

The mark of a good group *
OP-Pohjola Group Report
by the Executive Board and Financial Statements 2010



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Interim Reports 2011

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

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

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

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

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OP-Pohjola Group – the year in brief

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

OP-Pohjola Group's key indicators

	1-12/2010	1-12/2009	Change*
Earnings before tax, € million	575	464	24
Banking and Investment Services	367	471	-22
Non-life Insurance	83	102	-19.4
Life insurance	43	-159	
Bonuses paid to customers, € million	151	142	6.3
Return on equity (ROE), %	6.8	5.9	0.9
Return on equity at fair value, %	9.4	14.7	-5.3
Cost/income, % (Banking and Investment Services)	57	53	4.4
Average personnel	12,468	12,632	-1.3
	31 Dec 2010	31 Dec 2009	Change*
Total assets, € billion	84.0	80.4	4.4
Capital adequacy, %**	12.8	12.6	0.2
Tier 1 ratio, %**	12.8	12.6	0.2
Ratio of capital base to minimum amount of capital base***	1.7	1.58	0.12
Non-performing loan losses within loan and guarantee portfolio, %	0.3	0.4	-0.1
Market share, %			
Total loans	33.0	32.7	0.3
Total deposits	32.5	33.2	-0.7
Capital invested in mutual funds	23.4	23.4	0.0
Of insurance savings through life and pension insurance	21.3	20.0	1.3
	2010	2009	Change*
Of premiums written in life and pension insurance, %	38.6	25.2	13.4

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

** Pursuant to the Act on Credit Institutions.

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

Operating environment

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

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

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

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

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

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

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

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

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

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

OP-Pohjola Group's earnings and total assets

January–December

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

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

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

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

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

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

Earnings analysis

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

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Returns to owner-members and OP bonus customers

Bonuses	151	142	9	6.3
Interest on ordinary and supplementary cooperative capital	12	18	-6	-32.7
Total returns	163	160	3	1.9

* Percentage points

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

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

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

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

Key income statement items by quarter

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

* Comparatives for 2009 are given in brackets. For income-statement and other aggregated figures, January-December 2009 figures serve as comparatives. For balance-sheet and other cross-sectional figures, figures at the end of the previous reporting period (31 December 2009) serve as comparatives.

**The combined cost ratio excluding amortisation on intangible assets arising from the Pohjola acquisition and allocated to the business segment without the effect of changes in calculation bases.

Capital adequacy

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

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

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

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

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

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

Capital adequacy of the amalgamation of cooperative banks

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

Capital structure and capital adequacy

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

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Tier 1 ratio, %	12.8	12.6	0.2*
* Percentage points			

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

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

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

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

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

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

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

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

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

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

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

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

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resources/minimum of capital resources)	1.7	1.58	0.12*
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* Change in ratio

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Management of risks and solvency, and risk position

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

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

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

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

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

OP-Pohjola Group's risk exposure

Risk-bearing capacity

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

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

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

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

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

Credit risks

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

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

OP-Pohjola Group's industry and customer risks are diversified. At the end of the year, the largest single counterparty-related customer risk accounted for 8.1% (5.9) of the Group's capital resources. The risk limit for the biggest customer risk is 15%. At OP-Pohjola Group, industry risk is calculated for each main line of business, with

the following factored in: receivables and commitments in banking and investments, and direct investments in life and non-life insurance. On 31 December 2010, the highest industry risk was 14.9% (15.6) by 'lease and management of flats'. The industry risk limit is 18%.

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

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

OP-Pohjola Group's risk limits

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

Loan and guarantee portfolio by sector

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

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

Liquidity risk

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

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

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

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

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

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

Market risks

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

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

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

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

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

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

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

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

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

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

Operational risks

Financial losses caused by operational risks were small.

Underwriting risks

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

The reinsurance of Non-life Insurance is managed on a centralised basis. Retention in both risk-specific reinsurance and catastrophe reinsurance is a maximum of EUR 5 million. The capacity of catastrophe reinsurance covering loss accumulation stands at EUR 95 million. In addition, retention in major claims under the short-tail insurance products had an annual aggregate protection with a capacity of EUR 11 million in 2010. This protection will be brought into use when an annual claims expenditure arising from major losses is higher than usual.

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

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

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

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

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

The credit ratings are as follows:

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

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

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

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

OP-Pohjola Group's long-term financial targets

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

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

OP-Pohjola Group's success indicators:

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

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Changes in OP-Pohjola Group's structure

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

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

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

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

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

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

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

Owner-members and customers

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

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

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

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

Personnel and incentive system

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

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

Central Cooperative's corporate governance

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

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

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

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

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

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

Executive Board members' contract

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

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

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

Capital expenditure and service development

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

Joint responsibility and joint security

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

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

Outlook for 2011

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

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

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

Operations and earnings by business segment

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

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

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

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

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

Summary of performance by business segment

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

Banking and Investment Services

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

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

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

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

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

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

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

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

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

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

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

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

On 31 December, assets managed by Pohjola Bank plc's Asset Management were worth EUR 35 billion (33.1), of which EUR 12 billion (11.4) was invested in OP-Pohjola Group's mutual funds. OP-Pohjola Group companies accounted for EUR 8.7 billion of assets managed by Pohjola.

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

Earnings and risk exposure

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

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

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

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

Banking and Investment Services, key figures

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

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Earnings before tax	367	471	-22.0
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€ million	1–12/2010	1–12/2009	Change, %
Home mortgages drawn down	6,651	5,723	16.2
Corporate loans drawn down	6,554	6,325	3.6
Net subscriptions to mutual funds	497	1,618	-69.3
No. of brokered property transactions	17,009	15,303	11.1

€ billion	31 Dec 2010	31 Dec 2009	Change, %
Loan portfolio			
Home loans	27	26	6.4
Other loans to households	10	10	3.9
Corporate loans	14	13	4.3
Other loans	5	4	36.7
Total	57	53	7.4
Guarantee portfolio	3	3	-3.2

Deposits			
Total current and payment transfer			
Households	12	12	6.1
Companies	4	4	6.9
Others	3	2	14.7
Total current and payment transfer	19	18	7.3
Investment deposits	17	17	3.1
Total deposits	36	35	5.3

Mutual funds			
Equity and hedge funds	4.9	3.9	25.6
Balanced funds	1.5	1.5	0.8
Long-term bond funds	5.9	5.0	17.8
Money market funds	2.1	2.3	-8.9
Total value of mutual funds	14.4	12.7	13.4

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

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

* Percentage points

Non-life Insurance

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

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

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

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

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

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

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

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

Earnings and risk exposure

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

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

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

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

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

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

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

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

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

Non-life Insurance, key figures

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

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

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

*) Includes real estate funds

Life Insurance

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

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

OP-Pohjola Group's Life Insurance segment continued to enjoy positive volume and earnings performance, with an

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

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

Earnings and risk exposure

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

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

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

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

Life Insurance, key figures

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

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

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

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Term life insurance	88	83	6.3
Others	533	69	676.8
Total premiums written, FAS	1,846	771	139.4
Unit-linked	625	377	66.0

Market share of premiums written in life and pension insurance, %	38.6	25.2	13.4
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€ billion	31 Dec 2010	31 Dec 2009	Change, %
Insurance savings			
Endowment insurance, unit-linked	2.3	1.7	33.4
Endowment insurance, interest-bearing	2.1	2.3	-12.3
Pension insurance	2.7	1.9	43.0
Others	0.1	0.2	-48.6
Total insurance savings	7.1	6.1	16.7
Unit-linked	3.1	2.4	31.9

Market share of insurance savings in life and pension insurance, %	21.3	20.0	1.3
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* Percentage points

** Includes real estate funds

Other Operations

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

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

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

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

Other Operations, key figures

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

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

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

Amalgamation of the cooperative banks and OP-Pohjola Group

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

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

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

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

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

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

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

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

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

Member credit institution's capital adequacy and its supervision

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

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

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

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157 of the Act on Credit Institutions.

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

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

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

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

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

OP-Pohjola Group's financial statement and audit

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

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

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

Supervision of the amalgamation of the cooperative banks

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

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

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

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

The Audit function ensures that the member credit institutions, including their consolidation groups, comply with the relevant Acts, decrees, instructions and regulations issued by the authorities, instructions of the central institution as well as their own statutes or Articles of Association and that they operate in a profitable and prudent manner. The Audit function also ensures that the administration and business operations of the member credit institutions

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and the companies belonging to their consolidation groups are handled appropriately and efficiently and that the monitoring systems for their risks are in line with the requirements of their operations. The audits are conducted in the manner required for effective supervision and in accordance with generally accepted internal auditing standards.

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

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

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

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

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

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

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

Financial and insurance conglomerate

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

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

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

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

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

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

Formulas for key figures and ratios

Return on equity (ROE), %	$\frac{\text{Profit for the financial year}}{\text{Equity capital (average of the beginning and end of year)}} \times 100$
Return on equity at fair value, %	$\frac{\text{Profit for the financial year + change in fair value reserve less deferred taxes (difference between the beginning and end of the year)}}{\text{Equity capital (average of the beginning and end of year)}} \times 100$
Return on assets (ROA), %	$\frac{\text{Profit for the financial year}}{\text{Balance sheet total (average of the beginning and end of the year)}} \times 100$
Equity ratio, %	$\frac{\text{Shareholders' equity}}{\text{Total assets}} \times 100$

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

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

Non-life Insurance:

Combined ratio (excl. unwinding of discount), %	$\frac{\text{Loss ratio} + \text{expense ratio}}{\text{Risk ratio} + \text{cost ratio}}$
Loss ratio (excl. unwinding of discount), %	$\frac{\text{Claims and loss adjustment expenses}}{\text{Net insurance premium revenue}} \times 100$
Expense ratio, %	$\frac{\text{Operating expenses} + \text{Amortisation/adjustment of intangible assets related to company acquisition}}{\text{Net insurance premium revenue}} \times 100$
Risk ratio (excl. unwinding of discount), %	$\frac{\text{Claims excl. loss adjustment expenses}}{\text{Net insurance premium revenue}} \times 100$
Cost ratio, %	$\frac{\text{Operating expenses and loss adjustment expenses}}{\text{Net insurance premium revenue}} \times 100$

Life Insurance:

Operating cost ratio, %	$\frac{\text{Operating expenses before change in deferred acquisitions costs} + \text{loss adjustment expenses}}{\text{Expense loading}} \times 100$
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OP-Pohjola Group's Financial Statements

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OP-Pohjola group income statement

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

OP-Pohjola group statement of comprehensive income

EUR million	Notes	2010	2009	Change, %
Profit for the financial year		440	338	30
Change in fair value reserve				
Measurement at fair value		234	677	-65
Cash flow hedge		-8	-	
Translation differences		0	0	
Income tax on other comprehensive income				
Measurement at fair value		61	175	-65
Cash flow hedge		-2	-	
Total comprehensive income for the financial year		606	839	-28
Key figures and ratios		2010	2009	
Return on equity, %		6.8	5.9	
Return on equity at fair value, %		9.4	14.7	
Return on assets, %		0.53	0.43	
Cost/income ratio, %		59	61	
Average personnel		12,468	12,632	
Full-time		11,394	11,520	
Part-time		1,074	1,112	

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OP-Pohjola group balance sheet

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

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OP-Pohjola group cash flow statement

EUR million	2010	2009
Cash flow from operating activities		
Profit for the financial year	440	338
Adjustments to profit for the financial year	1,440	1,211
Increase (-) or decrease (+) in operating assets	-4,576	-4,041
Receivables from financial institutions	869	391
Financial assets at fair value through profit or loss	865	1,901
Derivative contracts	-89	-36
Receivables from customers	-4,037	-1,479
Non-life Insurance assets	-113	-350
Life Insurance assets	-715	-849
Investment assets	-1,177	-3,894
Other assets	-180	275
Increase (+) or decrease (-) in operating liabilities	1,520	1,375
Liabilities to financial institutions	-482	1,481
Financial liabilities at fair value through profit or loss	-71	-67
Derivative contracts	91	-9
Liabilities to customers	1,598	524
Non-life Insurance liabilities	54	43
Life Insurance liabilities	-8	113
Provisions and other liabilities	337	-710
Income tax paid	-120	-65
Dividends received	88	58
A. Net cash from operating activities	-1,210	-1,125
Cash flow from investing activities		
Increases in held-to-maturity financial assets	-53	-416
Decreases in held-to-maturity financial assets	244	482
Acquisition of subsidiaries, net of cash and cash equivalents acquired	-28	0
Disposal of subsidiaries, net of cash and cash equivalents disposed	17	1
Purchase of PPP and intangible assets	-83	-88
Proceeds from sale of PPE and intangible assets	7	5
B. Net cash used in investing activities	104	-16
Cash flow from financing activities		
Increases in subordinated liabilities	82	211
Decreases in subordinated liabilities	-163	-267
Increases in debt securities issued to the public	47,351	55,596
Decreases in debt securities issued to the public	-47,704	-53,823
Increases in cooperative and share capital	248	276
Decrease in cooperative and share capital	-220	-221
Dividends paid and interest on cooperative capital	-75	-52
Returns to owner-members	-8	-7
Increases in invested unrestricted equity	0	171
Other	0	0
C. Net cash used in financing activities	-488	1,885
Net change in cash and cash equivalents (A+B+C)	-1,593	744
Cash and cash equivalents at period-start	3,282	2,538
Cash and cash equivalents at period-end	1,689	3,282
EUR million	2010	2009
Interest received	2,324	3,345
Interest paid	-1,435	-2,474
Adjustments to profit for the financial year		
Non-cash items and other adjustments		
Impairment losses on receivables	158	190

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

Statement of changes in OP-Pohjola group equity capital

Attributable to OP-Pohjola Group's owners

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

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Notes to OP-Pohjola Group financial statements

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

General information

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

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

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

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

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

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

Basis of preparation

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

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

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

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

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

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

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

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

The financial statements are presented in millions of euros.

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

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

Use of estimates

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

Presentation and reclassification

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

Consolidation principles

Technical parent company

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

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

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

Subsidiaries, associates and joint ventures

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

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

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

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

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

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

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

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

Non-controlling interests

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

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

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

Foreign currency translation

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

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

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

Financial instruments

Fair value determination

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

The fair value of financial instruments is determined using either prices quoted in an active market or the Group's own valuation techniques where no active market exists. Markets are deemed to be active if price quotes are easily

and regularly available and reflect real and regularly occurring market transactions on an arm's length basis.

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

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

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

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

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

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

Impairment of financial assets

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

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

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

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

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

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

Securities sale and repurchase agreements

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

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

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

On the basis of their initial recognition, financial assets and liabilities are classified as financial assets and liabilities at fair value through profit or loss, loans and other receivables, held-to-maturity investments, available-for-sale financial assets and other financial liabilities, in accordance with their measurement practice.

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

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

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

Financial assets and liabilities at fair value through profit or loss

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

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

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

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

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

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

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

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

Loans and other receivables

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

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

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

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

Impairments are recognised and impairment losses incurred only if there is objective evidence of a debtor's reduced solvency after the initial recognition of the receivable. A receivable is impaired if the present value of estimated future cash flows - including the fair value of collateral - is lower than the aggregate carrying amount of the loan and the related unpaid interest. Estimated future cash flows are discounted at the loan's original interest

rate. If the loan carries a variable interest rate, the discount rate for measuring any impairment is the current effective interest rate determined under the agreement. The difference between the carrying amount of the loan and a lower recoverable amount is recognised as an impairment loss in the income statement.

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

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

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

Investments held to maturity

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

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

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

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

Available-for-sale financial assets

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

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

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

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

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

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

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

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

Cash and cash equivalents

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

Other financial liabilities

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

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

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

Derivative contracts

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

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

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

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

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

Derivative instruments held for trading

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

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

Hedge accounting

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

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

Fair value hedges

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

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

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

Cash flow hedges

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

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

Investment property

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

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

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

Intangible assets

Goodwill

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

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

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

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

Value of acquired insurance portfolio

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

Deferred acquisition costs of insurance contracts

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

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

Customer relationships

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

Brands

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

Other intangible assets

Other intangible assets are measured at cost less accumulated amortisation and any impairment losses. These assets are amortised over their estimated useful lives, which is 2-6 years for computer software and licences and 5-10 years in general for other intangible assets. The useful lives of assets are reviewed on each balance sheet date and, if necessary, their value is tested for impairment.

Expenditure on the development of internally-generated intangibles (products and services) is capitalised starting from the time when the product or service is found to generate future economic benefits. The asset will be amortised from the time it is ready for use, mainly 3-5 years. An asset not yet ready for use is tested annually for impairment.

Property, plant and equipment

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

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

The estimated useful lives are mainly as follows:

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

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

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

Impairment of PPE and intangible assets

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

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

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

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

Leases

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

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

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

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

Employee benefits

Pension benefits

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

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

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

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

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

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

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

Share-based compensation

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

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

Insurance assets and liabilities

Classification of financial assets and liabilities within insurance business

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

Classification of insurance contracts

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

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

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

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

Non-life insurance contracts

Short-term contracts

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

Long-term contracts

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

Life insurance contracts

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

Measurement and recognition of insurance contracts

Non-life insurance contracts

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

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

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

Life insurance contracts

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

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

Investment contracts

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

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

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

Receivables and payables related to insurance contracts

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

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

Principle of equity

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

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

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

Liability adequacy test on insurance contracts

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

Provision for joint guarantee system

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

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

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

Reinsurance contracts

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

Non-life Insurance

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

Life Insurance

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

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

Coinurance and pools

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

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

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

Salvage and subrogation reimbursements

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

Provisions and contingent liabilities

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

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

Non-current assets held for sale and discontinued operations

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

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

Income tax

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

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

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

The Group offsets deferred tax assets and liabilities by company. Deferred tax assets and liabilities resulting from consolidation are not offset. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted by the balance sheet date. If deferred tax originates from balance sheet items whose changes have no effect on the income statement, any change in deferred tax is recognised in equity, not in the income statement.

Revenue recognition

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

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

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

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

Summary of presentation of income statement items:

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

Segment reporting

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

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

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

Critical accounting estimates and judgements

The preparation of financial statements requires making estimates and assumptions about the future and the future

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

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

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

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

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

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

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

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

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

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

New standards and interpretations

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

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

The International Accounting Standards Board's (IASB) financial instruments accounting reform programme is scheduled for completion by the end of 2011, these changes relating to the disclosure and measurement of

financial instruments, accounting for impairments, hedge accounting and the offsetting of financial assets and liabilities. Other significant changes related to presentation of financial statements, employee benefits, leases and insurance contracts. In addition, the IASB is also expected to issue other changes in financial statements disclosures. OP-Pohjola Group is actively monitoring the progress of these changes.

Notes to OP-Pohjola Group financial statements

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

General principles

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

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

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

Internal control

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

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

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

Good corporate governance

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

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

Capital adequacy management

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

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

Risk management

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

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

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

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

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

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

Economic capital

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

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

Stress tests

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

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

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

Risk and capital adequacy management

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

Central institution (OP-Pohjola Group Central Cooperative)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Risk management in OP-Pohjola Group's strategy

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

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

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

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

Strategic risks

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

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

Operational risks

Operational risk refers to the risk of loss resulting from inadequate or failed processes, systems or external events

The mark of a good group ★

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

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

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

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

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

Compliance risks

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

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

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

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

Credit risks

Objectives and general principles of credit risk management

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

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

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

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

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

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

Credit risk management methods in banking operations

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

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

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

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

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

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

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

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

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

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

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

Credit rating

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

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

- the calculation of economic capital.

Credit rating and probability of insolvency

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Use of credit risk models in capital adequacy measurement

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

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

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

Decision-making and assessment related to credit risk models

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

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

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

Reducing credit risks

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

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

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

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

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

rejected outside the scope of the insurance if the risks associated with repayment capacity or collateral are excessively large. The separate processing of insurance decisions provides detailed information to the central institution's Risk Management on the loans, debt servicing ability and collateral of the largest retail banking customers.

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

Securitisation positions

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

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

Liquidity risk

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

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

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

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

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

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

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

collateral. The liquidity buffer consists of Pohjola Bank plc's notes and bonds portfolio eligible as collateral for central bank refinancing.

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

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

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

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

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

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

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

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

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

Market risks

Objectives and general principles of market risk management

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

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

the objectives of market risk management, the principles of risk-taking and the organisation of market risk management.

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

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

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

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

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

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

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

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

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

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

Market risks related to investments

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

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

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

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

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

Interest rate risk

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

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

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

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

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

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

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

In controlling member bank businesses, the control limit indicator used by the Group is the effect of a one-

The mark of a good group *

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The review can be read in its entirety online at <http://www.op.fi/annualreport2010>

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

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

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

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

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

Currency risk

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

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

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

Credit spread risk

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

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

Equity risk

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

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

Commodity risk

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

Property risk

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

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

Volatility risk

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

Underwriting risks

Non-life Insurance

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

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

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

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

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

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

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

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

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

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

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

Life Insurance

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

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

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

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

Notes to OP-Pohjola Group financial statements

NOTES TO THE INCOME STATEMENT

Note 3. Net interest income

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

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

Notes to OP-Pohjola Group financial statements

NOTES TO THE INCOME STATEMENT

Note 4. Impairment losses on receivables

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

Notes to OP-Pohjola Group financial statements

NOTES TO THE INCOME STATEMENT

Note 5. Net income from Non-life Insurance

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

Insurance premium revenue and insurance premiums ceded to reinsurers

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

Net investment income from Non-life Insurance

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

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

Unwinding of discount, Non-life Insurance

The increase in the discounted insurance contract liabilities of Non-life Insurance due to the passage of time (Note 34) (unwinding of discount) totals EUR 45 million (43). Unwinding of discount is computed monthly applying the discount rate at the end of the previous month and the insurance contract liabilities at the beginning of the current month. The discount rate was 3.7% from 31 December 2003 to 30 November 2004, 3.5% from 1 December 2004 to 30 November 2005, 3.3% from 1 December 2005 to 30 November 2007 and 3.5% from 1 December 2007 to 31 December 2010.

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

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

Notes to OP-Pohjola Group financial statements

NOTES TO THE INCOME STATEMENT

Note 6. Net income from Life Insurance

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

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

Premiums written in Life Insurance

Premiums written from insurance contracts

Premiums written from insurance contracts with entitlement to discretionary portion of surplus (DPF)

Savings insurance	56	116
Personal pension insurance	50	59
Group pension insurance	613	78
Term insurance		
Personal insurance	75	69
Supplementary group insurance	2	2
Employees' group life insurance	12	12
Total term insurance	89	83
Total	808	335

Premiums written from unit-linked insurance contracts

Savings insurance	411	270
Personal pension insurance	91	94
Group pension insurance	6	4
Total	507	368

Total

	1,315	703
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Premiums written from investment contracts

Premiums written from investment contracts with entitlement to discretionary portion of surplus

Capital redemption contracts	413	60
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Premiums written from investment contracts without entitlement to discretionary portion of surplus

Capital redemption contracts	-	-
------------------------------	---	---

Premiums written from unit-linked investment contracts

Capital redemption contracts	118	9
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Total

	531	69
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Total direct insurance

	1,846	771
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Assumed reinsurance

	0	0
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Total premiums written

	1,846	771
--	--------------	------------

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

Net investment income from Life Insurance

Loans and other receivables

Interest income	15	0
Interest expenses	1	1
Capital gains and losses	1	-8
Other	0	-1
Impairment losses	-3	-
Loans and other receivables total	13	-10

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

Interest income		
Notes and bonds	13	15
Derivatives	0	1
Other	-	-
Total	13	15
Capital gains and losses		
Notes and bonds	-4	-1
Shares and participations	-	-
Derivatives	-43	-12
Other	0	0
Total	-46	-13
Fair value gains and losses		
Notes and bonds	17	39
Shares and participations	-	-
Derivatives	2	-15
Other	-	-
Total	19	23
Dividend income	-	-
Total net income from financial assets recognised at fair value through profit or loss	-15	26

Net income from available-for-sale financial assets

Notes and bonds		
Interest income	18	38
Capital gains and losses	6	-3
Transferred from fair value reserve during the financial year	4	-4
Impairment losses and their reversal	-1	-42
Total	28	-11
Shares and participations		
Dividends	49	40
Other income	11	7
Capital gains and losses	109	55
Transferred from fair value reserve during the financial year	43	-7
Impairment losses	-81	-171
Total	130	-75
Total net income from available-for-sale financial assets	158	-86

Net income from investment property

Rental income	9	11
Capital gains and losses	0	0
Value changes from fair value measurement	-1	0
Maintenance charges and expenses	-7	-6
from which rental income is not accumulated	0	0
Other	-1	-6
Total net income from investment property	1	-1

Assets serving as cover for unit-linked policies

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

Benefits paid in Life Insurance

Benefits paid from insurance contracts

Benefits paid from insurance contracts entitling to discretionary portion of surplus

Savings insurance		
Maturities	192	177
Death benefits	74	73
Surrenders	57	68
Total	323	318
Personal pension insurance		
Annuities	44	37
Death benefits	2	2
Surrenders	2	2
Total	48	40
Group pension insurance		
Annuities	40	21
Lump-sum benefits	0	1
Surrenders	1	1
Total	41	23
Term insurance		
Personal insurance	18	13
Supplementary group insurance	1	0
Employees' group life insurance	10	7
Total	28	20
Benefits paid from unit-linked insurance contracts		
Savings insurance		
Maturities	34	23
Death benefits	21	18
Surrenders	93	58
Total	148	99
Personal pension insurance		
Annuities	3	2
Death benefits	1	0
Surrenders	3	1
Total	6	3
Group pension insurance		
Annuities	0	0
Death benefits	0	0
Surrenders	0	0
Total	0	0
Total benefits paid from insurance contracts	595	504

Benefits paid from investment contracts

Benefits paid from investment contracts entitling to discretionary portion of surplus

Capital redemption contracts		
Maturities	28	16
Surrenders	466	1
Total	495	16

Benefits paid from investment contracts not entitling to discretionary portion of surplus

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

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Notes to OP-Pohjola Group financial statements

NOTES TO THE INCOME STATEMENT

Note 7. Net commissions and fees

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

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

Notes to OP-Pohjola Group financial statements

NOTES TO THE INCOME STATEMENT

Note 8. Net trading income

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

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Notes to OP-Pohjola Group financial statements

NOTES TO THE INCOME STATEMENT

Note 9. Net investment income

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

Notes to OP-Pohjola Group financial statements

NOTES TO THE INCOME STATEMENT

Note 10. Other operating income

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

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

Notes to OP-Pohjola Group financial statements

NOTES TO THE INCOME STATEMENT

Note 11. Personnel costs

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

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Notes to OP-Pohjola Group financial statements

NOTES TO THE INCOME STATEMENT

Note 12. Other administrative expenses

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

Notes to OP-Pohjola Group financial statements

NOTES TO THE INCOME STATEMENT

Note 13. Other operating expenses

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

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

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

Notes to OP-Pohjola Group financial statements

NOTES TO THE INCOME STATEMENT

Note 14. Returns to owner-members

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

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

Notes to OP-Pohjola Group financial statements

NOTES TO THE INCOME STATEMENT

Note 15. Income tax

EUR million	2010	2009
Current tax	118	103
Tax for previous financial year	1	2
Deferred tax	17	21
Income tax expense	135	126
Corporate income tax rate	26	26
Reconciliation between tax expense in the income statement and tax expense calculated by the applicable tax rate		
Earnings before tax	575	464
Tax calculated at a tax rate of 26%	149	121
Tax for previous financial years	1	2
Income not subject to tax	-5	-1
Expenses not deductible for tax purposes	6	7
Re-evaluation of unused losses	-15	-3
Effect of tax adjustments	0	0
Other items	-1	2
Tax expense	135	126

Notes to OP-Pohjola Group financial statements

NOTES TO ASSETS

Note 16. Liquid assets

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

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

Notes to OP-Pohjola Group financial statements

NOTES TO ASSETS

Note 17. Receivables from financial institutions

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

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Notes to OP-Pohjola Group financial statements

NOTES TO ASSETS

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

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

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

EUR million	31 Dec. 2010		31 Dec. 2009	
	Notes and bonds	Shares and participations	Notes and bonds	Shares and participations
Financial assets held for trading				
Quoted				
From public corporations	273	-	215	-
From others	127	67	380	65
Other				
From public corporations	34	-	42	-
From others	5	-	505	-
Total	439	67	1,143	65
Financial assets at fair value through profit or loss at inception				
Quoted				
From public corporations	-	-	-	-
From others	14	-	55	-
Other				
From public corporations	-	-	-	-
From others	-	-	-	-
Total	14	-	55	-
Total financial assets at fair value through profit or loss	453	67	1,198	65

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Notes to OP-Pohjola Group financial statements

NOTES TO ASSETS

Note 19. Derivative contracts

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

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

Notes to OP-Pohjola Group financial statements

NOTES TO ASSETS

Note 20. Receivables from customers

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

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

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

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

Finance lease receivables

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

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

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

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Notes to OP-Pohjola Group financial statements

NOTES TO ASSETS

Note 21. Non-life Insurance assets

EUR million	31 Dec. 2010	31 Dec. 2009
Investments		
Loans and other receivables	229	335
Equities	400	387
Property	87	78
Notes and bonds	1,490	1,381
Derivative contracts		
Currency derivatives	1	-
Equity derivatives	-	0
Other	561	530
Total	2,768	2,711
Other assets		
Prepayments and accrued income	38	37
Other		
From direct insurance	228	214
From reinsurance	87	89
Cash in hand and at bank	4	4
Other receivables	39	44
Total	396	389
Total Non-life Insurance assets	3,164	3,101
Non-life Insurance investments	31 Dec. 2010	31 Dec. 2009
Loans and other receivables		
Loans	228	334
Deposits with ceding undertakings	1	1
Total	229	335
Financial assets recognised at fair value through profit or loss		
Government notes and bonds	-	-
Other notes and bonds	8	8
Equities	-	-
Derivative contracts		
Currency derivatives	1	-
Interest rate derivatives	-	-
Equity derivatives	-	0
Total derivatives	1	0
Total	9	8
Available-for-sale financial assets		
Notes and bonds	1,482	1,374
Shares and participations	400	387
Other participations	561	530
Total	2,442	2,290
Investment property		
Land and water areas	12	10
Buildings	76	67
Total	87	78
Total Non-life Insurance investments	2,768	2,711

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

31 Dec. 2010

31 Dec. 2009

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EUR million	Notes and bonds	Shares and participations	Derivative contracts	Notes and bonds	Shares and participations	Derivative contracts
Quoted						
From public corporations	-	-	-	-	-	-
From others	8	-	-	8	-	-
Other						
From public corporations	-	-	-	-	-	-
From others	-	-	1	-	-	1
Total	8	-	1	8	-	1

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

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

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

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

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

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

Changes in Non-life Insurance investment property

	2010	2009
Acquisition cost 1 January	70	75
Increase	21	6
Decrease	-14	-10
Transfers between items	0	0
Acquisition cost 31 December	76	70
Accumulated changes in fair value 1 January	8	7
Changes in fair value during financial year	1	1
Decrease	-	-
Other changes	2	-
Accumulated changes in fair value 31 December	11	8

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

Notes to OP-Pohjola Group financial statements

NOTES TO ASSETS

Note 22. Life Insurance assets

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

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

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

EUR million	31 Dec. 2010		31 Dec. 2009	
	Notes and bonds	Shares and participations	Notes and bonds	Shares and participations
Quoted				

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

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

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

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

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

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

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

Notes to OP-Pohjola Group financial statements

NOTES TO ASSETS

Note 23. Investment assets

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

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

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

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

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

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

EUR million	Available-for-sale notes and bonds			Available-for-sale shares and participations			Held-to-maturity investments
	At fair value	At amortised cost	Total	At fair value	At cost	Total	
Quoted							
From public corporations	40	-	40	-	-	-	2
From others	4,392	-	4,392	318	0	318	1,157
Other							
From public corporations	1	-	1	-	-	-	-
From others	10	-	10	56	31	88	4
Total	4,443	-	4,443	374	31	406	1,163
Impairment losses for the financial year	-1	-	-1	-27	-	-27	-
Changes in investment property						2010	2009
Acquisition cost 1 Jan.						433	431

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

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

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

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

Notes to OP-Pohjola Group financial statements

NOTES TO ASSETS

Note 24. Reclassified notes and bonds

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

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

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

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

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

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

Notes to OP-Pohjola Group financial statements

NOTES TO ASSETS

Note 25. Investment in associates

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

Notes to OP-Pohjola Group financial statements

NOTES TO ASSETS

Note 26. Intangible assets

2010

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

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

2009

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

Intangible assets with indefinite economic lives

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

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Total

803

803

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

Other most significant intangible assets

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

Goodwill was acquired as part of the acquisition of Pohjola Group plc's business operations in 2005 and as part of the acquisition of Pohjola Finance Ltd (formerly K-Finance Ltd) in 2008. Brands, customer relationships and a significant part of computer software were acquired as part of the acquisition of Non-life Insurance operations.

Goodwill impairment test

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

Testing goodwill for impairment

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

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

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

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

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

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

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

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

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

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

Mutual funds' key parameters were the discount rate, growth percentage in mutual fund capital and the growth percentage of fixed-nature expenses. The results of the sensitivity analysis were significantly better than the year before. A 10-percentage point increase in the discount rate, a 5.9-percentage point decrease in fund assets and a 9.3-percentage point growth in fixed-nature expenses compared with forecasts throughout the testing period, with other parameters remaining unchanged, would entail an impairment risk. In 2009, the results were as follows: 3.9-percentage point increase in the discount rate, a 1.0-percentage point decrease the growth of fund assets and a 1.4-percentage point growth in fixed-nature expenses compared with forecasts throughout the testing period would have entailed an impairment risk.

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

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

Impairment testing of brands

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

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

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

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

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Impairment testing of other essential intangible assets

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

Notes to OP-Pohjola Group financial statements

NOTES TO ASSETS

Note 27. Property, plant and equipment

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

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

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

Assets taken on lease under finance lease contract

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

Future minimum lease payments and their present value

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

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

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

Notes to OP-Pohjola Group financial statements

NOTES TO ASSETS

Note 28. Other assets

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

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

Defined benefit pension plans

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

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

Plan assets include

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

Defined benefit pension costs in the income statement

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

Actual return on plan assets

157 **146**

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

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

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

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

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

	2010	2009
Principal actuarial assumptions used		
Discount rate, %	4.50	5.00
Expected long-term return on plan assets, %	4.63-6.60	5.08 - 6.60
Assumed future salary increase, %	3.00	3.50
Future pension increases, %	2.00-2.40	2.00 - 2.40
Turnover rate, %	0.00-3.00	0.00 - 3.00
Inflation, %	2.00	2.00
Average remaining service time in years	1.0-16.0	1.0 - 16.0

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

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Notes to OP-Pohjola Group financial statements

NOTES TO ASSETS

Note 29. Tax assets

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

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

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

Net deferred tax asset (+)/liability (-)	-891	-817
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	31 Dec. 2010	31 Dec. 2009
Changes in deferred taxes		
Deferred tax assets/liabilities 1 January	-817	-622
Recognised in the income statement		
Elimination of capital gains on securities of companies acquired	0	2
Effect of losses	-26	-62
Provisions and impairments on receivables	0	-1
Appropriations	-53	-50
Amortisation/depreciation and impairments	9	8
Equalisation provision	-2	-15
Valuation of investments	55	99
Other	-1	-3
Recognised in statement of comprehensive income		
Available-for-sale financial assets		
Changes in fair value	-42	-152
Cash flow hedge	2	-
Transfers to the income statement	-17	-24

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

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

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

Notes to OP-Pohjola Group financial statements

NOTES TO LIABILITIES AND EQUITY CAPITAL

Note 30. Liabilities to financial institutions

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

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Notes to OP-Pohjola Group financial statements

NOTES TO LIABILITIES AND EQUITY CAPITAL

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

EUR Million	31 Dec. 2010	31 Dec. 2009
Financial liabilities held for trading		
Repo liabilities	-	-
Short selling of securities	0	71
Other	0	-
Total financial liabilities at fair value through profit or loss	0	71

Notes to OP-Pohjola Group financial statements

NOTES TO LIABILITIES AND EQUITY CAPITAL

Note 32. Derivative contracts

EUR Million	31 Dec. 2010	31 Dec. 2009
Held for trading		
Interest rate derivatives	1,632	1,125
Currency derivatives	4	4
Equity and index derivatives	52	52
Credit derivatives	0	1
Other	27	3
Total	1,715	1,186
Derivatives recognised at fair value through profit or loss		
Interest rate derivatives	8	8
Currency derivatives	-	-
Equity and index derivatives	-	-
Credit derivatives	-	-
Other	0	-
Total	8	8
Hedging derivative contracts		
Fair value hedging		
Interest rate derivatives	206	153
Currency derivatives	13	13
Equity and index derivatives	-	-
Credit derivatives	-	-
Cash flow hedge		
Interest rate derivatives	8	-
Other	-	-
Total	228	166
Total derivative contracts	1,951	1,360

The balance sheet item includes negative changes in value of derivative contracts as well as premiums received.

Notes to OP-Pohjola Group financial statements

NOTES TO LIABILITIES AND EQUITY CAPITAL

Note 33. Liabilities to customers

EUR million	31 Dec. 2010	31 Dec. 2009
Deposits		
Repayable on demand		
Private	20,127	19,768
Companies and public corporations	8,061	7,369
Total	28,187	27,137
Other		
Private	7,338	6,527
Companies and public corporations	918	953
Total	8,256	7,480
Total deposits	36,443	34,617
Other financial liabilities		
Repayable on demand		
Private	1	0
Companies and public corporations	2	5
Total	3	5
Other		
Private	3	3
Companies and public corporations	2,756	2,981
Total	2,759	2,984
Total other financial liabilities	2,762	2,989
Total liabilities to customers	39,205	37,606

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Notes to OP-Pohjola Group financial statements

NOTES TO LIABILITIES AND EQUITY CAPITAL

Note 34. Non-life Insurance liabilities

EUR million	31 Dec. 2010	31 Dec. 2009
Insurance contract liabilities	2,224	2,145
Provision for joint guarantee system	0	40
Direct insurance liabilities	110	78
Reinsurance liabilities	10	13
Other Non-life Insurance liabilities	7	3
Total Non-life Insurance liabilities	2,350	2,279

Non-life Insurance contract liabilities and reinsurers' share

EUR million	31 Dec. 2010			31 Dec. 2009		
	Gross	Rein-surers' share	Net	Gross	Rein-surers' share	Net
Provision for unpaid claims for annuities	1,108	-2	1,106	1,058	-3	1,054
Other provisions by case	151	-53	98	144	-44	101
Special provision for occupational diseases	35	-	35	39	-	39
Collective liability (IBNR)	502	-5	497	493	-5	487
Reserved loss adjustment expenses	52	-	52	50	-	50
Provision for unearned premiums	375	-19	356	361	-25	336
Provision for unexpired risks	1	-	1	0	-	0
Total Non-life Insurance contract liabilities	2,224	-79	2,145	2,145	-77	2,068

Changes in insurance contract liabilities and reinsurance contract receivables

EUR million	31 Dec. 2010			31 Dec. 2009		
	Gross	Rein-surers' share	Net	Gross	Rein-surers' share	Net
Provision for unpaid claims						
Provision for unpaid claims 1 Jan.	1,783	-52	1,731	1,770	-66	1,704
Claims paid in financial year	-712	29	-683	-652	20	-633
Change in liability/receivable	731	-37	694	623	-6	617
Current period claims	737	-45	692	666	-17	649
Increase(decrease) from previous financial years	-41	8	-33	-42	11	-31
Other change in reserving basis	35	-	35	-	-	-
Unwinding of discount	44	-	44	42	-	42
Foreign exchange gains (losses)	1	-	1	-1	0	-1
Provision for unpaid claims 31 Dec.	1,847	-60	1,788	1,783	-52	1,731
Provision for unearned premiums						
Provision for unearned premiums 1 Jan.	362	-25	337	346	-21	324
Increase	341	-3	338	327	-13	313
Decrease	-328	9	-319	-312	10	-302
Foreign exchange gains (losses)	0	-	0	0	-	0
Unwinding of discount	1	-	1	1	-	1
Provision for unearned premiums 31 Dec.	377	-19	357	362	-25	337
Total Non-life Insurance contract liabilities	2,224	-79	2,145	2,145	-77	2,068

The provision for unearned premiums represents obligations relating to insurance cover which has not yet expired at the year-end. The provision for unearned premium includes EUR 1.1 million in the provision for unexpired risks which relate to the so-called Affinity insurance policies, serving as extended warranty for home appliances, which would remain undersized without

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the provision for unexpired risks.

Valuation of Non-life Insurance contract liabilities

a) Methods and assumptions used

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

The provision for unearned premiums has mainly been determined in accordance with the pro rata parte temporis rule. The provision for unearned premiums arising from corporate insurance contracts is calculated for each contract and that arising from private customer insurance contracts using factors derived statistically from the Group's own insurance portfolio and tied to insurance premium revenue.

The provision for unpaid claims for annuities corresponds to the discounted present value of cash flow of compensation for loss of income payable as continuous annuity. The discount rate is determined taking account of the current interest rate, security required by law and the upper limit of the discount rate set by the authorities. On 31 December 2010, the discount rate used was 3.5% (31 Dec. 2009: 3.5%). In their joint actuarial project launched in the spring of 2010, the Federation of Accident Insurance Institutions and the Finnish Motor Insurers' Centre examine whether the mortality model commonly used by Finnish non-life insurers is up to date. The preliminary findings based on the first stage of the project reveals that life expectancy has increased in Finland, which is why Pohjola increased its technical provisions by EUR 35 on a non-recurring basis. The spring of 2011 should see more specified results.

The provision for unpaid claims includes asbestos liabilities which arise from occupational diseases coverable under statutory workers' compensation insurance. The forecasted cash flow of these claims is based on an analysis which takes account of to what extent asbestos was used annually as raw material in Finland and how the latency periods of different asbestos diseases are distributed. Trends in asbestos-related claims are monitored annually and the outcome has corresponded well to the forecast.

The valuation of collective liability is based on different statistical methods: Bornhuetter-Ferguson, Chain Ladder, Hovinen, PPCI and the average payment method. When applying these methods, other selections must also be made, in addition to the selection of method, such as deciding on how many occurrence years' statistics the methods will be applied.

Bornhuetter-Ferguson

The Bornhuetter-Ferguson (BF) method is based on the assumption that, in each development year, a certain portion of claims is paid of the measure of exposure of the occurrence year. This measure of exposure can, for instance, be the number of policy years or insurance premium revenue adjusted by the loss ratio assumption. BF reacts slowly to changes in the development triangle of claims. In addition, BF is sensitive to the selection of the measure of exposure.

Chain Ladder

In the Chain Ladder (CL) method, the total claims expenditure for each occurrence year is determined by annual development factors. A development factor describes the relation between the successive development years in the cumulative claims development triangle. CL is sensitive to the observations in the first development years.

Hovinen

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

PPCI

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

Average payment

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

In the valuation of collective liability, the largest risks relate to - estimating the future rate of inflation (excl. indemnities for loss of income payable on the basis of statutory insurance) - adjustment of changes due to changed compensation practices and legislation in the development triangle of claims (i.e. whether history provides a correct picture of the future) - adequacy of historical information over dozens of years.

When evaluating the amount of collective liability, the development triangles of claims have been adjusted for inflation. For historical data, the rate of inflation has been estimated at 3% and, for future medical expenses benefits, at 4%, and elsewhere at 2%. Of the collective liability, only the liability for annuities has been discounted.

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For the assessment of collective liability, the Group's non-life insurance portfolio is divided into several categories by risk and eg maturity of the cash flow applying to compensation paid. In each category, collective liability is first calculated using each statistical method stated above, and the method that best suits the category under review is chosen. The selection criteria used includes how well the model would have predicted developments in prior years of occurrence and the sensitivity of the estimate generated by the model with respect to the number of statistical years used. The safety loading of 2–10% is added to the expected value generated by the selected model. On a Group-wide basis, the safety loading accounts for 6.4% of collective liability. The safety loading is determined by the quality of historical data, the estimate's sensitivity to the number of history years and the deviation between estimates generated by various methods.

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

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

b) Changes in assumptions and methods

In their joint actuarial project launched in the spring of 2010, the Federation of Accident Insurance Institutions and the Finnish Motor Insurers' Centre examine whether the mortality model commonly used by Finnish non-life insurers is up to date. The preliminary findings based on the first stage of the project reveals that life expectancy has increased in Finland, which is why Pohjola increased its technical provisions by EUR 35 on a non-recurring basis. The spring of 2011 should see more specified results.

Effect of changes in methods and assumptions on amount of liability	2010	2009
EUR million (increase +/decrease - in liability)	-	-
Provision for change in the mortality model	35	-
Total	35	-

c) Claims development

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

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

Claims triangles, gross business (EUR million)

Occurrence year	2004	2005	2006	2007	2008	2009	2010	Total
Estimated total claims expenditure								
At end of occurrence year	523	540	603	638	707	666	737	4,413
1 year later	528	540	611	633	693	615	-	-
2 years later	521	535	591	627	671	-	-	-
3 years later	515	529	594	609	-	-	-	-
4 years later	518	532	585	-	-	-	-	-
5 years later	516	526	-	-	-	-	-	-
6 years later	514	-	-	-	-	-	-	-
Current estimate of accumulated claims expenditure	514	526	585	609	671	615	737	4,258
Accumulated claims paid	-485	-495	-535	-554	-593	-501	-376	-3,539
Provision for unpaid claims for 2004-2010	29	31	50	55	78	114	361	719
Provision for unpaid claims for previous years								303

Development of claims due to latent occupational diseases, (EUR million)

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Financial year	Collective liability	Known liabilities for annuities	Claims paid	Claims incurred	Changes in reserving basis*	Adequacy
2005	45	39	-4	-2	1	-1
2006	43	40	-4	-3	-	-3
2007	41	40	-4	-2	-1	-2
2008	40	41	-4	-4	3	-2
2009	42	43	-4	-8	4	-4
2010	38	44	-3	0	-	0

Development of annuities confirmed as final (EUR million)

Financial year	Year-start	Year-end	New annuity capital	Annuities paid	Changes in reserving basis*	Adequacy
2006	681	731	77	26	-	1
2007	731	745	60	28	-15	3
2008	745	766	55	30	-	4
2009	763**	771	42	32	-	2
2010	771	794	60	34	-	3

* Effect of changes in the discount rate on final annuity capital.

** A small amount of healthcare and senior housing provisions was eliminated from 2009 figures.

Claims triangles, net business (EUR million)

Occurrence year	2004	2005	2006	2007	2008	2009	2010	Total
Estimated total claims expenditure								
At end of occurrence year	504	511	580	621	656	649	692	4,213
1 year later	510	519	593	623	656	60	-	-
2 years later	503	509	575	619	638	-	-	-
3 years later	500	509	577	602	-	-	-	-
4 years later	499	513	568	-	-	-	-	-
5 years later	499	507	-	-	-	-	-	-
6 years later	496	-	-	-	-	-	-	-
Current estimate of accumulated claims expenditure	496	507	568	602	638	603	692	4,106
Accumulated claims paid	-467	-479	-518	-547	-563	-497	-372	-3,443
Provision for unpaid claims for 2004-2010	29	28	50	54	76	106	320	663
Provision for unpaid claims for previous years								299

Provision for joint guarantee system

The Workers' Compensation Insurance Act, the Motor Liability Insurance Act and the Patient Injury Act previously included provisions on joint liability on the basis of which insurers engaged in the insurance business under these Acts assume joint liability for any unpaid claims should one of them fail to pay claims in the event of liquidation or bankruptcy. For this purpose, insurance companies made a provision for this joint guarantee system.

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

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

Claims administration contracts

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On 31 December 2010, liabilities related to claims administration contracts totalled EUR 78 million (EUR 43 million).

Claims administration contracts are contracts which are not insurance contracts, but on the basis of which claims are paid on behalf of another party. Among these contracts, the most important are captive arrangements in which the insured risk is reinsured with a captive company belonging to the same Group of companies with the customer; index increases in annuities of statutory workers' compensation, motor liability and patient insurance policies; certain other increases in benefits; and medical treatment indemnities payable over ten years after the occurrence of the accident; as well as public sector patient insurance.

Notes to OP-Pohjola Group financial statements

NOTES TO LIABILITIES AND EQUITY CAPITAL

Note 35. Life Insurance liabilities

EUR million	31 Dec. 2010	31 Dec. 2009
Insurance contract liabilities	4,024	3,649
Insurance contract liabilities for unit-linked insurance policies	3,090	2,335
Other liabilities		
Accrued expenses and deferred income	5	3
Other		
Direct insurance operations	1	1
Reinsurance operations	2	2
Other	168	188
Total	176	194
Total Life Insurance liabilities	7,290	6,179

Changes in Insurance contract liabilities 31 Dec. 2010

Insurance contract liabilities, EUR million	1 Jan. 2010	Growth in liability arising from insurance premiums	Dis-charged liabilities	Credited interest and changes in value	Other charges and credits	Other items	31 Dec. 2010
Insurance contracts with entitlement to discretionary portion of surplus	3,519	742	-415	133	-44	-79	3,857
Insurance contracts without entitlement to discretionary portion of surplus	118	65	-11	0	-32	-4	137
Unit-linked insurance contracts	2,335	506	-155	343	-25	86	3,090
Investment contracts with entitlement to discretionary portion of surplus	93	414	-494	3	0	11	28
Investment contracts without entitlement to discretionary portion of surplus	1	-	-1	0	0	0	0
Unit-linked contracts	42	119	-120	6	0	3	49
Provision for unexpired risks and provision for future supplementary benefits	12	-	-	-	-	18	30
Total direct insurance	6,120	1,846	-1,196	485	-101	36	7,191
Total net insurance contract liabilities	6,120	1,846	-1,196	485	-101	36	7,191

Insurance contract liabilities, EUR million	1 Jan. 2009	Growth in liability arising from insurance premiums	Dis-charged liabilities	Credited interest and changes in value	Other charges and credits	Other items	31 Dec. 2009
Insurance contracts with entitlement to discretionary portion of surplus	3,658	253	-386	122	-23	-105	3,519
Insurance contracts without entitlement to discretionary portion of surplus	90	83	-7	0	-47	-1	118
Unit-linked insurance contracts	1,571	368	-105	415	-20	107	2,335

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Investment contracts with entitlement to discretionary portion of surplus	43	60	-12	1	0	1	93
Investment contracts without entitlement to discretionary portion of surplus	4	-	-3	0	0	-	1
Unit-linked contracts	34	9	-6	6	0	-1	42
Provision for unexpired risks and provision for future supplementary benefits	-	-	-	-	-	12	12
Total direct insurance	5,401	771	-518	544	-90	13	6,120
Provision for unexpired risks and provision for future supplementary benefits	5,401	771	-518	544	-90	13	6,120

Benefits based on insurance contracts are charged to expenses in the income statement. Insurance contract liabilities are determined by calculating the capital value of future benefits, policy administration costs and future premiums, using actuarial assumptions related to compounding, mortality, disability and operating expenses. The liability is redetermined on every balance sheet date using assumptions related to rating of policies, including the discount rate. The change in future cash flows due to declared customer bonuses has been taken into consideration when calculating the insurance contract liabilities. Insurance contract liabilities for unit-linked policies are, however, measured at fair value such as the assets covering the liability.

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

In practice, insurance contract liabilities for savings-type policies are determined on the basis of insurance savings at the time of determination. For risk-type policies, the pro rata rule applies. The supplementary provision used in previous years is no longer applied.

Calculated with the current method, the contract liability will not change along with the interest rate. This will probably be changed with the second phase of the IFRS.

Analysis of the life insurance business show that the technical provisions are sufficient concerning mortality. The same applied to permanent disability insurance.

Notes to OP-Pohjola Group financial statements

NOTES TO LIABILITIES AND EQUITY CAPITAL

Note 36. Debt securities issued to the public

EUR million	Average interest rate %	31 Dec. 2010	Average interest rate %	31 Dec. 2009
Bonds	2.48	9,804	2.32	9,361
Other				
Certificates of deposit	0.96	3,481	0.81	2,308
Commercial paper holdings	0.84	6,141	0.57	8,241
Money market debt securities	-	-	-	-
Other	0.78	262	0.68	227
Included in own portfolio in trading (-)*		-111		-193
Total debt securities issued to the public		19,577		19,945

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

Most significant issues in 2010	Nominal amount	Interest rate
OP Mortgage Bank		
OP Mortgage Bank Covered Bond 6/2010	1,000	Fast 2,375
Pohjola Bank plc		
Pohjola Bank plc issue of EUR 750,000,000 Floating rate Instruments due 25 February 2013 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments	750	EUB3M + 50bp
Pohjola Bank plc Issue of EUR 750,000,000 3.125 per cent. Instruments due 25 March 2015 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments	750	Fast 3,125 %
Pohjola Bank plc (Pohjola Bank of the issuer) Issue of Eur 750,000,000 3.00 per cent. Instruments due 8 September 2017 under the Eur 15,000,000,000 Programme for the Issuance of Debt Instruments	750	Fast 3 %

Notes to OP-Pohjola Group financial statements

NOTES TO LIABILITIES AND EQUITY CAPITAL

Note 37. Provisions and other liabilities

EUR million	31 Dec. 2010	31 Dec. 2009
Provisions	1	1
Other liabilities		
Payment transfer liabilities	607	363
Accrued expenses		
Interest payable	689	629
Other accrued expenses	368	337
Other	668	501
Total	2,331	1,830
Total provisions and other liabilities	2,333	1,832

Other' under Other liabilities includes EUR 103 million (EUR 37 million) in accounts payable on securities, EUR 13 million (EUR 12 million) in pension liabilities, EUR 94 million (EUR 219 million) in liabilities for derivative contracts and EUR 458 million (EUR 233 million) in other accounts payable.

Changes in provisions

EUR million	Onerous contracts	Other provisions	Total
1 Jan. 2010	0	1	1
Increase in provisions	-	-	-
Provisions used	0	0	0
Reversal of unused provisions	-	-	-
31 Dec. 2010	-	1	1

Notes to OP-Pohjola Group financial statements

NOTES TO LIABILITIES AND EQUITY CAPITAL

Note 38. Tax liabilities

EUR million	31 Dec. 2010	31 Dec. 2009
Income tax liabilities	34	33
Deferred tax liabilities	981	893
Total tax liabilities	1,014	925

Notes to OP-Pohjola Group financial statements

NOTES TO LIABILITIES AND EQUITY CAPITAL

Note 39. Cooperative capital

EUR million	31 Dec. 2010	31 Dec. 2009
Cooperative capital	5	4
Supplementary cooperative capital	642	618
Total cooperative capital	647	622
of which cancelled cooperative capital	92	95

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

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

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

Notes to OP-Pohjola Group financial statements

NOTES TO LIABILITIES AND EQUITY CAPITAL

Note 40. Subordinated liabilities

EUR million	Average interest rate %	31 Dec. 2010	Average interest rate %	31 Dec. 2009
Subordinated loans	3.48	233	3.11	217
Other				
Perpetual loans	5.06	262	5.00	262
Debentures	2.52	683	2.53	771
Other	-	-	-	-
Total subordinated liabilities		1,178		1,250

Main terms and conditions of the subordinated loans are as follows:

Innovative instruments included in Tier 1

1) Perpetual bond of 10 billion Japanese yen (equivalent of EUR 92 million)

This is a perpetual loan (a loan without a due date) carrying a fixed interest rate of 4.23% until 18 June 2034 and subsequently a variable 6-month Yen Libor + 1.58%. Interest will be annually payable on 18 June and 18 December. If interest cannot be paid for a given interest period, the obligation to pay interest for the period in question will lapse. The loan can be called in at the earliest in 2014 and can be annually repaid after 2014 on the interest due date on 18 June or 18 December. The loan's entire principal must be repaid in one instalment.

2) Perpetual bond of EUR 50 million

This is a perpetual loan without interest-rate step-ups, but with an 8% interest rate cap. The loan was issued on 31 March 2005 and its interest rate for the first year was 6.5% and thereafter CMS 10 years + 0.1%. Interest payments are made annually on 11 April. If interest cannot be paid for a given interest period, the obligation to pay interest for the period in question will lapse. The loan can be called in on 11 April 2010 at the earliest, subject to authorisation by the Financial Supervisory Authority. The loan's entire principal must be repaid in one instalment.

3) Perpetual bond of EUR 60 million

This perpetual loan carries a variable interest rate based on 3-month Euribor + 0.65% payable quarterly on 28 February, 30 May, 30 August and 30 November. If interest cannot be paid for a given interest period, the obligation to pay interest for the period in question will lapse. It is possible to call in the loan at the earliest on 30 November 2015, subject to authorisation by the Financial Supervision Authority, and thereafter on the interest due dates. After 2015, the loan carries a variable interest rate based on 3-month Euribor + 1.65% (step up). The entire loan principal must be repaid in one instalment.

4) Perpetual bond of EUR 40 million

This perpetual loan carries a variable interest rate based on 3-month Euribor + 1.25% payable quarterly on 28 February, 30 May, 30 August and 30 November. If interest cannot be paid for a given interest period, the obligation to pay interest for the period in question will lapse. Subject to authorisation by the Financial Supervisory Authority, the loan may be called in on the due dates of interest payment. The entire loan principal must be repaid in one instalment.

Loans 1 and 3 are included in hybrid instruments.

The Group has used derivatives to hedge against interest-rate and exchange-rate risks, and the financial statements include EUR 17.6 million in change in fair value recognised for hedging (17.1).

Perpetual loans and debentures

1) A perpetual loan of GBP 100 million which can be called in at the earliest on 28 December 2012, subject to authorisation by the Financial Supervision Authority. A fixed 6.5% interest is paid on the loan semiannually.

2) A perpetual loan of EUR 150 million which can be called in at the earliest on 30 November 2012, subject to authorisation by the Financial Supervision Authority. A fixed 3.875% interest is paid on the loan annually.

3) A debenture loan of EUR 150 million which can be called in at the earliest on 21 March 2011, subject to authorisation by the Financial Supervision Authority. The loan carries an interest based on 3-month Euribor + 17.5 bps.

4) A debenture loan of USD 325 million which can be called in at the earliest on 13 September 2011, subject to authorisation by the Financial Supervisory Authority. The loan carries an interest based on 3-month USD Libor + 20 bps. With the Financial Supervisory Authority's permission, the amount amortised by Pohjola in December 2009 came to EUR 10 million and the remainder is USD 315 million.

5) A debenture loan of EUR 170 million which can be called in at the earliest in 2013, subject to authorisation by the Financial Supervisory Authority. The loan carries a fixed interest of 5.75%.

6) A debenture loan of EUR 100 million, which can be called in at the earliest in 2013, subject to authorisation by the Financial Supervision Authority. The loan carries a variable interest based on 12-month Euribor + 2.25% until 2013.

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Loans 1–6 were issued in international capital markets.

Fixed-rate debentures issued in Finland totalled EUR 149.7 million (EUR 161.7 million) on 31 December 2010.

Other subordinated loans

Subordinated loan of EUR 10 million, date of issue 20 September 2001.

This is a perpetual subordinated loan carrying a fixed interest rate of 6.15% until 17 September 2011. For the first ten years, interest will be payable annually on 17 September and after that semiannually on 17 March and 17 September. The issuer has the right to call in the loan for the first time on 17 September 2011.

OP-Pohjola Group companies have issued a total of EUR 262 million (262) in perpetual loans and a total of EUR 683 million (771) in debenture loans, a total of EUR 903 million (990) of these loans being included in Tier II capital. The issuer's right to call in a debenture loan is always subject to authorisation by the Financial Supervision Authority.

Notes to OP-Pohjola Group financial statements

NOTES TO LIABILITIES AND EQUITY CAPITAL

Note 41. Equity capital

EUR million	31 Dec. 2010	31 Dec. 2009
Capital and reserves attributable to OP-Pohjola Group owners		
Share and cooperative capital (incl. share issue)	368	358
Reserves		
Restricted reserves		
Share premium account	514	514
Reserve fund	803	794
Reserves according to the Articles of Association/regulations	-	-
Fair value reserve		
Cash flow hedge	-6	-
Translation differences	-	-
Measurement at fair value		
Notes and bonds	-75	24
Shares and participations	194	-79
Other restricted reserves	1	1
Non-restricted reserves		
Reserve for invested non-restricted equity	164	170
Other non-restricted reserves	1,174	1,126
Retained earnings		
Profit (loss) for previous financial years	3,150	2,942
Profit (loss) for the financial year	440	338
Capital and reserves attributable to OP-Pohjola Group owners	6,726	6,187

The fair value reserve before tax amounted to EUR 151 million (-74) and the related deferred tax liability to EUR 39 million (deferred tax asset EUR 19 million). On 31 December, positive mark-to-market valuations of equity instruments in the fair value reserve totalled EUR 286 million (180) million and negative mark-to-market valuations EUR 19 million (265). During 2007–10, impairment charges recognised from the fair value reserve in the income statement totalled EUR 509 million, of which EUR 142 million were recognised in 2010.

Share capital and shares

OP-Pohjola Group's share capital consists of investments made in Pohjola Bank's Series A shares by shareholders external to the banking group. These shareholders may hold only Pohjola Bank's Series A shares quoted on the NASDAQ OMX Helsinki. The shares have no nominal value. The stated value of each share is EUR 1.34 (not an exact figure).

Changes in shareholdings of external shareholders

	Number of shares (1,000)
1 Jan. 2009	112,827
Exercise of stock options	64,192
Equity trades with external parties	-
31 Dec. 2009	177,019
Exercise of stock options	-
Equity trades with external parties	-614
31 Dec. 2010	176,405

Cooperative capital

Cooperative capital, included in OP-Pohjola Group's equity capital, comprises such cooperative contributions paid by members of OP-Pohjola Group member cooperative banks which the member banks have the absolute right to refuse to return.

Reserves

Share premium account

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The share premium account was formed during the validity of regulations in force before 1 September 2006. Items entered in the share premium account include amounts exceeding the nominal value paid for shares in a rights issue; amounts paid for share subscriptions based on stock options and convertible bonds; capital gains on disposal of treasury shares; the amount of the reduction of share capital which is not used to cover confirmed loss, is not transferred to a reserve to be used in accordance with a decision by the General Meeting of Shareholders or is not distributed to shareholders; payouts on unsubscribed shares that must be paid when a limited liability company is established; any payouts to the company resulting from shares that have been sold because the shareholder has not included the shares in the book-entry system; and payment received for a share that was not claimed at the capitalisation issue.

The share premium account may be lowered in compliance with the regulations governing the reduction of share capital and may be used to increase the share capital. Since 1 September 2006, it has no longer been possible to increase the share premium account.

Reserve fund

The reserve fund consists of profits transferred to it during previous periods and of the portion transferred to it from member cooperative banks' revaluation reserves and loan loss provisions. The reserve fund may be used to cover losses for which non-restricted equity capital is not sufficient. The reserve fund may also be used to raise the share capital and it can be lowered in the same way as the share capital. In cooperative financial institutions, the reserve fund can only be used to cover losses. In a limited liability company, it has not been possible to increase the reserve fund since 1 September 2006.

Fair value reserve

The fair value reserve includes the change in the fair value of available-for-sale financial assets. Items included in this reserve will be derecognised and recorded in the income statement when an available-for-sale financial asset is disposed of or is subject to impairment. The reserve also includes the net fair value change of interest rate derivatives as cash flow hedges verified as effective and adjusted for deferred tax. Fair value changes are included in the income statement in the period when hedged cash flows affect net income.

Other restricted reserves

These reserves consist of retained earnings based on the Articles of Association or other rules describing their purpose.

Reserve for invested non-restricted equity

Capital raised by Pohjola Bank plc through its rights offering in 2009 was entered in the reserve for invested non-restricted equity.

Other non-restricted reserves

These reserves consist of retained earnings based on the Articles of Association or other rules, or decisions taken by the General Meeting, Representatives' Meeting, or Cooperative Meeting.

Retained earnings

Retained earnings also contain untaxed reserves (voluntary provisions and accelerated depreciation) included in the separate financial statements of Group companies, and the equalisation provision of insurance companies, which have been recognised in retained earnings less deferred tax in the IFRS financial statements.

Notes to OP-Pohjola Group financial statements

OTHER NOTES TO THE BALANCE SHEET

Note 42. Notes and bonds eligible for central bank refinancing

EUR million	31 Dec. 2010	31 Dec. 2009
Financial assets at fair value through profit or loss	332	1,043
Available for sale		
Measured at fair value	5,104	3,847
Measured at cost	-	-
Held to maturity	888	1,052
Total notes and bonds eligible for central bank refinancing	6,324	5,942

Only Pohjola Bank plc within OP-Pohjola Group is eligible for central bank refinancing.

Notes to OP-Pohjola Group financial statements

OTHER NOTES TO THE BALANCE SHEET

Note 43. Subordinated notes and bonds

EUR million	31 Dec. 2010	31 Dec. 2009
Publicly quoted		
From public corporations	4	0
From others	-	0
Total	4	0
Other		
From public corporations	-	-
From others	1	1
Total	1	1
Total included financial assets at fair value through profit or loss	5	1
Investment assets		
Publicly quoted		
From public corporations	-	-
From others	11	12
Total	11	12
Other		
From public corporations	-	-
From others	18	24
Total	18	24
Total included in investment assets	28	35

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Notes to OP-Pohjola Group financial statements

OTHER NOTES TO THE BALANCE SHEET

Note 44. Collateral given

	31 Dec. 2010	31 Dec. 2009
EUR million	Balance sheet value	Balance sheet value
Given on behalf of own liabilities and commitments		
Mortgages	1	1
Pledges	6,020	5,839
Others	349	600
Total	6,370	6,440
Given on behalf of associates		
Mortgages	-	-
Pledges	-	-
Others	-	-
Total	-	-
Given on behalf of others		
Mortgages	-	-
Pledges	-	-
Others	-	-
Total	-	-
Total collateral given		
Mortgages	1	1
Pledges	6,020	5,839
Others	349	600
Total	6,370	6,440
Total collateralised liabilities	651	1,023

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

Notes to OP-Pohjola Group financial statements

OTHER NOTES TO THE BALANCE SHEET

Note 45. Financial collateral held

Within OP-Pohjola Group, Pohjola Bank has received collateral, in accordance with the Financial Collateral Act, which it may resell or repledge.

	31 Dec. 2010	31 Dec. 2009
Fair value of collateral received		
Notes and bonds	-	-
Equities	-	-
Other	343	106
Total	343	106

The credit risk arising from derivatives is mitigated through collateral, which means the use of ISDA Credit Support Annex (CSA) contract associated with the ISDA general agreement. In the collateral system, the counterparty provides securities or cash in security for the receivable. The amount of CSA-related collateral received in cash totalled EUR 332 million on the balance sheet date (106). The Group had no securities received as collateral on the balance sheet date.

Notes to OP-Pohjola Group financial statements

OTHER NOTES TO THE BALANCE SHEET

Note 46. Classification of financial instruments

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

Assets, EUR million	Loans and other recei- vables	Invest- ments held to maturity	Financial assets at fair value through profit or loss*	Available-for- sale financial assets	Hedging deriva- tives	Total
Cash and balances with central banks	3,235	-	-	-	-	3,235
Receivables from credit institutions and central banks	1,982	-	-	-	-	1,982
Derivative contracts	-	-	1,267	-	156	1,423
Receivables from customers	52,992	-	-	-	-	52,992
Non-life Insurance assets**	725	-	85	2,290	-	3,101
Life Insurance assets***	554	-	2,686	3,091	-	6,331
Notes and bonds	-	1,163	1,198	4,443	-	6,803
Shares and participations	-	-	65	406	-	471
Other receivables	3,637	-	456	-	-	4,093
Total 31 December 2009	63,125	1,163	5,757	10,229	156	80,430

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

Financial liabilities at fair

Hedging

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Liabilities, EUR million	value through profit or loss****	Other liabilities	deriva-tives	Total
Liabilities to credit institutions	-	2,174	-	2,174
Financial liabilities held for trading (excl. derivatives)	71	-	-	71
Derivative contracts	1,195	-	166	1,360
Liabilities to customers	-	37,606	-	37,606
Non-life Insurance liabilities	0	2,279	-	2,279
Life Insurance liabilities	2,335	3,843	-	6,179
Debt securities issued to the public	-	19,945	-	19,945
Subordinated loans	-	1,250	-	1,250
Other liabilities	-	3,379	-	3,379
Total 31 December 2009	3,601	70,476	166	74,243

*Assets at fair value through profit or loss include financial assets for trading, financial assets at fair value through profit or loss at inception, and investments and investment property covering unit-linked insurance policies.

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

**Life Insurance assets are specified in Note 22.

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

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

On 31 December 2009, the fair value of these debt instruments was approximately EUR 108 million higher than their carrying amount, based on information available in markets and employing commonly used valuation techniques.

Subordinated liabilities are carried at amortised cost. Their fair value are substantially lower than their carrying amount, but determining fair values reliably is difficult in the current market situation.

Notes to OP-Pohjola Group financial statements

OTHER NOTES TO THE BALANCE SHEET

Note 47. Assets and liabilities by hierarchy of valuation techniques

31 Dec. 2010				
Fair value				
Financial assets measured at fair value, EUR million	Level 1*	Level 2**	Level 3***	Total
Financial assets at fair value through profit or loss				
Banking	307	199	14	519
Non-life Insurance	-	-	8	8
Life Insurance	-	-	116	116
Derivatives				
Banking	32	1,764	137	1,933
Non-life Insurance	-	1	-	1
Life Insurance	-	0	-	0
Available-for-sale financial assets				
Banking	5,379	592	61	6,032
Non-life Insurance	1,563	648	231	2,442
Life Insurance	2,428	496	705	3,629
Total	9,709	3,700	1,272	14,681

31 Dec. 2009				
Fair value				
Financial assets measured at fair value, EUR million	Level 1*	Level 2**	Level 3***	Total
Financial assets at fair value through profit or loss				
Banking	536	706	21	1,263
Non-life Insurance	-	-	8	8
Life Insurance	-	-	182	182
Derivatives				
Banking	6	1,336	81	1,423
Non-life Insurance	0	0	-	0
Life Insurance	-	-	-	-
Available-for-sale financial assets				
Banking	4,447	337	65	4,849
Non-life Insurance	1,544	552	193	2,290
Life Insurance	2,209	251	631	3,091
Total	8,742	3,182	1,182	13,106

31 Dec. 2010				
Fair value				
Financial liabilities measured at fair value, EUR million	Level 1*	Level 2**	Level 3***	Total
Financial liabilities at fair value through profit or loss				
Banking	0	-	-	0
Non-life Insurance	-	-	-	-
Life Insurance	-	-	-	-
Derivatives				
Banking	22	1,917	12	1,951
Non-life Insurance	1	0	-	2
Life Insurance	-	-	-	-
Total	24	1,917	12	1,953

31 Dec. 2009				
Fair value				
Financial liabilities measured at fair value, EUR million	Level 1*	Level 2**	Level 3***	Total
Financial liabilities at fair value through profit or loss				
Banking	71	-	-	71

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Non-life Insurance	-	-	-	-
Life Insurance	-	-	-	-
Derivatives				
Banking	1	1,327	33	1,360
Non-life Insurance	-	0	-	0
Life Insurance	-	0	-	0
Total	72	1,327	33	1,431

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

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

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

Transfers between levels of the fair value hierarchy

The Group did not change classification between the levels of hierarchy in 2010.

Reconciliation of Level 3 items

Specification of financial assets and liabilities

Financial assets, EUR Million	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Derivatives	Non-life Insurance assets	Life Insurance assets	Total assets
Opening balance 1 Jan 2010	21	65	81	201	813	1,182
Total gains/losses in profit or loss	-7	-6	50	-16	14	35
Total gains/losses in other comprehensive income	-	2	-	21	74	97
Purchases	-	-	6	33	239	278
Sales	0	-	-	0	-291	-291
Issues	-	-	-	-	-	-
Settlements	0	-	-	-	-28	-28
Transfers into Level 3	-	-	-	-	-	-
Transfers out of Level 3	-	-	-	-	-	-
Closing balance 31 Dec 2010	14	61	137	239	821	1,272

Financial assets, EUR Million	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Derivatives	Non-life Insurance assets	Life Insurance assets	Total assets
Opening balance 1 Jan 2009	21	68	46	199	899	1,234
Total gains/losses in profit or loss	3	-4	35	-5	13	42
Total gains/losses in other comprehensive income	-	6	-	-9	1	-2
Purchases	0	9	-	22	108	139
Sales	-1	-14	-	-6	-177	-198
Issues	-	-	-	-	-	-
Settlements	-2	-1	-	-	-30	-33
Transfers into Level 3	-	-	-	-	-	-
Transfers out of Level 3	-	-	-	-	-	-
Closing balance 31 Dec 2009	21	65	81	201	813	1,182

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Financial liabilities, EUR Million	Financial liabilities at fair value through profit or loss		Non-life Insurance liabilities	Life Insurance liabilities	Total liabilities
		Derivatives			
Opening balance 1 Jan 2010	-	33	-	-	33
Total gains/losses in profit or loss	-	-28	-	-	-28
Total gains/losses in other comprehensive income	-	-	-	-	-
Purchases	-	7	-	-	7
Sales	-	-	-	-	-
Issues	-	-	-	-	-
Settlements	-	-	-	-	-
Transfers into Level 3	-	-	-	-	-
Transfers out of Level 3	-	-	-	-	-
Closing balance 31 Dec 2010	-	12	-	-	12

Financial liabilities, EUR Million	Financial liabilities at fair value through profit or loss		Non-life Insurance liabilities	Life Insurance liabilities	Total liabilities
		Derivatives			
Opening balance 1 Jan 2009	-	18	-	-	18
Total gains/losses in profit or loss	-	14	-	-	14
Total gains/losses in other comprehensive income	-	-	-	-	-
Purchases	-	-	-	-	-
Sales	-	-	-	-	-
Issues	-	-	-	-	-
Settlements	-	-	-	-	-
Transfers into Level 3	-	-	-	-	-
Transfers out of Level 3	-	-	-	-	-
Closing balance 31 Dec 2009	-	33	-	-	33

Total gains/losses included in profit or loss by item for the financial year on 31 Dec 2010

EUR Million	Net interest income or net trading income	Net investment income	Net income from Non-life Insurance	Net income from Life Insurance	Statement of comprehensive income	Total gains/losses for the financial year included in profit or loss for assets/liabilities held at year-end
Total gains/losses in profit or loss	43	-6	-16	14	97	132
Total	43	-6	-16	14	97	132

Total gains/losses included in profit or loss by item for the financial year on 31 Dec 2009

EUR Million	Net interest income or net trading income	Net investment income	Net income from Non-life Insurance	Net income from Life Insurance	Statement of comprehensive income	Total gains/losses for the financial year included in profit or loss for assets/liabilities held at year-end
Total gains/losses in profit or loss	39	-4	-5	13	-2	40
Total	39	-4	-5	13	-2	40

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Derivatives included in Level 3 comprise structured derivatives for customer needs, whose market risk is covered by a corresponding derivatives contract. Level 3 derivatives relate to structured bonds issued by Pohjola, whose return is determined by the value performance of an embedded derivative instrument. These embedded derivatives are not shown in the above table.

Sensitivity of Level 3 measurements to reasonably possible alternative assumptions

The Group did not change classification between the levels of hierarchy in 2010.

Notes to OP-Pohjola Group financial statements

NOTES TO CONTINGENT LIABILITIES AND DERIVATIVES

Note 48. Off-balance-sheet commitments

	31 Dec. 2010	31 Dec. 2009
Guarantees	1,223	1,391
Other guarantee liabilities	1,621	1,548
Pledges	1	1
Loan commitments	8,805	8,789
Commitments related to short-term trade transactions	164	131
Other	783	785
Total off-balance-sheet commitments	12,595	12,644

Notes to OP-Pohjola Group financial statements

NOTES TO CONTINGENT LIABILITIES AND DERIVATIVES

Note 49. Contingent liabilities and assets

Insurance companies belonging to OP-Pohjola Group underwrite insurance policies through pools. Pool members are primarily responsible for their own proportionate share of the risk. Proportionate shares are based on contracts confirmed annually. In certain pools, pool members are responsible for an insolvent member's liabilities in proportion to their shares in the pool. Group insurance companies recognise liabilities and receivables based on joint liability if joint liability is likely to materialise.

In December 2010, Pohjola Bank plc sold its subsidiary Pohjola Capital Partners Ltd to its existing management. In addition to the selling price, Pohjola will be entitled to an additional price of a total of EUR 0.7 million if the size of a new limited partnership based private equity fund established by the sold company or its direct or indirect owners at a later date reaches EUR 75 million based on commitments received at the time of closing. This amount will be paid to the seller on 31 March 2014 at the earliest, as specified in the terms and conditions of the sale. Entitlement to this amount also requires that Pohjola alone or together with OP-Pohjola Group companies (excl. Group member banks) make a minimum commitment of EUR 20 million to the new fund on the same terms as other investors, provided that the new fund reaches a minimum size of EUR 50 million.

In May 2013, Pohjola Bank plc will have the right and obligation to buy 5% of Access Capital Partners Group S.A shares. On 31 December 2010, the fair value of this shareholding amounted to EUR 3.5 million.

Notes to OP-Pohjola Group financial statements

NOTES TO CONTINGENT LIABILITIES AND DERIVATIVES

Note 50. Operating leases

OP-Pohjola Group as Lessee

Some OP-Pohjola Group companies have leased the office premises they use. The term of these leases varies between one and ten years and they usually include the option of extending the lease after the original date of termination. OP-Pohjola Group companies have subleased some of their premises. In addition, some companies have leased motor vehicles and office equipment. Other operating expenses include EUR 25 million (24) in rental expenses.

Future minimum lease payments under non-cancellable operating leases

EUR Million	31 Dec. 2010	31 Dec. 2009
No later than 1 year	14	14
Later than 1 year and no later than 5 years	35	39
Later than 5 years	3	7
Total	52	60
Expected future minimum lease payments from non-cancellable subleases	14	15

OP-Pohjola Group as Lessor

OP-Pohjola Group companies have leased out investment properties they own, which generated lease income of EUR 65 million (69) in 2010. In addition, the Group has primarily leased out passenger cars, which generated lease income of EUR 21 million (23).

Future minimum lease payments receivable under non-cancellable operating leases

EUR Million	31 Dec. 2010	31 Dec. 2009
No later than 1 year	59	59
Later than 1 year and no later than 5 years	88	103
Later than 5 years	56	37
Total	203	199

Notes to OP-Pohjola Group financial statements

NOTES TO CONTINGENT LIABILITIES AND DERIVATIVES

Note 51. Asset management

Within OP-Pohjola Group, Pohjola Asset Management Limited runs asset management business and provides institutional customers and wealthy private individuals with discretionary and consultative portfolio management services. Pohjola Asset Management Limited is responsible for the financial management of most of OP Fund Management Company's mutual funds.

Pohjola Asset Management Ltd's discretionary asset management portfolio on 31 December 2010 totalled EUR 20.0 billion (20.6) and consultative asset management portfolio EUR 10.7 billion (9.1).

Notes to OP-Pohjola Group financial statements

NOTES TO CONTINGENT LIABILITIES AND DERIVATIVES

Note 52. Derivative contracts

Derivatives held for trading 31 December 2009

EUR million	Nominal values/residual maturity				Fair values		Potential future exposure
	<1 year	1–5 years	>5 years	Total	Assets	Liabilities	
Interest rate derivatives							
Interest rate sw aps	12,724	32,867	19,969	65,559	1,046	970	1,508
Forw ard rate agreements	505	400	-	905	0	3	2
OTC interest rate options							
Call and caps							
Purchased	3,567	6,661	1,822	12,051	107	15	167
Written	3,398	3,798	2,283	9,479	0	83	-
Put and floors							
Purchased	3,175	2,655	579	6,409	169	1	190
Written	3,816	2,645	216	6,677	-	114	-
Total OTC interest rate derivatives	27,185	49,026	24,869	101,080	1,322	1,186	1,867
Interest rate futures	3,439	-	-	3,439	0	3	-
Interest rate options							
Call							
Purchased	-	-	-	-	-	-	-
Written	4,000	-	-	4,000	0	0	-
Put							
Purchased	4,745	-	-	4,745	0	1	-
Written	5,490	-	-	5,490	0	0	-
Total exchange traded derivatives							
	17,675	-	-	17,675	1	4	-
Total interest rate derivatives	44,859	49,026	24,869	118,754	1,322	1,189	1,867
Currency derivatives							
Forw ard exchange agreements	14,897	423	-	15,320	183	181	353
Interest rate and currency sw aps	74	1,190	473	1,737	53	65	149
Currency options							
Call							
Purchased	72	-	-	72	1	-	2
Written	81	-	-	81	-	1	-
Put							
Purchased	45	-	-	45	1	-	1
Written	43	-	-	43	-	1	-
Total OTC currency derivatives	15,211	1,613	473	17,297	238	249	505
Currency futures	-	-	-	-	-	-	-
Total currency derivatives	15,211	1,613	473	17,297	238	249	505
Equity and index derivatives							
Forw ard equity agreements	-	-	-	-	-	-	-
Forw ard equity index agreements	-	-	-	-	-	-	-
Equity options							
Call							

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	Purchased	-	-	-	-	-	-	-
	Written	-	-	-	-	-	-	-
Put								
	Purchased	-	-	-	-	-	-	-
	Written	-	-	-	-	-	-	-
Equity index options								
Call								
	Purchased	105	967	29	1,101	128	-	214
	Written	-	-	-	-	-	-	-
Put								
	Purchased	1	0	-	1	0	-	0
	Written	-	-	-	-	-	-	-
Total OTC equity and index derivatives		106	967	29	1,102	128	-	215
Equity futures		-	-	-	-	-	-	-
Equity index futures		54	-	-	54	0	0	-
Total exchange traded derivatives		54	-	-	54	0	0	-
Total equity and index derivatives		160	967	29	1,156	128	0	215
Credit derivatives								
Credit default sw aps		13	162	-	175	5	0	8
Credit-linked notes		-	-	-	-	-	-	-
Total return sw aps		-	-	-	-	-	-	-
Other credit derivatives		-	-	-	-	-	-	-
Total credit derivatives		13	162	-	175	5	0	8
Other								
Other forward contracts		-	-	-	-	-	-	-
Other sw aps		124	111	-	235	1	15	20
Other options								
Call								
	Purchased	-	20	-	20	2	-	4
	Written	-	10	-	10	-	1	-
Put								
	Purchased	-	7	-	7	0	-	1
	Written	-	7	-	7	-	0	-
Total other OTC derivatives		124	156	-	280	3	15	25
Other futures contracts		27	49	-	76	24	0	-
Total other derivatives		151	204	-	355	27	16	25
Total derivatives held for trading		60,395	51,973	25,371	137,738	1,722	1,455	2,620

Derivatives held for trading 31 December 2009

	Nominal values/residual maturity				Fair values		Potential
EUR million	<1 year	1–5 years	>5 years	Total	Assets	Liabilities	future exposure
Interest rate derivatives							
Interest rate sw aps	10,687	23,973	9,100	43,761	875	764	1,130
Forw ard rate agreements	200	200	-	400	0	-	1
OTC interest rate options							
Call and caps							
Purchased	2,205	6,467	1,296	9,968	62	25	113
Written	1,141	2,936	1,387	5,465	-	37	-
Put and floors							
Purchased	1,086	2,488	264	3,838	126	0	141

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Written	1,208	2,419	161	3,788	-	84	-
Total OTC interest rate derivatives	16,527	38,484	12,210	67,221	1,063	911	1,386
Interest rate futures	2,782	408	-	3,190	5	1	-
Interest rate options							
Call							
Purchased	-	-	-	-	-	-	-
Written	6,000	-	-	6,000	1	-	-
Put							
Purchased	7,724	-	-	7,724	0	2	-
Written	7,000	-	-	7,000	1	0	-
Total exchange traded derivatives	23,505	408	-	23,914	7	3	-
Total interest rate derivatives	40,033	38,892	12,210	91,134	1,070	914	1,386
Currency derivatives							
Forward exchange agreements	10,869	460	7	11,335	199	101	331
Interest rate and currency swaps	-	419	347	766	25	37	72
Currency options							
Call							
Purchased	71	-	-	71	1	-	1
Written	73	-	-	73	-	1	-
Put							
Purchased	50	-	-	50	1	-	1
Written	56	-	-	56	-	1	-
Total OTC currency derivatives	11,118	879	354	12,351	225	140	406
Currency futures	-	-	-	-	-	-	-
Total currency derivatives	11,118	879	354	12,351	225	140	406
Equity and index derivatives							
Forward equity agreements	-	-	-	-	-	-	-
Forward equity index agreements	-	-	-	-	-	-	-
Equity options							
Call							
Purchased	-	-	-	-	-	-	-
Written	33	-	-	33	-	0	-
Put							
Purchased	33	-	-	33	0	-	-
Written	33	-	-	33	-	0	-
Equity index options							
Call							
Purchased	72	813	41	926	87	-	160
Written	-	-	-	-	-	-	-
Put							
Purchased	-	1	-	1	0	-	0
Written	-	-	-	-	-	-	-
Total OTC equity and index derivatives	170	814	41	1,025	87	0	161
Equity futures	-	-	-	-	-	-	-
Equity index futures	7	-	-	7	0	-	-
Total exchange traded derivatives	7	-	-	7	0	-	-
Total equity and index derivatives	177	814	41	1,032	87	0	161
Credit derivatives							
Credit default swaps	56	157	-	213	4	1	7
Credit-linked notes	-	-	-	-	-	-	-
Total return swaps	-	-	-	-	-	-	-
Other credit derivatives	-	-	-	-	-	-	-

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Total credit derivatives	56	157	-	213	4	1	7
Other							
Other forward contracts	6	7	-	12	2	-	-
Other swaps	1	118	-	119	0	2	10
Other options							
Call							
Purchased	-	10	-	10	0	-	1
Written	-	-	-	-	-	-	-
Put							
Purchased	-	0	-	0	-	-	-
Written	-	-	-	-	-	-	-
Total other OTC derivatives	7	135	-	142	2	2	11
Other futures contracts	-	-	-	-	-	-	-
Total other derivatives	7	135	-	142	2	2	11
Total derivatives held for trading	51,391	40,877	12,604	104,872	1,388	1,057	1,971

Derivative contracts held for hedging purposes - fair value hedging 31 December 2009

EUR million	Nominal values/residual maturity				Fair values		Potential future exposure
	<1 year	1-5 years	>5 years	Total	Assets	Liabilities	
Interest rate derivatives							
Interest rate swaps	698	6,777	2,994	10,469	134	209	213
Forward rate agreements	-	-	-	-	-	-	-
OTC interest rate options							
Call and caps							
Purchased	-	-	-	-	-	-	-
Written	5	229	98	332	-	-	-
Put and floors							
Purchased	5	229	98	332	5	2	7
Written	-	-	-	-	-	-	-
Total OTC interest rate derivatives	709	7,235	3,190	11,134	138	211	220
Interest rate futures	-	-	-	-	-	-	-
Interest rate options							
Call							
Purchased	-	-	-	-	-	-	-
Written	-	-	-	-	-	-	-
Put							
Purchased	-	-	-	-	-	-	-
Written	-	-	-	-	-	-	-
Total exchange traded derivatives	-	-	-	-	-	-	-
Total interest rate derivatives	709	7,235	3,190	11,134	138	211	220
Currency derivatives							
Forward exchange agreements	116	-	-	116	0	0	1
Interest rate and currency swaps	749	468	202	1,419	86	160	132
Currency options							
Call							
Purchased	22	-	-	22	0	-	-
Written	21	-	-	21	-	0	-
Put							
Purchased	-	-	-	-	-	-	-
Written	23	-	-	23	-	0	-

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Total OTC currency derivatives	931	468	202	1,601	86	161	133
Currency futures	-	-	-	-	-	-	-
Total currency derivatives	931	468	202	1,601	86	161	133
Equity and index derivatives							
Forward equity agreements	-	-	-	-	-	-	-
Forward equity index agreements	-	-	-	-	-	-	-
Equity options							
Call							
Purchased	-	-	-	-	-	-	-
Written	-	-	-	-	-	-	-
Put							
Purchased	-	-	-	-	-	-	-
Written	-	-	-	-	-	-	-
Equity index options							
Call							
Purchased	-	-	-	-	-	-	-
Written	-	-	-	-	-	-	-
Put							
Purchased	-	-	-	-	-	-	-
Written	-	-	-	-	-	-	-
Total OTC equity and index derivatives	-	-	-	-	-	-	-
Equity futures	-	-	-	-	-	-	-
Equity index futures	-	-	-	-	-	-	-
Total exchange traded derivatives	-	-	-	-	-	-	-
Total equity and index derivatives	-	-	-	-	-	-	-
Credit derivatives							
Credit default swaps	-	-	-	-	-	-	-
Credit-linked notes	-	-	-	-	-	-	-
Total return swaps	-	-	-	-	-	-	-
Other credit derivatives	-	-	-	-	-	-	-
Total credit derivatives	-	-	-	-	-	-	-
Other							
Other forward contracts	-	-	-	-	-	-	-
Other swaps	3,410	57	-	3,467	2	28	14
Other options							
Call							
Purchased	-	-	-	-	-	-	-
Written	-	-	-	-	-	-	-
Put							
Purchased	-	-	-	-	-	-	-
Written	-	-	-	-	-	-	-
Total other OTC derivatives	3,410	57	-	3,467	2	28	14
Other futures contracts	-	-	-	-	-	-	-
Total other derivatives	3,410	57	-	3,467	2	28	14
Total derivatives held for hedging	5,050	7,760	3,392	16,202	227	400	366

Derivative contracts held for hedging – cash flow hedge 31 Dec. 2010

EUR million	Nominal values /residual term to maturity			Total	Fair values		Potential future exposure
	<1 year	1–5 years	>5 years		Assets	Liabilities	

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Korkojohdannaiset

Koronvaihtosopimukset	-	900	-	900	1	6	5
OTC korkojohdannaiset yhteensä	-	900	-	900	1	6	5
Korkojohdannaiset yhteensä	-	900	-	900	1	6	5

Derivative contracts held for hedging – fair value hedging 31 December 2009

EUR million	Nominal values/residual maturity				Fair values		Potential
	<1 year	1–5 years	>5 years	Total	Assets	Liabilities	future exposure
Interest rate derivatives							
Interest rate swaps	2,007	6,300	747	9,053	81	190	124
Forward rate agreements	-	-	-	-	-	-	-
OTC interest rate options							
Call and caps							
Purchased	-	-	-	-	-	-	-
Written	5	101	19	124	-	0	-
Put and floors							
Purchased	5	101	19	124	4	0	5
Written	-	-	-	-	-	-	-
Total OTC interest rate derivatives	2,016	6,502	785	9,302	85	190	129
Interest rate futures	-	-	-	-	-	-	-
Interest rate options							
Call							
Purchased	-	-	-	-	-	-	-
Written	-	-	-	-	-	-	-
Put							
Purchased	-	-	-	-	-	-	-
Written	-	-	-	-	-	-	-
Total exchange traded derivatives	-	-	-	-	-	-	-
Total interest rate derivatives	2,016	6,502	785	9,302	85	190	129
Currency derivatives							
Forward exchange agreements	156	-	-	156	0	1	2
Interest rate and currency swaps	-	1,080	136	1,216	13	197	77
Currency options							
Call							
Purchased	-	-	-	-	-	-	-
Written	-	-	-	-	-	-	-
Put							
Purchased	-	-	-	-	-	-	-
Written	-	-	-	-	-	-	-
Total OTC currency derivatives	156	1,080	136	1,372	13	198	79
Currency futures	-	-	-	-	-	-	-
Total currency derivatives	156	1,080	136	1,372	13	198	79
Equity and index derivatives							
Forward equity agreements	-	-	-	-	-	-	-
Forward equity index agreements	-	-	-	-	-	-	-
Equity options							
Call							
Purchased	-	-	-	-	-	-	-
Written	-	-	-	-	-	-	-

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Put								
Purchased	-	-	-	-	-	-	-	-
Written	-	-	-	-	-	-	-	-
Equity index options								
Call								
Purchased	-	-	-	-	-	-	-	-
Written	-	-	-	-	-	-	-	-
Put								
Purchased	-	-	-	-	-	-	-	-
Written	-	-	-	-	-	-	-	-
Total OTC equity and index derivatives	-	-	-	-	-	-	-	-
Equity futures	-	-	-	-	-	-	-	-
Equity index futures	-	-	-	-	-	-	-	-
Total exchange traded derivatives	-	-	-	-	-	-	-	-
Total equity and index derivatives	-	-	-	-	-	-	-	-
Credit derivatives								
Credit default sw aps	-	21	-	21	-	1	0	
Credit-linked notes	-	-	-	-	-	-	-	
Total return sw aps	-	-	-	-	-	-	-	
Other credit derivatives	-	-	-	-	-	-	-	
Total credit derivatives	-	21	-	21	-	1	0	
Other								
Other forward contracts	-	-	-	-	-	-	-	
Other sw aps	3,843	117	-	3,960	1	22	11	
Other options								
Call								
Purchased	-	-	-	-	-	-	-	
Written	-	-	-	-	-	-	-	
Put								
Purchased	-	-	-	-	-	-	-	
Written	-	-	-	-	-	-	-	
Total other OTC derivatives	3,843	117	-	3,960	1	22	11	
Other futures contracts	-	-	-	-	-	-	-	
Total other derivatives	3,843	117	0	3,960	1	22	11	
Total derivatives held for hedging	6,015	7,720	920	14,656	100	412	218	

Total derivatives 31 December 2010

EUR million	Nominal values/residual maturity				Fair values		Potential future exposure
	<1 year	1-5 years	>5 years	Total	Assets	Liabilities	
Interest rate derivatives	45,568	56,261	28,059	129,888	1,461	1,400	2,087
Currency derivatives	16,143	2,081	675	18,898	324	409	638
Equity and index-linked derivatives	160	967	29	1,156	128	0	215
Credit derivatives	13	162	-	175	5	0	8
Other derivatives	3,561	261	-	3,822	30	44	39
Total derivatives	65,445	59,732	28,763	153,940	1,948	1,854	2,986

Total derivatives 31 December 2009

EUR million	Nominal values/residual maturity				Fair values		Potential future exposure
	<1 year	1-5 years	>5 years	Total	Assets	Liabilities	

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Interest rate derivatives	42,048	45,394	12,995	100,437	1,155	1,104	1,515
Currency derivatives	11,274	1,959	489	13,722	239	338	484
Equity and index-linked derivatives	177	814	41	1,032	87	0	161
Credit derivatives	56	178	-	234	4	2	7
Other derivatives	3,850	252	-	4,102	3	24	22
Total derivatives	57,406	48,597	13,525	119,528	1,488	1,469	2,189

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Notes to OP-Pohjola Group financial statements

OTHER NOTES

Note 53. Holdings in other companies

Changes in subsidiaries and associates during the financial year

In September 2010, Pohjola Insurance Ltd, a Pohjola Bank plc subsidiary, established Pohjola Health Ltd, which offers businesses wellbeing-at-work services. In December 2010, Pohjola Bank plc bought a 40% shareholding in Access Capital Partners Group SA, a manager and advisor of private equity funds of funds. At the same time, Pohjola sold its subsidiary Pohjola Private Equity Funds Ltd (including its subsidiaries SMF I Oy and SPEF I Oy) to Access Capital Partners. In December 2010, Pohjola Bank plc also sold its subsidiary Pohjola Capital Partners Ltd to its existing management.

Subsidiaries included in the financial statements of the amalgamation of cooperative banks (OP-Pohjola Group) in 2010

Company	Domicile/home country	Shareholding, %	Votes, %
213 member cooperative banks*			
OP-Pohjola Group Central Cooperative	Helsinki	100.0	100.0
Pohjola Bank plc	Helsinki	44.8	70.3
Helsinki OP Bank Plc	Helsinki	100.0	100.0
OP-Kotipankki Oy	Helsinki	100.0	100.0
OP Mortgage Bank	Helsinki	100.0	100.0
OP Fund Management Company Ltd	Helsinki	100.0	100.0
OP Life Assurance Company Ltd	Helsinki	100.0	100.0
Helsingin Seudun OP-Kiinteistökeskus Ltd	Helsinki	100.0	100.0
OP IT Procurement Ltd	Helsinki	100.0	100.0
OP Bank Group Mutual Insurance Company	Helsinki	100.0	100.0
OP-Services Ltd*)	Helsinki	100.0	100.0

*) It began operations on 1 January 2011, so it has not been yet included in the 2010 consolidated financial statements.

Pohjola Group companies :

Pohjola Asset Management Limited	Helsinki	85.0	85.0
Pohjola Corporate Finance Ltd	Helsinki	66.0	66.0
Pohjola Insurance Ltd	Helsinki	100.0	100.0
A-Insurance Ltd	Helsinki	100.0	100.0
Seesam International Insurance Company Ltd	Estonia	100.0	100.0
Joint Stock Insurance Company "Seesam Latvia"	Latvia	100.0	100.0
Joint Stock Insurance Company "Seesam Lithuania"	Lithuania	100.0	100.0
Eurooppalainen Insurance Company Ltd	Helsinki	100.0	100.0
Pohjola Property Management Ltd	Helsinki	100.0	100.0
Pohjola Health Ltd	Helsinki	100.0	100.0
Real Estate Fund	Helsinki	100.0	100.0
Real Estate Fund of Funds Finland Oy	Helsinki	100.0	100.0
Pohjola IT Procurement Ltd	Helsinki	100.0	100.0
Conventum Venture Finance Ltd.	Helsinki	100.0	100.0
Kaivokadun PL-hallinto Ltd	Helsinki	100.0	100.0
Pohjola Finance Estonia AS	Estonia	100.0	100.0
Pohjola Finance SIA	Latvia	100.0	100.0
UAB Pohjola Finance	Lithuania	100.0	100.0

*OP-Pohjola Group member cooperative banks

Name	Balance sheet 2010, EUR million	Capital adequacy, % 31 Dec. 2010	Managing Director 31 Dec. 2010
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Akaan Seudun Op	118	35.4	Heikki Teräväinen
Alajärven Op	206	28.5	Jari Leivo
Alastaron Op	48	22.2	Timo Viitanen
Alavieskan Op	50	23.0	Antero Alahautala
Alavuden Seudun Op	162	19.3	Jussi Ruuhela
Andelsbanken för Åland	214	14.3	Håkan Clemes
Andelsbanken Raseborg	318	14.0	Lars Björklöf
Artjärven Op	40	29.6	Reijo Hurskainen
Askolan Op	82	28.5	Tuulikki Kyyhkynen
Auran Op	76	22.5	Sauli Nuolemo
Enon Op	102	25.3	J. Reimasto-Heiskanen
Etelä-Karjalan Op	1,021	26.5	Jari Himanen
Etelä-Pohjanmaan Op	686	16.5	Olli Tarkkanen
Etelä-Päijänteen Op	130	20.3	Jari Laaksonen
Etelä-Savon Op	681	18.1	Kari Manninen
Euran Op	158	25.2	Lenni Kankaanpää
Forssan Seudun Op	283	17.9	Jouni Hautala
Haapajärven Op	120	15.3	Kari Ahola
Haapamäen Seudun Op	52	28.6	Kaarina Koski
Hailuodon Op	31	26.7	Eija Sipola
Halsuan Op	27	25.6	Tapio Jokela
Haminan Seudun Op	202	32.3	Juha Korhonen
Harjavallan Op	131	31.7	Jarmo Tuovinen
Hartolan Op	56	27.6	Olli Asikainen
Hauhon Op	43	30.3	Timo Metsola
Haukivuoren Op	54	22.7	Seppo Laurila
Heinäveden Op	68	35.1	Jukka Tuomisto
Himangan Op	67	13.8	Kalevi Humalajoki
Hirvensalmen Op	37	27.5	Pertti Severinkangas
Honkilahden Op	29	39.1	Olavi Juhola
Huhtamon Op	16	34.0	Päivikki Järvinen
Huittisten Op	121	31.3	Olli Näsi
Humppilan Op	56	25.3	Jari Salokangas
Hämeenlinnan Seudun Op	624	18.0	Olli Liusjärvi
Ikaalisten Op	91	20.1	Antero Sorri
Ilomantsin Op	92	29.0	Raija Tahvanainen
Itä-Uudenmaan Op	283	11.9	Arto Nurmi-Aro
Janakkalan Op	300	35.6	Vesa Lehtikainen
Joensuun Seudun Op	557	16.3	Antti Heliövaara
Jokioisten Op	100	23.5	Vesa Rantanen
Juuan Op	102	26.4	Tuomo Mustonen
Juvan Op	141	27.3	Risto Rouhiainen
Jämsän Seudun Op	224	31.7	Heikki Rosti
Kainuun Op	372	24.1	Seppo Rytivaara
Kalajoen Op	166	17.5	Pertti Sarkkinen
Kalkisten Op	16	30.7	Heikki Leppähaara
Kangasalan Seudun Op	329	17.3	Veikko Poranen
Kangasniemen Op	145	30.7	Leo Pakkanen
Kannuksen Op	78	17.7	Juha Lundström
Karjalan Op	28	25.4	Pentti Laaksonen
Karkun Op	20	30.0	Kaarina Sacklén
Karvian Op	58	19.6	Antti Suomijärvi
Kaustisen Op	78	15.6	Asko Ahonen
Keikyän Op	31	24.5	Heikki Nelimarkka
Kemin Seudun Op	245	29.2	Pertti Stöckel
Kerimäen Op	57	29.8	Jarmo Kaivonurmi
Keski-Suomen Op	1,627	14.7	Keijo Manner
Keski-Uudenmaan Op	1,127	25.0	Juhani Rinta-Kartano
Kestilän Op	34	27.9	Hans Aikio
Kesälahden Op	54	33.1	Ari Noponen

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Kihniön Op	31	23.9	Pirjo Haapa-aho Vehniä
Kiihtelysvaaran Op	79	21.2	Pasi Leppänen
Kiikoisten Op	27	28.2	Harri Vehkalahti
Kiteen Seudun Op	250	23.9	Ari Karhapää
Koillis-Savon Op	274	31.4	Seppo Pääkkö
Koitin-Pertunmaan Op	59	26.6	Unto Aikasalo
Kokemäen Op	124	32.3	Jari Luukkanen
Kokkolan Op	600	13.1	Kimmo Peuranto
Korpilahden Op	75	28.5	Tuomas Kupsala
Korsnäs Andelsbank	65	37.0	Jan-Erik Westerdahl
Kotkan Seudun Op	362	18.2	Pentti Leisti
Kouvola Seudun Op	513	18.3	Marjo Partio
Kronoby Andelsbank	110	25.6	Sten-Ole Nybäck
Kuhmoisten Op	47	19.2	Teemu Sarhema
Kuhmon Op	139	36.1	Erkki Airaksinen
Kuortaneen Op	56	21.1	Markku Jaatinen
Kurun Op	44	24.6	Marja-Leena Siuro
Kuusamon Op	148	19.4	Kari Kivelä
Kymijoen Op	141	25.5	Pekka Raivisto
Kärkölän Op	55	27.1	Petri Hokkanen
Käylän Op	23	30.0	Katja Koskinen
Köyliön Op	67	20.4	Jorma Pohjus
Lapin Op	70	25.0	Eero Laiho
Lappo Andelsbank	7	22.2	Torsten Nordberg
Lehtimäen Op	46	13.9	Veli-Jussi Haapala
Lemin Op	64	19.1	Eero Innanen
Leppävirran Op	131	27.6	Jukka Kilpeläinen
Limingan Op	65	20.8	Petteri Juusola
Liperin Op	156	21.8	Jalo Lehtovaara
Loimaan Seudun Op	208	25.6	Juha Pullinen
Lokalahden Op	32	27.1	Irma Sirén
Lopen Op	96	29.3	Keijo Bragge
Lounais-Suomen Op	177	29.5	Vesa Viitaniemi
Luhangan Op	44	27.2	Pekka Pietilä
Luopioisten Op	29	26.2	Esa Jokinen
Luumäen Op	80	32.6	Eero Kettunen
Luvian Op	59	19.2	Jyrki Suoja
Länsi-Kymen Op	225	18.7	Pertti Olander
Länsi-Suomen Op	1,798	24.0	Simo Kauppi
Länsi-Uudenmaan Op	658	15.6	Jarmo Viitanen
Maaningan Op	76	31.3	Ari Väänänen
Marttilan Op	72	32.8	Matti Vahalahti
Maskun Op	109	14.9	Jarmo Nurmi
Mellilän Seudun Op	28	40.3	Jouko Rinne
Merimaskun Op	29	27.2	Marjo Linnakoski
Metsämaan Op	25	29.1	Jussi Nieminen
Miehikkälän Op	51	34.0	Kalevi Salonen
Mouhijärven Op	55	19.9	Rainer Sillanpää
Mynämäen Op	124	28.6	Kimmo Ranta
Myrskylän Op	18	25.7	Jorma Rouhiainen
Mäntsälän Op	155	23.5	Heikki Kananen
Mäntän Seudun Op	198	23.4	Erkki Lauronen
Nagu Andelsbank	38	19.9	Johan Broos
Nakkilan Op	104	36.1	Jussi Kuvaja
Niinijoen Op	32	33.6	Jouni Tammelin
Nivalan Op	159	12.5	Markku Niskala
Nousiaisten Op	175	24.7	Ville Aakula
Orimattilan Op	164	26.5	Jukka Sipilä
Oripään Op	52	16.0	Jouko Rekolainen
Oriveden Seudun Op	143	25.3	Pertti Pyykkö

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Op Kantrisalio	87	24.3	Bo Hellen
Oulaisten Op	163	26.1	Jari Anttila
Oulun Op	1,972	17.2	Timo Levo
Outokummun Op	94	28.1	Eero Eskelinen
Paattisten Op	79	28.1	Eero Koskinen
Paltamon Op	55	29.0	Jorma Niemi
Parikkalan Op	100	27.6	Tuomo Liukka
Parkanon Op	86	22.9	Ari Heinonen
Pedersörenejdens Andelsbank	340	16.9	Ulf Löf
Perhon Op	58	21.3	Pekka Pajula
Peräseinäjoen Op	89	30.2	Juha Mäki
Pieksämäen Op	214	15.3	Seppo Vanninen
Pielaveden Op	76	25.3	Jouni Karhinen
Pielisen Op	372	27.0	Mikko Vepsäläinen
Pihlputaan Op	55	26.7	Vesa Isosalo
Pohjois-Savon Op	1,347	16.7	Jaakko Ojanperä
Pohjolan Op	724	16.1	Markku Salomaa
Polvijärven Op	97	23.6	Juhani Leminen
Porvoon Op	556	17.1	Pertti Hellqvist
Posion Op	88	35.6	Vesa Jurmu
Pudasjärven Op	149	36.4	Teuvo Perätalo
Pukkilan Op	54	25.9	Ari Talkara
Pulkkilan Op	34	32.0	Eero Keskitalo
Punkalaitumen Op	80	37.7	Petri Antila
Puolangan Op	69	22.4	Jouni Ahokumpu
Purmo Andelsbank	31	19.2	Stig-Göran Jansson
Pyhäjärven Op	101	27.2	Matti Martikainen
Pyhälaakson Op	154	19.6	Timo Suhonen
Päijät-Hämeen Op	956	10.7	Timo Laine
Pöytyän Op	76	20.4	Tuomo Jokinen
Raahen Seudun Op	284	26.8	Ari Pohjola
Rantasalmen Op	125	35.1	Vesa Auvinen
Rantsilan Op	45	21.8	Ismo Välijärvi
Rautalammin Op	63	24.3	Esko-Pekka Markkanen
Riihimäen Seudun Op	285	28.2	Seppo Runsamo
Riistaveden Op	88	17.2	Pauli Kröger
Ruoveden Op	118	12.7	Leena Selkee
Ruukin Op	98	29.9	Kalle Arvio
Rymättylän Op	55	21.7	Antero Nikki
Räikkylän Op	72	20.2	Olli Koivula
Sallan Op	56	24.7	Veikko Nissi
Salon Op	717	19.9	Jukka Hulkkonen
Savon Op	61	26.0	Pertti Peura
Savitaipaleen Op	86	30.1	Leo-Petteri Nevalainen
Savonlinnan Op	375	28.0	Merja Auvinen
Sideby Andelsbank	36	25.4	Johan Ingves
Siikajoen Op	13	24.7	Raija Fingerroos
Simpeleen Op	67	32.2	Kalevi Lehti
Somerniemen Op	29	21.5	Pertti Kujala
Someron Op	136	20.3	Pertti Purola
Sonkajärven Op	86	27.5	Esko Nissinen
Sotkamon Op	101	28.6	Juhajouni Karttunen
Sulkavan Op	62	22.9	Kari Haverinen
Suomussalmen Op	93	22.0	Timo Polo
Suonenjoen Op	92	24.4	Antti Hult
Sysmän Op	98	29.1	Sakari Kangas
Säkylän Op	63	29.7	Henrik Vase
Taivalkosken Op	49	22.0	Riitta-Liisa Ahokumpu
Taivassalon Op	50	18.7	Jari Katila
Tampereen Seudun Op	2,125	13.0	Mikko Rosenlund

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Tarvasjoen Op	46	24.9	Esa Hentula
Tervolan Op	63	28.0	Hannu Neuvonen
Tervon Op	41	31.5	Jani Kääriäinen
Toholammin Op	88	18.9	Leena Kälviä
Tornion Op	201	19.7	Pentti Alaperä
Turun Seudun Op	2,069	15.1	Risto Korpela
Tuupovaaran Op	49	35.0	Aune Parviainen
Tyrnävän Op	60	18.9	Antto Joutsiniemi
Ullavan Op	30	22.1	Jarmo Hätälä
Urjalan Op	106	25.6	Janne Nuutinen
Uttajärven Op	164	22.0	Raimo Tuovinen
Uukuniemen Op	12	41.0	Pauli Loikkanen
Vaasan Op	587	19.4	Ulf Nylund
Vakka-Suomen Op	334	24.3	Juha-Pekka Nieminen
Valkeakosken Op	168	23.6	Juha Luomala
Vammalan Seudun Op	195	15.0	Jyrki Rantala
Vampulan Op	55	20.9	Kari Hänti
Varpaisjärven Op	76	23.3	Seppo Riekkinen
Vehmersalmen Op	51	33.9	Petri Tyllinen
Vesannon Op	51	22.7	Esa Keränen
Vetelin Op	27	22.8	Jarmo Lehojärvi
Vetelin Ylipään Op	29	23.7	Jari Siirilä
Vihannin Op	99	25.6	Olavi Rasi
Vimpelin Op	57	22.9	Simo Ilomäki
Virolahden Op	64	25.7	Jyrki Gerlander
Virtain Op	136	24.3	Ari Kakkori
Ylitornion Op	86	25.3	Heikki Eteläaho
Ylivieskan Op	170	13.2	Jarmo Somero
Yläneen Op	71	28.5	Heikki Eskola
Ypäjän Op	59	28.3	Kirsi-Marja Hiidensalo
Ähtärin Op	56	14.2	Markku Kallio
Östra Korsholms Andelsbank	7	29.0	Jussi Lahti
Övermark Andelsbank	28	18.3	Mårten Vikberg

Associated companies

Associates (consolidated) in 2010

Name	Domicile	Assets	Liabilities	Net sales	Profit/ Loss	Holding, %
Realinvest Oy	Helsinki	20	10	0	-1	25.3
Finanssidata Oy	Helsinki	8	5	47	0	36.0
Automatia Pankkiautomaatit Oy	Helsinki	340	317	59	6	33.3
Autovahinkokeskus Oy	Espoo	7	1	7	1	27.8
Access Capital Partners Group S.A.	Belgium	25	20	16	2	40.0
Total		400	353	129	8	

The Group's associated companies are unquoted companies.

Associates (consolidated) in 2009

Name	Domicile	Assets	Liabilities	Net sales	Profit/ Loss	Holding, %
Realinvest Oy	Helsinki	20	10	0	-1	25.3
Finanssidata Oy	Helsinki	8	5	47	0	36.0
Automatia Pankkiautomaatit Oy	Helsinki	340	317	59	6	33.3
Autovahinkokeskus Oy	Espoo	7	1	7	1	27.8
Total		375	333	113	6	

The Group's associated companies are unquoted companies.

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Joint ventures

Joint ventures in 2010

Name	Domicile	Sector	Holding
Kiinteistö Oy Arkadiankatu 23	Helsinki	Property holding and management	100.0
Kiinteistö Oy Kaisaniemenkatu 1	Helsinki	Property holding and management	22.4
Kiinteistö Oy Kanta-Sarvis II	Tampere	Property holding and management	100.0
Kiinteistö Oy Säterinkatu 6	Espoo	Property holding and management	100.0
Kiinteistö Oy Piispankalliontie 13-15	Espoo	Property holding and management	100.0
Kiinteistö Oy Jyväskylän Torikulma	Jyväskylä	Property holding and management	41.7
Kiinteistö Oy Jyväskylän Kassatalo	Jyväskylä	Property holding and management	100.0
Kiinteistö Oy Vammalan Torikeskus	Vammala	Property holding and management	100.0
Kiinteistö Oy Biocity	Turku	Property holding and management	30.5
Kiinteistö Oy Turun Asemanseutu	Turku	Property holding and management	49.5
Kiinteistö Oy Säästöraha	Oulu	Property holding and management	100.0
Kiinteistö Oy Ansatie 5	Helsinki	Property holding and management	100.0
Kiinteistö Oy Tampereen Sähkökortteli	Tampere	Property holding and management	100.0
Kiinteistö Oy Tampereen Hämeenkatu 12	Tampere	Property holding and management	100.0
Mikkelin Forum Oy	Mikkeli	Property holding and management	87.1
Kiinteistö Oy Hämeenkivi	Tampere	Property holding and management	100.0
Companies owned by Pohjola Insurance Ltd:			Pohjola's holding %
Tikkurilan Kauppatalo Oy	Vantaa	Property holding and management	53.7
Kiinteistö Oy Helsingin Puutarhurinkuja 2	Helsinki	Property holding and management	100.0
Kiinteistö Oy Vantaan Kisällintie 13	Vantaa	Property holding and management	100.0
Kiinteistö Oy STC Viinikkala	Vantaa	Property holding and management	100.0

The consolidated financial statements include the share of assets and related liabilities under joint control.

Joint ventures in 2009

Name	Domicile	Sector	Holding
Kiinteistö Oy Arkadiankatu 23	Helsinki	Property holding and management	100.0
Kiinteistö Oy Kaisaniemenkatu 1	Helsinki	Property holding and management	22.4
Kiinteistö Oy Kanta-Sarvis II	Tampere	Property holding and management	100.0
Kiinteistö Oy Säterinkatu 6	Espoo	Property holding and management	100.0
Kiinteistö Oy Piispankalliontie 13-15	Espoo	Property holding and management	100.0
Kiinteistö Oy Pekurinkulma	Oulu	Property holding and management	100.0
Kiinteistö Oy Jyväskylän Torikulma	Jyväskylä	Property holding and management	41.7
Kiinteistö Oy Jyväskylän Kassatalo	Jyväskylä	Property holding and management	100.0
Kiinteistö Oy Vammalan Torikeskus	Vammala	Property holding and management	100.0
Kiinteistö Oy Biocity	Turku	Property holding and management	30.5
Kiinteistö Oy Turun Asemanseutu	Turku	Property holding and management	49.5
Kiinteistö Oy Säästöraha	Oulu	Property holding and management	100.0
Kiinteistö Oy Tampereen Sähkökortteli	Tammerfors	Property holding and management	100.0
Kiinteistö Oy Tampereen Hämeenkatu 12	Tammerfors	Property holding and management	100.0
Mikkelin Forum Oy	St. Michel	Property holding and management	87.1
Companies owned by Pohjola Insurance Ltd:			Pohjola's holding %
Tikkurilan Kauppatalo Oy	Vantaa	Property holding and management	53.7
Kiinteistö Oy Helsingin Puutarhurinkuja 2	Helsinki	Property holding and management	100.0
Kiinteistö Oy Vantaan Kisällintie 13	Vantaa	Property holding and management	100.0

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Notes to OP-Pohjola Group financial statements

OTHER NOTES

Note 54. Related-party transactions

OP Bank Group's related parties:

The related parties of OP-Pohjola Group include associates, administrative personnel and other related party companies. The administrative personnel comprise OP-Pohjola Group's Executive Chairman (Chairman of the Executive Board of OP-Pohjola Group Central Cooperative), President of OP-Pohjola Group Central Cooperative, members and deputy members of the Executive and Supervisory Boards and their close relatives. Related parties also include companies over which a person among administrative personnel or his close family member exercises significant influence. Other communities considered as related parties include OP Bank Group Pension Fund and OP Bank Group Pension Foundation.

Standard terms and conditions for credit are applied to loans granted to the related parties. Loans are tied to generally used reference rates.

Related-party transactions 2010

	Associates	Administrative personnel	Others
Loans	84	11	-
Other receivables	0	2	0
Deposits	1	12	42
Other liabilities	-	-	-
Interest income	0	0	-
Interest expenses	0	0	1
Insurance premium revenue	0	0	2
Dividend income	-	-	-
Commission income	0	0	0
Commission expenses	0	0	0
Other operating income	-	-	-
Impairment losses on loans	-	-	-
Impairment losses on loans at year-end	-	-	-
Off-balance-sheet commitments			
Guarantees	-	-	-
Irrevocable commitments	-	-	-
Other off-balance-sheet commitments	-	0	-
Salaries and other short-term benefits, and performance-based pay			
Salaries and other short-term benefits	-	5	-
Performance-based pay	-	-	-
Related-party holdings			
Number of stock options	-	-	-
Number of shares	-	183,841	5,784,097
Number of participations	-	4,898	-

Related-party transactions 2009

	Associates	Administrative personnel	Others
Loans	100	4	-
Other receivables	0	0	0
Deposits	0	11	63
Other liabilities	-	-	-
Interest income	0	0	-
Interest expenses	0	0	1
Insurance premium revenue	0	0	2
Dividend income	1	-	-
Commission income	0	0	0
Commission expenses	0	0	0
Other operating income	-	-	-
Impairment losses on loans	-	-	-

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Impairment losses on loans at year-end	-	-	-
Off-balance-sheet commitments			
Guarantees	-	-	-
Irrevocable commitments	-	-	-
Other off-balance-sheet commitments	-	0	-
Salaries and other short-term benefits, and performance-based pay			
Salaries and other short-term benefits	-	5	-
Performance-based pay	-	-	-
Related-party holdings			
Number of stock options	-	-	-
Number of shares	-	155,676	5,784,097
Number of participations	-	4,799	-

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Notes to OP-Pohjola Group financial statements

OTHER NOTES

Note 55. Long-term incentive schemes

Personnel fund

About 94 of the central institution's personnel are members of OP-Pohjola Group's Personnel Fund.

Payment of OP-Pohjola Group Central Cooperative's (excl. Pohjola Group) profit-based bonuses to OP-Pohjola Group Personnel Fund in 2010 were based on the following targets: OP-Pohjola Group's return on economic capital, in terms of percentage and change in the Group's loyal customers, both weighted 50%. If the targets set for the performance indicators are achieved 100%, profit-based bonuses for 2010 to be transferred to the Fund account for 3% of the combined salaries and wages earned by the Fund's members. The corresponding criteria in Pohjola Group are: Pohjola Group's financial year EPS, weighted 50%; change in the number of Pohjola Insurance Ltd's loyal customer households, weighted 25%; change in the number of OP-Pohjola Group's loyal customers, weighted 25%. If the targets set for the performance indicators are achieved 100%, profit-based bonuses for 2010 to be transferred to the Fund account for 3% of the combined salaries and wages earned by the Fund's members. The criteria for profit-based bonuses in Group member banks are: the member bank's return on economic capital and the change in the number of loyal customers in the member bank itself and in OP-Pohjola Group in total.

Long-term management incentive scheme

The management's long-term incentive scheme comprises selected people at management level. Depending on how well they have achieved certain annual targets, they are entitled to a bonus, subject to withholding tax, similar to monthly salary. The bonus will be paid in two years' time following the end of the vesting period in the form of Pohjola Bank plc shares. A bonus in the form of shares or cash is recognised as personnel costs over the vesting period.

A total of EUR 9.6 million was used at OP-Pohjola Group in 2010 for long-term incentive plans.

Notes to OP-Pohjola Group financial statements

OTHER NOTES

Note 56. Events after the balance sheet date

No significant events after the balance sheet date.

Notes to OP-Pohjola Group financial statements

OTHER NOTES

Note 57. Segment reporting

Segment information

OP-Pohjola Group's business segments are Banking and Investment Services, Non-life Insurance and Life Insurance. Non-segment operations are presented in 'Other Operations'. Defining segments and presentation are based on management reporting.

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

Net interest income is the most significant income component generated by Banking and Investment Services. Income also comes from commissions and fees, and investments. Expenses arise mainly from personnel and other administrative costs, from the network of offices and from returns to owner-members. The most significant risk category pertains to credit risks but business also involves investment risks and operational risks.

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

Net income generated by the life insurance companies is based on the difference between insurance premium revenue and benefits paid and changes in insurance contract liabilities, and net investment income. The most significant risk involved in the life insurance business is the investment risk. The most significant insurance risks pertain to mortality and disability.

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

Non-life insurance products include non-life insurance policies sold to corporate and private customers. Net income generated by Non-life Insurance derives mainly from premiums written and investment income. The most significant risks in Non-life Insurance pertain to insurance risks and investment risks.

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

Segment accounting policies

OP-Pohjola Group's segment reporting is based on accounting policies applied in its financial statements. Income, expenses, assets and liabilities which have been considered to relate directly to and be reasonably attributable to the segments are allocated to the segments. Income, expenses, investments and capital which have not been allocated to segments and inter-segment Group eliminations are reported under 'Group eliminations'. The segments' earnings and profitability is assessed in terms of pre-tax earnings.

Equity allocated to retail banking operations accounts for 9% of the risk-weighted commitments required by the Credit Institutions Act and equity allocated to Pohjola Bank's banking and investment services operations for 7% of the risk-weighted commitments. The unallocated part of equity is assigned to 'Other operations' outside the business lines.

Income statement and balance sheet by segment in 2010

	Banking and Investment Services	Non-life Insurance	Life Insurance	Other operations	Elimi- nations	OP- Pohjola Group
Income statement, EUR Million						
Interest income	2,466	0	-	732	-786	2,412
Interest expenses	1,614	6	-	671	-796	1,495
Net interest income before impairment losses	852	6	-	61	10	917
Impairment losses on receivables	149	0	-	-1	-	149
Net interest income after impairment losses	703	6	-	61	10	768

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Net income from Non-life Insurance	-	383	-	-	-1	382
Net income from Life Insurance	-	-	109	-	-8	100
Net commissions and fees	595	19	-	8	-60	563
Net trading income	52	-	-	-8	2	46
Net investment income	30	-	-	40	-8	62
Other operating income	66	3	16	333	-319	99
Personnel costs	405	109	9	120	0	643
Other administrative expenses	313	88	17	153	-253	319
Other operating expenses	200	119	55	76	-126	324
Returns to owner-members	163	-	-	-	-	163
Share of associates' profits/losses	2	0	-	0	-	2
Earning before tax	367	83	43	86	-4	575
Income tax expense						135
Profit for the financial year						440

	Banking and Investment Services	Non-life Insurance	Life Insurance	Other operations	Elimi- nations	OP- Pohjola Group
Balance sheet 31 Dec. 2010						
Liquid assets	133	-	-	1,495	-	1,628
Receivables from financial institutions	3,570	2	-	7,819	-10,270	1,121
Financial assets at fair value through profit or loss	587	-	-	-59	-9	519
Derivative contracts	1,972	-	-	107	-146	1,933
Receivables from customers	56,375	-	-	977	-519	56,834
Non-life Insurance assets	-	3,307	-	-	-143	3,164
Life Insurance assets	-	-	8,017	-	-473	7,544
Investment assets	2,665	16	-	7,335	-2,578	7,438
Investment in associates	31	2	-	5	-	38
Intangible assets	216	767	91	90	-5	1,159
Property, plant and equipment	596	21	67	25	6	716
Other assets	1,090	-1	6	858	-204	1,749
Tax assets	62	3	16	42	2	125
Total assets	67,299	4,118	8,198	18,694	-14,340	83,969

	Banking and Investment Services	Non-life Insurance	Life Insurance	Other operations	Elimi- nations	OP- Pohjola Group
Balance sheet 31 Dec. 2010						
Liabilities to financial institutions	8,139	-	-	4,034	-10,477	1,696
Financial liabilities at fair value through profit or loss	0	-	-	0	-	0
Derivative contracts	1,618	-	-	476	-142	1,951
Liabilities to customers	36,590	-	-	2,953	-339	39,205
Non-life Insurance liabilities	-	2,357	-	-	-6	2,350
Life Insurance liabilities	-	-	7,316	-	-25	7,290
Debt securities issued to the public	3,179	-	-	17,032	-633	19,577
Provisions and other liabilities	1,821	143	2	579	-212	2,333
Tax liabilities	502	153	49	324	-14	1,014
Cooperative capital	829	-	-	1,143	-1,325	647
Subordinated liabilities	269	50	91	1,205	-437	1,178
Total liabilities	52,947	2,703	7,457	27,746	-13,611	77,243
Equity capital						6,726

Net income from the Baltic States came to EUR 4 million and assets invested to EUR 26 million.

Income statement and balance sheet by segment in 2009

	Banking and Investment Services	Non-life Insurance	Life Insurance	Other operations	Elimi- nations	OP- Pohjola Group
Income statement, EUR Million						

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Interest income	3,044	0	-	984	-956	3,072
Interest expenses	2,063	2	-	912	-976	2,002
Net interest income before impairment losses	981	2	-	72	20	1,070
Impairment losses on receivables	167	0	-	12	-	179
Net interest income after impairment losses	813	2	-	80	20	891
Net income from Non-life Insurance	-	400	-	0	-3	396
Net income from Life Insurance	-	-	-110	0	-9	-120
Net commissions and fees	538	16	-	-4	-54	496
Net trading income	111	-	-	-7	8	112
Net investment income	5	-	-	-5	-8	-9
Other operating income	65	6	16	341	-324	104
Personnel costs	396	110	9	108	0	622
Other administrative expenses	308	88	16	153	-255	310
Other operating expenses	200	119	41	71	-116	316
Returns to owner-members	160	-	-	-	-	160
Share of associates' profits/losses	1	0	-	0	-	1
Earning before tax	471	102	-159	51	-1	464
Income tax expense						126
Profit for the financial year						338

	Banking and Investment Services	Non-life Insurance	Life Insurance	Other operations	Elimi- nations	OP- Pohjola Group
Balance sheet 31 Dec. 2009						
Liquid assets	138	-	-	3,096	-	3,235
Receivables from financial institutions	3,228	-	-	7,381	-8,626	1,982
Financial assets at fair value through profit or loss	1,051	-	-	352	-140	1,263
Derivative contracts	1,474	-	-	73	-124	1,423
Receivables from customers	52,807	-	-	527	-343	52,992
Non-life Insurance assets	-	3,202	-	-	-102	3,101
Life Insurance assets	-	-	6,713	-	-382	6,331
Investment assets	2,602	0	-	6,470	-2,604	6,468
Investment in associates	8	2	-	7	-	17
Intangible assets	218	800	92	74	-5	1,179
Property, plant and equipment	622	22	6	39	72	761
Other assets	1,058	6	6	694	-192	1,572
Tax assets	62	2	24	18	2	108
Total assets	63,267	4,036	6,841	18,732	-12,445	80,430

	Banking and Investment Services	Non-life Insurance	Life Insurance	Other operations	Elimi- nations	OP- Pohjola Group
Balance sheet 31 Dec. 2009						
Liabilities to financial institutions	6,283	-	-	4,570	-8,680	2,174
Financial liabilities at fair value through profit or loss	71	-	-	0	-	71
Derivative contracts	987	-	-	495	-121	1,360
Liabilities to customers	34,848	-	-	2,955	-196	37,606
Non-life Insurance liabilities	-	2,279	-	-	-	2,279
Life Insurance liabilities	-	-	6,215	-	-37	6,179
Debt securities issued to the public	3,171	-	-	17,513	-739	19,945
Provisions and other liabilities	1,474	108	2	436	-188	1,832
Tax liabilities	477	152	4	302	-10	925
Cooperative capital	800	-	-	1,143	-1,321	622
Subordinated liabilities	297	50	91	1,250	-438	1,250
Total liabilities	48,408	2,589	6,311	28,664	-11,729	74,243
Equity capital						6,187

Net income from the Baltic States came to EUR 6 million and assets invested to EUR 26 million.

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Notes to OP-Pohjola Group financial statements

NOTES TO RISK MANAGEMENT

OP-Pohjola Group's capital adequacy and risk management principles are described in Note 2. OP-Pohjola Group's exposure is presented in notes 58–66; Banking and Investment Services' risk exposure, including capital adequacy information in accordance with Pillar III, in notes 67–97; Non-life Insurance's risk exposure in notes 98–109 and that of Life Insurance in notes 110–116.

OP-Pohjola Group's risk exposure

Note 58. OP-Pohjola Group's risk limit system, based on OP-Pohjola Group's 2009 business strategy, and risk indicator values

OP-Pohjola Group Central Cooperative's Supervisory Board confirms risk limits concerning OP-Pohjola Group's risk-bearing capacity, credit risk and liquidity and market risks. These limits are used to control the Group's risk-taking. OP-Pohjola Group's risk limit system is based on the business strategy approved in the summer of 2009.

Indicator	Risk limit	31 Dec. 2010	31 Dec. 2009
Risk-bearing capacity			
OP-Pohjola Group risk limits			
Capital adequacy ratio, (Act on the Supervision of Financial and Insurance Conglomerates)	1.20	1.70	1.58
Capital base/economic capital	1.10	1.71	1.60
Credit risks, %			
Largest single customer risk / capital resources	15.0	8.1	5.9
Total of large customer risks / capital resources	100.0	0.0	0.0
Industry risk / receivables and commitments (including direct investments)	18.0	14.9	15.6
Non-performing loans/loan and guarantee portfolio	2.0	0.3	0.4
Likviditeettiriskit, %			
Funding position (cumulative) / balance sheet, banking			
≤ 12 kk	-13	-4.7	-5.9
≤ 3 v	-15	-5.1	-8.5
≤ 5 v	-8	-1.2	-3.3
Liquidity portfolio / reserve requirement	100	116	134
Market risks, %			
Interest rate risk exposure, banking / economic capital	20	4.2	0.3
Market risk in insurance operations / economic capital	35	27.1	26.8
Alternative investments / economic capital	80	41.8	39.7
Underwriting risk, Non-life insurance / economic capital	15	7.0	7.3
Property risk / economic capital	10	5.0	5.5

Notes to OP-Pohjola Group financial statements

NOTES TO RISK MANAGEMENT

Note 59. OP-Pohjola Group's risk-bearing capacity

Note 2, OP-Pohjola Group's Capital Adequacy and Risk Management Principles, provides a description of goals, key principles and process related to capital management. OP-Pohjola Group and all companies providing banking and investment services fulfil all capital adequacy requirements set by regulatory authorities.

Own funds and capital adequacy under the Act on the Supervision of Financial and Insurance Conglomerates

EUR million	31 Dec. 2010	31 Dec. 2009
OP-Pohjola Group's equity capital	6,726	6,187
Business-segment-specific items	1,783	1,843
Goodwill and intangible assets	-1,094	-1,084
Equalisation provision	-331	-527
Other items included in equity capital and business-segment-specific items, but not included in the conglomerate's capital resources	-604	-627
Conglomerate's capital resources, total	6,480	5,792
Regulatory capital requirement for credit institutions	3,418	3,300
Regulatory capital requirement for insurance operations	396	371
Minimum amount of conglomerate's capital resources	3,814	3,671
Conglomerate's capital adequacy	2,666	2,121
Conglomerate's capital adequacy ratio (capital resources/minimum regulatory capital), %	1.70	1.58

As referred to in the Act on the Supervision of Financial and Insurance Conglomerates, OP-Pohjola Group is a conglomerate for which a capital adequacy ratio is calculated, as provided by the Act.

Risk-bearing capacity

Two risk limit indicators were put in place for risk-bearing capacity in OP-Pohjola Group's new group strategy. The first is capital adequacy prescribed in the Act on the Supervision of Financial and Insurance Conglomerates. The Group's risk limit for this capital adequacy ratio is 1.2, while the legal minimum requirement is 1. On 31 December 2010, the ratio was 1.70, against 1.58 on 31 December 2009. On 31 December 2010, OP-Pohjola Group's capital resources were EUR 1,904 million (1,386) above the Group's internal risk limit and EUR 2,666 million (2,121) more than the limit required by law. Another risk limit measure for risk-bearing capacity that has been set in the strategy is the ratio between capital resources and economic capital. At the end of 2010, the ratio of capital resources to economic capital was 1.71 (1.60). The capital resources buffer exceeded the Group's internal risk limit and was EUR 2,315 million (1,823). The high risk-bearing capacity acts as a buffer against unexpected losses and paves the way for business growth.

Notes to OP-Pohjola Group financial statements

NOTES TO RISK MANAGEMENT

Note 60. Credit risk in banking

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

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

Notes to OP-Pohjola Group financial statements

NOTES TO RISK MANAGEMENT

Note 61. Liquidity risk

The risk limit measure for OP-Pohjola Group's liquidity risk is the ratio of the cumulative funding position controlling the structural funding risk, to the banking balance sheet as well as the ratio of the liquidity portfolio to the liquidity portfolio reserve requirement.

The risk indicator for the structural funding risk indicates the maximum portion of the net cash flows in the Group's balance sheet that may have a maturity within less than one year and within three and five years. On 31 December, the maturing net cash flows in the Group's balance sheet were in all maturity periods with upper limits clearly under the maximum amounts specified by the risk limits.

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

Notes to OP-Pohjola Group financial statements

NOTES TO RISK MANAGEMENT

Note 62. Interest rate risk, banking

In the risk limit system, interest rate risk exposure in banking is measured by the ratio of the economic capital for the risk type to the economic capital for all risk types (before diversification benefits). On 31 December 2010, the share of interest rate risk in banking of OP-Pohjola Group's economic capital was 4.2%, while the risk limit was 20%.

Notes to OP-Pohjola Group financial statements

NOTES TO RISK MANAGEMENT

Note 63. Market risk in insurance operations

In the risk limit system, market risks in insurance operations is measured by the ratio of the economic capital for the risk type to the economic capital for all risk types (before diversification benefits). On 31 December 2009, the share of market risk in insurance operations of OP-Pohjola Group's economic capital was 27.1%, while the risk limit was 35%.

Notes to OP-Pohjola Group financial statements

NOTES TO RISK MANAGEMENT

Note 64. Alternative investments

OP-Pohjola Group's risk limit system restricts the volume of alternative investments by means of a risk limit indicator, which shows the ratio of the market value of alternative and structured investments to the Group's economic capital. On 31 December 2010, the ratio of the market value of such investments to the economic capital of all risk types was 41.8%, while the risk limit was 80%.

Notes to OP-Pohjola Group financial statements

NOTES TO RISK MANAGEMENT

Note 65. Underwriting risk, Non-life insurance / economic capital

In the risk limit system, non-life insurance underwriting risk is measured by the ratio of the economic capital for the risk type to the economic capital for all risk types (before diversification benefits). On 31 December 2010, the share of non-life insurance underwriting risks of OP-Pohjola Group's economic capital was 7.0%, while the risk limit was 15%.

Notes to OP-Pohjola Group financial statements

NOTES TO RISK MANAGEMENT

Note 66. Property risk

In the risk limit system, property risk is measured by the ratio of the economic capital for the risk type to the economic capital for all risk types (before diversification benefits). On 31 December 2010, the share of property risk of OP-Pohjola Group's economic capital was 5.0%, while the risk limit was 10%.

Notes to OP-Pohjola Group financial statements

NOTES TO RISK MANAGEMENT

Risk exposure by Banking and Investment Services

Note 67. Financial assets and impairment losses recognised on them for the financial year

	31 Dec. 2010		31 Dec. 2009	
	Balance sheet value	Impair- ment losses	Balance sheet value	Impair- ment losses
Liquid assets	1,628	-	3,235	-
Receivables from financial institutions	1,121	-	1,982	-
Financial assets at fair value through profit or loss				
Notes and bonds	453	-	1,198	-
Shares and participations	67	-	65	-
Other	-	-	-	-
Derivative contracts				
Held for trading	1,753	-	1,280	-
Hedging	199	-	142	-
Recognised at fair value through profit or loss	-19	-	0	-
Loans and other receivables				
Loans granted	56,207	340	52,368	269
Finance lease receivables	624	-	622	-
Repo contracts	-	-	-	-
Bank guarantee receivables	2	3	2	2
Other receivables	0	-	0	-
Available-for-sale financial assets				
Notes and bonds	5,581	-	4,443	-
Shares and participations	451	-	406	-
Other	-	-	-	-
Held-to-maturity investments				
Notes and bonds	978	-	1,163	-
Off-balance-sheet commitments				
Bank guarantees	2,843	-	2,939	-
Total financial assets	71,888	343	69,845	271

Notes to OP-Pohjola Group financial statements

NOTES TO RISK MANAGEMENT

Note 68. Exposure

	Finland			Other countries		
	Balance sheet value	Impairments	Accrued interest	Balance sheet value	Impairments	Accrued interest
31 Dec. 2010						
Financial assets						
Receivables from financial institutions	9	-	0	1,112	-	11
Receivables from customers	55,426	311	158	783	32	2
Finance leases	624	-	-	0	-	-
Notes and bonds	1,219	-	20	5,793	-	79
Other	88	-	-	323	-	-
Total	57,366	311	178	8,011	32	92
Off-balance-sheet commitments						
Unused standby credit facilities	8,686	-	-	119	-	-
Guarantees and letters of credit	2,695	-	-	313	-	-
Derivative contracts	377	-	-	1,547	-	-
Other	456	-	-	328	-	-
Total	12,213	-	-	2,306	-	-
Total exposure	69,580	311	178	10,317	32	92

	Finland			Other countries		
	Balance sheet value	Impairments	Accrued interest	Balance sheet value	Impairments	Accrued interest
31 Dec. 2009						
Financial assets						
Receivables from financial institutions	37	-	0	1,945	-	20
Receivables from customers	51,660	206	163	710	66	2
Finance leases	622	-	-	0	-	-
Notes and bonds	1,586	-	17	5,217	-	73
Other	61	-	-	340	-	-
Total	53,966	206	180	8,212	66	95
Off-balance-sheet commitments						
Unused standby credit facilities	8,681	-	-	108	-	-
Guarantees and letters of credit	2,770	-	-	300	-	-
Derivative contracts	308	-	-	1,172	-	-
Other	437	-	-	349	-	-
Total	12,196	-	-	1,928	-	-
Total exposure	66,163	206	180	10,140	66	95

Positive market value was recognised for derivative contracts.

Notes to OP-Pohjola Group financial statements

NOTES TO RISK MANAGEMENT

Note 69. Exposure by sector

	Balance sheet values		Off-balance-sheet		Total
	Domestic	Foreign	Domestic	Foreign	
31 Dec. 2010					
Non-banking corporate sector	17,355	546	8,059	320	26,280
Financial institutions and insurance companies	284	6,662	620	1,983	9,549
Households	37,746	37	3,115	1	40,899
Non-profit organisations	512	4	69	0	586
Public corporations	1,646	854	350	1	2,851
Total	57,544	8,103	12,213	2,306	80,166
31 Dec. 2009					
Non-banking corporate sector	16,208	579	8,215	354	25,355
Financial institutions and insurance companies	859	7,162	525	1,573	10,119
Households	35,714	25	3,195	2	38,936
Non-profit organisations	464	0	68	0	532
Public corporations	901	541	194	0	1,636
Total	54,146	8,307	12,196	1,928	76,578

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Notes to OP-Pohjola Group financial statements

NOTES TO RISK MANAGEMENT

Note 70. Receivables from credit institutions and customers, and doubtful receivables

Receivable base					
31 Dec. 2010	Not impaired (gross)	Impaired (gross)	Total	Total impair- ments	Balance sheet value
Receivables					
Receivables from financial institutions	1,121	-	1,121	-	1,121
Receivables from customers	56,073	479	56,552	343	56,209
Bank guarantee receivables	2	3	5	3	2
Finance leases	624	-	624	-	624
Overdrafts	7	-	7	-	7
Total	57,825	479	58,304	343	57,961
Receivables by sector					
Non-banking corporate sector	17,233	355	17,588	251	17,337
Financial institutions and insurance companies	1,313	64	1,376	21	1,355
Households	37,715	57	37,772	70	37,702
Non-profit organisations	511	4	515	1	515
Public corporations	1,052	-	1,052	-	1,052
Total	57,825	479	58,304	343	57,961

Receivable base					
31 Dec. 2009	Not impaired (gross)	Impaired (gross)	Total	Total impair- ments	Balance sheet value
Receivables					
Receivables from financial institutions	1,982	-	1,982	-	1,982
Receivables from customers	52,287	354	52,641	271	52,370
Bank guarantee receivables	2	2	5	2	2
Finance leases	622	-	622	-	622
Overdrafts	5	-	5	-	5
Total	54,896	354	55,250	271	54,978
Receivables by sector					
Non-banking corporate sector	16,176	211	16,387	156	16,231
Financial institutions and insurance companies	2,077	89	2,166	48	2,117
Households	35,674	52	35,726	67	35,659
Non-profit organisations	462	1	463	1	463
Public corporations	508	-	508	-	508
Total	54,896	354	55,250	271	54,978

Collectively assessed impairments on receivables are allocated to Households and the Corporate Sector. These impairments came to EUR 50 million (47).

31 Dec. 2010	Not impaired (gross)	Impaired (gross)	Total	Arrears	Impair- ments
Doubtful receivables					
Receivables from financial institutions	0	-	0	-	-
Receivables from customers	313	479	792	211	343
Bank guarantee receivables	2	3	5	4	3
Finance leases	0	-	0	0	-
Overdrafts	7	-	7	0	-
Total	320	479	799	212	343

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Doubtful receivables by sector

Non-banking corporate sector	90	355	444	96	251
Financial institutions and insurance companies	0	64	64	0	21
Households	221	57	278	113	70
Non-profit organisations	0	4	4	3	1
Public corporations	8	-	8	0	-
Total	320	479	799	212	343

	Not impaired (gross)	Impaired (gross)	Total	Arrears	Impair- ments
31 Dec. 2009					
Doubtful receivables					
Receivables from financial institutions	0	-	0	0	-
Receivables from customers	327	354	681	296	271
Bank guarantee receivables	2	2	5	4	2
Finance leases	1	-	1	0	-
Overdrafts	5	-	5	0	-
Total	332	354	686	297	271

	Not impaired (gross)	Impaired (gross)	Total	Arrears	Impair- ments
Doubtful receivables by sector					
Non-banking corporate sector	99	211	310	178	156
Financial institutions and insurance companies	0	89	89	0	48
Households	222	52	274	118	67
Non-profit organisations	2	1	3	1	1
Public corporations	10	-	10	0	-
Total	332	354	686	297	271

	Portfolio	Impair- ments	Balance sheet value
31 Dec. 2010			
Doubtful receivables			
Non-performing	328	127	200
Zero-interest	11	7	3
Underpriced	90	2	88
Other	371	206	164
Total	799	343	456

	Portfolio	Impair- ments	Balance sheet value
31 Dec. 2009			
Doubtful receivables			
Non-performing	344	123	220
Zero-interest	10	7	3
Underpriced	80	2	78
Other	253	139	114
Total	686	271	415

Doubtful receivables include non-performing, zero-interest, under-priced receivables and other doubtful receivables. Interest on or principal of non-performing receivables has been due for payment and outstanding for three months. Zero-interest receivables have been agreed to carry zero interest for the purpose of securing customer payment capacity. Under-priced receivables have been priced below market prices to secure customer payment capacity. Other doubtful receivables include those that are subject to impairment but cannot be classified under any of the above categories, and overdrafts and guarantee receivables. "Other" also includes collectively assessed impairments. Arrears include unpaid interest on receivables and unpaid instalments.

	30–90 days	90–180 days	Over 180 days.	Total
31 Dec. 2010				
Matured receivables, not impaired	331	11	0	342

	30–90 days	90–180 days	Over 180 days.	Total
31 Dec. 2009				
Matured receivables, not impaired	468	17	-	485

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Notes to OP-Pohjola Group financial statements

NOTES TO RISK MANAGEMENT

Note 71. Impairment losses on receivables

	31 Dec. 2010	31 Dec. 2009
Impairment losses on receivables	230	223
Reversal of impairment losses	-79	-46
Payments on eliminated receivables	-10	-11
Net change in group-specific impairment losses	7	12
Total	149	179
Impairments (net) as a percentage of the loan and guarantee portfolio	0.26	0.33

Notes to OP-Pohjola Group financial statements

NOTES TO RISK MANAGEMENT

Note 72. Private customer exposure by credit category

Category	Net exposure	%	Net exposure	%
A	18,094	44.2	16,409	42.1
B	12,416	30.4	11,376	29.2
C	4,696	11.5	4,292	11.0
D	2,294	5.6	2,131	5.5
E	1,040	2.5	1,085	2.8
F	643	1.6	441	1.1
Non-rated	1,716	4.2	3,202	8.2
Total	40,899	100.0	38,936	100.0

The probability of default (PD) of exposures with a credit rating of A and B is a maximum of 0.01%.

Notes to OP-Pohjola Group financial statements

NOTES TO RISK MANAGEMENT

Note 73. Corporate exposure by sector

31 Dec. 2010	Net exposure			Percentage-distribution
	Balance sheet	Off-balance sheet	Total	
Renting and operation of residential real estate	3,695	751	4,446	16.9
Operating of other real estate	2,598	197	2,795	10.6
Trade	1,972	628	2,600	9.9
Construction	992	1,375	2,366	9.0
Manufacture of machinery and equipment (incl. maintenance)	672	1,166	1,837	7.0
Services	1,326	447	1,772	6.7
Transportation and storage	1,015	480	1,495	5.7
Forest industry	711	453	1,164	4.4
Bying and selling of own real estate	903	154	1,057	4.0
Metal industry	474	564	1,038	4.0
Manufacture of chemicals and chemical products	374	629	1,003	3.8
Energy	369	450	818	3.1
Food industry	524	235	759	2.9
Agriculture, forestry and fishing	628	67	695	2.6
Information and communication	333	346	679	2.6
Financial and insurance activities	578	74	652	2.5
Other manufacturing	374	235	609	2.3
Mining and quarrying	179	51	230	0.9
Water supply and waste management	138	67	205	0.8
Other sectors	48	10	58	0.2
Total	17,901	8,379	26,280	100

31 Dec. 2009	Net exposure			Percentage-distribution
	Balance sheet	Off-balance sheet	Total	
Renting and operation of residential real estate	3,414	646	4,060	16.0
Trade	1,869	851	2,720	10.7
Operating of other real estate	1,996	281	2,276	9.0
Construction	978	1,176	2,154	8.5
Manufacture of machinery and equipment (incl. maintenance)	662	1,178	1,840	7.3
Services	1,302	480	1,782	7.0
Transportation and storage	921	498	1,419	5.6
Forest industry	812	422	1,235	4.9
Metal industry	556	571	1,127	4.4
Bying and selling of own real estate	934	183	1,117	4.4
Manufacture of chemicals and chemical products	341	617	958	3.8
Energy	432	469	901	3.6
Food industry	474	319	793	3.1
Other manufacturing	414	269	683	2.7
Agriculture, forestry and fishing	584	62	646	2.5
Information and communication	317	313	630	2.5
Financial and insurance activities	440	135	575	2.3
Water supply and waste management	119	52	171	0.7
Mining and quarrying	151	19	170	0.7

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Other sectors	70	28	98	0.4
Total	16,786	8,568	25,355	100

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Notes to OP-Pohjola Group financial statements

NOTES TO RISK MANAGEMENT

Note 74. Corporate exposure by rating category

Rating	31 Dec. 2010		31 Dec. 2009	
	Net exposure	%	Net exposure	%
1,0–2,0	1,126	4.3	953	3.8
2,5–5,0	11,926	45.4	11,367	44.8
5,5–7,0	7,427	28.3	7,201	28.4
7,5–8,5	3,587	13.7	3,703	14.6
9,0–10,0	788	3.0	852	3.4
11,0–12,0	625	2.4	588	2.3
Non-rated	801	3.0	691	2.7
Total	26,280	100.0	25,355	100.0

Probabilities of default related to credit ratings are explained in Note 93.

Notes to OP-Pohjola Group financial statements

NOTES TO RISK MANAGEMENT

Note 75. Corporate exposure by the amount of customer's exposure

31 Dec. 2010

Amount of exposure, EUR million	Finland	Other countries	Total	%
0–1	6,156	119	6,275	23.9
1–10	5,714	219	5,933	22.6
10–50	5,017	475	5,492	20.9
50–100	3,426	53	3,479	13.2
Over 100	5,101	-	5,101	19.4
Total	25,414	866	26,280	100.0

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NOTES TO RISK MANAGEMENT

Note 76. Secondary country risk by country risk category (excl. Finland)

Country risk	Moody's equivalent	31 Dec. 2010		31 Dec. 2009	
		Net exposure	%	Net exposure	%
Category 1	Aaa	8,183	79.6	9,002	89.2
Category 2	Aa1–A3	1,317	12.8	807	8.0
Category 3	Baa1–Baa3	674	6.5	228	2.3
Category 4	Ba1–B3	109	1.1	52	0.5
Category 5	Caa1–C	4	0.0	5	0.0
Total		10,286	100.0	10,094	100.0

Category 2 (excl. Finland) takes account of the transfer of contract-related, real risks to another country through agreements or otherwise. The risk may transfer on the basis of an agreement, or a guarantee in most cases, or otherwise, such as transferring receivables from a company's branch office to the country where the company is headquartered.

Notes to OP-Pohjola Group financial statements

NOTES TO RISK MANAGEMENT

Note 77. Structure of OP-Pohjola Group funding

	31 Dec. 2010	%	31 Dec. 2009	%
Liabilities to financial institutions	1,696	2.4	2,174	3.1
Financial liabilities at fair value through profit or loss	0	0.0	71	0.1
Liabilities to customers				
Deposits	36,443	51.1	34,617	49.7
Other	2,762	3.9	2,989	4.3
Debt securities issued to the public				
Certificates of deposit, commercial papers and ECPs	9,773	13.7	10,583	15.2
Bonds	9,804	13.7	9,361	13.4
Other liabilities	2,333	3.3	1,832	2.6
Subordinated liabilities	1,178	1.7	1,250	1.8
Cooperative capital	647	0.9	622	0.9
Equity capital	6,726	9.4	6,187	8.9
Total	71,362	100.0	69,687	100.0

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Notes to OP-Pohjola Group financial statements

NOTES TO RISK MANAGEMENT

Note 78. Maturity of financial assets and liabilities by residual maturity

31 Dec. 2010	Less than 3 months	3–12 months	1–5 years	5–10 years	More than 10 years	Total
Financial assets						
Liquid assets	1,628	-	-	-	-	1,628
Financial assets at fair value through profit or loss						
Notes and bonds	41	65	159	186	3	453
Receivables from financial institutions	69	181	618	252	0	1,121
Receivables from customers	3,777	5,578	21,104	13,601	12,773	56,834
Investment assets						
Available-for-sale notes and bonds	11	106	3,767	1,681	16	5,581
Held-to-maturity notes and bonds	46	158	734	40	0	978
Total financial assets	5,572	6,088	26,382	15,760	12,792	66,594
Transfer of financial assets held for trading to less-than-3-months category	-41	-65	-159	-186	-3	-453
	453	-	-	-	-	453
Total financial assets in internal reporting	5,984	6,023	26,223	15,574	12,790	66,594
Financial liabilities						
Liabilities to financial institutions	1,625	56	-	15	0	1,696
Financial liabilities at fair value through profit or loss	0	-	-	-	-	0
Liabilities to customers	32,088	4,320	2,136	383	277	39,205
Debt securities issued to the public	7,578	3,663	7,456	881	-	19,577
Subordinated liabilities	157	250	674	11	87	1,178
Total financial liabilities	41,449	8,289	10,266	1,290	364	61,657
Transfer of private customers' deposit repayable on demand from the less-than-3-months category to the 3-12-months category	-20,128	20,128	-	-	-	-
Total financial liabilities in internal reporting	21,321	28,417	10,266	1,290	364	61,657
Guarantees	16	45	385	134	642	1,223
Other guarantee liabilities	312	453	450	48	357	1,621
Loan commitments	8,805	-	-	-	-	8,805
Commitments related to short-term trade transactions	41	105	16	0	2	164
Other	394	38	118	219	15	784
Total off-balance-sheet commitments	9,568	640	969	402	1,016	12,595
31 Dec. 2009	Less than 3 months	3–12 months	1–5 years	5–10 years	More than 10 years	Total
Financial assets						
Liquid assets	3,235	-	-	-	-	3,235
Financial assets at fair value through profit or loss						
Notes and bonds	81	676	323	85	33	1,198
Receivables from financial institutions	262	436	1,017	267	0	1,982
Receivables from customers	3,042	5,211	19,623	13,221	11,895	52,992
Investment assets						
Available-for-sale notes and bonds	11	409	3,592	348	82	4,443
Held-to-maturity notes and bonds	55	104	856	148	0	1,163
Total financial assets	6,685	6,836	25,412	14,070	12,010	65,012
Transfer of financial assets at fair value through profit or	-81	-676	-323	-85	-33	-1,198

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loss to the less-than-3-months category	1,198	-	-	-	-	1,198
Total financial assets in internal reporting	7,802	6,160	25,088	13,985	11,977	65,012
	Less than 3 months	3–12 months	1–5 years	5–10 years	More than 10 years	Total
Financial liabilities						
Liabilities to financial institutions	1,262	899	0	13	0	2,174
Financial liabilities at fair value through profit or loss	71	-	-	-	-	71
Liabilities to customers	32,125	2,683	2,297	296	206	37,606
Debt securities issued to the public	8,888	4,983	5,924	150	-	19,945
Subordinated liabilities	11	92	990	61	96	1,250
Total financial liabilities	42,356	8,657	9,211	520	303	61,046
Transfer of private customers' deposit repayable on demand from the less-than-3-months category to the 3-12-months category	-19,768	19,768	-	-	-	-
Total financial liabilities in internal reporting	22,588	28,425	9,211	520	303	61,046
Guarantees	13	16	364	123	874	1,391
Other guarantee liabilities	222	408	484	49	385	1,548
Loan commitments	8,789	-	-	-	-	8,789
Commitments related to short-term trade transactions	58	64	7	0	2	131
Other	371	45	137	186	47	786
Total off-balance-sheet commitments	9,452	533	992	358	1,309	12,644

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Notes to OP-Pohjola Group financial statements

NOTES TO RISK MANAGEMENT

Note 79. Maturities of financial assets and liabilities by maturity or repricing

31 Dec. 2010	1 month or less	>1–3 months	>3–12 months	>1–2 years	>2–5 years	Over 5 years	Total
Financial assets							
Liquid assets	1,628	-	-	-	-	-	1,628
Financial assets at fair value through profit or loss							
Notes and bonds	43	38	75	36	79	181	453
Receivables from financial institutions	201	383	243	47	64	183	1,121
Receivables from customers	22,708	13,482	18,272	444	936	991	56,834
Available-for-sale financial assets							
Notes and bonds	304	660	48	558	2,327	1,683	5,581
Held-to-maturity financial assets							
Notes and bonds	447	374	125	7	10	14	978
Total financial assets	25,331	14,937	18,764	1,093	3,416	3,053	66,594
Financial liabilities							
Liabilities to financial institutions	807	818	71	-	-	0	1,696
Financial liabilities at fair value through profit or loss	0	-	-	-	-	-	0
Liabilities to customers	30,983	1,894	4,219	1,831	162	116	39,205
Debt securities issued to the public	2,661	8,132	2,248	1,325	4,269	942	19,577
Subordinated liabilities	0	491	172	269	246	0	1,178
Total financial liabilities	34,451	11,335	6,710	3,425	4,678	1,058	61,657
31 Dec. 2009	1 month or less	>1–3 months	>3–12 months	>1–2 years	>2–5 years	Over 5 years	Total
Financial assets							
Liquid assets	3,235	-	-	-	-	-	3,235
Financial assets at fair value through profit or loss							
Notes and bonds	91	151	608	68	183	97	1,198
Receivables from financial institutions	322	774	265	206	234	181	1,982
Receivables from customers	22,992	11,217	16,331	585	1,077	790	52,992
Available-for-sale financial assets							
Notes and bonds	112	464	324	276	2,922	344	4,443
Held-to-maturity financial assets							
Notes and bonds	483	467	55	126	15	17	1,163
Total financial assets	27,236	13,073	17,583	1,261	4,431	1,428	65,012
Financial liabilities	1 month or less	>1–3 months	>3–12 months	>1–2 years	>2–5 years	Over 5 years	Total
Liabilities to financial institutions	1,037	225	912	0	-	0	2,174
Financial liabilities at fair value through profit or loss	71	-	-	-	-	-	71
Liabilities to customers	31,105	1,795	2,510	1,889	264	43	37,606
Debt securities issued to the public	2,996	9,472	3,600	108	3,598	171	19,945
Subordinated liabilities	0	479	239	21	511	0	1,250
Total financial liabilities	35,209	11,970	7,261	2,018	4,374	214	61,046

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Notes to OP-Pohjola Group financial statements

NOTES TO RISK MANAGEMENT

Note 80. Sensitivity analysis of market risk

EUR million	Risk parameter	Change	31 Dec 2010		31 Dec 2009	
			Effect on earnings*	Effect on equity capital	Effect on earnings*	Effect on equity capital
Interest rate risk	Interest rate	1 percentage point	699	11.8	642	13
Currency risk	Market value	10 percentage points	16	-	6	-
Volatility risk						
Interest rate volatility	Volatility	20 percentage points	2	-	5	-
Currency volatility	Volatility	10 percentage points	-	-	-	-
Credit risk premium*	Credit risk margin	0.1 percentage point	2	24	2	14
Price risk						
Equity portfolio	Market value	20 percentage points	-	13	-	7
Private equity funds	Market value	20 percentage points	-	12	-	12
Property risk	Market value	10 percentage points	4	1	3	1

Sensitivity figures have been calculated as the sum of the currencies' intrinsic value in relation to interest rate increase.

* The effect on earnings also contains a net interest income risk recognised in the long term and not all as a single entry.

Notes to OP-Pohjola Group financial statements

NOTES TO RISK MANAGEMENT

Note 81. Derivatives business

Credit risk arising from derivative contracts is defined as a credit equivalent based on the daily market valuation of derivative contracts. The sizes of customer limits are defined as follows: Forward exchange agreements and currency options: capital x 10% x estimated validity period Interest rate swaps: capital x 0.7% x estimated validity period Cap and Floor contracts: capital x 0.5% x estimated validity period.

Credit risk arising from bank counterparties is through collateral, which means the use of ISDA Credit Support Annex (CSA) contract associated with the ISDA general agreement. In the collateral system, the counterparty provides cash or securities in security for the receivable. Matching between counterparties are performed on a daily basis. The Group confirms corporate counterparty exposure limits once a year when it also checks the status of collateral applying to limits for derivatives.

If S&P had downgraded Pohjola's credit rating from AA- to A, additional collateral of EUR 9 million (13) would have been required.

OP-Pohjola Group's derivative contracts are specified in Note 52.

Notes to OP-Pohjola Group financial statements

NOTES TO RISK MANAGEMENT

Pillar III disclosures

Notes 82–97 disclose information on the capital adequacy of the consolidated group of the amalgamation of cooperative banks, as specified in Standard 4.5 Supervisory Disclosure of capital adequacy information by the Financial Supervisory Authority (Pillar III disclosures). Given that this information is based on the consolidated capital adequacy on the amalgamation of cooperative banks, it is not directly comparable with information disclosed on OP-Pohjola Group.

The amalgamation of the cooperative banks comprises its central institution (OP-Pohjola Group Central Cooperative), the central institution's member credit institutions and companies belonging to their consolidation groups. Although OP-Pohjola Group's insurance companies do not belong to the amalgamation of the cooperative banks, investments made in them have a major impact on capital adequacy calculated in accordance with the capital adequacy regulations for credit institutions.

Note 82. Capital base

EUR million	31 Dec. 2010	31 Dec. 2009
Tier 1 capital		
OP-Pohjola Group's equity capital	6,726	6,187
The effect of insurance companies on the Group's shareholders' equity is excluded (incl. OVY's technical provisions on 31 Dec 2010)	-28	430
Fair value reserve, transfer to Tier 2	21	-14
Supplementary cooperative capital not included in equity capital	644	620
Tier 1 capital before deductions and hybrid capital	7,363	7,223
Hybrid capital	222	222
Intangible assets	-323	-285
Excess funding of pension liability and change in fair value of investment property	-373	-369
Dividend distribution proposed by Board of Directors	-69	-59
Investments in insurance companies and financial institutions	-1,234	-1,343
Impairments – shortfall of expected losses	-131	-162
Total Tier 1 capital for calculating capital adequacy	5,454	5,227
Tier 2 capital		
Fair value reserve	-15	14
Perpetual bonds	295	298
OVY's equalisation provision	207	-
Debenture loans	609	691
Investments in insurance companies and financial institutions	-1,095	-1,004
Total Tier 2 capital for calculating capital adequacy	0	0
Total capital base	5,454	5,227
Deductions from Tier 1 and 2 capital		
Investments in insurance companies and financial institutions	2,330	2,347
Impairments – shortfall of expected losses	131	162
Total	2,460	2,509

The capital resources have been deducted with investments in OP-Pohjola Group's insurance companies and financial institutions. We have also deducted investments of over 10% in private equity funds as investments in financial institutions, excluding funds managed by Vaaka Partners Ltd (formerly Pohjola Capital Partners Ltd) which the Financial Supervisory Authority has given special permission to be deducted from the capital base.

That portion of subordinated loans which is value in the exchange rate on the date of issue is included in the capital base. Act no. 599/2010 on the amalgamation of deposit banks came into effect on 1 July 2010 and consequently the equalisation provision of OP-Pohjola Group Mutual Insurance Company less tax liabilities, totalling EUR 207 million, is included under Tier 2 capital. Before the Act came into force, OVY's equalisation provision deducted with tax liabilities was included under Tier 1 capital. During the following quarter, the cooperative capital returned to unitholders was not included under capital base.

Notes to OP-Pohjola Group financial statements

NOTES TO RISK MANAGEMENT

Note 83. Minimum capital requirement

EUR million	31 Dec. 2010		31 Dec. 2009	
	Capital require- ment	Risk- weighted assets*	Capital require- ment	Capital require- ment
Credit and counterparty risk	3,153	39,416	3,005	37,568
Central government and central banks, Standardised Approach	7	94	0	6
Credit institutions, Standardised Approach	131	1,635	91	1,141
Corporate	1,288	16,099	1,331	16,635
Under Foundation Internal Risk-Based Approach	694	8,671	743	9,285
Under Standardised Approach	594	7,429	588	7,350
Retail, Standardised Approach	1,459	18,237	1,349	16,859
Secured by real estates	766	9,579	706	8,826
Renew able	-	-	-	-
Other	693	8,658	643	8,033
Equity investments	141	1,765	135	1,688
PD/LGD method	0	6	-	-
Basic Indicator Approach	141	1,759	135	1,688
Private equity investments	16	196	17	210
Listed equity investments	17	208	16	202
Other	108	1,355	102	1,276
Securitisation positions	39	485	10	124
Other	88	1,102	89	1,115
Market risks	37	467	36	448
Trading book	35	443	36	448
Position risk	35	443	36	448
Settlement/delivery risk	-	-	-	-
All activities	2	24	0	1
Foreign exchange risk (incl. gold)	-	-	-	-
Commodity risk	2	24	0	1
Operational risk	228	2,845	277	3,464
Capital requirement during transition period	-	-	-	-
Total	3,418	42,728	3,318	41,480

*Risk-weighted assets = Capital requirement / 0.08

Capital requirement for counterparty risk amounts to EUR 62 million (EUR 44 million).

With respect to the capital adequacy requirement for operational risks, the Standardised Approach was adopted in the last quarter of 2010. This change reduced the capital requirement for operational risk by 19%, that is, about EUR 55 million compared with the capital requirement based on the Basic Indicator Approach (BIA) that was used until 30 September 2010.

It is possible to use various methods to measure capital adequacy requirement for equity investments. In PD/LGD method, investments' risk-weighted amount is calculated using risk parameters of the probability of default (PD) and loss given default (LGD). According to the capital adequacy framework, minimum values have been set for these parameters. According to the Basic Indicator Approach, investments' risk-weighted amount derives from multiplying each investment by the risk-weight determined by the type of investment.

Notes to OP-Pohjola Group financial statements

NOTES TO RISK MANAGEMENT

Note 84. Capital ratios

Capital adequacy, EUR million	31 Dec. 2010	31 Dec. 2009
Total regulatory capital	5,454	5,227
Total minimum capital requirement	3,418	3,318
Capital excess (+) / shortfall (-)	2,035	1,908
Tier 1 ratio, %	12.8	12.6
Total capital ratio, %	12.8	12.6

Notes to OP-Pohjola Group financial statements

NOTES TO RISK MANAGEMENT

Note 85. Total exposures by exposure class

31 Dec. 2010, EUR million	On- balance- sheet expo- sures	Off-balance- sheet expo- sures	Deriva- tives expo- sures	Securiti- sation expo- sures	Gross expo- sures	Average exposure during the year
Central government and central banks	4,013	198	92	-	4,304	4,569
Credit institutions	6,002	5,768	2,429	-	14,199	14,224
Corporate	17,936	9,477	453	-	27,867	28,213
FIRB Approach	10,225	7,691	453	-	18,369	18,686
Standardised Approach	7,711	1,786	-	-	9,498	9,527
Retail	38,912	3,539	0	-	42,451	40,993
Corporate	1,288	206	0	-	1,494	1,804
Private	37,624	3,333	0	-	40,957	39,189
Equity investments	496	48	-	-	543	534
Securitisation positions	-	-	-	742	742	731
Other	1,104	-	-	-	1,104	1,110
Total	68,463	19,031	2,974	742	91,210	90,374

31 Dec. 2009, EUR million	On- balance- sheet expo- sures	Off-balance- sheet expo- sures	Deriva- tives expo- sures	Securiti- sation expo- sures	Gross expo- sures	Average exposure during the year
Central government and central banks	4,652	169	14	-	4,835	4,128
Credit institutions	5,885	6,617	1,747	-	14,249	13,589
Corporate	17,837	10,328	393	-	28,559	27,580
FIRB Approach	9,926	8,683	393	-	19,003	18,452
Standardised Approach	7,911	1,645	-	-	9,556	9,128
Retail	35,984	3,549	1	-	39,534	38,728
Corporate	1,856	257	1	-	2,114	2,140
Private	34,129	3,292	0	-	37,420	36,588
Equity investments	466	59	-	-	525	471
Securitisation positions	-	-	-	720	720	783
Other	1,115	-	-	-	1,115	1,116
Total	65,940	20,722	2,155	720	89,537	86,396

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NOTES TO RISK MANAGEMENT

Note 86. Exposure split by geographic region and exposure class

31 Dec. 2010, EUR million	Central govern- ment and central banks	Credit institu- tions	Corporate	Retail	Equity invest- ments	Securi- tation positions	Other
Finland	3,699	5,747	26,548	42,285	526	-	1,101
Other Nordic countries	-	1,650	389	47	3	-	-
Baltic States	5	3	191	5	-	-	3
Rest of EU	589	6,254	614	60	13	686	0
Rest of Europe	-	220	25	26	0	4	-
USA	-	189	23	14	1	-	-
Asia	-	121	48	9	0	-	-
Other	10	15	30	6	-	53	-
Total exposure	4,304	14,199	27,867	42,451	543	742	1,104

31 Dec. 2009, EUR million	Central govern- ment and central banks	Credit institu- tions	Corporate	Retail	Equity invest- ments	Securi- tation positions	Other
Finland	4,516	6,626	26,506	39,377	493	-	1,115
Other Nordic countries	94	1,545	694	38	4	-	0
Baltic States	-	4	96	3	15	-	0
Rest of EU	216	5,696	1,131	54	13	655	0
Rest of Europe	-	97	30	12	0	4	-
USA	-	195	49	13	0	-	-
Asia	-	73	47	9	0	-	-
Other	10	14	6	28	0	60	0
Total exposure	4,835	14,249	28,559	39,534	525	720	1,115

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NOTES TO RISK MANAGEMENT

Note 87. Exposure split by residual maturity and exposure class

31 Dec. 2010, EUR million	< 3					Total
	months	3–12 months	1–5 yrs	5–10 yrs	> 10 yrs	
Central government and central banks	2,593	73	627	872	139	4,304
Credit institutions	4,837	3,259	4,000	1,928	175	14,199
Corporate	5,535	3,049	9,445	4,402	5,436	27,867
IRB Approach	4,063	2,477	7,555	2,312	1,962	18,369
Standardised Approach	1,472	572	1,890	2,090	3,474	9,498
Retail	3,241	812	5,271	5,993	27,135	42,451
Corporate	258	75	744	275	142	1,494
Private	2,983	737	4,527	5,718	26,993	40,957
Equity investments	-	-	-	-	-	543
Securitisation positions	-	6	636	100	-	742
Other	406	29	16	654	-	1,104
Total	16,611	7,227	19,994	13,950	32,885	91,210

31 Dec. 2009, EUR million	< 3					Total
	months	3–12 months	1–5 yrs	5–10 yrs	> 10 yrs	
Central government and central banks	3,627	18	877	218	96	4,835
Credit institutions	5,158	3,677	4,210	1,085	119	14,249
Corporate	6,202	3,121	9,045	4,588	5,602	28,559
IRB Approach	5,034	2,534	7,074	2,410	1,950	19,003
Standardised Approach	1,169	587	1,971	2,177	3,653	9,556
Retail	3,175	699	4,944	5,713	25,003	39,534
Corporate	335	98	934	411	336	2,114
Private	2,840	602	4,010	5,302	24,667	37,420
Equity investments	-	-	-	-	-	525
Securitisation positions	2	70	465	182	-	720
Other	471	11	47	585	-	1,115
Total	18,635	7,597	19,589	12,371	30,820	89,537

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NOTES TO RISK MANAGEMENT

Note 88. Past due and impaired exposures by exposure class

	Past due loans	Impaired loans	Total	Individu- ally assessed	Collecti- vely assessed	Total
31 Dec. 2010, EUR million						
Central government and central banks	0	-	0	-	-	-
Credit institutions	0	2	2	1	-	1
Corporate	599	362	961	237	53	290
IRB Approach	515	261	776	172	10	182
Standardised Approach	85	100	185	65	43	108
Retail	229	59	288	43	-	43
Corporate	29	12	41	10	-	10
Private	199	47	247	32	-	32
Equity investments	-	2	2	2	-	2
Securitisation positions	-	-	-	-	-	-
Other	0	-	0	-	-	-
Total	828	425	1,253	283	53	336
31 Dec. 2009, EUR million						
Central government and central banks	0	-	0	-	-	-
Credit institutions	0	2	2	1	-	1
Corporate	498	196	694	168	44	212
IRB Approach	414	111	525	110	10	121
Standardised Approach	83	85	168	57	33	91
Retail	233	54	287	40	-	40
Corporate	40	13	53	11	-	11
Private	193	41	234	29	-	29
Equity investments	-	3	3	2	-	2
Securitisation positions	-	-	-	-	-	-
Other	0	-	0	-	-	-
Total	731	255	986	211	44	255

Matured liabilities are liabilities in the standard method, the interest or capital of which are over 90 days overdue. In the FIRB method, matured liabilities are categorised under insolvent customers belonging to rating categories 11-12.

Notes to OP-Pohjola Group financial statements

NOTES TO RISK MANAGEMENT

Note 89. Corporate exposures by sector

EUR million	31 Dec. 2010		
	Exposure	RWA	Capital require-ment
Renting and operation of residential real estate	4,543	2,569	205
Trade	2,924	1,539	123
Manufacture of machinery and equipment (incl. maintenance)	2,656	1,620	130
Construction	2,379	1,008	81
Services	2,236	1,318	105
Operating of other real estate	2,142	1,494	119
Transportation and storage	1,531	1,202	96
Financial and insurance activities	1,287	1,053	84
Forest industry	1,162	526	42
Metal industry	1,123	660	53
Bying and selling of own real estate	1,087	264	21
Energy	1,075	645	52
Manufacture of chemicals and chemical products	1,047	478	38
Agriculture, forestry and fishing	904	678	54
Food industry	847	434	35
Other manufacturing	732	563	45
Other sectors	684	303	24
Information and communication	553	403	32
Mining and quarrying	230	175	14
Water supply and waste management	215	75	6
Total	29,361	17,007	1,361

EUR million	31 Dec. 2009		
	Exposure	RWA	Capital require-ment
Trade	4,143	2,309	185
Services	3,553	1,898	152
Other sectors	2,510	855	68
Construction	2,415	1,351	108
Operating of other real estate	2,395	1,513	121
Manufacture of machinery and equipment (incl. maintenance)	2,126	1,452	116
Renting and operation of residential real estate	1,740	1,209	97
Transportation and storage	1,736	662	53
Financial and insurance activities	1,263	1,546	124
Forest industry	1,170	691	55
Metal industry	1,082	658	53
Manufacture of chemicals and chemical products	1,042	319	26
Energy	1,039	543	43
Other manufacturing	940	689	55
Agriculture, forestry and fishing	889	458	37
Bying and selling of own real estate	792	605	48
Food industry	753	553	44
Information and communication	724	277	22
Mining and quarrying	182	157	13
Water supply and waste management	179	70	6
Total	30,673	17,818	1,425

Corporate exposures by sector also include corporate customers with retail exposures. This standard industrial classification is based on the latest TOL 2008 classification issued by Statistics Finland.

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Notes to OP-Pohjola Group financial statements

NOTES TO RISK MANAGEMENT

Liite 90. Matured and depreciated corporate exposure by sector

31 Dec. 2010, EUR million	Contactual	Past due loans	Impaired loans	Individually assessed	Collectively assessed
Forest industry	237	212	148	90	-
Trade	125	120	65	42	-
Manufacture of machinery and equipment (incl. maintenance)	84	81	48	32	-
Metal industry	46	45	11	10	-
Other manufacturing	39	38	10	4	-
Construction	33	30	11	8	-
Services	31	24	21	15	-
Operating of other real estate	21	10	17	9	-
Financial and insurance activities	14	4	11	11	-
Food industry	14	14	9	6	-
Agriculture, forestry and fishing	9	8	5	4	-
Transportation and storage	7	7	3	2	-
Renting and operation of residential real estate	3	2	0	0	-
Information and communication	2	1	1	1	-
Bying and selling of own real estate	1	1	0	0	-
Water supply and waste management	1	1	1	1	-
Mining and quarrying	1	1	-	-	-
Other sectors	1	0	0	2	53
Manufacture of chemicals and chemical products	1	0	0	0	-
Energy	-	-	-	-	-
Total	669	599	362	237	53

31 Dec. 2009, EUR million	Contactual	Past due loans	Impaired loans	Individually assessed	Collectively assessed
Other manufacturing	130	128	26	24	-
Forest industry	87	82	32	35	-
Operating of other real estate	60	50	34	33	-
Financial and insurance activities	53	43	22	17	-
Trade	52	49	11	10	-
Services	49	43	14	7	-
Food industry	30	28	9	5	-
Construction	26	23	8	6	-
Manufacture of machinery and equipment (incl. maintenance)	22	11	16	11	-
Transportation and storage	15	15	9	7	-
Agriculture, forestry and fishing	10	9	5	5	-
Other sectors	10	9	4	4	-
Manufacture of chemicals and chemical products	3	2	1	1	-
Renting and operation of residential real estate	2	1	1	0	44
Information and communication	1	1	1	1	-
Metal industry	1	1	1	1	-
Water supply and waste management	1	1	0	0	-
Mining and quarrying	1	1	0	0	-
Energy	1	1	0	0	-
Bying and selling of own real estate	-	-	-	-	-
Total	555	498	196	168	44

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Notes to OP-Pohjola Group financial statements

NOTES TO RISK MANAGEMENT

Note 91. Past due and impaired exposures by geographic region

EUR million	31 Dec. 2010				31 Dec. 2009			
	Past due loans	Impaired loans	Individually assessed	Collectively assessed	Past due loans	Impaired loans	Individually assessed	Collectively assessed
Finland	775	416	275	53	632	239	198	44
Other Nordic countries	30	2	2	-	43	10	7	-
Baltic States	0	0	0	-	0	-	-	-
Rest of EU	19	6	6	-	54	6	6	-
Rest of Europe	2	-	-	-	2	-	-	-
USA	0	-	-	-	0	-	-	-
Asia	0	-	-	-	0	-	-	-
Other	2	-	-	-	0	-	-	-
Total	828	425	283	53	731	255	211	44

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NOTES TO RISK MANAGEMENT

Note 92. Exposures by credit rating before and after credit risk mitigation

31 Dec. 2010

31 Dec. 2009

Risk weight %, EUR million	Exposure before credit risk mitigation	Exposure after credit risk mitigation	RWA	Exposure before credit risk mitigation	Exposure after credit risk mitigation	RWA
0	9,458	9,325	0	11,074	11,074	-
10	2,205	2,205	220	993	993	99
20	6,299	5,899	1,150	6,854	4,950	950
35	27,840	27,840	9,636	26,214	26,214	9,072
50	171	135	108	102	97	35
75	14,784	13,873	8,494	14,028	13,111	7,860
100	10,586	9,810	8,613	9,797	9,231	8,156
150	164	154	226	164	152	226
350	-	-	-	-	-	-
1250	-	-	-	-	-	-
Total	71,506	69,239	28,448	69,225	65,821	26,399

In its capital adequacy measurement for credit risk under the Standardised Approach to determine the exposure's risk weight, OP-Pohjola Group applies credit ratings by Moody's Investors Service or Fitch Ratings to receivables from central governments and central banks and corporations. External credit assessment determines the receivable's credit rating category. In the capital adequacy requirement for receivables, the risk weight is determined by the credit rating category.

The risk weight of international development banks' receivables may also be determined on the basis of other than credit rating based on external credit assessment. If the risk weight is affected by external credit assessment, credit ratings issued by the aforementioned rating agencies will also apply to the risk weighting of international development banks' receivables in capital adequacy measurement.

For a receivable in capital adequacy measurement, the security-specific credit rating of the issue programme or arrangement to which the receivable belongs must be used. If such a rating is not available, the issuer's general credit rating will be used, provided that it is available.

Notes to OP-Pohjola Group financial statements

NOTES TO RISK MANAGEMENT

Note 93. Corporate exposures (FIRB) by rating category and PD grade, and equity investments by rating category and PD grade

Corporate exposures by rating category and PD grade 31 Dec. 2010

Rating category	Exposure value, EUR million	Average PD, %	Average risk weight, %	RWA	Minimum capital requirement
1.0–2.0	756	0.0	14.8	109	9
2.5–5.0	7,658	0.2	40.7	3,139	251
5.5–7.0	2,544	1.4	99.9	2,508	201
7.5–8.5	1,423	5.5	154.5	2,231	178
9.0–10.0	220	17.5	214.7	473	38
11.0–12.0	482	100.0	-	-	-
Non-rated	139	4.4	142.7	212	17
Total	13,223	4.0	65.9	8,671	694

Corporate exposures by rating category and PD grade 31 Dec. 2009

Rating category	Exposure value, EUR million	Average PD, %	Average risk weight, %	RWA	Minimum capital requirement
1,0 - 2,0	501	0.0	14.4	66	5
2,5 - 5,0	6,989	0.2	42.3	2,962	237
5,5 - 7,0	2,705	1.3	97.4	2,583	207
7,5 - 8,5	1,771	4.9	149.3	2,677	214
9,0 - 10,0	270	22.5	226.8	623	50
11,0 - 12,0	375	100.0	-	-	-
Non-rated	240	4.9	156.1	374	30
Total	12,850	3.6	69.5	9,285	743

The Internal Ratings Based Approach was used for Pohjola Bank plc's corporate exposures.

Exposure value refers to customer exposure at default (EAD).

The assessment of PD values concerning the exposures of SMEs and large businesses in 'R' rating categories has been done with a partial 'R' category, based on identifiers alone, and payment default data from 2003 to 2006. Since information on payment default entries has only been available during the economic upturn, a general adjustment has been made on the basis of credit loss and bankruptcy statistics until 1991 and time series of foreign banks' insolvency until 1990. PD values are also adjusted with a margin of caution, which is the bigger the fewer the companies in each category. In 2010, the R-rating was updated and the PD-ratings were assessed by means of insolvency data until the end of 2009. The changes regarding the model will enter into force in 2011.

In 2010, the material used for defining A-rating scores consisted of Rating Alfa scores in Suomen Asiakastieto Oy's model, and internal insolvency data between 2006 and 2008. The score limits are set for A-rating in such a manner that the PD values within the categories correspond to the PD values within R-rating. The A rating scores were updated at the end of 2010 in such way that the related changes will take effect in 2011. The data used for this purpose was Rating Alfa scores and payment default entries for the companies for 2007-2009.

Equity investments by rating category and PD grade 31 Dec. 2010

Rating category	Exposure value, MEUR	Average PD, %	Average risk weight, %	RWA	Minimum capital requirement
5,5–7,0	2	1.3	279.7	6	0

The PD/LGD method related to equity investments is applied to strategic investments outside OP-Pohjola Group.

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NOTES TO RISK MANAGEMENT

Note 94. Expected loss and impairments

	31 Dec. 2010		31 Dec. 2009		31 Dec. 2008	
Loss, EUR million	EL	Impairments	EL	Impairments	EL	Impairments
Corporate exposures	219	182	162	121	68	24
Equity investments	11	2	10	2	1	-
Total	229	184	171	123	69	24

The loss prediction in the table is derived from the risk parameters of OP-Pohjola Group's internal credit risk models. The PD estimates produced by the models correspond to estimates used in capital adequacy calculations and they include various elements of caution. The PD estimates are rather conservative. The LDG model applied to corporate exposure produces lower loss estimates than the LGD parameters used in the basic method of calculating internal ratings for capital adequacy.

Notes to OP-Pohjola Group financial statements

NOTES TO RISK MANAGEMENT

Note 95. Equity investments, BIA

EUR million	31 Dec. 2010			31 Dec. 2009		
	Exposure	RWA	Minimum capital requirement	Exposure	RWA	Minimum capital requirement
Private equity investments, risk weight 190%	103	196	16	110	210	17
Listed equity investments, 290%	72	208	17	70	202	16
Other, risk weight 370%	366	1,355	108	345	1,276	102
Total	541	1,759	141	525	1,688	135

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NOTES TO RISK MANAGEMENT

Note 96. Collateral used in capital adequacy calculation

31 Dec. 2010, EUR million	Exposure	Guarantees	Financial collateral	Other collateral
Central government and central banks	4,304	114	-	-
Credit institutions	14,199	550	-	-
Corporate	27,867	2,160	200	997
FIRB Approach	18,369	1,616	73	590
Standardised Approach	9,498	545	127	408
Retail	42,451	906	211	27,524
Secured by real estates	27,524	-	-	27,524
Renew able	-	-	-	-
Bought	-	-	-	-
Other	14,928	906	211	-
Equity investments	543	-	-	-
BIA	541	-	-	-
PD/LGD method	2	-	-	-
Securitisation positions	742	-	-	-
Other	1,104	-	-	-
Total	91,210	3,730	411	28,521

31 Dec. 2009, EUR million	Exposure	Guarantees	Financial collateral	Other collateral
Central government and central banks	4,835	-	-	-
Credit institutions	14,249	1,909	0	-
Corporate	28,559	2,529	177	1,587
FIRB Approach	19,003	2,080	55	637
Standardised Approach	9,556	449	122	950
Retail	39,534	914	179	25,357
Secured by real estates	25,357	-	-	25,357
Renew able	-	-	-	-
Bought	-	-	-	-
Other	14,177	914	179	-
Equity investments	525	-	-	-
BIA	525	-	-	-
PD/LGD method	-	-	-	-
Securitisation positions	720	-	-	-
Other	1,115	-	-	-
Total	89,537	5,352	356	26,944

The following real securities under the capital adequacy framework were used in capital adequacy measurement: residential buildings and shares entitling their holders to the possession of a flat, deposits and stocks (equities). Deposits and stocks are financial collateral, as referred to in the framework, and alternative methods are available for their accounting treatment. OP-Pohjola Group applies the so-called comprehensive method to financial collateral, using volatility adjustments ordered by the relevant regulator.

In the capital adequacy measurement for credit risks, only eligible guarantors as referred to in the capital adequacy framework may be used. In capital adequacy measurement, the Group utilised guarantees issued by the Finnish State and other states, as well as those issued by municipalities and banks. Guarantees issued by banks or credit derivatives were not used. Offsetting balance-sheet or off-balance-sheet items were not applied in capital adequacy.

Residential buildings acting as guarantee and shares entitling their holders to the possession of a flat constitute the largest collateral type used in capital adequacy. The effect of other real securities on the capital adequacy of credit risks is much less significant. Collateral which has been used has come from a number of sources, the largest single one being the State of Finland.

Notes to OP-Pohjola Group financial statements

NOTES TO RISK MANAGEMENT

Note 97. Counterparty risk, type of contract

Capital adequacy requirement due to counterparty risk may arise from items related to financing operations and the trading book. Capital adequacy requirement due to counterparty risk is calculated, for example, on OTC derivatives and sale and repurchase agreements.

Note 52 presents counterparty risks associated with OTC derivatives. The exposure value of sale and repurchase agreements amounted to EUR 0 million.

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NOTES TO RISK MANAGEMENT

Risk exposure of Non-life Insurance

Note 98. Risk-bearing capacity

On 31 December 2010, Non-life Insurance solvency capital stood EUR 832 million (827), accounting for 86% (88) of insurance premium revenue. The financial strength rating of Pohjola Insurance is A+ affirmed by Standard & Poor's in December 2010. The Board of Directors has confirmed A as the targeted rating.

Non-life Insurance must fulfil all capital adequacy requirements set by regulatory authorities mainly at company level. All non-life insurance companies are governed by the same requirement set for their minimum solvency margin based on EU directives. In addition, Finnish legislation lays down capital adequacy requirements for Finnish insurance companies.

The risk-bearing capacity describes the proportion of a company's solvency capital to various income statement and balance sheet items. Solvency capital proportioned to claims incurred and insurance premium revenue describes the company's ability to endure the insurance risk. Solvency capital proportioned with technical provisions describes the company's ability to endure evaluation risk concerning technical provisions, while solvency capital proportioned to the investment portfolio describes ability to endure investment risks.

	31 Dec. 2010		31 Dec. 2009	
	EUR million	Risk- bearing capacity, %	EUR million	Risk- bearing capacity, %
Solvency capital	832		827	
Claims incurred*	694	120	617	134
Insurance premium revenue*	964	86**	943	88**
Insurance contract liabilities*	2,145	39	2,068	40
Investment portfolio	2,924	28	2,851	29

* Reinsurers' share (net business) deducted

** Solvency ratio

Notes to OP-Pohjola Group financial statements

NOTES TO RISK MANAGEMENT

Note 99. Sensitivity analysis

The table below shows the effect of various risk parameters on profit and solvency capital:

Risk parameter	Total in 2010, EUR million	Change in risk parameter	Effect on profit/solvency, EUR million	Effect on combined ratio
Insurance portfolio or insurance premium revenue	964	Up by 1%	10	Up by 0.9 percentage point
Claims incurred	694	Up by 1%	-7	Down by 0.7 percentage point
Major loss in excess of EUR million	-	1 major loss	-5	Down by 0.5 percentage point
Personnel costs	110	Up by 8%	-9	Down by 0.9 percentage point
Expenses by function *	267	Up by 4%	-11	Down by 1.1 percentage point

* Expenses by function in Non-life Insurance excluding expenses for investment management and expenses for other services rendered

Notes to OP-Pohjola Group financial statements

NOTES TO RISK MANAGEMENT

Note 100. Premiums written and sums insured by class

Premiums written by EML* class in corporate property insurance

The degree of risk in property insurance can be evaluated by dividing risks into classes by their EML* amounts. The table below shows premiums written calculated for each risk class.

EUR million	5–20	20–50	50–100	100–300
2010	9	11	11	5
2009	11	12	8	5

* EML = Estimated Maximum Loss per object of insurance

Division of premiums written by TSI* class in corporate liability insurance

The degree of risk in liability insurance can be evaluated by dividing risks into classes by their TSI* amounts. The table below shows premiums written calculated for each risk class.

EUR million	2–4	4–10	10–30	30–90
2010	2	7	7	2
2009	3	6	7	2

* TSI = Total Sum Insured

Sums insured in guarantee and decennial insurance

The sum insured of insurance contracts depicts the volume of guarantee and decennial insurance (construction defects insurance). The gross and net amounts of the sum insured are itemised by contract type in the table below. The liability period of decennial insurance is 10 years.

	Gross	Net*		
EUR million	2010	2009	2010	2009
Contract guarantees	6	23	6	23
Loan guarantees	7	16	7	16
Other	4	5	4	5
Guarantee insurance	17	44	17	44
Decennial insurance	1,853	1,829	1,735	1,628

* For insurance company's own account after reinsurers' share but before counter guarantee

Notes to OP-Pohjola Group financial statements

NOTES TO RISK MANAGEMENT

Note 101. Trend in major losses

Number of detected major losses by year of detection for 2006–2010

Non-life Insurance monitors carefully claims expenditure arising from major losses. The claims expenditure explains a significant part of the annual fluctuation in the underwriting result. In addition, monitoring the claims expenditure arising from major losses helps to detect any changes in risks or risk selection. In this analysis, major losses are those whose gross amount exceeds EUR 2 million. Most major losses occur in property and business interruption insurance. In statutory policies, the risk of major loss is small relative to the large volume of the line of business.

Gross amount

Number of losses exceeding EUR 2 million	Statutory lines	Other accidents and health	Hull and cargo	Property and business interruption	Liability and legal expenses	Long-term
2006	-	-	-	9	-	-
2007	1	-	-	5	3	-
2008	-	-	-	4	1	-
2009	3	-	-	5	2	-
2010	1	-	-	13	-	-
Total claims, EUR million						200

Gross amount, total claims, EUR million

2006–2010	12	-	-	171	17	-
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Net amount

Number of losses exceeding EUR 2 million	Statutory lines	Other accidents and health	Hull and cargo	Property and business interruption	Liability and legal expenses	Long-term
2006	-	-	-	9	-	-
2007	1	-	-	4	3	-
2008	-	-	-	4	1	-
2009	3	-	-	4	1	-
2010	0	-	-	11	-	-
Total claims, EUR million						131

Net amount, total claims, EUR million

2006–2010	9	-	-	107	15	-
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Notes to OP-Pohjola Group financial statements

NOTES TO RISK MANAGEMENT

Note 102. Insurance profitability

Trends in insurance premium revenue (gross and net) and combined ratio (net)

Insurance premium revenue describes the volume of an insurance class, enabling the evaluation of the importance of the insurance class in relation to the whole portfolio. Similarly, the combined ratio (CR) is used to evaluate fluctuations in the results of the insurance class and the profitability of the class. The combined ratio is presented separately adjusted for one-off items relating to previous insurance periods.

	Gross	Net	Net	Net**
	IP revenue	IP revenue	CR*	CR*
2010, EUR million				
Statutory lines	366	364	98%	89%
Other accident and health	111	110	90%	90%
Hull and cargo	210	208	91%	91%
Property and business interruption	256	222	95%	95%
Liability and legal expenses	63	57	70%	70%
Long-term	3	2	93%	93%
Total	1,010	964	93%	90%
	Gross	Net	Net	Net**
	IP revenue	IP revenue	CR*	CR*
2009, EUR million				
Statutory lines	365	360	88%	88%
Other accident and health	106	105	94%	94%
Hull and cargo	206	203	87%	87%
Property and business interruption	247	215	85%	85%
Liability and legal expenses	62	55	84%	84%
Long-term	4	3	118%	118%
Total	990	943	88%	88%

* The combined ratio is calculated by dividing the sum of claims incurred (net) and operating expenses of insurance business by insurance premium revenue (net). Amortisation on intangible rights has not been taken into account.

** One-off changes affecting the balance on technical account have been eliminated.

Notes to OP-Pohjola Group financial statements

NOTES TO RISK MANAGEMENT

Note 103. Sensitivity analysis of insurance contract liabilities and information on the nature of insurance contract liabilities

Portfolio at fair value, EUR million		Effect on solvency capital, EUR million			
Non-life Insurance	31 Dec. 2010	Risk parameter	Change	31 Dec. 2010	31 Dec. 2009
Collective liability	497	Inflation	0.25 percentage points	-3	-3
Discounted insurance contract liabilities	1,378	Life expectancy	1 year	-32	-30
Discounted insurance contract liabilities	1,378	Discount rate	-0.1 percentage point	-17	-16
Information on the nature of liabilities				2010	2009
Net insurance contract liabilities (EUR million)					
Latent occupational diseases				38	42
Other				2,107	2,026
Total (before transfers)				2,145	2,068
Duration of debt (years)					
Discounted insurance contract liabilities				11.9	11.9
Undiscounted insurance contract liabilities				2.4	2.4
Total				8.5	8.5
Discounted net debt (EUR million)					
Provision for known unpaid claims for annuities				1,111	1,054
Collective liability (IBNR)				233	239
Provision for unearned premiums				34	33
Total				1,378	1,326

Notes to OP-Pohjola Group financial statements

NOTES TO RISK MANAGEMENT

Note 104. Insurance contract liabilities by estimated maturity

31 Dec. 2010, EUR million	0–1 yr	1–5 yrs	5–10 yrs	10–15yrs	over 15 yrs	Total
Provision for unearned premiums*	256	72	18	4	7	357
Provision for unpaid claims						
Undiscounted	260	107	52	12	12	443
Discounted	89	324	295	218	418	1,344
Total insurance contract liabilities	606	502	365	234	437	2,145

* Includes EUR 34 million in discounted provision

31 Dec. 2009, EUR million	0–1 yr	1–5 yrs	5–10 yrs	10–15yrs	over 15 yrs	Total
Provision for unearned premiums*	241	68	17	4	7	337
Provision for unpaid claims						
Undiscounted	254	107	53	12	13	438
Discounted	86	312	284	210	402	1,293
Total insurance contract liabilities	581	486	354	225	421	2,069

* Includes EUR 33 million in discounted provision

Notes to OP-Pohjola Group financial statements

NOTES TO RISK MANAGEMENT

Note 105. Risk exposure of insurance investments

	31 Dec. 2010		31 Dec. 2009	
Allocation of investment portfolio	Fair value*, EUR million	%	Fair value*, EUR million	%
Money market total	14	0	101	4
Money market instruments and deposits**	68	2	82	3
Derivatives***	-54	-2	19	1
Total bonds and bond funds	2,074	71	2,067	72
Governments	636	22	661	23
Inflation-linked bonds	83	3	92	3
Investment Grade	1,098	38	1,055	37
Emerging markets and High Yield	242	8	245	9
Structured Investments	15	1	13	0
Total equities	422	14	364	13
Finland	86	3	76	3
Developed markets	118	4	146	5
Emerging markets	86	3	68	2
Unlisted equities	5	0	5	0
Private equity investments	73	2	67	2
Equity derivatives***	54	2	2	0
Total alternative investments	207	7	155	5
Hedge funds	69	2	72	3
Commodities	26	1	24	1
Convertible bonds	112	4	60	2
Total property investment	207	7	164	6
Direct property investment	132	5	109	4
Indirect property investment	75	3	55	2
Total	2,924	100	2,851	100

* Includes accrued interest income

** Includes settlement receivables and liabilities and market value of derivatives EUR -3.0 million (-2.2)

*** Effect of derivatives on the allocation of the asset class (delta-weighted equivalents)

Notes to OP-Pohjola Group financial statements

NOTES TO RISK MANAGEMENT

Note 106. Sensitivity analysis of investment risks

The table below shows the sensitivity of investment risks by investment category. The discount rate sensitivity analysis related to the calculation of insurance contract liabilities is presented in notes dealing with insurance contract liabilities. Effects of changes in investment and insurance contract liabilities offset one another.

Non-life Insurance, EUR million	Portfolio at fair value, 31 Dec. 2010	Risk parameter	Change	Effect on solvency capital, EUR million	
				31 Dec. 2010	31 Dec. 2009
Bonds and bond funds *	2,256	Interest rate	1 percentage point	92	73
Equities **	413	Market value	20 percentage points	83	73
Venture capital funds and unlisted shares	78	Market value	20 percentage points	16	14
Commodities	26	Market value	20 percentage points	5	5
Real property	207	Market value	10 percentage points	21	16
Currency	242	Value of currency	20 percentage points	48	21
Credit risk premium ***	2,145	Credit risk margin	0.5 percentage points	47	39
Derivatives****	-	Volatility	20 percentage points	-	-

* Include money market investments, convertible bonds and interest-rate derivatives

** Include hedge funds and equity derivatives

*** Includes bonds and convertible bonds and money-market investments, excluding government bonds issued by developed countries

**** 20 percentage points in equity derivatives, 10 percentage points in interest rate derivatives and 5 percentage points in currency derivatives

Notes to OP-Pohjola Group financial statements

NOTES TO RISK MANAGEMENT

Note 107. Interest-rate risk

The market risk arising from changes in interest rates is monitored by classifying investments by instrument, in accordance with duration. The table below does not indicate the balancing effect which the insurance contract liabilities have on the interest-rate risk, because only some of the insurance contract liabilities have been discounted using an administrative interest rate (Note 34)

Fair value by duration or repricing date*, EUR million	31 Dec.	
	2010	2009
0–1 year	395	414
>1–3 years	701	522
>3–5 years	652	721
>5–7 years	197	227
>7–10 years	188	196
>10 years	122	152
Total	2,256	2,231
Modified duration	4.1	3.3
Effective interest rate, %	4.1	3.5

* Includes money market investments and deposits, bonds, convertible bonds and bond funds

Notes to OP-Pohjola Group financial statements

NOTES TO RISK MANAGEMENT

Note 108. Currency risk

Foreign currency exposure, EUR million	31 Dec. 2010	31 Dec. 2009
USD	35	59
SEK	4	-2
JPY	-2	6
GBP	-1	3
EEK, LVL, LTL**	-22	-35
Other	177	2
Total*	242	107

*The currency exposure was 3.8% (2.5) of the investment portfolio. It is calculated as the sum total of individual currencies' intrinsic values.

** These are ERM2 currencies, the 31 December 2009 figure includes EEK

Notes to OP-Pohjola Group financial statements

NOTES TO RISK MANAGEMENT

Note 109. Counterparty risk

Credit rating, consistent with Moody's, EUR million	31 Dec. 2010		31 Dec. 2009	
	Investment*	Insurance**	Investment*	Insurance**
AAA	514	0	529	2
AA	413	27	404	24
A	732	29	794	25
BBB	290	0	312	0
BB+ or lower	180	-	113	-
Internal rating	16	25	20	26
Total	2,145	81	2,172	78

* Includes money market investments, deposits and bonds and bond funds.

** Includes the reinsurers' share of insurance contract liabilities, and receivables from reinsurers.

Notes to OP-Pohjola Group financial statements

NOTES TO RISK MANAGEMENT

Risk exposure of Life Insurance

Note 110. Information on the nature of insurance contract liabilities and their sensitivity analysis

Risk-bearing capacity of life insurance operations

Life insurance companies must fulfil the capital adequacy requirements prescribed by law. The solvency capital must be higher than the minimum amount prescribed in EU directives. Furthermore, Finnish legislation requires that a capital adequacy assessment compliant with Solvency II, which is currently under preparation, has been calculated since 2008.

Life insurance risk-bearing capacity is measured in terms of solvency ratio, which is the ratio between solvency margin and equalisation provision on the one hand and technical provisions on the other. A strategic level of 12% has been set for solvency ratio. The ratio between unrestricted solvency capital and the amount of risk from investment operations is also monitored.

Insurance and capital redemption portfolio in Life Insurance 31 Dec 2010

	Technical rate of interest	Number of insureds or contracts	Exposure on 31 December 2010	Average duration in years*
Life Insurance/Savings				
Technical rate of interest 4.5%	4.50%	3,867	75	9.2
Technical rate of interest 3.5%	3.50%	52,975	1,134	11.6
Technical rate of interest 2.5%	2.50%	144,720	742	10.0
Technical rate of interest 1.5%	1.50%	1,665	4	5.8
Unit-linked		incl. above	2,254	
Total		203,227	4,210	
Individual pension insurance				
Technical rate of interest 4.5%	4.50%	14,776	270	4.2
Technical rate of interest 3.5%	3.50%	52,452	401	6.9
Technical rate of interest 2.5%	2.50%	124,268	167	9.7
Technical rate of interest 1.5%	1.50%	2,844	1	9.7
Unit-linked		incl. above	811	
Total		194,340	1,650	
Group pension insurance				
Supplementary employee pension	3.50%	33,200	1,052	N.A
Technical rate of interest 3.5 %	3.50%	220	4	5.5
Technical rate of interest 2.5 %	2.50%	4,629	11	9.4
Technical rate of interest 1.5%	1.50%	605	3	6.1
Unit-linked		incl. above	26	
Total		38,654	1,096	
Term insurance contracts				
Individual contracts	-	264,903	132	N.A
Group contracts	-	7,834	21	N.A
Total		272,737	153	
Capital redemption contracts				
Technical rate of interest 3.5%	3.50%	50	12	1.1
Technical rate of interest 2.5%	2.50%	331	16	3.4
Pohjola Tuotto		53	0	0.3
Unit-linked		incl. above	47	
Total		434	75	9.3
Other items in underwriting reserves/ insurance contract liabilities		-	30	
Total		709,392	7,214	

Susceptibility of life insurance liabilities to changes in calculation principles

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The table above presents the breakdown of the maturities of life insurance technical provisions and pension start dates as they were registered in the insurance systems. However, it is likely that benefit policy assets are paid to the policyholders or beneficiaries much earlier, and pension assets somewhat later than directly indicated by the start dates in the agreements.

As to the benefit policies, death benefits are paid before the formal due date, and more and more savings are surrendered before maturity. This is based on the assumption that policies have been sold for very long periods, although many policyholders intend to withdraw the savings before they mature, often at retirement. The majority of insurance savings are benefit policies.

As to individual pension plans, the experience is that many policyholders take out their pension later than initially intended. Taking out the pension later, or actually setting the pension period when taking out the policy, has direct tax implications. The trend in tax changes indicates that people will take out their pension later and later in the future. Owing to tax reasons, pension insurance policies cannot be surrendered (with very few exceptions) before the agreed retirement date. The insurance savings are paid to the policyholder without linking the capital value of benefits, i.e. the technical provisions at the time, to the payment date, whether earlier or later than originally intended.

The technical provisions are calculated by means of a technical interest discount, with the market rates having no effect on the amount of unit-linked technical provisions. Unit-linked technical provisions are nevertheless presented at market value.

If the mortality figures give reason to assume that the technical provisions arrived at with the current calculation principles are insufficient, the technical provisions are adjusted accordingly. In life insurance, the mortality and longevity provisions actually cancel each other out, which means that if the mortality assumption is adjusted, the amount of liability is not significantly affected.

Notes to OP-Pohjola Group financial statements

NOTES TO RISK MANAGEMENT

Note 111. Claims charged to expenses due to insurance contract liabilities

31 dec. 2010, EUR million	0–1	1–5	5–10	10–15	Over 15	Total
Interest-bearing insurance savings	471	1,118	678	534	1,216	4,018
Unit-linked insurance savings	105	500	497	367	1,622	3,091
Interest-bearing investment contracts	7	17	1	0	3	28
Unit-linked investment contracts	3	16	28	0	2	47
Other insurance contract liabilities	-	-	-	-	-	30
Total	586	1,651	1,204	901	2,842	7,214

31 Dec. 2009 EUR million	0–1	1–5	5–10	10–15	Over 15	Total
Interest-bearing insurance savings	419	1,057	558	426	1,170	3,630
Unit-linked insurance savings	85	338	430	279	1,203	2,335
Interest-bearing investment contracts	81	20	2	0	3	105
Unit-linked investment contracts	5	15	24	0	1	45
Other insurance contract liabilities	-	-	-	-	-	42
Yhteensä	590	1,430	1,014	705	2,376	6,157

Notes to OP-Pohjola Group financial statements

NOTES TO RISK MANAGEMENT

Note 112. Risk exposure of investment operations

	31 Dec. 2010		31 Dec. 2009	
Allocation of investment property	Fair value, EUR million	%	Fair value, EUR million	%
Fixed-income investments ¹				
Bonds	1,109	24	935	23
Other money market instruments*	409	9	176	4
Mutual funds	1,260	27	1,537	37
Shares and participations				
Equities and mutual funds	855	18	708	17
Alternative investments ²	734	16	469	11
Properties ³	349	7	302	7
Total	4,716	100	4,126	100

¹ Contains accrued interest and notes and bonds recategorised under loans and receivables related to financial receivables

² Incl. investments in hedge funds and capital investments

³ Only direct investments in properties

* Incl. effect of equity futures

Notes to OP-Pohjola Group financial statements

NOTES TO RISK MANAGEMENT

Note 113. Sensitivity analysis of investment property

31 Dec. 2010	Portfolio at fair values, EUR million	Risk parameter	Change	Effect on solvency margin, EUR million
Bonds and bond funds	2,780	Interest rate	1 percentage point	82
Shares and alternatives	1,589	Market value	10 percentage point	159
Properties	349	Market value	15 percentage point	52

Notes to OP-Pohjola Group financial statements

NOTES TO RISK MANAGEMENT

Note 114. Interest-rate risk

Fair value by duration or repricing date, EUR million	31 Dec. 2010	31 Dec. 2009
0–1 year	1038	597
>1–5 years	1272	1125
>5–10 years	395	467
>10–20 years	75	221
>20 years	0	154
Total	2,780	2,563
Modified duration	3.0	3.6
Average interest rate, %	4.0	5.0

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Notes to OP-Pohjola Group financial statements

NOTES TO RISK MANAGEMENT

Note 115. Counterparty risk

Credit rating distribution, EUR million

Standard & Poor's equivalent	31 Dec. 2010	31 Dec. 2009
AAA	450	611
AA	767	465
A	421	549
BBB	339	345
BB+ or lower	556	412
Not Rated	246	182
Total *	2,780	2,563

* Includes money-market investments and deposits, bonds and bond funds.

Notes to OP-Pohjola Group financial statements

NOTES TO RISK MANAGEMENT

Note 116. Currency risk

Foreign currency exposure, EUR million	31 Dec. 2010	31 Dec. 2009
USD	323	290
SEK	9	7
JPY	22	32
GBP	2	10
Other	2	1
Total*	358	341

*Total net currency exposure

The currency exposure was 7.7% (8.3) of the investment portfolio.

Statement concerning the financial statements

We have adopted the Report of the Executive Board and the consolidated Financial Statements of the amalgamation of the cooperative banks (OP-Pohjola Group) specified in the Act on Cooperative Banks and Other Cooperative Credit Institutions and Act no. 599/2010 on the amalgamation of deposit banks the for the financial year from 1 January to 31 December 2010. The report and the Financial Statements are presented to, and passed out at, the General Meeting of OP-Pohjola Group Central Cooperative

Helsinki, 15 February 2011

Executive Board of OP-Pohjola Group Central Cooperative

Reijo Karhinen	Tony Vepsäläinen
Tom Dahlström	Carina Geber-Teir
Harri Luhtala	Erik Palmén
Heikki Vitie	

This document is an English translation of the Finnish auditor's report. Only the Finnish version of the report is legally binding.

Auditor's Report

To the members of OP-Pohjola Group Central Cooperative

We have audited the consolidated financial statements and the report of the Executive Board for the year ended on 31 December 2010 of the amalgamation of the cooperative banks (the OP-Pohjola Group) pursuant to the Act on the Amalgamation of Deposit Banks as well as to the Act on Cooperative Banks and Other Cooperative Credit Institutions. The financial statements comprise the consolidated balance sheet, income statement, statement of comprehensive income, statement of changes in equity and cash flow statement and notes to the financial statements.

The Responsibility of the Executive Board and the President of OP-Pohjola Group Central Cooperative

The Executive Board and the President of OP-Pohjola Group Central Cooperative are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU in a manner explained in more detail in the notes to the financial statements, as well as for the preparation of the report of the Executive Board that give a true and fair view in accordance with the laws and regulations governing the preparation of the report of the Board of Directors in Finland.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements and on the report of the Executive Board based on our audit. The Auditing Act requires that we comply with the requirements of professional ethics. We conducted our audit in accordance with good auditing practice in Finland. Good auditing practice requires that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the report of the Executive Board are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report of the Executive Board. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements and report of the Executive Board that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the report of the Executive Board. In carrying out the audit, we also acquainted ourselves with the financial statement policies adopted by the Group's member institutions, as well as the auditors' reports and other related reporting submitted by their auditors.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the Consolidated Financial Statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position, financial performance, and cash flows of OP-Pohjola Group in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

Opinion on the Report of the Executive Board

In our opinion, the report of the Executive Board gives a true and fair view of OP-Pohjola Group's financial performance and financial position in accordance with the laws and regulations governing the preparation of the report of the Board of Directors in Finland. The information in the report of the Executive Board is consistent with the information in the consolidated financial statements

Helsinki, 24 February 2011

KPMG OY AB

Sixten Nyman
Authorized Public Accountant

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