Financial Statements 2010

REPORT OF THE BOARD OF DIRECTORS

The loan portfolio of OP Mortgage Bank plc (OPA) increased to EUR 5,008 million (4,360)[1]. The company's loan portfolio increased substantially in May and October through the purchase of loans with housing as collateral from member banks of the OP-Pohjola Group to OPA's balance sheet. In June, OPA issued a bond loan with real estate as collateral with nominal value of EUR 1,000 million. The new bond loan replaced the bond loan with nominal value of EUR 1,000 million issued in 2008 that expired in June. Thanks to growth in volumes, the bank's earnings before tax increased to EUR 4.8 million (3.9). At year-end, OPA had non-performing receivables totalling EUR 1.4 million (0.8). No impairment losses were recognised during the financial period.

OPA as part of the OP-Pohjola Group

OPA is part of the OP-Pohjola Group, a leading Finnish financial group. It comprises independent member cooperative banks and their central institution, OP-Pohjola Group Central Cooperative (previously OP Bank Group Central Cooperative), with its subsidiaries. The operations of the OP Bank Group Central Cooperative was reorganised on 1 January 2011 so that OP-Palvelut Oy, a service company fully owned by the OP-Pohjola Group Central Cooperative and independent of the central organisation, is responsible for the development and production of centralised services of the OP-Pohjola Group and its member banks. The name of OP Bank Group Central Cooperative was changed into OP-Pohjola Group Central Cooperative. The OP-Pohjola Group Central Cooperative operates as the entire OP-Pohjola Group's strategic owner institution and a central institution responsible for Group control and supervision.

OPA is a wholly-owned subsidiary and member credit institution of the OP-Pohjola Group Central Cooperative. The OP-Pohjola Group Central Cooperative and its member credit institutions, jointly with entities belonging to their consolidated groups, constitute a coalition of cooperative banks as defined in the Act on Cooperative Banks and Other Cooperative Credit Institutions and the Act on Amalgamations of Deposit Banks. According to the acts, the central institution and its member credit institutions are responsible for each others' liabilities and commitments, and their capital adequacy, liquidity and customer risks are supervised at the coalition level. The scope of joint responsibility does not include the insurance companies within the OP-Pohjola Group.

OPA is a mortgage bank specialised in housing financing. Its operating policy is to acquire inexpensive refinancing for the OP-Pohjola Group from the bond markets through the issuance of bonds. OPA has no independent customer business or service network of its own. OPA issues bonds with real estate collateral regulated under the Act on Mortgage Credit Banks.

The housing loans used by OPA as collateral for bonds are primarily purchased from the OP-Pohjola Group Central Cooperative's member banks. Member banks that have signed an agency agreement and Helsinki OP Bank plc may also grant loans directly to their customers on OPA's behalf within the limits set by OPA. Intermediary banks also manage the customer relationships and the administration of loans locally.

Operating environment

The global economy grew strongly in 2010 after the previous year's steep decline. However, the upswing started from a poor level, and economic development varied strongly between countries.

The Finnish economy revived clearly in 2010. The impact of the crash on national product in 2009 on the economy was clearly smaller than expected. Employment began to improve at the beginning of 2010. The number of bankruptcies decreased significantly after a small rise. In 2011, the Finnish economy is expected to continue its growth at a reasonable pace.

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11) The comparative figure for 2009 is given in brackets. For the income statement and other aggregate figures, the point of comparison is the figure for January–December 2009. Balance sheet figures and other benchmarks are compared to the previous financial statements (31 December 2009).

Euribor rates made a slight upswing in 2010 as the situation on the financial market started to return to normal. It is estimated that Euribor rates will increase only slightly in 2011.

Low interest rates and strong consumer confidence supported the increase of housing loans in Finland. As a whole, the growth of banks' loan and deposit portfolios picked up slightly in 2010.

In the investment market, uncertainties caused by worry over state loans and economic growth increased at the end of the review period.

Major events during the financial period

During the financial period, the loan portfolio was increased by purchasing housing loans from member banks of the OP-Pohjola Group for a total of EUR 1,411 million. In June, OPA issued the fourth bond loan with real estate as collateral directed at the international market. The emission amounted to a EUR 1,000 million. The bond is covered by housing loans purchased from member banks. Standard & Poor's Rating Services and Moody's Investor Services awarded their best credit ratings (AAA and Aaa) to the issued covered bond. The bond loan with a nominal value of EUR 1,000 million issued in 2008 expired in June.

The new Act on Mortgage Credit Banks (688/2010) entered into force on 1 August 2010, replacing the old Act on Mortgage Credit Banks. The legislation regulates the issuance of bond loans with collateral. In addition to mortgage banks, these can now also be issued by savings banks and credit organisations. In addition, mortgage credit banks may grant intermediary credit for savings banks or credit organisations. The interim credit allows savings banks and credit organisations to take part in the issuance of covered bond loans and, therefore, in less expensive fundraising than by issuing an independently covered bond loan.

In the autumn, OPA established a new bond loan programme of EUR 10 billion, taking into account the requirements of the new act. Future bond loans will be issued under the new act. The regulations of the previous Act on Mortgage Credit Banks are applied to bond loans issued before the entry into force of the new act. OPA's bond loans have been issued under the previous act and bond loan programme.

Earnings development

OPA's major earnings items developed as follows in 2010:

EUR million	1–12/2010	1–12/2009
Income		
Net interest income	16.4	14.0
Net commissions and fees	- 8.5	- 8.0
Total	**7.9**	**6.1**
Expenses		
Personnel costs	0.3	0.3
Other administrative expenses	1.4	1.0
Other operating expenses	1.4	0.9
Total	**3.1**	**2.2**
Earnings before taxes	**4.8**	**3.9**

OPA's earnings before taxes increased to EUR 4.8 million (3.9). An increase in the loan portfolio improved OPA's net interest income and result.

Commissions paid to intermediary banks made net commissions and fees clearly negative. Commission income increased to EUR 2.7 million (1.8) while commission expenses were EUR 11.2 million (9.7). The commission expenses constituted mainly commissions paid to the OP-Pohjola Group's member banks for agency services concerning OPA's housing loans.

The bank's expenses increased to EUR 3.1 million (2.2). The increase in expenses was mainly caused by data system costs, and expert costs related to the establishment of the new bond loan programme.

OPA did not recognise any impairment losses on loans during the year.

Balance sheet and off-balance sheet commitments

The bank's balance sheet total was EUR 5,191 million (4,555) at the end of the year. The development of major asset and liability items is illustrated in the table below.

Major asset and liability items

EUR million	31 Dec. 2010	31 Dec. 2009	31.Dec. 2008
Balance sheet	5,191	4,555	3,149
Receivables from customers	5,008	4,360	2,980
Receivables from financial institutions	62	55	32
Debt securities issued to the public	3,287	3,311	2,087
Liabilities to financial institutions	1,640	1,000	870
Shareholders' equity	159	140	87
Off-balance sheet commitments	10	15	19

Development of Loan Portfolio

According to the previous Act on Mortgage Credit Banks, the collateral for bonds must constitute loans or parts of loans with a principal of no more than 60 per cent of the fair value of collateral pledged for the loan. Furthermore, the book value of loans used as collateral for bonds must always exceed the aggregate book value of bonds issued.

Receivables from customers, or the loan portfolio, increased to EUR 5,008 million (4,360) during the report year. The increase was attributable to loans purchased from OP-Pohjola Group member banks. At the end of the year, 99 (99) per cent of the loan portfolio was granted to households and 1 (1) per cent to housing corporations.

The loan portfolio stood at EUR 5,008 million at year-end and consisted of more than 100,000 loans of EUR 48,000 on average. The collateral for the loans consists of residential properties and shares in housing corporations. All of the collateral is located in Finland. At the end of the reporting period, the loan to value ratio (the relation of loan capital to the fair value of collateral) of the loan portfolio was 46 per cent.

Funding

The bank's funding is based on bonds with real estate as collateral, where the assets pledged consist of housing loans. During the report year, the bank issued one covered bond to the international market, with a nominal value of EUR 1,000 million.

The total number of bonds issued to the public was three and their book value stood at EUR 3,287 million (3,311) at the end of the financial period.

In addition to bonds, OPA funded its operations by financing loans taken out from Pohjola Bank plc (Pohjola). The balance sheet item ‘Liabilities to credit institutions’ of EUR 1,640 million (1,000) consisted of these financing loans. OPA also invests its short-term cash surplus in Pohjola. At the end of the year, short-term investments stood at EUR 62 million (55).

Shareholders’ equity

Shareholders’ equity increased to EUR 159 million (140). Shareholders’ equity increased by EUR 15 million in October after the OP-Pohjola Group Central Cooperative made an additional investment in the company. Accrued earnings amounted to EUR 14 million (10) at the end of the year.

Own funds and capital adequacy

OPA’s capital adequacy ratio was 9.7 per cent at the end of the year (9.8).

OPA’s capital adequacy is calculated according to the Basel II regulations. The credit risk’s capital requirement is calculated using the standard credit risk method. In addition, the market risk’s capital requirement is calculated using the standard method. The capital requirement for operational risks was calculated in 2010 using the standard method instead of the previous basic method. The objective is to adopt the internal credit rating method for credit risks during 2011.

OP Pohjola Group publishes the capital adequacy information in accordance with Pillar III in its financial statements. OP-Pohjola Group’s financial statements are available for reading at www.op.fi.

Capital adequacy regulations are being amended due to the financial crisis. Through cooperation of international supervisory authorities, Basel III regulations are being established in order to prevent financial crises in the future. The greatest changes concern the content of credit organisations' own funds, liquidity requirements and the minimum equity ratio. The final content of the Basel III regulations, their entry into force and transition schedules have not yet been decided upon.

OPA’s own funds and capital adequacy have changed as follows during the year:

Own funds, EUR million	31 Dec. 2010	31 Dec. 2009
Tier I funds	157.7	139.1
Share capital	60.0	60.0
Other Tier I funds	98.6	80.0
- Intangible assets	-0.9	-0.9
Tier II funds	20.0	20.0
Other Tier II funds	20.0	20.0
Total own funds	177.7	159.1

At the end of the year, own funds amounted to EUR 177.7 million and the equity capital shown by the balance sheet amounted to EUR 158.8 million. The difference of EUR 18.9 million between the company’s own funds and shareholders’ equity shown on the balance sheet is attributable to items that belong to own funds but not to equity on the balance sheet, as well as items deducted from own funds. The most significant item is a debenture of EUR 20 million included in Tier II funds. The increase in shareholders’ equity of EUR 0.2 million arising from the measurement of pension liabilities and the asset items covering them in connection with the IFRS transition is not regarded as the company’s own funds. Furthermore, EUR 0.9 million of intangible assets has been deducted from the company’s own funds.

Requirement for own funds, EUR million	31 Dec. 2010	31 Dec. 2009
Credit risk		
Corporate exposure	2.9	4.6
Retail exposure	143.3	124.5
Total	146.2	129.1
Operational risk	0.7	0.7
Total	146.9	129.8

Capital adequacy, EUR million	31 Dec. 2010	31 Dec. 2009
Total own funds	177.7	159.1
Tier I funds	157.7	139.1
Requirement for own funds	146.9	129.8
Capital adequacy ratio, %	9.7	9.8
Tier I ratio, %	8.6	8.6
Capital adequacy of the coalition of cooperative banks, %	* 12.7	12.3

* September 2010

The statutory lower limit for the capital adequacy ratio is 8 per cent. The lower limit of the Tier I ratio is 4 per cent.

The increase in the amount of own funds was caused by an increased loan portfolio.

Calculation of key indicators:

Capital adequacy ratio, %

Total own funds / Total minimum requirement for own funds x 8%

Tier I ratio, %

Total Tier I own funds / Total minimum requirement for own funds x 8%

Joint responsibility and joint security

The coalition of cooperative banks consists of the OP-Pohjola Group Central Cooperative, Pohjola Bank plc, which acts as the central financial institution, its other member credit institutions, organisations belonging to consolidation groups of the central institution and member credit institutions, and credit institutions, financial institutions and service companies of which the aforementioned organisations, on their own or jointly, hold more than half. At the end of the year, members of the OP-Pohjola Group Central Cooperative included 213 cooperative banks, Pohjola Bank plc, Helsinki OP Bank plc, OP Mortgage Bank plc and OP-Kotipankki Oyj. According to law, the coalition of cooperative banks is monitored in a consolidated manner, and the central institution and its member credit institutions are ultimately responsible for each others' liabilities and commitments.

The central institution is obligated to provide its member credit institutions with instructions on their internal supervision and risk management, their operations in securing liquidity and capital adequacy, and compliance with uniform accounting principles in preparing the coalition's consolidated financial statements.

The central institution and its member credit institutions are jointly responsible for the liabilities of the central institution or a member credit institution placed in liquidation or bankruptcy that cannot be paid from its assets. The liability is divided between the central institution and the member credit institutions in ratios following the balance sheet total.

If a member credit institution's own funds are, because of losses, so low that the requirements for liquidation, as prescribed in the Act on the Amalgamation of Deposit Banks, are met, the central institution will have the right to collect extra charges from its member credit institutions to a maximum of five-thousandths of the member credit institutions' most recently confirmed balance sheet total for the actions required for preventing the liquidation of the member credit institution on the basis of the criteria stated in the central institution's regulations.

However, pursuant to Section 25 of the Act on Mortgage Credit Banks, holders of bonds with real estate collateral have the right to receive payment for the entire loan period of the bond in accordance with the agreement terms and conditions from the funds lodged as collateral for the bond before other claims, notwithstanding OPA's liquidation or bankruptcy.

Financial indicators

Indicator	**2010**	**2009**	**2008**
Return on equity, %	2.4	2.6	4.8
Return on assets, %	0.07	0.16	0.15
Capital adequacy, %	3.1	3.1	2.8
Cost/income ratio, %	39	35	28

Calculation of indicators

Return on equity, %

Operating profit (loss) – Income taxes* x 100
Shareholders' equity and minority interest + Accumulated appropriations
less deferred taxes (average total at the beginning and end of the year)

Return on assets, %

Operating profit (loss) – Income taxes* x 100
Average balance sheet total
(average total at the beginning and end of the year)

Capital adequacy, %

Shareholders' equity and minority interest + Accumulated appropriations
less deferred tax x 100
Balance sheet total

Cost/income ratio, %

Administrative costs + Depreciation and impairment on tangible and
intangible assets + Other operating expenses x 100
Net interest income + Income from equity investments +
Net commission income + Net income from securities trading
and currency operations + Net income from financial assets available for sale +
Net income from hedging calculation + Net income from investment properties +
Other operating income + Share from affiliate income (net)

* The tax effect included in appropriations has been taken into account.

Risk management

The Board of Directors of OP Mortgage Bank has confirmed the capital adequacy management principles and instructions, and set the risk limits for the most important risk indicators. The primary purpose of risk management is to secure the bank's risk tolerance and ensure that OPA is not exposed to excessive risk that might endanger its profitability, capital adequacy or continuity of operations. Risk management is based on the professional expertise and caution of the people who make operational decisions, and on systematic measurement, assessment and limitation of risks. The OP-Pohjola Group Central Cooperative controls and monitors the risk management of all OP-Pohjola Group companies, including OPA.

In its operations, OPA is exposed to credit risks, market risks and operational risks. The OP-Pohjola Group Central Cooperative has set control limits for OPA's risk tolerance and credit risks. The bank's Board of Directors has confirmed principles and guidelines applicable to risk management and has set limits for the most important risk indicators. The Board of Directors supervises risk management and regularly monitors the bank's risk tolerance and risk situation. The bank's management is responsible for the implementation of risk management following the instructions ratified by the Board of Directors, and reports to the Board of Directors and the OP-Pohjola Group Central Cooperative regularly regarding the bank's operations, risk tolerance and risk situation. The bank's overall attitude towards risk-taking is moderate.

Risk tolerance

OPA's risk tolerance remained at a good level. The capital adequacy ratio was 9.7 per cent. Return on equity was 2.4 per cent (2.6).

OPA's policy is not to secure capital adequacy through accumulating earnings but to maintain sufficient capital adequacy through equity investments made by the OP-Pohjola Group Central Cooperative. The profitability level is determined by the sales commission policy. Being a service company, OPA does not aim to maximise its earnings. Instead, any profitability potential exceeding the minimum level set by the owner is allocated to increasing sales commissions.

Credit risk exposure

OPA's loan portfolio at the end of the financial period was EUR 5,008 million. The quality of the loan portfolio was high. At the end of the reporting period, OPA had 21 non-performing loans with a total capital value of EUR 1.4 million. The bank has not booked any impairments during this or any previous financial period.

Being a mortgage bank, OPA may only grant credit against collateral defined in law. On the other hand, OPA's credit-granting criteria also support the upkeep of a high quality loan portfolio. The criteria are stricter than those generally applicable in the OP-Pohjola Group.

The bank's credit customers comprise private persons and housing corporations. The bank does not have any customer entities where the total number of customer risks exceeds the 25 per cent limit of the bank's own funds set by the Act on Credit Institutions. The customer risks of the five largest customer entities comprised 5.2 per cent of the bank's own funds.

Thanks to the diversified loan portfolio and securing collateral, OPA's credit risk exposure is very stable.

Market risks

Market risks include the liquidity and interest rate risks on all balance sheet items and off-balance sheet items, as well as any exchange rate risks, equity price risks and real estate risks. OPA has not been exposed to foreign exchange, equity market or real estate risks during the financial period. The Board of Directors has confirmed a balance management system, which defines the products and market instruments used by the bank, the principles for funding and investment operations and the applicable risk monitoring methods.

The purpose of liquidity risk management is to secure the bank’s ability to meet its payment obligations without endangering operational continuity, profitability or capital adequacy. OPA’s cash flows are monitored daily for securing capital adequacy, and the long-term refinancing structure (refinancing risk) is monitored and forecast regularly as part of the capital adequacy management process.

Interest rate risk refers to the effect of changes in the market rates on the bank’s performance and capital adequacy. OPA has hedged the interest rate risk of its housing loan portfolio with interest rate swaps. By means of the interest rate swaps, base rate cash flows from the housing loans to be hedged are swapped with Euribor cash flows. OPA has also swapped the fixed interest rates for the bonds issued by it with short-term market interest rates. Pohjola Bank is the counterparty in all derivative contracts.

OPA’s Board of Directors has set risk limits for the bank’s interest rate and funding risk.

The bank’s interest rate and funding risk-taking are also restricted by the provisions of the Act on Mortgage Credit Banks. According to the legislation, the total amount of any interest received from loans pledged as collateral for bonds with real estate as collateral during any 12 months must exceed the total amount of interest payable for such bonds during the same period. In addition, the remaining average maturity of bonds with real estate as collateral must be shorter than the remaining average maturity of assets pledged as their collateral. OPA’s operations have been in compliance with the Act for the entire financial period with respect to interest flows as well as maturities.

Operational risks

Operational risks refer to the risk of loss due to defective internal processes, personnel, systems or external events. The objective of operational risk management is to identify and assess potential and realised operational risks, as well as to develop measures and corporate culture that prevent risks in advance. Operational risks are assessed regularly and the entire risk situation is reported to the Board of Directors once a year. The bank's losses due to operational risks were minor in 2010.

Personnel and incentive schemes

OPA had 5 employees (5) at the end of the financial period. The number of the bank’s own personnel is reduced by the fact that all crucial support functions are acquired from other organisations of the OP-Pohjola Group Central Cooperative.

OPA belongs to the OP Personnel Fund of the OP-Pohjola Group. The personnel fund is a long-term personnel incentive scheme. The bank makes profit-related payments to the personnel fund according to predefined principles. Fund members may withdraw fund units on the grounds specified in the fund rules.

The bank has adopted a management incentive scheme, under which the Managing Director may receive a reward partially settled in Pohjola Bank shares and partially in cash. The amount of the reward depends on the set objectives. Rewards are paid after the entitlement earning and commitment period.

Administration

OPA is a mortgage bank wholly-owned by the OP-Pohjola Group Central Cooperative.

Board of Directors

The Board of Directors manages OPA’s operations. According to the Articles of Association, the Board of Directors is responsible for attending to the bank’s administration and the appropriate arrangement of its operations. The Board of Directors has general authority to decide on all issues related to the bank’s administration and other matters that do not belong to the statutory duties of the Annual General Meeting or the Managing Director. The Board of Directors decides on the bank’s strategy and crucial business objectives. The Board of Directors is responsible for ensuring that the bank’s accounting and asset management is appropriately supervised.

According to OPA’s Articles of Association, the Board of Directors comprises a minimum of three and a maximum of eight members. Currently, the Board of Directors has eight members. The members of the Board of Directors are elected for one year at a time so that their term of office commences at the closing of the General Meeting deciding on the election and ends at the closing of the General Meeting deciding to elect a new Board of Directors. Members of the Board of Directors are obliged to resign at 65 years of age at the latest. The Board of Directors constitutes a quorum when at least half of its members are present. The Board of Directors convened 11 times during the year.

The Annual General Meeting held in March 2010 confirmed the composition of the new Board of Directors. Mikko Rosenlund, Managing Director of Tampereen Seudun Osuuspankki, was selected as a new member of the Board of Directors, with Risto Korpela, Managing Director of Turun Seudun Osuuspankki, stepping down from the Board of Directors. The Extraordinary General Meeting organised in August elected Harri Luhtala, CFO of OP-Pohjola Group Central Cooperative, as a new member of the Board of Directors. Managing Director Harri Nummela stepped down from the Board of Directors.

Members of the Board of Directors are:

Chairman	Harri Luhtala	CFO, OP-Pohjola Group Central Cooperative
Vice Chairman	Mikko Hyttinen	Senior Vice President, OP-Pohjola Group Central Cooperative
Members	Sakari Haapakoski	Managing Director, Oulun Osuuspankki
	Jari Himanen	Managing Director, Etelä-Karjalan Osuuspankki
	Hanno Hirvinen	Senior Vice President, Pohjola Bank
	Heikki Kananen	Managing Director, Mäntsälän Osuuspankki
	Matti Nykänen	Senior Vice President, OP-Pohjola Group Central Cooperative
	Mikko Rosenlund	Managing Director, Tampereen Seudun Osuuspankki

Managing Director

OPA’s Managing Director is obliged to diligently promote the bank’s interests and attend to the day-to-day management of the bank in accordance with laws and the Board of Directors’ instructions and orders. The Managing Director may only take actions which, considering the scope and quality of the operations of the bank, are unusual or far-reaching if the Board of Directors has authorised him/her to this effect or if it is impossible to wait for the Board of Directors’ decision without causing essential harm to the operations of the bank. It is the statutory duty of the Managing Director to ensure that the bank’s accounting is in compliance with the law and that the bank’s asset management is arranged reliably.

OPA’s Managing Director is Lauri Iloniemi.

A separate account of OPA’s corporate governance system is available at www.op.fi.

Auditing

KPMG Oy Ab, Authorised Public Accountants, were elected auditors at the General Meeting in 2010, with Eija Kauppi-Hakkarainen, Authorised Public Accountant, as principal auditor.

The bank's internal audit is the responsibility of the internal audit function of the OP-Pohjola Group Central Cooperative.

Outlook

The valid bond loan programme enables the issuance of new bond loans with real estate collateral in 2011. The quality of the loan portfolio is estimated to remain strong.

BOARD OF DIRECTORS' PROPOSAL FOR THE DISTRIBUTION OF PROFIT

The equity capital of the OP Mortgage Bank on 31 December 2010 stood at EUR 158,798,933.05, with distributable equity made up as follows:

+ Profit for the period on the income statement	3,574,441.81
+ Retained earnings	10,224,491.24
Total	13,798,933.05

The Board of Directors proposes that no dividend be paid for 2010. EUR 13,798,933.05 shall be retained in distributable equity.

INCOME STATEMENT

EUR	Note	2010	2009
Interest income		63.313.822,52	68.928.298,24
Interest expenses		46.963.417,92	54.898.520,74
Net interest income	3	16.350.404,60	**14.029.777,50**
Net commission income and expenses	4	-8.449.713,45	-7.970.276,32
Net income from trading	5	-1.036,11	-163,14
Net income from investments	6	1.700,00	935,00
Other operating income	7	18.847,96	25.810,20
Personnel costs	8	287.908,38	297.312,00
Other administrative expenses	9	1.396.090,42	983.408,89
Other operating expenses	10	1.397.621,79	863.646,26
Earnings before taxes		4.838.582,41	**3.941.343,24**
Income taxes	11	1.264.140,60	1.017.210,06
Profit for the period		3.574.441,81	**2.924.133,18**
OPA's COMPREHENSIVE STATEMENT OF INCOME			
Profit for the period		3.574.441,81	**2.924.133,18**
Other comprehensive income		-	-
Total comprehensive profit for the period		3.574.441,81	**2.924.133,18**

BALANCE SHEET

EUR	Note	31.12.2010	31.12.2009
Receivables from financial institutions	12	61.672.897,48	55.016.926,33
Derivative contracts	13	71.255.402,44	75.934.017,13
Receivables from customers	14	5.008.381.179,40	4.360.036.154,13
Investments assets	15	17.000,00	17.000,00
Intangible assets	16	913.546,18	941.764,88
Tangible assets	17	3.169,63	5.459,87
Other assets	18	48.790.397,53	63.176.885,22
Total assets		**5.191.033.592,66**	**4.555.128.207,56**
Liabilities to financial institutions	19	1.640.000.000,00	1.000.000.000,00
Derivative contracts	20	21.835.298,29	11.971.037,91
Debt securities issued to the public	21	3.286.746.721,13	3.310.810.830,82
Provisions and other liabilities	22	63.310.822,38	71.726.839,86
Tax liabilities	23	341.817,81	395.007,73
Subordinated liabilities	24	20.000.000,00	20.000.000,00
Total liabilities		**5.032.234.659,61**	**4.414.903.716,32**
Shareholders' equity			
Shareholders' interest			
Share capital		60.000.000,00	60.000.000,00
Invested unrestricted equity fund		85.000.000,00	70.000.000,00
Accumulated profits		13.798.933,05	10.224.491,24
Total equity	25	**158.798.933,05**	**140.224.491,24**
Total liabilities and shareholders' equity		**5.191.033.592,66**	**4.555.128.207,56**

CASH FLOW STATEMENT

EUR thousand	2010	2009
Cash flow from operating activities		
Comprehensive income	3.574	2.924
Adjustments to profit	1.538	1.465
Increase (+) or decrease (-) in operating assets		
Receivables from financial institutions	13.888	-13
Derivative contracts	4.679	-1.859
Receivables from customers	-648.345	-1.380.332
Other assets	14.394	-842
Increase (+) or decrease (-) in operating liabilities		
Liabilities to financial institutions	640.000	130.000
Derivative contracts	-9.393	-8.048
Provisions and other liabilities	-8.421	1.773
Income taxes paid	-1.317	-1.280
A. Total cash flow from operating activities	**10.597**	**-1.256.212**
Cash flow from investing activities		
Investments in tangible and intangible assets	-246	-440
B. Total cash flow from investing activities	**-246**	**-440**
Cash flow from financing activities		
Increases in debt securities issued to the public	-4.807	1.245.500
Decreases in debt securities issued to the public	-	-16.099
Increases in invested unrestricted capital funds	15.000	50.000
Dividends paid	-	-
C. Total cash flow from financing activities	**10.193**	**1.279.401**
Net change in cash and cash equivalents (A+B+C)	**20.544**	**22.749**
	-	-
Cash and cash equivalents at the beginning of the period	**41.129**	**18.380**
Cash and cash equivalents at the end of the period	**61.673**	**41.129**
Adjustments to profit for the period		
Items not associated with payment and other adjustments		
Depreciation	277	136
Taxes	1.262	1.280
Other	-	49
Total adjustments	**1.538**	**1.465**

CHANGE CALCULATION ON SHAREHOLDERS' EQUITY

		Share capital	Other reserves	Accumulated profits	Total
Shareholders' equity 1 Jan. 2010	25	**60.000**	**70.000**	**10.224**	**140.224**
Invested unrestricted equity fund		-	15.000	-	15.000
Comprehensive profit for the period		-	-	3.574	3.574
Other changes		-	-	-	-
Shareholders' equity 31 Dec. 2010		**60.000**	**85.000**	**13.798**	**158.798**

		Share capital	Other reserves	Accumulated profits	Total
Shareholders' equity 1 Jan. 2009	25	**60.000**	**20.000**	**7.317**	**87.317**
Invested unrestricted equity fund		-	50.000	-	50.000
Comprehensive profit for the period		-	-	2.924	2.924
Other changes		-	-	-18	-18
Shareholders' equity 31 Dec. 2009		**60.000**	**70.000**	**10.224**	**140.224**

NOTES TO THE FINANCIAL STATEMENTS

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Notes to the income statement

Notes to the balance sheet

Notes concerning contingent liabilities and derivatives

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Notes concerning risk management

Appendix 1. Accounting Policies

GENERAL

OP Mortgage Bank plc (OPA) is a credit institution engaged in mortgage banking in Finland.

The bank is part of a coalition of cooperative banks (OP-Pohjola Group) within which OP-Pohjola Group Central Cooperative and its member credit institutions are, ultimately, jointly and severally responsible for each others' liabilities and commitments.

The operations of the OP Bank Group Central Cooperative were reorganised on 1 January 2011 so that OP-Palvelut Oy, a service company wholly-owned by the OP-Pohjola Group Central Cooperative and independent of the central organisation, is responsible for the development and production of centralised services of the OP-Pohjola Group and its member banks. The name of OP Bank Group Central Cooperative was changed into OP-Pohjola Group Central Cooperative. The OP-Pohjola Group Central Cooperative operates as the entire OP-Pohjola Group's strategic owner institution and a central institution responsible for Group control and supervision.

In order to ensure uniformity in the accounting principles of entities belonging to the OP-Pohjola Group, the OP-Pohjola Group Central Cooperative is obligated to issue guidelines on the preparation of financial statements to its member credit institutions. According to the Act on Cooperative Banks and Other Cooperative Credit Institutions, the Act on the Amalgamation of Deposit Banks and the IAS 8 standard on accounting policies, the OP-Pohjola Group Central Cooperative's Executive Board must confirm any accounting principles for which no guidance is available in the International Financial Reporting Standards.

OP Mortgage Bank is domiciled in Helsinki and its registered address is Teollisuuskatu 1b, P.O. Box 308, FIN-00101 Helsinki.

A copy of OP Mortgage Bank plc's financial statements is available at www.op.fi or the company's head office at Teollisuuskatu 1b P.O. Box 308, FI-00101 Helsinki.

The bank's Board of Directors approved the financial statements on 9 February 2011.

ACCOUNTING PRINCIPLES

The financial statements of OP Mortgage Bank have been prepared in accordance with the International Financial Reporting Standards (IFRS). The preparation of financial statements is subject to the IAS and IFRS standards and SIC and IFRIC interpretations valid on 31 December 2010. International Financial Reporting Standards refer to the standards and interpretations approved in accordance with European Parliament and Council Regulation (EC) No 1606/2002. In addition to the IFRS standards, the preparation of the financial statements of OP Mortgage Bank is subject to Chapter 9, Section 146(6) of the Credit Institutions Act.

The accounting policies and principles are ultimately the same as in the 2009 financial statements.

The following standards and interpretations do not have any effect on OP Mortgage Bank's financial statements:

- Amended IFRS 3, Business Combinations (valid from 1 July 2009). The standard contains significant amendments that expand the IFRS 3 standard's scope of application, and affect the amount of goodwill arising from acquisitions and the sales income from business operations. The conditional purchase price is recognised at fair value and its later change is recognised through profit or loss. Acquisition-related expenses, such as expert fees, will be recognised as expenses instead of activation. The interest of shareholders without any control can be recognised at fair value according to the transaction or as a relative share of the object's net assets.
- Amended IAS 27, Consolidated and Separate Financial Statements (valid from 1 July 2009). The amended standard requires changes in the ownership of a subsidiary to be recognised directly at shareholders' equity in situations where the OP-Pohjola Group retains control. If control is lost, the investment remaining with the Group is recognised at fair value through profit or loss.
- IFRIC 17, Distribution of Non-cash Assets to Owners (valid from 1 July 2009).

- IFRIC 18, Transfer of Assets from Customers (valid from 1 July 2009).
- Improvements to IFRS standards (issued in April 2009, the dates of validity vary).
- Amended IAS 39, Financial Instruments: Recognition and Measurement – eligible hedged items (valid from 1 July 2009).
- Amended IFRS 2, Share-based Payment – Group cash-settled share-based payment transactions (valid from 1 January 2010).

The financial statements of OP Mortgage Bank have been prepared on the basis of the original acquisition costs with the exception of financial assets and liabilities recognised through profit or loss, financial assets available for sale, and hedged items in fair value hedging.

On the basis of the Regulation EC 1004/2008 published by the EU Commission in October 2008, financial instruments have not been reclassified.

The income statement and balance sheet figures are presented in euro and cents, while other financial statement figures are presented in thousands of euro.

Use of estimates

The preparation of financial statements in accordance with IFRS requires management to make estimates and exercise discretion in the application of accounting policies. Accounting policies requiring management to make estimates and exercise discretion are addressed in more detail in the section “Accounting policies requiring discretion by management and crucial factors of uncertainty associated with estimates”.

ITEMS DENOMINATED IN A FOREIGN CURRENCY

OP Mortgage Bank’s financial statements are denominated in euro, which is the company’s operating and presentation currency. Transactions denominated in a foreign currency are recognised in euro following the rates on the transaction date or the average rate in the recognition month. Monetary balance sheet items denominated in a foreign currency on the reporting date are converted into euro following the rate valid on the reporting date. Non-monetary balance sheet items that are measured at the original acquisition cost are presented following the rate valid on the transaction date.

Any exchange rate differences created by the conversion of transactions and monetary balance sheet items denominated in a foreign currency into euro are recognised as translation gains or losses on the income statement item ‘Net trading income’.

FINANCIAL INSTRUMENTS

Determination of fair value

Fair value refers to the amount with which a property item could be exchanged or with which a debt could be paid between parties that are aware of the matter, willing to engage in business operations and independent of each other.

The fair value of a financial instrument is determined using either price quotations from an active market or, if there is no active market, using the company’s own valuation methods. Market is deemed functional if price quotations are easily and regularly available, and reflect real and regular market transactions between parties independent of each other.

If the market has standard valuation practices for financial instruments for which the market price cannot be obtained directly, the fair value will be based on the market’s generally used model for calculating the market price and the market quotations of the input information used by the model.

If there is no established valuation practice in the market, the market value is determined by using a separate valuation model prepared for the product in question. The valuation models are based on generally used calculation methods, covering all factors that market parties would take into account when setting a price, and are uniform with the accepted financial methods used in pricing financial instruments.

The valuation methods used include the prices of recent market transactions between parties that are aware of the matter and willing to engage in business operations, the discounted cash flow method, and the fair value of a substantially similar instrument on the closing date. The valuation methods account for estimated credit risk, the applicable discount rates of interest, the possibility of premature repayment and other factors that affect the reliable determination of the fair value of a financial instrument.

The fair values of financial instruments are divided into three categories according to the determination of their fair value:

- fair values quoted for fully similar assets or liabilities on the active market (Level 1)
- fair values determined using input information other than Level 1 quoted prices that are verifiable for assets or liabilities either directly (e.g. through prices) or indirectly (e.g. derived from prices) (Level 2)
- fair values determined using input information for assets or liabilities that is not based on verifiable market prices (Level 3)

Impairment of financial assets

At the end of a financial period, it is assessed whether there is objective evidence that the value of an item other than a financial asset item measured at fair value through profit or loss has decreased.

The value of an item not belonging to financial assets has decreased if there is objective evidence of impairment as a consequence of one or more events realised after the original recognition and it has a reliably estimated impact on the future cash flows estimated for the financial assets.

The following can be regarded as objective evidence of impairment:

- a significant decrease in the issuer's result, credit rating, balance sheet, payment behaviour or business plans, and unfavourable changes in the issuer's financial or operating environment
- a bona fide offer for buying the same or a similar investment from the market under its purchase value
- events or conditions that significantly decrease the issuer's operating capacity and continuity (going concern), such as negative cash flow caused by operations, and insufficient capital or working capital
- the debtor's breach of contract
- an easement granted to the debtor
- a previously recognised impairment
- the discontinuity of the financial instrument's active market

For equity instruments, significant or long-term impairment below their acquisition cost comprises objective evidence of impairment.

The recognition of impairment is discussed in more detail in different financial instrument groups.

Categorisation and recognition of financial instruments on the balance sheet

At initial recognition, financial assets and liabilities are categorised in accordance with the measurement practices into financial assets and liabilities recognised at fair value through profit or loss, loans and other receivables, investments held until maturity, financial assets available for sale, and other financial liabilities.

Purchases and sales of financial assets and liabilities recognised at fair value through profit or loss, investments held until maturity, and financial assets available for sale, are recognised on the balance sheet on the transaction date – that is, the date of commitment to purchase or sell the financial asset or liability item. Loans and receivables are recognised on the day the customer withdraws the loan.

Financial assets and liabilities are not netted unless a statutory right of set-off exists and the intention is to exercise such a right.

Financial assets are derecognised when the contractual right to cash flows from a financial asset ceases or when the rights have been transferred to another party. Financial liabilities are derecognised when the associated obligations have been fulfilled and the liabilities have ceased to exist.

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

Balance sheet items recognised at fair value through profit or loss include financial assets and liabilities, derivative contracts held for trading, and financial assets defined to be recognised at fair value through profit or loss at initial recognition. The company does not hold any of the last mentioned items.

Financial assets and liabilities and derivative contracts held for trading

Assets held for trading include certificates of claim, shares and interests that have been acquired with the purpose of benefiting from short-term changes in market prices. Items held for trading also include all derivative contracts other than those constituting an efficient hedge relationship.

Financial assets and liabilities and derivative contracts held for trading are recognised at fair value on the balance sheet, and changes in fair value are recognised in the income statement.

Loans and receivables

Financial assets categorised as loans and receivables are non-derivative financial assets with fixed or determinable cash flows that have been created by handing over funds, goods or services. Loans and receivables are not quoted in an active market, and they are treated in accounting at acquisition cost.

Loans and receivables are recognised at acquisition cost during original recognition. It is the fair value of the given consideration plus directly allocated transaction costs. After the original recognition, loans and other receivables are measured at matched acquisition cost.

Write-downs on loans and receivables are recognised by receivable items and groups of receivables. Write-downs are assessed and recognised by receivable item if the customer’s total exposure is significant. Other write-downs are assessed and recognised by groups of receivables. Write-downs are recognised as reductions in the balance sheet item for loans. Recognition of interest on the reduced amount continues after write-down.

A write-down will only be recognised when there is objective proof of the customer’s impaired solvency after the initial recognition of the receivable on the balance sheet. The value of a receivable item is impaired if the future cash flows recoverable from it – including the fair value of the collateral – are less than the book value of the loan and unpaid interest. Future cash flows are discounted at the loan’s original interest rate. In the case of a variable interest rate loan, the discount rate is the rate in accordance with the contract at the time of assessment. The difference between the book value of the loan and a lower recoverable value of cash flow is recognised as a write-down.

For the purpose of assessing impairment by groups of receivables, receivables are divided into groups with similar credit risk. A group-specific write-down is recognised for each group on the basis of an average empirical assessment of future losses.

Once all collection actions have been completed or management has otherwise made a decision to this effect, the loan is removed from the balance sheet. Any payments received after removal from the balance sheet are recognised as adjustments to write-downs on receivables. If objective evidence has been received that the capital adequacy of a customer has improved, the amount of previously recognised write-downs shall be reassessed and any change due to improved capital adequacy shall be recognised on the income statement.

Financial assets available for sale

Financial assets available for sale are non-derivative financial assets not included in the above categories of financial assets but may be sold before the due date. Financial assets available for sale are recognised in the balance sheet at acquisition cost at the moment of purchase. It is the fair value of the paid consideration plus transaction costs allocated directly to the acquisition. Financial assets available for sale are recognised at fair value in the balance sheet. Changes in value are recognised as other comprehensive income and transferred to the income statement when the asset is derecognised from the balance sheet or there is objective proof that its value has been impaired.

With regard to notes or bonds, objective evidence of financial assets available for sale include a significant negative change in the issuer’s credit rating or, with regard to an equity instrument, a significant or long-term decrease in fair value below the acquisition cost.

If a security’s market value decreases after an impairment recognition, the impairment will be recognised on the income statement.

Should the fair value of an impaired note or bond categorised as financial assets available for sale subsequently increase, and if the increase can be objectively attributed to an event subsequent to the impairment loss recognition, the impairment loss shall be reversed and recognised on the income statement. If the fair value of an impaired equity instrument increases, the increase in value will be recognised at the fair value reserve.

Cash and cash equivalents

Liquid assets comprise funds in cash and receivables from credit institutions repayable upon demand.

Other financial liabilities

Other financial liabilities include financial liabilities other than those recognised at fair value through profit or loss. Other financial liabilities include other liabilities to financial institutions and customers, and issued bonds and other financial liabilities. Other financial liabilities are recognised in the balance sheet on the clearing date and, after initial recognition, treated in accounting at matched acquisition cost.

Derivative contracts

A derivative contract is a financial instrument or other contract whose value changes when the value of a specific interest rate, financial instrument or commodity price, foreign exchange rate, price or interest rate index, credit rating, credit index or similar underlying asset changes. A derivative requires only minor net investment at the time of entering into the contract, and it will be settled on a specific date in the future.

Derivative contracts are categorised into hedging contracts and those held for trading. OPA only uses derivatives for hedging purposes. Derivatives are always measured at fair value.

The risk management of the OP-Pohjola Group has drawn up methods and internal principles used in hedge accounting according to which a financial instrument can be defined as hedging.

According to hedging principles, the OP-Pohjola Group can hedge against interest risk, exchange rate risk and price risk by applying fair value or cash flow hedging. Fair value hedging protects against changes in fair value, and cash flow hedging protects against fluctuation in future cash flows.

Contracts cannot be treated according to the rules of hedge accounting in accounting if the hedging relationship between the hedging instrument and the related hedged object required by IAS 39 does not meet the criteria of the standard. The OP-Pohjola Group also makes derivative contracts that provide hedging against financial risks but do not meet these criteria.

Hedge accounting

Hedge accounting is used to verify that changes in the fair value of a hedging instrument fully or partially cancel any similar changes in the hedged item or in cash flow.

The connection between hedging and hedged instruments is documented in a specified form. The documentation includes information on risk management principles, the hedging strategy and the methods used for proving the effectiveness of hedging. The effectiveness of hedging is proven at the time of entering into a hedge and during the hedging period by mutually comparing the changes in the fair values or cash flows of the hedging and hedged instruments. Hedging is deemed to be efficient when the change in the hedging instrument's fair value or cash flow eliminates 80–125 percent of the change in the fair value or cash flow of the hedged contract or portfolio.

Hedge accounting for fair value

Interest risk hedging following the fair value method is associated with long-term fixed-rate liabilities (own issues), individual loan portfolios, and individual loans. The hedging instruments used include interest swap contracts, and currency swap contracts. Derivative hedging aims at locking the interest rate margin of variable- or fixed-rate market-based receivables and liabilities.

In the context of hedge accounting for fair value, changes in the values of the hedging and hedged instrument are recognised on the income statement under “Net income from investments” (bonds included in assets available for sale) and “Net interest income” (loans and own issues).

INTANGIBLE ASSETS

Intangible assets are valued at acquisition cost deducted by depreciation and impairment. Depreciation is recognised as expenses over the course of the estimated economic life, which is two to six years for computer software and licences. The economic life of assets is reviewed at each time of closing the accounts, and their value is tested for impairment as necessary.

TANGIBLE ASSETS

Property, plant and equipment items are valued at original acquisition cost deducted by depreciation and impairment. Assets are depreciated by straight-line depreciation over the estimated economic life. Planned depreciation is not applicable to land areas. Expenses arising from an asset item after the original acquisition are only capitalised in the book value of the asset if it is probable that it will produce greater economic benefit than originally estimated.

The estimated economic lives are mostly as follows:

Machinery and equipment	3 to 10 years
IT equipment	3 to 5 years
Other tangible assets	3 to 10 years

The residual value and economic life of assets are reviewed at each time of closing the accounts and adjusted if necessary to reflect any changes in the expected economic benefit.

Write-downs on tangible and intangible assets

In connection with each closing of the accounts, it shall be assessed whether there are any indications of impairment of asset values. If such indications exist, the amount recoverable from the asset is estimated. Regardless of the existence of such indications, the recoverable amount is estimated annually for unfinished assets, goodwill and any intangible assets with an unlimited economic life. If the book value of an asset exceeds the estimated amount recoverable in the future, the excess is recognised as an expense.

The recoverable amount is the asset’s fair value less the cost of sales (net sales price) or a higher value in use. The starting point is to determine the recoverable amount through the net sales price of the asset. If the net sales price cannot be determined, the value of the asset in use is determined. The value in use refers to the present value of the future cash flows expected to be recoverable from the asset. The discount rate used is the interest rate determined before tax, representing the market view of monetary time value and the special risks associated with the asset item.

If no net sales price can be determined for an asset and it does not accumulate any cash flow independent of other items, the need for impairment is determined through the unit where the asset belongs. In this case, the book values of the assets included in the unit are compared to the amount recoverable from the entire cash generating unit.

An impairment loss is reversed if there is a change in the circumstances and the amount recoverable from the asset item has changed since the time the impairment loss was recognised. The reversal of impairment loss shall not exceed the amount that would be the book value of the asset if the impairment loss were not recognised. Impairment loss recognised on goodwill will not be reversed under any circumstances.

LEASE CONTRACTS

Lease contracts are categorised at the time they come into existence as finance lease contracts or other lease contracts in accordance with the actual substance of the transaction. A lease contract is a finance lease contract if an essential part of the risks and benefits characteristic of ownership are transferred to the leaseholder. Otherwise the contract is categorised into other lease contracts.

Assets leased on finance lease contracts are presented in tangible assets, and the corresponding financial leasing liability is presented in other liabilities. At the commencement of the contract, leased assets are recognised on the balance sheet as assets and liabilities to an amount equal to the fair value of the leased asset or a lower present value of minimum rents. Depreciation on assets booked in tangible assets is applied over the economic life or a shorter lease period. Financing costs are booked in interest expenses so that the interest rate on the remaining debt is equal for each financial period. Sales gains in situations of sale and subsequent lease are allocated over the period of lease.

Rents paid on assets leased under other lease contracts are recognised as expenses on the income statement in equal instalments over the period of lease.

EMPLOYEE BENEFITS

Pension benefits

Statutory pension cover for OPA’s employees is arranged either through the OP-Pohjola Group Pension Fund or through insurance policies with insurance companies. Supplementary pension cover for employees is arranged through the OP-Pohjola Group Pension Foundation or an insurance company.

OPA has both defined benefit and defined contribution pension plans. The pension plans arranged through the OP-Pohjola Group Pension Fund, insofar as the funded parts of disability and old age pensions are concerned, are regarded as defined benefit plans. The plans arranged through the OP-Pohjola Group Pension Foundation are defined benefit plans in their entirety.

The expenses arising from pension plans are recognised under “Personnel expenses” on the income statement. In defined contribution plans, the insurance contributions are recognised as expenses for the period to which the charge applies. There are no other payment obligations under defined contribution plans.

Defined benefit plans in the OP-Pohjola Group Pension Fund and the OP-Pohjola Group Pension Foundation are financed by payments based on actuarial calculations.

In defined benefit plans, the present value of the obligations arising from the plan on the balance sheet date deducted by the fair value of the funds included in the plan is presented as an asset. Actuarial gains and losses and past service costs are also taken into account.

The obligations from defined benefit pension plans are calculated separately for each plan. The calculation is performed using the project unit credit method. Pension costs are recognised as expenses over the appropriate person’s period of service on the basis of calculations made by authorised actuaries. The discount rate used in calculating the present value of a pension obligation is defined on the basis of the market revenue of high-quality bonds issued by companies on the closing day of the reporting period.

On the transition date of 1 January 2004, all actuarial gains and losses were recognised at the IFRS balance sheet’s opening shareholders' equity according to the easement allowed by the IFRS 1 standard. Actuarial gains and losses generated after this will be recognised on the income statement over the average remaining period of service to the extent that they exceed the greater of the following: ten per cent of the pension obligation or ten per cent of the fair value of the assets.

Share-based employee benefits

OPA uses a management incentive scheme on the basis of which a person included in the scheme can receive a reward partially settled in Pohjola Bank plc's stock and partially in cash for services rendered during the "earning and commitment period".

Share-based employee benefits settled in equity are measured at fair value at the time of granting and are recognised as expenses and an increase in shareholders' equity in equal instalments over the entitlement earning and commitment period. Share-based benefits settled in cash and the corresponding liability are measured at fair value at the end of each period until the liability is settled. The impact of rewards paid as equity and cash on the result is recognised in personnel costs.

INCOME TAXES

The income taxes on the income statement include taxes based on the taxable income for the fiscal period, taxes for previous fiscal periods and deferred tax expenses or income.

Deferred tax liabilities are calculated for all taxable temporary differences between accounting and taxation. Deferred tax receivables are calculated for all tax-deductible temporary differences between accounting and taxation, as well as all losses confirmed in taxation. If the accumulation of taxable income makes it probable that a receivable can be utilised, it will be recognised.

Deferred tax liabilities and receivables are netted. Deferred tax liabilities and receivables are calculated in accordance with the enacted tax rate that is anticipated to be valid when the temporary difference is dissolved. If a deferred tax item arises from balance sheet items whose changes have no effect on the income statement, the change in deferred tax is not recognised on the income statement but in shareholders' equity.

RECOGNITION PRINCIPLES

Interest income and expenses on interest-bearing asset and liability items are booked on an accrual basis. Interest on receivables with non-serviced due payments are also recognised as income. Such an interest receivable is included in impairment testing. The difference between the acquisition cost and the nominal value of a receivable is allocated in interest income, and the difference between the amount received and nominal value of a liability is allocated in interest expenses.

Commission income and expenses on services are recognised when the service is rendered. In case of non-recurring commissions related to several years that may possibly have to be returned later, only the share applicable to the financial period is recognised.

Dividends are generally recognised once the General Meeting of the company distributing the dividend has decided upon the distribution of dividend.

The income statement presents income and expense items separately from one another without any deductions, unless the combination of income and expenses into a single item is justified in order to present the correct and sufficient situation.

A summary of the presentation of income statement items in the financial statements:

Net interest income	Received and paid interest on interest instruments, the allocated difference between the nominal value and purchase value, interest on interest derivatives, and the change in value in fair value hedging
Net commission income and expenses	Commission income and expenses, and the allocation of the Day 1 profit related to illiquid derivatives
Net income from trading	Changes in the fair value of financial instruments recognised at fair value through profit or loss without accrued interest, sales gains and losses, and dividends
Net income from investments	Realised sales gains and losses of financial assets available for sale, impairment, dividends and changes in the fair value of investment real estate, sales gains and losses, leases and other real estate expenses
Other operating income	Other operating income
Personnel costs	Salaries, fees, pension expenses, social expenses
Other administrative expenses	Office, IT and other administrative expenses
Other operating expenses	Depreciation, leases and other expenses

SEGMENT REPORTING

As OPA only engages in housing finance, segment reporting is therefore not presented.

ACCOUNTING POLICIES REQUIRING DISCRETION BY MANAGEMENT AND CRUCIAL FACTORS OF UNCERTAINTY ASSOCIATED WITH ESTIMATES

Estimates and assumptions regarding the future are made during the preparation of financial statements, and the outcome may differ from the realised situation. Furthermore, the application of accounting policies requires discretion.

The impairment testing of receivables is prepared on the basis of a receivable item or group. Receivable-specific impairment testing is based on the management's estimate on future loan-specific cash flows. The most critical factor in loan-specific impairment testing is to determine the cash flow that is the most likely to be realised.

For the purpose of assessing impairment by groups of receivables, receivables are divided into groups with similar credit risk. Impairment recognised for groups of receivables is based on an estimate of future losses based on historical information. In this case, the management’s discretion is required for assessing how well the estimates based on historical information on future losses correspond with the realised losses, and whether any adjustments are needed in the estimates on future losses based on historical information.

Impairment testing of financial assets available for sale, certificates of claim included in loans and receivables, and investments held until the due date must be performed on each closing date. If there is objective evidence of impairment, impairment is recognised in the income statement. With regard to equity instruments, impairment must also be recognised if it is significant or long-term. The determination of significant or long-term impairment comprises part of the management’s normal discretion. The determination is performed separately for each instrument, taking into account the general accounting principles and the requirements of standards.

The management must estimate when the financial instrument market is not functional. In addition, the management must assess whether a single financial instrument is subjected to active trading and whether the price information available on the market comprises a reliable indication of the instrument's fair value. Otherwise, the fair value of financial instruments is determined following the valuation method. The management’s discretion is required for selecting the applicable valuation method. Where input data is not available on the market for the results produced by the models, the management must assess the extent of using other data. Furthermore, the functionality of the valuation methods is inspected regularly.

In defined benefit pension plans, the property item presented is the current value of the obligations arising from the plan less the fair values of the assets belonging to the plan, unrecognised actuarial gains and losses, and costs based on a retroactive work performance. The calculation includes actuarial assumptions pertaining to the future, including the discount rate, the expected return on the assets, future increases in wages, salaries and pensions, the turnover rate and inflation.

NEW STANDARDS AND INTERPRETATIONS

OPA will adopt the following standards and interpretations in 2011:

- Amended IAS 32, Financial Instruments: Presentation – Classification of Right Issues (valid from 1 February 2010). The amendment does not have any impact on OPA's financial statements.
- IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (valid for financial periods starting on 1 July 2010 or later). The amendment does not have any impact on OPA's financial statements.
- IAS 24 (revised), Related Party Disclosures (valid from 1 January 2011). The amendment does not have any impact on OPA's financial statements.
- IFRIC 14, IAS 19 (amended), The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (valid from 1 January 2011). The amendment does not have any impact on OPA's financial statements.
- Improvements to IFRS standards (issued in May 2010, valid mainly from 1 January 2011).

The more detailed project programme of the IASB (International Accounting Standards Board) extends to the end of 2011. The amendments will cover the presentation and valuation of financial instruments, the recognition of impairment, hedge accounting, and the netting of assets and liabilities. Other significant amendments are related to the presentation of financial statements, employee benefits, lease contracts and insurance agreements. Furthermore, the IASB has estimated the publication of other amendments to information concerning financial statements. The OP-Pohjola Group actively monitors these amendments.

Appendix 2. Principles of risk management and capital adequacy management

General principles of risk management and capital adequacy management

The objective of capital adequacy management is to ensure OPA's risk tolerance and subsequently the continuity of operations. Capital adequacy management has been integrated as part of OPA's business control and management. OPA's capital adequacy management is arranged in accordance with instructions issued by the central institution.

Internal auditing, the organisation of reliable administration and the capital adequacy management process are regulated by the Act on Credit Institutions, and the standards, regulations and guidelines of the Financial Supervisory Authority. The Act on the Amalgamation of Deposit Banks prescribes that the OP-Pohjola Group Central Cooperative as the Group's central institution guides the coalition's operations and issues guidelines for its companies. Furthermore, the Act on the Amalgamation of Deposit Banks prescribes that the capital adequacy, liquidity and customer risks of organisations included in the coalition of cooperative banks are supervised in a consolidated manner at the coalition level. The OP-Pohjola Group forms a financial and insurance conglomerate as referred to in the Act on the Supervision of Financial and Insurance Conglomerates and the Act on the Amalgamation of Deposit Banks. OP-Pohjola Group is supervised by the Financial Supervisory Authority.

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

Internal supervision

Internal supervision ensures that the goals and objectives are met and its resources are used economically and efficiently. Internal supervision is secured through reliable administration and capital adequacy management. Internal supervision is part of everyday operations and implemented at all organisational levels.

Monitoring the realisation of business objectives and targets is an essential part of internal supervision within the OP-Pohjola Group. The Supervisory Board of the OP-Pohjola Group Central Cooperative regularly confirms OP-Pohjola Group's strategy, which guides the planning of business and setting of targets in all OP-Pohjola Group entities. In connection with preparing OPA's strategy, the Board of Directors has set targets for the bank's long-term and annual performance indicators. The performance indicators, together with risk and supervision limit indicators, forms an entity on which the setting of OPA's targets, monitoring and rewards are significantly based.

OPA also regularly prepares an earnings estimate and capital plan, the objective of which is to draw attention to the effect of business decisions on capital adequacy, earnings development and performance indicators well in advance.

Reliable administration

Compliance with the principles of reliable administration ensures professional management in accordance with sound and careful business principles, as well as reliable and sufficiently transparent operations. OPA's Board of Directors has confirmed reliable administration principles as part of its capital adequacy management principles.

Risk management

The primary objective of risk management is to secure OPA’s risk tolerance and to ensure that the company is not exposed to excessive risk that might endanger the profitability, solvency or continuity of the OPA’s operations or those of the entire OP Pohjola Group.

The risk management process includes the recognition, measurement and evaluation of risks, and their limitation, reporting and supervision. OPA’s qualitative and other non-measurable risks are controlled by ensuring that OPA’s capital adequacy management process as a whole is arranged in accordance with instructions and that compliance with instructions is supervised and deviations are regularly reported. The Board of Directors has confirmed risk management guidelines and procedures for OPA specifically for each type of risk on the basis of guidelines from the OP-Pohjola Group Central Cooperative.

The independence of risk management from business operations is generally realised so that in addition to OPA’s senior management, risk-taking is supervised by the OP-Pohjola Group Central Cooperative’s risk management unit, which is independent of OPA’s business. Its task is to assess OPA’s risk management systems, risks and risk levels. Furthermore, the OP-Pohjola Group Central Cooperative’s risk management provides guidance to OPA for the development and maintenance of risk management systems. The OP-Pohjola Group Central Cooperative’s internal auditing regularly assesses the adequacy of OPA’s risk management.

Measurable risks within the OP-Pohjola Group are limited using risk limits set for risk tolerance and central types of risk. The coverage and development needs of the indicators are reviewed annually. Before the risk indicators and risk limits are confirmed, a statement is requested from the OP-Pohjola Group Central Cooperative’s risk management. The OP-Pohjola Group Central Cooperative’s Executive Board has set monitoring limits for OPA’s risk tolerance and credit risks that OPA should not exceed in its operations.

Financial capital and stress tests

OPA complies with the OP-Pohjola Group Central Cooperative’s guidelines concerning the use of financial capital and stress tests.

Financial capital refers to OP-Pohjola Group’s own calculated estimate of the amount of capital sufficient to cover the risks embedded in business operations.

On the basis of the Group's internal risk models, the financial capital model calculates the financial capital required for covering the risks using a timeline of one year and a confidence interval of 99.97 per cent.

Financial capital is calculated for credit risks, interest, share and real estate risks associated with banking operations, market risks and operational risks. In addition, the model reserves financial capital for covering the financial risk, business risk and the risk arising from the operating environment. OP-Pohjola Group’s success and risk limit indicators utilise indicators based on financial capital.

Stress tests are used to assess how various exceptionally serious but potential situations may impact OPA. Stress tests can be used to identify the most essential risks for the company and assess the vulnerability of the company’s financial standing according to these risks.

Organisation of risk management and capital adequacy management

The OP-Pohjola Group Central Cooperative is responsible for capital adequacy management at the OP-Pohjola Group level, as well as for the adequacy and up-to-datedness of the OP-Pohjola Group risk management system. The Central Cooperative issues Group entities with guidelines for ensuring risk management and ensures, through supervision, that the entities operate in accordance with official regulations, their own rules, guidelines issued by the Central Cooperative, the OP-Pohjola Group’s internal procedures, and procedures appropriate and ethically acceptable for customer relationships. OPA is responsible for its capital adequacy management according to the nature of its operations. The Managing Director and the Board of Directors are responsible for the risk management of OPA.

The Supervisory Board of the Central Cooperative confirms the OP-Pohjola Group’s strategy, which includes crucial risk management policies. Furthermore, the Supervisory Board of the OP-Pohjola Group Central Cooperative confirms the OP-Pohjola Group’s capital adequacy management policies, business objectives, capital plan principles and risk limits for risk tolerance and different types of risk. The Supervisory Board regularly monitors the development of business operations, risk tolerance and the risk situation of the OP-Pohjola Group and the OP-Pohjola Group Central Cooperative.

The Executive Board of the OP-Pohjola Group Central Cooperative assesses the up-to-datedness of the OP-Pohjola Group’s strategy and risk limits and the proactive contingency plan for its own funds, at least annually. The Executive Board is also responsible for the adequacy and up-to-datedness of systems and procedures associated with capital adequacy management, as well as the issuance of general guidelines related to capital adequacy management for OP-Pohjola Group entities. The Executive Board confirms the OP-Pohjola Group’s risk policy and general capital adequacy management principles. The Executive Board reports to the Supervisory Board on the development of the business, risk tolerance and risk situation of the OP-Pohjola Group, the OP-Pohjola Group Central Cooperative, its member institutions and member banks.

Risk management control within the OP-Pohjola Group comprises an area of responsibility independent of business operations. It prescribes, guides and controls the comprehensive risk management of the Group and its organisations, and analyses the risk position. Risk management control is also responsible for maintaining and developing Group-level risk management systems and methods, as well as systems and methods provided for organisations. Risk management prepares a regular capital adequacy management report within the OP-Pohjola Group, including a description of OP-Pohjola Group's capital adequacy management process and a risk management assessment of the sufficiency of capital in relation to the strategy's long-term success indicators and risk limits.

OP-Pohjola Group’s Risk Management Committee, which reports to the Executive Board of the OP-Pohjola Group Central Cooperative, contributes to supervising the OP-Pohjola Group’s long-term operating preconditions. It guides the Group's risk and capital adequacy management, and controls the fulfilment of associated guidelines within different Group organisations. The Risk Management Committee makes proposals to the Executive Board of the OP-Pohjola Group Central Cooperative concerning general principles related to risk management and capital adequacy management. It also ensures that risk management aspects receive sufficient attention in business and their development.

The Credit Risk Committee, appointed by the Executive Board of the OP-Pohjola Group Central Cooperative, prescribes, guides and controls the credit process and credit risk position of the Group and its organisations. It ensures that the loan portfolio corresponds with the valid risk policy and that customer liabilities within the Group and its member organisations are in compliance with the liability limits set. The member banks must have valid permission granted by the Credit Risk Committee if the customer risk of a customer entity rises above 20 per cent of the funds of the credit institution or consolidation group.

The OP-Pohjola Group Central Cooperative's Audit unit supports capital adequacy management by verifying that the OP-Pohjola Group's organisations operate profitably and safely in compliance with the legislation, official regulations, the OP-Pohjola Group Central Cooperative's guidelines, as well as their individual regulations and Articles of Association. The OP-Pohjola Group Central Cooperative’s Audit unit also secures risk management and ensures that risk monitoring systems correspond with the requirements set by operations.

Risk management of OP Mortgage Bank

The Board of Directors of OP Mortgage Bank has confirmed the capital adequacy management principles and instructions, and set the risk limits for the most important risk indicators. The Managing Director is responsible for the implementation of capital adequacy management in accordance with the confirmed principles and instructions, and regularly reports to the Board of Directors on the business, risk tolerance and risk situation.

The independence of risk management from business operations is generally realised so that the assessment of risk management is based on reports produced by the OP-Pohjola Group Central Cooperative's risk management, as well as assessments of the adequacy of OPA's risk management made by the Central Cooperative's Audit function. The OP-Pohjola Group Central Cooperative produces reports on the measured risks to OPA in a centralised manner. The OP-Pohjola Group Central Cooperative's Audit function also audits OPA's risk management.

Credit granting authorisations are confirmed in the agency agreement between the intermediary banks and OPA. Credit approval decisions are primarily made by the intermediary bank. However, with regard to construction-time financing for housing corporations, decisions must be submitted to OPA, where credit approval decisions are made by the Credit Committee.

OPA's most substantial individual types of risk are credit risk, liquidity risk and interest risk. Other risks related to OPA's business are operational risks and strategic risk.

Risk tolerance and profitability

Risk tolerance is maintained at a sufficient level by ensuring sufficient capital adequacy. OPA's own funds are maintained at a sufficient level in relation to estimated business risks. The starting points for assessing the required amount of own funds are the capital requirements set by the authorities and OPA's financial capital based on the OP-Pohjola Group Central Cooperative's calculation model. Risks not included in the calculation of capital, as well as factors of uncertainty associated with the calculation, are accounted for by maintaining a sufficient buffer of own funds in excess of financial capital. The sufficiency of own funds is ensured through the OP-Pohjola Group Central Cooperative's general stress tests and, in special situations, also through stress tests associated with the unfavourable development of OPA's own operating environment. The owner makes capital investments in the company to the extent required by the growth of the loan portfolio.

OPA serves as the housing finance instrument of the OP-Pohjola Group. As a consequence of this role, the bank does not aim at maximising its profitability, but instead aims at paying incentive sales commissions to the member banks of the OP-Pohjola Group, which act as its agents in the capacity of loan intermediaries. However, profitability is maintained at a sufficient level with regard to risk tolerance.

Credit risks

Objectives and general principles of credit risk management

Credit risk refers to a risk arising from the inability of the bank's contracting parties to meet their obligations in cases where the collateral does not protect the bank's receivables. The objective of credit risk management is to limit the negative effects of credit risks arising from customer exposure to an acceptable level. A controlled (disciplined) funding process plays a central part in credit risk management as guided by credit risk policies, decision-making authorisations and operating instructions. In banking operations, credit risks are basically controlled through customer selections, securities, covenant terms and the avoidance of risk groups. OPA only grants new loans with housing as collateral to private customers, which prevents individual customer exposure from increasing significantly in relation to the bank's own funds.

Credit Risk management methods

The starting point for credit risk management, and a specific strength of banks within the OP-Pohjola Group, is local, comprehensive knowledge of our customers. Lending will primarily be carried out on the basis of the customer's sufficient and verified credit servicing ability. In order to ensure the repayment of commitments, customer exposure must have securing collateral.

The credit servicing ability and credit risk associated with private customers is assessed on the basis of credit ratings for financing projects and solvency calculations. The granting of liabilities, procedures in relation to a security deficit and the pricing of liabilities are guided through credit ratings.

Payment capacity calculations ensure that a private customer can fulfil its obligations. The effect of an increase in interest levels on monthly payments is taken into account in funding negotiations by calculating the comparison calculation for the monthly loan payment at a rate of six per cent. In order to stabilise credit servicing costs upon a possible rise in the interest rate level, the OP-Pohjola Group offers interest ceiling and fixed-rate agreements for housing loans granted to households and for corporate loans.
For securing the repayment of a loan, insurance policies linked with the loan are offered in the event of illnesses and unemployment.

Credit risks are continuously monitored. The objects monitored include the development and distribution of the loan portfolio by credit rating, the development of non-performing receivables and past due payments, as well as other reports describing the quality and structure of loan portfolios. Expired payments include loan amortisation and interest not paid by the due date.

Credit rating

Credit risks are guided and the amount of risk is estimated within the OP-Pohjola Group utilising credit risk models. In addition to credit rating, the security position and the amount of exposure are taken into consideration. In OPA, these models have an impact on the following:

- granting and pricing of credit
- the definition of credit decision levels
- setting and monitoring the loan portfolio's qualitative objectives
- credit risk reporting
- the calculation of financial capital
- the classification of housing loans eligible as collateral for bond loans

Credit rating and the probability of default

The purpose of credit rating is to categorise customers according to risks. The customer's credit rating represents the risk of the customer's exposure becoming an unorganised receivable item or a more serious disruption in payment within one year. The amount of risk is indicated by the probability of default (PD) assessed for each credit rating. PD refers to the average probability of default over an economic cycle during a year. In a good financial situation, the share of insolvent customers with a specific credit rating falls below the level of PD used in the model, and exceed it in a poor financial situation.

The OP-Pohjola Group uses a number of different rating models for estimating the capital adequacy of its customers. Loans of private customers are rated using separate rating models at the application stage and as part of the bank's loan portfolio.

The rating model for the loan applications of private customers is used in the assessment of a project's credit risk when a customer is applying for new funding. The rating is based on information collected through the loan application and information about the debtors' payment behaviour and transaction history available in OP-Pohjola Group's data systems. Credit rating uses a total of 16 categories.

The rating model for the loan portfolio of private customers is used to rate private customers' exposure where a debtor has been a customer of the OP-Pohjola Group for the past six months. The rating of the loan portfolio based on the customer's payment behaviour and other customer history is updated monthly. The rating scale is the same as in the rating of applications.

Loss given default and the amount of liability

In OP-Pohjola Group's credit risk models, loss given default (LGD) is used in the assessment of financial losses (as a share of the customer's total liabilities) which would be allocated to the bank if the customer became insolvent within a year. As the customer's probability of default is assessed using the PD value corresponding to the credit rating, the customer's expected share of credit losses from liabilities within a year can be calculated as a product of PD and LGD.

LGD has been assessed following the conditions of a recession because voluntary servicing of payments in arrears and the values of collateral vary significantly in different economic conditions. Loss given default is estimated for each customer as a percentage share which is utilised in minimum price recommendations of loans.

The prediction of credit losses in funds requires an assessment of the amount of liabilities that the customer would have in the event of insolvency. In OP-Pohjola Group's credit risk models, the development of the customer's liability amount within a year is estimated using the amount of liability in the event of exposure at default (EAD). When the extent of the average share of the customer's liabilities becoming losses in the following year is known, the expected credit losses denominated in euro can be predicted by multiplying the share by EAD.

Use of credit risk models in capital adequacy calculation

The Financial Supervisory Authority has granted OP-Pohjola Group with permission to transfer to the use of the Internal Ratings Based Approach (IRBA) in stages in capital adequacy calculation. In September 2008, the calculation was started for equity investments and Pohjola Bank's corporate liabilities at the group level following the basic internal credit rating method.

In the basic internal credit rating method, the risk weight of the liabilities of each customer depends on the probability of default calculated using the OP-Pohjola Group's models. The loss given default and exposure at default are calculated using models set by authorities.

The objective of the capital adequacy calculation for the Group's other significant liability groups is to transfer to the IRBA method in September 2011.

Decision-making and assessment related to credit risk models

The OP-Pohjola Group's Risk Management Committee decides upon the adoption of credit risk models and any significant changes. Its decisions are based on the general credit rating principles approved by the OP-Pohjola Group Central Cooperative's Executive Board. The Central Cooperative's Risk Management function is responsible for the development and maintenance of the models. The function is independent of business operations.

Quality assurance in accordance with the validation guidelines approved by the OP-Pohjola Group's Risk Management Committee, i.e. validation, is performed at least once a year for the credit risk models. The validation guidelines include requirements for the quality assurance performed during adoption. Validations use statistical tests to test a model's separating capability and the correctness of risk estimates (PD, LGD and EAD). In addition, the validation includes qualitative assessment, such as the analysis of user feedback and peer group analysis. Validation results and any recommendations for measures are reported to the risk management committee which, on the basis of the validation, decides upon the development measures.

The OP-Pohjola Group Central Cooperative’s Risk Management function is responsible for validation. The independence of the validation can be secured so that the Central Cooperative’s Audit function audits each validation. In addition, it audits the credit risk models, and their application and use within the Central Cooperative’s organisations and member cooperative banks as part of its normal audit operations.

Reducing credit risk

In order to ensure the repayment of commitments, OPA’s customer exposure must have securing collateral. In addition to the fair value principle of the Act on Mortgage Credit Banks, the collateral of the granted credit has also been valued according to the principles of securing collateral used within the OP-Pohjola Group. The OP-Pohjola Group has guidelines ratified by the OP-Pohjola Group Central Cooperative’s Executive Board for accepting real estate, various shares, deposits and securities, as well as any other objects and guarantees as collateral. Compliance with these guidelines ensures that the collateral has been pledged in a valid manner, the collateral is comprehensive and sufficient, and the collateral can be realised. The measurement principles for the assessment of collateral and different collateral sites are uniform within the OP-Pohjola Group. The principle of an independent valuer and conservative fair value is used in the assessment of collateral.

The development of collateral values is monitored regularly within the OP-Pohjola Group. A collateral value will be reassessed when the collateral value has changed significantly or the customer’s financial situation has deteriorated substantially. Special caution is followed when assessing the value of collateral exposed to economic fluctuations and its functionality.

The OP-Pohjola Group Central Cooperative’s Executive Board confirms the collateral type-specific maximum measurement rates.

Liquidity risk

Liquidity risk consists of the structural funding risk and capital adequacy risk. A structural funding risk refers to uncertainty associated with long-term lending caused by the refinancing risk resulting from the structure of funding. OPA’s structural funding risk consists mainly of the difference between housing loans with long maturity and the maturity of funding with housing collateral. A capital adequacy risk refers to the bank not being able to pay the expected and unexpected, existing and future cash flows or insurance needs without any impact on daily operations or the bank’s financial status. The objective of capital adequacy management is to secure the availability of funding in a cost-efficient manner in all situations.

The sources of liquidity risks include risks arising from the balance sheet structure, and risks related to changes in customer behaviour and the functionality of wholesale market funding. In addition, changes in the regulation of business, reputation or liquidity risk management may be realised as a liquidity risk.

The Executive Board of the OP-Pohjola Group Central Cooperative is responsible for OP-Pohjola Group’s liquidity risk management. Every year, the Executive Board confirms the OP-Pohjola Group’s liquidity risk management strategy that guides the liquidity risk management process, and the monitoring limits of member banks and other organisations derived from the Group-level risk limits set by the Supervisory Board that limit the taking of structural funding risks and capital adequacy risk. The OP-Pohjola Group Central Cooperative’s Executive Board regularly monitors the liquidity risk and capital adequacy of the OP-Pohjola Group, its member banks and other organisations. If required, the Executive Board will take corrective action and decide on changes in the levels of capital adequacy management.

OP-Pohjola Group's capital adequacy is controlled through preventive financial structure planning, the Group’s risk limits and the monitoring and control limits derived from them for the Group's organisations, monitoring indicators, the supervision of the capital adequacy situation, correctly dimensioned liquidity reserves, daily capital adequacy planning and execution, and efficient control of the Group’s liquidity situation.

The OP-Pohjola Group's capital adequacy and structural funding risk in banking operations are guided according to the liquidity management strategy. It is based on the Group's risk policy guidelines, and accepted risk and monitoring limits. The liquidity management strategy specified qualitative objectives for the liquidity reserve, a wholesale funding plan, a continuity plan for capital adequacy management, and operating methods for liquidity management. The continuity plan for capital adequacy management consists of a preparedness-based control model, a contingency plan including funding sources, and a continuity plan for operational capital adequacy management. In the strategy, the liquidity reserve's quantitative and qualitative objectives, the contingency plan and the preparedness-based control model have been assessed on the basis of stress tests following specific threat scenarios. In the event of a market disruption, the continuity plan for capital adequacy management will be followed. The intra-group central banking services offered by Pohjola Bank support the Group's capital adequacy management.

OPA's funding from the money market using bonds with housing collateral is part of the Group's wholesale funding that is based on predictive planning of the refinancing structure.

As the central bank of the financial group, Pohjola Bank secures the capital adequacy of the entire group and its organisations, such as OPA. The group's daily capital adequacy management comprises the capital adequacy management of the companies engaged in banking operations. All changes in the capital adequacy position of the Group's organisations will also be realised as changes in Pohjola Bank's liquidity position. Pohjola Bank is responsible for balancing liquidity on the money or capital market, or ultimately through its account in the Bank of Finland.

Pohjola Bank is responsible for the Group's liquidity reserve management and wholesale funding, excluding funding with housing collateral, which is the responsibility of OPA.

OPA's cash flows are monitored daily for securing capital adequacy, and the long-term refinancing structure (refinancing risk) is monitored and forecast regularly as part of the capital adequacy management process.

Market risks

Objectives and general principles of market risk management

Within the OP-Pohjola Group, market risks include the interest rate risks on all balance sheet items and off-balance sheet items, as well as any exchange rate, credit spread, share, commodity, real estate and volatility risks. In the International Financial Reporting Standards (*IFRS 7, Financial Instruments: Disclosures*), the market risk for financial instruments includes currency risk, interest risk and other price risk. The other price risk mainly covers stock and commodity risk.

OPA does not have any exchange rate, credit spread, share, commodity, real estate or volatility risks. The crucial task of market risk management is to identify and evaluate the market risks involved in the bank's business operations, limit them to an acceptable level, and report on them regularly and efficiently. This ensures that changes in market prices or other external market factors will not hamper long-term profitability or capital adequacy.

OPA's Board of Directors has confirmed written guidelines for the management of market risks. The guidelines define the applicable products and market instruments, the principles for funding and investment operations, the applicable market risk indicators and limits, and the organisation of the bank's market risk management and reporting procedure.

Interest rate and funding risk taking are also restricted by the provisions of the Act on Mortgage Credit Banks. According to the act, the total amount of any interest received from loans pledged as collateral during 12 months must exceed the total amount of interest paid for bonds with real estate as collateral during the same period. In addition, the remaining average maturity of bonds with real estate as collateral must be shorter than the remaining average maturity of assets pledged as their collateral.

As the central bank of the OP-Pohjola Group, Pohjola is responsible for the banking group's capital adequacy, payment transfers, exchange rate risks, long-term funding and international banking relationships. OPA carries out its money market and derivative trading with Pohjola.

The regularly prepared market risk reports are provided to the management monthly, but monitoring is carried out on a daily basis. Pohjola provides OPA with daily reports on the development of the market value of credit risk exposure, and the OP-Pohjola Group Central Cooperative's independent risk management provides monthly market risk reports.

Interest rate risk

Interest rate risk refers to the variation in the bank's earnings, profitability and capital adequacy imposed by changes in interest rates. OPA's interest rate risk comprises the funding balance's repricing risk caused by deviating interest tying or rate adjustment periods between receivables and liabilities. As rates change, the repricing risk is realised as a change in the interest position's current value and an interest income risk which measures the impact of interest rate changes on the accumulating net interest income.

The determination of interest rate risk includes all balance sheet items and any interest-bearing off-balance sheet items. The interest rate risk is analysed for the position, from where the items are removed after their expiry, i.e. there are no assumptions on the replacement of the removed items or business growth. Deviating interest tying in OPA's lending and funding represents the most significant source of interest rate risk.

When determining the interest rate risk, items sensitive to changes in interest rates are divided into cash flow inspection according to interest adjustment dates. The interest adjustment date of fixed-rate items is the due date. The future interest cash flows of variable-rate items are calculated according to the review date's interest curve using the forward forward procedure on the basis of the contract's interest information. The review takes the repricing delays of administrative interest into account. Preliminary repayments of loans have not been modelled.

OPA has hedged the interest rate risk of its entire housing loan portfolio through interest rate swaps. By means of interest rate swaps, base rate cash flows from the housing loans to be hedged are swapped with Euribor cash flows. OPA has also swapped the fixed interest rates for all of the bonds issued by it with short-term market interest rates. Pohjola Bank is the counterparty in all derivative contracts.

OPA's risk limit indicator for interest rate risk is the effect of a 1.0 percentage point increase in market rates on the current value of the risk exposure of the bank. The interest income risk is monitored by assessing the impact of a change in interest rates on the net interest income over the next 12 months. OPA's interest risk is monitored and reported daily.

Real estate risk

The objective of real estate risk management is to recognise, evaluate, limit and monitor the impairment risk, earnings risk and the risk of damage associated with real estate holdings. As a mortgage bank, OPA may only hold real estate or shares and interests in housing and real estate companies if they have come to the mortgage bank's possession as collateral for an unpaid receivable. During the financial period, OPA did not own any real estate.

Operational risks

Operational risks refer to the risk of suffering financial losses or other damage through incorrect or imperfect procedures, systems or external factors. Operational risk also contains compliance risk but not strategic risk. Operational risk may also be manifested as loss of or decrease in reputation or trust. OPA's operational risks are controlled by identifying and assessing risks, and securing the functionality and sufficiency of control and management methods. Operational risk management is not always aimed at eliminating the risk in full but to control the risk at an acceptable risk level.

According to an internal division of tasks within the OP-Pohjola Group, the OP-Pohjola Group Central Cooperative is responsible for the operational reliability and continuity of the OP-Pohjola Group's centralised functions and services. With regard to this, the Central Cooperative must have sufficient systems and procedures in relation to the entire OP-Pohjola Group. The OP-Pohjola Group's organisations are responsible for the management of operational risks associated with their operations as required by the scope and character of their operations.

OPA's objective is to identify operational risks from products, services, functions, processes and systems (including outsourcing). The identification covers risks associated with the illegal use of financial systems (money laundering and funding terrorism) and non-compliance with regulations. The significance of any risks identified is assessed on the basis of their financial impact and probability. The assessment also covers reputation risk. Situations threatening business continuity have been prepared for through continuity planning within key business areas. Continuity planning also forms the basis of preparing for irregular situations referred to in the Emergency Powers Act.

During 2010, the OP-Pohjola Group adopted in stages a uniform system-supported operating model for operational risk management. According to the new model, OPA analysed its operational risks in 2010. The analysis covered the identification and assessment of business-related risks, and the definition and monitoring of development measures that reduce those risks. In addition, any realised risk incidents and near-miss situations are monitored.

OPA's Board of Directors has confirmed operational risk guidelines for the bank. Operational risks are reported to OPA's Board of Directors at least once a year.

Compliance risks

Unsuccessful compliance with regulations causes a compliance risk. If fulfilled, it may cause financial losses, and other administrative or penal sanctions. The compliance risk may also result in a loss of or decrease in reputation.

The compliance risk is controlled by instructing, training and consulting the organisation, and by monitoring the compliance of procedures with regulations. Furthermore, compliance risks are identified, assessed and reported regularly according to the operational risk management model described above. The compliance of new products and business models with regulations is assessed as part of the approval process of the specific product or model.

Compliance operations comprise an essential part of reliable administration. The objective of OPA's compliance operations is to ensure that business operations comply with laws, official instructions and orders, self-regulation of the markets, and OPA's internal operating principles and guidelines, as well as appropriate and ethically acceptable principles and procedures in customer relationships.

OPA's Board of Directors has confirmed the principles of compliance operations for the bank. The Managing Director is responsible for OPA's compliance operations.

Strategic risk

Strategic risk refers to losses incurred as the result of an incorrectly selected business strategy.

Strategic risk associated with the crucial policies of OPA's business operations is reduced by continuous planning, based on analyses and forecasts of the future needs of customers and investors and the development of the financial market. OPA's strategic definitions of policy are processed within the OP-Pohjola Group before being confirmed.

NOTES TO THE INCOME STATEMENT

NOTE 3. Interest income and expenses	2010	2009
Interest income		
From receivables from financial institutions	189	273
From receivables from customers	81.405	86.157
From derivative contracts		
From hedge accounting	-18.423	-17.683
Other interest income	144	181
Total	**63.314**	**68.928**
Interest expenses		
From liabilities to financial institutions	7.769	10.040
From derivative contracts		
Held for trading	-	-
From hedge accounting	-62.484	-50.216
From debt securities issued to the public	101.386	94.621
Interest expenses on subordinated liabilities	261	437
Other interest expenses	32	16
Total	**46.963**	**54.899**
Net interest income	**16.350**	**14.030**

Net income from hedge accounting

Net income from hedging instruments is -14,543 (-4,782) and net income from hedged items is 14,543 (4,782). Figures from 2009 are shown in brackets.

NOTE 4. Net commission income and expenses	2010	2009
Commissions income		
From lending	2.731	1.766
Total	**2.731**	**1.766**
Commission expenses		
From securities	18	17
Other	11.162	9.719
Total	**11.180**	**9.736**
Net commission income and expenses	**-8.450**	**-7.970**

Other commission expenses constitute mainly commissions paid to intermediary banks.

NOTE 5. Net income from trading	2010	2009
From financial assets and liabilities held for trading		
Valuation gains and losses		
From derivatives	-	-
Net income from foreign exchange operations	-1	0
Total	-1	0
Total net income from trading	**-1**	**0**

NOTE 6. Net income from investments	2010	2009
Net income from financial assets available for sale		
Income from shares and holdings	2	1
Total net income from investments	**2**	**1**

NOTE 7. Other operating income	2010	2009
Other operating income	19	26
Total other operating income	**19**	**26**

NOTE 8. Personnel costs	2010	2009
Salaries and remuneration	254	192
Pension costs	23	100
Defined contribution plans	21	27
Defined benefit plans	2	73
Other indirect personnel costs	10	6
Total personnel costs	**288**	**297**

NOTE 9. Other administrative expenses	2010	2009
Office expenses	173	131
IT expenses	1.125	764
Telecommunications	73	67
Marketing	1	1
Other administrative expenses	24	20
Total other administrative expenses	**1.396**	**983**

NOTE 10. Other operating expenses	2010	2009
Rental expenses	32	25
Depreciation		
On machinery and equipment	2	1
On intangible assets	274	135
Total	277	136
Other	1.089	702
Total other operating expenses	**1.398**	**863**

Fees paid to auditors by assignment group	2010	2009
Auditing	10	7
Assignments referred to in section 1, paragraph 1, subparagraph 2, of the Auditing Act	-	-
Tax counselling	-	-
Other services	35	28
Total	**45**	**34**

NOTE 11. Income taxes	2010	2009
Tax based on taxable income for the financial period	1.262	1.042
Taxes from previous periods	-	-
Deferred taxes	2	-25
Taxes on the income statement	**1.264**	**1.017**
Corporate income tax rate	26 %	26 %

Reconciliation of taxes calculated according to the valid tax rate with the taxes presented in the income statement

	2010	2009
Earnings before taxes	4.839	3.941
Share of the profit according to the tax rate	1.258	1.025
Taxes from previous periods	-	-
Other	6	-8
Taxes on the income statement	**1.264**	**1.017**

NOTES TO THE BALANCE SHEET

NOTE 12. Receivables from financial institutions	31.12.2010	31.12.2009
Receivables from financial institutions		
Deposits		
Repayable on demand	61.673	41.129
Other than deposits repayable on demand	-	13.888
Total receivables from financial institutions	**61.673**	**55.017**

NOTE 13. Derivative contracts	31.12.2010	31.12.2009
Hedging derivative contracts – fair value hedging		
Interest rate derivatives	71.255	75.934
Total derivative contracts	**71.255**	**75.934**

NOTE 14. Receivables from customers	31.12.2010	31.12.2009
Loans to the public and public sector entities	581.358	505.429
Loans acquired and other receivables	4.427.024	3.854.608
Total	5.008.381	4.360.036
Total receivables from customers	**5.008.381**	**4.360.036**

NOTE 15. Invested capital	31.12.2010	31.12.2009
Financial assets available for sale		
Shares and holdings, unquoted	17	17
Total investment assets	**17**	**17**

Shares and holdings other than those quoted publicly have been measured at acquisition cost.

Changes in securities available for sale

There were no changes in securities available for sale in 2010.

NOTE 16. Intangible assets	31.12.2010	31.12.2009
Software, licences and user rights	914	942
Total intangible assets	**914**	**942**

Changes in intangible assets	31.12.2010			31.12.2009		
	Software	Software / financial leasing	Intangible assets	Software	Software / financial leasing	Total intangible assets
Acquisition cost on 1 January	569	818	1.387	399	553	952
Increases	-143	389	246	169	265	435
Acquisition cost on 31 December	425	1.207	1.633	569	818	1.387
Accumulated depreciation and impairment losses on 1 Jan	170	274	445	162	147	309
Depreciation for the period	8	266	274	8	127	135
Accumulated depreciation and impairment losses on 31 Dec	179	541	719	170	274	445
Book value on 31 December	247	667	914	398	543	942

Depreciation, impairment losses and their revaluation have been recognised in the income statement under Other operating expenses. The company did not have any impairment.

Intangible assets include the software acquired through a financial leasing agreement. The lease period agreed upon is four years.

NOTE 17. Tangible assets	31.12.2010	31.12.2009
Machinery and equipment	3	5
Total tangible assets	**3**	**5**

Changes in tangible assets

	31.12.2010	31.12.2009
Changes in tangible assets	Machinery and equipment	Machinery and equipment
Acquisition cost on 1 January	20	15
Increases		5
Acquisition cost on 31 December	20	20
Accumulated depreciation and write-downs and revaluations on 1 January	15	14
Depreciation for the period	2	1
Accumulated depreciation and write-downs and revaluations on 31 December	17	15
Book value on 31 December	3	5

Depreciation, impairment losses and their reversals on tangible assets have been recognised under other operating expenses. The company has not recognised any impairment during the period or previous periods.

NOTE 18. Other assets	31.12.2010	31.12.2009
Pension assets	237	229
Deferred income		
Interest	48.474	62.937
Other	79	10
Total	**48.790**	**63.177**

Defined benefit pension plans

OP Mortgage Bank's pension plans have been arranged through OP-Pension Fund and OP-Pension Foundation.
Schemes related to supplementary pensions, as well as the funded TEL (Employees' Pension Act) old-age pension and disability pensior arranged through the Pension Fund, have been treated as defined benefit plans.
The contributions to the TEL distribution system have been handled as defined contribution schemes.

Balance sheet values of defined benefit pension plans	**31.12.2010**	**31.12.2009**
Fair value of assets	724	659
Present value of funded obligations	-695	-639
	30	20
Unrecognised actuarial gains (+) and losses (–)	207	209
Net receivable	**237**	**229**

The pension plan assets include	**31.12.2010**	**31.12.2009**
Shares of Pohjola Bank plc	26	22
Securities issued by companies included in the OP-Pohjola Group	22	33
Other receivables from companies included in the OP-Pohjola Group	0	0
Properties used by the OP-Pohjola Group	5	6
Total	**53**	**61**

Defined benefit pension costs on the income statement	**31.12.2010**	**31.12.2009**
Expenses based on the period's work performance	12	10
Interest expenses	28	29
Expected return on assets	-43	-45
Actuarial gains and losses	5	5
Total defined benefit pension costs on the income statement	**2**	**-2**

Actual return on assets	68	68

Description of the basis used for determining the total return on assets,
including the impact of the most important asset groups included in the plan.

The long-term return on the assets included in the pension plans is based on long historical time series and studies on the risk premiums of various property categories.
Expected return is defined in a uniform manner, taking into account historical returns, the current state of the market and the strategic distribution of the assets.

Changes in the present value of the obligation

	31.12.2010	**31.12.2009**
Present value of the obligation on 1 January	639	703
Expenses based on the period's work performance	12	10
Interest expenses	28	29
Actuarial gains and losses	93	101
Benefits paid	-22	-22
Expenses based on retroactive work performance	-	-
Gain on TyEL interest rate difference, payment to balancing	-	-
Increase in old-age pension liability, receivable from balancing	3	2
Change in distribution ratio	-59	-185
Present value of the obligation on 31 December	**695**	**639**

Changes in fair values of assets

	31.12.2010	**31.12.2009**
Fair value of assets on 1 January	659	828
Expected return on plan assets	43	45
Actuarial gains and losses	22	20
Contributions paid by the employer	10	12
Contributions paid by plan members	-	-
Benefits paid	-22	-22
Gain on TyEL interest rate difference, payment to balancing	-	-
Increase in old-age pension liability, receivable from balancing	3	2
Change in distribution ratio	10	-227
Fair value of assets on 31 December	**724**	**659**

Contributions payable to the defined benefit pension plan in 2011 are estimated to be EUR 8,000.

Share of the most significant asset groups from the total fair value of plan assets, %

	31.12.2010	31.12.2009
Shares and holdings	32	22
Notes and bonds	42	36
Properties	19	20
Other assets	7	22
Total	**100**	**100**

Central actuarial assumptions used	**2010**	**2009**
Discount rate, %	4,00	4,40
Expected long-term return on assets, %	6,20 - 6,60	7,00 - 7,90
Future pay rise assumption, %	3,00	3,50
Future pension increases, %	2,00 - 2,40	2,00 - 2,40
Turnover, %	0,50 - 3,00	0,50 - 3,00
Inflation, %	2,00	2,00
Estimated remaining time of employment in years	9 - 16	10 - 16

Excess margin on defined benefit pension plans and empirical adjustments

	31.12.2010	31.12.2009
Present value of the obligation	695	639
Fair value of assets	-724	-659
Excess or deficit margin	**-30**	**-20**
Empirical adjustments to liabilities	-6	-17
Empirical adjustments to assets	22	20

NOTE 19. Liabilities to financial institutions	**31.12.2010**	**31.12.2009**
Other than those repayable on demand		
Other liabilities	1.640.000	1.000.000
Total	1.640.000	1.000.000
Liabilities to financial institutions	**1.640.000**	**1.000.000**

NOTE 20. Derivative contracts	**31.12.2010**	**31.12.2009**
Hedging derivative contracts – fair value hedging		
Interest rate derivatives	21.835	11.971
Total derivative contracts	**21.835**	**11.971**

NOTE 21. Debt securities issued to the public	**Average rate,**	**31.12.2010**	**Average rate,**	**31.12.2009**
Bonds	3,34	3.286.747	4,10	3.310.811
Total debt securities issued to the public		3.286.747		3.310.811

Non-current loans issued by OP Mortgage Bank

Loan	Book value	Interest rate tying	Nominal interest %	Maturity
OP Mortgage Bank Covered Bond 2007	998.985	Fixed	4,500	06.06.2012
OP Mortgage Bank Covered Bond 2009	1.245.213	Fixed	3,125	19.11.2014
OP Mortgage Bank Covered Bond 2010	992.867	Fixed	2,375	15.06.2015
	3.237.065			
Valuation	49.681			
Total	**3.286.747**			

NOTE 22. Reserves and other liabilities	31.12.2010	31.12.2009
Other liabilities		
Payment transfer liabilities	83	48
Deferred expenses		
Interest liabilities	61.304	69.961
Other	1.925	1.719
Total	63.311	71.727
Total provisions and other liabilities	**63.311**	**71.727**

NOTE 23. Tax liabilities	31.12.2010	31.12.2009
Income tax liabilities	202	258
Deferred tax liabilities	140	137
Total tax liabilities	**342**	**395**
Deferred tax liabilities		
From defined benefit pension plans	62	60
From other items	78	78
Total	**140**	**137**
Net deferred tax receivables/liabilities	**-140**	**-137**
Changes in deferred taxes	**31.12.2010**	**31.12.2009**
Deferred tax receivables/liabilities on 1 January	-137	-168
Recognised in the income statement		
Pension liabilities	-2	25
Other	0	6
Recognised in the balance sheet		
Other		
Total deferred tax receivables/liabilities on 31 December	**-140**	**-137**
Income tax receivables	**-**	**-**
Total tax receivables and liabilities	**-140**	**-137**

NOTE 24. Subordinated liabilities		31.12.2010	31.12.2009
	Average	1,55	1,22
OPA 1/2007 variable rate debenture, 12 February 2017		20.000	20.000
Total subordinated liabilities		**20.000**	**20.000**

The debenture loan is fully subscribed by the parent company and will be repaid on 12 February 2017.

NOTE 25. Shareholders’ equity	31.12.2010	31.12.2009
Share capital	60.000	60.000
Unrestricted reserves	85.000	70.000
Accumulated profits		
Profit from previous periods	10.224	7.300
Profit for the period	3.574	2.924
Total equity	**158.799**	**140.224**

The SVOP fund consists of OP-Pohjola Group Central Cooperative's capital investment of EUR 85,000,000.

Share capital and number of shares

	Number of shares	Share capital	Total
01.01.2009	76.592	60.000	60.000
31.12.2009	**76.592**	**60.000**	**60.000**

	Number of shares	Share capital	Total
01.01.2010	76.592	60.000	60.000
31.12.2010	**76.592**	**60.000**	**60.000**

All issued shares have been paid in full.
OP-Pohjola Group Central Cooperative holds 100% of OP Mortgage Bank.

The company's minimum capital is eight million five hundred thousand (8,500,000) euros and the maximum capital one hundred and fifty million (150,000,000) euros. The share capital can be increased or reduced within this scope without amending the Articles of Association. There are a minimum of 34,000 shares and a maximum of 136,000 shares. The agreement of the company is required for the acquisition of shares by means of transfer.

NOTE 26. Classification of the balance sheet

	Loans and receivables	**Recognised at fair value**	**Available for sale**	**Total**
Assets				
Receivables from financial institutions	61.673			61.673
Derivative contracts		71.255		71.255
Receivables from customers	5.008.381			5.008.381
Shares and holdings			17	17
Other receivables	48.790			48.790
Total on 31 Dec. 2010	**5.118.844**	**71.255**	**17**	**5.190.117**
Total on 31 Dec. 2009	**4.478.235**	**75.934**	**17**	**4.554.186**

Liabilities		**Recognised at fair value**	**Other liabilities**	**Total**
Liabilities to financial institutions	**-**		1.640.000	1.640.000
Derivative contracts	**-**	21.835		21.835
Debt securities issued to the public	**-**		3.286.747	3.286.747
Subordinated liabilities	**-**		20.000	20.000
Other liabilities	**-**		63.653	63.653
Total on 31 Dec. 2010	**-**	**21.835**	**5.010.399**	**5.032.235**
Total on 31 Dec. 2009	-	**11.971**	**4.402.933**	**4.414.904**

Debt securities issued to the public have been valued at allocated acquisition cost in accounting. The value obtained for these debt securities through information available on the market and established valuation methods was about EUR 63,343,000 higher than the book value at the end of December. Subordinated loans have been valued at allocated acquisition cost. Their fair values are materially lower than the book values, but determining reliable fair values is difficult in the current market situation.
With regard to other balance sheet items, the book values correspond substantially with fair values.

NOTE 27. Grouping of the balance sheet according to the valuation method

Assets recognised at fair value	31.12.2010 Balance sheet value	Valuation of fair value at the end of the period Level 1*	Level 2**	Level 3***
Derivative contracts	71.255	-	71.255	-
Total	**71.255**	**-**	**71.255**	**-**

Liabilities recognised at fair value	31.12.2009 Balance sheet value	Valuation of fair value at the end of the period Level 1*	Level 2**	Level 3***
Derivative contracts	21.835	-	21.835	-
Total	**21.835**	**-**	**21.835**	**-**

* Items grouped in hierarchy level 1 are made up of shares quoted in the largest stock exchanges, companies' quoted debt securities, debt securities of states and financial institutions with a credit rating of at least A, and stock exchange derivatives. The fair value of these instruments is determined by quotations from the market.

** Valuation methods based on reliable calculation parameters. The fair value of instruments classified in hierarchy level 2 refers to the value that can be derived from the market value of the financial instrument's parts or equivalent financial instruments, or a value that can be calculated using valuation models and methods generally accepted in the financial market if the market value can be reliably assessed by means of them.
In OP-Pohjola Group, this hierarchy level includes OTC derivatives, treasury bills, debt securities of companies and financial institutions, purchase and resale agreements (repo), and securities given or received as a loan.

*** Valuation methods whose calculation parameters involve special uncertainty. Instruments classified in hierarchy level 3 are valued using pricing models whose calculation parameters involve special uncertainty. This balance sheet group includes more complex OTC derivatives, certain private equity investments, illiquid loans, structured loans including securitised loans, structured debt securities and hedge funds.

Transfers between the levels of fair value valuation

OPA does not hold any transfers between the levels of fair value valuation.

NOTES CONCERNING CONTINGENT LIABILITIES AND DERIVATIVES

NOTE 28. Off-balance sheet commitments	31.12.2010	31.12.2009
Credit commitments	7.456	15.108
Total off-balance sheet commitments	**7.456**	**15.108**

NOTE 29. Leases

OP Mortgage Bank plc as the lessor

OP Mortgage Bank plc has leased facilities from OP-Pohjola Group Central Cooperative.

Leases of facilities	31.12.2010	31.12.2009
	31	25
Total	**31**	**25**

NOTE 30. Derivative contracts

Derivative contracts held for hedging – fair value hedging on 31 Dec. 2010

	Nominal values/remaining maturity				Fair values		
	Less than 1 year	1 to 5 years	More than 5 years	Total	Assets	Liabilities	Credit counter-value
Interest rate derivatives							
Interest rate swaps	364.261	9.258.120	-	9.622.381	71.255	21.835	144.451
Total interest rate derivatives	**364.261**	**9.258.120**	**-**	**9.622.381**	**71.255**	**21.835**	**144.451**

Derivative contracts held for hedging – fair value hedging on 31 Dec. 2009

	Nominal values/remaining maturity				Fair values		
	Less than 1 year	1 to 5 years	More than 5 years	Total	Assets	Liabilities	Credit counter-value
Interest rate derivatives							
Interest rate swaps	2.227.376	5.605.061	-	7.832.436	75.934	11.971	156.431
Total interest rate derivatives	**2.227.376**	**5.605.061**	**-**	**7.832.436**	**75.934**	**11.971**	**156.431**

Total derivatives held for trading and hedging on 31 Dec. 2010

	Nominal values/remaining maturity				Fair values		
	Less than 1 year	1 to 5 years	More than 5 years	Total	Assets	Liabilities	Credit counter-value
Interest rate derivatives							
Interest rate swaps	364.261	9.258.120	-	9.622.381	71.255	21.835	144.451
Total derivatives	**364.261**	**9.258.120**	**-**	**9.622.381**	**71.255**	**21.835**	**144.451**

Total derivatives held for trading and hedging on 31 Dec. 2009

	Nominal values/remaining maturity				Fair values		
	Less than 1 year	1 to 5 years	More than 5 years	Total	Assets	Liabilities	Credit counter-value
Interest rate derivatives							
Interest rate swaps	2.227.376	5.605.061	-	7.832.436	75.934	11.971	156.431
Total derivatives	**2.227.376**	**5.605.061**	**-**	**7.832.436**	**75.934**	**11.971**	**156.431**

OTHER NOTES

NOTE 31. Personnel and related party

The average number of personnel was five (5) people in 2010.

OP Mortgage Bank's related parties include the OP-Pohjola Group Central Cooperative and its subsidiaries, the OP-Pohjola Group pension insurance organisations OP-Pension Fund and OP-Pension Foundation, and the company's management.

Subsidiaries of the OP-Pohjola Group Central Cooperative	
Pohjola Group (with Pohjola Bank plc as the parent company)	Helsinki
Helsinki OP Bank plc	Helsinki
OP-Kotipankki Oyj	Helsinki
OP Fund Management Company Ltd	Helsinki
OP Life Assurance Company Ltd	Helsinki
Helsingin Seudun OP-Kiinteistökeskus Oy	Helsinki
OP IT Procurement Ltd	Helsinki

Business transactions with related parties

	2010			2009		
	Parent company	Management	Other	Parent	Management	Other
Other receivables	-	-	176.884	-	-	189.639
Other liabilities	105.131	-	1.788.673	90.123	-	1.484.062
Interest income	-	-	-18.228	-	-	-20.571
Interest expenses	261	-	-44.791	437	-	-26.024
Dividend income	-	-		-	-	
Net commission income and expe	-	-	1.935	-	-	1.788
Operating costs	1.592		470	1.411		290
Salaries and remuneration, and performance-related pay						
Salaries and remuneration	-	7	-	-	70	-
Performance-related pay	-	-	-	-	-	-
Insider holdings						
Number of shares	**76.592**	**-**	**-**	**76.592**	**-**	**-**

Starting from 1 August 2009, the Managing Director's services have been purchased from Pohjola Bank plc.
The costs have been recognised in administrative expenses in the income statement. Members of the Board of Directors not employed by the OP-Pohjola Group Central Cooperative or its subsidiaries are entitled to a meeting fee of EUR 500.
The Managing Director does not have a separate pension agreement.

NOTE 32. Long-term incentive schemes

Long-term management incentive scheme

OP Mortgage Bank uses a management incentive scheme, on the basis of which the Managing Director belonging to the scheme may obtain a fee paid partly in Pohjola Bank plc's shares and partly in cash. The amount of the fee depends on the objectives set and is paid after the earning and commitment period. The value of the fee paid as shares and cash is allocated as personnel cost over the earning and commitment period.

Personnel Fund

OP Mortgage Bank's employees are members of the OP-Pohjola Group personnel fund.
The share of profit rewards from OP Mortgage Bank's personnel costs is low.

NOTE 33. Post-financial events

No significant post-fiscal events.

NOTES CONCERNING RISK MANAGEMENT

NOTE 34. Own funds and capital adequacy

Own funds, EUR thousand	**31.12.2010**	**31.12.2009**
Tier I funds	**157.669**	**139.067**
Share capital	60.000	60.000
Other Tier I funds	98.583	80.009
- Intangible assets	-914	-942
Tier II funds	**20.000**	**20.000**
Other Tier II funds	20.000	20.000
Total own funds	**177.669**	**159.067**
Minimum requirement for own funds	146.902	129.780
Capital adequacy ratio, %	**9,7**	**9,8**
Tier I ratio, %	8,6	8,6

Minimum requirement for own funds and risk-weighted assets	Requirement for own funds 31.12.2010	Risk-weighted commitments 31.12.2010	Requirement for own funds 31.12.2009	Risk-weighted commitments 31.12.2009
Financial institution and investment service company exposure	-	-	-	3
Corporate exposure	2.855	35.684	4.592	57.399
Retail exposure	143.347	1.791.843	124.535	1.556.693
Equity exposure	1	17	1	17
Operational risk	699	8.733	650	8.125
Other items	-	3	-	5
Total	**146.903**	**1.836.279**	**129.779**	**1.622.243**

NOTE 35. Financial assets and associated impairment losses during the period

OP Mortgage Bank's financial assets comprise the items disclosed under Notes 12–15. No impairment losses have been recognised on financial assets during the period.

NOTE 36. Liabilities

	31.12.2010 Finland			31.12.2009 Finland		
	Accounting balance	Impairment losses	Interest carried	Accounting balance	Impairment losses	Interest carried forward
Assets						
Receivables from financial institutions	61.673	-	-	55.017	-	9
Receivables from customers	5.008.381	-	4.523	4.360.036	-	4.244
Derivative contracts	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total	5.070.054		4.523	4.415.053		4.253
Off-balance sheet commitments						
Unclaimed loans and limits	7.456	-	-	15.108	-	-
Derivative contracts	144.451	-	-	156.431	-	-
Total	151.907	-	-	171.539	-	-
Total liabilities	**5.221.961**	**-**	**4.523**	**4.586.593**	-	**4.253**

Derivative contracts are disclosed at positive market value recognised in accounting.

NOTE 37. Liabilities by sector

	31.12.2010			31.12.2009		
	Net balance sheet liabilities	Off-balance sheet		Net balance sheet liabilities	Off-balance sheet	
	Finnish	Finnish	Total	Finnish	Finnish	Total
Companies	47.614	164	47.777	59.198	825	60.023
Financial and insurance institutions	61.673	144.451	206.124	55.026	156.431	211.457
Households	4.965.290	7.292	4.972.582	4.305.083	14.283	4.319.366
Non-profit organisations						
Total	**5.074.577**	**151.907**	**5.226.483**	**4.419.306**	**171.539**	**4.590.846**

NOTE 38. Credit risks

The Bank's central credit risk indicators show that the credit risk situation is stable. There were EUR 1,386,000 of non-performing receivables on 31 December 2010. Impairments have not been recognised on receivables. The loan portfolio was diversified.
OP Mortgage Bank does not have any customer entities with liabilities exceeding 10% of the company's own funds.

On 31 December 2010, OP Mortgage Bank had EUR 4,626,000 of overdue receivables. These include repayments and interest that have been overdue for more than 30 days but less than 90 days, as well as the full remaining capital of these loans.

NOTE 39. Liabilities by credit rating

Personal liabilities by credit rating	31.12.2010	31.12.2009
Personal liabilities on the balance sheet, class A	3.001.482	2.581.503
Personal liabilities on the balance sheet, class B	1.589.637	1.360.496
Personal liabilities on the balance sheet, class B	258.694	188.130
Personal liabilities on the balance sheet, class D	76.646	47.948
Personal liabilities on the balance sheet, class E	18.613	13.326
Personal liabilities on the balance sheet, class F	10.481	2.970
Personal liabilities on the balance sheet, not classified	9.736	110.709
Off-balance sheet personal liabilities A	4.409	9.221
Off-balance sheet personal liabilities B	1.067	2.442
Off-balance sheet personal liabilities C	23	355
Off-balance sheet personal liabilities D	9	0
Off balance sheet personal liabilities, not classified	1.785	2.265
Total personal liabilities	**4.972.582**	**4.319.366**

Corporate liabilities by credit rating	31.12.2010	31.12.2009
Corporate liabilities on the balance sheet, class 2.0	810	1.058
Corporate liabilities on the balance sheet, class 4.0	-	2
Corporate liabilities on the balance sheet, class 4.5	12.347	14.400
Corporate liabilities on the balance sheet, class 5.0	31.394	39.532
Corporate liabilities on the balance sheet, class 5.5	1.807	1.919
Corporate liabilities on the balance sheet, class 6.0	268	807
Corporate liabilities on the balance sheet, class 6.5	315	603
Corporate liabilities on the balance sheet, class 7.0	172	19
Corporate liabilities on the balance sheet, class 7.5	258	67
Corporate liabilities on the balance sheet, class 8.0	123	-
Corporate liabilities on the balance sheet, class 9.0	-	754
Corporate liabilities on the balance sheet, class 9.5	24	28
Corporate liabilities on the balance sheet, not classified	94	8
Off balance sheet corporate liabilities, not classified	10	-
Off-balance sheet corporate liabilities, class 2.0	-	10
Off-balance sheet corporate liabilities, class 4.5	110	117
Off-balance sheet corporate liabilities, class 5.0	40	694
Off-balance sheet corporate liabilities, class 5.5	5	5
Off-balance sheet corporate liabilities, class 7.0	-	-
Total corporate liabilities	**47.777**	**60.023**

NOTE 40. Structure of funding

	31.12.2010	Share, %	31.12.2009	Share, %
Liabilities to financial institutions	1.640.000	31,7	1.000.000	22,0
Debt securities issued to the public	3.286.747	63,6	3.310.811	72,9
Other liabilities	63.653	1,2	72.122	1,6
Total subordinated liabilities	20.000	0,4	20.000	0,4
Shareholders' equity	158.799	3,1	140.224	3,1
Total	**5.169.198**	**100,0**	**4.543.157**	**100,0**

NOTE 41. Maturity distribution of financial assets and liabilities by remaining time of maturity

31.12.2010	Less than 3 months	3 to 12 months	1 to 5 years	5 to 10 years	More than 10 years	Total
Financial assets						
Receivables from financial institutions	61.673	-	-	-	-	61.673
Receivables from customers	125.351	382.450	1.803.660	1.526.960	1.169.961	5.008.381
Total financial assets	**187.024**	**382.450**	**1.803.660**	**1.526.960**	**1.169.961**	**5.070.054**
Financial liabilities						
Liabilities to financial institutions	1.640.000	-	-	-	-	1.640.000
Debt securities issued to the public	-	-	3.286.747	-	-	3.286.747
Total financial liabilities	**1.640.000**	**-**	**3.286.747**	-	**-**	**4.926.747**

31.12.2010	Less than 1 year	More than 1 year	Total
Off-balance sheet commitments	7.456		7.456
Total off-balance sheet commitments	**7.456**	**-**	**7.456**

31.12.2009	Less than 3 months	3 to 12 months	1 to 5 years	5 to 10 years	More than 10 years	Total
Financial assets						
Receivables from financial institutions	41.129	13.888	-	-	-	55.017
Receivables from customers	104.090	325.750	1.541.194	1.318.340	1.070.661	4.360.036
Total financial assets	**145.219**	**339.638**	**1.541.194**	**1.318.340**	**1.070.661**	**4.415.053**
Financial liabilities						
Liabilities to financial institutions	1.000.000	-	-	-	-	1.000.000
Debt securities issued to the public	-	999.307	2.311.503	-	-	3.310.811
Total financial liabilities	**1.000.000**	**-**	**2.311.503**	-	**-**	**4.310.811**

31.12.2009	Less than 1 year	More than 1 year	Total
Off-balance sheet commitments	13.399	1.709	15.108
Total off-balance sheet commitments	**13.399**	**1.709**	**15.108**

NOTE 42. Funding risk

The most significant source of funding risks for OP Mortgage Bank is centralised funding. The management of OP-Pohjola Group's capital adequacy is centralised with Pohjola Bank and, as a result, OPA can utilise OP-Pohjola Group's liquidity reserves.
OPA's Board of Directors has set a risk limit for funding risks, specifying that the nominal value of bonds with real estate as collateral falling due within six months must not exceed EUR 1.5 billion. The limit was not exceeded in 2010.

NOTE 43. Maturity of financial assets and liabilities by due date or repricing

Contractual repricing dates or earlier due dates on 31 December 2010.

31.12.2010	1 month or less	1 to 3 months	3 to 12 months	1 to 2 years	2 to 5 years	More than 5 years	total
Financial assets							
Receivables from financial institutions	61.673	-	-	-	-		**61.673**
Receivables from customers	1.790.927	1.174.779	1.976.031	10.267	33.454	22.923	**5.008.381**
	1.852.600	**1.174.779**	**1.976.031**	**10.267**	**33.454**	**22.923**	**5.070.054**
Financial liabilities							
Liabilities to financial institutions	1.640.000	-	-	-	-	-	**1.640.000**
Debt securities issued to the public	-	-	-	1.042.586	2.244.161	-	**3.286.747**
Total financial liabilities	**1.640.000**	**0**	**0**	**1.042.586**	**2.244.161**	**-**	**4.926.747**
Subordinated liabilities	-	20.000	-	-	-	-	**20.000**
Total subordinated liabilities		**20.000**					**20.000**

31.12.2009	1 month or less	1 to 3 months	3 to 12 months	1 to 2 years	2 to 5 years	More than 5 years	total
Financial assets							
Receivables from financial institutions	55.017	-	-	-	-		**55.017**
Receivables from customers	1.649.263	984.846	1.673.670	14.698	25.277	12.282	**4.360.036**
	1.704.280	**984.846**	**1.673.670**	**14.698**	**25.277**	**12.282**	**4.415.053**
Financial liabilities							
Liabilities to financial institutions	1.000.000	-	-	-	-	-	**1.000.000**
Debt securities issued to the public	-	-	999.307	-	2.311.503	-	**3.310.811**
Total financial liabilities	**1.000.000**	**-**	**999.307**	**-**	**2.311.503**	**-**	**4.310.811**
Subordinated liabilities	-	20.000	-	-	-	-	**20.000**
Total subordinated liabilities		**20.000**					**20.000**

NOTE 44. Interest rate risk

OP Mortgage Bank's interest rate indicator examines the impact of an increase of one percentage point in interest rates on the present value of interest risk exposure, excluding the comparison of customer margin with the Bank's own funds. The indicator stood at -0.01% at year-end. The risk limits set for the indicator following the amount of own funds at year-end were +/-0.6%. The Bank's interest rate risk can be regarded as minor.

Sensitivity analysis for interest rate risk

			Impact on earnings		Impact on equity	
EUR thousand	**Risk parameter**	**Change**	**31.12.2010**	**31.12.2009**	**31.12.2010**	**31.12.2009**
Interest rate risk (1)	interest	1% points	-152,0	-44,6	-112,5	-33,0

(1) Net sensitivity to a simultaneous change in all interest rates at the corresponding period was -152.

NOTE 45. Real estate risk

OP Mortgage Bank does not possess any properties, or shares or interests in housing or real estate companies as a result of unpaid receivables.

SIGNATURES TO THE FINANCIAL STATEMENTS AND ANNUAL REPORT

Helsinki, 9 February 2011

Harri Luhtala

Sakari Haapakoski

Hanno Hirvinen

Jari Himanen

Mikko Hyttinen

Heikki Kananen

Matti Nykänen

Mikko Rosenlund

Lauri Iloniemi

Managing Director

AUDITORS’ NOTE

We have today issued an auditors’ report on the performed audit.

Helsinki, 14 February 2011

KPMG Oy Ab
Authorised Public Accountants

Eija Kauppi-Hakkarainen
Authorised 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 OP-Asuntoluottopankki Oyj

We have audited the accounting records, the financial statements, the report of the Board of Directors and the administration of OP-Asuntoluottopankki Oyj for the year ended 31 December, 2010. The financial statements comprise the balance sheet, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flow and notes to the financial statements.

Responsibility of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, as well as for the preparation of financial statements and the report of 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 of 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 Managing Director 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 and on the report of 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 of the Board of Directors are free from material misstatement, and whether the members of the Board of Directors and the Managing Director are guilty of an act or negligence which may result in liability in damages towards the company or have violated the Finnish Credit Institutions Act, Limited Liability Companies Act 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 of 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 of 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 of 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 financial statements and the report of the Board of Directors

In our opinion, the financial statements give a true and fair view of the financial position, financial performance, and cash flows of the bank in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

In our opinion, the report of the Board of Directors give a true and fair view of the bank's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The information in the report of the Board of Directors is consistent with the information in the financial statements.

Helsinki, 14 February 2011

KPMG OY AB

Eija Kauppi-Hakkarainen
Authorized Public Accountant in Finland