Pohjola

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

Pohjola Bank plc
Company Release, 4 August 2010, 8.00 am
Release category: Interim Report

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

January–June
– Year on year, consolidated earnings before tax improved to EUR 139 million (123). Earnings include EUR 62 million (54) in impairment charges on receivables.
– Earnings before tax at fair value fell to EUR 108 million (227) and return on equity at fair value stood at 7.1% (18.3).
– Banking posted earnings before tax of EUR 55 million (76), with impairment charges on receivables affecting its earnings by EUR 62 million (44).
– Non-life Insurance's operating combined ratio stood at 91.6% (88.6). Within Non-life Insurance, return on investments at fair value was 2.6% (4.5).
– Asset Management doubled its year-on-year earnings before tax to EUR 12 million (6). Assets under management totalled EUR 33.6 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 in 2009. It is estimated that Non-life Insurance's operating combined ratio will vary between 89 and 93% (previous estimate: 89–94%). For more detailed information on outlook, see "Outlook towards the year end" below.

April–June
– Consolidated earnings before tax amounted to EUR 80 million (87).
– Financial market jitters in the euro area weakened earnings before tax at fair value, amounting to EUR –11 million (186).
– Earnings include EUR 29 million (33) in impairment charges on receivables.
– Non-life Insurance's operating combined ratio stood at 88.0% (86.0). Within Non-life Insurance, return on investments at fair value was –0.6% (4.9).

Group financial performance and key indicators [1)]

Earnings before tax, € million	**H1/ 2010**	**H1/ 2009**	**Change, %**	**Q2/ 2010**	**Q2/ 2009**	**Change, %**	**2009**
Banking	55	76	–28	29	26	12	117
Non-life Insurance	42	46	–8	37	48	–23	102
Asset Management	12	6	98	6	4	70	21
Group Functions	30	–5		8	10	–15	25
Total	**139**	**123**	**13**	**80**	**87**	**–8**	**265**
Change in fair value reserve	–31	104		–92	100		243
Earnings/loss before tax at fair value	**108**	**227**	**–53**	**–11**	**186**		**508**

Key indicators	**H1/ 2010**	**H1/ 2009**	**Q2/ 2010**	**Q2/ 2009**	**2009**	**Target**
Earnings before tax, € million	139	123	80	87	265	
Profit for the period, € million	102	91	59	65	194	
Return on equity, %	7.1	18.3	–1.6	30.3	19.2	13.0
Balance sheet total, € billion	38.6	33.6			35.5	
Shareholders' equity, € billion	2.2	2.1			2.3	
Tier 1 ratio, %	12.0	11.5			11.8	>9.5
Earnings per share, €	0.32	0.33	0.19	0.22	0.66	
Earnings per share, incl. change in fair value, €	0.25	0.62	–0.03	0.47	1.27	
Equity per share, €	7.01	6.45			7.09	
Average personnel	2,999	2,964	3,007	2,980	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 financial performance in the first half was better than a year ago. Our earnings before tax grew by 13%. In particular, net interest income from Corporate Banking and net commissions and fees developed favourably and we managed well to keep our expenses in check. Our second-quarter financial results were good too, although we slightly lagged behind the excellent results that we reported a year ago. First-half impairment charges on receivables were slightly higher than in the previous year whereas in the second quarter they were already lower than a year ago. Favourable developments in capital markets in the first quarter turned into uncertainty in the second quarter, with the result that our earnings before tax at fair value declined markedly year on year.

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, however, come to an end and tougher competition is sending the margin on new loans down. Higher impairment charges year on year and the normalisation of the Markets division's financial performance weakened Banking earnings for the first half from their previous year's level. Second-quarter earnings were already higher than the year before.

Non-life insurance recorded a good balance on technical account. In the second quarter, insurance premium revenue rebounded and its growth among private customers in particular remained strong throughout the first half. Capital market uncertainty was reflected in the Non-life Insurance return on investments at fair value.

Asset Management reported slight growth in assets under management and doubled its year-on-year earnings before tax.

A new CRM organisation for Banking and Non-life Insurance adopted at the beginning of this year has got off to a good start. Through this organisational model, we aim to seek more customer-focused operations in the provision of comprehensive financial services and to support OP-Pohjola Group's strategic goal of being Finland's leading financial services group in business for corporate customers.

The EU-wide stress test results published in July proved that OP-Pohjola Group's capital base is strong and would also withstand financial and economic shocks well under the adverse scenarios. As part of OP-Pohjola Group operating under the principle of joint responsibility, Pohjola was included in the Group's test results. Thanks to our strong capitalisation, we will have excellent opportunities to grow and strengthen our market position profitably as specified in our strategy.

Operating environment

The world economy continued to recover in the second quarter of 2010, but recovery has been uneven and strongest in emerging economies. The US economy is experiencing clear growth and the labour market is stabilising, whereas European economic growth has been tardier, with major differences from country to country. The economic outlook in the euro area is overshadowed by a government debt crisis, which has been reflected as uncertainty in the financial market.

The Finnish economy, too, is gradually recovering, although economic indicators for the early part of the year were somewhat poor partly owing to exceptional factors. Both consumers and businesses showed improving confidence in the second quarter. As the world economy is picking up and the euro is becoming weaker, export is given a boost. Growth is also supported by higher household spending and increasing housing spending. Unemployment is not as bad as feared.

Central banks' benchmark interest rates are still extremely low, and the European Central Bank (ECB) is not expected to raise its benchmark rate until 2011. The ECB is gradually reducing stimulus packages that supported the banking system's liquidity, which will increase short-term market rates somewhat, although they still remain record low. As part of the EU's and the International Monetary Fund's rescue package, the ECB aims to support Greece and other heavily indebted countries by buying their government bonds. Stress tests on banks in the EU countries show that the majority of banks would survive future economic shocks. This will help to dispel uncertainty in interbank markets.

In Finland, the gradual recovery of the loan portfolio continued in the second quarter. Corporate loans began to rebound early this year, and growth remained steady in the second quarter.

In capital markets, however, the second quarter was marred by uncertainty caused by concerns over government bonds and economic growth. The global upward trend in equity markets ended, with the weighted index of the OMX Helsinki CAP in Finland falling by almost 9% during the second quarter. Market uncertainty also turned net asset inflows of mutual funds negative, and fund asset declined by 5% in the second quarter.

Within Non-life Insurance, lower payroll bills of companies as a result of the recession slowed down the development of premiums written. As a result of greater economic activity, claims paid out began to increase faster than premiums written during the second quarter. However, claims incurred are still below their normal level.

Consolidated earnings

Consolidated earnings analysis € million	**2010 H1**	**2009 H1**	**Change %**	**2010 Q2**	**2009 Q2**	**Change %**	**Rolling 12-month**	**2009**
Net interest income								
Corporate Banking	84	65	29	44	33	32	157	138
Markets	10	22	–54	4	12	–64	15	27
Other operations	32	31	4	19	22	–13	77	75
Total	127	119	7	67	67	0	249	241
Net commissions and fees	81	66	22	41	36	14	158	143
Net trading income	15	33	–53	8	8	0	54	71
Net investment income	15	–9		–3	0		11	–13
Net income from Non-life Insurance								
Insurance operations	173	184	–6	99	101	–1	372	382
Investment operations	43	30	44	26	32	–18	77	64
Other items	–23	–22	5	–11	–11	8	–45	–44
Total	193	192	1	114	122	–6	403	402
Other operating income	21	22	–5	10	11	–4	49	50
Total income	**453**	**424**	**7**	**239**	**245**	**–3**	**924**	**895**
Personnel costs	99	95	4	52	50	4	194	190
IT expenses	38	37	4	19	18	6	77	75
Depreciation and amortisation	34	34	1	16	17	–3	72	72
Other expenses	82	82	0	43	40	5	163	164
Total expenses	**253**	**247**	**2**	**130**	**125**	**4**	**506**	**501**
Earnings before impairments of receivables	**200**	**177**	**13**	**109**	**119**	**–9**	**417**	**394**
Impairments of receivables	62	54	15	29	33	–12	137	129
Earnings before tax	**139**	**123**	**13**	**80**	**87**	**–7**	**281**	**265**
Change in fair value reserve	–31	104		–92	100		108	243
Earnings/loss before tax at fair value	**108**	**227**		**–11**	**186**		**389**	**508**

January–June earnings

Earnings before tax amounted to EUR 139 million (123), up by 13% on a year earlier.

Earnings before impairment charges on receivables totalled EUR 200 million (177), or 13% higher than a year ago. Impairments of receivables rose by EUR 8 million year on year to EUR 62 million (54).

Uncertainty in the market became greater towards the end of the period, and earnings before tax at fair value fell to EUR 108 million (227).

Total income increased by 7% to EUR 453 million (424) and expenses by 2% to EUR 253 million (247).

Net interest income came to EUR 127 million (119), 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 81 million (66), up by 22% year on year. Almost all areas showed growth in commissions and fees, with asset management, brokerage and securities issuance reporting the greatest growth.

Net trading income amounted to EUR 15 million (33). The combined net interest income and net trading income from Markets dropped by 44% to EUR 33 million. Income reported a year ago was exceptionally high because of the market situation.

Net investment income totalled EUR 15 million (–9). This figure includes realised capital gains of EUR 16 million recognised on the notes and bonds. Adjustments for real property acquisition costs reduced net investment income a year ago.

Net investment income from Non-life Insurance remained at the previous year's level, EUR 193 million (192). Net income from insurance operations was good although decreasing slightly from the exceptionally high level a year ago.

Expenses rose by 2% to EUR 253 million (247). Personnel costs increased by 4%. The number of Group employees increased by 37 from 31 December 2009.

The fair value reserve before tax diminished by EUR 31 million (growth of 104) and impairments recognised from the fair value reserve in the income statement totalled EUR 29 million. On 30 June, the fair value reserve after tax stood at EUR –23 million, as against EUR 0 million on 31 December 2009.

April–June earnings

Earnings before tax amounted to EUR 80 million (87), down by 7% on a year earlier.

Earnings before impairments of receivables came to EUR 109 million (119). Impairments of receivables decreased by EUR 4 million year on year to EUR 29 million (33).

Earnings before tax at fair value amounted to EUR –11 million (186). Capital market uncertainty reduced this figure in the second quarter. Earnings before tax at fair value were exceptionally good a year earlier.

Total income went down by 3% to EUR 239 million (245).

Consolidated net interest income stood at the level reported a year ago, EUR 67 million (67). Within Corporate Banking, net interest income continued to grow but the rise in the average margin on loans came to a standstill.

Net commissions and fees amounted to EUR 41 million (36), with asset management, securities issuance and brokerage showing the strongest growth during the second quarter.

Net trading income was at the previous year's level, EUR 8 million (8). Net income recorded by Markets combined with net trading income totalled EUR 16 million (23).

Net income from Non-life Insurance totalled EUR 114 million (122).

Expenses rose by 4% to EUR 130 million (125).

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

Group risk exposure

The Group's risk exposure remained favourable. Impairment charges in the second quarter were lower than in the previous quarter. Investment-grade exposures remained high and creditworthiness among corporate customers did not undergo any major changes. Doubtful receivables decreased during the second quarter and remained low relative to the loan and guarantee portfolio.

The financial and liquidity position remained strong. Short-term funding performed well and issuers with a strong credit rating managed to acquire long-term funding too although worries about governments' indebtedness undermined the performance of debt capital markets.

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 12.5 billion (11.7) on 30 June 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 first half. Pohjola kept market risks moderate during the period.

Net loan losses and impairment losses recognised for January–June reduced earnings by EUR 62 million (54), accounting for 0.43% (0.38) of the loan and guarantee portfolio. Final loan losses recognised for the period totalled EUR 40 million (1) and impairment charges EUR 69 million (62). Loan loss recoveries and allowances for impairments totalled EUR 47 million (9). The majority of the impairments were those recognised on an individual basis.

Doubtful receivables decreased by EUR 32 million to EUR 39 million in the first quarter and were at the 31 December 2009 level, accounting for 0.27% (0.32) of the loan and guarantee portfolio. Past due payments came to EUR 16 million (70), representing 0.11% (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. The greatest uncertainty related to the Group's risk exposure is still associated with future impairment charges on the loan portfolio.

Capital adequacy

Capital adequacy under the Act on Credit Institutions remained strong. The capital adequacy ratio stood at 13.4% (13.5) as against the statutory minimum requirement of 8%. Tier 1 ratio was 12.0% (11.8). Pohjola Group's Tier 1 target ratio stands at a minimum of 9.5% over the economic cycle.

Tier 1 capital came to EUR 1,579 million (1,541) and the total capital base amounted to EUR 1,764 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 955 million (957), that to cover market risk EUR 38 million (36) and that to cover operational risks EUR 61 million (49).

On 30 June 2010, risk-weighted assets totalled EUR 13,168 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 1.73 (1.73). Accordingly, the capital base totalled EUR 2,133 million (2,103) and the minimum capital requirement EUR 1,230 million (1,213), i.e. the total capital base exceeded the minimum regulatory requirement by EUR 903 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 only in their preparation stage, planned to become effective between 2012 and 2018, and it is too early to predict precisely what their effects will be.

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. Fitch Rating has issued a negative outlook for the long-term debt ratings of Pohjola, and Moody's Investor Service has affirmed negative outlook on Pohjola's credit rating.

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

Financial targets and actuals

Financial targets	**H1/ 2010**	**H1/ 2009**	**2009**	**Target**
Group				
Return on equity, %	7.1	18.3	19.2	13
Tier 1 ratio, %	12.0	11.5	11.8	>9.5
Banking				
Operating cost/income ratio, %	35	35	35	<40
Non-life Insurance				
Operating combined ratio, %	91.6	88.6	87.7	92
Operating expense ratio, %	22.0	21.8	22.2	<20
Solvency ratio, %	91	77	88	70
Asset Management				
Operating cost/income ratio, %	53	63	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 55 million (76), affected by EUR 62 million (44) in impairment charges on receivables. Earnings before these impairments were at the level reported a year ago.
– The average corporate loan margin was 24 basis points higher than the year before but this upward trend is coming to an end.
– Thanks to higher margins, Corporate Banking net interest income rose by 29%. The loan portfolio grew by 5% from the level of 31 December 2009 and by 1% in the year to June.
– 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 35%, which is clearly below the long-term target of 40%.

Banking: financial results and key figures and ratios

Financial results, € million	**H1/ 2010**	**H1/ 2009**	**Change, %**	**Q2/ 2010**	**Q2/ 2009**	**Change, %**	**2009**
Net interest income							
Corporate Banking	84	65	29	44	33	32	138
Markets	10	22	–54	4	12	–64	27
Total	95	87	8	48	45	7	165
Net commissions and fees	47	44	8	23	25	–6	85
Net trading income	24	37	–34	12	13	–12	78
Other income	14	15	–6	7	7	–6	30
Total income	**180**	**183**	**–2**	**90**	**91**	**–1**	**358**
Expenses							
Personnel costs	26	26	1	14	14	3	50
IT expenses	12	11	12	6	5	19	21
Depreciation and amortisation	13	14	–6	6	7	–15	28
Other expenses	13	13	–4	6	7	–3	25
Total expenses	**64**	**64**	**1**	**32**	**32**	**1**	**125**
Earnings before impairments of receivables	**116**	**120**	**–3**	**58**	**58**	**–1**	**234**
Impairments of receivables	62	44	40	29	32	–11	117
Earnings before tax	**55**	**76**	**–28**	**29**	**26**	**12**	**117**
Earnings before tax at fair value	55	76	–27	29	26	9	120
Loan and guarantee portfolio, € billion	13.9	13.9	0				13.3
Margin on corporate loan portfolio, %	1.38	1.14	21				1.33
Ratio of doubtful receivables to loan and guarantee portfolio, %	0.28	0.39	–30				0.32
Ratio of impairments of receivables to loan and guarantee portfolio, %	0.44	0.32	38				0.88
Operating cost/income ratio, %	35	35	2	36	36	1	35
Personnel	647	620	3				607

January–June earnings

Earnings before tax amounted to EUR 55 million (76), affected by EUR 62 million (44) in impairment charges on receivables. Earnings before these impairments were at the same level as a year ago.

Lending rebounded during the first half, with the loan portfolio growing by 5% from its year-end level to over EUR 11.2 billion. The loan portfolio grew by 1% in the year to June. The market share of corporate loans in June was at the same level as at the beginning of 2010. The guarantee portfolio increased by EUR 0.1 billion to EUR 2.7 billion from its year-end level, but was EUR 0.1 billion lower than a year earlier.

The average corporate loan margin of 1.38% was 24 basis points higher on 30 June 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 29%. Due to fiercer competition, margins have stopped rising in recent months.

Pohjola holds a strong position as an arranger of issues and a securities broker. The report period saw a marked increase in net commissions and fees from securities issuance and brokerage.

The Markets division has also shown good financial performance during the current year although its earnings decreased from their level a year ago when total net income was exceptionally high because of the market situation. The division's combined net interest income and net trading income fell by 44% to EUR 33 million year on year. Customer trading volumes grew over the previous year, especially in fixed-income and foreign exchange products, as companies needed to increase their hedging measures due to jittery markets.

The cost/income ratio remained good, standing at 35%. Total expenses were on a par with those in the previous year.

April–June earnings

Earnings before tax were EUR 29 million, or EUR 3 million higher than the year before. Income and expenses were on a par with those in the previous year. Impairment charges on receivables were EUR 4 million lower than a year ago. The loan and guarantee portfolio increased by EUR 0.4 billion whereas a year ago it decreased by EUR 0.1 billion.

As a result of higher margins, Corporate Banking net interest income was a third higher than a year ago. The average margin on loans did not rise any longer during the second quarter.

The Markets division posted earnings of EUR 11 million before tax (16). The combined net interest income and net trading income diminished from EUR 23 million to EUR 16 million, whereas net commissions and fees from securities brokerage and issuance increased by EUR 3 million.

Risk exposure by Banking

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

During January–June, total exposure grew by EUR 1.0 billion to EUR 22.1 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 2.0% (1.6) and that of non-rated exposure 0.7% (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 416 million (321), accounting for 2.5% (2.0) of the total corporate exposure.

Significant corporate customer exposure totalled EUR 3.4 billion (2.9). The distribution of corporate exposure by industry remained highly diversified and none of the industries represented over 12% of corporate exposure on 30 June 2010. The most significant industries included Letting and Operation of Dwellings representing 11.4% (11.2), Manufacture of Machinery and Equipment 9.6% (9.7) and Trade 9.3% (10.9).

January–June net loan losses and impairment charges within Banking came to EUR 62 million (44), accounting for 0.44% (0.32) of the loan and guarantee portfolio.

On 30 June, Baltic Banking exposures totalled EUR 82 million, accounting for less than 1% of the loan and guarantee portfolio. The Baltic Banking net loan losses and impairment charges for the first half amounted to EUR 0.8 million.

Second-quarter interest rate risk exposure averaged EUR 4.1 million (7.6), based on the 1-percentage-point change in the interest rate.

Non-life Insurance

– Earnings before tax amounted to EUR 42 million (46).
– The balance on technical account developed as expected. The operating combined ratio stood at 91.6% (88.6).
– Insurance premium revenue rebounded during the second quarter. Private Customers became the largest business division.
– Return on investments at fair value was 2.6% (4.5).

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

Financial results, € million	H1/ 2010	H1/ 2009	Change, %	Q2/ 2010	Q2/ 2009	Change, %	2009
Insurance premium revenue	473	471	0	246	240	2	943
Claims incurred	–329	–314	5	–162	–154	5	–617
Operating expenses	–104	–103	1	–55	–53	4	–210
Amortisation adjustment of intangible assets	–12	–12	0	–6	–6	0	–28
Balance on technical account	**27**	**42**	**–34**	**23**	**28**	**–15**	**88**
Net investment income	42	30	41	26	31	–18	61
Other income and expenses	–27	–25	**8**	–12	–11	10	–46
Earnings before tax	**42**	**46**	**–8**	**37**	**48**	**–23**	**102**
Earnings before tax at fair value	71	121		–4	120		291
Operating combined ratio, %	91.6	88.6		88.0	86.0		87.7
Operating expense ratio, %	22.0	21.8		22.2	21.9		22.2
Return on investments at fair value, %	2.6	4.5		–0.6	4.9		10.7
Solvency ratio , %	91	77					88
Personnel	2,073	2,056					2,070

January–June earnings

Earnings before tax amounted to EUR 42 million (46).

Profitability remained good. The recession continued to affect the corporate sector, reducing insurance premiums paid by corporate customers. Growth remained strong within private customers.

The balance on technical account before amortisation on intangible assets stood at EUR 40 million (54). Uncertainty in capital markets was reflected in investment performance during the second quarter. Net investment income amounted to EUR 42 million (30) and net investment income at fair value came to EUR 70 million (104).

The number of loyal customer non-life insurance households totalled 442,581 on 30 June 2010. The Group's strategic aim is to increase this number to 450,000 by the end of this year. The current growth rate suggests that Pohjola will achieve this target during the third quarter. 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–June, OP bonuses were used to pay 526,600 insurance premiums, with 88,100 paid in full using bonuses. Insurance premiums paid using bonuses totalled EUR 27 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

First-half profitability was in line with expectations. The operating combined ratio, excluding amortisation on intangible assets arising from the corporate acquisition, stood at 91.6% (88.6%). Profitability a year ago was exceptionally good.

Insurance premium revenue increased to EUR 473 million (471). Growth remained strong within Private Customers, which became the largest division within Non-life Insurance. The recession continued to affect the corporate sector, reducing insurance premiums based on companies' payroll bills, net sales and operating profit, with the result that insurance premiums were down within Corporate Customers and the Baltic States.

Insurance premium revenue from Private Customers improved by 11% to EUR 229 million (207). The number of loyal customer households grew by 17,867 (14,057) during the first half.

Insurance premium revenue from Corporate Customers dropped by 6% to EUR 219 million (234). Pohjola reduced the level of premiums for the current year within statutory workers' compensation insurance. As a result of the recession, payroll bills which determine insurance premiums continued their downward trend.

In the Baltic States, insurance premium revenue decreased by 19% to EUR 24 million (30). 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 over one quarter during the reporting period.

Claims incurred rose due to growth in the private customer insurance portfolio and the large number of losses reported within motor liability and motor vehicle insurance during the first half. Claims incurred increased to EUR 329 million (314), or by 5%. The loss ratio deteriorated to 69.6% (66.7) and the risk ratio (excl. loss adjustment expenses) stood at 62.2% (55.9). 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 103 (90) in January–June, with their claims incurred retained for own account totalling EUR 51 million (45).

Operating expenses increased to EUR 104 million (103), or by 1%. The expense ratio was 22.0% (21.8). The cost ratio (incl. loss adjustment expenses) stood at 29.4% (28.7).

The operating balance on technical account within Private Customers improved to EUR 31 million (26) because claims incurred were lower than insurance premium revenue. The operating balance on technical account within Corporate Customers fell to EUR 7 million (24) 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 2 million (4).

Investment

Return on investments at fair value stood at 2.6% (4.5). Net investment income recognised in the income statement amounted to EUR 42 million (30) and net investment income at fair value was EUR 70 million (104). Impairment charges recognised from the fair value reserve in the income statement totalled EUR 25 million.

On 30 June, the investment portfolio totalled EUR 2,946 million (2,851), bonds and bond funds accounting for 75% (76) and listed equities for 10% (10). Unlisted equity investments plus the aforementioned equities represented a total of 12% (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 5.0 years and the duration 3.7 years (3.4).

April–June earnings

Earnings before tax amounted to EUR 37 million (48).

The balance on technical account before amortisation on intangible assets stood at EUR 30 million (34). Uncertainty in capital markets was reflected in investment performance. Net investment income amounted to EUR 26 million (31) and net investment income at fair value came to EUR –15 million (105).

Insurance business

Profitability remained good during the second quarter. The operating combined ratio, excluding amortisation on intangible assets arising from the corporate acquisition, stood at 88.0% (86.0%).

Insurance premium revenue rebounded during the period, increasing by 2% to EUR 246 million (240).

Growth in insurance premium revenue remained strong among private customers during the period, improving by 12% to EUR 123 million (110). The number of loyal customer households grew by 9,187 (8,132) in the second quarter.

The decline in insurance premium revenue from corporate customers decelerated and premium revenue dropped by 4% to EUR 111 million (116). The effect of the recession began to be more visible in the previous year's premium revenue only after the second quarter.

In the Baltic States, insurance premium revenue decreased by 21% to EUR 12 million (15).

Claims incurred increased to EUR 162 million (154), or by 5%. The loss ratio deteriorated to 65.8% (64.1) and the risk ratio (excl. loss adjustment expenses) stood at 58.3% (57.2). 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 52 (40) in April–June, with their claims incurred retained for own account totalling EUR 25 million (23).

Operating expenses increased by 4% to EUR 55 million (53). The expense ratio stood at 22.2% (21.9) and the cost ratio (incl. loss adjustment expenses) at 29.7% (28.7).

The operating balance on technical account within Private Customers improved to EUR 25 million (17) because claims developments normalised after the large number of losses reported in the winter within motor liability and motor vehicle insurance. Growth in claims incurred remained in a par with that in the insurance portfolio. The operating balance on technical account within Corporate Customers fell to EUR 2 million (14) 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. The balance on technical account recorded by the Baltic States stood at EUR 2 million (3).

Investment

Return on investments at fair value was –0.6% (4.9). Net investment income recognised in the income statement amounted to EUR 26 million (31). As a result of capital market uncertainty, net investment income at fair value fell markedly from its exceptionally high level a year ago, amounting to EUR –15 million (105). Impairment charges recognised from the fair value reserve in the income statement totalled EUR 9 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.

On 30 June, Non-life Insurance solvency capital came to EUR 857 million (827) and the ratio of solvency capital to insurance premium revenue (solvency ratio) stood at 91% (88). Equalisation provisions rose to EUR 422 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 and Pohjola remained its interest risk exposure unchanged.

Asset Management

– Earnings before tax doubled to EUR 12 million (6).
– Assets under management increased to EUR 33.6 billion (33.1) from their end-2009 level.
– Operating cost/income ratio improved to 53% (63).

Asset Management: financial results and key figures and ratios

Financial results, € million	H1/ 2010	H1/ 2009	Change, %	Q2/ 2010	Q2/ 2009	Change, %	2009
Net commissions and fees	27	19	45	14	10	38	50
Other income	1	2	–23	1	1	–14	2
Total income	**28**	**20**	**39**	**15**	**11**	**34**	**52**
Personnel costs	10	8	20	5	4	21	17
Other expenses	7	6	8	4	3	10	13
Total expenses	**17**	**14**	**15**	**8**	**7**	**16**	**30**
Earnings before tax	**12**	**6**	**98**	**6**	**4**	**70**	**21**
Earnings before tax at fair value	12	6	98	6	4	70	21
Assets under management, € billion	33.6	27.5	22	33.6	27.5	22	33.1
Operating cost/income ratio, %	53	63	–16	52	60	–13	53
Personnel	170	154	10				162

January–June earnings

January–June earnings before tax increased by 98% to EUR 12 million (6) year on year and the operating cost/income ratio stood at 53% (63).

Year on year, assets under management increased by 22%, standing at EUR 33.6 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 19.6 billion (19.2), OP mutual funds for EUR 11.1 billion (11.4) and Pohjola Private for EUR 2.9 billion (2.5).

Of the assets under management, money-market investments represented 14% (11), bonds 39% (42), equities 27% (27) and other investments 21% (20).

April–June earnings

Earnings before tax amounted to EUR 6 million (4). Year on year, net commissions and fees increased by 38% and results improved by 70%. The operating cost/income ratio improved to 52% (60).

Capital market uncertainty was reflected in assets under management which shrank by EUR 1.3 billion during the period.

Group Functions

- Earnings before tax amounted to EUR 30 million (loss of EUR 5 million). Capital gains on notes and bonds contributed to this improvement.
- Earnings before tax at fair value fell by EUR 54 million year on year.
- Impairment charges on receivables and investments were down.
- Liquidity and the availability of funding remained good.
- Long-term funding increased by EUR 1.5 billion aimed at strengthening the financial position.

Group Functions: financial results and key figures and ratios

Financial results, € million	H1/ 2010	H1/ 2009	Change, %	Q2/ 2010	Q2/ 2009	Change, %	2009
Net interest income	34	30	12	20	21	–8	75
Net trading income	–9	–4		–3	–5		–7
Net investment income	15	–9		–3	0		–13
Other income	7	7	–2	4	4	–17	17
Total income	**47**	**25**		**17**	**20**	**–13**	**72**
Personnel costs	7	6	3	4	4	–12	13
Other expenses	11	13		6	7	–19	23
Total expenses	**17**	**20**	**–13**	**9**	**11**	**–17**	**36**
Earnings before impairments of receivables	**30**	**5**	**511**	**8**	**9**	**–9**	**36**
Impairments of receivables		9					12
Earnings/loss before tax	**30**	**–5**		**8**	**10**		**25**
Earnings/loss before tax at fair value	–29	24		–43	36		76
Liquidity portfolio, € billion	12.5	9.6	30				11.7
Receivables and liabilities from/to OP-Pohjola Group entities, net position, € billion	3.3	2.3	44				2.9
Personnel	123	135	–9				136

January–June earnings

Earnings before tax were EUR 30 million, as against a loss of EUR 5 million reported a year ago.

Successful investment operations within the liquidity portfolio improved net interest income. Net investment income included EUR 16 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), while a year ago impairments recognised on bonds totalled EUR 9 million.

Liquidity and the availability of funding remained good and Pohjola's reputation is strong in the funding market. During the period, Pohjola increased its long-term funding by issuing two senior bonds each worth EUR 750 million in international capital markets. Debt instruments issued to the public remained at the previous year's level, totalling EUR 17 billion (17).

Average funding costs will rise when maturing long-term debt is renewed at higher market rates.

Pohjola Bank plc's net receivables from OP-Pohjola Group retails banks and entities increased to EUR 3.3 billion. On 31 December 2009, the net position amounted to EUR 2.9 billion.

Unrest in the euro-area financial market deteriorated earnings before tax at fair value.

April–June earnings

Earnings before tax were EUR 8 million, or EUR 2 million lower than the year before.

Uncertainty over the euro-area economic development was reflected in widening credit spreads and shrinking market liquidity, as a result of which the fair value of bonds and notes fell year on year and earnings before tax at fair value declined by EUR 80 million 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 20.2 billion (18.3), consisting of assets in the liquidity portfolio and receivables from OP-Pohjola Group member banks. Almost all of the exposure was based on investment-grade counterparties.

The Group Functions maintains the liquidity portfolio in order to secure OP-Pohjola Group's liquidity. The liquidity portfolio amounted to EUR 12.5 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 9.7 million (12.9) in the second quarter, based on the 1-percentage-point change in the interest rate.

Shares and shareholders

On 30 June 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 June 2010, one Series A share closed at EUR 8.39, as against EUR 7.55 at the end of 2009. Pohjola paid a dividend of EUR 0.34 for each Series A share and EUR 0.31 for each Series K share for 2009. In January–June, the share price reached a high of EUR 8.91 (21 June 2010) and a low of EUR 6.97 (7 May 2010).

During the first half, Pohjola's share trading increased in euro terms from EUR 637 million a year ago to EUR 647 million, whereas in volume terms it decreased to 80 million shares (104).

On 30 June, Pohjola Bank plc had 35,295 shareholders, down by 1,705 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 proportion of nominee registered shares of Series A shares rose markedly from 31 December 2009 (15.6%), accounting for 18.8% on 30 June 2010.

On 27 May 2010, the Court of Appeal of Helsinki issued its ruling in the redemption dispute between Pohjola Bank plc's and Pohjola Group plc's minority shareholders. The Court of Appeal did not amend the ruling issued by the Helsinki District Court in August 2008, whereby the redemption price of one Pohjola Group plc share is EUR 13.35. The redemption price confirmed by the Court of Appeal is the same as that initially bid by OKO Bank plc for Pohjola Group plc shares held by minority shareholders. The Court of Appeal confirmed the annual interest payable on the redemption price at 5.50% as of 13 June 2006. The parties concerned have not filed a petition for leave to appeal with the Supreme Court. The ruling issued by the Court of Appeal gained legal force at the end of July.

Group restructuring

On 1 March 2010, Pohjola Bank plc sold its Seesam non-life insurers to its subsidiary Pohjola Insurance Ltd in order to streamline the corporate structure. This had no effect on the Group's financial results.

Events after the balance sheet date

The Committee of the European Banking Supervisors (CEBS), in cooperation with the European Central Bank, the European Commission and national supervisory authorities, coordinated the EU-wide forward-looking stress test of 91 banks in June–July. In Finland, the Financial Supervisory Authority coordinated the implementation of the test in cooperation with the Bank of Finland.

Of the Finnish banks, OP-Pohjola Group was included in the stress test exercise. Given that Pohjola Bank plc is part of OP-Pohjola Group operating under the principle of joint responsibility, its data are included in the test results. OP-Pohjola Group's banking earnings and capital base would remain strong even if the assumptions of economic deterioration used in the Europe-wide bank stress test were to materialise. At its lowest, the Tier 1 ratio would drop to 12.3% at the end of 2011, against the minimum of 6% used in the test and the minimum regulatory requirement of 4%.

Conducted by the CEBS, the stress test gave a clean bill of health to OP-Pohjola Group, as expected.

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 is coming 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 slow down during the rest of the year. In Non-life Insurance, the operating combined ratio is estimated to vary between 89–93% (previous estimate: 89–94%) 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.

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 any impairment charges recognised on notes and bonds in the income statement.

Consolidated earnings before tax in 2010 are expected to be at the same level as in 2009.

When it comes to the outlook for 2010 as a whole, the greatest uncertainty is related to developments in impairment charges, large claims and the investment environment. 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

Notes:

Notes to the income statement and balance sheet:

Notes to risk management:

Other notes:

Consolidated income statement

EUR million	Q2/ 2010	Q2/ 2009	Q1–2/ 2010	Q1–2/ 2009
Net interest income (Note 2)	67	67	127	119
Impairments of receivables (Note 3)	29	33	62	54
Net interest income after impairments	**38**	**35**	**65**	**65**
Net income from Non-life Insurance (Note 4)	114	122	193	192
Net commissions and fees (Note 5)	41	36	81	66
Net trading income (Note 6)	8	8	15	33
Net investment income (Note 7)	-3	0	15	-9
Other operating income (Note 8)	10	11	21	22
Total income	**210**	**212**	**392**	**370**
Personnel costs	52	50	99	95
IT expenses	19	18	38	37
Depreciation/amortisation	16	17	34	34
Other expenses	43	40	82	82
Total expenses	**130**	**125**	**253**	**247**
Share of associates' profits/losses	0	0	0	0
Earnings before tax	**80**	**87**	**139**	**123**
Income tax expense	21	22	36	33
Profit for the period	**59**	**65**	**102**	**91**
Attributable to owners of the Parent	59	65	102	91
Attributable to minority interest				0
Total	**59**	**65**	**102**	**91**
Earnings per share (EPS), basic, EUR				
Series A	0.19	0.23	0.33	0.34
Series K	0.16	0.20	0.30	0.31

Due to Pohjola Bank plc's rights issue and new shares entered in the Trade Register on 4 May 2009, the per-share ratios have been adjusted retroactively using the share issue ratio.

Consolidated statement of comprehensive income

EUR million				
Profit for the period	**59**	**65**	**102**	**91**
Change in fair value reserve	-92	100	-31	104
Translation differences	0	0	0	0
Income tax on other comprehensive income	-24	26	-8	27
Total comprehensive income for the period	**-9**	**139**	**79**	**168**
Total comprehensive income attributable to owners of the Parent	-9	139	79	168
Total comprehensive income attributable to minority interest				0
Total	**-9**	**139**	**79**	**168**

Consolidated balance sheet

EUR million	30 June 2010	31 Dec 2009
Cash and cash equivalents	3,779	3,102
Receivables from credit institutions	7,733	7,630
Financial assets at fair value through profit or loss		
Financial assets held for trading	1,048	1,224
Financial assets at fair value through profit or loss at inception	10	55
Derivative contracts	2,187	1,443
Receivables from customers	11,680	11,323
Non-life Insurance assets (Note 10)	3,294	3,156
Investment assets	6,712	5,415
Investment in associates	2	2
Intangible assets (Note 11)	943	960
Property, plant and equipment (PPE)	106	117
Other assets	1,082	1,068
Tax assets	31	15
Total assets	**38,609**	**35,510**
Liabilities to credit institutions	6,069	4,984
Financial liabilities at fair value through profit or loss		
Financial assets held for trading	34	71
Derivative contracts	2,110	1,456
Liabilities to customers	4,932	4,133
Non-life Insurance liabilities (Note 12)	2,484	2,279
Debt securities issued to the public (Note 13)	17,222	17,295
Provisions and other liabilities	1,715	1,291
Tax liabilities	446	434
Subordinated liabilities	1,358	1,300
Total liabilities	**36,369**	**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	742	746
Total shareholders' equity	**2,239**	**2,267**
Total liabilities and shareholders' equity	**38,609**	**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		77		91	168
Equity-settled share-based transactions				0	0
Other				0	0
Balance at 30 June 2009	**428**	**-103**	**1,093**	**642**	**2,060**

	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		102	79
Equity-settled share-based transactions				0	0
Other				0	0
Balance at 30 June 2010	**428**	**-23**	**1,093**	**742**	**2,239**

* 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 June 2010	31 Dec 2009
Capital base		
Equity capital	2,239	2,267
Elimination of insurance companies' effect in equity capital (equity capital and Group eliminations)	55	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	-6	-49
Dividend distribution proposed by Board of Directors		-107
Planned dividend distribution	-51	
Insurance company investments 50%	-703	-715
Impairments – expected losses 50%	-83	-76
Tier 1 capital	**1,579**	**1,541**
Fair value reserve	-25	18
Subordinated liabilities included in upper Tier 2	299	299
Subordinated liabilities included in lower Tier 2	698	687
Insurance company investments 50%	-703	-715
Impairments – expected losses 50%	-83	-76
Tier 2 capital	**185**	**212**
Total capital base	**1,764**	**1,753**
Risk-weighted assets, excl. transitional rules	13,168	13,024
Risk-weighted assets according to transitional rules	**13,168**	**13,024**
Ratios, excl. transitional rules:		
Capital adequacy ratio, %	13.4	13.5
Tier 1 ratio, %	12.0	11.8
Ratios according to transitional rules:		
Capital adequacy ratio, %	**13.4**	**13.5**
Tier 1 ratio, %	**12.0**	**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 June 2010	31 Dec 2009
Pohjola Group's equity capital	2,239	2,267
Business-segment-specific items	1,320	1,309
Goodwill and intangible assets	-856	-869
Equalisation provision	-312	-309
Other items included in equity capital and business-segment-specific items, but not included in the conglomerate's capital resources	-259	-296
Conglomerate's capital base, total	**2,133**	**2,103**
Regulatory capital requirement for credit institutions	1,053	1,042
Regulatory capital requirement for insurance operations	177	171
Total minimum amount of conglomerate's capital base	**1,230**	**1,213**
Conglomerate's capital adequacy	**903**	**890**
Conglomerate's capital adequacy ratio (capital resources/minimum of capital resources)	**1.73**	**1.73**

OP-Pohjola Group's capital adequacy ratio under the Act on Credit Institutions stood at 12.4% and Tier 1 ratio at 12.4%. OP-Pohjola Group's capital adequacy ratio calculated using the consolidation method, under the Act on the Supervision of Financial and Insurance Conglomerates, was 1.60.

Consolidated cash flow statement

EUR million	Q1–2/ 2010	Q1–2/ 2009
Cash flow from operating activities		
Profit for the period	102	91
Adjustments to profit for the period	294	380
Increase (-) or decrease (+) in operating assets	**-1,664**	**-1,559**
Receivables from credit institutions	183	-301
Financial assets at fair value through profit or loss	118	1,608
Derivative contracts	-37	-22
Receivables from customers	-442	402
Non-life Insurance assets	-154	-332
Investment assets	-1,327	-2,786
Other assets	-7	-129
Increase (+) or decrease (-) in operating liabilities	**2,345**	**336**
Liabilities to credit institutions	1,075	408
Financial liabilities at fair value through profit or loss	-37	285
Derivative contracts	34	-27
Liabilities to customers	799	-460
Non-life Insurance liabilities	53	87
Provisions and other liabilities	421	42
Income tax paid	-33	-25
Dividends received	22	8
A. Net cash from operating activities	**1,066**	**-770**
Cash flow from investing activities		
Increases in held-to-maturity financial assets		-80
Decreases in held-to-maturity financial assets	82	146
Acquisition of subsidiaries and associates, net of cash acquired	0	0
Disposal of subsidiaries and associates, net of cash disposed		1
Purchase of PPE and intangible assets	-6	-12
Proceeds from sale of PPE and intangible assets	0	0
B. Net cash used in investing activities	**76**	**55**
Cash flow from financing activities		
Increases in subordinated liabilities	69	144
Decreases in subordinated liabilities	-10	-149
Increases in debt securities issued to the public	22,535	26,670
Decreases in debt securities issued to the public	-22,664	-26,385

Increases in invested unrestricted equity		298
Dividends paid	-107	-45
C. Net cash used in financing activities	**-178**	**532**
Net increase/decrease in cash and cash equivalents (A+B+C)	**964**	**-183**
Cash and cash equivalents at period-start	**3,250**	**2,435**
Cash and cash equivalents at period-end	**4,214**	**2,252**
Interest received	**804**	**1,183**
Interest paid	**-636**	**-1,133**
Adjustments to profit for the period		
Non-cash transactions		
Impairments of receivables	62	55
Unrealised net earnings in Non-life Insurance	195	190
Change in fair value for trading	-14	42
Unrealised net gains on foreign exchange operations	107	28
Change in fair value of investment property		7
Planned amortisation /depreciation	34	34
Share of associates' profits	0	0
Other	-91	25
Items presented outside cash flow from operating activities		
Capital gains, share of cash flow from investing activities	0	0
Total adjustments	**294**	**380**
Cash and cash equivalents		
Liquid assets *	3,784	1,979
Receivables from credit institutions payable on demand	430	273
Total	**4,214**	**2,252**

*Of which EUR 5 million (8) consists of Non-life Insurance cash and cash equivalents.

Segment information

Q2 earnings	Banking		Non-life Insurance		Asset Management	
EUR million	2010	2009	2010	2009	2010	2009
Net interest income						
From Corporate Banking	44	33				
From Markets	4	12				
From other operations			-1	0	0	0
Total	48	45	-1	0	0	0
Net commissions and fees	23	25	5	4	14	10
Net trading income	12	13			0	0
Net investment income	0	0			0	0
Net income from Non-life Insurance						
From insurance operations			99	101		
From investment operations			26	31		
From other items			-11	-11		
Total			114	121		
Other operating income	7	7	1	1	1	0
Total income	**90**	**91**	**118**	**126**	**15**	**11**
Personnel costs	14	14	30	29	5	4
IT expenses	6	5	10	10	1	1
Amortisation on intangible assets related to company acquisitions			8	8	1	1
Other depreciation/amortisation and impairments	6	7	2	1	0	0
Other expenses	6	7	32	31	2	2
Total expenses	**32**	**32**	**81**	**78**	**8**	**7**
Earnings/loss before impairment of receivables	**58**	**58**	**37**	**48**	**6**	**4**
Impairments of receivables	29	32				
Earnings before tax	**29**	**26**	**37**	**48**	**6**	**4**
Change in fair value reserve	0	0	-41	72	0	
Earnings/loss before tax at fair value	**29**	**26**	**-4**	**120**	**6**	**4**

Q2 earnings	Group Functions		Eliminations		Group total	
EUR million	2010	2009	2010	2009	2010	2009
Net interest income						
From Corporate Banking					44	33
From Markets					4	12
From other operations	20	21	0	0	19	22
Total	20	21	0	0	67	67
Net commissions and fees	0	0	-1	-3	41	36
Net trading income	-3	-5		0	8	8
Net investment income	-3	0			-3	0
Net income from Non-life Insurance						
From insurance operations					99	101
From investment operations			1	1	26	32
From other items					-11	-11
Total			1	1	114	122
Other operating income	4	4	-1	-1	10	11
Total income	**17**	**20**	**-1**	**-3**	**239**	**245**
Personnel costs	4	4	0		52	50
IT expenses	2	2	0		19	18
Amortisation on intangible assets related to company acquisitions					8	8
Other depreciation/amortisation and impairments	0	0			8	9
Other expenses	4	5	-1	-3	43	41
Total expenses	**9**	**11**	**-1**	**-3**	**130**	**126**
Earnings/loss before impairment of receivables	**8**	**10**	**0**	**0**	**109**	**119**
Impairments of receivables					29	32
Earnings before tax	**8**	**10**	**0**	**0**	**80**	**87**
Change in fair value reserve	-51	27	0		-92	100
Earnings/loss before tax at fair value	**-43**	**36**	**0**		**-11**	**186**

Q 1–2 earnings	Banking		Non-life Insurance		Asset Management	
EUR million	2010	2009	2010	2009	2010	2009
Net interest income						
From Corporate Banking	84	65				
From Markets	10	22				
From other operations			-3	-1	0	1
Total	95	87	-3	-1	0	1
Net commissions and fees	47	44	9	8	27	19
Net trading income	24	37			0	0
Net investment income	0	0			0	0
Net income from Non-life Insurance						
From insurance operations			173	184		
From investment operations			42	30		
From other items			-23	-22		
Total			192	192		
Other operating income	14	15	1	1	1	1
Total income	**180**	**183**	**200**	**200**	**28**	**20**
Personnel costs	26	26	57	55	10	8
IT expenses	12	11	21	20	1	1
Amortisation on intangible assets related to company acquisitions			15	15	1	1
Other depreciation/amortisation and impairments	13	14	3	2	1	0
Other expenses	13	13	61	62	4	3
Total expenses	**64**	**64**	**157**	**154**	**17**	**14**
Earnings/loss before impairment of receivables	**116**	**120**	**42**	**46**	**12**	**6**
Impairments of receivables	62	44	0			
Earnings before tax	**55**	**76**	**42**	**46**	**12**	**6**
Change in fair value reserve	0	1	28	74	0	
Earnings/loss before tax at fair value	**55**	**76**	**71**	**121**	**12**	**6**

Q 1–2 earnings	Group Functions		Eliminations		Group total	
EUR million	2010	2009	2010	2009	2010	2009
Net interest income						
From Corporate Banking					84	65
From Markets					10	22
From other operations	34	30	1	1	32	31
Total	34	30	1	1	127	119
Net commissions and fees	-1	0	-2	-4	81	66
Net trading income	-9	-4			15	33
Net investment income	15	-9			15	-9
Net income from Non-life Insurance						
From insurance operations					173	184
From investment operations			1	0	43	30
From other items					-23	-22
Total			1	0	193	192
Other operating income	8	7	-2	-2	21	22
Total income	**47**	**25**	**-2**	**-4**	**453**	**424**
Personnel costs	7	6	0		99	95
IT expenses	4	5	0	0	38	37
Amortisation on intangible assets related to company acquisitions					17	16
Other depreciation/amortisation and impairments	1	1			17	17
Other expenses	6	8	-2	-4	82	82
Total expenses	**17**	**20**	**-2**	**-4**	**253**	**247**
Earnings/loss before impairment of receivables	**30**	**5**	**0**	**0**	**200**	**177**
Impairments of receivables		9			62	54
Earnings before tax	**30**	**-5**	**0**	**0**	**139**	**123**
Change in fair value reserve	-59	29	0		-31	104
Earnings/loss before tax at fair value	**-29**	**24**	**0**		**108**	**227**

Balance sheet	Banking		Non-life Insurance		Asset Management	
EUR million	30 June 2010	31 Dec 2009	30 June 2010	31 Dec 2009	30 June 2010	31 Dec 2009
Receivables from customers	11,423	10,880			0	
Receivables from credit institutions	247	278			4	5
Financial assets at fair value through profit or loss	679	932				
Non-life Insurance assets			3,370	3,202		
Investment assets	53	18	16	0	15	17
Investments in associates			2	2		
Other assets	2,676	2,012	811	829	123	131
Total assets	**15,078**	**14,119**	**4,198**	**4,033**	**142**	**153**
Liabilities to customers	1,620	1,263				
Liabilities to credit institutions	1,114	747				
Non-life Insurance liabilities			2,484	2,279		
Debt securities issued to the public						
Subordinated liabilities			50	50		
Other liabilities	2,849	1,872	49	108	13	15
Total liabilities	**5,583**	**3,882**	**2,583**	**2,437**	**13**	**15**
Shareholders' equity						
Average personnel	647	607	2,073	2,070	170	162
Capital expenditure, EUR million	3	7	4	9	0	1

Balance sheet	Group Functions		Eliminations		Group total	
EUR million	30 June 2010	31 Dec 2009	30 June 2010	31 Dec 2009	30 June 2010	31 Dec 2009
Receivables from customers	335	527	-78	-84	11,680	11,323
Receivables from credit institutions	11,279	10,468	-17	-20	11,512	10,732
Financial assets at fair value through profit or loss	379	347			1,058	1,279
Non-life Insurance assets			-76	-47	3,294	3,156
Investment assets	6,638	5,387	-10	-6	6,712	5,415
Investments in associates					2	2
Other assets	746	691	-5	-58	4,350	3,604
Total assets	**19,376**	**17,421**	**-187**	**-215**	**38,609**	**35,510**
Liabilities to customers	3,360	2,915	-48	-45	4,932	4,133
Liabilities to credit institutions	5,033	4,320	-78	-84	6,069	4,984
Non-life Insurance liabilities					2,484	2,279
Debt securities issued to the public	17,276	17,323	-54	-28	17,222	17,295
Subordinated liabilities	1,308	1,250			1,358	1,300
Other liabilities	1,399	1,318	-6	-59	4,304	3,253
Total liabilities	**28,377**	**27,126**	**-187**	**-216**	**36,369**	**33,244**
Shareholders' equity					2,239	2,267
Average personnel	123	136			3,012	2,975
Capital expenditure, EUR million	0	1			7	18

Banking	Income		Earnings/loss before tax		Income		Earnings/loss before tax	
	Q2/ 2010	Q2/ 2009	Q2/ 2010	Q2/ 2009	Q1–2/ 2010	Q1–2/ 2009	Q1–2/ 2010	Q1–2/ 2009
Corporate Banking	67	63	21	12	130	114	30	35
Markets	22	27	11	16	48	67	28	47
Baltic Banking	1	1	-3	-2	3	2	-3	-5
Total	**90**	**91**	**29**	**26**	**180**	**183**	**55**	**76**

Non-life Insurance	Insurance premium revenue		Balance on technical account		Insurance premium revenue		Balance on technical account	
	Q2/ 2010	Q2/ 2009	Q2/ 2010	Q2/ 2009	Q1–2/ 2010	Q1–2/ 2009	Q1–2/ 2010	Q1–2/ 2009
Private Customers	123	110	25	17	229	207	31	26
Corporate Customers	111	116	2	14	219	234	7	24
Baltic States	12	15	2	3	24	30	2	4
Amortisation adjustment of intangible assets			-6	-6			-12	-12
Total	**246**	**240**	**23**	**28**	**473**	**471**	**27**	**42**

Group Functions	Q2/ 2010	Q2/ 2009	Q1–2/ 2010	Q1–2/ 2009
Central Banking earnings before tax, EUR million	3	6	7	11
	30 June 2010	**31 Dec 2009**		
Receivables from OP-Pohjola Group entities, EUR million	6,814	6,314		
Liabilities to OP-Pohjola Group entities, EUR million	3,488	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 excl. net changes in reserving bases x 100

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

Values used in calculating the ratios

(€ million)	30 June 2010	31 Dec 2009
Non-life Insurance		
Net tax liabilities for the period	–20	–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	4	6
Intangible assets	785	800

Notes

Note 1. Accounting policies

The Interim Report for 1 January–30 June 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	**Q2/ 2010**	**Q2/ 2009**	**Q1–2/ 2010**	**Q1–2/ 2009**
Loans and other receivables	75	82	146	255
Receivables from credit institutions and central banks	31	52	63	122
Notes and bonds	119	29	233	100
Derivatives held for trading (net)	-21	5	-3	1
Liabilities to credit institutions	-14	-14	-27	-36
Liabilities to customers	-3	-8	-6	-24
Debt securities issued to the public	-79	-65	-162	-217
Subordinated debt	-8	-9	-16	-19
Hybrid capital	-3	-5	-5	-9
Financial liabilities held for trading	0	-2	-1	-4
Other (net)	-1	0	-1	0
Net interest income before items under hedge accounting	**95**	**65**	**222**	**168**
Derivatives under hedge accounting (net)	-28	2	-95	-49
Items under hedge accounting (net)	**-28**	**2**	**-95**	**-49**
Total net interest income	**67**	**67**	**127**	**119**

Note 3. Impairments of receivables

EUR million	Q2/ 2010	Q2/ 2009	Q1–2/ 2010	Q1–2/ 2009
Receivables eliminated as loan or guarantee losses	15	0	40	1
Recoveries from receivables eliminated as loan or guarantee losses	0	-1	0	-1
Increase in impairment provisions	28	39	69	62
Decrease in impairment provisions	-14	-6	-47	-8
Total impairments of receivables	**29**	**33**	**62**	**54**

Note 4. Net income from Non-life Insurance

EUR million	Q2/ 2010	Q2/ 2009	Q1–2/ 2010	Q1–2/ 2009
Net insurance premium revenue				
Premiums written	218	206	665	679
Insurance premiums ceded to reinsurers	-6	-4	-34	-44
Change in provision for unearned premiums	39	51	-169	-178
Reinsurers' share	-6	-12	12	14
Total	**246**	**240**	**473**	**471**
Net Non-life Insurance claims				
Claims paid	147	147	324	303
Insurance claims recovered from reinsurers	-2	-3	-17	-4
Change in provision for unpaid claims	1	-5	-28	-9
Reinsurers' share	0	1	21	-3
Total	**146**	**140**	**300**	**287**
Net investment income, Non-life Insurance				
Interest income	16	18	32	36
Dividend income	2	3	18	6
Investment property	1	1	3	2
Realised fair value gains and losses				
Notes and bonds	4	2	35	-8
Shares and participations	15	5	-5	3
Loans and receivables	-1	0	-1	0
Investment property	2	0	2	0
Derivatives	-17	-9	-25	1
Unrealised fair value gains and losses				
Notes and bonds	0	1	1	0
Shares and participations	0	10	-16	-13
Loans and receivables	-1	-2	-1	-2
Investment property	0	1	0	2
Derivatives	4	2	0	2
Other	1	0	1	1
Total	**26**	**32**	**43**	**30**
Unwinding of discount	-11	-11	-22	-21
Other	0	0	0	0
Total net income from Non-life Insurance	**114**	**122**	**193**	**192**

Note 5. Net commissions and fees

EUR million	Q2/ 2010	Q2/ 2009	Q1–2/ 2010	Q1–2/ 2009
Commission income				
Lending	10	13	18	23
Payment transfers	3	3	6	6
Securities brokerage	8	5	15	10
Securities issuance	3	1	7	2
Asset management and legal services	16	11	30	20
Insurance operations	5	4	9	8
Guarantees	4	5	8	8
Other	1	3	3	4
Total commission income	**50**	**46**	**96**	**82**
Commission expenses				
Payment transfers	1	1	1	1
Securities brokerage	3	2	5	3
Securities issuance	1	5	2	6
Asset management and legal services	4	2	5	3
Other	1	1	1	2
Total commission expenses	**9**	**10**	**15**	**15**
Total net commissions and fees	**41**	**36**	**81**	**66**

Note 6. Net trading income

EUR million	Q2/ 2010	Q2/ 2009	Q1–2/ 2010	Q1–2/ 2009
Financial assets and liabilities held for trading				
Realised changes in fair value				
Notes and bonds	8	6	13	29
Shares and participations	0	0	0	0
Derivatives	-5	72	-17	95
Unrealised changes in fair value				
Notes and bonds	-1	-4	3	-21
Shares and participations	0	0	0	0
Derivatives	0	-68	7	-75
Financial assets and liabilities at fair value through profit or loss				
Realised changes in fair value				
Notes and bonds	0	-9	0	-9
Unrealised changes in fair value				
Notes and bonds	1	9	1	8
Net income from foreign exchange operations	5	2	9	6
Total net trading income	**8**	**8**	**15**	**33**

Note 7. Net investment income

EUR million	Q2/ 2010	Q2/ 2009	Q1–2/ 2010	Q1–2/ 2009
Available-for-sale financial assets				
Capital gains and losses				
Notes and bonds	3	0	16	0
Shares and participations	0	0	1	0
Dividend income	0	0	3	2
Impairments	-1	0	-4	-4
Carried at amortised cost				
Capital gains and losses				
Loans and other receivables	-5		-1	
Total	**-3**	**0**	**15**	**-2**
Investment property	0	0	0	-7
Total net investment income	**-3**	**0**	**15**	**-9**

Note 8. Other operating income

EUR million	Q2/ 2010	Q2/ 2009	Q1–2/ 2010	Q1–2/ 2009
Central banking service fees	2	2	5	5
Realisation of repossessed items	0	0	1	0
Rental income from assets rented under operating lease	6	6	12	13
Other	2	2	4	5
Total	**10**	**11**	**21**	**22**

Note 9. Classification of financial instruments

EUR million	Loans and receivables	Held to maturity	At fair value through profit or loss*	Available for sale	Hedging derivatives	Total
Assets						
Cash and balances with central banks	3,779					3,779
Receivables from credit institutions and central banks	7,733					7,733
Derivative contracts			2,060		127	2,187
Receivables from customers	11,680					11,680
Non-life Insurance assets**	735		86	2,473		3,294
Notes and bonds***		1,007	1,058	5,601		7,667
Shares and participations				84		84
Other receivables	2,165		20			2,184
Total 30 June 2010	**26,092**	**1,007**	**3,224**	**8,158**	**127**	**38,609**
Total 31 December 2009	**24,986**	**1,086**	**2,767**	**6,613**	**59**	**35,510**

EUR million	At fair value through profit or loss	Other liabilities	Hedging derivatives	Total
Liabilities				
Liabilities to credit institutions		6,069		6,069
Financial liabilities held for trading (excl. derivatives)	34			34
Derivative conctracts	1,852		258	2,110
Liabilities to customers		4,932		4,932
Non-life Insurance liabilities	1	2,483		2,484
Debt instruments issued to the public		17,222		17,222
Subordinated liabilities		1,358		1,358
Other liabilities		2,161		2,161
Total 30 June 2010	**1,886**	**34,225**	**258**	**36,369**
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 June 2010, notes and bonds included EUR 10 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 June 2010, the fair value of these debt instruments was EUR 78 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 was EUR 52 million lower than their carrying amount.

Note 10. Non-life Insurance assets

EUR million	30 June 2010	31 Dec 2009
Investments		
Loans and other receivables	280	380
Equities	414	387
Property	77	78
Notes and bonds	1,500	1,392
Derivatives	2	1
Other	567	530
Total	**2,839**	**2,766**
Other assets		
Prepayments and accrued income	31	37
Other		
From direct insurance	281	214
From reinsurance	84	89
Cash in hand and at bank	5	4
Other receivables	54	44
Total	**455**	**389**
Total Non-life insurance assets	**3,294**	**3,156**

Note 11. Intangible assets

EUR million	30 June 2010	31 Dec 2009
Goodwill	516	516
Brands	173	173
Customer relationships	191	203
Other	63	68
Total	**943**	**960**

Note 12. Non-life Insurance liabilities

EUR million	30 June 2010	31 Dec 2009
Provision for unpaid claims		
Provision for unpaid claims for annuities	1,071	1,058
Other provision for unpaid claims	707	726
Total	1,778	1,784
Provision for unearned premiums	531	361
Derivatives	1	0
Other liabilities	174	134
Total	**2,484**	**2,279**

Note 13. Debt securities issued to the public

EUR million	30 June 2010	31 Dec 2009
Bonds	7,184	6,549
Certificates of deposit, commercial papers and ECPs	9,780	10,519
Other	258	227
Total	**17,222**	**17,295**

Note 14. Fair value reserve after income tax

EUR million	30 June 2010	31 Dec 2009
Loans and other receivables		
Reclassified notes and bonds	-11	-17
Available-for-sale financial assets		
Notes and bonds	-18	53
Equities and mutual funds with equity risk	14	-35
Other funds	-7	0
Other	0	
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 -31 million (-0) and the related deferred tax asset amounted to EUR 8 million (0). On 30 June 2010, positive mark-to-market valuations of equity instruments before tax in the fair value reserve totalled EUR 52 million and negative mark-to-market valuations EUR 47 million. In Q1–2/2010, impairments recognised from the fair value reserve in the income statement totalled EUR 31 million.

Notes to risk management

Note 15. Risk exposure by Banking

Total exposure by rating category*, EUR billion

Rating category	30 June 2010	31 Dec 2009	Change
1–2	2.6	2.2	0.4
3–5	11.8	10.9	0.8
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	0.1
Internally rated	0.1	0.2	0.0
Total	**21.3**	**20.3**	**1.0**

*) excl. private customers

Sensitivity analysis of market risk

			30 June 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	4		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	12	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 June 2010, EUR million	Change in risk parameter	Effect on combined ratio	Effect on share-holders' equity, EUR million
Insurance portfolio or insurance premium revenue*)	945	Up 1%	Up 0.9 percentage point	9
Claims incurred*)	632	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*)	110	Up 8%	Down 0.9 percentage point	-9
Expenses by function*) **)	270	Up 4%	Down 1.1 percentage point	-11
Inflation for collective liability	488	Up 0.25 percentage points	Down 0.3 percentage points	-3
Life expectancy for discounted insurance contract liability	1 341	Up 1 year	Down 3.3 percentage points	-31
Discount rate for discounted insurance contract liability	1 341	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 June 2010	%	Fair value 31 Dec 2009	%
Money market instruments	125	4 %	101	4 %
Bonds and bond funds	2,097	71 %	2,067	72 %
Equities	360	12 %	364	13 %
Alternative investments	182	6 %	155	5 %
Real property	182	6 %	164	6 %
Total	**2,946**	**100 %**	**2,851**	**100 %**

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

Year(s)	0–1	1–3	3–5	5–7	7–10	10–	Total	%
Aaa	12	134	158	102	55	93	554	25 %
Aa1−Aa3	100	134	100	26	42	39	440	20 %
A1−A3	67	215	185	64	73	53	656	30 %
Baa1−Baa3	27	137	83	25	38	0	310	14 %
Ba1 or lower	59	51	63	26	8	12	218	10 %
Internally rated	5	4	6	1	2	6	24	1 %
Total	**270**	**675**	**594**	**244**	**217**	**203**	**2,202**	**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 June 2010	31 Dec 2009
Bonds and bond funds1)	Interest rate	1 percentage point	84	73
Equities 2)	Market value	20 percentage points	70	73
Venture capital funds and unquoted equities	Market value	20 percentage points	15	14
Commodities	Market value	20 percentage points	4	5
Real property	Market value	10 percentage points	18	16
Currency	Value of currency	20 percentage points	55	21
Credit risk premium 3)	Credit spread	0.5 percentage points	44	39
Derivatives 4)	Volatility	20 percentage points	0	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 June 2010	31 Dec 2009	Change
1–2	15.3	13.6	1.7
3–5	4.8	4.6	0.1
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	0.0		
Internally rated	0.0	0.0	0.0
Total	**20.2**	**18.3**	**1.9**

Sensitivity analysis of market risk

Group Functions, EUR million	Risk parameter	Change	30 June 2010 Effect on results	30 June 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 percentage point	11	0	2	3
Interest-rate volatility	Volatility	20 percentage points	0		1	
Credit risk premium *)	Credit spread	0.5 percentage points	0	113	0	68
Price risk						
Equity portfolio	Market value	20 percentage points		2		2
Private equity funds	Market value	20 percentage points		6		6
Property risk	Market value	10 percentage points	4		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 June 2010
EUR million

Year	**0–1**	**1–3**	**3–5**	**5–7**	**7–10**	**10–**	**Total**	**%**
Aaa	4,380	955	1,929	955	615	33	8,868	71 %
Aa1−Aa3	191	1,091	607	93	110	103	2,194	18 %
A1−A3	128	587	205	19	2		942	8 %
Baa1−Baa3	0	76	31	5			111	1 %
Ba1 or lower	0	20	44	33	12		110	1 %
Internally rated	89	70	85	26			270	2 %
Total	**4,789**	**2,800**	**2,900**	**1,131**	**739**	**135**	**12,494**	**100 %**

The residual maturity of liquidity reserves averages 3.7 years.

Other notes

Note 18. Collateral given

EUR million	**30 June 2010**	**31 Dec 2009**
Given on behalf of own liabilities and commitments		
Mortgages	1	1
Pledges	5,977	5,839
Other	256	308
Total collateral given	**6,233**	**6,147**
Total collateralised liabilities	**1,467**	**1,023**

Note 19. Off-balance-sheet commitments

EUR million	**30 June 2010**	**31 Dec 2009**
Guarantees	1,263	1,296
Other guarantee liabilities	1,409	1,283
Loan commitments	3,978	4,140
Commitments related to short-term trade transactions	114	98
Other	494	447
Total off-balance-sheet commitments	**7,258**	**7,264**

Note 20. Derivative contracts

30 June 2010	Nominal values/residual term to maturity			Total	Fair values	
EUR million	**<1 year**	**1–5 years**	**>5 years**		**Assets**	**Liabilities**
Interest rate derivatives	47,405	59,600	18,715	125,720	1,662	1,762
Currency derivatives	14,096	2,139	517	16,752	559	390
Equity and index derivatives	112	932	24	1,068	88	0
Credit derivatives	30	157		187	4	0
Other derivatives	3,864	264		4,128	7	20
Total derivatives	**65,508**	**63,091**	**19,256**	**147,855**	**2,318**	**2,173**

30 June 2009	Nominal values/residual term to maturity			Total	Fair values	
EUR million	**<1 year**	**1–5 years**	**>5 years**		**Assets**	**Liabilities**
Interest rate derivatives	28,505	47,761	10,267	86,532	1,247	1,300
Currency derivatives	12,952	1,714	660	15,326	161	425
Equity and index derivatives	160	702	31	893	39	0
Credit derivatives	108	188		296	3	13
Other derivatives	3,982	131		4,113	1	26
Total derivatives	**45,706**	**50,496**	**10,958**	**107,161**	**1,452**	**1,764**

Note 21. Other contingent liabilities and commitments

On 30 June 2010, Banking commitments to venture capital funds amounted to EUR 14 million and Non-Life Insurance commitments to EUR 125 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, 4 August 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.

Meeting for analysts

A meeting for analysts will be held in Finnish on 4 August 2010, starting at 10.30 am. A conference call for analysts and investors will be held in English on the same day starting at 3.30 pm (Finnish time) (1.30 pm UK time), tel +358 (0)20 699121, PIN code 845143#.

Mikael Silvennoinen, Pohjola Bank plc's President and CEO, will present the financial results in a press conference at OP-Pohjola Group Central Cooperative (Teollisuuskatu 1 b, Vallila, Helsinki), on 4 August, starting at noon.

Financial reporting in 2010

Schedule for Interim Reports in 2010:

Interim Report Q1–3	3 November

DISTRIBUTION
NASDAQ OMX Helsinki Ltd
London Stock Exchange
Major media
www.pohjola.fi, www.op.fi

For additional information, please contact
Mikael Silvennoinen, President and CEO, tel. +358 (0)10 252 2549
Jouko Pölönen, CFO, tel. +358 (0)10 252 3405
Tarja Ollilainen, Senior Vice President, Investor Relations, tel. +358 (0)10 252 4494