



The mark of a good group \*  
OP-Pohjola Group Annual Review 2010



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### Structure and Governance

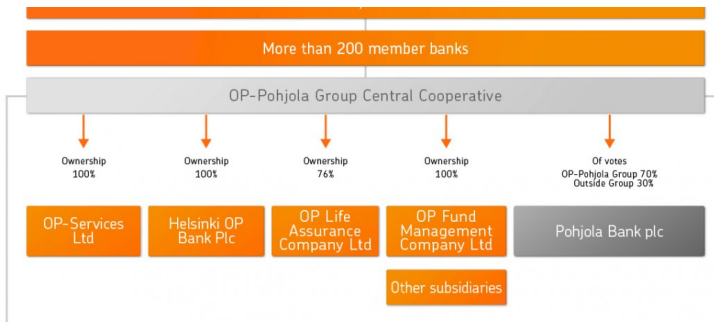
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## OP-Pohjola Group in brief

OP-Pohjola Group combines banking and non-life insurance business in a new, innovative way appreciated by customers. As Finland's largest financial services group, we offer the best loyal customer benefits. These are combined with the country's most comprehensive and versatile range of banking, investment and insurance services. The Group has three business segments: Banking and Investment Services, Life Insurance and Non-life Insurance.

The Group's operations are based on the cooperative principle – cooperation and sharing the fruits of success with everyone. OP-Pohjola's mission is to promote the sustainable prosperity, safety and wellbeing of its owner-members, customers and operating regions. Our long-term customer-centred approach also enables continuous renewal. We develop our services and products to meet our customers' needs.

### OP-Pohjola Group structure



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## **Cooperative banks**

A cooperative bank is owned by its customers. It is an independent, local deposit bank engaged in retail banking within its region. Its operations rest on a customer-oriented approach. The banks' cooperative structure gives each owner-member one equal vote. Thanks to this, member cooperative banks cannot be purchased and decision-making powers remain with the owner-members.

A cooperative bank seeks profitability by offering its customers high-quality, competitive services. Rather than focusing on short-term profits, such a bank aims at continuous success together with its customers. Operating profit is used for the benefit of owner-members: for the development of products, services and benefits.

# OP-Pohjola Group Central Cooperative

OP-Pohjola Group Central Cooperative is the central institution of the amalgamation of cooperative banks. It ensures that, in addition to financial prosperity, an array of customer needs are taken into account in decisions and their implementation. Its task is to supervise and steer the Group's business in line with the jointly agreed strategy. At the same time, it must ensure profitability, risk management and compliance with common rules and legal requirements. OP-Pohjola Group Central Cooperative also analyses the operating environment and gathers information on changes in the industry. It is in charge of the Group's corporate image, reputation, identity and brands.

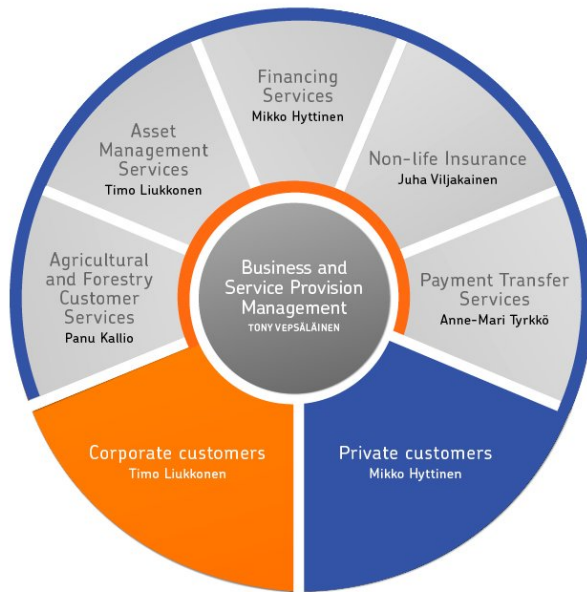


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### Related charts

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## Pohjola Bank Plc

Pohjola Bank plc is the most important subsidiary of OP-Pohjola Group Central Cooperative. Pohjola is a listed financial services group providing banking, non-life insurance and asset management services. For Finnish and global corporate customers, Pohjola Bank Group provides comprehensive finance, investment, cash management and non-life insurance services. For private customers, it offers non-life insurance and asset management services.

Acting as OP-Pohjola Group's central bank, Pohjola manages the Group's liquidity and international operations. Pohjola's A-shares are listed on NASDAQ OMX Helsinki. There are around 35,000 shareholders.

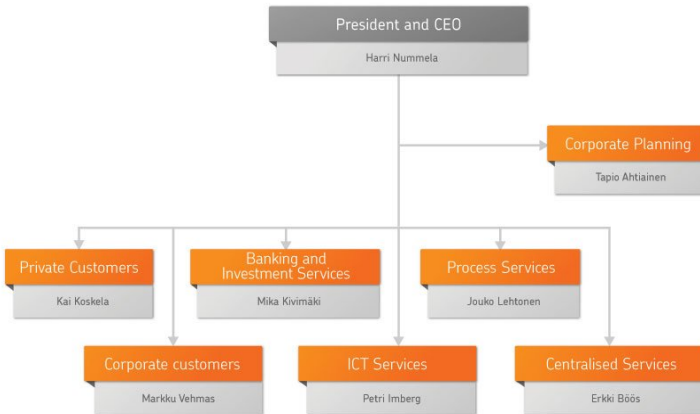
Pohjola Insurance Ltd is a subsidiary of Pohjola Bank plc. It engages in non-life insurance operations in Finland, offering comprehensive insurance cover for private, corporate and institutional customers. Pohjola Bank Group's non-life insurance operations comprise not only Pohjola Insurance, but also A-Insurance, Eurooppalainen, and the Seesam companies operating in the Baltic countries.

[Read more](#)

## OP-Services Ltd

OP-Services Ltd – a subsidiary wholly owned by OP-Pohjola Group Central Cooperative – develops and implements state-of-the-art solutions for the financial sector. It also ensures the performance and quality of such solutions. This services company is in charge of the development, production and maintenance of the Group's products and services. It provides Group companies with business development and ICT services, and services for business process management. For example, the company ensures that online and Contact Centre services perform well. It also sees to the smooth operation of banking and investment services, and the production of various materials.

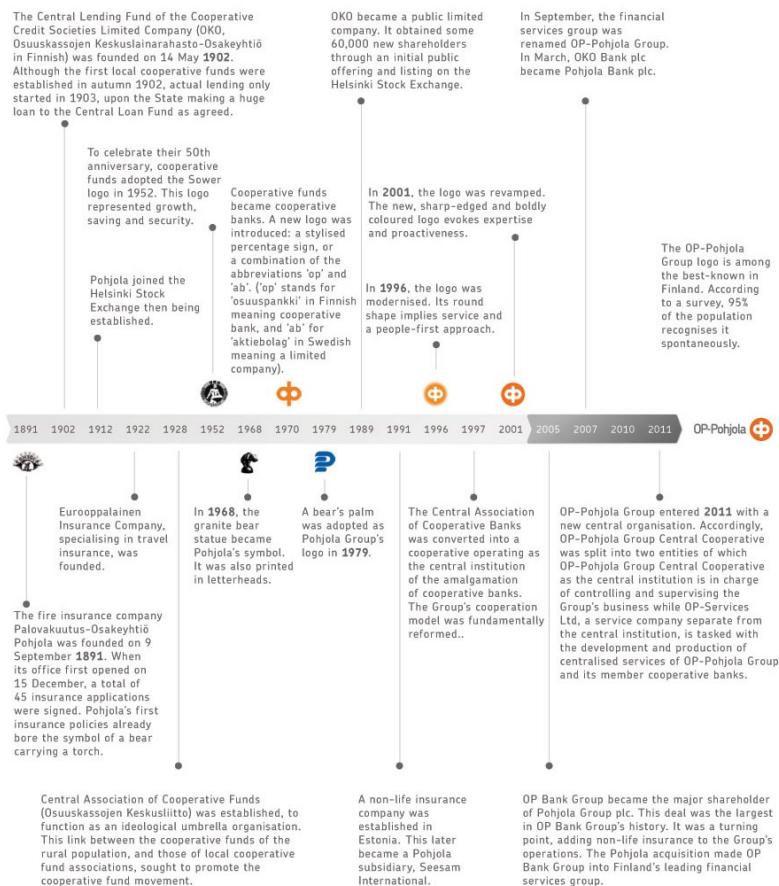
Management of OP-Services Ltd



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## Finnish success story



### Finnish success story

#### 1891

The fire insurance company Palovakuutus-Osakeyhtiö Pohjola was founded on 9 September 1891. When its office first opened on 15 December, a total of 45 insurance applications were signed. Pohjola's first insurance policies already bore the symbol of a bear carrying a torch.

#### 1902

The Central Lending Fund of the Cooperative Credit Societies Limited Company (OKO, Osuuskassojen Keskuslainarahasto-Osakeyhtiö in Finnish) was founded on 14 May 1902. Although the first local cooperative funds were established in autumn 1902, actual lending only started in 1903, upon the State making a huge loan to the Central Loan Fund as agreed.

#### 1912

Pohjola joined the Helsinki Stock Exchange then being established.

#### 1922

Eurooppalainen Insurance Company, specialising in travel insurance, was founded.

#### 1928

Central Association of Cooperative Funds (Osuuskassojen Keskusliitto) was established, to function as an ideological umbrella organisation. This link between the cooperative funds of the rural population, and those of local cooperative fund associations, sought to promote the cooperative fund movement.

#### 1952

To celebrate their 50th anniversary, cooperative funds adopted the Sower logo in 1952. This logo

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represented growth, saving and security.

#### **1968**

In 1968, the granite bear statue became Pohjola's symbol. It was also printed in letterheads.

#### **1970**

Cooperative funds became cooperative banks. A new logo was introduced: a stylised percentage sign, or a combination of the abbreviations 'op' and 'ab'. ('op' stands for 'osuuspankki' in Finnish meaning cooperative bank, and 'ab' for 'aktiebolag' in Swedish meaning a limited company).

#### **1979**

A bear's palm was adopted as Pohjola Group's logo in 1979.

#### **1989**

OKO became a public limited company. It obtained some 60,000 new shareholders through an initial public offering and listing on the Helsinki Stock Exchange.

#### **1991**

A non-life insurance company was established in Estonia. This later became a Pohjola subsidiary, Seesam International.

#### **1996**

In 1996, the logo was modernised. Its round shape implies service and a people-first approach.

#### **1997**

The Central Association of Cooperative Banks was converted into a cooperative operating as the central institution of the amalgamation of cooperative banks. The Group's cooperation model was fundamentally reformed.

#### **2001**

In 2001, the logo was revamped. The new, sharp-edged and boldly coloured logo evokes expertise and proactiveness.

#### **2005**

OP Bank Group became the major shareholder of Pohjola Group plc. This deal was the largest in OP Bank Group's history. It was a turning point, adding non-life insurance to the Group's operations. The Pohjola acquisition made OP Bank Group into Finland's leading financial services group.

#### **2007**

In September, the financial services group was renamed OP-Pohjola Group. In March, OKO Bank plc became Pohjola Bank plc. The OP-Pohjola Group logo is among the best-known in Finland. According to a survey, 95% of the population recognises it spontaneously.

#### **2011**

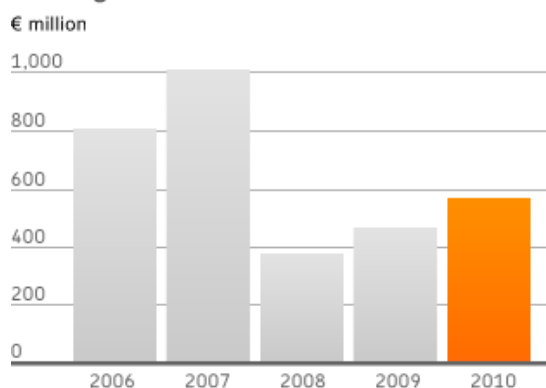
OP-Pohjola Group entered 2011 with a new central organisation. Accordingly, OP-Pohjola Group Central Cooperative was split into two entities of which OP-Pohjola Group Central Cooperative as the central institution is in charge of controlling and supervising the Group's business while OP-Services Ltd, a service company separate from the central institution, is tasked with the development and production of centralised services of OP-Pohjola Group and its member cooperative banks.

## Year 2010

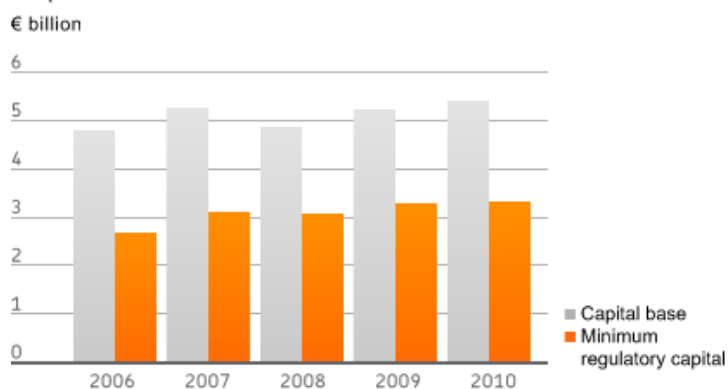
- The Group's performance was enjoying robust growth: earnings before tax grew by 24% to EUR 575 million. Last-quarter earning doubled year on year.
- Income increased by 6%. Net interest income bottomed out and began to grow again in the fourth quarter. Growth of 28.1% by Other income was very strong. Expenses increased by 3%.
- Impairments of receivables contracted by 17% to EUR 149 million.
- 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 clearly 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%. 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 to exceed those of 2010, with the greatest uncertainty related to developments in international investment and financial markets.

### Related graphs

#### Earnings before tax



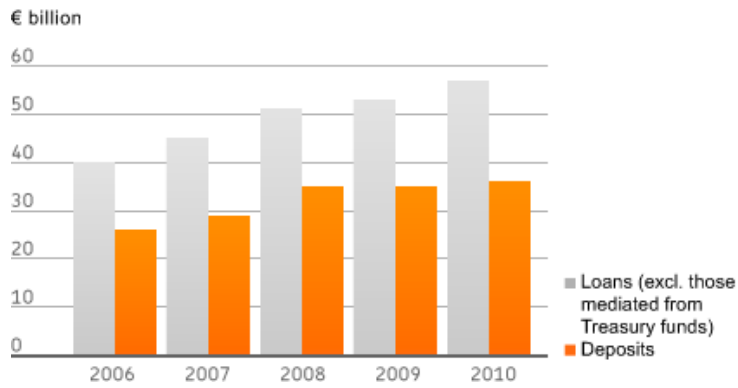
#### Capital base



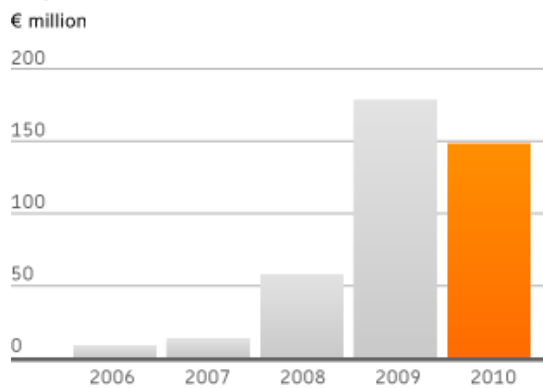
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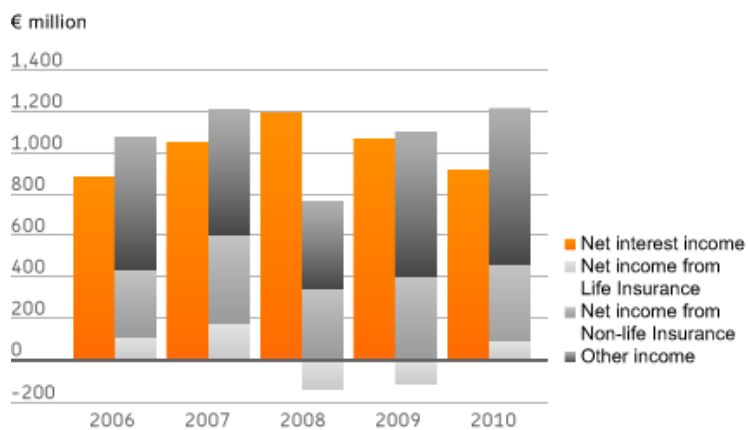
## Loans and deposits



## Impairments of receivables



## Net interest income and other income

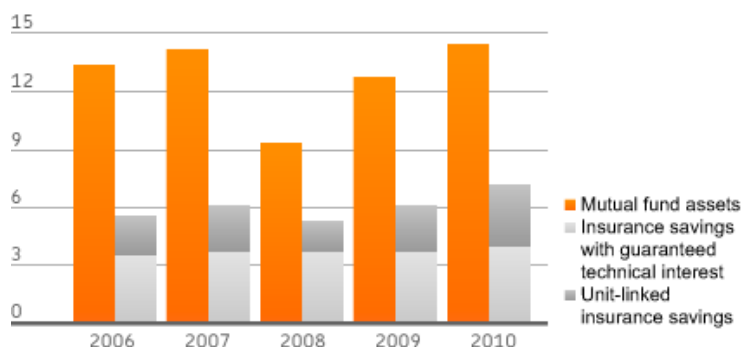


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## Life Insurance's insurance savings and capital invested in mutual funds

€ billion



### OP-Pohjola Group's key indicators

	1-12/2010	1-12/2009	Change
Earnings before tax, € million <sup>2</sup>	575	464	24.0
Banking and Investment Services	367	471	-22.0
Non-life Insurance	83	102	-19.4
Life Insurance	43	-159	
Bonuses paid to customers, € million <sup>2</sup>	151	142	6.3
Return on equity (ROE), % <sup>1</sup>	6.8	5.9	0.9
Return on equity at fair value: % <sup>1</sup>	9.4	14.7	-5.3
Cost/income, % (Banking and Investment Services) <sup>1</sup>	57	53	4.4
Average personnel <sup>2</sup>	12,468	12,632	-1.3

	31 Dec 2010	31 Dec 2009	Change
Total assets, € billion <sup>2</sup>	84.0	80.4	4.4
Capital adequacy, % <sup>1</sup>	12.8	12.6	0.2
Tier 1 ratio, % <sup>1</sup>	12.8	12.6	0.2
Ratio of capital base to minimum amount of capital base <sup>3</sup>	1.70	1.58	0.12
Non-performing loan losses within loan and guarantee portfolio, % <sup>1</sup>	0.3	0.4	-0.1
Market share, % <sup>1</sup>			
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

	1-12/2010	1-12/2009	Change
Of premiums written in life and pension insurance, %	38.6	25.2	13.4

Change

<sup>1</sup> Percentage points

<sup>2</sup> Per cent

<sup>3</sup> Change in ratio

Earnings before tax increased by 24% to EUR 575 million. 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, but it was still the Group's second-highest figure of all times.

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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. OP-Pohjola Group's non-life insurance pre-tax earnings contracted to EUR 83 million 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. Life Insurance earnings increased, even after higher future supplementary benefits, by over EUR 200 million to EUR 43 million. Net investment income by Life Insurance stood at 9.5%.

The Group's net interest income declined by 14% to EUR 917 million. Other income continued to increase substantially, reaching EUR 1,256 million, 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, were 14% higher than last year owing mainly to higher asset management and payment transfer fees.

## Executive Chairman's Review



### Dear friends of OP-Pohjola Group,

Once again, a year full of surprises is behind us. However, there are lessons to learn from 2010. I would like to express some views on the year gone by and our future plans.

In economic terms, 2010 proved much better than most dared to hope during its early months. The world economy grew strongly and improving export markets helped the Finnish economy take off. The going was nevertheless uneven: sentiments during the year varied sharply, from scepticism to huge optimism.

The financial sector made the headlines throughout the year. This discussion was dominated by the extensive regulatory reform package under planning, stress tests and investment in government bonds. Late in the year, the contents of the regulatory framework moved in a positive direction, with the threat of overregulation receding. The financial crisis demonstrated the need for new regulation, and OP-Pohjola is prepared for this.

External factors and unexpected developments, sometimes of major proportions, have more influence on our business than in the past. What can we do to prepare ourselves for such changes? Our best protection is afforded by the excellent shape we are in. We can respond to external blows, based on thanks to our robust capital adequacy, solid profit performance and strong competences. The year 2010 proved, once again, that a company with solid foundations can succeed, even in the midst of challenging and surprising conditions.

### 2010 a watershed

Brighter economic horizons were reflected in our own operations. The first half's slight uncertainty gave way to brighter prospects as the year wore on, with a clear final sprint at the end of 2010. In the end, our profit performance clearly exceeded expectations.

Implementing our strategy in 2010 required a balancing act: how to secure sufficient long-term profitability while generating above-market growth. The fierce price competition ravaging our main business areas was short-sighted and unhealthy.

Forthcoming regulatory changes will require a substantial increase in additional buffers. This would have needed higher prices than those prevailing in the markets last year. In the face of such competition, we sought a balance which enabled a healthy profit performance, but also hampered our growth efforts. Under such circumstances, our result can be considered excellent. We also retained our strong market position.

The implications of 2010 will extend into the future. The Group's structure underwent major reforms, with the establishment of several new and stronger cooperative bank entities. The Group's central institution was entirely restructured. Indeed, 2010 will be marked in our history as a year of major reorganisations.



**Reijo Karhinen**  
Executive Chairman,  
OP-Pohjola Group

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### **An accelerating pace**

During the year, we clarified our roles, while reinforcing our operational capacity and agility in responding to customers' new and changing expectations. These reforms, together with our strong capital adequacy, create a solid foundation on which to build the future. We intend to continue as a strong, purely Finnish player.

With our main building blocks in place, I remain confident about 2011, although the prospects again look ambivalent. While forecasts predict strong economic growth, both globally and for Finland, we must be prepared for surprises. The challenges, whether in the Euro area or Finland, must be taken seriously.

Stabilising our business environment requires a long-term approach from policy makers. Bold, large-scale decisions are now required, with long-term impacts both in Finland and at European level. This would be to everyone's benefit.

I firmly believe that the quickening pace of the Finnish economy, the financial sector and our Group, in late 2010, will continue and accelerate further.

Alongside the establishment of long-term foundations, 2010 reinforced the deep sense of solidarity within our Group. For both us and our customers, our orange logo has become an even more potent symbol of a strong Group. I would like to thank everyone involved in reinforcing our logo's attractiveness.

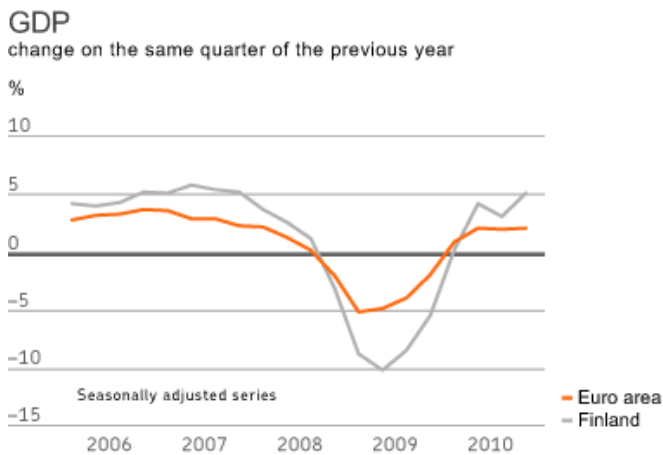
## Operating Environment

With the world economy recovering well, the Finnish economy developed better than expected. However, uncertainty prevails despite the positive outlook. Continuous change in the operating environment poses a challenge to the financial sector.

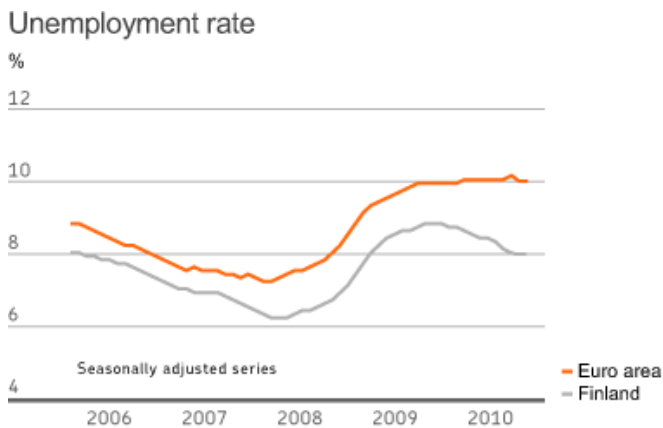
In 2010, after the deep recession of the previous year, the world economy grew rapidly. However, the pace slowed as the year progressed. Between various countries, economic development varied exceptionally. While the 2011 economic outlook is reasonably positive, uncertainty prevails.

### Finnish economy recovers steadily

The Finnish economy clearly turned around in 2010. The plunge in GDP of 2009 did not affect the economy as much as feared. Unemployment began to fall as early as the first half of 2010. After a brief rise, the number of bankruptcies reduced markedly. In 2011, the Finnish economy will continue to recover at a relatively brisk pace. In spite of this, uncertainty will continue to overshadow the economic outlook, due to threats within the global economy and national, long-term challenges.



Sources: Eurostat, Statistics Finland



Source: Eurostat

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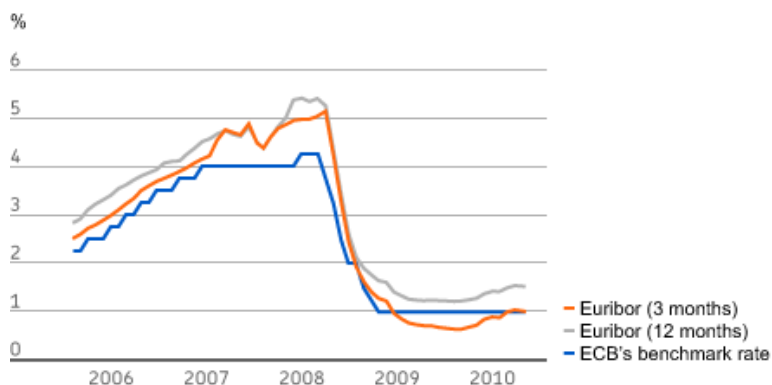
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## Interest rate rises still slow

Euribor interest rates turned gently upwards, as the financial market began to normalise. Euribor rates are likely to continue their slow rise in 2011.

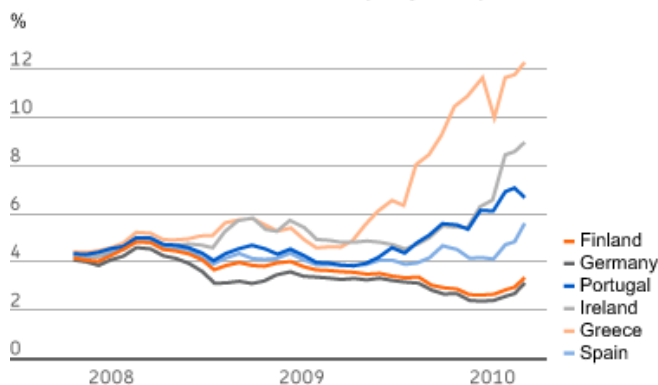
Difficulties in Euro countries afflicted by public debt increased uncertainty in the financial market. Finland's relatively sound fiscal health kept interest rates on state loans low. In other respects too, the crisis had only a minor impact on interest rates in Finland in 2010.

### Euribor rates and ECB's benchmark rate



Source: Bank of Finland

### Interest rates of State loans (10 years)



Source: Reuters

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## **Economic recovery fostering financial market growth**

The economic recovery provided a fillip to the Finnish financial market in 2010. Capital market development was nevertheless characterised by instability and greater uncertainty. The stock market continued its solid recovery, but at a slower rate than last year. Capital invested in mutual funds registered in Finland continued to grow strongly. As in the previous year, the recovery in the capital market increased insurance savings.

Banks' loans and deposits revived slightly in 2010. Corporate loan portfolios began to increase at the beginning of the year, as the economic recovery increased companies' need for working capital. A gradual recovery in corporate investments is expected to further boost the growth of corporate loans in 2011. The growth of household loans also increased slightly during 2010. Growth is expected to remain steady in 2011, underpinned by low market interest rates, improving employment and brisk housing sales.

The robust profitability of non-life insurance weakened during 2010, due to exceptional weather conditions. Since premiums written in the corporate segment contracted, total growth in premiums written remained modest. During the current year, claims paid are expected to rise faster than premiums written.

[Read more about the operating environment](#)

## 2010 Highlights

- OP-Pohjola's private banking services were ranked Finland's best, in a survey by the financial sector magazine Euromoney.
- The Group published a markedly better profit performance than in 2009. In difficult economic conditions, the Group reinforced its market position, particularly as a corporate bank.
- OP-Pohjola Group Central Cooperative and Pohjola Bank plc held their Annual General Meetings on 26 March 2010 in Helsinki. Issues that were discussed included stricter regulation and sector competition.
- Due to mergers, the number of member banks continued to reduce. The Savo region saw several firms join forces: in January, Nilsiän Osuuspankki merged with Koillis-Savon Osuuspankki. Later, new heavyweights were established in the form of Pohjois-Savon Osuuspankki and Suur-Savon Osuuspankki.
- During the first quarter, Pohjola Insurance Ltd became the largest insurer, including in terms of private customers. This was largely due to insurance sales conducted by cooperative banks.
- In April, the Group's banks introduced a new product, OP Saving-for-retirement. This contains a full range of investment options as permitted by the Act on bound long-term savings.
- A decision was taken to stop using Pohjola's blue logo, the bear's paw, by the end of 2010. Using one logo only will underline the Group's unique service package.
- The Finnish Act on payment services, founded on the EU's Payment Services Directive, entered into force at the beginning of May. This Act governs all credit transfers, direct debit and card payments.
- In May, OP-Pohjola announced its donations to Finnish universities. These totalled more than three million euros, forming part of the Group's national and regional CSR efforts.
- Online services security was enhanced in May, with several new security mechanisms. One of these was further payment confirmation using text messages.
- In June, the Supervisory Board of OP-Pohjola Group Central Cooperative took a decision in principle to reorganise the Central Cooperative acting as the Group's central institution. Consequently, one organisation became two: OP-Pohjola Group Central Cooperative and a new service company OP-Services Ltd. The duties and responsibilities of Executive Board members were also changed.
- As expected, OP-Pohjola Group received a clean bill of health from the stress test conducted by the Committee of the European Banking Supervisors (CEBS).
- SEPA, the Single Euro Payment Area, was under construction throughout the year. Major system changes were implemented as October gave way to November.
- The international financial magazine The Banker chose OP-Pohjola as Bank of the Year in Finland. This recognition is accorded to the bank showing the highest growth and profit performance in its country. The Group received this honour for the sixth time.

## Growth at the core of our strategy

OP-Pohjola's operations are based on the cooperative principle. This principle also serves as a starting point for its strategic goals and is visible in the Group's core values: a people-first approach, responsibility and prospering together.

OP-Pohjola's mission is to promote the sustainable prosperity, safety and wellbeing of owner-members, customers and operating regions. Its vision is to be Finland's leading financial services group in terms of market share, corporate image, competence and responsibility.

### Strategy in a nutshell



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## Core values are spot-on

OP-Pohjola's core values crystallise its key principles and practices, on which the Group's operations and decisions are based. These core values complement the Group's mission in creating a competitive edge.

### People-first approach

OP-Pohjola is for people. A genuine concern for people – both customers and co-workers – is the basis of our operations. We are easy and agreeable to approach. Each person is treated as a dignified and equal individual. Human respect is visible in all of our operations.

### Responsibility

We operate locally, regionally and nationally as an exemplary and ethically responsible company. We build long-term customer relationships based on mutual trust. Bolstered by our strong professional skills, we bear responsibility for the high quality, expertise and reliability of our services.

### Prospering together

Prospering together with our customers: this idea both points the way and sets the pace for the development of our operations and services. Operating as a unified group gives our customers greater security and improves our service capabilities. The winning spirit, shared by our administration and employees, creates continuous success – the basis of our strong reputation.

### Achieving things together is the cornerstone of the cooperative principle

Achieving things together is the cornerstone of the cooperative principle. The strategy of OP-Pohjola, a cooperative group, emphasises the following:



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## Strategic goals for attaining our vision

OP-Pohjola's strategic goals emphasise long-term efforts for the benefit of customers in accordance with the cooperative principle. They also underline the Group's strong desire to develop.

### Faster growth

than the sector average requires continuous renewal and customer service development. Such growth will be realised in a controlled manner by creating comprehensive long-term customer relationships. Growth priorities include corporate banking, asset management and private customers' non-life insurance. In regional terms, growth is sought from the Helsinki Metropolitan Area.

### Moderate risk-taking

signifies that, in growing its business, the Group will safeguard the continuity and profitability of its operations and continuously enhance their efficiency. A strong capital base, balanced business portfolio and strict risk management ensure that the Group can withstand even long-term disruptions in the global economy and market environment.

### A strong capital base

provides security and enables the development of business operations even in challenging conditions. Sufficient capital buffers are proving critical in a post-financial-crisis world characterised by markedly intensified regulation, and in which confidence is under continuous scrutiny.

### Efficiency

rivalling that of our main competitors is imperative to profitable growth. Finland's financial sector market is highly competitive. As well as a broad-based, up-to-date product and service range, competitive prices are a prerequisite for success in such a market. Securing the sufficient profitability and loyal customer benefits outlined in our customer promise will require continuous operational improvements without compromising service quality.

### Sufficient profitability

is the cornerstone of cooperative operations. OP-Pohjola aims to provide high-quality financial services at competitive prices. The Group is satisfied with a profitability level which can secure the capital adequacy required for business continuity, investment in product and service development and the sector's best loyalty benefits.

### The Group's long-term financial targets

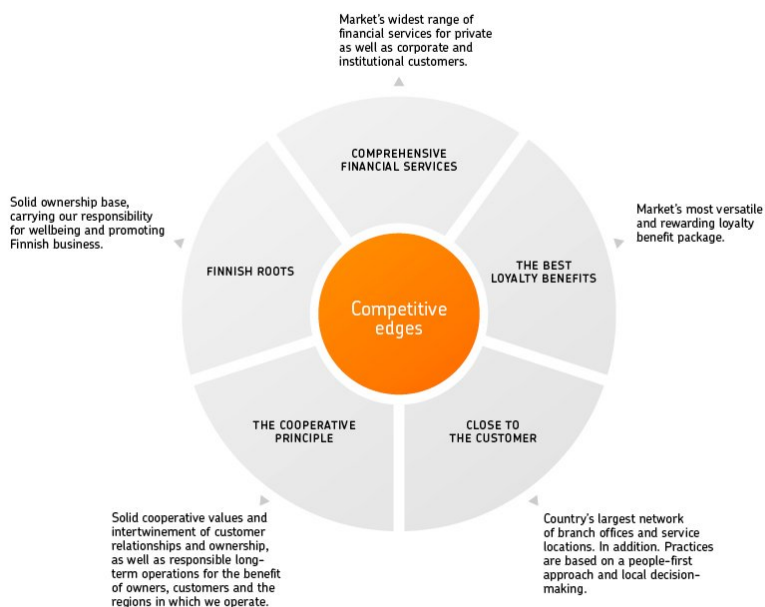
	Target	Out-turn 12/2010	Out-turn 12/2009
Capital adequacy ratio (under the Act on the Supervision of Financial and Insurance Conglomerates)	1.50	1.70	1.58
Return on economic capital, %	17	14.4	12.7
Growth differential between income and expenses, percentage points	> 0	2.9	11.7

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## Unbeatable customer promise: the best loyalty benefits

The strategy is implemented through five unique competitive edges



### Comprehensive financial services

We offer the market's widest range of financial services for private as well as corporate and institutional customers. Our range covers everything customers expect from both their bank and life and non-life insurance provider. Purchasing and using our services has been made as simple and easy as possible.

### The best loyalty benefits

Those concentrating service use with the Group are rewarded with the market's best loyalty benefits. According to surveys, not only the Group's but also competitors' customers consider OP-Pohjola's loyalty benefits the best in the sector. Our loyalty benefits mean financial savings – such as customer bonuses or discounts – as well as gains in service quality and usability: in other words, better customer loyalty benefits of every kind.

### Close to the customer

We have the country's largest network of branch offices and service locations. In addition, we have extensive online services. Our practices are based on a people-first approach and local decision-making.

### The cooperative principle

Achieving things together is the cornerstone of the cooperative principle. The strategy of OP-Pohjola, a cooperative group, emphasises the following:

- local presence
- people-first approach
- responsibility
- entrepreneurship
- customer-orientation
- openness

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### **Finnish roots**

As a financial group with Finnish ownership, developing its services to meet the needs of the Finnish market, OP-Pohjola wishes to promote Finnish well-being and prosperity among the nation's businesses.

## Growth-seeking strategy drives competition

In 2005, OP-Pohjola integrated banking and non-life insurance operations in a new way. The financial group model has proven effective over the last five years, with OP-Pohjola becoming the country's largest bank and non-life insurer. The number of customers using both banking and insurance services has increased by 65%.

During the financial crisis, OP-Pohjola's performance proved it a strong group enjoying high solvency. The Group's market share grew intensely, while European stress tests ranked it was among the top 10 most resilient banks.

The Banker, an international financial magazine, has deemed OP-Pohjola the best Finnish bank six times out of the last eight years – a further sign of our success.

By seeking growth and development, OP-Pohjola helps to stoke up brisk competition and innovation in the Finnish financial sector.



## Future challenges

- Together with citizens, businesses and the authorities, OP-Pohjola wants to help develop the Finnish success story and wellbeing. It continuously seeks new and innovative solutions to society's future challenges.
- We aim to be the pioneer in the financial sector – particularly with respect to customer experience, integrated service and corporate responsibility.
- OP-Pohjola also views the maintenance and development of a well-functioning Finnish financing and payment transfer system, and insurance sector, as part of its responsibilities.
- OP-Pohjola seeks to be a forerunner in employee wellbeing, playing its part in extending working lives.
- The Group is also largely responsible for maintaining and enhancing specialist competencies within Finland's financial sector.

## OP-Pohjola has strong risk-bearing capacity

OP-Pohjola Group has solid risk-bearing capacity and capital adequacy. At the end of 2010, capital adequacy was markedly higher than the minimum legal requirements. Capital base also clearly exceeded economic capital (the Group's own calculated estimate of the amount of capital needed to cover business risks).

In European terms, the Group's risk-bearing capacity is exceptionally solid, as is its capital adequacy. Indeed, in the stress test of European banks, coordinated by the Committee of European Banking Supervisors (CEBS) in the summer of 2010, OP-Pohjola Group was deemed one of the most resilient institutions.

### High-quality risk management part of the strategy

Risk management is aimed at securing the Group's risk-bearing capacity and ensuring continuity of operations. Risk management is based on the risk management policies defined in OP-Pohjola Group's strategy. According to the strategy, confirmed by the Supervisory Board, the Group has a moderate attitude towards risk-taking. This policy is implemented based on high-quality risk management and prudent risk-taking.

Internal control ensures that the Group's targets and objectives are reached and that resources are used economically and efficiently. Internal control includes good corporate governance and long-term capital adequacy management. Compliance with good corporate governance principles ensures that entities are professionally managed, under sound and prudent business principles. The essence of capital adequacy management lies in the systematic identification of risks and assessing their importance.



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## A large financial services group faces varied risks

In the ever-changing operating environment, a financial services group offering banking, investment and insurance services must face a wide variety of risks. OP-Pohjola's major business risks, and key measures for managing them, include the following:

OP-Pohjola Group's major risks

Key risk-management measures applied

### 1. Liquidity risk

A liquidity risk arises when receivables and liabilities have different durations. In banking, long-term lending is typically financed with shorter-maturity funding. Liquidity risk occurs also if liabilities and/or receivables are highly concentrated in terms of the counterparties, instruments or market segments involved. This type of concentration can endanger a company's liquidity.

Liquidity is managed through proactive planning of the finance structure and using risk indicators, control limits and other monitoring indicators. Important measures also include close monitoring of the liquidity situation, a well-sized liquidity reserve and daily liquidity planning and management.

### 2. Credit risk from banking and investment operations

A credit risk arises when customers cannot meet their agreed obligations and the obtained collateral cannot cover the related receivables.

Credit risk is managed through customer selection, collaterals, special lending terms and avoidance of risk concentration.

### 3. Interest rate risk in retail banking

Interest rate risk in retail banking refers to fluctuation in a bank's earnings and profitability, caused by changes in interest rates.

Retail banks primarily manage interest rate risk through a well-judged range of borrowing and lending products, and the related terms and conditions. Derivatives too can serve as a means of protection.

### 4. Credit and market risks due to investments by insurance and pension organisations

Market risk from investments involves an interest rate risk, currency risk, equity risk, volatility risk, commodity risk or some other price risk. For an investor, market risk can mean a loss due to unfavourable changes in the market price or its volatility. Credit risk from investments means that the company which issued the investment instrument (e.g. a bond) cannot meet its obligations.

Market risk from investments by insurance and pension organisations is managed by sufficiently diversifying the investment portfolio. In this way, investments with diverse risk levels are included. Such diversification is realised through purchasing, selling and derivatives. Credit risk from investments is managed through investment plans and careful selection of investments.

### 5. Underwriting risks in insurance operations and interest rate risk from insurance contract liabilities

Underwriting risk lies in the fact that insurance policies are priced based on the criteria valid at the time of issue; claims, on the other hand, have to be paid in line with whatever loss or damage occurs at any given time.

Underwriting risk is managed using an appropriate product approval process, price limits and defined underwriting practices.

Interest rate risk from insurance contract liabilities arises in non-life and life insurance operations, when interest-rate changes affect the returns and value of cash flows covering these liabilities.

Interest risk from insurance contract liabilities can be managed using derivatives, or by offering the customer the opportunity to change current policies into unit-linked ones.

### 6. Operational risks

Operational risk relates to the possibility of ineffective or erroneous practices, systems or external factors causing financial losses or other harm. Operational risk also includes compliance risk, arising from nonconformance with external regulations, internal practices or ethical principles.

Operational risks are managed by their identification and assessment. Thereafter, steps are taken to ensure that control and management measures are effective and sufficient. The aim is not necessarily to eliminate the risk, but to manage it so as to make the risk level acceptable.



## Continuing instability in the operating environment

In many developed countries, the outlook for economic growth is overshadowed by concerns about excessive public finance deficits and uncertainty over the realisation of structural economic reforms. The financial markets are more jittery about the future than usual. Since the financial crisis, reactions to both news and rumours have been more volatile. Although the financial markets are seeking a new 'normal', any such stability will clearly be more precarious than prior to the crisis. Stronger interdependence between various submarkets and players is another characteristic of the current situation.

The ongoing legislative and regulatory transition is also contributing to the operating environment's uncertainty. During 2012–2019, financial sector regulation will be escalated and tightened through a tranche number of major reforms. However, the precise content of such reforms will only come to light gradually. For financial institutions, the key changes of the Basel III reform will impose more stringent capital adequacy requirements. They will also limit banks' indebtedness and increase the regulation of financial risk exposure. In turn, insurance companies will be affected by the new Solvency II reform, which will markedly change their solvency calculations.

## Preparing for the future with robust risk management

Greater uncertainty over developments in the operating environment, deeper financial market interdependence and an accelerating rate of change! These all serve to underline the role of risk management in OP-Pohjola's stewardship of its business activities. Risk management also plays a crucial role in preparing for reforms in financial sector regulation, and adjusting to them.

Capital adequacy is primarily maintained through good profitability. The amount of capital needed to cover business risks is estimated by the calculation of economic capital. Stress tests represent one method used to assess profit and capital adequacy performance and the sufficiency of capital. Such tests evaluate how exceptionally serious situations might affect the Group's operations. Long-term capital needs are estimated in a capital plan drawn up as part of the strategy. This capital plan includes capitalisation targets and a backup plan for reinforcing capital adequacy, if required.

OP-Pohjola is confident about the future. This confidence is based on robust risk management. Risk management consolidates the resilience of risk-bearing capacity. It also safeguards continuity of operations by steering business towards prudent risk-taking and the sound management of any risks encountered.



[Capital adequacy](#)

[Management of risks and solvency, and risk position](#)

[OP-Pohjola Group's risk and capital adequacy management principles](#)

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## Brand

A unique package of handy banking and insurance services that genuinely help corporate customers to do business – this forms the core of OP-Pohjola Group's brand.

In 2010, plans were made to stop using the blue Pohjola logo. This blue logo has featured alongside the OP logo, in places such as cooperative bank shop-fronts, sports sponsorship, as well as marketing communications related to home and family non-life insurance. Our plan to phase out the logo during 2011 is progressing on schedule.



A large and consistent Group, bringing brands together and communicating an image of the Group's overall responsibility.



A local bank owned by its customers, rewarding the loyalty of owner-members with OP bonuses.



Pohjola brings special expertise and international competence to the Group, while contributing to its image of safety and well-being.

### OP-Pohjola Group's sub-brands include:

- OP-Kiinteistökeskus, provider of property brokerage
- A-Insurance, the Group's insurer of commercial transport
- Eurooppalainen, specialising in travel insurance
- Seesam in the Baltic countries, a provider of non-life insurance for private and corporate customers

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## Short glossary of financial terms

### Asset allocation

Allocation means allocating investment assets between various asset classes before the selection of investment instruments. In many cases, allocation refers to making a choice between fixed-income securities and equity instruments although the concept of allocation may also be extended to cover, for example, property and commodity investments. We can further deepen allocation within equity investments by industry or country.

### Asset management

Asset management refers to contractual management of a customer's funds. Users of this service range from households to institutions conducting major investments. A key element of this service is mutual fund portfolio management.

### Balance on technical account

The balance on technical account is calculated by deducting claims incurred, operating expenses and amortisation on intangible assets from insurance premium revenue.

### Bond

For companies, bonds represent one way of receiving funding from the market. Bond issuers include governments, municipalities, companies, insurance companies or financial institutions. The bases for income determination for bonds to be issued are defined in the terms and conditions of each individual bond. The issue price and any subscription fee charged may also have an effect on the return.

### Business cycle

A business cycle (a.k.a. an economic cycle) depicts the utilisation rate of resources, labour and capital in an economy in any given time. Business cycles undergo the following four stages: upswing, boom, downswing and recession. A downswing may refer to a period of slow economic growth. A recession refers to a period during which GDP declines for at least two consecutive quarters and a prolonged recession that may last for years is called an economic slump (depression).

Economic fluctuations are often measured using the growth rate of real gross domestic product, but fluctuations of unemployment and job vacancies serve as a simpler indicator from the perspective of consumers. Monetary and fiscal policy measures are generally used to dampen the worst excesses of cycles.

### Capital adequacy

Capital adequacy refers to a company's financial strength in the long term and its measurement varies by industry.

Broadly speaking, a manufacturing company's capital adequacy ratio (equity ratio) is its equity capital to its total capital, a bank's capital adequacy ratio is the ratio of its total capital base to its risk-weighted assets and an insurer's capital adequacy (solvency) is the ratio of its total capital base to its provisions for claims outstanding, or technical provisions.

Within the banking and insurance business, the regulatory framework governing the capital base/solvency capital and liabilities is being specified on an ongoing basis to be in line with market changes, and the related regulations have undergone changes at intervals of a few years. The Basel Process (banks) or solvency (insurance companies) is the term when referring to changes in the regulatory framework.

In the banking and insurance sector, specific laws and requirements issued by relevant authorities set the minimum requirement for capital adequacy ratios.

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

The capital adequacy ratio under the Act on the Supervision of Financial and Insurance Conglomerates is calculated by dividing the total capital of a conglomerate by its minimum capital requirement.

### Capital redemption contract

Intended for medium and long-term funding of companies and institutions, a capital redemption contract refers to a fixed-term investment based on a single premium and excluding life insurance cover.

### Combined ratio

See Operating combined ratio, % below

### Core Tier 1 ratio, %

Capital adequacy ratio in the banking sector. Excluding hybrid capital, it comprises Tier 1 capital divided by risk-weighted assets. Cf. Tier 1 ratio, % below

### Corporate and investment banking

Corporate banking provides solutions for companies' and institutions' financing and financial management needs. It covers not only credit granted to companies, but also payment transfer and cash management services. The core of investment banking lies in securities brokerage and investment research.

### **Debenture loan**

Debenture loans are bonds subordinated to the issuer's other commitments in the event of the issuer's bankruptcy. Because of the higher risk involved, debenture loans generally earn higher interest than other bonds.

Convertible bonds are bonds whose holder has the right to convert them into shares of stock in the issuing company at a pre-agreed ratio. The coupon rate is usually lower than the issuer's credit spread prevailing on the market.

### **Deposit guarantee (deposit insurance)**

Deposit insurance, or deposit guarantee as it is called in Finland, protects a customer's funds in his account with a deposit bank. In case of the bank's insolvency, the Deposit Guarantee Fund reimburses a maximum of 100,000 euros to an individual account holder and on a bank-specific basis. If the account holder's deposits exceed 100,000 euros, the excess remains outside the scope of this guarantee. The deposit guarantee scheme benefits not only account holders but also the entire financial system, because it helps maintain market confidence in difficult market conditions.

### **Equity warrant bond**

Equity warrant bonds, or bonds with equity warrant, represent debt securities that incorporate warrants which provide their holders with the option to purchase the issuer's equity at a fixed contract price during a predetermined period. Warrants may be traded separately from the debt security in the secondary market. As with convertible bonds, the required return of equity warrant bonds is also lower than that of ordinary bonds, because an investor may benefit from a potential increase in share prices.

### **Euribor**

The Euribor (Euro Interbank Offered Rate) is a daily reference rate based on the average interest rates at which banks offer to lend unsecured funds to other banks in the euro wholesale money market. They are quoted on each banking day for the period of 1, 3, 6, 9 and 12 months. The Euribor describes broadly the average price for money market funding. Banks usually quote the cost of deposits and loans with a variable interest rate in terms of a Euribor +/- a bank margin. The margin is the bank's mark-up.

### **Expense ratio**

See Operating expense ratio below

### **GDP (gross domestic product)**

GDP is the market value of all final goods and services produced within a country in a given period of time. Economists monitor changes in real GDP (adjusted for inflation). GDP can also be described as a sum of consumption, investment, government spending and net exports.

### **Hybrid capital**

Hybrid capital is a form of debt with both equity and debt features, in which investor risk is higher than that of an ordinary debt because of restrictions on capital repayment and interest payment. The Finnish Limited Liability Companies Act defines the minimum terms and conditions governing hybrid instruments. In the event of a company's dissolution or bankruptcy, the principal, interest or other dividend payable are subordinated to the claims of creditors. The principal may be repaid only if the restricted equity and other undistributable reserves in the previously adopted balance sheet of a company and, in the case of a parent company, its consolidation group are fully coverable.

### **IBAN**

IBAN (International Bank Account Number) is an international standard for identifying bank accounts across national borders. It consists of a country code followed by check digits and the former domestic BBAN (Basic Bank Account Number). Account holders may check their IBAN via their online bank, for example. The introduction of the IBAN has coincided with the creation of the Single Euro Payments Area (SEPA). The aim of the SEPA is that all payments into bank accounts can be made in the same way within the area as previously made only under national systems.

### **Impairment losses (loan losses)**

Banks and insurers may need to recognise impairment losses due to impaired loans/receivables and assets. For banks, impairments on receivables chiefly mean loan losses, i.e. debtors are unable to repay their loans.

### **Index-linked bond**

Index-linked bonds are bonds whose return is linked to the price performance of an underlying index. These products are also often called structured products.

A capital-guaranteed index-linked bond means that when the bond arrives at maturity, its investor will regain the initial capital, irrespective of the price performance of the underlying index. If the investor sells the bond before its maturity date, he may incur capital losses. However, sometimes an investment product aims at a higher return under the terms and conditions in such a way that the risk of loss of the capital invested is higher.

All bonds involve a risk associated with the issuer's repayment capacity, i.e. the risk of the issuer's insolvency and inability to fulfil its payment obligations.

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### **Inflation**

Inflation is defined as an increase in the general price level. It is generally measured using the Consumer Price Index (CPI) which depicts increases in prices for goods and services purchased in a country by households residing in that country. For the calculation of the CPI, the prices of items are weighted based on their proportion of spending patterns.

### **Joint responsibility**

Joint responsibility within OP-Pohjola Group is based on the Act on the amalgamation of deposit banks (Laki talletuspankkien yhteenliittymästä) according to which OP-Pohjola Group Central Cooperative, the Group's central institution, and its member credit institutions are ultimately liable for each other's debts and commitments. This joint responsibility applies to OP-Pohjola Group Central Cooperative, OP-Pohjola Group member cooperative banks, Pohjola Bank plc, Helsinki OP Bank Plc, OP Mortgage Bank and OP-Kotipankki Oyj. Other OP-Pohjola Group companies, such as insurance companies, do not fall within the scope of joint responsibility.

### **Life insurance**

Life insurance covers the risk of the insured person's death and is usually taken out to secure the livelihood of the insured's next of kin. Life insurance also comprises a voluntary supplementary pension, improving the earnings-related pension, as well as endowment insurance. Some life insurance products enjoy special tax treatment.

### **Liquidity buffer**

Banks maintain liquidity buffers to secure their liquidity. If necessary, it is also possible to use the liquidity buffer to cover maturing wholesale funding. The liquidity buffer of Pohjola and OP-Pohjola Group comprises the liquidity portfolio maintained by Pohjola and items within OP-Pohjola Group's balance sheet eligible as collateral for central bank refinancing.

### **Loan loss**

See Impairment losses above

### **Long-term pension savings account, long-term pension savings scheme**

A long-term pension savings account is connected with bound long-term savings governed by a specific Act that came into force in 2010. As provided by this Act, bound long-term savings schemes are also covered by the same, familiar tax treatment as applied to voluntary personal pension insurance. For using the long-term pension savings account, savers make a savings agreement with, for instance, a bank, a fund management company or an investment firm.

Savers can deposit funds into this specific long-term savings account in such a way that the deposited amounts are tax-deductible with certain restrictions based on the law. Funds can be reinvested through this account in equities, mutual funds, deposits and bonds. Capital gains, interest and dividends accrued on the account are exempt from tax during the saving period. Pensions paid are subject to capital gains tax. Under the long-term pension savings scheme, saved funds may not generally be used before the retirement age under employees pension legislation, after which they are available for withdrawal. This saving-for-retirement scheme will have no effect on the amount or accrual of statutory employee pension.

### **Loyal customer household**

Loyal customer households are those who have taken out Pohjola policies within three lines of non-life insurance products.

### **Loyalty**

By concentrating their banking with a cooperative bank and insurance with Pohjola, customers gain OP bonuses, discounts on Pohjola's insurance premiums and other valuable benefits.

### **Net interest income**

Net interest income is a key financial indicator in the banking business, which is defined as the difference between interest income received and interest charges paid by the bank.

### **Non-life insurance**

Non-life Insurance is taken out to cover possible material damage. Typical non-life insurance includes real estate and home insurance, motor liability and car insurance as well as travel and farm insurance. Non-life insurance also includes legal expenses insurance and general liability insurance.

### **OP bonuses**

Cooperative banks' owner-members and Helsinki OP Bank customers earn OP bonuses when the value of their individual or family's shared banking and/or insurance services is at least EUR 5,000 per month. This value refers to the total amount of e.g. loans, savings and insurance premiums. Bonuses are earned by month and automatically used to pay the cooperative bank's banking service fees and Pohjola's home, family or motor vehicle insurance premiums. At best, bonuses can pay for all insurance premiums.

### **Operating combined ratio, %**

As a measure of insurance profitability, the operating combined ratio is calculated by dividing the total amount of

claims incurred and operating expenses by insurance premium revenue. This ratio is the sum of the loss ratio and the operating expense ratio. If the ratio exceeds 100 per cent, insurance premium revenue is not sufficient to cover claims expenditure and operating expenses, which is why the company must use, for example, investment income to cover the difference.

#### **Operating expense ratio, %**

The operating expense ratio shows the ratio of operating expenses to insurance premium revenue.

#### **Retail banking**

Retail banking refers to handling the daily financial services of households and small- and medium-sized enterprises (SMEs). Essential services include accounts, cards, deposits, credits and payment transfer. Retail banking also includes securities services and currency exchange for households and SMEs.

#### **SEPA**

The acronym SEPA stands for the Single Euro Payments Area. All cross-border payments within the European Economic Area that forms a domestic payments area are transferred on the same terms, standard and at the same price than those transferred within a country.

#### **Solvency ratio, %**

The solvency ratio describes the ratio of non-life insurance solvency capital to insurance premium revenue. It is calculated by adding up the figures of net assets, hybrid capital, tax liabilities for the period less deferred tax to be realised in the near future and other items deducted from the solvency margin plus intangible assets and by dividing the resulting amount by insurance premium revenue.

#### **Technical provisions**

In its financial reporting, an insurer must recognise its insurance contract liabilities as technical provisions which comprise provisions for unearned premiums and provisions for unpaid claims. Provisions for unearned premiums consist of the amounts of unearned premiums of individual insurance contracts. Provisions for unpaid claims comprise the amounts of claims to be paid out arising from occurred insurance events or those to be paid out in the future but remain unpaid on the balance sheet date. Technical provisions are amounts which the insurer owes to its policyholders and beneficiaries.

#### **Tier 1 ratio, %**

A capital adequacy ratio in the banking sector. This ratio stands for the ratio of Tier 1 capital to the total risk-weighted assets.

Cf. Core Tier 1 ratio, % above

#### **Unico Banking Group**

Pohjola is a member of the Unico Banking Group, a group of European banks with a cooperative background and origin. The Unico cooperation focuses on the development of payment transfer and cash management services, and international capital market, financing and leasing services for corporates. The other Unico member banks include Crédit Agricole in France, DZ BANK in Germany, Rabobank in the Netherlands, RZB Group in Austria and ICCREA Holding in Italy.

## Corporate Responsibility Management

OP-Pohjola's core values and corporate practices reflect its firm roots in Finnish society. We succeed through Group management, based on a local approach and customer needs. This reconciles the interests of our customers and owners. Responsibility is a key element of the Group's value base and strategy. Within Finland's financial sector, OP-Pohjola aims to be a pioneer in corporate responsibility.

OP-Pohjola's corporate responsibility is guided by:

- Core values and strategy
- Corporate responsibility commitments
- Corporate Governance Statement

As a Finnish player meeting its social responsibilities, OP-Pohjola creates local prosperity and stability, wherever it does business. Local cooperative banks have a genuine need for, and interest in, their regions' success and wellbeing.

Reflecting a solid cooperative value base, these values also guide our corporate responsibility management. Long-term and responsible operations are particularly important during difficult times. The core of our business lies in promoting sustainable prosperity, wellbeing and security. Our unique banking and insurance service package makes people's lives easier, while supporting the business of corporate customers.

Within the operating environment of member cooperative banks, OP-Pohjola aims to boost regional vitality and build long-term trust. This is also the aim of the Group's structural development.

Reliability and a good reputation are crucial to the financial industry. Every day, responsible operations affect our corporate image, in the minds of both customers and staff.

### Reporting principles

OP-Pohjola's corporate responsibility report has been included in the annual reviews of OP-Pohjola Group and Pohjola Bank plc since 2009, while in 2004-2008 the reports were published separately.

OP-Pohjola will develop its corporate responsibility reporting by taking account of the Group's special features. At present, the company uses the Global Reporting Initiative (GRI) as indicative guidelines.

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### Reputation and responsibility

According to TNS Gallup's Corporate Reputation and Responsibility Survey 2010, OP-Pohjola has a good reputation. Not only that, it is clearly above the financial sector average in Finland and elsewhere in Europe. The Group's corporate responsibility level also exceeded the industry average. OP-Pohjola's strengths included its customer focus, skilled personnel, and delivery and service reliability. It also scored well in general financial responsibility, profitability and competitiveness. Areas in need of development included the price-quality ratio of products and services, openness in social debate and compliance with ethical principles.

A total of 2,573 people participated in TNS Gallup's survey. The survey covered 45 well-known companies from various sectors.

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## Active development by customers

OP-Pohjola's corporate responsibility management is unique, due to the active participation of local management in the Group's development. Almost 6,500 cooperative bank customers are involved in Group management, through representative assemblies, supervisory boards and executive boards. These bodies work in line with the banks' statutes, administrative rules of procedure and accepted corporate governance practices.

Good decision-making requires a sufficient flow of information between banks, the Group and local management. Analysing customer needs and evaluating sustainable development forces the management of cooperative banks to look ahead. This enables member banks to provide the best possible service in the future too.

OP-Pohjola is developing its communications and contacts with local management. This is based on a survey conducted in 2010 and local management feedback. Over the next few years, modern, Web-based solutions will be introduced to representative assembly elections. This will provide owners with even more opportunities to participate in decision-making and help them become yet more active.

[Read more: Representative Assembly elections - coming closer to customers](#)

## Corporate responsibility programme steers entire Group

In 2010, OP-Pohjola drew up a corporate responsibility programme. This programme, which will steer the future operations of the entire Group, is based on the Group's mission, core values and strategic policy presented in 2009. The Group's approach to responsibility is best described by the term 'corporate social responsibility'.

Our corporate responsibility programme defines the Group's shared outlines and goals. Based on these, member banks and other entities can define their own operating policies. The programme determines the Group's corporate social responsibility themes, focus areas and proposed measures. Indicators and targets will be defined based on these.

The programme addresses corporate responsibility through five entities:

- Customers and ownership
- Business – products, services and channels
- Personnel and management
- Environment and climate
- Operating environment – local communities and society

## Prospering together with the customer

OP-Pohjola is there for its owner-members and customers. Together with our customers, we find solutions for an easier, more secure daily life. By upgrading our operating models, we are actively seeking to provide our customers with solutions that support their specific situations, whether in life or in business.

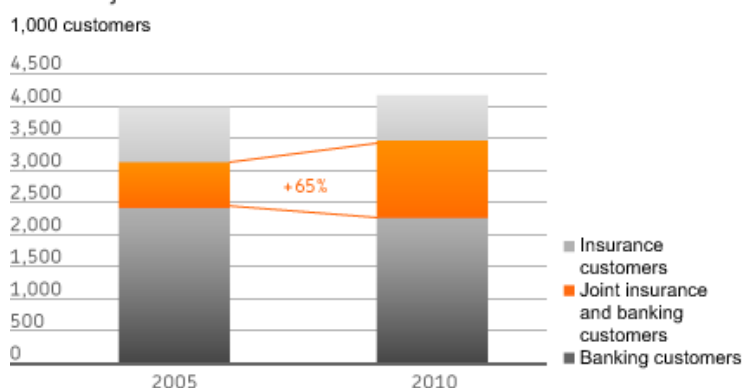
### 1.2 million customers already enjoy our loyalty benefits

It is easy to be an OP-Pohjola customer. This is guaranteed by our extensive, multichannel service network and financial expertise.

Customer transactions become more fluent if customers can handle banking and insurance matters on a one-stop basis. OP-Pohjola's customer promise is to offer the best loyalty benefits. Our goal is to ensure that a growing number of customers enjoy our customer benefits by concentrating their banking and insurance services with OP-Pohjola. We focus on this goal in everything we do.

The number of customers concentrating their banking and insurance transactions with OP-Pohjola is growing at a rapid pace. At the end of 2010, 1.2 million customers already enjoyed our loyalty benefits. In 2005–2010, the number of these loyal customers grew by a whopping 65%.

### OP-Pohjola customer base



Our philosophy of prospering together can be seen in the 450,000 households already enjoying our loyalty benefits. The strategic goal of having 450,000 such households by the end of 2010 was achieved in August 2010. Growth on this front continues.

### Key figures

	2010	2009
Customers, thousand	4,133	4,134
Owner-members, thousand	1,300	1,266
Interest on ordinary and supplementary cooperative capital paid to owner-members, EUR million <sup>1</sup>	15	26
Bonuses paid to owner-members, EUR million	151	142
Used for banking services	74	67
Used for insurance premiums	56	58
Bonuses paid in cash	8	8
Customer satisfaction, private customers, scale 1–5	4	4
Pohjola's shareholders, thousand	35	37
Dividends from Pohjola Bank plc, EUR million <sup>1</sup>	107	45

<sup>1</sup> Amount paid for the previous year

## Gaining rewards through loyalty

OP bonuses are a unique benefit granted to owner-members of cooperative banks. In 2010, an increasing number of customers earned OP bonuses from their transactions, and used them to pay for services. The best OP bonus benefits are enjoyed by customers who concentrate their banking and insurance business with the Group. Loyal customers are granted the highest insurance premium discounts. They are also able to use their OP bonuses to pay insurance premiums.

OP-Pohjola's goal is to harmonise the benefits earned from banking and insurance transactions. OP bonuses have been paid out on banking transactions since 1999. In December 2010, bonuses also began to accrue from Pohjola's home, family and motor vehicle insurance premiums. OP bonuses are accumulated from premiums paid, including the proportion paid using bonuses.

OP bonuses are received in proportion to transactions: the more transactions, the larger the bonuses. The one-stop philosophy is profitable and makes customer transactions easier.

Since 2005, clearly more customers have begun concentrating their banking and insurance transactions with OP-Pohjola. While an increasing number of insurance customers also use our cooperative banks, more cooperative bank customers have chosen Pohjola as their non-life insurer.

### Discovering the benefits of loyalty



61% of our insurance customers also get their banking services from us (change: +27 percentage points since 2006)

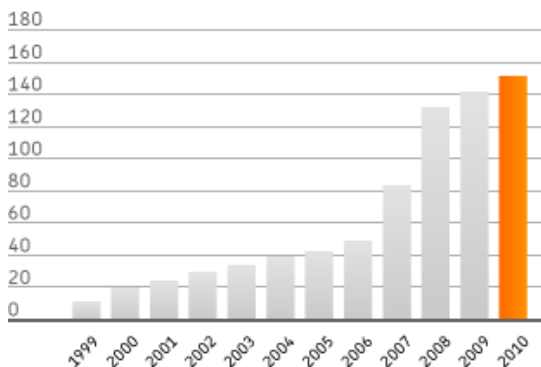


35% of our banking customers also get their insurance services from us (change: +18 percentage points since 2006)

SOURCE: CONSUMER SURVEY ON BANK AND INSURANCE COMPANY SWITCH BY TNS GALLUP

## Bonuses accumulated since 1999

€ million



The mark of a good group \*

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## Bonuses used in 2010



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## Owner-member can have an influence

A member cooperative bank is a local, independent bank owned by its owner-members. An owner-member is a cooperative bank's customer who has joined as an owner-member of his/her own bank and has paid the bank's cooperative contribution. Owner-members can participate in the bank's administration and decision-making.

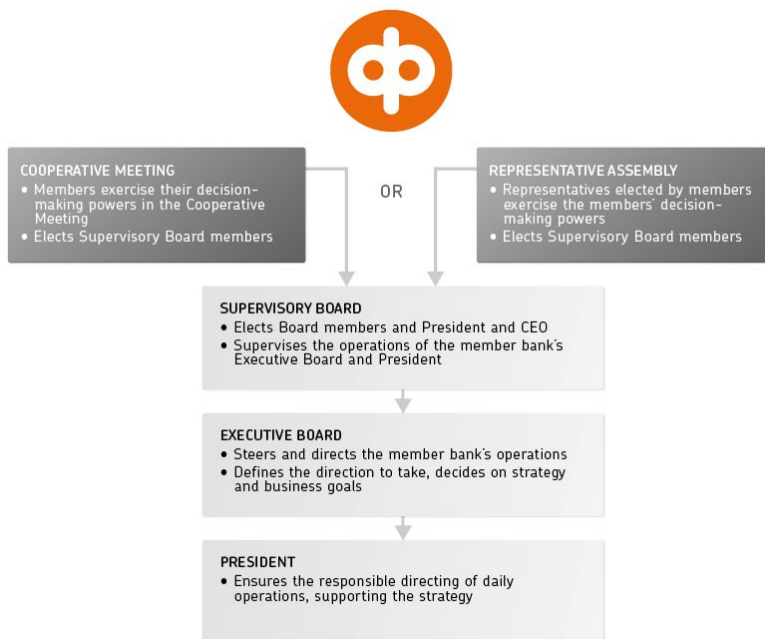
Within cooperatives, one of the basic values underlying decision-making is the "one member, one vote" principle. Members elect their bank's administrative staff from among themselves. The highest decision-making powers are exercised by the Cooperative Meeting or Representative Assembly. Each member can participate in the Cooperative Meeting, or vote for their own candidate onto their bank's Representative Assembly. Any owner-member wishing to do so can run as a candidate for the representative assembly. The Representative Assembly Meeting or Cooperative Meeting makes decisions, among other things, on the adoption of the bank's financial statements. It also elects members of the Supervisory Board.

However, due to its corporate form, Helsinki OP Bank Plc, a subsidiary of OP-Pohjola operating in the Helsinki Metropolitan Area, has no owner-members.

[Read more: Improving services alongside customers](#)

### Decision-making in member cooperative banks

A cooperative bank and its owner-members live in the same community and are familiar with local issues.



The mark of a good group ★

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## Start Days for new entrepreneurs

Every year, Pohjola and local member cooperative banks arrange Start Days in various Finnish localities, directed at both new and budding entrepreneurs. These free-of-charge events provide guidance on what to take into account when starting a business.

Start Day lecture themes include acquiring or establishing a business, company forms, initial measures related to taxation, statutory and voluntary insurance, and financing, among other topics.

In 2010, Start Days were held for the 11th year. A total of 500 new or aspiring entrepreneurs participated in these events, organised in Helsinki, Kuopio, Pori, Tampere and Oulu. Entrepreneurs' questions were answered by specialists: these included experts from local New Enterprise Agencies and entrepreneurs' associations, accounting firms, Ilmarinen Mutual Pension Insurance Company, OP Life Assurance Company and the Unemployment Benefit Society of Finnish Entrepreneurs.



### **Start Days for new entrepreneurs**

Themes include acquiring or establishing a business.

## Responsible service development

OP-Pohjola wants to serve Finnish banking and insurance customers of all ages, through their preferred service channels. In particular, self-services must be easy to use and customers must have support when they need it. Through our extensive branch network, we can support customers transferring to online services. Such services also reflect our local approach. On the other hand, OP-Pohjola must have the courage to abandon low-use services, directing development resources at the most-used channels.

op.fi makes customers' daily lives easier by providing a one-stop-shop for banking and insurance matters. In 2010, OP online services were extended by introducing insurance transaction services. Online insurance services are also being made more visible and usable. Member cooperative bank branches have been offering both banking and insurance services for several years.

### Usability – a key element at all stages

Usability has become more and more crucial in the development of new services. In fact, usability is examined at various development stages. At its simplest, this could mean testing paper prototypes, or, at its most complex, monitoring the eye movements of an internet user. Usability is also tested by both our own and competitors' customers. When developing services for an extensive range of customers, account must be taken of the needs of special groups. In the future, the service needs of senior customers in particular will become a major area of usability.

In addition to usability, today's product development emphasises corporate responsibility. Here, the aim is easy-to-use, intuitive products, as well as transparency and plain reporting.



## Responsible investment

Pohjola Asset Management Ltd and OP Fund Management Company Ltd have committed themselves to observing the UN Principles for Responsible Investment (UN PRI) They have been accredited by the Carbon Disclosure Project (CDP). On the basis of this, they can report on climate change issues and the development of international reporting standards. Pohjola Bank plc has also created a sector-specific ESG analysis for assessing how well the environment, society and corporate governance are taken into account by businesses.

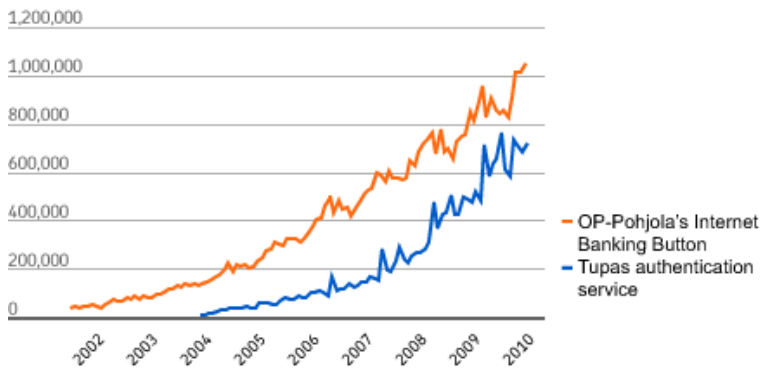
## Bank identifiers provide access to a wide variety of services

Finns have taken to e-commerce, typically using banks' online payment buttons to pay for purchases. OP-Pohjola Group customers press the payment button over a million times a month.

As a rule of thumb, third-party services are authenticated through the Finnish banks' Tupas authentication service. In 2010, the Finnish Tax Administration's online service became the most popular way of approving precompleted tax returns. In this case, the service was also authenticated using bank identifiers, as proven by a clear spike in the use of OP-Pohjola's services. Each month, around 700,000 authentications are made through the Tupas service.

### Use of online payment and authentication services

per month



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## Improving services alongside customers

At the end of 2010, OP-Pohjola opened a customer community for its owner-members. This 12-month pilot project aimed to test a new way of communicating with customers online. A group of randomly picked owner-members and customers of cooperative banks were invited to join the community.

Through this new dialogue channel, customers can have more influence over the Group's service development. They do so by commenting on the current state of banking and insurance services, and participating in discussions and surveys. Such dialogue, exchanges of opinion and development proposals enable OP-Pohjola to further enhance its operations, while steering the development of banking and insurance services in the direction customers want. Topics of conversation raised by customers have varied, from daily transactions to further development of eInvoice.



### **Improving services alongside customers**

Customers now have more influence over the Group's service development.

## Personnel – the key to business success

OP-Pohjola's aim is to be the financial sector's most attractive employer, and one of the most desired amongst major Finnish companies. Our strategic goal is to turn our management and employee wellbeing into a competitive edge. Business and service network development, employee competence enhancement and staff numbers and structure are all based on the Group strategy.

### Key figures

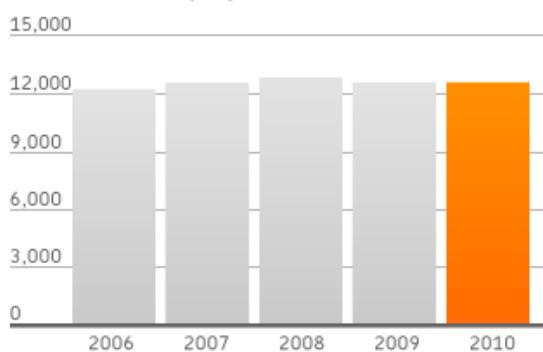
	2010	2009
Number of employees <sup>1</sup>	12,504	12,504
Women, % <sup>1</sup>	75	75
Men, % <sup>1</sup>	25	25
Average age	44	44
Employee satisfaction, 1–5	3.91	3.83
Wages and salaries, million €	542	534
Performance bonuses' share of total pay, %	6.5	4.3
Share of personnel receiving performance bonuses, %	78	77.2
Training expenses, percentage of total payroll	2	2.4
Sickness absences, percentage of working days	3.7	3.6
Personnel turnover, %	4.7	4.6
Retired, persons	258	247

<sup>1</sup> At end of year

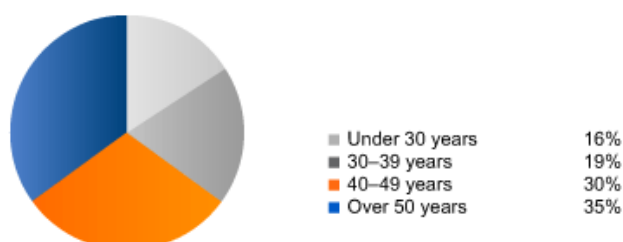
The Group has a shared vision of its skills. On this basis, OP-Pohjola seeks to offer customers the financial sector's best, most versatile expertise. Business success and organisational renewal are ensured through professional leadership, consistent operating policies and skilled personnel.

The basis of good HR management lies in smooth, interactive cooperation with employees and their representatives. In 2010, this was evidenced in several ways, including excellent collaboration and dialogues on the reorganisation of OP-Pohjola Group Central Cooperative.

### Number of employees



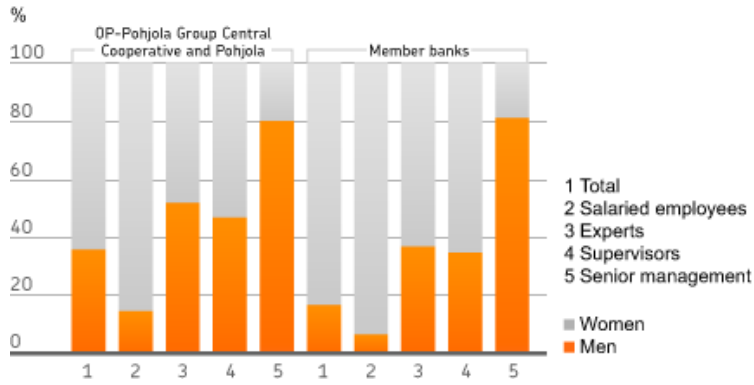
### Personnel by age



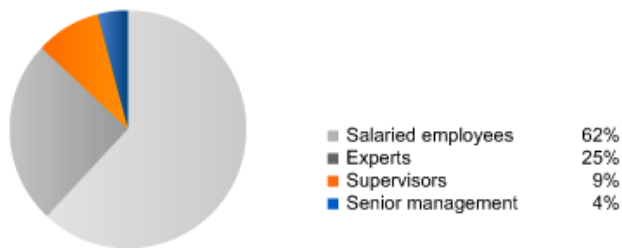
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## Gender distribution



## Groups of employees, OP-Pohjola Group



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## Leadership by coaching

At OP-Pohjola, management development is based on the principles of good management. These emphasise intuition, renewal and a people-first approach. In line with the strategy, in 2010 the focus was on developing coaching skills and a leadership by coaching culture. This will support successful employee performances and the fulfilment of targets.

### Diverse HR development methods

Comprehensive employee skill development and well-being – these are part of everyday management. For example, a personal development plan is created for each employee, and implemented through the coaching leadership approach.

Employees' skills are developed in a variety of ways, including job rotation, mentoring and training and coaching programmes. In 2010, OP Academy organised more than 720 training events and provided more than 100 web-based training programmes. In management development, OP-Pohjola cooperates with Aalto University, among others. In 2010, a total of 22 experts and supervisors completed an Executive MBA programme tailored for OP-Pohjola.

### Responsible HR management

In 2010, OP-Pohjola introduced a policy aiming at a flexible work-life balance. In addition, it is developing its staff structure in line with equal opportunities. Equality planning and reporting seeks to integrate equality planning into operational planning and management. We actively monitor and develop job satisfaction in a variety of ways, including personnel surveys. These surveys are annually implemented in OP-Pohjola's largest units.

### Versatile leisure activities

Personnel clubs provide numerous hobby and leisure opportunities and arrange various events. National leisure time activities are the responsibility of Osuuspankkitoimihenkilöt ry (association of salaried employees of member cooperative banks), whose annual summer and winter events attract large numbers of OP-Pohjola employees.

## Competitive pay

OP-Pohjola ensures its competitiveness by investing in employee and management rewards. Basic pay is determined by job grade, personal competencies and performance. To some extent, pay increases are also based on pay discussions.

Long-term schemes include the personnel fund scheme, based on Group performance, and the management incentive scheme. The purpose of these is to ensure that strategic goals are achieved and all employees are committed to goal-oriented work. Short-term incentive schemes support business development and earnings performance at corporate level.

## Management skills through the Successful Manager programme

OP-Pohjola Group offers a wide range of supervisor and management training. For example, the Successful Manager programme, which lasts almost 12 months, focuses on the development of both leadership skills and strategic thinking, as well as the formation of a consistent management culture within the Group. This programme is organised in cooperation with Aalto University Executive Education (Aalto EE).

Encouraged by the positive experiences of her colleagues, Anne Korhonen, Manager at Pohjola Insurance Ltd's Invoicing and Payment Transaction Services, joined the Successful Manager programme.

"I thought I was doing quite well as a supervisor by being myself, using common sense and learning from my mistakes. Of course, being aware of my shortcomings, I wanted to develop myself and my management skills."

For Anne Korhonen, the programme helped her move into the supervisor role and improve her communication skills. It also gave her practical advice in support of decision-making. The programme introduced her to the world of strategic thinking and provided new methods of improving her time management skills.

"There's much more to management than I thought. Thanks to the programme, I added new strings to my 'management competencies bow', including inter-personal skills and wellbeing; or let's say that these 'strings' became stronger. Beforehand, my bow had only two strings – professional and management skills."

"The Successful Manager programme clearly helped me move into the supervisor role. This has awakened my appetite for finding new areas in need of personal development."

The Successful Manager programme can be supplemented by completing the OP-Pohjola Executive MBA diploma, which complies with the related international requirements.



**Anne Korhonen**  
Manager,  
Invoicing and Payment Transaction  
Services, Pohjola Insurance Ltd



## Environmental liability: our daily commitment

OP-Pohjola's environmental liability work involves three main elements:

- Products, services and online transactions
- Climate-related measures
- Our operations' environmental impact

Climate change and global responsibility are important issues in the financial sector. They also involve numerous uncertainties, which create both opportunities and threats for this industry.

As part of our corporate responsibility development, we formed a working group to plan environment and climate-related measures. The aim was to gauge the carbon footprint of OP-Pohjola's operations for the first time, as well as planning a Group environmental and climate policy. OP-Pohjola intends to systematically reduce its carbon footprint and report the climate impact of its operations. It also aims to take increasing account of environment and climate-related challenges in its product and service development. Our corporate responsibility programme includes the concrete measure of evaluating our carbon footprint. We will continue to develop our environmental and climate policy in the spring of 2011.

### Key figures

	2010	2009
Consumption of office paper, kg/employee <sup>1</sup>	42	35
eBills received by private customers, 1,000 pcs	2,315	1,479
The OP Climate Fund's share of the capital invested in all equity funds, %	2.6	3.4
Electricity consumption of centralised computer server systems, MWh	7,356	6,726
Electricity consumption of offices, kWh/employee <sup>1</sup>	5,288	5,750
Waste and recycling, kg/employee		
Paper collection <sup>2</sup>	66	98
Biowaste <sup>2</sup>	36	54
Unsorted waste <sup>2</sup>	10	7
Land areas owned, € million <sup>3</sup>	133	132
Other real estate owned, € million <sup>3</sup>	1,102	1,129

<sup>1</sup> This information pertains to OP-Pohjola's locations in Helsinki (Teollisuuskatu and Lapinmäentie) and some branch offices of individual member banks.

<sup>2</sup> This information pertains to OP-Pohjola's locations in Helsinki.

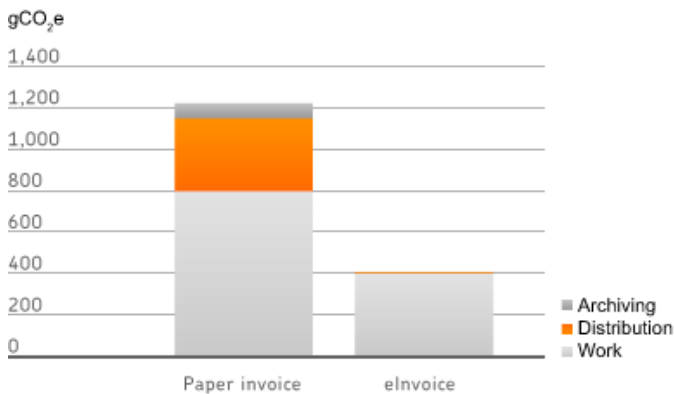
<sup>3</sup> Carrying amount.

## Online transactions on the increase

OP-Pohjola is going to great efforts to make e-invoicing more widespread. One of the key arguments in favour of the e-invoice is that it is environmentally friendly. According to the Environmentally Friendly Electronic Invoice study conducted by the Federation of Finnish Financial Services in October 2010, the carbon footprint of an e-invoice sent by an SME (150 grams) is only a third of that of a paper invoice (450 grams), where 450 grams of carbon dioxide corresponds to a three-kilometre drive by car.

From an environmental standpoint, the most important advantage of e-invoicing is not the savings on paper or delivery costs but the increase in work efficiency. Nevertheless, the savings in paper consumption are also significant: in 2010, more than two million e-invoices were sent directly to private customers' Internet bank.

### Carbon footprint of paper invoice and eInvoice



Source: Federation of Finnish Financial Services 10/2010

Today, just 11% of OP-Pohjola's online customers accept sending of e-invoices directly to their Internet bank. On the other hand, most of those 11% prefer to have all possible bills as e-invoices. In 2011, we will further facilitate implementation of the e-invoicing service in order to increase the number of users. In 2010, the special target group was self-employed persons, since their business partners increasingly require the use of e-invoices. For them, we are offering an easy way of sending e-invoices from the op.fi online service.

OP-Pohjola's online service customers participate in environmental work also via bank statements. At the beginning of 2010, online bank statements replaced bank statements in paper form as the default service for online bank customers. This reduced the number of monthly bank statements sent via ordinary mail by over 100,000. Only 20% of our online service customers still receive their bank statement in paper form. OP-Pohjola also achieved savings in internal paper consumption in all sectors.

The financial services group will continue to take its determined action to reduce the amount of ordinary mail further in 2011.

## Commuting

Motoring accounts for a significant proportion of OP-Pohjola's carbon footprint. Therefore, the analyses performed in 2010 focused on motoring. Commuting from home to work and back was not included in this analysis. At the end of 2010, a total of 835 company cars were in use at OP-Pohjola, a significant proportion of these being used by OP Kiinteistökeskus property brokerage staff. In 2010, an emission limit of 170 g/km was set for company cars used by employees in OP-Pohjola Group Central Cooperative and in certain member banks, instead of the earlier 220 g/km. The specific emissions of our company cars in 2010 averaged 171 g/km.

At OP-Pohjola, the majority of work-related travel is handled with employee-owned cars. Of such commuting within Finland, allowances for driving distance were paid for 11,839,036 kilometres in 2010 and 12,740,386 kilometres in 2009.

In 2010, we initiated investigations regarding the opportunity to introduce company bikes. The aim is to implement this at least in the Helsinki Metropolitan Area during 2011. Some member cooperative banks already provide joint-use bikes for attending to one's affairs.

## **Green meetings becoming part of everyday business**

2010 saw a substantial increase in videoconferencing at Group level. Many member cooperative banks have already implemented videoconferencing, quite a few of them several years ago. In particular, banks operating in large geographical areas soon discovered the benefits of this technology. In OP-Pohjola's Helsinki offices, videoconferencing properly began in 2010. The related implementation and training will continue in the years to come. Employees have received training in utilising the new technology to meet the special requirements related to online meetings.

Remote meetings improve employees' quality of life by enabling them to spend more time with their families and in leisure activities, instead of travelling. Remote meetings also reduce harmful greenhouse gas emissions caused by travel. In 2011, active use of remote meetings will be encouraged and expanded into new areas, such as 'What's New?' events.

## Evaluation of OP-Pohjola Group's carbon footprint

OP-Pohjola Group evaluated the carbon footprint of its operations in 2009. In the future, we will assess our carbon footprint on an annual basis.

The carbon footprint was calculated in accordance with the Greenhouse Gas Protocol guidelines developed by the World Resources Institute and World Business Council for Sustainable Development. In evaluation of the calculation results, it should be noted that the carbon footprints of different organisations are not directly comparable. Before such comparison, it must be verified that the limitations and assumptions applied in the calculation, as well as the emission factors, correspond with each other.

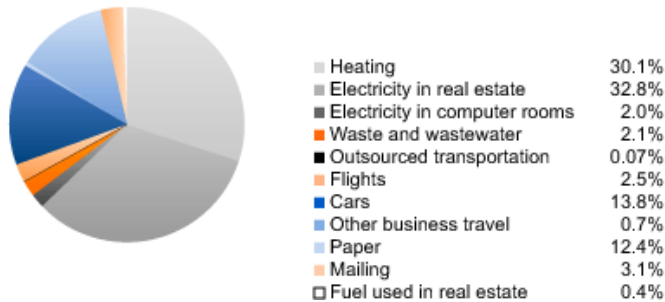
In the evaluation of OP-Pohjola's carbon footprint, the major factors affecting carbon footprint included electricity, heating of properties, paper consumption and motoring. In the future, we will focus on further reducing our carbon footprint.



### Evaluation of the carbon footprint

In the future, OP-Pohjola Group will assess its carbon footprint on an annual basis.

### Carbon footprint 2009



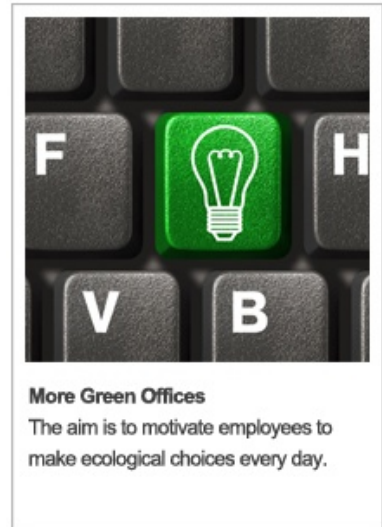
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## OP-Pohjola wants more Green Offices

OP-Pohjola has had the Green Office system in place in its Helsinki Teollisuuskatu offices and certain member cooperative banks for several years now. This system enables branch offices to make an impact by implementing climate change mitigation measures. The aim is to motivate employees to make sustainable everyday ecological choices, improve their environmental awareness and reduce the environmental impact of our operations.

At the end of 2010, OP-Pohjola initiated negotiations on Group-level Green Office targets with the WWF. At present, only a small proportion of member cooperative banks have implemented the Green Office scheme; there were no new entrants in 2010. Our objective is to introduce the Green Office diploma and logo extensively throughout the Group during 2011.



## Videoconferencing at Kainuun Osuuspankki

Kainuun Osuuspankki utilises videoconferencing in its day-to-day operations. The bank's over 30,000 customers are served by 64 employees, in six branch offices and other service locations. Videoconferencing enables more extensive employee training and open management. There is no need to spend a lot of work time sitting in a car since even the most remote branch offices are close, thanks to the online connection. People are so comfortable with videoconferencing that discussion and commenting during videoconferences is as lively as during conventional meetings.

### Savings in time

The experts at the various branch offices of Kainuun Osuuspankki meet regularly. Previously, it took them up to five hours to travel for a few hours' meeting – at its worst, the travel took an entire working day. Thanks to videoconferencing, meetings now use only a few hours and there are no other costs.

At Kainuun Osuuspankki, videoconferencing is not just a means of communication. It is also a management method. Each week, the bank manager saves 10 hours of working time and 560 kilometres by holding personnel meetings with the various branch offices as videoconferences. All branch offices participate in the same meeting, which ensures that the message is delivered and understood in a consistent manner.

### More efficient, versatile training events

Before, it was difficult to obtain training in special areas of expertise in Kainuu. Normally, this training was held in the Helsinki Metropolitan Area, which meant long and tiring training trips for participants from Kainuu, and high costs. Now, with electronic training solutions, these people have much better opportunities for active participation in training events. This also means more efficient use of work time and major savings in travel costs.

Videoconferencing provides indisputable benefits and savings, and it helps the people at Kainuun Osuuspankki to reduce their carbon footprint.



## Case: Pohjola Insurance Ltd - environmentally friendly substitute cars

The mutual goal of Pohjola Insurance and partner Europcar, a car rental company, is to provide customers with environmentally friendly substitute cars. Some 28,000 car rental days are indemnified through Pohjola Insurance each year.

### Average emissions of Europcar's substitute cars

Year	Cars' average emissions (g/km)	CO2 emissions (kg)
2010	151	308,644
2009	162	331,125
Projection 2011	149	304,557

The mark of a good group \*

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## OP-Pohjola – an active player in society

Over 80 per cent of member cooperative banks' customer contacts take place through online services. In 2010, the op.fi online service was further developed to better support the needs of local member cooperative banks. Simultaneously, a consistent Group image and ease of use were ensured. Customers using the online service are automatically logged in to the Web site of their local cooperative bank.

### Key figures

	2010	2009
Earnings before tax, million €	575	464
Tier 1 ratio, %	12.8	12.6
Contributions to the Deposit Protection Fund, € million	24.5	23.7
Donations, other financial support and sponsorship, € million €	2.1 <sup>1</sup>	1.8
Income tax, million €	135	126
Investment in national expert events, €	191,000	168,000

<sup>1</sup> Furthermore, in 2010, OP-Pohjola decided to donate over 3.6 million euros to Finnish universities. The payments will be made in 2010–2011.

OP-Pohjola has experimented with the use of Facebook in the financial sector, in collaboration with member cooperative banks. OP-Pohjola charted the needs of its customers and banks where social media are concerned and evaluated these from the perspective of traditional online service development. The bank's online service differs from many other types of online services in its frequency of use: most customers visit the online bank on a weekly basis.

In 2010, OP-Pohjola created its Social Media Guidelines in cooperation with its employees. The financial services group has employed social media tools, such as Facebook and Twitter, in its communications. In OP-Pohjola's internal Web-based communications, employees have the opportunity to comment on articles, participate in discussion groups covering topical themes and utilise internal blogs.

## Over 3.6 million euros to universities

In 2010, OP-Pohjola decided to donate over 3.6 million euros to Finnish universities. These donations come from both the central institution and from member cooperative banks through the cooperative bank federations.

OP-Pohjola is one of the largest corporate bodies financing Finnish universities. These donations form a considerable percentage of OP-Pohjola Group's total charity donations. The Group wants to contribute to safeguarding an extensive Finnish university network. In this way, it takes responsibility, doing its part to ensure that the universities have the conditions in place for solid operation.

OP-Pohjola finds it extremely important that Finland continue to have several vital universities that lead the development of both their region and the whole society. Because of the associated increase in knowledge and skills, an active university sector also supports OP-Pohjola's own success.

### Donations to universities

€

Aalto University Endowment Fund	1,315,000 <sup>1</sup>
University of Helsinki	300,000
University of Eastern Finland	205,000
University of Jyväskylä	225,000
University of Lapland	115,000
Lappeenranta University of Technology	150,000
University of Oulu	285,000
Sibelius Academy	30,000
Hanken School of Economics	67,500
Tampere University of Technology	195,000
University of Tampere	165,000
University of Turku	450,000
University of Vaasa	60,000
Åbo Akademi University	42,500
<b>Total</b>	<b>3,605,000</b>

<sup>1</sup> To be paid in two instalments, the second instalment on 31 January 2011.

## Cooperative banks' activity in local partnership projects

Stakeholder	Expectations	Actions and results
<b>Customers and owner-members</b>	Capital adequacy, reliability, sector's best expertise, financial benefit, influence opportunities, responsible regional and local operations, versatile service network, comprehensive service range, opportunities to obtain financing when needed.	High capital adequacy. Active development of the bonus system. The best loyalty benefits in the sector. Finland's largest multichannel service. Text version of the online service. Influencing opportunities through the service network, feedback system and member banks' management. Versatile regional and local operations. Profound knowledge of customers and local decision-making enable quick decisions e.g. on financing.
<b>Personnel</b>	Responsible HR management, secure jobs, effective interaction, high job satisfaction, equal opportunities, good salary and wages, diverse leisure activities.	Strategy steers our operations, service network development and staff numbers. Our aim is to be the most attractive employer in the financial sector. Leadership by coaching. We develop job satisfaction and equal opportunities in a variety of ways and monitor this actively through personnel surveys. The staff are offered good opportunities for competence enhancement. Personnel fund scheme, in addition to personal pay. Pay discussions. Leisure time and other activities promoting wellbeing.
<b>Competitors</b>	Responsible operations, good reputation, intra-sector cooperation where necessary.	Regular competitor watch, customer satisfaction and brand surveys.
<b>Authorities and decision-makers</b>	Reliable and responsible operations, secure jobs, product and service quality, effective risk management, transparent interaction, reliable reporting, provision of expertise in the preparation of legislation.	Extensive service network and local decision-making. Strategy steering of the number of staff. Intense dialogue with the authorities. Centralised competences regarding lobbying activities.
<b>Schools and universities</b>	Financial support, expertise and assistance in personal financial skills. Supporting the wellbeing of pupils and students.	Donations to universities in 2011. Cooperative banks play an active role in personal financial skills. In schools, we have implemented projects together with the Young Finland Association, to promote the wellbeing of children and young people.
<b>Local and regional communities</b>	Responsible operations, trust, tax revenue, financing for local companies, branch offices, financial support for regional civil society activities.	Member cooperative banks are major tax payers in their localities. The cooperative bank is often the locale's largest corporate lender. Member banks provide substantial support for local activities. Finland's largest service network.
<b>Non-governmental organisations</b>	Transparency of operations, financial support, active enhancing of environmental friendliness.	Nationwide and regional communication, generation of information, financial support. Our Environmental Programme defines targets for enhancing environmental friendliness, Asset Management's commitments promote the inclusion of environmental issues in investment operations.
<b>Industry associations</b>	Effective and open cooperation, and expertise.	Versatile actions are taken alongside, for example, the Federation of Finnish Financial Services (FK), the Unico member banks and the Confederation of Finnish Industries (EK). The OP-Pohjola Working Life Forum forms part of the Group's cooperation

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with employee organisations. In October 2010, the theme of the forum was coping at work and employee wellbeing.

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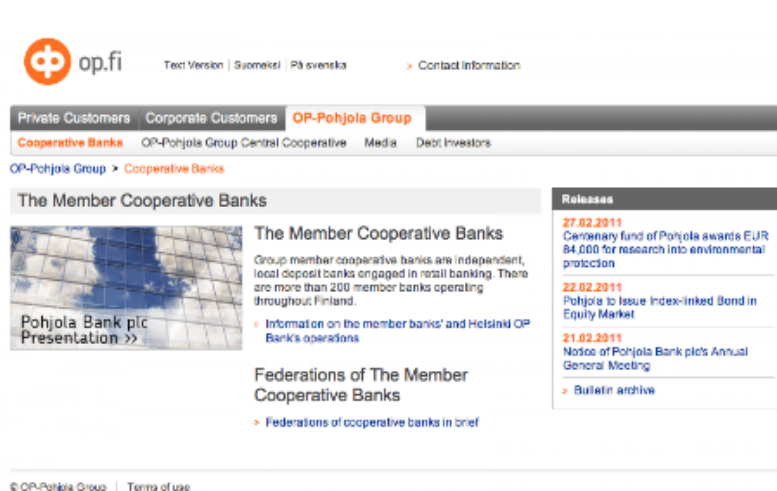
**Media**

Reliability and transparency of communications, quick service and high reachability, and expertise.

Regular briefings. Genuine interaction at press conferences and personal meetings. High scores in corporate communication surveys.

## Representative Assembly elections – coming closer to customers

In cooperative banks, the highest decision-making powers are exercised by the Cooperative Meeting or the Representative Assembly elected from among the owner-members. Representative Assembly elections are organised by post. As part of the attempt to bring administration closer to customers, the member cooperative banks utilise the op.fi online service to, for example, introduce administrative personnel. In 2011, eight member cooperative banks will also test direct voting through the op.fi online service. The purpose of this reform is to encourage the participation of women and young people in particular.



The screenshot shows the op.fi website interface. At the top left is the op.fi logo. Navigation links include 'Text Version', 'Suomeksi', 'På svenska', and 'Contact information'. A main menu bar contains 'Private Customers', 'Corporate Customers', and 'OP-Pohjola Group'. Below this, a sub-menu highlights 'Cooperative Banks' and includes 'OP-Pohjola Group Central Cooperative', 'Media', and 'Debt Investors'. The main content area is titled 'The Member Cooperative Banks' and features a grid of articles. The first article, 'The Member Cooperative Banks', includes a photo of a building and text describing independent local deposit banks. Other articles include 'Pohjola Bank plc Presentation >>', 'Federations of The Member Cooperative Banks', and 'Federations of cooperative banks in brief'. A 'Releases' sidebar on the right lists dates and headlines such as '27.02.2011 Centenary fund of Pohjola awards EUR 84,000 for research into environmental protection' and '22.02.2011 Pohjola to Issue Index-Linked Bond in Equity Market'. The footer contains '© OP-Pohjola Group | Terms of use'.

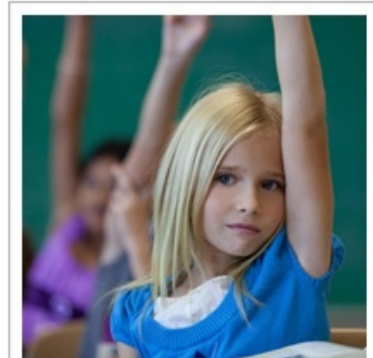
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## Cooperative banks' activity in local partnership projects

OP-Pohjola Group banks participate in local activities in a variety of sectors. They support educational institutions and nature conservation projects, and they donate second-hand equipment to nursing institutions. HIPPO skiing contests and other sporting events have been very popular among Finnish children for decades. Many cooperative banks also support local sports activities. In the future, the emphasis will be applying on a local approach.

As part of OP-Pohjola's corporate responsibility programme, the local activities of member cooperative banks will be charted in more detail than before.



### Local partnerships

Banks support educational institutions and nature conservation projects.

## Responsibility through a local approach

### Nature films for young people at the Finnish Forest Museum

Savonlinnan Osuuspankki has supported a nature film event for young people. A presentation directed at the region's comprehensive-school students was given in Lusto, the Finnish Forest Museum, in August. The purpose of this was to offer new experiences to young people. The event attracted approximately 1,000 spectators in total.

### A bank meeting room as a temporary classroom in Heinävesi

Heinäveden Osuuspankki offered its meeting room for use by the municipality of Heinävesi for the spring 2010 term of studies. The meeting room was used as a classroom for sixth-graders from the local primary school. The school was temporarily unavailable because of moisture and mould damage.

### Work with schools

Various cooperative banks actively visit local schools to provide lessons on financial matters. These lessons are organised in cooperation with schools, teachers' associations and individual teachers. For example, Kuopion Osuuspankki representatives provide lessons at secondary schools, vocational schools and universities of applied sciences.

### Employment opportunities for young people

Mäntän Seudun Osuuspankki provides sponsored summer job opportunities for young people. The employer company pays only 50% of the wages, and the bank pays the other 50%. The summer job campaign for young people was realised in cooperation with the local Lions Clubs.

## Responsibility through a local approach

### Schooling for DIY home-builders in Rovaniemi

Experts provided guidance and tips to people in Rovaniemi who were looking to build their own home. Around 20 DIYers listened to a review of topical issues covering, for example, building permits and land-use planning. Through a videoconferencing connection, the schooling was also available at the cooperative banks of Kemijärvi, Sodankylä, Ivalo and Kittilä. The event was organised by Pohjolan Osuuspankki.

### Traffic instruction for senior drivers in the province of South Savo

Etelä-Savon Osuuspankki has provided facilities for courses aimed at maintaining the traffic skills of senior citizens. The bank also arranged for a driving instructor from Liikenneturva (Central Organisation for Traffic safety in Finland) to steer the group. The purpose of these events was to provide senior citizens with guidance in the changing world of motoring and give them more confidence in driving. Traffic instruction was provided from the perspective of drivers, cyclists and pedestrians.

### Cultural Wednesdays in Salo

The cultural association of Salon Osuuspankki organised a lecture series on topics of cultural and societal interest for the spring of 2010. Architect Maija Kairamo gave a lecture on architecture, Member of Parliament Pekka Haavisto on climate change and YLE Music Editor Risto Nordell on 'the world's best music'. The aim of these lectures was to expand the cultural offerings in the Salo region.

### The Water Protection Association of Haavainen

Lokalahden Osuuspankki played a key role in the establishment of a new water protection association. The bank offered facilities for the association's constitutive meetings, sent invitations and encouraged employee volunteers to participate in the running of the association. Thanks to the association's contribution, a local gulf of the Baltic Sea has remained in recreational use. Active efforts aimed at protecting waters in this area continue.

### Meetings of influential persons in North Savo

For 10 years now, Kuopion Osuuspankki and the local bishops have been arranging biannual, free-form conversation events aimed at enhancing the wellbeing of the province of North Savo. A wide range of influential persons from the region are invited to participate. The cooperative bank arranges transport from the various parts of the province, provides facilities and refreshments and participates in planning of the themes.



### **3,000 trees for developing countries**

A national 'Best Day' campaign promoting pension savings was organised through Facebook in 2010. For each positive message, OP-Pohjola donated a tree to a developing country through Finn Church Aid. By planting trees, we can restore nature's balance in areas where forests have been cleared for firewood. Through these donations, people living in the affected areas can establish a new livelihood, based on, for example, fruit from the trees. The project always involves guidance and training in environmentally friendly use of soil and other natural resources. A healthy environment increases the wellbeing of the entire community. As a result of the campaign, OP-Pohjola donated 3,000 trees to developing countries through Finn Church Aid.

## What are good financial services made of?

The key issue is to inhabit the same everyday world as the customer, preferably being a step ahead of the customer but without straying too far over the horizon. For our customers, our services provide a tool enabling sound financial management. For us, they enable the fulfilment of our strategic goals.

We monitor our customers' service needs, and changes in them, on several levels. In this, our radar i.e. the eyes and ears of our entire personnel and management, is critical. These people's contact network extends throughout Finland, reaching all customer groups. Naturally, OP-Pohjola also conducts systematic needs assessments and trend monitoring. Launched last year, our customer feedback forum was a new initiative. We expect it to provide plenty of information, for example on the development of practical services.

### Development requires daring

In the banking services sector, there is a time-honoured orthodoxy that nothing old should be cast aside. This holds true even in the enthusiasm of building anew. However, economic realities are gradually forcing banks to back away from this approach. A bank must dare to leave the past behind. Banks must also be bold enough to decide against certain courses of action. We have shown such courage, and must continue to do so. Not all of our innovations can succeed. However, we cannot allow this to make us over-cautious in product development. Financial operations are never completely free of risk, and the same holds true when developing new products and services.

The shift into new services and systems introduces the risk of their failure. Although unable to completely avoid such failures, we are doing our best to minimise the harm caused to customers.

A large share of our product development focuses on online services, which we have already been providing for 15 years. Even by global standards, we have been pioneers in this respect. Although these services have been a huge success, many customers could still benefit much more from them. All customer sectors must be encouraged towards broader use of online services.

In the future, our online service range will be further extended and service usability will be enhanced. Our vision sees a 'faceless' online service, combined with personal, face-to-face transactions. The rapid evolution of mobile services also requires a proactive approach from us.

### New transaction channels

In their early stages, online services were as novel as the social media today. As a channel for banking services, the Internet was both a cause of excitement and raised prejudices similar to Facebook and Twitter now. Is our solid, valuable financial world destined to become entertaining?

New forms of service are constantly being sought for banking and insurance service offerings. Use of such services is set to become more everyday for customers. A prime example of this is a home loan application submitted online. It is now standard to contact a financial provider online, and social media are about to rise to the same level. This also provides us with new means of obtaining information on the service needs and opinions of our customers, and other members of the public. Alongside other feedback given through social media, evaluation of our services is rapid, direct – and merciless. We must learn from and respond to this, and turn it to our advantage.



**Tony Vepsäläinen**  
Chief Business Development Officer,  
OP-Pohjola Group Central Cooperative

# Product and service portfolio



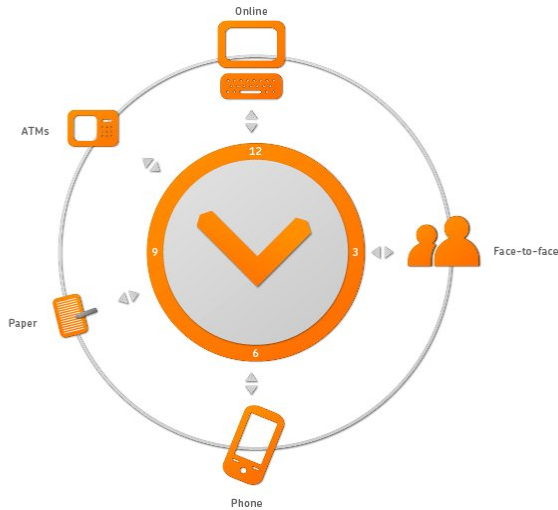
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## Smooth transactions

OP-Pohjola serves its customers in branch offices, on the Internet and by telephone. As customers' needs change, so do our services. More and more customers now choose to use the Internet for their banking and insurance activities.

We believe that services should be smooth and of high quality, no matter the transaction type chosen by the customer. This is why OP-Pohjola invests heavily in developing a range of service channels.



### Full range of services throughout Finland

OP-Pohjola's strategy of providing the country's most complete financial services is increasingly visible in its branch offices. The Group operates from 554 locations, 323 of which already offer both banking and non-life insurance services. Its dense branch network is supplemented by Pohjola Insurance's network of agents. As subsidiaries of the major cooperative banks, OP Kiinteistökeskus estate agents have a total of 173 outlets, from Finland's northernmost tip to its southernmost shores.

### OP-Pohjola Group's service network on 31 December 2010

#### Pcs

eServices Agreements	over 1,400,000
Bank locations	554
providing both banking and insurance services	323
Private Banking locations	33
OP-Kiinteistökeskus estate agents	173
online customer terminals at banks' self-service facilities	538
OP payment ATMs at banks and shopping centres	404

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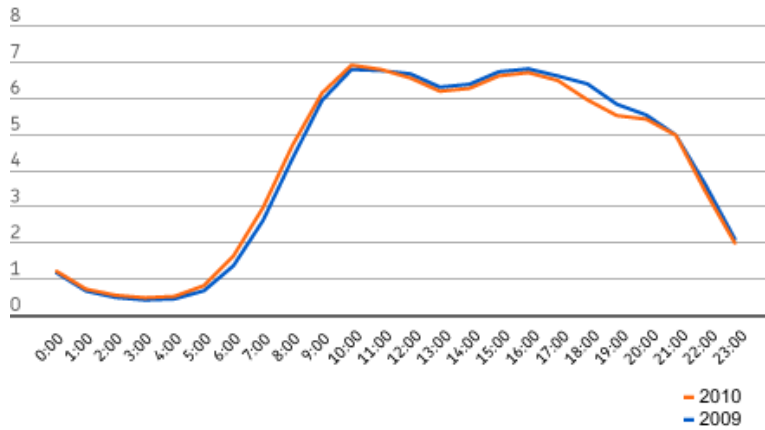
## Online services more and more popular

The financial sector's largest service range is also available online. Through this channel, customers can handle both banking and insurance matters in a single session.

Users of online banking, and their number of visits, continued their steady growth. As many as four out of five bills are now paid online. The use of online insurance services has also increased markedly.

### Daily use of op.fi

Share of visits, %



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## Telephone and online customer service

Annually, the OP 0100 0500 telephone service has ranked among the best in the banking and financial sector. This is indicated by Taloustutkimus Oy's Telephone Services survey, which measures customer satisfaction with telephone services, and the related trends. In 2010, our telephone service answered some 600,000 customer calls, and made over 400,000 calls to OP-Pohjola's customers, on banking or insurance services.

Pohjola Insurance's customer service replies to around one million online or telephone customer contacts. The number of messages received online grew by 15% on last year. Pohjola Insurance's telephone claims service answered some 52,000 calls in 2010. In particular, this service dealt with claims concerning motor vehicle and property damages, due to exceptional weather conditions.

## Asta, Veera, Lahja and Sylvi

Between July and August 2010, storms named Asta, Veera, Lahja and Sylvi raged through Finland. Some eight million cubic metres of forest were devastated, corresponding to 15% of the nation's annual felling. In addition to forests, a great deal of other property, such as buildings, cars, movables, fixed assets and power cables, fell into on the path of the storms.

In compensation for the resulting storm damage, Pohjola paid a total of around EUR 20 million to its private and corporate customers. Pohjola has reinsurance cover for all major losses exceeding EUR 5 million.

### Claims kept coming

A large share of claims was reported to Pohjola by phone. On the Monday following Asta's visit, we received a record 4,100 contacts. After only a week, even this record was shattered by the influx of over 4,800 calls, when in the wake of Lahja and Sylvi had 's rampaged through the country. In two weeks, we received over 20,000 inbound contacts, three times the normal number. Increasing our number of telephone staff was not enough to prevent waiting times lengthening during peak periods. A large number of claims were also submitted online.

The majority of notifications loss reports received by Pohjola, some 1,500, concerned forest damage. August was the busiest month, with 750 notifications reports received, the number of forest damage claims normally reaching us in an entire year.

Pohjola received almost as many loss reports of other types of storm damage. Reports of damage to households resulting from natural catastrophes – such as a garden tree toppling onto a building or vehicle – totalled 1,400 in August and 2,400 for the year. Last year's total was 600.

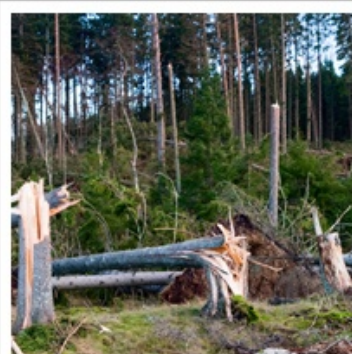
### Asta tears through a forest

On 30 July, a forest owner in Central Finland was astonished to see the havoc wreaked by Asta, in just a few minutes, in their 300 hectare forest.

- The storm also struck our home settlement of Naarajärvi, but no trees were knocked over. On the following day, when I went to inspect my forest only 30 kilometres away, I had a rude awakening. A depressing scene of destruction awaited me. Asta had taken just moments to ravage more than half of the forest, leaving both saplings and mature timber scattered in its wake. As a result, over 40 hectares of clearings needed replanting.

- I immediately contacted the local forestry society, Pohjola's insurance agent in Pieksämäki and Pohjola's claims settlement service. Everything was handled rapidly without delay. The forestry society arrived immediately to assess the damage, while compensation from the insurance company was prompt. I also contacted a forestry company right away, which purchased the usable timber and hauled it quickly away.

- Few car owners have much use for all-risk car insurance, but they still take it out. However, moles, snow and storms damage a forest almost yearly, which makes forest insurance necessary. I have always insured any forests I have owned, and I intend to continue doing so.



**Asta, Veera, Lahja and Sylvi**  
stormed through Finland in  
the summer of 2010.

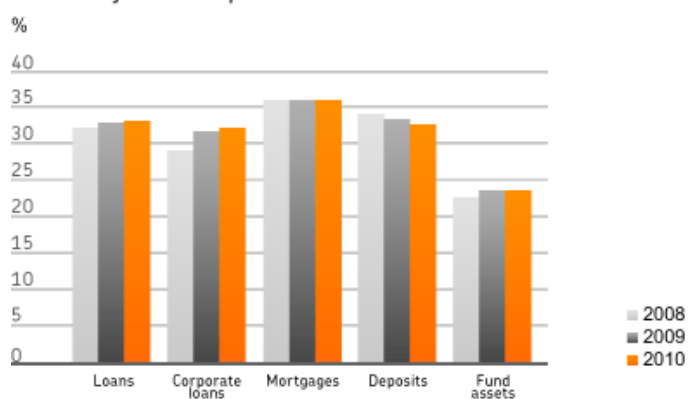
## Banking and investment services

From OP-Pohjola's range of banking and investment services, customers will find suitable solutions for financial management, investment or home buying. For companies, OP-Pohjola provides lending, cash management and payment transfer services.

### Key figures

	2010	2009
Earnings before tax, € million	367	471
Net interest income, € million	852	981
Cost/income ratio, %	57	53
Impairment losses on receivables, € million	149	167
Non-performing and zero-interest receivables, € million	204	223
of the loan and guarantee portfolio, %	0.3	0.4
Returns to owner-members and OP bonus customers, € million	163	160

### OP-Pohjola Group's market shares



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## Finland's best home loan bank

OP-Pohjola's home loan customers coped well with the recession. They remained very able to service their debts, with low interest rates increasing loan repayments markedly in 2010. In fact, mortgage repayment difficulties did not intensify. Of total loans, the share with repayment problems remained at the previous years' level.

Regained consumer confidence and low interest rates resulted in more new home loans. Among households, new home loans raised in 2010 totalled 13.9% more than in 2009. Indeed, there was an end to the prolonged decline in the home loan portfolio's annual growth. OP-Pohjola's household loan portfolio grew by 6.4% from the previous year end, attaining EUR 27,484 million on 31 December 2010. With a market share of 35.8% at the end of 2010, OP-Pohjola was by far the largest lender to home-buyers.

### Loan portfolio

€ billion	2010	2009
Home loans to households	27	26
Other loans to households	10	10
Corporate loans	14	13
Other loans	5	4
Total	57	53

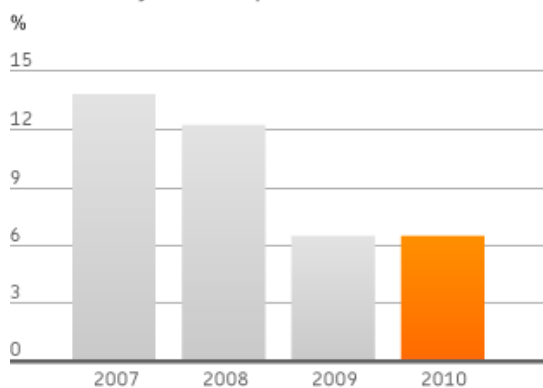
Although interest rates were low, the average size of new home mortgages remained unchanged. Their average loan period decreased slightly, to some 16 years. To prepare for a potential rise in interest rates, more customers included interest-rate caps or fixed interest periods in their loans than a year earlier.

Home loan applications are moving online. In 2010, almost half of mortgage negotiations were initiated on the OP online service.

In the eyes of customers, OP-Pohjola retained its long-held position as the best home loan bank (based on the 'Pankkien asuntolainat 2010' survey on banks' home loans, conducted by Taloustutkimus Oy).

Trading in the housing market was lively. In 2010, OP Kiinteistökeskus estate agents closed a total of some 17,000 residence and property deals. This was 3.2% more than in the previous peak year, 2005.

### Annual growth of home mortgage portfolio in OP-Pohjola Group

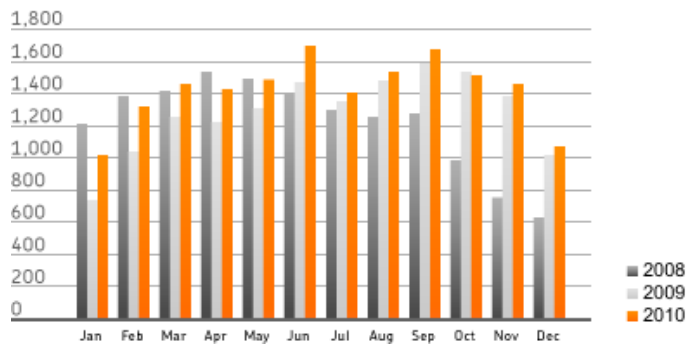


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## Number of homes traded by OPKK estate agents, 2008–2010



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## More card use options

The process of replacing national bank and combination cards with international payment chip cards was completed during 2010. For card users, this meant not only enhanced security of card payments but also more card use options, particularly for use abroad and in online payments. Retail customers confirmed almost all card payments with a PIN code, rather than a signature.

Cards continue to gain ground as the most common payment method. The number of debit card payments increased by 4%, the card increasingly being used for smaller and smaller purchases. Credit card payments also increased, despite the general economic uncertainty. The number of cash withdrawals from ATMs correspondingly reduced by 2%.

Cards with K-Group's Plussa feature continued to gain in popularity. On 31 December 2010, OP-Pohjola's customers used more than 800,000 cards. These included OP-Visa, OP-Visa Electron or OP-Visa Debit cards and Plussa MasterCard with the Plussa feature.

### Consumer credit increased

OP-Pohjola's consumer credit portfolio rose by 8%. The strongest growth drivers were OP-Visa and car purchase financing. Purchasing OP-Visa deferred debit receivables from Luottokunta contributed to the loan portfolio's growth.

In euros, total use of OP-Visa grew by 2.5%, year-on-year. Purchases in Finland grew most. This was due not only to more card purchases, but also to a higher average purchase in euros.

Long-term cooperation intensified between Luottokunta and OP-Pohjola Group. A new OP-Visa operating model was introduced and the division of duties and responsibilities between the parties was specified.

## Market share grew in corporate and housing corporation loans

During the early months of 2010, demand for corporate loans resumed an upward path after a poor 2009. Although demand faded towards the end of the year, OP-Pohjola increased its corporate loan portfolio markedly during the last month.

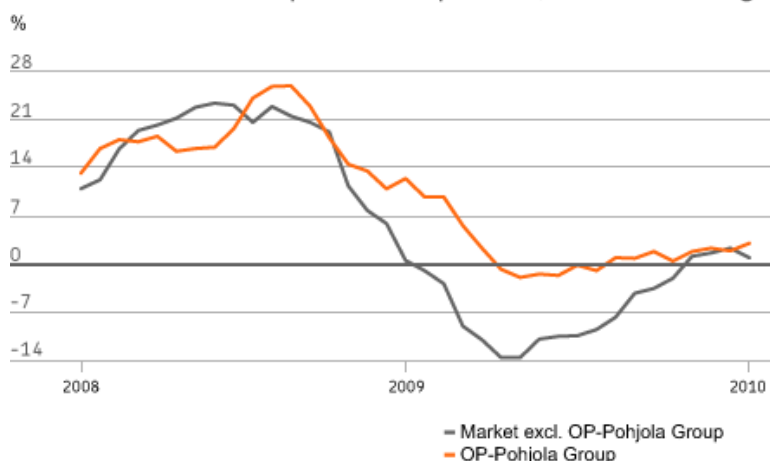
The market share in corporate and housing corporation loans achieved in 2009 continued to grow in spite of much fiercer competition and totalled 29.2% at the end of 2010. This increase occurred notwithstanding the fact that, against expectations, 2010 did not herald a major flow of investments and acquisitions. While Pohjola Bank plc still provides the majority of the Group's corporate financing, cooperative banks' role in this is growing fast.

New corporate and housing corporation loans raised totalled EUR 7.6 billion. The growth of corporate and housing corporation loans in 2010 totalled 6.2%. Increased competition and scarcity of investments reduced corporate loan prices, but not down to the pre-financial crisis level.

OP-Pohjola's strategy, of significantly improving its market position, was achieved in corporate banking. Regional corporate banks and Pohjola placed a tighter focus on financing investments and acquisitions of medium-sized and growth companies.

The financial crisis led to the realisation of some corporate loan losses, but still at a modest volume. Losses remain much lower than expected.

### Euro-denominated corporate loan portfolio, 12-month change



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## Better prospects in agriculture and forestry

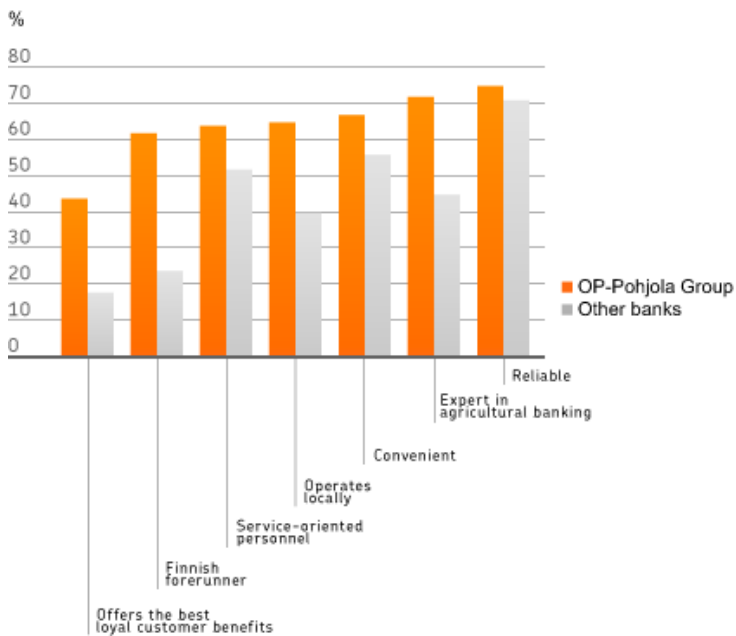
Farms' investments recovered slightly, mainly due to higher revenue from grain and timber sales. However, new investments in production buildings fell off from normal levels. In 2010, OP-Pohjola reinforced its market share in agricultural financing to more than 60%.

Due to the economic upturn in 2010, private forest owners' timber sales revenue rose by more than 40%, to some EUR 1.4 billion. In addition, timber prices saw strong growth. In stumpage revenue of private forest owners, OP-Pohjola holds a 55% market share. Timber sales revenue for 2011 is expected to remain at least at 2010's level.

OP-Pohjola is striving to become the market leader in agricultural and forestry insurance. In four years, Pohjola Insurance increased its share of the farm insurance market from 2% to almost 15%. This growth has been boosted by fruitful cooperation between all OP-Pohjola actors involved in the agriculture and forestry sector.

OP-Pohjola launched its forest insurance campaign in 2010. During this campaign, those selecting the Group as both their banking and insurance provider were given a loyalty bonus: new forest insurance, free of charge for one year. Consequently, forest insurance sales grew nearly four-fold from the previous year. The Group now commands almost one fifth of the forest insurance market.

### Farmers' opinions of their main bank



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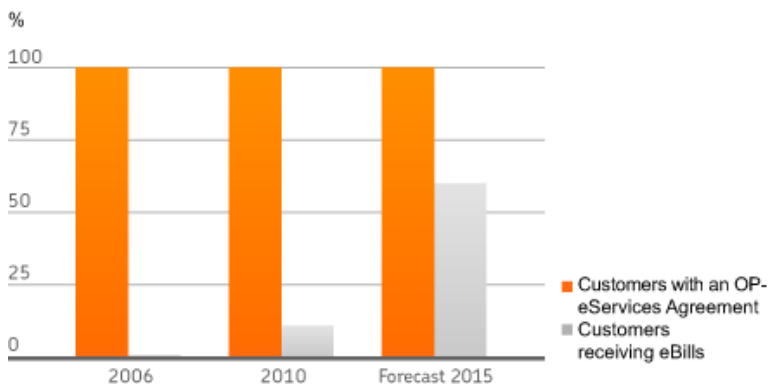
## SEPA reform and online transactions leaping forward

Corporate customers are currently adopting SEPA payment transfer services. Public institutions and large companies have been among the first to do so. For the most part, customer services have already been reformed. Payments can now be transferred in 31 European countries, between the more than 4,000 banks participating in the pan-European standard. The new payment forms are available for private and corporate customers using online banking. There, use of the international IBAN account number is already standard practice.

On the whole, the SEPA transfer has gone well within OP-Pohjola Group. In technical terms, this required greater effort than the adoption of the euro. Given the size of this change, the few disturbances experienced in year-end payment transfers were entirely understandable. New SEPA efforts are in view for 2011, both for the bank and its corporate customers. The main issue lies in preparations to replace the national direct debit facility with the more advanced eBill. At the end of the year, online services for private customers began to allow international IBAN account numbers only. This change proceeded well.

Another major achievement for payment transfer services was the notable increase in eBilling. Private customers received 58% more eBills through the online service than last year. Corporate customers sent and received 71% more eBills. A powerful challenger to paper invoicing, eBills are also fast eroding direct debit's popularity as a payment method.

### Customers with OP-eServices Agreement and customers receiving eBills



More than a million private customers have a daily finances service package: a payment transfer account, online services and online bank statements, and an international, SEPA-compliant card. Indeed, online services have become the most popular transaction channel among OP-Pohjola Group's 1.4 million customers.

OP-Pohjola Group succeeded extremely well in competitive tenders by the public sector. Cooperative banks and Pohjola Bank won most public contracts for payment transfers and electronic billing in Finland.

## Deposit volumes rising

Total deposits grew by 5.3% in 2010. While payment traffic accounts saw most growth, investment accounts also increased. Corporate deposits saw stronger growth than private customers' deposits. On 31 December 2010, OP-Pohjola's market share of deposits totalled 32.5%.

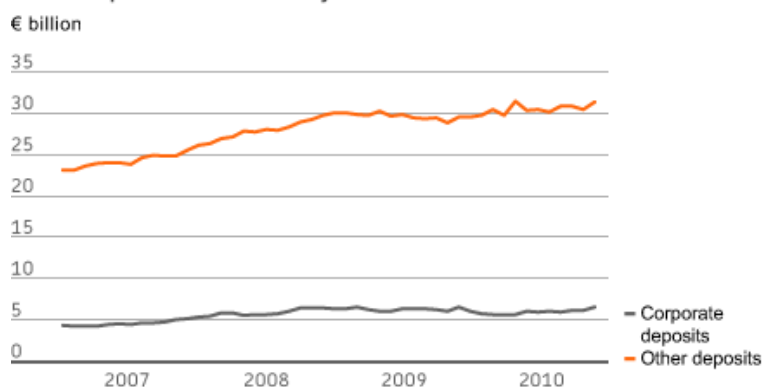
### Deposits

€ billion	2010	2009
Deposits in households' current accounts	12	12
In corporate current accounts	4	4
Investment deposits	17	17
Others	3	2

Price competition for deposits intensified during the first half of the year. For fixed-term deposits, banks began to offer much higher interest rates than the Euribor reference rates. During the early autumn, deposit margins converged downwards with Euribor rates, as the fierce price competition relented. Prices normalised for deposits with a maximum term of six months. However, for deposits with a term of over 12 months, year-end prices were still slightly above normal.

OP-Pohjola introduced two new return accounts, the Step-up Account and Growth Return Account. These are demand investment accounts with a higher interest rate than a regular payment transfer account. A Growth Return Account earns interest on the daily balance, the interest rate rising in increments accordingly. This account includes the option of benefiting from a higher, fixed-term interest rate.

### Total deposits at OP-Pohjola



## Competitive and broad mutual fund range

OP-Pohjola seeks to offer the best mutual fund solutions, responding to customers' changing investment and saving needs. During 2010, OP-Pohjola retained its position as a leading provider in the Finnish mutual fund market. The Group's share of capital invested in mutual funds registered in Finland totalled 23.4% (23.4). Its share in terms of shareowners was 20.9% (21.1).

### Capital invested in mutual funds

€ billion	2010	2009
Equity and hedge funds	4.9	3.9
Balanced funds	1.5	1.5
Long-term bond funds	5.9	5.0
Money market funds	2.1	2.3
Total	14.4	12.7

In 2010, six new mutual funds were added to the product range:

- OP-EMD Local Currency Fund (Non-UCITS)
- OP-Capital Guaranteed Fund 2015 (95) (Non-UCITS)
- OP-EMD Portfolio Fund (Non-UCITS)
- OP-Horizon 2045 Fund (Non-UCITS)
- OP-Emerging Europe Fund (UCITS)
- OP-Bond Yield Fund (UCITS)

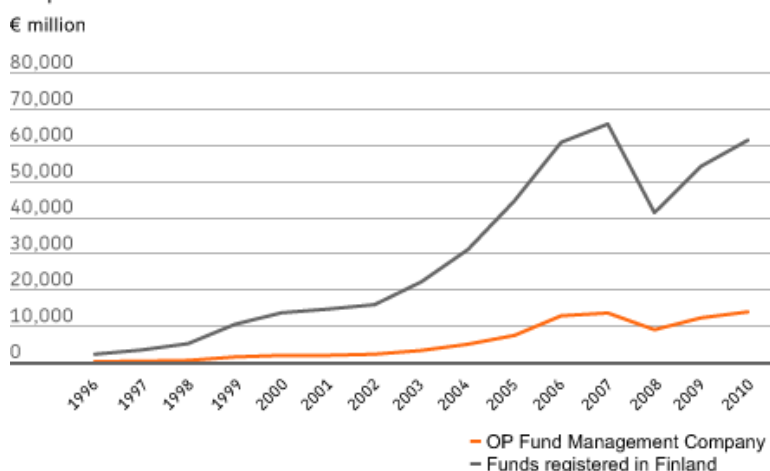
Equity funds and corporate bond funds continue to be the most popular means of saving and investment. Emerging market bond funds, launched in 2010, attracted the interest of corporate and institutional customers in particular. A favourable market environment supported demand for risk-carrying investments. In spite of occasional market jitters, investors retained strong confidence in OP mutual funds.

The majority of OP mutual funds' portfolios are managed by Pohjola Asset Management Ltd, the Finnish market leader in institutional asset management. For some funds, the company has outsourced portfolio management to international partners.

International partners' funds complement the OP mutual fund range. Key international partners include J.P.Morgan Asset Management and Fidelity International.

In support of investment decisions, OP-Pohjola offers many free-of-charge services to mutual fund customers. Of these services, the most popular are the Mutual Fund Review, model portfolios for investors or savers, tactical mutual fund tips and the corporate model portfolio.

### Capital invested in mutual funds



The mark of a good group \*

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## Custody services gaining in popularity

Book-entry securities accounts are used by customers investing in Finnish equities or bonds. More than 300,000 OP-Pohjola customers have such an account. In 2010, their number increased by more than 10,000.

Custody reports provide customers with a quick overview of their national and foreign investments. These include funds, unit-linked insurance, equities, bonds and savings and investment accounts. In addition, the custody service includes detailed information on returns, risks and cash flows, and capital gains on the sale of securities. These details are useful for verifying tax proposals.

### **Market Information Service provides full market data**

The Market Information Service provides comprehensive information on the investment market in general. It also gives detailed information on equities, funds, derivatives, interest rates and currencies. Using this service, the customer can analyse individual investments, before making an actual selection.

In 2010, more than 80,000 daily visits were made. During important investment market events, the service received more than 100,000 visits a day.

## **OP-Pohjola offers Finland's best private banking**

OP-Pohjola provides personalised asset management, by agreement. During 2010, customer assets managed by the Group's Private Banking unit increased by 38%. The number of customers rose by 28%. This service is offered through Finland's largest private banking network, i.e. 33 locations.

The Group's Private Banking services and the unit's professional expertise have been recognised both nationally and internationally. In a Euromoney magazine survey in 2010, OP-Pohjola ranked highest in the category "Best private banking services overall in Finland". Services were evaluated both in light of financial indicators and expert statements provided by competitors.

In OP-Pohjola, a total of 2,641 employees have passed the General Securities Examination of the Federation of Finnish Financial Services. This represents 33% of all those who have passed the examination. A total of 75 asset managers have completed the OP-Private Banker degree programme, organised in collaboration with Hanken School of Economics.

## Q&A Harri Nummela

### What are Banking and Investment Services' key strengths and competitive advantages?

We offer the market's largest complete range of banking and insurance services. It pays to concentrate your business with OP-Pohjola. In addition to our products and services, we offer loyalty benefits. Thanks to our versatile service network – branch network, online and telephone services – we are present and available close to our customers.

### What surprises did 2010 bring?

I was delighted by the relatively rapid economic recovery in 2010. Brisk economic growth cushioned customers' finances from the expected pain levels. Based on households' confidence in the future, house purchasing was lively and demand for loans high.

The major negative surprise was the lack of interest in long-term saving. Hopefully, bound long-term savings accounts will draw more attention and awareness. In Finland, there is a clear need to complement statutory pension cover with optional savings schemes.

### Anything new in the pipeline for customers?

In 2011, OP-Pohjola will speed up the development of new banking and investment services. This means launching a range of new offerings for our customers. In addition to private customer services, we are also busy developing our corporate banking services.



**Harri Nummela\***  
Chief Executive Officer,  
OP-Services Ltd

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\* Executive Vice President, Head of Banking and Investment Services, OP-Pohjola Group until 31 December 2010

## Life Insurance edging up

2010 was a time of robust growth for Life Insurance, while OP-Pohjola markedly improved its market position. OP-Pohjola relies on its strengths: versatile products for insurance saving or insuring life and health risks, and its large service network.

### Key figures

	2010	2009
Premiums written (FAS), € million	1,846	771
share of unit-linked premiums written, %	33.8	48.9
Insurance savings, € million	7,079	6,100
share of unit-linked savings, %	44.3	39.3
Earnings before tax at fair value, € million	263	194
Return on investments at fair value, %	9.5	8.8
Solvency ratio, %	15.9	13.3
Personnel, FTE	147	148

In the life insurance sector, total premiums written grew strongly in 2010. Based on the Federation of Finnish Financial Services' statistics, total premiums written by life insurance companies rose to EUR 4.8 billion, or 56% higher than in the previous year. The greatest growth driver was capital redemption contracts. The related premiums written more than doubled to EUR 1.7 billion. Premiums written in group pension policies also grew notably.

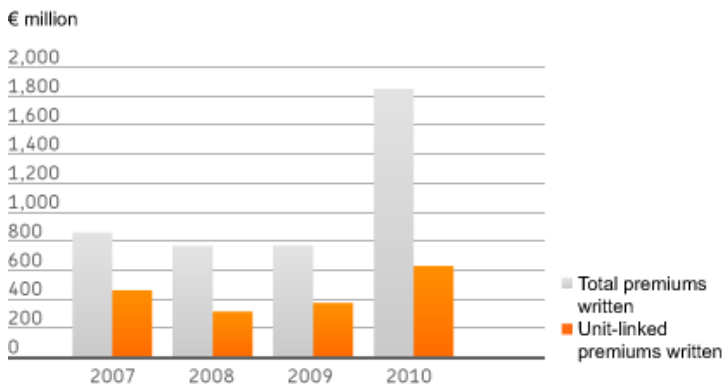
Customers lost interest in individual pension saving, due to less favourable terms. Life insurance companies sold only 12,000 new pension policies in 2010, against nearly 50,000 in 2009. Even the new pension saving option, the bound long-term savings account, was unable to compensate for this huge drop. Banks, fund management companies and investment service companies began offering this new product at the beginning of the year. However, it was much less popular than expected.

## Customers rely on professionals

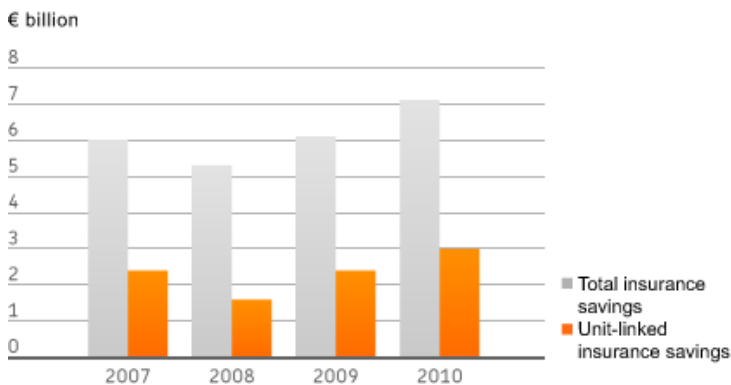
In the life insurance market, OP Life Assurance Company performed excellently in 2010, notably strengthening its market position. Premiums written totalled EUR 1.9 billion. The company's market share of all premiums written grew by 13 percentage points to 39%. The company enjoyed particular success in transfers of pension liabilities. Indeed, all major pension liabilities transferred ended up with the OP Life Assurance Company. This is a powerful sign of customers' trust in its expertise.

In line with its strategy, OP Life Assurance Company invests in pension insurance, as well as unit-linked saving and its development. Unit-linked premiums written grew by 66%, to EUR 0.6 billion. Its market share in insurance savings came to 21.3%.

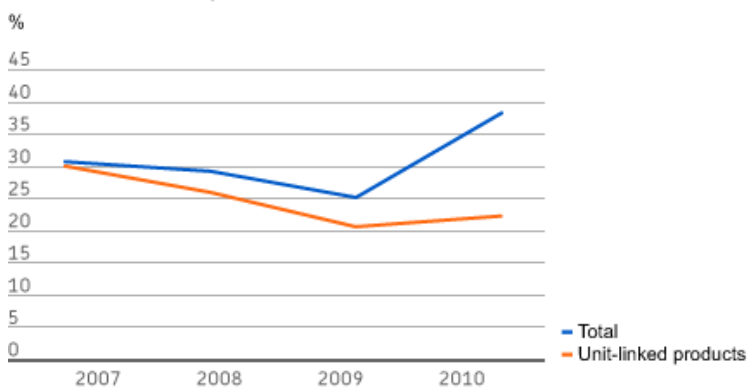
### Premiums written (FAS)



### Insurance savings



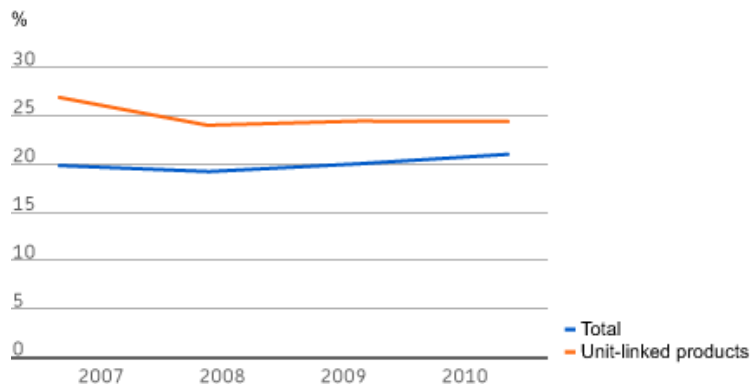
### Market share in premiums written



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### Market share in insurance savings



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## Insurance rewards active savers

In 2010, unit-linked saving particularly gained in popularity. OP Life Assurance Company's unit-linked premiums written increased by 32%, attaining EUR 3.1 billion. New investment instruments were launched as alternatives to interest-bearing savings. Services for OP-Private customers were also actively developed.

Savings and unit-linked policies are best suited to customers who wish to manage their savings actively but conveniently. These policies allow the customer to bundle a number of mutual funds or other investment instruments together, and to switch them without a surcharge. The return on savings is taxed only upon the agreement's expiry.

From the beginning of the year, the new Act on bound long-term saving weakened the terms of new individual pension insurance. Compared to 2009, a clear fall in new insurance sales reflected customers' negative reaction to this. Pension policies are a flexible means of supplementing statutory pension cover. Although pension insurance premiums are tax deductible, the pension paid is treated as taxable income. Pension insurance is a tax-subsidised form of long-term saving. This means that, with a few exceptions, customers cannot access their savings before retirement.

### Term insurance cover insufficient

In term life insurance, OP Life Assurance Company's premiums written rose by 6%, to EUR 88 million. Campaigns and redesigned products were launched in 2010 to perk up demand for term insurance. Although premiums written increased, life and health risks remain underinsured in Finland. The death or permanent incapacity of a breadwinner poses the greatest risk to a family's livelihood. OP Life Assurance Company's term life policies help in preparing for such a risk. Customers can take out these policies either as separate products, or as part of financing (loan repayment security).

## Life Insurance prepares for change

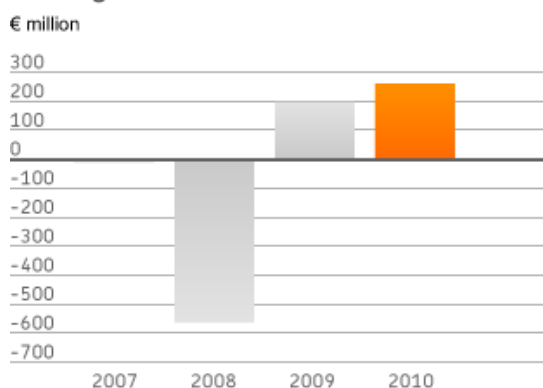
OP Life Assurance Company's earnings and solvency enjoyed excellent growth in 2010. Earnings at fair value improved by EUR 69 million to EUR 263 million. Thanks to this strong earnings performance, solvency also improved, resulting in a solvency ratio of 15.9% (13.3).

As of 2013, insurance companies will begin implementing Solvency II, a reform of solvency calculations. The aim is to better protect the interests of policyholders, the insured and beneficiaries. Applied in the EU area, Solvency II will harmonise solvency capital requirements (SCR) set for insurance companies, the calculation of technical provisions and insurance supervision. It will also ease cross-border competitive tendering and comparison between insurance companies.

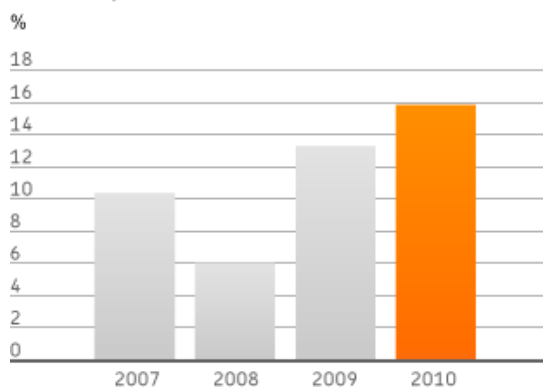
The calculation of SCR covers all material risks for which insurance companies must prepare. Such risks include interest rate rises and stock market declines. The better a company manages insurance and investment risks, the lower its SCR becomes.

This reform will improve the protection of insurance customers. On the other hand, a lower investment risk is likely to mean a smaller total return from interest-bearing insurance.

### Earnings before tax at fair value



### Solvency ratio



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## Q&A Jarmo Kuisma

### What are Life Insurance's key strengths and competitive advantages?

Accessibility and ease of service. Based on Finland's widest service network and a comprehensive range of products, we can guarantee customer-oriented service. Further strengths include security and customer benefits. As a very high-solvency Group owned by our customers, we can provide secure and cost-effective life-insurance products.

### What surprises did 2010 bring?

The rapid recovery from the 2008 financial crisis was a positive surprise. After falling off the edge of a cliff, customer investments regained their value in just two years. A negative surprise was the drop in pension saving. Corporate customers boosted OP Life Assurance Company's position in pension saving. However, tax changes reduced private customers' enthusiasm for supplementary pension cover.

### Anything new in the pipeline for customers?

OP-Pohjola will continue to develop both its basic insurance products for a broad customer base and its versatile and customer-oriented savings products.



**Jarmo Kuisma**  
Managing Director,  
OP-Life Assurance Company Ltd

## Non-life Insurance

OP-Pohjola is Finland's leading non-life insurer. Pohjola provides private, corporate and institutional customers with diverse and comprehensive insurance coverage. Pohjola Group's non-life insurance operations include not only Pohjola Insurance, but also A-Insurance, Eurooppalainen, and Seesam companies operating in the Baltic countries.

### Key figures

	2010	2009
Insurance premium revenue, million €	964	943
Earnings before tax, million €	83	102
Operating combined ratio, %	89.7	87.7
Operating expense ratio, %	21.3	22.2
Return on investments at fair value, %	5.1	10.7
Solvency ratio, %	86	88
Personnel	2,090	2,070

### Pohjola's Non-life Insurance

Pohjola Insurance Ltd	General insurance
A-Insurance Ltd	Insurance for commercial transport, earthwork and machinery contractors
Eurooppalainen Insurance Company Ltd	Travel insurance
Seesam Estonia	General insurance
Seesam Latvia	General insurance
Seesam Lithuania	General insurance

### What is non-life insurance?

Non-life insurance means bearing the customer's risk against an insurance premium. Non-life insurance earnings before tax are based on the balance on the technical account, investment income and other income and expenses. 'Balance on technical account' refers to insurance premium revenue less claims incurred and operating expenses.

The most important profitability indicator is the combined ratio, which shows the proportion of claims incurred and operating expenses versus insurance premium revenue. Profitability of non-life insurance is supported by e.g. risk-based pricing, proactive loss prevention, reinsuring the greatest individual risks and the efficiency of claims settlement services.

The purpose of non-life insurance investment activities is to invest assets, covering technical provisions and equity, in a sufficiently diversified investment portfolio to ensure profits and security.

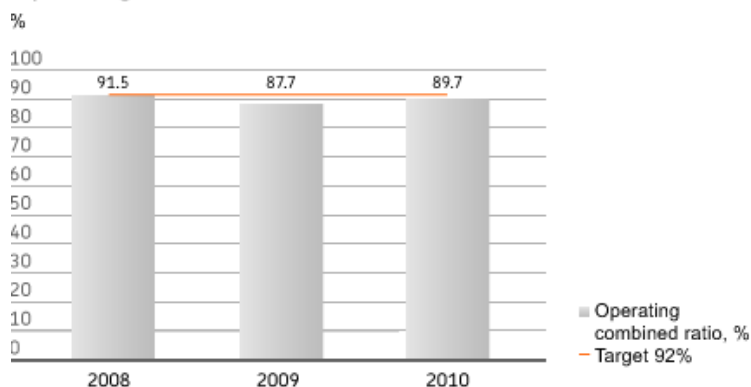
Non-life insurance most usually enters the lives of customers through payouts. Pohjola's extensive partner network and efficient purchasing are giving the firm a competitive edge.

## Insurance market

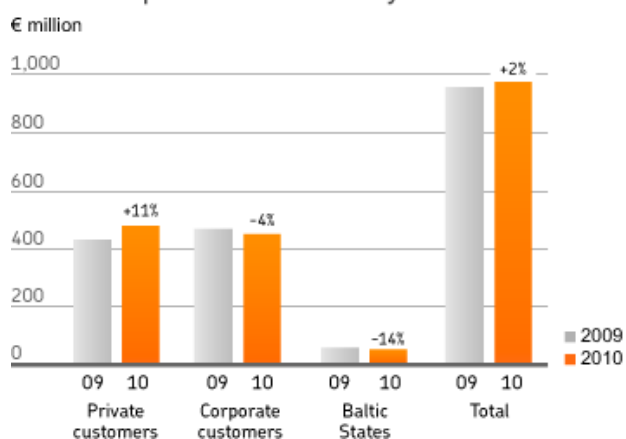
In the Finnish non-life insurance market, estimated total premiums written by insurance companies in 2010 come to EUR 3.4 billion. This represented 2% growth on the previous year. The recession continued to affect the insurance market, by reducing corporate customers' insurance premiums, which are based on payroll bills, net sales and earnings. Today, property risks, and life and health risks in particular, are insured to a smaller extent in Finland than other Nordic countries. This means that Finland has huge growth potential in life and health insurance.

### Related graphs

#### Operating combined ratio



#### Insurance premium revenue by division and its change



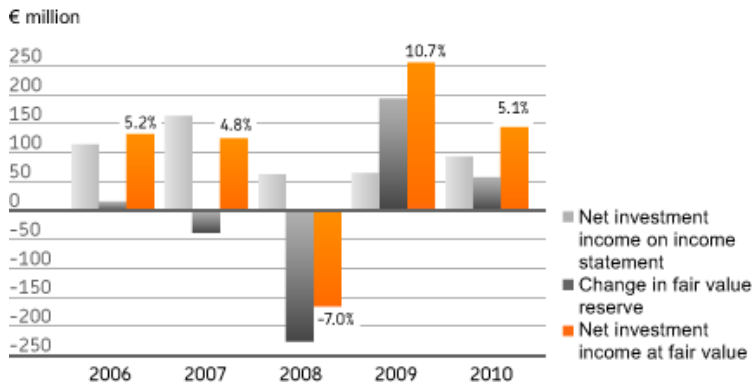
#### Investment portfolio allocations



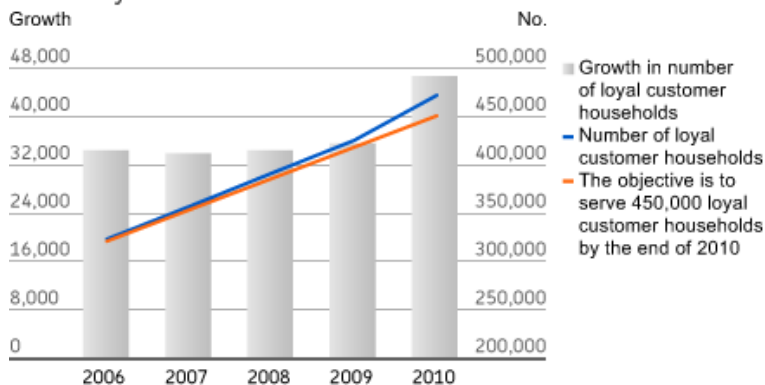
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## Net investment income and change in fair value reserve



## No. of loyal customer households

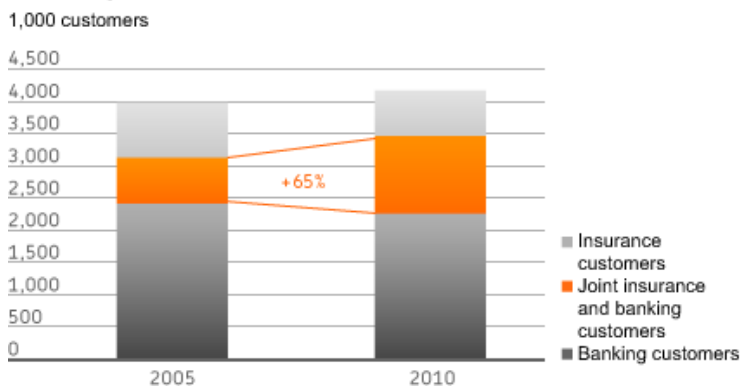


Pohjola is Finland's leading non-life insurer. In 2009, its share of domestic direct insurance premiums written was 27.6%. OP-Pohjola's strategic goal is to continue above-market-average growth, to strengthen its market leadership and to remain highly profitable. Its long-term profitability target, as measured by the operating combined ratio, is 92%.

We will reinforce our market position in non-life insurance. This will be achieved through effective leverage of the Group's joint customer base and service network, and by closer integration of banking and non-life insurance operations.

In both the private and corporate customer segments, we are seeking new customers among member cooperative banks' clientele in particular. In this, we aim at comprehensive, permanent customer relationships. We aim to increase our market share among corporate customers, particularly in the SME segment.

## OP-Pohjola customer base



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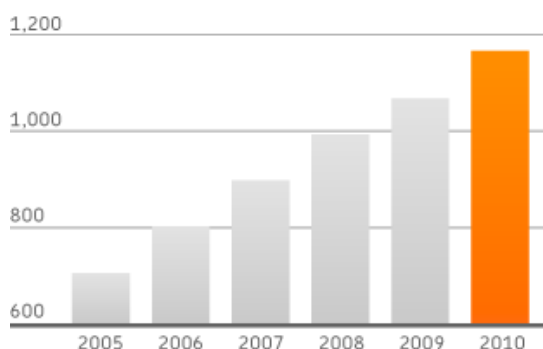
## Private customers became largest business division in 2010

For our private customers, we offer diverse and comprehensive insurance coverage. Customers of both OP-Pohjola's banking and insurance services can use OP bonuses, earned through banking and insurance transactions, to pay non-life insurance premiums. In 2010, a total of EUR 56 million in OP bonuses was used for this. OP bonuses were used to pay for some 1,088,800 premiums, with 18% paid in full with bonuses.

As part of cooperation between OP-Pohjola and K-Group, K-Plussa loyal customers also earn K-Plussa points. They do so by paying their Pohjola insurance premiums, covering home, family and motor vehicle insurance policies.

### OP-Pohjola Group's joint banking and non-life insurance customers

1,000 customers



In 2010, insurance premium revenue from private customers continued to show strong growth, making private customers the largest business division in non-life insurance. The recession continued to affect the business sector, reducing insurance premium revenue from corporate customers.

The number of loyal customer households has grown rapidly. Five years ago, we set a strategic goal of having 450,000 loyal customer households by the end of 2010. We achieved this goal already in August.

Regarding corporate customers, the decline in premium revenue began to decelerate, reaching the 2009 level in the second half of 2010. The investment market's performance fluctuated over the year; this was reflected in investment income.

Exceptional items weakened the financial results for non-life insurance. The aggregate impact of these was EUR 20 million. In the mortality model generally applied by insurers, higher life expectancy increased the amount of technical provisions, while increasing claims paid by EUR 35 million. Following a legal amendment, the removal of a provision for the guarantee scheme under statutory workers' compensation insurance and motor liability insurance increased other income by EUR 15 million.

The merger of Pohjola Insurance Ltd and Pohjantähti Mutual Insurance Company was cancelled, due to the merger plan's rejection by Pohjantähti's Extraordinary General Meeting in December.

#### Customers

	2010	2009
Private customers	1,787,000	1,690,000
Corporate customers	132,000	127,000

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## **Rapid growth in agricultural and forestry customer volumes**

OP-Pohjola aims to become the market leader in agricultural and forestry insurance. In just four years, Pohjola's share of the farm insurance market has increased from 2% to 15%.

In forest insurance, Pohjola's market share has risen to nearly 20%. However, there is still room for growth since half of private forests, or around 7.5 million hectares, remains completely uninsured. There are approximately 600,000 private forest owners in Finland.

OP-Pohjola's solid experience in this sector has contributed to such growth. Another factor has been the expertise and leading market position of member co-operative banks in agricultural and forestry financing.

## Extensive services for corporate customers

For companies and institutions, Pohjola offers the full range of statutory and voluntary insurances. The key elements of the corporate customer service concept include versatile and comprehensive risk management services, services related to earnings-related pension, and proactive loss prevention and safety counselling. We aim to increase our market share among corporate customers, particularly in the SME segment.

To meet its customers' [international insurance cover](#) needs, Pohjola's global service network provides insurance and risk management services, based on knowledge of specific local circumstances. RSA, a world-leading non-life insurer with network-based operations in 135 countries, has been Pohjola's partner for over 30 years.

Pohjola reinsures the largest individual risks and any accumulation of risks entailed by possible catastrophes. For risk diversification, Pohjola has 35 reinsurer partners, the main reinsurer being Munich Re. According to an assessment by S&P, all of Pohjola's reinsurance partners are in class A.

## **Ratio of premiums written to GDP still low in the Baltic region**

The Pohjola-owned Seesam companies provide their customers with local, expert services and comprehensive insurance coverage in Estonia, Latvia and Lithuania. Seesam also sells an extensive range of insurance products through other distribution channels, such as banks, brokers and its agents. Pohjola aims to strengthen its market share in the Baltic region, which is currently approximately 7%.

In the Baltic non-life insurance market, total premiums written by insurance companies in 2010 are estimated at EUR 0.8 billion. The recession continued to reduce insurance premium revenue in the Baltic States. Furthermore, the ratio of premiums written to GDP is still low in these countries. While demand exists for extending customers' insurance cover, in the current economic situation growth remains challenging.



## **New business from wellbeing**

Pohjola Insurance's subsidiary, Pohjola Health Ltd, opened for business at the beginning of 2011. The company provides its customers with new types of expert services related to the analysis, monitoring, measurement and management of employee wellbeing.

In Finland, employees take an average of 11 days of sick leave per year, due to illness or accident. Pohjola Health helps its corporate customers to manage and develop employee wellbeing and wellness, enabling, for example, a major drop in the number of sick days. In Finland, it is estimated that demand for employee wellbeing management and development services will grow strongly over the next few years.

## Claims settlement services under reform

In 2010, Pohjola received 390,000 loss reports. We take pride in providing fast and efficient claims settlement services of consistent quality and close to the customer. Customers can submit claims by phone or mail, or through our online services. Our efficient claims settlement services are enabled by our extensive partner network. Pohjola has partnership contracts with firms representing over 20 industries, such as healthcare service providers, car repair shops, building firms and household appliance retailers. The goal of claims settlement is to further improve customer satisfaction and speed of service.

## Insurance claim of an ordinary person

### Under a crashing plane

Mexico City, 4 November 2008. Ulrika Björkstam had just left work for the day, when a small aircraft crashed less than 20 metres from her. The pressure wave blew Björkstam flat on the street. Aeroplane parts and debris from stricken buildings were hurled through the air, while Björkstam's clothing was set alight by kerosene splashes and the blaze following the explosion. Clothes made of synthetic materials melted in the heat. Luckily, Björkstam was also wearing natural fibres, particularly her leather boots. This enabled her to get back on her feet.

### Returning to Finland for treatment

In Mexico, Björkstam was working for a Finnish firm; she thereby benefited from the statutory workers' compensation insurance her employer had taken out with Pohjola. A period of hospital treatment and rehabilitation followed the accident. To begin with, Björkstam spent four months in hospital. Pohjola made good use of the Eurooppalainen travel insurance company's global network. As soon as it was possible to transfer Björkstam from the Mexican hospital, she was transported first to Dallas, and then to the Töölö Hospital Burns Unit in Helsinki.

In spring 2009, she was released from hospital to begin home-based treatment and rehabilitation. Two years of varied treatment lie behind her: eight operations and skin-grafts, pressure garment therapy to prevent scarring, physiotherapy, speech therapy and trauma therapy. Plastic surgery still lies ahead.

Because the accident occurred when she was leaving work, treatment and rehabilitation expenses were covered by the workers' compensation insurance taken out by Björkstam's employer.

### Rehabilitation and return to work

At Pohjola Insurance, several people were involved in arranging Björkstam's care. "We have aimed to ensure that Ulrika receives the best possible care and to support her during her recovery and return to work," says Anneli Kaartinen, Head of Bodily Injury Claims Unit/Workers' Compensation and Motor Insurance at Pohjola.

Face-to-face meetings between claims handlers and the customer are unusual. However, in Björkstam's case, frequent contacts were needed to sort out the complex issues involved. Because of the need to put names to faces, three joint meetings were arranged.

According to Kaartinen, Ulrika's own account of the events was helpful in arranging the claims issues. Ulrika felt that having an opportunity to recount her memories of the accident was important, as was gathering information from different sources in order to build an overall picture of what happened.

Björkstam's fixed-term employment contract expired before she regained her ability to work. However, she negotiated and obtained a trial position, as part of the rehabilitation paid for by the insurance company. Last summer, she began a new job with the same employer.

Björkstam is still receiving care. In the future, she will undergo further reconstructive operations, aimed at restoring her as closely as possible to her former appearance.

"Insurance companies are often criticised, but in a real emergency they are there for you," acknowledges Björkstam.

## Q&A Jouko Pölonen

### What are the key strengths and competitive edges of non-life insurance?

We provide private, corporate and institutional customers with diverse and comprehensive insurance coverage, as part of OP-Pohjola's financial offering. In customer service, our strengths lie in OP-Pohjola's profound knowledge of customers, as well as our local approach, supplemented by online and telephone services. Our customers benefit from the best loyalty benefits in the financial sector. For them, the opportunity to pay either part, or all, of their insurance premiums with OP bonuses, is a huge advantage that our competitors cannot offer.

### What surprises did 2010 bring?

No major unexpected challenges arose. The basic philosophy behind insurance business is the sharing of risk, as well as preparing for unexpected events. In 2010, difficult weather conditions in the early winter and storms in late summer increased the number of claims, but the balance on technical account remained very good. Due to our solid reinsurance protection, these events had only a minor impact on our profit.

### Anything new in the pipeline for customers?

As of 1 January 2011, private customers will also earn OP bonus from non-life insurance premiums. In addition, we will develop our online services. This will make it easier for customers to handle non-life insurance matters through our Internet banking service, at op.fi. Our online insurance services will become more and more convenient to use.

Pohjola Health Ltd, which began operating in January 2011, provides large corporate customers with new types of expert services in the analysis, monitoring, measurement and management of employee wellbeing.



**Jouko Pölonen**  
President,  
Pohjola Insurance Ltd

## Pohjola in brief

Pohjola Group is a Finnish financial services company providing banking, non-life insurance and asset management services. Its mission is to promote the prosperity, security and well-being of its customers.

Pohjola Group consists of three business segments – Banking, Non-life Insurance and Asset Management – and the Group Functions in support of the segments.



Pohjola is committed to strong capitalisation and a shareholder-friendly dividend policy. Its Series A shares have been listed on the Large Cap List of NASDAQ OMX Helsinki since 1989, with POH1S as the trading code and Financials as the industry class. Pohjola has approximately 35,000 shareholders.

Together with OP Mortgage Bank, Pohjola manages OP-Pohjola Group's liquidity and international funding. All of the three credit rating agencies have affirmed AA rating for Pohjola's long-term debt.

At the end of 2010, the number of Pohjola Group employees totalled around 3,000.

	OP-Pohjola Group 2010	Pohjola 2010	OP-Pohjola Group 2009	Pohjola 2009
Balance sheet total, € million	83,969	36,184	80,430	35,510
Receivables from customers, € million	56,834	12,433	52,992	11,323
Deposits, € million	36,443	4,231	34,617	4,133
Equity capital, € million	6,726	2,377	6,187	2,267
Tier 1 ratio, %	12.8	13	12.6	11.8
Doubtful receivables, € million	204	31	223	44
Doubtful receivables as percentage of loan and guarantee portfolio, %	0.3	0.22	0.4	0.32
Loan and guarantee portfolio, € billion	59.4	14.0	55.6	13.3
Impairments of receivables, € million	149	104	179	129
Impairments of receivables as percentage of loan and guarantee portfolio, %	0.25	0.73	0.32	0.94
Personnel	12,504	3,005	12,504	2,966

[Pohjola Bank Plc electronic Annual Report](#)

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## Structure and Governance of OP-Pohjola Group

OP-Pohjola Group is an amalgamation of cooperative banks. It also includes companies in which these amalgamated banks hold more than half of the votes. Insurers are key examples of such companies, and it is owing to them that the OP-Pohjola Group forms a financial and insurance conglomerate.

[Read more: Legal structure of OP-Pohjola Group](#)

### Direct ownership structure within OP-Pohjola on 1 January 2011

Share of ownership, %	Member cooperative banks	Pohjola Group	OP-Pohjola Group Central Cooperative	Group total
OP-Pohjola Group Central Cooperative	100.0	0		100.0
Pohjola Bank plc	14.6		30.0	44.8
Pohjola Insurance Ltd		100.0		100.0
Eurooppalainen Insurance Company Ltd		100.0		100.0
A-Insurance Ltd		100.0		100.0
Seesam Companies		100.0		100.0
Pohjola Asset Management Ltd		90.0		90.0
Pohjola Corporate Finance Oy		66.0		66.0
Pohjola Property Management Ltd		100.0		100.0
Pohjola IT-Procurement Ltd		100.0		100.0
Pohjola Finance Estonia As		100.0		100.0
Pohjola Finance SIA		100.0		100.0
UAB Pohjolan Finance		100.0		100.0
OP Life Assurance Company Ltd	15.0	9.0	76.0	100.0
Helsinki OP Bank Plc			100.0	100.0
OP-Kotipankki Oyj	60.7	16.9	18.5	100.0
OP Mortgage Bank plc			100.0	100.0
OP Fund Management Company Ltd			100.0	100.0
OP IT Procurement LTD			100.0	100.0
OP-Services Ltd			100.0	100.0
OP Bank Group Mutual Insurance Company	78.5		14.9	100.0

Member cooperative banks account for 13.2% and OP-Pohjola Group Central Cooperative for 56.9% of Pohjola Bank plc's votes.

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## **Amalgamation of cooperative banks**

The amalgamation of cooperative banks is a deposit bank amalgamation, as referred to in the Act on Deposit Bank Amalgamations.

The amalgamation includes 1) its central institution, OP-Pohjola Group Central Cooperative; 2) companies and member credit institutions belonging to the Central Cooperative's consolidation group and, further, companies belonging to their respective consolidation groups; and 3) credit institutions and service companies in which the above-mentioned entities jointly hold more than half of the votes.

The minimum regulatory capital and liquidity of amalgamated companies are monitored on a consolidated basis. The central institution is responsible for the liabilities of its member credit institutions. In turn, member credit institutions are mutually responsible for each other's liabilities.

## **Member banks**

Group member cooperative banks own the amalgamation's central institution, OP-Pohjola Group Central Cooperative. They are also its members. In terms of their corporate form, member banks are cooperatives where decisions are made under a 'one member, one vote' principle.

The highest decision-making powers in a cooperative bank are exercised by either the Representative Assembly elected from owner-members, or the Cooperative Meeting. This body elects the bank's Supervisory Board which, in turn, elects the bank's Executive Board.

In the Helsinki Metropolitan Area, retail banking services are provided by Central Cooperative subsidiary, Helsinki OP Bank Plc.

## **Cooperative bank federations**

Cooperative bank federations are member banks' regional cooperation bodies. There are 16 federations, taking the form of registered associations. The federations nominate their candidates for the OP-Pohjola Group Central Cooperative Supervisory Board.



## OP-Pohjola Group Central Cooperative

OP-Pohjola Group Central Cooperative is the central institution of the amalgamation between cooperative banks. The cooperative's members are the amalgamation's deposit banks and other credit institutions. Under the Act on Deposit Bank Amalgamations, the central institution has both the right to control the member credit institutions and the obligation to supervise their operations.

The Central Cooperative carries out control and supervision duties. It does so from its position at the head of the financial and insurance conglomerate formed by OP-Pohjola Group. The Central Cooperative also acts as the Group's strategic owner institution.

The Central Cooperative's mission is to create the basis for OP-Pohjola Group's unity and success.

### Supervisory Board Duties



Paavo Haapakoski  
Chairman of the Supervisory Board

### Cooperative Meeting

The Cooperative Meeting and the Supervisory Board elected by it exercise the highest decision-making powers within OP-Pohjola Group Central Cooperative.

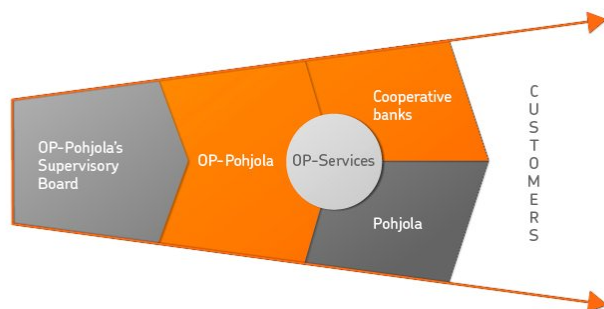
The Annual General Meeting of the cooperative is held before the end of May; extraordinary meetings are held when necessary.

The Annual Cooperative Meeting deals with the issues mentioned in the OP-Pohjola Group Central Cooperative Statutes. These include the adoption of the income statement and balance sheet and deciding on profit distribution. The Cooperative Meeting also elects members to the Supervisory Board.

At meetings, each cooperative member has a number of votes equalling its shares in the central institution. Member banks with a good financial standing have additional votes, as specified in the Central Cooperative Statutes. However, no-one may cast more than two per cent of the votes represented at the meeting.

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### Supervisory Board

OP-Pohjola Group Central Cooperative's Supervisory Board supervises the Central Cooperative's corporate governance, managed by the Executive Board and the President. It also ensures that the Central Cooperative's operations are managed in a professional and prudent manner, as required by the Cooperatives Act and in the best interests of OP-Pohjola Group. The Supervisory Board confirms OP-Pohjola Group's strategy, other joint objectives and operational policies. It elects and dismisses the Executive Chairman acting as the President, the other Executive Board members and deputy members, and the head of the Audit function. It also carries out the other duties stipulated for it in the Central Cooperative Statutes.

The Supervisory Board has a minimum of 32 and a maximum of 36 members, elected by the Cooperative Meeting. First, 16 to 20 members are elected to represent each cooperative bank federation. Then, another 16 members are elected to represent the federations. The number of representatives granted to each federation depends on their member banks' capital adequacy. From among its members, the Supervisory Board elects a Chairman and two Vice Chairmen.

The Cooperative Meeting decides on the Supervisory Board members' emoluments. The Chairman receives EUR 5,000 a month, Vice Chairmen EUR 2,500, and regular members EUR 300 per month. A meeting fee of EUR 500 is paid per meeting.

### Executive Board

The Executive Board is collectively responsible for the matters upon which it decides. In addition, Executive Board members and deputy members bear operational responsibility for the areas of responsibility and organisational entities individually designated to them.

The Executive Board has executive power within OP-Pohjola Group Central Cooperative. The Supervisory Board elects Executive Board members, who retain their positions until further notice.

The Executive Board is chaired by the Executive Chairman, who acts as the President. The Deputy to the Executive Chairman acts as the Executive Board's Vice Chairman. As per the Supervisory Board's decision, the Executive Board also includes two to five other members and a maximum of four deputy members. At the beginning of 2011, the Executive Board consisted of the Executive Chairman, the Vice Chairman, five members and one deputy member.

The OP-Pohjola Group Central Cooperative Supervisory Board decides on remuneration and other emoluments and benefits of the Central Cooperative's Executive Chairman acting as the President. It also determines those of other Executive Board members and deputy members. A written executive contract, approved by the Supervisory Board, stipulates the terms governing each Executive Board member's employment. The Executive Chairman's retirement age is 62, while Board members and deputy members retire at 63. Pension benefits are determined by pension legislation and OP-Pohjola Group's own pension plans. The maximum period of notice for both the Executive Chairman and employer is six months. During the notice period, the Executive Chairman receives his or her regular salary, as well as a severance pay equivalent to a 12-month salary.

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## Remuneration and fringe benefits of the Executive Board

	Salaries and emoluments, EUR		Fringe benefits, EUR	
	2010	2009	2010	2009
Chairman of the Executive Board	1,038,919	830,914	35,227	32,764
Other Executive Board members and deputy members	2,410,321	2,560,829	83,582	120,809

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## OP-Pohjola Group Central Cooperative's subsidiaries

### Pohjola Bank plc

Pohjola Bank plc (Pohjola) is a financial services group providing banking, non-life insurance and asset management services. The bank's highest decision-making powers rest with the Annual General Meeting and the Board of Directors elected by it. At the end of 2010, the Board of Directors consisted of eight members. Its Chairman and Vice Chairman were also members of OP-Pohjola Group Central Cooperative's Executive Board. Pohjola's business is headed by the President and CEO, assisted by the Group Executive Committee. The latter comprises the executive vice presidents of key business lines and heads of other operations.

### OP-Services Ltd

As of the beginning of 2011, OP-Pohjola Group Central Cooperative transferred its service provision operations to its newly established subsidiary. OP-Services Ltd provides, develops and maintains services needed by OP-Pohjola Group companies.

### Other subsidiaries

Helsinki OP Bank Plc is engaged in retail banking in the Helsinki Metropolitan Area.

OP Life Assurance Company Ltd runs OP-Pohjola Group's life and pension insurance operations in a centralised manner. It also sees to their development. The company's portfolio includes life, pension, investment and term insurance services.

OP Fund Management Company Ltd manages OP-Pohjola Group's mutual funds. In selling fund units, the company uses the member banks and Helsinki OP Bank's service network, as well as OP-Pohjola Group's online services.

OP Mortgage Bank, acting via the member cooperative banks, grants long-term housing loans against full collateral. The bank finances its operations by issuing mortgage-backed bonds.

OP-Kotipankki Oyj provides unsecured consumer loans to the cooperative banks' private customers.

### Other institutions

OP Pension Fund manages OP-Pohjola Group's statutory pension security. OP Pension Foundation handles supplementary pension security for persons covered by it.

OP Bank Group Mutual Insurance Company is OP-Pohjola Group's internal insurance company. It forms part of the Group's internal risk management system.

## OP-Pohjola Group's corporate governance

OP-Pohjola Group's corporate governance is based on Finnish legislation, the Finnish Corporate Governance Code and the Group's own corporate governance recommendations.

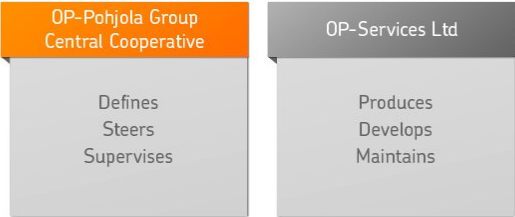
OP-Pohjola Group's operations comply with the laws of Finland and standards issued by virtue of them. Specifically, the Group's operations are governed by the Act on Cooperative Banks and other Cooperative Institutions, the Act on Deposit Bank Amalgamations, the Act on Credit Institutions, the Act on the Supervision of Financial and Insurance Conglomerates, the Cooperatives Act and the Insurance Companies Act.

Pohjola Bank plc also complies with provisions and instructions governing public limited companies. In addition, Pohjola Bank plc observes the Finnish Corporate Governance Code approved by the Securities Market Association in June 2010. However, Pohjola's corporate governance and control system deviates from this code. This is due to the Group structure and intense cooperation between the company and OP-Pohjola Group's other entities. Deviations are explained in line with the 'comply or explain' principle in Pohjola Bank plc's Corporate Governance Statement.

A distinct set of corporate governance recommendations have been confirmed for member banks, and another for cooperative bank federations. For member banks, the recommendations concern e.g. the banks' governing bodies and their composition, remuneration, internal control, risk management, internal audit and communication. Those for cooperative bank federations address the federations' operations and purpose, and the formation of members' voting rights. They also cover other issues related to a federation's meetings and the terms of office of its Executive Board members.

### Central institution was split into two companies

OP-Pohjola Group's central institution, OP-Pohjola Group Central Cooperative, divided its duties between two separate companies. Group steering and supervision was centralised into OP-Pohjola Group Central Cooperative, while service provision was transferred to OP-Services Ltd. The reorganisation entered into effect on 1 January 2011.



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## Executive Board



**Reijo Karhinen**

**Tony Vepsäläinen**

**Carina Geber-Teir**

**Harri Luhtala**

**Heikki Vitie**

**Tom Dahlström**

**Erik Palmén**

**Leena Kallasvuo**

**Markku Koponen**

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## Executive Board



**Reijo Karhinen**

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**Harri Luhtala**

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**Tom Dahlström**

**Erik Palmén**

**Leena Kallasvuo**

**Markku Koponen**

### **Reijo Karhinen**, b. 1955

President of OP-Pohjola Group Central Cooperative

Chairman

Executive Chairman

Member of the Board since 1994

Area of responsibility: Strategic Control – the Group's strategic steering, Group solidarity and stakeholder relations

Chairman of the Board of Directors of Pohjola Bank plc

Vuorineuvos (Finnish honorary title), M.Sc. (Econ. & Bus. Adm.), Honorary Degree from Turku School of Economics

#### **Relevant previous experience:**

President of OP Bank Group Central Cooperative 1997–2006 and its Executive Vice President 1994–1996

Kuopion Osuuspankki, Managing Director 1990–1994

Savonlinnan Osuuspankki, Managing Director 1988–1990

Varkauden Osuuspankki, Managing Director 1985–1988

Juvan Osuuspankki, Assistant Director 1979–1984

#### **Other relevant positions:**

Federation of Finnish Financial Services, Chairman of the Board of Directors

European Banking Federation, Board Member

Ilmarinen Mutual Pension Insurance Company, member of the Board of Directors

Central Chamber of Commerce, member of the Board of Directors

Luottokunta, member of the Supervisory Board

Unico Banking Group, member of the Steering Committee

#### **Shareholding and share-based rights in Pohjola Bank:**

No. of Series A shares 43,189 on 1 Jan 2010 and 52,802 on 31 Dec 2010

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## Executive Board



Reijo Karhinen

**Tony Vepsäläinen**

Carina Geber-Teir

Harri Luhtala

Heikki Vitie

Tom Dahlström

Erik Palmén

Leena Kallasvuo

Markku Koponen

### **Tony Vepsäläinen**, b. 1959

Chief Business Development Officer and Deputy to the Executive Chairman

Vice Chairman

Member of the Board since 2006

Area of responsibility: Business and Service Provision Management – CRM, business, service channels, service provision and strategic subsidiaries

Vice Chairman of the Board of Directors of Pohjola Bank plc  
LL.M., eMBA

#### **Relevant previous experience:**

OP-Pohjola Group Central Cooperative, President 2007–2010

Tampereen Seudun Osuuspankki, Managing Director 1998–2006

Turun Seudun Osuuspankki, Deputy Managing Director 1996–1998

Kuopion Osuuspankki, Bank Manager 1993–1996

Suomen Säästöpankki SSP Oy, Deputy to Area Manager 1992–1993

Pohjois-Savon Säästöpankki, supervisor duties 1985–1992

#### **Other relevant positions:**

Luottokunta, Vice Chairman of the Board of Directors

Finnish Cultural Foundation, member of the Board of Trustees

#### **Shareholding and share-based rights in Pohjola Bank:**

No. of Series A shares 1,767 on 1 Jan 2010 and 8,665 on 31 Dec 2010

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## Executive Board



Reijo Karhinen

Tony Vepsäläinen

**Carina Geber-Teir**

Harri Luhtala

Heikki Vitie

Tom Dahlström

Erik Palmén

Leena Kallasvuo

Markku Koponen

### **Carina Geber-Teir**, b. 1972

Chief Communications Officer

Member of the Board since 2009

Area of responsibility: Identity and Communications – brands, marketing, communications and corporate social responsibility  
M.Soc.Sc.

#### **Relevant previous experience:**

Varma Mutual Pension Insurance Company, Communications Director 2002–2009

#### **Other relevant positions:**

Federation of Finnish Financial Services, member of the Communications Committee

#### **Shareholding and share-based rights in Pohjola Bank:**

No. of Series A shares 0 on 1 Jan 2010 and 0 on 31 Dec 2010

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## Executive Board



Reijo Karhinen

Tony Vepsäläinen

Carina Geber-Teir

**Harri Luhtala**

Heikki Vitie

Tom Dahlström

Erik Palmén

Leena Kallasvuo

Markku Koponen

### **Harri Luhtala**, b. 1965

Chief Financial Officer

Member of the Board since 2007

Area of responsibility: Business Control – balance sheet control, business control, central bank operations, norm-based control, ownership and Group efficiency  
M.Sc. (Econ. & Bus. Adm.)

#### **Relevant previous experience:**

OP-Pohjola Group, various expert and supervisor duties 1989–2007

#### **Other relevant positions:**

Deposit Guarantee Fund, Chairman of the Board

Confederation of Finnish Industries EK, member of Finance and Tax Commission

Federation of Finnish Financial Services, Chairman of the Finance Committee

#### **Shareholding and share-based rights in Pohjola Bank:**

No. of Series A shares 2,460 on 1 Jan 2010 and 4,677 on 31 Dec 2010

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## Executive Board



Reijo Karhinen  
Tony Vepsäläinen  
Carina Geber-Teir  
Harri Luhtala  
**Heikki Vitie**  
Tom Dahlström  
Erik Palmén  
Leena Kallasvuo  
Markku Koponen

### Heikki Vitie

, b. 1952

Chief Administrative Officer

Member of the Board since 1994

Area of responsibility: Administration – finance and personnel of the central institution, labour market activities and premises

Master of Laws trained on the bench, M.Sc. (Econ.)

#### Relevant previous experience:

OP-Pohjola Group Central Cooperative, Senior Executive Vice President, Deputy to the President and Head of ICT and Human Resources Services 2007–2010

Executive Vice President of OP Bank Group Central Cooperative, Head of Service Function 2001–2006, of Group Administration 1995–2001 and of Management Support Services 1993–1994

OKO Bank, Executive Board Secretary 1985–1992

OP-Pohjola Group, various expert and supervisor duties 1979–1993

#### Other relevant positions:

Federation of Finnish Financial Services, member of the Labour Market Executive Committee

Oy Porasto Ab, Chairman of the Board of Directors

Deposit Guarantee Fund, Chairman of the Delegation

#### Shareholding and share-based rights in Pohjola Bank:

No. of Series A shares 3,491 on 1 Jan 2010 and 6,366 on 31 Dec 2010

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## Executive Board



Reijo Karhinen

Tony Vepsäläinen

Carina Geber-Teir

Harri Luhtala

Heikki Vitie

**Tom Dahlström**

Erik Palmén

Leena Kallasvuo

Markku Koponen

### **Tom Dahlström**, b. 1970

Chief Strategy Officer

Member of the Board since 2010

Area of responsibility: Planning and Development Management – strategic planning, development management, HR management, ICT management, macroeconomic monitoring, sector and competitor monitoring and research activities

D.Soc.Sc.

#### **Relevant previous experience:**

OP-Pohjola Group, various expert and supervisor duties 2000–2008

#### **Other relevant positions: -**

#### **Shareholding and share-based rights in Pohjola Bank:**

No. of Series A shares 124 on 14 June 2010 and 124 on 31 Dec 2010

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## Executive Board



Reijo Karhinen

Tony Vepsäläinen

Carina Geber-Teir

Harri Luhtala

Heikki Vitie

Tom Dahlström

**Erik Palmén**

Leena Kallasvuo

Markku Koponen

### **Erik Palmén**, b. 1959

Chief Risk Officer

Member of the Board since 2010

Area of responsibility: Risk Management Control – capital adequacy management, risk management methods, types of risk, risk exposure and joint responsibility

M.Sc. (Econ. & Bus. Adm.), M.Sc. (Eng.)

#### **Relevant previous experience:**

Nordea Bank Finland Plc, various expert and supervisor duties 1987–2009

#### **Other relevant positions: -**

#### **Shareholding and share-based rights in Pohjola Bank:**

No. of Series A shares 0 on 14 June 2010 and 0 on 31 Dec 2010

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## Executive Board



Reijo Karhinen  
Tony Vepsäläinen  
Carina Geber-Teir  
Harri Luhtala  
Heikki Vitie  
Tom Dahlström  
Erik Palmén  
**Leena Kallasvuo**  
Markku Koponen

### **Leena Kallasvuo**, b. 1956

Chief Audit Executive

Attending Executive Board meetings since 2010  
Area of responsibility: Audit  
M.Sc. (Econ. & Bus. Adm.)

#### **Relevant previous experience:**

Financial Supervisory Authority (Financial Supervision Authority), various expert and supervisor duties 2005–2010  
Trema Finland Oy 2000–2005  
Aktia säästöpankki 1997–2000  
Säästöpankkien Keskus-Osake-Pankki 1983–1996

**Other relevant positions:** -

#### **Shareholding and share-based rights in Pohjola Bank:**

No. of Series A shares 0 on 1 Jan 2010 and 0 on 31 Dec 2010

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## Executive Board



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Carina Geber-Teir  
Harri Luhtala  
Heikki Vitie  
Tom Dahlström  
Erik Palmén  
Leena Kallasvuo  
Markku Koponen

### Markku Koponen, b. 1957

Chief Legal Officer

Deputy member

Secretary of the Boards

Deputy member of the Executive Board since 2009

Area of responsibility: Legal Affairs and Supervision of Group Interests

Master of Laws trained on the bench, eMBA

#### Relevant previous experience:

OP-Pohjola Group Central Cooperative, Senior Vice President in charge of Corporate Communications 1998–2009

OP-Pohjola Group Central Cooperative (and its precursor), Secretary of the Boards since 1996 OKO Bank plc, Secretary of the Executive Board 1996–2006

Pohjola Bank plc (OKO Bank plc), Secretary of the Board of Directors since 2006

OKO Bank and Opstock Ltd, Issue Financing Chief and Issue Chief 1989–1996

OP-Pohjola Group, various expert and supervisor duties 1985–1989

#### Other relevant positions:

European Association of Cooperative Banks: member of the Steering Committee

Central Chamber of Commerce: member of the Legislation Committee

HSO säätiö: Chairman of the Board of Directors

#### Shareholding and share-based rights in Pohjola Bank:

No. of Series A shares 1,271 on 1 Jan 2010 and 2,061 on 31 Dec 2010

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## Supervisory Board

### Etelä-Pohjanmaa

Jorma Vierula, Director, Seinäjoki, 2009-2012

Jussi Ruuhela, Managing Director, Alavus, 2009-(2012) \*

### Etelä-Suomi

Leif Laine, Managing Director, Hyvinkää, 2009-2011

Tomi Korpisaari, Managing Director, Hausjärvi, 2009-(2012) \*

Jorma Pitkälä, maakuntaneuvos (Finnish honorary title),

Hämeenkoski, 2009-(2012) \*

### Kaakkois-Suomi

Jarmo Partanen, Professor, Lemi, 2009-2012

Kyösti Harju, maanviljelysneuvos (Finnish honorary title),

Lappeenranta, 2009-(2012) \*

Marjo Partio, Managing Director, Jaala, 2009-(2012) \*

### Kainuu

Mervi Väisänen, Senior Lecturer, Marketing, Sotkamo, 2010-2013

### Keski-Pohjanmaa

Hannu Simi, Planner, Alavieska, 2010-2013

### Keski-Suomi

Jaakko Pehkonen, Professor, Jyväskylä, 2008-2011,

Deputy Chairman of the Supervisory Board

Heikki Rosti, Managing Director, Jämsä, 2009-(2012) \*

### Lappi

Pekka Ahvenjärvi, Lawyer, Tornio, 2010-2013

Markku Salomaa, Managing Director, Rovaniemi, 2009-(2012) \*

### Pirkanmaa

Olli Lehtilä, Managing Director, Tampere, 2008-2011

(resigned his membership as of 11 June 2010)

Timo Viitanen, Headmaster, Pälkäne, 2009-(2012) \*

### Pohjois-Karjala

Juhani Leminen, Managing Director, Polvijärvi, 2008-2011

Paavo Pelkonen, Professor, Joensuu, 2009-(2012) \*

### Pohjois-Pohjanmaa

Paavo Haapakoski, liikuntaneuvos (Finnish honorary title),

Pyhäjoki, 2010-2013, Chairman of the Supervisory Board

Timo Levo, kauppaneuvos (Finnish honorary title), Oulu, 2009-(2012) \*

### Pohjois-Savo

Matti Pulkkinen, Director of the Northern Savo Hospital District,  
Kuopio, 2010-2012

Antti Hult, Managing Director, Kuopio, 2009-(2012) \*

### Satakunta

Marita Marttila, Senior Nursing Officer, Vampula, 2008-2011

Juhani Suoramaa, rakennusneuvos (Finnish honorary title),

Rauma, 2009-(2012) \*

Jarmo Tuovinen, talousneuvos (Finnish honorary title),

Harjavalta, 2009-(2012) \*

### Suur-Savo

Kari Manninen, Managing Director, Mikkeli, 2009-2012

Markku Lehtosaari, kunnallisneuvos (Finnish honorary title),

Savonlinna, 2009-(2012) \*

### Sydäkusten

Ola Eklund, Product Director, Karjaa, 2010-2013

### Varsinais-Suomi

Jukka Hulkkonen, Managing Director, Halikko, 2009-2012,

Deputy Chairman of the Supervisory Board

Irja Hirsinummi, Managing Director, Tarvasjoki, 2009-(2012) \*

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Mauri Kontu, Entrepreneur, Uusikaupunki, 2009-(2012) \*

Österbotten

Bo Storsjö, Farmer, Kristiinankaupunki, 2010-2013

Other members:

Timo Parmasuo, Chairman of the Board, Espoo, 2008-2011

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The Supervisory Board members' term of office is three years.

\* These members are elected on the basis of their member banks' capital adequacy. The maximum term is three years, which can end earlier if the allocation of seats among Cooperative Bank Federations changes.

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