---|---|---|
| Short-term insurance contracts | | |
| Premiums written | 1,021 | 1,003 |
| Change in provision for unearned premiums | -13 | -18 |
| Change in provision for unexpired risks | -1 | 1 |
| Long-term insurance contracts | | |
| Premiums written | 3 | 2 |
| Change in provision for unearned premiums | 1 | 2 |
| **Gross insurance premium revenue** | **1,010** | **990** |
| | | |
| Reinsurers' share of short-term insurance contracts | | |
| Premiums written | -40 | -51 |
| Change in provision for unearned premiums | -5 | 4 |
| Reinsurers' share of long-term insurance contracts | | |
| Premiums written | 0 | 0 |
| Change in provision for unearned premiums | -1 | -1 |
| Total reinsurers' share | -46 | -47 |
| **Net insurance premium revenue** | **964** | **943** |

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

| | | |
|---|---|---|
| **Loans and other receivables** | | |
| Interest income | 13 | 20 |
| Interest expenses | 1 | 1 |
| Capital gains and losses | 1 | 0 |
| Fair value gains and losses | -4 | -3 |
| Loans and other receivables total | 9 | 16 |
| **Net income from financial assets recognised at fair value through profit or loss** | | |
| Interest income | | |
| Notes and bonds | 0 | 0 |
| Derivatives | 0 | - |
| Other | - | 0 |
| Total | 0 | 0 |
| Capital gains and losses | | |

| | | |
|---|---|---|
| Notes and bonds | - | - |
| Shares and participations | - | - |
| Derivatives | -20 | -21 |
| Other | - | - |
| Total | -20 | -21 |
| Fair value gains and losses | | |
| Notes and bonds | 0 | 2 |
| Shares and participations | - | - |
| Derivatives | 0 | -2 |
| Other | - | - |
| Total | 0 | 0 |
| Total net income from financial assets recognised at fair value through profit or loss | -20 | -20 |
| **Net income from available-for-sale financial assets** | | |
| Notes and bonds | | |
| Interest income | 53 | 49 |
| Other income and expenses | - | 0 |
| Capital gains and losses | 28 | 13 |
| Transferred from fair value reserve during the financial year | 25 | -6 |
| Impairment losses and their reversal | 0 | 0 |
| Total | 105 | 55 |
| Shares and participations | | |
| Dividends | 21 | 7 |
| Other income and expenses | 1 | 0 |
| Capital gains and losses | 49 | 54 |
| Transferred from fair value reserve during the financial year | -47 | -23 |
| Impairment losses and their reversal | -37 | -37 |
| Total | -13 | 1 |
| Total net income from available-for-sale financial assets | 92 | 57 |
| **Net income from investment property** | | |
| Rental income | 10 | 10 |
| Capital gains and losses | 3 | 1 |
| Value changes from fair value measurement | 1 | 1 |
| Maintenance charges and expenses | -8 | -6 |
| Other | -1 | 0 |
| Total net income from investment property | 5 | 6 |
| | | |
| **Total net investment income from Non-life Insurance** | **86** | **58** |

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

The increase in the discounted insurance contract liabilities of Non-life Insurance due to the passage of time (Note 34) (unwinding of discount) totals EUR 45 million (43). Unwinding of discount is computed monthly applying the discount rate at the end of the previous month and the insurance contract 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 and 3.5% from 1 December 2007 to 31 December 2010.

* The item includes an additional EUR 35 million of technical provisions as a result of a rise in life expectancy.

** The item includes a profit of EUR 16 million from the cancellation of provision for joint guarantee scheme

## Notes to OP-Pohjola Group financial statements

## NOTES TO THE INCOME STATEMENT

### Note 6. Net income from Life Insurance

| EUR million | 2010 | 2009 |
|---|---|---|
| Premiums written | 1,315 | 703 |
| Insurance premiums ceded to reinsurers | -28 | -25 |
| Net investment income | 531 | 362 |
| Claims incurred | | |
| Benefits paid | 595 | 504 |
| Change in provision for unpaid claims | 414 | 13 |
| Reinsurers' share | -7 | -5 |
| Other | - | - |
| Change in insurance contract liabilities | | |
| Change in life insurance provision | 698 | 640 |
| Reinsurers' share | -10 | -11 |
| Other | 29 | 19 |
| **Total net income from Life Insurance operations** | **100** | **-120** |

Earnings in the accounting period include a EUR 30 million (12) provision for supplementary benefits and any changes in reserving bases.

**Premiums written in Life Insurance**

| | 2010 | 2009 |
|---|---|---|
| **Premiums written from insurance contracts** | | |
| Premiums written from insurance contracts with entitlement to discretionary portion of surplus (DPF) | | |
| Savings insurance | 56 | 116 |
| Personal pension insurance | 50 | 59 |
| Group pension insurance | 613 | 78 |
| Term insurance | | |
| Personal insurance | 75 | 69 |
| Supplementary group insurance | 2 | 2 |
| Employees' group life insurance | 12 | 12 |
| Total term insurance | 89 | 83 |
| Total | 808 | 335 |
| Premiums written from unit-linked insurance contracts | | |
| Savings insurance | 411 | 270 |
| Personal pension insurance | 91 | 94 |
| Group pension insurance | 6 | 4 |
| Total | 507 | 368 |
| **Total** | **1,315** | **703** |
| | | |
| **Premiums written from investment contracts** | | |
| Premiums written from investment contracts with entitlement to discretionary portion of surplus | | |
| Capital redemption contracts | 413 | 60 |
| Premiums written from investment contracts without entitlement to discretionary portion of surplus | | |
| Capital redemption contracts | - | - |
| Premiums written from unit-linked investment contracts | | |
| Capital redemption contracts | 118 | 9 |
| **Total** | **531** | **69** |
| | | |
| **Total direct insurance** | **1,846** | **771** |
| Assumed reinsurance | 0 | 0 |
| **Total premiums written** | **1,846** | **771** |

| | | |
|---|---|---|
| Regular premiums from insurance contracts | 502 | 471 |
| Regular premiums from investment contracts | 0 | 0 |
| Single premiums from insurance contracts | 811 | 232 |
| Single premiums from investment contracts | 533 | 69 |
| **Total** | **1,846** | **771** |

| | | |
|---|---|---|
| **Net investment income from Life Insurance** | | |
| **Loans and other receivables** | | |
| Interest income | 15 | 0 |
| Interest expenses | 1 | 1 |
| Capital gains and losses | 1 | -8 |
| Other | 0 | -1 |
| Impairment losses | -3 | - |
| Loans and other receivables total | 13 | -10 |
| **Net income from financial assets recognised at fair value through profit or loss** | | |
| Interest income | | |
| Notes and bonds | 13 | 15 |
| Derivatives | 0 | 1 |
| Other | - | - |
| Total | 13 | 15 |
| Capital gains and losses | | |
| Notes and bonds | -4 | -1 |
| Shares and participations | - | - |
| Derivatives | -43 | -12 |
| Other | 0 | 0 |
| Total | -46 | -13 |
| Fair value gains and losses | | |
| Notes and bonds | 17 | 39 |
| Shares and participations | - | - |
| Derivatives | 2 | -15 |
| Other | - | - |
| Total | 19 | 23 |
| Dividend income | - | - |
| Total net income from financial assets recognised at fair value through profit or loss | -15 | 26 |
| **Net income from available-for-sale financial assets** | | |
| Notes and bonds | | |
| Interest income | 18 | 38 |
| Capital gains and losses | 6 | -3 |
| Transferred from fair value reserve during the financial year | 4 | -4 |
| Impairment losses and their reversal | -1 | -42 |
| Total | 28 | -11 |
| Shares and participations | | |
| Dividends | 49 | 40 |
| Other income | 11 | 7 |
| Capital gains and losses | 109 | 55 |
| Transferred from fair value reserve during the financial year | 43 | -7 |
| Impairment losses | -81 | -171 |
| Total | 130 | -75 |
| Total net income from available-for-sale financial assets | 158 | -86 |
| **Net income from investment property** | | |
| Rental income | 9 | 11 |
| Capital gains and losses | 0 | 0 |
| Value changes from fair value measurement | -1 | 0 |
| Maintenance charges and expenses | -7 | -6 |
| from which rental income is not accumulated | 0 | 0 |
| Other | -1 | -6 |
| Total net income from investment property | 1 | -1 |
| **Assets serving as cover for unit-linked policies** | | |

| | | |
|---|---|---|
| Shares, participations and others | | |
| Interest income | 1 | - |
| Capital gains and losses | 53 | 65 |
| Fair value gains and losses | 297 | 353 |
| Other | 23 | 15 |
| Total assets serving as cover for unit-linked policies | 374 | 433 |
| **Exchange rate gains (losses)** | **0** | **0** |
| **Total net income from investment operations** | **531** | **362** |

**Benefits paid in Life Insurance**

| | | |
|---|---|---|
| **Benefits paid from insurance contracts** | | |
| Benefits paid from insurance contracts entitling to discretionary portion of surplus | | |
| Savings insurance | | |
| Maturities | 192 | 177 |
| Death benefits | 74 | 73 |
| Surrenders | 57 | 68 |
| Total | 323 | 318 |
| Personal pension insurance | | |
| Annuities | 44 | 37 |
| Death benefits | 2 | 2 |
| Surrenders | 2 | 2 |
| Total | 48 | 40 |
| Group pension insurance | | |
| Annuities | 40 | 21 |
| Lump-sum benefits | 0 | 1 |
| Surrenders | 1 | 1 |
| Total | 41 | 23 |
| Term insurance | | |
| Personal insurance | 18 | 13 |
| Supplementary group insurance | 1 | 0 |
| Employees' group life insurance | 10 | 7 |
| Total | 28 | 20 |
| Benefits paid from unit-linked insurance contracts | | |
| Savings insurance | | |
| Maturities | 34 | 23 |
| Death benefits | 21 | 18 |
| Surrenders | 93 | 58 |
| Total | 148 | 99 |
| Personal pension insurance | | |
| Annuities | 3 | 2 |
| Death benefits | 1 | 0 |
| Surrenders | 3 | 1 |
| Total | 6 | 3 |
| Group pension insurance | | |
| Annuities | 0 | 0 |
| Death benefits | 0 | 0 |
| Surrenders | 0 | 0 |
| Total | 0 | 0 |
| **Total benefits paid from insurance contracts** | **595** | **504** |
| **Benefits paid from investment contracts** | | |
| Benefits paid from investment contracts entitling to discretionary portion of surplus | | |
| Capital redemption contracts | | |
| Maturities | 28 | 16 |
| Surrenders | 466 | 1 |
| Total | 495 | 16 |
| Benefits paid from investment contracts not entitling to discretionary portion of surplus | | |

| | | |
|---|---|---|
| Capital redemption contracts | | |
| Maturities | - | - |
| Surrenders | - | - |
| Total | - | - |
| Benefits paid from unit-linked investment contracts | | |
| Maturities | 6 | 2 |
| Surrenders | 115 | 6 |
| Total | 120 | 8 |
| **Total benefits paid from investment contracts** | **615** | **24** |
| | | |
| **Total direct insurance** | **1,210** | **528** |
| Assumed reinsurance | - | - |
| **Total benefits paid in Life Insurance** | **1,210** | **528** |

## NOTES TO THE INCOME STATEMENT

### Note 7. Net commissions and fees

| EUR million | 2010 | 2009 |
|---|---|---|
| **Commissions and fees** | | |
| Lending | 153 | 139 |
| Deposits | 5 | 5 |
| Payment transfers | 150 | 132 |
| Securities brokerage | 30 | 22 |
| Securities issuance | 13 | 13 |
| Mutual fund brokerage | 89 | 60 |
| Asset management and legal services | 65 | 54 |
| Insurance brokerage | 57 | 73 |
| Guarantees | 23 | 21 |
| Other | 39 | 48 |
| **Total** | **624** | **567** |
| | | |
| **Commission expenses** | | |
| Payment transfers | 14 | 15 |
| Securities | 7 | 8 |
| Other | 40 | 48 |
| **Total** | **61** | **71** |
| | | |
| **Net commissions and fees** | **563** | **496** |

The item Other commission expenses includes EUR 11million (EUR 9 million) of commissions paid for asset management and legal assignments and EUR 28 million (EUR 38 million) of other commissions paid.

# Notes to OP-Pohjola Group financial statements

## NOTES TO THE INCOME STATEMENT

### Note 8. Net trading income

| EUR million | 2010 | 2009 |
|---|---|---|
| **Financial assets and liabilities held for trading** | | |
| Capital gains and losses | | |
| Notes and bonds | 20 | 44 |
| Shares and participations | 2 | -3 |
| Derivatives | -16 | 121 |
| Other | - | - |
| Total | 6 | 162 |
| Fair value gains and losses | | |
| Notes and bonds | 1 | -20 |
| Shares and participations | 5 | 17 |
| Derivatives | 12 | -67 |
| Other | - | - |
| Total | 17 | -69 |
| Dividend income from assets held for trading | 1 | 0 |
| Total financial assets and liabilities held for trading | 24 | 93 |
| **Assets and liabilities recognised at fair value through profit or loss** | | |
| Capital gains and losses | | |
| Notes and bonds | 0 | -7 |
| Shares and participations | - | - |
| Derivatives | 3 | 2 |
| Other | - | - |
| Total | 3 | -5 |
| Fair value gains and losses | | |
| Notes and bonds | 3 | 10 |
| Shares and participations | - | - |
| Derivatives | 0 | 1 |
| Other | - | - |
| Total | 3 | 12 |
| Dividend income from assets recognised at fair value through profit or loss | - | - |
| Total assets and liabilities recognised at fair value through profit or loss | 6 | 7 |
| **Financial assets and liabilities amortised at cost** | | |
| Capital gains and losses | | |
| Loans and other receivables | - | 0 |
| Total financial assets and liabilities amortised at cost | - | 0 |
| **Net income from foreign exchange operations** | | |
| Exchange-rate differences | 116 | -168 |
| Other | -99 | 180 |
| Total net income from foreign exchange operations | 17 | 12 |
| **Total net trading income** | **46** | **112** |

## NOTES TO THE INCOME STATEMENT

### Note 9. Net investment income

| EUR million | 2010 | 2009 |
|---|---|---|
| **Available-for-sale financial assets** | | |
| Notes and bonds | | |
| Capital gains and losses | 30 | 4 |
| of which those amortised at cost | - | - |
| Transferred from fair value reserve during the financial year | 2 | -1 |
| Impairment losses and their reversal | -11 | -1 |
| Total | 21 | 1 |
| Shares and participations | | |
| Capital gains and losses | 6 | -3 |
| of which those measured at cost | - | - |
| Transferred from fair value reserve during the financial year | 7 | 3 |
| Impairment losses | -6 | -27 |
| Total | 7 | -27 |
| Dividend income | 15 | 9 |
| Total net income from available-for-sale financial assets | 43 | -16 |
| **Held-to-maturity notes and bonds** | | |
| Impairment losses and their reversal | 0 | - |
| **Carried at amortised cost** | | |
| Capital gains and losses | | |
| Loans and other receivables | 1 | - |
| Total net income carried at amortised cost | 1 | - |
| **Net income from investment property** | | |
| Rental income | 45 | 48 |
| Capital gains and losses | 5 | 0 |
| Gains on fair value measurement | -3 | -11 |
| Maintenance charges and expenses | -29 | -30 |
| from which rental income is not accumulated | 1 | 1 |
| Other | 1 | 1 |
| Net income from investment property total | 18 | 8 |
| **Other** | - | 0 |
| **Total net investment income** | **62** | **-9** |

## Notes to OP-Pohjola Group financial statements

## NOTES TO THE INCOME STATEMENT

### Note 10. Other operating income

| EUR million | 2010 | 2009 |
|---|---|---|
| Rental income from property in Group use | 13 | 12 |
| Capital gains on property in Group use | 1 | 2 |
| Insurance claims and benefits | 0 | 0 |
| Other | 85 | 90 |
| **Total** | **99** | **104** |

The item Other operating income includes EUR 2 million (EUR 2 million) of other income from Non-life Insurance EUR 21 million (EUR 23 million) of rental income from leasing objects, EUR 5 million (EUR 5 million) of ADP income, EUR 7 million (EUR 10 million) of income from credit risk management and EUR 50 million (EUR 50 million) of other operating income.

## NOTES TO THE INCOME STATEMENT

### Note 11. Personnel costs

| EUR million | 2010 | 2009 |
|---|---|---|
| Wages and salaries | 542 | 534 |
| Share-based payments | 0 | 0 |
| Pension costs | | |
| Defined contribution plans | 69 | 61 |
| Defined benefit plans | 6 | -3 |
| Other personnel related costs | 25 | 31 |
| **Total personnel costs** | **643** | **622** |

## NOTES TO THE INCOME STATEMENT

### Note 12. Other administrative expenses

| EUR million | 2010 | 2009 |
|---|---|---|
| Office expenses | 63 | 66 |
| IT expenses | 110 | 101 |
| Telecommunications | 38 | 37 |
| Marketing | 49 | 53 |
| Research and development | - | 0 |
| Other administrative expenses | 59 | 54 |
| **Total other administrative expenses** | **319** | **310** |

# Notes to OP-Pohjola Group financial statements

## NOTES TO THE INCOME STATEMENT

### Note 13. Other operating expenses

| EUR million | 2010 | 2009 |
|---|---|---|
| Rental expenses | 3 | 3 |
| Expenses for property in Group use | 82 | 73 |
| Capital losses on property in Group use | 0 | 0 |
| Depreciation and amortisation | | |
| Buildings | 12 | 12 |
| Machinery and equipment | 19 | 20 |
| Intangible assets | 39 | 28 |
| Intangible assets related to company acquisition | 37 | 39 |
| Other | 29 | 32 |
| Total | 136 | 131 |
| Impairments | | |
| Property in Group use | 0 | 1 |
| Goodw ill | 0 | 0 |
| Other | 0 | 3 |
| Total | 0 | 4 |
| Contribution to the Deposit Protection Fund | 25 | 24 |
| Other | 78 | 81 |
| **Total other operating expenses** | **324** | **316** |

The item Other in Other operating expenses includes EUR 13 million (EUR 15 million) in supervision, inspection and membership fees, EUR 9 million (EUR 11 million) in insurance and security expenses, EUR 9 million (EUR 10 million) in other expenses of Non-life Insurance and EUR 16 million (EUR 45 million) in other operating expenses.

Audit fees paid to auditors total EUR 1.7 million (EUR 2.1 million), whereas assignments as referred to in Section 1, Sub-paragraph 1(2) of the Auditing Act were EUR 0.1 million (EUR 0.1 million), fees for legal counselling EUR 0.1 million (EUR 0.1 million) and fees for other services EUR 0.7 million (EUR 1 million).

## Notes to OP-Pohjola Group financial statements

## NOTES TO THE INCOME STATEMENT

### Note 14. Returns to owner-members

| EUR million | 2010 | 2009 |
|---|---|---|
| Bonuses | 151 | 142 |
| Interest on cooperative capital | 12 | 18 |
| **Total returns to owner-members** | **163** | **160** |

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

## NOTES TO THE INCOME STATEMENT

### Note 15. Income tax

| EUR million | 2010 | 2009 |
|---|---|---|
| Current tax | 118 | 103 |
| Tax for previous financial year | 1 | 2 |
| Deferred tax | 17 | 21 |
| **Income tax expense** | **135** | **126** |
| | | |
| Corporate income tax rate | 26 | 26 |

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

| | 2010 | 2009 |
|---|---|---|
| Earnings before tax | 575 | 464 |
| Tax calculated at a tax rate of 26% | 149 | 121 |
| Tax for previous financial years | 1 | 2 |
| Income not subject to tax | -5 | -1 |
| Expenses not deductible for tax purposes | 6 | 7 |
| Re-evaluation of unused losses | -15 | -3 |
| Effect of tax adjustments | 0 | 0 |
| Other items | -1 | 2 |
| **Tax expense** | **135** | **126** |

## Notes to OP-Pohjola Group financial statements

## NOTES TO ASSETS

### Note 16. Liquid assets

| EUR million | 31 Dec. 2010 | 31 Dec. 2009 |
|---|---|---|
| Cash | 128 | 135 |
| Deposits with central banks repayable on demand | | |
| Overnight deposits | - | 2,800 |
| Pohjola Bank's minimum reserve deposit | 240 | 255 |
| Other | 1,260 | 45 |
| **Total liquid assets** | **1,628** | **3,235** |

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 2 per cent of the reserve base. Credit institutions within OP-Pohjola Group place a reserve deposit with Pohjola Bank plc, which acts as an intermediary authorised by OP-Pohjola Group credit institutions and is responsible for OP-Pohjola Group’s obligation to place a deposit with the Bank of Finland.

## NOTES TO ASSETS

### Note 17. Receivables from financial institutions

| EUR million | 31 Dec. 2010 | 31 Dec. 2009 |
|---|---|---|
| **Deposits with central banks** | | |
| Other than repayable on demand | - | - |
| **Receivables from financial institutions** | | |
| Deposits | | |
| Repayable on demand | 52 | 43 |
| Other | 1 | 11 |
| Total | 53 | 53 |
| Loans and other receivables | | |
| Repayable on demand | - | - |
| Other | 325 | 408 |
| Notes and bonds | | |
| Total | 1,067 | 1,929 |
| Total | 1,121 | 1,982 |
| Impairment losses | - | - |
| **Total receivables from financial institutions** | **1,121** | **1,982** |

# Notes to OP-Pohjola Group financial statements

## NOTES TO ASSETS

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

| EUR million | 31 Dec. 2010 | 31 Dec. 2009 |
|---|---|---|
| **Financial assets held for trading** | | |
| Government notes and bonds | 348 | 324 |
| Certificate of deposits and commercial papers | 36 | 555 |
| Debentures | 5 | 1 |
| Bonds | 44 | 255 |
| Other notes and bonds | 6 | 8 |
| Shares and participations | 67 | 65 |
| Loans acquired and other receivables | - | - |
| Total | 505 | 1,208 |
| **Financial assets at fair value through profit or loss at inception** | | |
| Government notes and bonds | - | - |
| Certificate of deposits and commercial papers | - | - |
| Debentures | - | - |
| Bonds | 14 | 55 |
| Other notes and bonds | - | - |
| Shares and participations | - | - |
| Loans acquired and other receivables | - | - |
| Total | 14 | 55 |
| **Total financial assets at fair value through profit or loss** | **519** | **1,263** |

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

| Financial assets held for trading | 31 Dec. 2010 | | 31 Dec. 2009 | |
|---|---|---|---|---|
| EUR million | Notes and bonds | Shares and parti-cipations | Notes and bonds | Shares and parti-cipations |
| Quoted | | | | |
| From public corporations | 273 | - | 215 | - |
| From others | 127 | 67 | 380 | 65 |
| Other | | | | |
| From public corporations | 34 | - | 42 | - |
| From others | 5 | - | 505 | - |
| **Total** | **439** | **67** | **1,143** | **65** |

| Financial assets at fair value through profit or loss at inception | 31 Dec. 2010 | | 31 Dec. 2009 | |
|---|---|---|---|---|
| EUR million | Notes and bonds | Shares and parti-cipations | Notes and bonds | Shares and parti-cipations |
| Quoted | | | | |
| From public corporations | - | - | - | - |
| From others | 14 | - | 55 | - |
| Other | | | | |
| From public corporations | - | - | - | - |
| From others | - | - | - | - |
| **Total** | **14** | **-** | **55** | **-** |
| | | | | |
| **Total financial assets at fair value through profit or loss** | **453** | **67** | **1,198** | **65** |

## NOTES TO ASSETS

### Note 19. Derivative contracts

| EUR million | 31 Dec. 2010 | 31 Dec. 2009 |
|---|---|---|
| Held for trading | | |
| Interest rate derivatives | 1,497 | 1,088 |
| Currency derivatives | 45 | 46 |
| Equity and index derivatives | 178 | 139 |
| Credit derivatives | 5 | 4 |
| Other | 28 | 3 |
| Total | 1,753 | 1,280 |
| Derivatives recognised at fair value through profit or loss | | |
| Interest rate derivatives | -19 | 0 |
| Currency derivatives | - | - |
| Equity and index derivatives | - | - |
| Credit derivatives | - | - |
| Other | 0 | - |
| Total | -19 | 0 |
| Hedging derivative contracts | | |
| Fair value hedging | | |
| Interest rate derivatives | 183 | 131 |
| Currency derivatives | 16 | 12 |
| Equity and index derivatives | - | - |
| Credit derivatives | - | - |
| Cash flow hedge | | |
| Interest rate derivatives | - | - |
| Total | 199 | 142 |
| **Total derivative contracts** | **1,933** | **1,423** |

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

# Notes to OP-Pohjola Group financial statements

## NOTES TO ASSETS

### Note 20. Receivables from customers

| EUR million | 31 Dec. 2010 | 31 Dec. 2009 |
|---|---|---|
| Loans to the public and public corporations | 48,694 | 45,570 |
| Notes and obonds | 280 | 420 |
| Finance lease receivables | 624 | 622 |
| Other receivables | 7,578 | 6,652 |
| Total | 57,176 | 53,263 |
| Impairment losses | -343 | -271 |
| **Total receivables from customers** | **56,834** | **52,992** |

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

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

| EUR million | Loans | Notes and bonds | Bank guarantee recei-vables | Interest recei-vables | Total |
|---|---|---|---|---|---|
| Impairment losses 1 January 2009 | 128 | 9 | 3 | -3 | 137 |
| Increases in receivable-specific impairment losses | 131 | 40 | 1 | -4 | 168 |
| Increases in impairment losses by receivable group | 12 | - | 0 | - | 12 |
| Reversal of receivable-specific impairment losses | -24 | - | -1 | 4 | -21 |
| Loans and guarantee receivables derecognised from the balance sheet, for a w hich receivable-specific impairment loss w as recognised | -23 | - | - | - | -23 |
| Exchange rate difference adjustments | - | -1 | - | - | -1 |
| Impairment losses 31 December 2009 | 224 | 48 | 3 | -4 | 271 |

**Finance lease receivables**

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

| EUR million | 31 Dec. 2010 | 31 Dec. 2009 |
|---|---|---|
| Maturity of finance leases | | |
| Not later than one year | 195 | 193 |
| 1-5 years | 324 | 333 |
| Over 5 years | 193 | 192 |
| Gross investment in finance leases | 712 | 718 |
| Unearned finance income (-) | -88 | -96 |
| **Present value of minimum lease payments** | **624** | **622** |
| Present value of minimum lease payment receivables | | |
| Not later than one year | 178 | 175 |
| 1-5 years | 293 | 300 |

| | | |
|---|---|---|
| Over 5 years | 153 | 147 |
| **Total** | **624** | **622** |
| | | |
| Unguaranteed residual value due to the lessor | - | - |
| Variable rent recognised as revenue during the financial year | - | - |
| Adjustment recognised under minimum rent receivables | - | - |
| | | |
| **Gross increase in the financial period** | **206** | **246** |

## Notes to OP-Pohjola Group financial statements

## NOTES TO ASSETS

### Note 21. Non-life Insurance assets

| EUR million | 31 Dec. 2010 | 31 Dec. 2009 |
|---|---|---|
| **Investments** | | |
| Loans and other receivables | 229 | 335 |
| Equities | 400 | 387 |
| Property | 87 | 78 |
| Notes and bonds | 1,490 | 1,381 |
| Derivative contracts | | |
| Currency derivatives | 1 | - |
| Equity derivatives | - | 0 |
| Other | 561 | 530 |
| Total | 2,768 | 2,711 |
| **Other assets** | | |
| Prepayments and accrued income | 38 | 37 |
| Other | | |
| From direct insurance | 228 | 214 |
| From reinsurance | 87 | 89 |
| Cash in hand and at bank | 4 | 4 |
| Other receivables | 39 | 44 |
| Total | 396 | 389 |
| **Total Non-life Insurance assets** | **3,164** | **3,101** |

| Non-life Insurance investments | 31 Dec. 2010 | 31 Dec. 2009 |
|---|---|---|
| **Loans and other receivables** | | |
| Loans | 228 | 334 |
| Deposits w ith ceding undertakings | 1 | 1 |
| Total | 229 | 335 |
| **Financial assets recognised at fair value through profit or loss** | | |
| Government notes and bonds | - | - |
| Other notes and bonds | 8 | 8 |
| Equities | - | - |
| Derivative contracts | | |
| Currency derivatives | 1 | - |
| Interest rate derivatives | - | - |
| Equity derivatives | - | 0 |
| Total derivatives | 1 | 0 |
| Total | 9 | 8 |
| **Available-for-sale financial assets** | | |
| Notes and bonds | 1,482 | 1,374 |
| Shares and participations | 400 | 387 |
| Other participations | 561 | 530 |
| Total | 2,442 | 2,290 |
| **Investment property** | | |
| Land and w ater areas | 12 | 10 |
| Buildings | 76 | 67 |
| Total | 87 | 78 |
| **Total Non-life Insurance investments** | **2,768** | **2,711** |

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

| | 31 Dec. 2010 | 31 Dec. 2009 |
|---|---|---|

| EUR million | Notes and bonds | Shares and parti-cipations | Derivative contracts | Notes and bonds | Shares and parti-cipations | Derivative contracts |
|---|---|---|---|---|---|---|
| Quoted | | | | | | |
| From public corporations | - | - | - | - | - | - |
| From others | 8 | - | - | 8 | - | - |
| Other | | | | | | |
| From public corporations | - | - | - | - | - | - |
| From others | - | - | 1 | - | - | 1 |
| **Total** | **8** | **-** | **1** | **8** | **-** | **1** |

**Available-for-sale financial assets of Non-life Insurance, 31 December 2010**

| | Available-for-sale notes and bonds | | | Available-for-sale shares and participations | | |
|---|---|---|---|---|---|---|
| EUR million | At fair value | At amortised cost | Total | At fair value | At cost | Total* |
| Quoted | | | | | | |
| From public corporations | 558 | - | 558 | - | - | - |
| From others | 912 | - | 912 | 809 | - | 809 |
| Other | | | | | | |
| From public corporations | - | - | - | - | - | - |
| From others | 11 | - | 11 | 152 | - | 152 |
| **Total** | **1,482** | **-** | **1,482** | **961** | **-** | **961** |
| Impairment losses for the financial year | - | - | - | -37 | - | -37 |

The available-for-sale financial assets of Non-life Insurance include EUR 5 million (EUR 5 million) in pledged items. The items mainly consist of notes and bonds in collateral for derivatives trading.

* Available-for-sale shares and participations include EUR 400 million (EUR 387 million) in equities and mutual funds with equity risk and EUR 561 million (EUR 530 million) in other participations. Other participations consist mainly of units in bond, money market, convertible bond, commodities, hedge funds and real estate funds.

**Available-for-sale financial assets of Non-life Insurance, 31 December 2009**

| | Available-for-sale notes and bonds | | | Available-for-sale shares and participations | | |
|---|---|---|---|---|---|---|
| EUR million | At fair value | At amortised cost | Total | At fair value | At cost | Total |
| Quoted | | | | | | |
| From public corporations | 645 | - | 645 | - | - | - |
| From others | 699 | - | 699 | 806 | - | 806 |
| Other | | | | | | |
| From public corporations | - | - | - | - | - | - |
| From others | 30 | - | 30 | 111 | - | 111 |
| **Total** | **1,374** | **-** | **1,374** | **917** | **-** | **917** |
| Impairment losses for the financial year | - | - | - | -37 | - | -37 |

| **Changes in Non-life Insurance investment property** | **2010** | **2009** |
|---|---|---|
| Acquisition cost 1 January | 70 | 75 |
| Increase | 21 | 6 |
| Decrease | -14 | -10 |
| Transfers betw een items | 0 | 0 |
| Acquisition cost 31 December | 76 | 70 |
| Accumulated changes in fair value 1 January | 8 | 7 |
| Changes in fair value during financial year | 1 | 1 |
| Decrease | | - |
| Other changes | 2 | - |
| Accumulated changes in fair value 31 December | 11 | 8 |

| | | |
|---|---|---|
| Carrying amount 31 December | 87 | 78 |

Constructions and repair obligations regarding investment property in the accounting period amounted to EUR 15 million (5).
The fair value of investment property holdings excludes the portion of debt.

## Notes to OP-Pohjola Group financial statements

## NOTES TO ASSETS

### Note 22. Life Insurance assets

| EUR million | 31 Dec. 2010 | 31 Dec. 2009 |
|---|---|---|
| Investments | | |
| Loans and other receivables | 418 | 446 |
| Equities and shares | 2,818 | 2,777 |
| Investment property | 135 | 122 |
| Notes and bonds | 927 | 496 |
| Other | 0 | 0 |
| Total | 4,298 | 3,841 |
| Investments serving as cover for unit-linked policies | | |
| Shares and participations | 3,147 | 2,381 |
| Other assets | | |
| Prepayments and accrued income | 32 | 25 |
| Other | | |
| Direct insurance operations | 7 | 33 |
| Reinsurance operations | 61 | 50 |
| Cash in hand and at bank | 0 | 1 |
| Total | 99 | 108 |
| **Total Life Insurance assets** | **7,544** | **6,331** |

| Life Insurance investments | 31 Dec. 2010 | 31 Dec. 2009 |
|---|---|---|
| **Loans and other receivables** | | |
| Loans | 407 | 446 |
| Deposits w ith ceding undertakings | - | - |
| Other receivables | 11 | - |
| Total | 418 | 446 |
| **Financial assets recognised at fair value through profit or loss** | | |
| Government notes and bonds | - | - |
| Other notes and bonds | 116 | 182 |
| Shares and participations | - | - |
| Derivative contracts | | |
| Currency derivatives | - | - |
| Interest rate derivatives | - | - |
| Equity derivatives | 0 | - |
| Total derivatives | 0 | - |
| Total | 116 | 182 |
| **Available-for-sale financial assets** | | |
| Notes and bonds | 812 | 313 |
| Shares and participations | 2,818 | 2,777 |
| Total | 3,629 | 3,091 |
| **Investment property** | | |
| Land and w ater areas | 20 | 16 |
| Buildings | 115 | 106 |
| Total | 135 | 122 |
| **Total investments** | **4,298** | **3,841** |

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

| | 31 Dec. 2010 | | 31 Dec. 2009 | |
|---|---|---|---|---|
| EUR million | Notes and bonds | Shares and parti-cipations | Notes and bonds | Shares and parti-cipations |
| Quoted | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| From public corporations | | | - | - | - | - |
| From others | | | 116 | - | 182 | - |
| Other | | | | | | |
| From public corporations | | | - | - | - | - |
| From others | | | - | - | - | - |
| **Total** | | | **116** | **-** | **182** | **-** |
| Impairment losses for the financial year | | | 17 | - | 39 | - |

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

| | Available-for-sale notes and bonds | | | Available-for-sale shares and participations | | |
|---|---|---|---|---|---|---|
| **EUR million** | **At fair value** | **At amortised cost** | **Total** | **At fair value** | **At cost** | **Total** |
| Quoted | | | | | | |
| From public corporations | 207 | - | 207 | - | - | - |
| From others | 605 | - | 605 | 2,818 | | 2,818 |
| Other | | | | | | |
| From public corporations | - | - | - | - | - | - |
| From others | 0 | - | 0 | - | - | - |
| **Total** | **812** | **-** | **812** | **2,818** | **-** | **2,818** |
| Impairment losses for the financial year | -1 | - | -1 | -81 | - | -81 |

**Available-for-sale financial assets of Life Insurance, 31 December 2009**

| | Available-for-sale notes and bonds | | | Available-for-sale shares and participations | | |
|---|---|---|---|---|---|---|
| **EUR million** | **At fair value** | **At amortised cost** | **Total** | **At fair value** | **At cost** | **Total** |
| Quoted | | | | | | |
| From public corporations | 51 | - | 51 | - | - | - |
| From others | 262 | - | 262 | 2,777 | | 2,777 |
| Other | | | | | | |
| From public corporations | - | - | - | - | - | - |
| From others | 1 | - | 1 | - | - | - |
| **Total** | **313** | **-** | **313** | **2,777** | **-** | **2,777** |
| Impairment losses for the financial year | -42 | - | -42 | -171 | - | -171 |

| **Changes in Life Insurance investment property** | **2010** | **2009** |
|---|---|---|
| Acquisition cost 1 January | 97 | 97 |
| Increase | 20 | 1 |
| Decrease | -6 | -1 |
| Transfers between items | 0 | - |
| Acquisition cost 31 December | 111 | 97 |
| Accumulated changes in fair value 1 January | 25 | 26 |
| Changes in fair value during financial year | -1 | -1 |
| Decrease | - | - |
| Other changes | - | - |
| Accumulated changes in fair value 31 December | 24 | 25 |
| Carrying amount | 135 | 122 |

The fair value of investment property holdings excludes the portion of debt. Constructions and repair obligations regarding investment property amounted to EUR 38 million, as against none a year earlier.

## Notes to OP-Pohjola Group financial statements

## NOTES TO ASSETS

### Note 23. Investment assets

| EUR million | 31 Dec. 2010 | 31 Dec. 2009 |
|---|---|---|
| Available-for-sale financial assets | | |
| Notes and bonds | 5,581 | 4,443 |
| Shares and participations | 451 | 406 |
| Total | 6,032 | 4,849 |
| Held-to-maturity investments | 978 | 1,163 |
| Investment property | | |
| Land and w ater areas | 42 | 46 |
| Buildings | 386 | 410 |
| Total | 428 | 456 |
| **Total investment assets** | **7,438** | **6,468** |

Held-to-maturity investments include other bonds issued by the government totalling EUR 42 million (EUR 50 million), bonds totalling EUR 722 million (EUR 862 million), and other notes and bonds totalling EUR 213 million (EUR 251 million). Investment property contain property used as collateral worth EUR 6 million (EUR 7 million).

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

| | Available-for-sale notes and bonds | | | Available-for-sale shares and participations | | | |
|---|---|---|---|---|---|---|---|
| EUR million | At fair value | At amortised cost | Total | At fair value | At cost | Total | Held-to-maturity invest-ments |
| Quoted | | | | | | | |
| From public corporations | 58 | - | 58 | - | - | - | - |
| From others | 5,514 | - | 5,514 | 354 | 0 | 354 | 930 |
| Other | | | | | | | |
| From public corporations | 1 | - | 1 | - | - | - | - |
| From others | 8 | - | 8 | 64 | 32 | 97 | 49 |
| Total | **5,581** | **-** | **5,581** | **418** | **32** | **451** | **978** |
| Impairment losses for the financial year | -11 | - | -11 | -6 | - | -6 | 0 |

Available-for-sale financial assets include EUR 11 million (EUR 12 million) in subordinated publicly-quoted notes and bonds from others.

**Available-for-sale financial assets and held-to-maturity investments, 31 December 2009**

| | Available-for-sale notes and bonds | | | Available-for-sale shares and participations | | | |
|---|---|---|---|---|---|---|---|
| EUR million | At fair value | At amortised cost | Total | At fair value | At cost | Total | Held-to-maturity invest-ments |
| Quoted | | | | | | | |
| From public corporations | 40 | - | 40 | - | - | - | 2 |
| From others | 4,392 | - | 4,392 | 318 | 0 | 318 | 1,157 |
| Other | | | | | | | |
| From public corporations | 1 | - | 1 | - | - | - | - |
| From others | 10 | - | 10 | 56 | 31 | 88 | 4 |
| **Total** | **4,443** | **-** | **4,443** | **374** | **31** | **406** | **1,163** |
| Impairment losses for the financial year | -1 | - | -1 | -27 | - | -27 | - |

| Changes in investment property | 2010 | 2009 |
|---|---|---|
| Acquisition cost 1 Jan. | 433 | 431 |

| | | |
|---|---|---|
| Business operations acquired | - | - |
| Increases | 29 | 12 |
| Decreases | -51 | -12 |
| Transfers between items | 1 | 2 |
| Acquisition cost 31 Dec. | 413 | 433 |
| Accumulated changes in fair value | 23 | 36 |
| Changes in fair value during the financial year | -3 | -11 |
| Decreases | -1 | -1 |
| Other changes | -2 | -2 |
| Accumulated changes in fair value 31 Dec. | 16 | 23 |
| Carrying amount 31 Dec. | 428 | 456 |

Depreciation, impairment losses and their reversals under PPE are charged to Other operating expenses. Changes in the fair value of investment property are recognised under Net investment income. The fair value of investment property holdings excludes the portion of debt.

OP-Pohjola Group companies own investment property subject to restrictions concerning their assignment and sales price under the legislation on state-subsidized housing loans, such property being worth EUR 2 million (2). Group companies had EUR 2 million (0) in construction and repair obligations regarding investment properties that were based on preliminary agreements.

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

## NOTES TO ASSETS

### Note 24. Reclassified notes and bonds

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

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

| EUR million, 31 Dec 2009 | Carrying amount | Fair value | Effective interest rate | Impair-ments arising from credit risk |
|---|---|---|---|---|
| Loans and other receivables | 2,838 | 2,856 | 5.1 | 71 |
| Investments held to maturity | 798 | 761 | 4.2 | - |
| Available-for-sale financial assets | - | - | - | - |
| **Total** | **3,636** | **3,617** | | **71** |

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

| | 31 Dec. 2010 | | 31 Dec. 2009 | |
|---|---|---|---|---|
| EUR million | Income statement | Fair value reserve | Income statement | Fair value reserve |
| Banking | 8 | 8 | 10 | 2 |
| Non-life Insurance | 3 | -1 | - | 27 |
| Life Insurance | 4 | 5 | 10 | 32 |
| Group Functions | -14 | 1 | 80 | 42 |
| **Total** | **1** | **13** | **100** | **103** |

Interest accrued on reclassified notes and bonds in January–December totalled EUR 78 million (138). The price difference between the nominal value and acquisition value recognised under profit and loss totalled EUR 19 million (42). Reversals of impairment charges recognised on notes and bonds totalled EUR 1 million. In 2009, impairment charges recognised on notes and bonds totalled EUR 41 million. The Group used derivatives to hedge against interest rate risks, applying hedge accounting from 1 October 2008.

# Notes to OP-Pohjola Group financial statements

## NOTES TO ASSETS

### Note 25. Investment in associates

| EUR million | 31 Dec. 2010 | 31 Dec. 2009 |
|---|---|---|
| Investment 1 January | 17 | 17 |
| Business acquisitions | 23 | - |
| Share of profits for the financial year | 2 | 1 |
| Dividends | -2 | -1 |
| Impairment losses | - | - |
| Dissolved associated companies | - | 0 |
| Value change | -2 | - |
| Investment 31 December | 38 | 17 |

# Notes to OP-Pohjola Group financial statements

## NOTES TO ASSETS

### Note 26. Intangible assets

2010

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

* Internal development work accounts for EUR 4 million (EUR 2 million). Other intangible assets include computer software to the carrying amount of EUR 69 million (EUR 88 million) and EUR 64 million (EUR 47 million) in computer software under development. Amortisation, impairment losses and their reversals were recognised on the income statement under Other operating expenses.

2009

| Changes in intangible assets | Goodwill | Brands | Customer relationships related to insurance contracts and policy acquisition costs | Other intangible assets | Total |
|---|---|---|---|---|---|
| Acquisition cost 1 January | 630 | 179 | 361 | 394 | 1,564 |
| Business operations acquired | - | - | - | - | - |
| Increases* | - | - | - | 43 | 43 |
| Decreases | 0 | - | - | -2 | -2 |
| Transfers between items | - | - | - | -1 | -1 |
| Acquisition cost 31 December | 630 | 179 | 361 | 435 | 1,604 |
| Acc. amortisation and impairments 1 January | - | -3 | -94 | -256 | -353 |
| Amortisation for the period | - | - | -30 | -39 | -68 |
| Impairments for the period | - | -3 | - | - | -3 |
| Reversal of impairments during the financial year | - | - | - | - | - |
| Decreases | - | - | - | 0 | 0 |
| Other changes | - | - | - | -1 | - |
| Accumulated amortisation and impairments 31 December | - | -6 | -124 | -295 | -425 |
| Carrying amount 31 December | 630 | 173 | 237 | 139 | 1,179 |

**Intangible assets with indefinite economic lives**

| EUR million | 31 Dec. 2010 | 31 Dec. 2009 |
|---|---|---|
| Goodwill | 630 | 630 |
| Brands | 173 | 173 |

| | | |
|---|---|---|
| **Total** | **803** | **803** |

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

**Other most significant intangible assets**

| | 31 Dec. 2010 | 31 Dec. 2009 |
|---|---|---|
| **EUR million** | **Carrying amount** | **Carrying amount** |
| Customer relationships | 185 | 210 |
| Insurance contracts | 22 | 27 |
| Software | 69 | 88 |
| Software under development | 64 | 47 |

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. Brands, customer relationships and a significant part of computer software were acquired as part of the acquisition of Non-life Insurance operations.

**Goodwill impairment test**

| | Goodwill | |
|---|---|---|
| **EUR million** | **31 Dec. 2010** | **31 Dec. 2009** |
| Non-life Insurance | 390 | 390 |
| Asset management | 97 | 97 |
| Mutual funds | 71 | 71 |
| Life Insurance | 49 | 49 |
| Systems service business | 10 | 10 |
| Finance company services | 13 | 13 |
| Total | 630 | 630 |

## Testing goodwill for impairment

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

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

For the systems service business and finance company services, the testing period was set at 5 years in accordance with IAS 36. For other business areas, the testing period was determined to be the entire period of PPA amortisation increased by one year free of PPA amortisation: 9 years for non-life insurance and 6 years for life insurance, asset management and mutual funds.

Predictions used for the cash flow statements are based on OP-Pohjola Group's business strategy, confirmed in June 2009 by OP-Pohjola Group Central Cooperative's Supervisory Board, and expectations derived from them concerning business development in 2011–2013. Growth in cash flows for post-forecast periods ranges between 2 and 9%. Within Life Insurance, however, premiums written in interest-bearing investment operations are expected to fall throughout the entire test period.

The discount rate used in the calculations was the market-based equity cost, which is in line with the applied value determination methods (i.e. through cash flows, only the value of equity belonging to investors was determined and the value was discounted by using the return requirement rate on shareholders' equity). The discount rate used in the calculations before tax (i.e. IFRS WACC) varied from 10.1 to 11.6%. In 2009, it varied from 10.5 to 12.4%. The discount rate for non-life and life insurance business was reduced by 0.5 percentage points, because the discount rate level obtained by means of market information had fallen significantly since 2009. For all business lines, the discount rate based on market information was lower than in the 2010 impairment calculations and the discount rate already used in the PPA statement.

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

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

Non-life Insurance key parameters used in the sensitivity analysis were the discount rate, combined ratio and net investment income. These parameters were the same as last year. The results of the sensitivity analysis have not changed significantly from last year. A 4.3-percentage point increase in the discount rate, a 3.8-percentage point increase in the combined ratio and a 1.6-percentage point decrease in net investment income compared with forecasts throughout the testing period, with other parameters remaining unchanged, would entail an impairment risk. In 2009, the results were as follows: a 5.5-percentage point increase in the discount rate, a 4.0-percentage point increase in the combined ratio and a 1.4-percentage point decrease in investment return compared with forecasts throughout the testing period, would have entailed an impairment risk.

Life Insurance key parameters were the discount rate, the percentage of growth in operating expenses, and the margin of investment percentage. The results of the sensitivity analysis were significantly better than the year before. A 17-percentage point increase in the discount rate, a 23-percentage point increase in operating expenses and a 2.1-percentage point decrease in net investment income percentage compared with forecasts throughout the testing period, with other parameters remaining unchanged, would entail an impairment risk. In 2009, the results were as follows: Correspondingly, last year a 6.4 percentage point increase in discount rate, a 7.9 percentage point increase in operating expenses and a 0.6 percentage point decrease in net investment income percentage would have entailed an impairment risk.

The discount rate, growth rate (%) of assets under management and growth rate (%) of expenses were used as key parameters in Asset Management's sensitivity analysis. The results of the sensitivity analysis were better than the year before across the board. A 25-percentage point increase in the discount rate, an 27-percentage point decrease in assets under management and 11-percentage point growth in expenses compared with forecasts throughout the testing period, with other parameters remaining unchanged, would entail an impairment risk. In 2009, the results were as follows: an 22-percentage point increase in the discount rate, a 18-percentage point decrease in assets under management and 9.5-percentage point growth in expenses compared with forecasts throughout the testing period would have entailed an impairment risk.

Mutual funds' key parameters were the discount rate, growth percentage in mutual fund capital and the growth percentage of fixed-nature expenses. The results of the sensitivity analysis were significantly better than the year before. A 10-percentage point increase in the discount rate, a 5,9-percentage point decrease in fund assets and a 9.3-percentage point growth in fixed-nature expenses compared with forecasts throughout the testing period, with other parameters remaining unchanged, would entail an impairment risk. In 2009, the results were as follows: 3.9-percentage point increase in the discount rate, a 1.0-percentage point decrease the growth of fund assets and a 1.4-percentage point growth in fixed-nature expenses compared with forecasts throughout the testing period would have entailed an impairment risk.

The discount rate and the growth and profit percentage of service income were used as key parameters in the sensitivity analysis of the systems service business. The results of the sensitivity analysis have not changed significantly from last year. A 37-percentage point increase in the discount rate, a 31-percentage point decrease in the service income and a 3.1-percentage point decrease in profits compared with forecasts throughout the testing period, with other parameters remaining unchanged, would entail an impairment risk. Last year the corresponding figures were: 56-percentage point increase in the discount rate, a 38-percentage point decrease in service income and 5-percentage point decrease in profits compared with forecasts throughout the testing period would have entailed an impairment risk.

The discount rate, growth rate (%) of the loan portfolio and a change in return margin as a percentage were used as key parameters in Leasing and Factoring Service's sensitivity analysis. The results of the sensitivity analysis were significantly better than the year before. A 11-percentage point increase in the discount rate, a 11-percentage point decrease in the loan portfolio and a 7.2-percentage point decrease in return margin compared with forecasts throughout the testing period, with other parameters remaining unchanged, would entail an impairment risk. In 2009, the results were as follows: a 5.6-percentage point increase in the discount rate, a 3.5-percentage point decrease in the loan portfolio and a 3.0-percentage point decrease in return margins compared with forecasts throughout the testing period would have entailed an impairment risk.

**Impairment testing of brands**

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

The value of the brands was determined by using the 'Relief from Royalty' method. Accordingly, their value was determined to be royalty savings accrued in the future from owning the brands, discounted to the present. The discount rate used in the calculations was the market-based equity cost defined for Non-life Insurance, plus an asset-specific risk premium. Pohjola decreased the discount rate for Non-life Insurance by 0.5 percentage points because the discount rate based on market information had fell considerably from the rate in 2009. The same risk premium and the corresponding royalty percentages were applied as in the PPA procedure and in previous years' tests.

All Pohjola brands are subject to a testing period of five years under IAS 36. The forecasts used in cash flow statements are based on strategy figures for 2010–13 updated for Non-life Insurance and post-strategy-period expectations derived from them regarding the business line's future developments. A 2% inflationary expectation was used as growth in cash flows for post-forecast periods.

As a result of testing brands for any impairment, no brand impairment charges were recognised in 2010. An impairment charge of EUR 3 million was recognised in 2009, as in 2008, related to the Seesam brand.

**Impairment testing of other essential intangible assets**

OP-Pohjola Group's customer relationships, insurance contracts and a significant part of computer software were acquired as part of the acquisition of the Non-life Insurance operations of what was Pohjola Group plc. Intangible assets originating from customer relationships and insurance contracts are charged to expenses using straight-line amortisation over their estimated economic lives. No indications of the need for impairment recognition have been discovered. Intangible assets derived from software used by non-life insurance, life insurance, asset management, and mutual funds have been recognised as expenses in full.

## Notes to OP-Pohjola Group financial statements

## NOTES TO ASSETS

### Note 27. Property, plant and equipment

| EUR million | 31 Dec. 2010 | 31 Dec. 2009 |
|---|---|---|
| Property in Group use | | |
| Land and w ater areas | 59 | 60 |
| Buildings | 525 | 545 |
| Machinery and equipment | 46 | 50 |
| Other tangible assets | 17 | 18 |
| Leased-out assets | 69 | 89 |
| **Total property, plant and equipment** | **716** | **761** |
| of w hich construction in progress | 1 | 17 |

| | 2010 | | | | |
|---|---|---|---|---|---|
| **Changes in property, plant and equipment (PPE), and investment property** | **Property in Group use** | **Machinery and equipment** | **Other tangible assets** | **Leased-out assets** | **Total PPE** |
| Acquisition cost 1 January | 758 | 342 | 31 | 129 | 1,261 |
| Business operations acquired | - | - | - | - | - |
| Increases | 21 | 15 | 1 | 19 | 56 |
| Decreases | -18 | -83 | -1 | -36 | -137 |
| Transfers betw een items | -15 | 0 | 0 | - | -15 |
| Acquisition cost 31 December | 747 | 275 | 31 | 112 | 1,165 |
| Accumulated depreciation and impairments 1 January | -153 | -292 | -13 | -40 | -500 |
| Depreciation for the financial year | -24 | -19 | -1 | -21 | -64 |
| Impairments for the financial year | -3 | - | - | 1 | -2 |
| Reversal of impairments during the financial year | 1 | - | - | - | 1 |
| Decreases | 16 | 82 | 1 | 18 | 117 |
| Other changes | -1 | - | - | 0 | -1 |
| Accumulated depreciation and impairments 31 December | -163 | -229 | -14 | -43 | -449 |
| Carrying amount 31 December | 584 | 46 | 17 | 69 | 716 |

| | 2009 | | | | |
|---|---|---|---|---|---|
| **Changes in property, plant and equipment (PPE), and investment property** | **Property in Group use** | **Machinery and equipment** | **Other tangible assets** | **Leased-out assets** | **Total PPE** |
| Acquisition cost 1 January | 724 | 361 | 35 | 121 | 1,242 |
| Business operations acquired | - | - | - | - | - |
| Increases | 38 | 13 | 0 | 36 | 87 |
| Decreases | -7 | -32 | 0 | -28 | -68 |
| Transfers betw een items | 3 | 1 | -4 | - | 0 |
| Acquisition cost 31 December | 758 | 342 | 31 | 129 | 1,261 |
| Accumulated depreciations and impairments 1 January | -135 | -303 | -15 | -27 | -480 |
| Depreciation for the financial year | -22 | -19 | -1 | -23 | -66 |
| Impairments for the financial year | -5 | - | - | 0 | -6 |
| Reversal of impairments during the financial year | 2 | - | - | - | 2 |
| Decreases | 3 | 31 | 2 | 10 | 46 |
| Other changes | 4 | 0 | 1 | -1 | 4 |
| Accumulated depreciations and impairments 31 December | -153 | -292 | -13 | -40 | -500 |
| Carrying amount 31 December | 605 | 50 | 18 | 89 | 761 |

**Assets taken on lease under finance lease contract**

| EUR Million | 31 Dec. 2010 | 31 Dec. 2009 |
|---|---|---|
| Investment property | - | 11 |
| Property in Group use | - | - |
| Other | - | - |
| **Total** | **-** | **11** |

**Future minimum lease payments and their present value**

| | 2010 | | 2009 | |
|---|---|---|---|---|
| EUR million | Minimum lease payments | Present value | Minimum lease payments | Present value |
| No later than 1 year | - | - | 1 | - |
| Later than 1 year and no later than 5 years | - | - | 12 | 11 |
| Later than 5 years | - | - | - | - |
| **Total** | **-** | **-** | **13** | **11** |

| EUR million | 31 Dec. 2010 | 31 Dec. 2009 |
|---|---|---|
| Changing lease payments charged to expenses during the financial year | - | 1 |
| Expected future minimum lease payments under non-cancellable subleases | - | 1 |

Kiinteistö Oy Hämeenkivi, sold by Tampereen Seudun Osuuspankki, a member cooperative bank, to the Local Government Pensions Institution and leased back from it, has been treated as a sale and leaseback contract in 2009. Tampereen Seudun Osuuspankki bought the entire share capital of Hämeenkivi on 31 December 2010.

## NOTES TO ASSETS

### Note 28. Other assets

| EUR Million | 31 Dec. 2010 | 31 Dec. 2009 |
|---|---|---|
| Payment transfer receivables | 24 | 5 |
| Pension assets | 448 | 435 |
| Accrued income and prepaid expenses | | |
| Interest | 657 | 569 |
| Other accrued income and prepaid expenses | 76 | 27 |
| Other | 546 | 536 |
| **Total** | **1,749** | **1,572** |

The Other item of Other assets includes EUR 47 million (EUR 49 million) of accounts receivable for securities, EUR 48 million (EUR 59 million) of derivative receivables and EUR 451 million (EUR 427 million) of other assets.

**Defined benefit pension plans**

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

| Balance sheet values of defined benefit pension plans | 31 Dec. 2010 | 31 Dec. 2009 |
|---|---|---|
| Fair value of assets | 1,410 | 1,278 |
| Present value of funded obligations (-) | -1,224 | -1,114 |
| Present value of unfunded obligations | -4 | -5 |
| Unrecognised actuarial gains (+) and losses (-) | 253 | 264 |
| Net receivable | 434 | 423 |
| | | |
| Assets and liabilities recognised in the balance sheet | | |
| Assets | 448 | 435 |
| Liabilities | -13 | -12 |
| **Net assets** | **434** | **423** |

| **Plan assets include** | | |
|---|---|---|
| Pohjola Bank plc shares | 49 | 41 |
| Securities issued by companies included in OP-Pohjola Bank Group | 46 | 68 |
| Other receivables from companies included in OP-Pohjola Bank Group | - | - |
| Properties used by OP-Pohjola Bank Group | 12 | 13 |
| Total | 107 | 123 |

| **Defined benefit pension costs in the income statement** | | |
|---|---|---|
| Current service cost | 24 | 20 |
| Interest cost | 55 | 56 |
| Expected return on plan assets | -81 | -86 |
| Actuarial gains and losses | 10 | 8 |
| Transfer from TEL pooling liability | - | - |
| Past service costs | - | - |
| Effect of curtailment of plans or settlements | 0 | 0 |
| **Total defined benefit pension costs in income statement** | **6** | **-3** |
| | | |
| **Actual return on plan assets** | **157** | **146** |

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

| Changes in present value of obligation | 31 Dec. 2010 | 31 Dec. 2009 |
|---|---|---|
| **Present value of obligation 1 January** | **1,119** | **992** |
| Current service cost | 24 | 20 |
| Interest cost | 55 | 56 |
| Actuarial gains and losses | 68 | 89 |
| Exchange rate differences | - | - |
| Benefits paid | -44 | -43 |
| Past service cost | - | - |
| Business combinations | - | - |
| Curtailment of plan | - | - |
| Settlement of obligation | -1 | -1 |
| Return on TyEL interest rate difference and growth in old-age pension liabilities (net) | 6 | 0 |
| Change in division ratio | 1 | 6 |
| **Present value of obligation 31 December** | **1,228** | **1,119** |

| Changes in fair value of assets | 31 Dec. 2010 | 31 Dec. 2009 |
|---|---|---|
| **Fair value of assets 1 January** | **1,278** | **1,148** |
| Expected return on plan assets | 81 | 86 |
| Actuarial gains and losses | 70 | 60 |
| Employer contributions | 17 | 22 |
| Benefits paid | -44 | -43 |
| Settlement of obligation | -1 | -1 |
| Return on TyEL interest rate difference and growth in old-age pension liabilities (net) | 6 | 0 |
| Change in division ratio | 1 | 6 |
| **Fair value of assets 31 December** | **1,410** | **1,278** |

Contributions payable to the defined benefit plan in 2011 are estimated at EUR 13 million.

| Proportion of most important asset groups of total fair value of plan assets, % | 31 Dec. 2010 | 31 Dec. 2009 |
|---|---|---|
| Shares and participations | 33 | 21 |
| Notes and bonds | 42 | 37 |
| Property | 18 | 20 |
| Other assets | 7 | 22 |
| **Total** | **100** | **100** |

| Principal actuarial assumptions used | 2010 | 2009 |
|---|---|---|
| Discount rate, % | 4.50 | 5.00 |
| Expected long-term return on plan assets, % | 4,63-6,60 | 5.08 - 6.60 |
| Assumed future salary increase, % | 3.00 | 3.50 |
| Future pension increases, % | 2,00-2,40 | 2.00 - 2.40 |
| Turnover rate, % | 0,00-3,00 | 0.00 - 3.00 |
| Inflation, % | 2.00 | 2.00 |
| Average remaining service time in years | 1,0-16,0 | 1.0 - 16.0 |

| Surplus of defined benefit pension plans and experience adjustments | 31 Dec. 2010 | 31 Dec. 2009 | 31 Dec. 2008 | 31 Dec. 2007 | 31 Dec. 2006 |
|---|---|---|---|---|---|
| Present value of obligation | 1,228 | 1,119 | 992 | 1,129 | 1,008 |
| Fair value of assets | -1,410 | -1,278 | -1,148 | -1,386 | -1,359 |
| **Surplus or deficit** | **-182** | **-159** | **-156** | -257 | **-352** |
| Experience adjustment on liabilities | -14 | -24 | -52 | 25 | 32 |
| Experience adjustments on assets | 63 | 60 | -299 | -16 | 22 |

# Notes to OP-Pohjola Group financial statements

## NOTES TO ASSETS

### Note 29. Tax assets

| EUR Million | 31 Dec. 2010 | 31 Dec. 2009 |
|---|---|---|
| Income tax assets | 35 | 32 |
| Deferred tax assets | 90 | 76 |
| **Total tax assets** | **125** | **108** |

| Deferred tax assets | 31 Dec. 2010 | 31 Dec. 2009 |
|---|---|---|
| Due to available-for-sale financial assets | 22 | 23 |
| Due to depreciation and impairments | 1 | 1 |
| Due to provisions and impairments on loans | 26 | 29 |
| Cash flow hedge | 2 | - |
| Due to consolidated eliminations | 8 | 9 |
| Due to losses related to taxation | 36 | 61 |
| Due to other items | 35 | 33 |
| Set-off against deferred tax liabilities | -40 | -81 |
| **Total** | **90** | **76** |

| Deferred tax liabilities | 31 Dec. 2010 | 31 Dec. 2009 |
|---|---|---|
| Due to appropriations | 584 | 533 |
| Due to available-for-sale financial assets | 57 | 2 |
| Cash flow hedge | 0 | - |
| Due to equalisation provision | 116 | 114 |
| Defined benefit pension plans | 115 | 113 |
| Due to fair value measurement of insurance companies' investments | 25 | 77 |
| Fair value measurement of investment property | 29 | 31 |
| Allocation of price of corporate acquisitions | 91 | 100 |
| Due to consolidated eliminations | 2 | 2 |
| Due to other items | 2 | 3 |
| Set-off against deferred tax assets | -40 | -81 |
| **Total** | **981** | **893** |
| | | |
| **Net deferred tax asset (+)/liability (-)** | **-891** | **-817** |

| Changes in deferred taxes | 31 Dec. 2010 | 31 Dec. 2009 |
|---|---|---|
| Deferred tax assets/liabilities 1 January | -817 | -622 |
| Recognised in the income statement | | |
| Elimination of capital gains on securities of companies acquired | 0 | 2 |
| Effect of losses | -26 | -62 |
| Provisions and impairments on receivables | 0 | -1 |
| Appropriations | -53 | -50 |
| Amortisation/depreciation and impairments | 9 | 8 |
| Equalisation provision | -2 | -15 |
| Valuation of investments | 55 | 99 |
| Other | -1 | -3 |
| Recognised in statement of comprehensive income | | |
| Available-for-sale financial assets | | |
| Changes in fair value | -42 | -152 |
| Cash flow hedge | 2 | - |
| Transfers to the income statement | -17 | -24 |

| | | |
|---|---|---|
| Other | - | 2 |
| **Total deferred tax assets 31 December, asset (+)/liability (-)** | **-891** | **-817** |
| | | |
| **Income tax assets, asset (+)/liability (-)** | **1** | **-1** |
| | | |
| **Total tax assets, asset (+)/liability (-)** | **-890** | **-818** |

Tax losses for which a deferred tax asset was not recognised came to EUR 101 million (EUR 164 million) at the end of 2010. The losses will expire before 2019.

A deferred tax liability has not been recognised for the EUR 34 million (EUR 31 million) of undistributed profits of the Baltic subsidiaries, since the assets have been permanently invested in these countries.

## NOTES TO LIABILITIES AND EQUUTY CAPITAL

### Note 30. Liabilities to financial institutions

| EUR Million | 31 Dec. 2010 | 31 Dec. 2009 |
|---|---|---|
| **Liabilities to central banks** | 355 | 500 |
| **Liabilities to financial institutions** | | |
| Repayable on demand | | |
| Deposits | 64 | 26 |
| Other liabilities | 0 | 0 |
| Due and ordered for collection from other banks | - | - |
| Total | 64 | 26 |
| Other than repayable on demand | | |
| Deposits | 1,260 | 1,550 |
| Other liabilities | 18 | 98 |
| Repo liabilities | - | - |
| Total | 1,278 | 1,648 |
| **Total liabilities to financial institutions and central banks** | **1,696** | **2,174** |

## NOTES TO LIABILITIES AND EQUITY CAPITAL

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

| EUR Million | 31 Dec. 2010 | 31 Dec. 2009 |
|---|---|---|
| Financial liabilities held for trading | | |
| Repo liabilities | - | - |
| Short selling of securities | 0 | 71 |
| Other | 0 | - |
| **Total financial liabilities at fair value through profit or loss** | **0** | **71** |

## NOTES TO LIABILITIES AND EQUITY CAPITAL

### Note 32. Derivative contracts

| EUR Million | 31 Dec. 2010 | 31 Dec. 2009 |
|---|---|---|
| Held for trading | | |
| Interest rate derivatives | 1,632 | 1,125 |
| Currency derivatives | 4 | 4 |
| Equity and index derivatives | 52 | 52 |
| Credit derivatives | 0 | 1 |
| Other | 27 | 3 |
| Total | 1,715 | 1,186 |
| Derivatives recognised at fair value through profit or loss | | |
| Interest rate derivatives | 8 | 8 |
| Currency derivatives | - | - |
| Equity and index derivatives | - | - |
| Credit derivatives | - | - |
| Other | 0 | - |
| Total | 8 | 8 |
| Hedging derivative contracts | | |
| Fair value hedging | | |
| Interest rate derivatives | 206 | 153 |
| Currency derivatives | 13 | 13 |
| Equity and index derivatives | - | - |
| Credit derivatives | - | - |
| Cash flow hedge | | |
| Interest rate derivatives | 8 | - |
| Other | - | - |
| Total | 228 | 166 |
| **Total derivative contracts** | **1,951** | **1,360** |

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

## NOTES TO LIABILITIES AND EQUITY CAPITAL

### Note 33. Liabilities to customers

| EUR million | 31 Dec. 2010 | 31 Dec. 2009 |
|---|---|---|
| **Deposits** | | |
| Repayable on demand | | |
| Private | 20,127 | 19,768 |
| Companies and public corporations | 8,061 | 7,369 |
| Total | 28,187 | 27,137 |
| Other | | |
| Private | 7,338 | 6,527 |
| Companies and public corporations | 918 | 953 |
| Total | 8,256 | 7,480 |
| Total deposits | 36,443 | 34,617 |
| **Other financial liabilities** | | |
| Repayable on demand | | |
| Private | 1 | 0 |
| Companies and public corporations | 2 | 5 |
| Total | 3 | 5 |
| Other | | |
| Private | 3 | 3 |
| Companies and public corporations | 2,756 | 2,981 |
| Total | 2,759 | 2,984 |
| Total other financial liabilities | 2,762 | 2,989 |
| **Total liabilities to customers** | **39,205** | **37,606** |

## NOTES TO LIABILITIES AND EQUITY CAPITAL

### Note 34. Non-life Insurance liabilities

| EUR million | 31 Dec. 2010 | 31 Dec. 2009 |
|---|---|---|
| Insurance contract liabilities | 2,224 | 2,145 |
| Provision for joint guarantee system | 0 | 40 |
| Direct insurance liabilities | 110 | 78 |
| Reinsurance liabilities | 10 | 13 |
| Other Non-life Insurance liabilities | 7 | 3 |
| **Total Non-life Insurance liabilities** | **2,350** | **2,279** |

**Non-life Insurance contract liabilities and reinsurers' share**

| | 31 Dec. 2010 | | | 31 Dec. 2009 | | |
|---|---|---|---|---|---|---|
| EUR million | Gross | Reinsurers' share | Net | Gross | Reinsurers' share | Net |
| Provision for unpaid claims for annuities | 1,108 | -2 | 1,106 | 1,058 | -3 | 1,054 |
| Other provisions by case | 151 | -53 | 98 | 144 | -44 | 101 |
| Special provision for occupational diseases | 35 | - | 35 | 39 | - | 39 |
| Collective liability (IBNR) | 502 | -5 | 497 | 493 | -5 | 487 |
| Reserved loss adjustment expenses | 52 | - | 52 | 50 | - | 50 |
| Provision for unearned premiums | 375 | -19 | 356 | 361 | -25 | 336 |
| Provision for unexpired risks | 1 | - | 1 | 0 | - | 0 |
| **Total Non-life Insurance contract liabilities** | **2,224** | **-79** | **2,145** | **2,145** | **-77** | **2,068** |

**Changes in insurance contract liabilities and reinsurance contract receivables**

| | 31 Dec. 2010 | | | 31 Dec. 2009 | | |
|---|---|---|---|---|---|---|
| EUR million | Gross | Reinsurers' share | Net | Gross | Reinsurers' share | Net |
| **Provision for unpaid claims** | | | | | | |
| Provision for unpaid claims 1 Jan. | 1,783 | -52 | 1,731 | 1,770 | -66 | 1,704 |
| Claims paid in financial year | -712 | 29 | -683 | -652 | 20 | -633 |
| Change in liability/receivable | 731 | -37 | 694 | 623 | -6 | 617 |
| Current period claims | 737 | -45 | 692 | 666 | -17 | 649 |
| Increase(decrease) from previous financial years | -41 | 8 | -33 | -42 | 11 | -31 |
| Other change in reserving basis | 35 | - | 35 | - | - | - |
| Unwinding of discount | 44 | - | 44 | 42 | - | 42 |
| Foreign exchange gains (losses) | 1 | - | 1 | -1 | 0 | -1 |
| Provision for unpaid claims 31 Dec. | 1,847 | -60 | 1,788 | 1,783 | -52 | 1,731 |
| **Provision for unearned premiums** | | | | | | |
| Provision for unearned premiums 1 Jan. | 362 | -25 | 337 | 346 | -21 | 324 |
| Increase | 341 | -3 | 338 | 327 | -13 | 313 |
| Decrease | -328 | 9 | -319 | -312 | 10 | -302 |
| Foreign exchange gains (losses) | 0 | - | 0 | 0 | - | 0 |
| Unwinding of discount | 1 | - | 1 | 1 | - | 1 |
| Provision for unearned premiums 31 Dec. | 377 | -19 | 357 | 362 | -25 | 337 |
| **Total Non-life Insurance contract liabilities** | **2,224** | **-79** | **2,145** | **2,145** | **-77** | **2,068** |

The provision for unearned premiums represents obligations relating to insurance cover which has not yet expired at the year-end. The provision for unearned premium includes EUR 1.1 million in the provision for unexpired risks whish relate to the so-called Affinity insurance policies, serving as extended warranty for home appliances, which would remain undersized without the provision for unexpired risks.

#### Valuation of Non-life Insurance contract liabilities

##### a) Methods and assumptions used

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

The provision for unearned premiums has mainly been determined in accordance with the pro rata parte temporis rule. The provision for unearned premiums arising from corporate insurance contracts is calculated for each contract and that arising from private customer insurance contracts using factors derived statistically from the Group's own insurance portfolio and tied to insurance premium revenue.

The provision for unpaid claims for annuities corresponds to the discounted present value of cash flow of compensation for loss of income payable as continuous annuity. The discount rate is determined taking account of the current interest rate, security required by law and the upper limit of the discount rate set by the authorities. On 31 December 2010, the discount rate used was 3.5% (31 Dec. 2009: 3.5%). In their joint actuarial project launched in the spring of 2010, the Federation of Accident Insurance Institutions and the Finnish Motor Insurers' Centre examine whether the mortality model commonly used by Finnish non-life insurers is up to date. The preliminary findings based on the first stage of the project reveals that life expectancy has increased in Finland, which is why Pohjola increased its technical provisions by EUR 35 on a non-recurring basis. The spring of 2011 should see more specified results.

The provision for unpaid claims includes asbestos liabilities which arise from occupational diseases coverable under statutory workers' compensation insurance. The forecasted cash flow of these claims is based on an analysis which takes account of to what extent asbestos was used annually as raw material in Finland and how the latency periods of different asbestos diseases are distributed. Trends in asbestos-related claims are monitored annually and the outcome has corresponded well to the forecast.

The valuation of collective liability is based on different statistical methods: Bornhuetter-Ferguson, Chain Ladder, Hovinen, PPCI and the average payment method. When applying these methods, other selections must also be made, in addition to the selection of method, such as deciding on how many occurrence years' statistics the methods will be applied.

**Bornhuetter-Ferguson**
The Bornhuetter-Ferguson (BF) method is based on the assumption that, in each development year, a certain portion of claims is paid of the measure of exposure of the occurrence year. This measure of exposure can, for instance, be the number of policy years or insurance premium revenue adjusted by the loss ratio assumption. BF reacts slowly to changes in the development triangle of claims. In addition, BF is sensitive to the selection of the measure of exposure.

**Chain Ladder**
In the Chain Ladder (CL) method, the total claims expenditure for each occurrence year is determined by annual development factors. A development factor describes the relation between the successive development years in the cumulative claims development triangle. CL is sensitive to the observations in the first development years.

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

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

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

In the valuation of collective liability, the largest risks relate to - estimating the future rate of inflation (excl. indemnities for loss of income payable on the basis of statutory insurance) - adjustment of changes due to changed compensation practices and legislation in the development triangle of claims (i.e. whether history provides a correct picture of the future) - adequacy of historical information over dozens of years.

When evaluating the amount of collective liability, the development triangles of claims have been adjusted for inflation. For historical data, the rate of inflation has been estimated at 3% and, for future medical expenses benefits, at 4%, and elsewhere at 2%. Of the collective liability, only the liability for annuities has been discounted.

For the assessment of collective liability, the Group's non-life insurance portfolio is divided into several categories by risk and eg maturity of the cash flow applying to compensation paid. In each category, collective liability is first calculated using each statistical method stated above, and the method that best suits the category under review is chosen. The selection criteria used includes how well the model would have predicted developments in prior years of occurrence and the sensitivity of the estimate generated by the model with respect to the number of statistical years used. The safety loading of 2−10% is added to the expected value generated by the selected model. On a Group-wide basis, the safety loading accounts for 6.4% of collective liability. The safety loading is determined by the quality of historical data, the estimate's sensitivity to the number of history years and the deviation between estimates generated by various methods.

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

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

**b) Changes in assumptions and methods**

In their joint actuarial project launched in the spring of 2010, the Federation of Accident Insurance Institutions and the Finnish Motor Insurers' Centre examine whether the mortality model commonly used by Finnish non-life insurers is up to date. The preliminary findings based on the first stage of the project reveals that life expectancy has increased in Finland, which is why Pohjola increased its technical provisions by EUR 35 on a non-recurring basis. The spring of 2011 should see more specified results.

| Effect of changes in methods and assumptions on amount of liability | 2010 | 2009 |
|---|---|---|
| EUR million (increase +/decrease - in liability) | - | - |
| Provision for change in the mortality model | 35 | - |
| Total | 35 | - |

**c) Claims development**

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

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

**Claims triangles, gross business (EUR million)**

| Occurrence year | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | Total |
|---|---|---|---|---|---|---|---|---|
| Estimated total claims expenditure | | | | | | | | |
| At end of occurrence year | 523 | 540 | 603 | 638 | 707 | 666 | 737 | 4,413 |
| 1 year later | 528 | 540 | 611 | 633 | 693 | 615 | - | - |
| 2 years later | 521 | 535 | 591 | 627 | 671 | - | - | - |
| 3 years later | 515 | 529 | 594 | 609 | - | - | - | - |
| 4 years later | 518 | 532 | 585 | - | - | - | - | - |
| 5 years later | 516 | 526 | - | - | - | - | - | - |
| 6 years later | 514 | - | - | - | - | - | - | - |
| Current estimate of accumulated claims expenditure | 514 | 526 | 585 | 609 | 671 | 615 | 737 | 4,258 |
| Accumulated claims paid | -485 | -495 | -535 | -554 | -593 | -501 | -376 | -3,539 |
| Provision for unpaid claims for 2004-2010 | 29 | 31 | 50 | 55 | 78 | 114 | 361 | 719 |
| Provision for unpaid claims for previous years | | | | | | | | 303 |

**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 |

**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 |

* Effect of changes in the discount rate on final annuity capital.

** A small amount of healthcare and senior housing provisions was eliminated from 2009 figures.

**Claims triangles, net business (EUR million)**

| Occurrence year | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | Total |
|---|---|---|---|---|---|---|---|---|
| Estimated total claims expenditure | | | | | | | | |
| At end of occurrence year | 504 | 511 | 580 | 621 | 656 | 649 | 692 | 4,213 |
| 1 year later | 510 | 519 | 593 | 623 | 656 | 60 | - | - |
| 2 years later | 503 | 509 | 575 | 619 | 638 | - | - | - |
| 3 years later | 500 | 509 | 577 | 602 | - | - | - | - |
| 4 years later | 499 | 513 | 568 | - | - | - | - | - |
| 5 years later | 499 | 507 | - | - | - | - | - | - |
| 6 years later | 496 | - | - | - | - | - | - | - |
| Current estimate of accumulated claims expenditure | 496 | 507 | 568 | 602 | 638 | 603 | 692 | 4,106 |
| Accumulated claims paid | -467 | -479 | -518 | -547 | -563 | -497 | -372 | -3,443 |
| Provision for unpaid claims for 2004-2010 | 29 | 28 | 50 | 54 | 76 | 106 | 320 | 663 |
| Provision for unpaid claims for previous years | | | | | | | | 299 |

**Provision for joint guarantee system**

The Workers' Compensation Insurance Act, the Motor Liability Insurance Act and the Patient Injury Act previously included provisions on joint liability on the basis of which insurers engaged in the insurance business under these Acts assume joint liability for any unpaid claims should one of them fail to pay claims in the event of liquidation or bankruptcy. For this purpose, insurance companies made a provision for this joint guarantee system.

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

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

**Claims administration contracts**

On 31 December 2010, liabilities related to claims administration contracts totalled EUR 78 million (EUR 43 million).

Claims administration contracts are contracts which are not insurance contracts, but on the basis of which claims are paid on behalf of another party. Among these contracts, the most important are captive arrangements in which the insured risk is reinsured with a captive company belonging to the same Group of companies with the customer; index increases in annuities of statutory workers' compensation, motor liability and patient insurance policies; certain other increases in benefits; and medical treatment indemnities payable over ten years after the occurrence of the accident; as well as public sector patient insurance.

## Notes to OP-Pohjola Group financial statements

# NOTES TO LIABILITIES AND EQUITY CAPITAL

### Note 35. Life Insurance liabilities

| EUR million | 31 Dec. 2010 | 31 Dec. 2009 |
|---|---|---|
| Insurance contract liabilities | 4,024 | 3,649 |
| Insurance contract liabilities for unit-linked insurance policies | 3,090 | 2,335 |
| Other liabilities | | |
| Accrued expenses and deferred income | 5 | 3 |
| Other | | |
| Direct insurance operations | 1 | 1 |
| Reinsurance operations | 2 | 2 |
| Other | 168 | 188 |
| Total | 176 | 194 |
| **Total Life Insurance liabilities** | **7,290** | **6,179** |

**Changes in Insurance contract liabilities 31 Dec. 2010**

| Insurance contract liabilities, EUR million | 1 Jan. 2010 | Growth in liability arising from insurance premiums | Dis-charged liabilities | Credited interest and changes in value | Other charges and credits | Other items | 31 Dec. 2010 |
|---|---|---|---|---|---|---|---|
| Insurance contracts with entitlement to discretionary portion of surplus | 3,519 | 742 | -415 | 133 | -44 | -79 | 3,857 |
| Insurance contracts without entitlement to discretionary portion of surplus | 118 | 65 | -11 | 0 | -32 | -4 | 137 |
| Unit-linked insurance contracts | 2,335 | 506 | -155 | 343 | -25 | 86 | 3,090 |
| Investment contracts with entitlement to discretionary portion of surplus | 93 | 414 | -494 | 3 | 0 | 11 | 28 |
| Investment contracts without entitlement to discretionary portion of surplus | 1 | - | -1 | 0 | 0 | 0 | 0 |
| Unit-linked contracts | 42 | 119 | -120 | 6 | 0 | 3 | 49 |
| Provision for unexpired risks and provision for future supplementary benefits | 12 | - | - | - | - | 18 | 30 |
| Total direct insurance | 6,120 | 1,846 | -1,196 | 485 | -101 | 36 | 7,191 |
| **Total net insurance contract liabilities** | **6,120** | **1,846** | **-1,196** | **485** | **-101** | **36** | **7,191** |

| Insurance contract liabilities, EUR million | 1 Jan. 2009 | Growth in liability arising from insurance premiums | Dis-charged liabilities | Credited interest and changes in value | Other charges and credits | Other items | 31 Dec. 2009 |
|---|---|---|---|---|---|---|---|
| Insurance contracts with entitlement to discretionary portion of surplus | 3,658 | 253 | -386 | 122 | -23 | -105 | 3,519 |
| Insurance contracts without entitlement to discretionary portion of surplus | 90 | 83 | -7 | 0 | -47 | -1 | 118 |
| Unit-linked insurance contracts | 1,571 | 368 | -105 | 415 | -20 | 107 | 2,335 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Investment contracts with entitlement to discretionary portion of surplus | 43 | 60 | -12 | 1 | 0 | 1 | 93 |
| Investment contracts without entitlement to discretionary portion of surplus | 4 | - | -3 | 0 | 0 | - | 1 |
| Unit-linked contracts | 34 | 9 | -6 | 6 | 0 | -1 | 42 |
| Provision for unexpired risks and provision for future supplementary benefits | - | - | - | - | - | 12 | 12 |
| Total direct insurance | 5,401 | 771 | -518 | 544 | -90 | 13 | 6,120 |
| **Provision for unexpired risks and provision for future supplementary benefits** | **5,401** | **771** | **-518** | **544** | **-90** | **13** | **6,120** |

Benefits based on insurance contracts are charged to expenses in the income statement. Insurance contract liabilities are determined by calculating the capital value of future benefits, policy administration costs and future premiums, using actuarial assumptions related to compounding, mortality, disability and operating expenses. The liability is redetermined on every balance sheet date using assumptions related to rating of policies, including the discount rate. The change in future cash flows due to declared customer bonuses has been taken into consideration when calculating the insurance contract liabilities. Insurance contract liabilities for unit-linked policies are, however, measured at fair value such as the assets covering the liability.

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

In practice, insurance contract liabilities for savings-type policies are determined on the basis of insurance savings at the time of determination. For risk-type policies, the pro rata rule applies. The supplementary provision used in previous years is no longer applied.

Calculated with the current method, the contract liability will not change along with the interest rate. This will probably be changed with the second phase of the IFRS.

Analysis of the life insurance business show that the technical provisions are sufficient concerning mortality. The same applied to permanent disability insurance.

## NOTES TO LIABILITIES AND EQUITY CAPITAL

### Note 36. Debt securities issued to the public

| EUR million | Average interest rate % | 31 Dec. 2010 | Average interest rate % | 31 Dec. 2009 |
|---|---|---|---|---|
| Bonds | 2.48 | 9,804 | 2.32 | 9,361 |
| Other | | | | |
| Certificates of deposit | 0.96 | 3,481 | 0.81 | 2,308 |
| Commercial paper holdings | 0.84 | 6,141 | 0.57 | 8,241 |
| Money market debt securities | - | - | - | - |
| Other | 0.78 | 262 | 0.68 | 227 |
| Included in ow n portfolio in trading (–)* | | -111 | | -193 |
| **Total debt securities issued to the public** | | **19,577** | | **19,945** |

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

| Most significant issues in 2010 | Nominal amount | Interest rate |
|---|---|---|
| **OP Mortgage Bank** | | |
| OP Mortgage Bank Covered Bond 6/2010 | 1,000 | Fast 2,375 |
| **Pohjola Bank plc** | | |
| Pohjola Bank plc issue of EUR 750.000.000 Floating rate Instruments due 25 February 2013 under the EUR 15.000.000.000 Programme for the Issuance of Debt Instruments | 750 | EUB3M + 50bp |
| 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 Intsruments | 750 | Fast 3,125 % |
| Pohjola Bank plc (Pohjola Bank of the issuer) 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 of Debt Instruments | 750 | Fast 3 % |

## NOTES TO LIABILITIES AND EQUITY CAPITAL

### Note 37. Provisions and other liabilities

| EUR million | 31 Dec. 2010 | 31 Dec. 2009 |
|---|---|---|
| Provisions | 1 | 1 |
| Other liabilities | | |
| Payment transfer liabilities | 607 | 363 |
| Accrued expenses | | |
| Interest payable | 689 | 629 |
| Other accrued expenses | 368 | 337 |
| Other | 668 | 501 |
| Total | 2,331 | 1,830 |
| **Total provisions and other liabilities** | **2,333** | **1,832** |

Other' under Other liabilities includes EUR 103 million (EUR 37 million) in accounts payable on securities, EUR 13 million (EUR 12 million) in pension liabilities, EUR 94 million (EUR 219 million) in liabilities for derivative contracts and EUR 458 million (EUR 233 million) in other accounts payable.

**Changes in provisions**

| EUR million | Onerous contracts | Other provisions | Total |
|---|---|---|---|
| 1 Jan. 2010 | 0 | 1 | 1 |
| Increase in provisions | - | - | - |
| Provisions used | 0 | 0 | 0 |
| Reversal of unused provisions | - | - | - |
| 31 Dec. 2010 | - | 1 | 1 |

## NOTES TO LIABILITIES AND EQUITY CAPITAL

### Note 38. Tax liabilities

| EUR million | 31 Dec. 2010 | 31 Dec. 2009 |
|---|---|---|
| Income tax liabilities | 34 | 33 |
| Deferred tax liabilities | 981 | 893 |
| **Total tax liabilities** | **1,014** | **925** |

## NOTES TO LIABILITIES AND EQUITY CAPITAL

### Note 39. Cooperative capital

| EUR million | 31 Dec. 2010 | 31 Dec. 2009 |
|---|---|---|
| Cooperative capital | 5 | 4 |
| Supplementary cooperative capital | 642 | 618 |
| **Total cooperative capital** | **647** | **622** |
| of which cancelled cooperative capital | 92 | 95 |

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

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

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

## NOTES TO LIABILITIES AND EQUITY CAPITAL

### Note 40. Subordinated liabilities

| EUR million | Average interest rate % | 31 Dec. 2010 | Average interest rate % | 31 Dec. 2009 |
|---|---|---|---|---|
| Subordinated loans | 3.48 | 233 | 3.11 | 217 |
| Other | | | | |
| Perpetual loans | 5.06 | 262 | 5.00 | 262 |
| Debentures | 2.52 | 683 | 2.53 | 771 |
| Other | - | - | - | - |
| **Total subordinated liabilities** | | **1,178** | | **1,250** |

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

**Innovative instruments included in Tier 1**

1) Perpetual bond of 10 billion Japanese yen (equivalent of EUR 92 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%. Interest will be annually payable on 18 June and 18 December. If interest cannot be paid for a given interest period, the obligation to pay interest for the period in question will lapse. The loan can be called in at the earliest in 2014 and can be annually repaid after 2014 on the interest due date on 18 June or 18 December. The loan's entire principal must be repaid in one instalment.

2) Perpetual bond of EUR 50 million

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

3) Perpetual bond of EUR 60 million

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

4) Perpetual bond of EUR 40 million

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

Loans 1 and 3 are included in hybrid instruments.

The Group has used derivatives to hedge against interest-rate and exchange-rate risks, and the financial statements include EUR 17.6 million in change in fair value recognised for hedging (17.1).

**Perpetual loans and debentures**

1) A perpetual loan of GBP 100 million which can be called in at the earliest on 28 December 2012, subject to authorisation by the Financial Supervision Authority. A fixed 6.5% interest is paid on the loan semiannually.
2) A perpetual loan of EUR150 million which can be called in at the earliest on 30 November 2012, subject to authorisation by the Financial Supervision Authority. A fixed 3.875% interest is paid on the loan annually.
3) A debenture loan of EUR 150 million which can be called in at the earliest on 21 March 2011, subject to authorisation by the Financial Supervision Authority. The loan carries an interest based on 3-month Euribor + 17.5 bps.
4) A debenture loan of USD 325 million which can be called in at the earliest on13 September 2011, subject to authorisation by the Financial Supervisory Authority. The loan carries an interest based on 3-month USD Libor + 20 bps. With the Financial Supervisory Authority's permission, the amount amortised by Pohjola in December 2009 came to EUR 10 million and the remainder is USD 315 million.
5) A debenture loan of EUR 170 million which can be called in at the earliest in 2013, subject to authorisation by the Financial Supervisory Authority. The loan carries a fixed interest of 5.75%.
6) A debenture loan of EUR 100 million, which can be called in at the earliest in 2013, subject to authorisation by the Financial Supervision Authority. The loan carries a variable interest based on 12-month Euribor + 2.25% until 2013.

Loans 1–6 were issued in international capital markets.

Fixed-rate debentures issued in Finland totalled EUR 149.7 million (EUR 161.7 million) on 31 December 2010.

**Other subordinated loans**

Subordinated loan of EUR 10 million, date of issue 20 September 2001.

This is a perpetual subordinated loan carrying a fixed interest rate of 6.15% until 17 September 2011. For the first ten years, interest will be payable annually on 17 September and after that semiannually on 17 March and 17 September. The issuer has the right to call in the loan for the first time on 17 September 2011.

OP-Pohjola Group companies have issued a total of EUR 262 million (262) in perpetual loans and a total of EUR 683 million (771) in debenture loans, a total of EUR 903 million (990) of these loans being included in Tier II capital. The issuer's right to call in a debenture loan is always subject to authorisation by the Financial Supervision Authority.

## Notes to OP-Pohjola Group financial statements

## NOTES TO LIABILITIES AND EQUITY CAPITAL

### Note 41. Equity capital

| EUR million | 31 Dec. 2010 | 31 Dec. 2009 |
|---|---|---|
| **Capital and reserves attributable to OP-Pohjola Group owners** | | |
| Share and cooperative capital (incl. share issue) | 368 | 358 |
| Reserves | | |
| Restricted reserves | | |
| Share premium account | 514 | 514 |
| Reserve fund | 803 | 794 |
| Reserves according to the Articles of Association/regulations | - | - |
| Fair value reserve | | |
| Cash flow hedge | -6 | - |
| Translation differences | - | - |
| Measurement at fair value | | |
| Notes and bonds | -75 | 24 |
| Shares and participations | 194 | -79 |
| Other restricted reserves | 1 | 1 |
| Non-restricted reserves | | |
| Reserve for invested non-restricted equity | 164 | 170 |
| Other non-restricted reserves | 1,174 | 1,126 |
| Retained earnings | | |
| Profit (loss) for previous financial years | 3,150 | 2,942 |
| Profit (loss) for the financial year | 440 | 338 |
| **Capital and reserves attributable to OP-Pohjola Group owners** | 6,726 | 6,187 |

The fair value reserve before tax amounted to EUR 151 million (-74) and the related deferred tax liability to EUR 39 million (deferred tax asset EUR 19 million). On 31 December, positive mark-to-market valuations of equity instruments in the fair value reserve totalled EUR 286 million (180) million and negative mark-to-market valuations EUR 19 million (265). During 2007–10, impairment charges recognised from the fair value reserve in the income statement totalled EUR 509 million, of which EUR 142 million were recognised in 2010.

**Share capital and shares**

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

**Changes in shareholdings of external shareholders**

| | Number of shares (1,000) |
|---|---|
| **1 Jan. 2009** | **112,827** |
| Exercise of stock options | 64,192 |
| Equity trades with external parties | - |
| **31 Dec. 2009** | **177,019** |
| | |
| Exercise of stock options | - |
| Equity trades with external parties | -614 |
| **31 Dec. 2010** | **176,405** |

**Cooperative capital**

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

**Reserves**

**Share premium account**

The share premium account was formed during the validity of regulations in force before 1 September 2006. Items entered in the share premium account include amounts exceeding the nominal value paid for shares in a rights issue; amounts paid for share subscriptions based on stock options and convertible bonds; capital gains on disposal of treasury shares; the amount of the reduction of share capital which is not used to cover confirmed loss, is not transferred to a reserve to be used in accordance with a decision by the General Meeting of Shareholders or is not distributed to shareholders; payouts on unsubscribed shares that must be paid when a limited liability company is established; any payouts to the company resulting from shares that have been sold because the shareholder has not included the shares in the book-entry system; and payment received for a share that was not claimed at the capitalisation issue.

The share premium account may be lowered in compliance with the regulations governing the reduction of share capital and may be used to increase the share capital. Since 1 September 2006, it has no longer been possible to increase the share premium account.

**Reserve fund**

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

**Fair value reserve**

The fair value reserve includes the change in the fair value of available-for-sale financial assets. Items included in this reserve will be derecognised and recorded in the income statement when an available-for-sale financial asset is disposed of or is subject to impairment. The reserve also includes the net fair value change of interest rate derivatives as cash flow hedges verified as effective and adjusted for deferred tax. Fair value changes are included in the income statement in the period when hedged cash flows affect net income.

**Other restricted reserves**

These reserves consist of retained earnings based on the Articles of Association or other rules describing their purpose.

**Reserve for invested non-restricted equity**

Capital raised by Pohjola Bank plc through its rights offering in 2009 was entered in the reserve for invested non-restricted equity.

**Other non-restricted reserves**

These reserves consist of retained earnings based on the Articles of Association or other rules, or decisions taken by the General Meeting, Representatives' Meeting, or Cooperative Meeting.

**Retained earnings**

Retained earnings also contain untaxed reserves (voluntary provisions and accelerated depreciation) included in the separate financial statements of Group companies, and the equalisation provision of insurance companies, which have been recognised in retained earnings less deferred tax in the IFRS financial statements.

## OTHER NOTES TO THE BALANCE SHEET

### Note 42. Notes and bonds eligible for central bank refinancing

| EUR million | 31 Dec. 2010 | 31 Dec. 2009 |
|---|---|---|
| Financial assets at fair value through profit or loss | 332 | 1,043 |
| Available for sale | | |
| Measured at fair value | 5,104 | 3,847 |
| Measured at cost | - | - |
| Held to maturity | 888 | 1,052 |
| **Total notes and bonds eligible for central bank refinancing** | **6,324** | **5,942** |

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

## OTHER NOTES TO THE BALANCE SHEET

### Note 43. Subordinated notes and bonds

| EUR million | 31 Dec. 2010 | 31 Dec. 2009 |
|---|---|---|
| Publicly quoted | | |
| From public corporations | 4 | 0 |
| From others | - | 0 |
| Total | 4 | 0 |
| Other | | |
| From public corporations | - | - |
| From others | 1 | 1 |
| Total | 1 | 1 |
| **Total included financial assets at fair value through profit or loss** | **5** | **1** |
| | | |
| **Investment assets** | | |
| Publicly quoted | | |
| From public corporations | - | - |
| From others | 11 | 12 |
| Total | 11 | 12 |
| Other | | |
| From public corporations | - | - |
| From others | 18 | 24 |
| Total | 18 | 24 |
| **Total included in investment assets** | **28** | **35** |

## OTHER NOTES TO THE BALANCE SHEET

### Note 44. Collateral given

| EUR million | 31 Dec. 2010 Balance sheet value | 31 Dec. 2009 Balance sheet value |
|---|---|---|
| Given on behalf of own liabilities and commitments | | |
| Mortgages | 1 | 1 |
| Pledges | 6,020 | 5,839 |
| Others | 349 | 600 |
| Total | 6,370 | 6,440 |
| Given on behalf of associates | | |
| Mortgages | - | - |
| Pledges | - | - |
| Others | - | - |
| Total | - | - |
| Given on behalf of others | | |
| Mortgages | - | - |
| Pledges | - | - |
| Others | - | - |
| Total | - | - |
| Total collateral given | | |
| Mortgages | 1 | 1 |
| Pledges | 6,020 | 5,839 |
| Others | 349 | 600 |
| **Total** | **6,370** | **6,440** |
| | | |
| Total collateralised liabilities | 651 | 1,023 |

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

## OTHER NOTES TO THE BALANCE SHEET

### Note 45. Financial collateral held

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

| Fair value of collateral received | 31 Dec. 2010 | 31 Dec. 2009 |
|---|---|---|
| Notes and bonds | - | - |
| Equities | - | - |
| Other | 343 | 106 |
| **Total** | **343** | **106** |

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 332 million on the balance sheet date (106). The Group had no securities received as collateral on the balance sheet date.

## Notes to OP-Pohjola Group financial statements

## OTHER NOTES TO THE BALANCE SHEET

### Note 46. Classification of financial instruments

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

| Assets, EUR million | Loans and other receivables | Investments held to maturity | Financial assets at fair value through profit or loss* | Available-for-sale financial assets | Hedging derivatives | Total |
|---|---|---|---|---|---|---|
| Cash and balances with central banks | 3,235 | - | - | - | - | 3,235 |
| Receivables from credit institutions and central banks | 1,982 | - | - | - | - | 1,982 |
| Derivative contracts | - | - | 1,267 | - | 156 | 1,423 |
| Receivables from customers | 52,992 | - | - | - | - | 52,992 |
| Non-life Insurance assets** | 725 | - | 85 | 2,290 | - | 3,101 |
| Life Insurance assets*** | 554 | - | 2,686 | 3,091 | - | 6,331 |
| Notes and bonds | - | 1,163 | 1,198 | 4,443 | - | 6,803 |
| Shares and participations | - | - | 65 | 406 | - | 471 |
| Other receivables | 3,637 | - | 456 | - | - | 4,093 |
| **Total 31 December 2009** | **63,125** | **1,163** | **5,757** | **10,229** | **156** | **80,430** |

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

| | Financial liabilities at fair | | Hedging | |
|---|---|---|---|---|

| Liabilities, EUR million | value through profit or loss**** | Other liabilities | deriva-tives | Total |
|---|---|---|---|---|
| Liabilities to credit institutions | - | 2,174 | - | 2,174 |
| Financial liabilities held for trading (excl. derivatives) | 71 | - | - | 71 |
| Derivative contracts | 1,195 | - | 166 | 1,360 |
| Liabilities to customers | - | 37,606 | - | 37,606 |
| Non-life Insurance liabilities | 0 | 2,279 | - | 2,279 |
| Life Insurance liabilities | 2,335 | 3,843 | - | 6,179 |
| Debt securities issued to the public | - | 19,945 | - | 19,945 |
| Subordinated loans | - | 1,250 | - | 1,250 |
| Other liabilities | - | 3,379 | - | 3,379 |
| **Total 31 December 2009** | **3,601** | **70,476** | **166** | **74,243** |

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

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

**Life Insurance assets are specified in Note 22.

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

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

On 31 December 2009, the fair value of these debt instruments was approximately EUR 108 million higher than their carrying amount, based on information available in markets and employing commonly used valuation techniques.

Subordinated liabilities are carried at amortised cost. Their fair value are substantially lower than their carrying amount, but determining fair values reliably is difficult in the current market situation.

## OTHER NOTES TO THE BALANCE SHEET

### Note 47. Assets and liabilities by hierarchy of valuation techniques

| Financial assets measured at fair value, EUR million | 31 Dec. 2010 Fair value Level 1* | Level 2** | Level 3*** | Total |
|---|---|---|---|---|
| Financial assets at fair value through profit or loss | | | | |
| Banking | 307 | 199 | 14 | 519 |
| Non-life Insurance | - | - | 8 | 8 |
| Life Insurance | - | - | 116 | 116 |
| Derivatives | | | | |
| Banking | 32 | 1,764 | 137 | 1,933 |
| Non-life Insurance | - | 1 | - | 1 |
| Life Insurance | - | 0 | - | 0 |
| Available-for-sale financial assets | | | | |
| Banking | 5,379 | 592 | 61 | 6,032 |
| Non-life Insurance | 1,563 | 648 | 231 | 2,442 |
| Life Insurance | 2,428 | 496 | 705 | 3,629 |
| **Total** | **9,709** | **3,700** | **1,272** | **14,681** |

| Financial assets measured at fair value, EUR million | 31 Dec. 2009 Fair value Level 1* | Level 2** | Level 3*** | Total |
|---|---|---|---|---|
| Financial assets at fair value through profit or loss | | | | |
| Banking | 536 | 706 | 21 | 1,263 |
| Non-life Insurance | - | - | 8 | 8 |
| Life Insurance | - | - | 182 | 182 |
| Derivatives | | | | |
| Banking | 6 | 1,336 | 81 | 1,423 |
| Non-life Insurance | 0 | 0 | - | 0 |
| Life Insurance | - | - | - | - |
| Available-for-sale financial assets | | | | |
| Banking | 4,447 | 337 | 65 | 4,849 |
| Non-life Insurance | 1,544 | 552 | 193 | 2,290 |
| Life Insurance | 2,209 | 251 | 631 | 3,091 |
| **Total** | **8,742** | **3,182** | **1,182** | **13,106** |

| Financial liabilities measured at fair value, EUR million | 31 Dec. 2010 Fair value Level 1* | Level 2** | Level 3*** | Total |
|---|---|---|---|---|
| Financial liabilities at fair value through profit or loss | | | | |
| Banking | 0 | - | - | 0 |
| Non-life Insurance | - | - | - | - |
| Life Insurance | - | - | - | - |
| Derivatives | | | | |
| Banking | 22 | 1,917 | 12 | 1,951 |
| Non-life Insurance | 1 | 0 | - | 2 |
| Life Insurance | - | - | - | - |
| **Total** | **24** | **1,917** | **12** | **1,953** |

| Financial liabilities measured at fair value, EUR million | 31 Dec. 2009 Fair value Level 1* | Level 2** | Level 3*** | Total |
|---|---|---|---|---|
| Financial liabilities at fair value through profit or loss | | | | |
| Banking | 71 | - | - | 71 |

| | | | | |
|---|---|---|---|---|
| Non-life Insurance | - | - | - | - |
| Life Insurance | - | - | - | - |
| Derivatives | | | | |
| Banking | 1 | 1,327 | 33 | 1,360 |
| Non-life Insurance | - | 0 | - | 0 |
| Life Insurance | - | 0 | - | 0 |
| **Total** | **72** | **1,327** | **33** | **1,431** |

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

** Valuation techniques based on observable input parameters. The fair value of the instruments included w ithin this level means value derived from the market price of a financial instrument's components or similar financial instruments; or value w hich 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 borrow ed.

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

**Transfers betw een levels of the fair value hierarchy**

The Group did not change classification betw een the levels of hierarchy in 2010.

**Reconciliation of Level 3 items**

**Specification of financial assets and liabilities**

| Financial assets, EUR Million | Financial assets at fair value through profit or loss | Available-for-sale financial assets | Derivatives | Non-life Insurance assets | Life Insurance assets | Total assets |
|---|---|---|---|---|---|---|
| Opening balance 1 Jan 2010 | 21 | 65 | 81 | 201 | 813 | 1,182 |
| Total gains/losses in profit or loss | -7 | -6 | 50 | -16 | 14 | 35 |
| Total gains/losses in other comprehensive income | - | 2 | - | 21 | 74 | 97 |
| Purchases | - | - | 6 | 33 | 239 | 278 |
| Sales | 0 | - | - | 0 | -291 | -291 |
| Issues | - | - | - | - | - | - |
| Settlements | 0 | - | - | - | -28 | -28 |
| Transfers into Level 3 | - | - | - | - | - | - |
| Transfers out of Level 3 | - | - | - | - | - | - |
| **Closing balance 31 Dec 2010** | **14** | **61** | **137** | **239** | **821** | **1,272** |

| Financial assets, EUR Million | Financial assets at fair value through profit or loss | Available-for-sale financial assets | Derivatives | Non-life Insurance assets | Life Insurance assets | Total assets |
|---|---|---|---|---|---|---|
| Opening balance 1 Jan 2009 | 21 | 68 | 46 | 199 | 899 | 1,234 |
| Total gains/losses in profit or loss | 3 | -4 | 35 | -5 | 13 | 42 |
| Total gains/losses in other comprehensive income | - | 6 | - | -9 | 1 | -2 |
| Purchases | 0 | 9 | - | 22 | 108 | 139 |
| Sales | -1 | -14 | - | -6 | -177 | -198 |
| Issues | - | - | - | - | - | - |
| Settlements | -2 | -1 | - | - | -30 | -33 |
| Transfers into Level 3 | - | - | - | - | - | - |
| Transfers out of Level 3 | - | - | - | - | - | - |
| **Closing balance 31 Dec 2009** | **21** | **65** | **81** | **201** | **813** | **1,182** |

| Financial liabilities, EUR Million | Financial liabilities at fair value through profit or loss | Derivatives | Non-life Insurance liabilities | Life Insurance liabilities | Total liabilities |
|---|---|---|---|---|---|
| Opening balance 1 Jan 2010 | - | 33 | - | - | 33 |
| Total gains/losses in profit or loss | - | -28 | - | - | -28 |
| Total gains/losses in other comprehensive income | - | - | - | - | - |
| Purchases | - | 7 | - | - | 7 |
| Sales | - | - | - | - | - |
| Issues | - | - | - | - | - |
| Settlements | - | - | - | - | - |
| Transfers into Level 3 | - | - | - | - | - |
| Transfers out of Level 3 | - | - | - | - | - |
| **Closing balance 31 Dec 2010** | **-** | **12** | **-** | **-** | **12** |

| Financial liabilities, EUR Million | Financial liabilities at fair value through profit or loss | Derivatives | Non-life Insurance liabilities | Life Insurance liabilities | Total liabilities |
|---|---|---|---|---|---|
| Opening balance 1 Jan 2009 | - | 18 | - | - | 18 |
| Total gains/losses in profit or loss | - | 14 | - | - | 14 |
| Total gains/losses in other comprehensive income | - | - | - | - | - |
| Purchases | - | - | - | - | - |
| Sales | - | - | - | - | - |
| Issues | - | - | - | - | - |
| Settlements | - | - | - | - | - |
| Transfers into Level 3 | - | - | - | - | - |
| Transfers out of Level 3 | - | - | - | - | - |
| **Closing balance 31 Dec 2009** | **-** | **33** | **-** | **-** | **33** |

**Total gains/losses included in profi or loss by item for the financial year on 31 Dec 2010**

| EUR Million | Net interest income or net trading income | Net investment income | Net income from Non-life Insurance | Net income from Life Insurance | Statement of compre-hensive income | Total gains/losses for the financial year included in profit or loss for assets/liabilities held at year-end |
|---|---|---|---|---|---|---|
| Total gains/losses in profit or loss | 43 | -6 | -16 | 14 | 97 | 132 |
| **Total** | **43** | **-6** | **-16** | **14** | **97** | **132** |

**Total gains/losses included in profi or loss by item for the financial year on 31 Dec 2009**

| EUR Million | Net interest income or net trading income | Net investment income | Net income from Non-life Insurance | Net income from Life Insurance | Statement of compre-hensive income | Total gains/losses for the financial year included in profit or loss for assets/liabilities held at year-end |
|---|---|---|---|---|---|---|
| Total gains/losses in profit or loss | 39 | -4 | -5 | 13 | -2 | 40 |
| **Total** | **39** | **-4** | **-5** | **13** | **-2** | **40** |

Derivatives included in Level 3 comprise structured derivatives for customer needs, whose market risk is covered by a corresponding derivatives contract. Level 3 derivatives relate to structured bonds issued by Pohjola, whose return is determined by the value performance of an embedded derivative instrument. These embedded derivatives are not shown in the above table.

**Sensitivity of Level 3 measurements to reasonably possible alternative assumptions**

The Group did not change classification between the levels of hierarchy in 2010.

## NOTES TO CONTINGENT LIABILITIES AND DERIVATIVES

### Note 48. Off-balance-sheet commitments

| | 31 Dec. 2010 | 31 Dec. 2009 |
|---|---|---|
| Guarantees | 1,223 | 1,391 |
| Other guarantee liabilities | 1,621 | 1,548 |
| Pledges | 1 | 1 |
| Loan commitments | 8,805 | 8,789 |
| Commitments related to short-term trade transactions | 164 | 131 |
| Other | 783 | 785 |
| **Total off-balance-sheet commitments** | **12,595** | **12,644** |

## NOTES TO CONTINGENT LIABILITIES AND DERIVATIVES

### Note 49. Contingent liabilities and assets

Insurance companies belonging to OP-Pohjola Group underwrite insurance policies through pools. Pool members are primarily responsible for their own proportionate share of the risk. Proportionate shares are based on contracts confirmed annually. In certain pools, pool members are responsible for an insolvent member's liabilities in proportion to their shares in the pool. Group insurance companies recognise liabilities and receivables based on joint liability if joint liability is likely to materialise.

In December 2010, Pohjola Bank plc sold its subsidiary Pohjola Capital Partners Ltd to its existing management. In addition to the selling price, Pohjola will be entitled to an additional price of a total of EUR 0.7 million if the size of a new limited partnership based private equity fund established by the sold company or its direct or indirect owners at a later date reaches EUR 75 million based on commitments received at the time of closing. This amount will be paid to the seller on 31 March 2014 at the earliest, as specified in the terms and conditions of the sale. Entitlement to this amount also requires that Pohjola alone or together with OP-Pohjola Group companies (excl. Group member banks) make a minimum commitment of EUR 20 million to the new fund on the same terms as other investors, provided that the new fund reaches a minimum size of EUR 50 million.

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

## NOTES TO CONTINGENT LIABILITIES AND DERIVATIVES

### Note 50. Operating leases

**OP-Pohjola Group as Lessee**

Some OP-Pohjola Group companies have leased the office premises they use. The term of these leases varies between one and ten years and they usually include the option of extending the lease after the original date of termination. OP-Pohjola Group companies have subleased some of their premises. In addition, some companies have leased motor vehicles and office equipment. Other operating expenses include EUR 25 million (24) in rental expenses.

**Future minimum lease payments under non-cancellable operating leases**

| EUR Million | 31 Dec. 2010 | 31 Dec. 2009 |
|---|---|---|
| No later than 1 year | 14 | 14 |
| Later than 1 year and no later than 5 years | 35 | 39 |
| Later than 5 years | 3 | 7 |
| **Total** | **52** | **60** |
| | | |
| Expected future minimum lease payments from non-cancellable subleases | 14 | 15 |

**OP-Pohjola Group as Lessor**

OP-Pohjola Group companies have leased out investment properties they own, which generated lease income of EUR 65 million (69) in 2010. In addition, the Group has primarily leased out passenger cars, which generated lease income of EUR 21 million (23).

**Future minimum lease payments receivable under non-cancellable operating leases**

| EUR Million | 31 Dec. 2010 | 31 Dec. 2009 |
|---|---|---|
| No later than 1 year | 59 | 59 |
| Later than 1 year and no later than 5 years | 88 | 103 |
| Later than 5 years | 56 | 37 |
| **Total** | **203** | **199** |

## NOTES TO CONTINGENT LIABILITIES AND DERIVATIVES

### Note 51. Asset management

Within OP-Pohjola Group, Pohjola Asset Management Limited runs asset management business and provides institutional customers and wealthy private individuals with discretionary and consultative portfolio management services. Pohjola Asset Management Limited is responsible for the financial management of most of OP Fund Management Company's mutual funds.

Pohjola Asset Management Ltd's discretionary asset management portfolio on 31 December 2010 totalled EUR 20.0 billion (20.6) and consultative asset management portfolio EUR 10.7 billion (9.1).

## Notes to OP-Pohjola Group financial statements

## NOTES TO CONTINGENT LIABILITIES AND DERIVATIVES

### Note 52. Derivative contracts

**Derivatives held for trading 31 December 2009**

| EUR million | Nominal values/residual maturity <1 year | 1–5 years | >5 years | Total | Fair values Assets | Liabilities | Potential future exposure |
|---|---|---|---|---|---|---|---|
| **Interest rate derivatives** | | | | | | | |
| Interest rate swaps | 12,724 | 32,867 | 19,969 | 65,559 | 1,046 | 970 | 1,508 |
| Forward rate agreements | 505 | 400 | - | 905 | 0 | 3 | 2 |
| OTC interest rate options | | | | | | | |
| Call and caps | | | | | | | |
| Purchased | 3,567 | 6,661 | 1,822 | 12,051 | 107 | 15 | 167 |
| Written | 3,398 | 3,798 | 2,283 | 9,479 | 0 | 83 | - |
| Put and floors | | | | | | | |
| Purchased | 3,175 | 2,655 | 579 | 6,409 | 169 | 1 | 190 |
| Written | 3,816 | 2,645 | 216 | 6,677 | - | 114 | - |
| Total OTC interest rate derivatives | 27,185 | 49,026 | 24,869 | 101,080 | 1,322 | 1,186 | 1,867 |
| Interest rate futures | 3,439 | - | - | 3,439 | 0 | 3 | - |
| Interest rate options | | | | | | | |
| Call | | | | | | | |
| Purchased | - | - | - | - | - | - | - |
| Written | 4,000 | - | - | 4,000 | 0 | 0 | - |
| Put | | | | | | | |
| Purchased | 4,745 | - | - | 4,745 | 0 | 1 | - |
| Written | 5,490 | - | - | 5,490 | 0 | 0 | - |
| Total exchange traded derivatives | 17,675 | - | - | 17,675 | 1 | 4 | - |
| Total interest rate derivatives | 44,859 | 49,026 | 24,869 | 118,754 | 1,322 | 1,189 | 1,867 |
| | | | | | | | |
| **Currency derivatives** | | | | | | | |
| Forward exchange agreements | 14,897 | 423 | - | 15,320 | 183 | 181 | 353 |
| Interest rate and currency swaps | 74 | 1,190 | 473 | 1,737 | 53 | 65 | 149 |
| Currency options | | | | | | | |
| Call | | | | | | | |
| Purchased | 72 | - | - | 72 | 1 | - | 2 |
| Written | 81 | - | - | 81 | - | 1 | - |
| Put | | | | | | | |
| Purchased | 45 | - | - | 45 | 1 | - | 1 |
| Written | 43 | - | - | 43 | - | 1 | - |
| Total OTC currency derivatives | 15,211 | 1,613 | 473 | 17,297 | 238 | 249 | 505 |
| Currency futures | - | - | - | - | - | - | - |
| Total currency derivatives | 15,211 | 1,613 | 473 | 17,297 | 238 | 249 | 505 |
| | | | | | | | |
| **Equity and index derivatives** | | | | | | | |
| Forward equity agreements | - | - | - | - | - | - | - |
| Forward equity index agreements | - | - | - | - | - | - | - |
| Equity options | | | | | | | |
| Call | | | | | | | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Purchased | - | - | - | - | - | - | - |
| Written | - | - | - | - | - | - | - |
| Put | | | | | | | |
| Purchased | - | - | - | - | - | - | - |
| Written | - | - | - | - | - | - | - |
| Equity index options | | | | | | | |
| Call | | | | | | | |
| Purchased | 105 | 967 | 29 | 1,101 | 128 | - | 214 |
| Written | - | - | - | - | - | - | - |
| Put | | | | | | | |
| Purchased | 1 | 0 | - | 1 | 0 | - | 0 |
| Written | - | - | - | - | - | - | - |
| Total OTC equity and index derivatives | 106 | 967 | 29 | 1,102 | 128 | - | 215 |
| Equity futures | - | - | - | - | - | - | - |
| Equity index futures | 54 | - | - | 54 | 0 | 0 | - |
| Total exchange traded derivatives | 54 | - | - | 54 | 0 | 0 | - |
| Total equity and index derivatives | 160 | 967 | 29 | 1,156 | 128 | 0 | 215 |
| **Credit derivatives** | | | | | | | |
| Credit default swaps | 13 | 162 | - | 175 | 5 | 0 | 8 |
| Credit-linked notes | - | - | - | - | - | - | - |
| Total return swaps | - | - | - | - | - | - | - |
| Other credit derivatives | - | - | - | - | - | - | - |
| Total credit derivatives | 13 | 162 | - | 175 | 5 | 0 | 8 |
| **Other** | | | | | | | |
| Other forward contracts | - | - | - | - | - | - | - |
| Other swaps | 124 | 111 | - | 235 | 1 | 15 | 20 |
| Other options | | | | | | | |
| Call | | | | | | | |
| Purchased | - | 20 | - | 20 | 2 | - | 4 |
| Written | - | 10 | - | 10 | - | 1 | - |
| Put | | | | | | | |
| Purchased | - | 7 | - | 7 | 0 | - | 1 |
| Written | - | 7 | - | 7 | - | 0 | - |
| Total other OTC derivatives | 124 | 156 | - | 280 | 3 | 15 | 25 |
| Other futures contracts | 27 | 49 | - | 76 | 24 | 0 | - |
| Total other derivatives | 151 | 204 | - | 355 | 27 | 16 | 25 |
| **Total derivatives held for trading** | **60,395** | **51,973** | **25,371** | **137,738** | **1,722** | **1,455** | **2,620** |

**Derivatives held for trading 31 December 2009**

| | Nominal values/residual maturity | | | | Fair values | | Potential |
|---|---|---|---|---|---|---|---|
| **EUR million** | **<1 year** | **1–5 years** | **>5 years** | **Total** | **Assets** | **Liabilities** | **future exposure** |
| **Interest rate derivatives** | | | | | | | |
| Interest rate swaps | 10,687 | 23,973 | 9,100 | 43,761 | 875 | 764 | 1,130 |
| Forward rate agreements | 200 | 200 | - | 400 | 0 | - | 1 |
| OTC interest rate options | | | | | | | |
| Call and caps | | | | | | | |
| Purchased | 2,205 | 6,467 | 1,296 | 9,968 | 62 | 25 | 113 |
| Written | 1,141 | 2,936 | 1,387 | 5,465 | - | 37 | - |
| Put and floors | | | | | | | |
| Purchased | 1,086 | 2,488 | 264 | 3,838 | 126 | 0 | 141 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Written | 1,208 | 2,419 | 161 | 3,788 | - | 84 | - |
| Total OTC interest rate derivatives | 16,527 | 38,484 | 12,210 | 67,221 | 1,063 | 911 | 1,386 |
| Interest rate futures | 2,782 | 408 | - | 3,190 | 5 | 1 | - |
| Interest rate options | | | | | | | |
| Call | | | | | | | |
| Purchased | - | - | - | - | - | - | - |
| Written | 6,000 | - | - | 6,000 | 1 | - | - |
| Put | | | | | | | |
| Purchased | 7,724 | - | - | 7,724 | 0 | 2 | - |
| Written | 7,000 | - | - | 7,000 | 1 | 0 | - |
| Total exchange traded derivatives | 23,505 | 408 | - | 23,914 | 7 | 3 | - |
| Total interest rate derivatives | 40,033 | 38,892 | 12,210 | 91,134 | 1,070 | 914 | 1,386 |
| **Currency derivatives** | | | | | | | |
| Forward exchange agreements | 10,869 | 460 | 7 | 11,335 | 199 | 101 | 331 |
| Interest rate and currency swaps | - | 419 | 347 | 766 | 25 | 37 | 72 |
| Currency options | | | | | | | |
| Call | | | | | | | |
| Purchased | 71 | - | - | 71 | 1 | - | 1 |
| Written | 73 | - | - | 73 | - | 1 | - |
| Put | | | | | | | |
| Purchased | 50 | - | - | 50 | 1 | - | 1 |
| Written | 56 | - | - | 56 | - | 1 | - |
| Total OTC currency derivatives | 11,118 | 879 | 354 | 12,351 | 225 | 140 | 406 |
| Currency futures | - | - | - | - | - | - | - |
| Total currency derivatives | 11,118 | 879 | 354 | 12,351 | 225 | 140 | 406 |
| **Equity and index derivatives** | | | | | | | |
| Forward equity agreements | - | - | - | - | - | - | - |
| Forward equity index agreements | - | - | - | - | - | - | - |
| Equity options | | | | | | | |
| Call | | | | | | | |
| Purchased | - | - | - | - | - | - | - |
| Written | 33 | - | - | 33 | - | 0 | - |
| Put | | | | | | | |
| Purchased | 33 | - | - | 33 | 0 | - | - |
| Written | 33 | - | - | 33 | - | 0 | - |
| Equity index options | | | | | | | |
| Call | | | | | | | |
| Purchased | 72 | 813 | 41 | 926 | 87 | - | 160 |
| Written | - | - | - | - | - | - | - |
| Put | | | | | | | |
| Purchased | - | 1 | - | 1 | 0 | - | 0 |
| Written | - | - | - | - | - | - | - |
| Total OTC equity and index derivatives | 170 | 814 | 41 | 1,025 | 87 | 0 | 161 |
| Equity futures | - | - | - | - | - | - | - |
| Equity index futures | 7 | - | - | 7 | 0 | - | - |
| Total exchange traded derivatives | 7 | - | - | 7 | 0 | - | - |
| Total equity and index derivatives | 177 | 814 | 41 | 1,032 | 87 | 0 | 161 |
| **Credit derivatives** | | | | | | | |
| Credit default swaps | 56 | 157 | - | 213 | 4 | 1 | 7 |
| Credit-linked notes | - | - | - | - | - | - | - |
| Total return swaps | - | - | - | - | - | - | - |
| Other credit derivatives | - | - | - | - | - | - | - |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Total credit derivatives | 56 | 157 | - | 213 | 4 | 1 | 7 |
| **Other** | | | | | | | |
| Other forward contracts | 6 | 7 | - | 12 | 2 | - | - |
| Other swaps | 1 | 118 | - | 119 | 0 | 2 | 10 |
| Other options | | | | | | | |
| Call | | | | | | | |
| Purchased | - | 10 | - | 10 | 0 | - | 1 |
| Written | - | - | - | - | - | - | - |
| Put | | | | | | | |
| Purchased | - | 0 | - | 0 | - | - | - |
| Written | - | - | - | - | - | - | - |
| Total other OTC derivatives | 7 | 135 | - | 142 | 2 | 2 | 11 |
| Other futures contracts | - | - | - | - | - | - | - |
| Total other derivatives | 7 | 135 | - | 142 | 2 | 2 | 11 |
| **Total derivatives held for trading** | **51,391** | **40,877** | **12,604** | **104,872** | **1,388** | **1,057** | **1,971** |

**Derivative contracts held for hedging purposes - fair value hedging 31 December 2009**

| | Nominal values/residual maturity | | | | Fair values | | Potential |
|---|---|---|---|---|---|---|---|
| **EUR million** | **<1 year** | **1–5 years** | **>5 years** | **Total** | **Assets** | **Liabilities** | **future exposure** |
| **Interest rate derivatives** | | | | | | | |
| Interest rate swaps | 698 | 6,777 | 2,994 | 10,469 | 134 | 209 | 213 |
| Forward rate agreements | - | - | - | - | - | - | - |
| OTC interest rate options | | | | | | | |
| Call and caps | | | | | | | |
| Purchased | - | - | - | - | - | - | - |
| Written | 5 | 229 | 98 | 332 | - | - | - |
| Put and floors | | | | | | | |
| Purchased | 5 | 229 | 98 | 332 | 5 | 2 | 7 |
| Written | - | - | - | - | - | - | - |
| Total OTC interest rate derivatives | 709 | 7,235 | 3,190 | 11,134 | 138 | 211 | 220 |
| Interest rate futures | - | - | - | - | - | - | - |
| Interest rate options | | | | | | | |
| Call | | | | | | | |
| Purchased | - | - | - | - | - | - | - |
| Written | - | - | - | - | - | - | - |
| Put | | | | | | | |
| Purchased | - | - | - | - | - | - | - |
| Written | - | - | - | - | - | - | - |
| Total exchange traded derivatives | - | - | - | - | - | - | - |
| Total interest rate derivatives | 709 | 7,235 | 3,190 | 11,134 | 138 | 211 | 220 |
| **Currency derivatives** | | | | | | | |
| Forward exchange agreements | 116 | - | - | 116 | 0 | 0 | 1 |
| Interest rate and currency swaps | 749 | 468 | 202 | 1,419 | 86 | 160 | 132 |
| Currency options | | | | | | | |
| Call | | | | | | | |
| Purchased | 22 | - | - | 22 | 0 | - | - |
| Written | 21 | - | - | 21 | - | 0 | - |
| Put | | | | | | | |
| Purchased | - | - | - | - | - | - | - |
| Written | 23 | - | - | 23 | - | 0 | - |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Total OTC currency derivatives | 931 | 468 | 202 | 1,601 | 86 | 161 | 133 |
| Currency futures | - | - | - | - | - | - | - |
| Total currency derivatives | 931 | 468 | 202 | 1,601 | 86 | 161 | 133 |
| | | | | | | | |
| **Equity and index derivatives** | | | | | | | |
| Forw ard equity agreements | - | - | - | - | - | - | - |
| Forw ard equity index agreements | - | - | - | - | - | - | - |
| Equity options | | | | | | | |
| Call | | | | | | | |
| Purchased | - | - | - | - | - | - | - |
| Written | - | - | - | - | - | - | - |
| Put | | | | | | | |
| Purchased | - | - | - | - | - | - | - |
| Written | - | - | - | - | - | - | - |
| Equity index options | | | | | | | |
| Call | | | | | | | |
| Purchased | - | - | - | - | - | - | - |
| Written | - | - | - | - | - | - | - |
| Put | | | | | | | |
| Purchased | - | - | - | - | - | - | - |
| Written | - | - | - | - | - | - | - |
| Total OTC equity and index derivatives | - | - | - | - | - | - | - |
| Equity futures | - | - | - | - | - | - | - |
| Equity index futures | - | - | - | - | - | - | - |
| Total exchange traded derivatives | - | - | - | - | - | - | - |
| Total equity and index derivatives | - | - | - | - | - | - | - |
| | | | | | | | |
| **Credit derivatives** | | | | | | | |
| Credit default sw aps | - | - | - | - | - | - | - |
| Credit-linked notes | - | - | - | - | - | - | - |
| Total return sw aps | - | - | - | - | - | - | - |
| Other credit derivatives | - | - | - | - | - | - | - |
| Total credit derivatives | - | - | - | - | - | - | - |
| | | | | | | | |
| **Other** | | | | | | | |
| Other forw ard contracts | - | - | - | - | - | - | - |
| Other sw aps | 3,410 | 57 | - | 3,467 | 2 | 28 | 14 |
| Other options | | | | | | | |
| Call | | | | | | | |
| Purchased | - | - | - | - | - | - | - |
| Written | - | - | - | - | - | - | - |
| Put | | | | | | | |
| Purchased | - | - | - | - | - | - | - |
| Written | - | - | - | - | - | - | - |
| Total other OTC derivatives | 3,410 | 57 | - | 3,467 | 2 | 28 | 14 |
| Other futures contracts | - | - | - | - | - | - | - |
| Total other derivatives | 3,410 | 57 | - | 3,467 | 2 | 28 | 14 |
| **Total derivatives held for hedging** | **5,050** | **7,760** | **3,392** | **16,202** | **227** | **400** | **366** |

**Derivative contracts held for hedging – cash flow hedge 31 Dec. 2010**

| | Nominal values /residual term to maturity | | | | Fair values | | Potential future |
|---|---|---|---|---|---|---|---|
| **EUR million** | **<1 year** | **1–5 years** | **>5 years** | **Total** | **Assets** | **Liabilities** | **exposure** |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Korkojohdannaiset** | | | | | | | |
| Koronvaihtosopimukset | - | 900 | - | 900 | 1 | 6 | 5 |
| OTC korkojohdannaiset yhteensä | - | 900 | - | 900 | 1 | 6 | 5 |
| Korkojohdannaiset yhteensä | - | 900 | - | 900 | 1 | 6 | 5 |

**Derivative contracts held for hedging – fair value hedging 31 December 2009**

| | Nominal values/residual maturity | | | | Fair values | | Potential |
|---|---|---|---|---|---|---|---|
| **EUR million** | **<1 year** | **1–5 years** | **>5 years** | **Total** | **Assets** | **Liabilities** | **future exposure** |
| **Interest rate derivatives** | | | | | | | |
| Interest rate swaps | 2,007 | 6,300 | 747 | 9,053 | 81 | 190 | 124 |
| Forward rate agreements | - | - | - | - | - | - | - |
| OTC interest rate options | | | | | | | |
| Call and caps | | | | | | | |
| Purchased | - | - | - | - | - | - | - |
| Written | 5 | 101 | 19 | 124 | - | 0 | - |
| Put and floors | | | | | | | |
| Purchased | 5 | 101 | 19 | 124 | 4 | 0 | 5 |
| Written | - | - | - | - | - | - | - |
| Total OTC interest rate derivatives | 2,016 | 6,502 | 785 | 9,302 | 85 | 190 | 129 |
| Interest rate futures | - | - | - | - | - | - | - |
| Interest rate options | | | | | | | |
| Call | | | | | | | |
| Purchased | - | - | - | - | - | - | - |
| Written | - | - | - | - | - | - | - |
| Put | | | | | | | |
| Purchased | - | - | - | - | - | - | - |
| Written | - | - | - | - | - | - | - |
| Total exchange traded derivatives | - | - | - | - | - | - | - |
| Total interest rate derivatives | 2,016 | 6,502 | 785 | 9,302 | 85 | 190 | 129 |
| | | | | | | | |
| **Currency derivatives** | | | | | | | |
| Forward exchange agreements | 156 | - | - | 156 | 0 | 1 | 2 |
| Interest rate and currency swaps | - | 1,080 | 136 | 1,216 | 13 | 197 | 77 |
| Currency options | | | | | | | |
| Call | | | | | | | |
| Purchased | - | - | - | - | - | - | - |
| Written | - | - | - | - | - | - | - |
| Put | | | | | | | |
| Purchased | - | - | - | - | - | - | - |
| Written | - | - | - | - | - | - | - |
| Total OTC currency derivatives | 156 | 1,080 | 136 | 1,372 | 13 | 198 | 79 |
| Currency futures | - | - | - | - | - | - | - |
| Total currency derivatives | 156 | 1,080 | 136 | 1,372 | 13 | 198 | 79 |
| | | | | | | | |
| **Equity and index derivatives** | | | | | | | |
| Forward equity agreements | - | - | - | - | - | - | - |
| Forward equity index agreements | - | - | - | - | - | - | - |
| Equity options | | | | | | | |
| Call | | | | | | | |
| Purchased | - | - | - | - | - | - | - |
| Written | - | - | - | - | - | - | - |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Put | | | | | | | |
| Purchased | - | - | - | - | - | - | - |
| Written | - | - | - | - | - | - | - |
| Equity index options | | | | | | | |
| Call | | | | | | | |
| Purchased | - | - | - | - | - | - | - |
| Written | - | - | - | - | - | - | - |
| Put | | | | | | | |
| Purchased | - | - | - | - | - | - | - |
| Written | - | - | - | - | - | - | - |
| Total OTC equity and index derivatives | - | - | - | - | - | - | - |
| Equity futures | - | - | - | - | - | - | - |
| Equity index futures | - | - | - | - | - | - | - |
| Total exchange traded derivatives | - | - | - | - | - | - | - |
| Total equity and index derivatives | - | - | - | - | - | - | - |
| **Credit derivatives** | | | | | | | |
| Credit default swaps | - | 21 | - | 21 | - | 1 | 0 |
| Credit-linked notes | - | - | - | - | - | - | - |
| Total return swaps | - | - | - | - | - | - | - |
| Other credit derivatives | - | - | - | - | - | - | - |
| Total credit derivatives | - | 21 | - | 21 | - | 1 | 0 |
| **Other** | | | | | | | |
| Other forward contracts | - | - | - | - | - | - | - |
| Other swaps | 3,843 | 117 | - | 3,960 | 1 | 22 | 11 |
| Other options | | | | | | | |
| Call | | | | | | | |
| Purchased | - | - | - | - | - | - | - |
| Written | - | - | - | - | - | - | - |
| Put | | | | | | | |
| Purchased | - | - | - | - | - | - | - |
| Written | - | - | - | - | - | - | - |
| Total other OTC derivatives | 3,843 | 117 | - | 3,960 | 1 | 22 | 11 |
| Other futures contracts | - | - | - | - | - | - | - |
| Total other derivatives | 3,843 | 117 | 0 | 3,960 | 1 | 22 | 11 |
| **Total derivatives held for hedging** | **6,015** | **7,720** | **920** | **14,656** | **100** | **412** | **218** |

**Total derivatives 31 December 2010**

| | Nominal values/residual maturity | | | | Fair values | | Potential |
|---|---|---|---|---|---|---|---|
| **EUR million** | **<1 year** | **1–5 years** | **>5 years** | **Total** | **Assets** | **Liabilities** | **future exposure** |
| Interest rate derivatives | 45,568 | 56,261 | 28,059 | 129,888 | 1,461 | 1,400 | 2,087 |
| Currency derivatives | 16,143 | 2,081 | 675 | 18,898 | 324 | 409 | 638 |
| Equity and index-linked derivatives | 160 | 967 | 29 | 1,156 | 128 | 0 | 215 |
| Credit derivatives | 13 | 162 | - | 175 | 5 | 0 | 8 |
| Other derivatives | 3,561 | 261 | - | 3,822 | 30 | 44 | 39 |
| **Total derivatives** | **65,445** | **59,732** | **28,763** | **153,940** | **1,948** | **1,854** | **2,986** |

**Total derivatives 31 December 2009**

| | Nominal values/residual maturity | | | | Fair values | | Potential |
|---|---|---|---|---|---|---|---|
| **EUR million** | **<1 year** | **1–5 years** | **>5 years** | **Total** | **Assets** | **Liabilities** | **future exposure** |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Interest rate derivatives | 42,048 | 45,394 | 12,995 | 100,437 | 1,155 | 1,104 | 1,515 |
| Currency derivatives | 11,274 | 1,959 | 489 | 13,722 | 239 | 338 | 484 |
| Equity and index-linked derivatives | 177 | 814 | 41 | 1,032 | 87 | 0 | 161 |
| Credit derivatives | 56 | 178 | - | 234 | 4 | 2 | 7 |
| Other derivatives | 3,850 | 252 | - | 4,102 | 3 | 24 | 22 |
| **Total derivatives** | **57,406** | **48,597** | **13,525** | **119,528** | **1,488** | **1,469** | **2,189** |

# Notes to OP-Pohjola Group financial statements

## OTHER NOTES

### Note 53. Holdings in other companies

**Changes in subsidiaries and associates during the financial year**

In September 2010, Pohjola Insurance Ltd, a Pohjola Bank plc subsidiary, established Pohjola Health Ltd, w hich offers businesses w ellbeing-at-w ork services. In December 2010, Pohjola Bank plc bought a 40% shareholding in Access Capital Partners Group SA, a manager and advisor of private equity funds of funds. At the same time, Pohjola sold its subsidiary Pohjola Private Equity Funds Ltd (including its subsidiaries SMF I Oy and SPEF I Oy) to Access Capital Partners. In December 2010, Pohjola Bank plc also sold its subsidiary Pohjola Capital Partners Ltd to its existing management.

**Subsidiaries included in the financial statements of the amalgamation of cooperative banks (OP-Pohjola Group) in 2010**

| Company | Domicile/home country | Shareholding, % | Votes, % |
|---|---|---|---|
| 213 member cooperative banks* | | | |
| OP-Pohjola Group Central Cooperative | Helsinki | 100.0 | 100.0 |
| Pohjola Bank plc | Helsinki | 44.8 | 70.3 |
| Helsinki OP Bank Plc | Helsinki | 100.0 | 100.0 |
| OP-Kotipankki Oyj | Helsinki | 100.0 | 100.0 |
| OP Mortgage Bank | Helsinki | 100.0 | 100.0 |
| OP Fund Management Company Ltd | Helsinki | 100.0 | 100.0 |
| OP Life Assurance Company Ltd | Helsinki | 100.0 | 100.0 |
| Helsingin Seudun OP-Kiinteistökeskus Ltd | Helsinki | 100.0 | 100.0 |
| OP IT Procurement Ltd | Helsinki | 100.0 | 100.0 |
| OP Bank Group Mutual Insurance Company | Helsinki | 100.0 | 100.0 |
| OP-Services Ltd*) | Helsinki | 100.0 | 100.0 |

*) It began operations on 1 January 2011, so it has not been yet included in the 2010 consolidated financial statements.

| **Pohjola Group companies :** | | | |
|---|---|---|---|
| Pohjola Asset Management Limited | Helsinki | 85.0 | 85.0 |
| Pohjola Corporate Finance Ltd | Helsinki | 66.0 | 66.0 |
| Pohjola Insurance Ltd | Helsinki | 100.0 | 100.0 |
| A-Insurance Ltd | Helsinki | 100.0 | 100.0 |
| Seesam International Insurance Company Ltd | Estonia | 100.0 | 100.0 |
| Joint Stock Insurance Company "Seesam Latvia" | Latvia | 100.0 | 100.0 |
| Joint Stock Insurance Company "Seesam Lithuania" | Lithuania | 100.0 | 100.0 |
| Eurooppalainen Insurance Company Ltd | Helsinki | 100.0 | 100.0 |
| Pohjola Property Management Ltd | Helsinki | 100.0 | 100.0 |
| Pohjola Health Ltd | Helsinki | 100.0 | 100.0 |
| Real Estate Fund | Helsinki | 100.0 | 100.0 |
| Real Estate Fund of Funds Finland Oy | Helsinki | 100.0 | 100.0 |
| Pohjola IT Procurement Ltd | Helsinki | 100.0 | 100.0 |
| Conventum Venture Finance Ltd. | Helsinki | 100.0 | 100.0 |
| Kaivokadun PL-hallinto Ltd | Helsinki | 100.0 | 100.0 |
| Pohjola Finance Estonia AS | Estonia | 100.0 | 100.0 |
| Pohjola Finance SIA | Latvia | 100.0 | 100.0 |
| UAB Pohjola Finance | Lithuania | 100.0 | 100.0 |

***OP-Pohjola Group member cooperative banks**

| Name | Balance sheet 2010, EUR million | Capital adequacy, % 31 Dec. 2010 | Managing Director 31 Dec. 2010 |
|---|---|---|---|

| | | | |
|---|---|---|---|
| Akaan Seudun Op | 118 | 35.4 | Heikki Teräväinen |
| Alajärven Op | 206 | 28.5 | Jari Leivo |
| Alastaron Op | 48 | 22.2 | Timo Viitanen |
| Alavieskan Op | 50 | 23.0 | Antero Alahautala |
| Alavuden Seudun Op | 162 | 19.3 | Jussi Ruuhela |
| Andelsbanken för Åland | 214 | 14.3 | Håkan Clemes |
| Andelsbanken Raseborg | 318 | 14.0 | Lars Björklöf |
| Artjärven Op | 40 | 29.6 | Reijo Hurskainen |
| Askolan Op | 82 | 28.5 | Tuulikki Kyyhkynen |
| Auran Op | 76 | 22.5 | Sauli Nuolemo |
| Enon Op | 102 | 25.3 | J. Reimasto-Heiskanen |
| Etelä-Karjalan Op | 1,021 | 26.5 | Jari Himanen |
| Etelä-Pohjanmaan Op | 686 | 16.5 | Olli Tarkkanen |
| Etelä-Päijänteen Op | 130 | 20.3 | Jari Laaksonen |
| Etelä-Savon Op | 681 | 18.1 | Kari Manninen |
| Euran Op | 158 | 25.2 | Lenni Kankaanpää |
| Forssan Seudun Op | 283 | 17.9 | Jouni Hautala |
| Haapajärven Op | 120 | 15.3 | Kari Ahola |
| Haapamäen Seudun Op | 52 | 28.6 | Kaarina Koski |
| Hailuodon Op | 31 | 26.7 | Eija Sipola |
| Halsuan Op | 27 | 25.6 | Tapio Jokela |
| Haminan Seudun Op | 202 | 32.3 | Juha Korhonen |
| Harjavallan Op | 131 | 31.7 | Jarmo Tuovinen |
| Hartolan Op | 56 | 27.6 | Olli Asikainen |
| Hauhon Op | 43 | 30.3 | Timo Metsola |
| Haukivuoren Op | 54 | 22.7 | Seppo Laurila |
| Heinäveden Op | 68 | 35.1 | Jukka Tuomisto |
| Himangan Op | 67 | 13.8 | Kalevi Humalajoki |
| Hirvensalmen Op | 37 | 27.5 | Pertti Severinkangas |
| Honkilahden Op | 29 | 39.1 | Olavi Juhola |
| Huhtamon Op | 16 | 34.0 | Päivikki Järvinen |
| Huittisten Op | 121 | 31.3 | Olli Näsi |
| Humppilan Op | 56 | 25.3 | Jari Salokangas |
| Hämeenlinnan Seudun Op | 624 | 18.0 | Olli Liusjärvi |
| Ikaalisten Op | 91 | 20.1 | Antero Sorri |
| Ilomantsin Op | 92 | 29.0 | Raija Tahvanainen |
| Itä-Uudenmaan Op | 283 | 11.9 | Arto Nurmi-Aro |
| Janakkalan Op | 300 | 35.6 | Vesa Lehikoinen |
| Joensuun Seudun Op | 557 | 16.3 | Antti Heliövaara |
| Jokioisten Op | 100 | 23.5 | Vesa Rantanen |
| Juuan Op | 102 | 26.4 | Tuomo Mustonen |
| Juvan Op | 141 | 27.3 | Risto Rouhiainen |
| Jämsän Seudun Op | 224 | 31.7 | Heikki Rosti |
| Kainuun Op | 372 | 24.1 | Seppo Rytivaara |
| Kalajoen Op | 166 | 17.5 | Pertti Sarkkinen |
| Kalkkisten Op | 16 | 30.7 | Heikki Leppähaara |
| Kangasalan Seudun Op | 329 | 17.3 | Veikko Poranen |
| Kangasniemen Op | 145 | 30.7 | Leo Pakkanen |
| Kannuksen Op | 78 | 17.7 | Juha Lundström |
| Karjalan Op | 28 | 25.4 | Pentti Laaksonen |
| Karkun Op | 20 | 30.0 | Kaarina Sacklén |
| Karvian Op | 58 | 19.6 | Antti Suomijärvi |
| Kaustisen Op | 78 | 15.6 | Asko Ahonen |
| Keikyän Op | 31 | 24.5 | Heikki Nelimarkka |
| Kemin Seudun Op | 245 | 29.2 | Pertti Stöckel |
| Kerimäen Op | 57 | 29.8 | Jarmo Kaivonurmi |
| Keski-Suomen Op | 1,627 | 14.7 | Keijo Manner |
| Keski-Uudenmaan Op | 1,127 | 25.0 | Juhani Rinta-Kartano |
| Kestilän Op | 34 | 27.9 | Hans Aikio |
| Kesälahden Op | 54 | 33.1 | Ari Noponen |

| | | | |
|---|---|---|---|
| Kihniön Op | 31 | 23.9 | Pirjo Haapa-aho Vehniä |
| Kiihtelysvaaran Op | 79 | 21.2 | Pasi Leppänen |
| Kiikoisten Op | 27 | 28.2 | Harri Vehkalahti |
| Kiteen Seudun Op | 250 | 23.9 | Ari Karhapää |
| Koillis-Savon Op | 274 | 31.4 | Seppo Pääkkö |
| Koitin-Pertunmaan Op | 59 | 26.6 | Unto Aikasalo |
| Kokemäen Op | 124 | 32.3 | Jari Luukkanen |
| Kokkolan Op | 600 | 13.1 | Kimmo Peuranto |
| Korpilahden Op | 75 | 28.5 | Tuomas Kupsala |
| Korsnäs Andelsbank | 65 | 37.0 | Jan-Erik Westerdahl |
| Kotkan Seudun Op | 362 | 18.2 | Pentti Leisti |
| Kouvolan Seudun Op | 513 | 18.3 | Marjo Partio |
| Kronoby Andelsbank | 110 | 25.6 | Sten-Ole Nybäck |
| Kuhmoisten Op | 47 | 19.2 | Teemu Sarhemaa |
| Kuhmon Op | 139 | 36.1 | Erkki Airaksinen |
| Kuortaneen Op | 56 | 21.1 | Markku Jaatinen |
| Kurun Op | 44 | 24.6 | Marja-Leena Siuro |
| Kuusamon Op | 148 | 19.4 | Kari Kivelä |
| Kymijoen Op | 141 | 25.5 | Pekka Raivisto |
| Kärkölän Op | 55 | 27.1 | Petri Hokkanen |
| Käylän Op | 23 | 30.0 | Katja Koskinen |
| Köyliön Op | 67 | 20.4 | Jorma Pohjus |
| Lapin Op | 70 | 25.0 | Eero Laiho |
| Lappo Andelsbank | 7 | 22.2 | Torsten Nordberg |
| Lehtimäen Op | 46 | 13.9 | Veli-Jussi Haapala |
| Lemin Op | 64 | 19.1 | Eero Innanen |
| Leppävirran Op | 131 | 27.6 | Jukka Kilpeläinen |
| Limingan Op | 65 | 20.8 | Petteri Juusola |
| Liperin Op | 156 | 21.8 | Jalo Lehtovaara |
| Loimaan Seudun Op | 208 | 25.6 | Juha Pullinen |
| Lokalahden Op | 32 | 27.1 | Irma Sirén |
| Lopen Op | 96 | 29.3 | Keijo Bragge |
| Lounais-Suomen Op | 177 | 29.5 | Vesa Viitaniemi |
| Luhangan Op | 44 | 27.2 | Pekka Pietilä |
| Luopioisten Op | 29 | 26.2 | Esa Jokinen |
| Luumäen Op | 80 | 32.6 | Eero Kettunen |
| Luvian Op | 59 | 19.2 | Jyrki Suoja |
| Länsi-Kymen Op | 225 | 18.7 | Pertti Olander |
| Länsi-Suomen Op | 1,798 | 24.0 | Simo Kauppi |
| Länsi-Uudenmaan Op | 658 | 15.6 | Jarmo Viitanen |
| Maaningan Op | 76 | 31.3 | Ari Väänänen |
| Marttilan Op | 72 | 32.8 | Matti Vahalahti |
| Maskun Op | 109 | 14.9 | Jarmo Nurmi |
| Mellilän Seudun Op | 28 | 40.3 | Jouko Rinne |
| Merimaskun Op | 29 | 27.2 | Marjo Linnakoski |
| Metsämaan Op | 25 | 29.1 | Jussi Nieminen |
| Miehikkälän Op | 51 | 34.0 | Kalevi Salonen |
| Mouhijärven Op | 55 | 19.9 | Rainer Sillanpää |
| Mynämäen Op | 124 | 28.6 | Kimmo Ranta |
| Myrskylän Op | 18 | 25.7 | Jorma Rouhiainen |
| Mäntsälän Op | 155 | 23.5 | Heikki Kananen |
| Mäntän Seudun Op | 198 | 23.4 | Erkki Lauronen |
| Nagu Andelsbank | 38 | 19.9 | Johan Broos |
| Nakkilan Op | 104 | 36.1 | Jussi Kuvaja |
| Niinijoen Op | 32 | 33.6 | Jouni Tammelin |
| Nivalan Op | 159 | 12.5 | Markku Niskala |
| Nousiaisten Op | 175 | 24.7 | Ville Aakula |
| Orimattilan Op | 164 | 26.5 | Jukka Sipilä |
| Oripään Op | 52 | 16.0 | Jouko Rekolainen |
| Oriveden Seudun Op | 143 | 25.3 | Pertti Pyykkö |

| | | | |
|---|---|---|---|
| Op Kantrisalo | 87 | 24.3 | Bo Hellen |
| Oulaisten Op | 163 | 26.1 | Jari Anttila |
| Oulun Op | 1,972 | 17.2 | Timo Levo |
| Outokummun Op | 94 | 28.1 | Eero Eskelinen |
| Paattisten Op | 79 | 28.1 | Eero Koskinen |
| Paltamon Op | 55 | 29.0 | Jorma Niemi |
| Parikkalan Op | 100 | 27.6 | Tuomo Liukka |
| Parkanon Op | 86 | 22.9 | Ari Heinonen |
| Pedersörenejdens Andelsbank | 340 | 16.9 | Ulf Löf |
| Perhon Op | 58 | 21.3 | Pekka Pajula |
| Peräseinäjoen Op | 89 | 30.2 | Juha Mäki |
| Pieksämäen Op | 214 | 15.3 | Seppo Vanninen |
| Pielaveden Op | 76 | 25.3 | Jouni Karhinen |
| Pielisen Op | 372 | 27.0 | Mikko Vepsäläinen |
| Pihtiputaan Op | 55 | 26.7 | Vesa Isosalo |
| Pohjois-Savon Op | 1,347 | 16.7 | Jaakko Ojanperä |
| Pohjolan Op | 724 | 16.1 | Markku Salomaa |
| Polvijärven Op | 97 | 23.6 | Juhani Leminen |
| Porvoon Op | 556 | 17.1 | Pertti Hellqvist |
| Posion Op | 88 | 35.6 | Vesa Jurmu |
| Pudasjärven Op | 149 | 36.4 | Teuvo Perätalo |
| Pukkilan Op | 54 | 25.9 | Ari Talkara |
| Pulkkilan Op | 34 | 32.0 | Eero Keskitalo |
| Punkalaitumen Op | 80 | 37.7 | Petri Antila |
| Puolangan Op | 69 | 22.4 | Jouni Ahokumpu |
| Purmo Andelsbank | 31 | 19.2 | Stig-Göran Jansson |
| Pyhäjärven Op | 101 | 27.2 | Matti Martikainen |
| Pyhälaakson Op | 154 | 19.6 | Timo Suhonen |
| Päijät-Hämeen Op | 956 | 10.7 | Timo Laine |
| Pöytyän Op | 76 | 20.4 | Tuomo Jokinen |
| Raahen Seudun Op | 284 | 26.8 | Ari Pohjola |
| Rantasalmen Op | 125 | 35.1 | Vesa Auvinen |
| Rantsilan Op | 45 | 21.8 | Ismo Välijärvi |
| Rautalammin Op | 63 | 24.3 | Esko-Pekka Markkanen |
| Riihimäen Seudun Op | 285 | 28.2 | Seppo Runsamo |
| Riistaveden Op | 88 | 17.2 | Pauli Kröger |
| Ruoveden Op | 118 | 12.7 | Leena Selkee |
| Ruukin Op | 98 | 29.9 | Kalle Arvio |
| Rymättylän Op | 55 | 21.7 | Antero Nikki |
| Rääkkylän Op | 72 | 20.2 | Olli Koivula |
| Sallan Op | 56 | 24.7 | Veikko Nissi |
| Salon Op | 717 | 19.9 | Jukka Hulkkonen |
| Sauvon Op | 61 | 26.0 | Pertti Peura |
| Savitaipaleen Op | 86 | 30.1 | Leo-Petteri Nevalainen |
| Savonlinnan Op | 375 | 28.0 | Merja Auvinen |
| Sideby Andelsbank | 36 | 25.4 | Johan Ingves |
| Siikajoen Op | 13 | 24.7 | Raija Fingerroos |
| Simpeleen Op | 67 | 32.2 | Kalevi Lehti |
| Somerniemen Op | 29 | 21.5 | Pertti Kujala |
| Someron Op | 136 | 20.3 | Pertti Purola |
| Sonkajärven Op | 86 | 27.5 | Esko Nissinen |
| Sotkamon Op | 101 | 28.6 | Juhajouni Karttunen |
| Sulkavan Op | 62 | 22.9 | Kari Haverinen |
| Suomussalmen Op | 93 | 22.0 | Timo Polo |
| Suonenjoen Op | 92 | 24.4 | Antti Hult |
| Sysmän Op | 98 | 29.1 | Sakari Kangas |
| Säkylän Op | 63 | 29.7 | Henrik Vase |
| Taivalkosken Op | 49 | 22.0 | Riitta-Liisa Ahokumpu |
| Taivassalon Op | 50 | 18.7 | Jari Katila |
| Tampereen Seudun Op | 2,125 | 13.0 | Mikko Rosenlund |

| | | | |
|---|---|---|---|
| Tarvasjoen Op | 46 | 24.9 | Esa Hentula |
| Tervolan Op | 63 | 28.0 | Hannu Neuvonen |
| Tervon Op | 41 | 31.5 | Jani Kääriäinen |
| Toholammin Op | 88 | 18.9 | Leena Kälviä |
| Tornion Op | 201 | 19.7 | Pentti Alaperä |
| Turun Seudun Op | 2,069 | 15.1 | Risto Korpela |
| Tuupovaaran Op | 49 | 35.0 | Aune Parviainen |
| Tyrnävän Op | 60 | 18.9 | Antto Joutsiniemi |
| Ullavan Op | 30 | 22.1 | Jarmo Hätälä |
| Urjalan Op | 106 | 25.6 | Janne Nuutinen |
| Utajärven Op | 164 | 22.0 | Raimo Tuovinen |
| Uukuniemen Op | 12 | 41.0 | Pauli Loikkanen |
| Vaasan Op | 587 | 19.4 | Ulf Nylund |
| Vakka-Suomen Op | 334 | 24.3 | Juha-Pekka Nieminen |
| Valkeakosken Op | 168 | 23.6 | Juha Luomala |
| Vammalan Seudun Op | 195 | 15.0 | Jyrki Rantala |
| Vampulan Op | 55 | 20.9 | Kari Hänti |
| Varpaisjärven Op | 76 | 23.3 | Seppo Riekkinen |
| Vehmersalmen Op | 51 | 33.9 | Petri Tyllinen |
| Vesannon Op | 51 | 22.7 | Esa Keränen |
| Vetelin Op | 27 | 22.8 | Jarmo Lehojärvi |
| Vetelin Ylipään Op | 29 | 23.7 | Jari Siirilä |
| Vihannin Op | 99 | 25.6 | Olavi Rasi |
| Vimpelin Op | 57 | 22.9 | Simo Ilomäki |
| Virolahden Op | 64 | 25.7 | Jyrki Gerlander |
| Virtain Op | 136 | 24.3 | Ari Kakkori |
| Ylitornion Op | 86 | 25.3 | Heikki Eteläaho |
| Ylivieskan Op | 170 | 13.2 | Jarmo Somero |
| Yläneen Op | 71 | 28.5 | Heikki Eskola |
| Ypäjän Op | 59 | 28.3 | Kirsi-Marja Hiidensalo |
| Ähtärin Op | 56 | 14.2 | Markku Kallio |
| Östra Korsholms Andelsbank | 7 | 29.0 | Jussi Lahti |
| Övermark Andelsbank | 28 | 18.3 | Mårten Vikberg |

**Associated companies**

**Associates (consolidated) in 2010**

| Name | Domicile | Assets | Liabilities | Net sales | Profit/ Loss | Holding, % |
|---|---|---|---|---|---|---|
| Realinvest Oy | Helsinki | 20 | 10 | 0 | -1 | 25.3 |
| Finanssidata Oy | Helsinki | 8 | 5 | 47 | 0 | 36.0 |
| Automatia Pankkiautomaatit Oy | Helsinki | 340 | 317 | 59 | 6 | 33.3 |
| Autovahinkokeskus Oy | Espoo | 7 | 1 | 7 | 1 | 27.8 |
| Access Capital Partners Group S.A. | Belgium | 25 | 20 | 16 | 2 | 40.0 |
| **Total** | | **400** | **353** | **129** | **8** | |

The Group's associated companies are unquoted companies.

**Associates (consolidated) in 2009**

| Name | Domicile | Assets | Liabilities | Net sales | Profit/ Loss | Holding, % |
|---|---|---|---|---|---|---|
| Realinvest Oy | Helsinki | 20 | 10 | 0 | -1 | 25.3 |
| Finanssidata Oy | Helsinki | 8 | 5 | 47 | 0 | 36.0 |
| Automatia Pankkiautomaatit Oy | Helsinki | 340 | 317 | 59 | 6 | 33.3 |
| Autovahinkokeskus Oy | Espoo | 7 | 1 | 7 | 1 | 27.8 |
| **Total** | | **375** | **333** | **113** | **6** | |

The Group's associated companies are unquoted companies.

## Joint ventures

### Joint ventures in 2010

| Name | Domicile | Sector | Holding |
|---|---|---|---|
| Kiinteistö Oy Arkadiankatu 23 | Helsinki | Property holding and management | 100.0 |
| Kiinteistö Oy Kaisaniemenkatu 1 | Helsinki | Property holding and management | 22.4 |
| Kiinteistö Oy Kanta-Sarvis II | Tampere | Property holding and management | 100.0 |
| Kiinteistö Oy Säterinkatu 6 | Espoo | Property holding and management | 100.0 |
| Kiinteistö Oy Piispankalliontie 13-15 | Espoo | Property holding and management | 100.0 |
| Kiinteistö Oy Jyväskylän Torikulma | Jyväskylä | Property holding and management | 41.7 |
| Kiinteistö Oy Jyväskylän Kassatalo | Jyväskylä | Property holding and management | 100.0 |
| Kiinteistö Oy Vammalan Torikeskus | Vammala | Property holding and management | 100.0 |
| Kiinteistö Oy Biocity | Turku | Property holding and management | 30.5 |
| Kiinteistö Oy Turun Asemanseutu | Turku | Property holding and management | 49.5 |
| Kiinteistö Oy Säästöraha | Oulu | Property holding and management | 100.0 |
| Kiinteistö Oy Ansatie 5 | Helsinki | Property holding and management | 100.0 |
| Kiinteistö Oy Tampereen Sähkökortteli | Tampere | Property holding and management | 100.0 |
| Kiinteistö Oy Tampereen Hämeenkatu 12 | Tampere | Property holding and management | 100.0 |
| Mikkelin Forum Oy | Mikkeli | Property holding and management | 87.1 |
| Kiinteistö Oy Hämeenkivi | Tampere | Property holding and management | 100.0 |
| | | | Pohjola's holding % |
| Companies owned by Pohjola Insurance Ltd: | | | |
| Tikkurilan Kauppatalo Oy | Vantaa | Property holding and management | 53.7 |
| Kiinteistö Oy Helsingin Puutarhurinkuja 2 | Helsinki | Property holding and management | 100.0 |
| Kiinteistö Oy Vantaan Kisällintie 13 | Vantaa | Property holding and management | 100.0 |
| Kiinteistö Oy STC Viinikkala | Vantaa | Property holding and management | 100.0 |

The consolidated financial statements include the share of assets and related liabilities under joint control.

### Joint ventures in 2009

| Name | Domicile | Sector | Holding |
|---|---|---|---|
| Kiinteistö Oy Arkadiankatu 23 | Helsinki | Property holding and management | 100.0 |
| Kiinteistö Oy Kaisaniemenkatu 1 | Helsinki | Property holding and management | 22.4 |
| Kiinteistö Oy Kanta-Sarvis II | Tampere | Property holding and management | 100.0 |
| Kiinteistö Oy Säterinkatu 6 | Espoo | Property holding and management | 100.0 |
| Kiinteistö Oy Piispankalliontie 13-15 | Espoo | Property holding and management | 100.0 |
| Kiinteistö Oy Pekurinkulma | Oulu | Property holding and management | 100.0 |
| Kiinteistö Oy Jyväskylän Torikulma | Jyväskylä | Property holding and management | 41.7 |
| Kiinteistö Oy Jyväskylän Kassatalo | Jyväskylä | Property holding and management | 100.0 |
| Kiinteistö Oy Vammalan Torikeskus | Vammala | Property holding and management | 100.0 |
| Kiinteistö Oy Biocity | Turku | Property holding and management | 30.5 |
| Kiinteistö Oy Turun Asemanseutu | Turku | Property holding and management | 49.5 |
| Kiinteistö Oy Säästöraha | Oulu | Property holding and management | 100.0 |
| Kiinteistö Oy Tampereen Sähkökortteli | Tammerfors | Property holding and management | 100.0 |
| Kiinteistö Oy Tampereen Hämeenkatu 12 | Tammerfors | Property holding and management | 100.0 |
| Mikkelin Forum Oy | St. Michel | Property holding and management | 87.1 |
| | | | Pohjola's holding % |
| Companies owned by Pohjola Insurance Ltd: | | | |
| Tikkurilan Kauppatalo Oy | Vantaa | Property holding and management | 53.7 |
| Kiinteistö Oy Helsingin Puutarhurinkuja 2 | Helsinki | Property holding and management | 100.0 |
| Kiinteistö Oy Vantaan Kisällintie 13 | Vantaa | Property holding and management | 100.0 |

## Notes to OP-Pohjola Group financial statements

## OTHER NOTES

### Note 54. Related-party transactions

**OP Bank Group's related parties:**

The related parties of OP-Pohjola Group include associates, administrative personnel and other related party companies. The administrative personnel comprise OP-Pohjola Group's Executive Chairman (Chairman of the Executive Board of OP-Pohjola Group Central Cooperative), President of OP-Pohjola Group Central Cooperative, members and deputy members of the Executive and Supervisory Boards and their close relatives. Related parties also include companies over which a person among administrative personnel or his close family member exercises significant influence. Other communities considered as related parties include OP Bank Group Pension Fund and OP Bank Group Pension Foundation.

Standard terms and conditions for credit are applied to loans granted to the related parties. Loans are tied to generally used reference rates.

**Related-party transactions 2010**

| | Associates | Admini-strative personnel | Others |
|---|---|---|---|
| Loans | 84 | 11 | - |
| Other receivables | 0 | 2 | 0 |
| Deposits | 1 | 12 | 42 |
| Other liabilities | - | - | - |
| Interest income | 0 | 0 | - |
| Interest expenses | 0 | 0 | 1 |
| Insurance premium revenue | 0 | 0 | 2 |
| Dividend income | - | - | - |
| Commission income | 0 | 0 | 0 |
| Commission expenses | 0 | 0 | 0 |
| Other operating income | - | - | - |
| Impairment losses on loans | - | - | - |
| Impairment losses on loans at year-end | - | - | - |
| **Off-balance-sheet commitments** | | | |
| Guarantees | - | - | - |
| Irrevocable commitments | - | - | - |
| Other off-balance-sheet commitments | - | 0 | - |
| **Salaries and other short-term benefits, and performance-based pay** | | | |
| Salaries and other short-term benefits | - | 5 | - |
| Performance-based pay | - | - | - |
| **Related-party holdings** | | | |
| Number of stock options | - | - | - |
| Number of shares | - | 183,841 | 5,784,097 |
| Number of participations | - | 4,898 | - |

**Related-party transactions 2009**

| | Associates | Admini-strative personnel | Others |
|---|---|---|---|
| Loans | 100 | 4 | - |
| Other receivables | 0 | 0 | 0 |
| Deposits | 0 | 11 | 63 |
| Other liabilities | - | - | - |
| Interest income | 0 | 0 | - |
| Interest expenses | 0 | 0 | 1 |
| Insurance premium revenue | 0 | 0 | 2 |
| Dividend income | 1 | - | - |
| Commission income | 0 | 0 | 0 |
| Commission expenses | 0 | 0 | 0 |
| Other operating income | - | - | - |
| Impairment losses on loans | - | - | - |

| | | | |
|---|---|---|---|
| Impairment losses on loans at year-end | - | - | - |
| **Off-balance-sheet commitments** | | | |
| Guarantees | - | - | - |
| Irrevocable commitments | - | - | - |
| Other off-balance-sheet commitments | - | 0 | - |
| **Salaries and other short-term benefits, and performance-based pay** | | | |
| Salaries and other short-term benefits | - | 5 | - |
| Performance-based pay | - | - | - |
| **Related-party holdings** | | | |
| Number of stock options | - | - | - |
| Number of shares | - | 155,676 | 5,784,097 |
| Number of participations | - | 4,799 | - |

## OTHER NOTES

### Note 55. Long-term incentive schemes

**Personnel fund**

About 94 of the central institution's personnel are members of OP-Pohjola Group's Personnel Fund.

Payment of OP-Pohjola Group Central Cooperative's (excl. Pohjola Group) profit-based bonuses to OP-Pohjola Group Personnel Fund in 2010 were based on the following targets: OP-Pohjola Group's return on economic capital, in terms of percentage and change in the Group's loyal customers, both weighted 50%. If the targets set for the performance indicators are achieved 100%, profit-based bonuses for 2010 to be transferred to the Fund account for 3% of the combined salaries and wages earned by the Fund's members. The corresponding criteria in Pohjola Group are: Pohjola Group's financial year EPS, weighted 50%; change in the number of Pohjola Insurance Ltd's loyal customer households, weighted 25%; change in the number of OP-Pohjola Group's loyal customers, weighted 25%. If the targets set for the performance indicators are achieved 100%, profit-based bonuses for 2010 to be transferred to the Fund account for 3% of the combined salaries and wages earned by the Fund's members. The criteria for profit-based bonuses in Group member banks are: the member bank's return on economic capital and the change in the number of loyal customers in the member bank itself and in OP-Pohjola Group in total.

**Long-term management incentive scheme**

The management's long-term incentive scheme comprises selected people at management level. Depending on how well they have achieved certain annual targets, they are entitled to a bonus, subject to withholding tax, similar to monthly salary. The bonus will be paid in two years' time following the end of the vesting period in the form of Pohjola Bank plc shares. A bonus in the form of shares or cash is recognised as personnel costs over the vesting period.

A total of EUR 9.6 million was used at OP-Pohjola Group in 2010 for long-term incentive plans.

## OTHER NOTES

### Note 56. Events after the balance sheet date

No significant events after the balance sheet date.

# Notes to OP-Pohjola Group financial statements

## OTHER NOTES

### Note 57. Segment reporting

**Segment information**

OP-Pohjola Group's business segments are Banking and Investment Services, Non-life Insurance and Life Insurance. Non-segment operations are presented in 'Other Operations'. Defining segments and presentation are based on management reporting.

Companies within the Banking and Investment Services segment are the member banks, Helsinki OP Bank Plc, OP-Kotipankki Oyj, OP Mortgage Bank and OP Fund Management Company Ltd and certain smaller companies supporting banking and investment services in their entirety. Pohjola Group's Banking and Asset Management segments are also included under Banking and Investment Services. The operations of OP Bank Group Mutual Insurance Company's are also included under Banking and Investment Services, because the majority of the company's business consists of credit insurance to retail banks.

Net interest income is the most significant income component generated by Banking and Investment Services. Income also comes from commissions and fees, and investments. Expenses arise mainly from personnel and other administrative costs, from the network of offices and from returns to owner-members. The most significant risk category pertains to credit risks but business also involves investment risks and operational risks.

The Life Insurance segment comprises OP Life Assurance Company Ltd engaged in the Group's life and pension insurance business.

Net income generated by the life insurance companies is based on the difference between insurance premium revenue and benefits paid and changes in insurance contract liabilities, and net investment income. The most significant risk involved in the life insurance business is the investment risk. The most significant insurance risks pertain to mortality and disability.

The Non-life Insurance segment encompasses the operations of OP-Pohjola Group's non-life insurance companies, i.e. Pohjola Insurance Ltd, Eurooppalainen Insurance Company Ltd, A-Insurance Ltd, the Seesam companies operating in the Baltic countries, as well as the operations of service companies supporting non-life insurance.

Non-life insurance products include non-life insurance policies sold to corporate and private customers. Net income generated by Non-life Insurance derives mainly from premiums written and investment income. The most significant risks in Non-life Insurance pertain to insurance risks and investment risks.

Other Operations includes operations that support the business segments, particularly the operations of OP-Pohjola Group Central Cooperative and Pohjola Group's administration. Costs of the services for the business segments are allocated to the segments in the form of internal service charges. The allocation of other equity capital to the business segments is carried out through an internal bank under Other Operations, which means that any positive results in excess of the target level will be shown under Other Operations.

**Segment accounting policies**

OP-Pohjola Group's segment reporting is based on accounting policies applied in its financial statements. Income, expenses, assets and liabilities which have been considered to relate directly to and be reasonably attributable to the segments are allocated to the segments. Income, expenses, investments and capital which have not been allocated to segments and inter-segment Group eliminations are reported under 'Group eliminations'. The segments' earnings and profitability is assessed in terms of pre-tax earnings.

Equity allocated to retail banking operations accounts for 9% of the risk-weighted commitments required by the Credit Institutions Act and equity allocated to Pohjola Bank's banking and investment services operations for 7% of the risk-weighted commitments. The unallocated part of equity is assigned to 'Other operations' outside the business lines.

**Income statement and balance sheet by segment in 2010**

| Income statement, EUR Million | Banking and Investment Services | Non-life Insurance | Life Insurance | Other operations | Elimi-nations | OP-Pohjola Group |
|---|---|---|---|---|---|---|
| Interest income | 2,466 | 0 | - | 732 | -786 | 2,412 |
| Interest expenses | 1,614 | 6 | - | 671 | -796 | 1,495 |
| **Net interest income before impairment losses** | **852** | **6** | **-** | **61** | **10** | **917** |
| Impairment losses on receivables | 149 | 0 | - | -1 | - | 149 |
| **Net interest income after impairment losses** | **703** | **6** | **-** | **61** | **10** | **768** |

| | | | | | | |
|---|---|---|---|---|---|---|
| Net income from Non-life Insurance | - | 383 | - | - | -1 | 382 |
| Net income from Life Insurance | - | - | 109 | - | -8 | 100 |
| Net commissions and fees | 595 | 19 | - | 8 | -60 | 563 |
| Net trading income | 52 | - | - | -8 | 2 | 46 |
| Net investment income | 30 | - | - | 40 | -8 | 62 |
| Other operating income | 66 | 3 | 16 | 333 | -319 | 99 |
| Personnel costs | 405 | 109 | 9 | 120 | 0 | 643 |
| Other administrative expenses | 313 | 88 | 17 | 153 | -253 | 319 |
| Other operating expenses | 200 | 119 | 55 | 76 | -126 | 324 |
| Returns to owner-members | 163 | - | - | - | - | 163 |
| Share of associates' profits/losses | 2 | 0 | - | 0 | - | 2 |
| **Earning before tax** | **367** | **83** | **43** | **86** | **-4** | **575** |
| Income tax expense | | | | | | 135 |
| **Profit for the financial year** | | | | | | **440** |

| Balance sheet 31 Dec. 2010 | Banking and Investment Services | Non-life Insurance | Life Insurance | Other operations | Elimi-nations | OP-Pohjola Group |
|---|---|---|---|---|---|---|
| Liquid assets | 133 | - | - | 1,495 | - | 1,628 |
| Receivables from financial institutions | 3,570 | 2 | - | 7,819 | -10,270 | 1,121 |
| Financial assets at fair value through profit or loss | 587 | - | - | -59 | -9 | 519 |
| Derivative contracts | 1,972 | - | - | 107 | -146 | 1,933 |
| Receivables from customers | 56,375 | - | - | 977 | -519 | 56,834 |
| Non-life Insurance assets | - | 3,307 | - | - | -143 | 3,164 |
| Life Insurance assets | - | - | 8,017 | - | -473 | 7,544 |
| Investment assets | 2,665 | 16 | - | 7,335 | -2,578 | 7,438 |
| Investment in associates | 31 | 2 | - | 5 | - | 38 |
| Intangible assets | 216 | 767 | 91 | 90 | -5 | 1,159 |
| Property, plant and equipment | 596 | 21 | 67 | 25 | 6 | 716 |
| Other assets | 1,090 | -1 | 6 | 858 | -204 | 1,749 |
| Tax assets | 62 | 3 | 16 | 42 | 2 | 125 |
| **Total assets** | **67,299** | **4,118** | **8,198** | **18,694** | **-14,340** | **83,969** |

| Balance sheet 31 Dec. 2010 | Banking and Investment Services | Non-life Insurance | Life Insurance | Other operations | Elimi-nations | OP-Pohjola Group |
|---|---|---|---|---|---|---|
| Liabilities to financial institutions | 8,139 | - | - | 4,034 | -10,477 | 1,696 |
| Financial liabilities at fair value through profit or loss | 0 | - | - | 0 | - | 0 |
| Derivative contracts | 1,618 | - | - | 476 | -142 | 1,951 |
| Liabilities to customers | 36,590 | - | - | 2,953 | -339 | 39,205 |
| Non-life Insurance liabilities | - | 2,357 | - | - | -6 | 2,350 |
| Life Insurance liabilities | - | - | 7,316 | - | -25 | 7,290 |
| Debt securities issued to the public | 3,179 | - | - | 17,032 | -633 | 19,577 |
| Provisions and other liabilities | 1,821 | 143 | 2 | 579 | -212 | 2,333 |
| Tax liabilities | 502 | 153 | 49 | 324 | -14 | 1,014 |
| Cooperative capital | 829 | - | - | 1,143 | -1,325 | 647 |
| Subordinated liabilities | 269 | 50 | 91 | 1,205 | -437 | 1,178 |
| **Total liabilities** | **52,947** | **2,703** | **7,457** | **27,746** | **-13,611** | **77,243** |
| **Equity capital** | | | | | | **6,726** |

Net income from the Baltic States came to EUR 4 million and assets invested to EUR 26 million.

**Income statement and balance sheet by segment in 2009**

| Income statement, EUR Million | Banking and Investment Services | Non-life Insurance | Life Insurance | Other operations | Elimi-nations | OP-Pohjola Group |
|---|---|---|---|---|---|---|

| | | | | | | |
|---|---|---|---|---|---|---|
| Interest income | 3,044 | 0 | - | 984 | -956 | 3,072 |
| Interest expenses | 2,063 | 2 | - | 912 | -976 | 2,002 |
| **Net interest income before impairment losses** | **981** | **2** | **-** | **72** | **20** | **1,070** |
| Impairment losses on receivables | 167 | 0 | - | 12 | - | 179 |
| **Net interest income after impairment losses** | **813** | **2** | **-** | **80** | **20** | **891** |
| Net income from Non-life Insurance | - | 400 | - | 0 | -3 | 396 |
| Net income from Life Insurance | - | - | -110 | 0 | -9 | -120 |
| Net commissions and fees | 538 | 16 | - | -4 | -54 | 496 |
| Net trading income | 111 | - | - | -7 | 8 | 112 |
| Net investment income | 5 | - | - | -5 | -8 | -9 |
| Other operating income | 65 | 6 | 16 | 341 | -324 | 104 |
| Personnel costs | 396 | 110 | 9 | 108 | 0 | 622 |
| Other administrative expenses | 308 | 88 | 16 | 153 | -255 | 310 |
| Other operating expenses | 200 | 119 | 41 | 71 | -116 | 316 |
| Returns to owner-members | 160 | - | - | - | - | 160 |
| Share of associates' profits/losses | 1 | 0 | - | 0 | - | 1 |
| **Earning before tax** | **471** | **102** | **-159** | **51** | **-1** | **464** |
| Income tax expense | | | | | | 126 |
| **Profit for the financial year** | | | | | | **338** |

| **Balance sheet 31 Dec. 2009** | **Banking and Investment Services** | **Non-life Insurance** | **Life Insurance** | **Other operations** | **Elimi-nations** | **OP-Pohjola Group** |
|---|---|---|---|---|---|---|
| Liquid assets | 138 | - | - | 3,096 | - | 3,235 |
| Receivables from financial institutions | 3,228 | - | - | 7,381 | -8,626 | 1,982 |
| Financial assets at fair value through profit or loss | 1,051 | - | - | 352 | -140 | 1,263 |
| Derivative contracts | 1,474 | - | - | 73 | -124 | 1,423 |
| Receivables from customers | 52,807 | - | - | 527 | -343 | 52,992 |
| Non-life Insurance assets | - | 3,202 | - | - | -102 | 3,101 |
| Life Insurance assets | - | - | 6,713 | - | -382 | 6,331 |
| Investment assets | 2,602 | 0 | - | 6,470 | -2,604 | 6,468 |
| Investment in associates | 8 | 2 | - | 7 | - | 17 |
| Intangible assets | 218 | 800 | 92 | 74 | -5 | 1,179 |
| Property, plant and equipment | 622 | 22 | 6 | 39 | 72 | 761 |
| Other assets | 1,058 | 6 | 6 | 694 | -192 | 1,572 |
| Tax assets | 62 | 2 | 24 | 18 | 2 | 108 |
| **Total assets** | **63,267** | **4,036** | **6,841** | **18,732** | **-12,445** | **80,430** |

| **Balance sheet 31 Dec. 2009** | **Banking and Investment Services** | **Non-life Insurance** | **Life Insurance** | **Other operations** | **Elimi-nations** | **OP-Pohjola Group** |
|---|---|---|---|---|---|---|
| Liabilities to financial institutions | 6,283 | - | - | 4,570 | -8,680 | 2,174 |
| Financial liabilities at fair value through profit or loss | 71 | - | - | 0 | - | 71 |
| Derivative contracts | 987 | - | - | 495 | -121 | 1,360 |
| Liabilities to customers | 34,848 | - | - | 2,955 | -196 | 37,606 |
| Non-life Insurance liabilities | - | 2,279 | - | - | - | 2,279 |
| Life Insurance liabilities | - | - | 6,215 | - | -37 | 6,179 |
| Debt securities issued to the public | 3,171 | - | - | 17,513 | -739 | 19,945 |
| Provisions and other liabilities | 1,474 | 108 | 2 | 436 | -188 | 1,832 |
| Tax liabilities | 477 | 152 | 4 | 302 | -10 | 925 |
| Cooperative capital | 800 | - | - | 1,143 | -1,321 | 622 |
| Subordinated liabilities | 297 | 50 | 91 | 1,250 | -438 | 1,250 |
| **Total liabilities** | **48,408** | **2,589** | **6,311** | **28,664** | **-11,729** | **74,243** |
| **Equity capital** | | | | | | **6,187** |

Net income from the Baltic States came to EUR 6 million and assets invested to EUR 26 million.

## NOTES TO RISK MANAGEMENT

OP-Pohjola Group's capital adequacy and risk management principles are described in Note 2. OP-Pohjola Group's exposure is presented in notes 58–66; Banking and Investment Services' risk exposure, including capital adequacy information in accordance with Pillar III, in notes 67–97;Non-life Insurance's risk exposure in notes 98–109 and that of Life Insurance in notes 110–116.

### OP-Pohjola Group's risk exposure

### Note 58. OP-Pohjola Group's risk limit system, based on OP-Pohjola Group's 2009 business strategy, and risk indicator values

OP-Pohjola Group Central Cooperative's Supervisory Board confirms risk limits concerning OP-Pohjola Group's risk-bearing capacity, credit risk and liquidity and market risks. These limits are used to control the Group's risk-taking. OP-Pohjola Group's risk limit system is based on the business strategy approved in the summer of 2009.

| Indicator | Risk limit | 31 Dec. 2010 | 31 Dec. 2009 |
|---|---|---|---|
| **Risk-bearing capacity** | | | |
| **OP-Pohjola Group risk limits** | | | |
| Capital adequacy ratio, (Act on the Supervision of Financial and Insurance Conglomerates) | 1.20 | 1.70 | 1.58 |
| Capital base/economic capital | 1.10 | 1.71 | 1.60 |
| **Credit risks, %** | | | |
| Largest single customer risk / capital resources | 15.0 | 8.1 | 5.9 |
| Total of large customer risks / capital resources | 100.0 | 0.0 | 0.0 |
| Industry risk / receivables and commitments (including direct investments) | 18.0 | 14.9 | 15.6 |
| Non-performing loans/loan and guarantee portfolio | 2.0 | 0.3 | 0.4 |
| **Likviditeettiriskit, %** | | | |
| Funding position (cumulative) / balance sheet, banking | | | |
| ≤ 12 kk | -13 | -4.7 | -5.9 |
| ≤ 3 v | -15 | -5.1 | -8.5 |
| ≤ 5 v | -8 | -1.2 | -3.3 |
| Liquidity portfolio / reserve requirement | 100 | 116 | 134 |
| **Market risks, %** | | | |
| Interest rate risk exposure, banking / economic capital | 20 | 4.2 | 0.3 |
| Market risk in insurance operations / economic capital | 35 | 27.1 | 26.8 |
| Alternative investments / economic capital | 80 | 41.8 | 39.7 |
| Underwriting risk, Non-life insurance / economic capital | 15 | 7.0 | 7.3 |
| Property risk / economic capital | 10 | 5.0 | 5.5 |

## NOTES TO RISK MANAGEMENT

### Note 59. OP-Pohjola Group's risk-bearing capacity

Note 2, OP-Pohjola Group's Capital Adequacy and Risk Management Principles, provides a description of goals, key principles and process related to capital management. OP-Pohjola Group and all companies providing banking and investment services fulfil all capital adequacy requirements set by regulatory authorities.

**Own funds and capital adequacy under the Act on the Supervision of Financial and Insurance Conglomerates**

| EUR million | 31 Dec. 2010 | 31 Dec. 2009 |
|---|---|---|
| OP-Pohjola Group's equity capital | 6,726 | 6,187 |
| Business-segment-specific items | 1,783 | 1,843 |
| Goodw ill and intangible assets | -1,094 | -1,084 |
| Equalisation provision | -331 | -527 |
| Other items included in equity capital and business-segment-specific items, but not included in the conglomerate's capital resources | -604 | -627 |
| Conglomerate's capital resources, total | 6,480 | 5,792 |
| Regulatory capital requirement for credit institutions | 3,418 | 3,300 |
| Regulatory capital requirement for insurance operations | 396 | 371 |
| Minimum amount of conglomerate's capital resources | **3,814** | **3,671** |
| **Conglomerate's capital adequacy** | **2,666** | **2,121** |
| **Conglomerate's capital adequacy ratio (capital resources/minimum regulatory capital), %** | **1.70** | **1.58** |

As referred to in the Act on the Supervision of Financial and Insurance Conglomerates, OP-Pohjola Group is a conglomerate for which a capital adequacy ratio is calculated, as provided by the Act.

**Risk-bearing capacity**

Two risk limit indicators were put in place for risk-bearing capacity in OP-Pohjola Group's new group strategy. The first is capital adequacy prescribed in the Act on the Supervision of Financial and Insurance Conglomerates. The Group's risk limit for this capital adequacy ratio is 1.2, while the legal minimum requirement is 1. On 31 December 2010, the ratio was 1.70, against 1.58 on 31 December 2009. On 31 December 2010, OP-Pohjola Group's capital resources were EUR 1,904 million (1,386) above the Group's internal risk limit and EUR 2,666 million (2,121) more than the limit required by law. Another risk limit measure for risk-bearing capacity that has been set in the strategy is the ratio between capital resources and economic capital. At the end of 2010, the ratio of capital resources to economic capital was 1.71 (1.60). The capital resources buffer exceeded the Group's internal risk limit and was EUR 2,315 million (1,823), The high risk-bearing capacity acts as a buffer against unexpected losses and paves the way for business growth.

## NOTES TO RISK MANAGEMENT

### Note 60. Credit risk in banking

OP-Pohjola Group's industry and customer risks are diversified. At the end of the year, the largest single counterparty-related customer risk accounted for 8.1% (5.9) of the Group's capital resources. The risk limit for the biggest customer risk is 15%. At OP-Pohjola Group, industry risk is calculated for each main line of business, with the following factored in: receivables and commitments in banking and investments, and direct investments in life and non-life insurance. On 31 December 2010, the highest industry risk was 14.9% (15.6) by 'lease and management of flats'. The industry risk limit is 18%.

On 31 December 2010, OP-Pohjola Group's non-performing and zero-interest receivables came to EUR 204 million, down by 9% on the previous year. The ratio of non-performing and zero-interest loans to the loan and guarantee portfolio was 0.3% at the end of the reporting period (0.4). The risk limit for this key ratio is 2.0%.

## NOTES TO RISK MANAGEMENT

### Note 61. Liquidity risk

The risk limit measure for OP-Pohjola Group's liquidity risk is the ratio of the cumulative funding position controlling the structural funding risk, to the banking balance sheet as well as the ratio of the liquidity portfolio to the liquidity portfolio reserve requirement.

The risk indicator for the structural funding risk indicates the maximum portion of the net cash flows in the Group's balance sheet that may have a maturity within less than one year and within three and five years. On 31 December, the maturing net cash flows in the Group's balance sheet were in all maturity periods with upper limits clearly under the maximum amounts specified by the risk limits.

A liquidity risk indicator shows for how long the liquidity buffer will cover OP-Pohjola Group's daily payable net cash flows that are known, and an unexpected but moderate decline in deposits. On 31 December 2010, the liquidity buffer was amply sufficient to last the one-month period set by the regulators. The liquidity buffer indicator confirmed for 2010 – which was based on the maturity of wholesale funding and a reduction of deposits caused by mild stress – was within the approved limits.

## NOTES TO RISK MANAGEMENT

### Note 62. Interest rate risk, banking

In the risk limit system, interest rate risk exposure in banking is measured by the ratio of the economic capital for the risk type to the economic capital for all risk types (before diversification benefits). On 31 December 2010, the share of interest rate risk in banking of OP-Pohjola Group's economic capital was 4.2%, while the risk limit was 20%.

## NOTES TO RISK MANAGEMENT

### Note 63. Market risk in insurance operations

In the risk limit system, market risks in insurance operations is measured by the ratio of the economic capital for the risk type to the economic capital for all risk types (before diversification benefits). On 31 December 2009, the share of market risk in insurance operations of OP-Pohjola Group's economic capital was 27.1%, while the risk limit was 35%.

# Notes to OP-Pohjola Group financial statements

## NOTES TO RISK MANAGEMENT

### Note 64. Alternative investments

OP-Pohjola Group's risk limit system restricts the volume of alternative investments by means of a risk limit indicator, which shows the ratio of the market value of alternative and structured investments to the Group's economic capital. On 31 December 2010, the ratio of the market value of such investments to the economic capital of all risk types was 41.8%, while the risk limit was 80%.

## NOTES TO RISK MANAGEMENT

### Note 65. Underwriting risk, Non-life insurance / economic capital

In the risk limit system, non-life insurance underwriting risk is measured by the ratio of the economic capital for the risk type to the economic capital for all risk types (before diversification benefits). On 31 December 2010, the share of non-life insurance underwriting risks of OP-Pohjola Group's economic capital was 7.0%, while the risk limit was 15%.

## NOTES TO RISK MANAGEMENT

### Note 66. Property risk

In the risk limit system, property risk is measured by the ratio of the economic capital for the risk type to the economic capital for all risk types (before diversification benefits). On 31 December 2010, the share of property risk of OP-Pohjola Group's economic capital was 5.0%, while the risk limit was 10%.

## NOTES TO RISK MANAGEMENT

### Risk exposure by Banking and Investment Services

### Note 67. Financial assets and impairment losses recognised on them for the financial year

| | 31 Dec. 2010 | | 31 Dec. 2009 | |
|---|---|---|---|---|
| | Balance sheet value | Impair-ment losses | Balance sheet value | Impair-ment losses |
| Liquid assets | 1,628 | - | 3,235 | - |
| Receivables from financial institutions | 1,121 | - | 1,982 | - |
| Financial assets at fair value through profit or loss | | | | |
| Notes and bonds | 453 | - | 1,198 | - |
| Shares and participations | 67 | - | 65 | - |
| Other | - | - | - | - |
| Derivative contracts | | | | |
| Held for trading | 1,753 | - | 1,280 | - |
| Hedging | 199 | - | 142 | - |
| Recognised at fair value through profit or loss | -19 | - | 0 | - |
| Loans and other receivables | | | | |
| Loans granted | 56,207 | 340 | 52,368 | 269 |
| Finance lease receivables | 624 | - | 622 | - |
| Repo contracts | - | - | - | - |
| Bank guarantee receivables | 2 | 3 | 2 | 2 |
| Other receivables | 0 | - | 0 | - |
| Available-for-sale financial assets | | | | |
| Notes and bonds | 5,581 | - | 4,443 | - |
| Shares and participations | 451 | - | 406 | - |
| Other | - | - | - | - |
| Held-to-maturity investments | | | | |
| Notes and bonds | 978 | - | 1,163 | - |
| Off-balance-sheet commitments | | | | |
| Bank guarantees | 2,843 | - | 2,939 | - |
| **Total financial assets** | **71,888** | **343** | **69,845** | **271** |

## NOTES TO RISK MANAGEMENT

### Note 68. Exposure

| | Finland | | | Other countries | | |
|---|---|---|---|---|---|---|
| 31 Dec. 2010 | Balance sheet value | Impair-ments | Accrued interest | Balance sheet value | Impair-ments | Accrued interest |
| **Financial assets** | | | | | | |
| Receivables from financial institutions | 9 | - | 0 | 1,112 | - | 11 |
| Receivables from customers | 55,426 | 311 | 158 | 783 | 32 | 2 |
| Finance leases | 624 | - | - | 0 | - | - |
| Notes and bonds | 1,219 | - | 20 | 5,793 | - | 79 |
| Other | 88 | - | - | 323 | - | - |
| **Total** | **57,366** | **311** | **178** | **8,011** | **32** | **92** |
| **Off-balance-sheet commitments** | | | | | | |
| Unused standby credit facilities | 8,686 | - | - | 119 | - | - |
| Guarantees and letters of credit | 2,695 | - | - | 313 | - | - |
| Derivative contracts | 377 | - | - | 1,547 | - | - |
| Other | 456 | - | - | 328 | - | - |
| **Total** | **12,213** | **-** | **-** | **2,306** | **-** | **-** |
| **Total exposure** | **69,580** | **311** | **178** | **10,317** | **32** | **92** |

| | Finland | | | Other countries | | |
|---|---|---|---|---|---|---|
| 31 Dec. 2009 | Balance sheet value | Impair-ments | Accrued interest | Balance sheet value | Impair-ments | Accrued interest |
| **Financial assets** | | | | | | |
| Receivables from financial institutions | 37 | - | 0 | 1,945 | - | 20 |
| Receivables from customers | 51,660 | 206 | 163 | 710 | 66 | 2 |
| Finance leases | 622 | - | - | 0 | - | - |
| Notes and bonds | 1,586 | - | 17 | 5,217 | - | 73 |
| Other | 61 | - | - | 340 | - | - |
| **Total** | **53,966** | **206** | **180** | **8,212** | **66** | **95** |
| **Off-balance-sheet commitments** | | | | | | |
| Unused standby credit facilities | 8,681 | - | - | 108 | - | - |
| Guarantees and letters of credit | 2,770 | - | - | 300 | - | - |
| Derivative contracts | 308 | - | - | 1,172 | - | - |
| Other | 437 | - | - | 349 | - | - |
| **Total** | **12,196** | **-** | **-** | **1,928** | **-** | **-** |
| **Total exposure** | **66,163** | **206** | **180** | **10,140** | **66** | **95** |

Positive market value was recognised for derivative contracts.

# Notes to OP-Pohjola Group financial statements

## NOTES TO RISK MANAGEMENT

### Note 69. Exposure by sector

| | Balance sheet values | | Off-balance-sheet | | |
|---|---|---|---|---|---|
| **31 Dec. 2010** | **Domestic** | **Foreign** | **Domestic** | **Foreign** | **Total** |
| Non-banking corporate sector | 17,355 | 546 | 8,059 | 320 | 26,280 |
| Financial institutions and insurance companies | 284 | 6,662 | 620 | 1,983 | 9,549 |
| Households | 37,746 | 37 | 3,115 | 1 | 40,899 |
| Non-profit organisations | 512 | 4 | 69 | 0 | 586 |
| Public corporations | 1,646 | 854 | 350 | 1 | 2,851 |
| **Total** | **57,544** | **8,103** | **12,213** | **2,306** | **80,166** |
| | | | | | |
| **31 Dec. 2009** | | | | | |
| Non-banking corporate sector | 16,208 | 579 | 8,215 | 354 | 25,355 |
| Financial institutions and insurance companies | 859 | 7,162 | 525 | 1,573 | 10,119 |
| Households | 35,714 | 25 | 3,195 | 2 | 38,936 |
| Non-profit organisations | 464 | 0 | 68 | 0 | 532 |
| Public corporations | 901 | 541 | 194 | 0 | 1,636 |
| **Total** | **54,146** | **8,307** | **12,196** | **1,928** | **76,578** |

# Notes to OP-Pohjola Group financial statements

## NOTES TO RISK MANAGEMENT

### Note 70. Receivables from credit institutions and customers, and doubtful receivables

| 31 Dec. 2010 | Receivable base: Not impaired (gross) | Impaired (gross) | Total | Total impair-ments | Balance sheet value |
|---|---|---|---|---|---|
| **Receivables** | | | | | |
| Receivables from financial institutions | 1,121 | - | 1,121 | - | 1,121 |
| Receivables from customers | 56,073 | 479 | 56,552 | 343 | 56,209 |
| Bank guarantee receivables | 2 | 3 | 5 | 3 | 2 |
| Finance leases | 624 | - | 624 | - | 624 |
| Overdrafts | 7 | - | 7 | - | 7 |
| **Total** | **57,825** | **479** | **58,304** | **343** | **57,961** |
| **Receivables by sector** | **Not impaired (gross)** | **Impaired (gross)** | **Total** | **Total impair-ments** | **Balance sheet value** |
| Non-banking corporate sector | 17,233 | 355 | 17,588 | 251 | 17,337 |
| Financial institutions and insurance companies | 1,313 | 64 | 1,376 | 21 | 1,355 |
| Households | 37,715 | 57 | 37,772 | 70 | 37,702 |
| Non-profit organisations | 511 | 4 | 515 | 1 | 515 |
| Public corporations | 1,052 | - | 1,052 | - | 1,052 |
| **Total** | **57,825** | **479** | **58,304** | **343** | **57,961** |

| 31 Dec. 2009 | Receivable base: Not impaired (gross) | Impaired (gross) | Total | Total impair-ments | Balance sheet value |
|---|---|---|---|---|---|
| **Receivables** | | | | | |
| Receivables from financial institutions | 1,982 | - | 1,982 | - | 1,982 |
| Receivables from customers | 52,287 | 354 | 52,641 | 271 | 52,370 |
| Bank guarantee receivables | 2 | 2 | 5 | 2 | 2 |
| Finance leases | 622 | - | 622 | - | 622 |
| Overdrafts | 5 | - | 5 | - | 5 |
| **Total** | **54,896** | **354** | **55,250** | **271** | **54,978** |
| **Receivables by sector** | | | | | |
| Non-banking corporate sector | 16,176 | 211 | 16,387 | 156 | 16,231 |
| Financial institutions and insurance companies | 2,077 | 89 | 2,166 | 48 | 2,117 |
| Households | 35,674 | 52 | 35,726 | 67 | 35,659 |
| Non-profit organisations | 462 | 1 | 463 | 1 | 463 |
| Public corporations | 508 | - | 508 | - | 508 |
| **Total** | **54,896** | **354** | **55,250** | **271** | **54,978** |

Collectively assessed impairments on receivables are allocated to Households and the Corporate Sector. These impairments came to EUR 50 million (47).

| 31 Dec. 2010 | Not impaired (gross) | Impaired (gross) | Total | Arrears | Impair-ments |
|---|---|---|---|---|---|
| **Doubtful receivables** | | | | | |
| Receivables from financial institutions | 0 | - | 0 | - | - |
| Receivables from customers | 313 | 479 | 792 | 211 | 343 |
| Bank guarantee receivables | 2 | 3 | 5 | 4 | 3 |
| Finance leases | 0 | - | 0 | 0 | - |
| Overdrafts | 7 | - | 7 | 0 | - |
| **Total** | **320** | **479** | **799** | **212** | **343** |

| Doubtful receivables by sector | | | | | |
|---|---|---|---|---|---|
| Non-banking corporate sector | 90 | 355 | 444 | 96 | 251 |
| Financial institutions and insurance companies | 0 | 64 | 64 | 0 | 21 |
| Households | 221 | 57 | 278 | 113 | 70 |
| Non-profit organisations | 0 | 4 | 4 | 3 | 1 |
| Public corporations | 8 | - | 8 | 0 | - |
| **Total** | **320** | **479** | **799** | **212** | **343** |

| 31 Dec. 2009 | Not impaired (gross) | Impaired (gross) | Total | Arrears | Impair-ments |
|---|---|---|---|---|---|
| **Doubtful receivables** | | | | | |
| Receivables from financial institutions | 0 | - | 0 | 0 | - |
| Receivables from customers | 327 | 354 | 681 | 296 | 271 |
| Bank guarantee receivables | 2 | 2 | 5 | 4 | 2 |
| Finance leases | 1 | - | 1 | 0 | - |
| Overdrafts | 5 | - | 5 | 0 | - |
| **Total** | **332** | **354** | **686** | **297** | **271** |

| Doubtful receivables by sector | Not impaired (gross) | Impaired (gross) | Total | Arrears | Impair-ments |
|---|---|---|---|---|---|
| Non-banking corporate sector | 99 | 211 | 310 | 178 | 156 |
| Financial institutions and insurance companies | 0 | 89 | 89 | 0 | 48 |
| Households | 222 | 52 | 274 | 118 | 67 |
| Non-profit organisations | 2 | 1 | 3 | 1 | 1 |
| Public corporations | 10 | - | 10 | 0 | - |
| **Total** | **332** | **354** | **686** | **297** | **271** |

| 31 Dec. 2010 | Portfolio | Impair-ments | Balance sheet value |
|---|---|---|---|
| **Doubtful receivables** | | | |
| Non-performing | 328 | 127 | 200 |
| Zero-interest | 11 | 7 | 3 |
| Underpriced | 90 | 2 | 88 |
| Other | 371 | 206 | 164 |
| **Total** | **799** | **343** | **456** |

| 31 Dec. 2009 | Portfolio | Impair-ments | Balance sheet value |
|---|---|---|---|
| **Doubtful receivables** | | | |
| Non-performing | 344 | 123 | 220 |
| Zero-interest | 10 | 7 | 3 |
| Underpriced | 80 | 2 | 78 |
| Other | 253 | 139 | 114 |
| **Total** | **686** | **271** | **415** |

Doubtful receivables include non-performing, zero-interest, under-priced receivables and other doubtful receivables. Interest on or principal of non-performing receivables has been due for payment and outstanding for three months. Zero-interest receivables have been agreed to carry zero interest for the purpose of securing customer payment capacity. Under-priced receivables have been priced below market prices to secure customer payment capacity. Other doubtful receivables include those that are subject to impairment but cannot be classified under any of the above categories, and overdrafts and guarantee receivables. "Other" also includes collectively assessed impairments. Arrears include unpaid interest on receivables and unpaid instalments.

| 31 Dec. 2010 | 30–90 days | 90–180 days | Over 180 days. | Total |
|---|---|---|---|---|
| Matured receivables, not impaired | 331 | 11 | 0 | 342 |

| 31 Dec. 2009 | 30–90 days | 90–180 days | Over 180 days. | Total |
|---|---|---|---|---|
| Matured receivables, not impaired | 468 | 17 | - | 485 |

## NOTES TO RISK MANAGEMENT

### Note 71. Impairment losses on receivables

| | 31 Dec. 2010 | 31 Dec. 2009 |
|---|---|---|
| Impairment losses on receivables | 230 | 223 |
| Reversal of impairment losses | -79 | -46 |
| Payments on eliminated receivables | -10 | -11 |
| Net change in group-specific impairment losses | 7 | 12 |
| **Total** | **149** | **179** |
| | | |
| Impairments (net) as a percentage of the loan and guarantee portfolio | 0.26 | 0.33 |

## NOTES TO RISK MANAGEMENT

### Note 72. Private customer exposure by credit category

| Category | Net exposure | % | Net exposure | % |
|---|---|---|---|---|
| A | 18,094 | 44.2 | 16,409 | 42.1 |
| B | 12,416 | 30.4 | 11,376 | 29.2 |
| C | 4,696 | 11.5 | 4,292 | 11.0 |
| D | 2,294 | 5.6 | 2,131 | 5.5 |
| E | 1,040 | 2.5 | 1,085 | 2.8 |
| F | 643 | 1.6 | 441 | 1.1 |
| Non-rated | 1,716 | 4.2 | 3,202 | 8.2 |
| **Total** | **40,899** | **100.0** | **38,936** | **100.0** |

The probability of default (PD) of exposures with a credit rating of A and B is a maximum of 0.01%.

# Notes to OP-Pohjola Group financial statements

## NOTES TO RISK MANAGEMENT

### Note 73. Corporate exposure by sector

| | Net exposure | | | |
|---|---|---|---|---|
| 31 Dec. 2010 | Balance sheet | Off-balance sheet | Total | Percentage-distribution |
| Renting and operation of residential real estate | 3,695 | 751 | 4,446 | 16.9 |
| Operating of other real estate | 2,598 | 197 | 2,795 | 10.6 |
| Trade | 1,972 | 628 | 2,600 | 9.9 |
| Construction | 992 | 1,375 | 2,366 | 9.0 |
| Manufacture of machinery and equipment (incl. maintenance) | 672 | 1,166 | 1,837 | 7.0 |
| Services | 1,326 | 447 | 1,772 | 6.7 |
| Transportation and storage | 1,015 | 480 | 1,495 | 5.7 |
| Forest industry | 711 | 453 | 1,164 | 4.4 |
| Bying and selling of ow n real estate | 903 | 154 | 1,057 | 4.0 |
| Metal industry | 474 | 564 | 1,038 | 4.0 |
| Manufacture of chemicals and chemical products | 374 | 629 | 1,003 | 3.8 |
| Energy | 369 | 450 | 818 | 3.1 |
| Food industry | 524 | 235 | 759 | 2.9 |
| Agriculture, forestry and fishing | 628 | 67 | 695 | 2.6 |
| Information and communication | 333 | 346 | 679 | 2.6 |
| Financial and insurance activities | 578 | 74 | 652 | 2.5 |
| Other manufacturing | 374 | 235 | 609 | 2.3 |
| Mining and quarrying | 179 | 51 | 230 | 0.9 |
| Water supply and w aste management | 138 | 67 | 205 | 0.8 |
| Other sectors | 48 | 10 | 58 | 0.2 |
| **Total** | **17,901** | **8,379** | **26,280** | **100** |

| | Net exposure | | | |
|---|---|---|---|---|
| 31 Dec. 2009 | Balance sheet | Off-balance sheet | Total | Percentage-distribution |
| Renting and operation of residential real estate | 3,414 | 646 | 4,060 | 16.0 |
| Trade | 1,869 | 851 | 2,720 | 10.7 |
| Operating of other real estate | 1,996 | 281 | 2,276 | 9.0 |
| Construction | 978 | 1,176 | 2,154 | 8.5 |
| Manufacture of machinery and equipment (incl. maintenance) | 662 | 1,178 | 1,840 | 7.3 |
| Services | 1,302 | 480 | 1,782 | 7.0 |
| Transportation and storage | 921 | 498 | 1,419 | 5.6 |
| Forest industry | 812 | 422 | 1,235 | 4.9 |
| Metal industry | 556 | 571 | 1,127 | 4.4 |
| Bying and selling of ow n real estate | 934 | 183 | 1,117 | 4.4 |
| Manufacture of chemicals and chemical products | 341 | 617 | 958 | 3.8 |
| Energy | 432 | 469 | 901 | 3.6 |
| Food industry | 474 | 319 | 793 | 3.1 |
| Other manufacturing | 414 | 269 | 683 | 2.7 |
| Agriculture, forestry and fishing | 584 | 62 | 646 | 2.5 |
| Information and communication | 317 | 313 | 630 | 2.5 |
| Financial and insurance activities | 440 | 135 | 575 | 2.3 |
| Water supply and w aste management | 119 | 52 | 171 | 0.7 |
| Mining and quarrying | 151 | 19 | 170 | 0.7 |

| | | | | |
|---|---|---|---|---|
| Other sectors | 70 | 28 | 98 | 0.4 |
| **Total** | **16,786** | **8,568** | **25,355** | **100** |

## NOTES TO RISK MANAGEMENT

### Note 74. Corporate exposure by rating category

| | 31 Dec. 2010 | | 31 Dec. 2009 | |
|---|---|---|---|---|
| Rating | Net exposure | % | Net exposure | % |
| 1,0–2,0 | 1,126 | 4.3 | 953 | 3.8 |
| 2,5–5,0 | 11,926 | 45.4 | 11,367 | 44.8 |
| 5,5–7,0 | 7,427 | 28.3 | 7,201 | 28.4 |
| 7,5-8,5 | 3,587 | 13.7 | 3,703 | 14.6 |
| 9,0–10,0 | 788 | 3.0 | 852 | 3.4 |
| 11,0–12,0 | 625 | 2.4 | 588 | 2.3 |
| Non-rated | 801 | 3.0 | 691 | 2.7 |
| **Total** | **26,280** | **100.0** | **25,355** | **100.0** |

Probabilities of default related to credit ratings are explained in Note 93.

## NOTES TO RISK MANAGEMENT

### Note 75. Corporate exposure by the amount of customer's exposure

**31 Dec. 2010**

| Amount of exposure, EUR million | Finland | Other countries | Total | % |
|---|---|---|---|---|
| 0–1 | 6,156 | 119 | 6,275 | 23.9 |
| 1–10 | 5,714 | 219 | 5,933 | 22.6 |
| 10–50 | 5,017 | 475 | 5,492 | 20.9 |
| 50–100 | 3,426 | 53 | 3,479 | 13.2 |
| Over 100 | 5,101 | - | 5,101 | 19.4 |
| **Total** | **25,414** | **866** | **26,280** | **100.0** |

## NOTES TO RISK MANAGEMENT

### Note 76. Secondary country risk by country risk category (excl. Finland)

| | | 31 Dec. 2010 | | 31 Dec. 2009 | |
|---|---|---|---|---|---|
| Country risk | Moody's equivalent | Net exposure | % | Net exposure | % |
| Category 1 | Aaa | 8,183 | 79.6 | 9,002 | 89.2 |
| Category 2 | Aa1–A3 | 1,317 | 12.8 | 807 | 8.0 |
| Category 3 | Baa1–Baa3 | 674 | 6.5 | 228 | 2.3 |
| Category 4 | Ba1–B3 | 109 | 1.1 | 52 | 0.5 |
| Category 5 | Caa1–C | 4 | 0.0 | 5 | 0.0 |
| **Total** | | **10,286** | **100.0** | **10,094** | **100.0** |

Category 2 (excl. Finland) takes account of the transfer of contract-related, real risks to another country through agreements or otherwise. The risk may transfer on the basis of an agreement, or a guarantee in most cases, or otherwise, such as transferring receivables from a company's branch office to the country where the company is headquartered.

# Notes to OP-Pohjola Group financial statements

## NOTES TO RISK MANAGEMENT

### Note 77. Structure of OP-Pohjola Group funding

| | 31 Dec. 2010 | % | 31 Dec. 2009 | % |
|---|---|---|---|---|
| Liabilities to financial institutions | 1,696 | 2.4 | 2,174 | 3.1 |
| Financial liabilities at fair value through profit or loss | 0 | 0.0 | 71 | 0.1 |
| Liabilities to customers | | | | |
| Deposits | 36,443 | 51.1 | 34,617 | 49.7 |
| Other | 2,762 | 3.9 | 2,989 | 4.3 |
| Debt securities issued to the public | | | | |
| Certificates of deposit, commercial papers and ECPs | 9,773 | 13.7 | 10,583 | 15.2 |
| Bonds | 9,804 | 13.7 | 9,361 | 13.4 |
| Other liabilities | 2,333 | 3.3 | 1,832 | 2.6 |
| Subordinated liabilities | 1,178 | 1.7 | 1,250 | 1.8 |
| Cooperative capital | 647 | 0.9 | 622 | 0.9 |
| Equity capital | 6,726 | 9.4 | 6,187 | 8.9 |
| **Total** | **71,362** | **100.0** | **69,687** | **100.0** |

## NOTES TO RISK MANAGEMENT

### Note 78. Maturity of financial assets and liabilities by residual maturity

| 31 Dec. 2010 | Less than 3 months | 3–12 months | 1–5 years | 5–10 years | More than 10 years | Total |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| Liquid assets | 1,628 | - | - | - | - | 1,628 |
| Financial assets at fair value through profit or loss | | | | | | |
| Notes and bonds | 41 | 65 | 159 | 186 | 3 | 453 |
| Receivables from financial institutions | 69 | 181 | 618 | 252 | 0 | 1,121 |
| Receivables from customers | 3,777 | 5,578 | 21,104 | 13,601 | 12,773 | 56,834 |
| Investment assets | | | | | | |
| Available-for-sale notes and bonds | 11 | 106 | 3,767 | 1,681 | 16 | 5,581 |
| Held-to-maturity notes and bonds | 46 | 158 | 734 | 40 | 0 | 978 |
| **Total financial assets** | **5,572** | **6,088** | **26,382** | **15,760** | **12,792** | **66,594** |
| Transfer of financial assets held for trading | -41 | -65 | -159 | -186 | -3 | -453 |
| to less-than-3-months category | 453 | - | - | - | - | 453 |
| **Total financial assets in internal reporting** | **5,984** | **6,023** | **26,223** | **15,574** | **12,790** | **66,594** |
| **Financial liabilities** | | | | | | |
| Liabilities to financial institutions | 1,625 | 56 | - | 15 | 0 | 1,696 |
| Financial liabilities at fair value through profit or loss | 0 | - | - | - | - | 0 |
| Liabilities to customers | 32,088 | 4,320 | 2,136 | 383 | 277 | 39,205 |
| Debt securities issued to the public | 7,578 | 3,663 | 7,456 | 881 | - | 19,577 |
| Subordinated liabilities | 157 | 250 | 674 | 11 | 87 | 1,178 |
| **Total financial liabilities** | **41,449** | **8,289** | **10,266** | **1,290** | **364** | **61,657** |
| Transfer of private customers' deposit repayable on demand from the less-than-3-months category to the 3-12-months category | -20,128 | 20,128 | - | - | - | - |
| **Total financial liabilities in internal reporting** | **21,321** | **28,417** | **10,266** | **1,290** | **364** | **61,657** |
| Guarantees | 16 | 45 | 385 | 134 | 642 | 1,223 |
| Other guarantee liabilities | 312 | 453 | 450 | 48 | 357 | 1,621 |
| Loan commitments | 8,805 | - | - | - | - | 8,805 |
| Commitments related to short-term trade transactions | 41 | 105 | 16 | 0 | 2 | 164 |
| Other | 394 | 38 | 118 | 219 | 15 | 784 |
| **Total off-balance-sheet commitments** | **9,568** | **640** | **969** | **402** | **1,016** | **12,595** |

| 31 Dec. 2009 | Less than 3 months | 3–12 months | 1–5 years | 5–10 years | More than 10 years | Total |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| Liquid assets | 3,235 | - | - | - | - | 3,235 |
| Financial assets at fair value through profit or loss | | | | | | |
| Notes and bonds | 81 | 676 | 323 | 85 | 33 | 1,198 |
| Receivables from financial institutions | 262 | 436 | 1,017 | 267 | 0 | 1,982 |
| Receivables from customers | 3,042 | 5,211 | 19,623 | 13,221 | 11,895 | 52,992 |
| Investment assets | | | | | | |
| Available-for-sale notes and bonds | 11 | 409 | 3,592 | 348 | 82 | 4,443 |
| Held-to-maturity notes and bonds | 55 | 104 | 856 | 148 | 0 | 1,163 |
| **Total financial assets** | **6,685** | **6,836** | **25,412** | **14,070** | **12,010** | **65,012** |
| Transfer of financial assets at fair value through profit or | -81 | -676 | -323 | -85 | -33 | -1,198 |

| | | | | | | |
|---|---|---|---|---|---|---|
| loss to the less-than-3-months category | 1,198 | - | - | - | - | 1,198 |
| **Total financial assets in internal reporting** | **7,802** | **6,160** | **25,088** | **13,985** | **11,977** | **65,012** |

| **Financial liabilities** | **Less than 3 months** | **3–12 months** | **1–5 years** | **5–10 years** | **More than 10 years** | **Total** |
|---|---|---|---|---|---|---|
| Liabilities to financial institutions | 1,262 | 899 | 0 | 13 | 0 | 2,174 |
| Financial liabilities at fair value through profit or loss | 71 | - | - | - | - | 71 |
| Liabilities to customers | 32,125 | 2,683 | 2,297 | 296 | 206 | 37,606 |
| Debt securities issued to the public | 8,888 | 4,983 | 5,924 | 150 | - | 19,945 |
| Subordinated liabilities | 11 | 92 | 990 | 61 | 96 | 1,250 |
| **Total financial liabilities** | **42,356** | **8,657** | **9,211** | **520** | **303** | **61,046** |
| Transfer of private customers' deposit repayable on demand from the less-than-3-months category to the 3-12-months category | -19,768 | 19,768 | - | - | - | - |
| **Total financial liabilities in internal reporting** | **22,588** | **28,425** | **9,211** | **520** | **303** | **61,046** |
| Guarantees | 13 | 16 | 364 | 123 | 874 | 1,391 |
| Other guarantee liabilities | 222 | 408 | 484 | 49 | 385 | 1,548 |
| Loan commitments | 8,789 | - | - | - | - | 8,789 |
| Commitments related to short-term trade transactions | 58 | 64 | 7 | 0 | 2 | 131 |
| Other | 371 | 45 | 137 | 186 | 47 | 786 |
| **Total off-balance-sheet commitments** | **9,452** | **533** | **992** | **358** | **1,309** | **12,644** |

## Notes to OP-Pohjola Group financial statements

## NOTES TO RISK MANAGEMENT

### Note 79. Maturities of financial assets and liabilities by maturity or repricing

| 31 Dec. 2010 | 1 month or less | >1–3 months | >3–12 months | >1–2 years | >2–5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | |
| Liquid assets | 1,628 | - | - | - | - | - | 1,628 |
| Financial assets at fair value through profit or loss | | | | | | | |
| Notes and bonds | 43 | 38 | 75 | 36 | 79 | 181 | 453 |
| Receivables from financial institutions | 201 | 383 | 243 | 47 | 64 | 183 | 1,121 |
| Receivables from customers | 22,708 | 13,482 | 18,272 | 444 | 936 | 991 | 56,834 |
| Available-for-sale financial assets | | | | | | | |
| Notes and bonds | 304 | 660 | 48 | 558 | 2,327 | 1,683 | 5,581 |
| Held-to-maturity financial assets | | | | | | | |
| Notes and bonds | 447 | 374 | 125 | 7 | 10 | 14 | 978 |
| **Total financial assets** | **25,331** | **14,937** | **18,764** | **1,093** | **3,416** | **3,053** | **66,594** |
| **Financial liabilities** | | | | | | | |
| Liabilities to financial institutions | 807 | 818 | 71 | - | - | 0 | 1,696 |
| Financial liabilities at fair value through profit or loss | 0 | - | - | - | - | - | 0 |
| Liabilities to customers | 30,983 | 1,894 | 4,219 | 1,831 | 162 | 116 | 39,205 |
| Debt securities issued to the public | 2,661 | 8,132 | 2,248 | 1,325 | 4,269 | 942 | 19,577 |
| Subordinated liabilities | 0 | 491 | 172 | 269 | 246 | 0 | 1,178 |
| **Total financial liabilities** | **34,451** | **11,335** | **6,710** | **3,425** | **4,678** | **1,058** | **61,657** |

| 31 Dec. 2009 | 1 month or less | >1–3 months | >3–12 months | >1–2 years | >2–5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | |
| Liquid assets | 3,235 | - | - | - | - | - | 3,235 |
| Financial assets at fair value through profit or loss | | | | | | | |
| Notes and bonds | 91 | 151 | 608 | 68 | 183 | 97 | 1,198 |
| Receivables from financial institutions | 322 | 774 | 265 | 206 | 234 | 181 | 1,982 |
| Receivables from customers | 22,992 | 11,217 | 16,331 | 585 | 1,077 | 790 | 52,992 |
| Available-for-sale financial assets | | | | | | | |
| Notes and bonds | 112 | 464 | 324 | 276 | 2,922 | 344 | 4,443 |
| Held-to-maturity financial assets | | | | | | | |
| Notes and bonds | 483 | 467 | 55 | 126 | 15 | 17 | 1,163 |
| **Total financial assets** | **27,236** | **13,073** | **17,583** | **1,261** | **4,431** | **1,428** | **65,012** |
| **Financial liabilities** | **1 month or less** | **>1–3 months** | **>3–12 months** | **>1–2 years** | **>2–5 years** | **Over 5 years** | **Total** |
| Liabilities to financial institutions | 1,037 | 225 | 912 | 0 | - | 0 | 2,174 |
| Financial liabilities at fair value through profit or loss | 71 | - | - | - | - | - | 71 |
| Liabilities to customers | 31,105 | 1,795 | 2,510 | 1,889 | 264 | 43 | 37,606 |
| Debt securities issued to the public | 2,996 | 9,472 | 3,600 | 108 | 3,598 | 171 | 19,945 |
| Subordinated liabilities | 0 | 479 | 239 | 21 | 511 | 0 | 1,250 |
| **Total financial liabilities** | **35,209** | **11,970** | **7,261** | **2,018** | **4,374** | **214** | **61,046** |

## NOTES TO RISK MANAGEMENT

### Note 80. Sensitivity analysis of market risk

| | | | 31 Dec 2010 | | 31 Dec 2009 | |
|---|---|---|---|---|---|---|
| **EUR million** | **Risk parameter** | **Change** | **Effect on earnings*** | **Effect on equity capital** | **Effect on earnings*** | **Effect on equity capital** |
| Interest rate risk | Interest rate | 1 percentage point | 699 | 11.8 | 642 | 13 |
| Currency risk | Market value | 10 percentage points | 16 | - | 6 | - |
| Volatility risk | | | | | | |
| Interest rate volatility | Volatility | 20 percentage points | 2 | - | 5 | - |
| Currency volatility | Volatility | 10 percentage points | - | - | - | - |
| Credit risk premium* | Credit risk margin | 0.1 percentage point | 2 | 24 | 2 | 14 |
| Price risk | | | | | | |
| Equity portfolio | Market value | 20 percentage points | - | 13 | - | 7 |
| Private equity funds | Market value | 20 percentage points | - | 12 | - | 12 |
| Property risk | Market value | 10 percentage points | 4 | 1 | 3 | 1 |

Sensitivity figures have been calculated as the sum of the currencies' intrinsic value in relation to interest rate increase.
* The effect on earnings also contains a net interest income risk recognised in the long term and not all as a single entry.

## NOTES TO RISK MANAGEMENT

### Note 81. Derivatives business

Credit risk arising from derivative contracts is defined as a credit equivalent based on the daily market valuation of derivative contracts. The sizes of customer limits are defined as follows: Forward exchange agreements and currency options: capital x 10% x estimated validity period Interest rate swaps: capital x 0.7% x estimated validity period Cap and Floor contracts: capital x 0.5% x estimated validity period.

Credit risk arising from bank counterparties is through collateral, which means the use of ISDA Credit Support Annex (CSA) contract associated with the ISDA general agreement. In the collateral system, the counterparty provides cash or securities in security for the receivable. Matching between counterparties are performed on a daily basis. The Group confirms corporate counterparty exposure limits once a year when it also checks the status of collateral applying to limits for derivatives.

If S&P had downgraded Pohjola's credit rating from AA– to A, additional collateral of EUR 9 million (13) would have been required.

OP-Pohjola Group's derivative contracts are specified in Note 52.

# Notes to OP-Pohjola Group financial statements

## NOTES TO RISK MANAGEMENT

### Pillar III disclosures

Notes 82–97 disclose information on the capital adequacy of the consolidated group of the amalgamation of cooperative banks, as specified in Standard 4.5 Supervisory Disclosure of capital adequacy information by the Financial Supervisory Authority (Pillar III disclosures). Given that this information is based on the consolidated capital adequacy on the amalgamation of cooperative banks, it is not directly comparable with information disclosed on OP-Pohjola Group.

The amalgamation of the cooperative banks comprises its central institution (OP-Pohjola Group Central Cooperative), the central institution's member credit institutions and companies belonging to their consolidation groups. Although OP-Pohjola Group's insurance companies do not belong to the amalgamation of the cooperative banks, investments made in them have a major impact on capital adequacy calculated in accordance with the capital adequacy regulations for credit institutions.

### Note 82. Capital base

| EUR million | 31 Dec. 2010 | 31 Dec. 2009 |
|---|---|---|
| **Tier 1 capital** | | |
| OP-Pohjola Group's equity capital | 6,726 | 6,187 |
| The effect of insurance companies on the Group's shareholders' equity is excluded (incl. OVY's technical provisions on 31 Dec 2010) | -28 | 430 |
| Fair value reserve, transfer to Tier 2 | 21 | -14 |
| Supplementary cooperative capital not included in equity capital | 644 | 620 |
| **Tier 1 capital before deductions and hybrid capital** | **7,363** | **7,223** |
| Hybrid capital | 222 | 222 |
| Intangible assets | -323 | -285 |
| Excess funding of pension liability and change in fair value of investment property | -373 | -369 |
| Dividend distribution proposed by Board of Directors | -69 | -59 |
| Investments in insurance companies and financial institutions | -1,234 | -1,343 |
| Impairments – shortfall of expected losses | -131 | -162 |
| **Total Tier 1 capital for calculating capital adequacy** | **5,454** | **5,227** |
| | | |
| **Tier 2 capital** | | |
| Fair value reserve | -15 | 14 |
| Perpetual bonds | 295 | 298 |
| OVY's equalisation provision | 207 | - |
| Debenture loans | 609 | 691 |
| Investments in insurance companies and financial institutions | -1,095 | -1,004 |
| **Tottal Tier 2 capital for calculating capital adqeuacy** | **0** | **0** |
| | | |
| **Total capital base** | **5,454** | **5,227** |
| | | |
| **Deductions from Tier 1 and 2 capital** | | |
| Investments in insurance companies and financial institutions | 2,330 | 2,347 |
| Impairments – shortfall of expected losses | 131 | 162 |
| Total | 2,460 | 2,509 |

The capital resources have been deducted with investments in OP-Pohjola Group's insurance companies and financial institutions. We have also deducted investments of over 10% in private equity funds as investments in financial institutions, excluding funds managed by Vaaka Partners Ltd (formerly Pohjola Capital Partners Ltd) which the Financial Supervisory Authority has given special permission to be deducted from the capital base.

That portion of subordinated loans which is value in the exchange rate on the date of issue is included in the capital base. Act no. 599/2010 on the amalgamation of deposit banks came into effect on 1 July 2010 and consequently the equalisation provision of OP-Pohjola Group Mutual Insurance Company less tax liabilities, totalling EUR 207 million, is included under Tier 2 capital. Before the Act came into force, OVY's equalisation provision deducted with tax liabilities was included under Tier 1 capital. During the following quarter, the cooperative capital returned to unitholders was not included under capital base.

## NOTES TO RISK MANAGEMENT

### Note 83. Minimum capital requirement

| EUR million | 31 Dec. 2010 Capital require-ment | 31 Dec. 2010 Risk-weighted assets* | 31 Dec. 2009 Capital require-ment | 31 Dec. 2009 Capital require-ment |
|---|---|---|---|---|
| **Credit and counterparty risk** | **3,153** | **39,416** | **3,005** | **37,568** |
| Central government and central banks, Standardised Approach | 7 | 94 | 0 | 6 |
| Credit institutions, Standardised Approach | 131 | 1,635 | 91 | 1,141 |
| Corporate | 1,288 | 16,099 | 1,331 | 16,635 |
| Under Foundation Internal Risk-Based Approach | 694 | 8,671 | 743 | 9,285 |
| Under Standardised Approach | 594 | 7,429 | 588 | 7,350 |
| Retail, Standardised Approach | 1,459 | 18,237 | 1,349 | 16,859 |
| Secured by real estates | 766 | 9,579 | 706 | 8,826 |
| Renew able | - | - | - | - |
| Other | 693 | 8,658 | 643 | 8,033 |
| Equity investments | 141 | 1,765 | 135 | 1,688 |
| PD/LGD method | 0 | 6 | - | - |
| Basic Indicator Approach | 141 | 1,759 | 135 | 1,688 |
| Private equity investments | 16 | 196 | 17 | 210 |
| Listed equity investments | 17 | 208 | 16 | 202 |
| Other | 108 | 1,355 | 102 | 1,276 |
| Securitisation positions | 39 | 485 | 10 | 124 |
| Other | 88 | 1,102 | 89 | 1,115 |
| **Market risks** | **37** | **467** | **36** | **448** |
| Trading book | 35 | 443 | 36 | 448 |
| Position risk | 35 | 443 | 36 | 448 |
| Settlement/delivery risk | - | - | - | - |
| All activities | 2 | 24 | 0 | 1 |
| Foreign exchange risk (incl. gold) | - | - | - | - |
| Commodity risk | 2 | 24 | 0 | 1 |
| **Operational risk** | **228** | **2,845** | **277** | **3,464** |
| **Capital requirement during transition period** | **-** | **-** | **-** | **-** |
| **Total** | **3,418** | **42,728** | **3,318** | **41,480** |

*Risk-w eighted assets = Capital requirement / 0.08

Capital requirement for counterparty risk amounts to EUR 62 million (EUR 44 million).

With respect to the capital adequacy requirement for operational risks, the Standardised Approach was adopted in the last quarter of 2010. This change reduced the capital requirement for operational risk by 19%, that is, about EUR 55 million compared with the capital requirement based on the Basic Indicator Approach (BIA) that was used until 30 September 2010.

It is possible to use various methods to measure capital adequacy requirement for equity investments. In PD/LGD method, investments' risk-weighted amount is calculated using risk parameters of the probability of default (PD) and loss given default (LGD). According to the capital adequacy framework, minimum values have been set for these parameters. Accordig to the Basic Indicator Approach, investments' risk-weighted amount derives from multiplying each investment by the risk-weight determined by the type of investment.

## NOTES TO RISK MANAGEMENT

### Note 84. Capital ratios

| Capital adaquacy, EUR million | 31 Dec. 2010 | 31 Dec. 2009 |
|---|---|---|
| Total regulatory capital | 5,454 | 5,227 |
| Total minimum capital requirement | 3,418 | 3,318 |
| Capital excess (+) / shortfall (-) | 2,035 | 1,908 |
| Tier 1 ratio, % | 12.8 | 12.6 |
| Total capital ratio, % | 12.8 | 12.6 |

## NOTES TO RISK MANAGEMENT

### Note 85. Total exposures by exposure class

| 31 Dec. 2010, EUR million | On-balance-sheet expo-sures | Off-balance-sheet expo-sures | Deriva-tives expo-sures | Securiti-sation expo-sures | Gross expo-sures | Average exposure during the year |
|---|---|---|---|---|---|---|
| Central government and central banks | 4,013 | 198 | 92 | - | 4,304 | 4,569 |
| Credit institutions | 6,002 | 5,768 | 2,429 | - | 14,199 | 14,224 |
| Corporate | 17,936 | 9,477 | 453 | - | 27,867 | 28,213 |
| FIRB Approach | 10,225 | 7,691 | 453 | - | 18,369 | 18,686 |
| Standardised Approach | 7,711 | 1,786 | - | - | 9,498 | 9,527 |
| Retail | 38,912 | 3,539 | 0 | - | 42,451 | 40,993 |
| Corporate | 1,288 | 206 | 0 | - | 1,494 | 1,804 |
| Private | 37,624 | 3,333 | 0 | - | 40,957 | 39,189 |
| Equity investments | 496 | 48 | - | - | 543 | 534 |
| Securitisation positions | - | - | - | 742 | 742 | 731 |
| Other | 1,104 | - | - | - | 1,104 | 1,110 |
| **Total** | **68,463** | **19,031** | **2,974** | **742** | **91,210** | **90,374** |

| 31 Dec. 2009, EUR million | On-balance-sheet expo-sures | Off-balance-sheet expo-sures | Deriva-tives expo-sures | Securiti-sation expo-sures | Gross expo-sures | Average exposure during the year |
|---|---|---|---|---|---|---|
| Central government and central banks | 4,652 | 169 | 14 | - | 4,835 | 4,128 |
| Credit institutions | 5,885 | 6,617 | 1,747 | - | 14,249 | 13,589 |
| Corporate | 17,837 | 10,328 | 393 | - | 28,559 | 27,580 |
| FIRB Approach | 9,926 | 8,683 | 393 | - | 19,003 | 18,452 |
| Standardised Approach | 7,911 | 1,645 | - | - | 9,556 | 9,128 |
| Retail | 35,984 | 3,549 | 1 | - | 39,534 | 38,728 |
| Corporate | 1,856 | 257 | 1 | - | 2,114 | 2,140 |
| Private | 34,129 | 3,292 | 0 | - | 37,420 | 36,588 |
| Equity investments | 466 | 59 | - | - | 525 | 471 |
| Securitisation positions | - | - | - | 720 | 720 | 783 |
| Other | 1,115 | - | - | - | 1,115 | 1,116 |
| **Total** | **65,940** | **20,722** | **2,155** | **720** | **89,537** | **86,396** |

## NOTES TO RISK MANAGEMENT

### Note 86. Exposure split by geographic region and exposure class

| 31 Dec. 2010, EUR million | Central government and central banks | Credit institutions | Corporate | Retail | Equity investments | Securitation positions | Other |
|---|---|---|---|---|---|---|---|
| Finland | 3,699 | 5,747 | 26,548 | 42,285 | 526 | - | 1,101 |
| Other Nordic countries | - | 1,650 | 389 | 47 | 3 | - | - |
| Baltic States | 5 | 3 | 191 | 5 | - | - | 3 |
| Rest of EU | 589 | 6,254 | 614 | 60 | 13 | 686 | 0 |
| Rest of Europe | - | 220 | 25 | 26 | 0 | 4 | - |
| USA | - | 189 | 23 | 14 | 1 | - | - |
| Asia | - | 121 | 48 | 9 | 0 | - | - |
| Ohter | 10 | 15 | 30 | 6 | - | 53 | - |
| **Total exposure** | **4,304** | **14,199** | **27,867** | **42,451** | **543** | **742** | **1,104** |

| 31 Dec. 2009, EUR million | Central government and central banks | Credit institutions | Corporate | Retail | Equity investments | Securitation positions | Other |
|---|---|---|---|---|---|---|---|
| Finland | 4,516 | 6,626 | 26,506 | 39,377 | 493 | - | 1,115 |
| Other Nordic countries | 94 | 1,545 | 694 | 38 | 4 | - | 0 |
| Baltic States | - | 4 | 96 | 3 | 15 | - | 0 |
| Rest of EU | 216 | 5,696 | 1,131 | 54 | 13 | 655 | 0 |
| Rest of Europe | - | 97 | 30 | 12 | 0 | 4 | - |
| USA | - | 195 | 49 | 13 | 0 | - | - |
| Asia | - | 73 | 47 | 9 | 0 | - | - |
| Ohter | 10 | 14 | 6 | 28 | 0 | 60 | 0 |
| **Total exposure** | **4,835** | **14,249** | **28,559** | **39,534** | **525** | **720** | **1,115** |

## NOTES TO RISK MANAGEMENT

### Note 87. Exposure split by residual maturity and exposure class

| 31 Dec. 2010, EUR million | < 3 months | 3–12 months | 1–5 yrs | 5–10 yrs | > 10 yrs | Total |
|---|---|---|---|---|---|---|
| Central government and central banks | 2,593 | 73 | 627 | 872 | 139 | 4,304 |
| Credit institutions | 4,837 | 3,259 | 4,000 | 1,928 | 175 | 14,199 |
| Corporate | 5,535 | 3,049 | 9,445 | 4,402 | 5,436 | 27,867 |
| IRB Approach | 4,063 | 2,477 | 7,555 | 2,312 | 1,962 | 18,369 |
| Standardised Approach | 1,472 | 572 | 1,890 | 2,090 | 3,474 | 9,498 |
| Retail | 3,241 | 812 | 5,271 | 5,993 | 27,135 | 42,451 |
| Corporate | 258 | 75 | 744 | 275 | 142 | 1,494 |
| Private | 2,983 | 737 | 4,527 | 5,718 | 26,993 | 40,957 |
| Equity investments | - | - | - | - | - | 543 |
| Securitisation positions | - | 6 | 636 | 100 | - | 742 |
| Other | 406 | 29 | 16 | 654 | - | 1,104 |
| **Total** | **16,611** | **7,227** | **19,994** | **13,950** | **32,885** | **91,210** |

| 31 Dec. 2009, EUR million | < 3 months | 3–12 months | 1–5 yrs | 5–10 yrs | > 10 yrs | Total |
|---|---|---|---|---|---|---|
| Central government and central banks | 3,627 | 18 | 877 | 218 | 96 | 4,835 |
| Credit institutions | 5,158 | 3,677 | 4,210 | 1,085 | 119 | 14,249 |
| Corporate | 6,202 | 3,121 | 9,045 | 4,588 | 5,602 | 28,559 |
| IRB Approach | 5,034 | 2,534 | 7,074 | 2,410 | 1,950 | 19,003 |
| Standardised Approach | 1,169 | 587 | 1,971 | 2,177 | 3,653 | 9,556 |
| Retail | 3,175 | 699 | 4,944 | 5,713 | 25,003 | 39,534 |
| Corporate | 335 | 98 | 934 | 411 | 336 | 2,114 |
| Private | 2,840 | 602 | 4,010 | 5,302 | 24,667 | 37,420 |
| Equity investments | - | - | - | - | - | 525 |
| Securitisation positions | 2 | 70 | 465 | 182 | - | 720 |
| Other | 471 | 11 | 47 | 585 | - | 1,115 |
| **Total** | **18,635** | **7,597** | **19,589** | **12,371** | **30,820** | **89,537** |

## NOTES TO RISK MANAGEMENT

### Note 88. Past due and impaired exposures by exposure class

| 31 Dec. 2010, EUR million | Past due loans | Impaired loans | Total | Individu-ally assessed | Collecti-vely assessed | Total |
|---|---|---|---|---|---|---|
| Central government and central banks | 0 | - | 0 | - | - | - |
| Credit institutions | 0 | 2 | 2 | 1 | - | 1 |
| Corporate | 599 | 362 | 961 | 237 | 53 | 290 |
| IRB Approach | 515 | 261 | 776 | 172 | 10 | 182 |
| Standardised Approach | 85 | 100 | 185 | 65 | 43 | 108 |
| Retail | 229 | 59 | 288 | 43 | - | 43 |
| Corporate | 29 | 12 | 41 | 10 | - | 10 |
| Private | 199 | 47 | 247 | 32 | - | 32 |
| Equity investments | - | 2 | 2 | 2 | - | 2 |
| Securitisation positions | - | - | - | - | - | - |
| Other | 0 | - | 0 | - | - | - |
| **Total** | **828** | **425** | **1,253** | **283** | **53** | **336** |

| 31 Dec. 2009, EUR million | Past due loans | Impaired loans | Total | Individu-ally assessed | Collecti-vely assessed | Total |
|---|---|---|---|---|---|---|
| Central government and central banks | 0 | - | 0 | - | - | - |
| Credit institutions | 0 | 2 | 2 | 1 | - | 1 |
| Corporate | 498 | 196 | 694 | 168 | 44 | 212 |
| IRB Approach | 414 | 111 | 525 | 110 | 10 | 121 |
| Standardised Approach | 83 | 85 | 168 | 57 | 33 | 91 |
| Retail | 233 | 54 | 287 | 40 | - | 40 |
| Corporate | 40 | 13 | 53 | 11 | - | 11 |
| Private | 193 | 41 | 234 | 29 | - | 29 |
| Equity investments | - | 3 | 3 | 2 | - | 2 |
| Securitisation positions | - | - | - | - | - | - |
| Other | 0 | - | 0 | - | - | - |
| **Total** | **731** | **255** | **986** | **211** | **44** | **255** |

Matured liabilities are liabilities in the standard method, the interest or capital of which are over 90 days overdue. In the FIRB method, matured liabilities are categorised under insolvent customers belonging to rating categories 11-12.

## NOTES TO RISK MANAGEMENT

### Note 89. Corporate exposures by sector

| | 31 Dec. 2010 | | |
|---|---|---|---|
| EUR million | Exposure | RWA | Capital require-ment |
| Renting and operation of residential real estate | 4,543 | 2,569 | 205 |
| Trade | 2,924 | 1,539 | 123 |
| Manufacture of machinery and equipment (incl. maintenance) | 2,656 | 1,620 | 130 |
| Construction | 2,379 | 1,008 | 81 |
| Services | 2,236 | 1,318 | 105 |
| Operating of other real estate | 2,142 | 1,494 | 119 |
| Transportation and storage | 1,531 | 1,202 | 96 |
| Financial and insurance activities | 1,287 | 1,053 | 84 |
| Forest industry | 1,162 | 526 | 42 |
| Metal industry | 1,123 | 660 | 53 |
| Bying and selling of ow n real estate | 1,087 | 264 | 21 |
| Energy | 1,075 | 645 | 52 |
| Manufacture of chemicals and chemical products | 1,047 | 478 | 38 |
| Agriculture, forestry and fishing | 904 | 678 | 54 |
| Food industry | 847 | 434 | 35 |
| Other manufacturing | 732 | 563 | 45 |
| Other sectors | 684 | 303 | 24 |
| Information and communication | 553 | 403 | 32 |
| Mining and quarrying | 230 | 175 | 14 |
| Water supply and w aste management | 215 | 75 | 6 |
| **Total** | **29,361** | **17,007** | **1,361** |

| | 31 Dec. 2009 | | |
|---|---|---|---|
| EUR million | Exposure | RWA | Capital require-ment |
| Trade | 4,143 | 2,309 | 185 |
| Services | 3,553 | 1,898 | 152 |
| Other sectors | 2,510 | 855 | 68 |
| Construction | 2,415 | 1,351 | 108 |
| Operating of other real estate | 2,395 | 1,513 | 121 |
| Manufacture of machinery and equipment (incl. maintenance) | 2,126 | 1,452 | 116 |
| Renting and operation of residential real estate | 1,740 | 1,209 | 97 |
| Transportation and storage | 1,736 | 662 | 53 |
| Financial and insurance activities | 1,263 | 1,546 | 124 |
| Forest industry | 1,170 | 691 | 55 |
| Metal industry | 1,082 | 658 | 53 |
| Manufacture of chemicals and chemical products | 1,042 | 319 | 26 |
| Energy | 1,039 | 543 | 43 |
| Other manufacturing | 940 | 689 | 55 |
| Agriculture, forestry and fishing | 889 | 458 | 37 |
| Bying and selling of ow n real estate | 792 | 605 | 48 |
| Food industry | 753 | 553 | 44 |
| Information and communication | 724 | 277 | 22 |
| Mining and quarrying | 182 | 157 | 13 |
| Water supply and w aste management | 179 | 70 | 6 |
| **Total** | **30,673** | **17,818** | **1,425** |

Corporate exposures by sector also include corporate customers with retail exposures. This standard industrial classification is based on the latest TOL 2008 classification issued by Statistics Finland.

## NOTES TO RISK MANAGEMENT

### Liite 90. Matured and depreciated corporate exposure by sector

| 31 Dec. 2010, EUR million | Contactual | Past due loans | Impaired loans | Indivi-dually assessed | Collecti-vely assessed |
|---|---|---|---|---|---|
| Forest industry | 237 | 212 | 148 | 90 | - |
| Trade | 125 | 120 | 65 | 42 | - |
| Manufacture of machinery and equipment (incl. maintenance) | 84 | 81 | 48 | 32 | - |
| Metal industry | 46 | 45 | 11 | 10 | - |
| Other manufacturing | 39 | 38 | 10 | 4 | - |
| Construction | 33 | 30 | 11 | 8 | - |
| Services | 31 | 24 | 21 | 15 | - |
| Operating of other real estate | 21 | 10 | 17 | 9 | - |
| Financial and insurance activities | 14 | 4 | 11 | 11 | - |
| Food industry | 14 | 14 | 9 | 6 | - |
| Agriculture, forestry and fishing | 9 | 8 | 5 | 4 | - |
| Transportation and storage | 7 | 7 | 3 | 2 | - |
| Renting and operation of residential real estate | 3 | 2 | 0 | 0 | - |
| Information and communication | 2 | 1 | 1 | 1 | - |
| Bying and selling of ow n real estate | 1 | 1 | 0 | 0 | - |
| Water supply and w aste management | 1 | 1 | 1 | 1 | - |
| Mining and quarrying | 1 | 1 | - | - | - |
| Other sectors | 1 | 0 | 0 | 2 | 53 |
| Manufacture of chemicals and chemical products | 1 | 0 | 0 | 0 | - |
| Energy | - | - | - | - | - |
| **Total** | **669** | **599** | **362** | **237** | **53** |

| 31 Dec. 2009, EUR million | Contactual | Past due loans | Impaired loans | Indivi-dually assessed | Collecti-vely assessed |
|---|---|---|---|---|---|
| Other manufacturing | 130 | 128 | 26 | 24 | - |
| Forest industry | 87 | 82 | 32 | 35 | - |
| Operating of other real estate | 60 | 50 | 34 | 33 | - |
| Financial and insurance activities | 53 | 43 | 22 | 17 | - |
| Trade | 52 | 49 | 11 | 10 | - |
| Services | 49 | 43 | 14 | 7 | - |
| Food industry | 30 | 28 | 9 | 5 | - |
| Construction | 26 | 23 | 8 | 6 | - |
| Manufacture of machinery and equipment (incl. maintenance) | 22 | 11 | 16 | 11 | - |
| Transportation and storage | 15 | 15 | 9 | 7 | - |
| Agriculture, forestry and fishing | 10 | 9 | 5 | 5 | - |
| Other sectors | 10 | 9 | 4 | 4 | - |
| Manufacture of chemicals and chemical products | 3 | 2 | 1 | 1 | - |
| Renting and operation of residential real estate | 2 | 1 | 1 | 0 | 44 |
| Information and communication | 1 | 1 | 1 | 1 | - |
| Metal industry | 1 | 1 | 1 | 1 | - |
| Water supply and w aste management | 1 | 1 | 0 | 0 | - |
| Mining and quarrying | 1 | 1 | 0 | 0 | - |
| Energy | 1 | 1 | 0 | 0 | - |
| Bying and selling of ow n real estate | - | - | - | - | - |
| **Total** | **555** | **498** | **196** | **168** | **44** |

## NOTES TO RISK MANAGEMENT

### Note 91. Past due and impaired exposures by geographic region

| | 31 Dec. 2010 | | | | 31 Dec. 2009 | | | |
|---|---|---|---|---|---|---|---|---|
| EUR million | Past due loans | Impaired loans | Individually assessed | Collectively assessed | Past due loans | Impaired loans | Individually assessed | Collectively assessed |
| Finland | 775 | 416 | 275 | 53 | 632 | 239 | 198 | 44 |
| Other Nordic countries | 30 | 2 | 2 | - | 43 | 10 | 7 | - |
| Baltic States | 0 | 0 | 0 | - | 0 | - | - | - |
| Rest of EU | 19 | 6 | 6 | - | 54 | 6 | 6 | - |
| Rest of Europe | 2 | - | - | - | 2 | - | - | - |
| USA | 0 | - | - | - | 0 | - | - | - |
| Asia | 0 | - | - | - | 0 | - | - | - |
| Other | 2 | - | - | - | 0 | - | - | - |
| **Total** | **828** | **425** | **283** | **53** | **731** | **255** | **211** | **44** |

## NOTES TO RISK MANAGEMENT

### Note 92. Exposures by credit rating before and after credit risk mitigation

| Risk weight %, EUR million | 31 Dec. 2010 Exposure before credit risk mitigation | Exposure after credit risk mitigation | RWA | 31 Dec. 2009 Exposure before credit risk mitigation | Exposure after credit risk mitigation | RWA |
|---|---|---|---|---|---|---|
| 0 | 9,458 | 9,325 | 0 | 11,074 | 11,074 | - |
| 10 | 2,205 | 2,205 | 220 | 993 | 993 | 99 |
| 20 | 6,299 | 5,899 | 1,150 | 6,854 | 4,950 | 950 |
| 35 | 27,840 | 27,840 | 9,636 | 26,214 | 26,214 | 9,072 |
| 50 | 171 | 135 | 108 | 102 | 97 | 35 |
| 75 | 14,784 | 13,873 | 8,494 | 14,028 | 13,111 | 7,860 |
| 100 | 10,586 | 9,810 | 8,613 | 9,797 | 9,231 | 8,156 |
| 150 | 164 | 154 | 226 | 164 | 152 | 226 |
| 350 | - | - | - | - | - | - |
| 1250 | - | - | - | - | - | - |
| **Total** | **71,506** | **69,239** | **28,448** | **69,225** | **65,821** | **26,399** |

In its capital adequacy measurement for credit risk under the Standardised Approach to determine the exposure's risk weight, OP-Pohjola Group applies credit ratings by Moody's Investors Service or Fitch Ratings to receivables from central governments and central banks and corporations. External credit assessment determines the receivable's credit rating category. In the capital adequacy requirement for receivables, the risk weight is determined by the credit rating category.

The risk weight of international development banks' receivables may also be determined on the basis of other than credit rating based on external credit assessment. If the risk weight is affected by external credit assesssment, credit ratings issued by the aforementioned rating agencies will also apply to the risk weighting of international development banks' receivables in capital adequacy measurement.

For a receivable in capital adequacy measurement, the security-specific credit rating of the issue programme or arrangement to which the receivable belongs must be used. If such a rating is not available, the issuer's general credit rating will be used, provided that it is available.

# Notes to OP-Pohjola Group financial statements

## NOTES TO RISK MANAGEMENT

### Note 93. Corporate exposures (FIRB) by rating category and PD grade, and equity investments by rating category and PD grade

**Corporate exposures by rating category and PD grade 31 Dec. 2010**

| Rating category | Exposure value, EUR million | Average PD, % | Average risk weight, % | RWA | Minimum capital require-ment |
|---|---|---|---|---|---|
| 1.0–2.0 | 756 | 0.0 | 14.8 | 109 | 9 |
| 2.5–5.0 | 7,658 | 0.2 | 40.7 | 3,139 | 251 |
| 5.5–7.0 | 2,544 | 1.4 | 99.9 | 2,508 | 201 |
| 7.5–8.5 | 1,423 | 5.5 | 154.5 | 2,231 | 178 |
| 9.0–10.0 | 220 | 17.5 | 214.7 | 473 | 38 |
| 11.0–12.0 | 482 | 100.0 | - | - | - |
| Non-rated | 139 | 4.4 | 142.7 | 212 | 17 |
| **Total** | **13,223** | **4.0** | **65.9** | **8,671** | **694** |

**Corporate exposures by rating category and PD grade 31 Dec. 2009**

| Rating category | Exposure value, EUR million | Average PD, % | Average risk weight, % | RWA | Minimum capital require-ment |
|---|---|---|---|---|---|
| 1,0 - 2,0 | 501 | 0.0 | 14.4 | 66 | 5 |
| 2,5 - 5,0 | 6,989 | 0.2 | 42.3 | 2,962 | 237 |
| 5,5 - 7,0 | 2,705 | 1.3 | 97.4 | 2,583 | 207 |
| 7,5 - 8,5 | 1,771 | 4.9 | 149.3 | 2,677 | 214 |
| 9,0 - 10,0 | 270 | 22.5 | 226.8 | 623 | 50 |
| 11,0 - 12,0 | 375 | 100.0 | - | - | - |
| Non-rated | 240 | 4.9 | 156.1 | 374 | 30 |
| **Total** | **12,850** | **3.6** | **69.5** | **9,285** | **743** |

The Internal Ratings Based Approach was used for Pohjola Bank plc's corporate exposures.

Exposure value refers to customer exposure at default (EAD).

The assessment of PD values concerning the exposures of SMEs and large businesses in 'R' rating categories has been done with a partial 'R' category, based on identifiers alone, and payment default data from 2003 to 2006. Since information on payment default entries has only been available during the economic upturn, a general adjustment has been made on the basis of credit loss and bankruptcy statistics until 1991 and time series of foreign banks' insolvency until 1990. PD values are also adjusted with a margin of caution, which is the bigger the fewer the companies in each category. In 2010, the R-rating was updated and the PD-ratings were assessed by means of insolvency data until the end of 2009. The changes regarding the model will enter into force in 2011.
In 2010, the material used for defining A-rating scores consisted of Rating Alfa scores in Suomen Asiakastieto Oy's model, and internal insolvency data between 2006 and 2008. The score limits are set for A-rating in such a manner that the PD values within the categories correspond to the PD values within R-rating. The A rating scores were updated at the end of 2010 in such way that the related changes will take effect in 2011. The data used for this purpose was Rating Alfa scores and payment default entries for the companies for 2007-2009.

**Equity investments by rating category and PD grade 31 Dec. 2010**

| Rating category | Exposure value, MEUR | Average PD, % | Average risk weight, % | RWA | Minimum capital require-ment |
|---|---|---|---|---|---|
| 5,5–7,0 | 2 | 1.3 | 279.7 | 6 | 0 |

The PD/LGD method related to equity investments is applied to strategic investments outside OP-Pohjola Group.

## NOTES TO RISK MANAGEMENT

### Note 94. Expected loss and impairments

| | 31 Dec. 2010 | | 31 Dec. 2009 | | 31 Dec. 2008 | |
|---|---|---|---|---|---|---|
| **Loss, EUR million** | **EL** | **Impairments** | **EL** | **Impairments** | **EL** | **Impairments** |
| Corporate exposures | 219 | 182 | 162 | 121 | 68 | 24 |
| Equity investments | 11 | 2 | 10 | 2 | 1 | - |
| **Total** | 229 | 184 | **171** | **123** | **69** | **24** |

The loss prediction in the table is derived from the risk parameters of OP-Pohjola Group's internal credit risk models. The PD estimates produced by the models correspond to estimates used in capital adequacy calculations and they include various elements of caution. The PD estimates are rather conservative. The LDG model applied to corporate exposure produces lower loss estimates that the LGD parameters used in the basic method of calculating internal ratings for capital adequacy.

## NOTES TO RISK MANAGEMENT

### Note 95. Equity investments, BIA

| | 31 Dec. 2010 | | | 31 Dec. 2009 | | |
|---|---|---|---|---|---|---|
| EUR million | Exposure | RWA | Minimum capital require-ment | Exposure | RWA | Minimum capital require-ment |
| Private equity investments, risk weight 190% | 103 | 196 | 16 | 110 | 210 | 17 |
| Listed equity investments, 290% | 72 | 208 | 17 | 70 | 202 | 16 |
| Other, risk weight 370% | 366 | 1,355 | 108 | 345 | 1,276 | 102 |
| **Total** | **541** | **1,759** | **141** | **525** | **1,688** | **135** |

## Notes to OP-Pohjola Group financial statements

## NOTES TO RISK MANAGEMENT

### Note 96. Collateral used in capital adequacy calculation

| 31 Dec. 2010, EUR million | Exposure | Guarantees | Financial collateral | Other collateral |
|---|---|---|---|---|
| Central government and central banks | 4,304 | 114 | - | - |
| Credit institutions | 14,199 | 550 | - | - |
| Corporate | 27,867 | 2,160 | 200 | 997 |
| FIRB Approach | 18,369 | 1,616 | 73 | 590 |
| Standardised Approach | 9,498 | 545 | 127 | 408 |
| Retail | 42,451 | 906 | 211 | 27,524 |
| Secured by real estates | 27,524 | - | - | 27,524 |
| Renew able | - | - | - | - |
| Bought | - | - | - | - |
| Other | 14,928 | 906 | 211 | - |
| Equity investments | 543 | - | - | - |
| BIA | 541 | - | - | - |
| PD/LGD method | 2 | - | - | - |
| Securitisation positions | 742 | - | - | - |
| Other | 1,104 | - | - | - |
| **Total** | **91,210** | **3,730** | **411** | **28,521** |

| 31 Dec. 2009, EUR million | Exposure | Guarantees | Financial collateral | Other collateral |
|---|---|---|---|---|
| Central government and central banks | 4,835 | - | - | - |
| Credit institutions | 14,249 | 1,909 | 0 | - |
| Corporate | 28,559 | 2,529 | 177 | 1,587 |
| FIRB Approach | 19,003 | 2,080 | 55 | 637 |
| Standardised Approach | 9,556 | 449 | 122 | 950 |
| Retail | 39,534 | 914 | 179 | 25,357 |
| Secured by real estates | 25,357 | - | - | 25,357 |
| Renew able | - | - | - | - |
| Bought | - | - | - | - |
| Other | 14,177 | 914 | 179 | - |
| Equity investments | 525 | - | - | - |
| BIA | 525 | - | - | - |
| PD/LGD method | - | - | - | - |
| Securitisation positions | 720 | - | - | - |
| Other | 1,115 | - | - | - |
| **Total** | **89,537** | **5,352** | **356** | **26,944** |

The following real securities under the capital adequacy framework were used in capital adequacy measurement: residential buildings and shares entitling their holders to the possession of a flat, deposits and stocks (equities). Deposits and stocks are financial collateral, as referred to in the framework, and alternative methods are available for their accounting treatment. OP-Pohjola Group applies the so-called comprehensive method to financial collateral, using volatility adjustments ordered by the relevant regulator.

In the capital adequacy measurement for credit risks, only eligible guarantors as referred to in the capital adequacy framework may be used. In capital adequacy measurement, the Group utilised guarantees issued by the Finnish State and other states, as well as those issued by municipalities and banks. Guarantees issued by banks or credit derivatives were not used. Offsetting balance-sheet or off-balance-sheet items were not applied in capital adequacy.

Residential buildings acting as guarantee and shares entitling their holders to the possession of a flat constitute the largest collateral type used in capital adequacy. The effect of other real securities on the capital adequacy of credit risks is much less significant. Collateral which has been used has come from a number of sources, the largest single one being the State of Finland.

## NOTES TO RISK MANAGEMENT

### Note 97. Counterparty risk, type of contract

Capital adequacy requirement due to counterparty risk may arise from items related to financing operations and the trading book. Capital adequacy requirement due to counterparty risk is calculated, for example, on OTC derivatives and sale and repurchase agreements.

Note 52 presents counterparty risks associated with OTC derivatives. The exposure value of sale and repurchase agreements amounted to EUR 0 million.

## NOTES TO RISK MANAGEMENT

### Risk exposure of Non-life Insurance

### Note 98. Risk-bearing capacity

On 31 December 2010, Non-life Insurance solvency capital stood EUR 832 million (827), accounting for 86% (88) of insurance premium revenue. The financial strength rating of Pohjola Insurance is A+ affirmed by Standard & Poor's in December 2010. 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 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 endure the insurance risk. Solvency capital proportioned with technical provisions describes the company's ability to endure evaluation risk concerning technical provisions, while solvency capital proportioned to the investment portfolio describes ability to endure investment risks.

| | 31 Dec. 2010 | | 31 Dec. 2009 | |
|---|---|---|---|---|
| | EUR million | Risk-bearing capacity, % | EUR million | Risk-bearing capacity, % |
| Solvency capital | 832 | | 827 | |
| Claims incurred* | 694 | 120 | 617 | 134 |
| Insurance premium revenue* | 964 | 86** | 943 | 88** |
| Insurance contract liabilities* | 2,145 | 39 | 2,068 | 40 |
| Investment portfolio | 2,924 | 28 | 2,851 | 29 |

* Reinsurers' share (net business) deducted

** Solvency ratio

# Notes to OP-Pohjola Group financial statements

## NOTES TO RISK MANAGEMENT

### Note 99. Sensitivity analysis

The table below shows the effect of various risk parameters on profit and solvency capital:

| Risk parameter | Total in 2010, EUR million | Change in risk parameter | Effect on profit/solvency, EUR million | Effect on combined ratio |
|---|---|---|---|---|
| Insurance portfolio or insurance premium revenue | 964 | Up by 1% | 10 | Up by 0.9 percentage point |
| Claims incurred | 694 | Up by 1% | -7 | Down by 0.7 percentage point |
| Major loss in exceess of EUR million | - | 1 major loss | -5 | Down by 0.5 percentage point |
| Personnel costs | 110 | Up by 8% | -9 | Down by 0.9 percentage point |
| Expenses by function * | 267 | Up by 4% | -11 | Down by 1.1 percentage point |

* Expenses by function in Non-life Insurance excluding expenses for investment management and expenses for other services rendered

## NOTES TO RISK MANAGEMENT

### Note 100. 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 |
|---|---|---|---|---|
| 2010 | 9 | 11 | 11 | 5 |
| 2009 | 11 | 12 | 8 | 5 |

* EML = Estimated Maximum Loss per object of insurance

**Division of premiums written by TSI* class in corporate liability insurance**

The degree of risk in liability insurance can be evaluated by dividing risks into classes by their TSI* amounts. The table below shows premiums written calculated for each risk class.

| EUR million | 2–4 | 4–10 | 10–30 | 30–90 |
|---|---|---|---|---|
| 2010 | 2 | 7 | 7 | 2 |
| 2009 | 3 | 6 | 7 | 2 |

* TSI = Total Sum Insured

**Sums insured in guarantee and decennial insurance**

The sum insured of insurance contracts depicts the volume of guarantee and decennial insurance (construction defects insurance). The gross and net amounts of the sum insured are itemised by contract type in the table below. The liability period of decennial insurance is 10 years.

| | Gross | | Net* | |
|---|---|---|---|---|
| **EUR million** | **2010** | **2009** | **2010** | **2009** |
| Contract guarantees | 6 | 23 | 6 | 23 |
| Loan guarantees | 7 | 16 | 7 | 16 |
| Other | 4 | 5 | 4 | 5 |
| **Guarantee insurance** | **17** | **44** | **17** | **44** |
| | | | | |
| **Decennial insurance** | **1,853** | **1,829** | **1,735** | **1,628** |

* For insurance company's ow n account after reinsurers' share but before counter guarantee

## NOTES TO RISK MANAGEMENT

### Note 101. Trend in major losses

**Number of detected major losses by year of detection for 2006–2010**

Non-life Insurance monitors carefully claims expenditure arising from major losses. The claims expenditure explains a significant part of the annual fluctuation in the underwriting result. In addition, monitoring the claims expenditure arising from major losses helps to detect any changes in risks or risk selection. In this analysis, major losses are those whose gross amount exceeds EUR 2 million. Most major losses occur in property and business interruption insurance. In statutory policies, the risk of major loss is small relative to the large volume of the line of business.

**Gross amount**

| Number of losses exceeding EUR 2 million | Statutory lines | Other accidents and health | Hull and cargo | Property and business interruption | Liability and legal expenses | Long-term |
|---|---|---|---|---|---|---|
| 2006 | - | - | - | 9 | - | - |
| 2007 | 1 | - | - | 5 | 3 | - |
| 2008 | - | - | - | 4 | 1 | - |
| 2009 | 3 | - | - | 5 | 2 | - |
| 2010 | 1 | - | - | 13 | - | |
| | | | Total claims, EUR million | | | 200 |
| **Gross amount, total claims, EUR million 2006–2010** | **12** | **-** | **-** | **171** | **17** | **-** |

**Net amount**

| Number of losses exceeding EUR 2 million | Statutory lines | Other accidents and health | Hull and cargo | Property and business interruption | Liability and legal expenses | Long-term |
|---|---|---|---|---|---|---|
| 2006 | - | - | - | 9 | - | - |
| 2007 | 1 | - | - | 4 | 3 | - |
| 2008 | - | - | - | 4 | 1 | - |
| 2009 | 3 | - | - | 4 | 1 | - |
| 2010 | 0 | - | - | 11 | - | - |
| | | | Total claims, EUR million | | | 131 |
| **Net amount, total claims, EUR million 2006-2010** | **9** | **-** | **-** | **107** | **15** | **-** |

# Notes to OP-Pohjola Group financial statements

## NOTES TO RISK MANAGEMENT

### Note 102. 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.

| 2010, EUR million | Gross IP revenue | Net IP revenue | Net CR* | Net** CR* |
|---|---|---|---|---|
| Statutory lines | 366 | 364 | 98% | 89% |
| Other accident and health | 111 | 110 | 90% | 90% |
| Hull and cargo | 210 | 208 | 91% | 91% |
| Property and business interruption | 256 | 222 | 95% | 95% |
| Liability and legal expenses | 63 | 57 | 70% | 70% |
| Long-term | 3 | 2 | 93% | 93% |
| **Total** | **1,010** | **964** | **93%** | **90%** |

| 2009, EUR million | Gross IP revenue | Net IP revenue | Net CR* | Net** CR* |
|---|---|---|---|---|
| Statutory lines | 365 | 360 | 88% | 88% |
| Other accident and health | 106 | 105 | 94% | 94% |
| Hull and cargo | 206 | 203 | 87% | 87% |
| Property and business interruption | 247 | 215 | 85% | 85% |
| Liability and legal expenses | 62 | 55 | 84% | 84% |
| Long-term | 4 | 3 | 118% | 118% |
| **Total** | **990** | **943** | **88%** | **88%** |

* The combined ratio is calculated by dividing the sum of claims incurred (net) and operating expenses of insurance business by insurance premium revenue (net). Amortisation on intangible rights has not been taken into account.

** One-off changes affecting the balance on technical account have been eliminated.

## NOTES TO RISK MANAGEMENT

### Note 103. Sensitivity analysis of insurance contract liabilities and information on the nature of insurance contract liabilities

| | Portfolio at fair value, EUR million | | | Effect on solvency capital, EUR million | |
|---|---|---|---|---|---|
| **Non-life Insurance** | **31 Dec. 2010** | **Risk parameter** | **Change** | **31 Dec. 2010** | **31 Dec. 2009** |
| Collective liability | 497 | Inflation | 0.25 percentage points | -3 | -3 |
| Discounted insurance contract liabilities | 1,378 | Life expectancy | 1 year | -32 | -30 |
| Discounted insurance contract liabilities | 1,378 | Discount rate | -0.1 percentage point | -17 | -16 |

| **Information on the nature of liabilities** | **2010** | **2009** |
|---|---|---|
| Net insurance contract liabilities ( EUR million) | | |
| Latent occupational diseases | 38 | 42 |
| Other | 2,107 | 2,026 |
| Total (before transfers) | 2,145 | 2,068 |
| | | |
| Duration of debt ( years) | | |
| Discounted insurance contract liabilities | 11.9 | 11.9 |
| Undiscounted insurance contract liabilities | 2.4 | 2.4 |
| Total | 8.5 | 8.5 |
| | | |
| Discounted net debt (EUR million) | | |
| Provision for known unpaid claims for annuities | 1,111 | 1,054 |
| Collective liability (IBNR) | 233 | 239 |
| Provision for unearned premiums | 34 | 33 |
| Total | 1,378 | 1,326 |

## NOTES TO RISK MANAGEMENT

### Note 104. Insurance contract liabilities by estimated maturity

| 31 Dec. 2010, EUR million | 0–1 yr | 1–5 yrs | 5–10 yrs | 10–15yrs | over 15 yrs | Total |
|---|---|---|---|---|---|---|
| Provision for unearned premiums* | 256 | 72 | 18 | 4 | 7 | 357 |
| Provision for unpaid claims | | | | | | |
| Undiscounted | 260 | 107 | 52 | 12 | 12 | 443 |
| Discounted | 89 | 324 | 295 | 218 | 418 | 1,344 |
| **Total insurance contract liabilities** | **606** | **502** | **365** | **234** | **437** | **2,145** |

* Includes EUR 34 million in discounted provision

| 31 Dec. 2009, EUR million | 0–1 yr | 1–5 yrs | 5–10 yrs | 10–15yrs | over 15 yrs | Total |
|---|---|---|---|---|---|---|
| Provision for unearned premiums* | 241 | 68 | 17 | 4 | 7 | 337 |
| Provision for unpaid claims | | | | | | |
| Undiscounted | 254 | 107 | 53 | 12 | 13 | 438 |
| Discounted | 86 | 312 | 284 | 210 | 402 | 1,293 |
| **Total insurance contract liabilities** | **581** | **486** | **354** | **225** | **421** | **2,069** |

* Includes EUR 33 million in discounted provision

## NOTES TO RISK MANAGEMENT

### Note 105. Risk exposure of insurance investments

| | 31 Dec. 2010 | | 31 Dec. 2009 | |
|---|---|---|---|---|
| **Allocation of investment portfolio** | **Fair value*, EUR million** | **%** | **Fair value*, EUR million** | **%** |
| **Money market total** | **14** | **0** | **101** | **4** |
| Money market instruments and deposits** | 68 | 2 | 82 | 3 |
| Derivatives*** | -54 | -2 | 19 | 1 |
| **Total bonds and bond funds** | **2,074** | **71** | **2,067** | **72** |
| Governments | 636 | 22 | 661 | 23 |
| Inflation-linked bonds | 83 | 3 | 92 | 3 |
| Investment Grade | 1,098 | 38 | 1,055 | 37 |
| Emerging markets and High Yield | 242 | 8 | 245 | 9 |
| Structured Investments | 15 | 1 | 13 | 0 |
| **Total equities** | **422** | **14** | **364** | **13** |
| Finland | 86 | 3 | 76 | 3 |
| Developed markets | 118 | 4 | 146 | 5 |
| Emerging markets | 86 | 3 | 68 | 2 |
| Unlisted equities | 5 | 0 | 5 | 0 |
| Private equity investments | 73 | 2 | 67 | 2 |
| Equity derivatives*** | 54 | 2 | 2 | 0 |
| **Total alternative investments** | **207** | **7** | **155** | **5** |
| Hedge funds | 69 | 2 | 72 | 3 |
| Commodities | 26 | 1 | 24 | 1 |
| Convertible bonds | 112 | 4 | 60 | 2 |
| **Total property investment** | **207** | **7** | **164** | **6** |
| Direct property investment | 132 | 5 | 109 | 4 |
| Indirect property investment | 75 | 3 | 55 | 2 |
| **Total** | **2,924** | **100** | **2,851** | **100** |

* Includes accrued interest income

** Includes settlement receivables and liabilities and market value of derivatives EUR -3.0 million (-2.2)

*** Effect of derivatives on the allocation of the asset class (delta-weighted equivalents)

## NOTES TO RISK MANAGEMENT

### Note 106. 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 contract liabilities is presented in notes dealing with insurance contract liabilities. Effects of changes in investment and insurance contract liabilities offset one another.

| | | | | Effect on solvency capital, EUR million | |
|---|---|---|---|---|---|
| **Non-life Insurance, EUR million** | **Portfolio at fair value, 31 Dec. 2010** | **Risk parameter** | **Change** | **31 Dec. 2010** | **31 Dec. 2009** |
| Bonds and bond funds * | 2,256 | Interest rate | 1 percentage point | 92 | 73 |
| Equities ** | 413 | Market value | 20 percentage points | 83 | 73 |
| Venture capital funds and unlisted shares | 78 | Market value | 20 percentage points | 16 | 14 |
| Commodities | 26 | Market value | 20 percentage points | 5 | 5 |
| Real property | 207 | Market value | 10 percentage points | 21 | 16 |
| Currency | 242 | Value of currency | 20 percentage points | 48 | 21 |
| Credit risk premium *** | 2,145 | Credit risk margin | 0.5 percentage points | 47 | 39 |
| Derivatives**** | - | Volatility | 20 percentage points | - | - |

* Include money market investments, convertible bonds and interest-rate derivatives

** Include hedge funds and equity derivatives

*** Includes bonds and convertible bonds and money-market investments, excluding government bonds issued by developed countries

**** 20 percentage points in equity derivatives, 10 percentage points in interest rate derivatives and 5 percentage points in currency derivatives

## NOTES TO RISK MANAGEMENT

### Note 107. Interest-rate risk

The market risk arising from changes in interest rates is monitored by classifying investments by instrument, in accordance with duration. The table below does not indicate the balancing effect which the insurance contract liabilities have on the interest-rate risk, because only some of the insurance contract liabilities have been discounted using an administrative interest rate (Note 34)

| Fair value by duration or repricing date*, EUR million | 31 Dec. 2010 | 31 Dec. 2009 |
|---|---|---|
| 0–1 year | 395 | 414 |
| >1–3 years | 701 | 522 |
| >3–5 years | 652 | 721 |
| >5–7 years | 197 | 227 |
| >7–10 years | 188 | 196 |
| >10 years | 122 | 152 |
| **Total** | **2,256** | **2,231** |
| Modified duration | 4.1 | 3.3 |
| Effective interest rate, % | 4.1 | 3.5 |

* Includes money market investments and deposits, bonds, convertible bonds and bond funds

# Notes to OP-Pohjola Group financial statements

## NOTES TO RISK MANAGEMENT

### Note 108. Currency risk

| Foreign currency exposure, EUR million | 31 Dec. 2010 | 31 Dec. 2009 |
|---|---|---|
| USD | 35 | 59 |
| SEK | 4 | -2 |
| JPY | -2 | 6 |
| GBP | -1 | 3 |
| EEK, LVL, LTL** | -22 | -35 |
| Other | 177 | 2 |
| **Total*** | **242** | **107** |

*The currency exposure was 3.8% (2.5) of the investment portfolio. It is calculated as the sum total of individual currencies' intrinsic values.

** These are ERM2 currencies, the 31 December 2009 figure includes EEK

## NOTES TO RISK MANAGEMENT

### Note 109. Counterparty risk

| | 31 Dec. 2010 | | 31 Dec. 2009 | |
|---|---|---|---|---|
| **Credit rating, consistent with Moody's, EUR million** | **Investment*** | **Insurance**** | **Investment*** | **Insurance**** |
| AAA | 514 | 0 | 529 | 2 |
| AA | 413 | 27 | 404 | 24 |
| A | 732 | 29 | 794 | 25 |
| BBB | 290 | 0 | 312 | 0 |
| BB+ or lower | 180 | - | 113 | - |
| Internal rating | 16 | 25 | 20 | 26 |
| **Total** | **2,145** | **81** | **2,172** | **78** |

* Includes money market investments, deposits and bonds and bond funds.

** Includes the reinsurers' share of insurance contract liabilities, and receivables from reinsurers.

## NOTES TO RISK MANAGEMENT

### Risk exposure of Life Insurance

### Note 110. Information on the nature of insurance contract liabilities and their sensitivity analysis

**Risk-bearing capacity of life insurance operations**

Life insurance companies must fulfil the capital adequacy requirements prescribed by law. The solvency capital must be higher than the minimum amount prescribed in EU directives. Furthermore, Finnish legislation requires that a capital adequacy assessment compliant with Solvency II, which is currently under preparation, has been calculated since 2008.

Life insurance risk-bearing capacity is measured in terms of solvency ratio, which is the ratio between solvency margin and equalisation provision on the one hand and technical provisions on the other. A strategic level of 12% has been set for solvency ratio. The ratio between unrestricted solvency capital and the amount of risk from investment operations is also monitored.

**Insurance and capital redemption portfolio in Life Insurance 31 Dec 2010**

| | Technical rate of interest | Number of insureds or contracts | Exposure on 31 December 2010 | Average duration in years* |
|---|---|---|---|---|
| **Life Insurance/Savings** | | | | |
| Technical rate of interest 4.5% | 4.50% | 3,867 | 75 | 9.2 |
| Technical rate of interest 3.5% | 3.50% | 52,975 | 1,134 | 11.6 |
| Technical rate of interest 2.5% | 2.50% | 144,720 | 742 | 10.0 |
| Technical rate of interest 1.5% | 1.50% | 1,665 | 4 | 5.8 |
| Unit-linked | | incl. above | 2,254 | |
| Total | | 203,227 | 4,210 | |
| **Individual pension insurance** | | | | Until the beginning of pension entitlement |
| Technical rate of interest 4.5% | 4.50% | 14,776 | 270 | 4.2 |
| Technical rate of interest 3.5% | 3.50% | 52,452 | 401 | 6.9 |
| Technical rate of interest 2.5% | 2.50% | 124,268 | 167 | 9.7 |
| Technical rate of interest 1.5% | 1.50% | 2,844 | 1 | 9.7 |
| Unit-linked | | incl. above | 811 | |
| Total | | 194,340 | 1,650 | |
| **Group pension insurance** | | | | |
| Supplementary employee pension | 3.50% | 33,200 | 1,052 | N.A |
| Technical rate of interest 3.5 % | 3.50% | 220 | 4 | 5.5 |
| Technical rate of interest 2.5 % | 2.50% | 4,629 | 11 | 9.4 |
| Technical rate of interest 1.5% | 1.50% | 605 | 3 | 6.1 |
| Unit-linked | | incl. above | 26 | |
| Total | | 38,654 | 1,096 | |
| **Term insurance contracts** | | | | |
| Individual contracts | - | 264,903 | 132 | N.A |
| Group contracts | - | 7,834 | 21 | N.A |
| Total | | 272,737 | 153 | |
| **Capital redemption contracts** | | | | |
| Technical rate of interest 3.5% | 3.50% | 50 | 12 | 1.1 |
| Technical rate of interest 2.5% | 2.50% | 331 | 16 | 3.4 |
| Pohjola Tuotto | | 53 | 0 | 0.3 |
| Unit-linked | | incl. above | 47 | |
| Total | | 434 | 75 | 9.3 |
| Other items in underw riting reserves/ insurance contract liabilities | | - | 30 | |
| **Total** | | **709,392** | **7,214** | |

**Susceptibility of life insurance liabilities to changes in calculation principles**

The table above presents the breakdown of the maturities of life insurance technical provisions and pension start dates as they were registered in the insurance systems. However, it is likely that benefit policy assets are paid to the policyholders or beneficiaries much earlier, and pension assets somewhat later than directly indicated by the start dates in the agreements.

As to the benefit policies, death benefits are paid before the formal due date, and more and more savings are surrendered before maturity. This is based on the assumption that policies have been sold for very long periods, although many policyholders intend to withdraw the savings before they mature, often at retirement. The majority of insurance savings are benefit policies.

As to individual pension plans, the experience is that many policyholders take out their pension later than initially intended. Taking out the pension later, or actually setting the pension period when taking out the policy, has direct tax implications. The trend in tax changes indicates that people will take out their pension later and later in the future. Owing to tax reasons, pension insurance policies cannot be surrendered (with very few exceptions) before the agreed retirement date. The insurance savings are paid to the policyholder without linking the capital value of benefits, i.e. the technical provisions at the time, to the payment date, whether earlier or later than originally intended.

The technical provisions are calculated by means of a technical interest discount, with the market rates having no effect on the amount of unit-linked technical provisions. Unit-linked technical provisions are nevertheless presented at market value.

If the mortality figures give reason to assume that the technical provisions arrived at with the current calculation principles are insufficient, the technical provisions are adjusted accordingly. In life insurance, the mortality and longevity provisions actually cancel each other out, which means that if the mortality assumption is adjusted, the amount of liability is not significantly affected.

## NOTES TO RISK MANAGEMENT

### Note 111. Claims charged to expenses due to insurance contract liabilities

| 31 dec. 2010, EUR million | 0–1 | 1–5 | 5–10 | 10–15 | Over 15 | Total |
|---|---|---|---|---|---|---|
| Interest-bearing insurance savings | 471 | 1,118 | 678 | 534 | 1,216 | **4,018** |
| Unit-linked insurance savings | 105 | 500 | 497 | 367 | 1,622 | **3,091** |
| Interest-bearing investment contracts | 7 | 17 | 1 | 0 | 3 | **28** |
| Unit-linked investment contracts | 3 | 16 | 28 | 0 | 2 | **47** |
| Other insurance contract liabilities | - | - | - | - | - | **30** |
| **Total** | **586** | **1,651** | **1,204** | **901** | **2,842** | **7,214** |

| 31 Dec. 2009 EUR million | 0–1 | 1–5 | 5–10 | 10–15 | Over 15 | Total |
|---|---|---|---|---|---|---|
| Interest-bearing insurance savings | 419 | 1,057 | 558 | 426 | 1,170 | **3,630** |
| Unit-linked insurance savings | 85 | 338 | 430 | 279 | 1,203 | **2,335** |
| Interest-bearing investment contracts | 81 | 20 | 2 | 0 | 3 | **105** |
| Unit-linked investment contracts | 5 | 15 | 24 | 0 | 1 | **45** |
| Other insurance contract liabilities | - | - | - | - | - | **42** |
| **Yhteensä** | **590** | **1,430** | **1,014** | **705** | **2,376** | **6,157** |

## NOTES TO RISK MANAGEMENT

### Note 112. Risk exposure of investment operations

| Allocation of investment property | 31 Dec. 2010 Fair value, EUR million | % | 31 Dec. 2009 Fair value, EUR million | % |
|---|---|---|---|---|
| **Fixed-income investments [1]** | | | | |
| Bonds | 1,109 | 24 | 935 | 23 |
| Other money market instruments* | 409 | 9 | 176 | 4 |
| Mutual funds | 1,260 | 27 | 1,537 | 37 |
| **Shares and participations** | | | | |
| Equities and mutual funds | 855 | 18 | 708 | 17 |
| Alternative investments [2] | 734 | 16 | 469 | 11 |
| Properties [3] | 349 | 7 | 302 | 7 |
| **Total** | **4,716** | **100** | **4,126** | **100** |

[1] Contains accrued interest and notes and bonds recategorised under loans and receivables related to financial receivables

[2] Incl. investments in hedge funds and capital investments

[3] Only direct investments in properties

* Incl. effect of equity futures

## NOTES TO RISK MANAGEMENT

### Note 113. Sensitivity analysis of investment property

| 31 Dec. 2010 | Portfolio at fair values, EUR million | Risk parameter | Change | Effect on solvency margin, EUR million |
|---|---|---|---|---|
| Bonds and bond funds | 2,780 | Interest rate | 1 percentage point | 82 |
| Shares and alternatives | 1,589 | Market value | 10 percentage point | 159 |
| Properties | 349 | Market value | 15 percentage point | 52 |

## NOTES TO RISK MANAGEMENT

### Note 114. Interest-rate risk

| Fair value by duration or repricing date, EUR million | 31 Dec. 2010 | 31 Dec. 2009 |
|---|---|---|
| 0–1 year | 1038 | 597 |
| >1–5 years | 1272 | 1125 |
| >5–10 years | 395 | 467 |
| >10–20 years | 75 | 221 |
| >20 years | 0 | 154 |
| **Total** | **2,780** | **2,563** |
| Modified duration | 3.0 | 3.6 |
| Average interest rate, % | 4.0 | 5.0 |

## NOTES TO RISK MANAGEMENT

### Note 115. Counterparty risk

**Credit rating distribution, EUR million**

| Standard & Poor's equivalent | 31 Dec. 2010 | 31 Dec. 2009 |
|---|---|---|
| AAA | 450 | 611 |
| AA | 767 | 465 |
| A | 421 | 549 |
| BBB | 339 | 345 |
| BB+ or lower | 556 | 412 |
| Not Rated | 246 | 182 |
| **Total *** | **2,780** | **2,563** |

* Includes money-market investments and deposits, bonds and bond funds.

## NOTES TO RISK MANAGEMENT

### Note 116. Currency risk

| Foreign currency exposure, EUR million | 31 Dec. 2010 | 31 Dec. 2009 |
|---|---|---|
| USD | 323 | 290 |
| SEK | 9 | 7 |
| JPY | 22 | 32 |
| GBP | 2 | 10 |
| Other | 2 | 1 |
| **Total*** | **358** | **341** |

*Total net currency exposure

The currency exposure was 7.7% (8.3) of the investment portfolio.

## Statement concering the financial statements

We have adopted the Report of the Executive Board and the consolidated Financial Statements of the amalgamation of the cooperative banks (OP-Pohjola Group) specified in the Act on Cooperative Banks and Other Cooperative Credit Institutions and Act no. 599/2010 on the amalgamation of deposit banks the for the financial year from 1 January to 31 December 2010.The report and the Financial Statements are presented to, and passed out at, the General Meeting of OP-Pohjola Group Central Cooperative

Helsinki, 15 February 2011

Executive Board of OP-Pohjola Group Central Cooperative

Reijo Karhinen          Tony Vepsäläinen

Tom Dahlström          Carina Geber-Teir

Harri Luhtala          Erik Palmén

Heikki Vitie

*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 members of OP-Pohjola Group Central Cooperative

We have audited the consolidated financial statements and the report of the Executive Board for the year ended on 31 December 2010 of the amalgamation of the cooperative banks (the OP-Pohjola Group) pursuant to the Act on the Amalgamation of Deposit Banks as well as to the Act on Cooperative Banks and Other Cooperative Credit Institutions. The financial statements comprise the consolidated balance sheet, income statement, statement of comprehensive income, statement of changes in equity and cash flow statement and notes to the financial statements.

### The Responsibility of the Executive Board and the President of OP-Pohjola Group Central Cooperative

The Executive Board and the President of OP-Pohjola Group Central Cooperative are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU in a manner explained in more detail in the notes to the financial statements, as well as for the preparation of the report of the Executive Board that give a true and fair view in accordance with the laws and regulations governing the preparation of the report of the Board of Directors in Finland.

### Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements and on the report of the Executive Board based on our audit. The Auditing Act requires that we comply with the requirements of professional ethics. We conducted our audit in accordance with good auditing practice in Finland. Good auditing practice requires that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the report of the Executive Board are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report of the Executive Board. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements and report of the Executive Board that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the report of the Executive Board. In carrying out the audit, we also acquainted ourselves with the financial statement policies adopted by the Group's member institutions, as well as the auditors' reports and other related reporting submitted by their auditors.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion on the Consolidated Financial Statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position, financial performance, and cash flows of OP-Pohjola Group in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

### Opinion on the Report of the Executive Board

In our opinion, the report of the Executive Board gives a true and fair view of OP-Pohjola Group's financial performance and financial position in accordance with the laws and regulations governing the preparation of the report of the Board of Directors in Finland. The information in the report of the Executive Board is consistent with the information in the consolidated financial statements

Helsinki, 24 February 2011

KPMG OY AB

Sixten Nyman
Authorized Public Accountant