Pohjola

Pohjola Bank plc | Report by the Board of Directors and Financial Statements 2009

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FINANCIAL REPORTING IN 2010: Pohjola Bank plc will publish the following three interim reports in 2010: Q1 on 5 May, Q1–2 on 4 August and Q1–3 on 3 November.

REPORT BY THE BOARD OF DIRECTORS 2009

- Earnings before tax more than doubled over the previous year, coming to EUR 265 million (119).
- Earnings before tax at fair value amounted to EUR 508 million (–133) and return on equity at fair value stood at 19.2% (–5.6).
- Banking improved its earnings before tax thanks to the Markets division's good performance. Impairment charges on receivables burdened Banking earnings by EUR 117 million.
- Non-life Insurance reported an excellent balance on technical account and recorded an operating combined ratio of 87.7% (91.5). Its return on investment at fair value rose to 10.7% (–7.0).
- Asset Management improved its financial performance and assets under management reached a new high, totalling EUR 33.1 billion (25.3).
- In line with the valid dividend policy, the Board of Directors proposes that a per-share dividend of EUR 0.34 (0.19) be paid on Series A shares and EUR 0.31 (0.16) on Series K shares.
- Outlook: Consolidated earnings before tax in 2010 are expected to be at the same level as in 2009 (for more information on the outlook, see "Outlook for 2010" below).

Earnings before tax, € million	**2009**	**2008**	**Change**
Banking	117	105	12
Non-life Insurance	102	55	48
Asset Management	21	17	4
Group Functions	25	–58	82
Total	**265**	**119**	**146**
Change in fair value reserve	243	–252	495
Earnings/loss before tax at fair value	**508**	**–133**	**641**

Key indicators	**2009**	**2008**	**Target**
Earnings before tax, € million	265	119	
Profit for the period, € million	194	89	
Return on equity, %	19.2	–5.6	13.0
Balance sheet total, € billion	35.5	32.4	
Shareholders' equity, € billion	2.3	1.6	
Tier 1 ratio, %	11.8	9.4	>9.5
Earnings per share, €	0.66	0.36	
Earnings per share, incl. change in fair value, €	1.27	–0.40	
Equity per share, €	7.09	6.58	
Average personnel	2,966	3,085	

OPERATING ENVIRONMENT

In 2009, the world economy drifted into its deepest recession in decades. The financial crisis coming to a head in late 2008 sent various economic regions around the world into a simultaneous nosedive never seen before. This crisis spread worldwide through lack of confidence in financial markets and through international trade.

Swift measures taken by central banks and governments helped to restore confidence in financial markets. The world economy showed signs of stabilisation as early as the second quarter of 2009 and the second half saw a cautious recovery in industrialised countries' production figures after a steep fall. The worst of the world economic crisis was over in 2009. Nevertheless, GDP growth expectations for 2010 have remained moderate due to rapidly increasing government debt, low capital spending and consumers remaining cautious about spending.

Finnish economy is expected to recover

The collapse of international trade hit the Finnish economy violently. In 2009, Finnish exports were roughly a quarter lower than a year ago and capital spending fell sharply and housing construction continued its downward trend. The deteriorating employment situation cast a shadow over households with the result that consumer spending began to decline.

2010 is expected to be a year of economic recovery in Finland. Business and consumer confidence has become stronger. Stronger export markets will gradually revive exports and the diminishing threat of unemployment arising from the stabilising job market will pave the way for a stronger consumer demand.

Growth to remain slow in financial markets

The economic recession in 2009 dampened demand for corporate loans, resulting in a fall in the Finnish corporate loan portfolio. At the same time, strong recovery in capital markets increased the issuance of commercial papers and bonds, and the volumes of trading in capital market products. Low interest rates and higher consumer confidence boosted demand for home loans.

The economic recovery should gradually be reflected in demand for corporate loans although capital spending and demand for capital investment financing are anticipated to remain low. Corporate financing needs are expected to focus on working capital and the refinancing of existing loans. The home mortgage portfolio is expected to grow slightly in 2010.

Share indices soared across the world from their March rock-bottom, boosting market-based operations in the financial sector, such as capital market trading and investment services, as well as asset management. Share prices are expected to develop more moderately in 2010 than in 2009 but trading volumes and demand for investment services and asset management services are anticipated to grow.

The Finnish non-life insurance market was hit by a major slowdown in 2009 when the recession reduced insurance premium revenue within corporate insurance in particular, as a result of a fall in payroll bills and corporate net sales. On the other hand, the recession was reflected in lower non-life insurance claims expenditure. In 2010, growth in premiums written is expected to remain slow.

More stringent regulation as a result of the financial crisis

The debate prompted by the financial crisis on the need for enhancing financial regulation and supervision resulted in some concrete measures within the EU during 2009. In 2009, the European Commission adopted several amendments to capital adequacy and solvency directives, and legislative proposals with a view to strengthening capital adequacy and liquidity management and financial supervision in Europe.

On 17 December 2009, the Basel Committee on Banking Supervision published consultative documents containing proposals for amendments to capital adequacy and liquidity risk regulations.

Key amendments relate to raising the quality and quantity of the capital base, strengthening the liquidity and financial position, and reducing procyclicality.

The Committee will carry out a comprehensive impact assessment of the proposed capital and liquidity standards in the first half of 2010, with a view to analysing the overall effect of these amendments and calibrating the proposals.

The fully calibrated set of standards will be developed by the end of 2010 and will not be phased in until financial conditions improve and the economic recovery is assured, with the aim of implementation by end-2012.

The financial crisis also revealed the need to make changes to accounting policies. In the autumn of 2009, the International Accounting Standards Board (IASB) proposed amendments to the recognition and measurement of financial instruments, these changes relating to the presentation and measurement of financial instruments, accounting for impairments and hedge accounting. In addition, the IASB is also expected to issue other changes in financial statements disclosures.

In the spring of 2009, the EU adopted a new, major solvency regime applying to the insurance sector. This Solvency II Directive is aimed at harmonising the regulatory framework for insurance company risk management and solvency management EU-wide. The Directive is due to be transposed into national legislation by 31 October 2012.

CONSOLIDATED EARNINGS

Consolidated earnings € million	**2009**	**2008**	**Change**
Net interest income	241	174	66
Impairments of receivables	129	28	101
Net interest income after impairments	**112**	**146**	**–34**
Net income from Non-life Insurance	402	353	49
Net commissions and fees	143	122	21
Net trading income	71	–81	152
Net investment income	–13	6	–19
Other operating income	50	42	8
Total net income	**766**	**589**	**177**
Personnel costs	190	178	12
IT expenses	75	80	–5
Depreciation and amortisation	72	69	3
Other expenses	164	143	21
Total expenses	**501**	**470**	**31**
Earnings before tax	**265**	**119**	**146**
Change in fair value reserve	243	–252	495
Earnings/loss before tax at fair value	**508**	**–133**	**641**
Income tax expense	71	31	40
Profit for the period	**194**	**89**	**106**
Tax on change in fair value reserve	63	–65	128
Profit/loss for the period at fair value	**374**	**–98**	**472**

Consolidated net income increased by 30% to EUR 766 million (589) and net income before impairments on receivables by 45% to EUR 895 million (617).

Net interest income came to EUR 241 million (174), up by 38% year on year. This improvement had its roots in net interest income from the liquidity portfolio and a rise in lending margins of new loans. In addition, the price difference recognised on reclassified notes and bonds increased net interest income by EUR 25 million.

Impairments on receivables rose by EUR 101 million year on year to EUR 129 million (28). Some companies' creditworthiness weakened due to the recession, which added to impairment charges.

Net income from Non-life Insurance rose by EUR 49 million to EUR 402 million (353), as a result of the favourable development of the balance on technical account. Net investment income recognised in the income statement was at the previous year's level.

Net commissions and fees came to EUR 143 million, or EUR 21 million higher than a year ago. This growth came mainly from commission income from loans, guarantees and asset management.

Net trading income totalled EUR 71 million (–81), or EUR 152 million higher than in the previous year, with income from derivative and bond trading showing an increase in particular. Negative mark-to-market valuations recognised a year ago in net trading income from the liquidity portfolio totalled EUR 74 million.

Net investment income fell by EUR 19 million being EUR 13 million in the red, due to adjustments for property values, impairment charges for equities and lower dividend income than a year ago.

Expenses rose by 6% to EUR 501 million (470). Personnel costs increased by EUR 12 million. The number of Group employees increased by 62 from 31 December 2008 and the Group recognised more provisions for performance-based bonuses than a year ago. Non-life Insurance agency fees and sales commissions rose by EUR 15 million, as a result of higher sales and Pohjola's insurance field staff joining the payroll of OP-Pohjola Group member banks on 1 October 2008. Depreciation on leases grew by EUR 4 million. Excluding growth in insurance sales commissions, provisions recognised for performance-based bonuses and depreciation on leases as well as one-off expenses a year ago related to ICT systems integration, expenses rose by 2%.

Earnings before tax came to EUR 265 million (144), showing a year-on-year improvement of EUR 146 million.

The fair value reserve increased by EUR 243 million, whereas it decreased by EUR 252 million a year ago. Impairments recognised from the fair value reserve in the income statement totalled EUR 45 million. On 31 December 2009, the fair value reserve after tax stood at EUR 0 million, as against EUR –180 million the year before.

Earnings before tax at fair value amounted to EUR 508 million (–133).

RISK EXPOSURE

Risk management

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

Within Pohjola Group, major operational risks exposed by Banking and the Group Functions include credit, interest rate, currency, equity and liquidity risks, and those exposed by Non-life Insurance include underwriting risks and market and credit risks associated with investments. Strategic and operational risks, such as changes in the economic situation, competition or customer behaviour, are also inherently related to Banking, Non-life Insurance, Asset Management and the Group Functions.

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

GROUP RISK EXPOSURE

The Group's risk exposure continued to remain favourable despite higher impairment charges due to the recession. Despite the recession, investment-grade exposures continued to remain at good levels. The trend of corporate customers' weakening creditworthiness levelled out towards the year end and the ratio of doubtful receivables to the loan and guarantee portfolio remained low. The Group kept market risks moderate throughout the financial year.

The financial and liquidity position remained strong. Short-term funding performed well and the availability of long-term funding also improved. Pohjola Bank plc issued last year two senior bonds with a maturity of three and five years and each worth EUR 750 million. In addition, OP Mortgage Bank issued a EUR 1.25-billion covered bond with a maturity of five years in international capital markets.

Pohjola Bank plc maintains OP-Pohjola Group's liquidity portfolio which mainly consists of notes and bonds eligible as collateral for central bank refinancing. The liquidity portfolio totalled EUR 11.7 billion (9.8) on 31 December 2009. This liquidity portfolio plus other items included in OP-Pohjola Group's balance sheet and eligible for central bank refinancing constitute the total liquidity buffer, which can be used to cover OP-Pohjola Group's wholesale funding maturities for some 24 months. "Risk exposure by Group Functions" provides a more detailed description of the liquidity portfolio and liquidity buffer.

Determining the value of the available-for-sale financial assets at fair value through profit or loss included in the liquidity portfolio is based on mark-to-market valuations. Impairment charges recognised for assets within the liquidity portfolio amounted to EUR 12 million (9) in 2009.

Net loan losses and impairment losses recognised for the financial year reduced earnings by EUR 129 million (28), accounting for 0.94% (0.20) of the loan and guarantee portfolio. Final loan losses recognised for the year totalled EUR 15 million (16) and impairment charges EUR 140 million (21). Loan loss recoveries and allowances for impairments totalled EUR 26 million (9). Impairments recognised on an individual basis accounted for over 80% of net loan losses and impairments.

Doubtful receivables rose by EUR 8 million to EUR 44 million, accounting for 0.32% (0.25) of the loan and guarantee portfolio.

With the recession deteriorating customers' creditworthiness, Pohjola has rearranged financing of some of its corporate customers in such a way that part of company ownership has transferred to Pohjola through company shares or stock options. Pohjola considers these measures to be the best way of securing its receivables and collateral and ensuring that the customer's business survives the recession. Assessing the duration of the current recession and its effects on our corporate customers' operating conditions still involves uncertainty.

Operational risks

The most significant, identified operational risks pertain to systems, the execution processes of trading and orders, the accuracy of loan and collateral documentation, and the allocation of resources. Materialised operational risks resulted in EUR 3.2 million (2.0) in costs in 2009.

Country risk

A significant part of Pohjola Group's country risk pertains to the liquidity portfolio and the investment portfolio managed by Non-life Insurance. On 31 December, the amount of secondary country risk, excluding Finland, came to EUR 11.9 billion, up by EUR 2.9 billion over the previous year, the majority of the higher country risk coming from bonds. The Group increased investments in foreign bonds in order to maintain OP-Pohjola Group's liquidity buffer. By region, the majority of the country risk applied to EU member states, with non-EU countries accounting for 20% of country risk.

CAPITAL ADEQUACY

The capital adequacy ratio improved, standing at 13.5% (11.3) as against the statutory minimum requirement of 8%. Tier 1 ratio was 11.8% (9.4). Pohjola Group's Tier 1 target ratio stands at a minimum 9.5% over the economic cycle.

Tier 1 capital came to EUR 1,541 million (1,228) and the total capital base amounted to EUR 1,753 million (1,484). Hybrid capital accounted for EUR 274 million of Tier 1 capital. The minimum regulatory capital requirement to cover market risk amounted to EUR 36 million (47). On 31 December, the fair value reserve of the consolidation group stood at EUR 18 million (–22).

On 31 December 2009, risk-weighted assets totalled EUR 13,024 million, as against EUR 13,120 million the year before. Risk-weighted assets rose by EUR 240 million from the comparable figures at the end of last year, due to downgraded corporate credit ratings.

Pohjola Bank plc strengthened its capital base through its EUR 308-million rights issue held between 7 and 24 April 2009. After the deduction of the related issue expenses, Tier 1 capital increased by EUR 298 million.

Pohjola was authorised in April 2009 by the Financial Supervisory Authority to redeem prematurely no more than EUR 150 million in debenture loans included in Tier 2 capital by the end of 2009. Accordingly, Pohjola repurchased loans for EUR 7 million.

With respect to the capital adequacy requirement for operational risks, Pohjola aims to adopt the Standardised Approach in the autumn of 2010.

Capital structure and capital adequacy

€ million	**31 Dec 2009**	**31 Dec 2008**
Capital base		
Shareholders' equity	2,267	1,640
*) Consolidation group's equity which excludes the effect of insurance companies on the Group's shareholders' equity.	92	266
Minority interest	0	0
Hybrid capital	274	274
Intangible assets	–145	–144
Fair value reserve, excess funding of pension liability and change in fair value of investment property	–49	–8
Profit distribution as proposed by the Board	–107	–45
Insurance company investments 50%	–715	–705
Impairments – expected losses 50%	–76	–50
Tier 1 capital	**1,541**	**1,228**
Fair value reserve	18	–22
Subordinated liabilities included in upper Tier 2 capital	299	299
Subordinated liabilities included in lower Tier 2 capital	687	734
Insurance company investments 50%	–715	–705
Impairments – expected losses 50%	–76	–50
Tier 2 capital	**212**	**256**
Total capital base	**1,753**	**1,484**
Risk-weighted assets, without transitional rules	13,024	12,784
Risk-weighted assets, under transitional rules	**13,024**	**13,120**

Ratios, without transitional rules:		
Capital adequacy ratio, %	13.5	11.6
Tier 1 ratio, %	11.8	9.6
Capital adequacy ratio under the Act on Supervision of Financial and Insurance Conglomerates	1.73	1.29
Ratios, under transitional rules:		
Capital adequacy ratio, %	**13.5**	**11.3**
Tier 1 ratio, %	**11.8**	**9.4**
Capital adequacy ratio under the Act on Supervision of Financial and Insurance Conglomerates	**1.73**	**1.26**

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

OP-Pohjola Group's capital adequacy ratio under the Act on Credit Institutions stood at 12.6% and the Tier 1 ratio at 12.6%. OP-Pohjola Group's capital adequacy ratio under the Act on the Supervision of Financial and Insurance Conglomerates, calculated using the consolidation method, was 1.58.

CREDIT RATINGS

Pohjola Bank plc's credit ratings are as follows:

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

In January 2010, Standard & Poor’s affirmed Pohjola's credit rating, with the outlook remaining stable. According to the rating agency, Pohjola's capital adequacy is on a solid basis and OP-Pohjola Group's capital adequacy is markedly above the level of peer groups.

Moody's Investor Service has affirmed negative outlook on Pohjola's credit rating. Fitch Ratings has also issued a negative outlook for the long-term debt ratings of Pohjola. The main reason for the negative outlook is the rapid deterioration of the Finnish economy and its potential effects on Pohjola and OP-Pohjola Group mainly operating in Finland.

Pohjola Insurance Ltd’s financial strength ratings

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

POHJOLA STRATEGY

The updated strategy adopted in September focuses on intensifying integration, upgrading businesses and improving service capabilities.

Pohjola's mission is to promote the prosperity, security and well-being of its customers, and profitable growth and an increase in company value form the Group's key objectives. Pohjola's vision is to be the most preferred financial services partner for its customers. This position as the most preferred partner is built around the ability to exceed customer expectations and the Group's reliability. The following three key competitive advantages support the achievement of these goals: we operate close to customers, provide comprehensive financial services and are part of the strong OP-Pohjola Group.

Pohjola is upgrading and further developing its operations through the following strategic initiatives:
1. Upgrading business for corporate and institutional customers
2. Intensifying integration
3. Enhancing international service capabilities
4. Enhancing the Group's intellectual capital

When it comes to upgrading business for corporate and institutional customers, Pohjola has the aim of strengthening not only its own but also the entire OP-Pohjola Group's market position as a partner of mid-size companies in particular. Well-defined responsibilities between Pohjola and OP-Pohjola Group member banks play a key role in this respect.

At the beginning of 2010, Pohjola adopted a new CRM organisation covering Banking and Non-life Insurance with the aim of seeking more customer-focused operations. On the basis of this new model, the business lines will remain responsible for the provision, sale and development of their own products and services while enjoying a stronger CRM organisation in support of their operations. This change will support OP-Pohjola Group's strategic goal of being Finland's leading financial services group in business for corporate customers.

Intensifying business integration involves measures to make more efficient use of customer potential shared by Banking and Non-life Insurance. Pohjola exploits customer data in identifying customer potential, targeting efforts, selecting customers and determining prices. Pohjola has become the number one insurance company for OP-Pohjola Group member bank customers and more than half of Pohjola's non-life insurance customers are also Group member bank customers.

Pohjola's third initiative to upgrade its business involves enhancing its international service capabilities. The Group will extend its international partner network in order to provide its customers with competitive services on a global scale. Pohjola is also a full-blown financial services provider for its customers abroad.

The fourth initiative involves enhancing the Group's intellectual capital. The Group will invest in its ability to reinvent itself and develop its operations further in order to be able to provide customers with the best solutions and services available in the sector. Pohjola will enhance its competencies on a long-term basis in view of future needs.

FINANCIAL TARGETS AND ACTUALS

Financial targets	2009	2008	Target
Group			
Return on equity, %	19.2	–5.6	13
Tier 1 ratio, %	11.8	9.4	>9.5
Banking			
Operating cost/income ratio, %	35	46	<40
Non-life Insurance			
Operating combined ratio, %	87.7	91.5	92
Operating expense ratio, %	22.2	21.9	<20
Solvency ratio, %	88	66	70
Asset Management			
Operating cost/income ratio, %	53	57	<50
Rating			
AA rating affirmed by at least two credit rating agencies	3	3	≥2
Dividend policy			
Dividend payout ratio a minimum of 50%, provided that Tier 1 a minimum of 9.5%.	51[1]	51	>50

1) 55% of consolidated earnings for the financial year

The financial targets are set over the economic cycle.

PERFORMANCE BY BUSINESS LINE

BANKING

- Earnings before tax improved to EUR 117 million (105).
- With larger volumes, Markets recorded excellent results.
- Impairment charges rose to EUR 117 million (18), eroding earnings considerably.
- The loan and guarantee portfolio shrank by 6% from its year-start level but the market share of corporate loans increased to 19.7% (19.0).
- The average corporate loan margin rose to 1.33% (0.94)
- Operating cost/income ratio improved to 35% (46).

Banking: financial results and key figures and ratios

Financial results, € million	2009	2008	Change
Net interest income	165	158	7
Impairments of receivables	117	18	99
Net interest income after impairments of receivables	49	140	–92
Net commissions and fees	85	63	22
Net trading income	78	–20	98
Other income	30	28	2
Total net income	242	211	31
Total expenses	125	106	18
Earnings before tax	**117**	**105**	**12**
Earnings before tax at fair value	120	103	16
Loan and guarantee portfolio, € billion	13.3	14.1	–0.8
Margin on corporate loan portfolio, %	1.33	0.94	0.39
Ratio of doubtful receivables to loan and guarantee portfolio, %	0.32	0.24	0.08
Ratio of impairments of receivables to loan and guarantee portfolio, %	0.88	0.12	0.76
Operating cost/income ratio, %	35	46	–12
Personnel	607	613	–6

Earnings

Earnings before tax were EUR 117 million (105), showing a year-on year improvement despite a substantial increase in impairment charges. The economic recession made corporate customers cut capital spending, slowing down demand for loans. The loan portfolio shrank by 7% from its level at the end of 2008, standing at EUR 10.7 billion on 31 December 2009. Binding standby credit facilities increased by EUR 0.8 billion to EUR 2.9 billion. The guarantee portfolio remained unchanged, standing at EUR 2.6 billion. The portfolio of guarantees for the TyEL premium loans (under the Employees Pensions Act) grew by EUR 0.2 billion to EUR 1.3 billion, whereas other guarantees decreased correspondingly.

Pohjola raised margins on new and renewed loans to cover higher funding costs, which was reflected in a rise in the average corporate loan margin. In addition, strong growth in the loan portfolio the year before contributed to higher net interest income. Net interest income from corporate loans increased by EUR 11 million to EUR 138 million (127).

Net commissions and fees were one-third higher than the year before. Commission income from loans grew by EUR 14 million and that from guarantees by EUR 7 million. Similarly, net commissions and fees from payment transfers and securities brokerage were higher than the year before.

The Markets division showed a strong profit performance, reporting an increase in net income from trading in bonds and derivatives. The division's combined net interest income and net trading income climbed by EUR 75 million year on year, totalling EUR 99 million (24).

The Group strengthened its market position as a corporate and investment bank in line with its strategy.

Net trading income was reduced last year by the EUR 10-million negative mark-to-market valuations of notes and bonds recognised at fair value through profit or loss.

The price difference between the nominal value of notes and bonds and their acquisition price arising from the reclassification recognised in net interest income totalled EUR 4 million.

The cost/income ratio improved considerably to 35% (46). Expenses rose by EUR 18 million. Excluding growth in depreciation on leases and in provisions recognised for performance-based bonuses, growth in expenses was significantly smaller.

Risk exposure by Banking

Credit risk exposure

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

Despite the economic recession and growth in impairment charges, risk exposure by Banking remained favourable. In 2009, total exposure decreased by EUR 0.4 billion to EUR 21.1 billion.

Total exposure by counterparty, € billion

	31 Dec 2009	**31 Dec 2008**	**Change, %**
Companies and housing associations	16.4	16.1	2
Credit institutions	2.7	3.1	–14
Member banks and the Central Cooperative	0.2	0.1	96
Public-sector entities	0.9	1.2	–23
Households	0.8	0.8	–11
Non-profit organisations	0.2	0.2	8
Total	**21.1**	**21.5**	**–2**

With respect to total exposure by counterparty, total exposure is divided into six customer groups, corporate customers constituting the largest group, accounting for 78% (75) of total exposure. Year on year, corporate exposure increased by EUR 0.3 billion, or roughly 2%, loans and guarantees representing 60%, leasing and factoring 13% and unused and standby credit facilities 21%.

Total exposure by rating category*, € billion

Rating category	31 Dec 2009	31 Dec 2008	Change, € bn
1–2	2.6	2.8	–0.2
3–5	10.4	11.2	–0.7
6–7	4.2	4.3	–0.1
8–9	2.4	1.9	0.5
10	0.1	0.1	0.0
11–12	0.3	0.1	0.2
Non-rated	0.2	0.3	–0.1
Households	0.8	0.8	–0.1
Total	**21.1**	**21.5**	**–0.4**

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

The ratio of investment-grade exposure – i.e. ratings 1–5, excluding private customers – to total exposure stood at 64% (68.0), the share of ratings 11–12 was 1.6% (0.6) and that of non-rated exposure 1% (1). Corporate customers' credit ratings and corporate exposure by rating were down as a result of the economic recession. Although the ratio of investment-grade corporate exposure to total corporate exposure fell by around four percentage points, from 61% to 57%, it remained at a healthy level.

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

Corporate exposure by rating category, € million

Rating category	31 Dec 2009	31 Dec 2008	Change, € mn
1–2	584	501	83
3–5	8,779	9,303	–524
6–7	4,034	4,065	–30
8–9	2,369	1,760	608
10	125	109	17
11–12	321	117	204
Non-rated	142	205	–63
Total	**16,353**	**16,060**	**294**

The exposure of the lowest four rating categories increased by a total of EUR 220 million, owing to customers' downgraded credit ratings as a result of the weaker market situation. The exposure of the lowest two rating categories stood at EUR 321 million, accounting for 2.0% (0.7) of the corporate exposure. Non-rated corporate exposure came to around EUR 0.1 billion, representing around 1% (1) of the corporate exposure.

Letting and Operation of Dwellings and Trade constituted the largest two sectors, the former accounting for roughly 11% of total corporate exposure and the latter for around 10%. Operation of Other Real Estates, Letting and Operation Dwellings, and Transportation and Storage showed the strongest growth in euro terms. Growth in corporate exposure stemmed from a number of industries, which further increased the corporate exposure's dispersion by industry.

On 31 December 2009, Baltic Banking exposures totalled EUR 89 million, accounting for less than 1% of the loan and guarantee portfolio.

Major customer exposure

Major customer exposure includes corporate customers and non-profit customers whose direct exposure exceeds 10% of the Group's capital base. The Group's capital base for the purpose of calculating major customer exposure rose from EUR 1,584 million to EUR 1,906 million, or by 20%.

On 31 December 2009, major customer exposure totalled EUR 2.9 billion, down by EUR 1.5 billion on a year earlier. Major customer exposure consisted of 11 Groups (19), accounting for 154% (271) of the capital base. A total of 71% (94) of major customer exposure was investment-grade exposure.

Past due payments and doubtful receivables
Past due payments increased by EUR 38 million to EUR 70 million and their ratio to the total loan and guarantee portfolio was 0.51% (0.22).

Doubtful receivables – non-performing, zero-interest and under-priced receivables – rose by EUR 10 million to EUR 44 million. Their share of the loan and guarantee portfolio was low, 0.32% (0.24).

On 31 December 2009, impairments that reduce receivables totalled EUR 99 million (24), EUR 14 million (6) of which represented impairments on collectively assessed receivables. A total of EUR 32 million (18) of impairments applied to non-performing receivables.

Net loan losses and impairment charges reduced Banking earnings by EUR 117 million (18), accounting for 0.85% (0.12) of the loan and guarantee portfolio. The Baltic Banking share of net loan losses and impairment charges for January–December amounted to EUR 5 million, comprising mainly impairments on receivables assessed on a collective basis.

Market risk exposure

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

Interest rate risk exposure averaged EUR 5.8 million January–December, based on the 1-percentage-point change in the interest rate. Sensitivity to changes in credit risk premiums has increased from the year-start EUR 3.8 million to EUR 11.6 million, due to recovery of debt capital markets in 2009.

Overnight currency exposure and the associated risk remained low throughout the year. On 31 December 2009, net currency exposure amounted to some EUR 2 million (18). Foreign exchange trading focused on intraday trading.

Market risk sensitivity analysis

Market risk sensitivity analysis **€ million**

Banking, € million	Risk parameter	Change	31 Dec 2009	31 Dec 2008
Interest rate risk	Interest rate	1 percentage point	5	5
Currency risk	Market value	20 percentage points	1	4
Volatility risk				
Interest rate volatility	Volatility	20 percentage points	4	1
Currency volatility	Volatility	10 percentage points	0	0
Credit risk premium *)	Credit spread	0.5 percentage points	12	4

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

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

Derivatives business

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

The range of derivative instruments widened in 2009 when Pohjola began trading in commodity derivatives. In 2009, the Group enhanced processes and risk management related to derivatives. In order to mitigate the counterparty risk associated with derivatives trading, Pohjola has signed credit support annex agreements (CSA) with major counterparties.

NON-LIFE INSURANCE

- Earnings before tax improved to EUR 102 million (55).
- The operating balance on technical account amounted to EUR 116 million (78) – the best ever in Pohjola's history.
- Non-life Insurance recorded very good profitability. The operating combined ratio stood at 87.7% (91.5).
- Total insurance premium revenue was up by 2%. Growth remained vigorous among private customers but the recession cut revenue from corporate customers.
- The number of loyal customer households is growing according to the strategic target, their number totalling 424,715 on 31 December, showing a year-on-year increase of 9%.
- Return on investments at fair value was 10.7% (–7.0).

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

Financial results, € million	**2009**	**2008**	**Change**
Insurance premium revenue	943	923	19
Claims incurred	–617	–643	26
Operating expenses	–210	–202	–8
Amortisation adjustment of intangible assets	–28	–30	2
Balance on technical account	**88**	**49**	**39**
Net investment income	61	59	1
Other income and expenses	–46	–53	7
Earnings before tax	**102**	**55**	**48**
Earnings/loss before tax at fair value	290	–171	462
Operating combined ratio, %	87.7	91.5	
Operating expense ratio, %	22.2	21.9	
Return on investments at fair value, %	10.7	–7.0	
Solvency ratio , %	88	66	
Personnel	2,070	2,018	52

Earnings

Earnings before tax amounted to EUR 102 million (55). Earnings before tax at fair value improved by EUR 462 million.

The balance on technical account was better although growth in insurance premium revenue slowed down due to the recession. The operating balance on technical account was the best ever in Pohjola's history. The balance on technical account before amortisation on intangible assets stood at EUR 116 million (78). Favourable developments in the capital market were reflected in return on investments at fair value. Net investment income amounted to EUR 61 million (59) and net investment income at fair value reached EUR 248 million (–166).

The number of loyal customer non-life insurance households increased by 35,448, or 9%, in the year to December. With the year-end number coming to 424,715, the number of loyal customer households exceeded that of other customers at the end of September. The number of loyal customer households is growing according to the strategic target and the Group has the aim of increasing this number to 450,000 by the end of 2010.

Up to 55% of loyal customer households have also concentrated their banking transactions in OP-Pohjola Group member cooperative banks. OP-Pohjola Group member banks' and Helsinki OP Bank's customers can use their OP bonuses earned through banking transactions to pay Pohjola non-life insurance premiums. During the reporting year, OP bonuses were used to pay 914,300 insurance premiums, with 227,700 paid in full using bonuses. Insurance premiums paid using bonuses totalled EUR 58 million. The revenue synergies resulting from growth in the number of loyal customer households by the end of 2009 reached an annual level of EUR 16 million and the management is targeting EUR 17 million by the end of 2010.

Cooperation with OP-Pohjola Group member banks became more intense during the financial year. Insurance sales to private customers were transferred to Group member banks in October 2008 and their sales performance has been excellent: year on year, non-life insurance policy sales grew by 29% in January–December, in comparison with sales recorded by Pohjola's own offices. The reporting year saw the sales network strengthen when an increasing number of OP-Pohjola Group member banks joined the insurance sales network and increased the number of their insurance salespeople. Last year, Group member banks became the largest insurance sales channel for private customers.

Insurance business

Profitability was very good. The combined ratio stood at 90.7% (94.7). The operating combined ratio excluding changes in reserving bases and amortisation on intangible assets arising from the corporate acquisition stood at 87.7% (91.5%).

Developments in insurance premium revenue were characterised by dichotomy. Growth remained strong within Private Customers, relying on the OP-Pohjola cooperation, whereas insurance premium revenue from Corporate Customer and in the Baltic States decreased due to the recession. Total insurance premium revenue improved by 2% to EUR 942 million (923). With the growth in policies for Private Customers, motor liability, fire and property insurance policies became the largest lines of insurance in terms of insurance premium revenue, outstripping statutory workers' compensation insurance.

Within Private Customers, insurance premium revenue rose by 12% to EUR 424 million (380). The number of loyal customer households grew by 35,448 (34,387) during January–December. Pohjola strengthened its market position among private customers.

Within Corporate Customers, insurance premium revenue decreased by 5% to EUR 461 million (485). The most drastic fall was seen in statutory workers' compensation insurance, considering that payroll bills which determine insurance premiums were on the decrease. Falling corporate net sales and profits have also been reflected in insurance premiums.

In the Baltic States, insurance premium revenue decreased by 2% to EUR 57 million (58).

As a result of favourable claims developments, claims incurred were lower than a year ago although strong growth in the private customer insurance portfolio added to the number of losses reported. The efficiency of claims settlement and the successful utilisation of partnerships, for instance in the form of early referral to treatment and cost control, contributed to this favourable development. Claims incurred (excl. loss adjustment expenses) amounted to EUR 551 million (583), with higher claims incurred among private customers resulting from growth in the insurance portfolio. Claims incurred among corporate customers were considerably lower than a year ago as a result of the recession and the favourable trend in large claims. The risk ratio stood at 58.4% (63.1). The reported number of major or medium-sized losses (in excess of EUR 0.1 million and over EUR 0.5 million in pension liabilities) came to 190 (204) in January–December, with their claims incurred retained for own account totalling EUR 85 million (84).

Operating expenses and loss adjustment expenses grew to EUR 276 million (262), due mainly to higher sales commissions and product and system development costs. This growth coupled with a slowdown in insurance premium revenue weakened the cost ratio, standing at 29.3% (28.4).

The operating balance on technical account within Private Customers improved to EUR 48 million (31) because insurance premium revenue was higher than claims incurred and operating expenses. Within Corporate Customers, the operating balance on technical account improved to EUR 62 million (40), despite lower insurance premium revenue, thanks to favourable claims developments. The balance on technical account for statutory workers' compensation insurance fell from the exceptionally good level reported a year ago. When it comes to corporate motor liability and comprehensive motor vehicle insurance, and property and commercial general liability insurance, the balance on technical account showed a significant improvement as a result of a reduction in losses due to the recession. Within property and commercial general liability insurance, developments in claims were favourable. The balance on technical account recorded by the Baltic States remained at around the previous year's level, amounting to EUR 6 million (7).

Investment

Return on investments at fair value stood at 10.7% (–7.0). Net investment income recognised in the income statement amounted to EUR 61 million (59). Impairment charges recognised from the fair value reserve in the income statement totalled EUR 37 million.

On 31 December 2009, the investment portfolio totalled EUR 2,851 million (2,415), bonds and bond funds accounting for 76% (82) and listed equities for 10% (4). Unlisted equity investments plus the aforementioned equities represented a total of 13% (8). The fixed-income portfolio by credit rating remained healthy, considering that 80% of the investments were rated at least A–. The average residual maturity of the fixed-income portfolio was 4.9 years and the duration 3.3 years (4.3).

Risk exposure by Non-life Insurance

On 31 December 2009, Non-life Insurance solvency capital stood at EUR 827 million (608), accounting for 88% (66) of insurance premium revenue. This increase was due to the excellent results of investment and insurance operations.

The Board of Directors has confirmed credit rating A as the target for Non-life Insurance. Moody's downgraded Pohjola Insurance Ltd's rating from A1 to A2 in September, due to the deterioration of the Finnish economy. Credit rating issued by Standard & Poor's for Pohjola Insurance Ltd is A+ (December 2009).

Underwriting risk exposure

The reinsurance of Non-life Insurance is managed on a centralised basis. Retention in risk-specific reinsurance is a maximum of EUR 5 million and that in catastrophe reinsurance EUR 5 million. The capacity of catastrophe insurance covering loss accumulation stands at EUR 80 million.

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

Risk parameter	*Total amount 31 Dec 2009, € million*	*Change in risk parameter*	*Effect on combined ratio*	*Effect on shareholders' equity, € million*
Insurance portfolio or insurance premium revenue	943	Up 1%	Up 0.9 percentage points	9
Claims incurred	617	Up 1%	Down 0.7 percentage points	–6
Large claim of over EUR 5 million		1 loss	Down 0.5 percentage points	–5
Personnel costs	110	Up 8%	Down 1.0 percentage point	–9
Expenses by function *)	267	Up 4%	Down 1.1 percentage points	–11

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

The number and size of claims vary annually. The year-on-year variation in earnings generated by the insurance business is, to a large extent, explained by the claims incurred due to major losses. The number of major and medium-sized losses for 2009 came to 190 (204) and their claims incurred retained for own account totalled EUR 85 million (84). A large part of Non-life Insurance technical provisions consists of annuities affected by estimated mortality, the inflation rate and the discount rate used. The table below shows the sensitivity of technical provisions by parameter.

Risk parameter	*Change in risk parameter*	*Effect on shareholders' equity, € million*
Inflation rate	+0.25 percentage points	–3
Life expectancy	+ 1 year	–30
Discount rate	–0.1 percentage point	–16

Discounted technical provisions of EUR 1,331 million (1,268), with a duration of 11.9 years (11.9), were discounted using a 3.5% interest rate (3.5), while the remaining technical provisions, EUR 814 million (848), were undiscounted, with a duration of 2.4 years (2.4).

Investment risk exposure

On 31 December 2009, the Non-life Insurance investment portfolio totalled EUR 2,851 (2,415). The investment portfolio consists of investments covering technical provisions and the solvency capital. Bonds accounted for 72% (70) and listed equities for 10% (4). During the second half of 2009, the Group increased the share of equities.

Non-life Insurance investment portfolio by allocation, € million

Portfolio allocation	**Fair value 31 Dec 2009, € million**	**%**	**Fair value 31 Dec 2008, € million**	**%**
Money market instruments	101	4	279	12
Bonds and bond funds	2,067	72	1,690	70
Equities and venture-capital investments	364	13	190	8
Alternative investments	155	5	111	5
Real property	164	6	145	6
Total	**2,851**	**100**	**2,415**	**100**

The average credit rating of the Non-life Insurance fixed-income portfolio was A+ (AA–) (by Standard & Poor's) and A1 (Aa3) (by Moody's), which was slightly lower than a year earlier. The average residual maturity of the fixed-income portfolio was 4.9 years and the duration 3.3 years (4.3). On 31 December 2009, the fixed-income portfolio's current interest rate was 3.5% (5.3).

Non-life Insurance fixed-income portfolio by maturity and credit rating on 31 December 2009, € million

Year(s)	**0–1**	**1–3**	**3–5**	**5–7**	**7–10**	**10–**	**Total**	**%**
Aaa	13	105	203	78	25	104	529	24
Aa1–Aa3	51	203	85	39	9	17	404	19
A1–A3	43	279	258	75	86	54	794	37
Baa1–Baa3	33	119	98	40	8	14	312	14
Ba1 or lower	40	18	34	16	5	0	113	5
Internally rated	4	5	8	1	0	1	20	1
Total	**183**	**730**	**686**	**249**	**133**	**191**	**2,172**	**100**

*) Excludes credit derivatives

Non-life Insurance's uncovered currency position was EUR 107 million (60), accounting for 4% of the investment portfolio. The Group has been active in hedging against currency risks using currency derivatives.

Rising equity prices and lowering credit spreads improved Non-life Insurance investment income, with the return at fair value standing at 10.7% (–7.0), which is markedly above the expected long-

term return. Equity risks rose due to the de-hedging of equity derivatives and favourable market developments in equity investments.
The table below shows the sensitivity of investment risks and their effect of on shareholders' equity:

Non-life Insurance	*Risk parameter*	*Change*	*Effect on shareholders' equity, € million*	
			31 Dec 2009	31 Dec 2008
Bonds and bond funds[1]	Interest rate	1 percentage point	73	82
Equities[2]	Market value	20 percentage points	73	33
Venture capital funds and unquoted equities	Market value	20 percentage points	14	18
Commodities	Market value	20 percentage points	5	2
Real property	Market value	10 percentage points	16	15
Currency	Value of currency	20 percentage points	21	12
Credit risk premium[3]	Credit spread	0.5 percentage points	39	43
Derivatives	Volatility	20 percentage points	0	0

1) Include money-market investments, convertible bonds and interest-rate derivatives
2) Include hedge funds and equity derivatives
3) Includes bonds and money-market investments, including government bonds and interest-rate derivatives issued by developed countries

ASSET MANAGEMENT

- Earnings before tax improved by 25% to EUR 21 million (17).
- Assets under management increased by 31% to EUR 33.1 billion (25.3).
- Net commissions and fees increased by 7% to EUR 50 million (46).
- Operating cost/income ratio improved to 53% (57).

Asset Management: financial results and key figures and ratios

Financial results, € million	**2009**	**2008**	**Change**
Net commissions and fees	50	46	3
Other income and expenses	2	0	3
Total income	52	46	6
Total expenses	30	29	1
Earnings before tax	**21**	**17**	**4**
Earnings before tax at fair value	21	17	4
Assets under management, € billion	33.1	25.3	7.8
Operating cost/income ratio, %	53	57	–4
Personnel	162	154	8

Earnings

Earnings before tax increased by 25% to EUR 21 million (17) and the operating cost/income ratio stood at 53% (57).

Assets under management increased by 31% year on year, totalling EUR 33.1 billion (25.3) on 31 December 2009. A good net assets inflow and favourable market developments since the second quarter contributed to this increase. Of the assets under management, institutional clients accounted for EUR 19.2 billion (16.0), OP mutual funds for EUR 11.4 billion (8.5) and Pohjola Private for EUR 2.5 billion (0.7).

Risk exposure remained favourable.

GROUP FUNCTIONS

- Earnings before tax were EUR 82 million higher than in the previous year, totalling EUR 25 million (loss of 58).
- Impairment charges recognised on bonds totalled EUR 12 million (9) and on equities EUR 9 million (4).
- Liquidity and the availability of funding remained at good levels and market liquidity increased.
- The reclassification at 2008-end of notes and bonds reduced earnings volatility.

Group Functions: financial results and key figures and ratios

Financial results, € million	2009	2008	Change
Net interest income	75	25	49
Impairments of receivables	12	10	2
Net interest income after impairments of receivables	63	15	48
Net trading income	–7	–61	54
Net investment income	–14	6	–20
Other income	18	21	–3
Total net income	60	–19	78
Total expenses	36	39	–3
Earnings/loss before tax	**25**	**–58**	**81**
Earnings/loss before tax at fair value	76	–83	157
Liquidity portfolio, € billion	11.7	9.8	1.9
Receivables and liabilities to OP-Pohjola Group member banks, net position, € billion	1.0	–0.2	1.2
Personnel	136	129	7

Earnings

Earnings before tax were EUR 25 million, as against a loss of EUR 58 million reported a year ago. This performance improvement was partly resulted from successful investment operations within the liquidity portfolio and a change in accounting practice at the end of 2008, i.e. some notes and bonds included in the liquidity portfolio were reclassified in such a way that they are carried at amortised cost and changes in their fair value are not recognised through profit or loss. On 31 December 2009, the carrying amount of the reclassified notes and bonds came to EUR 2.9 billion.

The reclassification was reflected in higher year-on-year net trading income and net interest income. The positive price difference between the nominal value and the acquisition value, arising from the reclassification, recognised for January–December totalled EUR 25 million, of which EUR 20 million was recognised in the Group Functions' net interest income and EUR 5 million in Banking. Net trading income was reduced last year by the EUR 71 million negative mark-to-market valuations of notes and bonds recognised at fair value through profit or loss.

In 2009, Pohjola increased its liquidity portfolio by acquiring state-guaranteed notes and bonds worth EUR 2.4 billion, of which income recognised in net interest income totalled EUR 22 million. In addition, a shift in the focus of the funding structure towards short-term funding and lower interest rates reduced funding costs.

January–December results included EUR 12 million (9) in impairment charges on bonds. In addition, impairments recognised on shares and participations included in available-for-sale financial assets totalled EUR 9 million (4).

Liquidity and the availability of funding remained good and market liquidity increased during the financial year. Debt instruments issued to the public increased to EUR 17 billion (16.6), with certificates of deposit and Euro Commercial Papers accounting for EUR 11 billion (10). Long-term debt instruments issued in international capital markets in 2009 totalled EUR 1.8 billion.

Pohjola Bank plc's net receivables from OP-Pohjola Group member banks rose to EUR 1 billion (–0.2).

Risk exposure by Group Functions

Credit risk exposure

On 31 December 2009, the Group Functions exposure totalled EUR 18.3 billion, consisting of the liquidity portfolio and receivables from OP-Pohjola Group member banks. Almost all of the exposure was based on investment-grade counterparties.

Group member banks and OP-Pohjola Group Central Cooperative with its subsidiaries form a significant customer group for Pohjola Bank plc acting as OP-Pohjola Group's central financial institution. Group member banks' and the Central Cooperative's exposure increased by EUR 1.9 billion, or roughly 40%, due to the growth rate of lending by Group member banks higher than that of deposits. All of their exposure was investment-grade exposure.

The Group Functions maintains the liquidity portfolio in order to secure OP-Pohjola Group's liquidity. The liquidity portfolio amounted to EUR 11.7 billion (9.8), comprising primarily investments in notes and bonds issued by governments, municipalities, financial institutions and companies all showing good credit ratings, and in securitised assets.

Financial assets included in the liquidity portfolio by balance sheet item on 31 December 2009, € million

€ million	31 Dec 2009	31 Dec 2008
Deposits	2,600	2,258
Short-term notes and bonds	560	2,191
Long-term notes and bonds		
Financial assets held for trading	856	1,269
Financial assets at fair value through profit or loss	55	43
Available-for-sale financial assets	4,215	56
Held-to-maturity investments	1,086	1,103
Loans and other receivables	2,291	2,916
Total liquidity portfolio	**11,663**	**9,835**

Financial assets included in the liquidity portfolio by maturity and credit rating on 31 December 2009

Year(s)	0–1	1–3	3–5	5–7	7–10	10–	Total	%
Aaa	3,468	1,701	1,826	417	224	104	7,740	66
Aa1–Aa3	1,028	731	668	72	10	3	2,511	22
A1–A3	133	486	175	16	2	0	812	7
Baa1–Baa3	22	46	45	3	10	0	126	1
Ba1 or lower	8	20	24	25	10	0	88	1
Internally rated	100	151	115	11	10	0	386	3
Total	**4,758**	**3,135**	**2,853**	**544**	**266**	**107**	**11,663**	**100**

The residual maturity of the liquidity portfolio averaged 2.9 years. Internally rated financial assets consist mainly of bonds issued by Finnish companies and institutions.

Market risk exposure

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

As a result of the 2008 reclassification of assets within the liquidity portfolio, a major part of the assets belong to asset categories in which changes in credit risk premiums will not lead to volatility. In 2009, the Group strengthened its liquidity by acquiring new bonds and notes to be included in the liquidity portfolio. These new investments were recognised in the available-for-sale category, in which case changes in credit risk premiums will be reflected in the shareholders' equity.

Interest rate risk exposure averaged EUR 5.3 million in the fourth quarter and EUR 10.5 million in January–December, based on the 1-percentage-point change in the interest rate.

On 31 December 2009, the market value of equity and venture-capital funds came to EUR 37 million (44), of which venture-capital funds with their investment commitments accounted for EUR 32 million (30). Capital tied to property holdings came to EUR 28 million (24), of which property in own use accounted for EUR 2 million (2). In addition, holdings in property investment companies totalled EUR 2 million (2).

Sensitivity analysis of market risk

Group Functions, € million	**Risk parameter**	**Change**	**31 Dec 2009**	**31 Dec 2008**
Interest rate risk	Interest rate	1 percentage point	2	11
Interest rate volatility	Volatility	20 percentage points	1	0
Credit risk premium *)	Credit spread	0.5 percentage points	68	0
Price risk				
Equity portfolio	Market value	20 percentage points	2	2
Private equity funds	Market value	20 percentage points	6	7
Property risk	Market value	10 percentage points	3	2

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

PERSONNEL

On 31 December 2009, the Group had a staff of 2,975, up by 62 on a year earlier. Half of this growth came from the Baltic banking and insurance operations.

A total of 607 Group employees (613) worked for Banking, 2,070 employees (2,018) for Non-life Insurance, 162 (154) for Asset Management and 136 (129) for the Group Functions, and 344 employees (313) worked abroad.

In the spring of 2009, the Group established its own HR Services tasked with supporting the Group's business lines/division in management and leadership work and successful employee performance and employee wellbeing. Its key task is to invest in enhancing intellectual capital according to the updated strategy.

CAPITAL EXPENDITURE

Gross capital expenditure for 2009 totalled EUR 18 million (25), EUR 7 million (7) allocated to Banking, EUR 9 million (13) to Non-life Insurance, EUR 1 million (1) to Asset Management and EUR 1 million (4) to the Group Functions, consisting mainly of ICT investments.

RESPONSIBILITY

Corporate responsibility and its further development play a key role in Pohjola's and the entire OP-Pohjola Group's strategy. As part of the strategy, OP-Pohjola Group has established an environmental programme and is preparing a corporate responsibility programme. Non-life Insurance has a major role in the Group-level environmental programme.

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

GROUP RESTRUCTURING

Pohjola Finance Ltd merged with its parent company Pohjola Bank plc on 30 September 2009.

SHARES AND SHAREHOLDERS

Pohjola Bank plc shares are divided into Series A and K shares. Series A shares are freely transferable and traded on NASDAQ OMX Helsinki (Helsinki Stock Exchange), whereas the holding of Series K shares is restricted to entities within OP-Pohjola Group. These two share classes also differ in other respects. At a General Meeting of Shareholders, Series A shares entitle their holders to one vote and Series K shares five votes. In addition, Series A shares pay an annual dividend, which is at least three (3) cents higher than the dividend declared on Series K shares. On 31 December 2009, the number of Pohjola Bank plc shares totalled 319.6 million, up by 203.4 million on a year earlier, with Series A shares numbering 251.1 million, representing 78.6% of all shares.

During 7–24 April 2009, Pohjola held a EUR 308-million rights offering enabling the Company to strengthen its capital base in a situation in which capital adequacy had become a major competitive edge between banks. Enabled by the stronger capital base, Pohjola sought to secure its ability to provide credit to its clients in a market where the availability of financing had decreased. In addition, Pohjola aimed to strengthen its position as a major actor within the financial sector and prepare for a greater need for capital caused by the economic downturn. In the rights offering, subscriptions were made by 28,000 shareholders, covering a total of 91,179,502 new Series A shares and 25,021,013 new Series K shares. Trading in the new Series A shares began on NASDAQ OMX Helsinki Ltd on 5 May 2009. The new shares included the right to dividends and other distributions as well as other shareholder rights as of the registration date of 4 May 2009.

A total of 401,060 Series K shares held by OP-Pohjola Group member cooperative banks were converted into Series A shares in 2009, and trading in the converted Series A shares began on 26 June 2009.

On 31 December 2009, Pohjola Bank plc held no treasury shares and the General Meeting has not authorised the Board to purchase treasury shares.

On 31 December 2009, Pohjola Bank plc had 37,000 registered shareholders, up by 6,400 on a year earlier. Private individuals account for around 94% of all shareholders.

The largest shareholder was OP-Pohjola Group Central Cooperative, the parent entity of Pohjola, representing 29.9% of all shares and 57.0% of votes. The number of nominee registered shares fell from 17.4% a year ago to 16.0% on 31 December 2009.

On 31 December 2009, members of the Board of Directors and the Group's Executive Committee held a total of 131,602 Series A shares (75,507), accounting for 0.04% (0.04) of all Company shares and for 0.02% (0.02) of all votes.

The Company's share price fell by 4% in 2009, while the weight capped index, OMX Helsinki CAP, rose by 45%. On 31 December 2009, one Series A share closed at EUR 7.55, as against EUR 7.88 a year earlier. The share price reached a high of EUR 9.31 and a low of EUR 3.80. The share trading volume rose by 47%, with roughly 175 million shares changing hands during the year as against 119 million a year ago.

Information on shareholdings is available in Note 38 of the Parent Company's Financial Statements. Per-share ratios' time series can be found on page 30.

DECISIONS BY THE ANNUAL GENERAL MEETING

Pohjola Bank plc's Annual General Meeting (AGM) of 27 March 2009 adopted the Financial Statements for 2008, discharged members of the Board of Directors and the President and CEO from liability and decided to distribute a dividend of EUR 0.23 per Series A share (issue adjusted, EUR 0.19) and EUR 0.20 per Series K share (issue adjusted, EUR 0.16). The AGM confirmed the number of members of the Board of Directors at eight and approved the Board's revised proposal to authorise the Company's Board of Directors to decide on one rights issue. Accordingly, the total number of new Series A and Series K shares offered for subscription in the rights issue may not exceed 117,700,000 and 32,300,000, respectively.

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

CORPORATE MANAGEMENT

The AGM elected the following members to the Board of Directors until the closing of the next AGM: Merja Auvinen, Managing Director; Jukka Hienonen, President and CEO; Simo Kauppi, Managing Director; Satu Lähteenmäki, Professor; Markku Vesterinen, President and CEO; and Tom von Weymarn. Jukka Hienonen is a new Board member.

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

At its organising meeting on 27 March 2009 held after the AGM, the Board of Directors of Pohjola Bank plc (Pohjola) elected members to the Board's committees.

The Remuneration Committee comprises Reijo Karhinen (Chairman), Executive Chairman; Tony Vepsäläinen (Vice Chairman), President; and Satu Lähteenmäki, Professor.

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

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

Petri Viertiö, M.Sc. (Tech.), was appointed Pohjola Group's Chief Risk Officer (CRO) and an Executive Committee member, effective as of 2 March 2009. He reports to Mikael Silvennoinen, Pohjola Group's President and CEO.

On 1 April 2009, Eva Valkama, M.Sc. (Econ. & Bus. Adm.), took up her duties as Pohjola Group's Senior Vice President, Human Resources, and an Executive Committee member. She reports to Mikael Silvennoinen, President and CEO.

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

CORPORATE GOVERNANCE STATEMENT

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

REPRESENTATIVE OFFICES AND BRANCHES ABROAD

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

JOINT RESPONSIBILITY

In accordance with the Act on Co-operative Banks and Other Co-operative Credit Institutions, member credit institutions, Pohjola included, and OP-Pohjola Group Central Cooperative are jointly and severally liable for any debts of the Central Cooperative or a member credit institution in liquidation in the event that these debts cannot be paid from the institution's funds. If a member credit institution’s own capital is depleted to such a low level owing to losses that the criteria, specified in the Act, for being placed in liquidation are fulfilled, the Central Cooperative has the right to collect from its member credit institutions extra contributions on the basis of the combined balance sheets previously adopted.

On the basis of Section 3 of the Act on Co-operative Banks and Other Co-operative Credit Institutions, the Central Cooperative has the right to supervise the operations of its member credit institutions and issue instructions to them on internal control and risk management and on how they should act to secure liquidity and capital adequacy, as well as on compliance with standardised accounting policies in the preparation of the amalgamation's consolidated financial statements.

DEPOSIT GUARANTEE AND INVESTOR PROTECTION

By law, all deposit banks must belong to the Deposit Guarantee Fund. With respect to deposit guarantee, OP-Pohjola Group's deposit banks are regarded as a single bank and compensation paid to a depositor by the Deposit Guarantee Fund amounts to a maximum of EUR 50,000. OP-Pohjola Group's deposit banks comprise member banks, Pohjola Bank plc, Helsinki OP Bank Plc and OP-Kotipankki Oyj.

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

OUTLOOK FOR 2010

The loan portfolio within Banking shrank in 2009. The economic recovery should gradually be reflected in demand for corporate loans and increase the corporate loan portfolio, with demand for corporate financing focusing on working capital and the refinancing of existing loans. It is estimated that the rise in the average margin on the corporate loan portfolio will slow down and the margin on new loans will take a turn downwards. Given that the business environment is still challenging for companies, impairment charges are estimated to remain higher than usual. The greatest uncertainties related to Banking's financial performance in 2010 are associated with impairment charges on the loan portfolio.

Within Non-life Insurance, insurance premium revenue rose by 2% in 2009. In 2010, premium revenue is expected to continue to increase at above-the-market-average rate, thanks to the growing number of private customers. It is estimated that insurance premium revenue from corporate insurance will continue to decrease slightly. In Non-life Insurance, the operating combined ratio is estimated to vary between 89% and 94% in 2010 if the number of large claims is not much higher than in 2009. Long-term returns on investment within Non-life Insurance stand at 5.4%. Returns on investment stood at 10.7% in 2009 and returns for 2010 will largely depend on developments in the investment environment. The most significant uncertainties related to Non-life Insurance's financial performance in 2010 pertain to the investment environment and the effect of large claims on claims expenditure.

Within Asset Management, assets under management increased vigorously in 2009 and the upward trend is expected to continue in 2010. Market developments and the net inflow of assets, among other things, will have an effect on the amount of assets under management. The greatest uncertainties related to Asset Management's financial performance in 2010 are associated with the actual performance-based fees tied to the success of investments and the amount of assets under management.

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

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

When it comes to the outlook for 2010, the greatest uncertainty is related to developments in impairment charges, large claims and the investment environment. There is still great uncertainty about future economic development and the overall operating environment, and these factors are beyond the Group management's control.

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

POHJOLA BANK PLC'S BOARD PROPOSAL FOR THE ALLOCATION OF DISTRIBUTABLE FUNDS

On 31 December 2009, the shareholders' equity of Pohjola Bank plc totalled EUR 1,573,915,313.76, EUR 439,990,536.66 of which represented distributable equity.

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

	€
Profit for 2009	91,051,491.64
Retained earnings	17,558,207.96
Reserve for invested non-restricted equity	307,931,364.75
Other non-restricted reserves	23,449,472.31
Total	439,990,536.66

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

EUR 0.34 per share payable on 251,144,690 Series A shares, totalling EUR 85,389,194.60, and EUR 0.31 per share payable on 68,406,725 Series K shares, totalling EUR 21,206,084.75, i.e. the proposed total dividend distribution amounts to EUR 106,595,279.35.

The Board of Directors proposes that the profit for 2009, EUR 91,051,491.64, and EUR 15,543,787.71 out of retained earnings be allocated to dividend distribution, with EUR 333,395,257.31 remaining in the Company's distributable equity. Pohjola Bank plc has EUR 475 million in voluntary provisions in its balance sheet, and their reversal enables an increase of distributable funds by EUR 351 million.

In addition, the Board of Directors proposes that a maximum of EUR 500,000 be available to the Board of Directors reserved from the distributable funds for donations and other contributions to the public good.

The Company's financial position has not undergone any material changes since the end of the financial year 2009. The Company's liquidity is good and will not be jeopardised by the proposed profit distribution, in the Board of Directors' view.

The Board of Directors proposes that the dividend be paid to shareholders who have been entered in the Shareholder Register, maintained by Euroclear Finland Ltd, by the dividend record date on 31 March 2010 and that the dividend be paid within the book-entry securities system on 9 April 2010.

FINANCIAL INDICATORS AND PER-SHARE RATIOS

	2005	2006	2007	2008	2009
Return on equity (ROE), %	19.8	9.5	11.5	5.0	10.0
Return on equity at fair value (ROE), %	22.3	9.5	9.3	–5.6	19.2
Return on assets (ROA), %	1.4	0.8	0.9	0.3	0.6
Equity ratio, %	8.8	7.6	7.2	5.1	6.4
Average personnel	1,668	3,030	3,006	3,085	2,966
Cost/income ratio, %	58	65	60	76	56

Per-share ratios

	2005	2006	2007	2008	2009
Earnings per share (EPS), €					
Series A share **)	1.60	0.73	0.85	0.36	0.66
Series K share **)	1.59	0.72	0.84	0.33	0.63
Earnings per share (EPS), diluted, €					
Series A share **)	1.59	0.73	0.85	0.36	0.66
Series K share **)	1.57	0.72	0.84	0.33	0.63
Earnings/share (EPS) at fair value **)	1.89	0.73	0.69	–0.39	1.27
Equity per share, € **)	7.15	7.34	7.51	6.58	7.09
Dividend per share, € *) **)	0.49	0.53	0.53	0.18	0.33
Dividend payout ratio, % *) **)	30.3	72.0	61.7	51.4	50.7
Effective dividend yield (Series A share), % *) **)	5.1	5.1	5.0	2.4	4.5
Price/earnings ratio (P/E) **)	6.1	14.2	12.5	22.4	11.5
Share price performance (Series A share) **)					
Average, € **)	8.20	10.37	11.08	9.15	6.32
Low, € **)	6.54	8.97	9.64	6.28	3.8
High, € **)	9.97	12.04	12.34	11.43	9.31
Year-end, € **)	9.58	10.26	10.56	7.88	7.55
Market capitalisation (Series A share), € million	1 864	2 024	2 086	1 556	1 896
Share trading volume (Series A share), 1,000	79,279	103,972	147,303	118,771	174,863
% of all shares	74.8	65.8	92.3	74.4	74.8
Issue-adjusted number of shares (Series A and K shares)					
Year average **)	166,627,595	247,456,025	249,057,242	249,057,242	295,795,845
Year end **)	246,394,674	249,057,242	249,057,242	249,057,242	319,551,415
Number of shares (Series A and K shares)					
Year average	136,048,529	202,043,534	203,350,900	203,350,900	295,795,845
Year end	201,176,960	203,350,900	203,350,900	203,350,900	319,551,415

*) Board proposal: EUR 0.34 on Series A shares and EUR 0.31 on Series K shares.

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

FORMULAE FOR KEY RATIOS AND FIGURES

Return on equity (ROE), %
Profit for the period / Shareholders' equity (average of the beginning and end of period) x 100

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

Return on assets (ROA), %
Profit for the period / Average balance sheet total (average of the beginning and end of the period) x 100

Capital adequacy ratio, %
Shareholders' equity / Balance sheet total x 100

Cost/income ratio, %
Personnel costs + Other administrative expenses + Other operating expenses /
(Net interest income + Net income from Non-life Insurance + Net commissions and fees + Net trading income + Net investment income + Other operating income) x 100

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

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

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

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

Dividend per share
Dividends paid for the period / Share-issue adjusted number of shares on the balance sheet date

Dividend payout ratio, %
Dividend per share / Earnings per share x 100

Effective dividend yield, %
(Dividend per share) /Share-issue adjusted closing price during the period x 100

Price/earnings ratio (P/E)
Share-issue adjusted closing price during the period / Earnings per share

Average share price
Total share turnover in euros / Share trading volume

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

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

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

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

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

KEY RATIOS FOR NON-LIFE INSURANCE

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

Loss ratio (excl. unwinding of discount)
Claims and loss adjustment expenses / Net insurance premium revenue x 100

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

Risk ratio (excl. unwinding of discount)
Claims excl. loss adjustment expenses / Net insurance premium revenue x 100

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

Combined ratio (excl. unwinding of discount)
Loss ratio + Expense ratio
Risk ratio + Cost ratio

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

OPERATING KEY RATIOS

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

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

Operating expense ratio, %
Operating expenses / Net insurance premium revenue x 100
Operating combined ratio, %
Loss ratio + Operating expense ratio

Values used in calculating the ratios

(€ million)	2009	2008
Non-life Insurance		
Net tax liabilities for the period	–14	26
Own subordinated loans	50	50
Deferred tax to be realised in the near future and other items deducted from the solvency margin of the companies	6	–45
Intangible assets	800	826

CONSOLIDATED FINANCIAL STATEMENTS, IFRS

FINANCIAL STATEMENTS

Consolidated income statement

EUR million	Note	2009 Total	2008 Total
Net interest income	3	241	174
Impairment of receivables	4	129	28
Net interest income after impairments		**112**	**146**
Net income from Non-life Insurance	5	402	353
Net commissions and fees	6	143	122
Net trading income	7	71	-81
Net investment income	8	-13	6
Other operating income	9	50	42
Total income		**766**	**589**
Personnel costs	10	190	178
IT expenses		75	80
Depreciation/amortisation		72	69
Other expenses		164	143
Total expenses		**501**	**470**
Share of associates' profits/losses			
Earnings before tax		**265**	**119**
Income tax expense	13	71	31
Profit for the period		**194**	**89**
Attributable to:			
Equity holders of the Parent		194	89
Minority interest		0	0
Total		**194**	**88**
Basic earnings per share, EUR			
Series A	14	0.66	0,36
Series K	14	0.63	0,33

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

Consolidated statement of comprehensive income

EUR million	2009	2008
Profit for the period	**194**	**89**
Change in fair value reserve	243	-252
Translation differences	0	0
Income tax on other comprehensive income	63	-65
Total comprehensive income for the period	**374**	**-98**
Total comprehensive income attributable to owners of the Parent	374	-98
Total comprehensive income attributable to minority interest	0	0
Total	**374**	**-98**

Consolidated balance sheet

EUR million	Note	31 Dec. 2009	31 Dec. 2008
Liquid assets	15	3,102	2,260
Receivables from financial institutions	16	7,630	6,644
Financial assets at fair value through profit or loss	17		0
Financial assets held for trading		1,224	3,213
Financial assets at fair value through profit or loss at inception		55	43
Derivative contracts	18	1,443	1,486
Receivables from customers	19	11,323	12,279
Non-life Insurance assets	20	3,156	2,745
Investment assets	21	5,415	1,285
Investment in associates	23	2	2
Intangible assets	24	960	987
Property, plant and equipment (PPE)	25	117	127
Other assets	26	1,068	1,281
Tax assets	27	15	98
Total assets		**35,510**	**32,448**
Liabilities to financial institutions	28	4,984	3,643
Financial liabilities at fair value throuhg profit or loss	29		
Financial liabilities held for trading		71	138
Derivative contracts	30	1,456	1,644
Liabilities to customers	31	4,133	3,508
Non-life Insurance liabilities	32	2,279	2,238
Debt securities issued to the public	33	17,295	16,425
Provisions and other liabilities	34	1,291	1,522
Tax liabilities	35	434	368
Subordinated liabilities	36	1,300	1,322
Total liabilities		**33,244**	**30,808**
Shareholders’ equity	37		
Capital and reserves attributable to equity holders of the Parent			
Share capital		428	428
Reserves		1,093	615
Retained earnings		746	597
Minority interest			**0**
Total shareholders’ equity		**2,267**	**1,640**
Total liabilities and shareholder's equity		**35,510**	**32,448**

Consolidated cash flow statement

EUR million	2009	2008
Cash flow from operating activities		
Profit for the period	194	88
Adjustments to profit for the period	433	225
Increase (-) or decrease (+) in operating assets	**-2,634**	**-3,775**
Receivables from financial institutions	-1,035	689
Financial asset at fair value through profit or loss	1,805	-746
Derivative contracts	-36	-75
Receivables from customers	837	-2,171
Non-life Insurance assets	-331	-226
Investment assets	-4,106	-994
Other assets	232	-251
Increase (+) or decrease (-) in operating liabilities	**1,707**	**1,594**
Liabilities to financial institutions	1,340	725
Financial liabilities at fair value through profit or loss	-67	86
Derivative contracts	-4	106
Liabilities to customers	625	773
Non-life Insurance liabilities	43	68
Provisions and other liabilities	-231	-164
Income tax paid	-12	-38
Dividends received	9	33
A. Net cash from operating activities	**-303**	**-1,872**
Cash flow from investing activities		
Increases in held-to-maturity financial assets	-170	-161
Decreases in held-to-maturity financial assets	219	0
Acquisition of subsidiaries, net of cash acquired	0	-51
Disposal of subsidiaries, net of cash disposed	1	9
Purchase of PPE and intangible assets	-18	-32
Proceeds from sale of PPE and intangible assets	1	6
B. Net cash used in investing activities	**33**	**-230**
Cash flow from financing activities		
Increases in subordinated liabilities	160	505
Decreases in subordinated liabilities	-184	-132
Increases in debt securities issued to the public	53,151	45,207
Decreases in debt securities issued to the public	-52,294	-41,622
Increases in invested unrestricted equity	298	0
Dividends paid	-45	-131
C. Net cash provided by (used in) financing activities	**1,085**	**3,828**
Net increase/decrease in cash and cash equivalents (A+B+C)	**815**	**1,726**
Cash and cash equivalents at year-start	**2,435**	**710**
Cash and cash equivalents at year-end	**3,250**	**2,435**
Interest received	**1,959**	**3,536**
Interest paid	**-1,873**	**-2,862**
Adjustments to profit for the financial year		
Non-cash items and other adjustments		
Impairment losses on receivables	133	29
Unrealised net earnings in Non-life Insurance	106	85
Change in fair value for trading	-100	56
Unrealised net gains on foreign exchange operations	157	-31
Change in fair value of investment property	7	5
Planned amortisation/depreciation	72	69
Share of associates' profits		
Other	58	11
Items presented outside cash flow from operating activities		
Capital gains, share of cash flow from investing activities	0	-1
Capital losses, share of cash flow from investing activities		
Total adjustments	**433**	**225**
Cash and cash equivalents		
Liquid assets *	3,106	2,264
Receivables from financial institutions payable on demand	144	172
Total	**3,250**	**2,435**

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

Consolidated statement of changes in equity

	Attributable to equity holders of the Parent					
EUR million	**Share capital**	**Fair value reserve**	**Other reserves**	**Retained earnings**	**Minority interest**	**Total equity**
Balance at 1 January 2008	**428**	**7**	**750**	**685**	**0**	**1,869**
Total comprehensive income for the period		-187	0	88	0	-99
Profit distribution				-131		-131
EUR 0.65 per Series A share*				-104		-104
EUR 0.62 per Series K share*				-27		-27
Reserve transfers			45	-45		
Equity-settled share-based transactions				0		0
Other				0		0
Balance at 31 December 2008	**428**	**-180**	**795**	**597**	**0**	**1,640**

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

* Due to Pohjola Bank plc's rights issue and new shares entered in the Trade Register on 4 May 2009, the number of shares has been adjusted in such a way that the adjusted dividend per share is as follows:
2008: EUR 0.53 per Series A share and EUR 0.50 per Series K share
2009: EUR 0.19 per Series A share and EUR 0.16 per Series K share

SEGMENT ANALYSIS

Since 1 January 2008, Pohjola Group has applied IFRS 8 Operating Segments. Financial information serves as the basis of this standard, which the executive in charge monitors regularly. Defining segments and presentation are based on management reporting.

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

Segment accounting policies

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

Operating segment capitalisation is based on Pohjola Group's capital adequacy measurement under the Act on Credit Institutions. Capital requirements according to this measurement are allocated among the operating segments. The Group has allocated capital to its operating segments in such a way that the Tier 1 ratio stands at 7% and the capital adequacy ratio at 10.5%

Banking

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

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

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

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

Non-life Insurance

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

The range of Non-life Insurance products includes non-life policies for corporate and private customers. In addition, the domestic service network provides corporate customers with OP-Pohjola Group's life and pension policies and Ilmarinen Mutual Pension Insurance Company's employment pension policies while being in charge of customer service for Suomi Mutual Life

Assurance Company and Ilmarinen. Furthermore, commissions and fees come from managing certain statutory charges and from risk management services.

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

Asset Management

Asset Management provides Finnish institutional clients and wealthy private individuals with discretionary and advisory asset management services. Furthermore, the portfolio management of OP Fund Management Company Ltd’s mutual funds is mainly centralised within Pohjola Asset Management. In addition to its own portfolio management, Pohjola Asset Management has 20 international partners boasting a wide range of funds for the needs of both institutional and private clients.

Pohjola Private Equity Funds provides Finnish and foreign institutional investors with private equity investment services, its products comprising customised private equity fund services and funds-of-funds. Pohjola Property Management focuses on real property investment in Finland and on the selection of real estate funds in international markets. Pohjola Capital Partners is engaged in equity investment operations. The division's income came mainly from asset-management commissions and fees.

Group Functions

In support of the Group and its businesses, the Group Functions comprises Finance, Risk Management, HR Services and Corporate Communications. It is responsible for the management of financing and liquidity for OP-Pohjola Group's retail banks and Pohjola Group, as well as for OP-Pohjola Group's wholesale funding.

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

Eliminations

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

Segment information

Q 1–4 earnings EUR million	**Banking** **2009**	 **2008**	**Non-life Insurance** **2009**	 **2008**	**Asset Management** **2009**	 **2008**
Net interest income	165	158	-2	-11	1	-2
Impairments of receivables	117	18				
Net interest income after impairments	**49**	**140**	**-2**	**-11**	**1**	**-2**
Net income from Non-life Insurance			400	352		
Net commissions and fees	85	63	16	19	50	46
Net trading income	78	-20			0	
Net investment income	0	0			0	
Other operating income	30	28	6	0	2	2
Total net income	**242**	**211**	**419**	**360**	**52**	**46**
Personnel costs	50	39	110	111	17	17
IT expenses	21	20	44	45	2	3
Amortisation on intangible assets related to company acquisitions			30	33	3	3
Other depreciation/amortisation and impairments	28	24	8	7	1	1
Other expenses	25	24	125	110	7	6
Total expenses	**125**	**106**	**317**	**306**	**30**	**29**
Earnings before tax	**117**	**105**	**102**	**55**	**21**	**17**
Change in fair value reserve	3	-2	188	-226		
Earnings/loss before tax at fair value	**120**	**103**	**290**	**-171**	**21**	**17**
Average personnel	607	613	2 070	2 018	162	154
Capital expenditure, EUR million	7	7	9	13	1	1

Q 1–4 earnings EUR million	**Group Functions** **2009**	 **2008**	**Eliminations** **2009**	 **2008**	**Group total** **2009**	 **2008**
Net interest income	75	25	2	4	241	174
Impairments of receivables	12	10			129	28
Net interest income after impairments	**63**	**15**	**2**	**4**	**112**	**146**
Net income from Non-life Insurance			3	2	402	353
Net commissions and fees	-1	0	-7	-6	143	122
Net trading income	-7	-61	0	0	71	-81
Net investment income	-13	6	0		-13	6
Other operating income	18	21	-5	-8	50	42
Total net income	**60**	**-19**	**-7**	**-9**	**766**	**589**
Personnel costs	13	11			190	178
IT expenses	9	13	0	0	75	80
Amortisation on intangible assets related to company acquisitions					33	36
Other depreciation/amortisation and impairments	2	2			39	33
Other expenses	13	13	-6	-9	164	143
Total expenses	**36**	**39**	**-7**	**-9**	**501**	**470**
Earnings before tax	**25**	**-58**	**0**	**0**	**265**	**119**
Change in fair value reserve	52	-25	1	0	243	-252
Earnings/loss before tax at fair value	**76**	**-83**	**1**	**0**	**508**	**-133**
Average personnel	136	129			2 975	2 913
Capital expenditure, EUR million	1	4			18	25
Earnings per share, EUR					0,66	0,36
Return on equity at fair value, %					19,2	-5,6

Balance sheet EUR million	Banking		Non-life Insurance		Asset Management	
	31 Dec 2009	31 Dec 2008	31 Dec 2009	31 Dec 2008	31 Dec 2009	31 Dec 2008
Receivables from customers	10 880	11 776				
Receivables from credit institutions	278	427			5	7
Financial assets at fair value through profit or loss	932	1 375				
Non-life Insurance assets			3 202	2 798		
Investment assets	18	2	0	0	17	21
Investments in associates			2	2		
Other assets	2 012	2 220	829	854	131	127
Total assets	**14 119**	**15 800**	**4 033**	**3 654**	**153**	**154**
Liabilities to customers	1 263	1 070				
Liabilities to credit institutions	747	590				
Non-life Insurance liabilities			2 279	2 238		
Debt securities issued to the public						
Subordinated liabilities			50	50		
Other liabilities	1 872	2 010	108	52	15	14
Total liabilities	**3 882**	**3 671**	**2 437**	**2 340**	**15**	**14**
Shareholders' equity						

Balance sheet EUR million	Group Functions		Eliminations		Group total	
	31 Dec 2009	31 Dec 2008	31 Dec 2009	31 Dec 2008	31 Dec 2009	31 Dec 2008
Receivables from customers	527	749	-84	-247	11 323	12 279
Receivables from credit institutions	10 468	8 513	-20	-43	10 732	8 904
Financial assets at fair value through profit or loss	347	1 880			1 279	3 255
Non-life Insurance assets			-47	-53	3 156	2 745
Investment assets	5 387	1 270	-6	-8	5 415	1 285
Investments in associates					2	2
Other assets	691	786	-58	-8	3 604	3 979
Total assets	**17 421**	**13 199**	**-215**	**-358**	**35 510**	**32 448**
Liabilities to customers	2 915	2 483	-45	-45	4 133	3 508
Liabilities to credit institutions	4 320	3 304	-84	-251	4 984	3 643
Non-life Insurance liabilities					2 279	2 238
Debt securities issued to the public	17 323	16 481	-28	-56	17 295	16 425
Subordinated liabilities	1 250	1 272			1 300	1 322
Other liabilities	1 318	1 603	-59	-7	3 253	3 672
Total liabilities	**27 126**	**25 142**	**-216**	**-358**	**33 244**	**30 808**
Shareholders' equity					2 267	1 640
Capital adequacy ratio, %					13,5	11,3
Tier 1 ratio, %					11,8	9,4

Banking	Net income		Earnings/loss before tax	
	2009	2008	2009	2008
Corporate Banking	125	172	48	99
Markets	117	36	77	9
Baltic Banking	0	3	-8	-3
Total	**242**	**211**	**117**	**105**

Non-life Insurance	Insurance premium revenue		Balance on technical account	
	2009	2008	2009	2008
Private Customers	424	380	48	31
Corporate Customers	461	485	62	40
Baltic States	57	58	6	7
Amortisation adjustment of intangible assets			-28	-30
Total	**943**	**923**	**88**	**49**

Group Functions	2009	2008
Central Banking earnings before tax, EUR million	18	21
	31 Dec 2009	**31 Dec 2008**
Receivables from OP-Pohjola Group entities, EUR million	6 264	4 437
Liabilities to OP-Pohjola Group entities, EUR million	2 742	3 692

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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Notes to contingent liabilities and derivatives

Other notes

NOTE 1. POHJOLA GROUP'S ACCOUNTING POLICIES

GENERAL INFORMATION

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

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

Pohjola Bank plc belongs to OP-Pohjola Group, which consists of 220 member cooperative banks and their central institution, OP-Pohjola Group Central Cooperative with its subsidiaries. OP-Pohjola Group's member credit institutions comprise Pohjola, Helsinki OP Bank Plc, OP-Kotipankki Oyj, OP Mortgage Bank and member cooperative banks.

In accordance with the Act on Co-operative Banks and Other Co-operative Credit Institutions, member credit institutions, Pohjola included, and the Central Cooperative are jointly and severally liable for any debts of the Central Cooperative or a member credit institution in liquidation in the event that these debts cannot be paid from the institution's funds. If a member credit institution's own capital is depleted to such a low level owing to losses that the criteria, specified in the Act, for being placed in liquidation are fulfilled, the Central Cooperative has the right to collect from its member credit institutions extra contributions on the basis of the combined balance sheets previously adopted.

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

Pohjola's parent company is OP-Pohjola Group Central Cooperative and Pohjola's consolidated accounts are included in the Central Cooperative's consolidated financial statements. Copies of the financial statements of OP-Pohjola Group Central Cooperative Consolidated are available from the Central Cooperative, Teollisuuskatu 1 b, FI-00150 Helsinki, Finland.

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

The Board of Directors has approved these consolidated financial statements for issue on 11 February 2010.

BASIS OF PREPARATION

These consolidated financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS), applying IASs, IFRSs and SIC and IFRIC interpretations effective on 31 December 2009. The International Financial Reporting Standards refer to standards and their interpretations adopted in accordance with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council. In addition to IFRS, Pohjola Group applies paragraph

6, subsection 146, section 9 of the Act on Credit Institutions to the preparation of its consolidated financial statements.

New or revised/amended standards and interpretations early-adopted by Pohjola in 2008:

- IFRS 8 Operating Segments (applicable as of 1 January 2009, but earlier adoption permitted). Pohjola Group adopted IFRS 8 in 2008.

In 2009, Pohjola adopted the following IFRSs and interpretations:

- Amended IAS 1 Presentation of Financial Statements (applicable to accounting periods starting on or after 1 January 2009, earlier adoption is permitted). The amended standard prohibits the presentation of non-owner changes in equity in the statement of changes in equity, requiring items of income and expenses, "non-owner changes in equity", to be presented either in one statement (statement of comprehensive income) or in two separate statements (income statement and statement of comprehensive income). Items on the statement of comprehensive income are shown as one item in the "Statement of changes in equity".
- Amendments to disclosures about notes regarding financial instruments: IFRS 7 Financial Instruments: Disclosures (applicable to accounting periods beginning on or after 1 January 2009, but earlier application is permitted, no comparatives are required in the first year of application). The amendment requires disclosure of fair value measurements through three levels of a fair value measurement hierarchy, resulting in additional disclosures on the assessment of the relative reliability of fair values. Moreover, the amendment requires enhanced disclosures about liquidity risk.

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

- Amended IAS 23 Borrowing Costs (effective as of 1 January 2009)
- Amendment to IFRS 2 Share-based Payment – Vesting Conditions and Cancellations (effective as of 1 January 2009)
- Amendments to IAS 32, Financial Instruments, Disclosure and Presentation, and IAS 1, Presentation of Financial Statements (effective as of 1 January 2009) related to the treatment of puttable instruments and other obligations arising on liquidation
- Improvements to IFRSs (issued in May 2008, mostly effective as of 1 January 2009)
- IFRIC 13 Customer Loyalty Programmes (effective as of 1 July 2008)
- IFRIC 15 Agreements for the Construction of Real Estate (effective as of 1 January 2009)
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation (effective as of 1 January 2009)
- Amendments to IFRIC 9 and IAS 39 – Embedded Derivatives (applicable to accounting periods starting on or after 30 June 2009)

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

The financial statements are presented in millions of euros.

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

Use of estimates

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

RECLASSIFICATION

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

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

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

CONSOLIDATION PRINCIPLES

The consolidated financial statements include the accounts of Pohjola Bank plc, the parent company, and its subsidiaries in which the parent company holds more than 50% of voting shares or over which the parent company otherwise exercises control. Control refers to the right to determine another company's financial and business policies in order to benefit from its activities

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

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

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

Subsidiaries, associates or joint ventures acquired during the financial year are consolidated from the date on which control or significant influence transfers to the Group and are de-consolidated from the date on which control or significant influence ceases. Acquired companies are consolidated using the acquisition method. Since the IFRS transition date, 1 January 2004, goodwill has represented the excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired. If the cost of acquisition is less than the fair value of the net assets of the company acquired, the difference is recognised directly in the income statement.

In accordance with the exemption included in IFRS 1, the method of calculating acquisition costs applying to companies acquired prior to the IFRS transition date of 1 January 2004 has not been changed to comply with IFRS but is in conformity with the Finnish Accounting Standards.

Profit for the financial year attributable to the equity holders of the parent company and minority interest is presented in a separate income statement and total comprehensive income attributable to the equity holders of the parent company and minority interest is presented in the statement of comprehensive income. Minority interest of the shareholders' equity is presented as part of the shareholders' equity in the balance sheet.

Minority interest which includes Pohjola's absolute liability to redeem minority shareholders' investments is treated as a debt instrument.

FOREIGN CURRENCY TRANSLATION

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

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

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

FINANCIAL INSTRUMENTS

Fair value determination

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

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

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

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

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

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

- Quote prices (unadjusted) in active markets for identical assets or liabilities (Level 1);

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

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

Impairment of financial assets

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

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

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

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

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

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

Securities sale and repurchase agreements

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

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

Classification and recognition

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

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

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

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

Financial assets and liabilities at fair value through profit or loss

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

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

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

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

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

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

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

Loans and other receivables

Financial assets classified as loans and other receivables are non-derivative financial assets with fixed or determinable payments that have been created by lending money or rendering services. Not quoted in an active market, loans and other receivables are carried at cost. Receivables related to insurance contracts, claims administration contracts and disposal of investments are presented within this asset class. These financial assets are shown as receivables from customers, from credit and financial institutions or as Non-life Insurance assets in the consolidated balance sheet.

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

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

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

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

For the purpose of a collective assessment of impairment, receivables are grouped on the basis of similar credit risk characteristics. Impairment loss is recognised for a group of receivables if there is objective evidence that debtors' ability to pay amounts due is uncertain. The amount recognised as an impairment loss is determined by average estimated future losses based on historical loss experience.

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

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

Investments held to maturity

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

If there is objective evidence of an impaired held-to-maturity investment, this impairment will be recognised under "Net investment income" in the income statement. Impairments are reviewed on the basis of the same principles as those of loans and other receivables.

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

Some notes and bonds were reclassified out of the financial assets held for trading category into the financial assets held to maturity category in the process of reclassification performed in the autumn of 2008. The reclassification of these notes and bonds was performed at their fair value on 1 July 2008. The difference between the fair value of the notes and bonds and their value on the date of maturity is entered as interest income adjustment during the residual maturity of the notes and bonds.

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

Available-for-sale financial assets

Available-for-sale financial assets include non-derivative assets which are not classified as the abovementioned financial assets but which may be sold before their maturity, comprising notes and bonds, shares and participations. At the time of their acquisition, available-for-sale financial assets are recognised at cost, which equals the fair value of the consideration paid plus transaction costs directly attributable to their acquisition. Available-for-sale financial assets are measured at fair value. Any changes in their fair value are recognised in the consolidated statement of comprehensive income, from where they, including any capital gain or loss, are transferred to the income statement when the asset is derecognised or impaired. An available-for-sale financial asset is deemed to have impaired when its issuer's credit rating has undergone a significant downgrading or the fair value of an equity instrument has fallen considerably or on a long-term basis below its acquisition cost.

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

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

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

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

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

In the second half of 2008, some notes and bonds were reclassified out of the available-for-sale financial assets category into the loans and receivables category at their value on 1 July 2008. The valuation of these notes and bonds entered in the fair value reserve is recognised in the income statement in the residual term to maturity of the notes and bonds. When recognising the impairment of notes and bonds, any remaining amount in the fair value reserve is transferred in full to the income statement.

Cash and cash equivalents

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

Other financial liabilities

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

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

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

Derivative financial instruments

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

Interest-rate derivatives, currency derivatives, equity derivatives, commodity derivatives and credit derivatives are classified as derivative contracts measured at fair value at all times. Derivative contracts are classified as hedging derivative contracts and derivative contracts held for trading. The difference between interest received and paid on interest-rate swaps held for trading is recorded in interest income or expenses and the corresponding interest carried forward is recognised in other assets or other liabilities. Changes in the fair value of derivatives held for trading are recorded under "Net trading income" or "Net income from Non-life Insurance". Derivatives are carried as assets under "Derivative contracts" or "Non-life Insurance assets" when their fair value is positive and as liabilities under "Derivative contracts" or "Non-life Insurance liabilities" when their fair value is negative.

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

Hedge accounting

The Group's Risk Management has prepared methods and internal principles used for hedge accounting, whereby a financial instrument can be defined as a hedging instrument. Hedge accounting is used to verify that changes in the fair value of a hedging instrument fully or partially offset changes in the fair value or cash flows of a hedged item.

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

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

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

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

INVESTMENT PROPERTY

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

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

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

INTANGIBLE ASSETS

Goodwill

Goodwill represents at the time of acquisition the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets, liabilities and contingent liabilities of an entity acquired after 1 January 2004. Goodwill on prior business combinations equals the carrying amount recorded under the previous accounting standards, the Finnish Accounting Standards (FAS), which has been used as deemed cost permitted by the exemption of IFRS 1. Goodwill on acquisition of subsidiaries is included in intangible assets and goodwill on acquisition of associates is included in investment in associates.

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

Customer relationships

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

Brands

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

Other intangible assets

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

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

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

PROPERTY, PLANT AND EQUIPMENT

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

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

The estimated useful lives are mainly as follows:

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

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

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

Impairment of PPE and intangible assets

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

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

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

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

LEASES

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

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

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

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

EMPLOYEE BENEFITS

Pension benefits

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

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

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

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

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

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

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

Share-based compensation

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

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

INSURANCE ASSETS AND LIABILITIES

Classification of financial assets and liabilities within Non-life Insurance

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

Classification of insurance contracts

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

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

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

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

Non-life insurance contracts

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

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

Measurement and recognition of insurance contracts

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

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

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

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

Reinsurance contracts
Reinsurance taken out by the Group refers to an insurance contract which meets the classification requirements set for insurance contracts and under which the Group may be paid compensation

by another insurer if the Group becomes liable to pay compensation on the basis of other insurance contracts (ceded reinsurance).

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

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

Receivables and payables related to insurance contracts

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

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

Salvage and subrogation reimbursements

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

Coinsurance and pools

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

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

Provision for joint guarantee system

Provision for the joint guarantee system is recognised in the same way as other provisions. The Finnish Workers' Compensation Insurance Act, Motor Liability Insurance Act and Patient Injury Act include provisions on joint liability on the basis of which insurance companies engaged in the business of the line of insurance concerned assume joint liability should one of them fail to pay claims in the event of liquidation or bankruptcy. Insurers have a statutory obligation to recognise a provision for the joint guarantee system in their balance sheets. The joint guarantee provision may be decreased or abolished only for the abovementioned reason or by transferring it to another insurance company in connection with an insurance portfolio transfer.

PROVISIONS

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

INCOME TAX

Income tax expense shown in the income statement includes current tax, based on the taxable income of Pohjola Group companies for 2009, and income tax for prior financial years and deferred tax expense or income.

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

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

REVENUE RECOGNITION

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

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

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

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

Summary of presentation of income statement items:

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

SEGMENT REPORTING

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

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

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

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

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

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

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

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

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

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

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

NEW STANDARDS AND INTERPRETATIONS

In 2010, Pohjola Group will adopt the following standards and interpretations:

- Amended IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items (effective as of 1 July 2009). This amendment has not currently any effect on Pohjola Group.
- Amended IFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions (effective as of 1 January 2010). This amendment will have no effect on Pohjola's consolidated financial statements.
- Amended IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (effective as of 1 February 2010). This amendment will have no effect on Pohjola's consolidated financial statements.
- Amended IFRS 3 Business Combinations (effective as of 1 July 2009). The revised standard contains major amendments. These amendments have widened the scope of application of IFRS 3 with an effect, for example, on the amount of goodwill recognised for acquisitions and on gains and losses on disposal of businesses. The contingent consideration is measured at fair value at the time of the business combination and any subsequent change in the

consideration is recognised in profit or loss. Costs associated with an acquisition, such as consulting fees, must be expensed, not capitalised. Non-controlling interests (NCI), or minority interests, can be measured at fair value or the NCI's proportionate share of net assets of the acquiree on a transaction by transaction basis. These amendments may have an effect on Pohjola's future consolidated financial statements.

- Amended IAS 27 Consolidated and Separate Financial Statements (effective as of 1 July 2009). These amendments may have an effect on Pohjola's future consolidated financial statements.
- IFRIC 17 Distribution of Non-cash Assets to Owners (effective as of 1 July 2009). IFRIC 17 will have no effect on Pohjola's consolidated financial statements.
- IFRIC 18 Transfers of Assets from Customers (effective as of 1 July 2009). IFRIC 18 will have no effect on Pohjola's consolidated financial statements.
- Improvements to IFRSs (issued in April 2009, effective dates vary).

The International Accounting Standards Board's (IASB) financial instruments accounting reform programme is scheduled for completion by the end of 2010, these changes relating to the disclosure and measurement of financial instruments, accounting for impairments and hedge accounting. In addition, the IASB is also expected to issue other changes in financial statements disclosures. Pohjola Group is actively monitoring the progress of these changes.

NOTE 2. RISK MANAGEMENT AND CAPITAL ADEQUACY MANAGEMENT PRINCIPLES

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

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

Pohjola Group's major risks exposed by Banking include credit, interest rate, currency, equity and liquidity risks, and those exposed by Non-life Insurance include underwriting risks and market risks associated with investments. Strategic and operational risks, such as changes in the economic situation, competition or customer behaviour, are also inherently related to Banking, Asset Management, Non-life Insurance and the Group Functions.

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

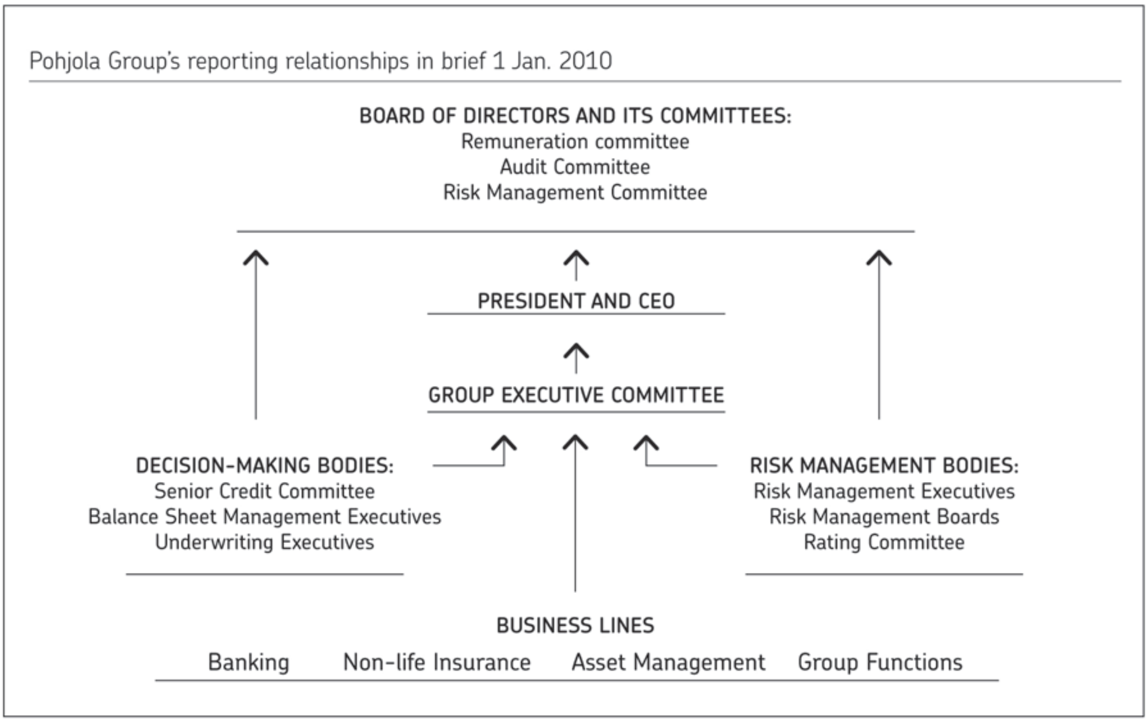
These capital adequacy management principles specify the Group's business-related risks and the risk management organisation while describing the duties of various decision-making levels and the organisational units involved in risk management, and their division of responsibilities. The capital adequacy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

ORGANISATION OF RISK MANAGEMENT

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

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

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



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

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

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

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

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

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

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

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

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

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

RISK-BEARING CAPACITY AND CAPITAL ADEQUACY MANAGEMENT (ICAAP)

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

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

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

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

The Solvency II Directive, the updated regulatory solvency requirements for insurance companies, is due to be transposed into national legislation by 31 October 2012. The Directive will require more risk-based solvency measurement and technical provisions will be measures at fair value. The new solvency regime may also involve equalisation provisions counting towards equity capital, in part or in full.

Under Solvency II, regulators as part of their supervisory duties review an insurance company's ability to demonstrate an adequate system of governance (Own Risk and Solvency Assessment, ORSA). The Directive will also change and add to public disclosure and supervisory reporting. In 2009, Pohjola Group set up an ad hoc Solvency II project group tasked with preparing for the fulfilment of the new solvency requirements.

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

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

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

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

Economic capital

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

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

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

RISK APPETITE

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

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

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

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

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

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

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

Risk policies

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

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

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

COMPLIANCE RISK MANAGEMENT

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

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

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

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

MANAGEMENT OF STRATEGIC AND BUSINESS RISKS

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

Strategic risk and business risks

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

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

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

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

Monitoring and reporting strategic and business risks

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

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

MANAGEMENT OF OPERATIONAL RISKS

Operational risks refer to risks resulting from inadequate internal processes, people and systems or external events which cause direct or indirect losses. This definition also includes legal risks and compliance risks. Operational risks may also materialise in terms of loss of reputation.

Methods of the management of operational risks, and their measurement

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

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

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

Each month, the business units report to Risk Management all losses above a certain amount arising from materialised operational risks. The business lines describe in a reporting application reasons for the loss event and measures taken to prevent similar losses.

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

Monitoring and reporting operational risks

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

RISK MANAGEMENT: BANKING

Credit risk management

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Determination of credit standing by customer group:

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

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

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

The rating model for mid-sized and large companies is based on the combination of statistical analyses and expert opinions. Key indicators and information on payment default entries for 2002–06 were used to assess PD values by category. Since information on payment default entries was available only during the economic upturn, the Group analysed the required adjustment using credit loss and bankruptcy statistics until 1991 and time series of foreign banks' insolvency until 1990. In addition, PD values contain a statistical margin of error. The validation of the rating model, performed on the basis of the information on key indicators based on financial statements extended into 2009 and on payment default, proved that the model works well and requires only minor updates.

Suomen Asiakastieto Oy's rating model forms the basis of small company ratings. Variables in this statistical model include those related to company history, ownership, executives in charge, financial statements and payment method. Score limits have been set for the scores deriving from the model and Pohjola applies these limits to convert scores into OP-Pohjola Group's internal credit rating category. An equivalent adjustment, due to the economic situation, has been made for actual payment defaults vis-à-vis the assessment of PD values for the rating model for mid-sized and large companies above. The validation of the rating model for small companies performed in 2009 did not prove that the model would require any major changes.

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

S&P Rating	AAA...AA-	A+...BBB-	BB+...BB-	B+...B-	CCC
OP-Pohjola Group rating	1–2.5	3–5	5.5–7	7.5–9.5	10

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

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

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

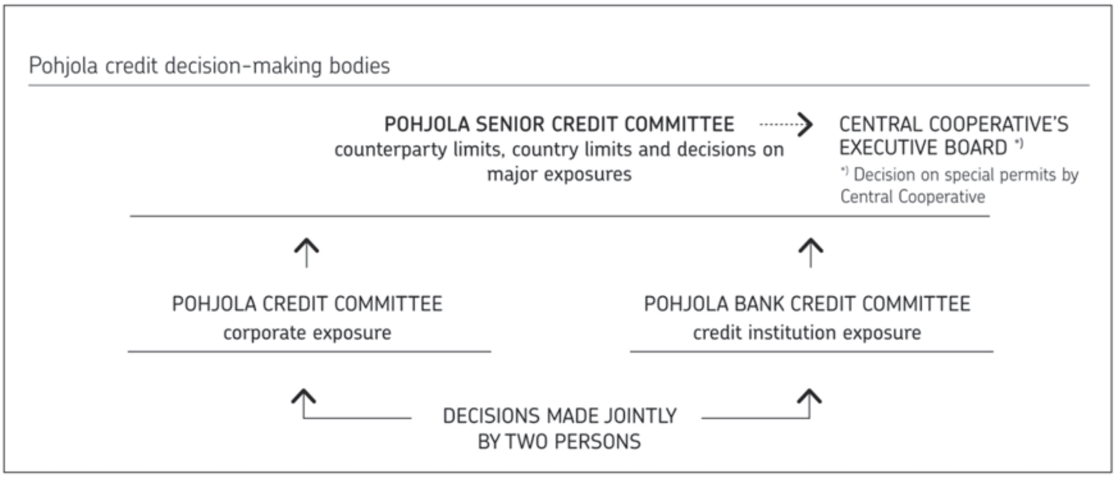
Pohjola adopted internal credit rating for credit institutions at the beginning of 2009. The rating model for credit institutions is based on the combination of statistical analyses and expert opinions. External ratings replaced the scant empirical data on payment defaults in the development of this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

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

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

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

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



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

Execution
The execution stage involves preparing the tender and contract documents based on the approved proposals. Before the customer has access to any funds, Pohjola verifies the fulfilment of the

drawing terms and conditions. Furthermore, it supervises the fulfilment of the contractual terms throughout the term of the agreement.

Measuring, monitoring and reporting credit risk

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

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

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

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

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

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

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

Decision-making and assessment related to credit risk models

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

Use of credit risk models in capital adequacy measurement

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

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

Market risk management

Market risks include the effects caused by changes in market prices (interest rates, foreign exchange rates, equity prices and credit spreads) or volatility on the bank's financial performance. Market risks may have a direct effect on performance or the effect may span several financial years. The recognition of the effects on financial performance depends on how a vulnerable asset or derivative instrument is accounted for. Market liquidity has an effect on the formation of market prices. If markets lack sufficient depth or cease to function in a regular manner due to a disruption, market risks also arise due to the lack of market liquidity. In general, a decrease in market liquidity leads to weaker financial results due to higher liquidity premiums included in market prices.

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

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

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

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

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

Interest rate risk is diversified by currency, product and maturity while foreign currency risk is hedged by currency. Equity and capital investment risks are diversified by market area, sector and issuer and private equity fund investment risk is diversified in accordance with the fund rules. Options trading is governed by specific limits. Analysing the risk exposure structure and markets on an ongoing basis and anticipating the impact of changes on the bank's risk exposure and financial performance play a key role in market risk management. Effective market risk management requires real-time and accurate information on exposure and markets and a quick response to changes. The Group manages market risks by adjusting the risk exposure using both assets and derivative instruments within the risk limit framework, in line with the current market views. Derivative instruments can also be used to hedge market exposure or individual agreements against changes in market values or in order to secure net financial income.

Measuring, monitoring and reporting market risks
Pohjola monitors market risks by using the indicators specified in the table below.

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

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

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

The balance sheet also involves structural interest rate risks arising from retail borrowing and non-interest-bearing balance sheet items. Any premature repayment based on customer agreements may also create interest rate risks. Premature repayments and retail borrowing do not constitute a significant item from the perspective of Pohjola's business. The Group monitors both items but has not modelled customer behaviour. The Group measures and reports interest rate risks exposed by trading and the banking book on a daily basis using the same benchmarks and limitation principles. These are also used to estimate the sensitivity of the accumulated net financial income to interest rate fluctuations. Only specifically designated units may take interest rate risks within the set limits.

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

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

Foreign currency exposures are subject to daily reporting.

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

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

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

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

Commodity exposures are subject to daily reporting.

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

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

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

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

Liquidity risk management

Liquidity risks refer to risks associated with the availability of refunding and the impact of the bank's credit rating on the price of funding. A difference between the maturities of receivables and liabilities presents risks. Such a risk also arises if liabilities or receivables, or both, are concentrated with respect to counterparties, instruments or market segments. Liquidity risk may also result from changes in customer behaviour, the business environment or market liquidity.

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

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

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

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

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

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

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

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

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

Measuring, monitoring and reporting liquidity risks
Liquidity risk management consists of the following three components: structural funding risk, maturity distribution of long-term debts and short-term funding liquidity management. The Group monitors structural funding risk on the basis of interrelationship between long-term assets and liabilities, for which the Group has set a limit. The Group monitors long-term funding maturity using a maturity distribution, for which limits have been set. Funding liquidity management is based on the scenarios of maturing cash flows and the liquidity buffer, and the Group has set limits and target values for these scenarios.

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

Derivatives business
Pohjola uses interest rate and currency derivatives actively and equity, equity index and credit derivatives to a lesser extent. Note 87 provides detailed information on the underlying values and credit equivalents. Derivatives are used for trading and hedging purposes as part of total exposure management. The Group monitors derivative risks as part of the total exposure in trading and treasury using the same benchmarks as for balance sheet exposure. The only exception is options, whose risk is measured as described above under 'Volatility risk'.
Counterparty risk involved in the derivatives business is monitored using credit equivalents determined on the basis of the repurchase cost of contracts (market value) and product-specific future credit risk factors.

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

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

RISK MANAGEMENT OF NON-LIFE INSURANCE

Risks of insurance operations

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

Underwriting risks

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

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

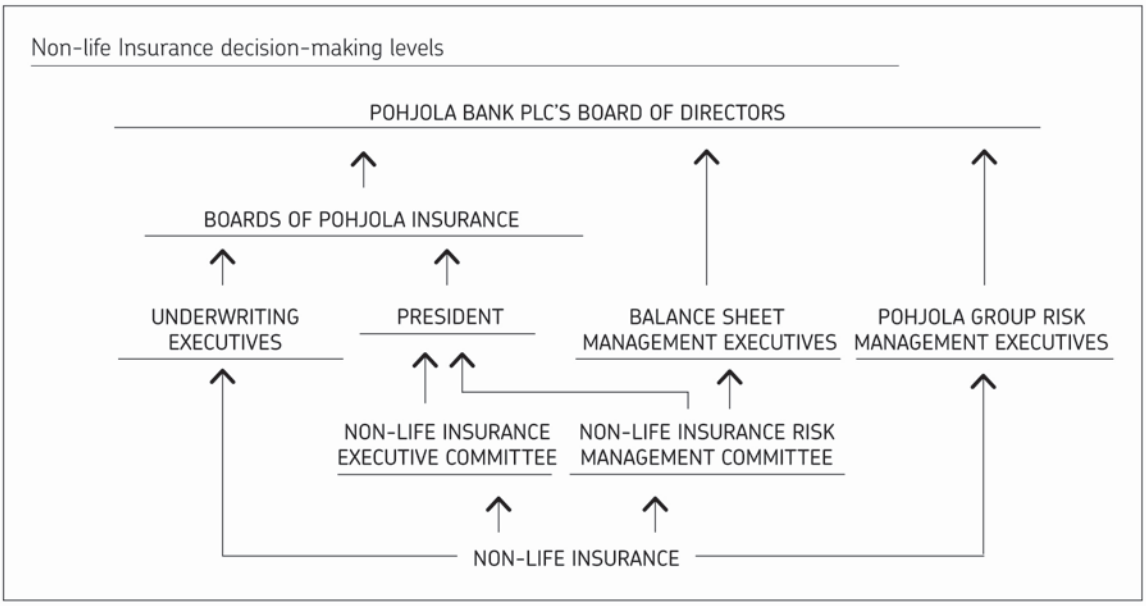
Since the lack of correlation between underwriting risks is never complete in real life, the insurer's claims risk in proportion to the size of the insurance portfolio never totally disappears, no matter how large the insurance portfolio. The remaining risk due to this correlation between underwriting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

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

Underwriting risk management

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

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



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

Risk selection and pricing
Operating models highlight the role of risk selection and pricing. The Group has set limits for the size and extent of risk for each insurance line and risk concentration, The Group has a centralised data warehouse and analysis applications in place to support risk selection and pricing. Insurance terms and conditions serve as a vital tool in controlling risks. In addition, risk analyses are performed on a customer or insurance line specific basis to mitigate risks.

Reinsurance
The reinsurance principles and the maximum risk per claim retained for own account are annually approved by the Board of Directors. In practice, the Group keeps this amount lower if this is justifiable considering the price level of reinsurance cover. Retention in risk-specific reinsurance is a maximum of EUR 5 million and that in catastrophe reinsurance EUR 5 million. The capacity of catastrophe insurance covering loss accumulation stood at EUR 80 million in 2009 and stands at EUR 95 in 2010.

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

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

accumulations. The catastrophe accumulation cover applies to property damage and personal injuries.

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

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

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

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

The provision for unpaid claims for annuities corresponds to the discounted present value of cash flow of compensation for loss of income payable as continuous annuity. The discount rate is determined taking account of the current interest rate, security required by law and the upper limit of the discount rate set by the authorities. On 31 December 2009, the discount rate used was 3.5% (2008: 3.5%). The mortality model applied is the cohort mortality model which is based on Finnish demographic statistics and which assumes the current trend of an increase in life expectancy to continue.

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

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

The evaluation of technical provisions always involves uncertainties which may be due, for instance, to the prediction of the claims trend, delays in verifying losses, cost inflation, legislative amendments and general economic development. Every three years, an external actuary performs for the Group an analysis of the appropriateness of the calculation bases and the amount of Group technical provisions.

Statutory insurance

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

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

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

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

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

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

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

The reinsurance of statutory workers' compensation insurance has been arranged through a national catastrophe pool. The Group's share of the pool is determined by the market share in the insurance line concerned. The pool has acquired reinsurance cover of up to EUR 200 million and the retention limit after the pool's share is EUR 4 million. In motor liability insurance, the retention is EUR 3 million for any single loss event.

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

Uncertainties related to future cash flows
It is typical of the statutory lines of insurance that the period from the date of the occurrence of loss until the date on which the claim is fully paid is often long. Such underwriting business generates a long-term cash flow, on the evaluation of which medical-cost inflation and the mortality of beneficiaries have the greatest impact.

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

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

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

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

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

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

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

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

Other accident and health insurance

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

Number and size of claims
Claims are usually small in other accident and health insurance. The largest claims may arise from catastrophes with a large number of injured people. In designated crisis areas, insurance cover is not in force.

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

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

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

The Group has taken out reinsurance cover against catastrophe accumulation in the insurance class 'Other accident and health'. Retention under reinsurance amounts to EUR 2.5 million and claims are paid up to EUR 25 million. In addition, the amount remaining for own account has been reinsured under general catastrophe cover. The reinsurance does not cover losses arising from contagious disease epidemics.

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

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

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

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

Comprehensive and cargo insurance

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

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

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

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

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

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

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

Property and business interruption insurance

Property insurance covers loss of or damage to the insured property, excluding property coverable under comprehensive or cargo insurance. Companies and other organisations account for over half of the property insurance portfolio. This line also comprises corporate business interruption insurance which covers financial losses arising from interrupted business operations causing damage to the company's property.

Number and size of claims
The largest single risks within property and business interruption insurance include fire, natural phenomenon and breakage risks exposed by companies' production facilities and buildings, and the related business interruption risks. Households' individual property risks are small and the

related individual claims have no material effect on the Group's earnings. The majority of claims expenditure for households is due to leakage, fire and burglary claims.

The risk of natural catastrophes has been considered minor in Finland and the Baltic States, but forest damage in Sweden has led to the reassessment of this risk. Pohjola has insured around 3% of all Finnish commercial forests against storms, and geographically these are dispersed all over Finland. On the basis of our current knowledge based on studies, it is still uncertain whether the recent storms are due to climate change or natural variations in climatic conditions. However, the studies have suggested that there are indications of a change in climatic conditions in the Group's operating region at least in the long term. The projected temperature increase will probably be reflected in changes in summer and winter conditions and, for instance, in higher precipitation, although there is no clear proof of higher temperatures intensifying storms in our region. The capacity of the catastrophe reinsurance cover totals EUR 80 million, which is 10-fold compared with the largest realised catastrophe accumulations.

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

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

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

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

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

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

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

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

Liability and legal expenses insurance

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

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

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

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

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

The Group's retention for the risks in this class amounts to EUR 4 million for any single loss event.

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

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

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

Long-term insurance contracts

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

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

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

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

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

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

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

The greatest uncertainty related to cash flows from perpetual insurance resides in the amount of surrenders. Currently, there are very few surrenders, the greatest risk being that the number of surrenders increases markedly. The annual amount of surrenders has been EUR 200,000. If all policies were to be surrendered immediately, the amount payable would be EUR 15 million.

INVESTMENT RISKS

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

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

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

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

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

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

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

Market risk

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

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

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

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

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

Credit risk

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

Liquidity risk

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

NOTES TO THE INCOME STATEMENT

NOTE 3. NET INTEREST INCOME

EUR million	2009	2008
Interest income		
Receivables from credit institutions	202	264
Receivables from customers	406	667
Loans	386	633
Finance lease receivables	20	33
Impaired loans and other commitments	1	1
Notes and bonds	206	345
Held for trading	52	133
At fair value through profit or loss	1	111
Available for sale	122	91
Held to maturity	31	10
Derivative contracts	1,123	1,867
Hedge accounting	-126	-60
Other	1,249	1,928
Other	4	10
Total	**1,941**	**3,153**
Interest expenses		
Liabilities to credit institutions	61	174
Financial liabilities at fair value through profit or loss	5	19
Liabilities to customers	32	108
Debt securities issued to the public	352	686
Subordinated liabilities	52	54
Subordinated loans	15	13
Other	37	41
Derivative contracts	1,195	1,927
Hedge accounting	-14	-20
Other	1,249	1,946
Other	4	11
Total	**1,700**	**2,979**
Net interest income before impairments	**241**	**174**

Hedging instruments in hedge accounting showed a net loss of EUR 36 million (loss of 31) and net income from hedged contracts came to EUR 30 million (31). Net income from hedge accounting for 2009 includes EUR 5 million in fair value change recognised for interest rate swaps hedging notes and bonds reclassified in 2008.

NOTE 4. IMPAIRMENTS OF RECEIVABLES

EUR million	2009	2008
Receivables written down as loan and guarantee losses	15	16
Recoveries of receivables written down	-2	-1
Increase in impairment losses	132	20
Reversal of impairment losses	-24	-9
Collectively assessed impairment losses	8	1
Impairment on interest receivables	0	-1
Total	**129**	**28**

NOTE 5. NET INCOME FROM NON-LIFE INSURANCE

EUR million	2009	2008
Insurance premium revenue		
Premiums written	1,005	991
Change in provision for unearned premiums	-15	-24
Gross insurance premium revenue	990	966
Reinsurers' share	-47	-43
Total	943	923
Net investment income	64	61
Claims incurred		
Claims paid (excl. loss adjustment expenses)	595	602
Change in provision for unpaid claims	-30	30
Gross total claims incurred	565	632
Reinsurers' share	-5	-41
Total	560	591
Other Non-life Insurance items	44	40
Net income from Non-life Insurance	**402**	**353**
Insurance premium revenue and insurance premiums ceded to reinsurers		
Short-term insurance contracts		
Premiums written	1,003	988
Change in provision for unearned premiums	-18	-26
Change in provision for unexpired risks	1	1
Long-term insurance contracts		
Premiums written	2	3
Change in provision for unearned premiums	2	1
Gross insurance premium revenue	**990**	**966**
Reinsurers' shares of short-term insurance contracts		
Premiums written	-51	-42
Change in provision for unearned premiums	4	1
Reinsurers' share of long-term insurance contracts		
Premiums written	0	0
Change in provision for unearned premiums	-1	-2
Total reinsurers´ share	-47	-43
Net insurance premium revenue	**943**	**923**

Net investment income from Non-life Insurance		
Loans and receivables		
Interest income	21	10
Interest expenses	-1	-1
Capital gains and losses	0	
Fair value gains and losses	-3	
Total	**16**	**9**
Net income from financial assets recognised at fair value through profit or loss		
Interest income		
Notes and bonds	0	0
Derivatives		
Other	0	1
Capital gains and losses		
Derivatives	-21	-10
Other		0
Fair value gains and losses		
Notes and bonds	2	-3
Shares and participations		
Derivatives	-2	1
Total	**-20**	**-12**
Net income from available-for-sale financial assets		
Notes and bonds		
Interest income	49	64
Other income and expenses	0	0
Capital gains and losses	13	-2
Transferred from fair value reserve during financial year	-6	-14
Impairments	0	
Total	56	48
Shares and participations		
Dividends	7	26
Other income and expenses	3	3
Capital gains and losses	54	-25
Transferred from fair value reserve during financial year	-23	18
Impairments	-37	-17
Total	4	5
Total	**60**	**54**
Net income from investment property		
Rental income	12	10
Capital gains and losses	1	2
Gains on fair value measurement	1	2
Maintenance charges and expenses	-6	-5
Other	0	0
Total	**7**	**10**
Total net investment income from Non-life Insurance	**64**	**61**

Unwinding of discount, Non-life Insurance

The increase in the discounted insurance contract liabilities of Non-life Insurance due to the passage of time (Note 32) (unwinding of discount) totals EUR 43 million (42). Unwinding of discount is computed monthly applying the discount rate at the end of the previous month and the insurance contract liabilities at the beginning of the current month. The discount rate was 3.7% from 31 December 2003 to 30 November 2004, 3.5% from 1 December 2004 to 30 November 2005, 3.3% from 1 December 2005 to 30 November 2007 and 3.5% from 1 December 2007 to 31 December 2009.

NOTE 6. NET COMMISSIONS AND FEES

EUR million	2009	2008
Commissions and fees		
Lending	38	24
Deposits	0	0
Payment transfers	13	13
Securities brokerage	21	19
Mutual fund brokerage	0	0
Securities issuance	8	3
Asset management and legal services	52	48
Insurance operations	17	19
Guarantees	16	9
Other*	13	11
Total	**178**	**146**

* Other included EUR 9 million (6) in deferred Day 1 profit commissions and fees and EUR 0.6 million (0.5) in non-deferred commissions and fees. The counter-item is included in provisions and other liabilities in the balance sheet.

Commission expenses		
Payment transfers	2	3
Securities brokerage	8	6
Securities issuance	9	5
Asset management and legal services	7	7
Other	9	2
Total	**35**	**24**
Net commissions and fees	**143**	**122**

NOTE 7. NET TRADING INCOME

EUR million	2009	2008
Financial assets and liabilities held for trading		
Capital gains and losses		
Notes and bonds	41	2
Shares and participations	0	0
Derivatives	118	-49
Total	159	-48
Fair value gains and losses		
Notes and bonds	-24	26
Shares and participations	0	0
Derivatives	-77	19
Other		
Total	-101	45
Dividend income	0	

Assets and liabilities at fair value through profit or loss		
Capital gains and losses		
Notes and bonds	-9	-16
Total	-9	-16
Fair value gains and losses		
Notes and bonds	10	-65
Total	10	-65
Net income from foreign exchange operations		
Currency exchange	-168	25
Other	181	-23
Total	**71**	**-81**

NOTE 8. NET INVESTMENT INCOME

EUR million	2009	2008
Available-for-sale financial assets		
Notes and bonds		
Capital gains and losses	1	3
Transferred from fair value reserve during the financial year	0	-3
Shares and participations		
Capital gains and losses	0	0
Transferred from fair value reserve during the financial year	0	1
Impairments	-9	-4
Dividend income	2	7
Total available-for-sale financial assets	-6	4
Investment property		
Rental income	2	2
Capital gains and losses	-2	1
Gains and losses from fair value measurement	-5	0
Maintenance charges and expenses	-1	-1
Other	0	0
Total investment property	-7	2
Total net investment income	**-13**	**6**

NOTE 9. OTHER OPERATING INCOME

EUR million	2009	2008
Rental income from property in own use	0	0
Insurance claims and benefits	0	0
Central banking service fees	9	9
Realisation of repossessed items	0	0
Rental income from assets rented under operating lease	25	22
Reinsurance commissions of Non-life Insurance	2	1
Other	13	9
Total	**50**	**42**

NOTE 10. PERSONNEL COSTS

EUR million	2009	2008
Wages and salaries	156	143
Share-based payments	1	0
Pension costs	19	24
Defined contribution plans	18	24
Defined benefit plans	1	1
Other social expenses	14	10
Total	**190**	**178**

NOTE 11. OTHER ADMINISTRATIVE EXPENSES

EUR million	2009	2008
Office expenses	24	19
IT expenses	75	80
Telecommunication expenses	10	11
Marketing expenses	14	14
Other administrative expenses	16	19
Total	**139**	**144**

NOTE 12. OTHER OPERATING EXPENSES

EUR million	2009	2008
Rental expenses	4	1
Expenses for property and business premises in own use	23	25
Expenses for realisation of repossessed items	1	1
Reinsurance commissions of Non-life Insurance	3	2
Credit losses of Non-life Insurance	6	7
Change in collective guarantee item of Non-life Insurance	1	1
Depreciation and amortisation		
Buildings	1	1
Machinery and equipment	2	2
Intangible assets related to company acquisition	33	36
Other intangible assets	9	7
Other	24	20
Total	69	66
Impairments		
Property in own use	0	0
Other	3	3
Total	3	3
Other *	62	43
Total	**171**	**149**

* The item includes EUR 463,000 (472,000) in audit fees paid to auditors, EUR 53,000 (1,000) in fees for assignments as referred to in sub-paragraph 2, paragraph 1, section 1 of the Auditing Act, EUR 98,000 (55,000) in fees for legal counselling and EUR 682,000 (401,000) in fees for other services.

* The item includes EUR 39 million (24) in insurance business sales commissions paid to OP-Pohjola Group member banks.

NOTE 13. INCOME TAX

EUR million	2009	2008
Current tax	39	11
Tax for previous financial years	1	1
Deferred tax	31	18
Income tax expense	**71**	**31**
Corporate income tax rate	26	26

Reconciliation between tax expense in the income statement and tax expense calculated by the applicable tax rate

Earnings before tax	265	119
Tax calculated at a tax rate of 26% (2008:26%)	69	31
Tax for previous financial years	1	1
Income not subject to tax	-1	-2
Expenses not deductible for tax purposes	1	1
Re-evaluation of unused losses	0	
Other items	0	-1
Tax expense	**71**	**31**

NOTE 14. EARNINGS PER SHARE

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

	2009	2008
Profit for the year attributable to owners of the Parent (EUR million)	194	89
Weighted average number of shares (1,000)		
Series A shares	232,312	195,429
Series K shares	63,484	53,629
Total	**295,796**	**249,057**
Basic earnings per share (EUR/share)		
Series A shares	0.66	0.36
Series K shares	0.63	0.33

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

NOTES TO THE BALANCE SHEET

NOTE 15. CASH AND CASH EQUIVALENTS

EUR million	31 Dec. 2009	31 Dec. 2008
Cash	2	1
Deposits with central banks repayable on demand		
Pohjola Bank's minimum reserve deposit	255	228
Other	2,845	2,030
Total cash and cash equivalents	**3,102**	**2,260**

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

NOTE 16. RECEIVABLES FROM CREDIT INSTITUTIONS

EUR million	31 Dec. 2009	31 Dec. 2008
Receivables from credit institutions		
Deposits		
Repayable on demand	144	172
Other	11	7
Total	155	178
of which receivables from credit institutions due in less than 3 months	155	178
Loans and other receivables		
Repayable on demand		
From other credit institutions	0	
Total	0	
Other		
From OP-Pohjola Group retail banks	2,483	1,955
From other credit institutions	4,992	4,511
Total	7,475	6,466
Total receivables from credit institutions	**7,630**	**6,644**
Receivables from credit institutions include repo receivables	75	8
Receivables from credit institutions include subordinated receivables	42	42

NOTE 17. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

EUR million	31 Dec. 2009	31 Dec. 2008
Financial assets held for trading		
Government notes and bonds	198	584
Certificates of deposit and commercial papers	555	2,191
Debentures	0	38
Bonds	471	396
Other notes and bonds	0	4
Shares and participations	0	0
Total	1,224	3,213
Financial assets at fair value through profit or loss at inception		
Bonds	55	43
Total	55	43
Total financial assets at fair value through profit or loss	**1,279**	**3,255**

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

	31 Dec. 2009		31 Dec. 2008	
Financial assets held for trading, EUR million	**Notes and bonds**	**Shares and partici-pations**	**Notes and bonds**	**Shares and partici-pations**
Quoted				
From public sector entities	209		584	
From others	918	0	2,491	0
Other				
From public sector entities	42		85	
From others	55		52	
Total	**1,224**	**0**	**3,213**	**0**

	31 Dec. 2009		31 Dec. 2008	
Financial assets at fair value through profit or loss at inception, EUR million	**Notes and bonds**	**Shares and partici-pations**	**Notes and bonds**	**Shares and partici-pations**
Quoted				
From others	55		39	
Other				
From others			4	
Total	**55**		**43**	
Total financial assets at fair value through profit or loss	**1,279**	**0**	**3,255**	**0**

Financial assets at fair value through profit or loss include EUR 1,124 million (2,996) in notes and bonds eligible for central bank refinancing and EUR 0 million (38) in subordinated publicly-quoted notes and bonds.

NOTE 18. DERIVATIVE CONTRACTS

EUR million	31 Dec. 2009	31 Dec. 2008
Held for trading		
Interest rate derivatives	1,188	1,286
Currency derivatives	50	85
Equity derivatives	139	67
Credit derivatives	4	4
Other	3	2
Total	1,385	1,443
Hedging derivative contracts – fair value hedging		
Interest rate derivatives	47	31
Currency derivatives	12	11
Total	59	43
Total derivative contracts	**1,443**	**1,486**

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

NOTE 19. RECEIVABLES FROM CUSTOMERS

EUR million	31 Dec. 2009	31 Dec. 2008
Loans to the public and public sector entities	8,526	9,045
Notes and bonds	398	709
Finance lease receivables	622	593
Other receivables		
Other	1,924	1,963
Impairment losses on loans		
Based on credit risk	-98	-23
Impairment losses on notes and bonds		
Based on credit risk	-48	-9
Total receivables from customers	**11,323**	**12,279**

Changes in impairments of loans and guarantees

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

EUR million	Loans	Notes and bonds	Bank guarantee receivables	Interest receivables	Total
Impairments 1 Jan. 2008	20		1	-1	20
Change in impairments of individually assessed loans and receivables	10	9		-2	17
Change in impairments of collectively assessed loans and receivables	1				1
Reversal of impairments of loans and receivables individually assessed	-5		-1	2	-3
Loans and guarantee receivables derecognised from balance sheet,					
of which an individually assessed impairment was recognised	-3				-3
Impairments 31 Dec. 2008	24	9		-2	32

Finance lease receivables

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

EUR million	31 Dec. 2009	31 Dec. 2008
Maturity of finance leases		
Not later than one year	193	188
1–5 years	333	339
Over 5 years	192	220
Gross investment in finance leases	718	746
Unearned finance income (–)	-96	-153
Present value of minimum lease payments	622	593
Present value of minimum lease payment receivables		
Not later than one year	175	162
1–5 years	300	282
Over 5 years	147	150
Total	**622**	**593**
Gross increase during the financial year	**246**	**352**

NOTE 20. NON-LIFE INSURANCE ASSETS

EUR million	31 Dec. 2009	31 Dec. 2008
Investments		
Loans and other receivables	424	419
Equities	387	318
Property	78	81
Notes and bonds	1,392	1,149
Derivative contracts		
Currency derivatives		3
Equity derivatives	0	
Other	530	419
Total	2,810	2,389

Other assets		
Prepayments and accrued income	38	33
Other		
From direct insurance	214	218
From reinsurance	89	100
Cash in hand and at bank	4	4
Total	346	355
Total Non-life Insurance assets	**3,156**	**2,745**

Non-life Insurance investments		
Loans and other receivables		
Loans and other receivables	423	418
Deposits with ceding undertakings	1	1
Total	424	419
Financial assets recognised at fair value through profit or loss		
Other notes and bonds	8	6
Derivative contracts		
Currency derivatives		3
Equity derivatives	0	
Total	8	9
Available-for-sale financial assets		
Notes and bonds	1,384	1,143
Shares and participations	387	318
Other participations	530	419
Total	2,301	1,880
Investment property		
Land and water areas	10	11
Buildings	67	71
Total	78	81
Total Non-life Insurance investments	**2,810**	**2,389**

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

	31 Dec. 2009			31 Dec. 2008		
EUR million	**Notes and bonds**	**Shares and participa-tions**	**Derivative contracts**	**Notes and bonds**	**Shares and participa-tions**	**Derivative contracts**
Quoted						
From others	8			6		
Other						
From others						3
Total	**8**			**6**		**3**

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

* Available-for-sale shares and participations include EUR 387 million (318) in equities and mutual funds with equity risk and EUR 530 million (419) in other participations. Other participations consist mainly of units in bond, money market, convertible bond, commodities, hedge funds and real estate funds.

The available-for-sale financial assets of Non-life Insurance include EUR 5 million (14) in pledged items, consisting mainly of collateral for derivatives trading.

Available-for-sale financial assets of Non-life Insurance, 31 Dec. 2008, EUR million	Available-for-sale notes and bonds At fair value	At amortised cost	Total	Available-for-sale shares and participations At fair value	At cost	Total
Quoted						
From public sector entities	659		659			
From others	407		407	626		626
Other						
From public sector entities	5		5			
From others	72		72	111		111
Total	**1,143**		**1,143**	**737**		**737**
Impairment losses for the financial year				-17		-17

Changes in Non-life Insurance investment property	2009	2008
Acquisition cost 1 Jan.	75	83
Increase	6	0
Decrease	-10	-5
Transfers between items	0	-3
Acquisition cost 31 Dec.	71	75
Accumulated changes in fair value 1 January	6	2
Changes in fair value during financial year	1	3
Accumulated changes in fair value 31 Dec.	7	6
Carrying amount 31 Dec.	78	81

Construction and repair obligations regarding investment property amounted to EUR 5 million in 2009, as against none in the previous financial year. The fair value of investment property holdings excludes the portion of debt.

NOTE 21. INVESTMENT ASSETS

EUR million	31 Dec. 2009	31 Dec. 2008
Available-for-sale financial assets		
Notes and bonds	4,225	68
Shares and participations	87	87
Total	4,312	155
Financial assets held to maturity		
Notes and bonds	1,086	1,103
Total	1,086	1,103
Investment property		
Land and water areas	0	0
Buildings	17	26
Total	18	27
Total investment assets	**5,415**	**1,285**

Investment property does not include real property received as collateral in 2009 and 2008.

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

	Available-for-sale notes and bonds			Available-for-sale shares and participations			
EUR million	At fair value	At amortised cost	Total	At fair value	At cost	Total *	Held-to-maturity investments
Quoted							
From public sector entities	3,799		3,799				
From others	400		400	14		14	1,086
Other							
From others	27		27	15	57	72	
Total	**4,225**		**4,225**	**30**	**57**	**86**	**1,086**
Impairment losses for the financial year				-9		-9	

Available-for-sale financial assets did not include subordinated publicly-quoted notes and bonds from others or subordinated notes and bonds other than publicly quoted from others Investments in private equity funds, worth EUR 15 million (15), were measured at fair value. Non-quoted equities measured at cost within the portfolio amounted to EUR 57 million (59), of which non-consolidated shares of subsidiaries and associates came to EUR one million (3). It was not possible to determine reliably a fair value for investments measured at cost. Held-to-maturity investments included EUR 1,044 million (1,047) in notes and bonds eligible for central bank refinancing and EUR 42 million (56) in other publicly-quoted notes and bonds.

Available-for-sale financial assets and held-to-maturity investments on 31 Dec. 2008

EUR million	Available-for-sale notes and bonds At fair value	At amortised cost	Total	Available-for-sale shares and participations At fair value	At cost	Total *	Held-to-maturity investments
Quoted							
From others	56		56	13		13	1,091
Other							
From others	12		12	15	59	74	12
Total	**68**		**68**	**28**	**59**	**87**	**1,103**
Impairment losses for the financial year				-4		-4	

Changes in investment property	**2009**	**2008**
Acquisition cost 1 Jan.	25	26
Increase	0	2
Decrease	-3	-2
Acquisition cost 31 Dec.	22	25
Accumulated changes in fair value 1 Jan.	1	-2
Changes in fair value during financial year	-5	3
Accumulated changes in fair value 31 Dec.	-4	1
Carrying amount 31 Dec.	18	27

The increase in investment property includes EUR 0 million (1) in capitalised costs recognised after the acquisition. The fair value of investment property holdings excludes the portion of debt.

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

NOTE 22. RECLASSIFIED NOTES AND BONDS

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

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

EUR million, 31 Dec 2008	Carrying amount	Fair value	Effective interest rate	Impairments arising from credit risk
Loans and other receivables	3,177	3,032	5.4	9
Investments held to maturity	946	864	4.5	
Available-for-sale financial assets	55	55	5.1	
Total	**4,177**	**3,951**		**9**

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

	Q1–4/2009		Q1–4/2008	
EUR million	**Income statement**	**Fair value reserve**	**Income statement**	**Fair value reserve**
Banking	9		-21	-8
Non-life Insurance		27		-24
Group Functions	80	42	-162	-15
Total	**90**	**69**	**-183**	**-47**

Interest accrued on reclassified notes and bonds in January–December totalled EUR 113 million. Interest accrued from 1 July, the reclassification date, until 31 December 2008 totalled EUR 101 million. The price difference between the nominal value and acquisition value recognised in the income statement totalled EUR 28 million (17). Impairments recognised on bonds and notes totalled EUR 41 million (9). The Group used derivatives to hedge against interest rate risks, applying hedge accounting from 1 October 2008. Negative mark-to-market valuations recognised on hedging derivative contracts amounted to EUR 6.6 million.

NOTE 23. INVESTMENT IN ASSOCIATES

EUR million	**31 Dec. 2009**	**31 Dec. 2008**
Investment 1 Jan.	2	2
Dissolved associated companies	0	
Share of profit for the financial year	0	0
Investment 31 Dec.	2	2

NOTE 24. INTANGIBLE ASSETS

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

Other intangible assets include computer software to the carrying amount of EUR 40 million (43) and EUR 24 million (22) in computer software under development.

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

Changes in intangible assets, EUR million	Goodwill	Brands	Customer relationships related to insurance contracts and policy acquisition costs	Other intangible assets	Total
Acquisition cost 1 Jan. 2008	504	179	301	128	1,112
Increases	16			23	39
Decreases	-3			-27	-30
Acquisition cost 1 Dec. 2008	516	179	301	125	1,122
Acc. amortisation and impairments 1 Jan. 2008			-51	-62	-113
Amortisation during the financial year			-24	-20	-44
Impairments for the financial year		-3			-3
Decreases				25	25
Acc. amortisation and impairments 31 Dec. 2008			-75	-57	-132
Carrying amount 31 Dec. 2008	516	176	226	68	987

Other intangible assets include computer software to the carrying amount of EUR 43 million and EUR 22 million in computer software under development.

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

Intangible assets with indefinite economic lives, EUR million	31 Dec. 2009	31 Dec. 2008
Goodwill	516	516
Brands	173	176
Total	**690**	**693**

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

	31 Dec. 2009		31 Dec. 2008	
Other most significant intangible assets	Carrying amount, EUR million	Remaining amortisation period	Carrying amount, EUR million	Remaining amortisation period
Customer relationships	203	7–10 yrs	226	7–10 yrs
Software	40	2–5 yrs	43	2–5 yrs
Software under development	24		22	

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

Goodwill impairment test

Goodwill, EUR million	2009	2008
Non-life Insurance	407	407
Pohjola Asset Management Ltd	97	97
Leasing and Factoring Services	13	13
Total	516	516

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

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

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

The forecasts used in cash flow statements are based on strategy figures for 2010–12, confirmed by Pohjola in September 2009, and post-strategy-period expectations derived from them regarding business developments. Growth in cash flows for post-forecast periods ranges between 2 and 7%.

The discount rate used in the calculations was the market-based equity cost, which is in line with the applied value determination methods (i.e. through cash flows, only the value of equity belonging to investors was determined and the value was discounted by using the return requirement rate on shareholders' equity). The discount rate used in the calculations before tax (i.e. IFRS WACC) varied from 10.5 to 12.4%. In 2008, it varied from 10.5 to 11.6%. Pohjola increased the discount rate for Non-life Insurance by 0.5 percentage points to correspond to the discount rate based on market information. For other business lines, the discount rate based on market information was still lower than in the PPA procedure and the discount rate used in previous financial years.

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

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

The discount rate, combined ratio and investment return (%) were used as key parameters in Non-life Insurance's sensitivity analysis – the same as in the previous year. The results of the sensitivity analysis were better than the year before across the board. A 5.5-percentage point increase in the discount rate, a 4.0-percentage point increase in the combined ratio and a 1.4-percentage point decrease in investment return compared with forecasts throughout the testing period, with one tested parameter changing and other parameters remaining unchanged, would entail an impairment risk. In 2008, the results were as follows: a 4.3-percentage point increase in the discount rate, a 2.8-percentage point increase in the combined ratio and a 0.9-percentage point decrease in investment return compared with forecasts throughout the testing period, would have entailed an impairment risk.

The discount rate, growth rate (%) of assets under management and growth rate (%) of expenses were used as key parameters in Asset Management's sensitivity analysis. The results of the sensitivity analysis were better than the year before across the board. A 22-percentage point increase in the discount rate, an 18-percentage point decrease in assets under management and 9.5-percentage point growth in expenses compared with forecasts throughout the testing period, with other parameters remaining unchanged, would entail an impairment risk. In 2008, the results were as follows: an 18-percentage point increase in the discount rate, a 12-percentage point decrease in assets under management and 8.0-percentage point growth in expenses compared with forecasts throughout the testing period would have entailed an impairment risk.

The discount rate, growth rate (%) of the loan portfolio and a change in return margin as a percentage were used as key parameters in Leasing and Factoring Service's sensitivity analysis. The results of the sensitivity analysis were better than the year before. A 5.6-percentage point increase in the discount rate, a 3.5-percentage point decrease in the loan portfolio and a 3.0-percentage point decrease in return margin compared with forecasts throughout the testing period, with other parameters remaining unchanged, would entail an impairment risk. In 2008, the results were as follows: a 3.7-percentage point increase in the discount rate, a 1.6-percentage point decrease in the loan portfolio and a 1.9-percentage point decrease in return margins compared with forecasts throughout the testing period would have entailed an impairment risk.

Impairment testing of brands

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

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

For the Seesam brand, Pohjola shortened the testing period of seven years applied earlier in such a way that all brands are subject to a testing period of five years under IAS 36. The forecasts used in cash flow statements are based on strategy figures for 2010–12 updated for Non-life Insurance and post-strategy-period expectations derived from them regarding the business line's future developments. A 2% rate rate of expected inflation was used as growth in cash flows for post-forecast periods.

As a result of testing brands for any impairment, an impairment charge of EUR 3 million was recognised in 2009, as in 2008, related to the Seesam brand included in Non-life Insurance.

Impairment testing of other essential intangible assets
Pohjola Group's customer relationships and a major part of computer software were acquired as part of the acquisition of Pohjola Group plc's business operations. Intangible assets originating from customer relationships and computer software are charged to expenses using straight-line amortisation over their estimated economic lives. No indications of the need for their impairment recognition have been discovered.

NOTE 25. PROPERTY, PLANT AND EQUIPMENT

EUR million	31 Dec. 2009	31 Dec. 2008
Property in own use		
Land and water areas	3	3
Buildings	18	18
Total	22	22
Machinery and equipment	4	5
Other tangible assets	3	6
Leased-out assets	89	95
Total property, plant and equipment	**117**	**127**
of which construction in progress	0	0

Changes in property, plant and equipment (PPE), EUR million	Property in own use	Machinery and equipment	Other tangible assets	Leased-out assets	Total PPE
Acquisition cost 1 Jan. 2009	25	58	7	121	211
Increases	1	1	0	36	38
Decreases	0	-4	0	-28	-33
Transfers between items	0	0	-4	0	-3
Acquisition cost 31 Dec. 2009	26	55	3	129	213
Accumulated depreciation and impairments 1 Jan. 2009	-4	-53	-1	-27	-84
Depreciation during the financial year	-1	-1		-23	-26
Impairments for the financial year				0	0
Reversals of impairments for the financial year	0				0
Decreases		3	1	10	14
Accumulated depreciation and impairments 31 Dec. 2009	-5	-51	0	-40	-96
Carrying amount 31 Dec. 2009	22	4	3	89	117

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

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

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

Changes in property, plant and equipment (PPE), EUR million	**Property in own use**	**Machinery and equipment**	**Other tangible assets**	**Leased-out assets**	**Total PPE**
Acquisition cost 31 Dec. 2008	20	77	6	81	184
Increases	5	2	1	59	68
Decreases	-1	-22	0	-19	-41
Transfers between items	0		0		0
Acquisition cost 31 Dec. 2008	25	58	7	121	211
Accumulated depreciation and impairments 1 Jan. 2008	-3	-66	-1	-18	-87
Depreciation during the financial year	-1	-2	0	-19	-22
Reversals of impairments for the financial year	0				0
Decreases	0	15	0	10	25
Accumulated depreciation and impairments 31 Dec. 2008	-4	-53	-1	-27	-84
Carrying amount 31 Dec. 2008	22	5	6	95	127

NOTE 26. OTHER ASSETS

EUR million	**31 Dec. 2009**	**31 Dec. 2008**
Payment transfer receivables	1	5
Pension assets	42	38
Accrued income and prepaid expenses		
Interest	502	716
Other accrued income and prepaid expenses	17	13
Other	506	509
Total	**1,068**	**1,281**

The item Other includes eg EUR 41 million (13) in accounts receivable from securities EUR 348 million (411) in foreign CSA collateral receivables.

Defined benefit pension plans

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

Balance sheet values of defined benefit pension plans, EUR million	**31 Dec. 2009**	**31 Dec. 2008**
Fair value of assets	127	107
Present value of funded obligations (–)	-119	-97
Present value of unfunded obligations	-5	-4
Unrecognised actuarial gains (-) and losses (+)	29	20
Net receivable (+) / liability (–) on the balance sheet	32	27

Assets and liabilities recognised on the balance sheet		
Assets	42	38
Liabilities	10	10
Net assets	**32**	**27**

Plan assets include		
Pohjola Bank plc shares	4	3
Securities issued by companies included in OP-Pohjola Group	5	10
Other receivables from companies included in OP-Pohjola Group		2
Property used by OP Bank Group Central Cooperative Consolidated	1	1
Total	10	16

Defined benefit pension costs on the income statement		
Current service cost	3	3
Interest cost	6	6
Expected return on plan assets	-9	-8
Actuarial gains and losses	0	0
Effect of curtailment of plans or settlements	0	
Total income (–)/expenses (+) included in personnel costs	**1**	**1**
Actual return on plan assets	**15**	**-20**

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

Changes in present value of obligation, EUR million	**31 Dec. 2009**	**31 Dec. 2008**
Present value of obligation 1 Jan.	101	114
Current service cost	3	3
Interest cost	6	6
Actuarial gains and losses	14	-17
Benefits paid	-4	-4
Settlement of obligation	-1	
Change in division ratio	6	-2
Return on TyEL interest rate difference and growth in old-age pension liabilities (net)	0	0
Present value of obligation 31 Dec.	**124**	**101**

Changes in fair value of assets, EUR million	**31 Dec. 2009**	**31 Dec. 2008**
Fair value of assets 1 Jan.	107	129
Expected return on plan assets	9	8
Actuarial gains and losses	7	-28
Employer contributions	3	4
Benefits paid	-4	-4
Settlement of obligation	-1	
Change in division ratio	6	-2
Return on TyEL interest rate difference and growth in old-age pension liabilities (net)	0	0
Fair value of assets 31 Dec.	**127**	**107**

Contributions payable to the defined benefit plan in 2010 are estimated at EUR 3 million.

Proportion of most important asset groups of total fair value of plan assets, %	31 Dec. 2009	31 Dec. 2008
Shares and participations	21	19
Notes and bonds	36	41
Property	21	26
Other assets	22	14

Principal actuarial assumptions used	2009	2008
Discount rate, %	5.00	5.70
Expected long-term return on plan assets, %	6.00−6.60	6.00−7.90
Assumed future salary increases, %	3.50	3.50
Future pension increases, %	2.00−2.40	2.00−2.40
Turnover rate, %	0.50−3.00	0.50−3.00
Inflation, %	2.00	2.00
Average remaining service time in years	1−16	1−16

Surplus of defined benefit pension plans and experience adjustments, EUR million	31 Dec. 2009	31 Dec. 2008	31 Dec. 2007	31 Dec. 2006	31 Dec. 2005
Present value of obligation	124	101	114	104	92
Fair value of assets	-127	-106	-129	-130	-119
Surplus or deficit	**-3**	**-6**	**-15**	**-26**	**-27**
Experience adjustments on liabilities	0	-5	3	3	2
Experience adjustments on assets	7	-28	-4	2	5

NOTE 27. TAX ASSETS

EUR million	31 Dec. 2009	31 Dec. 2008
Income tax assets	1	30
Deferred tax assets	14	67
Total tax assets	**15**	**98**

Breakdown of tax assets and liabilities, EUR million	31 Dec. 2009	31 Dec. 2008
Deferred tax assets		
Due to available-for-sale financial assets		8
Due to depreciation and impairment losses on PPE	0	0
Due to provisions and impairment losses on loans	4	2
Due to other IFRS adjustments	2	0
Due to consolidated eliminations	2	2
Due to unused tax credits		46
Due to other items	14	9
Set-off against deferred tax liabilities	-7	
Total	**14**	**67**

Deferred tax assets		
Due to appropriations	153	126
Due to available-for-sale financial assets	2	-50
Due to elimination of equalisation provision	108	93
Due to deferral of pension liability	11	9
Due to fair value measurement of investment	35	78
Due to allocation of sale price of business combinations	100	108
Due to other IFRS adjustments	6	
Due to other items	1	4
Set-off against deferred tax assets	-7	
Total	**408**	**367**

Changes in deferred taxes, EUR million	31 Dec. 2009	31 Dec. 2008
Deferred tax assets/liabilities 1 Jan.	-300	-347
Recognised on the income statement		
Intra-Group capital gains on business combinations	2	3
Effect of losses	-46	46
Provisions and impairments on receivables	1	0
Appropriations	-27	-9
Depreciation/amortisation and impairments	8	8
Elimination of equalisation provision	-14	-9
Fair value changes in and sale of investments	44	-59
Other	1	2
Recognised in statement of comprehensive income		
Available-for-sale financial assets		
Changes in fair value	-48	61
Transfers to the income statement	-15	5
Other		0
Total deferred tax assets/liabilities 31 Dec.	**-394**	**-299**
Income tax assets/liabilities	**1**	**29**
Total tax assets/liabilities	**-393**	**-270**

Tax losses for which a deferred tax asset was not recognised came to EUR 2 million (4) at the end of 2009. The losses will expire before 2019.

A deferred tax liability has not been recognised for the EUR 31 million (22) of undistributed profits of the Baltic subsidiaries, since the assets have been permanently invested in these countries.

NOTE 28. LIABILITIES TO CREDIT INSTITUTIONS

EUR million	31 Dec. 2009	31 Dec. 2008
Liabilities to central banks	500	101
Liabilities to credit institutions		
Repayable on demand		
Deposits	99	60
Other liabilities	700	615
Total	799	674

Other than repayable on demand		
Deposits	3,685	2,868
Other liabilities		0
Total	3,685	2,868
Total liabilities to credit institutions and central banks	**4,984**	**3,643**

NOTE 29. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

EUR million	31 Dec. 2009	31 Dec. 2008
Financial liabilities held for trading		
Repo liabilities		131
Short selling of securities	71	8
Total financial liabilities at fair value through profit or loss	**71**	**138**

NOTE 30. DERIVATIVE CONTRACTS

EUR million	31 Dec. 2009	31 Dec. 2008
Held for trading		
Interest rate derivatives	1,245	1,383
Currency derivatives	4	82
Equity and index derivatives	52	46
Credit derivatives	1	21
Other	3	2
Total	1,306	1,532
Hedging derivative contracts – fair value hedging		
Interest rate derivatives	137	98
Currency derivatives	13	13
Total	150	111
Total derivative contracts	**1,456**	**1,644**

The derivative contracts balance-sheet item includes negative changes in fair value and premiums received.

NOTE 31. LIABILITIES TO CUSTOMERS

EUR million	31 Dec. 2009	31 Dec. 2008
Deposits		
Repayable on demand		
Private	0	2
Companies and public sector entities	1,498	1,184
Total	1,498	1,186
Other		
Private	0	1
Companies and public sector entities	48	311
Total	49	312

Other financial liabilities		
Repayable on demand		
Private	0	0
Total	0	0
Other		
Companies and public sector entities	2,586	2,010
Total	2,586	2,010
Total liabilities to customers	**4,133**	**3,508**

NOTE 32. NON-LIFE INSURANCE LIABILITIES

EUR million	31 Dec. 2009	31 Dec. 2008
Insurance contract liabilities	2,145	2,115
Provision for joint guarantee system	40	39
Direct insurance liabilities	78	74
Reinsurance liabilities	13	9
Derivative contracts	0	
Other	3	
Total Non-life Insurance liabilities	**2,279**	**2,238**

Non-life Insurance contract liabilities and reinsurers' share

	31 Dec. 2009			31 Dec. 2008		
EUR million	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net
Provision for unpaid claims for annuities	1,058	-3	1,054	1,026	-3	1,023
Other provisions by case	144	-44	101	160	-57	103
Special provision for occupational diseases	39		39	37		37
Collective liability (IBNR)	493	-5	487	494	-5	489
Reserved loss adjustment expenses	50		50	53		53
Provision for unearned premiums	361	-25	336	344	-21	323
Provision for unexpired risks	0		0	1		1
Total Non-life Insurance contract liabilities	**2,145**	**-77**	**2,068**	**2,115**	**-87**	**2,028**

Changes in insurance contract liabilities and reinsurance contract receivables

EUR million	2009 Gross	Reinsu- rance	Net	2008 Gross	Reinsu- rance	Net
Provision for unpaid claims						
Provision for unpaid claims 1 Jan.	1,770	-66	1,704	1,699	-39	1,660
Claims paid in financial year	-652	20	-633	-654	14	-640
Change in liability/receivable	623	-6	617	684	-41	643
Current period claims	666	-17	649	707	-50	656
Increase (decrease) from previous financial years	-42	11	-31	-23	9	-13
Unwinding of discount	42		42	41		41
Liabilities related to sold assets				1		1
Foreign exchange gains (losses)	-1	0	-1	-1		-1
Provision for unpaid claims 31 Dec.	1,783	-52	1,731	1,770	-66	1,704
Provision for unearned premiums						
Provision for unearned premiums 1 Jan.	346	-21	324	318	-22	295
Increase	327	-13	313	319	-4	315
Decrease	-312	10	-302	-295	5	-290
Exchange rate gains (losses)	0		0	0		0
Liabilities related to sold assets				2		2
Unwinding of discount	1		1	1		1
Provision for unearned premiums 31 Dec.	362	-25	337	346	-21	324
Total Non-life Insurance contract liabilities	**2,145**	**-77**	**2,068**	**2,115**	**-87**	**2,028**

The provision for unearned premiums represents obligations relating to insurance cover which has not yet expired at the year-end. The provision for unearned premium includes EUR 0.4 million in the provision for unexpired risks whish relate to the so-called Affinity insurance policies, serving as extended warranty for home appliances, which would remain undersized without the provision for unexpired risks.

Determination of Non-life Insurance contract liabilities

a) Methods and assumptions used

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

The provision for unearned premiums has mainly been determined in accordance with the pro rata parte temporis rule. The provision for unearned premiums arising from corporate insurance contracts is calculated for each contract and that arising from private customer insurance contracts using factors derived statistically from the Group's own insurance portfolio and tied to insurance premium revenue.

The provision for unpaid claims for annuities corresponds to the discounted present value of cash flow of compensation for loss of income payable as continuous annuity. The discount rate used is determined taking account of the current interest rate, security required by law and the upper limit of the discount rate set by the authorities. On 31 December 2009, the discount rate used was 3.5% (2008: 3.5%). The mortality model applied is the cohort mortality model which is based on Finnish demographic statistics and which assumes the current trend of an increase in life expectancy to continue.

The provision for unpaid claims includes asbestos liabilities which arise from occupational diseases coverable under statutory workers' compensation insurance. The forecasted cash flow of these claims is based on an analysis which takes account of to what extent asbestos was used annually as raw material in Finland and how the latency periods of different asbestos diseases are distributed. Trends in asbestos-related claims are monitored annually and the outcome has corresponded well to the forecast..

The valuation of collective liability is based on different statistical methods: Bornhuetter-Ferguson, Chain Ladder, Hovinen, PPCI and the average payment method. When applying these methods, other selections must also be made, in addition to the selection of the method, such as deciding on how many occurrence years' statistics the methods will be applied.

Bornhuetter-Ferguson

The Bornhuetter-Ferguson (BF) method is based on the assumption that, in each development year, a certain portion of claims is paid of the measure of exposure of the occurrence year. This measure of exposure can, for instance, be the number of policy years or insurance premium revenue adjusted by the loss ratio assumption. BF reacts slowly to changes in the development triangle of claims. In addition, BF is sensitive to the selection of the measure of exposure.

Chain Ladder

In the Chain Ladder (CL) method, the total claims expenditure for each occurrence year is determined by annual development factors. A development factor describes the relation between the successive development years in the cumulative claims development triangle. CL is sensitive to the observations in the first development years.

Hovinen

In the Hovinen method, the collective liability is based on the weighted average of the evaluations provided by the BF and CL methods. The Hovinen method takes account of how much information has accumulated on the occurrence year to date and, accordingly, weights the estimate obtained on liability between BF and CL.

PPCI

The PPCI (Payments per Claim Incurred) method corresponds to the BF method but the risk measure is the number of claims occurred. Use of the PPCI method requires that the estimates of the number of claims be known by occurrence year.

Average payment

The average payment method (AP) corresponds to the BF method, but the claims paid in the development year are assumed to be comparable with the number of losses detected in the development year concerned. Use of the AP method requires that the numbers of detected claims for previous development years be known. In addition, estimates of future detected claims must be available. The AP method is effective in insurance lines where the cash flows of paid claims have a long maturity, because in such a case it is possible to stabilise the average payment and concentrate on the development of the number of paid claims.

In the valuation of collective liability, the largest risks relate to
- estimating the future rate of inflation (excl. indemnities for loss of income payable on the basis of statutory insurance)
- adjustment of changes due to changed compensation practices and legislation in the development triangle of claims (i.e. whether history provides a correct picture of the future)
- adequacy of historical information over dozens of years.

When evaluating the amount of collective liability, the development triangles of claims have been adjusted for inflation. For historical data, the rate of inflation has been estimated at 3% and, for future medical expenses benefits, at 4%, and elsewhere at 2%. Of the collective liability, only the liability for annuities has been discounted.

For the assessment of collective liability, the Group's non-life insurance portfolio is divided into several categories by risk and eg maturity of the cash flow applying to compensation paid. In each category, collective liability is first calculated using each statistical method stated above, and the method that best suits the category under review is chosen. The selection criteria used includes how well the model would have predicted developments in prior years of occurrence and the sensitivity of the estimate generated by the model with respect to the number of statistical years used. The safety loading of 2−10% is added to the expected value generated by the selected model. On a Group-wide basis, the safety loading accounts for 6.4% of collective liability. The safety loading is determined by the quality of historical data, the estimate's sensitivity to the number of history years and the deviation between estimates generated by various methods.

In the valuation of the collective liability, the Group has taken account of the fact that historical data do not in all circumstances provide any information at all regarding the foreseeable future. In such cases, attempts have been made to estimate safely the behaviour of the distribution of cash flows from paid claims in areas from where there are no observations and which are in a distant future (over 15 years).

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

b) Changes in assumptions

In 2009, the Group did not make any changes in the determination of technical provisions that would have an effect on comparability.

c) Claims development

The claims triangle compares the actual claims incurred with previous estimates. The triangles describing claims development have been drawn up by occurrence year.

With the exception of long-term liabilities, claims development for the gross business is presented over a period of five years. The claims triangle does not monitor the shares of pools and the trends in the rights of recourse related to statutory workers' compensation insurance. The capital value of finalised annuities is treated as if the annuities had been paid equalling the capital amount in connection with confirmation as final. For long-term liabilities, i.e. annuities confirmed as final and asbestos-related claims, information on the adequacy of insurance contract liabilities is provided.

Claims triangles, gross business, EUR million

Occurrence year	2004	2005	2006	2007	2008	2009	Total
Estimated total claims expenditure							
At end of occurrence year	523	540	603	638	707	666	3,676
1 year later	528	540	611	633	693		
2 years later	521	535	591	627			
3 years later	515	529	594				
4 years later	518	532					
5 years later	516						
Current estimate of accumulated claims expenditure	516	532	594	627	693	666	3,628
Accumulated claims paid	-477	-489	-517	-526	-519	-338	-2,867
Provision for unpaid claims for 2004−2009	39	43	76	101	174	328	761
Provision for unpaid claims for previous years							234

Development of claims due to latent occupational diseases, EUR million

Financial year	Collective liability	Known liabilities for annuities	Claims paid	Claims incurred	Changes in reserving basis*	Adequacy
2005	45	39	4	2	1	-1
2006	43	40	4	3		-3
2007	41	40	4	2	-1	-2
2008	40	41	4	4	3	-2
2009	42	43	4	8	4	-4

Development of annuities confirmed as final, EUR million

Financial year	Year-start	Year-end	New annuity capital	Annuities paid	Changes in reserving bases*	Adequacy
2006	681	731	77	26		1
2007	731	745	60	28	-15	3
2008	745	766	55	30		4
2009	763**	771	42	32		2

* Effect of changes in the discount rate on final annuity capital.

** A small amount of healthcare and senior housing provisions was eliminated from 2009 figures.

Claims triangles, net business, EUR million

Occurrence year	2004	2005	2006	2007	2008	2009	Total
Estimated total claims expenditure							
At end of occurrence year	504	511	580	621	656	649	3,522
1 year later	510	519	593	623	656		
2 years later	503	509	575	619			
3 years later	500	509	577				
4 years later	499	513					
5 years later	499						
Current estimate of accumulated claims expenditure	499	513	577	619	656	649	3,511
Accumulated claims paid	-460	-475	-501	-520	-507	-336	-2,798
Provision for unpaid claims for 2004−2009	39	38	75	99	149	313	714
Provision for unpaid claims for previous years							229

Provision for joint guarantee system

Special legislation regarding statutory lines of insurance includes provisions on joint liability on the basis of which insurance companies engaged in the business of these lines of insurance assume joint liability should one of them fail to pay claims in the event of liquidation or bankruptcy. The uncovered part is financed by collecting annually a contribution to the guarantee scheme from insurance companies which grant policies in these lines of insurance, in proportion to premiums written in said lines of insurance. The companies may, for their part, collect the incremental expenses due to this contribution when charging premiums from their customers, in the manner prescribed by the authorities, but not in excess of 2% of annual premiums written.

When the joint guarantee system was adopted in the past, companies collected the joint guarantee provision in the form of insurance premiums in their balance sheets, in accordance with the legislation and official regulations governing joint guarantee. This provision corresponds to the contribution for the guarantee scheme collected in advance and meant to remove the company's liquidity risk in a case where claims uncovered by another company in liquidation or bankruptcy fall due faster than it would be possible to collect the contribution for the claims in the form of premiums.

The amount of the joint guarantee provision is increased annually by using a 3.5% interest rate, but in such a way that the amount does not, because of the interest, account for more than 3% of the gross insurance liabilities of the line concerned. The joint guarantee provision cannot be decreased or abolished for a reason other than financing the joint guarantee contribution. For the joint guarantee system, a joint guarantee amount is included in the provisions but no other provision, because there are no signs of a situation in which the company covered by the joint guarantee system is about to go into liquidation or bankruptcy, or have been placed into liquidation or declared bankrupt.

Claims administration contracts

On 31 December 2009, liabilities related to claims administration contracts totalled EUR 43 million (47).

Claims administration contracts are contracts which are not insurance contracts, but on the basis of which claims are paid on behalf of another party. Among these contracts, the most important are captive arrangements in which the insured risk is reinsured with a captive company belonging to the same Group of companies with the customer; index increases in annuities of statutory workers' compensation, motor liability and patient insurance policies; certain other increases in benefits; and medical treatment indemnities payable over ten years after the occurrence of the accident; as well as public sector patient insurance.

NOTE 33. DEBT SECURITIES ISSUED TO THE PUBLIC

EUR million	Average interest rate, %	31 Dec. 2009	Average interest rate, %	31 Dec. 2008
Bonds	1.6	6,742	3.6	6,432
Other				
Certificates of deposit	0.8	2,279	4.6	5,349
Commercial paper holdings	0.6	8,241	3.3	4,684
Other	0.7	227	0.8	208
Included in own portfolio in trading (–)		-193		-247
Total debt securities issued to the public		**17,295**		**16,425**

Long-term loans and interest rate linkages	Nominal amount	Interest rate	Maturity
OKO Bank plc ("OKO Bank" or The "Issuer") Issue of EUR 50,000,000 Floating Rate Instruments Due February 2010	50.0	EUB6M +0.016	18 Feb. 2010
OKO Osuuspankkien Keskuspankki Oyj ("OKO Bank") Issue of EUR 1,000,000,000 Floating Rate Instruments Due March 2010	1,000.0	EUB3M +0.05	8 March 2010
Pohjola Bank plc ("Pohjola Bank" or the "Issuer" Issue of EUR 50,000,000 Fixed Rate Instruments due 14 July 2010 (the "Instruments")	50.0	Fixed 5.58%	14 July 2010

Pohjola Bank plc ("OKO Bank") Issue of EUR 1,000,000,000 Floating Rate Instruments August 2010	1,000.0	EUB3M +0.045	27 Aug. 2010
OKO Osuuspankkien Keskuspankki Oyj ("OKO Bank") Issue of EUR 500,000,000 Floating Rate Instruments Due December 2010	500.0	3 mth Euribor +0.075%	2 Dec. 2010
OKO Bank plc ("OKO Bank") Issue of EUR 120,000,000 Floating Rate Notes Due March 2011	120.0	EUB6M +0.025	3 March 2011
OKO Osuuspankkien Keskuspankki Oyj ("OKO Bank") Issue of EUR 50,000,000 5 Year Floating Rate Instruments Due March 2011	50.0	EUB3M +0.07	8 March 2011
Pohjola Bank plc ("Pohjola Bank" or the "Issuer" Issue of EUR 50,000,000 Floating Rate Notes due 10 March 2011 (The "Notes")	50.0	3 mth Euribor +30 bp	10 March 2011
OKO Bank plc ("OKO Bank") Issue of EUR 750,000,000 Floating Rate Instruments Due June 2011	750.0	EUB3M +0.08	21 June 2011
Pohjola Bank plc ("Pohjola Bank" or the "Issuer") Issue of HKD 80,000,000 Fixed Rate Notes due 15 September 2011 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments	7.2	Fixed 1.1%	15 Sept. 2011
Pohjola Bank Plc ("Pohjola Bank" or the "Issuer") Issue of HKD 200,000,000 Fixed Rate Notes due 22 September 2011 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments	17.9	Fixed 1.6%	22 Sept. 2011
OKO Bank plc ("OKO Bank" or The "Issuer") Issue of GBP 350,000,000 Floating Rate Notes Due 21 November 2011	394.1	3 mth GBP libor +0.05	21 Nov. 2011
Pohjola Bank plc ("Pohjola Bank" or the "Issuer") Issue of JPY 7,120,000,000 Floating Rate Note due 8 December 2011 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments	53.5	3-mth JPY-Libor-BBA +0.25%	8 Dec. 2011
Pohjola Bank plc ("Pohjola Bank" or the "Issuer") Issue of EUR 100,000,000 Floating Rate Instruments due December 2011 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments	100.0	3-mth Euribor +0.31%	15 Dec. 2011
JPY 8,000,000,000 Term Loan Facility	60.1	Fixed 0.85%	9 July 2012
Pohjola Bank plc ("Pohjola Bank" or the "Issuer") Issue of Eur 750,000,000 Floating Rate Instruments due 17 August 2012 (the "instruments") under the Eur 15,000,000,000 Programme for the Issuance of Debt Instruments	750.0	3-mth Euribor +0.75%	17 Aug. 2012
JPY 5,000,000,000 Term Loan Facility	37.5	Fixed 1.41%	7 Sept. 2012
Pohjola Bank plc ("Pohjola Bank" or the "Issuer") Issue of SEK 350,000,000 Floating Rate Notes due October 2012 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments	34.1	3-mth STIBOR +0.70%	1 Oct. 2012
Pohjola Bank plc ("Pohjola Bank" or the "Issuer") Issue of EUR 750,000,000 4.50 per cent. Instruments due 2014 under the EUR 15,000,000,000 Programme for the Issuance of Debt Intruments	750.0	Fixed 4.5%	22 May 2014
OKO Osuuspankkien Keskuspankki Oyj ("OKO Bank") Issue of NOK 400,000,000 5.2 % Fixed Rate Notes Due June 2014	48.2	Fixed 5.2%	16 June 2014
Pohjola Bank plc ("Pohjola Bank" or the "Issuer") Issue of NOK 500,000,000 5.40 per cent. Fixed rate Notes due June 2014 under the EUR 15,000,000,000 Programme for the Issuance of Debt Intruments	60.2	Fixed 5.4%	18 June 2014
JPY 3,000,000,000 Term Loan Facility	22.5	Fixed 1.645%	17 Nov. 2014
JPY 2,000,000,000 Term Loan Facility	15.0	Fixed 1.706%	30 Nov. 2015
OKO Osuuspankkien Keskuspankki Oyj ("OKO BANK") Issue of NOK 1,000,000,000 Fixed Rate Notes Due 15 February 2016	120.5	Fixed 4.185%	15 Feb. 2016

The interest rate is the rate according to the issue currency. The euro equivalents are calculated using the average rate of the European Central Bank on the balance sheet date The nominal amount of structured bonds issued by Pohjola was EUR 961 million (520). The bonds' interest rate is determined on the basis of interest, equity, equity index or similar underlying instruments. Any possible additional return on the bonds to the investor is hedged using a corresponding derivative structure.

NOTE 34. PROVISIONS AND OTHER LIABILITIES

EUR million	31 Dec. 2009	31 Dec. 2008
Provisions	0	0
Other liabilities		
Payment transfer liabilities	335	360
Accrued expenses		
Interest payable	465	638
Other accrued expenses	82	69
Other	409	454
Total provisions and other liabilities	**1,291**	**1,522**

The item Other under Other liabilities consists eg of EUR 40 million (22) in accounts payable on securities, EUR 219 million (263) in liabilities for equities and derivative contracts and EUR 10 million (10) in pension liabilities.

Changes in provisions

EUR million	Onerous contracts	Total
1 Jan. 2009	0	0
Provisions used	0	0
31 Dec. 2009	0	0

Changes in provisions

EUR million	Onerous contracts	Total
1 Jan. 2008	0	0
Increase in provisions	0	0
Provisions used	-1	-1
31 Dec. 2008	0	0

Onerous contracts

The Group has non-cancellable lease contracts on facilities which the Group can no longer utilise in its operations. The provision for onerous contracts fully covers the net loss from these contracts and the rental liability of other contracts.

NOTE 35. TAX LIABILITIES

EUR million	31 Dec. 2009	31 Dec. 2008
Income tax liabilities	27	1
Deferred tax liabilities	408	367
Total tax liabilities	**434**	**368**

A specification of deferred tax liabilities can be found in Note 27.

NOTE 36. SUBORDINATED LIABILITIES

	Average interest rate, %	31 Dec. 2009, EUR million	Average interest rate, %	31 Dec. 2008, EUR million
Subordinated loans	3.2	308	5.1	310
Other				
Perpetual loans	5.0	262	5.0	255
Debentures	2.6	730	3.8	757
Total subordinated liabilities		**1,300**		**1,322**

Subordinated loans

Subordinated loans included in Tier 1

1) Subordinated loan of 10 billion Japanese yen (equivalent of EUR 75 million)
This is a perpetual loan (a loan without a due date) carrying a fixed interest rate of 4.23% until 18 June 2034 and subsequently a variable 6-month Yen Libor + 1.58%. Interest will be annually payable on 18 June and 18 December. If interest cannot be paid for a given interest period, the obligation to pay interest for the period in question will lapse. The loan can be called in at the earliest in 2014 and can be annually repaid after 2014 on the interest due date on 18 June or 18 December. The loan's entire principal must be repaid in one instalment.

2) Subordinated loan of EUR 50 million
This is a perpetual loan without interest-rate step-ups but with an 8% interest-rate cap. The loan was issued on 31 March 2005 and its interest was 6.5% in the first year and thereafter CMS ten years + 0.1%. Interest payments are made annually on 11 April. If interest cannot be paid for a given interest period, the obligation to pay interest for the period in question will lapse. The loan can be called in at the earliest in 2010, subject to authorisation by the Financial Supervision Authority. The loan's entire principal must be repaid in one instalment.

3) Subordinated loan of EUR 60 million
This perpetual loan carries a variable interest rate based on 3-month Euribor + 0.65% payable quarterly on 28 February, 30 May, 30 August and 30 November. If interest cannot be paid for a given interest period, the obligation to pay interest for the period in question will lapse. It is possible to call in the loan at the earliest on 30 November 2015, subject to authorisation by the Financial Supervision Authority, and thereafter on the interest due dates. After 2015, the loan carries a variable interest rate based on 3-month Euribor +1.65% (step up). The entire loan principal must be repaid in one instalment.

4) Subordinated loan of EUR 40 million
This perpetual loan carries a variable interest rate based on 3-month Euribor + 1.25% payable quarterly on 28 February, 30 May, 30 August and 30 November. If interest cannot be paid for a given interest period, the obligation to pay interest for the period in question will lapse. The loan can be called in at the earliest on 30 October 2010, subject to authorisation by the Financial Supervision Authority, and thereafter on the interest due dates. The entire loan principal must be repaid in one instalment.

5) Subordinated loan of EUR 50 million
The bond of EUR 50 million, Issued on 17 June 2008, carries a variable interest rate based on 3-month Euribor + 3.05%, payable on a quarterly basis. If interest cannot be paid for a given interest period, the obligation to pay interest will lapse. Subject to authorisation by the Financial Supervision Authority, the bond may be called in at the earliest in 2013.

6) Pohjola Insurance Ltd's capital bond
Pohjola Insurance Ltd's perpetual capital bond of EUR 50 million. Issued on 17 June 2008, the bond carries a variable interest rate based on 3-month Euribor + 3.20%, payable on a quarterly basis. Interest which cannot be paid on the interest payment date and interest which Pohjola Insurance Ltd could not have paid for previous interest payment dates constitute 'Unpaid interest'. Interest will accrue on unpaid interest in accordance with the interest rate applicable to the bonds and this additional interest accrued until each interest payment date will be added to unpaid interest on the interest payment date in question. The issuer agrees not to distribute dividends or other profit or to buy back own shares until unpaid interest has been paid in its entirety. The bond may be called in at the earliest in 2013 and its principal can be paid back only if the statutory terms and conditions are fulfilled. The bond will not be taken into account in the capital adequacy measurement under the Act on Credit Institutions but can be fully utilised in the capital adequacy measurement of the insurance company.

Loans 1 and 3 are included in hybrid instruments.

The Group has used derivatives to hedge against interest-rate and exchange-rate risks, and the financial statements include EUR 2.4 million in change in fair value recognised for hedging (–1.6).

Perpetual loans and debentures

1. A perpetual loan of GBP 100 million which can be called in at the earliest on 28 December 2012, subject to authorisation by the Financial Supervisory Authority. A fixed 6.5% interest is paid on the loan semi-annually.
2. A perpetual loan of EUR150 million which can be called in at the earliest on 30 November 2012, subject to authorisation by the Financial Supervisory Authority. A fixed 3.875% interest is paid on the loan annually.
3. A debenture loan of EUR 70 million which can be called in at the earliest on 30 November 2010, subject to authorisation by the Financial Supervisory Authority. A fixed 3.5% interest is paid on the loan annually.
4. A debenture loan of EUR 150 million which can be called in at the earliest on 21 March 2011, subject to authorisation by the Financial Supervisory Authority. The loan carries an interest based on 3-month Euribor + 17.5 bps.
5. A debenture loan of USD 325 million which can be called in at the earliest on13 September 2011, subject to authorisation by the Financial Supervisory Authority. The loan carries an interest based on 3-month USD Libor + 20 bps. With the Financial Supervisory Authority's permission, the amount amortised by Pohjola in December 2009 came to EUR 10 million and the remainder is USD 315 million.
6. A debenture loan of EUR 170 million which can be called in at the earliest in 2013, subject to authorisation by the Financial Supervisory Authority. The loan carries a fixed interest of 5.75%.
7. A debenture loan of EUR 100 million which can be called in at the earliest in 2013, subject to authorisation by the Financial Supervisory Authority. The loan carries a variable interest based on 12-month Euribor + 2.25 % until 2013.

Loans 1–7 were issued in international capital markets.

Fixed-rate debentures issued in Finland totalled EUR 161.7 million (34.1) on 31 December 2009.

Issue date	Carrying amount, EUR million	Interest rate, %	Due date
10 March 2004	5.3	3.5 %	10 March 2010
15 September 2004	6.1	3.5 %	15 September 2010
16 March 2005	5.2	3.3 %	16 March 2011
11 May 2009	19.9	2.3 %	11 May 2011
30 November 2005	1.4	3.2 %	30 November 2011
19 January 2009	11.8	3.0 %	19 January 2012
23 February 2009	34.4	3.0 %	23 February 2012
8 March 2006	0.3	3.25 %	8 March 2012
23 March 2009	27.0	3.0 %	23 March 2012
22 June 2009	26.2	3.0 %	22 June 2012
24 August 2009	14.3	2.5 %	24 August 2012
20 September 2006	0.2	3.85 %	20 September 2012
5 October 2009	7.0	2.3 %	5 October 2012
3 March 2008	2.8	4.1 %	3 March 2013

Pohjola Bank plc has no violations of the terms and conditions of the loan contracts with respect to principal, interest and other conditions. The financial statements include EUR 0.1 million recognised for the price difference of the loans (0.1).

NOTE 37. SHAREHOLDERS' EQUITY

EUR million	31 Dec. 2009	31 Dec. 2008
Capital and reserves attributable to owners of the Parent		
Share capital	**428**	**428**
Reserves		
Restricted reserves		
Share premium account	519	519
Reserve fund	204	204
Fair value reserve*		
From measurement at fair value		
Loans and other receivables		
Reclassified notes and bonds	-17	-25
Available-for-sale financial assets		
Notes and bonds	53	-9
Equities and mutual funds with equity risk	-35	-92
Other funds	0	-54
Other restricted reserves	1	1
Non-restricted reserves		
Reserve for Invested non-restricted equity	298	
Other non-restricted reserves	72	72
Retained earnings		
Profit (loss) for previous periods	552	508
Profit (loss) for the period	194	88
Capital and reserves attributable to owners of the Parent	**2,267**	**1,640**
Minority interest		**0**
Total shareholders' equity	**2,267**	**1,640**

* The fair value reserve before tax totalled EUR -0 million (-243) and the related deferred tax asset amounted to EUR 0 million (63). On 31 December 2009, positive mark-to-market valuations of equity instruments before tax in the fair value reserve totalled EUR 58 million and negative mark-to-market valuations EUR 103 million. In 2009, impairments recognised from the fair value reserve in the income statement totalled EUR 45 million.

	Number of shares			
	Series A	**Series K**	**Reserve for invested non-restricted equity , EUR million**	**Total, EUR million**
1 Jan. 2008	159,564,128	43,981,352		
31 Dec. 2008	159,564,128	43,786,772		
Share issue	91,179,502	25,021,013	298	298
Conversion of shares	401,060	-401,060		
31 Dec. 2009	251,144,690	68,406,725	298	298

Share capital and shares

Shares are divided into Series A and Series K shares. The shares have no nominal value. The stated value of each share is EUR 1.34 (not an exact figure). All issued shares have been paid up.

Intended for subscription by the general public, Series A shares are quoted on the NASDAQ OMX Helsinki and are not subject to any purchase restrictions. Holding of Series K shares is restricted to Finnish cooperative banks, cooperative bank companies and the central entity of the amalgamation of cooperative banks, OP-Pohjola Group Central Cooperative. Series K shares may be converted into Series A shares at the written request of the shareholder or, in case of nominee-registered shares, at the written request of the asset manager registered with the book-entry register, within the limits of the minimum and maximum numbers of the share types provided for in the Articles of Association.

If a dividend is paid, Series A shares entitle their holders to an annual dividend which is at least three (3) cents higher than the dividend declared on Series K shares.

Treasury shares

At year-end, Pohjola Bank plc or its subsidiaries or associates did not hold Pohjola Bank treasury shares. The General Meeting has not authorised Pohjola to purchase treasury shares.

Proposed distribution of dividend

The Board of Directors will propose to the Annual General Meeting that a dividend of EUR 0.34 (0.23) be distributed on each Series A share and EUR 0.31 (0.20) on each Series K share, totalling EUR 107 million (45). Due to Pohjola Bank plc's rights issue and new shares entered in the Trade Register on 4 May 2009, the number of shares has been adjusted in such a way that the adjusted dividend per share is EUR 0.19 on each Series A share and EUR 0.16 on each Series K share.

Share premium account

The share premium account was formed during the validity of regulations in force before 1 September 2006. Items entered in the share premium account include amounts exceeding the stated value paid for shares in a rights issue and amounts exceeding the stated value of a share and paid for share subscription based on stock options.

The share premium account may be lowered in compliance with the regulations governing the reduction of share capital and may be used to increase the share capital. The amount of the subscription price exceeding the stated value of shares subscribed in September and November, based on stock options, was entered in the share premium account, because the General Meeting had made the decision on issuing stock options before the entry into force of the new Companies Act. Otherwise, it has no longer been possible to increase the share premium account since 1 September 2006.

Reserve fund

The reserve fund consists of profits transferred to it during previous periods and the loan loss provisions transferred to it in 1990. The reserve fund may be used to cover losses for which the non-restricted equity is not sufficient. The reserve fund may also be used to increase the share capital and it may be reduced in the same way as the share capital. Since 1 September 2006, it has no longer been possible to increase the reserve fund.

Fair value reserve

The fair value reserve includes the change in the fair value of available-for-sale financial assets. Items included in this reserve will derecognised and recorded in the income statement when an available-for-sale financial asset is disposed of or is subject to impairment.

Other restricted reserves

These reserves consist of retained earnings based on the Articles of Association or rules which describe their purpose.

Reserve for Invested non-restricted equity

Capital raised through the rights offering in 2009 was entered in the reserve for invested non-restricted equity.

Other non-restricted reserves

These reserves consist of retained earnings based on decisions by the General Meeting.

Retained earnings

Retained earnings also contain untaxed reserves (voluntary provisions and accelerated depreciation) included in the separate financial statements of Group companies, and the equalisation provision of insurance companies, which have been recognised in retained earnings less deferred tax in the IFRS financial statements.

NOTES TO RISK MANAGEMENT

Note 2 covers risk management and capital adequacy management principles. Information on risk exposure by Banking and the Group Functions can be found in Notes 38–56, capital adequacy disclosures under Pillar III in Notes 57–69 and risk exposure by Non-life Insurance in Notes 70–81.

Risk exposure by Banking and the Group Functions

The classification by Statistics Finland is used in these notes, deviating partly from the classification used in the risk exposure section presented in the Report by the Board of Directors.

NOTE 38. ASSETS AND IMPAIRMENT LOSSES RECOGNISED ON THEM FOR THE FINANCIAL YEAR

	31 Dec. 2009		31 Dec. 2008	
EUR million	**Balance sheet value**	**Impair-ment losses**	**Balance sheet value**	**Impair-ment losses**
Cash and cash equivalents	3,102		2,260	
Receivables from credit institutions	7,630		6,644	
Financial assets at fair value through profit or loss				
Notes and bonds	1,279		3,255	
Shares and participations	0		0	
Derivative contracts				
Held for trading	1,385		1,443	
Hedging	59		43	
Loans and other receivables				
Loans granted	8,526	98	9,018	23
Bonds and notes	398	48	709	9
Finance lease receivables	622		593	
Guarantee receivables	0		4	
Other receivables	1,924		1,963	
Available-for-sale financial assets				
Notes and bonds	4,225		68	
Shares and participations	87		84	
Held-to-maturity financial assets				
Notes and bonds	1,086		1,103	
Off-balance-sheet commitments				
Bank guarantees	1,226		1,071	
Total	**31,547**	**146**	**28,260**	**32**

NOTE 39. IMPAIRMENTS BY RISK TYPE

EUR million	**31 Dec. 2009**	**31 Dec. 2008**
Based on credit risk	146	32
Total	**146**	**32**

NOTE 40. EXPOSURE

31 Dec. 2009, EUR million	Finland Balance sheet value	 Impair-ments	 Accrued interest	Other countries Balance sheet value	 Impair-ments	 Accrued interest
Assets						
Receivables from credit institutions	5,685		11	1,945		20
Receivables from customers	10,026	81	33	675	66	2
Finance leases	622			0		
Notes and bonds	1,460		12	5,130		72
Other	60			340		
Total	**17,854**	**81**	**56**	**8,090**	**66**	**94**
Off-balance-sheet commitments						
Unused standby credit facilities	4,034			107		
Guarantees and letters of credit	2,378			298		
Derivative contracts	325			1,172		
Other	105			342		
Total	**6,841**			**1,920**		
Total exposure	**24,695**	**81**	**56**	**10,009**	**66**	**94**

31 Dec. 2008, EUR million	Finland Balance sheet value	 Impair-ments	 Accrued interest	Other countries Balance sheet value	 Impair-ments	 Accrued interest
Assets						
Receivables from credit institutions	4,239		23	2,406		29
Receivables from customers	10,645	22	75	1,041	10	4
Finance leases	593			0		
Notes and bonds	2,823		12	1,604		14
Other	26			426		
Total	**18,325**	**22**	**110**	**5,477**	**10**	**48**
Off-balance-sheet commitments						
Unused standby credit facilities	3,075			74		
Guarantees and letters of credit	2,320			442		
Derivative contracts	321			1,214		
Other	82			334		
Total	**5,799**			**2,064**		
Total exposure	**24,124**	**22**	**110**	**7,541**	**10**	**48**

The tables show the recognised positive market value of derivative contracts.

NOTE 41. EXPOSURE BY SECTOR

31 Dec. 2009, EUR million	Balance sheet values Finnish	Foreign	Off-balance-sheet Finnish	Foreign	Total
Non-banking corporate sector	9,161	550	6,344	341	16,395
Financial institutions and insurance companies	7,053	7,106	230	1,578	15,967
Households	718	11	235	1	965
Non-profit organisations	206		7		213
Public sector entities	772	516	25	0	1,313
Total	**17,909**	**8,183**	**6,841**	**1,920**	**34,853**

31 Dec. 2008, EUR million	Balance sheet values Finnish	Foreign	Off-balance-sheet Finnish	Foreign	Total
Non-banking corporate sector	9,817	521	5,500	389	16,227
Financial institutions and insurance companies	6,727	4,702	212	1,673	13,314
Households	799	26	22	1	848
Non-profit organisations	219		8		226
Public sector entities	874	276	57		1,207
Total	**18,435**	**5,525**	**5,799**	**2,064**	**31,823**

The balance sheet values are accounting balances including impairments and accrued interest income.

NOTE 42. RECEIVABLES FROM CREDIT INSTITUTIONS AND CUSTOMERS, AND DOUBTFUL RECEIVABLES

31 Dec. 2009, EUR million	Not impaired (gross)	Impaired (gross)	Total	Impair-ments	Balance sheet value
Receivables from credit institutions and customers					
Receivables from credit institutions	7,630		7,630		7,630
Receivables from customers, of which	10,646	202	10,848	146	10,702
Bank guarantee receivables	0		0		0
Finance leases	622		622		622
Overdrafts	4		4		4
Total	**18,902**	**202**	**19,104**	**146**	**18,957**
Receivables from credit institutions and customers by sector					
Non-banking corporate sector	9,575	112	9,687	92	9,595
Financial institutions and insurance companies	7,974	89	8,063	48	8,015
Households	734	1	735	6	729
Non-profit organisations	205	0	205	0	205
Public sector entities	413		413		413
Total	**18,902**	**202**	**19,104**	**146**	**18,957**

31 Dec. 2008, EUR million	Not impaired (gross)	Impaired (gross)	Total	Impair-ments	Balance sheet value
Receivables from credit institutions and customers					
Receivables from credit institutions	6,644		6,644		6,644
Receivables from customers, of which	11,654	64	11,718	32	11,686
Bank guarantee receivables	4		4		4
Finance leases	593		593		593
Overdrafts	0		0		0
Total	**18,891**	**64**	**18,955**	**32**	**18,923**
Receivables from credit institutions and customers by sector					
Non-banking corporate sector	10,205	28	10,232	18	10,214
Financial institutions and insurance companies	7,297	35	7,332	9	7,322
Households	803	0	803	3	800
Non-profit organisations	216	1	217	1	217
Public sector entities	371		371		371
Total	**18,891**	**64**	**18,955**	**32**	**18,923**

Collectively assessed impairments on receivables are allocated to Non-banking Corporate Sector. Their amount came to EUR 16 million (6).

31 Dec. 2009, EUR million	Not impaired (gross)	Impaired (gross)	Total	Arrears	Impair-ments
Doubtful receivables					
Receivables from credit institutions				0	
Receivables from customers, of which	56	202	258	103	146
Bank guarantee receivables	0		0		
Finance leases	1		1	0	
Overdrafts	4		4		
Total	**60**	**202**	**262**	**104**	**146**
Doubtful receivables by sector					
Non-banking corporate sector	45	112	157	98	92
Financial institutions and insurance companies		89	89	0	48
Households	15	1	16	5	6
Non-profit organisations	0	0	0	0	0
Public sector entities	0		0	0	
Total	**60**	**202**	**262**	**104**	**146**

31 Dec. 2008, EUR million	Not impaired (gross)	Impaired (gross)	Total	Arrears	Impair-ments
Doubtful receivables					
Receivables from credit institutions	0		0		
Receivables from customers, of which	46	64	110	31	32
Bank guarantee receivables	4		4		
Finance leases	1		1	1	
Overdrafts	0		0		
Total	**47**	**64**	**111**	**32**	**32**
Doubtful receivables by sector					
Non-banking corporate sector	26	28	54	21	18
Financial institutions and insurance companies	4	35	39	0	9
Households	15	0	16	10	3
Non-profit organisations	1	1	2	0	1
Public sector entities	1		1	0	
Total	**47**	**64**	**111**	**32**	**32**

31 Dec. 2009, EUR million	Total portfolio	Impair-ments	Balance sheet value
Doubtful receivables			
Non-performing	76	32	43
Zero-interest	6	6	0
Underpriced	1	1	
Other	179	107	72

31 Dec. 2008, EUR million	Total portfolio	Impair-ments	Balance sheet value
Doubtful receivables			
Non-performing	44	9	35
Zero-interest	0		0
Underpriced	2	2	0
Other	65	21	44

Doubtful receivables include non-performing, zero-interest and under-priced receivables as well as other doubtful receivables. Interest on or principal of non-performing receivables has been due for payment and outstanding for three months. Zero-interest receivables have been agreed to carry zero interest for the purpose of securing customer payment capacity. Under-priced receivables have been priced below market prices to secure customer payment capacity. Other doubtful receivables include those that are subject to impairment but cannot be classified under any of the above categories, and overdrafts and guarantee receivables. "Other" also includes receivables assessed collectively for impairment. Arrears include unpaid interest and unpaid principal.

Past due but not impaired financial assets by maturity

	Days		
31 Dec. 2009, EUR million	30–90	Over 90–180	Over 180
Past due but not impaired loans and receivables	140	28	30

	Days		
31 Dec. 2008, EUR million	30–90	Over 90–180	Over 180
Past due but not impaired loans and receivables	62	16	20

NOTE 43. CREDIT LOSSES AND IMPAIRMENTS

Credit losses and impairments*

EUR million	2003	2004	2005	2006	2007	2008	2009
Credit losses and impairments	5	4	8	7	11	37	155
Reversals	-3	-3	-5	-6	-10	-9	-26
Net credit losses and impairments	2	1	3	1	1	28	129

* The share of Retail Banking sold in 2005 is eliminated from the 2003–05 figures.

A total of EUR 155 million (37) in new credit and guarantee losses and impairments were recognised for the financial year. The combined credit loss reversals and decreases in impairments totalled EUR 26 million (9). The net impact of credit and guarantee losses and impairments on profit came to EUR 129 million (28).

In 2009, credit and guarantee losses and impairments accounted for 0.94% (0.20) of the credit and guarantee portfolio.

NOTE 44. CORPORATE EXPOSURE BY SECTOR

Net exposure, 31 Dec. 2009	Balance sheet, EUR million	Off-balance-sheet, EUR million	Total, EUR million	Percentage distribution
Renting and operation of residential real estate	1,629	201	1,830	11.2
Trade	1,030	637	1,666	10.2
Manufacture of machinery and equipment (incl. maintenance)	426	1,109	1,535	9.4
Construction	504	683	1,188	7.2
Operating of other real estate	958	169	1,128	6.9
Bying and selling of own real estate	884	182	1,066	6.5
Transportation and storage	600	441	1,041	6.4
Forest industry	607	388	995	6.1
Manufacture of chemicals and chemical products	265	609	875	5.3
Metal industry	339	526	865	5.3
Services	523	327	850	5.2
Energy	292	410	702	4.3
Food industry	377	286	663	4.0
Other manufacturing	266	235	501	3.1
Information and communication	193	298	491	3.0
Financial and insurance activities	293	89	383	2.3
Agriculture, forestry and fishing	278	35	312	1.9
Mining and quarrying	123	11	134	0.8
Water supply and waste management	71	34	105	0.6
Other sectors	53	14	67	0.4
Total	**9,711**	**6,684**	**16,395**	**100.0**

Net exposure, 31 Dec. 2008	Balance sheet, EUR million	Off-balance-sheet, EUR million	Total, EUR million	Percentage distribution
Renting and operation of residential real estate	1,683	62	1,745	10.9
Trade	1,152	521	1,673	10.4
Manufacture of machinery and equipment (incl. maintenance)	467	1,106	1,573	9.8
Construction	596	732	1,328	8.3
Bying and selling of own real estate	915	166	1,081	6.7
Forest industry	688	363	1,050	6.6
Transportation and storage	581	464	1,045	6.5
Manufacture of chemicals and chemical products	298	582	880	5.5
Services	564	297	861	5.4
Metal industry	399	386	784	4.9
Operating of other real estate	654	81	734	4.6
Energy	378	278	656	4.1
Food industry	393	210	604	3.8
Other manufacturing	373	161	534	3.3
Information and communication	332	169	501	3.1
Financial and insurance activities	307	48	356	2.2
Agriculture, forestry and fishing	268	32	301	1.9
Mining and quarrying	109	12	121	0.8
Water supply and waste management	101	17	118	0.7
Other sectors	78	0	79	0.5
Total	**10,338**	**5,686**	**16,024**	**100.0**

NOTE 45. CORPORATE EXPOSURE BY RATING CATEGORY

	31 Dec. 2009		31 Dec. 2008	
Rating	Net exposure, EUR million	%	Net exposure, EUR million	%
1.0–2.0	829	5.1	597	3.7
2.5–5.0	8,656	52.8	9,186	57.3
5.5–7.0	3,954	24.1	3,974	24.8
7.5–8.5	2,126	13.0	1,630	10.2
9.0–10.0	333	2.0	244	1.5
11.0–12.0	353	2.2	103	0.6
Non-rated	144	0.9	291	1.8
Total	**16,395**	**100.0**	**16,024**	**100.0**

NOTE 46. CORPORATE EXPOSURE BY THE AMOUNT OF CUSTOMER'S EXPOSURE

Amount of net exposure, 31 Dec. 2009, EUR million	Finland	Other countries	Total	%
0–1	913	104	1,017	6.2
1–10	2,292	157	2,449	14.9
10–50	4,088	569	4,657	28.4
50–100	3,005	61	3,066	18.7
Over 100	5,206		5,206	31.8
Total	**15,504**	**891**	**16,395**	**100.0**

Amount of net exposure, 31 Dec.2008, EUR million	Finland	Other countries	Total	%
0–1	1,008	117	1,125	7.0
1–10	2,275	236	2,512	15.7
10–50	3,943	493	4,435	27.7
50–100	2,969	64	3,033	18.9
Over 100	4,919		4,919	30.7
Total	**15,114**	**910**	**16,024**	**100.0**

NOTE 47. LIABILITIES OF FINANCIAL INSTITUTIONS AND INSURANCE COMPANIES BY RATING CATEGORY

	31 Dec. 2009		31 Dec. 2008	
Credit rating, consistent with Moody's *	Net liabilities, EUR million	%	Net liabilities, EUR million	%
Aaa	4,329	27.3	1,843	13.9
Aa1−Aa3	9,832	62.0	9,640	72.9
A1−A3	1,258	7.9	1,042	7.9
Baa1−Baa3	181	1.1	374	2.8
Ba1−Ba3	89	0.6	75	0.6
B1−B3	7	0.0	111	0.8
Caa1 or lower	6	0.0	2	0.0
Non-rated	149	0.9	141	1.1
Total	**15,851**	**100.0**	**13,228**	**100.0**

* Liabilities of OP-Pohjola Group entities are classified as Aa1–Aa3, on the basis of Pohjola's external rating and joint liability.

NOTE 48. SECONDARY COUNTRY RISK BY COUNTRY RISK CATEGORY, EXCL. FINLAND

		31 Dec. 2009		31 Dec. 2008	
Country risk	Moody's equivalent	Net exposure, EUR million	%	Net exposure, EUR million	%
Category 1	Aaa	8,879	89.1	6,798	89.9
Category 2	Aa1–A3	804	8.1	361	4.8
Category 3	Baa1–Baa3	225	2.3	184	2.4
Category 4	Ba1–B3	52	0.5	218	2.9
Category 5	Caa1–C	5	0.0	0	0.0
Total		**9,964**	**100.0**	**7,561**	**100.0**

Secondary country (excl. Finland) risk takes account of the transfer of contract-related, real risks to another country through agreements or otherwise. The risk may transfer on the basis of an agreement, or a guarantee in most cases, or otherwise, such as transferring receivables from a company's branch office to the country where the company is headquartered.

NOTE 49. COLLATERAL RECEIVED BY TYPE OF COLLATERAL

EUR million	31 Dec. 2009	%	31 Dec. 2008	%
Object of financing as collateral	1,419	17.3	1,546	29.2
Public-sector guarantees	4,252	51.9	1,447	27.3
Property or lease mortgage on office or industrial property	1,113	13.6	986	18.6
Property or lease mortgage on residential property	270	3.3	267	5.0
Shares in housing corporations, and housing associations and property companies in residential use	257	3.1	264	5.0
Business mortgage	325	4.0	256	4.8
Shares and participations, other	297	3.6	221	4.2
Other collateral	134	1.6	145	2.7
Factoring	65	0.8	99	1.9
Bank guarantee	58	0.7	64	1.2
Total	**8,191**	**100.0**	**5,297**	**100.0**

Received collateral by type of collateral has been calculated on the basis of the values of collateral held by the bank allocated to liabilities. The collateral's fair value is used as the basis for calculating the collateral value which is derived from the fair value on the basis of valuation percentages, based on conservative estimates, by type of collateral.

NOTE 50. FUNDING STRUCTURE

EUR million	31 Dec. 2009	%	31 Dec. 2008	%
Liabilities to credit institutions	4,984	15.9	3,643	12.9
Financial liabilities at fair value through profit or loss	71	0.2	138	0.5
Liabilities to customers				
Deposits	1,546	4.9	1,498	5.3
Other	2,587	8.3	2,010	7.1
Debt securities issued to the public				
Certificates of deposit and ECPs	10,519	33.6	10,033	35.6
Bonds	6,776	21.6	6,392	22.7
Other liabilities	1,291	4.1	1,521	5.4
Subordinated liabilities	1,300	4.1	1,322	4.7
Shareholders' equity	2,267	7.2	1,640	5.8
Total	**31,341**	**100.0**	**28,198**	**100.0**

NOTE 51. MATURITY OF ASSETS AND LIABILITIES BY RESIDUAL TERM TO MATURITY

31 Dec. 2009, EUR million	Less than 3 months	3–12 months	1–5 years	5–10 years	More than 10 years	Total
Liquid assets	3,102					3,102
Financial assets at fair value through profit or loss						
Notes and bonds	107	685	384	72	32	1,279
Receivables from credit institutions	3,250	1,308	1,997	1,053	22	7,630
Receivables from customers	1,870	1,433	4,858	1,959	1,204	11,323
Available-for-sale financial assets						
Notes and bonds	5	391	3,470	284	75	4,225
Held-to-maturity financial assets						
Notes and bonds	54	79	824	128		1,086
Total assets	**8,387**	**3,896**	**11,532**	**3,495**	**1,334**	**28,645**
Liabilities to credit institutions	2,869	1,060	657	397		4,984
Financial liabilities at fair value through profit or loss	71					71
Liabilities to customers	3,597	22	60	287	167	4,133
Debt securities issued to the public	8,881	4,252	3,981	181		17,295
Subordinated liabilities	5	76	1,073	60	86	1,300
Total liabilities	**15,423**	**5,410**	**5,771**	**925**	**253**	**27,783**
Guarantees	6	4	334	82	869	1,296
Other guarantee liabilities	177	338	385	34	349	1,283
Loan commitments	4,140					4,140
Commitments related to short-term trade transactions	50	43	5		0	98
Other	349	0	1	97		447
Total off-balance-sheet commitments	**4,722**	**386**	**724**	**213**	**1,218**	**7,264**

31 Dec. 2008, EUR million	Less than 3 months	3–12 months	1–5 years	5–10 years	More than 10 years	Total
Liquid assets	2,260					2,260
Financial assets at fair value through profit or loss						
Notes and bonds	1,316	976	601	181	182	3,255
Receivables from credit institutions	1,910	1,021	2,761	931	22	6,644
Receivables from customers	2,454	1,844	4,603	2,046	1,332	12,279
Available-for-sale financial assets						
Notes and bonds	9	3		56		68
Held-to-maturity financial assets						
Notes and bonds	12	136	759	197		1,103
Total assets	**7,960**	**3,979**	**8,724**	**3,410**	**1,537**	**25,610**

Liabilities to credit nstitutions	2,964	629	40	11		3,643
Financial liabilities at fair value through profit or loss	138					138
Liabilities to customers	2,640	289	20	324	236	3,508
Debt securities issued to the public	8,037	3,885	4,208	295		16,425
Subordinated liabilities		12	1,100	126	84	1,322
Total liabilities	**13,778**	**4,816**	**5,367**	**756**	**319**	**25,036**

Financial assets at fair value through profit or loss consist of notes and bonds which may be sold anytime. Notes and bonds included in available-for-sale financial assets may be sold whenever necessary. Notes and bonds included in financial assets at fair value through profit or loss and those included in available-for-sale financial assets are, however, presented within the sub-category determined on the basis of the remaining term to maturity in the table. Nominal amounts of debt are presented under categories by maturity. Financial liabilities held for trading are presented under the shortest maturity category. In its financial risk management, Pohjola Group uses forward exchange contracts and interest-rate and currency swaps. Since their net effect on the financial risk in euro countervalue is insignificant, they are not specifically presented.

Debt repayable on demand, included in the shortest maturity category, totalled EUR 2.3 billion (1.9).

NOTE 52. LIQUIDITY PORTFOLIO

In order to secure OP-Pohjola Group's liquidity, Pohjola Bank plc maintains a liquidity portfolio, with the targeted amount accounting for around 8% of the banking business balance sheet of OP-Pohjola Group.

EUR million	31 Dec. 2009	31 Dec. 2008
Cash and cash equivalents	2,600	2,258
Short-term notes and bonds	560	2,191
Long-term notes and bonds		
Financial assets held for trading	856	1,269
Financial assets at fair value through profit or loss	55	43
Available-for-sale financial assets	4,215	56
Held-to-maturity financial assets	1,086	1,103
Loans and other receivables	2,291	2,916
Total liquidity portfolio	**11,663**	**9,835**

Financial assets included in liquidity portfolio by maturity and credit rating on 31 December 2009

Year(s)	0–1	1–3	3–5	5–7	7–10	10–	Total	Proportion
Aaa	3,468	1,701	1,826	417	224	104	7,740	66.4 %
Aa1−Aa3	1,028	731	668	72	10	3	2,511	21.5 %
A1−A3	133	486	175	16	2	0	812	7.0 %
Baa1−Baa3	22	46	45	3	10	0	126	1.1 %
Ba1 or lower	8	20	24	25	10	0	88	0.8 %
Internally rated	100	151	115	11	10	0	386	3.3 %
Total	**4,758**	**3,135**	**2,853**	**544**	**266**	**107**	**11,663**	**100.0 %**

The average remaining maturity of the liquidity portfolio is 3 years.

Based on OP-Pohjola Group's internal rating, Internally rated financial assets consist mainly of notes and bonds issued by Finnish companies and institutions.

NOTE 53. MATURITIES OF ASSETS AND LIABILITIES BY MATURITY OR REPRICING

31 Dec. 2009, EUR million	1 month or less	>1–3 months	>3–12 months	>1–2 years	>2–5 years	>5 years	Total
Cash and cash equivalents	3,102						3,102
Financial assets at fair value through profit or loss							
Notes and bonds	90	172	606	67	254	92	1,279
Receivables from credit institutions	2,985	2,496	1,424	238	263	223	7,630
Receivables from customers	4,449	2,567	2,629	424	679	574	11,323
Available-for-sale financial assets							
Notes and bonds	103	371	336	237	2,893	284	4,225
Held-to-maturity financial assets							
Notes and bonds	483	458	30	115			1,086
Total assets	**11,213**	**6,064**	**5,025**	**1,082**	**4,089**	**1,172**	**28,645**
Liabilities to credit institutions	3,177	456	1,058	45	148	101	4,984
Financial liabilities at fair value through profit or loss	71						71
Liabilities to customers	3,593	517	21	0		2	4,133
Debt securities issued to the public	2,999	9,605	2,862	118	1,538	172	17,295
Subordinated liabilities		574	222	7	497		1,300
Total liabilities	**9,840**	**11,152**	**4,163**	**170**	**2,184**	**275**	**27,783**

Debt repayable on demand totalled EUR 2.3 billion, consisting mainly of public deposits.

31 Dec. 2008, EUR million	1 month or less	>1–3 months	>3–12 months	>1–2 years	>2–5 years	>5 years	Total
Cash and cash equivalents	2,260						2,260
Financial assets at fair value through profit or loss							
Notes and bonds	168	1,449	975	33	282	349	3,255
Receivables from credit institutions	2,216	2,310	1,048	386	415	269	6,644
Receivables from customers	4,956	2,842	2,866	335	660	620	12,279
Available-for-sale financial assets							
Notes and bonds		9	3			56	68
Held-to-maturity financial assets							
Notes and bonds	473	485		30	115		1,103
Total assets	**10,073**	**7,095**	**4,893**	**783**	**1,472**	**1,293**	**25,610**

Liabilities to credit institutions	2,528	436	629	11	29	11	3,643
Financial liabilities at fair value through profit or loss	138						138
Liabilities to customers	2,519	700	289	0			3,508
Debt securities issued to the public	4,151	8,631	2,982	80	315	266	16,425
Subordinated liabilities		514	162	81	485	79	1,322
Total liabilities	**9,336**	**10,281**	**4,062**	**172**	**829**	**356**	**25,036**

Debt repayable on demand totalled EUR 1.9 billion, consisting mainly of public deposits.

NOTE 54. SENSITIVITY ANALYSIS OF MARKET RISK

On 31 December 2009, market risks accounted for 3% (4) of the risk-weighted assets.

			31 Dec. 2009		**31 Dec. 2008**	
EUR million	**Risk parameter**	**Change**	**Effect on results**	**Effect on share-holders' equity**	**Effect on results**	**Effect on share-holders' equity**
Interest-rate risk	Interest rate	1 percentage point	7	3	16	
Currency risk	Market value	20 percentage points	1		4	
Volatility risk						
Interest rate volatility	Volatility	20 percentage points	5		1	
Currency volatility	Volatility	10 percentage points			2	
Credit risk premium *	Credit spread	0.5 percentage point	12	68	20	0
Price risk						
Equity portfolio	Market value	20 percentage points		2		2
Private equity funds	Market value	20 percentage points		6		7
Real estate risk	Market value	10 percentage points	3		2	

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

*) The credit risk premium has been calculated on notes and bonds at fair value through profit or loss and available for sale, included in liquidity buffer.

NOTE 55. EQUITY RISK

On 31 December 2009, the market value of equity and venture capital funds totalled EUR 41 million (43), of which the equity portfolio represented EUR 9 million (8) and the venture capital funds including their investment commitments EUR 32 million (34). The three proportionally largest sectors in the equity portfolio were as follows: basic industry 24% (24), information technology 22% (25) and industrial products and services 21% (21).

Investments in venture capital funds totalled EUR 15 million (17) and binding unexecuted investment commitments EUR 17 million (18).

NOTE 56. REAL ESTATE RISK

On 31 December 2009, capital invested in property holdings amounted to EUR 20 million (29), with properties in own use representing EUR 2 million (3). In addition, holdings in property investment companies totalled EUR 2 million (2).

In 2009, the Group obtained an external appraisal's estimates of the fair value of property holdings, on the basis of which their combined fair value corresponds to capital tied to the property holdings. It is estimated that real estate risks are low.

Note 21 and Note 25 (Property in own use) provide detailed information on changes in investment property during the financial year.

Pillar III disclosures

Notes 57–69 disclose information on the capital adequacy of consolidated group of the amalgamation of cooperative banks, as specified in Standard 4.5 (Supervisory Disclosure of capital adequacy information) by the Finnish Financial Supervisory Authority (Pillar III disclosures). Given that this information is based on the consolidated capital adequacy, it is not directly comparable with other information disclosed on Pohjola Group.

NOTE 57. CAPITAL BASE

EUR million	31 Dec. 2009	31 Dec. 2008
Tier 1 capital		
Paid-up equity capital	428	428
Other reserves	1,044	747
Retained earnings	348	382
Minority interest		0
Profit for the financial year	168	42
Hybrid capital	274	274
Voluntary provisions	354	329
Tier 1 capital before deductions	**2,614**	**2,202**
Profit distribution proposed by the Board	-107	-45
Intangible assets	-145	-144
Excess funding of pension liability and change in fair value of investment property	-31	-30
Deductions from Tier 1 capital	-791	-755
Net Tier 1 capital	**1,541**	**1,228**
Tier 2 capital		
Fair value reserve	18	-22
Other Tier 2 capital	986	1,033
Deductions from Tier 2 capital	-791	-755
Net Tier 2 capital	**212**	**256**
Tier 3 capital		
Total capital	**1,753**	**1,484**
Deductions from Tier 1 and 2 capital	**-1,583**	**-1,510**
Investment in insurance companies, financial institutions and other companies	-1,430	-1,410
Shortfall of expected losses over impairments	-153	-100

EUR 1,429 million (1,409) in investments in Pohjola Group insurance companies and a one-million-euro investment in Luottokunta were deducted from capital.

NOTE 58. MINIMUM CAPITAL REQUIREMENT

EUR million	31 Dec. 2009 Capital requirement	31 Dec. 2009 Risk-weighted assets*	31 Dec. 2008 Capital requirement	31 Dec. 2008 Risk-weighted assets*
Credit and counterparty risk	**957**	**11,963**	**929**	**11,615**
Central government and central banks, Standardised Approach	0	2	1	14
Credit institutions, Standardised Approach	90	1,129	98	1,227
Corporate	760	9,502	719	8,992
Under Foundation Internal Risk-Based Approach (FIRB)	743	9,286	699	8,739
Under Standardised Approach	17	216	20	252
Retail, Standardised Approach	77	959	82	1,021
Secured by real estates	0	0	0	0
Other	77	959	82	1,021
Equity investments	14	174	14	176
PD/LGD method	4	46	4	46
Other	4	46	4	46
Basic Indicator Approach	10	129	10	131
Private equity investments	5	60	5	63
Listed equity investments	2	27	2	24
Other	3	41	4	44
Securitisation positions	10	124	8	98
Other	6	73	7	88
Market risks	**36**	**448**	**47**	**583**
Trading book	36	448	47	583
Position risk	36	448	47	583
All activities	0	1		
Commodity risk	0	1		
Operational risk	**49**	**613**	**47**	**586**
Capital requirement during transition period			**27**	**336**
Total	**1,042**	**13,024**	**1,050**	**13,120**

* Risk-weighted assets = Capital requirement / 0.08

Capital requirement for counterparty risk amounts to EUR 44 million (41).

It is possible to use various methods to measure capital adequacy requirement for equity investments. In PD/LGD method, investments' risk-weighted amount is calculated using risk parameters of the probability of default (PD) and loss given default (LGD). According to the capital adequacy framework, minimum values have been set for these parameters. According to the Basic Indicator Approach, investments' risk-weighted amount derives from multiplying each investment by the risk-weight determined by the type of investment.

NOTE 59. CAPITAL RATIOS

Capital adaquacy, EUR million	31 Dec. 2009	31 Dec. 2008
Total regulatory capital	1,753	1,484
Total minimum capital requirement	1,042	1,050
Capital excess (+) / shortfall (-)	711	434
Tier 1 ratio, %	11.8	9.4
Total capital ratio, %	13.5	11.3

NOTE 60. TOTAL EXPOSURES BY EXPOSURE CLASS

31 Dec. 2009, EUR million	On-balance-sheet exposures	Off-balance-sheet exposures	Derivatives exposures	Securiti-sation exposures	Gross exposures	Average exposure during the year
Central government and central banks	4,292	14	14		4,320	3,612
Credit institutions	11,835	7,551	1,827		21,213	19,512
Corporate	10,149	8,689	394		19,232	18,695
FIRB Approach	9,927	8,689	394		19,009	18,456
Standardised Approach	222				222	239
Retail	1,196	258	1		1,454	1,502
Corporate	530	19	1		550	576
Private	666	238	0		904	926
Equity investments	83	16			100	100
Securitisation positions				720	720	783
Other	73				73	80
Total	**27,628**	**16,528**	**2,235**	**720**	**47,111**	**44,285**

31 Dec. 2008, EUR million	On-balance-sheet exposures	Off-balance-sheet exposures	Derivatives exposures	Securiti-sation exposures	Gross exposures
Central government and central banks	2,846	32	27		2,905
Credit institutions	8,853	7,214	1,745		17,812
Corporate	10,328	7,437	394		18,158
FIRB Approach	10,072	7,437	394		17,902
Standardised Approach	256				256
Retail	1,305	245	1		1,550
Corporate	582	18	1		601
Private	722	226	0		948
Equity investments	83	18			101
Securitisation positions				846	846
Other	87				87
Total	**23,502**	**14,944**	**2,167**	**846**	**41,459**

Since the Group adopted exposure categories under the FIRB approach in September 2008, the amount of average exposures cannot be calculated.

NOTE 61. EXPOSURE SPLIT BY GEOGRAPHIC REGION AND EXPOSURE CLASS

31 Dec. 2009, EUR million	Central government and central banks	Credit institutions	Corporate	Retail	Equity invest-ments	Securi-tation positions	Other
Finland	4,012	13,611	17,217	1,225	75		73
Other Nordic countries	94	1,529	661	0	1		0
Baltic States		4	95	0	15		0
Rest of EU	212	5,691	1,128	0	8	655	0
Rest of Europe		97	30	0		4	
USA		195	48	0			
Asia		73	47	0			
Other	2	14	6	228		60	
Total exposure	**4,320**	**21,213**	**19,232**	**1,454**	**100**	**720**	**73**

31 Dec. 2008, EUR million	Central government and central banks	Credit institutions	Corporate	Retail	Equity invest-ments	Securi-tation positions	Other
Finland	2,808	12,313	16,913	1,277	77		87
Other Nordic countries		816	289	1	1		0
Baltic States		19	142	0	15		
Rest of EU	95	3,919	673	0	8	769	0
Rest of Europe		286	71	0		5	
USA		295	6	0			
Asia		115	55	0			
Other	1	50	8	271		72	
Total exposure	**2,905**	**17,812**	**18,158**	**1,550**	**101**	**846**	**87**

NOTE 62. EXPOSURE SPLIT BY RESIDUAL MATURITY AND EXPOSURE CLASS

31 Dec. 2009, EUR million	< 3 months	3–12 months	1–5 yrs	5–10 yrs	> 10 yrs	Total
Central government and central banks	3,209	8	854	169	81	4,320
Credit institutions	7,601	5,862	6,231	1,337	183	21,213
Corporate	5,099	2,564	7,157	2,439	1,973	19,232
FIRB Approach	5,040	2,534	7,074	2,410	1,950	19,009
Standardised Approach	59	30	83	28	23	222
Retail	405	62	930	39	19	1,454
Corporate	37	30	439	25	19	550
Private	368	32	490	14	0	904
Equity investments	100					100
Securitisation positions	2	70	465	182		720
Other	29	11	32	0		73
Total	**16,445**	**8,506**	**15,669**	**4,166**	**2,255**	**47,111**

31 Dec. 2008, EUR million	< 3 months	3–12 months	1–5 yrs	5–10 yrs	> 10 yrs	Total
Central government and central banks	2,368	7	238	194	98	2,905
Credit institutions	6,046	6,484	3,984	1,186	112	17,812
Corporate	5,131	2,722	5,292	2,998	2,016	18,158
FIRB Approach	5,093	2,670	5,145	2,979	2,016	17,902
Standardised Approach	38	52	147	19		256
Retail	413	48	1,002	63	24	1,550
Corporate	32	25	473	47	24	601
Private	381	23	529	17		948
Equity investments	101					101
Securitisation positions	20	31	474	321		846
Other	40	8	40	0		87
Total	**14,119**	**9,299**	**11,030**	**4,762**	**2,249**	**41,459**

NOTE 63. CORPORATE EXPOSURES BY SECTOR

31 Dec. 2009, EUR million	Exposure	RWA	Capital requirement
Trade	2,269	1,054	84
Manufacture of machinery and equipment (incl. maintenance)	2,173	625	50
Renting and operation of residential real estate	1,912	438	35
Financial and insurance activities	1,542	520	42
Construction	1,407	743	59
Transportation and storage	1,111	826	66
Bying and selling of own real estate	1,031	611	49
Forest industry	1,006	1,342	107
Services	1,020	635	51
Manufacture of chemicals and chemical products	954	474	38
Operating of other real estate	951	415	33
Metal industry	887	482	39
Energy	846	192	15
Food industry	752	353	28
Other manufacturing	576	462	37
Information and communication	573	178	14
Agriculture, forestry and fishing	337	217	17
Other sectors	189	162	13
Mining and quarrying	138	124	10
Water supply and waste management	108	33	3
Total	**19,782**	**9,886**	**791**

31 Dec. 2008, EUR million	Exposure	RWA	Capital requirement
Trade	2,205	1,083	87
Manufacture of machinery and equipment (incl. maintenance)	1,742	705	56
Renting and operation of residential real estate	1,650	355	28
Services	1,326	808	65
Construction	1,229	594	48
Operating of other real estate	1,122	583	47
Financial and insurance activities	1,093	606	48
Transportation and storage	1,085	637	51
Manufacture of chemicals and chemical products	994	452	36
Forest industry	987	970	78
Metal industry	970	410	33
Energy	812	146	12
Bying and selling of own real estate	747	384	31
Other manufacturing	684	513	41
Food industry	631	339	27
Information and communication	492	227	18
Other sectors	360	199	16
Agriculture, forestry and fishing	357	219	17
Mining and quarrying	176	148	12
Water supply and waste management	97	28	2
Total	**18,760**	**9,408**	**753**

Corporate exposures by sector also include corporate customers with retail exposures. This standard industrial classification is based on the latest TOL 2008 classification issued by Statistics Finland.

NOTE 64. EXPOSURES (CREDIT RISK UNDER SA) BY RISK WEIGHT BEFORE AND AFTER CREDIT RISK MITIGATION

Risk weight %, 31 Dec. 2009, EUR million	Exposure before credit risk mitigation	Exposure after credit risk mitigation	RWA
0	17,588	17,588	
10	993	993	99
20	6,794	4,891	939
35	0	0	0
50	45	45	10
75	1,432	1,397	926
100	346	335	305
150	23	23	34
Total	**27,221**	**25,271**	**2,313**

Risk weight %, 31 Dec. 2008, EUR million	Exposure before credit risk mitigation	Exposure after credit risk mitigation	RWA
0	14,861	14,861	
10	680	680	68
20	4,763	4,648	890
35	0	0	0
50	103	103	22
75	1,534	1,493	999
100	587	582	521
150	16	16	24
Total	**22,544**	**22,383**	**2,524**

In its capital adequacy measurement for credit risk under the Standardised Approach to determine the exposure's risk weight, Pohjola Group applies credit ratings by Moody's Investors Service or Fitch Ratings to receivables from central governments and central banks and corporates. External credit assessment determines the receivable's credit rating category. In the capital adequacy requirement for receivables, the risk weight is determined by the credit rating category.

The risk weight of international development banks' receivables may also be determined on the basis of other than credit rating based on external credit assessment. If the risk weight is affected by external credit assessment, credit ratings issued by the aforementioned rating agencies will also apply to the risk weighting of international development banks' receivables in capital adequacy measurement.

For a receivable in capital adequacy measurement, the security-specific credit rating of the issue programme or arrangement, to which the receivable belongs, must be used. If such a rating is not available, the issuer's general credit rating will be used, provided that it is available.

NOTE 65. CORPORATE EXPOSURES (FIRB) BY RATING CATEGORY AND PD GRADE, AND EQUITY INVESTMENTS BY RATING CATEGORY AND PD GRADE

Corporate exposures by rating category and PD grade 31 Dec. 2009

Rating category	Exposure value, MEUR	Average PD, %	Average risk weight, %	RWA	Minimum capital require-ment
1–2	502	0.0	14.8	67	5
3–4	3,575	0.1	31.8	1,122	90
5–6	5,236	0.6	68.7	3,484	279
7–8	2,312	3.0	127.3	2,949	236
9–10	612	15.7	208.2	1,290	103
11–12	375	100.0			
Non-rated	240	4.9	156.1	374	30
Total	**12,851**	**3.6**	**69.5**	**9,286**	**743**

Corporate exposures by rating category and PD grade 31 Dec. 2008

Rating category	Exposure value, MEUR	Average PD, %	Average risk weight, %	RWA	Minimum capital require-ment
1–2	418	0.0	15.8	61	5
3–4	3,941	0.1	32.2	1,275	102
5–6	5,741	0.6	69.1	3,887	311
7–8	2,238	2.8	122.6	2,763	221
9–10	287	16.6	200.9	574	46
11–12	118	100.0			
Non-rated	116	4.9	155.4	179	14
Total	**12,858**	**1.9**	**67.4**	**8,739**	**699**

The Internal Ratings-based Approach was used for Pohjola Bank plc's corporate exposures. In this method, matured liabilities are categorised under insolvent customers, i.e. customers belonging to rating categories 11–12. Exposure value refers to customer exposure at default (EAD).

Equity investments by rating category and PD grade 31 Dec. 2009

Rating category	Exposure value, MEUR	Average PD, %	Average risk weight, %	RWA	Minimum capital require-ment
1–2*	47	0.1	96.4	46	4
Non-rated	0			0	0
Total	**47**	**0.1**	**96.4**	**46**	**4**

Equity investments by rating category and PD grade 31 Dec. 2008

Rating category	Exposure value, MEUR	Average PD, %	Average risk weight, %	RWA	Minimum capital require-ment
1–2*	47	0.1	96.5	46	4
Total	**47**	**0.1**	**96.5**	**46**	**4**

* Includes Pohjola Bank plc's strategic investments in OP-Kotipankki Oyj and OP Life Assurance Company Ltd.

NOTE 66. EQUITY INVESTMENTS, BIA

	31 Dec. 2009			31 Dec. 2008		
EUR million	**Exposure**	**RWA**	**Minimum capital require-ment**	**Exposure**	**RWA**	**Minimum capital require-ment**
Private equity investments, risk weight 190%	32	60	5	33	63	5
Listed equity investments, risk weight 290%	9	27	2	8	24	2
Other, risk weight 370%	11	41	3	12	44	4
Total	**52**	**129**	**10**	**53**	**131**	**10**

NOTE 67. EXPECTED LOSS AND IMPAIRMENTS

EUR million	31 Dec. 2009 EL	31 Dec. 2009 Impairments	31 Dec. 2008 EL	31 Dec. 2008 Impairments
Corporate exposures	162	121	68	24
Equity investments	1		1	
Total	**162**	**121**	**49**	**24**

The table above shows the expected loss calculated using Pohjola Group's internal models. The PD method is practically the same as used in capital adequacy measurement but the LGD method generates considerably smaller loss estimates than the LDG method under the Foundation Internal Ratings-based Approach. The expected loss is an estimate of average annual losses arising from credit risk. The credit cycle was much more unfavourable in 2009 than in 2008, which explains higher expected losses than a year ago. Similarly, recognised impairment charges were higher relative to expected losses than in 2008.

NOTE 68. COLLATERAL USED IN CAPITAL ADEQUACY MEASUREMENT

31 Dec. 2009, EUR million	Exposure	Guarantees	Financial collateral	Other collateral
Central government and central banks	4,320			
Credit institutions	21,213	1,909	0	
Corporate	19,232	2,080	55	637
FIRB Approach	19,009	2,080	55	637
Standardised Approach	222			
Retail	1,454	35	0	0
Secured by real estates	0			0
Other	1,454	35	0	
Equity investments	100			
BIA	52			
PD/LGD method	47			
Securitisation positions	720			
Other	73			
Total	**47,111**	**4,024**	**55**	**637**

31 Dec. 2008, EUR million	Exposure	Guarantees	Financial collateral	Other collateral
Central government and central banks	2,905			
Credit institutions	17,812	109		
Corporate	18,158	1,321	39	281
FIRB Approach	17,902	1,321	39	281
Standardised Approach	256			
Retail	1,550	41	0	0
Secured by real estates	0			0
Other	1,549	41	0	
Equity investments	101			
BIA	53			
PD/LGD method	47			
Securitisation positions	846			
Other	87			
Total	**41,459**	**1,471**	**39**	**281**

The following real securities under the capital adequacy framework were used in capital adequacy measurement: residential buildings and shares entitling their holders to the possession of a flat, deposits and stocks (equities). Deposits and stocks are financial collateral, as referred to in the framework, and alternative methods are available for their accounting treatment. Pohjola Group applies the so-called comprehensive method to financial collateral, using volatility adjustments ordered by the relevant regulator.

In the capital adequacy measurement for credit risks, only eligible guarantors as referred to in the capital adequacy framework may be used. In capital adequacy measurement, the Group utilised guarantees issued by the Finnish State and other states, as well as those issued by municipalities and banks. Guarantees issued by banks or credit derivatives were not used. Offsetting balance-sheet or off-balance-sheet items was not applied in capital adequacy.

NOTE 69. DERIVATIVE CONTRACTS AND COUNTERPARTY RISK

Credit risk arising from derivative contracts is defined as a credit equivalent based on the daily market valuation of derivative contracts.

The sizes of customer limits are defined as follows:

Forward exchange agreements and currency options: capital x 10% x estimated validity period

Interest rate swaps: capital x 0.7% x estimated validity period

Cap and Floor contracts: capital x 0.5% x estimated validity period

Credit risk arising from bank counterparties is through collateral, which means the use of ISDA Credit Support Annex (CSA) contract associated with the ISDA general agreement. In the collateral system, the counterparty provides cash or securities in security for the receivable. Matching between counterparties are performed on a daily basis.

The Group confirms corporate counterparty exposure limits once a year and in this connection also checks the status of collateral applying to the limits for derivative transactions.

If S&P had downgraded Pohjola's credit rating from AA– to A, additional collateral of EUR 13 million would have been required.

Capital adequacy requirement due to counterparty risk may arise from items related to financing operations and the trading book. Capital adequacy requirement due to counterparty risk is calculated, for example, on OTC derivatives and sale and repurchase agreements.

Note 87 presents counterparty risks associated with OTC derivatives. The exposure value of sale and repurchase agreements amounted to EUR 2.2 million.

Risk exposure by Non-life Insurance

NOTE 70. RISK-BEARING CAPACITY

On 31 December 2009, the solvency capital of Non-life Insurance amounted to EUR 827 million (608) and the solvency ratio stood at 88% (66). Moody's downgraded Pohjola Insurance Ltd's credit rating from A1 to A2 in September, due to the deterioration of the Finnish economy. The financial strength rating of Pohjola Insurance is A+ affirmed by Standard & Poor's in November 2008. The Board of Directors has confirmed A as the targeted rating.

Non-life Insurance must fulfil all capital adequacy requirements set by regulatory authorities mainly at company level. All non-life insurance companies are governed by the same requirement set for their minimum solvency margin based on EU directives. In addition, Finnish legislation also lays down capital adequacy requirements for Finnish insurance companies.

The risk-bearing capacity describes the proportion of a company's solvency capital to various income statement and balance sheet items. Solvency capital proportioned to claims incurred and insurance premium revenue describes the company's ability to cope with underwriting risks. Solvency capital proportioned to insurance contract liabilities describes the company's ability to cope with risks related to the estimation of insurance contract liabilities. Similarly, solvency capital proportioned to the investment portfolio describes the company's ability to cope with the risks related to investments.

	31 Dec. 2009		31 Dec. 2008	
	EUR million	Risk-bearing capacity, %	EUR million	Risk-bearing capacity, %
Solvency capital	827		608	
Claims incurred*	617	134	643	95
Insurance premium revenue*	943	88**	923	66**
Insurance contract liabilities*	2,068	40	2,028	30
Investment portfolio	2,851	29	2,415	25

* Reinsurers' share (net business) deducted

** Solvency ratio

NOTE 71. SENSITIVITY ANALYSIS OF NON-LIFE INSURANCE

The table below shows the effect of various risk parameters on profit and solvency capital:

Risk parameter	Total in 2009, EUR million	Change in risk parameter	Effect on profit/ solvency, EUR million	Effect on combined ratio
Insurance portfolio or insurance premium revenue	943	Up by 1%	9	Up by 0.9 percentage point
Claims incurred	617	Up by 1%	-6	Down by 0.7 percentage point
Major loss, over EUR 5 million		1 major loss	-5	Down by 0.5 percentage point
Personnel costs	110	Up by 8%	-9	Down by 1.0 percentage point
Expenses by function *	267	Up by 4%	-11	Down by 1.1 percentage point

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

NOTE 72. PREMIUMS WRITTEN AND SUMS INSURED BY CLASS

Premiums written by EML* class in corporate property insurance

The degree of risk in property insurance can be evaluated by dividing risks into classes by their EML* amounts. The table below shows premiums written calculated for each risk class.

EUR million	5–20	20–50	50–100	100–300
2009	11	12	8	5
2008	9	11	7	4

*EML = Estimated Maximum Loss per object of insurance

Premiums written by TSI* class in corporate liability insurance

The degree of risk in liability insurance can be evaluated by dividing risks into classes by their TSI* amounts. The table below shows premiums written calculated for each risk class.

EUR million	2–4	4–10	10–30	30–90
2009	3	6	7	2
2008	3	6	9	2

*TSI = Total Sum Insured

Sums insured in guarantee and decennial insurance

The sum insured of insurance contracts depicts the volume of guarantee and decennial insurance (construction defects insurance). The gross and net amounts of the sum insured are itemised by contract type in the table below. The liability period of decennial insurance is 10 years.

	Gross		Net*	
EUR million	**2009**	**2008**	**2009**	**2008**
Contract guarantees	23	46	23	46
Loan guarantees	16	27	16	27
Other	5	8	5	7
Guarantee insurance	**44**	**81**	**44**	**80**
Decennial insurance	**1,829**	**1,763**	**1,628**	**1,536**

* For insurance company's own account after reinsurers' share and before counter guarantee

NOTE 73. TREND IN MAJOR LOSSES

Number of detected major losses by year of detection for 2005–09

Non-life Insurance monitors carefully claims expenditure arising from major losses. The claims expenditure explains a significant part of the annual fluctuation in the underwriting result. In addition, monitoring the claims expenditure arising from major losses helps to detect any changes in risks or risk selection. In this analysis, major losses are those whose gross amount exceeds EUR 2 million. Most major losses occur in property and business interruption insurance. In statutory policies, the risk of major loss is small relative to the large volume of the line of business.

Gross amount **Number of losses exceeding EUR 2 million**	**Statutory lines**	**Other accident and health**	**Hull and cargo**	**Property and business interruption**	**Liability and legal expenses**	**Long-term**
2005	1		3	6		
2006	1		1	11		
2007	2			6	4	
2008			1	3	3	
2009	3			5	3	
				Total claims, EUR million	218	
Gross amount, total claims, EUR million						
2005–09	**20**		**15**	**157**	**26**	

Net amount Number of losses exceeding EUR 2 million	Statutory lines	Other accident and health	Hull and cargo	Property and business interruption	Liability and legal expenses	Long-term
2005	1			6		
2006	1			10		
2007	1			5	3	
2008			1	3	3	
2009	3			4	2	
				Total claims, EUR million	139	
Net amount, total claims, EUR million						
2005–09	**15**		**2**	**101**	**21**	

NOTE 74. INSURANCE PROFITABILITY

Trends in insurance premium revenue (gross and net) and combined ratio (net)

Insurance premium revenue describes the volume of an insurance class, enabling the evaluation of the importance of the insurance class in relation to the whole portfolio. Similarly, the combined ratio (CR) is used to evaluate fluctuations in the results of the insurance class and the profitability of the class. The combined ratio is presented separately adjusted for one-off items relating to previous insurance periods.

2009, EUR million	Gross IP revenue	Net IP revenue	Net CR*	Net** CR*
Statutory lines	365	360	88 %	88 %
Other accident and health	106	105	94 %	94 %
Hull and cargo	206	203	87 %	87 %
Property and business interruption	247	215	85 %	85 %
Liability and legal expenses	62	55	84 %	84 %
Long-term	4	3	118 %	118 %
Total	**990**	**943**	**88 %**	**88 %**

2008, EUR million	Gross IP revenue	Net IP revenue	Net CR*	Net** CR*
Statutory lines	369	363	86 %	86 %
Other accident and health	101	101	95 %	95 %
Hull and cargo	197	197	98 %	98 %
Property and business interruption	235	208	87 %	87 %
Liability and legal expenses	61	53	112 %	112 %
Long-term	4	2	174 %	174 %
Total	**966**	**923**	**92 %**	**92 %**

* The combined ratio is calculated by dividing the sum of claims incurred (net) and operating expenses of insurance business by insurance premium revenue (net). Amortisation on intangible rights is excluded from the calculation.

** One-off changes affecting the balance on technical account have been eliminated.

NOTE 75. SENSITIVITY ANALYSIS OF INSURANCE CONTRACT LIABILITIES AND INFORMATION ON THE NATURE OF INSURANCE CONTRACT LIABILITIES

Non-life Insurance	Portfolio at fair value, EUR million 31 Dec. 2009	Risk parameter	Change	Effect on solvency capital, EUR million 31 Dec. 2009	31 Dec. 2008
Collective liability	487	Inflation	0.25 percentage points	-3	-3
Discounted insurance contract liabilities	1,326	Life expectancy	1 year	-30	-29
Discounted insurance contract liabilities	1,326	Discount rate	0.1 percentage point	-16	-15

Information on the nature of liabilities	2009	2008
Net liabilities due to insurance contracts (EUR million)		
Latent occupational diseases	42	40
Other	2,026	1,988
Total (before transfers)	2,068	2,028
Duration of debt (years)		
Discounted insurance contract liabilities	11.9	11.9
Undiscounted insurance contract liabilities	2.4	2.4
Total	8.5	8.3
Discounted net debt (EUR million)		
Known provision for claims for annuities	1,054	1,023
Collective liability	239	205
Provision for unearned premiums	33	34
Total	1,326	1,262

NOTE 76. INSURANCE CONTRACT LIABILITIES BY ESTIMATED MATURITY

31 Dec. 2009, EUR million	0–1 yr	1–5 yrs	5–10 yrs	10–15yrs	Over 15 yrs	Total
Provision for unearned premiums*	241	68	17	4	7	337
Provision for unpaid claims						
Undiscounted	254	107	53	12	13	438
Discounted	86	312	284	210	402	1,293
Total insurance contract liabilities	**581**	**487**	**354**	**225**	**421**	**2,068**

* Includes EUR 34 million in discounted liability

31 Dec. 2008, EUR million	0–1 yr	1–5 yrs	5–10 yrs	10–15yrs	Over 15 yrs	Total
Provision for unearned premiums*	231	67	16	3	6	324
Provision for unpaid claims						
Undiscounted	273	119	58	13	13	476
Discounted	82	297	268	200	381	1,228
Total insurance contract liabilities	**586**	**482**	**343**	**216**	**400**	**2,028**

* Includes EUR 33 million in discounted liability

NOTE 77. RISK EXPOSURE OF INSURANCE INVESTMENTS

Allocation of investment portfolio	31.12.2009 Fair value, EUR million*		31 Dec. 2008 Fair value, EUR million*	
Money market total	101	4 %	279	12 %
Money market instruments and deposits**	82	3 %	174	7 %
Derivative instruments***	19	1 %	105	4 %
Total bonds and bond funds	2,067	72 %	1,690	70 %
Governments	661	23 %	688	28 %
Inflation-indexed bonds	92	3 %	67	3 %
Investment Grade	1,055	37 %	773	32 %
Emerging markets and High Yield	245	9 %	152	6 %
Structured investments	13	0 %	10	0 %
Total equities	364	13 %	190	8 %
Finland	76	3 %	58	2 %
Developed markets	146	5 %	127	5 %
Emerging markets	68	2 %	17	1 %
Fixed assets and unlisted equities	5	0 %	7	0 %
Private equity investments	67	2 %	85	4 %
Equity derivatives***	2	0 %	-105	-4 %
Total alternative investments	155	5 %	111	5 %
Hedge funds	72	3 %	67	3 %
Commodities	24	1 %	10	0 %
Convertible bonds	60	2 %	35	1 %
Total property investments	164	6 %	145	6 %
Direct property investments	109	4 %	106	4 %
Indirect property investments	55	2 %	39	2 %
Total	**2,851**	**100 %**	**2,415**	**100 %**

* Includes accrued interest income

** Includes settlement receivables and liabilities and market value of derivatives EUR -2.2 million (+0.6)

***Effect of derivatives on the allocation of the asset class (delta-weighted equivalents)

NOTE 78. SENSITIVITY ANALYSIS OF INVESTMENT RISKS

The table below shows the sensitivity of investment risks by investment category. The discount rate sensitivity analysis related to the calculation of insurance contract liabilities is presented in Note 79 dealing with insurance contract liabilities. Effects of changes in investment and insurance contract liabilities offset one another.

	Portfolio at fair value, EUR million			Effect on solvency capital, EUR million	
Non-life Insurance	**31 Dec. 2009**	**Risk parameter**	**Change**	**31 Dec. 2009**	**31 Dec. 2008**
Bonds and bond funds *	2,231	Interest rate	1 percentage point	73	82
Equities **	363	Market value	20 percentage points	73	33
Capital investments and unquoted equities	72	Market value	20 percentage points	14	18
Commodities	24	Market value	20 percentage points	5	2
Real property	164	Market value	10 percentage points	16	15
Currency	107	Currency value	20 percentage points	21	12
Credit risk premium***	2,172	Credit spread	0.5 percentage point	39	43
Derivatives****		Volatility	20 percentage points	0	

* Include money-market investments, convertible bonds and interest-rate derivatives

** Include hedge funds and equity derivatives

*** Includes bonds and convertible bonds and money-market investments, excluding government bonds issued by developed countries

**** 20 percentage points in equity derivatives, 10 percentage points in interest rate derivatives and 5 percentage points in currency derivatives

NOTE 79. INTEREST-RATE RISK

The market risk arising from changes in interest rates is monitored by classifying investments by instrument, in accordance with duration. The table below does not indicate the balancing effect which the insurance contract liabilities have on the interest-rate risk, because only some of the insurance contract liabilities have been discounted using an administrative interest rate (Note 32).

Fair value by duration or repricing date, EUR million*	**31 Dec. 2009**	**31 Dec. 2008**
0–1 year	414	500
>1–3 years	522	379
>3–5 years	721	338
>5–7 years	227	140
>7–10 years	196	212
>10 years	152	296
Total	**2,231**	**1,865**
Modified duration	3.3	4.3
Effective interest rate, %	3.5	5.3

* Includes money-market investments and deposits, bonds, convertible bonds and bond funds.

Fixed-income portfolio by maturity and credit rating on 31 Dec 2009, EUR million

Year(s)	0–1	1–3	3–5	5–7	7–10	10–	Total	Proportion
Aaa	13	105	203	78	25	104	529	24 %
Aa1−Aa3	51	203	85	39	9	17	404	19 %
A1−A3	43	279	258	75	86	54	794	37 %
Baa1−Baa3	33	119	98	40	8	14	312	14 %
Ba1 or lower	40	18	34	16	5	0	113	5 %
Internally rated	4	5	8	1		1	20	1 %
Total	**183**	**730**	**686**	**249**	**133**	**191**	**2,172**	**100 %**

The maturity is presented until the end of the term to maturity. If the paper includes a call option, the maturity is presented until the first possible Call date.

The average credit rating of the Non-life Insurance fixed-income portfolio is Moody's A1.

The term to maturity of the Non-life Insurance fixed-income portfolio averages 4.9 years (calculated on the basis of the call date and the maturity date).

NOTE 80. CURRENCY RISK

Foreign currency exposure, EUR million	31 Dec. 2009	31 Dec. 2008
USD	59	8
SEK	-2	3
JPY	6	2
GBP	3	-3
EEK, LVL, LTL**	-35	-39
Other	2	6
Total *	**107**	**60**

* The currency exposure was 3.8% (2.5) of the investment portfolio. It is calculated as the sum total of individual currencies' intrinsic values.

** ERM2 currencies.

NOTE 81. COUNTERPARTY RISK

	31 Dec. 2009		31 Dec. 2008	
Credit rating, consistent with Moody's, EUR million	**Investment***	**Insurance****	**Investment***	**Insurance****
Aaa	529	2	607	3
Aa1−Aa3	404	24	386	29
A1−A3	794	25	556	28
Baa1−Baa3	312	0	206	0
Ba1 or lower	113		92	
Internally rated	20	26	18	27
Total	**2,172**	**78**	**1,865**	**87**

* Include money-market investments and deposits, bonds and bond funds

** Includes the reinsurers' share of insurance contract liabilities, and receivables from reinsurers.

OTHER NOTES TO THE BALANCE SHEET

NOTE 82. CLASSIFICATION OF ASSETS AND LIABILITIES

Assets 31 Dec. 2009, EUR million	Loans and recei-vables	Held to maturity	At fair value through profit or loss*	Available for sale	Hedging deriva-tives	Total
Cash and balances with central banks	3,102					3,102
Receivables from credit institutions and central banks	7,630					7,630
Derivative contracts			1,385		59	1,443
Receivables from customers	11,323					11,323
Non-life Insurance assets**	769		85	2,301		3,156
Notes and bonds***		1,086	1,279	4,225		6,590
Shares and participations				87		87
Other receivables	2,162		18			2,180
Total	**24,986**	**1,086**	**2,767**	**6,613**	**59**	**35,510**

Assets 31 Dec. 2008, EUR million	Loans and recei-vables	Held to maturity	At fair value through profit or loss*	Available for sale	Hedging deriva-tives	Total
Cash and balances with central banks	2,260					2,260
Receivables from credit institutions and central banks	6,644					6,644
Derivative contracts			1,443		43	1,486
Receivables from customers	12,279					12,279
Non-life Insurance assets**	773		91	1,881		2,745
Notes and bonds***		1,103	3,255	68		4,427
Shares and participations				87		87
Other receivables	2,494		27			2,521
Total	**24,451**	**1,103**	**4,816**	**2,036**	**43**	**32,448**

Liabilities 31 Dec. 2009, EUR million	At fair value through profit or loss	Other liabilities	Hedging deriva-tives	Total
Liabilities to credit institutions		4,984		4,984
Financial liabilities held for trading (excl. derivatives)	71			71
Derivative conctracts	1,306		150	1,456
Liabilities to customers		4,133		4,133
Non-life Insurance liabilities	0	2,279		2,279
Debt instruments issued to the public		17,295		17,295
Subordinated liabilities		1,300		1,300
Other liabilities		1,726		1,726
Total	**1,377**	**31,716**	**150**	**33,244**

Liabilities 31 Dec. 2008, EUR million	At fair value through profit or loss	Other liabilities	Hedging deriva-tives	Total
Liabilities to credit institutions		3,643		3,643
Financial liabilities held for trading (excl. derivatives)	138			138
Derivative conctracts	1,532		111	1,644
Liabilities to customers		3,508		3,508
Non-life Insurance liabilities		2,238		2,238
Debt instruments issued to the public		16,425		16,425
Subordinated liabilities		1,322		1,322
Other liabilities		1,890		1,890
Total	**1,670**	**29,026**	**111**	**30,808**

*Assets at fair value through profit or loss include financial assets held for trading, financial assets at fair value through profit or loss at inception and investment property.

** Non-life Insurance assets are specified in Note 20.

*** On 31 December 2009, notes and bonds included EUR 55 million (43) in notes and bonds recognised using the fair value option.

Debt securities issued to the public are carried at amortised cost. On 31 December 2009, the fair value of these debt instruments was EUR 30 million higher than their carrying amount, based on information available in markets and employing commonly used valuation techniques. Subordinated liabilities are carried at amortised cost. Their fair value was EUR 42 million lower than their carrying amount.

NOTE 83. ASSETS AND LIABILITIES BY HIERARCHY OF VALUATION TECHNIQUES

		Fair value		
Financial assets measured at fair value 31 Dec 2009, EUR million	**Carrying amount**	**Level 1***	**Level 2****	**Level 3*****
Financial assets at fair value through profit or loss	1,279	536	738	6
Derivatives	1,443	6	1,357	81
Available-for-sale financial assets	4,312	3,965	331	17
Non-life Insurance assets	2,309	1,556	552	201
Total	**9,344**	**6,062**	**2,978**	**304**

		Fair value		
Financial liabilities measured at fair value 31 Dec 2009, EUR million	**Carrying amount**	**Level 1***	**Level 2****	**Level 3*****
Financial liabilities at fair value through profit or loss	71	71		
Derivatives	1,456	1	1,423	33
Non-life Insurance liabilities	0		0	
Total	**1,528**	**72**	**1,423**	**33**

* This level includes equities listed on major stock exchanges, quoted corporate debt instruments, bonds issued by governments and financial institutions with credit rating of at least A–, and exchange-traded derivatives. The fair value of these instruments is determined on the basis of market quotes.

** Valuation techniques based on observable input parameters. The fair value of the instruments included within this level means value derived from the market price of a financial instrument's components or similar financial instruments; or value which can be determined using commonly used valuation models and techniques if the inputs significant to the fair value measurement are based on observable market data. The fair value hierarchy level at Pohjola Group includes OTC derivatives, treasury bills/notes, debt instruments issued by companies and financial institutions, repo agreements, and securities lent or borrowed.

*** Valuation techniques whose input parameters involve special uncertainty. The fair value determination of the financial instruments included within this level contains inputs not based on observable market data (unobservable inputs). This level includes the most complex OTC derivatives, certain private equity investments, illiquid bonds, structured bonds, including securitised bonds and structured debt securities, and hedge funds.

Transfers between levels of the fair value hierarchy

The Group did not change classification between the levels of hierarchy in 2009.

Reconciliation of Level 3 items

Specification of financial assets and liabilities

Financial assets, EUR million	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Derivatives	Non-life Insurance assets	Total assets
Opening balance 1 Jan 2009	7	17	46	199	269
Total gains/losses in profit or loss		-1	35	-5	29
Total gains/losses in other comprehensive income		2		-9	-8
Purchases		0		22	22
Sales				-6	-6
Settlements	0				0
Closing balance 31 Dec 2009	**6**	**17**	**81**	**201**	**306**

Financial liabilities, EUR million	Financial liabilities at fair value through profit or loss	Derivatives	Non-life Insurance liabilities	Total liabilities
Opening balance 1 Jan 2009		18		18
Total gains/losses in profit or loss		14		14
Closing balance 31 Dec 2009		**33**		**33**

Total gains/losses included in profit or loss by item for the financial year on 31 Dec 2009

EUR million	Net trading income	Net investment income	Net income from Non-life Insurance	Statement of compre-hensive income	Total gains/losses for the financial year included in profit or loss for assets/liabilities held at year-end
Total gains/losses in profit or loss	35	-1	-5	-8	21
Total	**35**	**-1**	**-5**	**-8**	**21**

Derivatives included in Level 3 comprise structured derivatives for customer needs, whose market risk is covered by a corresponding derivatives contract. Market risk of derivatives embedded in the host contract is covered by a corresponding derivatives contract. The Group did not change classification between the levels of hierarchy in 2009.

Sensitivity of Level 3 measurements to reasonably possible alternative assumptions

The Group did not change classification between the levels of hierarchy in 2009.

NOTE 84. COLLATERAL GIVEN

Balance sheet value, EUR million	31 Dec. 2009	31 Dec. 2008
Given on behalf of own liabilities and commitments		
Mortgages	1	1
Pledges	5,839	4,134
Other	600	400
Total	6,439	4,534
Total collateral given		
Mortgages	1	1
Pledges	5,839	4,134
Other	600	400
Total	**6,439**	**4,534**
Total collateralised liabilities	1,023	614

Growth in pledges was due to growth in collateral required for the maintenance of the liquidity buffer.

NOTE 85. FINANCIAL COLLATERAL HELD

EUR million	31 Dec. 2009	31 Dec. 2008
Fair value of collateral received		
Other	106	125
Total	**106**	**125**

The credit risk arising from derivatives is mitigated through collateral, which means the use of ISDA Credit Support Annex (CSA) contract associated with the ISDA general agreement. In the collateral system, the counterparty provides securities or cash in security for the receivable. The amount of CSA-related collateral received in cash totalled EUR 106 million on the balance sheet date (125). The Group had no securities received as collateral on the balance sheet date.

NOTES TO CONTINGENT LIABILITIES AND DERIVATIVES

NOTE 86. OFF-BALANCE-SHEET COMMITMENTS

EUR million	31 Dec. 2009	31 Dec. 2008
Guarantees	1,296	1,133
Other guarantee liabilities	1,283	1,476
Loan commitments	4,140	3,149
Commitments related to short-term trade transactions	98	152
Other	447	416
Total off-balance-sheet commitments	**7,264**	**6,328**

NOTE 87. DERIVATIVE CONTRACTS

Derivatives held for trading 31 Dec. 2009

	Nominal values/ residual term to maturity				Fair values		Potential future
EUR million	<1 year	1–5 years	>5 years	Total	Assets	Liabilities	exposure
Interest rate derivatives							
Interest rate swaps	12,702	29,611	9,119	51,432	887	891	1,171
Forward rate agreements	200	200		400	0		1
OTC interest rate options							
Call and caps							
Purchased	2,205	6,467	1,296	9,968	62	25	113
Written	1,146	3,037	1,406	5,589		38	
Put and floors							
Purchased	1,091	2,589	283	3,963	129	0	146
Written	1,208	2,619	161	3,988		88	
Total OTC interest rate derivatives	18,551	44,523	12,266	75,340	1,079	1,042	1,432
Interest rate futures	2,242	408		2,650	5	1	
Interest rate options							
Call							
Written	6,000			6,000	1		
Put							
Purchased	6,000			6,000	0	1	
Written	7,000			7,000	1	0	
Total exchange traded derivatives	21,242	408		21,650	7	2	
Total interest rate derivatives	39,793	44,932	12,266	96,990	1,086	1,044	1,432

Currency derivatives							
Forward exchange agreements	11,108	460	7	11,574	203	101	338
Interest rate and currency swaps		419	347	766	25	37	72
Currency options							
Call							
Purchased	71			71	1		1
Written	73			73		1	
Put							
Purchased	50			50	1		1
Written	56			56		1	
Total OTC currency derivatives	11,357	879	354	12,590	229	140	412
Total currency derivatives	11,357	879	354	12,590	229	140	412
Equity and index derivatives							
Forward equity agreements							
Equity index options							
Call							
Purchased	72	813	41	926	87		160
Put							
Purchased		1		1	0		0
Total OTC equity and index derivatives	72	814	41	927	87		161
Total equity and index derivatives	72	814	41	927	87		161
Credit derivatives							
Credit default swaps	56	157		213	4	1	7
Total credit derivatives	56	157		213	4	1	7
Other							
Other forward agreements	6	7		12	2		
Other swaps	3,845	235		4,080	2	24	21
Other options							
Call							
Purchased		10		10	0		1
Total other OTC derivatives	3,850	252		4,102	3	24	22
Total other derivatives	3,850	252		4,102	3	24	22
Total derivatives held for trading	**55,129**	**47,033**	**12,661**	**114,823**	**1,410**	**1,209**	**2,034**

Derivatives held for trading 31 Dec. 2008

EUR million	Nominal values/ residual term to maturity <1 year	1–5 years	>5 years	Total	Fair values Assets	Liabilities	Potential future exposure
Interest rate derivatives							
Interest rate swaps	19,128	27,602	7,260	53,990	865	850	1,110
Forward rate agreements	50			50	0		0
OTC interest rate options							
Call and caps							
Purchased	2,576	6,439	1,362	10,378	87	16	136
Written	1,221	6,430	1,553	9,204	0	95	
Put and floors							
Purchased	1,158	2,182	668	4,007	92	1	111
Written	607	2,413	574	3,594	0	57	
Total OTC interest rate derivatives	24,741	45,066	11,417	81,224	1,044	1,018	1,357
Interest rate futures	4,213	3,774		7,987	24	6	
Total exchange traded derivatives	4,213	3,774		7,987	24	6	
Total interest rate derivatives	28,954	48,840	11,417	89,211	1,068	1,024	1,357
Currency derivatives							
Forward exchange agreements	9,858	319	285	10,461	291	357	427
Interest rate and currency swaps			490	490	19	19	56
Currency options							
Call							
Purchased	571			571	40		46
Written	568	0		569		44	
Put							
Purchased	620	0		620	34		40
Written	526			526		27	
Total OTC currency derivatives	12,143	319	775	13,237	384	447	568
Total currency derivatives	12,143	319	775	13,237	384	447	568
Equity and index derivatives							
Forward equity agreements							
Equity index options							
Call							
Purchased	23	524		547	20		64
Put							
Purchased		1		1	0		0
Total OTC equity and index derivatives	23	525		548	21		64
Total equity and index derivatives	23	525		548	21		64

Credit derivatives							
Credit default swaps	188	179		367	4	21	10
Total credit derivatives	188	179		367	4	21	10
Other							
Other options							
Call							
Purchased		16		16	1		2
Total other OTC derivatives		16		16	1		2
Total other derivatives		16		16	1		2
Total derivatives held for trading	**41,307**	**49,880**	**12,192**	**103,379**	**1,477**	**1,491**	**2,001**

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

	Nominal values /residual term to maturity				Fair values		Potential future exposure
EUR million	**<1 year**	**1–5 years**	**>5 years**	**Total**	**Assets**	**Liabilities**	
Interest rate derivatives							
Interest rate swaps	2,007	6,300	747	9,053	81	190	124
Total OTC interest rate derivatives	2,007	6,300	747	9,053	81	190	124
Interest rate futures	540			540	0		
Interest rate options							
Put							
Purchased	1,724			1,724		0	
Total exchange traded derivatives	2,263			2,263	0	0	
Total interest rate derivatives	4,270	6,300	747	11,317	82	191	124
Currency derivatives							
Forward exchange agreements	156			156	0	1	2
Interest rate and currency swaps		1,080	136	1,216	13	197	77
Total OTC currency derivatives	156	1,080	136	1,372	13	198	79
Total currency derivatives	156	1,080	136	1,372	13	198	79
Equity and index derivatives							
Equity index options							
Call							
Written	33			33		0	
Put							
Purchased	33			33	0		
Written	33			33		0	
Total equity index options	98			98	0	0	
Equity index futures	7			7	0		
Total exchange-listed derivatives	7			7	0		
Equity and index derivatives	105			105	0	0	

Credit derivatives							
Credit default swaps		21		21		1	0
Total credit derivatives		21		21		1	0
Total derivatives held for hedging	**4,531**	**7,401**	**882**	**12,815**	**95**	**390**	**203**

Derivative contracts held for hedging – fair value hedging 31 Dec. 2008

	Nominal values /residual term to maturity				Fair values		Potential future
EUR million	**<1 year**	**1–5 years**	**>5 years**	**Total**	**Assets**	**Liabilities**	**exposure**
Interest rate derivatives							
Interest rate swaps	1,258	1,936	493	3,686	43	105	60
Total OTC interest rate derivatives	1,258	1,936	493	3,686	43	105	60
Total interest rate derivatives	1,258	1,936	493	3,686	43	105	60
Currency derivatives							
Forward exchange agreements	94			94	3	1	2
Interest rate and currency swaps	665	809	263	1,737	39	300	106
Total OTC currency derivatives	759	809	263	1,830	43	301	108
Total currency derivatives	759	809	263	1,830	43	301	108
Equity and index derivatives							
Equity futures	104			104		2	
Total exchange-listed derivatives	104			104		2	
Equity and index derivatives	104			104		2	
Total derivatives held for hedging	**2,028**	**2,745**	**755**	**5,527**	**82**	**407**	**166**

Total derivative contracts 31 Dec. 2009

	Nominal values /residual term to maturity				Fair values		Potential future
EUR million	**<1 year**	**1–5 years**	**>5 years**	**Total**	**Assets**	**Liabilities**	**exposure**
Interest rate derivatives	44,063	51,231	13,013	108,307	1,167	1,235	1,556
Currency derivatives	11,513	1,959	489	13,962	243	338	491
Equity and index-linked derivatives	177	814	41	1,032	87	0	161
Credit derivatives	56	178		234	4	2	7
Other derivatives	3,850	252		4,102	3	24	22
Total derivatives	**59,660**	**54,435**	**13,543**	**127,638**	**1,505**	**1,599**	**2,237**

Total derivative contracts 31 Dec. 2008

EUR million	Nominal values /residual term to maturity <1 year	1–5 years	>5 years	Total	Fair values Assets	Liabilities	Potential future exposure
Interest rate derivatives	30,212	50,776	11,910	92,897	1,111	1,129	1,417
Currency derivatives	12,902	1,128	1,037	15,067	426	747	676
Equity and index-linked derivatives	127	525		652	21	2	64
Credit derivatives	188	179		367	4	21	10
Other derivatives		16		16	1		2
Total derivatives	**43,429**	**52,625**	**12,947**	**109,000**	**1,563**	**1,899**	**2,169**

NOTE 88. CONTINGENT LIABILITIES AND ASSETS

Insurance companies belonging to the Group underwrite insurance policies through pools. Pool members are primarily responsible for their own proportionate share of the risk. Proportionate shares are based on contracts confirmed annually. In certain pools, pool members are responsible for an insolvent member's liabilities in proportion to their shares in the pool. Group insurance companies recognise liabilities and receivables based on joint liability if joint liability is likely to materialise.

On 22 August 2008, the Helsinki District Court issued its verdict in the redemption dispute between Pohjola Bank plc's and Pohjola Group plc's minority shareholders, confirming the redemption price of one Pohjola Group plc share at EUR 13.35. The redemption dispute has been submitted to the Court of Appeal, for the special representative of Pohjola Group plc's minority shareholders and some individual minority shareholders have appealed against the Helsinki District Court's decision. The dispute still applies to around 2% of the company's shares (about 3 million shares). Pohjola Bank plc has also appealed against this decision, pertaining to legal expenses sentenced to be paid by the adverse parties, interest confirmed on the redemption price and some matters related to legal proceedings. The Court of Appeal will issue a verdict on this matter in the spring of 2010. The legal process began with an Arbitral Tribunal in 2006 once the Bank had acquired over 90% of Pohjola Group plc shares. The redemption price bid by Pohjola Bank plc for Pohjola Group plc shares held by minority shareholders was EUR 13.35 per share. In May 2007, the Arbitral Tribunal set the redemption price at EUR 14.35.

Pohjola Non-Life Insurance Company Ltd has signed an agreement with the City of Helsinki for a change in the city plan for one of the sites owned by the company. Under the agreement, Pohjola Non-Life has undertaken to pay the City of Helsinki a maximum of EUR 1 million for an improvement in the conditions for construction on the site. The latest possible time for this payment will be at the end of 2010.

NOTE 89. OPERATING LEASES

Pohjola Group as Lessee

Some Group companies have leased the premises they use. The term of these leases varies between one and ten years and they usually include the option of extending the lease after the original date of termination. The Group has subleased some of its premises. In addition, some Group companies have leased motor vehicles and office equipment. Rental expenses of EUR 11 million (13) due to the abovementioned items were recognised under Other operating expenses.

Future minimum lease payments under non-cancellable operating leases

EUR million	31 Dec. 2009	31 Dec. 2008
No later than 1 year	11	11
Later than 1 year and no later than 5 years	38	37
Later than 5 years	8	15
Total	**57**	**63**
Expected future minimum lease payments from non-cancellable subleases	34	56

Pohjola Group as Lessor

Pohjola Group companies have leased out investment properties they own, which generated lease income of EUR 13 million (13). In addition to investment properties, the Group has primarily leased out passenger cars, which generated lease income of EUR 25 million (22).

Future minimum lease payments receivable under non-cancellable operating leases

EUR million	31 Dec. 2009	31 Dec. 2008
No later than 1 year	46	42
Later than 1 year and no later than 5 years	65	84
Later than 5 years	13	15
Total	**125**	**141**

NOTE 90. ASSET MANAGEMENT

Within Pohjola Group, Pohjola Asset Management Limited runs asset management business and provides institutional customers and wealthy private individuals with discretionary and advisory portfolio management services. Pohjola Asset Management Limited is responsible for the financial management of most of OP Fund Management Company's mutual funds.

Pohjola Asset Management Ltd's discretionary asset management portfolio on 31 December 2009 totalled EUR 20.6 billion (20.2) and advisory asset management portfolio EUR 9.1 billion (3.2).

NOTE 91. OWNERSHIP IN OTHER COMPANIES

Changes in subsidiaries and associates in 2009

In February 2009, Pohjola dissolved its subsidiary OKO Capital East Ltd. In March, Pohjola Finance SIA, a subsidiary in Latvia, and UAB Pohjola Finance, a subsidiary in Lithuania, were integrated into the consolidated financial statements as new companies. In October, their parent company, Pohjola Finance Ltd, merged with Pohjola Bank plc. In November, Pohjola Property Management Ltd established a subsidiary, Real Estate Fund of Funds Finland Oy. In December, Pohjola dissolved its associated company, Vahinkopalvelu Oy.

Subsidiaries (consolidated) in 2009

Company	Domicile	Ownership interest, %	Voting interest, %
A-Insurance Ltd	Helsinki	100	100
Conventum Venture Finance Ltd	Helsinki	100	100
Eurooppalainen Insurance Company Ltd	Helsinki	100	100
Joint Stock Insurance Company "Seesam Latvia"	Latvia	100	100
Joint Stock Insurance Company "Seesam Lithuania"	Lithuania	100	100
Kaivokadun PL-hallinto Oy	Helsinki	100	100
Pohjola Finance Estonia AS	Estonia	100	100
Pohjola Finance SIA	Latvia	100	100
Pohjola Insurance Ltd	Helsinki	100	100
Pohjolan IT Procurement Ltd	Helsinki	100	100
Pohjola Property Management Ltd	Helsinki	100	100
Real Estate Fund Finland Oy	Helsinki	100	100
Real Estate Fund of Funds Finland Oy	Helsinki	100	100
Seesam International Insurance Company Ltd	Estonia	100	100
SMF I Fund Ltd	Helsinki	100	100
SPEF I Oy	Helsinki	100	100
UAB Pohjola Finance	Lithuania	100	100
Pohjola Asset Management Ltd	Helsinki	90	90
Pohjola Private Equity Funds Ltd	Helsinki	69.75	69.75
Pohjola Corporate Finance Ltd	Helsinki	66	66
Pohjola Capital Partners Ltd	Helsinki	65	65

Subsidiaries (consolidated) in 2008

Company	Domicile	Ownership interest, %	Voting interest, %
A-Insurance Ltd	Helsinki	100	100
Conventum Venture Finance Ltd	Helsinki	100	100
Eurooppalainen Insurance Company Ltd	Helsinki	100	100
Joint Stock Insurance Company "Seesam Latvia"	Latvia	100	100
Joint Stock Insurance Company "Seesam Lithuania"	Lithuania	100	100
Kaivokadun PL-hallinto Oy	Helsinki	100	100
Pohjola Finance Ltd	Helsinki	100	100
Pohjola Finance Estonia AS	Estonia	100	100
Pohjola Insurance Ltd	Helsinki	100	100
Pohjolan IT Procurement Ltd	Helsinki	100	100
Pohjola Property Management Ltd	Helsinki	100	100
Real Estate Fund Finland Oy	Helsinki	100	100
Seesam International Insurance Company Ltd	Estonia	100	100
SMF I Fund Ltd	Helsinki	100	100
SPEF I Oy	Helsinki	100	100
Pohjola Asset Management Ltd	Helsinki	90	90
OKO Capital East Ltd	Helsinki	70	70
Pohjola Private Equity Funds Ltd	Helsinki	69.75	69.75
Pohjola Capital Partners Ltd	Helsinki	65	65
Pohjola Corporate Finance Ltd	Helsinki	64	64

Associates (consolidated) in 2009

Name	Domicile	Assets, EUR million	Liabilities, EUR million	Net sales, EUR million	Profit/Loss, EUR million	Ownership interest, %
Autovahinkokeskus Oy	Espoo	7	1	7	1	27.8

Associates (consolidated) in 2008

Name	Domicile	Assets, EUR million	Liabilities, EUR million	Net sales, EUR million	Profit/Loss, EUR million	Ownership interest, %
Vahinkopalvelu Oy	Loppi	1	0	3	0	46.7
Autovahinkokeskus Oy	Espoo	7	2	6	1	27.8

Joint ventures in 2009

Name	Domicile	Ownership interest, %
Kiinteistö Oy Helsingin Puutarhurinkuja 2	Helsinki	100
Kiinteistö Oy Kanta-Sarvis II	Tampere	100
Kiinteistö Oy Vantaan Kisällintie 13	Helsinki	100
Tikkurilan Kauppatalo Oy	Helsinki	53.7

The consolidated financial statements include the share of assets and related liabilities under joint control.

Joint ventures in 2008

Name	Domicile	Ownership interest, %
Kiinteistö Oy Helsingin Puutarhurinkuja 2	Helsinki	100
Kiinteistö Oy Kanta-Sarvis II	Tampere	100
Kiinteistö Oy Vantaan Kisällintie 13	Helsinki	100
Tikkurilan Kauppatalo Oy	Helsinki	53.7

OTHER NOTES

NOTE 92. RELATED-PARTY TRANSACTIONS

The list of Pohjola Group's associates can be found in Note 91. Pohjola Group's related parties comprise the Parent Company, associates, administrative personnel and other related party companies.

Pohjola Group's Parent Company is OP-Keskus osk (OP-Pohjola Group Central Cooperative).

Pohjola Group administrative personnel comprises Pohjola Bank plc's President and CEO, his deputy (Deputy CEO), members of the Board of Directors and their close family members. Normal loan terms and conditions apply to loans granted to the management. Tied to generally used reference rates, these loans with normal collateral are repaid according to the agreed repayment schedule.

Related-party transactions in 2009

EUR million	Parent company	Adminis-trative personnel	Others *
Loans	250		3064
Other receivables	89		316
Deposits	8		319
Other liabilities	7		308
Interest income	5		196
Interest expenses	6		180
Dividend income	0		5
Net income from Non-life Insurance	2		4
Net commissions and fees	-1	0	24
Net trading income			-3
Other operating income	4		5
Operating expenses	76		4
Off-balance-sheet commitments			
Guarantees			75
Irrevocable commitments	8		
Salaries and other short-term benefits			
Salaries and other short-term benefits		1	
Related-party holdings			
Number of shares	95,798,479	103,402	6,622,475

* Other related-party entities include OP Bank Group Pension Fund, OP Bank Group Pension Foundation and their sister companies within OP-Pohjola Group Central Cooperative Consolidated.

Related-party transactions in 2008

EUR million	Parent company	Adminis-trative personnel	Others *
Loans	50		2,167
Other receivables	62		92
Deposits	56		395
Other liabilities	1		447
Interest income	8		287
Interest expenses	11		218
Dividend income	0		5
Net income from Non-life Insurance	5		4
Net commissions and fees	-1	0	20
Net trading income			-33
Other operating income	3		7
Operating expenses	80		3
Off-balance-sheet commitments			
Guarantees			68
Irrevocable commitments	8		1
Salaries and other short-term benefits			
Salaries and other short-term benefits		2	
Related-party holdings			
Number of shares	60,825,897	63,421	4,205,946

* Other related-party entities include OP Bank Group Pension Fund, OP Bank Group Pension Foundation and their sister companies within OP-Pohjola Group Central Cooperative Consolidated.

Board emoluments 2009

The Annual General Meeting approved the following Board emoluments:

Emoluments paid to Board members in 2009 totalled EUR 513,000. The Chairman's monthly emoluments totalled EUR 7,000, the Vice Chairman's EUR 5,000 and other members EUR 4,000. All Board members received an attendance allowance of EUR 500 for each meeting.

Reijo Karhinen, Chairman	EUR 97,000
Tony Vepsäläinen, Vice Chairman	EUR 75,500
Board members:	
Merja Auvinen	EUR 60,000
Eino Halonen (until 27 March 2009)	EUR 15,636
Jukka Hienonen (since 27 March 2009)	EUR 43,363
Simo Kauppi	EUR 59,000
Satu Lähteenmäki	EUR 59,500
Markku Vesterinen	EUR 60,500
Tom von Weymarn	EUR 60,500

Salaries and performance-based bonuses paid to the President and CEO and his deputy in the financial year ending 31 December 2009 were as follows:

Mikael Silvennoinen, President and CEO EUR 652,670

His period of notice is six months and the severance pay equals a 12-month salary in addition to compensation for loss of office.

NOTE 93. LONG-TERM INCENTIVE SCHEMES

Long-term management incentive scheme

The Group's long-term management incentive scheme applies to Pohjola Bank plc's President and CEO, Senior Vice Presidents, Executive Vice Presidents, heads of departments and those in charge of separately defined managerial, supervisory and expert duties. On 31 December 2009, the scheme covered 127 people. The Board of Directors confirms the inclusion of the President and CEO and members of the Executive Committee in the scheme. The Executive Committee confirms the inclusion of other people in the scheme.

Those included in the incentive scheme may receive Pohjola Bank plc shares for 2007–09 as annual bonuses.

In 2009, target indicators for the management incentive scheme were as follows:

-Pohjola Group's earnings per share for the financial year, target 0.74 euro per share, weight 50%

-Change in the number of Pohjola Insurance Ltd's loyal customer households, target 35,000, weight 25%

-Change in the number of OP-Pohjola Group's loyal customer households, target 90,096, weight 25%

The bonus factor, which is determined by the achievement of the target set for the performance indicators (profitability, growth 1 and growth 2) and by their weights, determines the final amount of bonuses payable. A minimum of 80% of the target set for each performance indicator must be achieved in order for the indicator to accumulate the bonus factor. The actual figure recorded for each performance indicator, ranging between 80% and 120% of the target level, and its weight determine the final bonus factor. The following restrictions apply to the bonus: At least 80% of one of the two Pohjola Group's targets set for the indicators (profitability or growth 1) must be achieved. At least 60% of the target set for growth 2 must be achieved to be entitled to bonuses. However, this will not apply if the target set for loyal customer households (growth 1) has been achieved at 100%. The bonus payable derives from the share, based on the abovementioned bonus factor, of the set target bonus.

If the targets are met, each person covered by the scheme is entitled to a bonus corresponding to his/her regular salary subject to PAYE tax for the following periods: the President and CEO, 6 months; Group Executive Committee members, 5 months; heads of business divisions and departments, 3 months; and other persons covered by the scheme, 1.5 months. Persons in the latter group are also entitled to a share of the profit-based payment paid into the Personnel Fund. The bonus will be paid in two years' time following the end of the vesting period.

Bonuses paid in terms of shares and cash are charged to personnel costs on an accrual basis over the vesting period. In the financial year, a total of EUR one million (0.5) was expensed for the incentive scheme.

Personnel fund

On 26 October 2004, Pohjola Bank plc joined the OP Bank Group Personnel Fund. On 31 December 2009, the Fund had over 2,400 Pohjola Group employees. No members of the staff of Group subsidiaries were included in the Fund, excluding Pohjola Insurance's personnel.

In 2009, the amount of profit-based bonuses based on profit for 2008 and transferred to the Personnel Fund totalled around EUR 0.8 million (1.3).

The profit-based bonuses transferred to the Personnel Fund in 2009 are based on the same performance indicators as applied in the management's long-term incentive scheme. However, the minimum requirement for the growth 2 performance indicator within the management incentive scheme will not apply when determining the profit-based bonuses transferred to the Personnel Fund.

If the targets set for the performance indicators are achieved, profit-based bonuses for 2010 to be transferred to the Fund account for 3.0% of the combined salaries and wages earned by the Fund's members in 2010.

PARENT COMPANY FINANCIAL STATEMENTS, FAS

FINANCIAL STATEMENTS

Income statement

EUR million	**2009**	**2008**
Interest income	1,930	3,129
Net lease income	27	36
Interest expenses	-1,701	-2,977
Net interest income	**255**	**187**
Income from equity investments	68	24
From subsidiaries	65	16
From affiliates	2	1
From other companies	0	7
Commissions and fees	111	81
Commission expenses	-37	-22
Net income from securities and foreign exchange trading	66	-96
Net income from securities trading	58	-83
Net income from foreign exchange trading	7	-13
Net income from available-for-sale financial assets	-7	1
Net income from hedge accounting	-7	0
Net income from investment property	0	-1
Other operating income	18	18
Administrative expenses	-111	-97
Personnel costs	-66	-51
Wages and salaries	-52	-40
Social expenses	-14	-11
Pension costs	-8	-7
Other social expenses	-6	-3
Other administrative expenses	-45	-47
Depreciation/amortisation and write-downs on tangible and intangible assets	-5	-5
Other operating expenses	-23	-13
Impairment losses on loans and other commitments	-123	-27
Impairment losses on other financial assets		
Operating profit	**204**	**51**
Appropriations	-105	-36
Income taxes	-9	0
Taxes for the financial year	-16	-2
Taxes for previous financial years	0	-1
Change in deferred taxes	7	4
Profit from operations after taxes	**91**	**15**
Profit for the financial year	**91**	**15**

Balance sheet

ASSETS

EUR million	**31 Dec. 2009**	**31 Dec. 2008**
Cash and cash equivalents	3,102	2,260
Notes and bonds eligible for refinancing with central banks	5,967	4,043
Treasury bills	5	0
Other	5,962	4,043
Receivables from credit institutions	7,627	6,638
Repayable on demand	142	165
Other	7,486	6,473
Receivables from the public and public sector entities	10,651	11,683
Repayable on demand	0	0
Other	10,651	11,683
Lease assets	759	707
Notes and bonds	805	618
From public sector entities	54	85
From other	751	532
Shares and participations	78	76
Shares and participations in affiliates	1	1
Shares and participations in subsidiaries	1,283	1,285
Derivative contracts	1,443	1,486
Intangible assets	31	18
Tangible assets	26	28
Investment property and shares and participations in investment property	21	22
Other property and shares and participations in property companies	2	3
Other tangible assets	3	3
Other assets	541	499
Deferred income and advances paid	519	731
Deferred tax assets	9	16
Total assets	**32,845**	**30,088**

LIABILITIES

EUR million	31 Dec. 2009	31 Dec. 2008
Liabilities		
Liabilities to credit institutions	4,984	3,646
Central banks	500	101
Credit institutions	4,484	3,545
Repayable on demand	799	677
Other	3,685	2,868
Liabilities to the public and public sector entities	4,178	3,554
Deposits	1,558	1,530
Repayable on demand	1,510	1,218
Other	49	312
Other liabilities	2,620	2,023
Repayable on demand	0	0
Other	2,619	2,023
Debt securities issued to the public	17,516	16,728
Bonds	6,769	6,487
Other	10,746	10,241
Derivative contracts and other liabilities held for trading	1,527	1,782
Other liabilities	715	786
Other liabilities	715	786
Provisions		
Deferred expenses and advances received	521	667
Subordinated liabilities	1,250	1,272
Subordinated loans	258	260
Other	992	1,012
Total liabilities	**30,691**	**28,434**
Appropriations	**580**	**475**
Depreciation difference	104	95
Voluntary provisions	475	380
Shareholders' equity		
Share capital	428	428
Share capital	428	428
Share premium account	524	524
Other restricted reserves	182	142
Reserve fund	164	164
Fair value reserve	19	-22
Fair value measurement	19	-22
Non-restricted reserves	331	23
Reserve for invested non-restricted equity	308	
Other reserves	23	23
Retained earnings	18	48
Profit for the financial year	91	15
Total shareholders' equity	**1,574**	**1,180**
Total liabilities and shareholders' equity	**32,845**	**30,088**
Off-balance-sheet commitments	**7,299**	**6,381**
Commitments given to a third party on behalf of customers	2,676	2,766
Guarantees and pledges	2,578	2,613
Other	98	152
Irrevocable commitments given on behalf of customers	4,623	3,616
Securities repurchase commitments	16	18
Other	4,607	3,598

Cash flow statement

EUR million	31 Dec. 2009	31 Dec. 2008
Cash flow from operating activities		
Profit for the financial year	91	15
Adjustments to profit for the financial year	362	200
Increase (-) or decrease (+) in operating assets	**-2,294**	**-3,895**
Notes and bonds eligible for refinancing with central banks	-1,927	-1,241
Receivables from financial institutions	-1,036	689
Receivables from the public and public sector entities	978	-2,281
Lease assets	-212	-270
Notes and bonds	-293	-620
Shares and participations	-10	4
Derivative contracts	-36	-75
Investment property	1	-2
Other assets	242	-98
Increase (+) or decrease (-) in operating liabilities	**1,619**	**1,722**
Liabilities to credit institutions and central banks	1,338	905
Liabilities to the public and public sector entities	624	780
Derivative contracts and other liabilities held for trading	-71	179
Other liabilities	-272	-143
Income tax paid	-4	-6
Dividends received	18	24
A. Net cash from operating activities	**-208**	**-1,941**
Cash flow from investing activities		
Increases in held-to-maturity financial assets	-170	-161
Decreases in held-to-maturity financial assets	219	0
Acquisition of subsidiaries and associates	-29	-122
Disposal of subsidiaries and associates	2	34
Purchase of tangible and intangible assets	-7	-9
Proceeds from sale of tangible and intangible assets	0	0
B. Net cash used in investing activities	**15**	**-258**
Cash flow from financing activities		
Increases in subordinated liabilities	158	455
Decreases in subordinated liabilities	-182	-132
Increases in debt securities issued to the public	53,132	45,300
Decreases in debt securities issued to the public	-52,359	-41,566
Dividends paid	-45	-131
Other monetary increases in equity items	308	
C. Net cash used in financing activities	**1,011**	**3,926**
Cash and cash equivalents transferred due to combination	**818**	**1,728**
Cash and cash equivalents at year-start	**2,425**	**697**
Cash and cash equivalents at year-end	**3,243**	**2,425**
Interest received	**2,138**	**2,967**
Interest paid	**-1,856**	**-2,917**
Adjustments to profit for the financial year		
Non-cash items		
Change in fair value for trading	-137	50
Unrealised net gains on foreign exchange operations	165	-31
Change in fair value of investment assets	-43	1
Depreciation/amortisation, change in depreciation/amortisation difference and voluntary provisions	272	181
Impairment losses on receivables	126	28
Other	-22	-30
Items presented outside cash flow from operating activities		
Capital gains, share of cash flow from investing activities	0	0
Capital losses, share of cash flow from investing activities	0	
Total adjustments	**362**	**200**
Cash and cash equivalents		
Liquid assets	3,102	2,260
Receivables from credit institutions payable on demand	142	165
Total	**3,243**	**2,425**

PARENT COMPANY'S (POHJOLA BANK PLC) ACCOUNTING POLICIES

GENERAL INFORMATION

Pohjola Bank plc is a Finnish credit institution whose organisation is based on business lines and centralised services and support functions required by the Group and the business lines.

The business lines of Pohjola Bank plc, the parent company, comprise Corporate Banking, Markets, and Central Banking and Group Treasury. In addition, the Company includes Other Operations involving administrative functions.

Pohjola Bank plc (Pohjola or the Company) is part of OP-Pohjola Group which currently consists of 220 independent member cooperative banks, OP-Pohjola Group Central Cooperative and other member credit institutions. OP-Pohjola Group's member credit institutions comprise Pohjola, Helsinki OP Bank Plc, OP-Kotipankki Oyj, OP Mortgage Bank and member cooperative banks.

In accordance with the Act on Co-operative Banks and Other Co-operative Credit Institutions, member credit institutions, Pohjola included, and the Central Cooperative are jointly and severally liable for any debts of the Central Cooperative or a member credit institution in liquidation in the event that these debts cannot be paid from the institution's funds. If a member credit institution's own capital is depleted to such a low level owing to losses that the criteria, specified in the Act, for being placed in liquidation are fulfilled, the Central Cooperative has the right to collect from its member credit institutions extra contributions on the basis of the combined balance sheets previously adopted.

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

BASIS OF PREPARATION

Pohjola Bank plc's financial statements based on national regulation are prepared and presented according to the Act on Credit Institutions, the Ministry of Finance Decree on the Financial Statements and Consolidated Financial Statements of a Credit Institution and Investment Firm, the Accounting Act and the Financial Supervisory Authority's Standard on financial statements and annual report. In addition, the central institution of the amalgamation of cooperative banks, OP-Pohjola Group Central Cooperative, issues instructions for compliance with unified accounting principles and the preparation of the financial statements.

Pohjola Bank plc's financial statements are presented in millions of euros and prepared at historical cost, with the exception of financial assets and liabilities held for trading, financial assets at fair value through profit or loss at inception, available-for-sale financial assets and hedged items in fair value hedging.

The preparation of financial statements requires the management to make assessments and estimates and exercise its judgement in the process of applying the accounting policies.

RECLASSIFICATION

During the third quarter of 2008, Pohjola reclassified some of the notes and bonds included in the liquidity portfolio, with a view to providing a clearer picture of their actual purpose of use. This reclassification was enabled by Commission Regulation (EC) No. 1004/2008 of 15 October 2008 applying to IAS 39 and IFRS 7 and the Regulation is aimed at making it easier to reclassify certain financial instruments in rare circumstances. The underlying reason for adopting this Regulation lay in the financial turmoil which is why reliable market prices were not available to all financial instruments at the end of September 2008. Companies have been allowed to reclassify certain financial instruments since 1 July 2008. The Financial Supervisory Authority has also approved reclassification to be applied to financial statements prepared under national regulation.

The reclassification had no effect on the results recorded for previous periods.

A more detailed description of reclassification can be found in Note 19.

FOREIGN CURRENCY TRANSLATION

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

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

FINANCIAL INSTRUMENTS

Fair value determination

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

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

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

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

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

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

Impairment of financial assets

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

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

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

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

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

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

Securities sale and repurchase agreements

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

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

Classification and recognition

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

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

Financial assets and liabilities are offset and the net amount reported in the balance sheet only if there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis. Pohjola Bank plc did not apply the off-set procedure during the financial year.

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

Financial assets and liabilities held for trading
All financial assets and liabilities that are expected to generate short-term profits arising from fluctuations in interest rates, prices and quotations or in which an embedded derivative contract cannot be separated from the host contract are classified as held for trading. Liabilities held for trading refer to the obligation to deliver securities which have been sold but which have not been owned at the time of selling (short selling). Financial assets and liabilities held for trading include derivatives other than those used for hedging purposes.

Financial assets and liabilities held for trading are recognised at fair value in the balance sheet, and subsequent changes in the fair value are recognised under 'Net income from securities trading' in the income statement.

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

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

In addition, this asset class includes hybrid instruments in which the fair value of an embedded derivative cannot be determined separately. These financial assets are measured at fair value in the balance sheet, and any subsequent changes in the fair value are recognised under 'Net income from securities trading' in the income statement.

Loans and other receivables
Financial assets classified as loans and other receivables are non-derivative financial assets with fixed or determinable payments that have been created by lending money or rendering services. Not quoted in an active market, loans and other receivables are carried at cost. Receivables related to insurance contracts, claims administration contracts and disposal of investments are presented within this asset class. These financial assets are shown as receivables from customers, from credit and financial institutions or as Non-life Insurance assets in the Company's balance sheet.

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

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

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

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

For the purpose of a collective assessment of impairment, receivables are grouped on the basis of similar credit risk characteristics. Impairment loss is recognised for a group of receivables if there is objective evidence that debtors' ability to pay amounts due is uncertain. The amount recognised as an impairment loss is determined by average estimated future losses based on historical loss experience.

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

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

Investments held to maturity
Investments held to maturity are non-derivative financial assets with fixed or determinable payments that the Company has the positive intention and ability to hold to maturity. These investments are carried at amortised cost after their initial recognition using the effective interest method. The difference between the nominal value and the acquisition value of bonds is allocated over the residual term to maturity.

Some notes and bonds were reclassified out of the financial assets held for trading category into the financial assets held to maturity category in the process of reclassification. The reclassification of these notes and bonds was performed at their fair value on 1 July 2008. The difference between the fair value of the notes and bonds and their value on the date of maturity is recognised as interest income adjustment during the residual maturity of the notes and bonds.

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

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

Available-for-sale financial assets
Available-for-sale financial assets include non-derivative financial assets which have been directly categorised as available for sale or which are not classified as the abovementioned financial assets, consisting mainly of notes and bonds, long-term equity investments and other shares and participations necessary for operations.

Notes and bonds were reclassified out of the financial assets held for trading category into the available-for-sale financial assets category at their fair value on 1 July 2008. Any fair value changes after this date are recognised in the fair value reserve under shareholders' equity.

At the time of their acquisition, available-for-sale financial assets are recognised at cost, which equals the fair value of the consideration paid plus transaction costs directly attributable to their acquisition. Available-for-sale financial assets are measured at fair value.

If the fair value cannot be determined reliably, shares and participations necessary for operations and other unquoted shares and participations are measured at cost. Any changes in their fair value are recognised in the 'Fair value reserve' under shareholders' equity, from where they, including any capital gain or loss, are transferred to 'Net income from available-for-sale financial assets' in the income statement when the asset is derecognised or impaired. Interest income and dividends are recorded in the income statement.

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

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

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

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

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

Participating interests, and shares and holdings in Group companies
Participating interests, and shares and holdings and other equity investments in Group companies are recognised at cost or, if the item's value on the balance sheet date is found to be lower than the acquisition cost due to impairment, at cost less impairment loss. Impairments are recognised under 'Impairment losses on other financial assets' in the income statement.

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

Other assets
Other assets comprise receivables repayable on demand arising from brokerage, receivables in various clearing accounts, marginal account receivables related to derivative contracts and all other receivables which cannot be presented under any other suitable balance sheet item, such as various accounts receivable, rental receivables and insurance claim receivables.

Other financial liabilities
Other financial liabilities include financial liabilities other than those held for trading.

After initial recognition, they are carried at cost. The difference between the nominal value and the acquisition cost of fixed-rate bonds is allocated over the residual term to maturity, using the effective interest method. The counterpart is recognised as an increase or decrease in the liability's book value.

Other liabilities
Other liabilities consist mainly of payment transfer liabilities, accounts payable and liabilities related to securities trading.

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

Derivatives are divided into hedging and non-hedging contracts. Both hedging and non-hedging derivatives are recognised at fair value in the balance sheet. Accrued interest on non-hedging interest rate swaps is recognised in interest income and interest carried forward corresponding to them in deferred income and deferred expenses. Changes in the fair value of non-hedging interest-rate, loan, currency, equity and commodity derivatives are recognised under 'Net income from foreign exchange trading' in the income statement. Positive fair value changes and premiums paid for derivative contracts are recognised as assets under 'Derivative contracts' while negative fair value changes and premiums received from derivative contracts are recognised under 'Derivative contracts and other liabilities held for trading'.

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

HEDGE ACCOUNTING

The Group's Risk Management has prepared methods and internal principles used for hedge accounting, whereby a financial instrument can be defined as a hedging instrument. Hedge accounting is used to verify that changes in the fair value of a hedging instrument fully or partially offset changes in the fair value or cash flows of a hedged item.

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

Currently, the Company applies fair value hedges to hedge against interest rate risks, involving long-term fixed-rate debt instruments (Pohjola's own issues), individual bond and loan portfolios, as well as individual loans. The Company uses forward exchange contracts and interest-rate and currency swaps as hedging instruments.

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

In fair value hedge accounting, changes in the fair value of the hedging and hedged instrument are recorded under 'Net income from hedge accounting' in the income statement.

Derivative instruments deemed as economic hedges but not qualified for hedge accounting are treated in the same way as non-hedging derivative instruments.

LEASE ASSETS

Leased out assets and lease assets' advance payments are recognised at non-depreciated cost and presented under 'Lease assets' in the balance sheet. As a rule, lease assets are depreciated according to the annuity depreciation method.

Lease income from leased out assets based on lease contracts less planned depreciation on the lease assets are recognised under 'Net lease income'. In addition, the item includes impairment losses on lease assets, capital gains and losses on the disposal of lease assets, commissions charged from customers and other income and expenses directly attributable to lease contracts. Other income and expenses due to leases are included in the income statement item that corresponds to the nature of the income or expense item.

INTANGIBLE ASSETS

Intangible assets are stated at cost less amortisation and write-downs. These assets are amortised over their estimated useful lives, which is 2–5 years for computer software and licences, and 5 years in general for other intangible assets. The useful lives of assets are reviewed on each balance sheet date.

Planned amortisation and write-downs on intangible assets are recognised under 'Depreciation/amortisation and write-downs on tangible and intangible assets' in the income statement.

TANGIBLE ASSETS

Investment property

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

Investment property is stated at cost less planned depreciation and impairments. Land and shares and holdings in property companies can be subject to revaluation if their probable selling price on the balance sheet date is permanently higher than the original acquisition cost. Expenses incurred after the original acquisition will be capitalised only if it is probable that the resulting economic benefit from the property will be higher than initially estimated.

The fair value of business, office and industrial premises classified as investment property holdings and presented in the related note to the financial statements is primarily determined using the income capitalisation approach based on direct capitalisation. The fair value of investment property under construction can be presented only if its fair value can be determined reliably. The fair value of land, water and forest areas and residential buildings is primarily determined using the sales comparison approach. Recognition of impairments is based on their consistency and materiality.

Income, expenses, capital gains and losses, planned depreciation and impairments related to investment property are recognised under 'Net income from investment property' in the income statement.

Other tangible assets

Tangible assets are stated at cost less depreciation and write-downs. Assets are depreciated according to plan on a straight-line basis over their estimated useful lives. Planned depreciation is not applicable to land and shares in property companies. Expenses related to an asset arising after its original acquisition are capitalised at the asset's book value only if it is probable that it will produce greater economic benefit than initially estimated.

The estimated useful lives are mainly as follows:

Buildings	30–50 years
Machinery and equipment	4–10 years
IT equipment	3–5 years
Cars	6 years
Other tangible assets	5–10 years

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

Assets' planned depreciation and write-downs are recognised under 'Depreciation/amortisation and write-downs on tangible and intangible assets' in the income statement. Income from and capital gains on property in own use are recognised under 'Other operating income and expenses' and capital losses under 'Other operating expenses' in the income statement.

EMPLOYEE BENEFITS

Pension benefits

The statutory pension cover for Pohjola Bank plc's employees is managed through payments to OP Bank Group Pension Fund and supplementary pension cover through OP Bank Group Pension Foundation. The Pension Foundation has been closed to new employees since 1 July 1991. Expenses arising from pension plans are recognised under 'Personnel costs' in the income statement. Pension liabilities are fully covered.

Share-based compensation

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

Equity-settled share-based payments are measured at fair value on the grant date and recognised as expenses and an increase in shareholders' equity over the vesting period. Share-based compensation paid in cash and the corresponding liability are measured at fair value at the end of each period until the liability is settled. Entries in the income statement are made in 'Wages and salaries' and in the balance sheet in 'Retained earnings' and 'Deferred expenses'.

Personnel Fund

Pohjola Bank plc belongs to OP-Pohjola Group's OP Personnel Fund, into which bonuses are paid on the basis of pre-agreed principles, depending on the achievement of targets. Bonuses transferred to the Fund are recognised under 'Wages and salaries' in the income statement and the counterpart as 'Deferred expenses' in the balance sheet.

STATUTORY PROVISIONS

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

SUBORDINATED LOANS

Subordinated loans are recorded as a separate balance-sheet item under 'Subordinated liabilities'. In capital adequacy measurement, these loans are included in Tier 1 capital. Interest on these loans may be paid only within the limits of distributable funds.

APPROPRIATIONS

The depreciation difference under appropriations in the balance sheet includes the accumulated difference between depreciation made and planned depreciation. Voluntary provisions contain voluntary appropriations made which are appropriations permitted by tax legislation. Such a provision is eg the loan loss provision permitted by the Business Income Tax Act for deposit banks. According to this Act, a deposit bank may deduct a loan loss provision made during the tax year, the amount of which accounts for a maximum of 0.6% of the total amount of receivables at the end of the tax year. The total amount of non-reversed loan loss provisions made during the tax year and earlier may account for a maximum of 5% of the total amount of receivables at the end of the tax year.

An increase and decrease in depreciation made and planned depreciation as well as voluntary provisions are recognised under appropriations in the income statement. Appropriations in the income statement and balance sheet also include deferred tax liabilities. The amount of and change in voluntary provisions do not reflect Pohjola's calculated risks.

INCOME TAXES

Income taxes shown in the income statement include taxes based on Pohjola Bank plc's taxable income for the financial year, taxes for previous financial years and deferred tax expense or income.

Deferred tax liabilities are recognised for all temporary differences between the book value and taxable value of assets and liabilities. Deferred tax assets are recognised for tax-deductible temporary differences between the book value and taxable value included in the financial statements, as well as all losses confirmed for tax purposes. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The Company offsets deferred tax assets and liabilities. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted by the balance sheet date. If deferred tax originates from balance sheet items not recognised in the income statement, any change in deferred tax is recognised in shareholders' equity, not in the income statement.

REVENUE RECOGNITION

Interest income and expenses for interest-bearing assets and liabilities are recognised on an accrual basis. Interest on receivables with non-settled, due payments is also recognised as revenue and this interest receivable is tested for impairment.

The difference (price difference) between the receivable's acquisition cost and nominal value is allocated to interest income and that between the amount received and nominal value of the liability to interest expenses.

Commission income and expenses for services are recognised when the service is rendered. One-off commissions covering several years and including a possible refund obligation are recognised as revenue on a cash basis and statutory provision is recognised for the refund obligation.

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

OFFSETTING INCOME STATEMENT ITEMS

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

OFF-BALANCE-SHEET COMMITMENTS

Off-balance-sheet commitments include commitments made for a third party on behalf of customers, such as guarantees and various guarantee engagements, and irrevocable commitments made for customers, such as binding supplementary loan arrangements, loan commitments, standby credit facilities and underwritings.

Commitments made for a third party on behalf of customers are recognised as off-balance-sheet commitments to the amount to which guarantee corresponds at most from time to time. Irrevocable commitments made for customers are recognised to the maximum amount which may have to be paid on the basis of them.

NOTES TO THE FINANCIAL STATEMENTS

Contents

NOTES TO THE INCOME STATEMENT

Notes concerning an entity under the Group's control

NOTE 1. INTEREST INCOME AND EXPENSES

	2009	2008
Interest income		
Receivables from credit institutions	205	274
Receivables from the public and public sector entities	361	547
Notes and bonds	183	344
Derivative contracts	1,176	1,954
Other	4	10
Total	**1,930**	**3,129**
Of which interest income from impaired receivables	1	1
Interest expenses		
Liabilities to credit institutions	60	174
Liabilities to the public and public sector entities	32	110
Debt securities issued to the public	348	645
Derivative contracts and other liabilities held for trading	1,212	1,987
Subordinated liabilities	47	53
Other	2	8
Total	**1,701**	**2,977**

Interest income received from Group and associated companies and interest expenses paid to them

	2009		2008	
	Subsidiaries	**Associates**	**Subsidiaries**	**Associates**
Interest income	5		11	
Interest expenses	2		5	

NOTE 2. NET LEASE INCOME

	2009	2008
Lease income	198	182
Planned depreciation	-162	-139
Capital gains and losses (net) on the disposal of lease assets	-1	-1
Commissions and fees	2	1
Other income	0	0
Other expenses	-10	-8
Total	**27**	**36**

NOTE 3. INCOME FROM EQUITY INVESTMENTS

	2009	2008
Available for sale	0	7
Subsidiaries	65	16
Affiliates	2	1
Total	**68**	**24**

NOTE 4. COMMISSIONS AND FEES

	2009	2008
Commissions and fees		
Lending	36	23
Deposits	0	0
Payment transfers	13	13
Mutual funds	0	0
Asset management	5	5
Legal services	0	0
Securities brokerage	23	20
Securities issuance	6	1
Guarantees	16	9
Other	11	8
Total	**111**	**81**
Commission expenses		
Service fees paid	3	3
Other	34	19
Total	**37**	**22**

NOTE 5. NET INCOME FROM SECURITIES AND FOREIGN EXCHANGE TRADING

	2009	2008
Capital gains and losses		
Notes and bonds*	32	-14
Shares and participations	0	0
Total	**32**	**-14**
Due to fair value changes		
Notes and bonds*	-15	-39
Shares and participations		
Derivative contracts	40	-30
Other		
Total	**26**	**-69**

* 'Notes and bonds' include EUR -8.5 million (-15.5) in capital gains on and EUR 9.6 million (-65.2) in fair value changes in financial assets at fair value through profit or loss at inception.

	2009	2008
Total net income from securities trading	**58**	**-83**
Net income from foreign exchange trading	**7**	**-13**
Total net income from securities and foreign exchange trading	**66**	**-96**

NOTE 6. NET INCOME FROM AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2009	2008
Notes and bonds		
Capital gains and losses	1	3
Transferred from fair value reserve during the financial year	0	-3
Total	1	0
Shares and participations		
Capital gains and losses	0	0
Impairment losses	-8	0
Transferred from fair value reserve during the financial year	1	1
Total	-8	1
Total net income from available-for-sale financial assets	**-7**	**1**

NOTE 7. NET INCOME FROM HEDGE ACCOUNTING

	2009	2008
Net income from hedging instruments	-36	-31
Net income from hedged items	30	31
Total	**-7**	**0**

Net income from hedge accounting for 2009 includes EUR 5 million in fair value change recognised for interest rate swaps hedging notes and bonds reclassified in 2008.

NOTE 8. NET INCOME FROM INVESTMENT PROPERTY

	2009	2008
Rental and dividend income	2	2
Other income	0	0
Capital gains	0	0
Rental expenses	-1	-1
Capital losses	0	-2
Write-downs and their reversals	0	0
Other expenses	0	0
Total	**0**	**-1**

NOTE 9. OTHER OPERATING INCOME

	2009	2008
Rental income from property in own use	0	0
Capital gains on property in own use	0	0
Other	18	18
Total	**18**	**18**

NOTE 10. DEPRECIATION/AMORTISATION AND WRITE-DOWNS ON TANGIBLE AND INTANGIBLE ASSETS

	2009	2008
Planned depreciation	5	5
Write-down	0	0
Total	**5**	**5**

NOTE 11. OTHER OPERATING EXPENSES

	2009	2008
Rental expenses	5	4
Expenses for property in own use	0	0
Other	18	8
Total	**23**	**13**

NOTE 12. IMPAIRMENT LOSSES ON LOANS AND OTHER COMMITMENTS AND OTHER FINANCIAL ASSETS

	Gross impairment losses on individually assessed receivable	Gross impairment losses on collectively assessed receivable	Reductions	Entered in income statement
Impairment losses on loans and other commitments				
Receivables from credit institutions	0			0
Receivables from the public and public sector entities	144	4	26	123
Guarantees and other off-balance-sheet items	0		0	0
Other				0
Total	**144**	**4**	**26**	**123**
Total impairment losses	**144**	**4**	**26**	**123**

NOTE 13. INCOME TAXES

	2009	2008
Income taxes from operations	9	0
Total income taxes	**9**	**0**

NOTE 14. INCOME, OPERATING PROFIT OR LOSS AND ASSETS AND LIABILITIES BY DIVISION

	Corporate Banking	Markets	Group Treasury	Other	Total
Income*	212	135	101	56	504
Operating profit	19	72	75	38	204
Assets	11,143	2,818	17,456	1,428	32,845
Liabilities	1,522	2,267	26,878	24	30,691
Personnel	393	140	60	105	698

* Income consists of the following items in the income statement: interest income, income from equity investments, commissions and fees, net income from securities and foreign exchange trading, net income from available-for-sale assets, net income from hedge accounting, net income from investment property and other operating income.

NOTES TO THE BALANCE SHEET

NOTE 15. RECEIVABLES FROM CREDIT INSTITUTIONS

	31 Dec. 2009	31 Dec. 2008
Repayable on demand		
Deposits	102	76
Other	39	90
Total	**142**	**165**
Other than those repayable on demand		
Deposits	7	7
Other	7,479	6,466
Total	**7,486**	**6,473**
Total receivables from credit institutions	**7,627**	**6,638**
of which subordinated receivables	**42**	**42**

Pohjola Bank plc has only receivables repayable on demand from the Bank of Finland.

NOTE 16. RECEIVABLES FROM THE PUBLIC AND PUBLIC SECTOR ENTITIES

	31 Dec. 2009	31 Dec. 2008
Receivables from the public and public sector entities by sector		
Non-banking corporate sector and housing corporations	8,502	9,110
Financial institutions and insurance companies	250	257
Public sector entities	311	305
Non-profit organisations serving households	198	211
Households	720	751
Foreign	680	1,053
Collective impairments	-10	-6
Total	**10,651**	**11,683**
of which subordinated receivables	**9**	**1**

The balance-sheet item includes EUR 0.6 million in loans for which interest income is not recognised.

Write-downs on loans		
Write-downs at year-start	31	20
+ Write-downs on individually assessed receivables during the financial year	129	19
+/- Write-downs on collectively assessed receivables during the financial year	4	1
- Write-downs reversed for individually assessed receivables during the financial year	-11	-6
- Actual impairment losses recorded during the financial year	-12	-3
of which write-downs on individually assessed receivables were made previously		
Exchange rate difference on write-downs on loans	-1	
Write-downs at year-end	**141**	**31**

NOTE 17. LEASE ASSETS

	31 Dec. 2009	31 Dec. 2008
Advance payments	91	63
Machinery and equipment	544	530
Real property and buildings	106	98
Other assets	18	16
Total	**759**	**707**

NOTE 18. NOTES AND BONDS

Notes and bonds eligible for refinancing with central banks and other notes and bonds 31 December 2009

	Eligible for refinancing with central banks	Other notes and bonds	Total	Of which subordi-nated
Financial assets at fair value through profit or loss	1,124	347	1,472	11
Available for sale	3,799	416	4,215	
Held to maturity	1,044	42	1,086	
Total	**5,967**	**805**	**6,772**	**11**

Publicly-quoted and other notes and bonds 31 December 2009

	Publicly-quoted	Other	Total
Financial assets at fair value through profit or loss	1,362	110	1,472
Available for sale	4,199	16	4,215
Held to maturity	1,086		1,086
Total	**6,646**	**126**	**6,772**

The Financial assets through profit or loss at fair value category includes EUR 54.9 million in financial assets at fair value through profit or loss at inception, of which publicly quoted ones amount to EUR 54.9 million.

Notes and bonds by type	**31 Dec. 2009**	**31 Dec. 2008**
Financial assets at fair value through profit or loss		
Treasury bills	5	
Local authority papers	42	63
Commercial papers	15	43
Certificates of deposit	498	2,084
Convertible bonds	0	0
Other bonds	911	1,311
Total	**1,472**	**3,502**
Available for sale		
Other bonds	4,215	56
Total	**4,215**	**56**
Held to maturity		
Other bonds	1,086	1,103
Total	**1,086**	**1,103**

By 31 December 2009, all Pohjola Bank plc's notes and bonds accrued interest recognised in accounting.

NOTE 19. RECLASSIFIED NOTES AND BONDS

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

31 Dec 2009, EUR million	Carrying amount	Fair value	Effective interest rate	Impairments arising from credit risk
Loans and other receivables	2,118	2,126	5.4	50
Investments held to maturity	798	761	4.2	
Available-for-sale financial assets				
Total	**2,917**	**2,887**		**50**

31 Dec 2008, EUR million	Carrying amount	Fair value	Effective interest rate	Impairments arising from credit risk
Loans and other receivables	2,816	2,695	5.2	9
Investments held to maturity	946	864	4.5	
Available-for-sale financial assets	55	55	5.1	
Total	**3,816**	**3,614**		**9**

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

	Q1–4/2009		Q1–4/2008	
EUR million	**Income statement**	**Fair value reserve**	**Income statement**	**Fair value reserve**
Banking	9		-21	-8
Group Functions	80	42	-162	-15
Total	**90**	**42**	**-183**	**-23**

Interest accrued on notes and bonds in January−December totalled EUR 102 million. Interest accrued from 1 July, the reclassification date, until 31 December 2008 totalled EUR 110 million. The price difference between the nominal value and acquisition value recognised in the income statement totalled EUR 24 million (17). Impairment charges recognised on bonds and notes totalled EUR 41 million (9). Pohjola used derivatives to hedge against interest rate risks, applying hedge accounting from 1 October 2008. Negative mark-to-market valuations recognised on hedging derivative contracts amounted to EUR 6.6 million.

NOTE 20. SHARES AND PARTICIPATIONS

	Publicly quoted	Other	Total
Shares and participations			
Available for sale	9	69	78
Shares in subsidiaries		1,283	1,283
Total	**9**	**1,352**	**1,362**

EUR 9.3 million in shares and participations other than those quoted publicly was measured at fair value and the rest at cost.

	31 Dec. 2009	31 Dec. 2008
Shares and participations by sector		
Non-banking corporate sector and housing corporations	59	51
Financial institutions and insurance companies	1,272	1,293
Foreign entities	31	19
Total	**1,363**	**1,362**

NOTE 21. DERIVATIVE CONTRACTS

Derivative contracts for hedging purposes in 2009

	Nominal values/residual term to maturity				Fair values	
	<1 year	1–5 years	>5 years	Total	Positive	Negative
Interest rate derivatives	**2,007**	**6,300**	**747**	**9,053**	**81**	**190**
Interest rate swaps	2,007	6,300	747	9,053	81	190
Currency derivatives		**1,080**	**136**	**1,216**	**13**	**197**
Interest rate and currency swaps		1,080	136	1,216	13	197

Derivative contracts held for trading in 2009

	Nominal values/residual term to maturity				Fair values	
	<1 year	1–5 years	>5 years	Total	Positive	Negative
Interest rate derivatives	**43,636**	**45,166**	**12,266**	**101,068**	**1,088**	**1,068**
Futures and forwards	2,442	608		3,050	5	1
Options	**24,649**	**14,712**	**3,147**	**42,509**	**193**	**153**
Called	9,296	9,055	1,580	19,931	192	27
Put	15,353	5,657	1,568	22,578	1	126
Interest rate swaps	12,702	29,611	9,119	51,432	887	891
Other swap contracts	3,843	234		4,077	2	24
Currency derivatives	**11,357**	**879**	**354**	**12,590**	**229**	**140**
Futures and forwards	11,108	460	7	11,574	203	101
Options	**250**			**250**	**2**	**2**
Called	121			121	2	
Put	129			129		2
Interest rate and currency swaps		419	347	766	25	
Equity derivatives	**72**	**814**	**41**	**927**	**87**	
Futures and forwards						
Options	**72**	**814**	**41**	**927**	**87**	
Called	72	814	41	927	87	
Put						
Other derivatives	**63**	**175**	**0**	**238**	**6**	**3**
Futures and forwards	6	7		12	2	1
Options		**10**		**10**	**0**	
Called		10		10	0	
Put						
Other swap contracts	**1**	**1**	**0**	**2**	**0**	**0**
Credit derivatives	56	157		213	4	1

The underlying value for interest rate derivative contracts is the nominal value, for currency derivative contracts the euro-denominated stated value of the purchased currency on the balance sheet date, and for equity derivative contracts the probable value of equities on the balance sheet date. The values are expressed in gross amounts.

Credit equivalents of contracts in 2009

	Made for hedging purposes	Held for trading
Interest rate derivatives	**124**	**1,452**
Futures and forward contracts		1
Options		**259**
Called		259
Put		
Interest rate swaps	124	1,171
Other swap contracts		20
Currency derivatives	**77**	**412**
Futures and forwards		338
Options		3
Called		3
Put		
Interest rate and currency swaps	77	72
Equity derivatives		**161**
Futures and forwards		
Options		161
Called		161
Put		
Other derivatives		**9**
Futures and forwards		
Options		**1**
Called		1
Put		
Other swap contracts		**0**
Credit derivatives		7

Derivative contracts for hedging purposes in 2008

	Nominal values/residual term to maturity				Fair values	
	<1 year	1–5 years	>5 years	Total	Positive	Negative
Interest rate derivatives	**1,258**	**1,936**	**493**	**3,686**	**44**	**107**
Interest rate swaps	1,258	1,936	493	3,686	44	107
Currency derivatives	**665**	**809**	**263**	**1,737**	**39**	**300**
Interest rate and currency swaps	665	809	263	1,737	39	300

Derivative contracts held for trading in 2008

	Nominal values/residual term to maturity				Fair values	
	<1 year	1–5 years	>5 years	Total	Positive	Negative
Interest rate derivatives	**28,954**	**48,840**	**11,417**	**89,211**	**1,067**	**1,022**
Futures and forward contracts	4,263	3,774		8,037	24	6
Options	**5,562**	**17,464**	**4,158**	**27,184**	**179**	**169**
Called	3,734	8,621	2,030	14,385	179	17
Put	1,828	8,843	2,128	12,798	0	152
Interest rate swaps	19,128	27,602	7,260	53,990	864	847
Currency derivatives	**12,143**	**319**	**775**	**13,237**	**384**	**447**
Futures and forwards	9,858	319	285	10,461	291	357
Options	**2,285**	**1**		**2,286**	**74**	**71**
Called	1,191	0		1,191	74	
Put	1,094	0		1,094		71
Interest rate and currency swaps			490	490	19	19

Equity derivatives	**23**	**525**	**548**	**21**	
Futures and forwards					
Options	**23**	**525**	**548**	**21**	
Called	23	525	548	21	
Put					
Other derivatives	**188**	**195**	**383**	**5**	**21**
Futures and forwards					
Options		**16**	**16**	**1**	
Called		16	16	1	
Put					
Credit derivatives	188	179	367	4	21

The underlying value for interest rate derivative contracts is the nominal value, for currency derivative contracts the euro-denominated stated value of the purchased currency on the balance sheet date, and for equity derivative contracts the probable value of equities on the balance sheet date. The values are expressed in gross amounts.

Credit equivalents of contracts in 2008

	Made for hedging purposes	Held for trading
Interest rate derivatives	**60**	**1,357**
Futures and forward contracts		0
Options		**246**
Called		246
Put		
Interest rate swaps	60	1,110
Currency derivatives	**106**	**568**
Futures and forwards		427
Options		86
Called		86
Put		
Interest rate and currency swaps	106	56
Equity derivatives		**64**
Futures and forwards		
Options		64
Called		64
Put		
Other derivatives		**11**
Futures and forwards		
Options		2
Called		2
Put		
Credit derivatives		10

The parent company has no derivative contracts whose counterparty is a Pohjola Group company.

NOTE 22. INTANGIBLE ASSETS

	31 Dec. 2009	31 Dec. 2008
Goodwill	11	0
IT costs	8	7
Other long-term expenditure	13	11
Total	**31**	**18**

NOTE 23. TANGIBLE ASSETS

		Investment property	
	In own use	Book value	Fair value
Property holdings			
Land and water	0	0	0
Buildings	0		
Shares and holdings in property companies	2	21	22
Total	**2**	**21**	**22**

NOTE 24. CHANGES IN INTANGIBLE AND TANGIBLE ASSETS DURING THE FINANCIAL YEAR

	Goodwill	Other intangible assets	Invest-ment property	Proper-ty in own use	Other tangible assets
Acquisition cost 1 January		55	25	4	69
+ increases during the year	12	7	0	0	0
- decreases during the year			-1	0	0
+/- transfers between items		0			
- planned depreciation/amortisation	-1	-4		0	0
+ accumulated depreciation/amortisation and write-downs on adjustments and transfers 1 January		0		0	0
- accumulated depreciation/amortisation 1 January		-37	0	0	-66
- accumulated impairment 1 January			-3	0	
Book value 31 December	**11**	**20**	**21**	**2**	**3**

NOTE 25. OTHER ASSETS

	31 Dec. 2009	31 Dec. 2008
Sales receivables from securities	41	13
Margin receivables related to derivative contracts	30	26
Receivables from payment transfers	1	5
Other	469	454
Total	**541**	**499**

The item Other includes EUR 292 million (385) in foreign CSA collateral receivables.

NOTE 26. DEFERRED INCOME AND ADVANCES PAID

	31 Dec. 2009	31 Dec. 2008
Interest		
Interest receivables	502	677
Interest advances paid	9	40
Total	**511**	**717**
Other		
Other advances paid	3	4
Other deferred income	6	10
Total	**9**	**14**
Total deferred income and advances paid	**519**	**731**

NOTE 27. DEFERRED TAX ASSETS AND LIABILITIES

	Deferred tax assets	Deferred tax liabilities	Net
From timing differences	15	0	15
From other temporary differences		7	7
Total	**15**	**7**	**9**

Deferred tax assets include a total of EUR 0.00 in deferred tax assets recognised on losses confirmed in taxation.

Deferred tax assets and liabilities arising from other temporary differences comprise deferred tax assets and liabilities based on revaluations of available-for-sale financial assets recognised in the fair value reserve under equity.

Revaluations 31 December 2009

The balance sheet does not include any revaluation.

Appropriations

	Balance sheet value	Deferred tax liability	Net
Depreciation difference	104	27	77
Voluntary provisions	475	124	352
Total	**580**	**151**	**429**

Depreciation difference and voluntary provisions have been entered in the balance sheet to the amount of non-deducted deferred tax.

NOTE 28. DEBT SECURITIES ISSUED TO THE PUBLIC

	Book value 31 Dec. 2009	Nominal value 31 Dec. 2009	Book value 31 Dec. 2008	Nominal value 31 Dec. 2008
Certificates of deposit	2,279	2,283	5,349	5,435
Bonds	6,769	6,880	6,487	6,583
Other	8,468	8,511	4,892	4,937
Total	**17,516**	**17,674**	**16,728**	**16,955**

NOTE 29. OTHER LIABILITIES

	31 Dec. 2009	31 Dec. 2008
Payment transfer liabilities	335	360
Accounts payable on securities	41	22
Margin liabilities related to derivative contracts	106	125
Other	233	278
Total	**715**	**786**

Other' includes EUR 219 million (263) in equity and derivative liabilities.

NOTE 30. STATUTORY PROVISIONS

Statutory provisions do not exist.

NOTE 31. DEFERRED EXPENSES AND ADVANCES RECEIVED

	31 Dec. 2009	31 Dec. 2008
Interest		
Interest liabilities	463	635
Interest advances received	1	1
Total	**464**	**636**
Other		
Other advance payments received	1	3
Other deferred expenses	56	28
Total	**57**	**32**
Total deferred expenses and advances received	**521**	**667**

NOTE 32. SUBORDINATED LIABILITIES

	Book value	Nominal value
Perpetual loans	262	263
Other loan commitments issued by the credit institution	730	730
Subordinated loans	258	275
Total	**1,250**	**1,268**

Perpetual loans and debentures

1. A perpetual loan of GBP 100 million which can be called in at the earliest on 28 December 2012, subject to authorisation by the Financial Supervisory Authority. A fixed 6.5% interest is paid on the loan semi-annually.
2. A perpetual loan of EUR 150 million which can be called in at the earliest on 30 November 2012, subject to authorisation by the Financial Supervisory Authority. A fixed 3.875% interest is paid on the loan annually.
3. A debenture loan of EUR 70 million which can be called in at the earliest on 30 November 2010, subject to authorisation by the Financial Supervisory Authority. A fixed 3.5% interest is paid on the loan annually.
4. A debenture loan of EUR 150 million which can be called in at the earliest on 21 March 2011, subject to authorisation by the Financial Supervisory Authority. The loan carries an interest based on 3-month Euribor + 17.5
5. A debenture loan of USD 325 million which can be called in at the earliest on 13 September 2011, subject to authorisation by the Financial Supervisory Authority. The loan carries an interest based on 3-month USD Libor + 20 bps. The amount amortised by Pohjola Bank plc in December 2009, as authorised by the Financial Supervisory Authority, came to EUR 10 million and the remainder is USD 315 million.
6. A debenture loan of EUR 170 million which can be called in at the earliest in 2013, subject to authorisation by the Financial Supervisory Authority. The loan carries a fixed interest rate of 5.75%.
7. A debenture loan of EUR 100 million which can be called in at the earliest in 2013, subject to authorisation by the Financial Supervisory Authority. The loan carries a variable interest based on 12-month Euribor + 2.25% until 2013.

Loans 1–7 were issued in international capital markets.

Fixed-rate debentures issued in Finland totalled EUR 161.7 million (34.1) on 31 December 2009.

Issue date	Book value, EUR million	Interest rate, %	Due date
10 March 2004	5.3	3.5%	10 March 2010
15 September 2004	6.1	3.5%	15 September 2010
16 March 2005	5.2	3.3%	16 March 2011
30 November 2005	1.4	3.2%	30 November 2011
8 March 2006	0.3	3.25%	8 March 2012
20 September 2006	0.2	3.85%	20 September 2012
3 March 2008	2.8	4.1%	3 March 2013
11 May 2009	19.9	2.3%	11 May 2011
19 January 2009	11.8	3.0%	19 January 2012
23 February 2009	34.4	3.0%	23 February 2012
23 March 2009	27.0	3.0%	23 March 2012
22 June 2009	26.2	3.0%	22 June 2012
24 August 2009	14.3	2.5%	24 August 2012
5 October 2009	7.0	2.3%	5 October 2012

Pohjola Bank plc has no violations of the terms and conditions of the loan contracts with respect to principal, interest and other conditions. The financial statements include EUR 0.1 million recognised for the price difference of the loans (0.1).

Subordinated loans
Subordinated loans included in Tier 1

1) Subordinated loan of 10 billion Japanese yen (equivalent of EUR 75 million)

This is a perpetual loan (a loan without a due date) carrying a fixed interest rate of 4.23% until 18 June 2034 and subsequently a variable 6-month Yen Libor + 1.58%. Interest will be annually payable on 18 June and 18 December. If interest cannot be paid for a given interest period, the obligation to pay interest for the period in question will lapse. The loan can be called in at the earliest in 2014 and can be annually repaid after 2014 on the interest due date on 18 June or 18 December. The loan's entire principal must be repaid in one instalment.

2) Subordinated loan of EUR 50 million

This is a perpetual loan without interest-rate step-ups but with an 8% interest-rate cap. The loan was issued on 31 March 2005 and its interest was 6.5% in the first year and thereafter CMS ten years + 0.1%. Interest payments are made annually on 11 April. If interest cannot be paid for a given interest period, the obligation to pay interest for the period in question will lapse. The loan can be called in at the earliest in 2010, subject to authorisation by the Financial Supervision Authority. The loan's entire principal must be repaid in one instalment.

3) Subordinated loan of EUR 60 million

This perpetual loan carries a variable interest rate based on 3-month Euribor + 0.65% payable quarterly on 28 February, 30 May, 30 August and 30 November. If interest cannot be paid for a given interest period, the obligation to pay interest for the period in question will lapse. It is possible to call in the loan at the earliest on 30 November 2015, subject to authorisation by the Financial Supervision Authority, and thereafter on the interest due dates. After 2015, the loan carries a variable interest rate based on 3-month Euribor +1.65% (step up). The entire loan principal must be

4) Subordinated loan of EUR 40 million

This perpetual loan carries a variable interest rate based on 3-month Euribor + 1.25% payable quarterly on 28 February, 30 May, 30 August and 30 November. If interest cannot be paid for a given interest period, the obligation to pay interest for the period in question will lapse. The loan can be called in at the earliest on 30 October 2010, subject to authorisation by the Financial Supervision Authority, and thereafter on the interest due dates. The entire loan principal must be repaid in one instalment.

5) Subordinated loan of EUR 50 million

Perpetual bond of EUR 50 million, issued on 17 June 2008, carries a variable interest rate based on 3-month Euribor + 3.05%, payable on a quarterly basis. If interest cannot be paid for a given interest period, the obligation to pay interest will lapse. Subject to authorisation by the Financial Supervision Authority, the bond may be called in at the earliest in 2013.

Loans 1 and 3 are included in hybrid instruments.

Derivatives have been used to hedge against interest-rate and exchange-rate risks, and the financial statements include EUR 2.4 million in change in fair value recognised for hedging (-1.6).

NOTE 33. SHAREHOLDERS' EQUITY

	Shareholder's equity at year-start	Increases	Decreases	Transfers between items	Shareholder's equity at year-end
Total shareholders' equity	**1,180**				**1,574**
Share capital	428				428
Share premium account	524				524
Other restricted reserves	**142**				**182**
Reserve fund	164				164
Fair value reserve	-22	41	1		19
Fair value measurement	-22	41	1		19
Non-restricted funds	**23**				**331**
Reserve for invested non-restricted equity		308			308
Other funds	23				23
Retained earnings or losses after adjustments	63		45		18
Profit or loss for the financial year		91			91

Changes in fair value reserve

	At year-start	Increases	Decreases	Trans-ferred to income statement	At year-end
Notes and bonds	-14	33		0	19
Shares and participations	-8	8		-1	-1
Total	**-22**	**41**		**-1**	**19**

NOTE 34. RESTRICTED AND NON-RESTRICTED EQUITY AND NON-DISTRIBUTABLE EQUITY ITEMS

Shareholders' equity 31 Dec. 2009	
Restricted equity	1,134
Non-restricted equity	440
Total shareholders' equity	**1,574**
Distributable funds 31 Dec. 2009	
Non-restricted equity	440
Fair value reserve	
Distributable funds	**440**

NOTE 35a. FINANCIAL ASSETS AND LIABILITIES BY MATURITY 31 DECEMBER 2009

Remaining term to maturity	Less than 3 months	3–12 months	1–5 years	5–10 years	over 10 years
Notes and bonds eligible for refinancing with central banks	78	937	4,374	471	107
Receivables from credit institutions	3,247	1,308	1,997	1,053	22
Receivables from the public and public sector entities	1,849	1,261	4,452	1,852	1,203
Notes and bonds	103	290	398	14	
Liabilities to credit institutions and central banks	2,869	1,060	657	397	
Liabilities to the public and public sector entities	3,642	22	60	287	167
Debt securities issued to the public	8,909	4,329	4,096	182	
Subordinated liabilities	5	76	1,023	60	86
Total	**20,703**	**9,283**	**17,057**	**4,315**	**1,586**

Deposits other than fixed-term deposits are included in the maturity class 'less than 3 months'.

NOTE 35b. CLASSIFICATION OF ASSETS AND LIABILITIES

Assets, EUR million	Loans and recei-vables	Held to maturity	At fair value through profit or loss*	Available for sale	Hedging deriva-tives	Total
Cash and balances with central banks	3,102					3,102
Receivables from credit institutions and central banks	7,627					7,627
Derivative contracts			1,385		59	1,443
Receivables from customers	10,742					10,742
Notes and bonds**		1,086	1,472	4,215		6,772
Shares and participations				1,363		1,363
Other receivables	1,775		21			1,796
Total 31 Dec. 2009	**23,246**	**1,086**	**2,877**	**5,578**	**59**	**32,845**

Assets, EUR million	Loans and recei-vables	Held to maturity	At fair value through profit or loss*	Available for sale	Hedging deriva-tives	Total
Cash and balances with central banks	2,260					2,260
Receivables from credit institutions and central banks	6,629					6,629
Derivative contracts			1,443		43	1,486
Receivables from customers	11,755					11,755
Notes and bonds**		96	3,502	1,062		4,661
Shares and participations				1,362		1,362
Other receivables	1,914		22			1,936
Total 31 Dec. 2008	**22,557**	**96**	**4,967**	**2,424**	**43**	**30,088**

Liabilities, EUR million	At fair value through profit or loss	Other liabilities	Hedging deriva- tives	Total
Liabilities to credit institutions		4,984		4,984
Financial liabilities held for trading (excl. derivatives)	71			71
Derivative conctracts	1,306		150	1,456
Liabilities to customers		4,178		4,178
Debt instruments issued to the public		17,516		17,516
Subordinated liabilities		1,250		1,250
Other liabilities		1,816		1,816
Total 31 Dec. 2009	**1,377**	**29,744**	**150**	**31,271**

Liabilities, EUR million	At fair value through profit or loss	Other liabilities	Hedging deriva- tives	Total
Liabilities to credit institutions		3,646		3,646
Financial liabilities held for trading (excl. derivatives)	138			138
Derivative conctracts	1,532		111	1,644
Liabilities to customers		3,554		3,554
Debt instruments issued to the public		16,728		16,728
Subordinated liabilities		1,272		1,272
Other liabilities		1,928		1,928
Total 31 Dec. 2008	**1,670**	**27,127**	**111**	**28,909**

*Assets at fair value through profit or loss include financial assets held for trading, financial assets at fair value through profit or loss at inception and investment property.

** On 31 December 2009, notes and bonds included EUR 55 million (43) in notes and bonds recognised using the fair value option.

Debt securities issued to the public are carried at amortised cost. On 31 December 2009, the fair value of these debt instruments was EUR 30 million higher than their carrying amount, based on information available in markets and employing commonly used valuation techniques. Subordinated liabilities are carried at amortised cost. Their fair value was EUR 42 million lower than their carrying amount.

NOTE 36. ASSETS AND LIABILITIES DENOMINATED IN EUROS AND FOREIGN CURRENCIES 31 DECEMBER 2009

			Of which	
	Euros	Foreign currencies	Subsidiaries	Associates
Receivables from credit institutions	7,495	132		
Receivables from the public and public sector entities	9,984	633	86	
Notes and bonds	6,760	12		
Derivative contracts	1,332	112		
Other assets	6,347	38	1,339	
Liabilities to credit institutions and central banks	4,398	586		
Liabilities to the public and public sector entities	3,582	596	46	
Debt securities issued to the public	12,146	5,369	28	
Derivative contracts and liabilities held for trading	1,438	89		
Subordinated liabilities	844	406		
Other liabilities	1,195	42	0	
Total	**55,521**	**8,015**	**1,499**	

OTHER NOTES

NOTE 37. SHARE SERIES AT YEAR-END AND AUTHORISATIONS GIVEN TO THE BOARD OF DIRECTORS AND LONG-TERM INCENTIVE SCHEMES

	Series A	Series K	Total
Share capital, EUR	335,540,229	92,077,234	427,617,463
No. of shares	251,144,690	68,406,725	319,551,415
Percentage of share capital	78.6	21.4	100
Votes per share	1	5	
Percentage of votes	42.3	57.7	100

The stated value of Pohjola Bank plc's share is EUR 1.34. The stated value is an approximation. The number of issued shares has doubled without altering the share capital, based on the Annual General Meeting's decision on 31 March 2004. Based on the Annual General Meeting's decision on 27 March 2009, Pohjola issued 91,179,502 new Series A shares and 25,021,013 new Series K shares amounting to EUR 307,931,364 entered in the reserve for invested non-restricted equity. A total of 401,060 Series K shares were converted into Series A shares during 2009.

Restrictions on share acquisition:

- Series A shares quoted on NASDAQ OMX Helsinki are intended for the general public.
- Series A shares are not subject to any purchase restrictions.
- Holding of series K shares is restricted to Finnish cooperative banks, cooperative bank companies and the central entity of the amalgamation of cooperative banks, OP-Pohjola Group Central Cooperative.

- Series K shares may be converted into Series A shares at the written request of the shareholder or, in case of nominee-registered shares, at the written request of the asset manager registered with the book-entry register.

If a dividend is paid, Series A shares entitle their holders to an annual dividend which is at least three (3) cents higher than the dividend declared on Series K shares.

Authorisations granted to the Board of Directors

OKO Bank's Annual General Meeting (AGM) of 27 March 2007 authorised the Board of Directors to decide, within two years from the date of the AGM, on one or several share issues or granting of stock options or other special rights as referred to in Chapter 10, Section 1 of the Companies Act in such a way that new shares subscribed in the share issue and on the basis of stock options and other special rights must be Series A shares and that their combined number may total a maximum of 30,000,000. In the context of a share issue or granting of stock options and other special rights, the company may waive the shareholders' pre-emptive right, under Chapter 9, Section 3 of the Companies Act, if it has a cogent reason to do so.

The Board of Directors did not exercise this authorisation in 2009.

Pohjola Bank plc's Annual General Meeting of 27 March 2009 authorised the Board of Directors to decide, until the closing of the following Annual General Meeting, on one rights issue. This authorisation can be exercised for the purpose of strengthening the Company's capital base and for the Company to be able to pursue various business opportunities. The total number of Series A and Series K shares offered for subscription in the rights issue may not exceed 117,700,000 and 32,300,000 respectively. The authorisation contains the Board of Director's right to resolve on the terms and conditions of the share issue and on other matters relating to these measures. The Board of Directors also has the right to determine whether the subscription price is to be entered in full or in part in the Company's reserve for invested non-restricted equity or in share capital.

Long-term management incentive scheme

The Group's long-term management incentive scheme applies to Pohjola Bank plc's President and CEO, Senior Vice Presidents, Executive Vice Presidents, heads of departments and those in charge of separately defined managerial, supervisory and expert duties. On 31 December 2009, the scheme covered 58 people. The Board of Directors confirms the inclusion of the President and CEO and members of the Executive Committee in the scheme. The Group's Executive Committee confirms the inclusion of other people in the scheme.

Those included in the incentive scheme may receive Pohjola Bank plc shares for 2007–09 as annual bonuses.

In 2009, target indicators for the management incentive scheme were as follows:
- Pohjola Group's earnings per share for the financial year, target 0.74 euro per share, weight 50%.
- Change in the number of Pohjola Insurance Ltd's loyal customer households, target 35,000, weight 25%.
- Change in the number of OP-Pohjola Group's loyal customer households, target 90,096, weight 25%.

The bonus factor, which is determined by the achievement of the target set for the performance indicators (profitability, growth 1 and growth 2) and by their weights, determines the final amount of bonuses payable. A minimum of 80% of the target set for each performance indicator must be achieved in order for the indicator to accumulate the bonus factor. The actual figure recorded for each performance indicator, ranging between 80% and 120% of the target level, and its weight determine the final bonus factor. The following restrictions apply to the bonus: At least 80% of one of the two Pohjola Group's targets set for the indicators (profitability or growth 1) must be achieved. At least 60% of the target set for growth 2 must be achieved to be entitled to bonuses. However, this will not apply if the target set for loyal customer households (growth 1) has been achieved at 100%. The bonus payable derives from the share, based on the abovementioned bonus factor, of the set target bonus.

If the targets are met, each person covered by the scheme is entitled to a bonus corresponding to his/her regular salary subject to PAYE tax for the following periods: the President and CEO, 6 months; Group Executive Committee members, 5 months; heads of business divisions and departments, 3 months; and other persons covered by the scheme, 1.5 months. Persons in the latter group are also entitled to a share of the profit-based payment paid into the Personnel Fund. The bonus will be paid in two years' time following the end of the vesting period.

Bonuses paid in terms of shares and cash are charged to personnel costs on an accrual basis over the vesting period. In the financial year, a total of EUR 0.4 million (0.2) was expensed for the incentive scheme.

Personnel fund

On 26 October 2004, Pohjola Bank plc joined the OP Bank Group Personnel Fund. On 31 December 2009, the Fund had over 700 Pohjola Bank plc's salaried employees.

In 2009, the amount of profit-based bonuses based on profit for 2008 and transferred to the Personnel Fund totalled around EUR 0.3 million (0.4).

The profit-based bonuses transferred to the Personnel Fund in 2009 are based on the same performance indicators as applied in the management's long-term incentive scheme. However, the minimum requirement for the growth 2 performance indicator within the management incentive scheme will not apply when determining the profit-based bonuses transferred to the Personnel Fund.

If the targets set for the performance indicators are achieved, profit-based bonuses for 2010 to be transferred to the Fund account for 3.0% of the combined salaries and wages earned by the Fund's members in 2010.

NOTE 38. MAJOR SHAREHOLDERS AND BREAKDOWN OF SHAREHOLDING

Major shareholders in terms of votes
(10 largest shareholders based on the Shareholder Register on 31 December 2009)

		No. of shares	Total no. of shares	% of shares	No. of votes	% of votes
OP-Pohjola Group Central Cooperative	A	35,157,348				
	K	60,641,131	95,798,479	30.0	338,363,003	57.0
Suomi Mutual Life Assurance Company	A	32,738,672				
	K		32,738,672	10.2	32,738,672	5.5
Ilmarinen Mutual Pension Insurance Company	A	31,955,142				
	K		31,955,142	10.0	31,955,142	5.4
Oulun Osuuspankki	A	2,511,450				
	K	1,590,916	4,102,366	1.3	10,466,030	1.8
Keski-Uudenmaan Osuuspankki	A					
	K	772,828	772,828	0.2	3,864,140	0.7
Keski-Suomen Osuus-pankki	A	12,572				
	K	717,448	730,020	0.2	3,599,812	0.6
OP Bank Group Pension Fund	A	3,455,529				
	K		3,455,529	1.1	3,455,529	0.6
Länsi-Suomen Osuus-pankki	A	1,092,986				
	K	395,716	1,488,702	0.5	3,071,566	0.5
OP Bank Group Pension Foundation	A	2,328,568				
	K		2,328,568	0.7	2,328,568	0.4
Turun Seudun Osuuspankki	A	1,996,257				
	K	31,364	2,027,621	0.6	2,153,077	0.4
Total			175,397,927	54.8	431,995,539	72.9
Nominee-registered shares	A		39,274,846	12.3	39,274,846	6.6
Total number of shareholders			37,000			

Major shareholders in terms of shareholdings
(10 largest shareholders based on the Shareholder Register on 31 December 2009)

	No. of shares	% of shares	% of votes
OP-Pohjola Group Central Cooperative	95,798,479	30.0	57.0
Suomi Mutual Life Assurance Company	32,738,672	10.2	5.5
Ilmarinen Mutual Pension Insurance Company	31,955,142	10.0	5.4
Oulun Osuuspankki	4,102,366	1.3	1.8
OP Bank Group Pension Fund	3,455,529	1.1	0.6
OP Bank Group Pension Foundation	2,328,568	0.7	0.4
Turun Seudun Osuuspankki	2,027,621	0.6	0.4
OP-Delta Fund	1,946,034	0.6	0.3
Folketrygdfondet	1,648,170	0.5	0.3
Länsi-Suomen Osuuspankki	1,488,702	0.5	0.5
Total	**177,489,283**	**55.5**	**72.2**
Nominee-registered shares	39,274,846	12.3	6.6

Shareholdings by number of shares held (based on the Shareholder Register on 31 December 2009)
Number of shares (Series A and K shares)

	No. of share holders	% of share-holders	No. of shares	% of shares
1–100	3,752	10.1	237,189	0.1
101–1000	24,520	66.3	9,526,974	3.0
1001–10 000	7,808	21.1	21,609,958	6.8
10 001–100 000	746	2.0	20,114,622	6.3
100 001–1 000 000	158	0.4	48,565,612	15.2
1 000 001–	16	0.0	219,497,060	68.7
In joint account				
Total	**37,000**	**100**	**319,551,415**	**100**

Shareholdings by sector (based on the Shareholder Register on 31 December 2009)

Shareholder type	Share-holders	% of share-holders	No. of shares	% of shares	No. of votes	% of votes
Non-banking corporate sector	1,373	3.7	10,387,551	3.3	10,387,551	1.8
OP-Pohjola Group Central Cooperative and member cooperative banks	221	0.6	141,707,230	44.3	415,334,130	70.0
Other financial institutions and insurance companies	64	0.2	42,129,615	13.2	42,129,615	7.1
Public sector entities	34	0.1	39,538,812	12.4	39,538,812	6.7
Non-profit organisations	353	1.0	5,141,487	1.7	5,141,487	0.9
Households	34,869	94.2	38,152,699	11.9	38,152,699	6.4
Foreign	74	0.2	3,219,175	1.0	3,219,175	0.6
Nominee-registered shareholders	12	0.0	39,274,846	12.3	39,274,846	6.6
In joint account						
Total	**37,000**	**100**	**319,551,415**	**100**	**593,178,315**	**100**

NOTE 39. ASSETS PLEDGED AS COLLATERAL 31 DECEMBER 2009

Assets pledged as collateral

	Pledges	Mort-gages	Total
Collateral pledged on behalf of own debt			
Other liabilities	308		308
Total	**308**		**308**
Other collateral given on own behalf	**6,125**		**6,125**
Total collateral given	**6,433**		**6,433**

Secured liabilities totalled EUR 1,022 million.

Other collateral given on own behalf consists of collateral required for the maintenance of liquidity.

NOTE 40. PENSION LIABILITIES

Direct liabilities from pension commitments	4
Share of the excess margin of pension liabilities on the pension fund and on other liabilities	-
Repayment of the excess margin of the pension fund recorded as pension cost adjustment	-

The statutory pension cover for Pohjola Bank plc employees is managed through the OP Bank Group Pension Fund and the supplementary pension cover through the OP Bank Group Pension Foundation. The Foundation has not accepted new beneficiaries since 30 June 1991. Pohjola Bank plc's pension liabilities are fully covered.

NOTE 41. LEASE AND OTHER RENTAL LIABILITIES

Material contract terms and conditions regarding termination and redemption

Pohjola Bank plc has no significant lease or other rental liabilities. The contracts primarily cover personnel car leases with a maturity of three years.

NOTE 42. OFF-BALANCE-SHEET COMMITMENTS

	On behalf of subsidiaries	On behalf of affiliates	On behalf of others	Total
Off-balance-sheet commitments 31 December 2009			**7,299**	**7,299**
Commitments given to a third party on behalf of customers			**2,676**	**2,676**
Guarantees and pledges			2,578	
Other			98	
Irrevocable commitments given on behalf of customers			**4,623**	**4,623**
Loan commitments			4,263	
Other			360	

NOTE 43. OTHER CONTINGENT LIABILITIES AND COMMITMENTS AT THE YEAR-END

On 31 December 2009, Pohjola Bank plc's commitments to private equity funds amounted to EUR 12.6 million and relate to those presented in Note 42.

Client assets related to brokerage amounted to EUR 0.8 million included in 'Liabilities to the public and public sector entities'.

Accounts payable related to brokerage totalled EUR 56.9 million and accounts receivable EUR 56.1 million.

NOTE 44. PERSONNEL AND MEMBERS OF ADMINISTRATIVE BODIES, AND RELATED PARTIES

Average personnel in 2009	Average no.	Change during the year
Permanent full-time personnel	640	17
Permanent part-time personnel	1	-4
Fixed-term personnel	60	-9
Total	**701**	**4**

Remuneration paid to members of administrative bodies in 2009	Wages and salaries, EUR million
Members of the Board of Directors, President and CEO, and Deputy CEO	1

The Annual General Meeting approved the following Board emoluments:

Emoluments paid to Board members in 2009 totalled EUR 531,000

The Chairman's monthly emoluments totalled EUR 7,000, the Vice Chairman's EUR 5,000 and other members EUR 4,000. All Board members received an attendance allowance of EUR 500 for each meeting.

Reijo Karhinen, Chairman EUR 97,000

Tony Vepsäläinen, Vice Chairman EUR 75,500

Members of the Board of Directors:

Merja Auvinen EUR 60,000

Eino Halonen EUR 15,636 until 27 March 2009

Jukka Hienonen EUR 43,363 since 27 March 2009

Simo Kauppi EUR 59,000

Satu Lähteenmäki EUR 59,500

Tom von Weymarn EUR 60,500

Markku Vesterinen EUR 60,500

Salaries and performance-based bonuses paid to the President and CEO in the financial year ending 31 December 2009 were as follows:

Mikael Silvennoinen, President and CEO EUR 652,670

His period of notice is six months and the severance pay equals a 12-month salary in addition to compensation for loss of office.

Loans, guarantees and collateral granted to members of the administrative bodies on 31 December 2009

As at 31 December 2009 and 31 December 2008, Pohjola Bank plc had not granted loans or guarantees to members of the Board of Directors.

Pension commitments

Members of the administrative and supervisory bodies are not covered by any pension commitments. Furthermore, no pension commitments have been made for previous members of these bodies.

Auditors' remuneration	2009	2008
Audit	EUR 212,364	EUR 165,924
Other services based on legislation*		
Tax counselling	EUR 82,296	
Other services	EUR 618,969	EUR 312,081
Total	**EUR 913,629**	**EUR 478,005**

* Assignments as referred to in sub-paragraph 2, paragraph 1, Section 1 of the Auditing Act

Related parties

Pohjola Bank plc's related parties include the President and CEO, deputy CEO, members of the Board of Directors, the auditor and deputy auditor or the chief auditor representing the firm of authorised public accountants, and the abovementioned persons' spouses or persons living in a spousal-type relationship with them and their underaged children.

In addition, the related parties include those who, on the basis of shareholdings, hold a minimum of 20% of Pohjola Bank plc shares or, on the basis of shareholdings, stock options or convertible bonds, have or may have the equivalent shareholding or voting rights in Group entities, unless the entity to which the shareholding applies is of minor significance to the entire Group. These entities' corresponding persons mentioned in the previous paragraph are also included in the related parties.

The related parties also include entities and foundations over which the aforementioned persons have control, alone or together with the other person.

	Holding
Receivables from the public and public sector entities 31 Dec.	250
Guarantees and other off-balance-sheet commitments 31 Dec.	8

No impairments have been recognised for the items.

Management holdings

On 31 December 2009, Pohjola Bank plc's Board members and President and CEO held a total of 103,420 Series A shares, accounting for 0.032% of all shares and 0.017% of votes conferred by all shares.

NOTE 45. HOLDINGS IN OTHER COMPANIES 31 DECEMBER 2009

Subsidiaries	Holding, %	Equity capital	Profit or loss for the financial year
Pohjola Asset Management Ltd Helsinki	85	26	15
Pohjola Capital Partners Ltd Helsinki	65	2	1
Pohjola Corporate Finance Ltd Helsinki	60	2	2
Pohjola Insurance Ltd Helsinki	100	198	160
A-Insurance Ltd Helsinki	100	36	16
Pohjola Property Management Ltd Helsinki	100	2	1
Pohjola IT Procurement Ltd Helsinki	100	7	0
Kaivokadun PL-Hallinto Oy Helsinki	100	5	0
Joint Stock Insurance Co. Seesam Latvia Latvia	100	8	1
Joint Stock Insurance Co. Seesam Lithuania Lithuania	100	5	1
Seesam International Insurance Company Ltd. Estonia	100	20	3
Vakuutuspalvelu Otava Oy Helsinki	100	0	0
Conventum Venture Finance Ltd. Helsinki	100	7	-2
Northclaims Oy Helsinki	100	0	0
Pohjola Finance Estonia AS Estonia	100	1	0
Pohjola Finance SIA Latvia	100	0	0
UAB Pohjola Finance Lithuania	100	0	0

Participating interests	Holding, %	Equity capital	Profit or loss for the financial year
VH-Holding 1 Oy Helsinki	33.34	27	16

Pohjola Bank plc has no shareholdings in companies in which it would have unlimited liability.

NOTE 46. TRUSTEE SERVICES

Pohjola Bank plc provides the general public with investment services and asset management and custodian services.

Notes concerning an entity under the Group's control
Pohjola Bank plc's parent company is OP-Pohjola Group Central Cooperative and Pohjola's consolidated accounts are included in the Central Cooperative's consolidated financial statements. Copies of the financial statements of OP-Pohjola Group Central Cooperative Consolidated are available from the Central Cooperative, Teollisuuskatu 1 b, FI–00150 Helsinki, Finland

Helsinki, 11 February 2010

The Report by the Board of Directors and the Financial Statements signed by:

Reijo Karhinen

Merja Auvinen	Jukka Hienonen
Simo Kauppi	Satu Lähteenmäki
Tony Vepsäläinen	Markku Vesterinen
Tom von Weymarn	

This document is an English translation of the Finnish auditors' report. Only the Finnish version of the report is legally binding.

AUDITORS’ REPORT

To the Annual General Meeting of Pohjola Bank plc

We have audited the accounting records, the financial statements, the Report by the Board of Directors and corporate governance of Pohjola Bank plc for the year ended on 31 December 2009. The financial statements comprise the consolidated balance sheet, income statement, statement of comprehensive income, statement of changes in equity, cash flow statement and notes to the consolidated financial statements, as well as the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements.

Responsibility of the Board of Directors and the President and CEO

The Board of Directors and the President and CEO are responsible for the preparation of the financial statements and the Report by the Board of Directors and for the fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, as well as for the fair presentation of the parent company’s financial statements and the Report by the Board of Directors in accordance with laws and regulations governing the preparation of the financial statements and the report by the board of directors in Finland. The Board of Directors is responsible for the appropriate arrangement of control of the Company’s accounts and finances, and the President and CEO shall see to it that the accounts of the Company are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

Auditors’ Responsibility

Our responsibility is to perform an audit in accordance with good auditing practice in Finland, and to express an opinion on the parent company’s financial statements, on the consolidated financial statements and the Report by the Board of Directors based on our audit. Good auditing practice requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements and the Report by the Board of Directors are free from material misstatement and whether the members of the Board of Directors of the parent company and the President and CEO have complied with the Finnish Limited Liability Companies Act and the Finnish Act on Credit Institutions.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the Report by the Board of Directors. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements or of the Report by the Board of Directors, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements and the Report by the Board of Directors in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the Report by the Board of Directors.

The audit was performed in accordance with good auditing practice in Finland. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the Consolidated Financial Statements

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

Opinion on the Company’s Financial Statements and the Report by the Board of Directors

In our opinion, the financial statements and the Report by the Board of Directors give a true and fair view of both the consolidated and the parent company’s financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements and the report by the board of directors in Finland. The information in the Report by the Board of Directors is consistent with the information in the financial statements.

Opinion on discharge from liability and distribution of profit

We recommend that the parent company’s financial statements and the consolidated financial statements should be adopted. The proposal by the Board of Directors for use of the profit shown on the balance sheet is in compliance with the Finnish Limited Liability Companies Act. We recommend that the Members of the Board of Directors of the parent company and the President and CEO be discharged from liability for the financial year audited by us.

Helsinki, 11 February 2010

KPMG OY AB

Sixten Nyman
Authorised Public Accountant in Finland