Pohjola Bank plc's Interim Report for 1 January–30 September 2010

Pohjola Bank plc
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Pohjola Bank plc Interim Report for 1 January–30 September 2010

January–September

– Year on year, consolidated earnings before tax improved to EUR 242 million (211). Earnings include EUR 88 million (95) in impairment charges on receivables.
– Earnings before tax at fair value amounted to EUR 273 million (424) and return on equity at fair value stood at 11.7% (21.8).
– Banking posted earnings before tax of EUR 93 million (99), with impairment charges on receivables affecting its earnings by EUR 89 million (84).
– Non-life Insurance's operating combined ratio stood at 88.6% (86.7). Within Non-life Insurance, return on investments at fair value was 5.2% (9.0).
– Asset Management reported earnings of EUR 18 million (11) and assets under management increased to EUR 35.2 billion (33.1).
– Capital gains on notes and bonds improved earnings before tax posted by the Group Functions.
– Outlook: Consolidated earnings before tax in 2010 are expected to be at the same level as or higher than in 2009 (previous estimate: at the same level). It is estimated that Non-life Insurance's operating combined ratio will vary between 89 and 92% (previous estimate: 89–93%). For more detailed information on outlook, see "Outlook towards the year end" below.

July–September

– Consolidated earnings before tax came to EUR 103 million (87). Earnings included EUR 27 million (41) in impairment charges on receivables and EUR 7 million in one-time amortisation on intangible assets.
– Earnings before tax at fair value were 165 million (196).
– Non-life Insurance's operating combined ratio stood at 82.8% (83.1). Within Non-life Insurance, return on investments at fair value was 2.6% (4.3).
– Pohjola Insurance Ltd and Pohjantähti Mutual Insurance Company are planning to merge.

Consolidated earnings before tax, € million[1)]	**Q1–3/ 2010**	**Q1–3/ 2009**	**Change, %**	**Q3/ 2010**	**Q3/ 2009**	**Change, %**	**2009**
Banking	93	99	–6	38	24	61	117
Non-life Insurance	84	89	–6	42	43	–3	102
Asset Management	18	11	68	6	4	25	21
Group Functions	48	11	320	18	16	12	25
Total	**242**	**211**	**15**	**103**	**87**	**18**	**265**
Change in fair value reserve	31	213	–86	62	109	–44	243
Earnings before tax at fair value	**273**	**424**	**–36**	**165**	**196**	**–16**	**508**

Key indicators[1)]	**Q1–3/ 2010**	**Q1–3/ 2009**	**Q3/ 2010**	**Q3/ 2009**	**2009**	**Target**
Earnings before tax, € million	242	211	103	87	265	
Profit for the period, € million	179	155	76	65	194	
Return on equity, %	11.7	21.8	21.1	27.1	19.2	13.0
Balance sheet total, € billion	35.9	34.1			35.5	
Shareholders' equity, € billion	2.4	2.2			2.3	
Tier 1 ratio, %	12.3	11.3			11.8	>9.5
Earnings per share, €	0.56	0.54	0.24	0.20	0.66	
Earnings per share, incl. change in fair value, €	0.63	1.09	0.38	0.46	1.27	
Equity per share, €	7.39	6.90			7.09	
Average personnel	2,996	2,955	3,007	2,961	2,966	

[1)] Comparatives deriving from the income statement are based on figures reported for the corresponding period a year ago. Unless otherwise specified, balance-sheet and other cross-sectional figures on 31 December 2009 are used as comparatives.

President and CEO Mikael Silvennoinen:

Pohjola Group's third-quarter earnings before tax were the best ever recorded, exceeding EUR 100 million, and January–September earnings were also better than a year ago. Our earnings before tax grew by 15%. Net interest income continued its growth, thanks to the strong growth reported by Corporate Banking in particular. January–September impairment charges on receivables were almost at the same level as the year before but were markedly lower in the third quarter than a year ago. The third quarter saw favourable developments in capital markets.

With greater demand for corporate loans, the loan and guarantee portfolio has begun to grow. In line with our expectations, the trend of the rising average corporate loan margin has come to an end and tougher competition is sending the margin on new loans down. Slightly higher impairment charges year on year and the normalisation of the Markets division's financial performance were offset by the strong growth in net interest income recorded by Corporate Banking in January–September. Earnings reported by Banking in January–September were almost at the same level as in the previous year but markedly higher in the third quarter than the year before.

Within Non-life Insurance, the balance on technical account remained good despite the claims filed in the aftermath of the late summer storms. Thanks to our reinsurance cover, they did not have any major effect on the Non-life Insurance results. Insurance premium revenue grew and its growth among private customers in particular remained strong throughout January–September. We had set a strategic target in 2005 of serving 450,000 loyal customer households by the end of 2010, but reached it already in August. As early as March, we achieved the annual level of EUR 17 million in the revenue synergies resulting from growth in the number of loyal customer households.

In late September, we announced that Pohjola Insurance Ltd and Pohjantähti Mutual Insurance Company were planning to merge. The extraordinary general meetings of these insurers will decide in early December whether the merger plan will be rejected or approved. The purpose of the merger is to strengthen the competitiveness in the Finnish non-life insurance market of the new entity formed by the insurance business of Pohjola Insurance and Pohjantähti. We will provide Pohjantähti's customers with a comprehensive range of financial services and the best loyalty benefits and offer Pohjantähti staff with new career and development opportunities. In addition to the existing staff, we will hire at least another 50 people for the new service centre that will be established in Hämeenlinna. We are confident that the merger will benefit not only customers but also employees and owners.

Within Asset Management, assets under management increased to more than EUR 35 billion and earnings before tax also showed a marked year-on-year improvement. Pohjola Capital Partners Ltd, a private equity firm, will be bought by its existing management by the end of this year.

As a result of our good financial performance in January–September and a more stable operating environment, we expect to improve our full-year earnings from their previous year's level.

Operating environment

On the whole, global economic recovery slowed down somewhat in the third quarter. The recovery has been uneven from region to region and every region faces its own challenges. In the US, growth is shadowed by weak housing markets and persistently high unemployment figures. In the euro area, on the other hand, the economic outlook is brighter, but growth is nevertheless expected to remain slow owing, for example, to high unemployment and a stronger euro. Emerging economies, such as China, are enjoying brisk growth.

The Finnish economy has continued on a clear upward trend in the second half of the year and next year looks relatively good. Business confidence was relatively high in the early autumn and consumer confidence is record-high. Growth is supported particularly by livelier exports and higher housing investment. The improved economic outlook is also manifested in that the number of people employed rebounded in the third quarter.

There is no pressure in the near future to raise the main refinancing rate, which has remained low. The European Central Bank is expected to keep its main refinancing rate at the current level at least towards the end of 2011. Trust in the interbank markets has improved, which has reduced the need for central bank refinancing. This has raised short-term market rates by a fraction. The ECB aims to ensure sufficient liquidity in the market, for example by buying government debt instruments from countries struggling with heavy debts.

Growth in the corporate loan portfolio that began in the first half of 2010 evened out towards the autumn. Loans to households continued to grow steadily in the third quarter, while the housing market was still lively.

Capital market jitters caused by concerns over government bonds and economic growth eased off at the end of the report period. Corporate bond markets operated in a positive mood. Risk premiums narrowed particularly in the banking sector. The global decline in equity markets that started in the spring bottomed out, with the weight capped OMX Helsinki CAP index in Finland rising by almost 14% during the third quarter.

An increase in non-life insurance premiums written has settled at around 1%. Claims paid out are growing at a higher rate than premiums written. The higher claims have been caused by exceptional weather conditions, on the one hand, and a higher number of reported losses owing to greater economic activity, on the other hand.

Consolidated earnings

Earnings analysis **€ million**	**2010** **Q1–3**	**2009** **Q1–3**	**Change** **%**	**2010** **Q3**	**2009** **Q3**	**Change** **%**	**Rolling 12-month**	**2009**
Net interest income								
Corporate Banking	128	101	26	43	36	21	165	138
Markets	13	24	–44	3	2	93	17	27
Other operations	48	53	–8	16	21	–25	71	75
Total	189	177	7	62	58	7	253	241
Net commissions and fees	118	102	15	37	36	3	159	143
Net trading income	34	60	–44	18	27	–32	45	71
Net investment income	21	–8		6	1		17	–13
Net income from Non-life Insurance							0	
Insurance operations	279	291	–4	106	107	0	371	382
Investment operations	69	48	41	26	19	37	84	64
Other items	–34	–32	5	–11	–11	4	–45	–44
Total	314	307	2	120	114	5	410	402
Other operating income	32	33	–3	11	11	0	49	50
Total income	**708**	**671**	**6**	**255**	**247**	**3**	**932**	**895**
Personnel costs	144	142	1	44	47	–5	192	190
IT expenses	56	56	1	18	19	–5	76	75
Depreciation and amortisation	57	50	13	23	17	35	78	72
Other expenses	121	118	3	40	36	9	167	164
Total expenses	**378**	**366**	**3**	**125**	**119**	**5**	**513**	**501**
Earnings before impairments of receivables	**330**	**305**	**8**	**130**	**128**	**1**	**419**	**394**
Impairments of receivables	88	95	–7	27	41	–35	122	129
Earnings before tax	**242**	**211**	**15**	**103**	**87**	**18**	**297**	**265**
Change in fair value reserve	31	213		62	109		60	243
Earnings before tax at fair value	**273**	**424**	**–36**	**165**	**196**	**–16**	**357**	**508**

January–September earnings

Earnings before tax amounted to EUR 242 million (211), up by 15% on a year earlier.

Earnings before impairment charges on receivables totalled EUR 330 million (305), or 8% higher than a year ago. Impairment charges on receivables were EUR 7 million lower than a year ago, amounting to EUR 88 million (95).

With slightly more active capital markets in the third quarter, earnings before tax at fair value came to EUR 273 million (424).

Total income increased by 6% to EUR 708 million (671) and expenses by 3% to EUR 378 million (366).

Net interest income rose to EUR 189 million (177), up by 7% year on year. Net interest income from Corporate Banking showed strong growth, thanks to growth in the loan portfolio and a rise in the average margin.

Net commissions and fees increased to EUR 118 million (102), up by 15% year on year, due mainly to higher net commissions and fees reported by Asset Management. The report period also saw an increase in net commissions and fees from securities issuance and brokerage.

Net trading income amounted to EUR 34 million (60). Income reported a year ago was exceptionally high because of the market situation.

Net investment income totalled EUR 21 million (–8). This figure includes realised capital gains of EUR 22 million recognised on the notes and bonds. Adjustments for real property acquisition costs reduced net investment income a year ago.

Total net income from Non-life Insurance totalled EUR 314 million (307), or 2% higher than in the previous year. Non-life Insurance showed favourable developments in net income although it was slightly lower than a year ago. Realised capital gains contributed to higher income from investment operations.

Expenses rose by 3% to EUR 378 million (366), due mainly to the EUR 7 million one-time amortisation on insurance systems. Excluding this item, expenses grew by 1%. Personnel costs rose by EUR 2 million year on year. Provisions recognised for performance-based bonuses were down. The number of Group employees increased by 28 from their level on 31 December 2009.

The fair value reserve before tax grew by EUR 23 million (158) from its level on 31 December 2009. On 30 September, the fair value reserve after tax stood at EUR 23 million, as against EUR 0 million on 31 December 2009.

July–September earnings

Earnings before tax amounted to EUR 103 million (87), up by 18% on a year earlier.

Earnings before impairments of receivables were at the previous year's level, coming to EUR 130 million (128). Impairments of receivables decreased by EUR 14 million year on year to EUR 27 million (41).

Earnings before tax at fair value were EUR 165 million (196). Capital markets perked up slightly and the fair value reserve grew markedly during the third quarter.

Total income rose by 3% to EUR 255 million (247) and expenses by 5% to EUR 125 million (119). Excluding one-time amortisation on insurance systems, expenses were at the previous year's level.

Consolidated net interest income was slightly higher a year ago, amounting to EUR 62 million (58). Within Corporate Banking, net interest income increased by one-fifth on a year earlier, thanks to higher margins.

Net commissions and fees amounted to EUR 37 million (36). Asset Management showed strong growth during the third quarter too.

Net investment income totalled EUR 6 million (1). This figure includes realised capital gains of EUR 6 million recognised on the notes and bonds within the liquidity buffer.

Net trading income was one-third lower than a year ago, or EUR 18 million (27).

Net income from Non-life Insurance amounted to EUR 120 million (114). Growth in insurance premium revenue accelerated in the third quarter and insurance profitability was excellent.

Earnings analysis by quarter € million	**2009 Q1**	**Q2**	**Q3**	**Q4**	**2010 Q1**	**Q2**	**Q3**
Net interest income							
Corporate Banking	32	33	36	37	40	44	43
Markets	10	12	2	4	6	4	3
Other operations	10	22	21	23	14	19	16
Total	52	67	58	63	60	67	62
Net commissions and fees	30	36	36	41	40	41	37
Net trading income	25	8	27	11	7	8	18
Net investment income	–9	0	1	–5	18	–3	6
Net income from Non-life Insurance							
Insurance operations	83	101	107	92	74	99	106
Investment operations	–2	32	19	15	17	26	26
Other items	–11	–11	–11	–11	–11	–11	–11
Total	70	122	114	96	79	114	120
Other operating income	11	11	11	17	11	10	11
Total income	**179**	**245**	**247**	**224**	**215**	**239**	**255**
Personnel costs	45	50	47	48	47	52	44
IT expenses	19	18	19	20	19	19	18
Depreciation and amortisation	17	17	17	21	18	16	23
Other expenses	41	40	36	45	39	43	40
Total expenses	**122**	**125**	**119**	**135**	**123**	**130**	**125**
Earnings before impairments of receivables	**57**	**119**	**128**	**89**	**92**	**109**	**130**
Impairments of receivables	21	33	41	34	33	29	27
Earnings before tax	**36**	**87**	**87**	**55**	**59**	**80**	**103**
Change in fair value reserve	4	100	109	30	61	–92	62
Earnings/loss before tax at fair value	**41**	**186**	**196**	**84**	**119**	**–11**	**165**

Group risk exposure

The Group's risk exposure remained favourable as impairment charges continued to decrease and investment-grade exposures remained high. The improved economic situation was reflected in higher creditworthiness among corporate customers although some corporate customers continued to feel the effects of the economic crisis. Doubtful receivables decreased further and remained low relative to the loan and guarantee portfolio.

The financial and liquidity position remained strong. Both short-term and long-term funding performed well. Pohjola strengthened its financial position by issuing in early September senior bonds with a maturity of seven years and worth EUR 750 million.

Pohjola Bank plc maintains OP-Pohjola Group's liquidity portfolio, which mainly consists of notes and bonds eligible as collateral for central bank refinancing. The liquidity portfolio totalled EUR 9.7 billion (11.7) on 30 September 2010. This liquidity portfolio plus other items included in OP-Pohjola Group’s balance sheet and eligible for central bank refinancing constitute the total liquidity buffer, which can be used to cover OP-Pohjola Group’s wholesale funding maturities for some 24 months.

Determining the value of the available-for-sale financial assets at fair value through profit or loss and included in the liquidity portfolio is based on mark-to-market valuations. Pohjola did not recognise any impairment charges on the liquidity portfolio during the period. Pohjola kept market risks moderate during the period.

Net loan losses and impairment losses recognised for January–September reduced earnings by EUR 88 million (95), accounting for 0.63% (0.68) of the loan and guarantee portfolio. Final loan losses recognised for the period totalled EUR 41 million (15) and impairment charges EUR 98 million (111). Loan loss recoveries and allowances for impairments totalled EUR 51 million (32). The majority of the impairments were those recognised on an individual basis.

Doubtful receivables fell by EUR 9 million to EUR 29 million in the third quarter and were at a low level, accounting for 0.21% (0.32) of the loan and guarantee portfolio. Past due payments came to EUR 20 million (70), representing 0.14% (0.51) of the loan and guarantee portfolio.

Despite the economic recovery and lower impairment charges and doubtful receivables, some of our corporate customers still face a challenging operating environment.

Capital adequacy

Capital adequacy under the Act on Credit Institutions showed a marked improvement. The capital adequacy ratio stood at 13.9% (13.5) as against the statutory minimum requirement of 8%. Tier 1 ratio was 12.3% (11.8). Pohjola Group's Tier 1 target ratio stands at a minimum 9.5% over the economic cycle. Excluding hybrid capital, Tier 1 ratio stood at 10.2% (9.7).

Tier 1 capital came to EUR 1,601 million (1,541) and the total capital base amounted to EUR 1,806 million (1,753). Hybrid capital accounted for EUR 274 million of Tier 1 capital. The minimum regulatory capital requirement to cover credit risk amounted to EUR 942 million (957), that to cover market risk EUR 34 million (36) and that to cover operational risks EUR 61 million (49).

On 30 September 2010, risk-weighted assets totalled EUR 12,960 million, as against EUR 13,024 million on 31 December 2009.

Pohjola Group belongs to OP-Pohjola Group whose capital adequacy is supervised in accordance with the Act on the Supervision of Financial and Insurance Conglomerates. Pohjola Group's capital adequacy ratio under the Act, measured using the consolidation method, stood at 1.84 (1.73). Accordingly, the capital base totalled EUR 2,230 million (2,103) and the minimum capital requirement EUR 1,213 million (1,213), i.e. the total capital base exceeded the minimum regulatory requirement by EUR 1,017 million (890).

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 reduce the cyclic nature of capital requirements and to set quantitative limits to liquidity risk. These changes are still under preparation, due to be effective between 2012 and 2018, and it is too early to predict precisely what their effects will be. From Pohjola Group's viewpoint, the most significant changes in the new regulations are related to allowances for insurance company holdings and liquidity risk requirements whose treatment will most likely be finalised only in national legislation.

Credit ratings

Pohjola Bank plc's credit ratings remained unchanged, as follows:

Rating agency	Short-term debt	Long-term debt
Standard & Poor's	A-1+	AA-
Moody's	P-1	Aa2
Fitch	F1+	AA-

Pohjola's credit rating outlook issued by Standard & Poor's is stable. Moody's Investor Service has affirmed negative outlook on Pohjola's credit rating. Fitch Rating has issued a negative outlook for the long-term debt ratings of Pohjola but the outlook for the short-term debt ratings is stable. The main reason for the negative outlook is the rapid deterioration of the Finnish economy last year and its potential effects on Pohjola and OP-Pohjola Group mainly operating in Finland.

Financial targets and actuals

Financial targets	Q1–3/ 2010	Q1–3/ 2009	2009	Target
Group				
Return on equity, %	11.7	21.8	19.2	13
Tier 1 ratio, %	12.3	11.3	11.8	>9.5
Banking				
Operating cost/income ratio, %	35	34	35	<40
Non-life Insurance				
Operating combined ratio, %	88.6	86.7	87.7	92
Operating expense ratio, %	21.3	21.7	22.2	<20
Solvency ratio, %	99	89	88	70
Asset Management				
Operating cost/income ratio, %	52	60	53	<50
Rating				
AA rating affirmed by at least two credit rating agencies	3	3	3	≥2
Dividend policy				
Dividend payout ratio a minimum of 50%, provided that Tier 1 a minimum of 9.5%.			51	>50

The financial targets are set over the economic cycle.

Performance by business line

Banking

– Earnings before tax amounted to EUR 93 million (99), affected by EUR 89 million (84) in impairment charges on receivables. Earnings before these impairments were at the level reported a year ago.
– The average corporate loan margin was 17 basis points higher than the year before but this upward trend came to an end after the first quarter.
– Thanks to higher margins, Corporate Banking net interest income rose by 26%. The loan portfolio grew by 6% from the level of 30 December 2009 and by 4% in the year to September.
– The Markets division's financial performance remained good although it weakened from the exceptionally good level posted a year ago.
– Operating cost/income ratio stood at 34% (34).

Banking: financial results and key figures and ratios

Financial results, € million	**Q1–3/ 2010**	**Q1–3/ 2009**	**Change, %**	**Q3/ 2010**	**Q3/ 2009**	**Change, %**	**2009**
Net interest income							
Corporate Banking	128	101	26	43	36	21	138
Markets	13	24	–44	3	2	95	27
Total	141	125	13	46	37	24	165
Net commissions and fees	69	65	5	21	22	–1	85
Net trading income	45	64	–29	21	27	–22	78
Other income	22	22	–1	8	8	9	30
Total income	**277**	**276**	**0**	**97**	**93**	**4**	**358**
Expenses							
Personnel costs	39	39	0	12	13	–4	50
IT expenses	17	16	11	5	5	9	21
Depreciation and amortisation	19	20	–6	6	7	–5	28
Other expenses	20	19	6	7	6	29	25
Total expenses	**95**	**94**	**2**	**31**	**30**	**4**	**125**
Earnings before impairments of receivables	**182**	**183**	**0**	**65**	**63**	**4**	**234**
Impairments of receivables	89	84	7	28	39	–30	117
Earnings before tax	**93**	**99**	**–6**	**38**	**24**	**61**	**117**
Earnings before tax at fair value	92	101	–8	38	25	54	120
Loan and guarantee portfolio, € billion	14.0	13.6	3				13.3
Margin on corporate loan portfolio, %	1.38	1.21					1.33
Ratio of doubtful receivables to loan and guarantee portfolio, %	0.21	0.37					0.32
Ratio of impairments of receivables to loan and guarantee portfolio, %	0.64	0.62					0.88
Operating cost/income ratio, %	34	34		33	32		35
Personnel	654	607	8				607

January–September earnings

Earnings before tax amounted to EUR 93 million (99), affected by EUR 89 million (84) in impairment charges on receivables. Earnings before these impairments were at the same level as a year ago.

Lending took off, with the loan portfolio growing by 6% from its year-end level to over EUR 11.3 billion. The loan portfolio grew by 4% in the year to September. The market share of corporate loans in late September was at the same level as at the beginning of 2010. The guarantee portfolio decreased by less than EUR 0.1 billion to EUR 2.6 billion from its year-end level, being EUR 0.2 billion lower than a year earlier.

The average corporate loan margin of 1.38% was 17 basis points higher on 30 September than the year before and rose by 5 basis points from its level on 31 December 2009. Thanks to the higher average margin, Corporate Banking net interest income improved by 26%. Due to fiercer competition, margins stopped rising.

Net commissions and fees were 5% higher than a year ago. Pohjola holds a strong position as an arranger of new issues and a securities broker. Net commissions from securities issuance and securities brokerage rose by a total of EUR 7 million. Tougher price competition was reflected in lower commission income from loans.

The Markets division's earnings performance normalised from its exceptionally high level a year ago. Companies increased their hedging measures due to jittery markets and customer trading volumes grew over the previous year in fixed-income and foreign exchange products.

The cost/income ratio remained good, standing at 34%. Total expenses were on a par with those in the previous year.

July–September earnings

Earnings before tax were EUR 38 million, or EUR 14 million higher than the year before. Income increased by EUR 4 million and expenses by EUR 2 million. Impairment charges on receivables were EUR 11 million lower than a year ago. On 30 September, the loan and guarantee portfolio was at the same level as on 30 June.

As a result of higher margins, Corporate Banking net interest income was a fifth higher than a year ago. The average margin on loans remained at the same level as in the previous quarter.

Risk exposure by Banking

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

During January–September, total exposure grew by EUR 0.5 billion to EUR 21.6 billion. The ratio of investment-grade exposure – i.e. ratings 1–5 – to total exposure, excluding households, remained at a healthy level, standing at 67% (64). The share of ratings 11–12 was 1.8% (1.6) and that of non-rated exposure 0.8% (0.8).

Corporate exposure (including housing corporations) accounted for 75% (78) of total exposure within Banking. Of corporate exposure, the share of investment-grade exposure stood at 60% (57) and the exposure of the lowest two rating categories amounted to EUR 368 million (321), accounting for 2.3% (2.0) of the total corporate exposure.

Significant corporate customer exposure totalled EUR 3.1 billion (2.9). The distribution of corporate exposure by industry remained highly diversified. The most significant industries included Letting and Operation of Dwelling representing 11.9% (11.2), Trade 9.6% (10.9) and Manufacture of Machinery and Equipment 8.7% (9.7).

January–September net loan losses and impairment losses within Banking came to EUR 89 million (84), accounting for 0.64% (0.61) of the loan and guarantee portfolio.

On 30 September, Baltic Banking exposures totalled EUR 110 million (89), accounting for less than 1% of the loan and guarantee portfolio. The Baltic Banking net loan losses and impairment losses for January–September amounted to EUR 1.5 million (4.7).

Third-quarter interest rate risk exposure averaged EUR 4.5 million (6.6), based on the 1-percentage-point change in the interest rate.

Non-life Insurance

– Earnings before tax amounted to EUR 84 million (89).
– Non-life Insurance recorded very good profitability. The operating combined ratio stood at 88.6% (86.7).
– Insurance premium revenue grew at a higher rate, increasing by 2% in January–September and by 4% in July–September.
– The period saw the achievement of the strategic target of 450,000 loyal customer households.
– Return on investments at fair value was 5.2% (9.0).

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

Financial results, € million	Q1–3/ 2010	Q1–3/ 2009	Change, %	Q3/ 2010	Q3/ 2009	Change, %	2009
Insurance premium revenue	723	712	2	250	241	4	943
Claims incurred	–486	–463	5	–157	–149	5	–617
Operating expenses	–154	–154	0	–50	–51	–3	–210
Amortisation adjustment of intangible assets	–25	–19	34	–12	–6	102	–28
Balance on technical account	**58**	**76**	**–24**	**30**	**34**	**–12**	**88**
Net investment income	65	48	34	23	19	22	61
Other income and expenses	–38	–35	**10**	–11	–10	15	–46
Earnings before tax	**84**	**89**	**–6**	**42**	**43**	**–3**	**102**
Earnings before tax at fair value	164	247	–33	94	126	–26	291
Operating combined ratio, %	88.6	86.7		82.8	83.1		87.7
Operating expense ratio, %	21.3	21.7		20.0	21.3		22.2
Return on investments at fair value, %	5.2	9.0		2.6	4.3		10.7
Solvency ratio , %	99	89					88
Personnel	2,059	2,059					2,070

January–September earnings

Earnings before tax amounted to EUR 84 million (89).

Insurance profitability was excellent, although the high volume of traffic accidents and vehicle damage in the winter and storm damage in late summer increased claims. Growth remained strong within Private Customers and the decline in insurance premium revenue from Corporate Customers levelled off. The balance on technical account before amortisation on intangible assets stood at EUR 83 million (95).

This year has been volatile for capital markets. Net investment income amounted to EUR 65 million (48) and net investment income at fair value reached EUR 145 million (205).

When the non-life insurance business was acquired, Pohjola set a strategic target to have 450,000 loyal customer households by the end of 2010. This target was already reached in August. By 30 September, Pohjola's loyal insurance customer households numbered 454,651.

Up to 57% 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 customers can use their OP bonuses earned through banking transactions to pay Pohjola non-life insurance premiums. During January–September, OP bonuses were used to pay 801,300 insurance premiums, with 142,250 paid in full using bonuses. Insurance premiums paid using bonuses totalled EUR 40 million. In 2005, Pohjola set a target of achieving annual revenue synergies of EUR 17 million by the end of 2010, resulting from growth in the number of loyal customer households, which Pohjola already achieved in March.

Insurance business

Profitability was excellent and the operating combined ratio, excluding amortisation on intangible assets arising from the corporate acquisition, stood at 88.6% (86.7%).

Insurance premium revenue increased by 2% to EUR 723 million (712).

Insurance premium revenue from Private Customers improved by 11% to EUR 355 million (320). The number of loyal customer households grew by 29,937 (22,782) during January–September. Insurance policies sold well both in OP-Pohjola Group member banks and at car dealerships. Private Customers strengthened its position as the largest division within Non-life Insurance.

Insurance premium revenue from Corporate Customers dropped by 5% to EUR 331 million (347). 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. Premium revenue continued to fall but at a slower rate as the year progressed. The impact of the recession on premium revenue was not properly felt until the second quarter onwards.

In the Baltic States, insurance premium revenue decreased by 16% to EUR 37 million (44). 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 during January–September.

Claims incurred increased to EUR 486 million (463), or by 5%, owing to growth in the private customer insurance portfolio, the large number of losses reported within motor liability and motor vehicle insurance in the winter and storm damage in late summer. The loss ratio deteriorated to 67.2% (65.1) and the risk ratio (excl. loss adjustment expenses) stood at 61.3% (59.2). 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 157 (141) in January–September, with their claims incurred retained for own account totalling EUR 79 million (66).

Operating expenses amounted to EUR 154 million (154). The expense ratio was 21.3% (21.7). The cost ratio (incl. loss adjustment expenses) stood at 27.2% (27.6).

The operating balance on technical account within Private Customers improved to EUR 62 million (42) because growth in claims incurred was lower than that in insurance premium revenue. The operating balance on technical account within Corporate Customers fell to EUR 22 million (49) as a result of lower insurance premium revenue and the normalisation of claims developments with respect to the exceptionally favourable developments a year ago. The balance on technical account recorded by the Baltic States stood at EUR –1 million (3).

Investment

Return on investments at fair value was 5.2% (9.0). Net investment income recognised in the income statement amounted to EUR 65 million (48) and net investment income at fair value was EUR 145 million (205). Impairment charges recognised in the income statement totalled EUR 29 million.

On 30 September, the investment portfolio totalled EUR 2,971 million (2,851), bonds and bond funds accounting for 77% (76) and listed equities for 7% (10). Unlisted equity investments plus the aforementioned equities represented a total of 10% (13). The fixed-income portfolio by credit rating remained healthy, considering that investments under "investment-grade" represented 89% (94) and 75% of the investments were rated at least A–. The average residual term to maturity of the fixed-income portfolio was 5.1 years and the duration 3.9 years (3.4).

July–September earnings

Earnings before tax amounted to EUR 42 million (43).

The balance on technical account before amortisation on intangible assets stood at EUR 43 million (41). Favourable developments in the capital market during the third quarter were reflected in investment performance. Net investment income amounted to EUR 23 million (18) and net investment income at fair value came to EUR 75 million (102). Earnings were eroded by the EUR 7 million one-time amortisation performed on insurance systems purchased in connection with the Pohjola acquisition.

Insurance business

Third-quarter profitability was excellent and the operating combined ratio, excluding amortisation on intangible assets arising from the corporate acquisition, stood at 82.8% (83.1%).

Growth in insurance premium revenue accelerated in the third quarter, increasing by 4% to EUR 250 million (241).

Growth in insurance premium revenue continued to remain strong among Private Customers, rising by 11% to EUR 125 million (113). The growth rate of the number of loyal customer households accelerated, their number increasing by 12,070 (8,730) in July–September.

The decline in insurance premium revenue from Corporate Customers decelerated and insurance premium revenue decreased by 2% to EUR 111 million (113). With the exception of statutory workers' compensation insurance, all lines of insurance recorded premium revenue that was already at the level reported a year ago.

In the Baltic States, insurance premium revenue decreased by 11% to EUR 13 million (14).

Claims incurred rose by 5% to EUR 157 million (149). The loss ratio stood at 62.8% (61.8) and the risk ratio (excl. loss adjustment expenses) was 58.3% (57.2). Excess of loss reinsurance protecting from loss accumulation reduced claims incurred retained for own account resulting from storm damage and other major losses in the third quarter. 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 54 (54) in July–September, with their claims incurred retained for own account totalling EUR 28 million (23).

Operating expenses amounted to EUR 50 million (51). The expense ratio was 20.0% (21.3). The cost ratio (incl. loss adjustment expenses) stood at 26.6% (28.5).

The operating balance on technical account within Private Customers improved to EUR 30 million (16) because claims incurred were lower than a year ago. The operating balance on technical account within Corporate Customers decreased to EUR 15 million (25) as a result of the normalisation of claims developments with respect to the exceptionally favourable developments a year ago. This fall combined with lower premium income weakened the balance on technical account. In the Baltic States, the balance on technical account was EUR –3 million (0), this fall being due to a single large claim.

Investment

Return on investments at fair value was 2.6% (4.3). Net investment income recognised in the income statement amounted to EUR 23 million (19) and net investment income at fair value was EUR 75 million (102). Impairment charges recognised in the income statement totalled EUR 2 million.

Risk exposure by Non-life Insurance

Major risks within Non-life Insurance include underwriting risks associated with claims developments and market risks associated with investment portfolios covering technical provisions.

In their joint actuarial project, the Federation of Accident Insurance Institutions and the Finnish Motor Insurers' Centre assess whether the mortality model applied to motor liability insurance and statutory workers' compensation insurance is up to date considering that the average life expectancy has increased. This project is due for completion by the summer of 2011. A one-year increase in the average life expectancy would increase technical provisions by EUR 31 million.

On 30 September, Non-life Insurance solvency capital came to EUR 943 million (827) and the ratio of solvency capital to insurance premium revenue (solvency ratio) stood at 99% (88). Equalisation provisions rose to EUR 443 million (417).

Pohjola Insurance Ltd’s credit ratings have remained unchanged: A2 by Moody's and A+ by Standard & Poor's.

No major changes occurred in investment risk exposure. Pohjola reduced equity risk and interest rate risk increased slightly.

Asset Management

– Earnings before tax improved by 68% to EUR 18 million (11).
– Assets under management increased by 6% to EUR 35.2 billion (33.1) from their end-2009 level.
– Operating cost/income ratio improved to 52% (63).

Asset Management: financial results and key figures and ratios

Financial results, € million	Q1–3/ 2010	Q1–3/ 2009	Change, %	Q3/ 2010	Q3/ 2009	Change, %	2009
Net commissions and fees	39	29	34	12	11	14	50
Other income	2	2	–14	1	1	15	2
Total income	**41**	**32**	**30**	**13**	**11**	**14**	**52**
Personnel costs	14	12	18	4	4	11	17
Other expenses	10	10	5	3	3	2	13
Total expenses	**24**	**21**	**12**	**7**	**7**	**7**	**30**
Earnings before tax	**18**	**11**	**68**	**6**	**4**	**25**	**21**
Earnings before tax at fair value	18	11	68	6	4	25	21
Assets under management, € billion	35.2	31.4	12				33.1
Operating cost/income ratio, %	52	60		51	54	–6	53
Personnel	168	160	5				162

January–September earnings

Earnings before tax increased by 68% to EUR 18 million (11) year on year and the operating cost/income ratio stood at 52% (60).

Year on year, assets under management increased by 12%, standing at EUR 35.2 billion (33.1) at the end of the reporting period. A good net assets inflow and favourable market developments contributed to this increase. Of the assets under management, institutional clients accounted for EUR 20.1 billion (19.2), OP mutual funds for EUR 11.8 billion (11.4) and Pohjola Private for EUR 3.2 billion (2.5).

Of the assets under management, money-market investments represented 14% (11), bonds 40% (42), equities 27% (27) and other investments 20% (20).

July–September earnings

Earnings before tax amounted to EUR 6 million (4). Year on year, net commissions and fees increased by 14% and earnings improved by 25%. The operating cost/income ratio improved to 51% (60).

Assets under management increased by around 5%.

All of the share capital of Pohjola Capital Partners Ltd within Asset Management was bought by the existing management. The transaction should be finalised in December 2010. This management buyout will have no major effect on Asset Management's financial results.

Group Functions

– Earnings before tax totalled EUR 48 million (11). Capital gains on notes and bonds and lower impairment charges year on year contributed to this improvement.
– Earnings before tax at fair value fell by EUR 67 million year on year.
– Liquidity and the availability of funding remained good.
– Long-term funding increased by EUR 2.3 billion aimed at strengthening the financial position.

Group Functions: financial results and key figures and ratios

Financial results, € million	Q1–3/ 2010	Q1–3/ 2009	Change, %	Q3/ 2010	Q3/ 2009	Change, %	2009
Net interest income	51	51	0	17	21	–17	75
Net trading income	–9	–4		0	0		–7
Net investment income	21	–8		6	1		–13
Other income	9	10	–14	2	3	–41	17
Total income	**72**	**49**	**46**	**25**	**25**	**0**	**72**
Personnel costs	10	10	7	4	3	16	13
Other expenses	15	17	–15	4	4	2	23
Total expenses	**25**	**27**	**–7**	**8**	**7**	**8**	**36**
Earnings before impairments of receivables	**47**	**22**	**109**	**17**	**18**	**–3**	**36**
Impairments of receivables	–1	11		–1	2		12
Earnings before tax	**48**	**11**	**320**	**18**	**16**	**12**	**25**
Earnings/loss before tax at fair value	–1	66		28	41	–31	76
Liquidity portfolio, € billion	9.7	9.5	3				11.7
Receivables and liabilities from/to OP-Pohjola Group entities, net position, € billion	3.7	3.8	–2.6				2.9
Personnel	121	137	–12				136

January–September earnings

Earnings before tax rose by EUR 37 million year on year. Net interest income from the liquidity portfolio has continued its strong upward trend during the current year too. Net investment income included EUR 22 million in capital gains on notes and bonds. Impairments recognised on shares and participations included in available-for-sale financial assets totalled EUR 4 million (4). Impairments recognised on bonds amounted to EUR –1 million (11), or EUR 12 million lower than a year ago.

The availability of funding remained good. During the period, Pohjola increased its long-term funding by issuing bonds totalling EUR 2.3 million in international capital markets. Debt instruments issued to the public totalled EUR 17 billion on September 30, equalling the amount at the end of 2009.

Average funding costs will rise when maturing long-term debt is renewed at higher market rates. At the end of the reporting period, the average wholesale funding margin was 17 basis points (14).

Pohjola Bank plc's net receivables from OP-Pohjola Group retail banks and entities increased to EUR 3.7 billion. On 31 December 2009, the net position amounted to EUR 2.9 billion.

Earnings before tax at fair value fell by EUR 67 million year on year from their exceptionally good level reported a year ago.

July–September earnings

Earnings before tax were EUR 18 million, or EUR 2 million higher than the year before. Net investment income included EUR 6 million in capital gains on notes and bonds within the liquidity buffer. Year on year, impairment charges went down by EUR 3 million.

Uncertainty over the euro-area economic development was reflected in widening credit spreads and shrinking market liquidity. As a result, the fair value of bonds and notes fell year on year and earnings before tax at fair value declined to EUR 28 million (41) over the previous year.

Risk exposure by Group Functions

Major risks within the Group Functions include those associated with the fair value change of assets included in the liquidity portfolio, and liquidity risks.

The Group Functions exposure totalled EUR 17.4 billion (18.3), consisting of assets held in the liquidity portfolio to secure OP-Pohjola Group's liquidity and of receivables from OP-Pohjola Group member banks. The liquidity portfolio amounted to EUR 9.7 billion (11.7), comprising primarily investments in notes and bonds issued by governments, municipalities, financial institutions and companies all showing good credit ratings, and in securitised assets.

Interest rate risk exposure averaged EUR 10.3 million (11.9) in the third quarter, based on the 1-percentage-point change in the interest rate.

Shares and shareholders

On 30 December 2010, the number of Pohjola Bank plc shares totalled 319,551,415 and votes conferred by the shares 593,077,995. On the same date, the number of Series A shares listed on NASDAQ OMX Helsinki Ltd totalled 251,169,770, representing 78.6% of all Pohjola shares and 42.4% of all votes. The number of unlisted Series K shares totalled 68,381,645.

On 30 September, one Series A share closed at EUR 8.93, as against EUR 7.55 on 31 December 2009. In January–September, the share price reached a high of EUR 9.79 (3 August 2010) and a low of EUR 6.97 (7 May 2010).

In January–September, trading in Pohjola shares in euro terms increased by 16% year on year, from EUR 885 million a year ago to EUR 1,028 million. In volume terms, share trading decreased from 138 million shares reported a year ago to 123 million.

On 30 September, Pohjola Bank plc had 35,270 shareholders, down by 1,730 from the beginning of the year, private individuals accounting for 95% of all shareholders. The largest shareholder was OP-Pohjola Group Central Cooperative, representing 29.98% of all shares and 57.05% of all votes. The number of nominee-registered shares increased by 11.5 million and they accounted for 20.2% of Series A shares on 30 September (15.6% on 31 December 2009). On 23 August 2010, the proportion of Pohjola shares held by Suomi Mutual Life Assurance Company fell below one-tenth and that of the votes conferred by all shares fell below one twentieth.

Management

Jouko Pölönen, CFO of Pohjola Group, has been appointed a new President of Pohjola Insurance Ltd, a Pohjola Bank plc subsidiary. He will succeed Tomi Yli-Kyyny who announced on 8 September 2010 that he would leave the company. Jouko Pölönen will take up his duties on 1 January 2011. Until that date, Tomi Yli-Kyyny will act as the President.

Group restructuring

Pohjola Insurance Ltd and Pohjantähti Mutual Insurance Company are planning to merge

At the meeting of 28 September 2010, the Board of Directors of both companies have approved a merger plan whereby Pohjantähti Mutual Insurance Company will merge into Pohjola Insurance. If both companies' extraordinary general meetings adopt the merger plan, the companies will merge according to the proposal to be submitted to the general meetings.

The merger plan specifies the amount of the merger consideration offered to Pohjantähti's shareholders, its distribution and other terms and conditions governing the merger. The aggregate amount of the merger consideration comes to EUR 80 million, comprising the amount payable to the policyholder/shareholders and the owner of the guarantee capital. The consideration will be paid in cash in its entirety.

In the merger, Pohjantähti's insurance portfolio and agreements as such would transfer to Pohjola and Pohjantähti's customers would become those of Pohjola Insurance.

Pohjola was the initiator of the merger. According to Pohjantähti's Board of Directors, the merger bid is financially justified and its terms and conditions are in the interests of both customers and personnel.

The extraordinary general meetings of both companies will decide whether the merger plan will be rejected or approved. In addition to approval by the general meetings, the merger will require regulatory approval from relevant authorities. Policyholder/shareholders and Ilmarinen Mutual Pension Insurance Company, the owner of the guarantee capital, exercise voting rights at the general meeting of Pohjantähti. The extraordinary general meeting will be held on 8 December 2010.

The purpose of the merger is to strengthen the competitiveness in the Finnish non-life insurance market of the new entity formed by the insurance business of Pohjola Insurance and Pohjantähti. The merger is aimed at enhancing growth potential and profitability of the combined insurance businesses. The new entity will be able to more efficiently manage product and service development, ICT development, staff recruitment and training, and capital, given the increasingly demanding operating and regulatory environment.

Pohjantähti is currently headquartered in Hämeenlinna. Pohjola aims to increase the number of insurance experts in Hämeenlinna and establish a Pohjola Insurance service centre in the town. According to the merger plan, the merger should be executed in the spring of 2011. Post-merger business development measures are now only under preparation. However, based on a decision already made, further plans will not involve any redundancies, changing full-time employment contracts to part-time contracts or layoffs.

If implemented, the merger will have no major effect on Pohjola Group's financial results.

Management buyout of Pohjola Capital Partners Ltd

The existing management of Pohjola Capital Partners Ltd and its present majority shareholder, Pohjola Bank plc, have agreed on a management buyout whereby the existing management acquires all of the company's shares.

Pohjola Capital Partners Ltd will continue its investments as before but it will be renamed Vaaka Partners after the transaction. The transaction should be finalised in December 2010.

The management buyout will have no major effect on Pohjola Bank plc's financial results.

Events after the balance sheet date

Pohjola Bank plc to redeem Lower Tier 2 subordinated notes of EUR 70 million

Pohjola Bank plc will redeem Lower Tier 2 subordinated notes of EUR 70 million which it issued in November 2004. According to the terms and conditions, the notes will mature in 2015 but with the Finnish Financial Supervisory Authority's permission the issuer has the right to call in the notes prematurely in November 2010. The notes are quoted on the London Stock Exchange. This redemption will have no effect on Pohjola's Tier 1 ratio but will reduce the capital adequacy ratio by 0.5 percentage points.

Removing a provision for the guarantee scheme under statutory workers' compensation insurance and motor liability insurance

The joint guarantee scheme for statutory accident insurance was introduced in 1997. In accordance with the Insurance Companies Act, insurers providing statutory insurance policies are jointly liable for claims paid out under these lines of insurance which would remain unpaid to claimants as a result of an insurer's liquidation or bankruptcy. Insurers have prepared for this by including a provision for the guarantee scheme in their balance sheet. A Government bill to amend the Insurance Companies Act was presented before Parliament on 1 October 2010. Accordingly, insurers will not need to make such a provision in their balance sheet. The amended Act will should come into force on 31 December 2010. Removing this provision will improve Pohjola Group's earnings by EUR 16 million on a non-recurring basis and the amount is expected to be recognised in the fourth quarter income statement.

Life expectancy in accounting for technical provisions

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 and the commonly used mortality model needs some update. This project is due for completion by the summer of 2011. A one-year increase in the average life expectancy would increase Pohjola's technical provisions by EUR 31 million. The effect on Pohjola's technical provisions will be specified in the spring of 2011, but Pohjola is prepared to recognise a non-recurring increase of EUR 30–40 million in its technical provisions as early as the fourth quarter.

Outlook towards the year end

The economic recovery underway has been reflected in demand for corporate loans, with the result that the corporate loan portfolio has begun to grow. The trend of the rising average corporate loan margin has come to an end and tougher competition is sending the margin on new loans down. Given that the business environment is still challenging for companies, it is estimated that impairment charges will remain higher than usual. Enabled by the economic recovery, impairment charges are, however, expected to remain lower than a year ago. The greatest uncertainties related to Banking's financial performance in 2010 are associated with impairment charges on the loan portfolio.

Insurance premium revenue is expected to continue to increase at an above-the-market-average rate among private customers. The downward trend in insurance premium revenue from corporate customers is expected to come to a halt during the rest of the year. In Non-life Insurance, the operating combined ratio is estimated to vary between 89% and 92% (previous estimate: 89–93%) in 2010 if the number of large claims is not much higher than in 2009. Expected long-term returns on investment within Non-life Insurance stand at 5.4%. Returns will largely depend on developments in the investment environment. The most significant uncertainties related to Non-life Insurance's financial performance in 2010 pertain to the investment environment and the effect of large claims on claims expenditure as well as the non-recurring items arising from changes in the joint guarantee provision and the mortality model. These non-recurring items will have no impact on the operating combined ratio.

Within Asset Management, the upward trend in assets under management is expected to continue, their amounts being affected by market developments and the net inflow of assets. The greatest uncertainties related to Asset Management's financial performance in 2010 are associated with the actual performance-based fees tied to the success of investments and the amount of assets under management.

The key determinants affecting the Group Functions' result include net interest income arising from assets in the liquidity portfolio and impairment charges recognised on notes and bonds in the income statement.

Pohjola estimates that it will recognise non-recurring items in its fourth quarter income statement resulting from the removal of the joint guarantee provision and the effects of increased life expectancy. Despite these non-recurring items, consolidated earnings before tax in 2010 are expected to be at the same level as or higher than (previous estimate: at the same level) in 2009.

There is still great uncertainty about future economic development and the overall operating environment, and these factors are beyond the Group management's control.

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

FINANCIAL STATEMENTS AND NOTES

Consolidated income statement

EUR million	**Q3/ 2010**	**Q3/ 2009**	**Q1–3/ 2010**	**Q1–3/ 2009**
Net interest income (Note 2)	62	58	189	177
Impairments of receivables (Note 3)	27	41	88	95
Net interest income after impairments	**36**	**17**	**101**	**83**
Net income from Non-life Insurance (Note 4)	120	114	314	307
Net commissions and fees (Note 5)	37	36	118	102
Net trading income (Note 6)	18	27	34	60
Net investment income (Note 7)	6	1	21	-8
Other operating income (Note 8)	11	11	32	33
Total income	**228**	**206**	**620**	**576**
Personnel costs	44	47	144	142
IT expenses	18	19	56	56
Depreciation/amortisation	23	17	57	50
Other expenses	40	36	121	118
Total expenses	**125**	**119**	**378**	**366**
Share of associates' profits/losses	0	0	0	0
Earnings before tax	**103**	**87**	**242**	**211**
Income tax expense	27	23	63	55
Profit for the period	**76**	**65**	**179**	**155**
Attributable to owners of the Parent	76	65	179	155
Attributable to minority interest				0
Total	**76**	**65**	**179**	**155**
Earnings per share (EPS), basic, EUR				
Series A	0.25	0.21	0.57	0.55
Series K	0.22	0.18	0.54	0.52

Consolidated statement of comprehensive income

EUR million				
Profit for the period	**76**	**65**	**179**	**155**
Change in fair value reserve	62	109	31	213
Translation differences	0	0	0	0
Income tax on other comprehensive income	16	28	8	55
Total comprehensive income for the period	**122**	**146**	**201**	**314**
Total comprehensive income attributable to owners of the Parent	122	146	201	314
Total comprehensive income attributable to minority interest				0
Total	**122**	**146**	**201**	**314**

Consolidated balance sheet

EUR million	**30 Sept 2010**	**31 Dec 2009**
Cash and cash equivalents	968	3,102
Receivables from credit institutions	7,723	7,630
Financial assets at fair value through profit or loss		
Financial assets held for trading	971	1,224
Financial assets at fair value through profit or loss at inception	12	55
Derivative contracts	2,120	1,443
Receivables from customers	11,771	11,323
Non-life Insurance assets (Note 10)	3,316	3,156
Investment assets	6,481	5,415
Investment in associates	2	2
Intangible assets (Note 11)	930	960
Property, plant and equipment (PPE)	101	117
Other assets	1,486	1,068
Tax assets	31	15
Total assets	**35,910**	**35,510**
Liabilities to credit institutions	4,013	4,984
Financial liabilities at fair value through profit or loss		
Financial assets held for trading	0	71
Derivative contracts	2,483	1,456
Liabilities to customers	4,430	4,133
Non-life Insurance liabilities (Note 12)	2,518	2,279
Debt securities issued to the public (Note 13)	16,598	17,295
Provisions and other liabilities	1,723	1,291
Tax liabilities	468	434
Subordinated liabilities	1,315	1,300
Total liabilities	**33,549**	**33,244**
Shareholders' equity		
Capital and reserves attributable to owners of the Parent		
Share capital	428	428
Fair value reserve (Note 14)	23	0
Other reserves	1,093	1,093
Retained earnings	818	746
Minority interest		
Total shareholders' equity	**2,361**	**2,267**
Total liabilities and shareholders' equity	**35,910**	**35,510**

Consolidated statement of changes in equity

EUR million

		Attributable to owners of Pohjola Group			
	Share capital	**Fair value reserve**	**Other reserves**	**Retained earnings**	**Total equity**
Balance at 1 January 2009	**428**	**-180**	**795**	**597**	**1,640**
Rights issue			308		308
Issue expenses			-10		-10
Transfer of reserves			0	0	
Profit distribution				-45	-45
EUR 0.23 per Series A share*				-37	-37
EUR 0.20 per Series K share*				-9	-9
Total comprehensive income for the period		158		155	314
Equity-settled share-based transactions				0	0
Other				0	0
Balance at 30 September 2009	**428**	**-22**	**1,093**	**707**	**2,206**

		Attributable to owners of Pohjola Group			
	Share capital	**Fair value reserve**	**Other reserves**	**Retained earnings**	**Total equity**
Balance at 1 January 2010	**428**	**0**	**1,093**	**746**	**2,267**
Profit distribution				-107	-107
EUR 0.34 per Series A share				-85	-85
EUR 0.31 per Series K share				-21	-21
Total comprehensive income for the period		23		178	201
Equity-settled share-based transactions				0	0
Other				0	0
Balance at 30 September 2010	**428**	**23**	**1,093**	**818**	**2,361**

*Due to Pohjola Bank plc's rights issue and new shares entered in the Trade Register on 4 May 2009, the number of shares has been adjusted in such a way that the adjusted dividend per share is as follows: 2009: EUR 0.19 per Series A share and EUR 0.16 per Series K share.

Capital base and capital adequacy

EUR million	30 Sept 2010	31 Dec 2009
Capital base		
Equity capital	2,361	2,267
Elimination of insurance companies' effect in equity capital (equity capital and Group eliminations)	-15	92
Minority interest		0
Hybrid capital	274	274
Intangible assets	-145	-145
Fair value reserve, excess funding of pension liability and change in fair value of investment property	-14	-49
Dividend distribution proposed by Board of Directors		-107
Planned dividend distribution	-89	
Insurance company investments 50%	-703	-715
Investments in other credit and financial institutions 50%	-2	
Impairments – expected losses 50%	-66	-76
Tier 1 capital	**1,601**	**1,541**
Fair value reserve	-17	18
Subordinated liabilities included in upper Tier 2	299	299
Subordinated liabilities included in lower Tier 2	696	687
Insurance company investments 50%	-703	-715
Investments in other credit and financial institutions 50%	-2	
Impairments – expected losses 50%	-66	-76
Tier 2 capital	**206**	**212**
Total capital base	**1,806**	**1,753**
Risk-weighted assets, excl. transitional rules	12,960	13,024
Risk-weighted assets according to transitional rules	**12,960**	**13,024**
Ratios, excl. transitional rules:		
Capital adequacy ratio, %	13.9	13.5
Tier 1 ratio, %	12.3	11.8
Ratios according to transitional rules:		
Capital adequacy ratio, %	**13.9**	**13.5**
Tier 1 ratio, %	**12.3**	**11.8**

Capital base and capital adequacy measurement is based on approaches under Basel II. Pohjola has used the Internal Ratings Based Approach for corporate exposures.

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

EUR million	30 Sept 2010	31 Dec 2009
Pohjola Group's equity capital	2,361	2,267
Business-segment-specific items	1,318	1,309
Goodwill and intangible assets	-844	-869
Equalisation provision	-327	-309
Other items included in equity capital and business-segment-specific items, but not included in the conglomerate's capital resources	-277	-296
Conglomerate's capital base, total	**2,230**	**2,103**
Regulatory capital requirement for credit institutions	1,037	1,042
Regulatory capital requirement for insurance operations	177	171
Total minimum amount of conglomerate's capital base	**1,213**	**1,213**
Conglomerate's capital adequacy	**1,017**	**890**
Conglomerate's capital adequacy ratio (capital resources/minimum of capital resources)	**1.84**	**1.73**

OP-Pohjola Group's capital adequacy ratio under the Act on Credit Institutions stood at 12.7% and Tier 1 ratio at 12.7%. OP-Pohjola Group's capital adequacy ratio calculated using the consolidation method, under the Act on the Supervision of Financial and Insurance Conglomerates, was 1.70.

Consolidated cash flow statement

EUR million	Q1–3/ 2010	Q1–3/ 2009
Cash flow from operating activities		
Profit for the period	179	155
Adjustments to profit for the period	301	403
Increase (-) or decrease (+) in operating assets	**-1,444**	**-2,785**
Receivables from credit institutions	206	-907
Financial assets at fair value through profit or loss	635	1,635
Derivative contracts	-49	-35
Receivables from customers	-566	688
Non-life Insurance assets	-154	-328
Investment assets	-1,100	-3,623
Other assets	-416	-215
Increase (+) or decrease (-) in operating liabilities	**-104**	**1,216**
Liabilities to credit institutions	-982	496
Financial liabilities at fair value through profit or loss	-71	-21
Derivative contracts	55	-13
Liabilities to customers	297	162
Non-life Insurance liabilities	163	169
Provisions and other liabilities	434	423
Income tax paid	-54	-7
Dividends received	23	9
A. Net cash from operating activities	**-1,099**	**-1,010**
Cash flow from investing activities		
Increases in held-to-maturity financial assets		-170
Decreases in held-to-maturity financial assets	110	155
Acquisition of subsidiaries and associates, net of cash acquired	0	0
Disposal of subsidiaries and associates, net of cash disposed		2
Proceeds from sale of investment securities	2	
Purchase of PPE and intangible assets	-10	-13
Proceeds from sale of PPE and intangible assets	0	0

B. Net cash used in investing activities	**101**	**-26**
Cash flow from financing activities		
Increases in subordinated liabilities	77	146
Decreases in subordinated liabilities	-60	-168
Increases in debt securities issued to the public	33,933	38,672
Decreases in debt securities issued to the public	-34,678	-39,049
Increases in invested unrestricted equity		298
Dividends paid	-107	-45
C. Net cash used in financing activities	**-835**	**-147**
Net increase/decrease in cash and cash equivalents (A+B+C)	**-1,833**	**-1,183**
Cash and cash equivalents at period-start	**3,250**	**2,435**
Cash and cash equivalents at period-end	**1,417**	**1,252**
Interest received	**1,196**	**1,582**
Interest paid	**-896**	**-1,495**
Adjustments to profit for the period		
Non-cash transactions		
Impairments of receivables	89	97
Unrealised net earnings in Non-life Insurance	151	143
Change in fair value for trading	419	103
Unrealised net gains on foreign exchange operations	-336	-39
Change in fair value of investment property		7
Planned amortisation /depreciation	57	50
Share of associates' profits	0	0
Other	-78	41
Items presented outside cash flow from operating activities		
Capital gains, share of cash flow from investing activities	0	0
Total adjustments	**301**	**402**
Cash and cash equivalents		
Liquid assets *	974	884
Receivables from credit institutions payable on demand	444	368
Total	**1,417**	**1,252**

*Of which EUR 6 million (6) consists of Non-life Insurance cash and cash equivalents.

Segment information

Q3 earnings	Banking		Non-life Insurance		Asset Management	
EUR million	2010	2009	2010	2009	2010	2009
Net interest income						
From Corporate Banking	43	36				
From Markets	3	2				
From other operations			-2	0	0	0
Total	46	37	-2	0	0	0
Net commissions and fees	21	22	5	5	12	11
Net trading income	21	27		0	0	0
Net investment income		0				
Net income from Non-life Insurance						
From insurance operations			106	107		
From investment operations			23	19		
From other items			-11	-11		
Total			118	115		
Other operating income	8	8	1	1	0	0
Total income	**97**	**93**	**122**	**119**	**13**	**11**
Personnel costs	12	13	24	27	4	4
IT expenses	5	5	10	11	1	1
Amortisation on intangible assets related to company acquisitions			7	8	1	1
Other depreciation/amortisation and impairments	6	7	8	1	0	0
Other expenses	7	6	30	29	2	2
Total expenses	**31**	**30**	**80**	**76**	**7**	**7**
Earnings/loss before impairment of receivables	**65**	**63**	**42**	**43**	**6**	**4**
Impairments of receivables	28	39				
Earnings before tax	**38**	**24**	**42**	**43**	**6**	**4**
Change in fair value reserve	0	1	52	83	0	
Earnings/loss before tax at fair value	**38**	**25**	**94**	**126**	**6**	**4**

Q3 earnings	Group Functions		Eliminations		Group total	
EUR million	2010	2009	2010	2009	2010	2009
Net interest income						
From Corporate Banking					43	36
From Markets					3	2
From other operations	17	21	0	1	16	21
Total	17	21	0	1	62	58
Net commissions and fees	0	0	-1	-1	37	36
Net trading income	0	0	-2	0	18	27
Net investment income	6	1			6	1
Net income from Non-life Insurance						
From insurance operations					106	107
From investment operations			3	0	26	19
From other items					-11	-11
Total			3	0	120	114
Other operating income	2	3	-1	-1	11	11
Total income	**25**	**25**	**-1**	**-2**	**255**	**247**
Personnel costs	4	3			44	47
IT expenses	2	2	0	0	18	19
Amortisation on intangible assets related to company acquisitions					8	8
Other depreciation/amortisation and impairments	0	0			15	9
Other expenses	2	2	-1	-2	40	36
Total expenses	**8**	**7**	**-1**	**-2**	**125**	**119**

Earnings/loss before impairment of receivables	**17**	**18**	**0**	**0**	**130**	**128**
Impairments of receivables	-1	2			27	41
Earnings before tax	**18**	**16**	**0**	**0**	**103**	**87**
Change in fair value reserve	10	25	0		62	109
Earnings/loss before tax at fair value	**28**	**41**	**0**		**165**	**196**

Q 1–3 earnings	Banking		Non-life Insurance		Asset Management	
EUR million	2010	2009	2010	2009	2010	2009
Net interest income						
From Corporate Banking	128	101				
From Markets	13	24				
From other operations			-4	-1	1	1
Total	141	125	-4	-1	1	1
Net commissions and fees	69	65	14	13	39	29
Net trading income	45	64			0	0
Net investment income	0	0			0	0
Net income from Non-life Insurance						
From insurance operations			279	291		
From investment operations			65	48		
From other items			-34	-32		
Total			310	306		
Other operating income	22	22	2	2	1	1
Total income	**277**	**276**	**321**	**319**	**41**	**32**
Personnel costs	39	39	81	81	14	12
IT expenses	17	16	32	32	2	2
Amortisation on intangible assets related to company acquisitions			22	23	2	2
Other depreciation/amortisation and impairments	19	20	11	4	1	1
Other expenses	20	19	91	91	5	5
Total expenses	**95**	**94**	**237**	**230**	**24**	**21**
Earnings/loss before impairment of receivables	**182**	**183**	**84**	**89**	**18**	**11**
Impairments of receivables	89	84	0			
Earnings before tax	**93**	**99**	**84**	**89**	**18**	**11**
Change in fair value reserve	0	2	80	157	0	
Earnings/loss before tax at fair value	**92**	**101**	**164**	**247**	**18**	**11**

Q 1–3 earnings	Group Functions		Eliminations		Group total	
EUR million	2010	2009	2010	2009	2010	2009
Net interest income						
From Corporate Banking					128	101
From Markets					13	24
From other operations	51	51	1	2	48	53
Total	51	51	1	2	189	177
Net commissions and fees	-1	-1	-3	-5	118	102
Net trading income	-9	-4	-2	0	34	60
Net investment income	21	-8			21	-8
Net income from Non-life Insurance						
From insurance operations					279	291
From investment operations			4	0	69	48
From other items					-34	-32
Total			4	0	314	307
Other operating income	10	11	-3	-3	32	33
Total income	**72**	**49**	**-4**	**-6**	**708**	**671**

Personnel costs	10	10	0		144	142
IT expenses	5	7	0	0	56	56
Amortisation on intangible assets related to company acquisitions					24	25
Other depreciation/amortisation and impairments	1	1			32	26
Other expenses	8	10	-4	-6	121	118
Total expenses	**25**	**27**	**-4**	**-6**	**378**	**366**
Earnings/loss before impairment of receivables	**47**	**22**	**0**	**0**	**330**	**305**
Impairments of receivables	-1	11			88	95
Earnings before tax	**48**	**11**	**0**	**0**	**242**	**211**
Change in fair value reserve	-49	54	-1		31	213
Earnings/loss before tax at fair value	**-1**	**66**	**-1**		**273**	**424**

Balance sheet	Banking		Non-life Insurance		Asset Management	
EUR million	30 Sept 2010	31 Dec 2009	30 Sept 2010	31 Dec 2009	30 Sept 2010	31 Dec 2009
Receivables from customers	11,523	10,880				
Receivables from credit institutions	184	278	2		7	5
Financial assets at fair value through profit or loss	581	932				
Non-life Insurance assets			3,578	3,202		
Investment assets	62	18	16	0	17	17
Investments in associates			2	2		
Other assets	2,797	2,012	800	829	124	131
Total assets	**15,147**	**14,119**	**4,399**	**4,033**	**148**	**153**
Liabilities to customers	1,288	1,263				
Liabilities to credit institutions	1,017	747				
Non-life Insurance liabilities			2,518	2,279		
Debt securities issued to the public						
Subordinated liabilities			50	50		
Other liabilities	3,355	1,872	134	108	15	15
Total liabilities	**5,659**	**3,882**	**2,703**	**2,437**	**15**	**15**
Shareholders' equity						
Average personnel	654	607	2,059	2,070	168	162
Capital expenditure, EUR million	4	7	6	9	0	1

Balance sheet	Group Functions		Eliminations		Group total	
EUR million	30 Sept 2010	31 Dec 2009	30 Sept 2010	31 Dec 2009	30 Sept 2010	31 Dec 2009
Receivables from customers	334	527	-87	-84	11,771	11,323
Receivables from credit institutions	8,519	10,468	-22	-20	8,691	10,732
Financial assets at fair value through profit or loss	402	347			984	1,279
Non-life Insurance assets			-263	-47	3,316	3,156
Investment assets	6,396	5,387	-11	-6	6,481	5,415
Investments in associates					2	2
Other assets	1,033	691	-87	-58	4,667	3,604
Total assets	**16,685**	**17,421**	**-469**	**-215**	**35,910**	**35,510**
Liabilities to customers	3,170	2,915	-28	-45	4,430	4,133
Liabilities to credit institutions	3,083	4,320	-87	-84	4,013	4,984
Non-life Insurance liabilities					2,518	2,279
Debt securities issued to the public	16,781	17,323	-183	-28	16,598	17,295
Subordinated liabilities	1,265	1,250			1,315	1,300
Other liabilities	1,341	1,318	-171	-59	4,674	3,253
Total liabilities	**25,641**	**27,126**	**-469**	**-216**	**33,549**	**33,244**
Shareholders' equity					2,361	2,267
Average personnel	121	136			3,002	2,975

Capital expenditure, EUR million	0	1			11	18

Banking	Income		Earnings/loss before tax		Income		Earnings/loss before tax	
	Q3/ 2010	Q3/ 2009	Q3/ 2010	Q3/ 2009	Q1–3/ 2010	Q1–3/ 2009	Q1–3/ 2010	Q1–3/ 2009
Corporate Banking	66	64	20	7	196	178	50	42
Markets	29	28	19	18	77	95	46	65
Baltic Banking	2	1	-1	-2	4	3	-4	-7
Total	**97**	**93**	**38**	**24**	**277**	**276**	**93**	**99**

Non-life Insurance	Insurance premium revenue		Balance on technical account		Insurance premium revenue		Balance on technical account	
	Q3/ 2010	Q3/ 2009	Q3/ 2010	Q3/ 2009	Q1–3/ 2010	Q1–3/ 2009	Q1–3/ 2010	Q1–3/ 2009
Private Customers	125	113	31	16	355	320	62	42
Corporate Customers	111	113	15	25	331	347	22	49
Baltic States	13	14	-3	0	37	44	-1	3
Amortisation adjustment of intangible assets			-12	-6			-25	-19
Total	**250**	**241**	**30**	**34**	**723**	**712**	**58**	**76**

Group Functions	Q3/ 2010	Q3/ 2009	Q1–3/ 2010	Q1–3/ 2009
Central Banking earnings before tax, EUR million	2	3	9	14
	30 Sept 2010	**31 Dec 2009**		
Receivables from OP-Pohjola Group entities, EUR million	6,958	6,314		
Liabilities to OP-Pohjola Group entities, EUR million	3,238	3,412		

FORMULAS FOR KEY FIGURES AND RATIOS

Return on equity (ROE) at fair value, %
Profit for the period + Change in fair value reserve after tax /
Shareholders' equity (average of the beginning and end of period) x 100

Earnings/share (EPS)
Profit for the period attributable to owners of the Parent / Average share-issue adjusted number of shares during the period

Earnings/share (EPS) at fair value
(Profit for the period attributable to owners of the Parent + Change in fair value reserve) /
Average share-issue adjusted number of shares during the period

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

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

Market capitalisation
Number of shares x closing price on the balance sheet date

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

Conglomerate's total capital / Conglomerate's total minimum capital requirement

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

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

KEY RATIOS FOR NON-LIFE INSURANCE

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

Loss ratio
Claims and loss adjustment expenses / Net insurance premium revenue x 100

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

Risk ratio
Claims excl. loss adjustment expenses / Net insurance premium revenue x 100

Cost ratio
Operating expenses and loss adjustment expenses / Net insurance premium revenue x 100

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

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

OPERATING KEY RATIOS

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

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

Operating expense ratio
Operating expenses / Net insurance premium revenue x 100

Operating combined ratio, %
Operating loss ratio + Operating expense ratio

Values used in calculating the ratios

(€ million)	30 Sep 2010	31 Dec 2009
Non-life Insurance		
Net tax liabilities for the period	–24	–14
Own subordinated loans	50	50
Deferred tax to be realised in the near future and other items deducted from the solvency margin of the companies	7	6
Intangible assets	772	800

Notes

Note 1. Accounting policies

The Interim Report for 1 January–30 September 2010 has been prepared in accordance with IAS 34 (Interim Financial Reporting), as approved by the EU.

In the preparation of its Interim Report, Pohjola Group applied the same accounting policies as in the preparation of its Financial Statements 2009. During the current period, the Group has also applied cash flow hedging when hedging future cash flows from variable-rate debt or other variable-rate assets and liabilities. Interest rate swaps are used as hedging instruments. Derivative contracts documented as cash flow hedges and provide effective hedges are measured at fair value. The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in other comprehensive income. Fair value changes recognised in shareholders' equity are included in the income statement in the period when hedged items affect net income.

The Interim Report is based on unaudited information. Since all figures in the Report have been rounded off, the sum of single figures may differ from the presented sum total.

Summary of presentation of income statement:

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, claims paid, 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, central banking service fee
Personnel costs	Wages and salaries, pension costs, social expenses
Other administrative expenses	Office expenses, IT costs, other administrative expenses
Other operating expenses	Depreciation/amortisation, other Non-life Insurance expenses, rents

Notes to the income statement and balance sheet

Note 2. Net interest income

EUR million	Q3/ 2010	Q3/ 2009	Q1–3/ 2010	Q1–3/ 2009
Loans and other receivables	75	86	221	341
Receivables from credit institutions and central banks	29	43	93	165
Notes and bonds	67	70	300	170
Derivatives held for trading (net)	32	24	29	25
Liabilities to credit institutions	-13	-11	-40	-47
Liabilities to customers	-4	-4	-10	-28
Debt securities issued to the public	-49	-82	-211	-299
Subordinated debt	-8	-9	-24	-28
Hybrid capital	-1	-2	-6	-12
Financial liabilities held for trading	0	-1	-1	-4
Other (net)	0	0	-2	0
Net interest income, excluding derivatives for hedging purposes	**127**	**114**	**349**	**282**
Derivatives under hedge accounting (net)	-64	-56	-160	-105
Total net interest income	**62**	**58**	**189**	**177**

Note 3. Impairments of receivables

EUR million	Q3/ 2010	Q3/ 2009	Q1–3/ 2010	Q1–3/ 2009
Receivables eliminated as loan or guarantee losses	2	14	41	15
Recoveries from receivables eliminated as loan or guarantee losses	0	-1	0	-2
Increase in impairment provisions	29	50	98	111
Decrease in impairment provisions	-4	-22	-50	-29
Total impairments of receivables	**27**	**41**	**88**	**95**

Note 4. Net income from Non-life Insurance

EUR million	Q3/ 2010	Q3/ 2009	Q1–3/ 2010	Q1–3/ 2009
Net insurance premium revenue				
Premiums written	186	160	850	839
Insurance premiums ceded to reinsurers	-4	2	-38	-42
Change in provision for unearned premiums	75	87	-94	-91
Reinsurers' share	-7	-8	4	6
Total	**250**	**241**	**723**	**712**
Net Non-life Insurance claims				
Claims paid	153	140	477	443
Insurance claims recovered from reinsurers	-2	-5	-19	-9
Change in provision for unpaid claims	9	-8	-19	-17
Reinsurers' share	-17	6	4	4
Total	**144**	**134**	**443**	**421**
Net investment income, Non-life Insurance				
Interest income	16	17	48	54
Dividend income	1	1	19	7
Investment property	2	1	4	3
Realised fair value gains and losses				
Notes and bonds	18	3	53	-5
Shares and participations	-11	16	-16	19
Loans and receivables	0		-1	0

Investment property	0		2	0
Derivatives	2	-18	-22	-17
Unrealised fair value gains and losses				
Notes and bonds	0	1	0	1
Shares and participations	-7	4	-23	-10
Loans and receivables	-1	-2	-3	-3
Investment property	1	-1	1	1
Derivatives	4	-5	4	-3
Other	1	2	3	2
Total	**26**	**19**	**69**	**48**
Unwinding of discount	-11	-11	-34	-32
Other	0	0	-1	-1
Total net income from Non-life Insurance	**120**	**114**	**314**	**307**

Note 5. Net commissions and fees

EUR million	**Q3/ 2010**	**Q3/ 2009**	**Q1–3/ 2010**	**Q1–3/ 2009**
Commission income				
Lending	8	10	26	32
Payment transfers	4	3	10	9
Securities brokerage	6	6	21	16
Securities issuance	1	1	8	3
Asset management and legal services	14	12	44	32
Insurance operations	5	5	14	13
Guarantees	4	4	12	12
Other	1	1	4	6
Total commission income	**43**	**42**	**139**	**124**
Commission expenses				
Payment transfers	0	1	2	2
Securities brokerage	2	2	8	6
Securities issuance	2	1	4	7
Asset management and legal services	0	2	5	5
Other	1	1	2	2
Total commission expenses	**6**	**6**	**21**	**21**
Total net commissions and fees	**37**	**36**	**118**	**102**

Note 6. Net trading income

EUR million	**Q3/ 2010**	**Q3/ 2009**	**Q1–3/ 2010**	**Q1–3/ 2009**
Financial assets and liabilities held for trading				
Realised changes in fair value				
Notes and bonds	7	6	19	35
Shares and participations	0	0	0	0
Derivatives	4	19	-13	115
Unrealised changes in fair value				
Notes and bonds	-1	6	2	-15
Shares and participations	0	0	0	0
Derivatives	3	-9	10	-84
Financial assets and liabilities at fair value through profit or loss				
Realised changes in fair value				
Notes and bonds			0	-9
Unrealised changes in fair value				
Notes and bonds	0	1	2	9
Net income from foreign exchange operations	5	3	14	9
Total net trading income	**18**	**27**	**34**	**60**

Note 7. Net investment income

EUR million	Q3/ 2010	Q3/ 2009	Q1–3/ 2010	Q1–3/ 2009
Available-for-sale financial assets				
Capital gains and losses				
Notes and bonds	5	0	22	0
Shares and participations	0	1	1	0
Dividend income	0	0	3	2
Impairments	0		-4	-4
Carried at amortised cost				
Capital gains and losses				
Loans and other receivables	1		0	
Total	**6**	**1**	**21**	**-1**
Investment property	0	0	0	-7
Total net investment income	**6**	**1**	**21**	**-8**

Note 8. Other operating income

EUR million	Q3/ 2010	Q3/ 2009	Q1–3/ 2010	Q1–3/ 2009
Central banking service fees	2	2	7	7
Realisation of repossessed items	0	0	1	0
Rental income from assets rented under operating lease	6	6	18	19
Other	2	2	6	7
Total	**11**	**11**	**32**	**33**

Note 9. Classification of financial instruments

	Loans and receivables	Held to maturity	At fair value through profit or loss*	Available for sale	Hedging derivatives	Total
Assets, EUR million						
Cash and balances with central banks	968					968
Receivables from credit institutions and central banks	7,723					7,723
Derivative contracts			1,995		125	2,120
Receivables from customers	11,771					11,771
Non-life Insurance assets**	706		88	2,521		3,316
Notes and bonds***		982	984	5,392		7,357
Shares and participations				83		83
Other receivables	2,549		24			2,573
Total 30 September 2010	**23,716**	**982**	**3,092**	**7,996**	**125**	**35,910**
Total 31 December 2009	**24,986**	**1,086**	**2,767**	**6,613**	**59**	**35,510**

Liabilities, EUR million	At fair value through profit or loss	Other liabilities	Hedging derivatives	Total
Liabilities to credit institutions		4,013		4,013
Financial liabilities held for trading (excl. derivatives)	0			0
Derivative conctracts	2,205		278	2,483
Liabilities to customers		4,430		4,430
Non-life Insurance liabilities	1	2,517		2,518
Debt instruments issued to the public		16,598		16,598
Subordinated liabilities		1,315		1,315
Other liabilities		2,191		2,191
Total 30 September 2010	**2,206**	**31,064**	**278**	**33,549**
Total 31 December 2009	**1,377**	**31,716**	**150**	**33,244**

*Assets at fair value through profit or loss include financial assets held for trading, financial assets at fair value through profit or loss at inception and investment property.
** Non-life Insurance assets are specified in Note 10.
*** On 30 September 2010, notes and bonds included EUR 12 million (55) in notes and bonds recognised using the fair value option.

Debt securities issued to the public are carried at amortised cost. On 30 September 2010, the fair value of these debt instruments was EUR 76 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.

Note 10. Non-life Insurance assets

EUR million	30 Sept 2010	31 Dec 2009
Investments		
Loans and other receivables	270	424
Shares and participations	362	387
Property	75	78
Notes and bonds	1,544	1,392
Derivatives	5	1
Other participations	623	530
Total	**2,880**	**2,811**
Other assets		
Prepayments and accrued income	33	37
Other		
From direct insurance	251	214
From reinsurance	87	89
Cash in hand and at bank	6	4
Other receivables	58	44
Total	**436**	**389**
Total Non-life insurance assets	**3,316**	**3,200**

Note 11. Intangible assets

EUR million	30 Sept 2010	31 Dec 2009
Goodwill	516	516
Brands	173	173
Customer relationships	185	203
Other	55	68
Total	**930**	**960**

Note 12. Non-life Insurance liabilities

EUR million	30 Sept 2010	31 Dec 2009
Provision for unpaid claims		
Provision for unpaid claims for annuities	1,066	1,058
Other provision for unpaid claims	732	726
Total	1,798	1,784
Provision for unearned premiums	457	361
Derivatives	1	0
Other liabilities	263	134
Total	**2,518**	**2,279**

Note 13. Debt securities issued to the public

EUR million	30 Sept 2010	31 Dec 2009
Bonds	6,858	6,549
Certificates of deposit, commercial papers and ECPs	9,487	10,519
Other	252	227
Total	**16,598**	**17,295**

Note 14. Fair value reserve after income tax

EUR million	30 Sept 2010	31 Dec 2009
Loans and other receivables		
Reclassified notes and bonds	-10	-17
Available-for-sale financial assets		
Notes and bonds	-6	53
Equities and mutual funds with equity risk	44	-35
Other funds	-4	0
Other	-1	
Total	**23**	**0**

The negative fair value reserve may recover by means of asset appreciation and recognised impairments. Only the value changes in the fair value reserve are recognised which the management deem to fulfil the relevant requirements.

The fair value reserve before tax totalled EUR 30 million (–0) and the related deferred tax liability amounted to EUR 8 million (0). On 30 September, positive mark-to-market valuations of equity instruments before tax in the fair value reserve totalled EUR 73 million and negative mark-to-market valuations EUR 22 million. In Q1–3, impairments recognised from the fair value reserve in the income statement totalled EUR 33 million.

Notes to risk management

Note 15. Risk exposure by Banking

Total exposure by rating category*, EUR billion

Rating category	30 Sept 2010	31 Dec 2009	Change
1–2	2.6	2.2	0.5
3–5	11.3	10.9	0.4
6–7	4.1	4.2	-0.1
8–9	2.2	2.4	-0.2
10	0.1	0.1	0.0
11–12	0.4	0.3	0.0
Non-rated	0.2	0.2	0.0
Total	**20.8**	**20.3**	**0.5**

*) excl. private customers

Sensitivity analysis of market risk

			30 Sept 2010		31 Dec 2009	
Banking, EUR million	**Risk parameter**	**Change**	**Effect on results**	**Effect on share-holders' equity**	**Effect on results**	**Effect on share-holders' equity**
Interest-rate risk	Interest	1 percentage point	5		5	
Currency risk	Market value	20 percentage points	1		1	
Volatility risk						
Interest-rate volatility	Volatility	20 percentage points	6		4	
Currency volatility	Volatility	10 percentage points	0		0	
Credit risk premium *)	Credit spread	0.5 percentage points	9	1	12	

Sensitivity figures have been calculated as the sum of the currencies' intrinsic value.
*) The credit risk premium has been calculated on notes and bonds at fair value through profit or loss and available for sale, included in liquidity reserves.

Note 16. Risk exposure by Non-life Insurance

Risk parameter	Total amount 30 Sept 2010, EUR million	Change in risk parameter	Effect on combined ratio	Effect on share-holders' equity, EUR million
Insurance portfolio or insurance premium revenue*)	954	Up 1%	Up 0.9 percentage point	10
Claims incurred*)	641	Up 1%	Down 0.7 percentage points	-6
Major loss of over EUR 5 million		1 loss	Down 0.5 percentage points	-5
Personnel costs*)	106	Up 8%	Down 0.9 percentage points	-9
Expenses by function*) **)	267	Up 4%	Down 1.1 percentage points	-11
Inflation for collective liability	492	Up 0.25 percentage points	Down 0.3 percentage points	-3
Life expectancy for discounted insurance contract liability	1,337	Up 1 year	Down 3.2 percentage points	-31
Discount rate for discounted insurance contract liability	1,337	Down 0.1 percentage point	Down 1.7 percentage points	-16

*) Moving 12-month
**) Expenses by function in Non-life Insurance excluding expenses for investment management and expenses for other services rendered

Non-life Insurance investment portfolio by allocation

EUR million

Portfolio allocation	Fair value 30 Sept 2010	%	Fair value 31 Dec 2009	%
Money market instruments	81	3 %	101	4 %
Bonds and bond funds	2,221	75 %	2,067	72 %
Equities	284	10 %	364	13 %
Alternative investments	199	7 %	155	5 %
Real property	186	6 %	164	6 %
Total	**2,971**	**100 %**	**2,851**	**100 %**

Non-life Insurance fixed-income portfolio by maturity and credit rating on 30 September 2010*

EUR million

Year(s)	0–1	1–3	3–5	5–7	7–10	10–	Total	%
Aaa	20	121	208	73	56	73	551	24 %
Aa1−Aa3	51	117	137	44	47	33	429	19 %
A1−A3	83	212	211	71	74	58	708	31 %
Baa1−Baa3	24	104	90	37	53	0	308	14 %
Ba1 or lower	58	59	59	29	6	13	225	10 %
Internally rated	5	4	12	1	0	7	28	1 %
Total	**242**	**618**	**716**	**255**	**235**	**184**	**2,250**	**100 %**

* Excludes credit derivatives.

The table below shows the sensitivity of investment risks and their effect on shareholders' equity:

Non-life Insurance	Risk parameter	Change	Effect on shareholders' equity, EUR million 30 Sept 2010	31 Dec 2009
Bonds and bond funds1)	Interest rate	1 percentage point	92	73
Equities 2)	Market value	20 percentage points	55	73
Venture capital funds and unquoted equities	Market value	20 percentage points	16	14
Commodities	Market value	20 percentage points	5	5
Real property	Market value	10 percentage points	19	16
Currency	Value of currency	20 percentage points	48	21
Credit risk premium 3)	Credit spread	0.5 percentage points	47	39
Derivatives 4)	Volatility	10 percentage points	1	0

1) Include money-market investments, convertible bonds and interest-rate derivatives
2) Include hedge funds and equity derivatives
3) Includes bonds and money-market investments, including government bonds and interest-rate derivatives issued by developed countries
4) 20 percentage points for equity derivatives, 10 percentage points for interest-rate derivatives and 5 percentage points for currency derivatives.

Note 17. Risk exposure by Group Function

Total exposure by rating category*, EUR billion

Rating category	30 Sept 2010	31 Dec 2009	Change
1–2	12.5	13.6	-1.1
3–5	4.8	4.6	0.2
6–7	0.1	0.0	0.1
8–9	0.0	0.0	0.0
10	0.0	0.0	0.0
11–12			
Non-rated	0.0	0.0	0.0
Total	**17.4**	**18.3**	**-0.8**

Sensitivity analysis of market risk

Group Functions, EUR million	Risk parameter	Change	30 Sept 2010 Effect on results	30 Sept 2010 Effect on share-holders' equity	31 Dec 2009 Effect on results	31 Dec 2009 Effect on share-holders' equity
Interest-rate risk	Interest rate	1 percen-tage point	18	0	2	3
Interest-rate volatility	Volatility	20 percen-tage points	0		1	
Credit risk premium *)	Credit spread	0.5 percen-tage points	0	115	0	68
Price risk						
Equity portfolio	Market value	20 percen-tage points		2		2
Private equity funds	Market value	20 percen-tage points		6		6
Property risk	Market value	10 percen-tage points	3		3	

Sensitivity figures have been calculated as the sum of the currencies' intrinsic value.
*) The credit risk premium has been calculated on notes and bonds at fair value through profit or loss and available for sale, included in liquidity reserves.

Financial assets included in liquidity reserve by maturity and credit rating on 30 September 2010

EUR million

Year	**0–1**	**1–3**	**3–5**	**5–7**	**7–10**	**10–**	**Total**	**%**
Aaa	1,162	948	1,973	853	663	11	5,609	58 %
Aa1−Aa3	635	1,094	599	132	124	105	2,689	28 %
A1−A3	100	650	222	18	2	0	991	10 %
Baa1−Baa3	55	61	48	5	4		171	2 %
Ba1 or lower	0	20	27	27	5		80	1 %
Internally rated	88	51	42	26			208	2 %
Total	**2,039**	**2,824**	**2,911**	**1,060**	**798**	**116**	**9,748**	**100 %**

The residual maturity of liquidity reserves averages 3.7 years.

Other notes

Note 18. Collateral given

EUR million	**30 Sept 2010**	**31 Dec 2009**
Given on behalf of own liabilities and commitments		
Mortgages	1	1
Pledges	5,987	5,839
Other	512	308
Total collateral given	**6,500**	**6,147**
Total collateralised liabilities	**662**	**1,023**

Note 19. Off-balance-sheet commitments

EUR million	30 Sept 2010	31 Dec 2009
Guarantees	1,165	1,296
Other guarantee liabilities	1,335	1,283
Loan commitments	3,654	4,140
Commitments related to short-term trade transactions	116	98
Other	465	447
Total off-balance-sheet commitments	**6,735**	**7,264**

Note 20. Derivative contracts

30 Sept 2010	Nominal values/residual term to maturity			Total	Fair values	
EUR million	**<1 year**	**1–5 years**	**>5 years**		**Assets**	**Liabilities**
Interest rate derivatives	47,553	62,720	24,751	135,023	1,832	1,952
Currency derivatives	13,475	1,797	499	15,771	268	592
Equity and index derivatives	156	919	27	1,101	116	0
Credit derivatives		157	100	257	4	3
Other derivatives	3,836	343		4,179	8	21
Total derivatives	**65,020**	**65,935**	**25,376**	**156,331**	**2,228**	**2,569**

31 Dec 2009	Nominal values/residual term to maturity			Total	Fair values	
EUR million	**<1 year**	**1–5 years**	**>5 years**		**Assets**	**Liabilities**
Interest rate derivatives	44,063	51,231	13,013	108,307	1,167	1,235
Currency derivatives	11,513	1,959	489	13,962	243	338
Equity and index derivatives	177	814	41	1,032	87	
Credit derivatives	56	178		234	4	2
Other derivatives	3,850	252		4,102	3	24
Total derivatives	**59,660**	**54,435**	**13,543**	**127,638**	**1,505**	**1,599**

Note 21. Other contingent liabilities and commitments

On 30 September 2010, Banking commitments to venture capital funds amounted to EUR 14 million and Non-Life Insurance commitments to EUR 115 million. They are included in the section 'Off-balance-sheet commitments'.

Note 22. Related-party transactions

Pohjola Group's related parties comprise its parent company OP-Pohjola Group Central Cooperative, subsidiaries consolidated into the Group, associates and administrative personnel and other related-party entities. Pohjola Group's administrative personnel comprises Pohjola Bank plc's President and CEO, members of the Board of Directors and their close family members. Related parties also include companies over which a person among administrative personnel or his close family member exercises significant influence. Other related-party entities include OP Pension Fund, OP Pension Foundation and sister companies within OP-Pohjola Group Central Cooperative Consolidated.

Normal loan terms and conditions apply to loans granted to related parties. These loans are tied to generally used reference rates.

Related-party transactions have not undergone any substantial changes since 31 December 2009.

Helsinki, 3 November 2010

Pohjola Bank plc

Board of Directors

This Interim Report is available at www.pohjola.fi/english > Media. Background information on the Report can also be found at the same address.

Analyst meeting, conference call and live webcast

As an exception to our previous practice, we will hold a collective briefing in English for analysts and investors on Pohjola Asset Management Ltd premises on November 3 starting at 3.00 pm Finnish time, EET (2.00 pm CET, 1.00 pm UK time, 8am US EST). The briefing is a combined analyst meeting, conference call and live webcast.

Analysts and investors may attend the briefing in one of the following two ways:

1) By viewing the briefing as live webcast via the internet. The link will be available on the IR website before the briefing begins. Questions on the internet are welcome via a question button available in the webcast window. An on-demand webcast of the briefing can be viewed via the IR website afterwards.

2) By dialling one of the regional conference call numbers shown below. Questions are welcome by telephone in the Q&A session according to instructions. To participate via a conference call, please dial in 5-10 minutes before the beginning of the event:

UK, International +44 203 043 24 36
US +1 866 458 40 87
FIN +358 923 101 527
Password: Pohjola

Press conference

Mikael Silvennoinen, Pohjola Bank plc's President and CEO, will present the financial results in a press conference, Teollisuuskatu 1 b, Vallila, Helsinki, on 3 November, starting at noon.

Financial reporting in 2011

Schedule for Financial Statements Bulletin for 2010 and Interim Reports in 2011:

Financial Statements Bulletin 2010	9 February 2011
Interim Report Q1/2011	4 May 2011
Interim Report H1/2011	3 August 2011
Interim Report Q1−3/2011	2 November 2011

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