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Report by the Board of Directors 2010

- Year on year, consolidated earnings before tax improved to EUR 308 million (265). Excluding non-recurring items (an increase in technical provisions of EUR -35 million due to higher life expectancy, removal of EUR 15 million provision for the joint guarantee system and net income of EUR 6 million from corporate transactions within Asset Management), earnings before tax were EUR 322 million. Earnings include EUR 104 million (129) in impairment charges on receivables. Earnings before tax at fair value were EUR 291 million (508) and return on equity at fair value stood at 9.3% (19.2).
- Banking posted earnings before tax of EUR 133 million (117), with impairment charges on receivables eroding its earnings by EUR 105 million (117). The operating cost/income ratio stood at 35% (35).
- Excluding changes in reserving bases and amortisation on intangible assets arising from company acquisition, Non-life Insurance's operating combined ratio stood at 89.7% (87.7). Within Non-life Insurance, return on investments at fair value was 5.1% (10.7).
- Asset Management reported earnings before tax of EUR 31 million (21), which included EUR 6 million in net non-recurring income related to corporate transactions. Assets under management increased to EUR 35 billion (33.1).
- Capital gains on notes and bonds improved earnings before tax posted by the Group Functions
- The Board of Directors proposes that a per-share dividend of EUR 0.40 (0.34) be paid on Series A shares and EUR 0.37 (0.31) on Series K shares. This means a dividend payout ratio of 55%.
- Outlook: Consolidated earnings before tax in 2011 are expected to be higher than in 2010. For more detailed information on outlook, see "Outlook for 2011" below.

Earnings before tax

€ million	2010	2009	Change, %
Banking	133	117	14
Non-life Insurance	83	102	-19
Asset Management	31	21	47
Group Functions	61	25	148
Total	308	265	16
Change in fair value reserve	-17	243	
Earnings before tax at fair value	291	508	-43

Key indicators

	2010	2009	Target
Earnings before tax, € million	308	265	
Profit for the period, € million	229	194	
Return on equity at fair value, %	9.3	19.2	13
Balance sheet total, € billion	36.2	35.5	
Shareholders' equity, € billion	2.4	2.3	
Tier 1 ratio, %	12.5	11.8	>9.5
Earnings per share, €	0.72	0.66	
Earnings per share, incl. change in fair value, €	0.68	1.27	
Equity per share, €	7.44	7.09	
Average personnel	3,005	2,966	

Operating environment

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

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

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

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

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

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

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

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

The strong profitability of Non-life Insurance was affected by the exceptional weather conditions in 2010. An increase in premiums written remained low as in the previous year, due to the declining premiums paid by the corporate sector. Greater economic activity is expected to increase claims incurred more than premiums written during 2011.

Consolidated earnings

Earnings analysis

€ million	2010	2009	Change %
Net interest income			
Corporate and Baltic Banking	172	138	25
Markets	27	27	-2
Other operations	59	75	-22
Total	258	241	7
Net commissions and fees	164	143	14
Net trading income	35	71	-50
Net investment income	31	-13	
Net income from Non-life Insurance			
Insurance operations	327	382	-15
Investment operations	92	64	45
Other items	-30	-44	-30
Total	388	402	-3
Other operating income	50	50	-1
Total income	926	895	4
Personnel costs	199	190	5
IT expenses	76	75	1
Depreciation and amortisation	72	72	1
Other expenses	168	164	3
Total expenses	514	501	3
Earnings before impairments of receivables	412	394	5
Impairments of receivables	104	129	-19
Earnings before tax	308	265	16
Change in fair value reserve	-17	243	
Earnings before tax at fair value	291	508	-43

Earnings before tax amounted to EUR 308 million (265), up by 16% year on year, and earnings excluding non-recurring items were EUR 322 million. Non-life Insurance non-recurring items under net income derives from an increase in technical provisions due to higher life expectancy and the removal of provision for the joint guarantee system, with their negative net effect on earnings totalling EUR 20 million. Net income related to corporate transactions within Asset Management improved earnings by EUR 6 million.

Earnings before impairment charges on receivables totalled EUR 412 million (394), or 5% higher than a year ago. These impairment charges were EUR 25 million lower than the year before, or EUR 104 million (129).

Earnings before tax at fair value came to EUR 291 million (508).

Total income increased by 4% to EUR 926 million (895) and expenses by 3% to EUR 514 million (501).

Net interest income rose to EUR 258 million (241), up by 7% year on year. Net interest income from Corporate Banking showed rose by 25%, thanks to growth in the loan portfolio and a rise in the average margin.

Net commissions and fees increased to EUR 164 million (143), up by 14% year on year, due mainly to higher net commissions and fees reported by Asset Management, in addition to those from securities issuance and brokerage.

Net trading income amounted to EUR 35 million (71). Income reported a year ago was exceptionally high because of the favourable market situation.

Net investment income totalled EUR 31 million (-13). This figure includes realised capital gains of EUR 29 million recognised on the notes and bonds. Adjustments for real property acquisition costs reduced net investment income a year ago.

Net income from Non-life Insurance totalled EUR 388 million (402), or 3% lower than in the previous year. Net income includes a non-recurring increase of EUR-35 million in technical provisions due to higher life expectancy and a non-recurring income of EUR 15 million due to the removal of provision for the joint guarantee system.

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Other operating income includes EUR 7 million in capital gains arising from corporate transactions within Asset Management.

Expenses rose by 3% to EUR 514 million (501). Personnel costs increased by 5% year on year, due mainly to higher pension costs. The number of Group employees increased by 41 from their level on 31 December 2009. Other expenses include million euros in non-recurring expenses related to an Asset Management corporate transaction.

The fair value reserve before tax decreased by EUR 17 million (increase of 243). On 31 December, the fair value reserve after tax stood at EUR -12 million, as against EUR 0 million on 31 December 2009.

Risk exposure

Risk management

The purpose of risk management is to identify threats and opportunities affecting strategy implementation. The objective is to help achieve the targets set in the strategy by ensuring that risks are proportional to risk-bearing capacity.

Major risks exposed by Pohjola Group include credit, credit spread, interest rate, currency, equity, commodity and liquidity risks, as well as underwriting risks and market credit risks associated with investments. Strategic and operational risks, such as changes in the economic situation, competition or customer behaviour, are inherently related to all Group business lines.

Detailed information on risk management principles can be found in the note "Risk management and capital adequacy management principles".

Group risk exposure

The Group's risk exposure remained favourable. Impairment charges in the fourth quarter were markedly lower than in the previous quarter and those in full year 2010 by around one-fifth lower than a year ago. Investment-grade exposures remained at good levels. The creditworthiness of corporate customers with a lower rating showed stabilisation in the wake of the economic recovery and the ratio of doubtful receivables to the loan and guarantee portfolio remained low. The Group kept market risks moderate throughout the financial year.

The financial position and liquidity remained at a healthy level in 2010, with short-term and long-term funding performing well. 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 9.5 billion (11.7) on 31 December 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. "Risk exposure by Group Functions" provides a more detailed description of the liquidity portfolio and liquidity buffer.

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. In 2010, Pohjola recognised EUR 0.5 million in recovery of impairment losses on the liquidity portfolio while impairment losses on the portfolio a year ago totalled EUR 12 million.

Net loan losses and impairment losses recognised for the financial year reduced earnings by EUR 104 million (129), accounting for 0.73% (0.94) of the loan and guarantee portfolio. Final loan losses recognised for the year totalled EUR 45 million (15) and impairment charges EUR 111 million (140). Loan loss recoveries and allowances for impairments totalled EUR 52 million (26). Almost all of the net loan losses and impairment losses were those recognised on an individual basis.

Doubtful receivables decreased by EUR 12 million to EUR 31 million, accounting for 0.22% (0.32) of the loan and guarantee portfolio.

The Group expects its risk exposure to improve further as a result of the economic recovery underway, the previous quarters' downward trend of impairment charges and the low level of doubtful receivables.

Operational risks

The most significant, identified operational risks pertain to systems, business processes, the accuracy of documentation, and the allocation of resources. Materialised operational risks resulted in EUR 3.3 million (3.2) in costs in 2010.

Country risk

A significant part of Pohjola Group's country risk pertains to the liquidity portfolio and the investment portfolio managed by Non-life Insurance. On 31 December, the amount of secondary country risk, excluding Finland, came to EUR 12.3 billion, up by EUR 0.3 billion over the previous year, the majority of the higher country risk coming from bonds. The Group increased investments in foreign government and covered bonds in order to maintain OP-Pohjola Group's liquidity buffer. By region, the majority of the country risk applied to EU member states, with non-EU countries accounting for 17% of country risk.

Capital adequacy

Capital adequacy under the Act on Credit Institutions remained strong. The capital adequacy ratio stood at 13.3% (13.5) as against the statutory minimum requirement of 8%. Tier 1 ratio was 12.5% (11.8). Pohjola Group's Tier 1 target ratio stands at a minimum of 9.5% over the economic cycle. Excluding hybrid capital, Tier 1 ratio stood at 10.5% (9.7).

Tier 1 capital came to EUR 1,692 million (1,541) and the total capital base amounted to EUR 1,803 million (1,753). Hybrid capital accounted for EUR 274 million (274) of Tier 1 capital. The minimum regulatory capital requirement to cover credit risk amounted to EUR 985 million (957), that to cover market risk EUR 37 million (36) and that to cover operational risks EUR 59 million (49).

On 31 December 2010, risk-weighted assets totalled EUR 13,520 million, as against EUR 13,024 million a year earlier.

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 1.71 (1.73). Accordingly, the capital base totalled EUR 2,147 million (2,103) and the minimum capital requirement EUR 1,258 million (1,213), i.e. the total capital base exceeded the minimum regulatory requirement by EUR 889 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, to decrease banks' indebtedness and to set quantitative limits to liquidity risk. These changes are still under preparation, due to be effective between 2013 and 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 to be finalised only in national legislation.

Capital structure and adequacy

€ million	31 Dec 2010	31 Dec 2009
Tier 1 capital		
Shareholders' equity	2,377	2,267
*) Consolidation group's equity which excludes the effect of insurance companies on the Group's shareholders' equity	93	92
Fair value reserve, transfer to Tier 2	36	-18
Non-controlling interests		0
Tier 1 capital before deductions and hybrid capital	2,505	2,341
Hybrid capital	274	274
Intangible assets	-165	-145
Excess funding of pension liability and fair value measurement of investment property	-30	-31
Profit distribution as proposed by the Board	-126	-107
Investment in insurance companies and financial institutions 50%	-705	-715
Impairments – shortfall of expected losses 50%	-61	-76
Net Tier 1 capital	1,692	1,541
Tier 2 capital		
Fair value reserve (excl. cash flow hedge valuation)	-29	18
Perpetual bonds	299	299
Debt loans	608	687
Investment in insurance companies and financial institutions 50%	-705	-715
Impairments – shortfall of expected losses 50%	-61	-76
Net Tier 2 capital	111	212
Total capital base	1,803	1,753
Deductions from Tier 1 and 2 capital		
Investment in insurance companies and financial institutions	-1.41	-1.43
Impairments – shortfall of expected losses	-122	-153

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Total	-1,531	-1,583
Risk-weighted assets, without transitional rules	13,520	13,024
Risk-weighted assets, under transitional rules	13,520	13,024
Ratios, without transitional rules:		
Capital adequacy ratio, %	13.3	13.5
Tier 1 ratio, %	12.5	11.8
Ratios, under transitional rules:		
Capital adequacy ratio, %	13.3	13.5
Tier 1 ratio, %	12.5	11.8

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

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

€ million	31 Dec 2010	31 Dec 2009
Pohjola Group's own capital	2,377	2,267
Business-segment-specific items	1.23	1,309
Goodwill and intangible assets	-862	-869
Equalisation provisions	-314	-309
Other items included in equity capital and business-segment-specific items, but not included in the conglomerate's capital base	-277	-296
Conglomerate's total capital base	2,154	2,103
Regulatory capital requirement for credit institutions	1,082	1,042
Regulatory capital requirement for insurance operations	177	171
Total minimum amount of conglomerate's capital base	1,259	1,213
Conglomerate's capital adequacy	895	890
Conglomerate's capital adequacy ratio (capital base/minimum of capital base)	1.71	1.73

OP-Pohjola Group's capital adequacy ratio under the Act on Credit Institutions stood at 12.8% and the Tier 1 ratio at 12.8%. OP-Pohjola Group's capital adequacy ratio under the Act on the Supervision of Financial and Insurance Conglomerates, calculated using the consolidation method, was 1.70.

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 but the outlook for the short-term debt ratings is stable. Moody's Investor Service has affirmed negative outlook for Pohjola's long-term debt rating. The main reason for the negative outlook is the prior years' rapid deterioration of the Finnish economy and its potential effects on Pohjola and OP-Pohjola Group mainly operating in Finland.

Pohjola Insurance Ltd's financial strength ratings

In January 2010, Standard & Poor's affirmed Pohjola Insurance Ltd's financial strength rating (A+). The financial strength rating by Moody's is A2, with negative outlook.

Financial targets and actuals

Financial targets and actuals

	2010	2009	Target
Group			
Return on equity at fair value, %	9.3	19.2	13
Tier 1 ratio, %	12.5	11.8	>9.5
Banking			
Operating cost/income ratio, %	35	35	<40
Non-life Insurance			
Operating combined ratio, %	89.7	87.7	92
Operating expense ratio, %	21.3	22.2	<20
Solvency ratio, %	86	88	70
Asset Management			
Operating cost/income ratio, %	53 1)	53	<50
Rating			
AA rating affirmed by at least two credit rating agencies	3	3	≥ 2
Dividend policy			
Dividend payout ratio a minimum of 50%, provided that Tier 1 a minimum of 9,5%	55	51	>50

1) Excl. items related to corporate transaction

The financial targets are set over the economic cycle.

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Banking

- Earnings before tax amounted to EUR 133 million (117). Impairment charges on receivables dropped by EUR 12 million to EUR 105 million.
- The corporate loan portfolio was up by 6% and the average margin rose by 3 basis points to 1.36%, improving net interest income by a quarter.
- The Markets division's financial performance was good although net trading income decreased from the exceptionally good level posted a year ago in the wake of the normalisation of markets.
- Operating cost/income ratio stood at 35%, which was at the previous year's level and markedly above the strategic target.

Banking: financial results and key figures and ratios

Financial results, € million	2010	2009	Change, %
Net interest income			
Corporate and Baltic Banking	172	138	25
Markets	27	27	-2
Total	199	165	20
Net commissions and fees	93	85	9
Net trading income	47	78	-39
Other income	29	30	-3
Total income	368	358	3
Expenses			
Personnel costs	54	50	8
IT expenses	24	21	14
Depreciation and amortisation	25	28	-10
Other expenses	27	25	6
Total expenses	130	125	5
Earnings before impairments of receivables	238	234	2
Impairments of receivables	105	117	-10
Earnings before tax	133	117	14
Earnings before tax at fair value	133	120	11
Loan and guarantee portfolio, € billion	14.0	13.4	4
Margin on corporate loan portfolio, %	1.36	1.33	
Ratio of doubtful receivables to loan and guarantee portfolio, %	0.22	0.32	
Ratio of impairments of receivables to loan and guarantee portfolio, %	0.75	0.87	
Operating cost/income ratio, %	35	35	
Personnel	657	607	8

Earnings

Earnings before tax amounted to EUR 133 million (117). Impairment charges on receivables decreased to EUR 105 million (117).

The loan portfolio grew by 6% from its year-end level to over EUR 11.4 billion, whereas it shrank by 7% in 2009. The market share of corporate loans remained stable, standing at almost 20%. The guarantee portfolio decreased by less than EUR 0.1 billion to EUR 2.6 billion from its year-end level. Committed standby credit facilities remained unchanged at EUR 2.8 billion.

Due to fiercer competition, new corporate loan margins stopped rising. The average corporate loan margin of 1.36% was 3 basis points higher on 31 December than the year before. Thanks to the larger loan portfolio and the higher average margin, Corporate Banking improved its net interest income by a quarter.

Net commissions and fees were 8% higher than a year ago. Pohjola holds a strong position as an arranger of 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 reported its second best annual results ever. Corporate customers increased considerably their use of derivatives in an effort to hedge against risks associated with their assets and liabilities, and customer trading volumes grew over the previous year in foreign exchange and derivative products in particular. Net trading

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income decreased from the exceptionally good level posted a year ago in the wake of the normalisation of markets.

Baltic Banking showed favourable development in its financial performance and its loss halved to EUR 4 million, as a result of higher net interest income and lower impairment charges on receivables.

The cost/income ratio remained good, standing at 35%. Total expenses grew by 5%.

Risk exposure by Banking

Credit risk exposure

Credit risk monitoring highlights developments in total exposure and customer credit rating. Total exposure means the total amount of receivables and off-balance-sheet items vulnerable to credit risk, involving interest and the principal less impairment charges on individually assessed receivables.

As a result of the economic recovery, the stabilisation of corporate customers' creditworthiness and lower impairment charges, risk exposure by Banking remained favourable. In 2010, total exposure increased by EUR 0.7 billion to EUR 21.8 billion.

Total exposure by counterparty

€ billion	31 Dec 2010	31 Dec 2009	Change, %
Companies and housing associations	16.6	16.4	1
Credit institutions	3.1	2.7	16
Member banks and OP-Pohjola Group Central Cooperative	0.1	0.2	-50
Public-sector entities	1.1	0.9	15
Households	0.8	0.8	4
Non-profit organisations	0.2	0.2	14
Total	21.8	21.1	3

With respect to total exposure by counterparty, total exposure is divided into six customer groups, corporate customers constituting the largest group, accounting for 76% (78) of total exposure. Year on year, corporate exposure increased by EUR 0.2 billion, or 1.3%, loans and guarantees representing 60%, leasing and factoring 14% and unused and standby credit facilities 19%.

Total exposure by rating category, € billion

Rating category	31 Dec 2010	31 Dec 2009	Change, € bn
1-2	2.4	2.2	0.2
3-5	11.8	10.9	0.8
6-7	4.2	4.2	0
8-9	2.1	2.4	-0.3
10	0.1	0.1	-0.1
11-12	0.4	0.3	0
Non-rated	0.2	0.2	0
Households	0.8	0.8	0
Total	21.8	21.1	0.7

Total exposure by rating is based on the primary debtor's or counterparty's credit rating. In determining credit rating, neither collateral nor guarantees have been taken into account.

The ratio of investment-grade exposure - i.e. ratings 1-5 - to total exposure, excluding private customers, stood at 67% (64.0), the share of ratings 11-12 was 1.7% (1.6) and that of non-rated exposure 1% (1). Corporate exposure by rating improved during 2010 as the economy recovered and lending focused on counterparties with a good credit rating. The ratio of investment-grade corporate exposure to total corporate exposure rose by around three percentage points, from 57% to 61%, remaining at a healthy level.

Ratings are presented on the basis of rating categories by counterparty, with collateral or guarantees received for exposure not having been taken into account.

Corporate exposure by rating category, € million

Rating category	31 Dec 2010	31 Dec 2009	Change, € mn
1–2	819	584	235
3–5	9,221	8,779	442
6–7	3,920	4,034	-114
8–9	2,027	2,369	-340
10	50	125	-75
11–12	360	321	40
Non-rated	168	142	26
Total	16,567	16,353	213

The exposure of the lowest two rating categories stood at EUR 360 million, accounting for 2.2% (2.0) of the corporate exposure. Non-rated corporate exposure came to around EUR 0.2 billion, representing around 1% (1) of the corporate exposure.

Letting and Operation of Dwellings, and Manufacture of Machinery and Equipment constituted the largest two sectors, the former accounting for roughly 12% of the total corporate exposure and the latter for around 10%. Operation of Other Real Estates and Letting and Operation Dwellings showed the strongest growth in euro terms. Growth in corporate exposure stemmed from a number of industries, which further increased the corporate exposure's dispersion by industry.

On 31 December 2010, Baltic Banking exposures totalled EUR 124 million, accounting for less than 1% of the loan and guarantee portfolio.

Major customer exposure

Major customer exposure includes corporate customers and non-profit customers whose direct exposure exceeds 10% of the Group's capital base. The Group's capital base for the purpose of calculating major customer exposure rose from EUR 1,906 million to EUR 1,925 million, or by 1%.

On 31 December 2010, major corporate customer exposure totalled EUR 3.7 billion, up by EUR 0.8 billion on a year earlier. Major corporate customer exposure consisted of 14 Groups (11), accounting for 193% (154) of the capital base. A total of 79% (71) of major customer exposure was investment-grade exposure.

Past due payments and doubtful receivables

Past due payments fell by EUR 53 million to EUR 17 million and their ratio to the total loan and guarantee portfolio was 0.12% (0.51).

Doubtful receivables - non-performing, zero-interest and under-priced receivables - fell by EUR 12 million to EUR 31 million, and their ratio to the loan and guarantee portfolio was low, standing at 0.22% (0.33).

On 31 December 2010, impairment charges that reduce receivables totalled EUR 187 million (98), EUR 12 million (14) of which represented impairments on collectively assessed receivables. A total of EUR 26 million (32) of impairment charges applied to non-performing receivables.

Net loan losses and impairment losses reduced Banking earnings by EUR 104 million (117), accounting for 0.75% (0.87) of the loan and guarantee portfolio. The Baltic Banking share of net loan losses and impairment losses for January-December amounted to EUR 1 million.

Market risk exposure

Money market, foreign exchange and debt capital market operations within Banking are exposed to changes in market prices of interest rate, currency, commodity and credit risk premiums, of which the most relevant risk factors are interest rate and credit risks.

Interest rate risk exposure averaged EUR 6.4 million January-December, based on the 1-percentage-point change in the interest rate.

Overnight currency exposure and the associated risk remained low throughout the financial year. On 31 December 2010, net currency exposure amounted to some EUR 5 million (2). Foreign exchange trading focused on intraday trading.

Market risk sensitivity analysis

Banking, € million	Risk parameter	Change	31 Dec 2010	31 Dec 2009
Interest rate risk	Interest rate	1 pct point	4	5
Currency risk	Market value	20 pct points	1	1
Volatility risk				
Interest rate volatility	Volatility	20 pct points	2	4
Currency volatility	Volatility	10 pct points	0	0
Credit risk premium *)	Credit spread	0.5 pct points	12	12

Derivatives business

Notes to the Financial Statements show derivative contracts by their purpose of use.

Non-life Insurance

- Earnings before tax amounted to EUR 83 million (102) and those without non-recurring items amounted to EUR 103 million.
- The balance on technical account remained good. The operating combined ratio stood at 89.7% (87.7).
- Insurance premium revenue increased by 2%.
- Insurance premiums paid using OP bonuses amounted to EUR 56 million. Customers used OP bonuses to pay over one million insurance premiums.
- Return on investments at fair value was 5.1% (10.7).

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

Financial results, € million	2010	2009	Change, %
Insurance premium revenue	964	943	2
Claims incurred	-694	-617	12
Operating expenses	-205	-210	-2
Amortisation adjustment of intangible assets	-31	-28	12
Balance on technical account	33	88	-62
Net investment income	87	61	43
Other income and expenses	-37	-46	-19
Earnings/loss before tax	83	102	-19
Earnings/loss before tax at fair value	139	290	-52
Combined ratio, %	96.6	90.7	
Operating combined ratio, %	89.7	87.7	
Operating expense ratio, %	21.3	22.2	
Return on investments at fair value, %	5.1	10.7	
Solvency ratio, %	86	88	
Personnel	2,090	2,070	

Earnings

Earnings before tax amounted to EUR 83 million (102) and those without non-recurring items amounted to EUR 103 million. Higher life expectancy in the mortality model commonly used by insurance companies added to technical provisions and increased claims incurred by EUR 35 million. As a result of legislative amendments, removing a provision for the guarantee scheme under statutory workers' compensation insurance and motor liability insurance, for its part, increased other income by EUR 15 million.

The balance on technical account remained good. The balance on technical account before amortisation on intangible assets stood at EUR 64 million (116), the change in the mortality model reducing the balance by EUR 35 million. The operating balance on technical account amounted to EUR 99 million (116), excluding the change in the mortality model.

2010 was volatile in capital markets, which was reflected in investment income. Net investment income amounted to EUR 87 million (61) and net investment income at fair value reached EUR 143 million (249).

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. 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.

The year-end number of loyal customer households totalled 471,199, of which up to 60% 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. Since December 2010, OP bonus customers have earned bonuses from insurance premiums for Pohjola's home, family and motor vehicle policies. During January-December, OP bonuses were used to pay 1,088,800 insurance premiums, with 195,400 paid in full using bonuses. Insurance premiums paid using bonuses totalled EUR 56 million.

Insurance business

Profitability remained good despite the larger number of losses reported. The operating balance on technical account totalled EUR 99 million (116) and the operating combined ratio stood at 89.7% (87.7). These operating figures exclude non-recurring items, changes in reserving bases and amortisation on intangible assets arising from the corporate acquisition.

Insurance premium revenue increased by 2% to EUR 964 million (943). Its 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 premium revenue from corporate customers. This downward trend slowed down as the year progressed and the second-half premium revenue reached the level reported a year earlier. The recession also resulted in lower insurance premium revenue in the Baltic region.

Insurance premium revenue from Private Customers improved by 11% to EUR 470 million (424). The number of loyal customer households grew by 46,485 (35,448). Insurance policies sold well both in OP-Pohjola Group member banks and at car dealerships. Pohjola improved market position among private customers.

Insurance premium revenue from Corporate Customers dropped by 4% to EUR 445 million (461). The recession affected the corporate sector, reducing insurance premiums based on companies' payroll bills, net sales and operating profit. Statutory workers' compensation insurance was affected the most, with the level of premiums being lowered for 2010.

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

Claims incurred totalled EUR 694 million (617). The changed mortality model increased claims incurred by EUR 35 million and without this change they rose by 7%. Claims reported due to bad weather conditions early in the year and later-summer storms and the increasing number of major losses together with strong growth in the private customer insurance portfolio added to claims incurred. The operating loss ratio deteriorated to 68.4% (65.5) and the risk ratio (excl. loss adjustment expenses) stood at 62.5% (59.4). The reported number of major or medium-sized losses (in excess of EUR 0.1 million and over EUR 0.5 million in pension liabilities) came to 224 (190) in January-December, with their claims incurred retained for own account totalling EUR 109 million (85).

Operating expenses amounted to EUR 205 million (210). The operating expense ratio was 21.3% (22.2). The operating cost ratio (incl. loss adjustment expenses) stood at 27.2% (28.2).

The operating balance on technical account within Private Customers improved to EUR 76 million (48) because growth in claims incurred were lower than that in insurance premium revenue. The operating balance on technical account within Corporate Customers fell to EUR 24 million (62) as a result of lower insurance premium revenue and the larger number of major losses. The balance on technical account recorded by the Baltic States stood at EUR -1 million (6).

Investment

Return on investments at fair value was 5.1% (10.7). Net investment income recognised in the income statement amounted to EUR 87 million (61) and net investment income at fair value was EUR 143 million (249). Impairment charges recognised in the income statement totalled EUR 40 million.

On 31 December 2010, the investment portfolio totalled EUR 2,924 million (2,851), bonds and bond funds accounting for 71% (76) and listed equities for 12% (10). Unlisted equity investments plus the aforementioned equities represented a total of 14% (13). The fixed-income portfolio by credit rating remained healthy, considering that investments under "investment-grade" represented 91% (94) and 77% of the investments were rated at least A-. The average residual term to maturity of the fixed-income portfolio was 5.3 years (4.9) and the duration 4.1 years (3.3).

Risk exposure by Non-life Insurance

On 31 December 2010, Non-life Insurance solvency capital stood EUR 832 million (827), accounting for 86% (88) of insurance premium revenue.

The Board of Directors has confirmed credit rating A as the target for Non-life Insurance. Credit rating issued by Standard & Poor's for Pohjola Insurance Ltd is A+ (December 2010).

Underwriting risk exposure

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

Normal fluctuations in business operations are reflected in changes in earnings and shareholders' equity. The table below shows the effect of various risk parameters on shareholders' equity:

Underwriting risk exposure

Risk parameter	Total amount 31 Dec 2010, € million	Change in risk parameter	Effect on combined ratio	Effect on shareholders' equity, € million
Insurance portfolio or insurance premium revenue	964	Up 1%	Up 0.9 pct points	10
Claims incurred	694	Up 1%	Dow n 0.7 pct points	-7
Large claim of over EUR 5 million		1 loss	Dow n 0.5 pct points	-5
Personnel costs	110	Up 8%	Dow n 0.9 pct points	-9
Expenses by function *)	267	Up 4%	Dow n 1.1 pct points	-11

* Expenses by function in Non-life Insurance excluding expenses for investment management and expenses for other services rendered.

The number and size of claims vary annually. The year-on-year variation in earnings generated by the underwriting business is, to a large extent, explained by the claims incurred due to major losses. The number of major and medium-sized losses for 2010 came to 224 (190) and their claims incurred retained for own account totalled EUR 109 million (85).

A large part of Non-life Insurance technical provisions consists of annuities affected by estimated mortality, the inflation rate and the discount rate used. In their joint actuarial project launched in the spring of 2010, the Federation of Accident Insurance Institutions and the Finnish Motor Insurers' Centre examine whether the mortality model commonly used by Finnish insurers and applied to motor liability insurance and statutory workers' compensation insurance is up to date. The preliminary findings based on the first stage of the project reveals that life expectancy has increased in Finland, which is why Pohjola increased its technical provisions by EUR 35 on a non-recurring basis. The spring of 2011 should see more specified results. The table below shows the sensitivity of technical provisions by parameter.

Risk parameter	Change in risk parameter	Effect on shareholders' equity, € million
Inflation rate	+0.25 pct points	-3
Life expectancy	+ 1 year	-32
Discount rate	-0.1 pct point	-17

Discounted technical provisions of EUR 1,381 million (1,331), with a duration of 11.9 years (11.9), were discounted using a 3.5% interest rate (3.5), while the remaining technical provisions, EUR 843 million (814), were undiscounted, with a duration of 2.4 years (2.4).

Investment risk exposure

On 31 December 2010, the Non-life Insurance investment portfolio totalled EUR 2,924 (2,851), consisting of investments covering both technical provisions and the solvency capital. Bonds accounted for 71% (72) and listed equities for 12% (10). During the second half of 2010, the Group increased the share of equities in the portfolio.

Non-life Insurance investment portfolio by allocation

Portfolio allocation	Fair value 31 Dec 2010, € million	%	Fair value 31 Dec 2009, € million	%
Money market instruments	14	0	101	4
Bonds and bond funds	2,074	71	2,067	72
Equities and private equity investments	422	14	364	13
Alternative investments	207	7	155	5
Real property	207	7	164	6
Total	2,924	100	2,851	100

The average credit rating of the Non-life Insurance fixed-income portfolio was A+ (A+) (by Standard & Poor's) and

The mark of a good group ★

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A1 (A1) (by Moody's), which was the same as a year earlier. The average residual maturity of the fixed-income portfolio was 5.3 years (4.9) and the duration 4.1 years (3.3). On 31 December 2010, the fixed-income portfolio's current interest rate was 4.1% (3.5).

Non-life Insurance fixed-income portfolio by maturity and credit rating on 31 December 2010, € million

Year(s)	0–1	1–3	3–5	5–7	7–10	10–	Total	%
Aaa	31	108	195	59	50	71	514	24%
Aa1–Aa3	87	112	120	38	23	32	413	19%
A1–A3	79	211	205	90	68	79	732	34%
Baa1–Baa3	42	93	85	35	36	0	290	14%
Ba1 or lower	50	58	31	19	5	17	180	8%
Internally rated	5	1	5	0	1	3	16	1%
Total	295	583	641	241	184	203	2,145	100%

The table excludes credit derivatives.

Non-life Insurance's uncovered currency position was EUR 242 million (223), accounting for 8% of the investment portfolio. The Group has been active in hedging against currency risks using currency derivatives.

Return on investments at fair value stood at 5.1% (10.7), or close to the expected long-term return.

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

Non-life Insurance	Risk parameter	Change	Effect on shareholders' equity, € million	
			31 Dec 2010	31 Dec 2009
Bonds and bond funds 1)	Interest rate	1 pct point	92	73
Equities 2)	Market value	20 pct points	83	73
Private equity funds and unquoted equities	Market value	20 pct points	16	14
Commodities	Market value	20 pct points	5	5
Real property	Market value	10 pct points	21	16
Currency	Value of currency	20 pct points	48	21
Credit risk premium 3)	Credit spread	0.5 pct points	47	39
Derivatives	Volatility	20 pct 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

Asset Management

- Earnings improved by 47% to EUR 31 million (21), including net income of EUR 6 million deriving from corporate transactions.
- Assets under management increased by 6% to EUR 35.0 billion (33.1).
- Operating cost/income ratio stood at 53% (53).

Asset Management: financial results and key figures and ratios

Financial results, € million	2010	2009	Change, %
Net commissions and fees	58	50	16
Other income	9	2	283
Total income	67	52	29
Personnel costs	21	17	19
Other expenses	15	13	13
Total expenses	35	30	16
Earnings before tax	31	21	47
Earnings before tax at fair value	31	21	47
Assets under management, € billion	35.0	33.1	6
Operating cost/income ratio, %	53	53	
Personnel	144	162	-11

Earnings

Year on year, earnings before tax improved by 47% to EUR 31 million (21), including net income of EUR 6 million deriving from corporate transactions. Net commissions and fees rose by 16% despite a reduction in performance-based management fees amounting to EUR 4 million (9). The operating cost/income ratio stood at 53% (53).

Year on year, assets under management increased by 6%, totalling EUR 35.0 billion (33.1) on 31 December 2010. A good net assets inflow and favourable market developments contributed to this increase. Of the assets under management, institutional clients accounted for EUR 19.5 billion (19.2), OP mutual funds for EUR 12.0 billion (11.4) and Pohjola Private for EUR 3.4 billion (2.5).

Of the assets under management, money-market investments represented 14% (11), bonds 39% (42), equities 29% (27) and other investments 18% (20).

Risk exposure by Asset Management remained favourable.

Group Functions

- Earnings before tax totalled EUR 61 million (25). Capital gains on notes and bonds and lower impairment charges year on year contributed to this improvement.
- With the European sovereign debt crisis widening credit spreads, earnings before tax at fair value fell by EUR 88 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	2010	2009	Change, %
Net interest income	64	75	-14
Net trading income	-9	-7	
Net investment income	31	-13	
Other income	12	17	-29
Total income	98	72	36
Personnel costs	15	13	18
Other expenses	23	23	0
Total expenses	38	36	7
Earnings before impairments of receivables	60	36	66
Impairments of receivables	-1	12	
Earnings before tax	61	25	148
Earnings/loss before tax at fair value	-12	76	
Liquidity portfolio, € billion	9.5	11.7	-19
Receivables and liabilities from/to OP-Pohjola Group entities, net position, € billion	3.4	2.9	
Personnel	126	136	

Earnings

Earnings before tax increased by EUR 36 million to EUR 61 million, year on year. Net investment income included EUR 29 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 (9). Impairments recognised on bonds came to EUR -1 million (12), or EUR 13 million lower than a year ago.

The availability of funding remained good. During the financial year, 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 31 December 2010, equalling the amount reported a year earlier.

Average funding costs will rise when maturing long-term debt is renewed at higher market rates. On 31 December, the average wholesale funding margin was 26 basis points (14).

Pohjola Bank plc's net receivables from OP-Pohjola Group retail banks and entities increased to EUR 3.4 billion. On 31 December 2009, the net position amounted to EUR 2.9 billion.

With the European sovereign debt crisis widening credit spreads, loss before tax at fair value was EUR 12 million, or EUR 88 million lower than the year before.

Risk exposure by Group Functions

Credit risk exposure

On 31 December 2010, the Group Functions exposure totalled EUR 18.1 billion, consisting of the liquidity portfolio and receivables from OP-Pohjola Group member banks. Almost all of the exposure was based on investment-grade counterparties.

Group member banks and OP-Pohjola Group Central Cooperative with its subsidiaries form a significant customer group for Pohjola Bank plc acting as OP-Pohjola Group's central financial institution. Group member banks' and OP-Pohjola Group Central Cooperative's exposure increased by EUR 1.2 billion, or roughly 17%, due to the growth rate of lending by Group member banks higher than that of deposits. All of their exposure was investment-grade exposure.

The Group Functions maintains the liquidity portfolio in order to secure OP-Pohjola Group's liquidity. The liquidity portfolio amounted to EUR 9.5 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.

Financial assets included in the liquidity portfolio by balance sheet item on 31 December 2010

€ million	31 Dec 2010	31 Dec 2009
Deposits	1,500	2,600
Short-term notes and bonds	66	560
Long-term notes and bonds		
Financial assets held for trading	457	856
Financial assets at fair value through profit or loss	12	55
Available-for-sale financial assets	5,296	4,215
Held-to-maturity investments	928	1,086
Loans and other receivables	1,208	2,291
Total liquidity portfolio	9,466	11,663

Financial assets included in the liquidity portfolio by maturity and credit rating on 31 December 2010

Year(s)	0–1	1–3	3–5	5–7	7–10	10–	Total	%
Aaa	1,654	696	1,730	858	811	2	5,752	61
Aa1–Aa3	87	978	603	120	215	0	2,003	21
A1–A3	96	755	100	27	0	0	979	10
Baa1–Baa3	106	176	51	5	0	0	337	4
Ba1 or lower	0	30	35	29	0	0	94	1
Internally rated	62	99	99	40	0	0	300	3
Total	2,006	2,735	2,618	1,079	1,026	2	9,466	100

The residual maturity of the liquidity portfolio averaged 4 years. Internally rated financial assets consist mainly of bonds issued by Finnish companies and institutions.

Market risk exposure

The most significant market risks exposed by the Group Functions comprise credit spreads of the liquidity portfolio and interest rate risk exposed by the banking book.

As a result of the 2008 reclassification of assets within the liquidity portfolio, a significant part of the assets belong to asset categories in which changes in credit risk premiums will not lead to volatility. These new investments were recognised in the available-for-sale category, in which case changes in credit risk premiums will be reflected in the shareholders' equity. Credit risk premium sensitivity increased in 2010 as a result of the liquidity portfolio's longer duration.

Interest rate risk exposure averaged EUR 14.1 million in the fourth quarter and EUR 11.0 million in January–December, based on the 1-percentage-point change in the interest rate.

On 31 December 2010, the market value of equity and private equity funds came to EUR 38 million (37), of which private equity funds with their investment commitments accounted for EUR 29 million (32). Capital tied to property holdings came to EUR 35 million (28), of which property in own use accounted for EUR 3 million (2). Holdings in real estate investment trusts totalled EUR 0.3 million (2).

Market risk sensitivity analysis

Group Functions, € million	Risk parameter	Change	31 Dec 2010	31 Dec 2009
Interest rate risk	Interest rate	1 pct point	6	2
Interest rate volatility	Volatility	20 pct points	0	1
Credit risk premium *)	Credit spread	0.5 pct points	121	68
Price risk				
Equity portfolio	Market value	20 pct points	2	2
Private equity funds	Market value	20 pct points	6	6
Property risk	Market value	10 pct points	4	3

Sensitivity figures are calculated as the sum of currencies' intrinsic value.

*) The credit risk premium is calculated on available-for-sale notes and bonds at fair value through profit or loss, included in the liquidity portfolio.

Personnel

On 31 December 2010, the Group had a staff of 3,016, up by 41 on a year earlier.

A total of 657 Group employees (607) worked for Banking, 2,090 for Non-life Insurance (2,070), 144 for Asset Management (162) and 126 for the Group Functions (136), and 338 employees (344) worked abroad.

Capital expenditure

Gross capital expenditure for 2010 totalled EUR 17 million (18), EUR 6 million (7) allocated to Banking, EUR 9 million (9) to Non-life Insurance, EUR 1 million (1) to Asset Management and EUR 1 million (1) to the Group Functions, consisting mainly of ICT investments.

Corporate responsibility

Pohjola's corporate responsibility is built on the company's core values. Pohjola enhances corporate responsibility as part of OP-Pohjola Group's corporate responsibility and strategy.

The strategy and a corporate responsibility programme prepared on its basis provide the guidelines and set the goal for social corporate responsibility shared by Pohjola and the entire OP-Pohjola Group. This programme determines the Group's corporate social responsibility themes, focus areas and proposed measures and their targets and indicators.

Pohjola's representatives were involved in drawing up the corporate responsibility programme and the related environmental objectives. Non-life Insurance has a major role in environmental work, such as a climate programme launched and aimed at systematically reducing the company's carbon footprint and reporting the climate effects of operations while providing customers in the future with a diverse range of products and services related to fighting climate change. Analysing OP-Pohjola Group's carbon footprint was one concrete action under the climate programme.

Economic responsibility aspects are in focus in corporate responsibility issues in the financial sector, for which Pohjola has an extensive range of management and monitoring tools. Fulfilling economic responsibility may relate, for example, to effective risk management and good corporate governance.

Pohjola Asset Management Ltd and OP Fund Management Company Ltd have signed the UN Principles for Responsible Investment (UN PRI) and have been accredited by the Carbon Disclosure Project (CDP). Pohjola aims to put such development work to use in other business lines and divisions too.

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.

Pohjola Insurance is branching out into the wellbeing-at-work business in 2011. For this purpose, it established a subsidiary, Pohjola Health Ltd, to provide expert services related to the analysis, management and measurement of employee wellbeing.

The merger of Pohjola Insurance Ltd and Pohjantähti Mutual Insurance Company was cancelled as a result of the rejection of the merger plan by Pohjantähti's Extraordinary General Meeting on 8 December 2010. A two-thirds vote in favour of the plan was required for the adoption. The merger plan was seconded by 32% of the votes. The merger plan prepared by both companies' Board of Directors was announced on 29 September 2010.

In December, all of the share capital of Pohjola Capital Partners Ltd, which makes direct equity investments in unlisted Finnish companies, was bought by the company's existing management and the company was renamed Vaaka Partners Ltd. The management buyout had no major effect on Pohjola Bank plc's financial results.

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

Shares and shareholders

Pohjola Bank plc shares are divided into Series A and K shares. Series A shares are freely transferable and traded on NASDAQ OMX Helsinki (Helsinki Stock Exchange), whereas the holding of Series K shares is restricted to entities within OP-Pohjola Group. These two share classes also differ in other respects. Accordingly, at a General Meeting of Shareholders Series A shares entitle their holders to one vote and Series K shares five votes. In addition, Series A shares pay an annual dividend, which is at least three (3) cents higher than the dividend declared on Series K shares.

On 31 December 2010, the number of Pohjola Bank plc shares totalled 319,551,415, the number of Series A shares amounting to 251,169,770 and representing 78.6% of all Pohjola shares and 42.4% of all votes. The number of Series K shares came to 68,381,645, representing 21.4% of all Pohjola shares and 57.6% of all votes.

On 31 December 2010, Pohjola Bank plc had 34,910 registered shareholders, down by 2,090 on a year earlier, private individuals accounting for 95% of all shareholders. The largest shareholder was OP-Pohjola Group Central Cooperative, the parent institution of Pohjola, representing 29.98% of all shares and 57.05% of all votes. The number of nominee registered shares increased from 15.6% a year ago to 20.1% on 31 December 2010.

On 31 December 2010, members of the Board of Directors and the Group's Executive Committee held a total of 126,687 Series A shares (131,602), accounting for 0.04% (0.04) of all Company shares and for 0.02% (0.02) of all votes.

On 31 December 2010, one Series A share closed at EUR 8.97, as against EUR 7.55 a year earlier. The share price reached a high of EUR 9.79 and a low of EUR 6.97.

During 2010, trading in Pohjola shares increased in euro terms from EUR 1,160 million a year ago to EUR 1,311 million. However, share trading in volume terms decreased from 175 million shares reported a year ago to 154 million.

A total of 25,080 Series K shares held by OP-Pohjola Group member cooperative banks were converted into Series A shares in 2010. Trading in the converted Series A shares began on 15 April 2010.

The Annual General Meeting (AGM) of 26 March 2010 authorised the Board of Directors to decide on one or several rights issues. The total number of Series A and Series K shares offered for subscription in such a rights issue may not exceed 24,000,000 and 6,000,000, respectively, or accounting for around 9% of the existing number of shares. The Board of Directors is also authorised to waive the shareholders' pre-emptive right (private placement), should there be, from the Company's perspective, a financially cogent reason to do so, in accordance with the Limited Liability Companies Act. In such a case, this authorisation may be exercised for the purpose of financing and executing company acquisitions or other transactions relating to the Company's business. The authorisation contains the Board of Directors' right of stipulating the terms and conditions of a share issue and on other matters relating to these measures. Based on the proposal, the Board of Directors also has the right to decide whether the subscription price will be entered in full or in part in the reserve for invested non-restricted equity or share capital. The authorisation is effective until the AGM in 2011. On the basis of the authorisation, the Board of Directors has not made any decision on a share issue. No such authorisations issued in the previous years were effective in 2010.

In 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. This ruling gained legal force on 26 July 2010.

In 2010, the Annual General Meeting did not make any decision on the buyback of treasury shares or issue any related authorisations. No such authorisations issued in the previous years were in other respects effective in 2010.

Information on shareholdings is available in Notes to the Parent Company's Financial Statements.

Per-share ratios' time series can be found at the end of this Report by the Board of Directors.

Decisions by the Annual General Meeting

Pohjola Bank plc's Annual General Meeting (AGM) of 26 March 2010 adopted the Financial Statements for 2009, discharged members of the Board of Directors and the President and CEO from liability and decided to distribute a dividend of EUR 0.34 per Series A share and EUR 0.31 per Series K share. The AGM confirmed the number of members of the Board of Directors at eight and approved the proposal by the Board of Directors for the alteration of the Articles of Association and for a Board share issue authorisation.

KPMG Oy Ab, Authorised Public Accountants, with Sixten Nyman, Authorised Public Accountant, (as reported by KPMG) acting as the chief auditor, was elected the Company's auditor.

Corporate management

The AGM elected the following members to the Board of Directors until the closing of the next AGM: Merja Auvinen, Managing Director; Jukka Hienonen, President and CEO; Simo Kauppi, Managing Director; Satu Lähteenmäki, Director of the Turku School of Economics; Harri Sailas, President and CEO; and Tom von Weymarn. Mr Sailas was a new Board member.

In addition to the abovementioned Board members, Reijo Karhinen, Chairman of the Executive Board of OP-Pohjola Group Central Cooperative, the parent institution, acts as the Chairman of the Board of Directors and Tony Vepsäläinen, President of OP-Pohjola Group Central Cooperative and Vice Chairman of the Executive Board of OP-Pohjola Group Central Cooperative, as Vice Chairman, in accordance with the Articles of Association.

At its organising meeting on 26 March 2010 held after the AGM, the Board of Directors of Pohjola Bank plc elected members to the Board's committees and assessed the status of its members' independence of the Company and its major shareholders.

The Remuneration Committee comprises Reijo Karhinen, Executive Chairman (Chairman); Tony Vepsäläinen (Vice Chairman); and Satu Lähteenmäki, Director of the Turku School of Economics.

The Risk Management Committee comprises Tony Vepsäläinen (Chairman); Simo Kauppi, Managing Director (Vice Chairman); and Harri Sailas, President and CEO.

The Audit Committee comprises Tom von Weymarn (Chairman); Merja Auvinen, Managing Director (Vice Chairman); and Jukka Hienonen, President and CEO.

In accordance with the Articles of Association, Reijo Karhinen, Executive Chairman of OP-Pohjola Group and Chairman of the Executive Board of OP-Pohjola Group Central Cooperative, acts as the Chairman of Pohjola's Board of Directors and Tony Vepsäläinen, Vice Chairman of the Executive Board of OP-Pohjola Group Central Cooperative, acts as the Vice Chairman.

The Board of Directors assessed the independence of its members and concluded that Jukka Hienonen, Satu Lähteenmäki and Tom von Weymarn are non-executive members independent of the Company and its major shareholders.

Jouko Pölönen, CFO of Pohjola Group, was appointed a new President of Pohjola Insurance Ltd, a Pohjola Bank plc subsidiary, and took up his duties on 1 January 2011. He succeeded Tomi Yli-Kyyny who had announced on 8 September 2010 that he would leave the company.

President and CEO Mikael Silvennoinen took sick leave for 6-8 weeks from the beginning of January 2011. During this period, Jouko Pölönen, President of Pohjola Insurance Ltd, is deputising for Mr Silvennoinen.

The Group Executive Committee comprises President and CEO Mikael Silvennoinen (Chairman), Mikko Koskimies, Jouko Pölönen, Reima Rytsölä, Eva Valkama and Petri Viertiö. Tomi Yli-Kyyny sat on the Executive Committee until the end of 2010.

Corporate Governance Statement

Pohjola Bank plc's Corporate Governance Statement can be found on the Company's website at www.pohjola.fi.

Representative offices and branches abroad

Pohjola Bank plc runs a representative office in St. Petersburg and had branches in Estonia, Latvia and Lithuania. In addition, it has subsidiaries in Estonia, Latvia and Lithuania engaged in non-life insurance and finance-company operations.

Joint responsibility

Pohjola Bank plc is a member of the central institution (OP Pohjola Group Central Cooperative) of the amalgamation, as referred to in "Laki talletuspankkien yhteenliittymästä" (Act on the Amalgamation of Deposit Banks), and belongs to said amalgamation.

Pohjola Bank plc, OP-Pohjola Group Central Cooperative as the central institution of the amalgamation, other companies belonging to the central institution's consolidation group, the central institution's member credit institutions and companies belonging to their consolidation groups, and credit institutions, financial institutions and service companies in which the abovementioned institutions jointly hold more than half of the voting rights form the amalgamation. Pohjola Group insurance companies are not members of the aforementioned amalgamation.

The member credit institutions within the amalgamation (over 200 OP-Pohjola Group's member banks, Pohjola Bank plc, Helsinki OP Bank Plc, OP Mortgage Bank and OP-Kotipankki Oyj) and the central institution are jointly and severally liable for each other's debts. A creditor who has not received payment of an overdue amount (principal debt) may demand payment from the central institution when the principal debt falls due. In such a case, the central institution must produce a statement referred to in said Act, showing the amount of liability apportioned to each member credit institution. This liability between the credit institutions is determined in proportion to the total assets shown in their most recently adopted balance sheets.

The member credit institutions, including Pohjola Bank plc, are obliged to participate in any necessary support measures aimed at preventing another member credit institution from going into liquidation, and to pay a debt for another member credit institution as referred to in Section 5 of "Laki talletuspankkien yhteenliittymästä".

Furthermore, upon insolvency of the central institution, a member credit institution shall have unlimited refinancing liability for the central institution's debts as laid down in the Co-operatives Act.

The central institution supervises the operations of its member credit institutions as specified in said Act, confirms the operating principles referred to in Section 5 of said Act with which it must comply, and issues instructions to the member credit institutions on capital adequacy and risk management, good corporate governance and internal control to secure liquidity and capital adequacy, as well as instructions on compliance with uniform accounting policies in the preparation of the amalgamation's consolidated financial statements.

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

By virtue of the law governing the Deposit Guarantee Fund, deposit banks as members of the amalgamation of cooperative banks (OP-Pohjola Group member banks, Pohjola Bank plc, Helsinki OP Bank Plc and OP-Kotipankki Oyj) are regarded as a single bank with respect to deposit guarantee. The Deposit Guarantee Fund reimburses a maximum of 100,000 euros to an individual account holder who has claims from deposit banks belonging to the amalgamation of cooperative banks.

Pohjola Bank plc belongs to the Investors' Compensation Fund which will safeguard investors' undisputed claims due for payment if an investment firm or credit institution is unable to pay investor claims within the stipulated time, due to a reason other than temporary insolvency. This compensation payable to the investor accounts for 90% of his claim, up to a maximum of EUR 20,000. The deposit banks belonging to the amalgamation of the cooperative banks are considered to constitute a single credit institution in respect of investors' compensation. The Fund does not cover losses incurred due to changes in the prices of securities or to wrong investment decisions. The Fund safeguards only retail investors' claims.

Events after the balance sheet date

Vesa Aho (36), M.Sc. (Econ. & Bus. Adm.), took up his duties as Pohjola Group's CFO on 1 March 2011.

Outlook for 2011

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 expected to send the margin on new loans down. Enabled by the economic recovery, the operating environment is expected to improve in the corporate sector and impairment charges to decrease in 2011. The greatest uncertainties related to Banking's financial performance in 2011 are associated with future impairment charges recognised on the loan portfolio.

Insurance premium revenue is expected to continue to increase at an above-the-market-average rate among private customers and that from corporate customer is anticipated to rebound. In Non-life Insurance, the operating combined ratio is estimated to vary between 89% and 94% in 2011 if the number of large claims is not much higher than in 2010. Expected long-term returns on investment within Non-life Insurance stand at 5.1%. Returns will largely depend on developments in the investment environment. The most significant uncertainties related to Non-life Insurance's financial performance in 2011 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 2011 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' financial performance include net interest income arising from assets in the liquidity portfolio, any capital gains or losses on notes and bonds and any impairment charges recognised on notes and bonds in the income statement. Capital gains on notes and bonds are expected to decrease in 2011.

Consolidated earnings before tax in 2011 are expected to be higher than in 2010.

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.

Pohjola Bank plc's Board proposal for the allocation of distributable funds

On 31 December 2010, the shareholders' equity of Pohjola Bank plc totalled EUR 1,605,505,584.07, EUR 490,106,196.36 of which represented distributable equity.

The following funds are at the AGM's disposal for profit distribution:

	€
Profit for 2010	193,705,180.62
Retained earnings	1,899,747.73
Reserve for invested non-restricted equity	307,931,364.75
Other non-restricted reserves	23,449,472.31
Less negative fair value reserve	-36,879,569.05
Total	490,106,196.36

The Board of Directors proposes that the Company's distributable funds be distributed as follows:

- EUR 0.40 per share payable on 251,169,770 Series A shares, totalling EUR 100,467,908.00, and
- EUR 0.37 per share payable on 68,381,645 Series K shares, totalling EUR 25,301,208.65, i.e.
- The proposed total dividend distribution amounts to EUR 125,769,116.65.

The Board of Directors proposes that EUR 125,769,116.65 out of the profit for 2010 be allocated to dividend distribution. Accordingly, EUR 364,337,079.71 remains in the Company's distributable equity. Pohjola Bank plc has EUR 582 million in voluntary provisions in its balance sheet, and their reversal enables an increase of distributable funds by EUR 431 million.

In addition, the Board of Directors proposes that a maximum of EUR 200,000 be available to the Board of Directors reserved from the distributable funds for donations and other contributions to the public good.

The Company's financial position has not undergone any material changes since the end of the financial year 2010. The Company's liquidity is good and will not be jeopardised by the proposed profit distribution, in the Board of Directors' view.

The Board of Directors proposes that the dividend be paid to shareholders who have been entered in the Shareholder Register, maintained by Euroclear Finland Ltd, by the dividend record date on 1 April 2011 and that the dividend be paid within the book-entry securities system on 12 April 2011.

Financial indicators and per-share ratios

	2006	2007	2008	2009	2010
Return on equity (ROE), %	9.5	11.5	5.0	10.0	9.9
Return on equity at fair value (ROE), %	9.5	9.3	-5.6	19.2	9.3
Return on assets (ROA), %	0.8	0.9	0.3	0.6	0.6
Equity ratio, %	7.6	7.2	5.1	6.4	6.6
Average personnel	3,030	3,006	3,085	2,966	3,005
Cost/income ratio, %	65	60	76	56	56

Per-share ratios	2006	2007	2008	2009	2010
Earnings per share (EPS), €					
Series A share **)	0.73	0.85	0.36	0.66	0.72
Series K share **)	0.72	0.84	0.33	0.63	0.69
Earnings per share (EPS), diluted, €					
Series A share **)	0.73	0.85	0.36	0.66	0.72
Series K share **)	0.72	0.84	0.33	0.63	0.69
Earnings per share (EPS) at fair value **)	0.73	0.69	-0.39	1.27	0.68
Equity per share, € **)	7.34	7.51	6.58	7.09	7.44
Dividend per share, € *) **)	0.53	0.53	0.18	0.33	0.39
Dividend payout ratio, % *) **)	72.0	61.7	51.4	50.7	54.9
Effective dividend yield (Series A share), % *) **)	5.1	5.0	2.4	4.5	4.5
Price/earnings ratio (P/E) **)	14.2	12.5	22.4	11.5	12.5
Share price performance (Series A share) **)					
Average, € **)	10.37	11.08	9.15	6.32	8.61
Low, € **)	8.97	9.64	6.28	3.80	6.97
High, € **)	12.04	12.34	11.43	9.31	9.79
Year-end, € **)	10.26	10.56	7.88	7.55	8.97
Market capitalisation (Series A share), € million	2,024	2,086	1,556	1,896	2,253
Share trading volume (Series A share), 1,000	103,972	147,303	118,771	174,863	153,845
% of all shares	65.8	92.3	74.4	74.8	61.3
Issue-adjusted number of shares (Series A and K shares)					
Year average **)	247,456,025	249,057,242	249,057,242	295,795,845	319,551,415
Year end **)	249,057,242	249,057,242	249,057,242	319,551,415	319,551,415
Number of shares (Series A and K shares)					
Year average	202,043,534	203,350,900	203,350,900	295,795,845	319,551,415
Year end	203,350,900	203,350,900	203,350,900	319,551,415	319,551,415

*) Board proposal: EUR 0.40 on Series A shares and EUR 0.37 on Series K shares.

**) 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.

Formulae for key ratios and figures

Return on equity (ROE), %

Profit for the period / Shareholders' equity (average of the beginning and end of period) x 100

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

Return on assets (ROA), %

Profit for the period / Average balance sheet total (average of the beginning and end of the period) x 100

Capital adequacy ratio, %

Shareholders' equity / Balance sheet total x 100

Cost/income ratio, %

Personnel costs + Other administrative expenses + Other operating expenses /
(Net interest income + Net income from Non-life Insurance + Net commissions and fees + Net trading income + Net investment income + Other operating income) 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), diluted

The denominator is the average share-issue adjusted number of shares during the period plus the number of shares which will be obtained if all stock options are converted into shares, less the number of shares obtained through the exercise of all stock options multiplied by the share subscription price and divided by the average share price 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

Dividends paid for the financial year / Share-issue adjusted number of shares on the balance sheet date

Dividend payout ratio, %

Dividend per share / Earnings per share x 100

Effective dividend yield, %

(Dividend per share) / Share-issue adjusted closing price during the period x 100

Price/earnings ratio (P/E)

Share-issue adjusted closing price during the period / Earnings per share

Average share price

Total share turnover in euros / Share trading volume

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 formulae 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 (excl. unwinding of discount)

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

Expense ratio

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

Risk ratio (excl. unwinding of discount)

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

Cost ratio

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

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 / 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

Non-life Insurance, € million	2010	2009
Net tax liabilities for the financial year	-13	-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	2	6
Intangible assets	767	800

Non-recurring items, € million	2010
Increase in technical provisions related to higher life expectancy	-35
Cancellation of provision for guarantee system	15
Items related to corporate transaction (Asset Management)	6

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Consolidated financial statements, IFRS

- [Consolidated income statement](#)
- [Consolidated balance sheet](#)
- [Consolidated cash flow statement](#)
- [Consolidated statement of changes in equity](#)
- [Segment analysis](#)
- [Notes to the consolidated financial statements](#)

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Financial statements

Consolidated income statement

EUR million	Note	2010 Total	2009 Total
Net interest income	3	258	241
Impairment of receivables	4	104	129
Net interest income after impairments		154	112
Net income from Non-life Insurance	5	388	402
Net commissions and fees	6	164	143
Net trading income	7	35	71
Net investment income	8	31	-13
Other operating income	9	50	50
Total income		822	766
Personnel costs	10	199	190
IT expenses		76	75
Depreciation/amortisation		72	72
Other expenses		168	164
Total expenses		514	501
Share of associates' profits/losses		0	0
Earnings before tax		308	265
Income tax expense	13	79	71
Profit for the period		229	194
Attributable to owners of the Parent		229	194
Attributable to non-controlling interest			0
Total		229	194
Basic earnings per share, EUR			
Series A	14	0.72	0.66
Series K	14	0.69	0.63

Consolidated statement of comprehensive income

EUR million		
Profit for the period	229	194
Change in fair value reserve		
Measurement at fair value	-8	243
Cash flow hedge	-8	
Translation differences	0	0
Income tax on other comprehensive income		
Measurement at fair value	-2	63
Cash flow hedge	-2	
Total comprehensive income for the period	216	374
Total comprehensive income attributable to owners of the Parent	216	374
Total comprehensive income attributable to non-controlling interest		0
Total	216	374

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Consolidated balance sheet

EUR million	Note	31 Dec. 2010	31 Dec. 2009
Liquid assets	15	1,501	3,102
Receivables from financial institutions	16	8,033	7,630
Financial assets at fair value through profit or loss	17		
Financial assets held for trading		410	1,224
Financial assets at fair value through profit or loss at inception		12	55
Derivative contracts	18	1,962	1,443
Receivables from customers	19	12,433	11,323
Non-life Insurance assets	20	3,198	3,156
Investment assets	21	6,339	5,415
Investment in associates	23	25	2
Intangible assets	24	925	960
Property, plant and equipment (PPE)	25	97	117
Other assets	26	1,208	1,068
Tax assets	27	40	15
Total assets		36,184	35,510
Liabilities to financial institutions	28	4,960	4,984
Financial liabilities at fair value through profit or loss	29		
Financial liabilities held for trading		0	71
Derivative contracts	30	2,054	1,456
Liabilities to customers	31	4,231	4,133
Non-life Insurance liabilities	32	2,351	2,279
Debt securities issued to the public	33	16,685	17,295
Provisions and other liabilities	34	1,816	1,291
Tax liabilities	35	455	434
Subordinated liabilities	36	1,255	1,300
Total liabilities		33,807	33,244
Shareholders' equity	37		
Capital and reserves attributable to equity holders of the Parent			
Share capital		428	428
Reserves		1,081	1,093
Retained earnings		868	746
Total shareholders' equity		2,377	2,267
Total liabilities and shareholder's equity		36,184	35,510

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Consolidated cash flow statement

EUR million	2010	2009
Cash flow from operating activities		
Profit for the period	229	194
Adjustments to profit for the period	318	433
Increase (-) or decrease (+) in operating assets	-2,021	-2,634
Receivables from financial institutions	-296	-1,035
Financial asset at fair value through profit or loss	972	1,805
Derivative contracts	-89	-36
Receivables from customers	-1,241	837
Non-life Insurance assets	-92	-331
Investment assets	-1,133	-4,106
Other assets	-140	232
Increase (+) or decrease (-) in operating liabilities	672	1,707
Liabilities to financial institutions	-28	1,340
Financial liabilities at fair value through profit or loss	-71	-67
Derivative contracts	94	-4
Liabilities to customers	98	625
Non-life Insurance liabilities	54	43
Provisions and other liabilities	525	-231
Income tax paid	-79	-12
Dividends received	25	9
A. Net cash from operating activities	-855	-303
Cash flow from investing activities		
Increases in held-to-maturity financial assets		-170
Decreases in held-to-maturity financial assets	165	219
Acquisition of subsidiaries and associates, net of cash acquired	-28	0
Disposal of subsidiaries and associates, net of cash disposed	14	1
Proceeds from sale of investment securities	2	
Purchase of PPE and intangible assets	-17	-18
Proceeds from sale of PPE and intangible assets	2	1
B. Net cash used in investing activities	138	33
Cash flow from financing activities		
Increases in subordinated liabilities	77	160
Decreases in subordinated liabilities	-130	-184
Increases in debt securities issued to the public	45,401	53,151
Decreases in debt securities issued to the public	-46,016	-52,294
Increases in invested unrestricted equity		298
Dividends paid	-107	-45
C. Net cash provided by (used in) financing activities	-775	1,085
Net increase/decrease in cash and cash equivalents (A+B+C)	-1,492	815
Cash and cash equivalents at year-start	3,250	2,435
Cash and cash equivalents at year-end	1,758	3,250
Interest received	1,633	1,959
Interest paid	-1,286	-1,873
Adjustments to profit for the financial year		
Non-cash items and other adjustments		
Impairment losses on receivables	105	133
Unrealised net earnings in Non-life Insurance	123	106
Change in fair value for trading	99	-100
Unrealised net gains on foreign exchange operations	-114	157
Change in fair value of investment property	-1	7
Planned amortisation/depreciation	72	72
Share of associates' profits	0	0
Other	42	58
Items presented outside cash flow from operating activities		
Capital gains, share of cash flow from investing activities	-7	0
Capital losses, share of cash flow from investing activities	1	
Total adjustments	318	433

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Cash and cash equivalents

Liquid assets *	1,505	3,106
Receivables from financial institutions payable on demand	253	144
Total	1,758	3,250

* Of which EUR 4 million (4) consists of Non-life Insurance cash and cash equivalents.

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Consolidated statement of changes in equity

EUR million	Share capital	Fair value reserve		Other reserves	Retained earnings	Total equity
		Measure- ment at fair value	Cash flow hedge			
Balance at 1 January 2009	428	-180		795	597	1,640
Total comprehensive income for the period		180		0	194	374
Profit distribution					-45	-45
EUR 0.23 per Series A share*					-37	-37
EUR 0.20 per Series K share*					-9	-9
Rights issue				308		308
Share issue expenses				-10		-10
Reserve transfers				0	0	
Equity-settled share-based transactions					0	0
Other					0	0
Balance at 31 December 2009	428	0		1,093	746	2,267

EUR million	Share capital	Fair value reserve		Other reserves	Retained earnings	Total equity
		Measure- ment at fair value	Cash flow hedge			
Balance at 1 January 2010	428	0		1,093	746	2,267
Total comprehensive income for the period		-6	-6	0	229	216
Profit distribution					-107	-107
EUR 0.34 per Series A share					-85	-85
EUR 0.31 per Series K share					-21	-21
Equity-settled share-based transactions					1	1
Other					0	0
Balance at 31 December 2010	428	-6	-6	1,093	868	2,377

* 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

Segment analysis

The segment analysis has been prepared in accordance with IFRS 8 Operating Segments. Financial information serves as the basis of this standard, which the executive in charge monitors regularly. Defining segments and presentation are based on management reporting.

Pohjola Group is organised into three business segments - Banking, Non-life Insurance and Asset Management - and the Group Functions which together constitute the Group's operating segments. The Board of Directors is the executive body in charge of deciding on the Group's operations, which allocates resources to the reportable segments and assesses their performance.

Segment accounting policies

Segment reporting conforms to the accounting policies applied to the consolidated financial statements. Income, expenses, assets and liabilities which are considered to relate directly to and be reasonably attributable to the segments are allocated to the segments. Income, expenses, investments and capital which have not been allocated to the business segments are reported under the Group Functions. Inter-segment Group eliminations are reported under the "Eliminations" column. Intra-Group transfer prices are based on market prices. The acquisition costs of intangible and PPE assets are presented as investments. The number of employees in each segment is presented as the number of employees at the end of the period.

Operating segment capitalisation is based on Pohjola Group's capital adequacy measurement under the Act on Credit Institutions. Capital requirements according to this measurement are allocated among the operating segments. The Group has allocated capital to its operating segments in such a way that the Tier 1 ratio stands at 8% and the capital adequacy ratio at 11.5%.

Banking

Pohjola's Banking provides corporate and institutional customers with solutions for their financing and financial management needs. Banking consists of the following divisions: Corporate Banking, Markets and Baltic Banking.

Corporate Banking provides corporate and institutional customers with financing and cash management services and financing services for foreign trade, and grants loans and guarantees as well as leasing and factoring services. Its income derives mainly from lending margins and commissions and fees resulting from the arrangement of financing and the management of payment transfers.

The Markets division's services range from the arrangement of debt issues, corporate finance services and custody, equity, foreign exchange, money market and derivative products to investment research. The division executes both clients' and the Bank's orders on international financial markets and is also an active player in international derivatives markets, the government bond market in the euro area and corporate bond markets. Its income derives from net commissions and fees and income from trading.

Baltic Banking provides finance-company products in Estonia, Latvia and Lithuania.

Non-life Insurance

In Finland, the following three Group companies conduct Non-life Insurance business: Pohjola Insurance Ltd is a general non-life insurance company, A-Insurance Ltd focuses on non-life insurance for commercial transport and Eurooppalainen Insurance Company Ltd specialises in travel insurance. In the Baltic States, the local Seesam subsidiaries conduct non-life insurance business.

The range of Non-life Insurance products includes non-life policies for corporate and private customers. In addition, the domestic service network provides corporate customers with OP-Pohjola Group's life and pension policies and Ilmarinen Mutual Pension Insurance Company's employment pension policies while being in charge of customer service for Suomi Mutual Life Assurance Company and Ilmarinen. Furthermore, commissions and fees come from managing certain statutory charges and from risk management services.

Non-life Insurance pre-tax earnings consist of the balance on technical account, investment income and other income and expenses. The balance on technical account refers to insurance premium revenue less claims incurred and operating expenses. The most important profitability indicator is the combined ratio showing the proportion of claims incurred and operating expenses to insurance premium revenue. With respect to investment operations, Non-life Insurance is tasked with investing assets covering technical provisions and equity in a safe and profitable way conducting a policy of sufficient risk diversification.

Asset Management

Pohjola Asset Management provides Finnish institutional clients and wealthy private individuals with discretionary and advisory asset management services. Furthermore, the portfolio management of OP Fund Management Company Ltd's mutual funds is mainly centralised within Pohjola Asset Management. In addition to its own portfolio management, Pohjola Asset Management has 25 international partners boasting a wide range of funds for the needs of both institutional and private clients.

Pohjola Property Management focuses on real property investment in Finland and on the selection of real estate funds in international markets.

The division's income came mainly from asset-management commissions and fees.

Group Functions

In support of the Group and its businesses, the Group Functions comprises Finance, Risk Management, HR Services and Corporate Communications.

It is responsible for the management of financing and liquidity for OP-Pohjola Group's retail banks and Pohjola Group, as well as for OP-Pohjola Group's wholesale funding.

Income, expenses, investments and capital which have not been allocated to the business segments are reported under the Group Functions. Group taxes are allocated to the Group Functions in their entirety.

Eliminations

Inter-segment eliminations are presented under the 'Eliminations' column.

Segment information

EUR million	Banking		Non-life Insurance		Asset Management	
	2010	2009	2010	2009	2010	2009
Net interest income						
Corporate Banking and Baltic Banking	172	138				
Markets	27	27				
Other operations			-6	-2	0	1
Total	199	165	-6	-2	0	1
Net commissions and fees	93	85	19	16	58	50
Net trading income	47	78			0	0
Net investment income	0	0			0	0
Net income from Non-life Insurance						
From insurance operations			327	382		
From investment operations			87	61		
From other items			-30	-44		
Total			383	400		
Other operating income	29	30	3	6	9	2
Total income	368	358	399	419	67	52
Personnel costs	54	50	109	110	21	17
IT expenses	24	21	43	44	2	2
Amortisation on intangible assets related to company acquisitions			29	30	3	3
Other depreciation/amortisation and impairments	25	28	14	8	1	1
Other expenses	27	25	123	125	9	7
Total expenses	130	125	316	317	35	30
Earnings/loss before impairment of receivables	238	234	83	102	31	21
Impairments of receivables	105	117	0	0		
Earnings before tax	133	117	83	102	31	21
Change in fair value reserve	0	3	56	188	0	0
Earnings/loss before tax at fair value	133	120	139	290	31	21

EUR million	Group Functions		Eliminations		Group total	
	2010	2009	2010	2009	2010	2009
Net interest income						
Corporate Banking and Baltic Banking					172	138
Markets					27	27
Other operations	64	75	1	2	59	75
Total	64	75	1	2	258	241
Net commissions and fees	-1	-1	-5	-7	164	143
Net trading income	-9	-7	-3		35	71
Net investment income	31	-13			31	-13
Net income from Non-life Insurance						
From insurance operations					327	382
From investment operations			5	3	92	64
From other items					-30	-44
Total			5	3	388	402
Other operating income	13	18	-4	-5	50	50
Total income	98	72	-6	-7	926	895
Personnel costs	15	13	0		199	190
IT expenses	7	9	0	0	76	75

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Amortisation on intangible assets related to company acquisitions					31	33
Other depreciation/amortisation and impairments	1	2			41	39
Other expenses	15	13	-6	-6	168	164
Total expenses	38	36	-6	-7	514	501
Earnings/loss before impairment of receivables	60	36	0	0	412	394
Impairments of receivables	-1	12			104	129
Earnings before tax	61	25	0	0	308	265
Change in fair value reserve	-72	52	0	1	-17	243
Earnings/loss before tax at fair value	-12	76	0	1	291	508

Balance sheet	Banking		Non-life Insurance		Asset Management	
EUR million	31 Dec 2010	31 Dec 2009	31 Dec 2010	31 Dec 2009	31 Dec 2010	31 Dec 2009
Receivables from customers	11,544	10,880				
Receivables from credit institutions	249	278	2		1	5
Financial assets at fair value through profit or loss	483	932				
Non-life Insurance assets			3,307	3,202		
Investment assets	83	18	16	0	41	17
Investments in associates			2	2	23	
Other assets	2,505	2,012	788	829	122	131
Total assets	14,865	14,119	4,115	4,033	186	153
Liabilities to customers	1,391	1,263				
Liabilities to credit institutions	1,245	747				
Non-life Insurance liabilities			2,357	2,279		
Debt securities issued to the public						
Subordinated liabilities			50	50		
Other liabilities	2,811	1,872	143	108	17	15
Total liabilities	5,446	3,882	2,550	2,437	17	15
Shareholders' equity						
Average personnel	657	607	2,090	2,070	144	162
Capital expenditure, EUR million	6	7	9	9	1	1

Balance sheet	Group Functions		Eliminations		Group total	
EUR million	31 Dec 2010	31 Dec 2009	31 Dec 2010	31 Dec 2009	31 Dec 2010	31 Dec 2009
Receivables from customers	977	527	-88	-84	12,433	11,323
Receivables from credit institutions	9,300	10,468	-18	-20	9,534	10,732
Financial assets at fair value through profit or loss	-60	347			422	1,279
Non-life Insurance assets			-109	-47	3,198	3,156
Investment assets	6,231	5,387	-32	-6	6,339	5,415
Investments in associates					25	2
Other assets	919	691	-101	-58	4,232	3,604
Total assets	17,366	17,421	-348	-215	36,184	35,510
Liabilities to customers	2,914	2,915	-74	-45	4,231	4,133
Liabilities to credit institutions	3,804	4,320	-88	-84	4,960	4,984
Non-life Insurance liabilities			-6		2,351	2,279
Debt securities issued to the public	16,760	17,323	-75	-28	16,685	17,295
Subordinated liabilities	1,205	1,250			1,255	1,300
Other liabilities	1,460	1,318	-105	-59	4,325	3,253
Total liabilities	26,142	27,126	-349	-216	33,807	33,244
Shareholders' equity					2,377	2,267
Average personnel	126	136			3,016	2,975
Capital expenditure, EUR million	1	1			17	18

Banking	Income		Earnings/loss before tax	
	2010	2009	2010	2009
Corporate Banking	263	236	82	48
Markets	98	117	55	77
Baltic Banking	7	5	-4	-8
Total	368	358	133	117

Non-life Insurance	Insurance premium revenue	Balance on technical account
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	2010	2009	2010	2009
Private Customers	470	424	69	48
Corporate Customers	445	461	-4	62
Baltic States	49	57	-1	6
Amortisation adjustment of intangible assets			-31	-28
Total	964	943	33	88

Group Functions	2010	2009
Central Banking earnings before tax, EUR million	12	18
	31 Dec 2010	31 Dec 2009
Receivables from OP-Pohjola Group entities, EUR million	7,323	6,314
Liabilities to OP-Pohjola Group entities, EUR million	3,893	3,412

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Note 1. Pohjola Group's Accounting Policies

General information

Pohjola is Finland's leading non-life insurer and institutional asset manager and ranks among the leading corporate banks. Pohjola has a well-established and extensive customer base consisting of companies and institutions to which it provides an extensive range of banking, non-life insurance and asset management services. In addition, Pohjola provides private customers with non-life insurance and asset management products and services. Pohjola also acts as the central bank for OP-Pohjola Group's member cooperative banks.

Pohjola Group has the following four operating segments: Banking, Non-life Insurance, Asset Management and the Group Functions. Banking provides corporate and institutional customers with financing, investment and payment transfer solutions on an international scale. Non-life Insurance provides corporate and private customers with non-life insurance products covering both statutory and voluntary policies. Asset Management is responsible for asset management services for OP-Pohjola Group's major institutional and private clients. Furthermore, Asset Management manages the portfolio of OP mutual funds on a centralised basis. In addition to these three business segments, Pohjola incorporates the financial results of Central Banking and Treasury and its administrative function into the Group Functions segment.

Pohjola Bank plc belongs to OP-Pohjola Group, which consists of 213 member cooperative banks and their central institution, OP-Pohjola Group Central Cooperative with its subsidiaries. OP-Pohjola Group's member credit institutions comprise Pohjola, Helsinki OP Bank Plc, OP-Kotipankki Oyj, OP Mortgage Bank and member cooperative banks.

In accordance with the Act on the amalgamation of deposit banks (Laki talletuspankkien yhteenliittymästä), the member credit institutions, Pohjola included, and OP-Pohjola Group Central Cooperative are ultimately jointly and severally liable for each other's debts and commitments. If a member credit institution's own capital is depleted to such a low level owing to losses that the criteria, specified in the Act, for being placed in liquidation are fulfilled, OP-Pohjola Group Central Cooperative has the right to collect from its member credit institutions extra contributions on the basis of the combined balance sheets previously adopted.

Pohjola is domiciled in Helsinki and the street address of its registered office is Teollisuuskatu 1 B, FI-00510 Helsinki, Finland, and the postal address of its registered office is P.O. Box 308, FI-00013 Pohjola, Finland. A copy of Pohjola's consolidated financial statements is available at www.pohjola.fi or the Company's head office.

Pohjola Bank plc's parent company is OP-Pohjola Group Central Cooperative and Pohjola's consolidated accounts are included in its consolidated financial statements. Copies of the financial statements of OP-Pohjola Group Central Cooperative are available at the following address: Teollisuuskatu 1 b, FI-00150 Helsinki, Finland.

OP-Pohjola Group's financial statements are available at www.pohjola.fi or the company's head office.

The Board of Directors has approved these consolidated financial statements for issue on 9 February 2011.

Basis of preparation

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

In 2010, Pohjola adopted the following IFRSs and interpretations:

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

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According to the management's estimate, the following standards and interpretations do not have any impact on Pohjola's consolidated financial statements:

- IFRIC 17 Distribution of Non-cash Assets to Owners (effective as if 1 July 2009).
- IFRIC 18 Transfer of Assets from Customers (effective as if 1 July 2009).
- Improvements to IFRSs (issued in April 2009, varying effective dates).
- Amended IAS 39 Financial Instruments: Recognition and Measurement - Eligible Hedged Items (effective as if 1 July 2009).
- Amended IFRS 2 Share-based Payment - Group Cash-settled Share-based Payment Transactions (effective as of 1 January 2010).

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

The financial statements are presented in millions of euros.

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

Use of estimates

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

Reclassification

During the second half of 2008, Pohjola reclassified some of the notes and bonds included in its liquidity portfolio and some of the corporate bonds of Non-life Insurance's portfolio, with a view to providing a clearer picture of their actual purpose of use. This reclassification was enabled by Commission Regulation (EC) No. 1004/2008 of 15 October 2008 applying to IAS 39 and IFRS 7 and the Regulation is aimed at making it easier to reclassify certain financial instruments in rare circumstances. The underlying reason for adopting this Regulation lay in the financial turmoil which is why reliable market prices were not available to all financial instruments at the end of September 2008. Companies have been allowed to reclassify certain financial instruments since 1 July 2008.

The reclassification had no effect on the results recorded for previous periods. Reclassifying financial instruments was based on their fair values on 1 July 2008.

A more detailed description of reclassification can be found in Note 22.

Consolidation principles

The consolidated financial statements include the accounts of Pohjola Bank plc, the parent company, and its subsidiaries in which the parent company holds more than 50% of voting shares or over which the parent company otherwise exercises control. Control refers to the right to determine another company's financial and business policies in order to benefit from its activities. Intra-Group shareholding has been eliminated using the acquisition method. The consideration transferred and the acquiree's identifiable assets acquired and liabilities assumed are measured at fair value at the time of acquisition. Acquisition cost in excess of net assets is presented under goodwill. If the cost of acquisition is less than the fair value of the net assets of the acquiree, the difference is recognised directly in the income statement.

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

Associated companies, in which Pohjola holds 20-50% of voting shares and over which Pohjola exercises significant influence but not control, are accounted for using the equity method.

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

Subsidiaries, associates or joint ventures acquired during the financial year are consolidated from the date on which control or significant influence transfers to the Group and are de-consolidated from the date on which control or significant influence ceases.

Intra-Group transactions, receivables, liabilities and profit distribution are eliminated in the preparation of the consolidated financial statements. Unrealised gains arising from transactions between the Group and its associates

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or joint ventures are eliminated to the extent of the Group's interest in the entities. Unrealised losses are eliminated unless the transaction provides evidence of impairment of the asset transferred.

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

Non-controlling interests

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

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

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

Foreign currency translation

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

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

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

Financial instruments

Fair value determination

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

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

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

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

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

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

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

It is typical of illiquid instruments that their price calculated using a pricing model differs from the actual transaction

price. However, the actual transaction price is the best evidence of the instrument's fair value. The Day 1 profit/loss, based on the difference between the actual transaction price and the price deriving from the pricing model, is recognised in the income statement over the term of the contract or a shorter period taking account of the product's structure and counterparty. However, the non-recognised amount will be recognised as soon as there is a genuine market price for the instrument or a well-established pricing practice is created in the market. The amount of these financial assets is insignificant in the balance sheet.

Impairment of financial assets

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

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

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

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

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

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

Securities sale and repurchase agreements

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

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

Classification and recognition

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

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

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

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

Financial assets and liabilities at fair value through profit or loss

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

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

Assets held for trading include notes and bonds, shares and participations acquired with a view to generating profits from short-term fluctuations in market prices. Liabilities held for trading refer to the obligation to deliver securities which have been sold but which have not been owned at the time of selling (short selling). Derivatives

are also accounted for as held for trading unless they are designated as derivatives for effective hedging or they are guarantee contract derivatives.

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

Financial assets at fair value through profit or loss at inception

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

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

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

These financial assets in the consolidated balance sheet are presented as financial assets at fair value through profit or loss or as Non-life Insurance assets.

Loans and other receivables

Financial assets classified as loans and other receivables are non-derivative financial assets with fixed or determinable payments that have been created by lending money or rendering services. Not quoted in an active market, loans and other receivables are carried at cost.

Receivables related to insurance contracts, claims administration contracts and disposal of investments are presented within this asset class. These financial assets are shown as receivables from customers, from credit and financial institutions or as Non-life Insurance assets in the consolidated balance sheet.

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

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

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

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

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

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

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

Investments held to maturity

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

Impairments of investments held to maturity are reviewed on the basis of the same principles as those of loans and other receivables. The difference between the carrying amount of notes and bonds and a lower recoverable amount is recognised as an impairment loss under "Net investment income" in the income statement. If investments included in the financial assets held to maturity category are sold before their maturity, all of these investments must be reclassified out of this category into the available-for-sale financial assets category, and the Group may not classify these securities into the financial assets held to maturity category for the subsequent two years.

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

These financial assets are shown under investment assets in the consolidated balance sheet.

Available-for-sale financial assets

Available-for-sale financial assets include non-derivative assets which are not classified as the abovementioned financial assets but which may be sold before their maturity, comprising notes and bonds, shares and participations. At the time of their acquisition, available-for-sale financial assets are recognised at cost, which equals the fair value of the consideration paid plus transaction costs directly attributable to their acquisition. Available-for-sale financial assets are measured at fair value. Any changes in their fair value are recognised in the consolidated statement of comprehensive income, from where they, including any capital gain or loss, are transferred to the income statement when the asset is derecognised or impaired.

An available-for-sale financial asset is deemed to have impaired when its issuer's credit rating has undergone a significant downgrading or the fair value of an equity instrument has fallen considerably or on a long-term basis below its acquisition cost. If a security's market value continues to fall following impairment recognition, the impairment loss will be recognised in the income statement.

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

Interest income related to available-for-sale financial assets is recognised under "Net interest income" in the income statement and dividends under "Net investment income". For Non-life Insurance, both items are recognised under "Net income from Non-life Insurance".

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

These financial assets are shown as investment assets or as Non-life Insurance assets in the consolidated balance sheet.

Cash and cash equivalents

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

Other financial liabilities

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

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

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

Derivative financial instruments

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

Interest-rate derivatives, currency derivatives, equity derivatives, commodity derivatives and credit derivatives are classified as derivative contracts measured at fair value at all times. Derivative contracts are classified as hedging

derivative contracts and derivative contracts held for trading.

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

In accordance with the hedging principles, the Group can hedge against interest rate risk, currency risk and price risk by applying fair value hedge or cash flow hedge. While the latter refers hedging against risks causing cash flow fluctuations, the former refers to hedging against changes in the fair value of a hedged asset/liability.

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

Derivative instruments held for trading

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

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

Hedge accounting

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

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

Fair value hedges

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

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

In fair value hedge accounting, changes in the fair value of the hedging and hedged instrument are recorded under "Net interest income", with the exception of changes in the fair value of mutual fund investments included in Non-life Insurance's available-for-sale financial assets and that of instruments hedging them, which are recognised in "Net income from Non-life Insurance".

Cash flow hedges

A cash flow hedge is a hedge of the exposure to the variability attributable to a particular risk associated with variable-rate debt or other variable-rate assets and liabilities. For example, 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 effective portion of changes in the fair value of the hedging instrument is recognised in other comprehensive income. Any ineffective portion of changes in the fair value is recognised immediately in profit or loss. Fair value changes recognised in shareholders' equity are included in the income statement in the period when hedged items affect net income.

If the hedging derivative expires or is sold, terminated, or exercised, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked, the hedge accounting is discontinued prospectively. In a discontinued hedge of a forecast transaction, the cumulative amount recognised in the income statement from the period when the hedge was effective is reclassified from equity to profit or loss when the forecast transaction occurs and affects profit or loss.

Investment property

Investment property is land and/or buildings or part thereof held to earn rental income or for capital appreciation. Property, a minor part of which is used by the owner company or its personnel, is also accounted for as investment

property. However, a part of property used by the owner company or its personnel is not accounted for as investment property if the part can be sold separately. Investment property is shown as investment assets or as Non-life Insurance assets in the consolidated balance sheet.

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

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

Intangible assets

Goodwill

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

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

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

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

Customer relationships

Identifiable customer relationships acquired through business combinations are measured at fair value upon acquisition. This intangible asset arising from customer relationships is amortised on a straight-line basis over the asset's estimated useful life. The estimated useful life of Pohjola Group's acquired customer relationships is 10-13 years. The value of customer relationships is tested for impairment whenever necessary.

Brands

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

Other intangible assets

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

Expenditure on the development of computer software or assets is presented as an intangible asset when their amount can be reliably determined and they will generate future economic benefits. The asset will be amortised from the time it is ready for use, mainly over 3-5 years. An asset not yet ready for use is tested annually for impairment.

Some of the costs related to the acquisition of new insurance contracts or the renewal of existing contracts are capitalised. The resulting capitalised costs are amortised on a straight-line basis over the effective lives of the contracts, which is the insurance period. An intangible asset is tested annually in connection with testing the adequacy of the liability associated with insurance contracts.

Property, plant and equipment

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

In accordance with the exemption permitted by IFRS 1 (First-time Adoption), FAS-compliant revaluations of land

and property in own use were not cancelled during the IFRS transition on 1 January 2004 but were included in these assets' deemed cost.

The estimated useful lives are mainly as follows:

Buildings	20–50 years
Machinery and equipment	4–10 years
IT equipment	3–5 years
Cars	5–6 years
Other tangible assets	5–10 years

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

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

Impairment of PPE and intangible assets

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

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

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

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

Leases

Whether a lease is classified as a finance lease or an operating lease depends on the substance of the transaction. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incident to ownership to the lessee. All other leases are classified as operating leases. Lease classification is performed at the inception of the lease.

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

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

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

Employee benefits

Pension benefits

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

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

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

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

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

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

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

Share-based compensation

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

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

Insurance assets and liabilities

Classification of financial assets and liabilities within Non-life Insurance

The section "Classification and recognition" under Financial Instruments contains information on the classification of financial assets and liabilities within Non-life Insurance.

Classification of insurance contracts

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

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

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

Descriptions of insurance contracts can be found in the section "Risk Management Principles", Insurance operations.

Non-life insurance contracts

Short-term contracts

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

Long-term contracts

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

Measurement and recognition of insurance contracts

Non-life insurance contracts

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

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

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

Liability adequacy test on insurance contracts

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

Reinsurance contracts

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

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

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

Receivables and payables related to insurance contracts

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

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

Salvage and subrogation reimbursements

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

Coinsurance and pools

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

The Group also underwrites shares of insurance contracts through pools, whose members are primarily responsible for their own proportionate share of the underwriting risk. These shares are based on contracts confirmed annually. The Group treats as insurance contracts its own proportionate share of the direct insurance business managed by pools and of the reinsurance business from the pool to its members. The pool's share of these insurance contracts is treated as ceded reinsurance. In some pools, members are responsible for an insolvent member's liabilities in proportion to their shares in the pool. The Group recognises liabilities and receivables based on joint liability if joint liability is likely to materialise.

Provision for joint guarantee system

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

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

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

Provisions and contingent liabilities

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

A contingent liability is a possible obligation arising from past events, whose existence will be confirmed only by the occurrence of an uncertain future event beyond the Group's control.

Income tax

Income tax expense shown in the income statement includes current tax, based on the taxable income of Pohjola Group companies for 2010, and income tax for prior financial years and deferred tax expense or income.

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

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

Revenue recognition

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

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

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

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

Summary of presentation of income statement items:

Net interest income	Received and paid interest on fixed-income instruments, the recognised difference between the nominal value and acquisition value, interest on interest-rate derivatives and fair value change in fair value hedging, as well as commissions and fees regarded as compensation for risk associated with a financial instrument and taken by the bank are deemed to be an integral part of the financial instrument's effective interest and are recognised in interest income or interest expenses
Net income from Non-life Insurance	Premiums written, claims incurred, 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, rents, other expenses

Segment reporting

Financial information serves as the basis of defining operating segments, which the executive in charge monitors regularly. The Group's reportable operating segments comprise Banking, Non-life Insurance, Asset Management, and the Group Functions.

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

Critical accounting estimates and judgements

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

Liabilities arising from insurance contracts involve several discretionary factors and uncertainty. With respect to Non-life Insurance, estimates are based on assumptions about the operating environment and on the actuarial analyses of the Group's own claims statistics. The Group monitors the appropriateness of future assumptions on an ongoing basis. Information on uncertainties included in assumptions related to insurance contracts and their effects can be found in Note 32.

The values of insurance contracts, customer relationships and brands acquired through business combinations are based on estimates of eg future cash flows and the applicable discount rate, and information on the effects of these assumptions and estimates can be found in Note 24.

Goodwill, assets with indefinite useful lives and intangible assets not yet available for use are tested annually for impairment. The recoverable amount determined in the impairment test is usually based on value in use, and its calculation requires estimates of future cash flows and the applicable discount rate. Information on the effects of these assumptions and estimates can be found in Note 24.

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

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

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

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

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

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

New standards and interpretations

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

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

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

Notes to the consolidated financial statements

Note 2. Risk Management and Capital Adequacy Management Principles

Core values, strategic goals and financial targets form the basis for risk and capital adequacy management.

The purpose of risk management is to identify threats and opportunities affecting strategy implementation. The objective is to help achieve the targets set in the strategy by ensuring that risks are proportional to risk-bearing capacity.

Pohjola Group's major risks include credit, credit spread, interest rate, currency, equity, commodity and liquidity risks, underwriting risks and market risks associated with investments, as well as strategic and operational risks associated with all business operations.

Pohjola Bank plc's Board of Directors approves Pohjola Group's capital adequacy management principles, subject to an annual review, specifying the Group's risk-bearing capacity, risk appetite, overall risk and capital adequacy management principles, as well as a capital maintenance plan.

These capital adequacy management principles specify the Group's business-related risks and the risk management organisation while describing the duties of various decision-making levels and the organisational units involved in risk management, and their division of responsibilities. The capital adequacy management principles also include a description of the capital adequacy assessment process, risk management methods and indicators, and the principles related to risk monitoring and reporting.

Organisation of risk management

As the highest decision-making body in matters associated with risk management and capital adequacy management, Pohjola Bank plc's Board of Directors decides on the goals and organisation of risk management and capital adequacy management, confirms the capital adequacy management principles, risk policies, investment plan and the main principles governing risk management. In addition, the Board supervises and monitors the implementation of risk and capital adequacy management. The Board ensures the adequacy of risk management systems, confirms business goals, assesses the need for the Group's and Group companies' capital buffers, confirms capital plans and a proactive contingency plan for the capital base, and decides on the implementation method and organisation of the Compliance function. It also decides on reporting procedures which senior management uses to monitor the Group's and subsidiaries' business, risk-bearing capacity and risk status. The Board assesses the appropriateness, extent and reliability of Pohjola Group's capital adequacy management on a holistic basis at least once a year. The Board also approves the decision-making system and appoints Pohjola's Risk Management Executives, Balance Sheet Management Executives and members of the Senior Credit Committee, and confirms the description of the Underwriting Executives' duties and appointments.

The Board has appointed the Risk Management Committee for the purpose of preparing risk management and capital adequacy management duties for which the Board is responsible. The Committee is tasked with assisting the Board of Directors in ensuring that the Company and its consolidated group have adequate capital adequacy management and risk management systems covering all operations. The Committee shall also supervise the Company and its consolidated group so that they do not take excessive operational risks which would materially jeopardise the Company's and its consolidated group's capital adequacy, liquidity or profitability, and that the Company's and its consolidated group's risk-bearing capacity is sufficient to secure the continuity of operations.

To carry out its duties, the Risk Management Committee deals with the Company's and its consolidated group's capital adequacy management principles, risk policies and other general guidelines governing risk management. The Committee supervises the scope and performance of the Company's and its consolidated group's risk management systems and the quantity and quality of the Company's and its consolidated group's capital base, developments in their financial performance, risk exposure and compliance with risk policies, credit lines and other instructions. It also supervises the Company and its consolidated group to ensure that risk management is in conformity with laws and regulations and instructions issued by relevant authorities. The Risk Management Committee reports to the Board of Directors.



The Board of Directors shall confirm the description of Pohjola Group's Risk Management Executives' duties and appoint the executives. The Risk Management Executives coordinate and supervise the risk management and capital adequacy management principles and operational policies on a holistic basis. The Risk Management Executives deal with the Pohjola Group capital adequacy management principles submitted for the Board's confirmation, risk policies, an investment plan and major operating principles governing risk management and capital adequacy management. In addition, the Risk Management Executives approve the methods and indicators used in risk monitoring, and, upon a business line's proposal, new Group operating models and products and any changes to existing operating models and products. The Risk Management Executives report to the Risk Management Committee.

The Board of Directors confirms the description of the Balance Sheet Management Executives' duties and appoints executive members. The Balance Sheet Management Executives are tasked with analysing, coordinating and controlling asset/liability management in accordance with laws, official regulations, risk policies issued by the Board of Directors and operating principles set by the Risk Management Executives. The Balance Sheet Management Executives deal with the development of the equity structure, the allocation of shareholders' equity to business units and risk types, and make decisions on policies governing the management of Group capital to optimise the return/risk ratio. Within the framework of the policy guidelines confirmed by the Board of Directors, the Balance Sheet Management Executives make decisions on Group funding and holdings in the liquidity buffer. They also decide on the allocation of limits, as defined in the Group's risk policies, to the business divisions. The Balance Sheet Management executives report to the Risk Management Committee.

Pohjola Group's Risk Management Executives confirm the descriptions of the Insurance Risk Management Board's and the Pohjola Asset Management Risk Management Board's duties. The Risk Management Boards coordinate and supervise the Group's risk management and capital adequacy management principles and policy guidelines within their businesses. They monitor compliance with capital adequacy management principles and risk policy guidelines within their businesses and the businesses' risk exposure in relation to their risk-bearing capacity and goals. The Risk Management Boards report to the Risk Management Executives and the Managing Director of their business.

OP-Pohjola Group's Rating Committee is responsible for determining credit ratings for corporate customers and credit institutions. Within the framework of authorisations confirmed by the Board of Directors, the Senior Credit Committee takes decisions on exposure, credit limit and credit approval concerning customer, bank and country risks. The Senior Credit Committee is chaired by the Executive Vice President of Banking. The Credit Committee, the Bank Credit Committee and the department- and unit-level decision-making bodies take decisions concerning credit risk within the framework of the confirmed authorisations.

Group capital adequacy management principles apply to Banking, Asset Management and Non-life Insurance, which bear the main responsibility for risk-taking, earnings performance and compliance with the principles of internal control and risk and capital adequacy management. The business lines have the right to take risk management decisions within the approved decision-making authorisations and limits in compliance with the Group's risk policies and guidelines.

The Boards of Directors of subsidiaries bear the primary responsibility for the subsidiaries' compliance, where

applicable, with Pohjola Group's risk management and capital adequacy management principles, and for ensuring that the subsidiaries have sufficient internal control in place and risk management systems in view of the nature and scope of their business operations.

Tasked with developing and implementing integrated risk management and capital adequacy management in cooperation with the Finance function within Pohjola Group, the Risk Management function, independent of business operations, is responsible for assisting the Board of Directors, the Risk Management Committee, the Audit Committee and the Risk Management Executives in preparing and developing the Group's capital adequacy management principles (incl. capital planning), and in preparing the Group's overall risk policy, risk policies by risk type and investment plans. It is also in charge of monitoring and reporting the implementation of the Group's risk-bearing capacity and risk policies, and preparing and maintaining decision-making powers and instructions pertaining to risk-taking.

The Risk Management function also assists in decision-making and serves as a quality controller in the loan decision process, coordinates the Compliance function and supports the Group's business lines in the management of their compliance risks. The coordination, monitoring and reporting related to the identification and assessment of strategic risks, business risks and operational risks are carried out by the Risk Management function. The function is also responsible for the coordination of process development and the creation, maintenance and development of systems in use. It also assesses risks associated with the introduction of new products and business models.

The Risk Management function supervises the Group Functions' compliance with the Group capital adequacy management principles. The Group Functions monitors and supervises the business lines' compliance with the Group principles of internal control and risk and capital adequacy management.

As part of OP-Pohjola Group Central Cooperative Consolidated and OP-Pohjola Group, Pohjola Group's capital adequacy management adheres to the capital adequacy management principles applied at OP-Pohjola Group level, and reports on its risk exposure to the Central Cooperative on a regular basis. The Central Cooperative's Risk Management and Internal Audit assess the performance of Pohjola Group's risk management and capital adequacy management on a regular basis.

Risk-bearing capacity and capital adequacy management (ICAAP)

Pohjola Group's risk-bearing capacity involves the capital base, profitability and qualitative factors, such as good corporate governance, internal control, risk management and capital adequacy management. Pohjola Group's statutory capital adequacy is determined on the basis of the Act on Credit Institutions. The Group's long-term target for Tier 1 ratio is a minimum of 9.5%, which is more than double vis-à-vis the statutory minimum.

Determined on the basis of the Insurance Companies Act, the statutory solvency of Non-life Insurance is influenced by the minimum requirements set for solvency capital, the minimum solvency margin and equalisation provision. The Non-life Insurance capitalisation target is 70% of insurance premium revenue.

Pohjola Bank plc measures its capital adequacy for credit risk of companies, equity investments, trading book counterparty risks, securitised assets and other assets, based on the capital adequacy framework in accordance with Foundation Internal Ratings-based Approach (FIRBA) under Basel II. Pohjola measures its capital adequacy for other credit risks and market risks based on the capital adequacy framework in accordance with the Standardised Approach (SA). According to the transition plan, Pohjola will next adopt the Internal Ratings-based Approach to cover retail and credit institution exposures. For the time being, the Standardised Approach applies to the business in the Baltic region. The capital adequacy requirement for operational risks was calculated using the Basic Indicator Approach (BIA) until 30 September 2010 but the Group adopted the Standardised Approach in October 2010.

With the adoption of Basel II, ICAAP must involve assessing capital adequacy on the basis of an overall evaluation of risks, i.e. in the measurement of the minimum capital requirement the Group must take account of all material risks associated with business, such as risks pertaining to the measurement of the Pillar I minimum capital requirement (credit, market and operational risks), risks taken into account only partially in Pillar I, risks falling outside Pillar I (eg interest rate risk associated with the banking book and the concentration risk of loan portfolios) and risks inherent in the external operating environment (eg the effect of business cycles and legislative amendments).

Pohjola mainly uses its own economic capital model in assessing these risks.

The Solvency II Directive, the updated regulatory solvency requirements for insurance companies, will come into force at the beginning of 2013. According to preliminary estimates, Solvency II is not expected to tighten Pohjola Group's Non-life Insurance solvency requirements significantly, since Finland complies with considerably higher minimum requirements than those set by the EU. Although there is not yet any final interpretation of the definition of solvency requirements and the capital base, the assumption is that equalisation provisions will be classified as Tier 1 capital under Solvency II. The Group began to make arrangements for the entry into force of Solvency II in 2007 and in 2009 initiated the related organised project which proceeds on schedule.

Capital adequacy management highlights profitability and effective capital management. The parent company is responsible for capital management on a coordinated basis. Every year, subsidiaries distribute their surplus capital to the parent company as dividends and, if necessary, the parent company injects capital into the subsidiaries

through subordinated loans or equity investments.

The Group steers and monitors business by business line and allocates capital to the business lines on the basis of risks. The business lines' earnings are compared with the capital allocated to them and their operating return on equity is monitored against the set targets.

Forming part of integrated risk management, capital adequacy management aims to ensure effective capital management and the sufficient amount and quality of capital in order to secure uninterrupted operations in the event of unexpected losses. Capital adequacy management is based on a proactive approach based on the Group's business strategy and plans. In addition to the capital adequacy target, the capital adequacy assessment process defines capitalisation targets by business line, capital adequacy forecasts, stress tests, scenarios and sensitivity analyses, as well as a contingency plan for maintaining the capital adequacy target considering all material risks arising from the business and changes in the operating environment.

Well-balanced risk-taking, the capital structure, strong earnings power and proactive risk management secure Pohjola Group's risk-bearing capacity.

Economic capital

The concept of economic capital depicts the amount of capital required to cover unexpected losses arising from Group risks. Using probabilistic methods, economic capital is measured over a one-year period and at Group level at a confidence level of 99.97%. Approved by the Risk Management Executives, Pohjola Group's economic capital models were adopted in 2009.

Economic capital is better at describing the risk associated with business than regulatory capital requirement. The Group's economic capital model provides a calculatory basis for controlling businesses, i.e. capital can be allocated efficiently to correspond to each business unit's risks.

The Group's economic capital involves the various risk types (eg credit, market, interest rate, loss and provision risks as well as business and operational risks) by Non-life Insurance and Banking and Investment Services.

Risk appetite

Risk appetite is defined by proportioning Group risk exposure to its risk-bearing capacity and expected returns. Group business operations are based on a reasoned risk/return approach which serves as a guideline for exploiting credit risks, market risks, liquidity risks as well as underwriting and investment risks. Business operations also involve strategic, business, compliance and operational risks.

Pohjola Group is a moderate risk taker. The improvement in the operating environment enables Pohjola to take more risks. Non-life Insurance is gradually returning closer to its long-term investment allocation in its risk-taking.

In Banking, the aim is that the average amount of loan and impairment losses over the economic cycle should not exceed 0.30% of the loan and guarantee portfolio.

In Non-life Insurance, the aim is that the risk ratio between claims incurred (excl. loss adjustment expenses) and insurance premium revenue does not exceed 70%.

With respect to Non-life Insurance investment operations, the aim is that any annualised negative income at fair value from investment assets arising from investment risks with a 95% probability does not exceed EUR 50 million.

The Group Functions aims to secure OP-Pohjola Group's liquidity for a minimum of the next 12 months, based on its liquidity buffer and other measures according to its liquidity contingency plan, even if potential threat scenarios were to materialise.

The Group reviews its risk appetite annually and adjusts it by type of risk by setting target values for risk-specific indicators considering the economic cycle and market prospects. The Board of Directors reviews risk appetite and policies whenever the economic outlook changes fundamentally. It also assesses the risk-taking level and risk appetite and the related updating needs on a half-yearly basis.

Risk policies

Annually formulated risk policies provide guidelines for risk-taking. Pohjola's Board of Directors approves Pohjola Group's overall risk policy and the underlying risk policies and principles guiding the Group, Banking, the Group Functions and Non-life Insurance.

In the overall risk policy, risk appetite is apportioned to various types of risks in such a way that the Group is able to achieve its business goals without jeopardising its risk-bearing capacity and capital adequacy targets. The overall risk policy is also aimed at restricting the creation of risk concentrations.

This overall risk policy is supplemented by risk policies by risk type within Banking and the Group Functions, and specific risk policies and reinsurance principles related to private and corporate customers guiding Non-life Insurance, and investment plans guiding Non-life Insurance investments.

Compliance risk management

Compliance risks refer to risks resulting from non-compliance with external regulations, internal procedures and

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appropriate procedures and ethical principles governing customer relationships. If this risk materialises, it may cause not only a financial loss but also other sanctions (eg a corporate fine and separate administrative fines for violation of obligations). Compliance risk materialisation may also result in loss of reputation.

The Compliance function forms part of organising good corporate governance. Compliance risk management is aimed at ensuring that the Group complies with external regulations and internal procedures throughout its functions and operations, and that the Group applies appropriate procedures in customer relationships.

Pohjola Group's Compliance supports the senior management and the business lines in their compliance risk management, for instance, by keeping those responsible for the business lines informed of any material changes in regulations and of any effects they may have on the business lines, by drawing up guidelines supporting the application of the regulations, by identifying and evaluating proactively any major adverse consequences related to non-compliance with the regulations. The Group identifies and assesses compliance risks as part of the operational risk identification and assessment process. Compliance risks associated with new products, services, practices and outsourcing are assessed as part of the implementation process.

The Compliance function monitors and ensures compliance with the regulations by evaluating eg internal processes and procedures ensuring compliance with the regulations, and by proposing any necessary improvements. In measuring compliance risks, the Group applies operational risk assessment techniques.

Those responsible for compliance in Pohjola Bank plc's subsidiaries ensure that the subsidiaries also adhere to Group-wide guidelines, instructions, regulations etc.

Management of strategic and business risks

The management of strategic and business risks is aimed at creating a corporate culture with a risk-preventive approach. Risk management is based on systematic planning, diligence and continuity throughout business operations. Pohjola prevents the materialisation of risks by developing processes enabling the Group to identify and assess potential risks better and more efficiently manage measures taken to control risks.

Strategic risk and business risks

Strategic risks and business risks arise from competition, internal pressures or market forces which result in unexpected fluctuations in volumes, margins and costs, thus affecting the volatility of earnings and the achievement of long-term business goals. Strategic and business risks may also arise from opting for a wrong strategy and from mismanagement and inadequate monitoring or from slow reaction to changes in the operating environment.

Methods of the management of strategic and business risks, and their measurement

The Group manages strategic risks through continuous planning based on analyses and forecasts of developments in market areas, of competition and future customer needs. Pohjola Group annually revises its strategy by business line and monitors strategic risks by business line and business risks by business division.

The Group monitors and assesses risks and their significance annually in connection with updating its business strategies and plans. At the same time, it also evaluates changes in the operating environment and competition and their effect on the implementation of the strategy, and links the identified risk factors to the planned strategic initiatives.

Monitoring and reporting strategic and business risks

Pohjola Group monitors strategic and business risks and the related risk-management measures by using risk maps and risk registers in which identified and assessed risks have been registered.

The Group draws up strategy and business risk reviews twice a year and regularly reports the strategic and business risks of business lines and business divisions, as well as the related risk management methods.

Management of operational risks

Operational risk refer to the risk of loss resulting from inadequate or failed processes, systems or external events causing financial loss or other harmful consequences. Operational risk also includes compliance risk but not strategic risk. Operational risk may also materialise in terms of loss or deterioration of reputation or trust.

Methods of the management of operational risks, and their measurement

Operational risks are qualitative in nature and a company cannot ever fully hedge against them. Operational risk management is aimed at ensuring that no unforeseeable financial consequences or loss of reputation arise from risks.

The key area of operational risk management involves identifying and assessing risks and ensuring the effectiveness and adequacy of risk control and management tools, with the aim of identifying operational risks associated with all major products, services, functions, processes and systems, including outsourcing. Risk identification also involves paying attention to the illegal use of the banking system (money laundering and financing of terrorism) as well as compliance-related risks.

The Group assesses the significance of identified risks through their financial effect and probability, and this assessment also takes account of reputational risk.

Each month, the business units report events above a certain threshold through the operational risk reporting and management system. The business lines describe in a reporting application reasons for the loss event and measures taken to prevent similar losses.

The Group and Group companies assess the level of operational risks and risk-mitigating management tools on a regular basis and immediately whenever necessary, using standardised methods. Reports issued by Internal Control and the management of communications and information flow in the agreed manner also form an important part of operational risk management.

Monitoring and reporting operational risks

For reporting purposes, operational risks are divided into different categories, according to the Advanced Measurement Approach, based on their potential sources, and identified and materialised risks are reported to the executive management. The most significant risks are also reported to the Risk Management Committee of Pohjola Bank plc's Board of Directors. In addition, material operational risks related to compliance are reported to the Board's Audit Committee.

Risk management: Banking

Credit risk management

Credit risk refers to a risk arising from the failure of the bank's contracting parties to meet their obligations and collateral not securing the bank's receivables. Credit risk also includes country risks and settlement risks, the former representing a credit risk associated with foreign receivables by country and the latter relating to the clearing and settlement process involving the risk of losing a receivable being settled.

Credit risk management aims to restrict losses due to credit risks arising from customer and other exposure to an acceptable level whilst seeking to optimise the risk/ return ratio. Credit approval and the effectiveness of the credit approval process play a key role in the management of credit risks. The process is guided by confirmed credit risk policies, decision-making authorisations and operating guidelines.

In settlement risk management, it is vital to ensure the reliability of counterparties. The Group mitigates settlement risks by concluding standard agreements and using only reliable clearing centres.

Pohjola mitigates credit risks by diversifying its loan portfolio and defining collateral and covenant policies on a customer-specific basis. In order to further mitigate credit risks, Pohjola has defined a maximum customer exposure on the basis of its capital base, and has a credit limit system in place. It has also used credit default swaps but has not applied asset securitisation.

Pohjola has not acted as an initiator or manager of securitisation transactions but has invested in conventional securitised assets issued through a special purpose company. It has had no credit derivatives related to securitisation. In calculating the total amount of the risk-weighted assets of securitisation positions, the Group has used the Standardised Approach to credit risk when the securitisation position belongs to the exposure category to which the Standardised Approach is applied. For positions to which the Internal Ratings-based Approach is applied, Pohjola has used an assessment model based on credit rating.

Pohjola Group's Risk Management Executives approve the principles governing the use and assessment of collateral, and confirm valuation percentages for each line of insurance. Developments in collateral values are monitored on a regular basis. The value of collateral is re-assessed, for instance, when it has significantly changed or the client's financial standing has weakened substantially. The Group exercises special care in assessing the value of collateral deemed as cyclical in nature, and its usability.

Credit risk policy

Credit risk policies define principles governing the composition, diversification and customer selection in respect of total exposure, as well as the use of collateral and covenants, with a view to ensuring a sufficiently diversified credit portfolio in order to avoid excessive risk concentrations by country, customer group, industry, credit rating, customer Group of companies or time period.

For the portfolio review, customers are divided into the following six groups: corporate customers and housing associations, credit institutions, households, OP-Pohjola Group member cooperative banks and OP-Pohjola Group Central Cooperative, and public entities and non-profit institutions serving households. Corporate customers, credit institutions, households and international banking are governed by specific credit risk policies. Furthermore, the Group has drawn up a country risk policy.

The corporate customer credit risk policy involves determining target values for corporate exposure by rating category and a relative maximum exposure by industry.

OP-Pohjola Group's rating system is not so far used in the Baltic business. OP-Pohjola Group's Rating Committee categorises clients meeting the Pohjola's rating criteria. In other respects, for lending purposes Pohjola makes use of credit status reports provided by selected agencies in each country. As a rule of thumb, Pohjola does not provide financing to clients with no credit status reports available from these agencies.

Risks associated with credit institutions are diversified by credit rating, issuer and product. In addition, in order to ensure the liquidity of negotiable fixed-income investments, the Group has determined minimum sizes for issues in

which it can invest.

The country risk policy allows risks to be diversified by setting maximum limits on exposure in individual groups of countries and in individual groups of countries by country.

Credit risk limits

A risk limit is the maximum exposure or uncovered exposure set for a customer or country. A limit may also include restrictions in terms of time or product, such as a maximum amount for short-term or long-term exposures. The Group also confirms a customer-specific risk policy for most corporate and institutional customers, comprising the minimum amount of collateral and the covenants to be used.

The exposure limit is a euro-denominated ceiling on customer-specific exposure and is annually confirmed for corporate and credit institution customers whose actual or planned exposure exceeds EUR 5 million.

The credit institution limit is a euro-denominated counterparty limit for a specified period, within which limits the Group conducts business with credit institutions. The limit is provided on condition that the credit institution is located in a country for which a country limit has been approved. The credit institution limit is reviewed at least once a year.

The country limit is a euro-denominated ceiling on receivables from a given country. The amount of the country limit for each country and any related time restriction are defined in accordance with the country's credit rating and Pohjola Bank plc's risk-bearing capacity in such a way that it supports the approved business principles. Country limits are reviewed at least once a year.

Credit process

The day-to-day credit process plays a crucial role in credit risk management. From the risk management perspective, its key stages include credit standing assessment, decision-making and execution, which are separate processes. The Risk Management function supervises the credit process flow and quality.

Credit standing assessment

Pohjola Bank plc's credit standing assessment is based on credit risk models developed and used together with OP-Pohjola Group. The purpose of the rating is to divide all corporate customers into credit rating categories so as to meet the needs of risk management and fulfil the criteria set for internal rating approaches within the new capital adequacy framework (Basel II). Probability of default (PD), determined for each credit rating category at Pohjola Bank plc, depicts the size of risk in terms of the average probability of default during 12 months over the economic cycle.

Determination of credit standing by customer group:

Customer group	Determination of credit standing
Mid-sized and large companies	Credit rating issued by the Rating Committee
Small companies	Credit rating based on financial statements and payment status
Credit institutions	Credit rating issued by the Rating Committee or an external credit assessment institution
Member banks and OP-Pohjola Group Central Cooperative	Credit rating issued by the Rating Committee
Countries	Credit rating by an external credit assessment institution
Private customers	Credit rating based on payment status information and credit scoring

Pohjola assesses the credit standing of corporate customers using OP-Pohjola Group's internal 20-step credit rating system. Corporate customer credit ratings are assessed at least once a year. Pohjola uses its own rating models for mid-sized and large companies, and small companies. Irrespective of the model, each credit rating category is subject to the same probability of default, i.e. credit rating categories deriving from various models are comparable with one another.

A mid-sized and large company's rating is influenced by its financial position as presented in its financial statements, with capital adequacy, profitability and liquidity representing key indicators. Other elements include the company's management, financial planning and reporting, market position, competitiveness, product quality, general conditions in the industry, payment history and future prospects. If the company has a public credit rating, this rating will be considered when assessing its credit rating.

The rating model for mid-sized and large companies is based on the combination of statistical analyses and expert opinions. Key indicators and information on payment default entries for 2003-09 were used to assess PD values by category. Since information on payment default entries was available only during the economic upturn, the Group analysed the required adjustment using credit loss and bankruptcy statistics until 1991 and time series of foreign banks' insolvency until 1990. In addition, PD values contain a statistical margin of error.

Suomen Asiakastieto Oy's rating model forms the basis of small company ratings. Variables in this statistical model include those related to company history, ownership, executives in charge, financial statements and payment method. Score limits have been set for the scores deriving from the model and Pohjola applies these limits to convert scores into OP-Pohjola Group's internal credit rating category. An equivalent adjustment, due to the

economic situation, has been made for actual payment defaults vis-à-vis the assessment of PD values for the rating model for mid-sized and large companies above. The A rating scores were last updated at the end of 2010 in such way that the related changes will take effect in 2011. The data used for this purpose was Rating Alfa scores and payment default entries for the companies for 2007-09.

The table below shows the correspondence between OP-Pohjola Group's credit rating categories for corporate exposure and the credit rating categories of Standard & Poor's.

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

The two lowest credit ratings (11-12) apply to defaulted customers, customers subject to financial restructuring or customers declared bankrupt.

Collateral or guarantees received for the customer's exposure are not taken into account in credit rating. Risk assessment for each exposure is performed at the decision-making stage on the basis of the customer's credit standing, the proposed exposure and the collateral and guarantees presented; at this stage, the pricing of the exposure is also confirmed.

The Group makes use of the internal credit rating in exposure pricing, the credit approval process, measurement of economic capital requirement, and in the setting, monitoring and reporting of the credit portfolio's qualitative objectives.

Pohjola adopted internal credit rating for credit institutions at the beginning of 2009. The rating model for credit institutions is based on the combination of statistical analyses and expert opinions. External ratings replaced the scant empirical data on payment defaults in the development of this model. A credit institution's rating is influenced by its financial position as presented in its financial statements, with capital adequacy, profitability, size and liquidity representing key indicators. Other elements include the credit institution's management, financial reporting, market position, the quality of the loan portfolio, the level of risk management, business diversification, future prospects and competitiveness, product quality, general conditions in the industry, payment history and the country of domicile. Pohjola still applies the Standardised Approach to credit risk in calculating the risk-weighted assets of credit institutions as counterparties.

Countries are divided into five country risk categories on the basis of their Moody's credit rating. The lowest Investment Grade rating is Baa3, or countries in country risk category 3.

Correspondence between country risk categories and Moody's credit ratings:

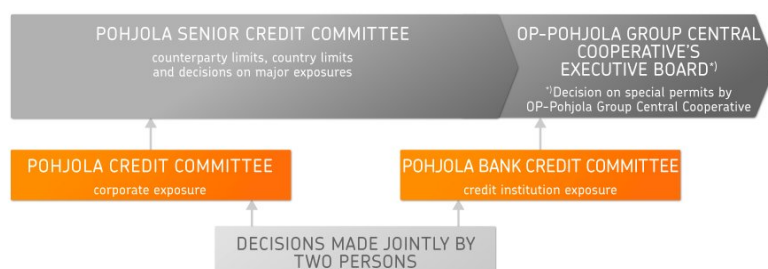
Country risk	Moody's equivalent
Category 1	Aaa
Category 2	Aa1-A3
Category 3	Baa1-Baa3
Category 4	Ba1-B3
Category 5	Caa1-C and non-rated

Credit decision

The assessment of credit standing forms the basis of a proposal for credit decisions. Account managers prepare proposals for the exposure limit, credit limit and financing and present them to the decision-making bodies. The proposal for a credit decision includes a report on the applicant, any previously granted credit and the related collateral and uncovered exposure. In addition to the assessment of credit standing, a credit proposal for corporate customers includes the collateral and covenant policy for short- and long-term exposure and a forecast of the development of the customer's financial standing. A financial statements analysis is always included in the proposal for the exposure limit of corporate customers and a company analysis is often also required of new corporate customers. In most cases, credit proposals for corporate and credit institution customers involve an opinion of credit risk issued by the Risk Management function.

Pohjola credit decision-making bodies

Pohjola credit decision-making bodies



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The decision-making bodies make decisions to accept risks within the framework of their powers and in compliance with the confirmed credit risk policies, limits and policy guidelines. The powers of the decision-making bodies have been scaled on the basis of the customer's credit rating, exposure and uncovered exposure. Decisions on credit for private customers are based on OP-Pohjola Group's internal credit rating applicable to private customers and minor credit decisions for private customers are also made using an automatic credit-decision system based on credit scoring.

Execution

The execution stage involves preparing the tender and contract documents based on the approved proposals. Before the customer has access to any funds, Pohjola verifies the fulfilment of the drawing terms and conditions. Furthermore, it supervises the fulfilment of the contractual terms throughout the term of the agreement.

Measuring, monitoring and reporting credit risk

Pohjola measures credit risk on a customer-specific basis in terms of total exposure and uncovered exposure. Exposure refers to the total amount of balance sheet and off-balance-sheet items that the bank holds for a specific customer. Uncovered exposure is calculated as the difference between the exposure and the collateral value. Credit risk is also measured using a weighted collateral shortfall figure calculated by multiplying the customer-specific uncovered exposure against the probability of default corresponding to the customer's credit rating. Other credit risk indicators include the ratio of doubtful loans and past due loan repayments to the loan and guarantee portfolio, as well as the ratio of loan losses to the loan and guarantee portfolio.

The credit risk associated with a loan portfolio is also measured by the amount of expected and unexpected losses and their development in relation to the loan and guarantee portfolio. Various stress tests are also performed on the amount of the expected and unexpected losses.

Customer monitoring consists of an annual analysis of financial statements and interim reports, and continuous monitoring of the customer's payment status and business. Pohjola Group monitors continuously customers' payment status, past due payments and doubtful loans using information obtained from both OP Pohjola Group's internal control service and external services.

Customers whose financial status performance, credit risk and payment status justify a more detailed examination are subject to special observation. In this context, the Group also analyses the need to change the customer's credit rating, the probability of a credit loss and the need to recognise an impairment loss. This often means that the credit approval decision is made by a higher-level decision-making body.

The credit decision process involves monitoring the exposure limits of corporate and credit institution customers and the total exposure limits of consolidated financial institutions. Furthermore, decision-making bodies supervise credit decisions and always submit their minutes to the next decision-making level.

The Risk Management function bears overall responsibility for reporting credit risks. It prepares a corporate risk analysis for the Risk Management Committee of the Board of Directors. The analysis also contains information on eg the development of the amount, distribution and type of total exposure, and on the development of doubtful loans.

The use of limits and any of their overdrafts are reported regularly. In addition, the Risk Management function prepares portfolio-specific analyses.

Decision-making and assessment related to credit risk models

OP-Pohjola Group's Risk Management Committee decides on the adoption of and any significant changes in the credit risk models. The development and maintenance of these models are based on cooperation between the organisations independent of the business of Pohjola Bank plc and OP-Pohjola Group Central Cooperative. The models are validated at least once a year in accordance with the validation instructions approved by OP-Pohjola Group's Risk Management Committee. Validation uses statistical methods to test eg the model's sensitivity and the validity of risk parameter estimates (PD, LGD and EAD). Validation also involves qualitative assessment. The results of validation and any recommendations for required measures are reported to the Risk Management Committee, which decides on any improvements on the basis of the validation. The OP-Pohjola Group Central Cooperative's Internal Audit is responsible for ensuring that validation is performed independent of businesses.

Use of credit risk models in capital adequacy measurement

The Finnish Financial Supervisory Authority has granted OP-Pohjola Group permission to phase in the Internal Ratings-based Approach (IRBA) in its capital adequacy measurement for credit risks. In September 2008, Pohjola Bank plc began to apply the Foundation Internal Ratings-based Approach to its corporate exposures and the Group's equity investments. The Group will gradually apply IRBA to other exposure classes during the three-year transition period.

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

Market risk management

Market risks include the effects caused by changes in market prices (interest rates, foreign exchange rates, equity prices and credit spreads) or volatility on the bank's financial performance. Market risks may have a direct effect on

performance or the effect may span several financial years. The recognition of the effects on financial performance depends on how a vulnerable asset or derivative instrument is accounted for. Market liquidity has an effect on the formation of market prices. If markets lack sufficient depth or cease to function in a regular manner due to a disruption, market risks also arise due to the lack of market liquidity. In general, a decrease in market liquidity leads to weaker financial results due to higher liquidity premiums included in market prices.

Market risk management aims to limit risks arising from the volatility of balance sheet and off-balance-sheet items to an acceptable level and to promote healthy financial performance by optimising the risk/return ratio.

Both trading and the banking book involve market risks. Trading aims to benefit from market price changes in the short term by actively taking market risks. The effects on financial performance of the market risks taken in trading are mainly immediately reflected in changes in the fair value of assets and derivatives.

The banking book contains the bank's structural interest-rate risk arising from the loan and deposit portfolio, domestic and foreign wholesale funding and derivative contracts hedging the abovementioned items. The banking book also includes liquidity buffers and other assets (for example shares, real property holdings and equity). The management of market risks associated with the banking book has the aim of hedging the Group's net financial income against interest rate fluctuations and maintaining OP-Pohjola Group's liquidity buffer at optimum levels. No currency risks are taken in the management of the banking book. The market risk associated with the banking book tends to materialise in net interest income recognised between financial periods.

The Board of Directors approves the market risk management principles and risk policies. The Balance Sheet Management Executives coordinate and control the overall principles of market risk management and supervise the use of limits. Market risks are centrally managed by business units responsible for the risks in question and the units are in charge of their own exposure and results within the framework of the set limits. The middle offices of Markets, Treasury and Asset Management monitor and report market risks and their outcome to the divisions, executive management and the Risk Management function. The principles and indicators used in managing market risks involved in trading and the banking book are largely the same.

The Group has defined risk policies for interest rate, volatility, currency, equity, commodity and real estate risks, specifying the principles and limits regarding the structure and diversification of exposure, with the ultimate goal of ensuring that market risks are proportional to risk-bearing capacity. Risk limits are allocated between trading (interest rate, currency, commodity and volatility risk) and treasury (interest rate, volatility and equity risk).

Interest rate risk is diversified by currency, product and maturity while foreign currency risk is hedged by currency. Equity and capital investment risks are diversified by market area, sector and issuer and private equity fund investment risk is diversified in accordance with the fund rules. Options trading is governed by specific limits.

Analysing the risk exposure structure and markets on an ongoing basis and anticipating the impact of changes on the bank's risk exposure and financial performance play a key role in market risk management. Effective market risk management requires real-time and accurate information on exposure and markets and a quick response to changes. The Group manages market risks by adjusting the risk exposure using both assets and derivative instruments within the risk limit framework, in line with the current market views. Derivative instruments can also be used to hedge market exposure or individual agreements against changes in market values or in order to secure net financial income.

Measuring, monitoring and reporting market risks

Pohjola monitors market risks by using the indicators specified in the table below.

Type of risk	Risk indicator	Result indicator	Frequency
Interest rate risk/trading portfolios	Effect of 1-percentage point increase on the present value of future cash flows	Change in market value	Daily
Interest rate risk/ banking book	Effect of 1-percentage point increase on the present value of future cash flows	Change in market value, net financial income	Daily
Currency risk	Total net exposure, currency pair exposures	Change in market value	Daily
Equity risk	20-percentage point change in market value	Change in market value	Weekly
Volatility risk	Effect of 1-percentage point volatility change on the present value of exposure, delta position	Change in market value	Daily
Commodity risk	Potential daily-level effect of commodity exposure on financial results, based on the volatility of commodity indices corresponding to exposure	Change in market value	Daily
Real estate risk	Capital tied to property available for lease, and the vacancy rate	Net income	Quarterly

The Risk Management function monitors Pohjola's interest rate, commodity, volatility and currency risk limits on a daily basis and reports these to the business lines/divisions and the management.

Interest rate risk

Interest rate risks arise from differences between the maturities of balance sheet or off-balance-sheet items, interest rate reset dates or the bases of interest rates. In trading, interest rate risks materialise when market rates change as a result of changes in the market value of securities and derivative contracts. Interest rate risks exposed by the banking book translate into a change in net financial income, those by notes and bonds at fair value through profit or loss, included in the liquidity buffer, into a change in fair values shown in the income statement and those by available-for-sale notes and bonds into a change in fair value reserve under equity.

The balance sheet also involves structural interest rate risks arising from retail borrowing and non-interest-bearing balance sheet items. Any premature repayment based on customer agreements may also create interest rate risks. Premature repayments and retail borrowing do not constitute a significant item from the perspective of Pohjola's business. The Group monitors both items but has not modelled customer behaviour.

The Group measures and reports interest rate risks exposed by trading and the banking book on a daily basis using the same benchmarks and limitation principles. These are also used to estimate the sensitivity of the accumulated net financial income to interest rate fluctuations. Only specifically designated units may take interest rate risks within the set limits.

Currency risk

Currency risks arise if there is a gap between assets and liabilities denominated in the same currency.

Currency risk management is carried out in the context of trading. Limits set on the total net foreign currency exposure, the par exposure of key currencies (USD, GBP and SEK) and individual currencies are used to mitigate exposure risk.

Foreign currency exposures are subject to daily reporting.

Equity risk

Equity and venture capital investment is exposed to equity risks. Equity investments include shares held for trading and long-term ownership.

The equity risk policy specifies the principles regulating the composition of the equity portfolio and the selection of investments.

Treasury is responsible for the management of the equity portfolio for available-for-sale investments. The Group measures equity investment risks in terms of the effect of a 20% change in share prices on the market value of an equity exposure. Equity risks are subject to weekly reporting.

Commodity risk

Commodity risk arises from uncovered commodity derivative position. The Group takes commodity risk through electricity, oil and metal derivatives.

Commodity exposures are subject to daily reporting.

Volatility risk

Volatility risks arise from uncovered option exposure. Interest rate and currency options and, to a minor extent, the repurchase of issued index loans create volatility risks.

Interest rate and foreign currency volatility risks are subject to daily reporting.

Real estate risk

Real estate risks refer to risks associated with fair value changes in and returns on property holdings.

The real estate risk policy sets out the principles regulating the composition of a real estate portfolio and the selection of investments. The Group makes annually value estimates and action plans for each property holding. Real estate risks are reported quarterly in the Group's risk analysis.

Statistical methods used in market risk management

Pohjola Bank plc also uses statistical Value-at-Risk methods (VaR) in measuring and reporting market risks daily associated with the trading book and the banking book. These methods enable Pohjola to analyse the composition of its market risk exposure beyond responsibility areas and risk types. Pohjola supplements the VaR technique with stress test scenarios and scenarios describing changes in the yield curve's shape.

Pohjola continues its development work on statistical market risk modelling. In 2011, it will adopt VaR limits as primary market risk limits. However, Pohjola will continue monitoring and reporting conventional risk indicators to the same extent as before.

Liquidity risk management

Liquidity risks refer to risks associated with the availability of refunding and the impact of the bank's credit rating on the price of funding. A difference between the maturities of receivables and liabilities presents risks. Such a risk

also arises if liabilities or receivables, or both, are concentrated with respect to counterparties, instruments or market segments. Liquidity risk may also result from changes in customer behaviour, the business environment or market liquidity.

Funding liquidity risks refer to risks associated with the availability of funding when debts or other payments arrive at maturity. Such a risk may materialise as a result of lower market liquidity or a borrower's downgraded credit rating. For the management of funding liquidity risks, Pohjola maintains a liquidity portfolio consisting of liquid notes and bonds.

Funding liquidity management is governed by the regulations of the minimum reserve and marginal lending facility systems by the European Central Bank.

As the central financial institution of OP-Pohjola Group, Pohjola is responsible for the liquidity and sufficient liquidity buffer of OP-Pohjola Group. The liquidity buffer consists mainly of notes and bonds, issued by entities of high credit rating, which may be used as collateral for central bank debt or sold on the market in a flexible way.

Liquidity risk management aims to ensure that the capital structure is correctly proportioned to risk-bearing capacity and to mitigate the structural funding risk and the funding liquidity risk. Funding liquidity risk management aims to ensure sufficient liquidity in an acute, unexpected liquidity squeeze, focusing on establishing and maintaining a framework for supporting sufficient liquidity, as well as planning precautionary measures.

Liquidity risk management involves planning liquidity and the balance sheet structure, maintaining a sufficient liquidity buffer and diversifying funding by maturity category, counterparty, product and market area. With a view to managing liquidity and funding liquidity risks, the Group carries out scenario analyses describing threats critical to liquidity and their effects on funding and liquidity, as well as tools to secure liquidity.

The Board of Directors approves annually the liquidity and funding liquidity risk management principles and risk policies. The Risk Management Executives coordinate, and supervise compliance with, these principles and control the use of limits. Group Treasury is responsible, on a centralised basis, for Pohjola's liquidity risk and funding liquidity risk management, long-term funding as well as the maintenance of liquidity portfolios. The Risk Management function monitors and reports liquidity risks to the business lines/divisions and the management.

Key sources of funding include issues of CDs and bonds, deposits from other banks and member cooperative banks, deposits from the public and shareholders' equity. Pohjola's credit rating contributes to the availability and price of funding in international money and capital markets.

The liquidity risk policy specifies the minimum liquidity buffer and the maximum structural funding risk.

In addition, the liquidity risk policy includes a funding plan and a plan for securing OP-Pohjola Group's liquidity in case bad scenarios threaten liquidity.

Measuring, monitoring and reporting liquidity risks

Liquidity risk management consists of structural funding risk, maturity distribution of long-term debts, short-term funding liquidity management and stress tests. The Group monitors structural funding risk on the basis of interrelationship between long-term assets and liabilities, for which the Group has set a limit. The Group monitors long-term funding maturity using a maturity distribution, for which limits have been set. Funding liquidity management is based on the scenarios of maturing cash flows and the liquidity buffer, and the Group has set limits and target values for these scenarios. Stress tests measure liquidity in an improbable situation.

The Risk Management function reports funding risks to the business lines/divisions and the management on a monthly basis. A liquidity risk report must be prepared on a daily basis.

Derivatives business

Pohjola uses interest rate and currency derivatives actively and equity, equity index and credit derivatives to a lesser extent. Note 87 provides detailed information on the underlying values and credit equivalents. Derivatives are used for trading and hedging purposes as part of total exposure management. The Group monitors derivative risks as part of the total exposure in trading and treasury using the same benchmarks as for balance sheet exposure.

Counterparty risk involved in the derivatives business is monitored using credit equivalents determined on the basis of the repurchase cost of contracts (market value) and product-specific future credit risk factors.

The purpose of hedging loans and debt issues against interest rate risks is to lock the margin, or the interest rate difference between the hedged and hedging item. Hedge effectiveness is assessed by the ratio between the interest rate risk figures and market values of the hedged and hedging items.

Additional earnings components linked to the issued index loans are hedged using derivative structures. The hedging derivatives are equity, equity index, currency, interest rate, commodity and credit derivatives.

Risk management of Non-life Insurance

Risks of insurance operations

The insurance business is based on taking and managing risks. The largest risks pertain to risk selection and

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pricing, the acquisition of reinsurance cover, and the adequacy of technical provisions. Within Non-life Insurance, the risk inherent in technical provisions lies mainly in insurance lines characterised by a long claims settlement period. In addition to underwriting risks, a major insurance business risk consists of the investment risk related to the assets covering technical provisions.

Underwriting risks

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

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

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

An accumulation of loss due to natural catastrophes or large catastrophes caused by human activity constitutes a specific risk type. In such a case, one catastrophic event may in practice give rise to simultaneously payable claims for a large number of insured risks at high amounts. The resulting total claims expenditure may be extremely large. However, this risk can be diversified, since the Group operates in the region with a perceived relatively low risk of natural catastrophes, enabling the Group to protect against the risk through reinsurance.

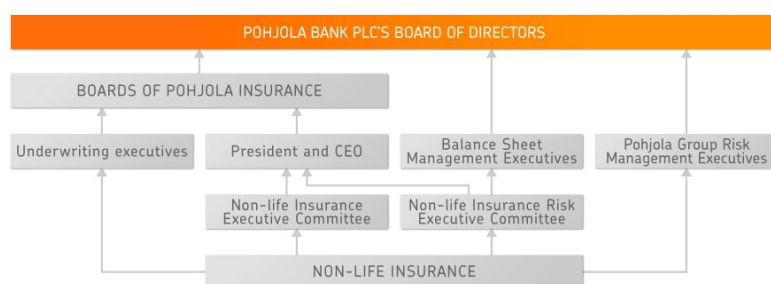
Underwriting risk management

The most important tasks within underwriting risk management relate to risk selection and pricing, the acquisition of reinsurance cover, the monitoring of claims expenditure and the analysis of technical provisions.

The Underwriting Executives act as the highest decision-making body in charge of underwriting risk. Responsible for Pohjola Group's underwriting risk management, the Underwriting Executives make underwriting decisions within the framework of powers confirmed by the boards of directors of the insurance companies, and report its decisions to these boards of directors.

Non-life Insurance decision-making levels

Non-life Insurance decision-making levels



The Non-life Insurance decision-making system contains a description of Non-life Insurance decision-making. Decisions on customer and insurance object selection and risk pricing are made according to the Underwriting Guidelines governing each line of insurance in case the risk involved is below the amount set for the Underwriting Executives. Greater and more severe risks require decisions made jointly by several underwriters or managers. For basic insurance lines, decisions are made on a system-supported basis and customers and the objects of insurance are selected within the powers allowed by instructions specifically approved.

Risk selection and pricing

Operating models highlight the role of risk selection and pricing. The Group has set limits for the size and extent of risk for each insurance line and risk concentration. The Group has a centralised data warehouse and analysis

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applications in place to support risk selection and pricing. Insurance terms and conditions serve as a vital tool in controlling risks. In addition, risk analyses are performed on a customer or insurance line specific basis to mitigate risks.

Reinsurance

The reinsurance principles and the maximum risk per claim retained for own account are annually approved by the Board of Directors. In practice, the Group keeps this amount lower if this is justifiable considering the price level of reinsurance cover. Retention in risk-specific reinsurance is a maximum of EUR 5 million and that in catastrophe reinsurance EUR 5 million. The capacity of catastrophe insurance covering loss accumulation stood at EUR 95 million in 2010. In addition, claims under the short-tail business have an annual aggregate protection with a capacity of EUR 11 million.

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

Risk concentrations

The Group takes account of local risk concentrations in EML (Estimated Maximum Loss) estimates for property risks and through EML breakthrough cover included in reinsurance cover. Our operating region has no major risk of earthquakes. With respect to risks associated with other natural disasters, such as storms and floods, Finland is a very stable area. However, the Group has protected against catastrophe accumulation losses through an extensive catastrophe reinsurance cover whose capacity is 10-fold compared with the realised catastrophe accumulations. The catastrophe accumulation cover applies to property damage and personal injuries.

Evaluation of technical provisions

The Group monitors the adequacy of technical provisions on an annual basis. Technical provisions arising from insurance contracts are determined on the basis of estimated future cash flows. The cash flows comprise claims paid and loss adjustment expenses.

The amount of technical provisions has been estimated in such a way that it is, in reasonable probability, sufficient to cover the obligations arising from insurance contracts. This has been performed by estimating an expected value for the technical provision and, after that, by determining a safety loading based on the degree of uncertainty related to the provision.

The provision for unearned premiums has mainly been determined in accordance with the pro rata parte temporis rule, calculated in relation to the duration of the insurance period. The provision for unearned premiums is determined for each insurance in contracts with companies and for private customers using specific statistical coefficients.

For the provision for unpaid claims, known losses above a provision level and the provision for unpaid claims for annuities are reserved on a case-by-case basis. The provision for unpaid claims for unknown losses and known losses below a case-specific reserve level are reserved collectively using actuarial techniques.

The provision for unpaid claims for annuities corresponds to the discounted present value of cash flow of compensation for loss of income payable as continuous annuity. The discount rate is determined taking account of the current interest rate, security required by law and the upper limit of the discount rate set by the authorities. On 31 December 2010, the discount rate used was 3.5% (2009: 3.5%). The mortality model applied is the cohort mortality model which is based on Finnish demographic statistics and which assumes the current trend of an increase in life expectancy to continue.

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, considering that the average life expectancy has increased. The preliminary findings based on the first stage of the project and received in October 2010 reveal that life expectancy has increased in Finland and the commonly used mortality model needs some update. The purpose of the second stage is to update the commonly used mortality model by the summer of 2011 when the effect of the changed model on technical provisions can be determined. According to the management's preliminary estimate, the effect of an increase in the average life expectancy of Finns on the mortality model would increase Pohjola's technical provisions by EUR 35 million.

The valuation of collective liability is based on different statistical methods. In the valuation of collective liability, the largest risks relate to estimating the future rate of inflation (excl. compensation for loss of income), the adjustment of changes due to changed compensation practices and legislation in the development triangle of claims (i.e. whether history provides a correct picture of the future) and the adequacy of historical information over dozens of years. Of the collective liability, only the liability for annuities has been discounted.

When estimating the collective liability for medical expenses and rehabilitation expenses benefits in statutory workers' compensation and motor liability insurance, the Group has taken account of the fact that claims paid for losses occurred more than 10 years ago are financed through the pay-as-you-go system.

The evaluation of technical provisions always involves uncertainties which may be due, for instance, to the prediction of the claims trend, delays in verifying losses, cost inflation, legislative amendments and general economic development. Every three years, an external actuary performs for the Group an analysis of the appropriateness of the calculation bases and the amount of Group technical provisions. The next analysis to be carried out in 2012 will take account of the Solvency II regulatory framework, effective from 2013, in the calculation bases for technical provisions.

Statutory insurance

By law, statutory insurance is mandatory for the policyholder. On the other hand, an insurance company is obliged to grant statutory insurance. The indemnification regulations and the amount of compensation are strictly prescribed by law. In addition, statutory lines of insurance are regulated by joint bodies which supervise compliance with consistent claims principles and claims standards. Private motor vehicles account for a larger share of the Group's motor liability insurance portfolio than motor vehicles owned by companies. In other respects, statutory insurance is mainly taken out by companies or other organisations.

In statutory workers' compensation insurance, employers take out insurance for the benefit of their employees to provide cover for occupational injuries and diseases. Motor liability insurance covers all bodily injuries resulting from the use of a motor vehicle in road traffic and, with certain restrictions, bodily injuries sustained by the driver who caused the accident, and material damage caused to a third party. Patient insurance covers bodily injuries caused to patients as a result of medical treatment.

Number and size of claims

The majority of claims expenditure in statutory lines of insurance for bodily injuries consists of compensation for loss of income and for medical care, which are covered in full. As an exception to the above, compensation for loss of income in statutory workers' compensation insurance is, before the age of 65 years, only covered up to 85% of the full compensation. Compensation for permanent loss of income is paid in the form of a lifetime annuity. In case of death, the insured's widow(er) and his/her children until the age of 25 years are entitled to survivors' pension. No maximum monetary amount has been set for pension paid. With respect to statutory workers' compensation insurance and motor liability insurance, the insurance company is not, however, liable for the index increments of compensation for loss of income nor for any medical expenses which are paid for over ten years after the loss occurred. These are financed through the so-called pay-as-you-go system (see Pay-as-you-go system).

As regards claims paid under statutory lines of insurance, the public sector also charges for losses, based on actual costs incurred due to medical care, which have occurred after 2004. However, the risk for medical treatment expenses is fundamentally limited by the fact that medical treatment expenses for losses that have occurred more than 10 years ago do not fall within the scope of compensation payable under insurance contracts (see Pay-as-you-go system). In addition, the insurance company actively seeks to conclude contracts with different medical care providers in order to minimise costs.

In statutory workers' compensation insurance, a major loss may occur, since a large number of those insured may be working within a small area. A traffic accident may involve many casualties and injured persons, in addition to material damage. However, an upper limit of EUR 3.3 million applies to compensation payable for material damage under one motor liability policy.

In addition to accidents, statutory workers' compensation insurance covers occupational diseases, which typically develop slowly and therefore the evaluation of the related claims expenditure involves more uncertainty than accidents. An extreme example of this is latent occupational diseases in which the period from exposure until the actual outbreak of the disease may take several decades, such as asbestos-induced diseases. The death rate is very high among those suffering from the most severe asbestos diseases, i.e. mesothelioma or lung cancer.

Since taking out insurance is compulsory in statutory lines of insurance, the law provides that insurers must aim at risk correlation in their rating of insurance policies in such a way that premiums are reasonably proportioned to the costs incurred due to the policies. Motor liability insurance has a no-claims bonus system under which a loss event raises the insurance premium. In statutory workers' compensation schemes for large companies, the policyholder has the option of experience rating, which means that premiums are tied to the policyholder's own claims experience. The larger the company the stronger the linkage, and the more reliable the estimation of the company's actual risk level, measured on the basis of the company's own loss experience. A corresponding principle also applies to the rating of the largest vehicle fleets of a single policyholder. In this way, the risk associated with premium rating is limited, since the rating of the insured risk follows automatically, albeit not fully, the policyholder's own loss experience.

The reinsurance of statutory workers' compensation insurance has been arranged through a national catastrophe pool. The Group's share of the pool is determined by the market share in the insurance line concerned. The pool has acquired reinsurance cover of up to EUR 200 million and the retention limit after the pool's share is EUR 5 million. In motor liability insurance, the retention is EUR 3 million for any single loss event.

The provision for claims for annuities consists mainly of annuities of statutory insurance lines. Discounting is used in the computation of the claims provision for annuities and the discount rate chosen is of great significance for the claims provision.

Uncertainties related to future cash flows

It is typical of the statutory lines of insurance that the period from the date of the occurrence of loss until the date

on which the claim is fully paid is often long. Such underwriting business generates a long-term cash flow, on the evaluation of which medical-cost inflation and the mortality of beneficiaries have the greatest impact.

A downward trend in mortality increases cash flow from claims, since compensation for loss of income is mainly paid as lifetime annuity. Mortality has continued its downward trend in Finland and other industrialised countries for several decades. In Finland, the life expectancy of newborn babies has increased by around 1.5 years in the last ten years. This trend has been assumed to continue in the mortality model used by the Group for calculating technical provisions. The estimation of medical-cost inflation also plays a major role in the evaluation of cash flows. Advancements in medicine and improvements in living conditions have both decreased mortality and increased medical treatment expenses. In the projection of future cash flows, the Group has assumed medical-cost inflation to be two percentage points higher than the general inflation rate.

Since index increments in annuities under statutory insurance lines and medical expenses payable in excess of ten years after occurrence of a loss event are excluded from the scope of cover of an insurance contract (see Pay-as-you-go system), the provision for unpaid claims contains practically no inflation risk in this respect. However, the medical-cost inflation risk associated with statutory lines of insurance concerns technical provisions arising from the Group's insurance contract liabilities for the first ten years after occurrence of the loss.

Losses coverable as occupational diseases resulting from exposure to asbestos fall, almost without exception, within the scope of occupational diseases covered under statutory workers' compensation insurance. The related compensation paid mainly includes medical expenses, loss of income indemnities and survivors' pensions. Assessing liabilities due to asbestos losses is difficult, since the latent period of various asbestos-induced diseases, i.e. the symptom-free period from asbestos exposure until the outbreak of an occupational disease, is long varying from 15 to 40 years on average, depending on the type of asbestos disease. In Finland, the use of asbestos ended mainly in the 1980's and was forbidden in 1994, with the 1960's and 1970's representing the peak years. The estimate of liabilities resulting from asbestos losses is based on the average claim amounts and on the estimated number of losses, which is based on national statistics on the use of asbestos as a raw material in Finland since 1905, on the assumed latent periods of various asbestos diseases, and on the statistical data on asbestos claims reported. The Group reviews annually the sufficiency of claims provisions and the accuracy of assumptions.

The scope of cover in statutory lines of insurance is fully regulated by legislation. Therefore, all parties are aware of the type of claims paid and the amount of compensation paid for each claim, which improves the predictability of future cash flows.

Pay-as-you-go system

The pay-as-you-go system is a scheme based on special laws governing each statutory line of insurance. Under this system, the financing of certain benefits, the so-called pay-as-you-go benefits, specified in these laws, has been arranged through the pay-as-you-go system. The system is a statutory scheme not generating any financial benefit or any harm to the insurance company that would lead to changes in equity.

Pay-as-you-go benefits include index increments in annuities, medical treatment expenses paid under statutory workers' compensation insurance and motor liability insurance over ten years after the accident occurred, and certain other benefits and increases in benefits, as provided in special legislation on various statutory lines of insurance.

In accordance with this legislation, the pay-as-you-go benefits are financed through contributions charged annually by insurers from policyholders in connection with premium payment. The amount of this contribution is determined on the basis of the insurance company's market share in the line of insurance concerned during the same year. In particular, an insurance company which no longer underwrites the insurance line in question does not participate in the financing within the pay-as-you-go system. The amount collected through this contribution is annually remitted to the central organisation for the particular insurance line, as provided by law, which is in charge of distributing the related funds in such a way that each company engaged, or was previously engaged, in the insurance line concerned receives exactly the amount that corresponds to the claims it had paid pay-as-you-go benefits during that year.

Accordingly, future policyholder generations pay for the financing of future pay-as-you-go benefits. The obligation to insure regarding all statutory lines of insurance guarantees the financing basis for the system. For instance, in the case of statutory workers' compensation insurance, the contribution for financing the pay-as-you-go benefits payable in any given year is charged from all employers who have employees in Finland or Finnish employees assigned abroad in that particular year. Therefore, the financing of the pay-as-you-go system, based on special legislation governing statutory lines of insurance, could fail only if paid work, motor traffic or medical care in Finland ceased altogether.

Other accident and health insurance

Under these lines of voluntary insurance, compensation is paid for medical expenses incurred due to treatment of an injury or illness. In addition, a lump-sum benefit is paid in case of handicap or death caused by injury or illness. The policyholder may be either a private individual or a company. The actual insurance risk between these two does not differ materially.

Number and size of claims

Claims are usually small in other accident and health insurance. The largest claims may arise from catastrophes

with a large number of injured people. In designated crisis areas, insurance cover is not in force.

An upper age limit has generally been set for insured persons, with the aim of restricting the amount of claims paid under policies. Furthermore, a person to be insured under medical expenses insurance is required to provide a health declaration, on the basis of which the insured person's entitlement to compensation may be limited.

Insurers have the right to alter the price and terms and conditions of insurance annually when renewing continuous annual policies. However, insurance legislation restricts the grounds for altering insurance premiums and terms and conditions, and these grounds must be listed in the insurance contract. Moreover, an insurance contract may not be terminated because of a loss event.

For new medical expenses contracts written after 2004, the Group has set a policy-specific upper limit of EUR 50,000 for medical treatment expenses benefits.

The Group has taken out reinsurance cover against catastrophe accumulation in the insurance class 'Other accident and health'. Retention under reinsurance amounts to EUR 2.5 million and claims are paid up to EUR 25 million. In addition, the amount remaining for own account has been reinsured under general catastrophe cover.

Uncertainties related to future cash flows

Technical provisions for other accident are long-standing in nature. Projecting cash flows with respect to long-term medical treatment expenses under other accident insurance involves uncertainty due to cost inflation. If tax-funded public healthcare services decline, the medical-cost inflation applying to other accident insurance will intensify.

Medical expenses insurance policies are mainly contracts which cover only medical treatment expenses incurred during the insurance period. Under health insurance terms and conditions, insurance premiums may be raised in proportion to an increase in medical treatment expenses. Consequently, how the medical-cost inflation will develop does not add to any major uncertainty with respect to the future cash flows of the lines of health insurance.

Medical-cost inflation has a major impact on projecting cash flows in medical expenses insurance, with respect to illnesses for which compensation is paid for a long time. Rapid progress in medicine and rising pharmaceuticals costs will increase medical-cost inflation.

Developments in public healthcare will also affect future cash flows. If tax-funded public healthcare services decline, people will increasingly start financing their medical care through medical expenses insurance.

Comprehensive and cargo insurance

Comprehensive insurance policies cover loss of or damage to insured motor vehicles and railway rolling stock. The comprehensive insurance portfolio consists mainly of comprehensive motor vehicle policies taken out by private individuals and companies. Cargo insurance applies mainly to companies' transport risks, covering loss of or damage to goods in transit. This line of insurance also contains luggage and boat/yacht insurance where the policyholder is mainly a private individual.

Number and size of claims

Weather conditions have the greatest effect on the number and size of losses. Therefore, claims expenditure is larger during the winter than during the summer.

The greatest risks within cargo insurance are associated with risk concentrations caused by sea transport and trading stock. In addition, weather conditions may involve accumulation risks covering a geographically large region, such as storms and floods, and the risk of snow and icy roads during the winter pertains to comprehensive insurance.

The rating of motor vehicle insurance employs a no-claims bonus system, under which the occurrence of a loss event raises the premium. In addition, the insurance company has the right to alter the premium annually. However, the premium paid by a private individual as the policyholder may be altered only if the conditions set out in the insurance contract are met.

The Group has taken out reinsurance cover against major loss of or damage to cargo, with the retention under reinsurance amounting to EUR 5 million. In addition, the Group has taken out reinsurance cover for losses for own account under catastrophe cover under the same reinsurance agreement as property and business interruption policies. Retention under this catastrophe protection totals EUR 5 million for one loss event.

The majority of the motor vehicle insurance portfolio comprises private individuals' policies. In other respects, the insurance risk in this class consists mainly of insurance taken out by companies.

Uncertainties related to future cash flows

Projecting future cash flows in private individual and motor vehicle insurance does not involve any major uncertainties. Almost all claims have been paid within six months of the occurrence of the loss. For other policies, the claim settlement period is somewhat longer.

Property and business interruption insurance

Property insurance covers loss of or damage to the insured property, excluding property coverable under comprehensive or cargo insurance. Companies and other organisations account for over half of the property

insurance portfolio. This line also comprises corporate business interruption insurance which covers financial losses arising from interrupted business operations causing damage to the company's property.

Number and size of claims

The largest single risks within property and business interruption insurance include fire, natural phenomenon and breakage risks exposed by companies' production facilities and buildings, and the related business interruption risks. Households' individual property risks are small and the related individual claims have no material effect on the Group's earnings. The majority of claims expenditure for households is due to leakage, fire and burglary claims.

The risk of natural catastrophes has been considered minor in Finland and the Baltic States, but forest damage in Sweden has led to the reassessment of this risk. Pohjola has insured around 3% of all Finnish commercial forests against storms, and geographically these are dispersed all over Finland. On the basis of our current knowledge based on studies, it is still uncertain whether the recent storms are due to climate change or natural variations in climatic conditions. However, the studies have suggested that there are indications of a change in climatic conditions in the Group's operating region at least in the long term. The projected temperature increase will probably be reflected in changes in summer and winter conditions and, for instance, in higher precipitation, although there is no clear proof of higher temperatures intensifying storms in our region. The capacity of the catastrophe reinsurance cover totals EUR 95 million, which is 10-fold compared with the largest realised catastrophe accumulations.

As a general rule, flood damage is excluded from the insurance terms and conditions of property insurance covering buildings.

In the selection of property and business interruption risks, the Group applies standardised procedures based on customer segments' various insurance needs and solutions. Based on a certified quality management system, the rating of major clients' policies is performed in a graded way in accordance with the size and severity of the risk. In the rating process, resources and managerial decision-making are increased as the size and severity grows.

Customer-selection and discount guidelines serve as guiding principles in the rating of corporate customers. The customer-selection guidelines provide details on a potential customer's eligibility for becoming a customer, taking account of eg payment defaults. In sectors characterised by large risks, the Group conducts stricter risk selection. The discount guidelines define the seller's, risk manager's, underwriter's and supervisor's powers to grant discounts by line of insurance and partly by customer segment. The Group applies system authorisations to control the rating of small enterprises.

The Group monitors the profitability of property and business interruption insurance contracts using a diversified follow-up and analysis system based on an insurance and loss data warehouse. Profitability analyses are carried out by line of insurance, customer segment, business sector and customer care organisation.

The Group has the right to re-rate policies in connection with a policy renewal or to terminate a policy. However, the premium paid by a private individual as the policyholder may be altered only on conditions specified in the insurance contract.

The Group has reinsured its insurance portfolio under a non-proportional reinsurance treaty in which retention amounts to EUR 5 million by underwriting risk. In addition, it has taken out reinsurance protection against catastrophe accumulation claims.

Uncertainties related to future cash flows

Projecting future cash flows in property and business interruption insurance does not involve any major difficulties. Claims are mainly paid within a year of the occurrence of the loss and the amount of loss can be estimated reliably. By and large, the greatest uncertainty in claim-specific estimates pertains to new business interruption and accumulation losses.

With respect to monitoring the extent of storm damage, the Group monitors separately the damage caused by each storm. In each monthly report, the Group compares the initial overall loss estimate with the established claim expenditure and adjust this estimate, where necessary.

Liability and legal expenses insurance

The lines of statutory insurance which comprise liability insurance components are not included in this group. Pure liability insurance covers loss provided that the insured party is liable to pay damages to a third party for a loss caused. Corporate insurance accounts for the majority of the insurance risk associated with this group. Legal expenses insurance covers financial loss resulting from legal expenses. Private individuals' insurance cover forms the majority of the insurance risk associated with this group.

Number and size of claims

Legislation and legal practice governing the liability to pay damages have a major impact on the number and size of liability claims.

Claims made by private individuals are usually small. In addition, private individuals' risks account for a minor share of the total risk within the class.

The majority of corporate liability policies consist of product liability and commercial general liability policies. In the

selection of insurance risk, the same guidelines apply as in property and business interruption insurance. For instance in product liability insurance, the risk of losses incurred due to one and the same defect or act - the so-called serial losses - has been reduced in such a way that, for losses incurred at different times from the same defect, the total maximum indemnity equals the sum insured for the period during which the first loss was detected.

Legal expenses insurance covers expenses for legal proceedings incurred by the person insured. Since the insured person can contribute to the costs of legal proceedings, for instance, through the choice of attorney, legal expenses insurance applies a proportional deductible, whereby the customer always pays a certain percentage of the overall loss.

The Group's retention for liability insurance amounts to EUR 4 million for any single loss event.

Uncertainties related to future cash flows

Liability insurance is characterised by losses being revealed slowly. Once a loss has been reported, uncertainty may still prevail as regards the size of the loss. However, the most significant uncertainty relates to the assessment of unknown losses.

In liability insurance, claims can be allocated either by the time of occurrence or by the time at which the claim was made. This is of major significance with respect to cash flow projections. If the insurance contract stipulates that the loss must be allocated in accordance with the loss report, the policyholder no longer has any opportunity to file new claims after an agreed period of time from the expiry of the insurance contract.

No significant uncertainty relates to cash flows from legal expenses insurance, since losses in this line are always reported promptly. Therefore, the size of the losses does not involve any major uncertainty.

Long-term insurance contracts

Long-term insurance contracts refer to contracts with an average minimum validity period of two years, comprising guarantee insurance, decennial insurance and perpetual insurance.

Number and size of claims

The risk associated with loan guarantees relates to the debtor's insolvency and that associated with performance guarantees relates to the supplier's non-performance. The policyholders consist mainly of companies. The economic situation has a major effect on the number of claims in guarantee insurance in such a way that the number of guarantee claims is much smaller during upturns than during downturns. Guarantee insurance contracts are divided into loan guarantees and contract guarantees, the former's duration being an average of 5-7 years and the latter's a maximum of two years. More than half of the guarantee insurance portfolio consists of contract guarantees. The Group is no longer issuing new contract guarantees.

As a rule, the Group has not taken out reinsurance cover for guarantee insurance, but some of the guarantee insurance liabilities are covered by sufficient security. In case of a loss, the Group can realise the property held for security, thus reducing the loss. Since guarantee insurance is based on long-term activity, the Group must regularly monitor the insured party's financial standing, developments in the amount of liability and the adequacy of counter-security.

The majority of the decennial policies are statutory construction defects insurance policies. In these policies regarding residential buildings, a loss event requires a construction defect and the builder's insolvency. Since the liability period under the insurance is 10 years, the risk of serial loss is involved. For a builder with exceptionally many recorded construction defects, the risk of insolvency increases substantially.

In case of a serial loss, the Group has a stop loss reinsurance treaty covering loss accumulation per underwriting year. Under the treaty, retention for each underwriting year is 300-400% of premiums written.

The underwriting of perpetual insurance was terminated in the 1970's. The object of insurance may be a building or a forest. The policyholder has paid a lump-sum premium for the entire insurance period. The unlimited cover is valid until the sum insured has been indemnified. The policyholder is entitled to surrender. Owing to the effect of inflation, the sums insured under perpetual insurance are small. The policyholders consist mainly of private individuals.

Uncertainties related to future cash flows

The largest problem related to the projections of cash flows from long-term insurance contracts is that the amount of compensation fundamentally depends on future years' economic conditions that are difficult to predict.

The greatest uncertainty related to cash flows from perpetual insurance resides in the amount of surrenders. Currently, there are very few surrenders, the greatest risk being that the number of surrenders increases markedly. The annual amount of surrenders has been EUR 0.2 million. If all policies were to be surrendered immediately, the amount payable would be EUR 15 million.

Investment risks

In insurance business, investments comprise assets covering technical provisions and shareholders' equity. Through controlled investment risks, Pohjola aims to achieve the best possible return on the investment portfolio at an acceptable risk level while taking account of the structure of technical provisions and the solvency targets.

The most significant investment risks pertain to market, credit and liquidity risks which may materialise in terms of lower-than-expected return on investments or of impaired investments. The Group mitigates investment risks by diversifying investments as efficiently as possible by asset class, counterparty, sector, geographical area, and by ensuring that the investment portfolio is as liquid as possible.

In Non-life Insurance, investment operations are based on investment plans and investment authorisations, confirmed annually by the Board of Directors, which specify the basic allocation and range of investments by asset class, the organisation of investment, risk limits as well as decision-making powers and authority.

The basic allocation of investments by asset class forms the key investment-management tool. In its determination, the Group takes account of the operating environment and prospects, investment risks in relation to expected income, requirements set by technical provisions, requirements set by the authorities, rating targets and risk appetite.

Non-life Insurance applies the Asset/Liability Management (ALM) model used to determine the basic allocation. As a result of fluctuations in asset values and active investing, the Group occasionally deviates from the basic allocation within defined limits.

Investment operations are subject to monthly reporting to the Risk Management Executives and the non-life insurance companies' Boards of Directors. These reports specify the amount invested, recorded income by asset class and recorded income based on benchmark indices, as well as risk indicators.

The Risk Management function monitors daily risk limits set in the investment plan, key risk limits including allocation limits, interest rate and currency limits, counterparty credit-rating limits and diversification limits.

Market risk

Market risk consists of price, interest rate and currency risks. Changes in equity prices, interest rates, foreign exchange rates, commodities and real properties have an effect on the value of, and annual income from, investment assets. The Group assesses the relation between the Non-life Insurance investment risk and solvency capital, using an internal ALM model and the market risk sensitivity analysis.

The maximum allocation of asset classes involving price risks, such as equities, alternative investments and real property, is subject to limits. The Group also manages investment risks by diversifying investments across various instruments, by region and by industry.

Interest rate risk

In addition to the sensitivity analysis, the interest rate risk of fixed-income portfolios is monitored using modified duration. The investment plan sets a range for the modified duration of fixed-income portfolios proportioned to the modified duration of a benchmark portfolio. In determining the interest rate risk limit, Non-life Insurance has taken account of the effect of interest rate risk arising from the discounting of technical provisions.

Currency risk

In the management of currency risks, Non-life Insurance takes account of the currency risk arising from both investments and insurance operations. Currency risks exposed by Non-life Insurance arise mainly from foreign equity investments. The investment plan specifies a limit set for currency risks and presents principles of hedging against currency risks by asset class. The Group is active in changing the degree of hedging within the risk limit according to the current market view.

Use of derivatives

For the management of market risk, the Group also uses derivatives. The investment plan defines the principles of their use every year. Interest rate, equity and credit derivatives may be used both for hedging purposes and for increasing the risk level of the portfolio, within defined limits. Currency derivatives may be used only for hedging purposes. Derivative contracts may be signed on regulated markets or with a counterparty whose long-term rating is at least A3 (Moody's) or A- (Standard & Poor's).

Credit risk

Credit risks associated with investment arise from the issuer's credit risk and the counterparty risk associated with derivative contracts. The Group manages credit risks by diversifying the portfolio and limiting the proportion of weaker credit risk in the portfolio. The investment plan specifies limitations regarding credit ratings and maximum investments regarding any single counterparty. The Group performs an internal credit risk assessment of non-rated issuers, on the basis of which it can make an investment decision.

Liquidity risk

In the investment plan, the Group annually assesses the liquidity status and takes account of its liquidity requirements when building up the investment portfolio. Active insurance operations show a surplus in terms of liquidity, since premiums written are collected before payment of compensation. Whenever necessary, the money market portfolio serves as the primary liquidity buffer. Investments in equities and bonds consist mainly of quoted and liquid instruments.

Notes to the consolidated financial statements

NOTES TO THE INCOME STATEMENT

Note 3. Net interest income

EUR million	2010	2009
Interest income		
Receivables from credit institutions	96	139
Receivables from customers	308	406
Loans	288	386
Finance lease receivables	17	20
Impaired loans and other commitments	2	1
Notes and bonds	279	269
Held for trading	14	52
At fair value through profit or loss	0	1
Available for sale	213	122
Held to maturity	20	31
Loans and other receivables	31	63
Derivative contracts	940	1,123
Held for trading	1,061	1,249
Hedge accounting	-123	-126
Cash flow hedge	2	
Other	2	4
Total	1,625	1,941
Interest expenses		
Liabilities to credit institutions	56	61
Financial liabilities at fair value through profit or loss	1	5
Liabilities to customers	16	32
Debt securities issued to the public	235	352
Subordinated liabilities	42	52
Subordinated loans	10	15
Other	32	37
Derivative contracts	1,010	1,195
Held for trading	1,060	1,208
Hedge accounting	-50	-14
Other	6	4
Total	1,367	1,700
Net interest income before impairments	258	241

Hedging instruments in hedge accounting showed a net loss of EUR 62 million (loss of 37) and net income from hedged contracts came to EUR 57 million (30).

Notes to the consolidated financial statements

NOTES TO THE INCOME STATEMENT

Note 4. Impairments of receivables

EUR million	2010	2009
Receivables written down as loan and guarantee losses	45	15
Recoveries of receivables written down	0	-2
Increase in impairment losses	111	132
Reversal of impairment losses	-49	-24
Collectively assessed impairment losses	-2	8
Total	104	129

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Notes to the consolidated financial statements

NOTES TO THE INCOME STATEMENT

Note 5. Net income from non-life insurance

EUR million	2010	2009
Insurance premium revenue		
Premiums written	1,023	1,005
Change in provision for unearned premiums	-13	-15
Gross insurance premium revenue	1,010	990
Reinsurers' share	-46	-47
Total	964	943
Net investment income	92	64
Claims incurred		
Claims paid (excl. loss adjustment expenses)	655	595
Change in provision for unpaid claims*	19	-30
Gross total claims incurred	674	565
Reinsurers' share	-37	-5
Total	637	560
Other Non-life Insurance items**	30	44
Net income from Non-life Insurance	388	402

Insurance premium revenue and insurance premiums ceded to reinsurers

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

Net investment income from Non-life Insurance

Loans and receivables		
Interest income	13	21
Interest expenses	-1	-1
Capital gains and losses	1	0
Fair value gains and losses	-4	-4
Total	9	16

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

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Interest income		
Notes and bonds	0	0
Derivatives	0	
Other		0
Capital gains and losses		
Derivatives	-20	-21
Fair value gains and losses		
Notes and bonds	0	2
Derivatives	0	-2
Total	-20	-20
Net income from available-for-sale financial assets		
Notes and bonds		
Interest income	53	50
Other income and expenses		0
Capital gains and losses	28	13
Transferred from fair value reserve during financial year	25	-6
Impairments	0	0
Total	105	56
Shares and participations		
Dividends	21	7
Other income and expenses	5	3
Capital gains and losses	49	54
Transferred from fair value reserve during financial year	-47	-23
Impairments	-37	-37
Total	-9	5
Total	97	61
Net income from investment property		
Rental income	11	12
Capital gains and losses	3	1
Value changes from fair value measurement	1	1
Maintenance charges and expenses	-8	-6
Other	-1	0
Total	6	7
Total net investment income from Non-life Insurance	92	64

Unwinding of discount, Non-life Insurance

The increase in the discounted insurance contract liabilities of Non-life Insurance due to the passage of time (Note 32) (unwinding of discount) totals EUR 45 million (43). Unwinding of discount is computed monthly applying the discount rate at the end of the previous month and the insurance contract liabilities at the beginning of the current month. The discount rate was 3.7% from 31 December 2003 to 30 November 2004, 3.5% from 1 December 2004 to 30 November 2005, 3.3% from 1 December 2005 to 30 November 2007 and 3.5% from 1 December 2007 to 31 December 2010.

* Includes an increase of EUR 35 million in technical provisions due to higher life expectancy.

** Includes income of EUR 16 million arising from the removal of provision for the joint guarantee system.

Notes to the consolidated financial statements

NOTES TO THE INCOME STATEMENT

Note 6. Net commissions and fees

EUR million	2010	2009
Commissions and fees		
Lending	35	38
Deposits	0	0
Payment transfers	13	13
Securities brokerage	29	21
Mutual fund brokerage	0	0
Securities issuance	10	8
Asset management and legal services	63	52
Insurance operations	19	17
Guarantees	17	16
Other*	5	13
Total	192	178
* Other included EUR 0.2 million (0.4) in deferred Day 1 profit commissions and fees and EUR 1.2 million (1.3) in non-deferred commissions and fees. The counter-item is included in provisions and other liabilities in the balance sheet.		
Commission expenses		
Payment transfers	2	2
Securities brokerage	10	8
Securities issuance	6	9
Asset management and legal services	7	7
Other	2	9
Total	28	35
Net commissions and fees	164	143

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Notes to the consolidated financial statements

NOTES TO THE INCOME STATEMENT

Note 7. Net trading income

EUR million	2010	2009
Financial assets and liabilities held for trading		
Capital gains and losses		
Notes and bonds	18	41
Shares and participations	0	0
Derivatives	2	118
Total	20	159
Fair value gains and losses		
Notes and bonds	-1	-24
Shares and participations	0	0
Derivatives	0	-77
Total	-1	-101
Dividend income	0	0
Assets and liabilities at fair value through profit or loss		
Capital gains and losses		
Notes and bonds	0	-9
Total	0	-9
Fair value gains and losses		
Notes and bonds	2	10
Total	2	10
Net income from foreign exchange operations		
Currency exchange	113	-168
Other	-99	181
Total	35	71

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Notes to the consolidated financial statements

NOTES TO THE INCOME STATEMENT

Note 8. Net investment income

EUR million	2010	2009
Available-for-sale financial assets		
Notes and bonds		
Capital gains and losses	28	1
Transferred from fair value reserve during the financial year	1	0
Shares and participations		
Capital gains and losses	1	0
Transferred from fair value reserve during the financial year	0	0
Impairments	-4	-9
Dividend income	4	2
Total available-for-sale financial assets	29	-6
Financial assets carried at amortised cost		
Loans and other receivables		
Capital gains and losses	0	
Total financial assets carried at amortised cost	0	
Investment property		
Rental income	1	2
Capital gains and losses		-2
Gains and losses from fair value measurement	1	-5
Maintenance charges and expenses	-1	-1
Other	0	0
Total investment property	2	-7
Total net investment income	31	-13

Notes to the consolidated financial statements

NOTES TO THE INCOME STATEMENT

Note 9. Other operating income

EUR million	2010	2009
Rental income from property in ow n use	0	0
Capital gains on property in ow n use	0	
Insurance claims and benefits		0
Central banking service fees	9	9
Realisation of repossessed items	0	0
Rental income from assets rented under operating lease	23	25
Reinsurance commissions of Non-life Insurance	2	2
Other	15	13
Total	50	50

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Notes to the consolidated financial statements

NOTES TO THE INCOME STATEMENT

Note 10. Personnel costs

EUR million	2010	2009
Wages and salaries	159	156
Share-based payments	0	1
Pension costs	31	21
Defined contribution plans	28	20
Defined benefit plans	3	1
Other social expenses	9	12
Total	199	190

Notes to the consolidated financial statements

NOTES TO THE INCOME STATEMENT

Note 11. Other administrative expenses

EUR million	2010	2009
Office expenses	26	24
IT expenses	76	75
Telecommunication expenses	10	10
Marketing expenses	14	14
Other administrative expenses	17	16
Total	143	139

Notes to the consolidated financial statements

NOTES TO THE INCOME STATEMENT

Note 12. Other operating expenses

EUR million	2010	2009
Rental expenses	3	4
Expenses for property and business premises in own use	23	23
Expenses for realisation of repossessed items	1	1
Reinsurance commissions of Non-life Insurance	2	3
Credit losses of Non-life Insurance	5	6
Change in collective guarantee item of Non-life Insurance		1
Depreciation and amortisation		
Buildings	1	1
Machinery and equipment	1	2
Intangible assets related to company acquisition	31	33
Other intangible assets	18	9
Leased out assets	21	24
Other	0	1
Total	72	69
Impairments		
Property in own use	0	0
Other		3
Total	0	3
Other*	66	62
Total	173	171

* The item includes EUR 368,000 (418,000) in audit fees paid to auditors, EUR 3,000 (40,000) in fees for assignments as referred to in sub-paragraph 2, paragraph 1, section 1 of the Auditing Act, EUR 100,000 (97,000) in fees for legal counselling and EUR 433,000 (708,000) in fees for other services.

* The item includes EUR 41 million (39) in insurance business sales commissions paid to OP-Pohjola Group member banks.

Notes to the consolidated financial statements

NOTES TO THE INCOME STATEMENT

Note 13. Income tax

EUR million	2010	2009
Current tax	82	39
Tax for previous financial years	1	1
Deferred tax	-4	31
Income tax expense	79	71
Corporate income tax rate	26	26
Reconciliation between tax expense in the income statement and tax expense calculated by the applicable tax rate		
Earnings before tax	308	265
Tax calculated at a tax rate of 26% (2009:26%)	80	69
Tax for previous financial years	1	1
Income not subject to tax	-2	-1
Expenses not deductible for tax purposes	1	1
Re-evaluation of unused losses	0	0
Other items	0	0
Tax expense	79	71

Notes to the consolidated financial statements

NOTES TO THE INCOME STATEMENT

Note 14. Earnings per share

Earnings per share is calculated by dividing profit or loss for the financial year attributable to shareholders by the issue adjusted weighted average number of shares outstanding during the financial year.

	2010	2009
Profit for the year attributable to owners of the Parent (EUR million)	229	194
Weighted average number of shares (1,000)		
Series A shares	251,163	232,312
Series K shares	68,389	63,484
Total	319,551	295,796
Basic earnings per share (EUR/share)		
Series A shares	0.72	0.66
Series K shares	0.69	0.63

Notes to the consolidated financial statements

NOTES TO THE BALANCE SHEET

Note 15. Cash and cash equivalents

EUR million	31 Dec.	
	2010	31 Dec. 2009
Cash	1	2
Deposits with central banks repayable on demand		
Pohjola Bank's minimum reserve deposit	240	255
Other	1,260	2,845
Total cash and cash equivalents	1,501	3,102

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

Notes to the consolidated financial statements

NOTES TO THE BALANCE SHEET

Note 16. Receivables from credit institutions

EUR million	31 Dec. 2010	31 Dec. 2009
Receivables from credit institutions		
Deposits		
Repayable on demand	253	144
Other	0	11
Total	253	155
of which receivables from credit institutions due in less than 3 months	253	155
Loans and other receivables		
Repayable on demand		
From other credit institutions	1	0
Total	1	0
Other		
From OP-Pohjola Group retail banks	2,842	2,483
From other credit institutions	4,938	4,992
Total	7,779	7,475
Total receivables from credit institutions	8,033	7,630
Receivables from credit institutions include repo receivables		75
Receivables from credit institutions include subordinated receivables	42	42

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Notes to the consolidated financial statements

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Note 17. Financial assets at fair value through profit or loss

EUR million	31 Dec. 2010	31 Dec. 2009
Financial assets held for trading		
Government notes and bonds	263	198
Certificates of deposit and commercial papers	36	555
Debentures	4	0
Bonds	106	471
Other notes and bonds	1	0
Shares and participations	0	0
Total	410	1,224
Financial assets at fair value through profit or loss at inception		
Bonds	12	55
Total	12	55
Total financial assets at fair value through profit or loss	422	1,279

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

	31 Dec. 2010		31 Dec. 2009	
	Notes and bonds	Shares and participations	Notes and bonds	Shares and participations
Financial assets held for trading, EUR million				
Quoted				
From public sector entities	263		209	
From others	97	0	918	0
Other				
From public sector entities	41		42	
From others	8		55	
Total	410	0	1,224	0

	31 Dec. 2010		31 Dec. 2009	
	Notes and bonds	Shares and participations	Notes and bonds	Shares and participations
Financial assets at fair value through profit or loss at inception, EUR million				
Quoted				
From others	12		55	
Total	12		55	
Total financial assets at fair value through profit or loss	422	0	1,279	0

Financial assets at fair value through profit or loss include EUR 330 million (1,124) in notes and bonds eligible for central bank refinancing and EUR 4 million (0) in subordinated publicly-quoted notes and bonds.

Notes to the consolidated financial statements

NOTES TO THE BALANCE SHEET

Note 18. Derivative contracts

EUR million	31 Dec.	
	2010	31 Dec. 2009
Held for trading		
Interest rate derivatives	1,605	1,188
Currency derivatives	47	50
Equity derivatives	178	139
Credit derivatives	5	4
Commodity derivatives	28	3
Other	1	
Total	1,864	1,385
Hedging derivative contracts		
Fair value hedging		
Interest rate derivatives	82	47
Currency derivatives	16	12
Total	98	59
Total derivative contracts	1,962	1,443

Derivative contracts in the balance sheet include positive value changes and paid premiums.

Notes to the consolidated financial statements

NOTES TO THE BALANCE SHEET

Note 19. Receivables from customers

EUR million	31 Dec. 2010	31 Dec. 2009
Loans to the public and public sector entities	9,715	8,526
Notes and bonds	263	398
Finance lease receivables	624	622
Other receivables		
Other	2,038	1,924
Impairment losses on loans		
Based on credit risk	-187	-98
Impairment losses on notes and bonds		
Based on credit risk	-21	-48
Total receivables from customers	12,433	11,323

Changes in impairments of loans and guarantees

EUR million	Loans	Notes and bonds	Bank guarantee receivables	Interest receivables	Total
Impairments 1 Jan. 2010	100	48	0	-2	146
Change in impairments of individually assessed loans and receivables	111	0		-11	100
Change in impairments of collectively assessed loans and receivables	-2				-2
Reversal of impairments of loans and receivables individually assessed	-4	-8		12	-1
Loans and guarantee receivables derecognised from balance sheet,					
of which an individually assessed impairment was recognised	-16	-21			-37
Exchange rate difference on impairments on loans		2			2
Impairments 31 Dec. 2010	189	21	0	-2	208

EUR million	Loans	Notes and bonds	Bank guarantee receivables	Interest receivables	Total
Impairments 1 Jan. 2009	24	9		-2	32
Change in impairments of individually assessed loans and receivables	94	40	0	-3	132
Change in impairments of collectively assessed loans and receivables	8				8
Reversal of impairments of loans and receivables individually assessed	-14			3	-11
Loans and guarantee receivables derecognised from balance sheet,					
of which an individually assessed impairment was recognised	-12				-12
Exchange rate difference on impairments on loans		-1			-1
Impairments 31 Dec. 2009	100	48	0	-2	146

Finance lease receivables

Pohjola Group mainly offers transport equipment and industrial machinery and equipment through finance leases.

EUR million	31 Dec. 2010	31 Dec. 2009
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Maturity of finance leases		
Not later than one year	195	193
1–5 years	324	333
Over 5 years	193	192
Gross investment in finance leases	712	718
Unearned finance income (–)	–88	–96
Present value of minimum lease payments	624	622
Present value of minimum lease payment receivables		
Not later than one year	178	175
1–5 years	293	300
Over 5 years	153	147
Total	624	622
 Gross increase during the financial year	 206	 246

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Notes to the consolidated financial statements

NOTES TO THE BALANCE SHEET

Note 20. Non-life insurance assets

EUR million	31 Dec. 2010	31 Dec. 2009
Investments		
Loans and other receivables	254	380
Shares and participations	400	387
Property	87	78
Notes and bonds	1,500	1,392
Derivative contracts	1	1
Other participations	561	530
Total	2,802	2,766
Other assets		
Prepayments and accrued income	38	37
Other		
From direct insurance	228	214
From reinsurance	87	89
Cash in hand and at bank	4	4
Other receivables	39	44
Total	396	389
Total Non-life Insurance assets	3,198	3,156
Non-life Insurance investments		
Loans and other receivables		
Loans and other receivables	253	379
Deposits with ceding undertakings	1	1
Total	254	380
Financial assets recognised at fair value through profit or loss		
Notes and bonds	8	8
Derivative contracts	1	1
Total	9	8
Available-for-sale financial assets		
Notes and bonds	1,492	1,384
Shares and participations	400	387
Other participations	561	530
Total	2,453	2,301
Investment property		
Land and water areas	12	10
Buildings	76	67
Total	87	78
Total Non-life Insurance investments	2,802	2,766

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

31 Dec. 2010			31 Dec. 2009		
Notes and	Shares and participa-	Derivative	Notes and	Shares and participa-	Derivative

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EUR million	bonds	tions	contracts	bonds	tions	contracts
Quoted						
From others	8			8		
Other						
From others			1			1
Total	8		1	8		1

Available-for-sale financial assets of Non-life Insurance, 31 Dec. 2010, EUR million	Available-for-sale notes and bonds			Available-for-sale shares and participations		
	At fair value	At amortised cost	Total	At fair value	At cost	Total*
Quoted						
From public sector entities	558		558			
From others	918		918	809		809
Other						
From others	16		16	152	0	152
Total	1,492		1,492	961	0	961
Impairment losses for the financial year				-37		-37

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

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

Available-for-sale financial assets of Non-life Insurance, 31 Dec. 2009, EUR million	Available-for-sale notes and bonds			Available-for-sale shares and participations		
	At fair value	At amortised cost	Total	At fair value	At cost	Total
Quoted						
From public sector entities	645		645			
From others	705		705	806		806
Other						
From others	35		35	111		111
Total	1,384		1,384	917		917
Impairment losses for the financial year				-37		-37

Changes in Non-life Insurance investment property	2010	2009
Acquisition cost 1 Jan.	70	75
Increase	21	6
Decrease	-14	-10
Transfers between items	0	0
Acquisition cost 31 Dec.	76	70
Accumulated changes in fair value 1 January	8	7
Changes in fair value during financial year	1	1
Other changes	2	
Accumulated changes in fair value 31 Dec.	11	8
Carrying amount 31 Dec.	87	78

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

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A total of 73% of Non-life Insurance's investment property holdings, or EUR 63 million, was appraised by external property valuers, all of them being authorised property valuers (AKA). These valuers were Kaj Söderlund, Antti Hänninen, Henri Timperi and Klaus Justander employed by Realia Group Oy.

Notes to the consolidated financial statements

NOTES TO THE BALANCE SHEET

Note 21. Investment assets

EUR million	31 Dec. 2010	31 Dec. 2009
Available-for-sale financial assets		
Notes and bonds	5,304	4,225
Shares and participations	82	87
Total	5,385	4,312
Financial assets held to maturity		
Notes and bonds	928	1,086
Total	928	1,086
Investment property		
Land and water areas	0	0
Buildings	25	17
Total	26	18
Total investment assets	6,339	5,415

Investment property does not include real property received as collateral in 2010 and 2009.

Available-for-sale financial assets and held-to-maturity investments on 31 Dec. 2010

EUR million	Available-for-sale notes and bonds			Available-for-sale shares and participations			Held-to- maturity investments
	At fair value	At amortised cost	Total	At fair value	At cost	Total	
Quoted							
From public sector entities	5,141		5,141				
From others	128		128	13		13	928
Other							
From others	34		34	16	53	68	
Total	5,304		5,304	29	53	82	928
Impairment losses for the financial year				-4		-4	

Available-for-sale financial assets did not include subordinated publicly-quoted notes and bonds from others or subordinated notes and bonds other than publicly quoted from others. Investments in private equity funds, worth EUR 16 million (15), were measured at fair value. Non-quoted equities measured at cost within the portfolio amounted to EUR 53 million (57), of which non-consolidated shares of subsidiaries and associates came to EUR one million (1). It was not possible to determine reliably a fair value for investments measured at cost. Held-to-maturity investments included EUR 886 million (1,044) in notes and bonds eligible for central bank refinancing and EUR 41 million (42) in other publicly-quoted notes and bonds.

Available-for-sale financial assets and held-to-maturity investments on 31 Dec. 2009

EUR million	Available-for-sale notes and bonds			Available-for-sale shares and participations			Held-to- maturity investments
	At fair value	At amortised cost	Total	At fair value	At cost	Total	
Quoted							
From public sector entities	3,799		3,799				
From others	400		400	14		14	1,086

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Other						
From others	27	27	15	57	72	0
Total	4,225	4,225	30	57	87	1,086
Impairment losses for the financial year			-9		-9	

Changes in investment property, EUR million	2010	2009
Acquisition cost 1 Jan.	21	24
Increase	7	0
Decrease	0	-3
Acquisition cost 31 Dec.	28	21
Accumulated changes in fair value 1 Jan.	-3	2
Changes in fair value during financial year	1	-5
Accumulated changes in fair value 31 Dec.	-2	-3
Carrying amount 31 Dec.	26	18

In 2010, the increase in investment property excludes capitalised costs recognised after the acquisition; capitalised costs recognised after the acquisition totalled EUR 0 million euros. The fair value of investment property holdings excludes the portion of debt.

Information on investment property leased out under operating lease can be found in Note 89.

The investment property holdings were appraised by the following external property valuer: authorised property valuer (AKA) Mikko Kimpi employed by Corbel Oy.

Notes to the consolidated financial statements

NOTES TO THE BALANCE SHEET

Note 22. Reclassified notes and bonds

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

EUR million, 31 Dec 2010	Carrying amount	Fair value	Effective interest rate	Impairments arising from credit risk
Loans and other receivables	1,260	1,241	5.5	21
Investments held to maturity	677	626	4.2	
Total	1,938	1,867		21

EUR million, 31 Dec 2009	Carrying amount	Fair value	Effective interest rate	Impairments arising from credit risk
Loans and other receivables	2,467	2,478	5.2	50
Investments held to maturity	798	761	4.2	
Total	3,266	3,239		50

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

EUR million	Q1–4/2010		Q1–4/2009	
	Income statement	Fair value reserve	Income statement	Fair value reserve
Banking	4		9	
Non-life Insurance	3	-1		27
Group Functions	-14	1	80	42
Total	-8	0	90	69

Interest accrued on reclassified notes and bonds in January–December totalled EUR 52 million (113). The price difference between the nominal value and acquisition value recognised in the income statement totalled EUR 16 million (28). Impairment loss recoveries recognised on bonds and notes totalled EUR 8 million. In 2009, impairment charges recognised on notes and bonds totalled EUR 41 million. The Group used derivatives to hedge against interest rate risks, applying hedge accounting from 1 October 2008. Positive mark-to-market valuations recognised on hedging derivative contracts amounted to EUR 1.6 million (6.6).

Notes to the consolidated financial statements

NOTES TO THE BALANCE SHEET

Note 23. Investment in associates

EUR million	31 Dec.	
	2010	31 Dec. 2009
Investment 1 Jan.	2	2
Acquisition of shares	23	
Dissolved associated companies		0
Share of profit for the financial year	0	0
Dividends	0	
Investment 31 Dec.	25	2

Notes to the consolidated financial statements

NOTES TO THE BALANCE SHEET

Note 24. Intangible assets

Changes in intangible assets, EUR million	Goodwill	Brands	Customer relationships related to insurance contracts and policy acquisition costs	Other intangible assets	Total
Acquisition cost 1 Jan. 2010	516	179	301	145	1,142
Increases	0			15	15
Decreases				-1	-1
Transfers between items				-1	-1
Acquisition cost 1 Dec. 2010	516	179	301	159	1,156
Acc. amortisation and impairments 1 Jan. 2010		-6	-99	-77	-182
Amortisation during the financial year			-24	-26	-50
Decreases				0	0
Acc. amortisation and impairments 31 Dec. 2010		-6	-123	-103	-231
Carrying amount 31 Dec. 2010	516	173	179	56	925

Other intangible assets include computer software to the carrying amount of EUR 34 million and EUR 19 million in computer software under development.

Amortisation, impairment losses and their reversals were recognised on the income statement under Other operating expenses.

Changes in intangible assets, EUR million	Goodwill	Brands	Customer relationships related to insurance contracts and policy acquisition costs	Other intangible assets	Total
Acquisition cost 1 Jan. 2009	516	179	301	125	1,122
Increases	0			18	18
Decreases				-1	-1
Transfers between items				4	4
Acquisition cost 1 Dec. 2009	516	179	301	145	1,142
Acc. amortisation and impairments 1 Jan. 2009		-3	-75	-57	-135
Amortisation during the financial year			-24	-20	-43
Impairments for the financial year		-3			-3
Decreases				0	0
Other changes				-1	-1
Acc. amortisation and impairments 31 Dec. 2009		-6	-99	-77	-182
Carrying amount 31 Dec. 2009	516	173	203	68	960

Other intangible assets include computer software to the carrying amount of EUR 40 million and EUR 24 million in computer software under development.

Amortisation, impairment losses and their reversals are recognised on the income statement under Other operating expenses.

Intangible assets with indefinite economic lives, EUR million	31 Dec.	
	2010	31 Dec. 2009
Goodwill	516	516
Brands	173	173
Total	690	690

The economic lives of goodwill and brands acquired through business combinations are estimated to be indefinite, since they

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affect the accrual of cash flows for an indefinable period.

	31 Dec. 2010		31 Dec. 2009	
	Carrying amount, EUR million	Remaining amortisation period	Carrying amount, EUR million	Remaining amortisation period
Other most significant intangible assets				
Customer relationships	179	7–10 yrs	203	7–10 yrs
Software	34	2–5 yrs	40	2–5 yrs
Software under development	19		24	

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

Goodwill impairment test

Goodwill, EUR million	2010	2009
Non-life Insurance	407	407
Pohjola Asset Management Ltd	97	97
Leasing and Factoring Services	13	13
Total	516	516

Goodwill of Pohjola Group originates entirely from the acquisition of the business operations of Pohjola Group plc and Pohjola Finance Ltd. Goodwill was determined by the so-called Purchase Price Allocation process (PPA). The resulting goodwill was allocated to the cash-generating units (CGUs), which were either business segments or entities included in them. The impairment testing of goodwill was carried out in accordance with IAS 36 on those CGUs for which acquisition cost calculations in accordance with PPA were made, i.e. Non-life Insurance, Asset Management and Leasing and Factoring Services.

For the purpose of goodwill testing, the value of the CGUs of Pohjola Group was determined by using the 'Excess Returns' method. Accordingly, profits for the current period and future periods were reduced by the return requirement set for shareholders' equity. Any excess return was discounted using a discount rate corresponding to the return requirement set for shareholders' equity in order to determine the present value of cash flows.

For Non-life Insurance and Asset Management, the testing period was determined to be the entire period of PPA amortisation plus one year free of PPA amortisation, nine years applying to the former and six years applying to the latter. The testing period for Leasing and Factoring Services is five years in accordance with IAS 36.

The forecasts used in cash flow statements are based on strategy figures for 2011–13, confirmed by Pohjola in September 2009, and post-strategy-period expectations derived from them regarding business developments. Growth in cash flows for post-forecast periods ranges between 2 and 9%.

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

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

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

The discount rate, combined ratio and investment return (%) were used as key parameters in Non-life Insurance's sensitivity analysis – the same as in the previous year. The results of the sensitivity analysis did not undergo any major changes over the previous year. A 4.2-percentage point increase in the discount rate, a 3.6-percentage point increase in the combined ratio and a 1.5-percentage point decrease in investment return compared with forecasts throughout the testing period, with one tested parameter changing and other parameters remaining unchanged, would entail an impairment risk. In 2009, the results were as follows: a 5.4-percentage point increase in the discount rate, a 3.9-percentage point increase in the combined ratio and a 1.3-percentage point decrease in investment return compared with forecasts throughout the testing period, would have entailed an impairment risk.

The discount rate, growth rate (%) of assets under management and growth rate (%) of expenses were used as key parameters in Asset Management's sensitivity analysis. The results of the sensitivity analysis were better than the year before across the board. A 25-percentage point increase in the discount rate, an 27-percentage point decrease in assets

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under management and 11-percentage point growth in expenses compared with forecasts throughout the testing period, with other parameters remaining unchanged, would entail an impairment risk. In 2009, the results were as follows: an 22-percentage point increase in the discount rate, a 18-percentage point decrease in assets under management and 9.5-percentage point growth in expenses compared with forecasts throughout the testing period would have entailed an impairment risk.

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

Impairment testing of brands

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

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

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

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

Impairment testing of other essential intangible assets

Intangible assets originating from customer relationships are charged to expenses using straight-line amortisation over their estimated economic lives, and no indications of the need for their impairment recognition have been discovered. Intangible assets originating from computer software used by Non-life Insurance were charged to expenses in full.

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Note 25. Property, plant and equipment

EUR million	31 Dec. 2010	31 Dec. 2009
Property in own use		
Land and water areas	3	3
Buildings	18	18
Total	21	22
Machinery and equipment	3	4
Other tangible assets	3	3
Leased-out assets	69	89
Total property, plant and equipment	97	117
of which construction in progress	0	0

Changes in property, plant and equipment (PPE), EUR million	Property in own use	Machinery and equipment	Other tangible assets	Leased- out assets	Total PPE
Acquisition cost 1 Jan. 2010	26	55	3	129	213
Increases	0	1	0	19	20
Decreases	-1	-1	0	-36	-38
Transfers between items	0				0
Acquisition cost 31 Dec. 2010	26	55	3	112	195
Accumulated depreciation and impairments 1 Jan. 2010	-5	-51	0	-40	-96
Depreciation during the financial year	-1	-1		-21	-23
Reversals of impairments for the financial year	0			1	1
Decreases	1	1		18	20
Other changes				0	0
Accumulated depreciation and impairments 31 Dec. 2010	-4	-51	0	-43	-99
Carrying amount 31 Dec. 2010	21	3	3	69	97

Depreciation, impairment losses and their reversals are charged to Other operating expenses.

Pohjola Group primarily offers passenger cars through operating leases. The Group has leased out office facilities it does not need and such facilities are classified as investment property in the financial statements.

A breakdown of PPE leased out under operating lease can be found in Note 89.

Changes in property, plant and equipment (PPE), EUR million	Property in own use	Machinery and equipment	Other tangible assets	Leased- out assets	Total PPE
Acquisition cost 1 Jan. 2009	25	58	7	121	211
Increases	1	1	0	36	38
Decreases	0	-4	0	-28	-33
Transfers between items	0	0	-4	0	-3
Acquisition cost 31 Dec. 2009	26	55	3	129	213
Accumulated depreciation and impairments 1 Jan. 2009	-4	-53	-1	-27	-84
Depreciation during the financial year	-1	-1		-23	-26
Impairments for the financial year				0	0
Reversals of impairments for the financial year	0				0
Decreases		3	1	10	14
Other changes		0		-1	-1

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Accumulated depreciation and impairments 31 Dec. 2009	-5	-51	0	-40	-96
Carrying amount 31 Dec. 2009	22	4	3	89	117

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Note 26. Other assets

EUR million	31 Dec.	
	2010	31 Dec. 2009
Payment transfer receivables	23	1
Pension assets	40	42
Accrued income and prepaid expenses		
Interest	580	502
Other accrued income and prepaid expenses	53	17
Other	512	506
Total	1,208	1,068

The item Other includes eg EUR 41 million (41) in accounts receivable from securities EUR 359 million (348) in foreign CSA collateral receivables.

Defined benefit pension plans

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

Balance sheet values of defined benefit pension plans, EUR million	31 Dec.	
	2010	31 Dec. 2009
Fair value of assets	130	127
Present value of funded obligations (–)	-121	-119
Present value of unfunded obligations	-4	-5
Unrecognised actuarial gains (–) and losses (+)	23	29
Net receivable (+) / liability (–) on the balance sheet	29	32
Assets and liabilities recognised on the balance sheet		
Assets	40	42
Liabilities	11	10
Net assets	29	32
Plan assets include		
Pohjola Bank plc shares	4	4
Securities issued by companies included in OP-Pohjola Group	3	5
Other receivables from companies included in OP-Pohjola Group	0	
Property used by OP-Pohjola Group Central Cooperative Consolidated	1	1
Total	8	10
Defined benefit pension costs on the income statement		
Current service cost	4	3
Interest cost	6	6
Expected return on plan assets	-8	-9
Actuarial gains and losses	1	0
Effect of curtailment of plans or settlements	0	0
Total income (–)/expenses (+) included in personnel costs	3	1

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Actual return on plan assets**14****15**

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

Changes in present value of obligation, EUR million	31 Dec.	
	2010	31 Dec. 2009
Present value of obligation 1 Jan.	124	101
Current service cost	4	3
Interest cost	6	6
Actuarial gains and losses	4	14
Benefits paid	-4	-4
Settlement of obligation	-1	-1
Change in division ratio	-8	6
Return on TyEL interest rate difference and growth in old-age pension liabilities (net)	1	0
Present value of obligation 31 Dec.	125	124

Changes in fair value of assets, EUR million	31 Dec.	
	2010	31 Dec. 2009
Fair value of assets 1 Jan.	127	107
Expected return on plan assets	8	9
Actuarial gains and losses	6	7
Employer contributions	3	3
Benefits paid	-4	-4
Settlement of obligation	0	-1
Change in division ratio	-9	6
Return on TyEL interest rate difference and growth in old-age pension liabilities (net)	1	0
Fair value of assets 31 Dec.	130	127

Contributions payable to the defined benefit plan in 2011 are estimated at EUR 2 million.

	31 Dec. 2010	31 Dec. 2009
Proportion of most important asset groups of total fair value of plan assets, %		
Shares and participations	33	21
Notes and bonds	41	36
Property	19	21
Other assets	7	22

Principal actuarial assumptions used	2010	2009
Discount rate, %	4.50	5.00
Expected long-term return on plan assets, %	5.07–6.60	6.00–6.60
Assumed future salary increases, %	3.00	3.50
Future pension increases, %	2.00–2.40	2.00–2.40
Turnover rate, %	0.50–3.00	0.50–3.00
Inflation, %	2.00	2.00
Average remaining service time in years	1–16	1–16

Surplus of defined benefit pension plans and experience adjustments, EUR million	31 Dec. 2010	31 Dec. 2009	31 Dec. 2008	31 Dec. 2007	31 Dec. 2006
Present value of obligation	125	124	101	114	104
Fair value of assets	-130	-127	-106	-129	-130
Surplus or deficit	-5	-3	-6	-15	-26
Experience adjustments on liabilities	-4	0	-5	3	3
Experience adjustments on assets	6	7	-28	-4	2

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Note 27. Tax assets

EUR million	31 Dec. 2010	31 Dec. 2009
Income tax assets	1	1
Deferred tax assets	39	14
Total tax assets	40	15

Breakdown of tax assets and liabilities, EUR million	31 Dec. 2010	31 Dec. 2009
Deferred tax assets		
Due to available-for-sale financial assets	11	
Due to depreciation and impairment losses on PPE	0	0
Due to provisions and impairment losses on loans	3	4
Due to cash flow hedging	2	
Due to other IFRS adjustments	1	2
Due to consolidated eliminations	2	2
Due to other items	21	14
Set-off against deferred tax liabilities	-1	-7
Total	39	14

Deferred tax assets		
Due to appropriations	179	153
Due to available-for-sale financial assets	10	2
Due to elimination of equalisation provision	110	108
Due to deferral of pension liability	9	11
Due to fair value measurement of investment	20	35
Due to allocation of sale price of business combinations	91	100
Due to other IFRS adjustments	7	6
Due to other items	1	1
Set-off against deferred tax assets	-1	-7
Total	425	408

Changes in deferred taxes, EUR million	31 Dec. 2010	31 Dec. 2009
Deferred tax assets/liabilities 1 Jan.	-394	-300
Recognised on the income statement		
Intra-Group capital gains on business combinations	0	2
Effect of losses	0	-46
Provisions and impairments on receivables	0	1
Appropriations	-26	-27
Depreciation/amortisation and impairments	9	8
Elimination of equalisation provision	-2	-14
Fair value changes in and sale of investments	15	44
Other	8	1
Recognised in statement of comprehensive income		
Fair value reserve		

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Fair value measurement	16	-48
Cash flow hedges	2	
Transfers to the income statement	-13	-15
Total deferred tax assets/liabilities 31 Dec.	-386	-394
Income tax assets/liabilities	-29	-26
Total tax assets/liabilities	-415	-420

Tax losses for which a deferred tax asset was not recognised came to EUR 3 million (2) at the end of 2010. The losses will expire before 2020.

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

Notes to the consolidated financial statements

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Note 28. Liabilities to credit institutions

EUR million	31 Dec.	
	2010	31 Dec. 2009
Liabilities to central banks	355	500
Liabilities to credit institutions		
Repayable on demand		
Deposits	175	99
Other liabilities	649	700
Total	824	799
Other than repayable on demand		
Deposits	3,777	3,685
Other liabilities	5	
Total	3,782	3,685
Total liabilities to credit institutions and central banks	4,960	4,984

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Note 29. Financial liabilities at fair value through profit or loss

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

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Note 30. Derivative contracts

EUR million	31 Dec.	
	2010	31 Dec. 2009
Held for trading		
Interest rate derivatives	1,768	1,245
Currency derivatives	4	4
Equity and index derivatives	52	52
Credit derivatives	0	1
Commodity derivatives	26	
Other	1	3
Total	1,852	1,306
Hedging derivative contracts		
Fair value hedging		
Interest rate derivatives	181	137
Currency derivatives	13	13
Cash flow hedge		
Interest rate derivatives	8	
Total	202	150
Total derivative contracts	2,054	1,456

The derivative contracts balance-sheet item includes negative changes in fair value and premiums received.

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Note 31. Liabilities to customers

EUR million	31 Dec.	
	2010	31 Dec. 2009
Deposits		
Repayable on demand		
Private	0	0
Companies and public sector entities	1,615	1,498
Total	1,615	1,498
Other		
Private	0	0
Companies and public sector entities	52	48
Total	52	49
Other financial liabilities		
Repayable on demand		
Private	0	0
Total	0	0
Other		
Companies and public sector entities	2,564	2,586
Total	2,564	2,586
Total liabilities to customers	4,231	4,133

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Note 32. Non-life insurance liabilities

EUR million	31 Dec.	
	2010	31 Dec. 2009
Insurance contract liabilities	2,224	2,145
Provision for joint guarantee system		40
Direct insurance liabilities	110	78
Reinsurance liabilities	10	13
Derivative contracts	2	0
Other	5	3
Total Non-life Insurance liabilities	2,351	2,279

Non-life Insurance contract liabilities and reinsurers' share

EUR million	31 Dec. 2010			31 Dec. 2009		
	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net
Provision for unpaid claims for annuities	1,108	-2	1,106	1,058	-3	1,054
Other provisions by case	151	-53	98	144	-44	101
Special provision for occupational diseases	35		35	39		39
Collective liability (IBNR)	502	-5	497	493	-5	487
Reserved loss adjustment expenses	52		52	50		50
Provision for unearned premiums	375	-19	356	361	-25	336
Provision for unexpired risks	1		1	0		0
Total Non-life Insurance contract liabilities	2,224	-79	2,145	2,145	-77	2,068

Changes in insurance contract liabilities and reinsurance contract receivables

EUR million	2010			2009		
	Gross	Reinsu-rance	Net	Gross	Reinsu-rance	Net
Provision for unpaid claims						
Provision for unpaid claims 1 Jan.	1,783	-52	1,731	1,770	-66	1,704
Claims paid in financial year	-712	29	-683	-652	20	-633
Change in liability/receivable	731	-37	694	623	-6	617
Current period claims	737	-45	692	666	-17	649
Increase (decrease) from previous financial years	-41	8	-33	-42	11	-31
Other change in reserving basis	35		35			
Unwinding of discount	44		44	42		42
Foreign exchange gains (losses)	1		1	-1	0	-1
Provision for unpaid claims 31 Dec.	1,847	-60	1,788	1,783	-52	1,731
Provision for unearned premiums						
Provision for unearned premiums 1 Jan.	362	-25	337	346	-21	324
Increase	341	-3	338	327	-13	313
Decrease	-328	9	-319	-312	10	-302
Exchange rate gains (losses)	0		0	0		0
Unwinding of discount	1		1	1		1

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Provision for unearned premiums 31 Dec.	377	-19	357	362	-25	337
Total Non-life Insurance contract liabilities	2,224	-79	2,145	2,145	-77	2,068

The provision for unearned premiums represents obligations relating to insurance cover which has not yet expired at the year-end. The provision for unearned premium includes EUR 1.1 million in the provision for unexpired risks which relate to the so-called Affinity insurance policies, serving as extended warranty for home appliances, which would remain undersized without the provision for unexpired risks.

Determination of Non-life Insurance contract liabilities

a) Methods and assumptions used

The amount of liability has been estimated in such a way that it is, in reasonable probability, sufficient to cover the liabilities arising from insurance contracts. This has been performed by estimating an expected value for the liability and, after that, by determining a safety loading based on the degree of uncertainty related to the liability.

The provision for unearned premiums has mainly been determined in accordance with the pro rata parte temporis rule. The provision for unearned premiums arising from corporate insurance contracts is calculated for each contract and that arising from private customer insurance contracts using factors derived statistically from the Group's own insurance portfolio and tied to insurance premium revenue.

The provision for unpaid claims for annuities corresponds to the discounted present value of cash flow of compensation for loss of income payable as continuous annuity. The discount rate is determined taking account of the current interest rate, security required by law and the upper limit of the discount rate set by the authorities. On 31 December 2010, the discount rate used was 3.5% (31 Dec. 2009: 3.5%). In their joint actuarial project launched in the spring of 2010, the Federation of Accident Insurance Institutions and the Finnish Motor Insurers' Centre examine whether the mortality model commonly used by Finnish non-life insurers is up to date. The preliminary findings based on the first stage of the project reveals that life expectancy has increased in Finland, which is why Pohjola increased its technical provisions by EUR 35 on a non-recurring basis. The spring of 2011 should see more specified results.

The provision for unpaid claims includes asbestos liabilities which arise from occupational diseases coverable under statutory workers' compensation insurance. The forecasted cash flow of these claims is based on an analysis which takes account of to what extent asbestos was used annually as raw material in Finland and how the latency periods of different asbestos diseases are distributed. Trends in asbestos-related claims are monitored annually and the outcome has corresponded well to the forecast.

The valuation of collective liability is based on different statistical methods: Bornhuetter-Ferguson, Chain Ladder, Hovinen, PPCI and the average payment method. When applying these methods, other selections must also be made, in addition to the selection of the method, such as deciding on how many occurrence years' statistics the methods will be applied.

Bornhuetter-Ferguson

The Bornhuetter-Ferguson (BF) method is based on the assumption that, in each development year, a certain portion of claims is paid of the measure of exposure of the occurrence year. This measure of exposure can, for instance, be the number of policy years or insurance premium revenue adjusted by the loss ratio assumption. BF reacts slowly to changes in the development triangle of claims. In addition, BF is sensitive to the selection of the measure of exposure.

Chain Ladder

In the Chain Ladder (CL) method, the total claims expenditure for each occurrence year is determined by annual development factors. A development factor describes the relation between the successive development years in the cumulative claims development triangle. CL is sensitive to the observations in the first development years.

Hovinen

In the Hovinen method, the collective liability is based on the weighted average of the evaluations provided by the BF and CL methods. The Hovinen method takes account of how much information has accumulated on the occurrence year to date and, accordingly, weights the estimate obtained on liability between BF and CL.

PPCI

The PPCI (Payments per Claim Incurred) method corresponds to the BF method but the risk measure is the number of claims occurred. Use of the PPCI method requires that the estimates of the number of claims be known by occurrence year.

Average payment

The average payment method (AP) corresponds to the BF method, but the claims paid in the development year are assumed to be comparable with the number of losses detected in the development year concerned. Use of the AP method requires that the numbers of detected claims for previous development years be known. In addition, estimates of future detected claims must be available. The AP method is effective in insurance lines where the cash flows of paid claims have a long maturity, because in such a case it is possible to stabilise the average payment and concentrate on the development of the number of paid claims.

In the valuation of collective liability, the largest risks relate to

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- estimating the future rate of inflation (excl. indemnities for loss of income payable on the basis of statutory insurance)
- adjustment of changes due to changed compensation practices and legislation in the development triangle of claims (i.e. whether history provides a correct picture of the future)
- adequacy of historical information over dozens of years.

When evaluating the amount of collective liability, the development triangles of claims have been adjusted for inflation. For historical data, the rate of inflation has been estimated at 3% and, for future medical expenses benefits, at 4%, and elsewhere at 2%. Of the collective liability, only the liability for annuities has been discounted.

For the assessment of collective liability, the Group's non-life insurance portfolio is divided into several categories by risk and eg maturity of the cash flow applying to compensation paid. In each category, collective liability is first calculated using each statistical method stated above, and the method that best suits the category under review is chosen. The selection criteria used includes how well the model would have predicted developments in prior years of occurrence and the sensitivity of the estimate generated by the model with respect to the number of statistical years used. The safety loading of 2–10% is added to the expected value generated by the selected model. On a Group-wide basis, the safety loading accounts for 6.4% of collective liability. The safety loading is determined by the quality of historical data, the estimate's sensitivity to the number of history years and the deviation between estimates generated by various methods.

In the valuation of the collective liability, the Group has taken account of the fact that historical data do not in all circumstances provide any information at all regarding the foreseeable future. In such cases, attempts have been made to estimate safely the behaviour of the distribution of cash flows from paid claims in areas from where there are no observations and which are in a distant future (over 15 years).

When estimating the collective liability for medical expenses and rehabilitation expenses benefits in statutory workers' compensation and motor liability insurance, the Group has taken account of the fact claims paid for losses occurred more than 10 years ago are financed through the pay-as-you-go system.

b) Changes in assumptions

In their joint actuarial project launched in the spring of 2010, the Federation of Accident Insurance Institutions and the Finnish Motor Insurers' Centre examine whether the mortality model commonly used by Finnish non-life insurers is up to date. The preliminary findings based on the first stage of the project reveals that life expectancy has increased in Finland, which is why Pohjola increased its technical provisions by EUR 35 on a non-recurring basis. The spring of 2011 should see more specified results.

Effect of changes in methods and assumptions on amount of liability	2010	2009
EUR million (increase +/-decrease - in liability)		
Provision for change in the mortality model	35	
Total	35	

c) Claims development

The claims triangle compares the actual claims incurred with previous estimates. The triangles describing claims development have been drawn up by occurrence year.

With the exception of long-term liabilities, claims development for the gross business is presented over a period of five years. The claims triangle does not monitor the shares of pools and the trends in the rights of recourse related to statutory workers' compensation insurance. The capital value of finalised annuities is treated as if the annuities had been paid equalling the capital amount in connection with confirmation as final. For long-term liabilities, i.e. annuities confirmed as final and asbestos-related claims, information on the adequacy of insurance contract liabilities is provided.

Claims triangles, gross business, EUR million

Occurrence year	2004	2005	2006	2007
Estimated total claims expenditure				
At end of occurrence year	523	540	603	638
1 year later	528	540	611	633
2 years later	521	535	591	627
3 years later	515	529	594	609
4 years later	518	532	585	
5 years later	516	526		
6 years later	514			
Current estimate of accumulated claims expenditure	514	526	585	609
Accumulated claims paid	-485	-495	-535	-554

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Provision for unpaid claims for 2004–2010	29	31	50	55
Occurrence year	2008	2009	2010	Total
Estimated total claims expenditure				
At end of occurrence year	707	666	737	4,413
1 year later	693	615		
2 years later	671			
Current estimate of accumulated claims expenditure	671	615	737	4,258
Accumulated claims paid	-593	-501	-376	-3,539
Provision for unpaid claims for 2004–2010	78	114	361	719
Provision for unpaid claims for previous years				303

Development of claims due to latent occupational diseases, EUR million

Financial year	Collective liability	Known liabilities for annuities	Claims paid	Claims incurred	Changes in reserving basis*	Adequacy
2005	45	39	-4	-2	1	-1
2006	43	40	-4	-3		-3
2007	41	40	-4	-2	-1	-2
2008	40	41	-4	-4	3	-2
2009	42	43	-4	-8	4	-4
2010	38	44	-3	0		0

Development of annuities confirmed as final, EUR million

Financial year	Year-start	Year-end	New annuity capital	Annuities paid	Changes in reserving bases*	Adequacy
2006	681	731	77	26		1
2007	731	745	60	28	-15	3
2008	745	766	55	30		4
2009	763**	771	42	32		2
2010	771	794	60	34		3

* Effect of changes in the discount rate on final annuity capital.

** A small amount of healthcare and senior housing provisions was eliminated from 2009 figures.

Claims triangles, net business, EUR million

Occurrence year	2004	2005	2006	2007
Estimated total claims expenditure				
At end of occurrence year	504	511	580	621
1 year later	510	519	593	623
2 years later	503	509	575	619
3 years later	500	509	577	602
4 years later	499	513	568	
5 years later	499	507		
6 years later	496			
Current estimate of accumulated claims expenditure	496	507	568	602

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Accumulated claims paid	-467	-479	-518	-547
Provision for unpaid claims for 2004–2010	29	28	50	54
Occurrence year	2008	2009	2010	Total
Estimated total claims expenditure				
At end of occurrence year	656	649	692	4,213
1 year later	656	603		
2 years later	638			
Current estimate of accumulated claims expenditure	638	603	692	4,106
Accumulated claims paid	-563	-497	-372	-3,443
Provision for unpaid claims for 2004–2010	76	106	320	663
Provision for unpaid claims for previous years				299

Provision for joint guarantee system

The Workers' Compensation Insurance Act, the Motor Liability Insurance Act and the Patient Injury Act previously included provisions on joint liability on the basis of which insurers engaged in the insurance business under these Acts assume joint liability for any unpaid claims should one of them fail to pay claims in the event of liquidation or bankruptcy. For this purpose, insurance companies made a provision for this joint guarantee system.

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

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

Claims administration contracts

On 31 December 2010, liabilities related to claims administration contracts totalled EUR 78 million (43).

Claims administration contracts are contracts which are not insurance contracts, but on the basis of which claims are paid on behalf of another party. Among these contracts, the most important are captive arrangements in which the insured risk is reinsured with a captive company belonging to the same Group of companies with the customer; index increases in annuities of statutory workers' compensation, motor liability and patient insurance policies; certain other increases in benefits; and medical treatment indemnities payable over ten years after the occurrence of the accident; as well as public sector patient insurance.

Notes to the consolidated financial statements

NOTES TO THE BALANCE SHEET

Note 33. Debt securities issued to the public

EUR million	Average interest rate, %	31 Dec. 2010	Average interest rate, %	31 Dec. 2009
Bonds	2.1	6,972	1.6	6,742
Other				
Certificates of deposit	1.0	3,421	0.8	2,279
Commercial paper holdings	0.8	6,141	0.6	8,241
Other	0.8	262	0.7	227
Included in own portfolio in trading (–)		-111		-193
Total debt securities issued to the public		16,685		17,295

Long-term loans and interest rate linkages	Nominal amount	Interest rate	Maturity
OKO Bank plc ("OKO Bank") Issue of EUR 120,000,000 Floating Rate Notes Due March 2011	120.0	EUB6M +0.025	3 March 2011
OKO Osuuspankkien Keskuspankki Oyj ("OKO Bank") Issue of EUR 50,000,000 5 Year Floating Rate Instruments Due March 2011	50.0	EUB3M +0.07	8 March 2011
Pohjola Bank plc ("Pohjola Bank" or the "Issuer") Issue of EUR 50,000,000 Floating Rate Notes due 10 March 2011 (The "Notes")	50.0	3 mth Euribor +30 bp	10 March 2011
OKO Bank plc ("OKO Bank") Issue of EUR 750,000,000 Floating Rate Instruments Due June 2011	750.0	EUB3M +0.08	21 June 2011
Pohjola Bank plc ("Pohjola Bank" or the "Issuer") Issue of HKD 80,000,000 Fixed Rate Notes due 15 September 2011 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments	7.7	Fixed 1.1%	15 Sept. 2011
Pohjola Bank plc ("Pohjola Bank" or the "Issuer") Issue of HKD 200,000,000 Fixed Rate Notes due 22 September 2011 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments	19.3	Fixed 1.6%	22 Sept. 2011
OKO Bank plc ("OKO Bank" or The "Issuer") Issue of GBP 350,000,000 Floating Rate Notes Due 21 November 2011	406.6	3 mth GBP libor +0.05	21 Nov. 2011
Pohjola Bank plc Issue of EUR 50,000,000 Floating Rate Notes due 22 November 2011 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments	50.0	EUB3M	22 Nov. 2011
Pohjola Bank plc ("Pohjola Bank" or the "Issuer") Issue of JPY 7,120,000,000 Floating Rate Note due 8 December 2011 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments	65.5	3-mth JPY-Libor-BBA +0.25%	8 Dec. 2011
Issue of EUR 65,000,000 Floating Rate Instruments due 15 Dec 2011 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments	65.0	EUB3M	15 Dec. 2011
Pohjola Bank plc ("Pohjola Bank" or the "Issuer") Issue of EUR 100,000,000 Floating Rate Instruments due December 2011 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments	100.0	3-mth Euribor +0.31%	15 Dec. 2011
Pohjola Bank plc Issue of CHF 40,000,000 Floating Rate. Instruments due March 2012 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments	32.0	CHL3M + 0.22%	12 March 2012
Pohjola Bank plc Issue of EUR 100,000,000 Floating Rate Notes due 15 May 2012 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments	100.0	EUB3M + 0.10%	15 May 2012
Pohjola Bank plc Issue of 40,000,000 Floating Rate Notes due 22 May 2012 under the EUR 15,000,000,000 programme for the Issuance of Debt Instruments	40.0	EUB3M + 0.10%	22 May 2012
JPY 8,000,000,000 Term Loan Facility	73.6	Fixed 0.85%	9 July 2012
Pohjola Bank plc ("Pohjola Bank" or the "Issuer") Issue of Eur 750,000,000 Floating Rate Instruments due 17 August 2012 (the "Instruments") under the Eur 15,000,000,000 Programme for the Issuance of Debt Instruments	750.0	3-mth Euribor +0.75%	17 Aug. 2012
JPY 5,000,000,000 Term Loan Facility	46.0	Fixed 1.41%	7 Sept. 2012

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Pohjola Bank plc ("Pohjola Bank" or the "Issuer") Issue of SEK 350,000,000 Floating Rate Notes due October 2012 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments	39.0	3-mth STIBOR +0.70%	1 Oct. 2012 25 Jan. 2013
Pohjola Bond 2010 I	1.5	Fixed 2%	25 Feb. 2013
Pohjola Bank plc Issue of EUR 750,000,000 Floating rate Instruments due 25 February 2013 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments	750.0	EUB3M + 0.50%	13 Aug. 2013
Pohjola Bank plc Issue of EUR 100,000,000 Floating Rate Notes due August 2013 under the EUR 15,000,000,000 Programme for the Issuance of debt Intruments	100.0	EUB3M + 0.55%	22 May 2014
Pohjola Bank plc ("Pohjola Bank" or the "Issuer") Issue of EUR 750,000,000 4.50 per cent. Instruments due 2014 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments	750.0	Fixed 4.5%	16 June 2014
OKO Osuuspankkien Keskuspankki Oyj ("OKO Bank") Issue of NOK 400,000,000 5.2 % Fixed Rate Notes Due June 2014	51.3	Fixed 5.2%	18 June 2014
Pohjola Bank plc ("Pohjola Bank" or the "Issuer") Issue of NOK 500,000,000 5.40 per cent. Fixed rate Notes due June 2014 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments	64.1	Fixed 5.4%	17 Nov. 2014
JPY 3,000,000,000 Term Loan Facility	27.6	Fixed 1.645%	25 March 2015
Pohjola Bank plc Issue of EUR 750,000,000 3.125 per cent. Instruments due 25 March 2015 under the EUR 15,000,000,000 Programme for the Issuance of Debt Intruments	750.0	Fixed 3.125%	19 Nov. 2015
Pohjola Bank plc Issue of EUR 10,000,000 2.62 per cent, Fixed Rate Intruments du 19 November 2015 under the EUR 15,000,000,000 Programme for the issuance of Debt Instruments	10.0	Fixed 2.62%	30 Nov. 2015
JPY 2,000,000,000 Term Loan Facility	18.4	Fixed 1.706%	15 Feb. 2016
OKO Osuuspankkien Keskuspankki Oyj ("OKO BANK") Issue of NOK 1,000,000,000 Fixed Rate Notes Due 15 February 2016	128.2	Fixed 4.185%	8 Sept. 2017
Pohjola Bank plc (Pohjola Bank or the Issuer) Issue of Eur 750,000,000 3.00 per cent. Instruments due 8 September 2017 under the Eur 15,000,000,000 Programme for the Issuance of Debt Instruments	750.0	Fixed 3%	3 Dec. 2020
Pohjola Bank plc Issue of JPY 8,000,000,000 Fixed Rate Instruments due December 2020 under the EUR 15,000,000,000 programme for the Issunce of Debt Instruments	73.6	Fixed 1.405%	

The interest rate is the rate according to the issue currency. The euro equivalents are calculated using the average rate of the European Central Bank on the balance sheet date. The nominal amount of structured bonds issued by Pohjola was EUR 1,390 million (961). The bonds' interest rate is determined on the basis of interest, equity, equity index or similar underlying instruments. Any possible additional return on the bonds to the investor is hedged using a corresponding derivative structure.

Notes to the consolidated financial statements

NOTES TO THE BALANCE SHEET

Note 34. Provisions and other liabilities

EUR million	31 Dec.	
	2010	31 Dec. 2009
Provisions		0
Other liabilities		
Payment transfer liabilities	587	335
Accrued expenses		
Interest payable	546	465
Other accrued expenses	99	82
Other	583	409
Total provisions and other liabilities	1,816	1,291

The item Other under Other liabilities consists eg of EUR 102 million (40) in accounts payable on securities, EUR 94 million (219) in liabilities for equities and derivative contracts and EUR 11 million (10) in pension liabilities.

Changes in provisions

EUR million	Onerous contracts	Total
1 Jan. 2010	0	0
Provisions used	0	0
31 Dec. 2010		

Changes in provisions

EUR million	Onerous contracts	Total
1 Jan. 2009	0	0
Provisions used	0	0
31 Dec. 2009	0	0

Notes to the consolidated financial statements

NOTES TO THE BALANCE SHEET

Note 35. Tax liabilities

EUR million	31 Dec.	
	2010	31 Dec. 2009
Income tax liabilities	30	27
Deferred tax liabilities	425	408
Total tax liabilities	455	434

A specification of deferred tax liabilities can be found in Note 27.

Notes to the consolidated financial statements

NOTES TO THE BALANCE SHEET

Note 36. Subordinated liabilities

	Average interest rate, %	31 Dec. 2010, EUR million	Average interest rate, %	31 Dec. 2009, EUR million
Subordinated loans	3.6	324	3.2	308
Other				
Perpetual loans	5.0	266	5.0	262
Debentures	2.5	665	2.6	730
Total subordinated liabilities		1,255		1,300

Hybrid bonds/subordinated loans

Hybrid bonds included in Tier 1

1) Subordinated loan of 10 billion Japanese yen (equivalent of EUR 92 million)

This is a perpetual loan (a loan without a due date) carrying a fixed interest rate of 4.23% until 18 June 2034 and subsequently a variable 6-month Yen Libor + 1.58%. Interest will be annually payable on 18 June and 18 December. If interest cannot be paid for a given interest period, the obligation to pay interest for the period in question will lapse. The loan can be called in at the earliest in 2014 and can be annually repaid after 2014 on the interest due date on 18 June or 18 December. The loan's entire principal must be repaid in one instalment.

2) Subordinated loan of EUR 50 million

This is a perpetual loan without interest-rate step-ups, but with an 8% interest rate cap. The loan was issued on 31 March 2005 and its interest rate for the first year was 6.5% and thereafter CMS 10 years + 0.1%. Interest payments are made annually on 11 April. If interest cannot be paid for a given interest period, the obligation to pay interest for the period in question will lapse. The loan can be called in on 11 April 2010 at the earliest, subject to authorisation by the Financial Supervisory Authority. The loan's entire principal must be repaid in one instalment.

3) Hybrid bond of EUR 60 million

This perpetual bond carries a variable interest rate based on 3-month Euribor + 0.65% payable quarterly on 28 February, 30 May, 30 August and 30 November. If interest cannot be paid for a given interest period, the obligation to pay interest for the period in question will lapse. It is possible to call in the loan at the earliest on 30 November 2015, subject to authorisation by the Financial Supervisory Authority, and thereafter on the interest due dates. After 2015, the loan carries a variable interest rate based on 3-month Euribor + 1.65% (step up). The entire loan principal must be repaid in one instalment.

4) Subordinated loan of EUR 40 million

This perpetual loan carries a variable interest rate based on 3-month Euribor + 1.25% payable quarterly on 28 February, 30 May, 30 August and 30 November. If interest cannot be paid for a given interest period, the obligation to pay interest for the period in question will lapse. Subject to authorisation by the Financial Supervisory Authority, the loan may be called in on the due dates of interest payment. The entire loan principal must be repaid in one instalment.

5) Hybrid bond of EUR 50 million

Perpetual bond of EUR 50 million, issued on 17 June 2008, carries a variable interest rate based on 3-month Euribor + 3.05%, payable on a quarterly basis. If interest cannot be paid for a given interest period, the obligation to pay interest will lapse. Subject to authorisation by the Financial Supervisory Authority, the bond may be called in at the earliest in 2013.

6) Pohjola Insurance Ltd's capital bond

Pohjola Insurance Ltd's perpetual capital bond of EUR 50 million. Issued on 17 June 2008, the bond carries a variable interest rate based on 3-month Euribor + 3.20%, payable on a quarterly basis. Interest which cannot be paid on the interest payment date and interest which Pohjola Insurance Ltd could not have paid for previous interest payment dates constitute 'Unpaid interest'. Interest will accrue on unpaid interest in accordance with the interest rate applicable to the bonds and this additional interest accrued until each interest payment date will be added to unpaid interest on the interest payment date in question. The issuer agrees not to distribute dividends or other profit or to buy back own shares until unpaid interest has been paid in its entirety. The bond may be called in at the earliest in 2013 and its principal can be paid back only if the statutory terms and conditions are fulfilled. The bond will not be taken into account in the capital adequacy measurement under the Act on Credit Institutions but can be fully utilised in the capital adequacy measurement of the insurance company.

Loans 1 and 3 are included in hybrid instruments.

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The Group has used derivatives to hedge against interest-rate and exchange-rate risks, and the financial statements include EUR 17.6 million in change in fair value recognised for hedging (17.1).

Perpetual loans and debentures

1. A perpetual loan of GBP 100 million which can be called in at the earliest on 28 December 2012, subject to authorisation by the Financial Supervisory Authority. A fixed 6.5% interest is paid on the loan semi-annually.
2. A perpetual loan of EUR150 million which can be called in at the earliest on 30 November 2012, subject to authorisation by the Financial Supervisory Authority. A fixed 3.875% interest is paid on the loan annually.
3. A debenture loan of EUR 150 million which can be called in at the earliest on 21 March 2011, subject to authorisation by the Financial Supervisory Authority. The loan carries an interest based on 3-month Euribor + 17.5 bps.
4. A debenture loan of USD 325 million which can be called in at the earliest on 13 September 2011, subject to authorisation by the Financial Supervisory Authority. The loan carries an interest based on 3-month USD Libor + 20 bps. With the Financial Supervisory Authority's permission, the amount amortised by Pohjola in December 2009 came to EUR 10 million and the remainder is USD 315 million.
5. A debenture loan of EUR 170 million which can be called in at the earliest in 2013, subject to authorisation by the Financial Supervisory Authority. The loan carries a fixed interest of 5.75%.
6. A debenture loan of EUR 100 million which can be called in at the earliest in 2013, subject to authorisation by the Financial Supervisory Authority. The loan carries a variable interest based on 12-month Euribor + 2.25 % until 2013.

Loans 1–6 were issued in international capital markets.

Fixed-rate debentures issued in Finland totalled EUR 149.7 million (161.7) on 31 December 2010.

Issue date	Carrying amount, EUR million	Interest rate, %	Due date
16 March 2005	5.2	3.3	16 March 2011
11 May 2009	19.9	2.3	11 May 2011
30 November 2005	1.4	3.2	30 November 2011
19 January 2009	11.8	3.0	19 January 2012
23 February 2009	34.4	3.0	23 February 2012
8 March 2006	0.3	3.3	8 March 2012
23 March 2009	27.0	3.0	23 March 2012
22 June 2009	26.2	3.0	22 June 2012
24 August 2009	14.3	2.5	24 August 2012
20 September 2006	0.2	3.9	20 September 2012
5 October 2009	7.0	2.3	5 October 2012
3 March 2008	2.1	4.1	3 March 2013

Pohjola Bank plc has no violations of the terms and conditions of the loan contracts with respect to principal, interest and other conditions. The financial statements include EUR 0.2 million recognised for the price difference of the loans (0.1).

Notes to the consolidated financial statements

NOTES TO THE BALANCE SHEET

Note 37. Shareholders' equity

EUR million	31 Dec. 2010	31 Dec. 2009
Capital and reserves attributable to owners of the Parent		
Share capital	428	428
Reserves		
Restricted reserves		
Share premium account	519	519
Reserve fund	204	204
Fair value reserve*		
From fair value measurement		
Notes and bonds	-65	35
Shares and participations	59	-35
From cash flow hedging	-6	
Other restricted reserves	1	1
Non-restricted reserves		
Reserve for Invested non-restricted equity	298	298
Other non-restricted reserves	72	72
Retained earnings		
Profit (loss) for previous periods	639	552
Profit (loss) for the period	229	194
Capital and reserves attributable to owners of the Parent	2,377	2,267
Total shareholders' equity	2,377	2,267

* The fair value reserve before tax totalled EUR -17 million (-0) and the related deferred tax asset amounted to EUR 5 million (0). On 31 December 2010, positive mark-to-market valuations of equity instruments before tax in the fair value reserve totalled EUR 77 million (58) and negative mark-to-market valuations EUR 5 million (103). In 2010, impairments recognised from the fair value reserve in the income statement totalled EUR 35 million (45).

	Number of shares		Reserve for invested non-restricted equity, EUR million	Total, EUR million
	Series A	Series K		
1 Jan. 2009	159,564,128	43,786,772		
Share issue	91,179,502	25,021,013	298	298
Conversion of shares	401,060	-401,060		
31 Dec. 2009	251,144,690	68,406,725	298	298
Conversion of shares	25,080	-25,080		
31 Dec. 2010	251,169,770	68,381,645		

Share capital and shares

Shares are divided into Series A and Series K shares. The shares have no nominal value. The stated value of each share is EUR 1.34 (not an exact figure). All issued shares have been paid up.

Series A shares available for subscription by the general public are quoted on the NASDAQ OMX Helsinki and are not subject to any purchase restrictions. Holding of Series K shares is restricted to Finnish cooperative banks, cooperative bank companies and the central institution of the amalgamation of cooperative banks, OP-Pohjola Group Central Cooperative. Series K shares may be converted into Series A shares at the written request of a shareholder or, in case of nominee-

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registered shares, at the written request of the asset manager registered in the book-entry register, within the limits of the minimum and maximum numbers of the share types provided for in the Articles of Association.

If a dividend is paid, Series A shares entitle their holders to an annual dividend which is at least three (3) cents higher than the dividend declared on Series K shares.

Treasury shares

At year-end, Pohjola Bank plc or its subsidiaries or associates did not hold Pohjola Bank treasury shares. The General Meeting has not authorised Pohjola to purchase treasury shares.

Proposed distribution of dividend

The Board of Directors will propose to the Annual General Meeting that a dividend of EUR 0.40 (0.34) be distributed on each Series A share and EUR 0.37 (0.31) on each Series K share, totalling EUR 126 million (107).

Share premium account

The share premium account was formed during the validity of regulations in force before 1 September 2006. Items entered in the share premium account include amounts exceeding the stated value paid for shares in a rights issue and amounts exceeding the stated value of a share and paid for share subscription based on stock options.

The share premium account may be lowered in compliance with the regulations governing the reduction of share capital and may be used to increase the share capital. The amount of the subscription price exceeding the stated value of shares subscribed in September and November, based on stock options, was entered in the share premium account, because the General Meeting had made the decision on issuing stock options before the entry into force of the new Companies Act. Otherwise, it has no longer been possible to increase the share premium account since 1 September 2006.

Reserve fund

The reserve fund consists of profits transferred to it during previous periods and the loan loss provisions transferred to it in 1990. The reserve fund may be used to cover losses for which the non-restricted equity is not sufficient. The reserve fund may also be used to increase the share capital and it may be reduced in the same way as the share capital. Since 1 September 2006, it has no longer been possible to increase the reserve fund.

Fair value reserve

The fair value reserve includes the change in the fair value of available-for-sale financial assets. Items included in this reserve will be derecognised and recorded in the income statement when an available-for-sale financial asset is disposed of or is subject to impairment. The reserve also includes the net fair value change of interest rate derivatives as cash flow hedges verified as effective and adjusted for deferred tax. Fair value changes are included in the income statement in the period when hedged cash flows affect net income.

Other restricted reserves

These reserves consist of retained earnings based on the Articles of Association or rules which describe their purpose.

Reserve for Invested non-restricted equity

Capital raised through the rights offering in 2009 was entered in the reserve for invested non-restricted equity.

Other non-restricted reserves

These reserves consist of retained earnings based on decisions by the General Meeting.

Retained earnings

Retained earnings also contain untaxed reserves (voluntary provisions and accelerated depreciation) included in the separate financial statements of Group companies, and the equalisation provision of insurance companies, which have been recognised in retained earnings less deferred tax in the IFRS financial statements.

Notes to the consolidated financial statements

NOTES TO RISK MANAGEMENT

Note 2 covers risk management and capital adequacy management principles. Information on risk exposure by Banking and the Group Functions can be found in Notes 38–56, capital adequacy disclosures under Pillar III in Notes 57–69 and risk exposure by Non-life Insurance in Notes 70–81.

Risk exposure by Banking and the Group Functions

The classification by Statistics Finland is used in these notes, deviating partly from the classification used in the risk exposure section presented in the Report by the Board of Directors.

Note 38. Assets and impairment losses recognised on them for the financial year

EUR million	31 Dec. 2010		31 Dec. 2009	
	Balance sheet value	Impairment losses	Balance sheet value	Impairment losses
Cash and cash equivalents	1,501		3,102	
Receivables from credit institutions	8,033		7,630	
Financial assets at fair value through profit or loss				
Notes and bonds	422		1,279	
Shares and participations	0		0	
Derivative contracts				
Held for trading	1,864		1,385	
Hedging	98		59	
Loans and other receivables				
Loans granted	9,677	187	8,526	98
Bonds and notes	302	21	398	48
Finance lease receivables	624		622	
Guarantee receivables	0	0	0	0
Other receivables	2,038		1,924	
Available-for-sale financial assets				
Notes and bonds	5,304		4,225	
Shares and participations	82		87	
Held-to-maturity financial assets				
Notes and bonds	928		1,086	
Off-balance-sheet commitments				
Bank guarantees	1,059		1,226	
Total	31,932	208	31,547	146

Notes to the consolidated financial statements

NOTES TO RISK MANAGEMENT

Note 39. Impairments by risk type

EUR million	31 Dec.	
	2010	31 Dec. 2009
Based on credit risk	208	146
Total	208	146

Notes to the consolidated financial statements

NOTES TO RISK MANAGEMENT

Note 40. Exposure

31 Dec. 2010, EUR million	Finland			Other countries		
	Balance sheet value	Impairments	Accrued interest	Balance sheet value	Impairments	Accrued interest
Assets						
Receivables from credit institutions	6,908		8	1,125		11
Receivables from customers	11,058	176	31	750	32	2
Finance leases	624			0		
Notes and bonds	974		12	5,679		79
Other	81			323		
Total	19,645	176	51	7,878	32	91
Off-balance-sheet commitments						
Unused standby credit facilities	3,794			118		
Guarantees and letters of credit	2,286			312		
Derivative contracts	389			1,547		
Other	140			323		
Total	6,609			2,299		
Total exposure	26,254	176	51	10,177	32	91

31 Dec. 2009, EUR million	Finland			Other countries		
	Balance sheet value	Impairments	Accrued interest	Balance sheet value	Impairments	Accrued interest
Assets						
Receivables from credit institutions	5,685		11	1,945		20
Receivables from customers	10,026	81	33	675	66	2
Finance leases	622			0		
Notes and bonds	1,460		12	5,130		72
Other	60			340		
Total	17,854	81	56	8,090	66	94
Off-balance-sheet commitments						
Unused standby credit facilities	4,034			107		
Guarantees and letters of credit	2,378			298		
Derivative contracts	325			1,172		
Other	105			342		
Total	6,841			1,920		
Total exposure	24,695	81	56	10,009	66	94

The tables show the recognised positive market value of derivative contracts.

Notes to the consolidated financial statements

NOTES TO RISK MANAGEMENT

Note 41. Exposure by sector

31 Dec. 2010, EUR million	Balance sheet values		Off-balance-sheet		Total
	Finnish	Foreign	Finnish	Foreign	
Non-banking corporate sector	9,773	516	5,905	314	16,509
Financial institutions and insurance companies	7,494	6,632	333	1,983	16,442
Households	720	23	206	0	948
Non-profit organisations	222	4	16		242
Public sector entities	1,488	794	149	1	2,432
Total	19,696	7,970	6,609	2,299	36,573

31 Dec. 2009, EUR million	Balance sheet values		Off-balance-sheet		Total
	Finnish	Foreign	Finnish	Foreign	
Non-banking corporate sector	9,161	550	6,344	341	16,395
Financial institutions and insurance companies	7,053	7,106	230	1,578	15,967
Households	718	11	235	1	965
Non-profit organisations	206		7		213
Public sector entities	772	516	25	0	1,313
Total	17,909	8,183	6,841	1,920	34,853

The balance sheet values are accounting balances including impairments and accrued interest income.

Notes to the consolidated financial statements

NOTES TO RISK MANAGEMENT

Note 42. Receivables from credit institutions and customers, and doubtful receivables

31 Dec. 2010, EUR million	Not impaired (gross)	Impaired (gross)	Total	Impair- ments	Balance sheet value
Receivables from credit institutions and customers					
Receivables from credit institutions	8,033		8,033		8,033
Receivables from customers, of which	11,695	322	12,017	208	11,809
Bank guarantee receivables	0	0	0	0	0
Finance leases	624		624		624
Overdrafts	6		6		6
Total	20,358	322	20,679	208	20,471
Receivables from credit institutions and customers by sector					
Non-banking corporate sector	10,043	257	10,301	181	10,119
Financial institutions and insurance companies	8,438	64	8,501	21	8,480
Households	747	0	748	6	742
Non-profit organisations	225	0	225	0	225
Public sector entities	905		905		905
Total	20,358	322	20,679	208	20,471

31 Dec. 2009, EUR million	Not impaired (gross)	Impaired (gross)	Total	Impair- ments	Balance sheet value
Receivables from credit institutions and customers					
Receivables from credit institutions	7,630		7,630		7,630
Receivables from customers, of which	10,646	202	10,848	146	10,702
Bank guarantee receivables	0	0	0	0	0
Finance leases	622		622		622
Overdrafts	4		4		4
Total	18,902	202	19,104	146	18,957
Receivables from credit institutions and customers by sector					
Non-banking corporate sector	9,575	112	9,687	92	9,595
Financial institutions and insurance companies	7,974	89	8,063	48	8,015
Households	734	1	735	6	729
Non-profit organisations	205	0	205	0	205
Public sector entities	413		413		413
Total	18,902	202	19,104	146	18,957

Collectively assessed impairments on receivables are allocated to Non-banking Corporate Sector. Their amount came to EUR 12 million (14).

31 Dec. 2010, EUR million	Not impaired (gross)	Impaired (gross)	Total	Arrears	Impair- ments
Doubtful receivables					
Receivables from customers, of which	44	322	365	17	208
Bank guarantee receivables	0	0	0		0
Finance leases	0		0	0	
Overdrafts	6		6		

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Total	50	322	371	17	208
Doubtful receivables by sector					
Non-banking corporate sector	39	257	296	13	181
Financial institutions and insurance companies	0	64	64		21
Households	11	0	11	4	6
Non-profit organisations	0	0	0	0	0
Public sector entities	0		0	0	
Total	50	322	371	17	208

	Not impaired (gross)	Impaired (gross)	Total	Arrears	Impair- ments
31 Dec. 2009, EUR million					
Doubtful receivables					
Receivables from credit institutions				0	
Receivables from customers, of which	56	202	258	103	146
Bank guarantee receivables	0	0	0		0
Finance leases	1		1	0	
Overdrafts	4		4		
Total	60	202	262	104	146
Doubtful receivables by sector					
Non-banking corporate sector	45	112	157	98	92
Financial institutions and insurance companies		89	89	0	48
Households	15	1	16	5	6
Non-profit organisations	0	0	0	0	0
Public sector entities	0		0	0	
Total	60	202	262	104	146

	Total portfolio	Impair- ments	Balance sheet value
31 Dec. 2010, EUR million			
Doubtful receivables			
Non-performing	57	26	31
Zero-interest	7	6	0
Underpriced	1	1	
Other	307	174	132

	Total portfolio	Impair- ments	Balance sheet value
31 Dec. 2009, EUR million			
Doubtful receivables			
Non-performing	76	32	43
Zero-interest	6	6	0
Underpriced	1	1	
Other	179	107	72

Doubtful receivables include non-performing, zero-interest and under-priced receivables as well as other doubtful receivables. Interest on or principal of non-performing receivables has been due for payment and outstanding for three months. Zero-interest receivables have been agreed to carry zero interest for the purpose of securing customer payment capacity. Under-priced receivables have been priced below market prices to secure customer payment capacity. Other doubtful receivables include those that are subject to impairment but cannot be classified under any of the above categories, and overdrafts and guarantee receivables. "Other" also includes receivables assessed collectively for impairment. Arrears include unpaid interest and unpaid principal.

Past due but not impaired financial assets by maturity

Days

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31 Dec. 2010, EUR million	30–90	Over 90–180	Over 180
Past due but not impaired loans and receivables	41	3	

	Days		
31 Dec. 2009, EUR million	30–90	Over 90–180	Over 180
Past due but not impaired loans and receivables	138	5	

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Notes to the consolidated financial statements

NOTES TO RISK MANAGEMENT

Note 43. Credit losses and impairments

Credit losses and impairments*

EUR million	2004	2005	2006	2007	2008	2009	2010
Credit losses and impairments	4	8	7	11	37	155	156
Reversals	-3	-5	-6	-10	-9	-26	-52
Net credit losses and impairments	1	3	1	1	28	129	104

* The share of Retail Banking sold in 2005 is eliminated from the 2004–05 figures.

A total of EUR 156 million (155) in new credit and guarantee losses and impairments were recognised for the financial year. The combined credit loss reversals and decreases in impairments totalled EUR 52 million (26). The net impact of credit and guarantee losses and impairments on profit came to EUR 104 million (129).

In 2010, credit and guarantee losses and impairments accounted for 0.73% (0.94) of the credit and guarantee portfolio.

Notes to the consolidated financial statements

NOTES TO RISK MANAGEMENT

Note 44. Corporate exposure by sector

Net exposure, 31 Dec. 2010	Balance sheet, EUR million	Off-balance- sheet, EUR million	Total, EUR million	Percentage distribution
Renting and operation of residential real estate	1,671	230	1,901	11.5
Operating of other real estate	1,451	116	1,566	9.5
Manufacture of machinery and equipment (incl. maintenance)	443	1,098	1,540	9.3
Trade	1,108	376	1,485	9.0
Construction	520	707	1,227	7.4
Transportation and storage	683	422	1,106	6.7
Bying and selling of own real estate	845	153	998	6.0
Forest industry	531	421	952	5.8
Manufacture of chemicals and chemical products	302	619	922	5.6
Services	523	297	820	5.0
Metal industry	258	517	774	4.7
Food industry	427	196	624	3.8
Energy	213	386	599	3.6
Information and communication	192	322	514	3.1
Other manufacturing	226	196	423	2.6
Financial and insurance activities	353	40	392	2.4
Agriculture, forestry and fishing	297	37	334	2.0
Mining and quarrying	146	43	189	1.1
Water supply and waste management	71	44	115	0.7
Other sectors	28	1	29	0.2
Public administration and defence (incl. compulsory social security)	0		0	0.0
Total	10,289	6,220	16,509	100.0

Net exposure, 31 Dec. 2009	Balance sheet, EUR million	Off-balance- sheet, EUR million	Total, EUR million	Percentage distribution
Renting and operation of residential real estate	1,629	201	1,830	11.2
Trade	1,030	637	1,666	10.2
Manufacture of machinery and equipment (incl. maintenance)	426	1,109	1,535	9.4
Construction	504	683	1,188	7.2
Operating of other real estate	958	169	1,128	6.9
Bying and selling of own real estate	884	182	1,066	6.5
Transportation and storage	600	441	1,041	6.4
Forest industry	607	388	995	6.1
Manufacture of chemicals and chemical products	265	609	875	5.3
Metal industry	339	526	865	5.3
Services	523	327	850	5.2
Energy	292	410	702	4.3
Food industry	377	286	663	4.0
Other manufacturing	266	235	501	3.1
Information and communication	193	298	491	3.0
Financial and insurance activities	293	89	383	2.3
Agriculture, forestry and fishing	278	35	312	1.9

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Mining and quarrying	123	11	134	0.8
Water supply and waste management	71	34	105	0.6
Other sectors	53	14	67	0.4
Total	9,711	6,684	16,395	100.0

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NOTES TO RISK MANAGEMENT

Note 45. Corporate exposure by rating category

Rating	31 Dec. 2010		31 Dec. 2009	
	Net exposure, EUR million	%	Net exposure, EUR million	%
1.0–2.0	1,002	6.1	829	5.1
2.5–5.0	9,056	54.9	8,656	52.8
5.5–7.0	3,862	23.4	3,954	24.1
7.5–8.5	1,773	10.7	2,126	13.0
9.0–10.0	283	1.7	333	2.0
11.0–12.0	352	2.1	353	2.2
Non-rated	180	1.1	144	0.9
Total	16,509	100.0	16,395	100.0

Information on probability of default related to rating categories can be found in Note 67.

Notes to the consolidated financial statements

NOTES TO RISK MANAGEMENT

Note 46. Corporate exposure by the amount of customer's exposure

Amount of net exposure, 31 Dec. 2010, EUR million	Finland	Other countries	Total	%
0–1	899	100	999	6.0
1–10	2,310	203	2,513	15.2
10–50	4,258	475	4,733	28.7
50–100	3,298	53	3,351	20.3
Over 100	4,914		4,914	29.8
Total	15,679	830	16,509	100.0

Amount of net exposure, 31 Dec. 2009, EUR million	Finland	Other countries	Total	%
0–1	913	104	1,017	6.2
1–10	2,292	157	2,449	14.9
10–50	4,088	569	4,657	28.4
50–100	3,005	61	3,066	18.7
Over 100	5,206		5,206	31.8
Total	15,504	891	16,395	100.0

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NOTES TO RISK MANAGEMENT

Note 47. Liabilities of financial institutions and insurance companies by rating category

Credit rating, consistent with Moody's*	31 Dec. 2010		31 Dec. 2009	
	Net liabilities, EUR million	%	Net liabilities, EUR million	%
Aaa	715	4.4	4,329	27.3
Aa1–Aa3	10,842	66.5	9,821	62.0
A1–A3	3,809	23.4	1,258	7.9
Baa1–Baa3	470	2.9	181	1.1
Ba1–Ba3	237	1.5	89	0.6
B1–B3	142	0.9	7	0.0
Caa1 or lower	26	0.2	6	0.0
Non-rated	59	0.4	149	0.9
Total	16,300	100.0	15,840	100.0

* Liabilities of OP-Pohjola Group entities are classified as Aa1–Aa3 , on the basis of Pohjola Bank Plc's external rating and joint liability. Adopted during 2009, OP-Pohjola Group's internal rating method has been used as the primary rating method applied to credit institutions as counterparties.

Notes to the consolidated financial statements

NOTES TO RISK MANAGEMENT

Note 48. Secondary country risk by country risk category, excl. Finland

Country risk	Moody's equivalent	31 Dec. 2010		31 Dec. 2009	
		Net exposure, EUR million	%	Net exposure, EUR million	%
Category 1	Aaa	8,039	79.5	8,879	89.1
Category 2	Aa1–A3	1,304	12.9	804	8.1
Category 3	Baa1–Baa3	659	6.5	225	2.3
Category 4	Ba1–B3	103	1.0	52	0.5
Category 5	Caa1–C	4	0.0	5	0.0
Total		10,109	100.0	9,964	100.0

Secondary country (excl. Finland) risk takes account of the transfer of contract-related, real risks to another country through agreements or otherwise. The risk may transfer on the basis of an agreement, or a guarantee in most cases, or otherwise, such as transferring receivables from a company's branch office to the country where the company is headquartered.

Notes to the consolidated financial statements

NOTES TO RISK MANAGEMENT

Note 49. Collateral received by type of collateral

EUR million	31 Dec. 2010	%	31 Dec. 2009	%
Public-sector guarantees	2,300	34.9	4,252	51.9
Property or lease mortgage on office or industrial property	1,432	21.7	1,113	13.6
Object of financing as collateral	1,402	21.2	1,419	17.3
Shares and participations, other	491	7.4	297	3.6
Shares in housing corporations, and housing associations and property companies in residential use	263	4.0	257	3.1
Business mortgage	262	4.0	325	4.0
Property or lease mortgage on residential property	196	3.0	270	3.3
Other collateral	114	1.7	134	1.6
Factoring	85	1.3	65	0.8
Bank guarantee	54	0.8	58	0.7
Total	6,598	100.0	8,191	100.0

Received collateral by type of collateral has been calculated on the basis of the values of collateral held by the bank allocated to liabilities. The collateral's fair value is used as the basis for calculating the collateral value which is derived from the fair value on the basis of valuation percentages, based on conservative estimates, by type of collateral.

Notes to the consolidated financial statements

NOTES TO RISK MANAGEMENT

Note 50. Funding structure

EUR million	31 Dec. 2010	%	31 Dec. 2009	%
Liabilities to credit institutions	4,960	15.8	4,984	15.9
Financial liabilities at fair value through profit or loss	0	0.0	71	0.2
Liabilities to customers				
Deposits	1,667	5.3	1,546	4.9
Other	2,564	8.2	2,587	8.3
Debt securities issued to the public				
Certificates of deposit and ECPs	9,563	30.5	10,519	33.6
Bonds	7,122	22.7	6,776	21.6
Other liabilities	1,816	5.8	1,291	4.1
Subordinated liabilities	1,255	4.0	1,300	4.1
Shareholders' equity	2,377	7.6	2,267	7.2
Total	31,324	100.0	31,341	100.0

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NOTES TO RISK MANAGEMENT

Note 51. Maturity of assets and liabilities by residual term to maturity

31 Dec. 2010, EUR million	Less than 3 months	3–12 months	1–5 years	5–10 years	More than 10 years	Total
Liquid assets	1,501					1,501
Financial assets at fair value through profit or loss						
Notes and bonds	41	62	136	181	2	422
Receivables from credit institutions	4,165	1,110	1,534	1,201	22	8,033
Receivables from customers	2,364	1,565	5,439	1,817	1,248	12,433
Available-for-sale financial assets						
Notes and bonds	8	30	3,662	1,603		5,304
Held-to-maturity financial assets						
Notes and bonds	45	145	712	25		928
Total assets	8,124	2,912	11,483	4,827	1,273	28,620
Liabilities to credit institutions	3,389	439	696	437		4,960
Financial liabilities at fair value through profit or loss	0					0
Liabilities to customers	3,372	175	105	382	197	4,231
Debt securities issued to the public	7,533	3,770	4,416	966		16,685
Subordinated liabilities	155	237	773		90	1,255
Total liabilities	14,449	4,621	5,990	1,785	287	27,131
Guarantees	0	31	352	101	641	1,125
Other guarantee liabilities	265	378	353	27	311	1,333
Loan commitments	3,912					3,912
Commitments related to short-term trade transactions	34	94	11			140
Other	325	0	2	136		463
Total off-balance-sheet commitments	4,536	503	717	263	953	6,972
31 Dec. 2009, EUR million	Less than 3 months	3–12 months	1–5 years	5–10 years	More than 10 years	Total
Liquid assets	3,102					3,102
Financial assets at fair value through profit or loss						
Notes and bonds	107	685	384	72	32	1,279
Receivables from credit institutions	3,250	1,308	1,997	1,053	22	7,630
Receivables from customers	1,870	1,433	4,858	1,959	1,204	11,323
Available-for-sale financial assets						
Notes and bonds	5	391	3,470	284	75	4,225
Held-to-maturity financial assets						
Notes and bonds	54	79	824	128		1,086
Total assets	8,387	3,896	11,532	3,495	1,334	28,645
Liabilities to credit institutions	2,869	1,060	657	397		4,984
Financial liabilities at fair value through profit or loss	71					71
Liabilities to customers	3,597	22	60	287	167	4,133
Debt securities issued to the public	8,881	4,252	3,981	181		17,295

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Subordinated liabilities	5	76	1,073	60	86	1,300
Total liabilities	15,423	5,410	5,771	925	253	27,783
Guarantees	6	4	334	82	869	1,296
Other guarantee liabilities	177	338	385	34	349	1,283
Loan commitments	4,140					4,140
Commitments related to short-term trade transactions	50	43	5		0	98
Other	349	0	1	97		447
Total off-balance-sheet commitments	4,722	386	724	213	1,218	7,264

Financial assets at fair value through profit or loss consist of notes and bonds which may be sold anytime. Notes and bonds included in available-for-sale financial assets may be sold whenever necessary. Notes and bonds included in financial assets at fair value through profit or loss and those included in available-for-sale financial assets are, however, presented within the sub-category determined on the basis of the remaining term to maturity in the table. Nominal amounts of debt are presented under categories by maturity. Financial liabilities held for trading are presented under the shortest maturity category. In its financial risk management, Pohjola Group uses forward exchange contracts and interest-rate and currency swaps. Since their net effect on the financial risk in euro countervalue is insignificant, they are not specifically presented.

Debt repayable on demand, included in the shortest maturity category, totalled EUR 2.4 billion (2.3).

Notes to the consolidated financial statements

NOTES TO RISK MANAGEMENT

Note 52. Liquidity portfolio

In order to secure OP-Pohjola Group's liquidity, Pohjola Bank plc maintains a liquidity portfolio.

EUR million	31 Dec.	
	2010	31 Dec. 2009
Cash and cash equivalents	1,500	2,600
Short-term notes and bonds	66	560
Long-term notes and bonds		
Financial assets held for trading	457	856
Financial assets at fair value through profit or loss	12	55
Available-for-sale financial assets	5,296	4,215
Held-to-maturity financial assets	928	1,086
Loans and other receivables	1,208	2,291
Total liquidity portfolio	9,466	11,663

Financial assets included in liquidity portfolio by maturity and credit rating on 31 December 2010, EUR million

Year(s)	0–1	1–3	3–5	5–7	7–10	10–	Proportion,	
							Total	%
Aaa	1,654	696	1,730	858	811	2	5,752	60.8
Aa1–Aa3	87	978	603	120	215	0	2,003	21.2
A1–A3	96	755	100	27		0	979	10.3
Baa1–Baa3	106	176	51	5	0		337	3.6
Ba1 or lower		30	35	29			94	1.0
Internally rated	62	99	99	40			300	3.2
Total	2,006	2,735	2,618	1,079	1,026	2	9,466	100.0

The average remaining maturity of the liquidity portfolio is 4 years.

Based on OP-Pohjola Group's internal rating, Internally rated financial assets consist mainly of notes and bonds issued by Finnish companies and institutions.

Notes to the consolidated financial statements

NOTES TO RISK MANAGEMENT

Note 53. Maturities of assets and liabilities by maturity or repricing

31 Dec. 2010, EUR million	1 month or less	>1–3 months	>3–12 months	>1–2 years	>2–5 years	>5 years	Total
Cash and cash equivalents	1,501						1,501
Financial assets at fair value through profit or loss							
Notes and bonds	42	35	61	34	66	183	422
Receivables from credit institutions	4,228	1,874	1,152	262	146	371	8,033
Receivables from customers	5,753	3,052	2,197	273	468	689	12,433
Available-for-sale financial assets							
Notes and bonds	300	577		500	2,323	1,603	5,304
Held-to-maturity financial assets							
Notes and bonds	447	365	115				928
Total assets	12,272	5,903	3,526	1,069	3,004	2,846	28,620
Liabilities to credit institutions	2,936	1,118	399	121	266	120	4,960
Financial liabilities at fair value through profit or loss	0						0
Liabilities to customers	3,248	769	174			40	4,231
Debt securities issued to the public	2,629	8,124	2,378	287	2,301	966	16,685
Subordinated liabilities		591	151	266	246		1,255
Total liabilities	8,813	10,602	3,102	674	2,814	1,127	27,131

Debt repayable on demand totalled EUR 2.4 billion, consisting mainly of public deposits.

31 Dec. 2009, EUR million	1 month or less	>1–3 months	>3–12 months	>1–2 years	>2–5 years	>5 years	Total
Cash and cash equivalents	3,102						3,102
Financial assets at fair value through profit or loss							
Notes and bonds	90	172	606	67	254	92	1,279
Receivables from credit institutions	2,985	2,496	1,424	238	263	223	7,630
Receivables from customers	4,449	2,567	2,629	424	679	574	11,323
Available-for-sale financial assets							
Notes and bonds	103	371	336	237	2,893	284	4,225
Held-to-maturity financial assets							
Notes and bonds	483	458	30	115			1,086
Total assets	11,213	6,064	5,025	1,082	4,089	1,172	28,645
Liabilities to credit institutions	3,177	456	1,058	45	148	101	4,984
Financial liabilities at fair value through profit or loss	71						71
Liabilities to customers	3,593	517	21	0		2	4,133
Debt securities issued to the public	2,999	9,605	2,862	118	1,538	172	17,295
Subordinated liabilities		574	222	7	497		1,300
Total liabilities	9,840	11,152	4,163	170	2,184	275	27,783

Debt repayable on demand totalled EUR 2.3 billion, consisting mainly of public deposits.

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NOTES TO RISK MANAGEMENT

Note 54. Sensitivity analysis of market risk

On 31 December 2010, market risks accounted for 3.5% (3) of the risk-weighted assets.

EUR million	Risk parameter	Change	31 Dec. 2010		31 Dec. 2009	
			Effect on results	Effect on share-holders' equity	Effect on results	Effect on share-holders' equity
Interest-rate risk	Interest rate	1 percentage point	10	0	7	3
Currency risk	Market value	20 percentage points	1		1	
Volatility risk						
Interest rate volatility	Volatility	20 percentage points	2		5	
Currency volatility	Volatility	10 percentage points	0			
Credit risk premium*	Credit spread	0.5 percentage point	12	121	12	68
Price risk						
Equity portfolio	Market value	20 percentage points		2		2
Private equity funds	Market value	20 percentage points		6		6
Real estate 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 buffer.

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NOTES TO RISK MANAGEMENT

Note 55. Equity risk

On 31 December 2010, the market value of equity and venture capital funds totalled EUR 38 million (41), of which the equity portfolio represented EUR 8 million (9) and the venture capital funds including their investment commitments EUR 29 million (32). The three proportionally largest sectors in the equity portfolio were as follows: basic industry 27% (24), industrial products and services 27% (21) and information technology 23% (22).

Investments in venture capital funds totalled EUR 16 million (15) and binding unexecuted investment commitments EUR 14 million (17).

Notes to the consolidated financial statements

NOTES TO RISK MANAGEMENT

Note 56. Real estate risk

On 31 December 2010, capital invested in property holdings amounted to EUR 29 million (20), with properties in own use representing EUR 3 million (2). In addition, holdings in property investment companies totalled EUR 0 million (2).

In 2010, the Group obtained an external appraisal's estimates of the fair value of property holdings, on the basis of which their combined fair value corresponds to capital tied to the property holdings. It is estimated that real estate risks are low.

Note 21 and Note 25 (Property in own use) provide detailed information on changes in investment property during the financial year.

Notes to the consolidated financial statements

NOTES TO RISK MANAGEMENT

Pillar III disclosures

Notes 57–69 disclose information on the capital adequacy of consolidation group of the amalgamation of cooperative banks, as specified in Standard 4.5 (Supervisory Disclosure of capital adequacy information) by the Finnish Financial Supervisory Authority (Pillar III disclosures). Given that this information is based on the consolidated capital adequacy, it is not directly comparable with other information disclosed on Pohjola Group.

The consolidation group that forms the basis of calculating consolidated capital adequacy comprises Pohjola Group companies excluding insurance companies and their subsidiaries.

Note 57. Capital base

EUR million	31 Dec.	
	2010	31 Dec. 2009
Tier 1 capital		
Pohjola Group's equity capital	2,377	2,267
Elimination of insurance companies' effect in equity capital (equity capital and Group eliminations)	93	92
Fair value reserve, transfer to Tier 2	36	-18
Non-controlling interest		0
Tier 1 capital before deductions and hybrid capital	2,505	2,341
Hybrid capital	274	274
Intangible assets	-165	-145
Excess funding of pension liability and change in fair value of investment property	-30	-31
Dividend distribution proposed by Board of Directors	-126	-107
Investments in insurance companies and financial institutions 50%	-705	-715
Impairments – shortfall of expected losses 50%	-61	-76
Total Tier 1 capital for calculating capital adequacy	1,692	1,541
Tier 2 capital		
Fair value reserve	-29	18
Perpetual bonds	299	299
Debenture loans	608	687
Investments in insurance companies and financial institutions 50%	-705	-715
Impairments – shortfall of expected losses 50%	-61	-76
Total Tier 2 capital for calculating capital adequacy	111	212
Total capital base	1,803	1,753
Deductions from Tier 1 and 2 capital		
Investments in insurance companies and financial institutions	-1,410	-1,430
Impairments – shortfall of expected losses	-122	-153
Total	-1,531	-1,583

Investments in insurance companies and financial institutions have been deducted from the capital base. Pohjola has also deducted as investments in financial institutions over 10% investments in private equity funds, excluding such funds managed by Vaaka Partners Ltd (formerly Pohjola Capital Partners Ltd), based on special permission given by the Financial Supervisory Authority.

Hybrid instruments are included in the capital base to the amount based on the exchange rate quoted on the issue date.

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NOTES TO RISK MANAGEMENT

Note 58. Minimum capital requirement

EUR million	31 Dec. 2010		31 Dec. 2009	
	Capital requirement	Risk-weighted assets*	Capital requirement	Risk-weighted assets*
Credit and counterparty risk	985	12,314	957	11,963
Central government and central banks, Standardised Approach	7	83	0	2
Credit institutions, Standardised Approach	130	1,619	90	1,129
Corporate	716	8,950	760	9,502
Under Foundation Internal Risk-Based Approach (FIRB)	694	8,672	743	9,286
Under Standardised Approach	22	278	17	216
Retail, Standardised Approach	76	950	77	959
Secured by real estates	0	0	0	0
Other	76	950	77	959
Equity investments	13	159	14	174
PD/LGD method	5	58	4	46
Other	5	58	4	46
Basic Indicator Approach	8	101	10	129
Private equity investments	4	51	5	60
Listed equity investments	2	24	2	27
Other	2	26	3	41
Securitisation positions	39	485	10	124
Other	5	68	6	73
Market risks	37	467	36	448
Trading book	35	443	36	448
Position risk	35	443	36	448
All activities	2	24	0	1
Commodity risk	2	24	0	1
Operational risk	59	739	49	613
Total	1,082	13,520	1,042	13,024

* Risk-weighted assets = Capital requirement / 0.08

Capital requirement for counterparty risk amounts to EUR 62 million (44).

In the fourth quarter of 2010, Pohjola switched from the Basic Indicator Approach to the Standardised Approach in calculating the capital adequacy requirement for operational risks. The change had no major effect on the capital adequacy requirement for operational risks.

It is possible to use various methods to measure capital adequacy requirement for equity investments. In PD/LGD method, investments' risk-weighted amount is calculated using risk parameters of the probability of default (PD) and loss given default (LGD). According to the capital adequacy framework, minimum values have been set for these parameters. According to the Basic Indicator Approach, investments' risk-weighted amount derives from multiplying each investment by the risk-weight determined by the type of investment.

Notes to the consolidated financial statements

NOTES TO RISK MANAGEMENT

Note 59. Capital ratios

Capital adequacy, EUR million	31 Dec.	
	2010	31 Dec. 2009
Total regulatory capital	1,803	1,753
Total minimum capital requirement	1,082	1,042
Capital excess (+) / shortfall (-)	722	711
Tier 1 ratio, %	12.5	11.8
Total capital ratio, %	13.3	13.5

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Notes to the consolidated financial statements

NOTES TO RISK MANAGEMENT

Note 60. Total exposures by exposure class

31 Dec. 2010, EUR million	On-balance- sheet exposures	Off-balance- sheet exposures	Derivatives exposures	Securiti- sation exposures	Gross exposures	Average exposure during the year
Central government and central banks	3,602	11	92		3,706	4,013
Credit institutions	13,186	6,733	2,514		22,432	21,822
Corporate	10,527	7,696	453		18,677	18,954
FIRB Approach	10,226	7,696	453		18,376	18,693
Standardised Approach	301				301	262
Retail	1,203	245	0		1,449	1,451
Corporate	460	32	0		492	521
Private	743	213	0		956	930
Equity investments	85	14			98	99
Securitisation positions				742	742	731
Other	71				71	72
Total	28,673	14,699	3,060	742	47,175	47,143

31 Dec. 2009, EUR million	On-balance- sheet exposures	Off-balance- sheet exposures	Derivatives exposures	Securiti- sation exposures	Gross exposures	Average exposure during the year
Central government and central banks	4,292	14	14		4,320	3,612
Credit institutions	11,835	7,551	1,827		21,213	19,512
Corporate	10,149	8,689	394		19,232	18,695
FIRB Approach	9,927	8,689	394		19,009	18,456
Standardised Approach	222				222	239
Retail	1,196	258	1		1,454	1,502
Corporate	530	19	1		550	576
Private	666	238	0		904	926
Equity investments	83	16			100	100
Securitisation positions				720	720	783
Other	73				73	80
Total	27,628	16,528	2,235	720	47,111	44,285

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NOTES TO RISK MANAGEMENT

Note 61. Exposure split by geographic region and exposure class

31 Dec. 2010, EUR million	Central government and central banks	Credit institutions	Corporate	Retail	Equity invest- ments	Securi- tation positions	Other
Finland	3,117	14,005	17,539	1,443	91		71
Other Nordic countries		1,633	362	5	0		
Baltic States	5	3	41	0			0
Rest of EU	583	6,248	612	0	7	686	0
Rest of Europe		220	25	0		4	
USA		188	21				
Asia		121	48	0			
Other	1	15	30	0		53	
Total exposure	3,706	22,432	18,677	1,449	98	742	71

31 Dec. 2009, EUR million	Central government and central banks	Credit institutions	Corporate	Retail	Equity invest- ments	Securi- tation positions	Other
Finland	4,012	13,611	17,217	1,225	75		73
Other Nordic countries	94	1,529	661	0	1		0
Baltic States		4	95	0	15		0
Rest of EU	212	5,691	1,128	0	8	655	0
Rest of Europe		97	30	0		4	
USA		195	48	0			
Asia		73	47	0			
Other	2	14	6	228		60	
Total exposure	4,320	21,213	19,232	1,454	100	720	73

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Note 62. Exposure split by residual maturity and exposure class

31 Dec. 2010, EUR million	< 3 months	3–12 months	1–5 yrs	5–10 yrs	> 10 yrs	Total
Central government and central banks	2,135	69	612	792	99	3,706
Credit institutions	7,648	5,426	6,376	2,713	270	22,432
Corporate	4,136	2,518	7,679	2,350	1,994	18,677
FIRB Approach	4,070	2,477	7,555	2,312	1,962	18,376
Standardised Approach	67	41	124	38	32	301
Retail	395	56	942	41	15	1,449
Corporate	45	25	381	26	15	492
Private	350	30	561	15	0	956
Equity investments						98
Securitisation positions		6	636	100		742
Other	41	14	16			71
Total	14,354	8,088	16,260	5,996	2,378	47,175

31 Dec. 2009, EUR million	< 3 months	3–12 months	1–5 yrs	5–10 yrs	> 10 yrs	Total
Central government and central banks	3,209	8	854	169	81	4,320
Credit institutions	7,601	5,862	6,231	1,337	183	21,213
Corporate	5,099	2,564	7,157	2,439	1,973	19,232
FIRB Approach	5,040	2,534	7,074	2,410	1,950	19,009
Standardised Approach	59	30	83	28	23	222
Retail	405	62	930	39	19	1,454
Corporate	37	30	439	25	19	550
Private	368	32	490	14	0	904
Equity investments						100
Securitisation positions	2	70	465	182		720
Other	29	11	32	0		73
Total	16,345	8,576	15,669	4,166	2,255	47,111

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NOTES TO RISK MANAGEMENT

Note 63. Corporate exposures by sector

31 Dec. 2010, EUR million	Exposure	RWA	Capital requirement
Manufacture of machinery and equipment (incl. maintenance)	2,076	802	64
Renting and operation of residential real estate	1,981	450	36
Trade	1,801	763	61
Construction	1,426	819	66
Operating of other real estate	1,423	528	42
Transportation and storage	1,139	932	75
Forest industry	1,059	880	70
Bying and selling of own real estate	1,015	591	47
Services	982	658	53
Manufacture of chemicals and chemical products	966	412	33
Financial and insurance activities	908	314	25
Energy	868	122	10
Metal industry	856	460	37
Food industry	713	335	27
Other manufacturing	535	426	34
Information and communication	521	188	15
Agriculture, forestry and fishing	330	206	16
Other sectors	260	214	17
Mining and quarrying	189	144	11
Water supply and waste management	122	36	3
Total	19,169	9,280	742

31 Dec. 2009, EUR million	Exposure	RWA	Capital requirement
Trade	2,269	1,054	84
Manufacture of machinery and equipment (incl. maintenance)	2,173	625	50
Renting and operation of residential real estate	1,912	438	35
Financial and insurance activities	1,542	520	42
Construction	1,407	743	59
Transportation and storage	1,111	826	66
Bying and selling of own real estate	1,031	611	49
Services	1,020	635	51
Forest industry	1,006	1,342	107
Manufacture of chemicals and chemical products	954	474	38
Operating of other real estate	951	415	33
Metal industry	887	482	39
Energy	846	192	15
Food industry	752	353	28
Other manufacturing	576	462	37
Information and communication	573	178	14
Agriculture, forestry and fishing	337	217	17
Other sectors	189	162	13
Mining and quarrying	138	124	10
Water supply and waste management	108	33	3
Total	19,782	9,886	791

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Corporate exposures by sector also include corporate customers with retail exposures. This standard industrial classification is based on the latest TOL 2008 classification issued by Statistics Finland.

Notes to the consolidated financial statements

NOTES TO RISK MANAGEMENT

Note 64. Exposures (credit risk under SA) by risk weight before and after credit risk mitigation

Risk weight %, 31 Dec. 2010, EUR million	Exposure before credit risk mitigation	Exposure after credit risk mitigation	RWA
0	17,180	17,075	
10	2,205	2,205	220
20	6,229	5,829	1,134
35	1	1	0
50	130	100	91
75	1,430	1,397	923
100	700	575	538
150	22	22	31
Total	27,895	27,204	2,938

Risk weight %, 31 Dec. 2009, EUR million	Exposure before credit risk mitigation	Exposure after credit risk mitigation	RWA
0	17,588	17,588	
10	993	993	99
20	6,794	4,891	939
35	0	0	0
50	45	45	10
75	1,432	1,397	926
100	346	335	305
150	23	23	34
Total	27,221	25,271	2,313

In its capital adequacy measurement for credit risk under the Standardised Approach to determine the exposure's risk weight, Pohjola Group applies credit ratings by Moody's Investors Service or Fitch Ratings to receivables from central governments and central banks and corporates. External credit assessment determines the receivable's credit rating category. In the capital adequacy requirement for receivables, the risk weight is determined by the credit rating category.

The risk weight of international development banks' receivables may also be determined on the basis of other than credit rating based on external credit assessment. If the risk weight is affected by external credit assessment, credit ratings issued by the aforementioned rating agencies will also apply to the risk weighting of international development banks' receivables in capital adequacy measurement.

For a receivable in capital adequacy measurement, the security-specific credit rating of the issue programme or arrangement, to which the receivable belongs, must be used. If such a rating is not available, the issuer's general credit rating will be used, provided that it is available.

Notes to the consolidated financial statements

NOTES TO RISK MANAGEMENT

Note 65. Corporate exposures (FIRB) by rating category and PD grade, and equity investments by rating category and PD grade

Corporate exposures by rating category and PD grade 31 Dec. 2010

Rating category	Exposure value, MEUR	Average PD, %	Average risk weight, %	RWA	Minimum capital requirement
1.0–2.0	757	0.0	15.2	109	9
2.5–5.0	7,658	0.2	40.7	3,139	251
5.5–7.0	2,545	1.4	99.9	2,508	201
7.5–8.5	1,423	5.5	154.5	2,231	178
9.0–10.0	220	17.5	214.7	473	38
11.0–12.0	482	100.0			
Non-rated	140	4.4	142.7	212	17
Total	13,224	4.0	65.9	8,672	694

Corporate exposures by rating category and PD grade 31 Dec. 2009

Rating category	Exposure value, MEUR	Average PD, %	Average risk weight, %	RWA	Minimum capital requirement
1.0–2.0	502	0.0	14.8	67	5
2.5–5.0	6,989	0.2	42.3	2,962	237
5.5–7.0	2,705	1.3	97.4	2,583	207
7.5–8.5	1,771	4.9	149.3	2,677	214
9.0–10.0	270	22.5	226.8	623	50
11.0–12.0	375	100.0			
Non-rated	240	4.9	156.1	374	30
Total	12,851	3.6	69.5	9,286	743

The Internal Ratings-based Approach was used for Pohjola Bank plc's corporate exposures. In this method, matured liabilities are categorised under insolvent customers, i.e. customers belonging to rating categories 11–12. Exposure value refers to customer exposure at default (EAD).

The assessment of 'R' rating categories used for the rating of exposures by mid-size and large companies has been performed using payment default data for 2003–09. The A rating scores were last updated at the end of 2010 in such way that the related changes will take effect in 2011. The data used for this purpose was Rating Alfa scores and payment default entries for the companies for 2007–09. The score limits are set for A rating in such a manner that the PD values within the categories correspond to the PD values within R rating. A margin of conservatism is also used to adjust the PD values, which is the bigger the fewer the companies in each category.

Equity investments by rating category and PD grade 31 Dec. 2010

Rating category	Exposure value, MEUR	Average PD, %	Average risk weight, %	RWA	Minimum capital requirement
1.0–2.0	54	0.1	96.4	52	4
5.5–7.0	2	1.3	279.7	6	0
Total	56	0.1	103.1	58	5

Equity investments by rating category and PD grade 31 Dec. 2009

Minimum capital

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Rating category	Exposure value, MEUR	Average PD, %	Average risk weight, %	RWA	require- ment
1.0–2.0	47	0.1	96.4	46	4
Non-rated	0			0	0
Total	47	0.1	96.4	46	4

The Group applies the PD/LGD method for equity investments to Pohjola Bank plc's strategic investments.

Notes to the consolidated financial statements

NOTES TO RISK MANAGEMENT

Note 66. Equity investments, BIA

EUR million	31 Dec. 2010			31 Dec. 2009		
	Exposure	RWA	Minimum capital requirement	Exposure	RWA	Minimum capital requirement
Private equity investments, risk weight 190%	27	51	4	32	60	5
Listed equity investments, risk weight 290%	8	24	2	9	27	2
Other, risk weight 370%	7	26	2	11	41	3
Total	42	101	8	52	129	10

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NOTES TO RISK MANAGEMENT

Note 67. Expected loss and impairments

EUR million	31 Dec. 2010		31 Dec. 2009		31 Dec. 2008	
	EL	Impair-ments	EL	Impair-ments	EL	Impair-ments
Corporate exposures	219	187	162	121	68	24
Equity investments	0		1		1	
Total	218	187	162	121	69	24

The expected loss shown in the above table is based on risk parameters generated by Pohjola Group's internal credit risk models. PD estimates produced by the models correspond to the estimates used in capital adequacy calculations and they include various factors of conservatism. PD estimates are quite conservative. The LDG model applied to corporate exposures generate smaller loss estimates than the LDG parameters used in the Foundation Internal Ratings Based Approach.

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NOTES TO RISK MANAGEMENT

Note 68. Collateral used in capital adequacy measurement

31 Dec. 2010, EUR million	Exposure	Guarantees	Financial collateral	Other collateral
Central government and central banks	3,706	104		
Credit institutions	22,432	549		
Corporate	18,677	1,616	73	590
FIRB Approach	18,376	1,616	73	590
Standardised Approach	301			
Retail	1,449	32	0	1
Secured by real estates	1			1
Other	1,448	32	0	
Equity investments	98			
BIA	42			
PD/LGD method	56			
Securitisation positions	742			
Other	71			
Total	47,175	2,302	73	590

31 Dec. 2009, EUR million	Exposure	Guarantees	Financial collateral	Other collateral
Central government and central banks	4,320			
Credit institutions	21,213	1,909	0	
Corporate	19,232	2,080	55	637
FIRB Approach	19,009	2,080	55	637
Standardised Approach	222			
Retail	1,454	35	0	0
Secured by real estates	0			0
Other	1,454	35	0	
Equity investments	100			
BIA	52			
PD/LGD method	47			
Securitisation positions	720			
Other	73			
Total	47,111	4,024	55	637

The following real securities under the capital adequacy framework were used in capital adequacy measurement: residential buildings and shares entitling their holders to the possession of a flat, deposits and stocks (equities). Deposits and stocks are financial collateral, as referred to in the framework, and alternative methods are available for their accounting treatment. Pohjola Group applies the so-called comprehensive method to financial collateral, using volatility adjustments ordered by the relevant regulator.

In the capital adequacy measurement for credit risks, only eligible guarantors as referred to in the capital adequacy framework may be used. In capital adequacy measurement, the Group utilised guarantees issued by the Finnish State and other states, as well as those issued by municipalities and banks. Guarantees issued by banks or credit derivatives were not used. Offsetting balance-sheet or off-balance-sheet items was not applied in capital adequacy.

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NOTES TO RISK MANAGEMENT

Note 69. Derivative contracts and counterparty risk

Credit risk arising from derivative contracts is defined as a credit equivalent based on the daily market valuation of derivative contracts.

The sizes of customer limits are defined as follows:

Forward exchange agreements and currency options: capital x 10% x estimated validity period

Interest rate swaps: capital x 0.7% x estimated validity period

Cap and Floor contracts: capital x 0.5% x estimated validity period

Credit risk arising from bank counterparties is through collateral, which means the use of ISDA Credit Support Annex (CSA) contract associated with the ISDA general agreement. In the collateral system, the counterparty provides cash or securities in security for the receivable. Matching between counterparties are performed on a daily basis.

The Group confirms corporate counterparty exposure limits once a year and in this connection also checks the status of collateral applying to the limits for derivative transactions.

If S&P had downgraded Pohjola's credit rating from AA- to A, additional collateral of EUR 9 million (13) would have been required.

Capital adequacy requirement due to counterparty risk may arise from items related to financing operations and the trading book. Capital adequacy requirement due to counterparty risk is calculated, for example, on OTC derivatives and sale and repurchase agreements.

Note 87 presents counterparty risks associated with OTC derivatives. The exposure value of sale and repurchase agreements amounted to EUR 0 million (2.2).

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NOTES TO RISK MANAGEMENT

Risk exposure by Non-life Insurance

Note 70. Risk-bearing capacity

On 31 December 2010, the solvency capital of Non-life Insurance amounted to EUR 832 million (827) and the solvency ratio stood at 86% (88). Moody's downgraded The financial strength rating of Pohjola Insurance is A+ affirmed by Standard & Poor's in December 2010. The Board of Directors has confirmed A as the targeted rating.

Non-life Insurance must fulfil all capital adequacy requirements set by regulatory authorities mainly at company level. All non-life insurance companies are governed by the same requirement set for their minimum solvency margin based on EU directives. In addition, Finnish legislation also lays down capital adequacy requirements for Finnish insurance companies.

The risk-bearing capacity describes the proportion of a company's solvency capital to various income statement and balance sheet items. Solvency capital proportioned to claims incurred and insurance premium revenue describes the company's ability to cope with underwriting risks. Solvency capital proportioned to insurance contract liabilities describes the company's ability to cope with risks related to the estimation of insurance contract liabilities. Similarly, solvency capital proportioned to the investment portfolio describes the company's ability to cope with the risks related to investments.

	31 Dec. 2010		31 Dec. 2009	
	EUR million	Risk-bearing capacity, %	EUR million	Risk-bearing capacity, %
Solvency capital	832		827	
Claims incurred*	694	120	617	134
Insurance premium revenue*	964	86**	943	88**
Insurance contract liabilities*	2,145	39	2,068	40
Investment portfolio	2,924	28	2,851	29

* Reinsurers' share (net business) deducted

** Solvency ratio

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NOTES TO RISK MANAGEMENT

Note 71. Sensitivity analysis of Non-life insurance

The table below shows the effect of various risk parameters on profit and solvency capital:

Risk parameter	Total in 2010, EUR million	Change in risk para- meter	Effect on profit/ solvency, EUR million	Effect on combined ratio
Insurance portfolio or insurance premium revenue	964	Up by 1%	10	Up by 0.9 percentage point
Claims incurred	694	Up by 1%	-7	Down by 0.7 percentage point
Major loss, over EUR 5 million		1 major loss	-5	Down by 0.5 percentage point
Personnel costs	110	Up by 8%	-9	Down by 0.9 percentage point
Expenses by function*	267	Up by 4%	-11	Down by 1.1 percentage point

* Expenses by function in Non-life Insurance excluding expenses for investment management and expenses for other services rendered.

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NOTES TO RISK MANAGEMENT

Note 72. Premiums written and sums insured by class

Premiums written by EML* class in corporate property insurance

The degree of risk in property insurance can be evaluated by dividing risks into classes by their EML* amounts. The table below shows premiums written calculated for each risk class.

EUR million	5–20	20–50	50–100	100–300
2010	9	11	11	5
2009	11	12	8	5

*EML = Estimated Maximum Loss per object of insurance

Premiums written by TSI* class in corporate liability insurance

The degree of risk in liability insurance can be evaluated by dividing risks into classes by their TSI* amounts. The table below shows premiums written calculated for each risk class.

EUR million	2–4	4–10	10–30	30–90
2010	2	7	7	2
2009	3	6	7	2

*TSI = Total Sum Insured

Sums insured in guarantee and decennial insurance

The sum insured of insurance contracts depicts the volume of guarantee and decennial insurance (construction defects insurance). The gross and net amounts of the sum insured are itemised by contract type in the table below. The liability period of decennial insurance is 10 years.

EUR million	Gross		Net*	
	2010	2009	2010	2009
Contract guarantees	6	23	6	23
Loan guarantees	7	16	7	16
Other	4	5	4	5
Guarantee insurance	17	44	17	44
Decennial insurance	1,853	1,829	1,735	1,628

* For insurance company's own account after reinsurers' share and before counter guarantee

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NOTES TO RISK MANAGEMENT

Note 73. Trend in major losses

Number of detected major losses by year of detection for 2006–10

Non-life Insurance monitors carefully claims expenditure arising from major losses. The claims expenditure explains a significant part of the annual fluctuation in the underwriting result. In addition, monitoring the claims expenditure arising from major losses helps to detect any changes in risks or risk selection. In this analysis, major losses are those whose gross amount exceeds EUR 2 million. Most major losses occur in property and business interruption insurance. In statutory policies, the risk of major loss is small relative to the large volume of the line of business.

Gross amount

Number of losses exceeding EUR 2 million	Statutory lines	Other accident and health	Hull and cargo	Property and business interruption	Liability and legal expenses	Longterm
2006				9		
2007	1			5	3	
2008				4	1	
2009	3			5	2	
2010	1			13		
Total claims, EUR million					200	
Gross amount, total claims, EUR million						
2006–10	12			171	17	

Net amount

Number of losses exceeding EUR 2 million	Statutory lines	Other accident and health	Hull and cargo	Property and business interruption	Liability and legal expenses	Longterm
2006				9		
2007	1			4	3	
2008				4	1	
2009	3			4	1	
2010	0			11		
Total claims, EUR million					131	
Net amount, total claims, EUR million						
2006–10	9			107	15	

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NOTES TO RISK MANAGEMENT

Note 74. Insurance profitability

Trends in insurance premium revenue (gross and net) and combined ratio (net)

Insurance premium revenue describes the volume of an insurance class, enabling the evaluation of the importance of the insurance class in relation to the whole portfolio. Similarly, the combined ratio (CR) is used to evaluate fluctuations in the results of the insurance class and the profitability of the class. The combined ratio is presented separately adjusted for one-off items relating to previous insurance periods.

2010, EUR million	Gross IP revenue	Net IP revenue	Net CR*	Net** CR*
Statutory lines	366	364	98%	89%
Other accident and health	111	110	90%	90%
Hull and cargo	210	208	91%	91%
Property and business interruption	256	222	95%	95%
Liability and legal expenses	63	57	70%	70%
Long-term	3	2	93%	93%
Total	1,010	964	93%	90%

2009, EUR million	Gross IP revenue	Net IP revenue	Net CR*	Net** CR*
Statutory lines	365	360	88%	88%
Other accident and health	106	105	94%	94%
Hull and cargo	206	203	87%	87%
Property and business interruption	247	215	85%	85%
Liability and legal expenses	62	55	84%	84%
Long-term	4	3	118%	118%
Total	990	943	88%	88%

* The combined ratio is calculated by dividing the sum of claims incurred (net) and operating expenses of insurance business by insurance premium revenue (net). Amortisation on intangible rights is excluded from the calculation.

** One-off changes affecting the balance on technical account have been eliminated.

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NOTES TO RISK MANAGEMENT

Note 75. Sensitivity analysis of insurance contract liabilities and information on the nature of insurance contract liabilities

Non-life Insurance	Portfolio at fair value, EUR million	Risk parameter	Change	Effect on solvency capital, EUR million	
	31 Dec. 2010			31 Dec. 2010	31 Dec. 2009
Collective liability	497	Inflation	0.25 percentage points	-3	-3
Discounted insurance contract liabilities	1,378	Life expectancy	1 year	-32	-30
Discounted insurance contract liabilities	1,378	Discount rate	-0.1 percentage point	-17	-16
Information on the nature of liabilities				2010	2009
Net liabilities due to insurance contracts (EUR million)					
Latent occupational diseases				38	42
Other				2,107	2,026
Total (before transfers)				2,145	2,068
Duration of debt (years)					
Discounted insurance contract liabilities				11.9	11.9
Undiscounted insurance contract liabilities				2.4	2.4
Total				8.5	8.5
Discounted net debt (EUR million)					
Known provision for claims for annuities				1,111	1,054
Collective liability				233	239
Provision for unearned premiums				34	33
Total				1,378	1,326

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Notes to the consolidated financial statements

NOTES TO RISK MANAGEMENT

Note 76. Insurance contract liabilities by estimated maturity

31 Dec. 2010, EUR million	0–1 yr	1–5 yrs	5–10 yrs	10–15yrs	Over 15 yrs	Total
Provision for unearned premiums*	256	72	18	4	7	357
Provision for unpaid claims						
Undiscounted	260	107	52	12	12	443
Discounted	89	324	295	218	418	1,344
Total insurance contract liabilities	606	502	365	234	437	2,145

* Includes EUR 34 million in discounted liability

31 Dec. 2009, EUR million	0–1 yr	1–5 yrs	5–10 yrs	10–15yrs	Over 15 yrs	Total
Provision for unearned premiums*	241	68	17	4	7	337
Provision for unpaid claims						
Undiscounted	254	107	53	12	13	438
Discounted	86	312	284	210	402	1,293
Total insurance contract liabilities	581	487	354	225	421	2,068

* Includes EUR 34 million in discounted liability

Notes to the consolidated financial statements

NOTES TO RISK MANAGEMENT

Note 77. Risk exposure of insurance investments

	31 Dec. 2010		31 Dec. 2009	
Allocation of investment portfolio	Fair value, EUR million*	%	Fair value, EUR million*	%
Money market total	14	0	101	4
Money market instruments and deposits**	68	2	82	3
Derivative instruments***	-54	-2	19	1
Total bonds and bond funds	2,074	71	2,067	72
Governments	636	22	661	23
Inflation-indexed bonds	83	3	92	3
Investment Grade	1,098	38	1,055	37
Emerging markets and High Yield	242	8	245	9
Structured investments	15	1	13	0
Total equities	422	14	364	13
Finland	86	3	76	3
Developed markets	118	4	146	5
Emerging markets	86	3	68	2
Fixed assets and unlisted equities	5	0	5	0
Private equity investments	73	2	67	2
Equity derivatives***	54	2	2	0
Total alternative investments	207	7	155	5
Hedge funds	69	2	72	3
Commodities	26	1	24	1
Convertible bonds	112	4	60	2
Total property investments	207	7	164	6
Direct property investments	132	5	109	4
Indirect property investments	75	3	55	2
Total	2,924	100	2,851	100

* Includes accrued interest income

** Includes settlement receivables and liabilities and market value of derivatives EUR -3.0 million (-2.2)

*** Effect of derivatives on the allocation of the asset class (delta-weighted equivalents)

Notes to the consolidated financial statements

NOTES TO RISK MANAGEMENT

Note 78. Sensitivity analysis of investment risks

The table below shows the sensitivity of investment risks by investment category. The discount rate sensitivity analysis related to the calculation of insurance contract liabilities is presented in Note 75 dealing with insurance contract liabilities. Effects of changes in investment and insurance contract liabilities offset one another.

Non-life Insurance	Portfolio at fair value, EUR million	Risk parameter	Change	Effect on solvency capital, EUR million	
	31 Dec. 2010			31 Dec. 2010	31 Dec. 2009
Bonds and bond funds*	2,256	Interest rate	1 percentage point	92	73
Equities**	413	Market value	20 percentage points	83	73
Capital investments and unquoted equities	78	Market value	20 percentage points	16	14
Commodities	26	Market value	20 percentage points	5	5
Real property	207	Market value	10 percentage points	21	16
Currency	242	Currency value	20 percentage points	48	21
Credit risk premium***	2,145	Credit spread	0.5 percentage point	47	39
Derivatives****		Volatility	20 percentage points	0	0

* Include money-market investments, convertible bonds and interest-rate derivatives

** Include hedge funds and equity derivatives

*** Includes bonds and convertible bonds and money-market investments, excluding government bonds issued by developed countries

**** 20 percentage points in equity derivatives, 10 percentage points in interest rate derivatives and 5 percentage points in currency derivatives

Notes to the consolidated financial statements

NOTES TO RISK MANAGEMENT

Note 79. Interest-rate risk

The market risk arising from changes in interest rates is monitored by classifying investments by instrument, in accordance with duration. The table below does not indicate the balancing effect which the insurance contract liabilities have on the interest-rate risk, because only some of the insurance contract liabilities have been discounted using an administrative interest rate (Note 32).

Fair value by duration or repricing date, EUR million*	31 Dec.	
	2010	31 Dec. 2009
0–1 year	395	414
>1–3 years	701	522
>3–5 years	652	721
>5–7 years	197	227
>7–10 years	188	196
>10 years	122	152
Total	2,256	2,231
Modified duration	4.1	3.3
Effective interest rate, %	4.1	3.5

* Includes money-market investments and deposits, bonds, convertible bonds and bond funds.

Fixed-income portfolio by maturity and credit rating on 31 Dec 2010, EUR million

Year(s)	0–1	1–3	3–5	5–7	7–10	10–	Total	Proportion,
								%
Aaa	31	108	195	59	50	71	514	23.9
Aa1–Aa3	87	112	120	38	23	32	413	19.2
A1–A3	79	211	205	90	68	79	732	34.1
Baa1–Baa3	42	93	85	35	36	0	290	13.5
Ba1 or lower	50	58	31	19	5	17	180	8.4
Internally rated	5	1	5		1	3	16	0.7
Total	295	583	641	241	184	203	2,145	100.0

The maturity is presented until the end of the term to maturity. If the paper includes a call option, the maturity is presented until the first possible Call date.

The average credit rating of the Non-life Insurance fixed-income portfolio is Moody's A1.

The term to maturity of the Non-life Insurance fixed-income portfolio averages 5.3 years (calculated on the basis of the call date and the maturity date).

Notes to the consolidated financial statements

NOTES TO RISK MANAGEMENT

Note 80. Currency risk

Foreign currency exposure, EUR million	31 Dec.	
	2010	31 Dec. 2009
USD	35	59
SEK	4	-2
JPY	-2	6
GBP	-1	3
EEK, LVL, LTL**	-22	-35
Other	177	2
Total*	242	107

* The currency exposure was 8.3% (7.8) of the investment portfolio. It is calculated as the sum total of individual currencies' intrinsic values.

** ERM2 currencies, EEK is included in the 31 Dec. 2009 figure.

Notes to the consolidated financial statements

NOTES TO RISK MANAGEMENT

Note 81. Counterparty risk

Credit rating, consistent with Moody's, EUR million	31 Dec. 2010		31 Dec. 2009	
	Investment*	Insurance**	Investment*	Insurance**
Aaa	514	0	529	2
Aa1–Aa3	413	27	404	24
A1–A3	732	29	794	25
Baa1–Baa3	290	0	312	0
Ba1 or lower	180		113	
Internally rated	16	25	20	26
Total	2,145	81	2,172	78

* Include money-market investments and deposits, bonds and bond funds

** Includes the reinsurers' share of insurance contract liabilities, and receivables from reinsurers.

Notes to the consolidated financial statements

OTHER NOTES TO THE BALANCE SHEET

Note 82. Classification of assets and liabilities

Assets 31 Dec. 2010, EUR million	Loans and receivables	Held to maturity	At fair value through profit or loss*	Available for sale	Hedging derivatives	Total
Cash and balances with central banks	1,501					1,501
Receivables from credit institutions and central banks	8,033					8,033
Derivative contracts			1,864		98	1,962
Receivables from customers	12,433					12,433
Non-life Insurance assets**	650		96	2,453		3,198
Notes and bonds***		928	422	5,304		6,653
Shares and participations			0	82		82
Other receivables	2,295		26			2,321
Total	24,912	928	2,408	7,838	98	36,184

Assets 31 Dec. 2009, EUR million	Loans and receivables	Held to maturity	At fair value through profit or loss*	Available for sale	Hedging derivatives	Total
Cash and balances with central banks	3,102					3,102
Receivables from credit institutions and central banks	7,630					7,630
Derivative contracts			1,385		59	1,443
Receivables from customers	11,323					11,323
Non-life Insurance assets**	769		85	2,301		3,156
Notes and bonds***		1,086	1,279	4,225		6,590
Shares and participations			0	87		87
Other receivables	2,162		18			2,180
Total	24,986	1,086	2,767	6,613	59	35,510

Liabilities 31 Dec. 2010, EUR million	At fair value through profit or loss	Other liabilities	Hedging derivatives	Total
Liabilities to credit institutions		4,960		4,960
Financial liabilities held for trading (excl. derivatives)	0			0
Derivative contracts	1,852		202	2,054
Liabilities to customers		4,231		4,231
Non-life Insurance liabilities	2	2,349		2,351
Debt instruments issued to the public		16,685		16,685
Subordinated liabilities		1,255		1,255
Other liabilities		2,271		2,271
Total	1,854	31,751	202	33,807

Liabilities 31 Dec. 2009, EUR million	At fair value through profit or loss	Other liabilities	Hedging derivatives	Total
Liabilities to credit institutions		4,984		4,984
Financial liabilities held for trading (excl. derivatives)	71			71
Derivative contracts	1,306		150	1,456
Liabilities to customers		4,133		4,133

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Non-life Insurance liabilities	0	2,279		2,279
Debt instruments issued to the public		17,295		17,295
Subordinated liabilities		1,300		1,300
Other liabilities		1,726		1,726
Total	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 20.

*** On 31 December 2010, notes and bonds included EUR 12 million (55) in notes and bonds recognised using the fair value option. Notes and bonds of EUR 302 million (398) within loans and other receivables include in "Receivables from customers".

Debt securities issued to the public are carried at amortised cost. On 31 December 2010, the fair value of these debt instruments was EUR 45 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 is lower than their carrying amount, but determining fair values reliably is difficult in the current market situation.

Notes to the consolidated financial statements

OTHER NOTES TO THE BALANCE SHEET

Note 83. Assets and liabilities by hierarchy of valuation techniques

Financial assets measured at fair value 31 Dec 2010, EUR million	Carrying amount	Fair value		
		Level 1*	Level 2**	Level 3***
Financial assets at fair value through profit or loss	422	307	112	4
Derivatives	1,962	32	1,794	137
Available-for-sale financial assets	5,385	4,782	588	15
Non-life Insurance assets	2,462	1,577	653	231
Total	10,231	6,699	3,146	386

Financial assets measured at fair value 31 Dec 2009, EUR million	Carrying amount	Fair value		
		Level 1*	Level 2**	Level 3***
Financial assets at fair value through profit or loss	1,279	536	738	6
Derivatives	1,443	6	1,357	81
Available-for-sale financial assets	4,312	3,965	331	17
Non-life Insurance assets	2,309	1,556	552	201
Total	9,344	6,062	2,978	304

Financial liabilities measured at fair value 31 Dec 2010, EUR million	Carrying amount	Fair value		
		Level 1*	Level 2**	Level 3***
Financial liabilities at fair value through profit or loss	0		0	
Derivatives	2,054	22	2,020	12
Non-life Insurance liabilities	2	1	0	
Total	2,056	24	2,020	12

Financial liabilities measured at fair value 31 Dec 2009, EUR million	Carrying amount	Fair value		
		Level 1*	Level 2**	Level 3***
Financial liabilities at fair value through profit or loss	71	71		
Derivatives	1,456	1	1,423	33
Non-life Insurance liabilities	0		0	
Total	1,528	72	1,423	33

* This level includes equities listed on major stock exchanges, quoted corporate debt instruments, bonds issued by governments and financial institutions with credit rating of at least A–, and exchange-traded derivatives. The fair value of these instruments is determined on the basis of market quotes.

** Valuation techniques based on observable input parameters. The fair value of the instruments included within this level means value derived from the market price of a financial instrument's components or similar financial instruments; or value which can be determined using commonly used valuation models and techniques if the inputs significant to the fair value measurement are based on observable market data. The fair value hierarchy level at Pohjola Group includes OTC derivatives, treasury bills/notes, debt instruments issued by companies and financial institutions, repo agreements, and securities lent or borrowed.

*** Valuation techniques whose input parameters involve special uncertainty. The fair value determination of the financial instruments included within this level contains inputs not based on observable market data (unobservable inputs). This level includes the most complex OTC derivatives, certain private equity investments, illiquid bonds, structured bonds, including securitised bonds and structured debt securities, and hedge funds.

Transfers between levels of the fair value hierarchy

The Group did not change classification between the levels of hierarchy in 2010.

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Reconciliation of Level 3 items

Specification of financial assets and liabilities

Financial assets, EUR million	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Derivatives	Non-life Insurance assets	Total assets
Opening balance 1 Jan 2010	6	17	81	201	306
Total gains/losses in profit or loss	-2	-2	50	-16	30
Total gains/losses in other comprehensive income		2		21	23
Purchases			6	33	39
Sales	0			-8	-8
Settlements	0			0	0
Closing balance 31 Dec 2010	4	17	137	231	389

Financial assets, EUR million	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Derivatives	Non-life Insurance assets	Total assets
Opening balance 1 Jan 2009	7	17	46	199	269
Total gains/losses in profit or loss		-1	35	-5	29
Total gains/losses in other comprehensive income		2		-9	-8
Purchases		0		22	22
Sales				-6	-6
Settlements	0				0
Closing balance 31 Dec 2009	6	17	81	201	306

Financial liabilities, EUR million	Financial liabilities at fair value through profit or loss	Derivatives	Non-life Insurance liabilities	Total liabilities
Opening balance 1 Jan 2010		33		33
Total gains/losses in profit or loss		-28		-28
Purchases		7		7
Closing balance 31 Dec 2010		12		12

Financial liabilities, EUR million	Financial liabilities at fair value through profit or loss	Derivatives	Non-life Insurance liabilities	Total liabilities
Opening balance 1 Jan 2009		18		18
Total gains/losses in profit or loss		14		14
Closing balance 31 Dec 2009		33		33

Total gains/losses included in profit or loss by item for the financial year on 31 Dec 2010

EUR million	Net interest income or net trading income	Net investment income	Net income from Non-life Insurance	Statement of comprehensive income	Total gains/losses for the financial year included in profit or loss for assets/liabilities held at year-end
Total gains/losses in profit or loss	20	-2	-16	23	25

Total gains/losses included in profit or loss by item for the financial year on 31 Dec 2009

Net	Net income	Statement of comprehensive income	Total gains/losses for the financial year included in profit or loss for
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EUR million	Net trading income	investment income	from Non-life Insurance	hensive income	assets/liabilities held at year-end
Total gains/losses in profit or loss	35	-1	-5	-8	21

Derivatives included in Level 3 comprise structured derivatives for customer needs, whose market risk is covered by a corresponding derivatives contract. Level 3 derivatives relate to structured bonds issued by Pohjola, whose return is determined by the value performance of an embedded derivative instrument. These embedded derivatives are not shown in the above table.

Sensitivity of Level 3 measurements to reasonably possible alternative assumptions

The Group did not change classification between the levels of hierarchy in 2009.

Notes to the consolidated financial statements

OTHER NOTES TO THE BALANCE SHEET

Note 84. Collateral given

Balance sheet value, EUR million	31 Dec.	
	2010	31 Dec. 2009
Given on behalf of own liabilities and commitments		
Mortgages	1	1
Pledges	6,019	5,839
Other	349	308
Total	6,369	6,147
Total collateral given		
Mortgages	1	1
Pledges	6,019	5,839
Other	349	308
Total	6,369	6,147
Total collateralised liabilities	651	1,023

Growth in pledges was due to growth in collateral required for the maintenance of the liquidity buffer.

Notes to the consolidated financial statements

OTHER NOTES TO THE BALANCE SHEET

Note 85. Financial collateral held

EUR million	31 Dec.	
	2010	31 Dec. 2009
Fair value of collateral received		
Other	343	106
Total	343	106

The credit risk arising from derivatives is mitigated through collateral, which means the use of ISDA Credit Support Annex (CSA) contract associated with the ISDA general agreement. In the collateral system, the counterparty provides securities or cash in security for the receivable. The amount of CSA-related collateral received in cash totalled EUR 332 million on the balance sheet date (106). The Group had no securities received as collateral on the balance sheet date.

Notes to the consolidated financial statements

NOTES TO CONTINGENT LIABILITIES AND DERIVATIVES

Note 86. Off-balance-sheet commitments

EUR million	31 Dec.	
	2010	31 Dec. 2009
Guarantees	1,125	1,296
Other guarantee liabilities	1,333	1,283
Loan commitments	3,912	4,140
Commitments related to short-term trade transactions	140	98
Other	463	447
Total off-balance-sheet commitments	6,972	7,264

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Notes to the consolidated financial statements

NOTES TO CONTINGENT LIABILITIES AND DERIVATIVES

Note 87. Derivative contracts

Derivatives held for trading 31 Dec. 2010

EUR million	Nominal values/ residual term to maturity			Total	Fair values		Potential future exposure
	<1 year	1–5 years	>5 years		Assets	Liabilities	
Interest rate derivatives							
Interest rate sw aps	12,729	42,300	20,039	75,068	1,059	1,067	1,569
Forw ard rate agreements	505	400		905	0	3	2
OTC interest rate options							
Call and caps							
Purchased	3,567	6,661	1,822	12,051	107	15	167
Written	3,403	4,027	2,381	9,812		83	
Put and floors							
Purchased	3,180	2,884	677	6,741	173	2	197
Written	3,936	2,725	216	6,877		118	
Total OTC interest rate derivatives	27,321	58,998	25,135	111,454	1,339	1,287	1,935
Interest rate futures	3,439			3,439	0	3	
Interest rate options							
Call							
Written	4,000			4,000	0	0	
Put							
Purchased	4,745			4,745	0	1	
Written	5,490			5,490	0	0	
Total exchange traded derivatives	17,675			17,675	1	4	
Total interest rate derivatives	44,996	58,998	25,135	129,129	1,340	1,291	1,935
Currency derivatives							
Forw ard exchange agreements	15,127	423		15,550	185	181	358
Interest rate and currency sw aps	74	1,190	473	1,737	53	65	149
Currency options							
Call							
Purchased	72			72	1		2
Written	81			81		1	
Put							
Purchased	45			45	1		1
Written	43			43		1	
Total OTC currency derivatives	15,442	1,613	473	17,527	240	249	510
Total currency derivatives	15,442	1,613	473	17,527	240	249	510
Equity and index derivatives							
Equity index options							
Call							
Purchased	105	967	29	1,101	128		214
Put							
Purchased	1	0		1	0		0

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Total OTC equity and index derivatives	106	967	29	1,102	128		215
Equity index futures	54			54	0	0	
Total exchange traded derivatives	54			54	0	0	
Total equity and index derivatives	160	967	29	1,156	128	0	215
Credit derivatives							
Credit default swaps	13	162		175	5	0	8
Total credit derivatives	13	162		175	5	0	8
Other							
Other swaps	3,898	170		4,068	3	46	34
Other options							
Call							
Purchased		20		20	2		4
Written		10		10		1	
Put							
Purchased		7		7	0		1
Written		7		7		0	
Total other OTC derivatives	3,898	214		4,112	5	47	39
Other forward agreements and futures	27	49		76	24	0	
Total other derivatives	3,925	263		4,188	30	47	39
Total derivatives held for trading	64,536	62,002	25,637	152,175	1,743	1,587	2,706

Derivatives held for trading 31 Dec. 2009

EUR million	Nominal values/ residual term to maturity			Total	Fair values		Potential future exposure
	<1 year	1–5 years	>5 years		Assets	Liabilities	
Interest rate derivatives							
Interest rate sw aps	12,702	29,611	9,119	51,432	887	891	1,171
Forw ard rate agreements	200	200		400	0		1
OTC interest rate options							
Call and caps							
Purchased	2,205	6,467	1,296	9,968	62	25	113
Written	1,146	3,037	1,406	5,589		38	
Put and floors							
Purchased	1,091	2,589	283	3,963	129	0	146
Written	1,208	2,619	161	3,988		88	
Total OTC interest rate derivatives	18,551	44,523	12,266	75,340	1,079	1,042	1,432
Interest rate futures	2,782	408		3,190	5	1	
Interest rate options							
Call							
Written	6,000			6,000	1		
Put							
Purchased	7,724			7,724	0	2	
Written	7,000			7,000	1	0	
Total exchange traded derivatives	23,505	408		23,914	7	3	
Total interest rate derivatives	42,056	44,932	12,266	99,254	1,086	1,044	1,432

Currency derivatives

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Forward exchange agreements	11,108	460	7	11,574	203	101	338
Interest rate and currency swaps		419	347	766	25	37	72
Currency options							
Call							
Purchased	71			71	1		1
Written	73			73		1	
Put							
Purchased	50			50	1		1
Written	56			56		1	
Total OTC currency derivatives	11,357	879	354	12,590	229	140	412
Total currency derivatives	11,357	879	354	12,590	229	140	412

Equity and index derivatives

Stock options							
Call							
Written	33			33		0	
Put							
Purchased	33			33	0		
Written	33			33		0	
Equity index options							
Call							
Purchased	72	813	41	926	87		160
Put							
Purchased		1		1	0		0
Total OTC equity and index derivatives	170	814	41	1,025	87	0	161
Equity index futures	7			7	0		
Total exchange traded derivatives	7			7	0		
Total equity and index derivatives	177	814	41	1,032	87	0	161

Credit derivatives

Credit default swaps	56	157		213	4	1	7
Total credit derivatives	56	157		213	4	1	7

Other

Other swaps	3,845	235		4,080	2	24	21
Other options							
Call							
Purchased		10		10	0		1
Total other OTC derivatives	3,845	245		4,090	2	24	22
Other forward agreements and futures	6	7		12	2		
Total other derivatives	3,850	252		4,102	3	24	22
Total derivatives held for trading	57,497	47,033	12,661	117,191	1,410	1,209	2,034

Derivative contracts held for hedging – fair value hedging 31 Dec. 2010

EUR million	Nominal values /residual term to maturity			Total	Fair values		Potential future exposure
	<1 year	1–5 years	>5 years		Assets	Liabilities	
Interest rate derivatives							
Interest rate swaps	692	6,701	2,924	10,318	131	208	208
Total OTC interest rate derivatives	692	6,701	2,924	10,318	131	208	208

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Total interest rate derivatives	692	6,701	2,924	10,318	131	208	208
Currency derivatives							
Forward exchange agreements	116			116	0	0	1
Interest rate and currency swaps	749	468	202	1,419	86	160	132
Total OTC currency derivatives	866	468	202	1,536	86	161	133
Foreign exchange options							
Call							
Purchased	22			22	0		
Written	21			21		0	
Put							
Written	23			23		0	
Total foreign exchange options	66			66	0	0	
Total currency derivatives	931	468	202	1,601	86	161	133
Total derivatives held for hedging	1,624	7,169	3,126	11,919	217	369	341

Derivative contracts held for hedging – cash flow hedge 31 Dec. 2010

	Nominal values /residual term to maturity				Fair values		Potential future exposure
EUR million	<1 year	1–5 years	>5 years	Total	Assets	Liabilities	
Interest rate derivatives							
Interest rate sw aps		800		800	0	6	4
Total OTC interest rate derivatives		800		800	0	6	4
Total interest rate derivatives		800		800	0	6	4

Derivative contracts held for hedging – fair value hedging 31 Dec. 2009

	Nominal values /residual term to maturity				Fair values		Potential future exposure
EUR million	<1 year	1–5 years	>5 years	Total	Assets	Liabilities	
Interest rate derivatives							
Interest rate sw aps	2,007	6,300	747	9,053	81	190	124
Total OTC interest rate derivatives	2,007	6,300	747	9,053	81	190	124
Total interest rate derivatives	2,007	6,300	747	9,053	81	190	124
Currency derivatives							
Forw ard exchange agreements	156			156	0	1	2
Interest rate and currency sw aps		1,080	136	1,216	13	197	77
Total OTC currency derivatives	156	1,080	136	1,372	13	198	79
Total currency derivatives	156	1,080	136	1,372	13	198	79
Credit derivatives							
Credit default sw aps		21		21		1	0
Total credit derivatives		21		21		1	0
Total derivatives held for hedging	2.162	7.401	882	10.446	95	390	203

Total derivative contracts 31 Dec. 2010

EUR million	Nominal values /residual term to maturity			Total	Fair values		Potential future exposure
	<1 year	1–5 years	>5 years		Assets	Liabilities	

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Interest rate derivatives	45,688	66,499	28,059	140,246	1,471	1,505	2,148
Currency derivatives	16,373	2,081	675	19,129	326	409	642
Equity and index-linked derivatives	160	967	29	1,156	128	0	215
Credit derivatives	13	162		175	5	0	8
Other derivatives	3,925	263		4,188	30	47	39
Total derivatives	66,160	69,972	28,763	164,894	1,961	1,962	3,052

Total derivative contracts 31 Dec. 2009

EUR million	Nominal values /residual term to maturity			Total	Fair values		Potential future exposure
	<1 year	1–5 years	>5 years		Assets	Liabilities	
Interest rate derivatives	44,063	51,231	13,013	108,307	1,167	1,235	1,556
Currency derivatives	11,513	1,959	489	13,962	243	338	491
Equity and index-linked derivatives	177	814	41	1,032	87	0	161
Credit derivatives	56	178		234	4	2	7
Other derivatives	3,850	252		4,102	3	24	22
Total derivatives	59,660	54,435	13,543	127,638	1,505	1,599	2,237

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Notes to the consolidated financial statements

NOTES TO CONTINGENT LIABILITIES AND DERIVATIVES

Note 88. Contingent liabilities and assets

Insurance companies belonging to the Group underwrite insurance policies through pools. Pool members are primarily responsible for their own proportionate share of the risk. Proportionate shares are based on contracts confirmed annually. In certain pools, pool members are responsible for an insolvent member's liabilities in proportion to their shares in the pool. Group insurance companies recognise liabilities and receivables based on joint liability if joint liability is likely to materialise.

In December 2010, Pohjola Bank plc sold its subsidiary Pohjola Capital Partners Ltd to its existing management. In addition to the selling price, Pohjola will be entitled to an additional price of a total of EUR 0.7 million if the size of a new limited partnership based private equity fund established by the sold company or its direct or indirect owners at a later date reaches EUR 75 million based on commitments received at the time of closing. This amount will be paid to the seller on 31 March 2014 at the earliest, as specified in the terms and conditions of the sale. Entitlement to this amount also requires that Pohjola alone or together with OP-Pohjola Group companies (excl. Group member banks) make a minimum commitment of EUR 20 million to the new fund on the same terms as other investors, provided that the new fund reaches a minimum size of EUR 50 million.

In May 2013, Pohjola Bank plc will have the right and obligation to buy 5% of Access Capital Partners Group S.A shares. On 31 December 2010, the fair value of this shareholding amounted to EUR 3.5 million.

Notes to the consolidated financial statements

NOTES TO CONTINGENT LIABILITIES AND DERIVATIVES

Note 89. Operating leases

Pohjola Group as Lessee

Some Group companies have leased the premises they use. The term of these leases varies between one and ten years and they usually include the option of extending the lease after the original date of termination. The Group has subleased some of its premises. In addition, some Group companies have leased motor vehicles and office equipment. Rental expenses of EUR 10 million (11) due to the abovementioned items were recognised under Other operating expenses.

Future minimum lease payments under non-cancellable operating leases

EUR million	31 Dec.	
	2010	31 Dec. 2009
No later than 1 year	11	11
Later than 1 year and no later than 5 years	34	38
Later than 5 years	4	8
Total	49	57
Expected future minimum lease payments from non-cancellable subleases	46	34

Pohjola Group as Lessor

Pohjola Group companies have leased out investment properties they own, which generated lease income of EUR 13 million (13). In addition to investment properties, the Group has primarily leased out passenger cars, which generated lease income of EUR 23 million (25).

Future minimum lease payments receivable under non-cancellable operating leases

EUR million	31 Dec.	
	2010	31 Dec. 2009
No later than 1 year	44	46
Later than 1 year and no later than 5 years	47	65
Later than 5 years	21	13
Total	111	125

Notes to the consolidated financial statements

NOTES TO CONTINGENT LIABILITIES AND DERIVATIVES

Note 90. Asset management

Within Pohjola Group, Pohjola Asset Management Limited runs asset management business and provides institutional customers and wealthy private individuals with discretionary and advisory portfolio management services. Pohjola Asset Management Limited is responsible for the financial management of most of OP Fund Management Company's mutual funds.

Pohjola Asset Management Ltd's discretionary asset management portfolio on 31 December 2010 totalled EUR 20.0 billion (20.6) and advisory asset management portfolio EUR 10.7 billion (9.1).

Notes to the consolidated financial statements

NOTES TO CONTINGENT LIABILITIES AND DERIVATIVES

Note 91. Ownership in other companies

Changes in subsidiaries and associates in 2010

In September 2010, Pohjola Insurance Ltd, a Pohjola Bank plc subsidiary, established Pohjola Health Ltd, which offers businesses wellbeing-at-work services. In December 2010, Pohjola Bank plc bought a 40% shareholding in Access Capital Partners Group SA, a manager and advisor of private equity funds of funds. At the same time, Pohjola sold its subsidiary Pohjola Private Equity Funds Ltd (including its subsidiaries SMF I Oy and SPEF I Oy) to Access Capital Partners. In December 2010, Pohjola Bank plc also sold its subsidiary Pohjola Capital Partners Ltd to its existing management.

Subsidiaries (consolidated) in 2010

Company	Domicile	Ownership interest, %	Voting interest, %
A-Insurance Ltd	Helsinki	100	100
Conventum Venture Finance Ltd	Helsinki	100	100
Eurooppalainen Insurance Company Ltd	Helsinki	100	100
Joint Stock Insurance Company "Seesam Latvia"	Latvia	100	100
Joint Stock Insurance Company "Seesam Lithuania"	Lithuania	100	100
Kaivokadun PL-hallinto Oy	Helsinki	100	100
Pohjola Finance Estonia AS	Estonia	100	100
Pohjola Finance SIA	Latvia	100	100
Pohjola Health Ltd	Helsinki	100	100
Pohjola Insurance Ltd	Helsinki	100	100
Pohjolan IT Procurement Ltd	Helsinki	100	100
Pohjola Property Management Ltd	Helsinki	100	100
Real Estate Fund Finland Oy	Helsinki	100	100
Real Estate Fund of Funds Finland Oy	Helsinki	100	100
Seesam International Insurance Company Ltd	Estonia	100	100
UAB Pohjola Finance	Lithuania	100	100
Pohjola Asset Management Ltd	Helsinki	90	90
Pohjola Corporate Finance Ltd	Helsinki	66	66

Subsidiaries (consolidated) in 2009

Company	Domicile	Ownership interest, %	Voting interest, %
A-Insurance Ltd	Helsinki	100	100
Conventum Venture Finance Ltd	Helsinki	100	100
Eurooppalainen Insurance Company Ltd	Helsinki	100	100
Joint Stock Insurance Company "Seesam Latvia"	Latvia	100	100
Joint Stock Insurance Company "Seesam Lithuania"	Lithuania	100	100
Kaivokadun PL-hallinto Oy	Helsinki	100	100
Pohjola Finance Estonia AS	Estonia	100	100
Pohjola Finance SIA	Latvia	100	100
Pohjola Insurance Ltd	Helsinki	100	100
Pohjolan IT Procurement Ltd	Helsinki	100	100
Pohjola Property Management Ltd	Helsinki	100	100
Real Estate Fund Finland Oy	Helsinki	100	100
Real Estate Fund of Funds Finland Oy	Helsinki	100	100
Seesam International Insurance Company Ltd	Estonia	100	100

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SMF I Fund Ltd	Helsinki	100	100
SPEF I Oy	Helsinki	100	100
UAB Pohjola Finance	Lithuania	100	100
Pohjola Asset Management Ltd	Helsinki	90	90
Pohjola Private Equity Funds Ltd	Helsinki	69.75	69.75
Pohjola Corporate Finance Ltd	Helsinki	66	66
Pohjola Capital Partners Ltd	Helsinki	65	65

Associates (consolidated) in 2010

Name	Domicile	Assets, EUR million	Liabilities, EUR million	Net sales, EUR million	Profit/Loss, EUR million	Ownership interest, %
Access Capital Partners Group S.A.	Belgium	25	20	16	2	40.0
Autovahinkokeskus Oy	Espoo	8	1	7	1	27.8

Associates (consolidated) in 2009

Name	Domicile	Assets, EUR million	Liabilities, EUR million	Net sales, EUR million	Profit/Loss, EUR million	Ownership interest, %
Autovahinkokeskus Oy	Espoo	7	1	7	1	27.8

Joint ventures in 2010

Name	Domicile	Ownership interest, %
Kiinteistö Oy Helsingin Puutarhurinkuja 2	Helsinki	100
Kiinteistö Oy Kanta-Sarvis II	Tampere	100
Kiinteistö Oy STC Viinikkala	Vantaa	100
Kiinteistö Oy Vantaan Kisällintie 13	Helsinki	100
Tikkurilan Kauppatalo Oy	Helsinki	53.7

Joint ventures in 2009

Name	Domicile	Ownership interest, %
Kiinteistö Oy Helsingin Puutarhurinkuja 2	Helsinki	100
Kiinteistö Oy Kanta-Sarvis II	Tampere	100
Kiinteistö Oy Vantaan Kisällintie 13	Helsinki	100
Tikkurilan Kauppatalo Oy	Helsinki	53.7

The consolidated financial statements include the share of assets and related liabilities under joint control.

Notes to the consolidated financial statements

OTHER NOTES

Note 92. Related-party transactions

The list of Pohjola Group's associates can be found in Note 91. Pohjola Group's related parties comprise the Parent Company, associates, administrative personnel and other related party companies.

Pohjola Group's Parent Company is OP-Pohjola Group Central Cooperative.

Pohjola Group administrative personnel comprises Pohjola Bank plc's President and CEO, his deputy (Deputy 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. Normal loan terms and conditions apply to loans granted to the management. Tied to generally used reference rates, these loans with normal collateral are repaid according to the agreed repayment schedule.

Related-party transactions in 2010

EUR million	Parent company	Associates	Administrative personnel	Others*
Loans	230	7		3,865
Other receivables	34			147
Deposits	15			531
Other liabilities	3			333
Interest income	2			172
Interest expenses	4			195
Dividend income	0			1
Net income from Non-life Insurance	2			4
Net commissions and fees	-1	0	0	29
Net trading income	0			28
Other operating income	1			6
Operating expenses	77			3
Off-balance-sheet commitments				
Guarantees				71
Irrevocable commitments	8			
Salaries and other short-term benefits				
Salaries and other short-term benefits			1	
Related-party holdings				
Number of stock options				
Number of shares	95,798,479		125,687	6,609,338

* Other related-party entities include OP Bank Group Pension Fund, OP Bank Group Pension Foundation and their sister companies within OP-Pohjola Group Central Cooperative Consolidated.

Related-party transactions in 2009

EUR million	Parent company	Associates	Administrative personnel	Others*
Loans	250			3,064
Other receivables	89			316
Deposits	8			319

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Other liabilities	7		308
Interest income	5		196
Interest expenses	6		180
Dividend income	0		5
Net income from Non-life Insurance	2		4
Net commissions and fees	-1	0	24
Net trading income			-3
Other operating income	4		5
Operating expenses	76		4
Off-balance-sheet commitments			
Guarantees			75
Irrevocable commitments	8		
Salaries and other short-term benefits			
Salaries and other short-term benefits		1	
Related-party holdings			
Number of shares	95,798,479	103,402	6,622,475

* Other related-party entities include OP Bank Group Pension Fund, OP Bank Group Pension Foundation and their sister companies within OP-Pohjola Group Central Cooperative Consolidated.

Board emoluments 2010

The Annual General Meeting approved the following Board emoluments:
Emoluments paid to Board members in 2010 totalled EUR 498,500. The Chairman's monthly emoluments totalled EUR 7,000, the Vice Chairman's EUR 5,000 and other members EUR 4,000. All Board members received an attendance allowance of EUR 500 for each meeting. These emoluments are treated as pensionable salary.

Reijo Karhinen, Chairman	EUR 92,000
Tony Vepsäläinen, Vice Chairman	EUR 69,000
Board members:	
Merja Auvinen	EUR 56,000
Jukka Hienonen	EUR 56,000
Simo Kauppi	EUR 56,500
Satu Lähteenmäki	EUR 58,500
Harri Sailas (since 26 March 2010)	EUR 38,500
Markku Vesterinen (until 26 March 2010)	EUR 16,000
Tom von Weymarn	EUR 56,000

Salaries and performance-based bonuses paid to the President and CEO and his deputy in the financial year ending 31 December 2010 were as follows:

Mikael Silvennoinen, President and CEO	EUR 737,090
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His period of notice is six months and the severance pay equals a 12-month salary in addition to compensation for loss of office.

Notes to the consolidated financial statements

OTHER NOTES

Note 93. Long-term incentive schemes

Long-term management incentive scheme

The Group's long-term management incentive scheme (2008–10) applies to Pohjola Bank plc's President and CEO, Senior Vice Presidents, Executive Vice Presidents, heads of departments and those in charge of separately defined managerial, supervisory and expert duties. On 31 December 2010, the scheme covered 136 people. The Board of Directors confirms the inclusion of the President and CEO and members of the Executive Committee in the scheme, and the selection principles with respect to other people in the scheme. The Group's Executive Committee confirms the inclusion of other people in the scheme.

Those included in the long-term management incentive scheme may receive Pohjola Bank plc shares as annual bonuses, provided that the company achieves the targets based on its strategy set for the year in question. Those covered by the scheme will receive shares (after tax) they have earned in three years' time following the beginning of the vesting year. If the employment of a person with the executive contract terminates due to reasons attributable to the company, he will be entitled to bonuses in accordance with the entitlement principles and rules governing the short-term and long-term incentive schemes valid during the year of termination of employment.

In 2010, target indicators for the management incentive scheme were as follows:

- Pohjola Group's earnings per share for the financial year, target 0.76 euro per share, weight 50%
- Change in the number of Pohjola Insurance Ltd's loyal customer households, target 26,000, weight 25%
- Change in the number of OP-Pohjola Group's loyal customer households, target 82,501, weight 25%

A minimum of 80% of the target set for each performance indicator must be achieved in order for the indicator to accumulate the bonus factor according to the weight set for the indicator. Performance above the target set for the indicator will be taken into account up to a maximum of 120%. Accordingly, the actual figure recorded for each performance indicator, ranging between 80% and 120% of the target level, and its weight determine the final bonus factor.

The following restrictions apply to the bonus: At least 80% of one of the two Pohjola Group's targets set for the indicators must be achieved. In addition, at least 60% of OP-Pohjola Group's shared target set for growth (number of loyal customers) must be achieved to be entitled to bonuses. However, this will not apply if the target set for loyal customer households has been achieved at 100%. The bonus payable derives from the share, based on the abovementioned bonus factor, of the set target bonus.

In case of the achievement of the set targets, in 2010 each person covered by the scheme was entitled to a bonus corresponding to his/her regular salary subject to PAYE tax: the President and CEO, 6 months; Group Executive Committee members, 5 months; heads of business divisions and departments, 3 months; and other persons covered by the scheme, 1.5 months. Persons in the latter group are also entitled to a share of the profit-based payment paid into the Personnel Fund.

Bonuses paid in terms of shares and cash are charged to personnel costs on an accrual basis over the vesting period. In the financial year, a total of EUR 2.4 million (1.0) was expensed for the incentive scheme.

Personnel fund

On 26 October 2004, Pohjola Bank plc joined the OP Bank Group Personnel Fund. On 31 December 2010, the Fund had some 2,400 Pohjola Group employees. No members of the staff of Group subsidiaries were included in the Fund, excluding Pohjola Insurance's and Seesam companies' personnel.

In 2010, the amount of profit-based bonuses based on profit for 2009 and transferred to the Personnel Fund totalled around EUR 2.4 million (0.8).

The profit-based bonuses based on profit for 2010 and transferred to the Personnel Fund are based on the same performance indicators as applied in the long-term management incentive scheme. However, the minimum requirement for OP-Pohjola Group's growth performance indicator within the management incentive scheme will not apply when determining the profit-based bonuses transferred to the Personnel Fund.

If the targets set for the performance indicators are achieved, profit-based bonuses for 2010 to be transferred to the Fund account for 3.0% of the combined salaries and wages earned by the Fund's members in 2010.

Parent company financial statements, FAS

- [Income statement](#)
- [Balance sheet](#)
- [Cash flow statement](#)
- [Notes to the Parent company financial statements](#)

Financial Statements

Income statement

€ million	2010	2009
Interest income	1,606	1,930
Net lease income	26	27
Interest expenses	-1,366	-1,701
Net interest income	266	256
Income from equity investments	112	68
From subsidiaries	108	65
From affiliates	2	2
From other companies	3	0
Commissions and fees	110	111
Commission expenses	-26	-37
Net income from securities and foreign exchange trading	43	66
Net income from securities trading	26	58
Net income from foreign exchange trading	17	7
Net income from available-for-sale financial assets	25	-7
Net income from hedge accounting	-5	-7
Net income from investment property	0	0
Other operating income	41	18
Administrative expenses	-116	-111
Personnel costs	-67	-66
Wages and salaries	-56	-52
Social expenses	-11	-14
Pension costs	-8	-8
Other social expenses	-3	-6
Other administrative expenses	-49	-45
Depreciation/amortisation and write-downs on tangible and intangible assets	-7	-5
Other operating expenses	-21	-23
Impairment losses on loans and other commitments	-103	-123
Operating profit	321	204
Appropriations	-104	-105
Income taxes	-23	-9
Taxes for the financial year	-28	-16
Taxes for previous financial years	0	0
Change in deferred taxes	6	7
Profit from operations after taxes	194	91
Profit for the financial year	194	91

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Balance sheet

Assets

€ million	31 Dec. 2010	31 Dec. 2009
Cash and cash equivalents	1,501	3,102
Notes and bonds eligible for refinancing with central banks	7,139	7,488
Treasury bills	30	5
Other	7,109	7,483
Receivables from credit institutions	7,284	6,107
Repayable on demand	248	142
Other	7,037	5,965
Receivables from the public and public sector entities	11,656	10,651
Repayable on demand	0	0
Other	11,656	10,651
Lease assets	823	759
Notes and bonds	400	805
From public sector entities	41	54
From other	359	751
Shares and participations	74	78
Shares and participations in affiliates	29	1
Shares and participations in subsidiaries	1,251	1,283
Derivative contracts	1,969	1,443
Intangible assets	29	31
Tangible assets	17	26
Investment property and shares and participations in investment property	10	21
Other property and shares and participations in property companies	3	2
Other tangible assets	3	3
Other assets	623	541
Deferred income and advances paid	632	519
Deferred tax assets	34	9
Total assets	33,461	32,845

Liabilities

€ million	31 Dec. 2010	31 Dec. 2009
Liabilities		
Liabilities to credit institutions	4,960	4,984
Central banks	355	500
Credit institutions	4,605	4,484
Repayable on demand	824	799
Other	3,782	3,685
Liabilities to the public and public sector entities	4,305	4,178
Deposits	1,681	1,558
Repayable on demand	1,629	1,510
Other	52	49
Other liabilities	2,624	2,620
Repayable on demand	0	0
Other	2,623	2,619
Debt securities issued to the public	16,871	17,516
Bonds	7,047	6,769
Other	9,824	10,746
Derivative contracts and other liabilities held for trading	2,059	1,527
Other liabilities	1,143	715
Other liabilities	1,143	715
Deferred expenses and advances received	628	521
Subordinated liabilities	1,205	1,250
Subordinated loans	274	258
Other	931	992

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Total liabilities	31,171	30,691
Appropriations	684	580
Depreciation difference	101	104
Voluntary provisions	582	475
Shareholders' equity		
Share capital	428	428
Share capital	428	428
Share premium account	524	524
Other restricted reserves	127	182
Reserve fund	164	164
Fair value reserve	37	19
Cash flow hedging	6	
Fair value measurement	31	19
Non-restricted reserves	331	331
Reserve for invested non-restricted equity	308	308
Other reserves	23	23
Retained earnings	2	18
Profit for the financial year	194	91
Total shareholders' equity	1,606	1,574
Total liabilities and shareholders' equity	33,461	32,845
Off-balance-sheet commitments	6,965	7,299
Commitments given to a third party on behalf of customers	2,597	2,676
Guarantees and pledges	2,458	2,578
Other	140	98
Irrevocable commitments given on behalf of customers	4,367	4,623
Securities repurchase commitments	14	16
Other	4,354	4,607

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Cash flow statement

€ million	31 Dec. 2010	31 Dec. 2009
Cash flow from operating activities		
Profit for the financial year	194	91
Adjustments to profit for the financial year	191	362
Increase (-) or decrease (+) in operating assets	-1,908	-2,294
Notes and bonds eligible for refinancing with central banks	196	-1,927
Receivables from financial institutions	-1,072	-1,036
Receivables from the public and public sector entities	-1,119	978
Lease assets	-232	-212
Notes and bonds	503	-293
Shares and participations	-2	-10
Derivative contracts	-89	-36
Investment property	0	1
Other assets	-93	242
Increase (+) or decrease (-) in operating liabilities	641	1,619
Liabilities to credit institutions and central banks	-28	1,338
Liabilities to the public and public sector entities	126	624
Derivative contracts and other liabilities held for trading	23	-71
Other liabilities	519	-272
Income tax paid	-12	-4
Dividends received	22	18
A. Net cash from operating activities	-873	-208
Cash flow from investing activities		
Increases in held-to-maturity financial assets		-170
Decreases in held-to-maturity financial assets	165	219
Acquisition of subsidiaries and associates	-28	-29
Disposal of subsidiaries and associates	56	2
Purchase of tangible and intangible assets	-5	-7
Proceeds from sale of tangible and intangible assets	0	0
B. Net cash used in investing activities	189	15
Cash flow from financing activities		
Increases in subordinated liabilities	77	158
Decreases in subordinated liabilities	-130	-182
Increases in debt securities issued to the public	45,318	53,132
Decreases in debt securities issued to the public	-45,967	-52,359
Dividends paid	-107	-45
Other monetary increases in equity items		308
C. Net cash used in financing activities	-809	1,011
Cash and cash equivalents transferred due to combination	-1,494	818
Cash and cash equivalents at year-start	3,243	2,425
Cash and cash equivalents at year-end	1,749	3,243
Increase/decrease in cash and cash equivalents		818
Interest received	1,531	2,138
Interest paid	-1,284	-1,856
Adjustments to profit for the financial year		
Non-cash items		
Change in fair value for trading	82	-137
Unrealised net gains on foreign exchange operations	-117	165
Change in fair value of investment assets	-118	-43
Depreciation/amortisation, change in depreciation/amortisation difference and voluntary provisions	282	272
Impairment losses on receivables	103	126
Other	-19	-22
Items presented outside cash flow from operating activities		

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Capital gains, share of cash flow from investing activities	-22	0
Capital losses, share of cash flow from investing activities		0
Total adjustments	191	362
Cash and cash equivalents		
Liquid assets	1,501	3,102
Receivables from credit institutions payable on demand	248	142
Total	1,749	3,243

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Notes to the Parent company financial statements

Parent Company's (Pohjola Bank plc) Accounting Policies

General information

Pohjola Bank plc is a Finnish credit institution whose organisation is based on business lines and centralised services and support functions required by the Group and the business lines.

The business lines of Pohjola Bank plc, the parent company, comprise Corporate Banking, Markets, and Central Banking and Group Treasury. In addition, the Company includes Other Operations involving administrative functions.

Pohjola Bank plc (Pohjola or the Company) is part of OP-Pohjola Group which currently consists of 213 independent member cooperative banks, OP-Pohjola Group Central Cooperative and other member credit institutions. OP-Pohjola Group's member credit institutions comprise Pohjola, Helsinki OP Bank Plc, OP-Kotipankki Oyj, OP Mortgage Bank and member cooperative banks.

In accordance with the Act on the amalgamation of deposit banks (Laki talletuspankkien yhteenliittymästä), the member credit institutions, Pohjola included, and OP-Pohjola Group Central Cooperative are ultimately jointly and severally liable for each other's debts and commitments. If a member credit institution's own capital is depleted to such a low level owing to losses that the criteria, specified in the Act, for being placed in liquidation are fulfilled, the Central Cooperative has the right to collect from its member credit institutions extra contributions on the basis of the combined balance sheets previously adopted.

Pohjola is domiciled in Helsinki and the street address of its registered office is Teollisuuskatu 1 B, FI-00510 Helsinki, Finland. A copy of Pohjola's consolidated financial statements is available at www.pohjola.fi or the Company's head office.

Basis of preparation

Pohjola Bank plc's financial statements based on national regulation are prepared and presented according to the Act on Credit Institutions, the Ministry of Finance Decree on the Financial Statements and Consolidated Financial Statements of a Credit Institution and Investment Firm, the Accounting Act and the Financial Supervisory Authority's Standard on financial statements and annual report. In addition, the central institution of the amalgamation of cooperative banks, OP-Pohjola Group Central Cooperative, issues instructions for compliance with unified accounting principles and the preparation of the financial statements.

Pohjola Bank plc's financial statements are presented in millions of euros and prepared at historical cost, with the exception of financial assets and liabilities held for trading, financial assets at fair value through profit or loss at inception, available-for-sale financial assets and hedged items in fair value hedging.

The preparation of financial statements requires the management to make assessments and estimates and exercise its judgement in the process of applying the accounting policies.

Reclassification

During the third quarter of 2008, Pohjola reclassified some of the notes and bonds included in the liquidity portfolio, with a view to providing a clearer picture of their actual purpose of use. This reclassification was enabled by Commission Regulation (EC) No. 1004/2008 of 15 October 2008 applying to IAS 39 and IFRS 7 and the Regulation is aimed at making it easier to reclassify certain financial instruments in rare circumstances. The underlying reason for adopting this Regulation lay in the financial turmoil which is why reliable market prices were not available to all financial instruments at the end of September 2008. Companies have been allowed to reclassify certain financial instruments since 1 July 2008. The Financial Supervisory Authority has also approved reclassification to be applied to financial statements prepared under national regulation.

The reclassification had no effect on the results recorded for previous periods. A more detailed description of reclassification can be found in Note 19.

Foreign currency translation

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

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

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Financial instruments

Fair value determination

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

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

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

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

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

It is typical of illiquid instruments that their price calculated using a pricing model differs from the actual transaction price. However, the actual transaction price is the best evidence of the instrument's fair value. The Day 1 profit/loss, based on the difference between the actual transaction price and the price deriving from the pricing model, is recognised in the income statement over the term of the contract or a shorter period taking account of the product's structure and counterparty. However, the non-recognised amount will be recognised as soon as there is a genuine market price for the instrument or a well-established pricing practice is created in the market.

Impairment of financial assets

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

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

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

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

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

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

Securities sale and repurchase agreements

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

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

Classification and recognition

On the basis of their initial recognition, financial assets and liabilities are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, financial liabilities at fair value through profit or loss and other financial liabilities. Financial assets at fair value through profit or loss are subdivided into financial assets held for trading and financial assets at fair value through profit or loss at inception. Financial liabilities at fair value through profit or loss are financial liabilities held for trading.

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

Financial assets and liabilities are offset and the net amount reported in the balance sheet only if there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis. Pohjola Bank plc did not apply the off-set procedure during the financial year.

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

Financial assets and liabilities held for trading

All financial assets and liabilities that are expected to generate short-term profits arising from fluctuations in interest rates, prices and quotations or in which an embedded derivative contract cannot be separated from the host contract are classified as held for trading. Liabilities held for trading refer to the obligation to deliver securities which have been sold but which have not been owned at the time of selling (short selling). Financial assets and liabilities held for trading include derivatives other than those used for hedging purposes.

Financial assets and liabilities held for trading are recognised at fair value in the balance sheet, and subsequent changes in the fair value are recognised under 'Net income from securities trading' in the income statement.

Financial assets at fair value through profit or loss at inception

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

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

In addition, this asset class includes hybrid instruments in which the fair value of an embedded derivative cannot be determined separately. These financial assets are measured at fair value in the balance sheet, and any subsequent changes in the fair value are recognised under 'Net income from securities trading' in the income statement.

Loans and other receivables

Financial assets classified as loans and other receivables are non-derivative financial assets with fixed or determinable payments that have been created by lending money or rendering services. Not quoted in an active market, loans and other receivables are carried at cost.

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

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

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

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

effective interest rate determined under the agreement. The difference between the carrying amount of the loan and a lower recoverable amount is recognised as an impairment loss in the income statement.

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

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

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

Investments held to maturity

Investments held to maturity are non-derivative financial assets with fixed or determinable payments that the Company has the positive intention and ability to hold to maturity. These investments are carried at amortised cost after their initial recognition. The difference between the nominal value and the acquisition value of bonds is allocated over the residual term to maturity.

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

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

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

Available-for-sale financial assets

Available-for-sale financial assets include non-derivative financial assets which have been directly categorised as available for sale or which are not classified as the abovementioned financial assets, consisting mainly of notes and bonds, long-term equity investments and other shares and participations necessary for operations.

Notes and bonds were reclassified out of the financial assets held for trading category into the available-for-sale financial assets category at their fair value on 1 July 2008. Any fair value changes after this date are recognised in the fair value reserve under shareholders' equity.

At the time of their acquisition, available-for-sale financial assets are recognised at cost, which equals the fair value of the consideration paid plus transaction costs directly attributable to their acquisition. Available-for-sale financial assets are measured at fair value.

If the fair value cannot be determined reliably, shares and participations necessary for operations and other unquoted shares and participations are measured at cost. Any changes in their fair value are recognised in the 'Fair value reserve' under shareholders' equity, from where they, including any capital gain or loss, are transferred to 'Net income from available-for-sale financial assets' in the income statement when the asset is derecognised or impaired. Interest income and dividends are recorded in the income statement.

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

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

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

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

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

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Notes and bonds were reclassified out of the financial assets held for trading category into the available-for-sale financial assets category at their fair value on 1 July 2008. Any fair value changes after this date are recognised in the fair value reserve under shareholders' equity.

Participating interests, and shares and holdings in Group companies

Participating interests, and shares and holdings and other equity investments in Group companies are recognised at cost or, if the item's value on the balance sheet date is found to be lower than the acquisition cost due to impairment, at cost less impairment loss. Impairments are recognised under 'Impairment losses on other financial assets' in the income statement.

Cash and cash equivalents

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

Other assets

Other assets comprise receivables repayable on demand arising from brokerage, receivables in various clearing accounts, marginal account receivables related to derivative contracts and all other receivables which cannot be presented under any other suitable balance sheet item, such as various accounts receivable, rental receivables and insurance claim receivables.

Other financial liabilities

Other financial liabilities include financial liabilities other than those held for trading.

After initial recognition, they are carried at cost. The difference between the nominal value and the acquisition cost of fixed-rate bonds is allocated over the residual term to maturity, using the effective interest method. The counterpart is recognised as an increase or decrease in the liability's book value.

Other liabilities

Other liabilities consist mainly of payment transfer liabilities, accounts payable and liabilities related to securities trading.

Derivative contracts

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

Derivatives are divided into hedging and non-hedging contracts. Both hedging and non-hedging derivatives are recognised at fair value in the balance sheet. Accrued interest on non-hedging interest rate swaps is recognised in interest income and interest carried forward corresponding to them in deferred income and deferred expenses. Changes in the fair value of non-hedging interest-rate, loan, currency, equity and commodity derivatives are recognised under 'Net income from foreign exchange trading' in the income statement. Positive fair value changes and premiums paid for derivative contracts are recognised as assets under 'Derivative contracts' while negative fair value changes and premiums received from derivative contracts are recognised under 'Derivative contracts and other liabilities held for trading'.

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

In accordance with the hedging principles, the Group's Parent Company, Pohjola Bank plc, can hedge against interest rate risk, currency risk and price risk by applying fair value hedge or cash flow hedge. While the latter refers hedging against risks causing cash flow fluctuations, the former refers to hedging against changes in the fair value of a hedged asset/liability.

Pohjola Bank plc concludes derivative contracts which are in fact used to hedge against financial risks but which do not fulfil these criteria.

Embedded derivatives associated with structured bonds issued and housing loans with an interest-rate cap are separated from the host contract and measured at fair value, and changes in the fair value of these embedded derivatives and derivatives designated as hedging instruments are recognised in interest income or expenses.

Hedge accounting

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

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

Fair value hedges

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

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

Cash flow hedges

A cash flow hedge is a hedge of the exposure to the variability attributable to a particular risk associated with variable-rate debt or other variable-rate assets and liabilities. For example, 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 effective portion of changes in the fair value of the hedging instrument is recognised in other comprehensive income. Any ineffective portion of changes in the fair value is recognised immediately in profit or loss. Fair value changes recognised in shareholders' equity are included in the income statement in the period when hedged items affect net income. If the hedging derivative expires or is sold, terminated, or exercised, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked, the hedge accounting is discontinued prospectively. In a discontinued hedge of a forecast transaction, the cumulative amount recognised in the income statement from the period when the hedge was effective is reclassified from equity to profit or loss when the forecast transaction occurs and affects profit or loss.

Lease assets

Leased out assets and lease assets' advance payments are recognised at non-depreciated cost and presented under 'Lease assets' in the balance sheet. As a rule, lease assets are depreciated according to the annuity depreciation method.

Lease income from leased out assets based on lease contracts less planned depreciation on the lease assets are recognised under 'Net lease income'. In addition, the item includes impairment losses on lease assets, capital gains and losses on the disposal of lease assets, commissions charged from customers and other income and expenses directly attributable to lease contracts. Other income and expenses due to leases are included in the income statement item that corresponds to the nature of the income or expense item.

Intangible assets

Intangible assets are stated at cost less amortisation and write-downs. These assets are amortised over their estimated useful lives, which is 2-5 years for computer software and licences, and 5 years in general for other intangible assets. The useful lives of assets are reviewed on each balance sheet date.

Planned amortisation and write-downs on intangible assets are recognised under 'Depreciation/amortisation and write-downs on tangible and intangible assets' in the income statement.

Tangible assets

Investment property

Investment property is land and/or building or part thereof held to earn rental income and/or for capital appreciation. Property, a minor part of which is used by the owner company or its personnel, is also accounted for as investment property.

Investment property is stated at cost less planned depreciation and impairments. Land and shares and holdings in property companies can be subject to revaluation if their probable selling price on the balance sheet date is permanently higher than the original acquisition cost. Expenses incurred after the original acquisition will be capitalised only if it is probable that the resulting economic benefit from the property will be higher than initially estimated.

The fair value of business, office and industrial premises classified as investment property holdings and presented in the related note to the financial statements is primarily determined using the income capitalisation approach based on direct capitalisation. The fair value of investment property under construction can be presented only if its fair value can be determined reliably. The fair value of land, water and forest areas and residential buildings is primarily determined using the sales comparison approach. Recognition of impairments is based on their consistency and materiality.

Income, expenses, capital gains and losses, planned depreciation and impairments related to investment property are recognised under 'Net income from investment property' in the income statement.

Other tangible assets

Tangible assets are stated at cost less depreciation and write-downs. Assets are depreciated according to plan on a straight-line basis over their estimated useful lives. Planned depreciation is not applicable to land and shares in property companies. Expenses related to an asset arising after its original acquisition are capitalised at the asset's book value only if it is probable that it will produce greater economic benefit than initially estimated.

The estimated useful lives are mainly as follows:

Buildings	30–50 years
Machinery and equipment	4–10 years
IT equipment	3–5 years
Cars	6 years
Other tangible assets	5–10 years

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

Assets' planned depreciation and write-downs are recognised under 'Depreciation/amortisation and write-downs on tangible and intangible assets' in the income statement. Income from and capital gains on property in own use are recognised under 'Other operating income and expenses' and capital losses under 'Other operating expenses' in the income statement.

Employee benefits

Pension benefits

The statutory pension cover for Pohjola Bank plc's employees is managed through payments to OP Bank Group Pension Fund and supplementary pension cover through OP Bank Group Pension Foundation. The Pension Foundation has been closed to new employees since 1 July 1991. Expenses arising from pension plans are recognised under 'Personnel costs' in the income statement. Pension liabilities are fully covered.

Share-based compensation

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

Equity-settled share-based payments are measured at fair value on the grant date and recognised as expenses and an increase in shareholders' equity over the vesting period. Share-based compensation paid in cash and the corresponding liability are measured at fair value at the end of each period until the liability is settled. Entries in the income statement are made in 'Wages and salaries' and in the balance sheet in 'Retained earnings' and 'Deferred expenses'.

Personnel Fund

Pohjola Bank plc belongs to OP-Pohjola Group's OP Personnel Fund, into which bonuses are paid on the basis of pre-agreed principles, depending on the achievement of targets. Bonuses transferred to the Fund are recognised under 'Wages and salaries' in the income statement and the counterpart as 'Deferred expenses' in the balance sheet.

Statutory provisions

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

Hybrid capital

Hybrid capital instruments are recorded as a separate balance-sheet item under 'Subordinated liabilities'. In capital adequacy measurement, these instruments are included in Tier 1 capital. Interest on these instruments may be paid only within the limits of distributable funds.

Appropriations

The depreciation difference under appropriations in the balance sheet includes the accumulated difference between depreciation made and planned depreciation. Voluntary provisions contain voluntary appropriations made which are appropriations permitted by tax legislation. Such a provision is eg the loan loss provision permitted by the Business Income Tax Act for deposit banks. According to this Act, a deposit bank may deduct a loan loss provision made during the tax year, the amount of which accounts for a maximum of 0.6% of the total amount of receivables at the end of the tax year. The total amount of non-reversed loan loss provisions made during the tax year and earlier may account for a maximum of 5% of the total amount of receivables at the end of the tax year.

An increase and decrease in depreciation made and planned depreciation as well as voluntary provisions are recognised under appropriations in the income statement. Appropriations in the income statement and balance sheet also include deferred tax liabilities. The amount of and change in voluntary provisions do not reflect Pohjola's calculated risks.

Income taxes

Income taxes shown in the income statement include taxes based on Pohjola Bank plc's taxable income for the financial year, taxes for previous financial years and deferred tax expense or income.

Deferred tax liabilities are recognised for all temporary differences between the book value and taxable value of assets and liabilities. Deferred tax assets are recognised for tax-deductible temporary differences between the book value and taxable value included in the financial statements, as well as all losses confirmed for tax purposes. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The Company offsets deferred tax assets and liabilities. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted by the balance sheet date. If deferred tax originates from balance sheet items not recognised in the income statement, any change in deferred tax is recognised in shareholders' equity, not in the income statement.

Revenue recognition

Interest income and expenses for interest-bearing assets and liabilities are recognised on an accrual basis. Interest on receivables with non-settled, due payments is also recognised as revenue and this interest receivable is tested for impairment.

The difference (price difference) between the receivable's acquisition cost and nominal value is allocated to interest income and that between the amount received and nominal value of the liability to interest expenses.

Commission income and expenses for services are recognised when the service is rendered. One-off commissions covering several years and including a possible refund obligation are recognised as revenue on a cash basis and statutory provision is recognised for the refund obligation.

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

Offsetting income statement items

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

Off-balance-sheet commitments

Off-balance-sheet commitments include commitments made for a third party on behalf of customers, such as guarantees and various guarantee engagements, and irrevocable commitments made for customers, such as binding supplementary loan arrangements, loan commitments, standby credit facilities and underwritings.

Commitments made for a third party on behalf of customers are recognised as off-balance-sheet commitments to the amount to which guarantee corresponds at most from time to time. Irrevocable commitments made for customers are recognised to the maximum amount which may have to be paid on the basis of them.

Notes to the Parent company financial statements

NOTES TO THE INCOME STATEMENT

Notes concerning an entity under the Group's control

Note 1. Interest income and expenses

€ million	2010	2009
Interest income		
Receivables from credit institutions	96	143
Receivables from the public and public sector entities	283	361
Notes and bonds	226	245
Derivative contracts	1,000	1,177
Trading items	1,114	1,255
Hedge accounting	-114	-78
of which cash flow hedge	2	
Other	2	4
Total	1,606	1,930
Of which interest income from impaired receivables	2	1
Interest expenses		
Liabilities to credit institutions	56	60
Liabilities to the public and public sector entities	16	32
Debt securities issued to the public	245	348
Derivative contracts and other liabilities held for trading	1,006	1,212
Subordinated liabilities	41	47
Other	2	2
Total	1,366	1,701

Interest income received from Group and associated companies and interest expenses paid to them

€ million	2010		2009	
	Subsidiaries	Associates	Subsidiaries	Associates
Interest income	1		5	
Interest expenses	2		2	

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Notes to the Parent company financial statements

NOTES TO THE INCOME STATEMENT

Note 2. Net lease income

€ million	2010	2009
Lease income	205	198
Planned depreciation	-171	-162
Leased asset write-downs	1	-1
Capital gains and losses (net) on the disposal of lease assets	0	-1
Commissions and fees	2	2
Other income	0	0
Other expenses	-10	-10
Total	26	27

Notes to the Parent company financial statements

NOTES TO THE INCOME STATEMENT

Note 3. Income from equity investments

€ million	2010	2009
Available for sale	3	0
Subsidiaries	108	65
Affiliates	2	2
Total	112	68

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Notes to the Parent company financial statements

NOTES TO THE INCOME STATEMENT

Note 4. Commissions and fees

€ million	2010	2009
Commissions and fees		
Lending	34	36
Deposits	0	0
Payment transfers	13	13
Mutual funds	0	0
Asset management	7	5
Legal services	0	0
Securities brokerage	31	23
Securities issuance	6	6
Guarantees	17	16
Other	2	11
Total	110	111
Commission expenses		
Service fees paid	2	3
Other	24	34
Total	26	37

Notes to the Parent company financial statements

NOTES TO THE INCOME STATEMENT

Note 5. Net income from securities and foreign exchange trading

€ million	2010	2009
Capital gains and losses		
Notes and bonds	18	32
Fair value option	0	-9
Shares and participations	0	0
Other	0	
Total	18	32
Due to fair value changes		
Notes and bonds	3	-15
Fair value option	2	10
Derivative contracts	-57	-36
Total	-54	-50
Other income		
Derivative contracts	62	76
Total	62	76
Total net income from securities trading	26	58
Net income from foreign exchange trading	17	7
Total net income from securities and foreign exchange trading	43	66

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Notes to the Parent company financial statements

NOTES TO THE INCOME STATEMENT

Note 6. Net income from available-for-sale financial assets

€ million	2010	2009
Notes and bonds		
Capital gains and losses	28	1
Transferred from fair value reserve during the financial year	1	0
Total	29	1
Shares and participations		
Capital gains and losses	0	0
Impairment losses	-4	-8
Transferred from fair value reserve during the financial year	0	1
Total	-4	-8
Total net income from available-for-sale financial assets	25	-7

Notes to the Parent company financial statements

NOTES TO THE INCOME STATEMENT

Note 7. Net income from hedge accounting

€ million	2010	2009
Net income from hedging instruments	-62	-37
Net income from hedged items	57	30
Total	-5	-7

Notes to the Parent company financial statements

NOTES TO THE INCOME STATEMENT

Note 8. Net income from investment property

€ million	2010	2009
Rental and dividend income	1	2
Other income	0	0
Capital gains		0
Rental expenses	-1	-1
Capital losses		0
Write-downs and their reversals		0
Other expenses	0	0
Total	0	0

Notes to the Parent company financial statements

NOTES TO THE INCOME STATEMENT

Note 9. Other operating income

€ million	2010	2009
Rental income from property in ow n use	0	0
Capital gains on property in ow n use	0	0
Other	41	18
Total	41	18

Notes to the Parent company financial statements

NOTES TO THE INCOME STATEMENT

Note 10. Depreciation/amortisation and write-downs on tangible and intangible assets

€ million	2010	2009
Planned depreciation	7,166	4,846
Write-down	-49	-72
Total	7,118	4,773

Notes to the Parent company financial statements

NOTES TO THE INCOME STATEMENT

Note 11. Other operating expenses

€ million	2010	2009
Rental expenses	5	5
Expenses for property in own use	1	0
Other	15	18
Total	21	23

Notes to the Parent company financial statements

NOTES TO THE INCOME STATEMENT

Note 12. Impairment losses on loans and other commitments and other financial assets

€ million	Gross impairment losses on individually assessed receivable	Gross impairment losses on collectively assessed receivable	Entered in income Reductions statement	
Impairment losses on loans and other commitments				
Receivables from credit institutions				
Receivables from the public and public sector entities	152	0	49	103
Guarantees and other off-balance-sheet items				
Other				
Total	152	0	49	103
Total impairment losses	152	0	49	103

Notes to the Parent company financial statements

NOTES TO THE INCOME STATEMENT

Note 13. Income taxes

€ million	2010	2009
Income taxes from operations	23	9
Total income taxes	23	9

Notes to the Parent company financial statements

NOTES TO THE INCOME STATEMENT

Note 14. Income, operating profit or loss and assets and liabilities by Division

€ million	Corporate Banking	Markets	Group Treasury	Other	Total
Income*	237	114	128	41	520
Operating profit	56	53	117	95	321
Assets	11,853	2,843	17,258	1,507	33,461
Liabilities	1,833	3,519	25,667	217	31,236
Personnel	405	176	56	127	764

* Income consists of the following items in the income statement: interest income, income from equity investments, commissions and fees, net income from securities and foreign exchange trading, net income from available-for-sale assets, net income from hedge accounting, net income from investment property and other operating income.

Notes to the Parent company financial statements

NOTES TO THE BALANCE SHEET

Note 15. Receivables from credit institutions

€ million	31 Dec.	
	31 Dec. 2010	2009
Repayable on demand		
Deposits	187	102
Other	61	39
Total	248	142
Other than those repayable on demand		
Deposits	0	7
Other	7,037	5,958
Total	7,037	5,965
Total receivables from credit institutions	7,284	6,107
of which subordinated receivables	42	42

Pohjola Bank plc has only receivables repayable on demand from the Bank of Finland.

Notes to the Parent company financial statements

NOTES TO THE BALANCE SHEET

Note 16. Receivables from the public and public sector entities

€ million	31 Dec.	
	2010	2009
Receivables from the public and public sector entities by sector		
Non-banking corporate sector and housing corporations	8,940	8,502
Financial institutions and insurance companies	231	250
Public sector entities	808	311
Non-profit organisations serving households	211	198
Households	722	720
Foreign	755	680
Collective impairments	-10	-10
Total	11,656	10,651
of which subordinated receivables	74	73
The balance-sheet item includes EUR 6.7 million in loans for which interest income is not recognised.		
Write-downs on loans		
Write-downs at year-start	141	31
+ Write-downs on individually assessed receivables during the financial year	110	129
+/- Write-downs on collectively assessed receivables during the financial year	0	4
- Write-downs reversed for individually assessed receivables during the financial year	-12	-11
- Actual impairment losses recorded during the financial year		
of which write-downs on individually assessed receivables were made previously	-37	-12
Exchange rate difference on write-downs on loans	2	-1
Write-downs at year-end	203	141

Notes to the Parent company financial statements

NOTES TO THE BALANCE SHEET

Note 17. Lease assets

€ million	31 Dec.	
	31 Dec. 2010	2009
Advance payments	170	91
Machinery and equipment	532	544
Real property and buildings	99	106
Other assets	23	18
Total	823	759

Notes to the Parent company financial statements

NOTES TO THE BALANCE SHEET

Note 18. Notes and bonds

Notes and bonds eligible for refinancing with central banks and other notes and bonds 31 December 2010

€ million	Eligible for refinancing with central banks	Other notes and bonds	Total	Of which subordinated
Financial assets at fair value through profit or loss	330	205	535	4
Available for sale	5,141	154	5,296	
Held to maturity	886	41	928	
Held in another portfolio	781		781	
Total	7,139	400	7,539	4

Publicly-quoted and other notes and bonds 31 December 2010

€ million	Publicly-quoted	Other	Total
Financial assets at fair value through profit or loss	455	81	535
Available for sale	5,269	26	5,296
Held to maturity	928		928
Held in another portfolio	0	781	781
Total	6,651	888	7,539

The Financial assets through profit or loss at fair value category includes EUR 12.5 million in financial assets at fair value through profit or loss at inception, of which publicly quoted ones amount to EUR 12.5 million.

Notes and bonds by type, € million	31 Dec. 2010	31 Dec. 2009
Financial assets at fair value through profit or loss		
Treasury bills	30	5
Local authority papers	34	42
Commercial papers	2	15
Certificates of deposit	0	498
Convertible bonds	1	0
Other bonds	469	911
Total	535	1,472
Available for sale		
Other bonds	5,296	4,215
Total	5,296	4,215
Held to maturity		
Other bonds	928	1,086
Total	928	1,086
Held in another portfolio		
Other bonds	781	
Total	781	

By 31 December 2010, all Pohjola Bank plc's notes and bonds accrued interest recognised in accounting.

Notes to the Parent company financial statements

NOTES TO THE BALANCE SHEET

Note 19. Reclassified notes and bonds

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

31 Dec 2010, € million	Carrying amount	Fair value	Effective interest rate	Impairments arising from credit risk
Loans and other receivables	1,063	1,041	5.3	21
Investments held to maturity	677	626	4.2	
Total	1,741	1,667		21

31 Dec 2009, € million	Carrying amount	Fair value	Effective interest rate	Impairments arising from credit risk
Loans and other receivables	2,118	2,126	5.4	50
Investments held to maturity	798	761	4.2	
Total	2,917	2,887		50

Value changes as shown below, if notes and bonds were not reclassified and had been measured using fair values available in the inactive market:

€ million	Q1–4/2010		Q1–4/2009	
	Income statement	Fair value reserve	Income statement	Fair value reserve
Banking	4		9	
Group Functions	-14	1	80	42
Total	-10	1	90	42

Interest accrued on reclassified notes and bonds in January–December totalled EUR 45 million (102). The price difference between the nominal value and acquisition value recognised in the income statement totalled EUR 15 million (25). Impairment loss recoveries recognised on bonds and notes totalled EUR 8 million. In 2009, impairment charges recognised on notes and bonds totalled EUR 41 million. Pohjola used derivatives to hedge against interest rate risks, applying hedge accounting from 1 October 2008. Positive mark-to-market valuations recognised on hedging derivative contracts amounted to EUR 1.6 million.

Notes to the Parent company financial statements

NOTES TO THE BALANCE SHEET

Note 20. Shares and participations

€ million	Publicly quoted	Other	Total
Shares and participations			
Available for sale	8	95	103
Shares in subsidiaries		1,251	1,251
Total	8	1,345	1,354

EUR 5.0 million in shares and participations other than those quoted publicly was measured at fair value and the rest at cost.

€ million	31 Dec. 31 Dec. 2010	31 Dec. 2009
Shares and participations by sector		
Non-banking corporate sector and housing corporations	30	59
Financial institutions and insurance companies	1,280	1,272
Foreign entities	44	31
Total	1,354	1,363

Notes to the Parent company financial statements

NOTES TO THE BALANCE SHEET

Note 21. Derivative contracts

Derivative contracts for hedging purposes – fair value hedge in 2010

€ million	Nominal values/residual term to maturity			Total	Fair values	
	<1 year	1–5 years	>5 years		Positive	Negative
Interest rate derivatives	692	6,701	2,924	10,318	131	208
Interest rate sw aps	692	6,701	2,924	10,318	131	208
Currency derivatives	749	468	202	1,419	86	160
Interest rate and currency sw aps	749	468	202	1,419	86	160

Derivative contracts for hedging purposes – cash flow hedge in 2010

€ million	Nominal values/residual term to maturity			Total	Fair values	
	<1 year	1–5 years	>5 years		Positive	Negative
Interest rate derivatives		800		800	0	6
Interest rate sw aps		800		800	0	6

Derivative contracts held for trading in 2010

€ million	Nominal values/residual term to maturity			Total	Fair values	
	<1 year	1–5 years	>5 years		Positive	Negative
Interest rate derivatives	46,621	59,137	25,282	131,040	1,349	1,328
Futures and forw ards	3,769	400		4,169	0	5
Options	26,232	16,297	5,097	47,626	282	219
Called	10,852	9,545	2,499	22,897	282	18
Put	15,379	6,752	2,598	24,729	0	202
Interest rate sw aps	12,729	42,325	20,185	75,240	1,064	1,071
Other sw ap contracts	3,891	114		4,005	2	33
Currency derivatives	15,442	1,613	473	17,528	240	249
Futures and forw ards	15,128	423		15,551	185	181
Options	241			241	2	2
Called	117			117	2	
Put	123			123		2
Interest rate and currency sw aps	74	1,190	473	1,737	53	65
Equity derivatives	106	967	29	1,102	128	
Futures and forw ards						
Options	106	967	29	1,102	128	
Called	106	967	29	1,102	128	
Put						
Other derivatives	47	311		358	32	14
Futures and forw ards	27	49		76	24	0
Options		45		45	2	1
Called		27		27	2	
Put		17		17		1
Other sw ap contracts	7	56		63	1	13
Credit derivatives	13	162		175	5	0

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The underlying value for interest rate derivative contracts is the nominal value, for currency derivative contracts the euro-denominated stated value of the purchased currency on the balance sheet date, and for equity derivative contracts the probable value of equities on the balance sheet date. The values are expressed in gross amounts.

Credit equivalents of contracts in 2010

€ million	Made for hedging purposes		Held for trading
	Fair value hedge	Cash flow hedge	
Interest rate derivatives	208	4	1,970
Futures and forward contracts			2
Options			366
Called			366
Put			
Interest rate swaps	208	4	1,576
Other swap contracts			25
Currency derivatives	132		510
Futures and forwards			358
Options			3
Called			3
Put			
Interest rate and currency swaps	132		149
Equity derivatives			215
Futures and forwards			
Options			215
Called			215
Put			
Other derivatives			21
Futures and forwards			
Options			5
Called			5
Put			
Other swap contracts			8
Credit derivatives			8

Derivative contracts for hedging purposes in 2009

€ million	Nominal values/residual term to maturity			Total	Fair values	
	<1 year	1–5 years	>5 years		Positive	Negative
Interest rate derivatives	2,007	6,300	747	9,053	81	190
Interest rate swaps	2,007	6,300	747	9,053	81	190
Currency derivatives		1,080	136	1,216	13	197
Interest rate and currency swaps		1,080	136	1,216	13	197

Derivative contracts held for trading in 2009

€ million	Nominal values/residual term to maturity			Total	Fair values	
	<1 year	1–5 years	>5 years		Positive	Negative
Interest rate derivatives	43,636	45,166	12,266	101,068	1,088	1,068
Futures and forward contracts	2,442	608		3,050	5	1
Options	24,649	14,712	3,147	42,509	193	153
Called	9,296	9,055	1,580	19,931	192	27
Put	15,353	5,657	1,568	22,578	1	126
Interest rate swaps	12,702	29,611	9,119	51,432	887	891
Other swap contracts	3,843	234		4,077	2	24
Currency derivatives	11,357	879	354	12,590	229	140

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Futures and forwards	11,108	460	7	11,574	203	101
Options	250			250	2	2
Called	121			121	2	
Put	129			129		2
Interest rate and currency swaps		419	347	766	25	
Equity derivatives	72	814	41	927	87	
Futures and forwards						
Options	72	814	41	927	87	
Called	72	814	41	927	87	
Put						
Other derivatives	63	175	0	238	6	3
Futures and forwards	6	7		12	2	1
Options		10		10	0	
Called		10		10	0	
Put						
Other swap contracts	1	1	0	2	0	0
Credit derivatives	56	157		213	4	1

The underlying value for interest rate derivative contracts is the nominal value, for currency derivative contracts the euro-denominated stated value of the purchased currency on the balance sheet date, and for equity derivative contracts the probable value of equities on the balance sheet date. The values are expressed in gross amounts.

Credit equivalents of contracts in 2009

€ million	Made for hedging purposes	Held for trading
Interest rate derivatives	124	1,452
Futures and forward contracts		1
Options		259
Called		259
Put		
Interest rate swaps	124	1,171
Other swap contracts		20
Currency derivatives	77	412
Futures and forwards		338
Options		3
Called		3
Put		
Interest rate and currency swaps	77	72
Equity derivatives		161
Futures and forwards		
Options		161
Called		161
Put		
Other derivatives		9
Futures and forwards		
Options		1
Called		1
Put		
Other swap contracts		0
Credit derivatives		7

The parent company has no derivative contracts whose counterparty is a Pohjola Group company.

Notes to the Parent company financial statements

NOTES TO THE BALANCE SHEET

Note 22. Intangible assets

€ million	31 Dec.	
	31 Dec. 2010	2009
Goodwill	9	11
IT costs	15	8
Other long-term expenditure	5	13
Total	29	31

Notes to the Parent company financial statements

NOTES TO THE BALANCE SHEET

Note 23. Tangible assets

€ million	In own use	Investment property	
		Book value	Fair value
Property holdings			
Land and water	0	0	0
Buildings	1		
Shares and holdings in property companies	2	10	30
Total	3	10	30
Other tangible assets		3	

Notes to the Parent company financial statements

NOTES TO THE BALANCE SHEET

Note 24. Changes in intangible and tangible assets during the financial year

€ million	Goodwill	Other intangible assets	Investment property	Property in own use	Other tangible assets
Acquisition cost 1 January	12	62	24	3	69
+ increases during the year		5		0	0
- decreases during the year		0	-10	0	
+/- transfers between items		-1		1	
- planned depreciation/amortisation	-2	-4		0	0
-/+ impairment losses and their reversals			0		
+ accumulated depreciation/amortisation and write-downs on adjustments and transfers 1 January				0	
- accumulated depreciation/amortisation 1 January	-1	-41	0	-1	-66
- accumulated impairment 1 January			-3	0	
Book value 31 December	9	20	10	3	3

Notes to the Parent company financial statements

NOTES TO THE BALANCE SHEET

Note 25. Other assets

€ million	31 Dec.	
	31 Dec. 2010	2009
Sales receivables from securities	40	41
Margin receivables related to derivative contracts	50	30
Receivables from payment transfers	23	1
Other	510	469
Total	623	541

The item Other includes EUR 284 million (292) in foreign CSA collateral receivables.

Notes to the Parent company financial statements

NOTES TO THE BALANCE SHEET

Note 26. Deferred income and advances paid

€ million	31 Dec.	
	31 Dec. 2010	2009
Interest		
Interest receivables	577	502
Interest advances paid	10	9
Total	586	511
Other		
Other advances paid	1	3
Other deferred income	44	6
Total	45	9
Total deferred income and advances paid	632	519

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Notes to the Parent company financial statements

NOTES TO THE BALANCE SHEET

Note 27. Deferred tax assets and liabilities

€ million	Deferred tax assets	Deferred tax liabilities	Net
From timing differences	23	0	23
From other temporary differences	11	1	11
Total	35	1	34

Deferred tax assets include a total of EUR 0.00 in deferred tax assets recognised on losses confirmed in taxation.

Deferred tax assets and liabilities arising from other temporary differences comprise deferred tax assets and liabilities based on revaluations of available-for-sale financial assets recognised in the fair value reserve under equity and of derivatives designated as cash flow hedges.

Revaluations 31 December 2010

The balance sheet does not include any revaluation.

Appropriations

€ million	Balance sheet value	Deferred tax liability	Net
Depreciation difference	101	26	75
Voluntary provisions	582	151	431
Total	684	178	506

Depreciation difference and voluntary provisions have been entered in the balance sheet to the amount of non-deducted deferred tax.

Notes to the Parent company financial statements

NOTES TO THE BALANCE SHEET

Note 28. Debt securities issued to the public

	Book value	Nominal value	Book value	Nominal value
€ million	31 Dec. 2010	31 Dec. 2010	31 Dec. 2009	31 Dec. 2009
Certificates of deposit	3,421	3,429	2,279	2,283
Bonds	7,309	7,441	6,769	6,880
Other	6,141	6,151	8,468	8,511
Total	16,871	17,021	17,516	17,674

Notes to the Parent company financial statements

NOTES TO THE BALANCE SHEET

Note 29. Other liabilities

€ million	31 Dec.	
	31 Dec. 2010	2009
Payment transfer liabilities	587	335
Accounts payable on securities	102	41
Margin liabilities related to derivative contracts	343	106
Other	112	233
Total	1,143	715

Other' includes EUR 94 million (219) in equity and derivative liabilities.

Notes to the Parent company financial statements

NOTES TO THE BALANCE SHEET

Note 30. Statutory provisions

Statutory provisions do not exist.

Notes to the Parent company financial statements

NOTES TO THE BALANCE SHEET

Note 31. Deferred expenses and advances received

€ million	31 Dec.	
	31 Dec. 2010	2009
Interest		
Interest liabilities	546	463
Interest advances received	0	1
Total	546	464
Other		
Other advance payments received	1	1
Other deferred expenses	80	56
Total	81	57
Total deferred expenses and advances received	628	521

Notes to the Parent company financial statements

NOTES TO THE BALANCE SHEET

Note 32. Subordinated liabilities

€ million	Book value	Nominal value
Perpetual loans	266	266
Other loan commitments issued by the credit institution	665	665
Subordinated loans	274	292
Total	1,205	1,223

Perpetual loans and debentures

1. A perpetual loan of GBP 100 million which can be called in at the earliest on 28 December 2012, subject to authorisation by the Financial Supervisory Authority. A fixed 6.5% interest is paid on the loan semi-annually.
2. A perpetual loan of EUR 150 million which can be called in at the earliest on 30 November 2012, subject to authorisation by the Financial Supervisory Authority. A fixed 3.875% interest is paid on the loan annually.
3. A debenture loan of EUR 150 million which can be called in at the earliest on 21 March 2011, subject to authorisation by the Financial Supervisory Authority. The loan carries an interest based on 3-month Euribor + 17.5 bps.
4. A debenture loan of USD 325 million which can be called in at the earliest on 13 September 2011, subject to authorisation by the Financial Supervisory Authority. The loan carries an interest based on 3-month USD Libor + 20 bps. The amount amortised by Pohjola Bank plc in December 2009, as authorised by the Financial Supervisory Authority, came to EUR 10 million and the remainder is USD 315 million.
5. A debenture loan of EUR 170 million which can be called in at the earliest in 2013, subject to authorisation by the Financial Supervisory Authority. The loan carries a fixed interest rate of 5.75%.
6. A debenture loan of EUR 100 million which can be called in at the earliest in 2013, subject to authorisation by the Financial Supervisory Authority. The loan carries a variable interest based on 12-month Euribor + 2.25% until 2013.

Loans 1–6 were issued in international capital markets.

Fixed-rate debentures issued in Finland totalled EUR 149.7 million (161.7) on 31 December 2010.

Issue date	Book value, € million	Interest rate, %	Due date
16 March 2005	5.2	3.3%	16 March 2011
11 May 2009	19.9	2.3%	11 May 2011
30 November 2005	1.4	3.2%	30 November 2011
19 January 2009	11.8	3.0%	19 January 2012
23 February 2009	34.4	3.0%	23 February 2012
8 March 2006	0.3	3.25%	8 March 2012
23 March 2009	27.0	3.0%	23 March 2012
22 June 2009	26.2	3.0%	22 June 2012
24 August 2009	14.3	2.5%	24 August 2012
20 September 2006	0.2	3.85%	20 September 2012
5 October 2009	7.0	2.3%	5 October 2012
3 March 2008	2.1	4.1%	3 March 2013

Pohjola Bank plc has no violations of the terms and conditions of the loan contracts with respect to principal, interest and other conditions. The financial statements include EUR 0.2 million recognised for the price difference of the loans (0.1).

Hybrid bonds/subordinated loans

Hybrid bonds included in Tier 1

1) Subordinated loan of 10 billion Japanese yen (equivalent of EUR 92 million)
This is a perpetual loan (a loan without a due date) carrying a fixed interest rate of 4.23% until 18 June 2034 and subsequently a variable 6-month Yen Libor + 1.58%. Interest will be annually payable on 18 June and 18 December. If interest cannot be paid for a given interest period, the obligation to pay interest for the period in question will lapse. The loan can be

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called in at the earliest in 2014 and can be annually repaid after 2014 on the interest due date on 18 June or 18 December. The loan's entire principal must be repaid in one instalment.

2) Subordinated loan of EUR 50 million

This is a perpetual loan without interest-rate step-ups, but with an 8% interest rate cap. The loan was issued on 31 March 2005 and its interest rate for the first year was 6.5% and thereafter CMS 10 years + 0.1%. Interest payments are made annually on 11 April. If interest cannot be paid for a given interest period, the obligation to pay interest for the period in question will lapse. The loan can be called in on 11 April 2010 at the earliest, subject to authorisation by the Financial Supervisory Authority. The loan's entire principal must be repaid in one instalment.

3) Hybrid bond of EUR 60 million

This perpetual bond carries a variable interest rate based on 3-month Euribor + 0.65% payable quarterly on 28 February, 30 May, 30 August and 30 November. If interest cannot be paid for a given interest period, the obligation to pay interest for the period in question will lapse. It is possible to call in the loan at the earliest on 30 November 2015, subject to authorisation by the Financial Supervisory Authority, and thereafter on the interest due dates. After 2015, the loan carries a variable interest rate based on 3-month Euribor + 1.65% (step up). The entire loan principal must be repaid in one instalment.

4) Subordinated loan of EUR 40 million

This perpetual loan carries a variable interest rate based on 3-month Euribor + 1.25% payable quarterly on 28 February, 30 May, 30 August and 30 November. If interest cannot be paid for a given interest period, the obligation to pay interest for the period in question will lapse. Subject to authorisation by the Financial Supervisory Authority, the loan may be called in on the due dates of interest payment. The entire loan principal must be repaid in one instalment.

5) Hybrid bond of EUR 50 million

Perpetual bond of EUR 50 million, issued on 17 June 2008, carries a variable interest rate based on 3-month Euribor + 3.05%, payable on a quarterly basis. If interest cannot be paid for a given interest period, the obligation to pay interest will lapse. Subject to authorisation by the Financial Supervisory Authority, the bond may be called in at the earliest in 2013.

Loans 3 and 5 are included in hybrid instruments.

Derivatives have been used to hedge against interest-rate and exchange-rate risks, and the financial statements include EUR 17.6 million in change in fair value recognised for hedging (17.1).

Notes to the Parent company financial statements

NOTES TO THE BALANCE SHEET

Note 33. Shareholders' equity

€ million	Shareholder's equity at year-start	Increases	Decreases	Transfers between items	Shareholder's equity at year-end
Total shareholders' equity	1,574				1,606
Share capital	428				428
Share issue					
Share premium account	524				524
Other restricted reserves	182				127
Reserve fund	164				164
Fair value reserve	19	3	58		-37
Fair value measurement	19	3	52		-31
Cash flow hedge			6		-6
Non-restricted funds	331				331
Reserve for invested non-restricted equity	308				308
Other funds	23				23
Retained earnings or losses after adjustments	109		107		2
Profit or loss for the financial year		194			194

Changes in fair value reserve

€ million	At year-start	Increases	Decreases	Transferred to income statement	At year- end
Notes and bonds	19	18	69	-1	-33
Deferred tax	-7	18			11
Shares and participations	-1	4	1	0	2
Deferred tax	0		1		-1
Other		2	8		-6
Cash flow hedge		2	8		-6
Deferred tax		2			2
Total	19	24	78	-1	-37

Notes to the Parent company financial statements

NOTES TO THE BALANCE SHEET

Note 34. Restricted and non-restricted equity and non-distributable equity items

Shareholders' equity 31 Dec. 2010

Restricted equity	1,079
Non-restricted equity	527
Total shareholders' equity	1,606

Distributable funds 31 Dec. 2010

Non-restricted equity	527
Fair value reserve	-37
Distributable funds	490

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Notes to the Parent company financial statements

NOTES TO THE BALANCE SHEET

Note 35a. Financial assets and liabilities by maturity 31 December 2010

Remaining term to maturity	Less than 3 months	3–12 months	1–5 years	5–10 years	over 10 years
Notes and bonds eligible for refinancing with central banks	70	293	4,762	2,012	2
Receivables from credit institutions	4,140	1,068	1,086	968	22
Receivables from the public and public sector entities	2,316	1,351	4,928	1,872	1,156
Notes and bonds	50	26	292	33	
Liabilities to credit institutions and central banks	3,388	439	696	437	0
Liabilities to the public and public sector entities	3,446	175	105	382	197
Debt securities issued to the public	7,587	3,804	4,510	980	
Subordinated liabilities	155	237	723		90
Total	21,152	7,394	17,101	6,684	1,468

Deposits other than fixed-term deposits are included in the maturity class 'less than 3 months'.

Notes to the Parent company financial statements

NOTES TO THE BALANCE SHEET

Note 35b. Classification of assets and liabilities

Assets, € million	Loans and receivables	Held to maturity	At fair value through profit or loss*	Available for sale	Hedging derivatives	Total
Cash and balances with central banks	1,501					1,501
Receivables from credit institutions and central banks	8,027					8,027
Derivative contracts			1,871		98	1,969
Receivables from customers	11,864					11,864
Notes and bonds**		928	535	5,296		6,758
Shares and participations				1,354		1,354
Other receivables	1,977		10			1,987
Total 31 Dec. 2010	23,369	928	2,416	6,649	98	33,461

Assets, € million	Loans and receivables	Held to maturity	At fair value through profit or loss*	Available for sale	Hedging derivatives	Total
Cash and balances with central banks	3,102					3,102
Receivables from credit institutions and central banks	7,627					7,627
Derivative contracts			1,385		59	1,443
Receivables from customers	10,742					10,742
Notes and bonds**		1,086	1,472	4,215		6,772
Shares and participations				1,363		1,363
Other receivables	1,775		21			1,796
Total 31 Dec. 2009	23,246	1,086	2,877	5,578	59	32,845

Liabilities, € million	At fair value through profit or loss	Other liabilities	Hedging derivatives	Total
Liabilities to credit institutions		4,960		4,960
Financial liabilities held for trading (excl. derivatives)	0			0
Derivative contracts	1,857		202	2,059
Liabilities to customers		4,305		4,305
Debt instruments issued to the public		16,871		16,871
Subordinated liabilities		1,205		1,205
Other liabilities		2,455		2,455
Total 31 Dec. 2010	1,857	29,796	202	31,855

Liabilities, € million	At fair value through profit or loss	Other liabilities	Hedging derivatives	Total
Liabilities to credit institutions		4,984		4,984
Financial liabilities held for trading (excl. derivatives)	71			71
Derivative contracts	1,306		150	1,456
Liabilities to customers		4,178		4,178

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Debt instruments issued to the public	17,516	17,516
Subordinated liabilities	1,250	1,250
Other liabilities	1,816	1,816
Total 31 Dec. 2009	1,377	29,744
	150	31,271

*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.

** On 31 December 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 31 December 2010, the fair value of these debt instruments was EUR 45 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 lower than their carrying amount, but determining fair values reliably is difficult in the current market situation.

Notes to the Parent company financial statements

NOTES TO THE BALANCE SHEET

Note 36. Assets and liabilities denominated in euros and foreign currencies 31 December 2010

€ million	Euros	Foreign currencies	Of which	
			Subsidiaries	Associates
Receivables from credit institutions	7,121	164		
Receivables from the public and public sector entities	10,842	782	105	
Notes and bonds	7,539	1		
Derivative contracts	1,818	151	7	
Other assets	5,009	35	1,356	29
Liabilities to credit institutions and central banks	3,880	1,080		
Liabilities to the public and public sector entities	3,707	597	63	
Debt securities issued to the public	11,435	5,436	75	
Derivative contracts and liabilities held for trading	1,933	126	5	
Subordinated liabilities	761	444		
Other liabilities	1,727	44	1	
Total	55,772	8,860	1,611	29

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Notes to the Parent company financial statements

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Note 37. Share series at year-end and authorisations given to the Board of Directors and long-term incentive schemes

	Series A	Series K	Total
Share capital, EUR	335,540,229	92,077,234	427,617,463
No. of shares	251,169,770	68,381,645	319,551,415
Percentage of share capital	78.6	21.4	100
Votes per share	1	5	
Percentage of votes	42.3	57.7	100

The stated value of Pohjola Bank plc's share is EUR 1.34. The stated value is an approximation. The number of issued shares has doubled without altering the share capital, based on the Annual General Meeting's decision on 31 March 2004. Based on the Annual General Meeting's decision on 27 March 2009, Pohjola issued 91,179,502 new Series A shares and 25,021,013 new Series K shares amounting to EUR 307,931,364 entered in the reserve for invested non-restricted equity. A total of 25,080 Series K shares were converted into Series A shares during 2010.

Restrictions on share acquisition:

- Series A shares quoted on NASDAQ OMX Helsinki are intended for the general public.
- Series A shares are not subject to any purchase restrictions.
- Holding of series K shares is restricted to Finnish cooperative banks, cooperative bank companies and the central entity of the amalgamation of cooperative banks, OP-Pohjola Group Central Cooperative.
- Series K shares may be converted into Series A shares at the written request of the shareholder or, in case of nominee-registered shares, at the written request of the asset manager registered with the book-entry register.

If a dividend is paid, Series A shares entitle their holders to an annual dividend which is at least three (3) cents higher than the dividend declared on Series K shares.

Authorisations granted to the Board of Directors

Pohjola Bank plc's Annual General Meeting of 26 March 2010 authorised the Board of Directors to decide, until the closing of the following Annual General Meeting, on one or several rights issues. The total number of Series A and Series K shares offered for subscription in such a rights issue may not exceed 24,000,000 and 6,000,000, respectively. The Board of Directors is also authorised to waive the shareholders' pre-emptive right (private placement), should there be, from the Company's perspective, a financially cogent reason to do so, in accordance with the Limited Liability Companies Act. In such a case, this authorisation may be exercised for the purpose of financing and executing company acquisitions or other transactions relating to the Company's business. The authorisation contains the Board of Directors' right of stipulating the terms and conditions of a share issue and on other matters relating to these measures. The Board of Directors also has the right to determine whether the subscription price is to be entered in full or in part in the Company's reserve for invested non-restricted equity or in share capital.

Long-term management incentive scheme

The Group's long-term management incentive scheme (2008–2010) applies to Pohjola Bank plc's President and CEO, Senior Vice Presidents, Executive Vice Presidents, heads of departments and those in charge of separately defined managerial, supervisory and expert duties. On 31 December 2010, the scheme covered 136 people. The Board of Directors confirms the inclusion of the President and CEO and members of the Executive Committee in the scheme, and the selection principles with respect to other people in the scheme. The Group's Executive Committee confirms the inclusion of other people in the scheme.

Those included in the long-term management incentive scheme may receive Pohjola Bank plc shares as annual bonuses, provided that the company achieves the targets based on its strategy set for the year in question. Those covered by the scheme will receive shares (after tax) they have earned in three years' time following the beginning of the vesting year. If the employment of a person with the executive contract terminates due to reasons attributable to the company, he will be entitled to bonuses in accordance with the entitlement principles and rules governing the short-term and long-term incentive schemes valid during the year of termination of employment.

In 2010, target indicators for the management incentive scheme were as follows:

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Pohjola Group's earnings per share for the financial year, target 0.76 euro per share, weight 50%.

Change in the number of Pohjola Insurance Ltd's loyal customer households, target 26,000, weight 25%.

Change in the number of OP-Pohjola Group's loyal customer households, target 82,501, weight 25%.

A minimum of 80% of the target set for each performance indicator must be achieved in order for the indicator to accumulate the bonus factor according to the weight set for the indicator. Performance above the target set for the indicator will be taken into account up to a maximum of 120%. Accordingly, the actual figure recorded for each performance indicator, ranging between 80% and 120% of the target level, and its weight determine the final bonus factor.

The following restrictions apply to the bonus:

At least 80% of one of the two Pohjola Group's targets set for the indicators must be achieved. In addition, at least 60% of OP-Pohjola Group's shared target set for growth (number of loyal customers) must be achieved to be entitled to bonuses.

However, this will not apply if the target set for loyal customer households has been achieved at 100%.

The bonus payable derives from the share, based on the abovementioned bonus factor, of the set target bonus.

In case of the achievement of the set targets, in 2010 each person covered by the scheme was entitled to a bonus corresponding to his/her regular salary subject to PAYE tax: the President and CEO, 6 months; Group Executive Committee members, 5 months; heads of business divisions and departments, 3 months; and other persons covered by the scheme, 1.5 months. Persons in the latter group are also entitled to a share of the profit-based payment paid into the Personnel Fund.

Bonuses paid in terms of shares and cash are charged to personnel costs on an accrual basis over the vesting period. In the financial year, a total of EUR 2.4 million (1.0) was expensed for the incentive scheme.

Personnel fund

On 26 October 2004, Pohjola Bank plc joined the OP Bank Group Personnel Fund. On 31 December 2010, the Fund had some 2,400 Pohjola Group employees. No members of the staff of Group subsidiaries were included in the Fund, excluding Pohjola Insurance's and Seesam companies' personnel.

In 2010, the amount of profit-based bonuses based on profit for 2009 and transferred to the Personnel Fund totalled around EUR 0.8 million (0.3).

The profit-based bonuses based on profit for 2010 and transferred to the Personnel Fund are based on the same performance indicators as applied in the long-term management incentive scheme. However, the minimum requirement for OP-Pohjola Group's growth performance indicator within the management incentive scheme will not apply when determining the profit-based bonuses transferred to the Personnel Fund.

If the targets set for the performance indicators are achieved, profit-based bonuses for 2010 to be transferred to the Fund account for 3.0% of the combined salaries and wages earned by the Fund's members in 2010.

Notes to the Parent company financial statements

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Note 38. Major shareholders and breakdown of shareholding

Major shareholders in terms of votes

(10 largest shareholders based on the Shareholder Register on 31 December 2010)

		No. of shares	Total no. of shares	% of shares	No. of votes	% of votes
OP-Pohjola Group Central Cooperative	A	35,157,348				
	K	60,641,131	95,798,479	30.0	338,363,003	57.0
Ilmarinen Mutual Pension Insurance Company	A	31,955,142				
	K		31,955,142	10.0	31,955,142	5.4
Suomi Mutual Life Assurance Company	A	23,193,672				
	K		23,193,672	7.3	23,193,672	3.9
Oulun Osuuspankki	A	2,508,436				
	K	1,590,916	4,099,352	1.3	10,463,016	1.8
Keski-Uudenmaan Osuuspankki	A					
	K	772,828	772,828	0.2	3,864,140	0.7
Keski-Suomen Osuuspankki	A	12,572				
	K	717,448	730,020	0.2	3,599,812	0.6
OP Bank Group Pension Fund	A	3,455,529				
	K		3,455,529	1.1	3,455,529	0.6
Länsi-Suomen Osuuspankki	A	1,084,639				
	K	395,716	1,480,355	0.5	3,063,219	0.5
OP Bank Group Pension Foundation	A	2,328,568				
	K		2,328,568	0.7	2,328,568	0.4
Turun Seudun Osuuspankki	A	1,996,257				
	K	31,364	2,027,621	0.6	2,153,077	0.4
Total			165,841,566	51.9	422,439,178	71.3
Nominee-registered shares	A		50,484,936	15.8	50,484,936	8.5
Total number of shareholders			34,910			

Major shareholders in terms of shareholdings

(10 largest shareholders based on the Shareholder Register on 31 December 2010)

	No. of shares	% of shares	% of votes
OP-Pohjola Group Central Cooperative	95,798,479	30.0	57.0
Ilmarinen Mutual Pension Insurance Company	31,955,142	10.0	5.4
Suomi Mutual Life Assurance Company	23,193,672	7.3	3.9
Oulun Osuuspankki	4,099,352	1.3	1.8
OP Bank Group Pension Fund	3,455,529	1.1	0.6

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OP Bank Group Pension Foundation	2,328,568	0.7	0.4
Turun Seudun Osuuspankki	2,027,621	0.6	0.4
Varma Mutual Pension Insurance Company	1,771,569	0.6	0.3
Folketrygdfondet	1,554,552	0.5	0.3
OP-Delta Fund	1,500,000	0.5	0.3
Total	167,684,484	52.6	70.4
Nominee-registered shares	50,484,936	15.8	8.5

Shareholdings by number of shares held (based on the Shareholder Register on 31 December 2010)

Number of shares (Series A and K shares)

	No. of shareholders	% of shareholders	No. of shares	% of shares
1–100	3,991	11.4	249,427	0.1
101–1000	23,211	66.5	8,858,266	2.8
1001–10 000	6,879	19.7	18,987,833	5.9
10 001–100 000	656	1.9	18,292,063	5.7
100 001–1 000 000	155	0.4	49,486,501	15.5
1 000 001–	18	0.1	223,677,325	70.0
In joint account				
Total	34,910	100	319,551,415	100

Shareholdings by sector (based on the Shareholder Register on 31 December 2010)

Shareholder type	Shareholders	% of shareholders	No. of shares	% of shares	No. of votes	% of votes
Non-banking corporate sector	1,057	3.0	8,971,813	2.8	8,971,813	1.5
OP-Pohjola Group Central Cooperative and member cooperative banks	214	0.6	142,321,035	44.5	415,847,615	70.1
Other financial institutions and insurance companies	63	0.2	33,165,789	10.4	33,165,789	5.6
Public sector entities	27	0.1	41,119,730	12.9	41,119,730	6.9
Non-profit organisations	338	1.0	5,008,411	1.6	5,008,411	0.9
Households	33,142	94.9	34,624,621	10.8	34,624,621	5.8
Foreign	59	0.2	3,855,080	1.2	3,855,080	0.7
Nominee-registered shareholders	10	0.0	50,484,936	15.8	50,484,936	8.5
In joint account						
Total	34,910	100	319,551,415	100	593,077,995	100

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Notes to the Parent company financial statements

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Note 39. Assets pledged as collateral 31 December 2010

Assets pledged as collateral

€ million	Pledges	Mortgages	Total
Collateral pledged on behalf of own debt			
Other liabilities	349		349
Total	349		349
Other collateral given on own behalf			
	6,014		6,014
Total collateral given	6,363		6,363

Secured liabilities totalled EUR 650 million.

Other collateral given on own behalf consists of collateral required for the maintenance of liquidity.

Notes to the Parent company financial statements

OTHER NOTES

Note 40. Pension liabilities

Direct liabilities from pension commitments	3
Share of the excess margin of pension liabilities on the pension fund and on other liabilities	-
Repayment of the excess margin of the pension fund recorded as pension cost adjustment	-

The statutory pension cover for Pohjola Bank plc employees is managed through the OP Bank Group Pension Fund and the supplementary pension cover through the OP Bank Group Pension Foundation. The Foundation has not accepted new beneficiaries since 30 June 1991. Pohjola Bank plc's pension liabilities are fully covered.

Notes to the Parent company financial statements

OTHER NOTES

Note 41. Lease and other rental liabilities

Material contract terms and conditions regarding termination and redemption

Pohjola Bank plc has no significant lease or other rental liabilities. The contracts primarily cover personnel car leases with a maturity of three years.

Notes to the Parent company financial statements

OTHER NOTES

Note 42. Off-balance-sheet commitments

€ million	On behalf of subsidiaries	On behalf of affiliates	On behalf of others	Total
Off-balance-sheet commitments 31 December 2010			6,965	6,965
Commitments given to a third party on behalf of customers			2,597	2,597
Guarantees and pledges			2,458	
Other			140	
Irrevocable commitments given on behalf of customers			4,367	4,367
Loan commitments			4,029	
Other			339	

Notes to the Parent company financial statements

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Note 43. Other contingent liabilities and commitments at the year-end

On 31 December 2009, Pohjola Bank plc's commitments to private equity funds amounted to EUR 10.3 million and relate to those presented in Note 42.

Client assets related to brokerage amounted to EUR 0.1 million included in 'Liabilities to the public and public sector entities'.

Accounts payable related to brokerage totalled EUR 73.2 million and accounts receivable EUR 73.3 million.

Notes to the Parent company financial statements

OTHER NOTES

Note 44. Personnel and members of administrative bodies, and related parties

Average personnel in 2010	Average no.	Change during the year
Permanent full-time personnel	688	62
Permanent part-time personnel	0	0
Fixed-term personnel	59	4
Total	747	66

Remuneration paid to members of administrative bodies in 2010	Wages and salaries, EUR million
Members of the Board of Directors, President and CEO, and Deputy CEO	1

The Annual General Meeting approved the following Board emoluments:

Emoluments paid to Board members in 2010 totalled EUR 498,500.

The Chairman's monthly emoluments totalled EUR 7,000, the Vice Chairman's EUR 5,000 and other members EUR 4,000. All Board members received an attendance allowance of EUR 500 for each meeting.

Monthly Board emoluments are treated as pensionable salary.

Reijo Karhinen, Chairman EUR 92,000

Tony Vepsäläinen, Vice Chairman EUR 69,000

Members of the Board of Directors:

Merja Auvinen EUR 56,000

Jukka Hienonen EUR 56,000

Simo Kauppi EUR 56,500

Satu Lähteenmäki EUR 58,500

Tom von Weymarn EUR 56,000

Markku Vesterinen EUR 16,000 until 26 March 2010

Harri Sailas EUR 38,500 since 26 March 2010

Salaries and performance-based bonuses paid to the President and CEO in the financial year ending 31 December 2010 were as follows:

Mikael Silvennoinen, President and CEO EUR 737,090

His period of notice is six months and the severance pay equals a 12-month salary in addition to compensation for loss of office.

Loans, guarantees and collateral granted to members of the administrative bodies on 31 December 2010

As at 31 December 2010 and 31 December 2009, Pohjola Bank plc had not granted loans or guarantees to members of the Board of Directors.

Pension commitments

Members of the administrative and supervisory bodies are not covered by any pension commitments. Furthermore, no pension commitments have been made for previous members of these bodies.

Auditors' remuneration	2010	2009
Audit	EUR 159,950	EUR 212,364
Other services based on legislation*		
Tax counselling	EUR 8,812	EUR 82,296
Other services	EUR 288,775	EUR 618,969
Total	EUR 457,537	EUR 913,629

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* Assignments as referred to in sub-paragraph 2, paragraph 1, Section 1 of the Auditing Act

Related parties

Pohjola Bank plc's related parties include the President and CEO, deputy CEO, members of the Board of Directors, the auditor and deputy auditor or the chief auditor representing the firm of authorised public accountants, and the abovementioned persons' spouses or persons living in a spousal-type relationship with them and their underaged children.

In addition, the related parties include those who, on the basis of shareholdings, hold a minimum of 20% of Pohjola Bank plc shares or, on the basis of shareholdings, stock options or convertible bonds, have or may have the equivalent shareholding or voting rights in Group entities, unless the entity to which the shareholding applies is of minor significance to the entire Group. These entities' corresponding persons mentioned in the previous paragraph are also included in the related parties.

The related parties also include entities and foundations over which the aforementioned persons have control, alone or together with the other person.

	Holding
Receivables from the public and public sector entities 31 Dec.	230
Guarantees and other off-balance-sheet commitments 31 Dec.	8

No impairments have been recognised for the items.

Management holdings

On 31 December 2010, Pohjola Bank plc's Board members and President and CEO held a total of 126,687 Series A shares, accounting for 0.040% of all shares and 0.021% of votes conferred by all shares.

Notes to the Parent company financial statements

OTHER NOTES

Note 45. Holdings in other companies 31 December 2010

Subsidiaries	Holding, %	Equity capital	Profit or loss for the financial year
Pohjola Corporate Finance Ltd Helsinki	60	3	2
Pohjola Asset Management Ltd Helsinki	85	43	32
Pohjola Insurance Ltd Helsinki	100	233	115
A-Insurance Ltd Helsinki	100	40	15
Pohjola Property Management Ltd Helsinki	100	0	0
Pohjola IT Procurement Ltd Helsinki	100	5	0
Kaivokadun PL-hallinto Oy Helsinki	100	5	0
Vakuutuspalvelu Otava Oy Helsinki	100	0	0
Conventum Venture Finance Ltd. Helsinki	100	9	2
Northclaims Oy Helsinki	100	0	0
Pohjola Finance Estonia AS Estonia	100	1	0
Pohjola Finance SIA Latvia	100	4	0
UAB Pohjola Finance Lithuania	100	2	0

Participating interests	Holding, %	Equity capital	Profit or loss for the financial year
VH-Holding 1 Oy Helsinki	33.34	6	2
Access Capital Partners Group SA Belgium	40	5	2
Promotion Bridge I Ky Helsinki	40.2	1	0
Promotion Equity I Ky Helsinki	29.41	7	0
Suomi VÄlirahoitusrahasto I Ky Helsinki	22.08	3	0
Finnmezzanine Rahasto III B Ky Helsinki	49.49	10	1

Pohjola Bank plc has no shareholdings in companies in which it would have unlimited liability.

The mark of a good group ★

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

Notes to the Parent company financial statements

OTHER NOTES

Note 46. Trustee Services

Pohjola Bank plc provides the general public with investment services and asset management and custodian services.

Notes concerning an entity under the Group's control

Pohjola Bank plc's parent company is OP-Pohjola Group Central Cooperative and Pohjola's consolidated accounts are included in its consolidated financial statements. Copies of the financial statements of OP-Pohjola Group Central Cooperative Consolidated are available from OP-Pohjola, Teollisuuskatu 1 b, FI-00150 Helsinki, Finland.

Helsinki, 9 February 2011

The Report by the Board of Directors and the Financial Statements signed by:

Reijo Karhinen

Merja Auvinen

Jukka Hienonen

Simo Kauppi

Satu Lähteenmäki

Harri Sailas

Tony Vepsäläinen

Tom von Weymarn

Jouko Pölönen
Deputy President and CEO

We today issued a report on the audit performed.

Helsinki, 9 February 2011

KPMG Oy Ab
Authorized Public Accountants

Sixten Nyman
Authorized Public Accountant

This document is an English translation of the Finnish auditor's report. Only the Finnish version of the report is legally binding.

Auditor's report

To the Annual General Meeting of Pohjola Bank plc

We have audited the accounting records, the financial statements, the Report by the Board of Directors, and corporate governance of Pohjola Bank plc for the year ended on 31 December 2010. The financial statements comprise the consolidated balance sheet, income statement, statement of comprehensive income, statement of changes in equity, cash flow statement, and notes to the consolidated financial statements, as well as the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements.

Responsibility of the Board of Directors and the President and CEO

The Board of Directors and the President and CEO are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU, as well as for the preparation of financial statements and the Report by the Board of Directors that give a true and fair view in accordance with the laws and regulations governing the preparation of the financial statements and the report by the Board of Directors in Finland. The Board of Directors is responsible for the appropriate arrangement of the control of the company's accounts and finances, and the President and CEO shall see to it that the accounts of the company are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements, the consolidated financial statements and the Report by the Board of Directors based on our audit. The Auditing Act requires that we comply with the requirements of professional ethics. We conducted our audit in accordance with good auditing practice in Finland. Good auditing practice requires that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the Report by the Board of Directors are free from material misstatement, and whether the members of the Board of Directors of the parent company and the President and CEO are guilty of an act or negligence which may result in liability for damages towards the company or have violated the Limited Liability Companies Act, the Act on Credit Institutions or the Articles of Association of the company.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the Report by the Board of Directors. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements and Report by the Board of Directors that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the Report by the Board of Directors.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position, financial performance, and cash flows of the Group in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU.

Opinion on the company's financial statements and the Report by the Board of Directors

In our opinion, the financial statements and the Report by the Board of Directors give a true and fair view of both the consolidated and the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements and the report by the Board of Directors in Finland. The information in the Report by the Board of Directors is consistent with the information in the financial statements.

Opinion on discharge from liability and distribution of profit

We recommend that the financial statements be adopted. The proposal by the Board of Directors regarding the use of the profit shown on the balance sheet is in compliance with the Limited Liability Companies Act. We recommend that the Members of the Board of Directors of the parent company and the President and CEO be discharged from liability for the financial year audited by us.

The mark of a good group ★

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Helsinki, 9 February 2011

KPMG OY AB

Sixten Nyman
Authorized Public Accountant in Finland