Pohjola

Pohjola Bank plc

REPORT BY THE BOARD OF DIRECTORS AND FINANCIAL STATEMENTS 2008

CONTENT

FINANCIAL REPORTING IN 2009: Pohjola Bank plc will publish the following three interim reports in 2009: Q1 on 7 May, Q1–2 on 6 August and Q1–3 on 5 November.

REPORT BY THE BOARD OF DIRECTORS

The Group's customer business made good progress in 2008. Banking showed strong growth in the loan and guarantee portfolio, net interest income and market share. Within Non-life Insurance, insurance premium revenue continued to grow, the balance on technical account was excellent and our market position as Finland's largest non-life insurer continued to strengthen further. Although the investment market turbulence led to a reduction in assets under management by Asset Management, we strengthened our market position.

Despite the favourable development in our customer business, the Group's earnings for 2008 were markedly lower than in 2007, earnings being eroded by the global financial crisis coming to a head and the weaker economy. As a result, investment income at fair value from Non-life Insurance was negative and impairment charges rose.

However, the Group has strong capital adequacy and good liquidity and short-term funding has performed well despite the difficult market situation.

CONSOLIDATED EARNINGS

Consolidated earnings before tax fell to EUR 119 million (288) and earnings and loss before tax at fair value amounted to EUR 133 million (earnings of EUR 234).

Earnings per share stood at EUR 0.44 (1.04), while equity per share was EUR 8.07 (9.19). Return on equity at fair value was –5.6% (9.3).

Net interest income rose by over 50% to EUR 174 million (115) while net commissions and fees remained almost at the previous year's level, standing at EUR 108 million (115). However, consolidated net income fell by 19% to EUR 589 million (728), due to negative mark-to-market valuations of liquidity reserves and Non-life Insurance investments. As a result of Lehman Brothers Holdings Inc.'s bankruptcy, net trading income decreased by EUR 9 million and impairments of receivables increased by EUR 10 million. Other impairments of receivables totalled EUR 18 million. Negative mark-to-market valuations of liquidity reserves totalled EUR 74 million.

Expenses rose by 7% to EUR 470 million (440), with EUR 7 million attributable to growth in depreciation on leases. Excluding this depreciation, expenses increased by 5%. Expenses also include costs of EUR 6 million arising from ICT systems integration. As a result of testing Group goodwill for any impairment, an impairment charge of EUR 3 million was recognised related to the Seesam brand. In other respects, there was no need for impairments on goodwill.

As a result of a drastic fall in equity prices and widening credit spreads, the fair value reserve before tax decreased by EUR 252 million.

On 31 December 2008, the capital adequacy ratio stood at 11.7% (11.2) and Tier 1 ratio at 9.4% (10.7).

OPERATING ENVIRONMENT

The global financial market got into a serious crisis in 2008. Problems originating from the US housing market spread to other countries and other sectors, resulting in falling GDP figures in many countries. Finland is not immune to this contagious global recession and the economic outlook for 2009 is even bleaker.

The global financial crisis came to a head in autumn 2008 when Lehman Brothers, an investment bank, filed for Chapter 11 protection, bringing down liquidity in financial markets, and the lack of confidence increased short-term market rates and intensified equity and currency market swings.

To attempt to combat the crisis, national central banks took considerable measures to support the financial markets, such as increasing market liquidity to prevent a loan slump, and also reducing their benchmark interest rates to exceptionally low. Many countries also put in place considerable stimulus packages.

Many financial institutions in various countries suffered massive losses and had to rely on state support, which led to a number of restructuring measures in the financial sector. In October 2008, the Finnish government alongside the other EU governments agreed to guarantee interbank lending, if necessary, and make fixed-term capital investments in banks.

The support measures taken by central banks and governments alleviated the acute crisis, with the short-term market rates being cut and interbank trading picking up a little. The long-term effects are, however, difficult to predict.

Finland drifting into recession in 2009 behind the US and EU

The global financial crisis has weakened economic outlooks everywhere. Both the US and major EU countries have veered into recession and emerging economies too are experiencing slowing growth, for weaker export prospects will be only partly offset by sustained domestic demand.

Finland's economic outlook deteriorated rapidly in the latter half of 2008, bringing GDP growth to a standstill and resulting in a downturn of exports owing to the global recession. Growth in consumer spending slowed down as households became more and more wary in the wake of dismal economic and business news. Incomes continued their upward trend, but so did unemployment. Capital spending was up for most of the year, as construction projects started earlier were completed, but the number of building permits applied gives reason to believe that capital spending will be falling sharply.

It would appear that Finland alongside other industrial countries is drifting into a recession in 2009, with industry and especially construction showing a drastic downturn, while the service sector is expected to fare better than other sectors. Consumer confidence is as weak as it was during the slump in the 1990s, and the only thing people have faith in is that they will be able to save up money.

In 2008, the inflation rate was 4.1% at its highest, due mostly to higher food prices and housing costs. The stagnating economy is expected to decelerate the inflation rate markedly in 2009.

Interest rates may fall further

Owing to the lack of confidence in financial markets, the Euribor rates rose until autumn 2008. Moreover, the European Central Bank (ECB) raised its benchmark interest rate further in July to 4.25%, basing its decision on high inflation. As the financial crisis came to a head in the autumn, the ECB cut its benchmark interest rate three times by the end of 2008, coming to 2.5%, and once in January 2009 standing at 2.0%, bringing the Euribor rates down in its wake. With the euro area in recession and the lower inflation rate, interest rates may fall further in 2009.

Loans and deposits continued to grow briskly in the banking market in 2008, and the growth rate of the loan portfolio of financial institutions remained the same as in the previous year, 11.7%. Because the financial markets were jammed up, the growth rate of corporate loans in particular rose to 19.0%, whereas the home mortgage growth rate slowed down to 8.7% despite the falling interest rates and home prices in the latter half of the year. However, households' loan portfolio increased faster than their income, resulting in higher indebtedness.

The deposit growth rate rose to a record 12.9% in 2008, as many savings were channelled to deposits due to the steep fall in the equity market. Banking market growth is forecast to slow down in 2009. Slower growth in household income and lower income from term deposits as a result of lower interest rates are expected to dampen growth in deposits. A rise in home loans is also expected to slow down, although the average interest rates of new home loans will fall.

In 2008, capital market performance was exceptionally poor and stock performance was one of the worst ever experienced, with the OMX Helsinki Cap index – a measure of stock prices in Finland –

falling by 50.0%. Mutual fund assets shrank by 37.4% owing to redemptions and negative mark-to-market valuations.

Despite the weaker economy, non-life insurance premiums written rose by 4.2% in 2008. The non-life insurance business is not so badly affected, because statutory insurance accounts for such a high percentage of the policies. On the other hand, the stagnating economy is expected to slow down growth in claims expenditure.

INTEGRATION

The integration process related to OKO Bank's acquisition of Non-life Insurance operations in 2005 is proceeding according to plan. The results so far support earlier estimates of annual revenue synergies coming to EUR 17 million by the end of 2010 and cost synergies reaching EUR 35 million by the end of 2009. Savings based on decisions on streamlining measures underway during 2005–08 will amount to an estimated EUR 33 million during the current year. From 2009, savings from the integration are expected to reach an annual level of EUR 36 million. The revenue synergies resulting from growth in the number of loyal customer households by the end of the financial year reached an annual level of EUR 12 million and the management is targeting EUR 17 million by the end of 2010. Integration costs related to the Pohjola acquisition totalled EUR 33 million between September 2005 and December 2008.

In May, Pohjola Bank's parent institution, OP-Pohjola Group Central Cooperative, and TietoEnator signed an agreement to integrate and reorganise OP-Pohjola Group's ICT services. Integrating all of Pohjola Bank Group's ICT services within this joint venture will result in major efficiency gains of an annual estimated EUR 3 million from 2009. The related integration costs paid in advance by Pohjola in December came to EUR 6 million.

The number of loyal customer households within Non-life Insurance increased by 34,400 during the financial year, totalling almost 390,000 on 31 December 2008. The Group's strategic aim is to increase this number to 450,000 by the end of 2010.

Customer service took a major step in November 2007 when OP-Pohjola Group enhanced loyal customer benefits, related to the Pohjola integration, in such a way that customers have also been able to use OP bonuses earned through banking transactions to pay Pohjola insurance premiums. This represents a major benefit to the year-end number of 993,000 OP-Pohjola Group loyal customers who have concentrated their purchases of banking and insurance services. In 2008, bonuses used to pay insurance premiums totalled EUR 18 million.

Pohjola Insurance Ltd and a number of OP-Pohjola Group member cooperative banks adopted a new operating model for banking and non-life insurance product sales to private customers. According to this plan, Pohjola Insurance's field staff for private customers (around 294 employees) joined the payroll of local cooperative banks on 1 October 2008.

This new operating model enables improved customer service, especially in the field of cross-selling banking and non-life insurance services. The majority of these employees had worked on the premises of the cooperative bank branches, bearing in mind that these branches and Pohjola Insurance have operated under the same roof almost everywhere in Finland. This reorganisation did not involve any staff reductions. Agency operations, corporate and institutional customer sales or the operations of other Pohjola Insurance's service channels did not undergo any changes.

GROUP RESTRUCTURING

OKO Bank plc's Extraordinary General Meeting made the decision on changing the company's corporate name to Pohjola Bank plc as of 1 March 2008. In marketing communication and when used together with the logo, 'Pohjola' is used for short.

As of the same date, the corporate names of subsidiaries with the OKO prefix also changed to begin with 'Pohjola'. The parent company Pohjola Bank plc and its subsidiaries together form Pohjola Group.

Based on an agreement signed by Pohjola Bank plc and Kesko Corporation on 21 December 2007, Pohjola Bank plc bought all of the shares of K-Finance Ltd, for around EUR 30 million, of which goodwill accounted for roughly EUR 12 million. On 31 January 2008, Pohjola Bank plc became the owner of all of K-Finance Ltd shares and the company was renamed Pohjola Finance Ltd. The Boards of Directors of Pohjola Bank plc and Pohjola Finance Ltd have approved a plan, whereby Pohjola Finance Ltd will merge with its parent company by the end of September 2009. This merger is aimed at simplifying the Group's corporate structure, streamlining operations and reducing administrative costs. Since the transaction represents a subsidiary merger, no merger consideration will be paid.

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. This concerned some 2.1% of the company's shares (about 3.4 million shares).

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.

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 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.

PERSONNEL

On 31 December 2008, the Group had a staff of 2,913, down by 145 on a year earlier. As a result of K-Finance Ltd's acquisition, 21 employees joined the Group's payroll. Pohjola Insurance's field staff for private customers (around 294 employees) joined the payroll of local cooperative banks on 1 October 2008.

A total of 613 Group employees (549) worked for Banking, 154 (154) for Asset Management, 1,745 employees (2,023) for Non-life Insurance in Finland and 273 (224) abroad, and 129 employees (108) for the Group Functions.

CAPITAL EXPENDITURE

Gross capital expenditure for 2008 totalled EUR 21 million (19), EUR 4 million allocated to Banking, EUR 1 million to Asset Management, EUR 13 million to Non-life Insurance and EUR 3 million to the Group Functions. Investments in IT systems accounted for EUR 17 million of all capital expenditure.

ENVIRONMENTAL RESPONSIBILITY

Pohjola's environmental responsibility means that the Group pays special attention to environmental aspects in its working methods, services provided to customers and the selection of partners. Indirect responsibility for the environmental effects of customer operations is also associated with banking and finance. Our indirect environmental responsibility highlights our corporate customers' investment projects and related financing. A customer's environmental responsibility forms part of risk assessment related to the customer's operations. Given that we have no specific methods in use to assess the environmental risks and environmental responsibility of our corporate customers' operations, we analyse environmental risks as part of our overall risk management. Non-life Insurance also analyses its customers' environmental risks and responsibility as part of their total assessment. In 2008, Pohjola Insurance Ltd initiated a project aimed at finding out about the effects of climate change on non-life insurance. It also seeks to recycle damaged goods for which customers have received compensation. The customer service business made dedicated efforts to enhance the use of the e-billing service.

CAPITAL ADEQUACY

The capital adequacy ratio continued to remain strong, despite vigorous growth in the loan portfolio and the financial-market turbulence. The capital adequacy ratio stood at 12.0% (12.2), without taking account of transitional rules, and at 11.7% (11.2) adjusted for transitional rules, as against the statutory minimum requirement of 8%. Tier 1 ratio stood at 9.6% (11.6), without taking account of transitional rules, and at 9.4% (10.7) adjusted for transitional rules.

Together with the Financial Supervisory Authority, the Group specified the treatment of insurance companies in capital adequacy (solvency) measurement under the Act on Credit Institutions. For the year-end capital adequacy measurement, only the carrying amount of insurance company investments applies and this amount is deducted from Tier 1 capital and Tier 2 capital on a fifty-fifty basis. Comparatives have been changed correspondingly.

Capital resources increased from EUR 1,313 million to EUR 1,530, due to the reported earnings and the abovementioned issues. Tier 1 capital came to EUR 1,228 (1,247). Since the financial market turbulence lowered the values of investments, the Group enhanced its capital resources by issuing a EUR 50-million subordinated bond included in Tier 1 capital and EUR 270-million debenture loans included in lower Tier 2 capital and Tier 3 capital. Hybrid capital accounted for EUR 274 million, or 13.8% (11.4). The minimum regulatory capital requirement to cover market risk amounted to EUR 47 million (46). On 31 December, the fair value reserve stood at EUR –22 million (–3).

On 31 December, risk-weighted assets totalled EUR 12,784 million, without taking account of transitional rules, as against EUR 10,745 million a year earlier. This change was due mainly to the larger loan and guarantee portfolio. Adjusted for transitional rules, risk-weighted assets came to EUR 13,120 million (11,705).

The Financial Supervision Authority granted permission to OP-Pohjola Group to use the Internal Ratings Based Approach (IRBA) in its capital adequacy measurement for credit risks as of 30 September 2008. This applies to exposures to corporate and institutional customers, accounting for around two-thirds of Pohjola's minimum capital requirement. With respect to other exposure classes, Pohjola aims to phase in the Internal Ratings Based Approach in such a way that the approach will next apply to retail exposures. The Financial Statements 2007 figures have been converted into comparable ones.

Since the beginning of 2008, the minimum capital adequacy requirement for operational risks has been calculated using the Basic Indicator Approach (BIA) and that for market risks using the Standardised Approach (SA).

Capital resources and capital adequacy

EUR million	31 Dec. 2008	31 Dec. 2007
Capital resources		
Shareholders' equity*)	1,906	2,028
Subordinated loans (hybrid capital)	274	224
Intangible assets	–144	–129
Fair value reserve, excess funding of pension liability and change in fair value of investment property	–8	–27
Profit distribution as proposed by the Board	–45	–131
Insurance company investments 50%	–705	–685
Impairments – expected losses 50%	–50	–33
Tier 1 capital	**1,228**	**1,247**
Fair value reserve	–22	–3
Subordinated liabilities included in upper Tier 2 capital	299	299
Subordinated liabilities included in lower Tier 2 capital	734	488
Insurance company investments 50 %	–705	–685
Impairments – expected losses 50%	–50	–33
Tier 2 capital	**256**	**66**
Tier 3 capital	**46**	
Total capital resources	**1,530**	**1,313**
Risk-weighted assets, without transitional rules	12,784	10,745
Risk-weighted assets, under transitional rules	**13,120**	**11,705**
Ratios, without transitional rules:		
Capital adequacy ratio, %	12.0	12.2
Tier 1 ratio, %	9.6	11.6
Capital adequacy ratio under the Act on Supervision of Financial and Insurance Conglomerates	1.29	1.49
Ratios, under transitional rules:		
Capital adequacy ratio, %	**11.7**	**11.2**
Tier 1 ratio, %	**9.4**	**10.7**
Capital adequacy ratio under the Act on Supervision of Financial and Insurance Conglomerates	**1.26**	**1.38**

*) Consolidation group's equity which excludes the effect of insurance companies on the Group's shareholders' equity.

OP-Pohjola Group's capital adequacy ratio under the Act on Credit Institutions stood at 12.7% (13.8) and the Tier 1 ratio at 12.6% (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 1.40 (1.52).

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 insurance 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, Asset Management, Non-life Insurance 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

In 2008, the effects of the global financial crisis were mainly felt in the mark-to-market valuations of the Group's liquidity reserves and investment income generated by Non-life Insurance. Because of this market disruption, determining the fair value of assets reliably became a problem on a global scale. Notes and bonds worth EUR 3.8 billion, included in OP-Pohjola Group's liquidity reserves, were reclassified as of 1 July 2008, in accordance with Commission Regulation (EC).

Determining the value of financial assets is based on mark-to-market valuations and the Group has not applied its own valuation models, despite the illiquid market. Nor has the Group measured any debt securities issued to the public at fair value. Negative mark-to-market valuations recognised from liquidity reserves totalled EUR 88 million, EUR 74 million of which was recognised in the income statement. Negative value changes will be reversed during the residual term to maturity if the notes and bonds are not sold before their maturity and their issuer is not declared insolvent. Sharply falling equity prices and widening credit spreads affected Non-life Insurance investment income, with the related return at fair value standing at –7.0% (4.8). The Group reduced equity risk in the fourth quarter.

Despite the financial crisis, the financial position and liquidity remained at a healthy level, because the financial position was boosted by the EUR 1-billion bond issued in August by Pohjola Bank plc and growth in OP-Pohjola Group member banks' deposit portfolio. Pohjola Bank plc maintains OP-Pohjola Group's liquidity reserves which mainly consist of notes and bonds eligible as collateral for central bank refinancing. Financial assets included in liquidity reserves totalled EUR 9,835 million (5,749) on 31 December. These liquidity reserves plus items included in OP-Pohjola Group's balance sheet comprise the liquidity reserve eligible for central bank refinancing, 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 liquidity reserves.

The Group's credit risk exposure continued to remain on a sound basis although the effects of the financial crisis spreading to the real economy is beginning to be felt in customers' business. Credit ratings remained at good levels with respect to both the total exposure and corporate exposure, but exposures with lower ratings increased as a result of lower customer credit ratings. Past due payments and doubtful receivables rose but remained at low levels.

With a net effect of EUR 28 million (1) on earnings, impairments increased with respect to corporate loans and notes and bonds and as a result of the failure of Lehman Brothers. The failure of Lehman Brothers eroded Group earnings by EUR –19 million, EUR 10 million recognised as impairments and EUR 9 million in net trading income. The Group kept market risks at a moderate throughout the financial year.

Despite the highly exceptional market situation, the Group's risk exposure remained favourable. The effects of the market disruption originating from the global financial crisis have begun to be felt in the real economy, and the USA and euro area, Finland included, have shown a rapid slowdown in their economic growth, these economies now experiencing an economic downturn.

Operational risks

The most significant, identified operational risks pertain to systems, trading and the execution of orders, and the sufficiency of skills and resources. Materialised operational risks reduced earnings for 2008 by EUR 4.2 million (1.1). Higher costs incurred were due to errors related to information systems.

Country risk

A significant part of Pohjola Group's country risk pertains to liquidity reserves and the investment portfolio managed by Non-life Insurance. On 31 December, the amount of secondary country risk, excluding Finland, came to EUR 9.0 billion, up by EUR 2.4 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 reserve.

By region, the majority of the country risk applied to EU member states, with non-EU countries accounting for 14% of country risk.

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 greater financial-market uncertainty and strong growth in total exposure, risk exposure by Banking remained favourable. During January–December, total exposure grew by EUR 3.6 billion to EUR 21.5 billion, receivables from customers accounting for around a half.

Breakdown of total exposure, EUR billion

	31 Dec. 2008	31 Dec. 2007	Change, %
Receivables from customers	11.4	9.2	24
Receivables from credit institutions and central banks	0.6	0.5	16
Notes and bonds	1.5	1.4	8
Unused standby credit facilities	3.0	3.3	–11
Guarantees and letters of credit	2.7	2.2	25
Derivative contracts	2.0	1.0	105
Other off-balance-sheet items	0.3	0.3	–3
Total	**21.5**	**17.9**	**20**

Total exposure by counterparty, EUR billion

	31 Dec. 2008	31 Dec. 2007	Change, %
Non-banking corporate sector	14.6	12.3	18
Credit institutions	3.1	2.2	37
Member banks and the Central Cooperative	0.1	0.1	81
Non-profit organisations	1.9	1.8	5
Public-sector entities	1.2	0.9	37
Private customers	0.6	0.5	3
Total	**21.5**	**17.9**	**20**

With respect to total exposure by counterparty, total exposure is divided into six customer groups, corporate customers constituting the largest group, accounting for 68% (69) of total exposure. Year on year, corporate exposure increased by EUR 2.3 billion, or 18%, loans and guarantees representing 52%, leasing and factoring 15% and unused and standby credit facilities 18%.

Total exposure by rating category*, EUR billion

Rating category	31 Dec. 2008	31 Dec. 2007	Change, EUR bn
1–2	2.8	2.8	0.1
3–5	11.2	9.2	1.9
6–7	4.3	3.2	1.1
8–9	1.9	1.6	0.3
10	0.1	0.0	0.1
11–12	0.1	0.1	0.0
Non-rated	0.5	0.6	0.0
Total	**20.9**	**17.4**	**3.5**

*) excl. private customers

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 67% (69), the share of ratings 11–12 was 0.5% (0.4) and that of non-rated exposure 3% (3).

Corporate customers' credit ratings and corporate exposure by rating were down during the financial year. Although the ratio of investment-grade corporate exposure to total corporate exposure fell by 5 percentage points, from 65% to 60%, 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, EUR million

Rating category	31 Dec. 2008	31 Dec. 2007	Change, EUR mn
1–2	358	564	–206
3–5	8,427	7,460	967
6–7	3,466	2,587	879
8–9	1,681	1,372	309
10	112	32	80
11–12	110	70	40
Non-rated	461	263	198
Total	**14,615**	**12,348**	**2,267**

Growth in corporate exposure focused on investment-grade rating categories 3–5 and categories 6–7.

The exposure of the lowest four rating categories increased by a total of EUR 186 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 110 million, accounting for 0.7% (0.6) of the corporate exposure. Non-rated corporate exposure came to around EUR 0.5 billion, representing 3% (2) of the corporate exposure.

The metal industry and trade constituted the largest two sectors, the former accounting for roughly 14% of total corporate exposure and the latter for around 13%. Services, real property investment and the metal industry 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.

Major customer exposure
Major customer exposure includes corporate customers and non-profit customers whose direct exposure exceeds 10% of the Group's capital resources. The Group's capital resources rose from EUR 1,313 million to EUR 1,530 million, or by 16.5%.

On 31 December, major customer exposure totalled EUR 4.4 billion, up by EUR 0.8 billion on a year earlier. Major customer exposure consisted of 19 Groups (15), accounting for 271% (221) of capital resources. A total of 94% (90) of major customer exposure was investment-grade exposure.

Past due payments and doubtful receivables
Past due payments increased by EUR 17 million to EUR 32 million but their proportion of the total loan and guarantee portfolio remained low, 0.2% (0.1).

Doubtful receivables – non-performing, zero-interest and under-priced receivables – rose by EUR 19 million to EUR 35 million. Their share of the loan and guarantee portfolio was low, 0.3% (0.1).

On 31 December, impairments that reduce receivables totalled EUR 24 million (21), EUR 6 million (5) of which represented impairments on collectively assessed receivables. A total of EUR 18 million (11) of impairments applied to non-performing receivables.

Loan and guarantee losses and impairment losses had a net effect on EUR –18 million (1) on earnings.

Market risk exposure

The financial crisis culminated with the bankruptcy of Lehman Brothers in mid-September. Consequently, interbank bond markets almost came to a standstill and money markets experienced a drastic fall. A number of governments across the world have announced major bailout plans to support the financial sector and some banks have been even nationalised. Pohjola continued to keep market risks at a moderate level in the volatile markets. Wider credit risk premiums eroded trading profitability.

Overnight currency exposure and the associated risk remained low throughout the year. On 31 December, net currency exposure amounted EUR18 million (–15). Foreign exchange trading mainly focused on intraday trading.

Market risk sensitivity analysis

Market risk sensitivity analysis	EUR million			
Banking, EUR million	**Risk parameter**	**Change**	**31 Dec. 2008**	**31 Dec. 2007**
Interest rate risk	Interest rate	1 percentage point	5	3
Currency risk	Market value	20 percentage points	4	1
Volatility risk				
Interest rate volatility	Volatility	20 percentage points	1	2
Currency volatility	Volatility	10 percentage points	0	1
Credit risk premium *)	Credit spread	0.1 percentage point	0	1

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

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

It is difficult to assess how long the current uncertainty will continue in financial markets and to evaluate its effects on interest rates, share prices, foreign exchange rates, credit spreads and the economy on the whole. On the basis of the sensitivity analysis above, the most significant market risks exposed by Banking pertain to interest-rate risks related to the entire balance sheet and currency risks. However, any general increase in credit spreads will have a positive effect on the average margin of bonds and notes and the loan portfolio while having an adverse effect on funding costs. Since equities and private equity funds are classified as available-for-sale financial assets, changes in their fair value are recognised in the fair value reserve under shareholders' equity, not in the income statement.

Derivatives business

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

In 2008, the derivatives business reported growth, with interest rate swaps and interest rate options rising by over 20% in volume terms. Falling interest rates, which started in the last few months of 2008, have slowed down sales of interest rate options. As a result of business growth, the credit equivalents of derivative contracts increased from EUR 1 billion to EUR 2 billion. In addition, since many customers had hedged against a rise in interest rates, the fall in interest rates beginning late last year also contributed to the higher credit equivalents.

Pohjola kept derivatives business market risk exposures at a moderate level throughout the financial year. Customers have shown increasing interest in derivatives and the range of derivative products has diversified. Pohjola Group is continuously developing its risk management associated with derivatives. In order to mitigate the counterparty risk associated with derivatives trading, Pohjola has signed credit support annex agreements (CSA) with major counterparties.

RISK EXPOSURE BY ASSET MANAGEMENT

Weaker investment markets reduced assets managed by Asset Management, which was partly reflected in accrued net commissions and fees. In other respects, risk exposure remained favourable.

RISK EXPOSURE BY NON-LIFE INSURANCE

On 31 December 2008, Non-life Insurance solvency capital stood at EUR 608 million (613), accounting for 66% (72) of insurance premium revenue. The financial market turbulence reduced the fair value of investments, reflected in lower solvency. In order to enhance its solvency, Pohjola Insurance Ltd issued a EUR 50-million perpetual capital bond and Pohjola Bank plc capitalised non-life insurers by a total of EUR 65 million.

The Board of Directors has confirmed credit rating A as the target for Non-life Insurance. In December, Moody's upgraded credit rating for Pohjola Insurance Ltd, Pohjola's subsidiary engaged in non-life insurance operations, from A2 to A1. According to Moody's, this change reflects the successful integration of Pohjola Insurance with Pohjola Bank plc. Credit rating issued by Standard & Poor's for Pohjola Insurance Ltd is A+ (December 2008).

Insurance 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. 2008, EUR million*	*Change in risk parameter*	*Effect on combined ratio*	*Effect on shareholders' equity, EUR million*
Insurance portfolio or insurance premium revenue	923	Up 1%	Improvement of 1 percentage point	9
Growth in claims incurred	–643	Up 1%	Deterioration of 1 percentage point	–6
Major loss of over EUR 5 million		1 major loss	Deterioration of 1 percentage point	–5
Personnel costs	–111	Up 8%	Deterioration of 1 percentage point	–9
Expenses by function *)	–254	Up 4%	Deterioration of 1 percentage point	–10

*) 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 2008 came to 204 (229) and their claims incurred retained for own account totalled EUR 84 million (110).

A large part of Non-life Insurance contract liabilities consists of annuities affected by estimated mortality, the inflation rate and the discount rate used. The table below shows the sensitivity of insurance contract liabilities by parameter.

Risk parameter	*Change in risk parameter*	*Effect on shareholders' equity, EUR million*
Inflation rate	+0.25 percentage points	–3
Life expectancy	+ 1 year	–29
Discount rate	–0.1 percentage point	–15

Discounted insurance contract liabilities of EUR 1,268 million (1,244), with a duration of 11.9 years (11.7), were discounted using a 3.5% interest rate (3.5), while the remaining insurance contract liabilities, EUR 848 million (773), were undiscounted, with a duration of 2.4 years (2.2).

Investment risk exposure

On 31 December 2008, the Non-life Insurance investment portfolio totalled EUR 2,415 million (2,511), a slightly lower than a year ago. The investment portfolio consists of investments covering the insurance contract liabilities and the solvency capital. Bonds accounted for 70% (69) and listed equities and venture-capital investments for 8% (16). During the latter half of 2008, the Group reduced the share of equities and increased that of money market investments.

Non-life Insurance investment portfolio by allocation, EUR million

Allocation	**Fair value on 31 Dec. 2008, EUR million**	**%**	**Fair value on 31 Dec. 2007, EUR million**	**%**
Money market	279	12	51	2
Bonds and bond funds	1,690	70	1,722	69
Equities and venture-capital investments	190	8	413	16
Alternative investments	111	5	188	7
Real property	145	6	138	5
Total	**2,415**	**100**	**2,511**	**100**

The average credit rating of the Non-life Insurance fixed-income portfolio was AA– (by Standard & Poor's), the same as in the previous year (AA–). The average residual maturity of the fixed-income portfolio was 6.6 years and the duration 4.3 years (3.8). On 31 December, the fixed-income portfolio's current interest rate was 5.3% (4.8).

Non-life Insurance fixed-income portfolio by maturity and credit rating on 31 December 2008, EUR million

Year(s)	**0–1**	**1–3**	**3–5**	**5–7**	**7–10**	**10–**	**Total**	**Proportion, %**
Aaa	38	121	76	61	94	216	607	33
Aa1–Aa3	108	100	114	14	27	23	386	21
A1–A3	38	188	161	46	39	85	556	30
Baa1–Baa3	31	71	84	9	4	7	206	11
Ba1 or lower	35	24	10	7	5	10	92	5
Internally rated	4	6	4	3	0	1	18	1
Total	**254**	**512**	**449**	**139**	**170**	**342**	**1,865**	**100**

Non-life Insurance's uncovered currency position was EUR 60 million (101), accounting for slightly over two per cent of the investment portfolio. The Group has been active in hedging against currency risks using currency derivatives.

Sharply falling equity prices and widening credit spreads affected Non-life Insurance investment income, coming to EUR –167 million at fair value (122), or standing at –7.0% (4.8), which is markedly below the expected long-term return. The Group has mitigated the investment portfolio's risk exposure by hedging against equity risks using equity derivatives.

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, EUR million*	
			31 Dec. 2008	31 Dec. 2007
Bonds and bond funds 1)	Interest rate	1 percentage point	82	69
Equities 2)	Market value	20 percentage points	33	78
Venture capital funds and unquoted equities	Market value	20 percentage points	18	23
Commodities	Market value	20 percentage points	2	5
Real property	Market value	10 percentage points	15	14
Currency	Value of currency	20 percentage points	12	20
Credit risk premium 3)	Risk margin	0.1 percentage point	3	4
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, excluding government bonds issued by developed countries.

RISK EXPOSURE BY GROUP FUNCTIONS

Credit risk exposure

On 31 December, the Group Functions exposure totalled EUR 13.8 billion, consisting of the liquidity reserve 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 institutions. Group member banks' and the Central Cooperative's exposure decreased by EUR 0.6 billion, or roughly 10%, due to growth in deposits by the general public with Group member banks. All of their exposure was investment-grade exposure.

The Group Functions maintains the liquidity reserve in order to secure OP-Pohjola Group's liquidity. Liquidity reserves amounted to EUR 9.8 billion (5.7), invested primarily 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 liquidity reserves by balance sheet item on 31 December 2008, EUR million

EUR million	31.12.2008	31.12.2007
Deposits	2,258	446
Short-term notes and bonds	2,191	1,581
Long-term notes and bonds		
Financial assets held for trading	1,269	638
Financial assets at fair value through profit or loss	43	2,481
Available-for-sale financial assets	56	603
Held-to-maturity investments	1,103	
Loans and other receivables	2,916	
Total liquidity reserves	**9,835**	**5,749**

Financial assets included in liquidity reserves by maturity and credit rating on 31 December 2008

Liquidity reserves by maturity and credit rating on 31 December 2008, EUR million

Year(s)	0–1	1–3	3–5	5–7	7–10	10–	Total	Proportion, %
Aaa	2,564	724	707	287	385	180	4,847	49.3
Aa1–Aa3	2,140	937	370	109	17	2	3,576	36.4
A1–A3	188	169	211	0	55	0	622	6.3
Baa1–Baa3	314	66	19	3	0	0	402	4.1
Ba1 or lower	0	1	0	19	0	0	20	0.2
Internally rated	31	159	146	21	11	0	368	3.7
Total	**5,237**	**2,056**	**1,454**	**439**	**468**	**182**	**9,835**	**100.0**

The residual maturity of liquidity reserves averaged 2.4 years. Internally rated financial assets consist mainly of bonds issued by Finnish companies and institutions.

Market risk exposure

As a result of the global financial crisis coming to a head and market liquidity drying up, credit spreads widened to a record level after mid-September. Due to the financial market turbulence, trading in some financial instruments came to a complete standstill or their markets were either in a severe crisis or suspended operations. Consequently, measuring assets in the balance sheet at fair value reliably became a problem. The European Commission issued Regulation (EC) no. 1004/2008 on 15 October 2008, amending the classification and measurement under IAS 39. Accordingly, from 1 July 2008 Pohjola Bank plc reclassified bonds and notes included in liquidity reserves into the category in which assets can be accounted for at cost. Note 23 provides information on the principles of reclassification and effects on results.

Changes in the fair value of financial assets held for trading and financial assets at fair value through profit or loss are recognised in the income statement and those in the fair value of available-for-sale financial assets in the fair value reserve under shareholders' equity.

Rapidly widening credit spreads within the Group Functions resulted in a negative mark-to-market valuation of EUR 74 million (–54) through the market price valuation of notes and bonds at fair value through profit or loss and those available for sale, included in liquidity reserves, EUR 62 million recognised in the income statement and EUR 12 million in the fair value reserve. Following the reclassification of liquidity reserves, widening credit spreads will no longer result in negative fair value changes, but the financial crisis spreading to the real economy has increased the risk of impairments on bonds and notes. During the fourth quarter, impairments recognised on notes and bonds in liquidity reserves came to EUR 9 million.

The Group Functions recorded EUR 12 million in net credit losses.

On 31 December, the market value of equity and venture-capital funds came to EUR 43 million (44), of which venture-capital funds with their investment commitments accounted for EUR 34 million (30). Capital tied to property holdings came to EUR 24 million (27), property in own use accounting for EUR 2 million (3). In addition, holdings in property investment companies totalled EUR 2 million (10).

Market risk sensitivity analysis

Group Functions, EUR million	**Risk parameter**	**Change**	**31 Dec. 2008**	**31 Dec. 2007**
Interest rate risk	Interest rate	1 percentage point	11	15
Interest rate volatility	Volatility	20 percentage points	0	0
Credit risk premium *)	Credit spread	0.1 percentage point	0	10
Price risk				
Equity portfolio	Market value	20 percentage points	2	3
Venture capital funds	Market value	20 percentage points	7	6
Real estate risk	Market value	10 percentage points	2	3

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

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	Aa1
Fitch	F1+	AA-

All of the credit rating agencies have confirmed a stable rating outlook for Pohjola.

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 2008, the number of shares totalled over 203 million, remaining unchanged over a year ago, with Series A shares numbering 159.6 million, representing 78.5% of all shares.

In accordance with the conversion clause in Pohjola Bank plc’s Articles of Association, no Series K shares were converted into Series A shares in 2008.

On 31 December 2008, Pohjola Bank plc held no treasury shares and the General Meeting has not authorised the Board to purchase treasury shares.

On 31 December 2008, Pohjola Bank plc had 30,592 registered shareholders, up by 320 over the previous year. On the same date, the number of private individuals as shareholders totalled 29,079.

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 18.0% a year ago to 17.4% on 31 December 2008.

The Company's share price fell by 27% in 2008, while the weighted index of the OMX Helsinki CAP dropped by 50%. In 2008, Pohjola Bank plc's share performance was the best among large Finnish companies listed on the NASDAX OMX Helsinki. On 31 December 2008, Series A share closed at EUR 9.75 against EUR 13.07 a year earlier. The share price reached a high of EUR 14.05 and a low of EUR 7.77. The share trading volume fell from 147 million reported a year ago to 119 million.

Information on shareholdings is available in Note 39 of the Parent Company's Financial Statements. Per-share ratios' time series can be found on page 27. In addition, the Annual Review 2008 contains information on shareholdings and the price performance of the Series A share.

DECISIONS BY THE ANNUAL GENERAL MEETING

Pohjola Bank plc's Annual General Meeting (AGM) of 27 March 2008 adopted the Financial Statements for 2007, discharged those accountable from liability and decided to distribute a dividend of EUR 0.65 per Series A share and EUR 0.62 per Series K share. The AGM confirmed the number of members of the Board of Directors at eight and approved the proposal by the Board of Directors for the alteration of the Articles of Association.

KPMG Oy Ab, Authorised Public Accountants, with Mr Sixten Nyman, Authorised Public Accountant, (as reported by KPMG) as the chief auditor, and Mr Raimo Saarikivi, Authorised Public Accountant, were elected the company's auditors.

CORPORATE MANAGEMENT

The AGM elected the following members to the Board of Directors until the closing of the next AGM: Ms Merja Auvinen, Managing Director; Mr Eino Halonen, rahoitusneuvos (Finnish honorary title); Mr Simo Kauppi, Deputy Managing Director; Ms Satu Lähteenmäki, Professor; Mr Markku Vesterinen, President and CEO; and Mr Tom von Weymarn. Mr Vesterinen was a new Board member.

In addition to the abovementioned Board members, Mr 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 Mr Tony Vepsäläinen, President of the Central Cooperative and Vice Chairman of the Executive Board of the Central Cooperative, as Vice Chairman, in accordance with the Articles of Association.

At its organising meeting on 27 March 2008 held after the AGM, the Board of Directors of Pohjola Bank plc (Pohjola) elected members to the Board's committees.

Members of the Remuneration Committee: Mr Reijo Karhinen, Executive Chairman (Chairman); Mr Tony Vepsäläinen, President (Vice Chairman); and Ms Satu Lähteenmäki, Professor.

Members of the Risk Management Committee: Mr Tony Vepsäläinen, President (Chairman); Mr Simo Kauppi, Deputy Managing Director (Vice Chairman); Mr Eino Halonen, rahoitusneuvos (Finnish honorary title).

Members of the Audit Committee: Mr Tom von Weymarn (Chairman); Ms Merja Auvinen, Managing Director (Vice Chairman); and Mr Markku Vesterinen, President and CEO.

The Board of Directors has assessed the independence of its members and concluded that Ms Satu Lähteenmäki and Mr Tom von Weymarn are non-executive members independent of the company and its major shareholders.

On 6 May 2008, the Board of Directors decided to reorganise the Group into three business segments and the Group Functions. These business segments comprise Banking, Asset Management and Non-life Insurance.

Reima Rytsölä, Master of Social Sciences, was appointed Executive Vice President, Banking, and member of the Group Executive Committee. Previously, he acted as Head of Corporate Banking. Mikko Koskimies, M.Sc. (Econ. & Bus. Adm.), was appointed Executive Vice President, Asset Management. He sits on the Group Executive Committee and previously acted as Head of Asset Management. Tomi Yli-Kyyny, M.Sc. (Tech.), will continue as Executive Vice President, Non-life Insurance, and as President of Pohjola Insurance Ltd.

The Group Functions comprise Finance, Risk Management, Corporate Communications and HR Services. A new area of responsibility specified for Ilkka Salonen, CFO and M.Sc. (Econ. & Bus. Adm.), covers Finance, Actuarial Function, Corporate Planning, Central Banking and Group Treasury, and Investor Relations. He also acted as Deputy CEO from 1 June 2008. CRO Jouko Pölönen, M.Sc. (Econ. & Bus. Adm.) and eMBA, was appointed member of the Group Executive Committee, with risk management within his remit. He reports to the President and CEO.

Timo Ritakallio, Deputy CEO of the Group, joined another company's payroll on 1 August 2008.

Effective from 1 January 2009, Pohjola Insurance Ltd adopted a modernised organisational structure that better meets the needs of its current business model. As part of this change, Helena Walldén, Senior Executive Vice President of Corporate Customers and member of Pohjola Bank plc's Group Executive Committee, submitted a letter of resignation on 23 September 2008. Her service contract with the company will terminate in the spring of 2009.

Pohjola Bank's CFO Ilkka Salonen departed from the company on 31 December 2008, succeeded by Jouko Pölönen who took up his duties as CFO on 1 January 2009.

As a result of these changes, the Group Executive Committee comprises President and CEO Mikael Silvennoinen (Chairman), Mikko Koskimies, Jouko Pölönen, Reima Rytsölä and Tomi Yli-Kyyny.

BRANCH OFFICES AND REPRESENTATIVE OFFICES ABROAD

Pohjola Bank plc runs representative offices in St. Petersburg and Tallinn. It has no branch offices abroad. In addition, Pohjola Bank plc has subsidiaries in Estonia, Latvia and Lithuania engaged in non-life insurance operations. Pohjola Finance, a Pohjola Bank plc subsidiary, has a subsidiary engaged in finance-company business in Estonia and branches in Latvia and Lithuania.

JOINT RESPONSIBILITY

Pohjola Bank plc is an OP-Pohjola Group Central Cooperative subsidiary, based on OP-Pohjola Group's cooperation model. The Central Cooperative with its subsidiaries and its 227 member cooperative banks form the amalgamation of cooperative banks. Under this cooperation model, the resources of OP-Pohjola Group serve as a safeguard for all member banks, since under the Cooperative Banks Act (Act on Cooperative Banks and Other Cooperative Credit Institutions) the Central Cooperative and its member credit institutions are jointly liable for each other's debts and commitments that cannot be paid from the funds of the Central Cooperative or one member credit institution. If a member credit institution's capital resources are depleted due to losses in such a way that its operations cannot be sustained, OP-Pohjola Group Central Cooperative, the central institution of the amalgamation, has the right to charge the member credit institutions supplementary payments in proportion to their latest adopted balance sheets.

The Central Cooperative is obliged to provide its member credit institutions with instructions on how they should act in order to secure liquidity, capital adequacy and risk management, and issue instructions on accounting policies and supervise the member banks' operations. This supervisory role is supported by continuous controls performed by Internal Audit.

DEPOSIT 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, OP Mortgage Bank 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.

EVENTS AFTER THE BALANCE SHEET DATE

Petri Viertiö (46), M.Sc. (Tech.), was appointed Pohjola Group's Chief Risk Officer (CRO) and an Executive Committee member, effective as of 2 March 2009. He will be reporting to Pohjola Group's President and CEO Mikael Silvennoinen.

On 16 January 2009, the Financial Supervisory Authority (FSA) issued a statement of raising the maximum proportion of subordinated loans and hybrid instruments included in Tier 1 capital. This statement is in conformity with the principles and the terms and conditions incorporated into pending amendments to the Capital Requirements Directive.

According to the amendments to the Capital Requirements Directive, hybrid capital instruments may represent a maximum of 50% of Tier 1 capital on the basis of their type. In addition to this 50% ceiling, specific maximum limits apply to various hybrid instruments. Hybrid instruments, whose provisions provide for a moderate incentive to redeem the instrument, may not exceed 15% of Tier 1 capital. Such an incentive may include a step-up in the interest rate no earlier than ten years from the issue date. Hybrid instruments, which do not provide for such an incentive to redeem the instrument, may not exceed 35% of Tier 1 capital. Hybrid instruments that are convertible into common stock may not exceed 50% of Tier 1 capital. All hybrid instruments are redeemable no earlier than five years from the date of their issue. The FSA's statement will increase Pohjola Group's opportunities to use subordinated loans included in Tier 1 capital by EUR 1.4 billion, in comparison with the year-end 2008 status.

On 27 January 2009, the Cabinet Committee on Economic Policy proposed measures it had recommended and the terms and conditions governing the state guarantee to the refunding of banks and capital investment in banks. On the basis of this proposal, the amount of state guarantee that OP-Pohjola Group and Pohjola Bank plc as its central financial institution could use, at will, in its funding totals EUR 10 billion. OP-Pohjola Group could make use of government capital investments of some EUR 770 million, Pohjola accounting for around EUR 260 million, if it chooses to do so.

At its meeting on12 February, Pohjola Bank plc's Board of Directors decided on measures to be taken to strengthen the company's capital base. Accordingly, this capital increase could be implemented in the spring 2009 through a rights issue of around EUR 300 million for the existing shareholders, subject to a Board authorisation issued by the Annual General Meeting. The proposed rights issue would further raise the Pohjola's year-end 2008 Tier 1 ratio to 11.9% (pro forma), without taking account of the transitional rules. Pohjola Group's capital adequacy is strong. However, Pohjola has the goal of strengthening its capital base in order to secure the ability to provide credit to its clients in a market where the availability of financing has significantly decreased and many foreign players have withdrawn from the Finnish market.

Pohjola Bank plc's Board of Directors has decided that the Annual General Meeting be held in the Helsinki Fair Centre on Friday, 27 March 2009, starting at 2.00 pm. Notice of the Meeting will be published as a company release on 2 March 2009, after which it will appear in Helsingin Sanomat, Hufvudstadsbladet and Kauppalehti. Thereafter, the related material will also be available at www.pohjola.fi.

PROSPECTS FOR 2009

The global economic outlook has deteriorated apace. The US and major EU countries have already drifted into a recession and the Finnish economy too is expected to do so in 2009. Falling GDP, exports and capital spending are expected to slow down growth in the loan portfolio experienced in 2008 and increase corporate payment defaults, bankruptcies and unemployment. Central banks and governments are expected to continue with their revival measures, which are anticipated to enhance the performance of financial markets and the supply of finance in comparison with the fourth quarter of 2008. However, mounting national, financial institutions' and corporate debt is anticipated to reflect in credit ratings. Uncertainty is expected to continue in the global financial market and maintain average credit spreads above the average level of previous years. Uncertainty is also expected to continue in capital markets, which maintains high price volatility in credit risk, equity, bond, currency and commodity markets.

On the basis of the economic outlook, growth in the Banking loan and guarantee portfolio is expected to slow down relative to 2008 and the average margin on corporate loans to rise. Corporate payment defaults, doubtful receivables and impairment charges are anticipated to increase from their 2008 levels, despite the current loan portfolio's good quality, but their amounts are difficult to predict. The greatest uncertainties Banking's financial performance in 2009 are associated with impairments within the loan portfolio.

In 2008, assets in money-market funds were transferred to deposit accounts and prices in the equity market fell sharply. As a result, Asset Management experienced a decrease in assets under its management. Assets under management are not expected to decline in 2009 at the same rate as witnessed in 2008. How interest rates will develop and how the investment market will perform, among other things, will have an effect on the amount of assets under management. Asset Management's earnings before tax in 2009 will be largely dependent on the amount of assets under management and the actual performance-based fees tied to the success of investments.

Despite the weaker economy, Non-life Insurance improved its insurance premium revenue by 8% in 2008. Premium revenue is expected to grow at above-the-market-average rate in 2009, based on growth in the number of loyal customers, but to grow less than in 2008, especially with respect to corporate customers. The recession has historically slowed down growth in Non-life Insurance claims expenditure. In Non-life Insurance, the operating combined ratio is estimated to vary between 90% and 95% in 2009 if the number of major losses is not much larger than in 2008. Long-term returns on investment within Non-life Insurance stand at 5.4%. In 2008, returns on investment stood at –7.0% and returns for 2009 will largely depend on developments in investment markets.

The reclassification of long-term notes and bonds, included in liquidity reserves, in the second half of 2008 will mitigate the effects of the financial crisis on the financial result of the Group Functions. The key determinants affecting the Group Functions' result include net interest income arising from liquidity reserves and any fair value changes recognised on notes and bonds through profit or loss.

There is great uncertainty about economic prospects and the operating environment. Should the forward-looking statements and assumptions about the near-term outlook come true, the main risks involved are associated with developments in credit spreads, interest rates, share prices, impairments and developments in funding costs, as well as the general operating environment. Although developments in the general operating environment are beyond the Group management's control, the management may contribute to the effects of interest-rate changes and the equity market on investment and trading by carefully selecting investment assets, diversifying risks, promoting its personnel's professional skills and managing risks effectively. In addition, the management may contribute to the appropriate selection and pricing of customer-specific risk and, consequently, the Group's financial performance.

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 financial performance of Pohjola Group and its various functions, and actual results may differ materially from those expressed in the forward-looking statements.

EARNINGS BY BUSINESS LINE

The Group adopted a new organisational structure in May with the result that its financial reporting follows the new business segments. Its organisation currently comprises the following three business segments and the Group Functions: Banking, Asset Management and Non-life Insurance.

Financial targets and key figures and ratios	*Q1–4/ 2008*	*Q1–4/ 2007*	*Target by end 2010*
Group			
Earnings before tax, EUR million	119	288	
Earnings/loss before tax at fair value, EUR million	–133	234	
Return on equity, %	–5.6	9.3	**15.0**
Tier 1 ratio, %	9.4	10.7	**>8.5**
Banking			
Earnings before tax, EUR million	105	136	
Operating return on equity (ROE), %	10.1	15.1	**> 14**
Operating cost/income ratio, %	46.4	39.6	**< 40**
Asset Management			
Earnings before tax	17	21	
Operating cost/income ratio, %	56.8	50.9	**< 50**
Non-life Insurance			
Earnings before tax, EUR million	55	181	
Earnings/loss before tax at fair value, EUR million	–171	142	
Operating return on equity (ROE), %	–20.3	25.2	**> 20**
Operating combined ratio, %	91.5	93.8	**92**
Operating expense ratio, %	21.9	21.2	**< 20**
Solvency ratio, %	66	72	**70**

More detailed segment information can be found in the financial statements.

BANKING

Banking consists of Corporate Banking, Markets and Baltic Banking.

Earnings before tax amounted to EUR 105 million (136). The loan portfolio increased by EUR 2.2 billion, or by 23%, totalling EUR 11.6 billion (9.4) on 31 December. The market share of euro-denominated corporate loans was 19.0% (17.3) on 31 December. Year on year, the average level of corporate loan portfolio's margins rose by 0.13 percentage points, standing at 0.94%.

Operating return on equity stood at 10.1% (15.1) and the cost/income ratio at 46.4% (39.6).

Despite the challenging operating environment, the basic Banking business developed favourably, the loan portfolio showing vigorous growth almost throughout the year and the related average margins rising towards the end of the year in particular. Payment services and cash management services attracted new, major customers and client trading in derivatives showed growth. The Group strengthened its market position as a corporate and investment bank in line with its strategy.

As a result of the greater economic uncertainty and weaker market liquidity, income from trading fell during the latter half in particular. Banking earnings were also eroded by growth in impairments of receivables and the credit loss of EUR 7 million resulting from Lehman Brothers Holdings Inc.'s derivative receivables.

Year on year, net interest income rose by 28% to EUR 158 million (124), due mainly to the larger loan portfolio and higher margins.

As the financial crisis spread to the real economy, the latter half of the year saw an increase of impairments of receivables, totalling EUR 18 million (1) in net terms.

Net commissions and fees remained at the same level as a year ago, totalling EUR 63 million. Net commissions and fees related to loans and guarantees improved by a total of EUR 5 million and those related to the derivatives business rose by almost EUR 4 million, whereas those related to securities brokerage and issuance fell by EUR 8 million.

As a result of the financial crisis, credit spreads widened substantially and market liquidity faded. Net trading loss was EUR 20 million as against net trading income of EUR 18 million posted a year earlier.

Other operating income increased to EUR 28 million (19), with EUR 8 million stemming from higher lease income.

Expenses rose to EUR 106 million (90). Year on year, the number of employees within Banking increased by 63, 34 of whom were hired by Baltic Banking. Rising by one million euros, personnel costs accounted for 37% (42) of total operating expenses. IT costs and depreciation/amortisation grew by almost EUR 13 million, due mainly to heavy investments in systems development and growth of EUR 7 million in depreciation on leases.

With the acquisition of K-Finance, Pohjola started up finance-company operations in the Baltic region, the focus in 2008 being on the integration of operations and process standardisation.

ASSET MANAGEMENT

Earnings before tax in 2008 amounted to EUR 17 million (21). Net commissions and fees were 9% lower than the year before, due to a reduction in assets under management. Expenses grew by 4% to EUR 29 million (28).

The operating cost/income ratio stood at 57% (51).

Owing to money-market fund redemptions and bearish equity markets, assets under management shrank, standing at EUR 25.3 billion (31.5) on 31 December, down by a total of EUR 6.2 billion. Of the assets under management, institutional clients accounted for EUR 16.0 billion (17.5), OP mutual funds for EUR 8.5 billion (13.1) and Pohjola Private for EUR 0.7 billion (0.9).

The State Pension Fund (VER) outsourced its investment portfolio management service and systems management to Pohjola Asset Management, based on a competitive tender procedure in the spring.

NON-LIFE INSURANCE

Earnings

Earnings before tax came to EUR 55 million (181).

The balance on technical account before amortisation on intangible assets stood at EUR 78 million (86), with the operating balance showing a marked improvement. A year ago, changes in reserving bases reduced provisions for previous years by EUR 32 million in net terms and improved the balance on technical account. Net investment income totalled EUR 59 million (161). Other income reported a year ago included EUR 6 million in capital gains on the sale of the marine hull insurance portfolio.

Operating return on equity was –20.3% (25.2).

Insurance operations

Insurance premium revenue rose by 8% to EUR 923 million (850), showing above-market-average growth. Therefore, it is estimated that the market position has strengthened.

Growth remained strong within the Private Customers division, based on cooperation within OP-Pohjola Group. The number of loyal customer households increased by 34,387, or by almost 10%. Like-for-like insurance premium revenue from Private Customers improved by 12% to EUR 380 million. All lines of insurance showed strong growth.

Within the Corporate Customers division, insurance premium revenue amounted to EUR 485 million, up by 5% on a like-for-like basis. Revenue increased in all of the main lines, with the exception of statutory workers' compensation insurance whose revenue fell due to favourable claims developments in insurance retained for own account.

Premium revenue generated by the Baltic business increased by 4% to EUR 58 million. The recession slowed down growth in the Baltic business. In Estonia, premium revenue fell by 7% relating to the reorganisation of sales channels.

Claims incurred increased moderately although strong growth in the insurance portfolio added to the number of losses. Claims incurred (excl. loss adjustment expenses) totalled EUR 583 million, up by 3% adjusted for changes in reserving basis a year ago. The risk ratio stood at 63.4 (66.3). In particular, developments were favourable in the claims incurred due to severe traffic and industrial accidents, and pension liabilities increased less than a year ago. 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. The number of major and medium-sized losses for 2008 came to 204 (229) and their claims incurred retained for own account totalled EUR 84 million (101).

Operating expenses and loss adjustment expenses rose to EUR 262 million (235), due not only to higher sales costs but also costs arising from information system development and non-recurring expenses of EUR 5 million related to ICT system integration. The cost ratio was 28.4 (27.5).

Sustained strong growth and the favourable claims trend improved the operating balance on technical account adjusted for changes in reserving bases. Profitability based on the balance on technical account improved within insurance operations so as to achieve the target level specified in the strategy. The operating combined ratio stood at 91.5 (93.8).

Investment

On December 31, the fair value of Non-life Insurance investments amounted to EUR 2.4 billion (2.5), with equities and venture-capital investments accounting for 8% (16), bonds and bond funds for 70% (69), money market instruments for 12% (2) and other investments for 11% (12).

Owing to the market situation, investment income was considerably lower than a year ago. Net investment income recognised in the income statement amounted to EUR 59 million (161). Net investment income at fair value reached EUR –167 million (122). Return on these investments at fair value stood at –7.0% (4.8).

GROUP FUNCTIONS

The Group Functions comprise Finance, Risk Management, Corporate Communications and HR Services.

Pre-tax loss was EUR 58 million (loss of EUR 50 million). The earnings performance was eroded by an impairment charge of EUR 9 million recognised on bond receivables from Lehman Brothers Holdings Inc., a credit loss of EUR 3 million recognised on derivative receivables and the EUR 62-million negative mark-to-market valuations (–54) of liquidity reserves.

OP Mortgage Bank strengthened its position as the financier of OP-Pohjola Group's retail banks, and its one-billion-euro mortgage-backed bond issued in May and sold to European investors was a success. Due to this stronger role and growth in OP-Pohjola Group retail banks' deposits, the retail banks' need for financing from Pohjola Bank plc decreased, with the result that Pohjola Bank plc's net liabilities to OP-Pohjola Group's retail banks totalled EUR 0.2 billion on 31 December, as against EUR 2.3 billion a year earlier.

Growth in the loan portfolio was mainly funded from debt markets and the liquidity position strengthened by EUR 1.4 billion in January–December, based on long-term funding. In order to secure this growth, the Group also strengthened its capital base. Pohjola Bank plc issued in March a EUR 170-million debenture loan, classified as lower Tier 2 capital, which will mature in 2018, and in December a EUR 100-million debenture loan, which will mature in 2013. Debt securities issued to the public totalled EUR 16.6 billion (12.9). In June, Pohjola Bank plc issued a perpetual capital bond of EUR 50 million, subscribed by OP-Pohjola Group Central Cooperative in its entirety.

Earnings a year ago were burdened by the liquidated damages ruled by the Arbitral Tribunal concerning the shareholder agreement dispute over Nooa Savings Bank Ltd, this lowering effect amounting to EUR 10 million.

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

On 31 December 2008, Pohjola Bank plc's shareholders' equity totalled EUR 1,179,797,040.77, EUR 64,397,653.06 of which represented distributable equity.

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

	EUR
Profit for 2008	14,813,456.74
retained earnings	48,035,379.96
and non-restricted reserves	23,449,472.31
less negative fair value reserve	
	-21,900,655.95
Total	64,397,653.06

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

EUR 0.23 per share payable on 159,564,128 Series A shares, totalling EUR 36,699,749.44, and EUR 0.20 per share payable on 43,786,772 Series K shares, totalling EUR 8,757,354.40, i.e. the proposed total dividend distribution amounts to EUR 45,457,103.84.

The Board of Directors proposes that the profit for 2008, EUR 14,813,456.74, and EUR 30,643,647.10 out of retained earnings be allocated to dividend distribution, with EUR 18,940,549.19 remaining in the company's distributable equity. Pohjola Bank plc has EUR 380 million in voluntary provisions in its balance sheet, and their reversal enables an increase of distributable funds by EUR 281 million.

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

The Board of Directors proposes that the dividend be paid to shareholders who have been entered in the Shareholder Register, maintained by Euroclear Finland Ltd, by the dividend record date on 1 April 2009 and that the dividend be paid within the book-entry securities system on 9 April 2009.

Financial indicators and per-share ratios

	2004	2005	2006	2007	2008
Return on equity (ROE), %	13.9	19.8	9.5	11.5	5.0
Return on equity at fair value (ROE), %		22.3	9.5	9.3	-5.6
Return on assets (ROA), %	0.7	1.4	0.8	0.9	0.3
Equity ratio, %	4.7	8.8	7.6	7.2	5.1
Average personnel	1,246	1,668	3,030	3,006	2,986
Cost/income ratio, %	51	58	65	60	76

Per-share ratios

	2004	2005	2006	2007	2008
Earnings per share (EPS), EUR					
Series A share	0.86	1.96	0.90	1.04	0.44
Series K share	0.85	1.95	0.89	1.03	0.41
Earnings per share (EPS), diluted, EUR					
Series A share	0.84	1.95	0.90	1.04	0.44
Series K share	0.83	1.93	0.89	1.03	0.41
Earnings per share (EPS) at fair value	-	2.22	0.89	0.85	-0.48
Equity per share, EUR	6.15	8.76	8.99	9.19	8.07
Dividend per share, EUR	0.41	0.59	0.64	0.64	0,22*
Dividend payout ratio, %	47.5	30.3	72.0	61.7	51,4*
Effective dividend yield, % (Series A share)	5.1	5.1	5.1	5.0	2,4*
Price/earnings ratio (P/E)	9.5	6.1	14.2	12.5	22.4
Share price performance (Series A share)					
Average, EUR	7.31	10.19	12.84	13.71	11.33
Low, EUR	6.21	8.09	11.10	11.93	7.77
High, EUR	8.39	12.34	14.91	15.28	14.05
Year-end, EUR	8.11	11.86	12.70	13.07	9.75
Market capitalisation (Series A share), EUR million	791.4	1,864.0	2,024.0	2,085.5	1,555.8
Share trading volume (Series A share), 1,000	55,304	79,279	103,973	147,303	118,771
% of all shares	57.5	74.8	65.8	92.3	74.4
Number of shares (A + K)					
year average	124,552,885	136,048,529	202,043,534	203,350,900	203,350,900
year-end	126,009,771	201,176,960	203,350,900	203,350,900	203,350,900

Due to OKO Bank's share issue and the share capital increase entered in the Trade Register on 23 November 2005, the per-share ratios have bee adjusted retroactively using the share issue ratio.

* Board proposal: EUR 0.23 on Series A shares and EUR 0.20 on Series K shares.

Formulae for key ratios

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 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 equity holders 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 financial 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 financial period.

Earnings/share (EPS) at fair value
(Profit for the period attributable to equity holders 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 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, %
Capital resources / Risk-weighted assets x 100

Tier 1 ratio, %
Tier 1 capital / Risk-weighted assets x 100

Key ratios for Non-life Insurance

The key ratio formulae for Non-life Insurance are based on regulations issued by the Insurance 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

Operating key ratios

Operating return on equity (ROE), %

Banking:
(+ Profit for the period
+ Change in fair value reserve after tax) /
(+ 7% of risk-weighted commitments
- Subordinated loans allocated to the business line (average of the beginning and end of period) x 100

Non-life Insurance:
(+ Profit for the period
+ Amortisation and write-downs on intangible assets and goodwill
related to the acquisition of non-life insurance business, and their tax effect
+ Change in fair value reserve after tax) /
(+ 70% solvency ratio
– Subordinated loans allocated to the business line (average of the beginning and end of period) or
minimum capital requirement set by the authorities, if this is larger) x 100

Operating cost/income ratio
(+ Personnel costs
+ Other administrative expenses
+ Other operating expenses excl. amortisation and write-downs 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

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Consolidated income statement

EUR million	Note	2008 Total	2007 Total
Interest income	4	3,153	2,234
Interest expenses	4	2,979	2,119
Net interest income before impairments		**174**	**115**
Impairment of receivables	5	28	1
Net interest income after impairments		**146**	**114**
Net income from Non-life Insurance	6	353	433
Net commissions and fees	7	108	115
Net trading income	8	-81	-34
Net investment income	9	6	28
Other operating income	10	56	71
Total income		589	728
Personnel costs	11	178	166
Other administrative expenses	12	144	145
Other operating expenses	13	149	129
Total expenses		470	440
Share of associates' profits/losses		0	0
Earnings before tax		**119**	**288**
Income tax expense	14	31	76
Profit for the financial year		**89**	**212**
Attributable to:			
Equity holders of the Parent		89	212
Minority interest		0	
Total		**88**	**212**
Basic earnings per share, EUR			
Series A	15	0.44	1.04
Series K	15	0.41	1.03

Consolidated balance sheet

EUR million	Note	31 Dec. 2008	31 Dec. 2007
Liquid assets	16	2,260	448
Receivables from financial institutions	17	6,644	5,217
Financial assets at fair value through profit or loss	18		
Financial assets held for trading		3,213	2,220
Financial assets at fair value through profit or loss at inception		43	2,481
Derivative contracts	19	1,486	528
Receivables from customers	20	12,279	9,288
Non-life Insurance assets	21	2,745	2,809
Investment assets	22	1,285	725
Investment in associates	24	2	2
Intangible assets	25	987	999
Property, plant and equipment (PPE)	26	127	97
Other assets	27	1,281	1,090
Tax assets	28	98	18
Total assets		**32,448**	**25,922**
Liabilities to financial institutions	29	3,643	2,739
Financial liabilities at fair value throuhg profit or loss	30		
Financial liabilities held for trading		138	52
Derivative contracts	31	1,644	548
Liabilities to customers	32	3,508	2,738
Non-life Insurance liabilities	33	2,238	2,140
Debt securities issued to the public	34	16,425	12,856
Provisions and other liabilities	35	1,522	1,659
Tax liabilities	36	368	371
Subordinated liabilities	37	1,322	950
Total liabilities		**30,808**	**24,053**
Shareholders’ equity	38		
Capital and reserves attributable to equity holders of the Parent			
Share capital		428	428
Reserves		615	757
Retained earnings		597	685
Minority interest		**0**	**0**
Total shareholders’ equity		**1,640**	**1,869**
Total liabilities and shareholder's equity		**32,448**	**25,922**

Consolidated cash flow statement

EUR million	2008	2007
Cash flow from operating activities		
Profit for the financial year	88	212
Adjustments to profit for the financial year	225	111
Increase (-) or decrease (+) in operating assets	**-3,775**	**-2,100**
Receivables from financial institutions	689	384
Financial asset at fair value through profit or loss	-746	81
Derivative contracts	-75	-62
Receivables from customers	-2,171	-1,430
Non-life Insurance assets	-226	-79
Investment assets	-994	-506
Other assets	-251	-488
Increase (+) or decrease (-) in operating liabilities	**1,594**	**1,860**
Liabilities to financial institutions	725	348
Financial liabilities at fair value through profit or loss	86	52
Derivative contracts	106	66
Liabilities to customers	773	745
Non-life Insurance liabilities	68	0
Provisions and other liabilities	-164	650
Income tax paid	-38	-55
Dividends received	33	70
A. Net cash from operating activities	**-1,872**	**98**
Cash flow from investing activities		
Increases in held-to-maturity financial assets	-161	
Decreases in held-to-maturity financial assets	0	
Acquisition of subsidiaries, net of cash acquired	-51	-10
Disposal of subsidiaries, net of cash disposed	9	12
Purchase of PPE and intangible assets	-32	-19
Proceeds from sale of PPE and intangible assets	6	20
B. Net cash used in investing activities	**-230**	**2**
Cash flow from financing activities		
Increases in subordinated liabilities	505	153
Decreases in subordinated liabilities	-132	-126
Increases in debt securities issued to the public	45,207	29,383
Decreases in debt securities issued to the public	-41,622	-29,777
Dividends paid	-131	-131
C. Net cash provided by (used in) financing activities	**3,828**	**-498**
Net increase/decrease in cash and cash equivalents (A+B+C)	**1,726**	**-397**
Cash and cash equivalents at year-start	**710**	**1,107**
Cash and cash equivalents at year-end	**2,435**	**710**
Interest received	**3,536**	**2,040**
Interest paid	**-2,862**	**-1,919**
Adjustments to profit for the financial year		
Non-cash items and other adjustments		
Impairment losses on receivables	29	4
Unrealised net earnings in Non-life Insurance	85	48
Change in fair value for trading	56	55
Unrealised net gains on foreign exchange operations	-31	-46
Change in fair value of investment property	5	-13
Planned amortisation/depreciation	69	61
Share of associates' profits	0	0
Other	11	7
Items presented outside cash flow from operating activities		
Capital gains, share of cash flow from investing activities	-1	-4
Capital losses, share of cash flow from investing activities		-1
Total adjustments	**225**	**111**
Cash and cash equivalents		
Liquid assets *	2,264	460
Receivables from financial institutions payable on demand	172	250
Total	**2,435**	**710**

* Of which EUR 4 million (12) 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	Translation differences	Fair value reserve	Other reserves	Retained earnings	Minority interest	Total equity
Balance at 1 January 2007	**428**	**0**	**47**	**747**	**607**	**0**	**1,828**
Available-for-sale financial assets							
Fair value gains and losses			-48				-48
Amount transferred to income statement			-6				-6
Deferred taxes			14				14
Currency translation differences from foreign units		0			0		0
Profit for the financial year					212	0	212
Total recognised income and expenses for the financial year			-40		212	0	172
Dividends paid on					-131		-131
Series A share					-104		-104
Series K share					-27		-27
Reserve transfers				4	-4		
Equity-settled share-based payment transactions					0		0
Balance at 31 December 2007	**428**	**0**	**7**	**750**	**685**	**0**	**1,869**

EUR million	Share capital	Translation differences	Fair value reserve	Other reserves	Retained earnings	Minority interest	Total equity
Balance at 1 January 2008	**428**	**0**	**7**	**750**	**685**	**0**	**1,869**
Available-for-sale financial assets							
Fair value gains and losses			-270				-270
Amount transferred to income statement			18				18
Deferred taxes			65				65
Currency translation differences from foreign units		0			0		0
Profit for the financial year					89	0	88
Total recognised income and expenses for the financial year		0	-187		88	0	-98
Dividends paid							
Series A shares					-104		-104
Series K shares					-27		-27
Reserve transfers				45	-45		
Equity-settled share-based payment transactions					0		0
Balance at 31 December 2008	**428**	**0**	**-180**	**795**	**597**	**0**	**1,640**

SEGMENT INFORMATION

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. Segment information contains information that is substantially the same provided to the market as reported monthly to the Board of Directors and the Group's management. Comparatives have been changed to conform to the standard.

Pohjola Group is organised into three business segments – Banking, Asset Management and Non-life Insurance – 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 operating segments and assesses their performance.

The segments reported previously under IAS 14 included Corporate Banking, Markets, Central Banking, Group Treasury, Asset Management, Non-life Insurance and Other Operations. The Group provided key income statement and balance sheet information on these segments and the information required by the standard.

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. Intra-Group transfer prices are based on market prices. The acquisition costs of intangible and PPE assets are presented as investments.

Equity allocated to Banking accounts for 7% of risk-weighted assets.

Equity allocated to Asset Management comprises equity capital of segment entities plus the amount of intangible assets and goodwill arising from business acquisitions.

Equity allocated to Non-life Insurance accounts for 70% of insurance premium revenue plus the amount of intangible assets and goodwill arising from business acquisition, but not less than the minimum capital requirement set by the authorities.

When calculating the operating return on equity of business lines, amortisation on intangible assets arising from the Pohjola acquisition is not taken into account. In the calculation of operating shareholders' equity, intangible assets and goodwill arising from the Pohjola acquisition and the parent company's subordinated loans allocated to the business lines in proportion to the capital tied by them are deducted from equity allocated to the business lines.

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 payment transfer services. Net interest income from lending is not sensitive to interest-rate fluctuations, since the funding of lending is based on market terms.

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 Bank 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 customers comprise

Finnish and international companies and institutions and its income derives from net commissions and income from trading.

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

Asset Management

Asset Management consists of Pohjola Asset Management Ltd, Pohjola Private Equity Funds Ltd, Pohjola Property Management Ltd, Pohjola Capital Partners Ltd, SPEF I Oy and SMF I Oy.

Pohjola Asset Management Ltd provides Finnish institutional clients and wealthy private individuals with discretionary and consultative 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 19 international partners boasting a wide range of funds for the needs of both institutional and private clients.

Pohjola Private Equity Funds Ltd 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 Ltd focuses on property investment in Finland and on the selection of real estate funds in international markets. Pohjola Capital Partners Ltd is engaged in equity investment operations.

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

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 operating profit consists of the balance on technical account and investment income. The former 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 insurance contract liabilities and equity in a safe and profitable way conducting a policy of sufficient risk diversification.

Group Functions

In support of the Group and its businesses, the Group Functions comprise 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

Q1–4 earnings EUR million	Banking 2008	Banking 2007	Asset Management 2008	Asset Management 2007	Non-life Insurance 2008	Non-life Insurance 2007
Net interest income	158	124	-2	-3	-11	-7
Impairments of receivables	18	1				
Net interest income after impairments	**140**	**123**	**-2**	**-3**	**-11**	**-7**
Net income from Non-life Insurance					352	435
Net commissions and fees	63	64	46	51	5	6
Net trading income	-20	18				
Net investment income	0	1	0	0		
Other operating income	28	19	2	1	15	30
Total net income	**211**	**225**	**46**	**50**	**360**	**464**
Personnel costs	39	38	17	16	111	103
IT expenses	20	15	3	3	11	10
Amortisation on intangible assets related to company acquisitions			3	3	33	33
Other depreciation/amortisation and impairments	24	16	1	1	6	3
Other expenses	24	21	6	6	144	133
Total expenses	**106**	**90**	**29**	**28**	**306**	**284**
Earnings before tax	**105**	**136**	**17**	**21**	**55**	**181**
Change in fair value reserve	-2	-1			-226	-38
Earnings/loss before tax at fair value	**103**	**135**	**17**	**21**	**-171**	**143**
Average personnel	613	549	154	154	2,018	2,247
Capital expenditure, EUR million	4	5	1	2	13	9

Q1–4 earnings EUR million	Group functions 2008	Group functions 2007	Eliminations 2008	Eliminations 2007	Group total 2008	Group total 2007
Net interest income	25	-2	4	3	174	115
Impairments of receivables	10				28	1
Net interest income after impairments	**15**	**-2**	**4**	**3**	**146**	**114**
Net income from Non-life Insurance		-2	2	1	353	433
Net commissions and fees	0	0	-6	-5	108	115
Net trading income	-61	-52	0		-81	-34
Net investment income	6	27			6	28
Other operating income	21	34	-8	-14	56	71
Total net income	**-19**	**4**	**-9**	**-15**	**589**	**728**
Personnel costs	11	9			178	166
IT expenses	12	16	0	-1	46	43
Amortisation on intangible assets related to company acquisitions					36	36
Other depreciation/amortisation and impairments	2	4			33	25
Other expenses	14	24	-9	-14	178	170
Total expenses	**39**	**53**	**-9**	**-15**	**470**	**440**
Earnings before tax	**-58**	**-50**	**0**	**0**	**119**	**288**
Change in fair value reserve	-25	-15			-252	-54
Earnings/loss before tax at fair value	**-83**	**-64**			**-133**	**234**
Average personnel	129	108			2,913	3,058
Capital expenditure, EUR million	3	4			21	19
Earnings per share, EUR					0.44	1.04
Return on equity at fair value, %					-5.6	9.3

Balance sheet EUR million	Banking		Asset Management		Non-life Insurance	
	31 Dec 2008	31 Dec 2007	31 Dec 2008	31 Dec 2007	31 Dec 2008	31 Dec 2007
Receivables from customers	11,776	9,253				
Receivables from financial institutions	423	270	7	6		
Financial assets at fair value through profit or loss	1,128	1,352				
Non-life Insurance assets					2,798	2,842
Investment assets	2	25	21	23	0	0
Investments in associates					2	2
Other assets	2,224	1,486	127	134	854	875
Total assets	**15,553**	**12,385**	**154**	**163**	**3,654**	**3,719**
Liabilities to customers	1,070	462				
Liabilities to financial institutions	590	261			0	
Non-life Insurance liabilities					2,238	2,140
Debt securities issued to the public						
Subordinated liabilities					50	
Other liabilities	2,010	1,578	14	17	52	100
Total liabilities	**3,671**	**2,301**	**14**	**17**	**2,340**	**2,241**
Shareholders' equity						

Balance sheet EUR million	Group functions		Eliminations		Group total	
	31 Dec 2008	31 Dec 2007	31 Dec 2008	31 Dec 2007	31 Dec 2008	31 Dec 2007
Receivables from customers	749	48	-247	-13	12,279	9,288
Receivables from financial institutions	6,258	5,409	-43	-19	6,644	5,665
Financial assets at fair value through profit or loss	2,127	3,349			3,255	4,701
Non-life Insurance assets			-53	-33	2,745	2,809
Investment assets	1,270	685	-8	-8	1,285	725
Investments in associates					2	2
Other assets	3,041	301	-8	-63	6,238	2,732
Total assets	**13,446**	**9,792**	**-358**	**-137**	**32,448**	**25,922**
Liabilities to customers	2,483	2,324	-45	-48	3,508	2,738
Liabilities to financial institutions	3,304	2,480	-251	-2	3,643	2,739
Non-life Insurance liabilities					2,238	2,140
Debt securities issued to the public	16,481	12,879	-56	-24	16,425	12,856
Subordinated liabilities	1,272	950			1,322	950
Other liabilities	1,603	998	-7	-63	3,672	2,630
Total liabilities	**25,142**	**19,631**	**-358**	**-137**	**30,808**	**24,053**
Shareholders' equity					1,640	1,869
Capital adequacy ratio, %					11.7	11.2
Tier 1 ratio, %					9.4	10.7

Banking	Net income		Earnings before tax	
	2008	2007	2008	2007
Corporate Banking	172	163	99	103
Markets	36	63	9	33
Baltic Banking Services	3	0	-3	-1
Total	**211**	**225**	**105**	**136**
	2008	**2007**		
Operating return on equity (ROE) p.a., %	10.1	15.1		
Operating cost/income ratio, %	46.4	39.6		
	31 Dec 2008	**31 Dec 2007**		
Receivables from customers, EUR billion	11.8	9.3		
Market share of corporate loans, %	19.0	17.3		
Proportion of doubtful receivables to receivables from customers and guarantees, %	0.3	0.1		
Margin on corporate loan portfolio, %	0.94	0.81		
Margin on institutional loan portfolio, %	0.30	0.23		

Asset Management	31 Dec 2008	31 Dec 2007
Assets under management, EUR billion	25.3	31.5

Non-life Insurance, EUR million	Earnings before tax	
	2008	2007
Insurance premium revenue	923	850
Claims incurred	-643	-583
Operating expenses	-202	-182
Amortisation adjustment of intangible assets	-30	-26
Balance on technical account	**49**	**60**
Investment income/expenses	59	161
Other income and expenses	-53	-41
Earnings before tax	**55**	**181**

	Insurance premium revenue		Balance on technical account	
	2008	2007	2008	2007
Private Customers	380	345	31	34
Corporate Customers	485	449	40	48
Baltic States	58	56	7	4
Amortisation adjustment of intangible assets			-30	-25
Total	**923**	**850**	**49**	**60**

	2008	2007		
Operating return on equity (ROE), %	-20.3	25.2		
Operating loss ratio, %	69.7	72.6		
Operating expense ratio, %	21.9	21.2		
Operating combined ratio, %	91.5	93.8		
Return on investment, %	-7.0	4.8		
No. of losses in excess of EUR 0.1 million	84.3	100.9		
	31 Dec 2008	**31 Dec 2007**		
No. of loyal customer households, 1,000	389	355		
Discounted insurance contract liabilities	1,268	1,244		
Other insurance contract liabilities	848	773		

Line of insurance	**Insurance premium revenue**		**Balance on technical account**	
	2008	**2007**	**2008**	**2007**
Statutory workers' compensation insurance	185	188	41	39
Other accident and health insurance	84	65	-1	9
Liability	35	32	3	-2
Motor vehicle liability insurance	166	156	11	20
Ground vehicles	142	132	-3	-2
Cargo	27	27	8	5
Fire and property	161	138	21	8
Other	36	32	7	3
Total domestic direct insurance	**837**	**769**	**87**	**79**
Foreign insurance	84	79	-8	8
Domestic reinsurance	2	2	-1	-1
Total other	**86**	**81**	**-9**	**7**
Total	**923**	**850**	**78**	**86**

Group functions	**2008**	**2007**	
Central Banking earnings before tax, EUR million	15	20	
	31 Dec 2008	**31 Dec 2007**	
Receivables from OP-Pohjola Group entities, EUR million	4,437	5,072	
Liabilities to OP-Pohjola Group entities, EUR million	3,692	2,217	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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Other notes to the balance sheet

Notes to contingent liabilities and derivatives

Other notes

NOTE 1. POHJOLA GROUP'S ACCOUNTING POLICIES

GENERAL INFORMATION

Pohjola Bank plc (hereinafter Pohjola) 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. Pohjola Group's operating segments comprise Banking, Asset Management and Non-life Insurance, as well as the Group Functions.

Pohjola Bank plc belongs to OP-Pohjola Group, which consists of 227 member cooperative banks and their central institution, OP-Pohjola Group Central Cooperative with its subsidiaries. The amalgamation of the cooperative banks is supervised as a single entity and OP-Pohjola Group Central Cooperative and its member credit institutions are ultimately liable for each other's debt and commitments.

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.

The Board of Directors has approved these consolidated financial statements for issue on 12 February 2009.

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 2008. The International Financial Reporting Standards refer to standards and their interpretations adopted in accordance with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council. In addition to IFRS, Pohjola Group applies paragraph 6, subsection 146, section 9 of the Act on Credit Institutions to the preparation of its consolidated financial statements.

In 2009, Pohjola adopted the following IFRSs and interpretations:
• IFRS 8 Operating Segments
• IFRIC 11 IFRS 2 Group and Treasury Share Transactions
• IFRIC 12 Service Concession Arrangements
• IFRIC 14 IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.
• Commission Regulation (EC) No. 1004/2008 applying to amendments to IAS 39 and IFRS 7.

In accordance with IFRS 8, the content of segment reporting was changed to align with reporting to the Group's management. The reclassification of financial instruments since 1 July 2008, as permitted by Commission Regulation (EC) No. 1004/2008 issued in October 2008, has had an effect on the presentation of the financial statements. "Reclassification" below provides more detailed information on these effects. Applying the new IFRIC interpretations did not have any material effect on the content of the financial statements.

The financial statements are presented in millions of euros.

Pohjola Group presents capital adequacy information under Pillar 3, in accordance with Standard 4.5 issued by the Financial Supervision Authority, as part of its financial statements and, to the applicable extent, 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

The European Commission issued Commission Regulation (EC) No. 1004/2008 on 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. Companies have been allowed to reclassify certain financial instruments since 1 July 2008.

Pohjola Group reclassified notes and bonds acquired to secure OP-Pohjola Group's liquidity, with a view to clarifying their actual purpose of use. In connection with reclassification, notes and bonds were reclassified out of the financial assets held for trading category into the Loans and other receivables, Available-for-sale financial assets and Financial assets held to maturity categories.

These notes and bonds were upon initial recognition classified as financial assets held for trading, but, with a view to providing clearer financial statements information, in the financial statements for 2007 they were reclassified as the Financial assets at fair value through profit or loss at inception category.

Included in the corporate loan portfolio within Pohjola Insurance Ltd's available-for-sale financial assets, loans whose market price formation is not effective and which the Group has no intention to sell in the near future were reclassified into the Loans and other receivables category.

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 changes in reclassification can be found in Note 23.

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.

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.

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 transfers to the Group and are de-consolidated from the date on which control ceases. Acquired companies are consolidated using the purchase 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 and shareholders' equity are attributable to the equity holders of the Parent and minority interest. Minority interest is shown as a separate item within shareholders' equity.

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 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 under shareholders' equity. For foreign subsidiaries, translation differences arising from the use of the purchase method and from post-acquisition equity items are recognised in shareholders' equity. If a subsidiary is sold, any accumulated translation differences in shareholders' equity 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.

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. However, the non-recognised amount is recognised as soon as there is a genuine market price for the instrument or a commonly used pricing practice is created in the market.

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 the 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 other receivables, held-to-maturity investments, available-for-sale financial assets, financial liabilities at fair value through profit or loss and other financial liabilities, in accordance with their measurement practice.

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
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 borrowed by a short seller. 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, the Group 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 handing over money or 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 reduced 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 is recognised for a group of loans and receivables if there is objective evidence that debtors' ability to pay amounts due is uncertain. The impairment to be recognised 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 loans and receivables. If there is subsequent objective evidence of the debtor's improved solvency, the amount of the impairment recognised earlier will be reassessed and any change in the recoverable amount will be recorded in the income statement.

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.

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.

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 fair value reserve under shareholders' equity, 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 a share or participation 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.

Interest income related to available-for-sale financial assets are recognised under 'Net interest income' in the income statement and dividends under 'Net investment income'.

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 share increases subsequently, this increase will be recognised in shareholders' equity.

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.

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 non-hedging derivatives are recorded under 'Net trading income' or 'Net income from Non-life Insurance'. Derivatives are carried as assets under 'Derivative contracts' when their fair value is positive and as liabilities under 'Derivative contracts' or 'Non-life Insurance liabilities' when their fair value is negative.

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

Hedge accounting

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 in accordance with the hedge accounting rules if the relationship between the hedging instrument and the related hedged item, as required by IAS 39, does not meet the criteria of the standard. Pohjola Bank plc, the Group's parent company, 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 liabilities (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 principals, hedging strategy and the methods used to demonstrate hedge effectiveness. Hedge effectiveness is tested at the inception of and during the hedge 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 investment income' (bonds included in available-for-sale financial assets) and 'Net interest income' (loans and own issues) in the income statement or 'Net investment income from Non-life Insurance' (mutual fund investments included in available-for-sale financial assets).

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. 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 residential buildings and land 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 annually for impairment.

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 measured at historical cost less accumulated 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 costs arising from an asset are recognised at the asset's carrying amount only if it is probable that the asset will generate greater economic benefits 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	30–50 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 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, at an 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 obligations

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 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 had no unrecognised actuarial gains or losses associated with defined benefit pension plans. 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 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. 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 insurance operations

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 insured 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 contract categories

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 of two years.

Measurement and recognition of insurance contracts

Non-life insurance contracts
Premiums are primarily recognised as revenue on a straight line basis over the contract's period of validity. However, revenue recognition in decennial (construction defects) and perpetual insurance is based on the proportional distribution of insurance 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 insurance contract liabilities 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 insurance contract liabilities 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 insurance contract liabilities.

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, 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 insurance 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 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 TAXES

Income tax expense shown in the income statement includes current tax, based on the taxable income of Pohjola Group companies for 2008, and income tax for prior financial years and deferred tax expense or income.

Deferred tax liabilities are recognised for all taxable temporary taxable 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, using the effective interest method. By using the effective interest method, estimated future payments received or made during the expected term to maturity of fixed-rate bonds are discounted precisely to the carrying amount of the financial instrument.

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.

SEGMENT REPORTING

Financial information serves as the basis of defining operating segments, which the executive in charge monitors regularly.

In 2008, Pohjola Group adopted a new organisational structure and changed its financial reporting to correspond to the new operating model. The Group's organisation currently comprises the following three business segments and the Group Functions: Banking, Asset Management and Non-life Insurance.

Banking consists of the following business divisions: Corporate Banking, Markets and Baltic Banking. Non-life Insurance consists of the following business divisions: Private Customers, Corporate Customers and Baltic States. Earnings are presented separately for Non-life Insurance up to the balance on technical account.

Comparatives have been changed to align with the new operating model.

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 33.

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 25.

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 25.

Impairment tests of receivables are based on estimates of the amount recoverable from the receivable in the future. Cash flows are reviewed for each loan in the impairment test carried out individually for the receivable. Impairment losses on receivables recognised collectively are based on estimates of future losses based on historical data.

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 sufficient evidence of a permanently impaired asset, the impairment will be recognised in the income statement. The issuer's financial standing, the market situation and other matters affecting the asset's fair value, among other things, must be analysed in the assessment of permanence.

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.

NEW STANDARDS AND INTERPRETATIONS

In 2009, Pohjola Group will adopt the following standards and interpretations:
• Revised IAS 1 – Presentation of Financial Statements
• Revised IAS 23 – Borrowing Costs
• Revised IFRS 3 – Business Combinations
• Amendment to IAS 27 – Consolidated and Separate Financial Statements
• Amendment to IFRS 2 – Vesting Conditions and Cancellations
• IAS 32 Financial Instruments: Presentation and amendments to IAS 1 Presentation of Financial Statements
(Puttable Financial Instruments and Obligations Arising on Liquidation)
• IAS 39 Financial Instruments: Recognition and Measurement, amendment – Eligible Hedged Items
• IFRIC 15 Agreements for the Construction of Real Estate
• IFRIC 16 Hedges of a Net Investment in a Foreign Operation
• Amendments to IFRS 1 and IAS 27 – Cost of an Investment in a Subsidiary,
Jointly Controlled Entity or Associate
• IFRIC 17 Distributions of Non-cash Assets to Owners. The interpretation provides guidance on the recognition of distribution of dividends as non-cash assets from the perspective of the entity distributing dividends.
Improvements to IFRS
• IFRS 5 Non-current Assets Held for Sale and Discontinued Operations – Plan to Sell the Controlling Interest in a Subsidiary
• IAS 40 Property under construction or development for future use as investment property

Applying the new IFRIC interpretations will not have any material effect on the content of the current financial statements. The adoption of IAS 1 will change the Group's presentation of financial statements.

NOTE 2. RISK MANAGEMENT AND CAPITAL ADEQUACY MANAGEMENT PRINCIPLES

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

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

Within Pohjola Group, major operational risks exposed by Banking include credit, interest rate, currency, equity and liquidity risks, and those exposed by Non-life Insurance include insurance 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, Asset Management, Non-life Insurance and the Group Functions.

ORGANISATION OF RISK MANAGEMENT

As the highest decision-making body in matters associated with risk management and capital adequacy management, Pohjola's Board of Directors decides on the goals and organisation of risk management and capital adequacy management, confirms 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 capital resources, 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 Risk Management Committee is tasked with assisting the Board of Directors in ensuring that the Company and the Group have an adequate risk management system covering all operations and that the Company and the Group do not take excessive operational risks which would materially jeopardise the Company's or the Group's capital adequacy or the Company's liquidity.

To carry out its duties, the Risk Management Committee is responsible for, for example, supervising the preparation of, and compliance with, the Company's and the Group's risk management and capital adequacy management principles and other general guidelines related to risk management, and supervising the Company's and the Group's risks and risk concentrations and the quality and scope of risk management, as well as monitoring the implementation of risk-taking policies, the use of limits and profit performance. The Risk Management Committee reports to the Board of Directors.

The Board of Directors confirms the description of the Risk Management Executives' duties and appoints the Executives. The Risk Management Executives coordinate and supervise overall risk management and capital adequacy management principles and operational policy guidelines 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 liquidity reserve investment. The executives 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 Committee's and the Pohjola Asset Management Risk Management Committee's duties. The Risk Management Committees 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, risk policies and instructions within their businesses and the businesses' risk exposure in relation to their risk-bearing capacity and goals. The Risk Management Committees 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. 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 Pohjola's President and CEO. 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 while ensuring that the company has a sufficient internal control function and risk management systems in view of the nature and scope of business operations.

Tasked with developing and implementing an 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, 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 on the implementation of the Group's risk-bearing capacity and risk policies, and preparing and maintaining decision-making authorisations 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 Group 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 Group capital adequacy management principles. The Group Functions monitors and supervises the business lines' compliance with the 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.

CAPITAL ADEQUACY MANAGEMENT PRINCIPLES

Pohjola'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 risks associated with the Group's business 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.

RISK-BEARING CAPACITY AND CAPITAL ADEQUACY MANAGEMENT (ICAAP)

Pohjola Group's risk-bearing capacity involves capital resources, profitability and qualitative factors, such as good corporate governance, internal control and risk management as well as capital adequacy management. Pohjola Group's statutory capital adequacy is determined on the basis of the Act on Credit Institutions. The Group's Tier 1 ratio is a minimum of 8.5%, which is double vis-à-vis the statutory minimum.

Determined on the basis of the Insurance Companies Act, the statutory capital adequacy (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.

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 extra 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 total risk management, capital adequacy management aims to ensure effective capital management and the sufficient amount and quality of capital 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 caused by the business and changes in the operating environment.

Well-balanced risk-taking and capital structure as well as 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 risks.

Pohjola develops its risk indicators by making use of economic capital models to assess and measure business risks. The Group will phase in risk limit indicators and control indicators, based on economic capital, between 2009 and 2011.

Pohjola 's economic capital will involve the various risk types by Banking, Asset Management and Non-life Insurance, such as credit, market, loss and provision risks, and operational risks, of which some are measurable and some are taken into account in setting capital buffers. These models will meet the requirements set by both Basel II and Solvency II.

RISK APPETITE

Pohjola Group is a moderate risk taker. Due to the rapid deterioration in the operating environment, the Group will reduce its risk appetite during 2009, especially with respect to credit and investment risks. Group business operations are based on a reasoned risk/return approach which serves as a guideline for exploiting credit risks, market risks, funding risks as well as insurance and investment risks. Business operations also involve strategic, business, compliance and operational risks.

In Banking, the aim is that the average amount of credit losses 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%.

The Group Functions aims to secure OP-Pohjola Group's liquidity for a minimum of the next 12 months, based on its liquidity reserve 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, the 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 function supports 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.

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

In measuring compliance risks, the Group adheres to operational risk measurement techniques.

MANAGEMENT OF STRATEGIC, BUSINESS AND OPERATIONAL RISKS

The management of strategic, business and operational 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 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 and measurement of the management of strategic and business risks
The Group manages strategic risks through continuous planning based on analyses and forecasts of developments in market areas, on competition and future customer needs. Pohjola Group revises annually 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 projects.

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 includes legal risks but excludes strategic risks. Operational risks may also materialise in terms of loss of reputation.

Methods and measurement of the management of operational risks

Operational risks are qualitative in nature and a company cannot ever fully hedge against them. Operational risk management is aimed at identifying risks and ensuring that they remain at acceptable levels. Operational risk management is based on systematic planning, diligence and securing continuity of business operations.

Pohjola prevents the materialisation of risks by taking account of factors contributing to their materialisation, these measures including maintaining and developing working methods, corporate culture, systems and expertise and enhancing any controls that support risk management. The introduction of new products and operating models is preceded by their description, the planning of operating processes and the related instructions, and approval. The Group prepares for unexpected situations by means of contingency plans for the main business lines, which are updated regularly. In information and banking security management and in the prevention of illegal use of the banking system (e.g. money laundering and financing of terrorism), Pohjola is in intense cooperation within OP-Pohjola Group. In addition, the Group has taken out property, crime and liability insurance to provide partial cover for losses caused by operational risks. Reports issued by the internal control function and the management of communications and information flow in the agreed manner also form an important part of operational risk management.

The Group measures operational risks by assessing their probabilities and their effects on earnings in the same way as evaluating strategic and business risks. The Group also makes use of risk assessments in evaluating the sufficiency of insurance cover.

Monitoring and reporting on strategic, business and operational risks
Pohjola Group monitors strategic, business and operational 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 on the strategic and business risks of business lines and business divisions, as well as on the related risk management methods.

Pohjola regularly monitors and analyses materialised operational risks with a view to understanding the reasons behind the risk events and to further developing its operations. Potential and materialised operational risks are reported to the executive management on a regular basis. In addition to normal risk reporting, significant changes in the risk profile, the effectiveness of controls or in the materialisation of risks are reported to the executive management as soon as these changes have been detected.

RISK MANAGEMENT IN BANKING

Credit risk management

Credit risk refers to a risk arising from the inability of the bank's contracting parties to meet their obligations and collateral not securing the bank's receivables. Credit risk also includes country risk and settlement risk, 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 credit 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 resources, and has a limit system in place. It has also used credit derivatives but no 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.

The Group applies credit ratings by Moody's, Fitch and Standard & Poor's to securitisation positions. Credit ratings issued by the one and the same credit rating agency apply to positions within various tranches of the same securitisation transaction. If two selected credit rating agencies have issued credit ratings pertaining to a securitisation position, the lower rating will apply. If more than two selected credit rating agencies have issued credit ratings pertaining to a securitisation position, the two highest ratings will apply. If the two highest ratings differ from one another, the lower rating will apply.

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 their usability.

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

For the portfolio review, customers are divided into the following six groups: corporate customers, credit institutions, private customers, OP-Pohjola Group member cooperative banks and OP-Pohjola Group Central Cooperative, public entities and non-profit organisations. The first three customer groups 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 Bank'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 have been 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 liabilities. 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 financial 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'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 evaluation, decision-making and execution, which are separate processes. The Risk Management function supervises the credit process flow and quality.

Credit standing evaluation

Pohjola Bank's credit standing evaluation 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, depicts the size or 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 behaviour
Credit institutions	Credit rating by 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 behaviour information and credit scoring

Pohjola evaluates 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, growth potential, 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 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.

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 upturn, 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 table below shows the correlation between OP-Pohjola's credit rating categories for corporate exposure and the credit rating categories of Standard & Poor's.

S&P Rating	AAA...AA+	AA...BBB+	BBB...BB	BB-...B	B-...CCC
OP-Pohjola rating	1–2	3–4	5–6	7–8	9–10

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

Collateral or guarantees received for the customer's exposure are not taken into account in the credit standing evaluation. 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 the pricing of exposure, the credit approval process and the accounting for risk-adjusted capital requirements as well as the setting, monitoring and reporting of the credit portfolio's qualitative objectives.

Pohjola intends to adopt internal credit rating for credit institutions in 2009. 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.

Correlation 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

Decision on credit

The evaluation 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 evaluation 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 validity of the agreement.

Measuring, monitoring and reporting on 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 proportion of doubtful loans and past due loan repayments to the loan and guarantee portfolio, as well as the proportion of credit 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 credit record and business. Pohjola Group monitors continuously customer credit record, past due payments and doubtful loans using information obtained from both OP Pohjola Group's internal monitoring service and external services.

Customers whose financial status performance, credit risk and credit record 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 approval process involves monitoring the exposure limits of corporate customers and the total exposure limits of consolidated financial institutions. Furthermore, decision-making bodies supervise credit approval decisions and always submit their minutes to the next decision-making level.

The Risk Management function bears overall responsibility for reporting on 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 Pohjola 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 development measures on the basis of the validation. The Business Control Methodology unit of the Central Cooperative is responsible for 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 Supervision 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 began to apply this approach to Pohjola Bank plc's 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 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 IRBA, 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 an 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 price fluctuations in 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 reserves and other assets (for example, shares, real property holdings and shareholders' 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 reserves 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 divisions responsible for the risks in question and the divisions are in charge of their own exposure and results within the framework of the set limits. The Middle Office within the Markets division monitors and reports on market risks and their outcome to the divisions, senior management and the Risk Management function. The principles and indicators used in managing market risk involved in trading and the banking book are largely the same.

The Group has defined risk policies for interest rate, volatility, currency, equity 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 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 venture capital investment risk is diversified in accordance with the fund rules and regulations. 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 on 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 portfolio	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
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, volatility and currency risk limits daily and reports on these to the 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 values 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 liquidity reserves, into a change in market 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 on 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.

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.

FUNDING RISK MANAGEMENT

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

Liquidity risks refer to risks associated with the availability of funding when liabilities or other payments arrive at maturity. Such a risk may materialise as a result of lower market liquidity or a borrower's lower credit rating. Provisions for liquidity risks comprise a portfolio consisting of liquid notes and bonds.

Liquidity management is subject to the regulations of the European Central Bank's minimum reserve and liquidity credit systems.

As the central financial institution of OP-Pohjola Group, Pohjola is responsible for the liquidity and sufficient liquidity reserves of OP-Pohjola Group. Pohjola maintains liquidity reserves of around 8 percentage points calculated on the balance sheet of OP-Pohjola Group's Banking Services, consisting 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.

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

Funding risk management involves planning liquidity and the balance sheet structure, maintaining a sufficient liquidity reserve and diversifying funding by maturity category, counterparty, product and market area. With a view to managing funding and 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 funding and 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 funding risk and liquidity risk management, long-term funding as well as the maintenance of reserve portfolios. The Risk Management function monitors and reports on funding risks to the 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 funding risk policy specifies the principles and limits related to wholesale funding and its diversification, and the requirements and goals set for the amount and content of liquidity reserves. In addition, the funding risk policy includes a funding plan and a plan for securing OP-Pohjola Group's liquidity in case bad scenarios threatening liquidity materialise.

Measuring, monitoring and reporting on funding risk

The Group monitors funding risks on the basis of the balance sheet structure and the maturity distribution of its receivables and liabilities. A significant part of growth in the balance sheet is based on wholesale funding, and the Group diversifies it by maturity category in such a way that the renewal of wholesale funding and additional funding can be implemented flexibly regardless of the market situation. For the purpose of ensuring sufficiently diversified wholesale funding, the maturity distribution of wholesale funding is limited up to four years. The shortest maturity category applies to wholesale funding maturing within one month, the amount of which may not exceed the amount of liquidity reserves. In addition, a limit proportional to the balance sheet of OP-Pohjola Group's Banking Services has been set for the amount of liquidity reserves.

Pohjola monitors liquidity on a daily basis, using calculations and forecasts for a 12-month period, containing the effects of internal transactions as well as forecasts of cash flows in interbank payment transfer services.

The Risk Management function reports monthly on funding risks to the divisions and the management. Daily activities include the preparation of cash flow statements by currency and an estimate of the adequacy of liquidity reserves.

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 equivalent values. Derivatives are used for trading and hedging purposes as part of overall 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 equivalent values 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 INSURANCE OPERATIONS

Risks of insurance operations

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

Insurance risks

By taking out an insurance policy, the policyholder transfers his insurance risk to the insurer. The insurance 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 policies. 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 insurance risks in the portfolio, the smaller the relative variation in claims expenditure.

Since the lack of correlation between insurance 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 insurance 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 have an increasing effect on the size of loss simultaneously in a large part of the 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.

A claims accumulation 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.

Management of insurance risks

The most important tasks within insurance risk management relate to risk selection and rating, the acquisition of reinsurance cover, the monitoring of claims expenditure and the analysis of insurance contract liabilities.

Risk selection and premium rating
Operating models highlight the role of risk selection and rating. The Group has set limits for the size and extent of risk for each insurance line and risk concentration, supported by a data warehouse and analysis applications. 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. In addition, the Group may have to pay a maximum reinstatement premium of EUR 2.5 million for uncommon, major losses in excess of EUR 20 million. The capacity of catastrophe insurance covering loss accumulation stands at EUR 80 million.

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

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

Evaluation of insurance contract liabilities
The Group monitors the adequacy of insurance contract liabilities on an annual basis. Insurance contract liabilities are determined on the basis of estimated future cash flows. The cash flows comprise claims paid and loss adjustment expenses.

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.

For corporate insurance contracts, the provision for unearned premiums has been determined by contract in accordance with the pro rata parte temporis rule. 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 2008, the discount rate used was 3.5% (2007: 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 true picture of the future) and the 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.

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 insurance contract liabilities 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 two years, an external actuary performs for the Group an analysis of the appropriateness of the calculation bases and the amount of Group insurance contract liabilities. More detailed information on insurance contract liabilities and their determination can be found in Note 33.

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 a 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 to 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 related to rating is limited, since the rating of the insured risk follows automatically, if 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 one 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 insurance 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 related to statutory lines of insurance concerns 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 insurance company that would lead to changes in equity.

Pay-as-you-go benefits include index increments in annuities, medical treatment expenses compensated 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 would cease 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'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
Other accident insurance contract liabilities 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 or damage caused 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 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. Trains represent the largest single risks within 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 2% 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. 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 insurance 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 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 one 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 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.

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'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 materially.

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 insurance contract liabilities 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 impairment on 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 insurance contract liabilities, 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 investment operations, 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 share prices, interest rates and foreign exchange rates 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 insurance contract liabilities.

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 and equity 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. Credit risk derivatives are not used. 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 includes 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 liquidity 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 equities and bonds.

NOTE 3. Business operations acquired and sold during the financial year

Business operations acquired

Based on an agreement signed by Pohjola Bank plc and Kesko Corporation on 21 December 2007, Pohjola Bank plc bought all of the shares of K-Finance Ltd, for around EUR 30 million, of which goodwill accounted for roughly EUR 13 million. On 31 January 2008, Pohjola Bank plc became the owner of all of K-Finance Ltd shares and the company was renamed Pohjola Finance Ltd. The Boards of Directors of Pohjola Bank plc and Pohjola Finance Ltd have approved a plan, whereby Pohjola Finance Ltd will merge with its parent company by the end of September 2009. This merger is aimed at simplifying the Group's corporate structure, streamlining operations and reducing administrative costs. Since the transaction represents a subsidiary merger, no merger consideration will be paid.

EUR million		Fair values used in consolidation	Carrying amounts before consolidation
Property, plant and equipment		6	6
Intangible assets		0	0
Financial assets		186	186
Pension assets		0	0
Deferred tax assets		0	0
Other assets		5	5
Cash and cash equivalents		4	4
Total assets		201	201
Financial liabilities		180	180
Deferred tax liabilities		0	0
Accounts payable and other liabilities		2	2
Total liabilities		182	182
Net assets		19	19
Holding in net assets acquired	100 %	19	
Acquisition cost		31	
Goodwill*		13	
Purchase price paid in cash		31	
Cash and cash equivalents of acquired subsidiary		4	
Cash flow impact		27	

*A more detailed specification of goodwill can be found in Note 25.

Business operations sold

In 2008, Pohjola Bank did not sell any of its businesses.

Year 2007

In 2007, Pohjola neither acquired nor sold any businesses.

NOTES TO THE INCOME STATEMENT

NOTE 4. Net interest income	2008	2007
Interest income		
Receivables from financial institutions	264	270
Receivables from customers	667	415
Loans	633	395
Finance lease receivables	33	20
Impaired loans and other commitments	1	1
Notes and bonds	345	224
Held for trading	133	90
At fair value through profit or loss	111	112
Available for sale	91	21
Held to maturity	10	0
Derivative contracts	1,867	1,318
Hedge accounting	-60	9
Other	1,928	1,309
Other	10	7
Total	**3,153**	**2,234**
Interest expenses		
Liabilities to financial institutions	174	94
Financial liabilities at fair value through profit or loss	19	0
Liabilities to customers	108	82
Debt securities issued to the public	686	593
Subordinated liabilities	54	45
Subordinated loans	13	8
Other	41	36
Derivative contracts	1,927	1,294
Hedge accounting	-20	6
Other	1,946	1,288
Other	11	12
Total	**2,979**	**2,119**
Net interest income before impairments	**174**	**115**

Hedging instruments in hedge accounting showed net loss of EUR 31 million (loss of 1) and net income from hedged contracts came to EUR 31 million (1).

NOTE 5. Impairments of receivables	2008	2007
Receivables written down as loan and guarantee losses	16	5
Recoveries of receivables written down	-1	-3
Increase in impairment losses	20	6
Reversal of impairment losses	-9	-7
Collectively assessed impairment losses	1	
Impairment on interest receivables	-1	-1
Total	**28**	**1**

NOTE 6. Net income from Non-life Insurance	2008	2007
Insurance premium revenue		
Premiums written	991	944
Change in provision for unearned premiums	-24	-43
Gross insurance premium revenue	966	901
Reinsurers' share	-43	-51
Total	923	850
Net investment income	61	159
Claims incurred		
Claims paid (excl. loss adjustment expenses)	602	556
Change in provision for unpaid claims	30	-10
Gross total claims incurred	632	546
Reinsurers' share	-41	-10
Total	591	536
Other Non-life Insurance items	40	39
Net income from Non-life Insurance	**353**	**433**
Insurance premium revenue and insurance premiums ceded to reinsurers		
Short-term insurance contracts		
Premiums written	988	938
Change in provision for unearned premiums	-26	-40
Change in provision for unexpired risks	1	-2
Long-term insurance contracts		
Premiums written	3	5
Change in provision for unearned premiums	1	-1
Gross insurance premium revenue	**966**	**901**
Reinsurers' shares of short-term insurance contracts		
Premiums written	-42	-48
Change in provision for unearned premiums	1	-2
Reinsurers' share of long-term insurance contracts		
Premiums written	0	0
Change in provision for unearned premiums	-2	0
Total reinsurers´ share	-43	-51
Net insurance premium revenue	**923**	**850**
Net investment income from Non-life Insurance		
Loans and receivables		
Interest income	10	3
Interest expenses	-1	-1
Total	**9**	**2**

Net income from financial assets recognised at fair value through profit or loss		
Interest income		
Notes and bonds	0	0
Derivatives		0
Other	1	-2
Capital gains and losses		
Shares and participations		
Derivatives	-10	13
Other	0	0
Fair value gains and losses		
Notes and bonds	-3	0
Shares and participations		0
Derivatives	1	0
Total	**-12**	**12**

Net income from available-for-sale financial assets		
Notes and bonds		
Interest income	64	69
Other income and expenses	0	0
Capital gains and losses	-2	-12
Transferred from fair value reserve during financial year	-13	-27
Impairments and their reversals	-1	0
Total	48	30
Shares and participations		
Dividends	26	61
Other income and expenses	3	2
Capital gains and losses	-25	-10
Transferred from fair value reserve during financial year	-3	57
Impairment and their reversals	4	-1
Total	5	108
Total	**54**	**138**

Net income from investment property		
Rental income	10	8
Capital gains and losses	2	3
Gains on fair value measurement	3	2
Maintenance charges and expenses	-5	-6
Other	-1	0
Total	**10**	**7**
Total net investment income from Non-life Insurance	**61**	**159**

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 33) (unwinding of discount) totals EUR 42 million (39). 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 2008.

NOTE 7. Net commissions and fees

	2008	2007
Commissions and fees		
Lending	24	22
Deposits	0	0
Payment transfers	13	12
Securities brokerage	19	26
Mutual fund brokerage	0	2
Securities issuance	3	6
Asset management and legal services	48	56
Insurance operations	5	6
Guarantees	9	6
Other*	11	6
Total	**132**	**142**

*Other included EUR 6 million (2) in deferred Day 1 profit commissions and fees and EUR 0.5 million (1) in non-deferred commissions and fees. The counter-item is included in provisions and other liabilities in the balance sheet.

	2008	2007
Commission expenses		
Payment transfers	3	3
Securities brokerage	6	10
Securities issuance	5	4
Asset management and legal services	7	9
Other	2	2
Total	**24**	**27**
Net commissions and fees	**108**	**115**

NOTE 8. Net trading income

	2008	2007
Financial assets and liabilities held for trading		
Capital gains and losses		
Notes and bonds	2	-8
Shares and participations	0	0
Derivatives	-49	3
Total	-48	-5
Fair value gains and losses		
Notes and bonds	26	2
Shares and participations	0	0
Derivatives	19	23
Total	45	25
Dividend income		0
Assets and liabilities at fair value through profit or loss		
Capital gains and losses		
Notes and bonds	-16	0
Total	-16	0
Fair value gains and losses		
Notes and bonds	-65	-67
Total	-65	-67

Net income from foreign exchange operations		
Currency exchange	25	45
Other	-23	-32
Total	**-81**	**-34**

NOTE 9. Net investment income	**2008**	**2007**
Available-for-sale financial assets		
Notes and bonds and loans acquired		
Capital gains and losses	3	0
Transferred from fair value reserve during the financial year	-3	1
Shares and participations		
Capital gains and losses	0	3
Transferred from fair value reserve during the financial year	1	14
Impairments	-4	-1
Dividend income	7	9
Total available-for-sale financial assets	4	26
Investment property		
Rental income	2	3
Capital gains and losses	1	2
Gains and losses from fair value measurement	0	-1
Maintenance charges and expenses	-1	-2
Other	0	0
Total investment property	2	3
Total net investment income	**6**	**28**

NOTE 10. Other operating income	**2008**	**2007**
Rental income from property in own use	0	1
Capital gains on property in own use		2
Insurance claims and benefits	0	0
Central banking service fees	9	9
Realisation of repossessed items	0	1
Rental income from assets rented under operating lease	22	14
Reinsurance commissions of Non-life Insurance	1	3
Other *	23	41
Total	**56**	**71**

* In 2008, EUR 13 million (18) of Pohjola Insurance Ltd's income was included in 'Other', representing income from the management of partners' distribution networks and insurance portfolios

NOTE 11. Personnel costs	2008	2007
Wages and salaries	143	135
Pension costs	24	21
Defined contribution plans	24	21
Defined benefit plans	1	0
Other social expenses	10	10
Total	**178**	**166**

NOTE 12. Other administrative expenses	2008	2007
Office expenses	54	61
IT expenses	46	43
Telecommunication expenses	11	10
Marketing expenses	14	14
Other administrative expenses	19	17
Total	**144**	**145**

NOTE 13. Other operating expenses	2008	2007
Rental expenses	1	0
Expenses for property and business premises in own use	25	25
Expenses for realisation of repossessed items	1	2
Reinsurance commissions of Non-life Insurance	2	3
Credit losses of Non-life Insurance	7	9
Change in collective guarantee item of Non-life Insurance	1	1
Depreciation and amortisation		
Buildings	1	1
Machinery and equipment	2	5
Intangible assets related to company acquisition	36	36
Other intangible assets	7	6
Other	20	12
Total	66	60
Impairments		
Property in own use	0	1
Other	3	
Total	3	1
Other *	43	27
Total	**149**	**129**

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

*) The item includes EUR 24 million in insurance business sales commissions paid to OP-Pohjola Group member banks in 2008.

*) in 2007, the item included EUR 10 million in liquidated damages, including interest and expenses, paid by the then OKO Bank to savings banks on the basis of an arbitral award. The liquidated damages were due to the termination of cooperation between Pohjola and savings banks as a result of combining the operations of the then OP Bank Group and Pohjola.

NOTE 14. Income tax

	2008	2007
Current tax	11	50
Tax for previous financial years	1	3
Deferred tax	18	23
Income tax expense	**31**	**76**
Corporate income tax rate	26	26

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

	2008	2007
Earnings before tax	119	288
Tax calculated at a tax rate of 26% (2007:26%)	31	75
Tax for previous financial years	1	3
Income not subject to tax	-2	-2
Expenses not deductible for tax purposes	1	2
Re-evaluation of unused losses		0
Tax adjustments		-1
Other items	-1	-1
Tax expense	**31**	**76**

NOTE 15. 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.

	2008	2007
Profit for the year attributable to equity holders of the Parent (EUR million)	89	212
Weighted average number of shares (1,000)		
Series A shares	159,564	159,504
Series K shares	43,787	43,847
Total	203,351	203,351
Basic earnings per share (EUR/share)		
Series A shares	0.44	1.04
Series K shares	0.41	1.03

NOTES TO THE BALANCE SHEET

NOTE 16. Cash and cash equivalents	31 Dec. 2008	31 Dec. 2007
Cash	1	2
Deposits with central banks repayable on demand		
Pohjola Bank's minimum reserve deposit	228	150
Other	2,030	296
Total cash and cash equivalents	**2,260**	**448**

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 17. Receivables from financial institutions	31 Dec. 2008	31 Dec. 2007
Receivables from financial institutions		
Deposits		
Repayable on demand	172	250
Other	7	6
Total	178	256
of which receivables from financial institutions due in less than 3 months	178	256
Loans and other receivables		
Other		
From OP-Pohjola Group retail banks	1,955	3,764
From other financial institutions	4,511	1,197
Total	6,466	4,961
Total receivables from financial institutions	**6,644**	**5,217**
Receivables from financial institutions include repo receivables.	8	
Receivables from financial institutions include subordinated receivables	42	42

NOTE 18. Financial assets at fair value through profit or loss	31 Dec. 2008	31 Dec. 2007
Financial assets held for trading		
Government notes and bonds	584	242
Certificates of deposit and commercial papers	2,191	1,581
Debentures	38	8
Bonds	396	383
Other notes and bonds	4	6
Shares and participations	0	0
Loans acquired and other receivables		0
Total	3,213	2,220

Financial assets at fair value through profit or loss at inception		
Government notes and bonds		56
Debentures		53
Bonds	43	2,372
Total	43	2,481
Total financial assets at fair value through profit or loss	**3,255**	**4,701**

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

Financial assets held for trading	**31 Dec. 2008**		**31 Dec. 2007**	
	Notes and bonds	**Shares and partici-pations**	**Notes and bonds**	**Shares and partici-pations**
Quoted				
From public corporations	584		430	
From others	2,491	0	1,764	0
Other				
From public corporations	85		0	
From others	52		26	0
Total	**3,213**	**0**	**2,220**	**0**

Financial assets at fair value through profit or loss at inception	**31 Dec. 2008**		**31 Dec. 2007**	
	Notes and bonds	**Shares and partici-pations**	**Notes and bonds**	**Shares and partici-pations**
Quoted				
From public corporations			56	
From others	39		2,425	
Other				
From others	4		0	
Total	**43**		**2,481**	
Total financial assets at fair value through profit or loss	**3,255**	**0**	**4,701**	**0**

Financial assets at fair value through profit or loss include EUR 2,996 million (3,572) in notes and bonds eligible for central bank refinancing and EUR 38 million (61) in subordinated publicly-quoted notes and bonds.

NOTE 19. Derivative contracts	31 Dec. 2008	31 Dec. 2007
Held for trading		
Interest rate derivatives	1,286	430
Currency derivatives	85	6
Equity derivatives	67	59
Credit derivatives	4	0
Other	2	0
Total	1,443	496
Hedging derivative contracts – fair value hedging		
Interest rate derivatives	31	25
Currency derivatives	11	7
Total	43	32
Total derivative contracts	**1,486**	**528**

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

NOTE 20. Receivables from customers	31 Dec. 2008	31 Dec. 2007
Loans to the public and public corporations	9,045	6,886
Notes and bonds	709	
Finance lease receivables	593	452
Loans acquired and other receivables		
Loans acquired		26
Other	1,963	1,942
Impairment losses on loans		
Based on credit risk	-23	-20
Impairment losses on notes and bonds		
Based on credit risk	-9	
Total receivables from customers	**12,279**	**9,288**

Changes in impairments of loans and guarantees

EUR million	Loans	Notes and bonds	Bank guarantee receivables	Interest receivables	Total
Impairments 1 January 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 December 2008	24	9		-2	32

EUR million	Loans	Notes and bonds	Bank guarantee receivables	Interest receivables	Total
Impairments 1 January 2007	18		1	-1	19
Change in impairments of individually assessed loans and receivables	12			-2	10
Change in impairments of collectively assessed loans and receivables	1				1
Reversal of impairments of loans and receivables individually assessed	-11		0	1	-10
Loans and guarantee receivables derecognised from balance sheet,					
of which an individually assessed impairment was recognised	-1				-1
Impairments 31 December 2007	20		1	-1	20

Finance lease receivables

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

EUR million	31 Dec. 2008	31 Dec. 2007
Maturity of finance leases		
Not later than one year	188	171
1–5 years	339	253
Over 5 years	220	133
Gross investment in finance leases	746	558
Unearned finance income (–)	-153	-106
Present value of minimum lease payments	593	452
Present value of minimum lease payment receivables		
Not later than one year	162	151
1–5 years	282	218
Over 5 years	150	83
Total	**593**	**452**
Gross increase during the financial year	**352**	**206**

NOTE 21. Non-life Insurance assets	31 Dec. 2008	31 Dec. 2007
Investments		
Loans and other receivables	418	57
Equities	318	444
Property	81	85
Notes and bonds	1,150	1,446
Derivative contracts		
Currency derivatives	3	0
Other	419	451
Total	2,389	2,485

Other assets		
Prepayments and accrued income	33	28
Other		
From direct insurance	218	210
From reinsurance	100	74
Cash in hand and at bank	4	12
Total	355	325
Total Non-life Insurance assets	**2,745**	**2,809**

Non-life Insurance investments	**31 Dec. 2008**	**31 Dec. 2007**
Loans and other receivables		
Loans and other receivables	418	57
Deposits with ceding undertakings	1	1
Total	419	58
Financial assets recognised at fair value through profit or loss		
Other notes and bonds	6	1
Derivative contracts		
Currency derivatives	3	0
Total	9	2
Available-for-sale financial assets		
Notes and bonds	1,143	1,445
Shares and participations	318	444
Other participations	419	450
Total	1,880	2,340
Investment property		
Land and water areas	11	11
Buildings	71	74
Total	81	85
Total Non-life Insurance investments	**2,389**	**2,485**

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. 2008			**31 Dec. 2007**		
EUR million	**Notes and bonds**	**Shares and participa-tions**	**Derivative contracts**	**Notes and bonds**	**Shares and participa-tions**	**Derivative contracts**
Quoted						
From others	6			1		
Other						
From others			3			0
Total	**6**		**3**	**1**		**0**

Available-for-sale financial assets of Non-life Insurance, 31 December 2008

	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 ***
Quoted						
From public corporations	659		659			
From others	407		407	626		626
Other						
From public corporations	5		5			
From others	72		72	111		111
Total	**1,143**		**1,143**	**737**		**737**
Impairment losses for the financial year				17		17

* Available-for-sale shares and participations include EUR 318 million (444) in equities and mutual funds with equity risk and EUR 419 million (450) 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 14 million (1) in pledged items, consisting mainly of collateral for derivatives trading.

Available-for-sale financial assets of Non-life Insurance, 31 December 2007

	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**
Quoted						
From public corporations	577		577			
From others	799		799	775		775
Other						
From public corporations	1		1			
From others	69		69	120		120
Total	**1,445**		**1,445**	**894**		**894**
Impairment losses for the financial year				5		5

Changes in Non-life Insurance investment property	**2008**	**2007**
Acquisition cost 1 January	83	55
Increase	0	27
Decrease	-5	-5
Transfers between items	-3	6
Acquisition cost 31 December	75	83
Accumulated changes in fair value 1 January	2	1
Changes in fair value during financial year	3	2
Decrease		-1
Accumulated changes in fair value 31 December	6	2
Carrying amount 31 December	81	85

During the financial year and the previous financial year, the Group had no construction and repair obligations regarding investment property.

NOTE 22. Investment assets	31 Dec. 2008	31 Dec. 2007
Available-for-sale financial assets		
Notes and bonds	68	618
Shares and participations	87	83
Total	155	701
Financial assets held to maturity		
Notes and bonds	1,103	
Total	1,103	
Investment property		
Land and water areas	0	0
Buildings	26	23
Total	27	24
Total investment assets	**1,285**	**725**

Investment property does not include real property received as collateral in 2008 and 2007.

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

	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 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	

Available-for-sale financial assets include EUR 0 million (35) in subordinated publicly-quoted notes and bonds from others and EUR 0 million (0) in other than publicly-quoted notes and bonds from others. A total of EUR 15 million (6) out of the EUR 15 million (16) investments in equity funds was measured at fair value and EUR 0 million (10) at cost. The portfolio includes unquoted equities measured at cost and totalling EUR 59 million (49), of which shares in subsidiaries and associates not included in the consolidated accounts amounted to EUR 3 million (1). No fair value could reliably be determined for investments measured at cost. All of the held-to-maturity investments are notes and bonds eligible for central bank refinancing.

Available-for-sale financial assets on 31 December 2007

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	603		603	19		19	
Other							
From others	14		14	6	59	64	
Total	**618**		**618**	**24**	**59**	**83**	
Impairment losses for the financial year				1		1	

Changes in investment property	**2008**	**2007**
Acquisition cost 1 January	26	32
Increase	2	1
Decrease	-2	-8
Transfers between items		
Acquisition cost 31 December	25	26
Accumulated changes in fair value 1 January	-2	-3
Changes in fair value during financial year	3	-1
Decrease		1
Accumulated changes in fair value 31 December	1	-2
Carrying amount 31 December	27	24

The increase in investment property includes EUR one million (1) in capitalised costs realised after the acquisition.

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

NOTE 23. Reclassified notes and bonds

In the latter half of 2008, Pohjola Group reclassified notes and bonds due to inactive markets caused by the financial crisis. In practice, determining fair values reliably has become impossible. Previously, around EUR 4.2 billion in notes and bonds at fair value was classified as those carried at amortised cost.

Banking and Group Functions

Notes and bonds were reclassified using fair values on 1 July 2008, on the basis of which new purchase prices were determined for the reclassified notes and bonds.

The table below shows reclassifications using carrying amounts on 1 July 2008.

EUR million	Before reclassification	After reclassification Loans and other receivables	Held-to-maturity investments	Available-for-sale financial assets
Financial assets at fair value through profit or loss	2,222	1,226	942	54
Available-for-sale financial assets	1,576	1,576		
Total	**3,798**	**2,802**	**942**	**54**

The table below shows the carrying amounts and fair values of the reclassified notes and bonds on 31 December 2008.

EUR million, 31 Dec 2008	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**		

The reclassification improved earnings before tax by EUR 125 million and the fair value reserve before tax by EUR 30 million. The price difference of notes and bonds recognised in the income statement totalled EUR 16.6 million. In 2007, notes and bonds of EUR–46.7 million were recognised in earnings before tax and the fair value reserve before tax showed EUR–5 million.

If notes and bonds were not reclassified and had been measured using fair values available in the inactive market, earnings before tax for 2008 would have been EUR 183 million lower. The fair value reserve before tax would have been EUR 23 million smaller.

The Group used derivatives to hedge against interest-rate risks, applying hedge accounting since 1 October 2008.

Non-life Insurance

Notes and bonds were reclassified using fair values on 1 July 2008, on the basis of which new purchase prices were determined for the reclassified notes and bonds.

The table below shows reclassifications using carrying amounts on 1 July 2008.

	Before reclassification	After reclassification		
EUR million		Loans and other receivables	Held-to-maturity investments	Available-for-sale financial assets
Available-for-sale financial assets	361	361		
Total	**361**	**361**		

The table below shows the carrying amounts and fair values of the reclassified notes and bonds on 31 December 2008.

EUR million, 31 Dec 2008	Carrying amount	Fair value	Effective interest rate	Impairments arising from credit risk
Loans and other receivables	361	337	6.9	
Total	**361**	**337**		

The effect of the reclassification on earnings was EUR 0 million and the reclassification improved the fair value reserve before tax by EUR 19 million. The price difference of notes and bonds recognised in the income statement totalled EUR 0.07 million. In 2007, notes and bonds of EUR–0 million were recognised in earnings before tax and the fair value reserve before tax showed EUR–10 million.

If notes and bonds were not reclassified and had been measured using fair values available in the inactive market, earnings before tax for 2008 would have been EUR 0 million lower. The fair value reserve would have been EUR 24 million smaller.

NOTE 24. Investment in associates	31 Dec. 2008	31 Dec. 2007
Investment 1 January	2	8
Disposals		6
Share of profit for the financial year	0	0
Investment 31 December	2	2

NOTE 25. Intangible assets

Changes in intangible assets 31 Dec. 2008	Goodwill	Brands	Customer relationships related to insurance contracts and policy acquisition costs	Other intangible assets	Total
Acquisition cost 1 January	504	179	301	128	1,112
Increases	16			23	39
Decreases	-3			-27	-30
Acquisition cost 1 December	516	179	301	125	1,122
Acc. amortisation and impairments 1 January			-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 December			-75	-57	-132
Carrying amount 31 December	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 were recognised on the income statement under Other operating expenses.

Changes in intangible assets 31 Dec. 2007	Goodwill	Brands	Customer relationships related to insurance contracts and policy acquisition costs	Other intangible assets	Total
Acquisition cost 1 January	494	179	301	121	1,095
Increases	13			16	29
Decreases	-4			-8	-12
Acquisition cost 1 December	504	179	301	129	1,112
Acc. amortisation and impairments 1 January			-28	-47	-75
Amortisation during the financial year			-24	-18	-42
Decreases				4	4
Acc. amortisation and impairments 31 December			-51	-61	-113
Carrying amount 31 December	504	179	250	66	999

Other intangible assets include computer software to the carrying amount of EUR 53 million and EUR 11 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

	31 Dec. 2008	31 Dec. 2007
Goodwill	516	504
Brands	176	179
Total	**693**	**683**

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.

Other most significant intangible assets

	31 Dec. 2008		31 Dec. 2007	
	Carrying amount, EUR million	Remaining amortisation period	Carrying amount, EUR million	Remaining amortisation period
Customer relationships	226	7–10 yrs	250	8–11 yrs
Software	43	2–5 yrs	53	3–5 yrs
Software under development	22		11	

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. The 2 May 2007 decision by the Arbitral Tribunal, appointed by the Central Chamber of Commerce, increased goodwill in 2007 arising from the acquisition of Pohjola Group plc's business, whereas the decision issued by the Helsinki District Court on 22 August 2008 decreased goodwill. More detailed information on the acquisition of Pohjola Finance can be found in Note 3.

Goodwill impairment test

	2008	2007
Non-life Insurance	407	407
Pohjola Asset Management Ltd	97	97
Finance company services	13	
Total	516	504

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 finance company 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.

The testing period for Non-life Insurance and Asset Management was determined to be the entire period of PPA amortisation plus one year free of PPA amortisation, and for finance company services 5 years under IFRS.

The forecasts used in cash flow calculations are based on 2009–2011 strategy figures and post-strategy-period expectations derived from them regarding business developments. Growth in cash flows for post-forecast periods ranged from 2% to 6%.

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 11% to 13%.

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. Major parameters by CGU are:

Non-life Insurance

-Discount rate, combined ratio and net investment income ratio

-An around 3-percentage point growth in combined ratio throughout the testing period, with other parameters remaining unchanged, would entail an impairment risk

-20% decrease in net investment income ratio, with other parameters remaining unchanged, would entail an impairment risk

- The used parameters were the same as in the previous year and the results of the sensitivity analysis did not change significantly.

Asset Management

-Discount rate, an increase in assets under management and in expenses

- Zero-growth in assets under management during the testing period and around 100% growth in expenses, with other parameters remaining unchanged, would entail an impairment risk.

- The used parameters were the same as in the previous year and the results of the sensitivity analysis did not change significantly.

Finance company services

-Discount rate, growth in the loan portfolio and change in return margins

-Around 20-percentage point smaller growth in the loan portfolio throughout the testing period, with other parameters remaining unchanged, would entail an impairment risk

-Around 2-percentage point decrease in return margins throughout the testing period, with other parameters remaining unchanged, would entail an impairment risk

-The Group tested goodwill of finance company services for the first time in 2008.

Impairment testing of brands

Pohjola Bank'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. The same risk premium and the corresponding royalty percentages as in previous years' tests were applied in the test.

For brands, the testing period was set at 5 years, as per IAS 36. For the Seesam brand, the testing period used was 7 years because of the different nature of the Baltic market.

The forecasts used in cash flow calculations are based on 2009–2011 strategy figures and post-strategy-period expectations derived from them regarding business developments. A 2% rate of expected inflation was used as growth in cash flows for periods after the forecast period.

As a result of testing brands for any impairment, an impairment charge of EUR 3 million was recognised 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 amortization over their estimated economic lives. No indications of the need for their impairment recognition have been discovered.

NOTE 26. Property, plant and equipment	31 Dec. 2008	31 Dec. 2007
Property in own use		
Land and water areas	3	3
Buildings	18	14
Total	22	17
Machinery and equipment	5	11
Other tangible assets	6	6
Leased-out assets	95	63
Total property, plant and equipment	**127**	**97**
of which construction in progress	0	0

Changes in property, plant and equipment (PPE)

31 Dec. 2008	Property in own use	Machinery and equipment	Other tangible assets	Leased-out assets	Total PPE
Acquisition cost 1 January	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 December	25	58	7	121	211
Accumulated depreciation and impairments 1 January	-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 December	-4	-53	-1	-27	-84
Carrying amount 31 December	22	5	6	95	127

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.

31 Dec. 2007	Property in own use	Machinery and equipment	Other tangible assets	Leased-out assets	Total PPE
Acquisition cost 31 December	30	86	6	59	181
Increases	2	3		37	43
Decreases	-6	-13		-15	-34
Transfers between items	-6				-6
Acquisition cost 31 December	20	77	6	81	184
Accumulated depreciation and impairments 1 January	-2	-72	0	-12	-86
Depreciation during the financial year	-1	-5	0	-12	-18
Impairments for the financial year	-1				-1
Decreases	0	11		6	17
Accumulated depreciation and impairments 31 December	-3	-66	-1	-18	-87
Carrying amount 31 December	17	11	6	63	97

NOTE 27. Other assets	31 Dec. 2008	31 Dec. 2007
Payment transfer receivables	5	88
Pension assets	38	34
Accrued income and prepaid expenses		
Interest	716	554
Other accrued income and prepaid expenses	13	20
Other	509	394
Total	**1,281**	**1,090**

The item Other includes eg EUR 13 million (233) in accounts receivable from securities EUR 385 million (95) 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	31 Dec. 2008	31 Dec. 2007
Fair value of assets	107	129
Present value of funded obligations (–)	-97	-110
Present value of unfunded obligations	-4	-4
Unrecognised actuarial gains (-) and losses (+)	20	10
Net receivable (+) / liability (–) on the balance sheet	27	24
Assets and liabilities recognised on the balance sheet		
Assets	38	34
Liabilities	10	10
Net assets	**27**	**24**
Plan assets include		
Pohjola Bank plc shares	3	4
Securities issued by companies included in OP-Pohjola Group	10	1
Other receivables from companies included in OP-Pohjola Group	2	2
Property used by OP Bank Group Central Cooperative Consolidated	1	
Total	16	7
Defined benefit pension costs on the income statement		
Current service cost	3	3
Interest cost	6	5
Expected return on plan assets	-8	-7
Actuarial gains and losses	0	
Total income (–)/expenses (+) included in personnel costs	**1**	**0**
Actual return on plan assets	**-20**	**3**

The expected long-term return on plan assets within the pension schemes is based on the market return on high-grade corporate bonds plus risk premium.

Changes in present value of obligation	**31 Dec. 2008**	**31 Dec. 2007**
Present value of obligation 1 January	114	104
Current service cost	3	3
Interest cost	6	5
Actuarial gains and losses	-17	7
Benefits paid	-4	-3
Change in division ratio	-2	-4
Return on TyEL interest rate difference and growth in old-age pension liabilities (net)	0	1
Present value of obligation 31 December	**101**	**114**

Changes in fair value of assets	**31 Dec. 2008**	**31 Dec. 2007**
Fair value of assets 1 January	129	130
Expected return on plan assets	8	7
Actuarial gains and losses	-28	-4
Employer contributions	4	2
Benefits paid	-4	-3
Change in division ratio	-2	-5
Return on TyEL interest rate difference and growth in old-age pension liabilities (net)	0	1
Fair value of assets 31 December	**107**	**129**

Contributions payable to the defined benefit plan in 2009 are estimated at EUR 3 million.

Proportion of most important asset groups of total fair value of plan assets, %	**31 Dec. 2008**	**31 Dec. 2007**
Shares and participations	19	32
Notes and bonds	41	39
Property	26	20
Other assets	14	10

Principal actuarial assumptions used	**2008**	**2007**
Discount rate, %	5.70	5.00
Expected long-term return on plan assets, %	6.00-7.90	6.19-6.72
Assumed future salary increases, %	3.50	3.50-4.00
Future pension increases, %	2.00-2.40	2.00-2.70
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	**31 Dec. 2008**	**31 Dec. 2007**	**31 Dec. 2006**	**31 Dec. 2005**
Present value of obligation	101	114	104	92
Fair value of assets	-106	-129	-130	-119
Surplus or deficit	**-6**	**-15**	**-26**	**-27**
Experience adjustments on liabilities	-5	3	3	2
Experience adjustments on assets	-28	-4	2	5

NOTE 28. Tax assets	31 Dec. 2008	31 Dec. 2007
Income tax assets	30	8
Deferred tax assets	67	10
Total tax assets	**98**	**18**

Breakdown of tax assets and liabilities	31 Dec. 2008	31 Dec. 2007
Deferred tax assets		
Due to available-for-sale financial assets	8	1
Due to depreciation and impairment losses on PPE	0	3
Due to provisions and impairment losses on loans	2	2
Due to liquidation losses	0	
Due to consolidated eliminations	2	2
Due to unused tax credits	46	
Due to other items	9	3
Total	**67**	**10**
Deferred tax assets		
Due to appropriations	126	117
Due to available-for-sale financial assets	-50	12
Due to elimination of equalisation provision	93	83
Due to deferral of pension liability	9	8
Due to fair value measurement of investment	78	19
Due to allocation of sale price of business combinations	108	116
Due to other items	4	2
Total	**367**	**357**

Changes in deferred taxes	31 Dec. 2008	31 Dec. 2007
Deferred tax assets/liabilities 1 January	-347	-338
Recognised on the income statement		
Intra-Group capital gains on business combinations	3	10
Effect of losses	46	
Provisions and impairments on receivables	0	-1
Appropriations	-9	-18
Depreciation/amortisation and impairments	8	7
Elimination of equalisation provision	-9	-11
Fair value changes in and sale of investments	-59	
Other	2	-9
Recognised in shareholders' equity		
Available-for-sale financial assets		
Changes in fair value	61	3
Transfers to the income statement	5	12
Other	0	
Total deferred tax assets/liabilities 31 December	**-299**	**-347**
Income tax assets/liabilities	**29**	**-6**
Total tax assets/liabilities	**-270**	**-353**

Tax losses for which a deferred tax asset was not recognised came to EUR 4 million (1) at the end of 2008. The losses will expire before 2018.

A deferred tax liability has not been recognised for the EUR 22 million (17) of undistributed profits of the Baltic subsidiaries, since the assets have been permanently invested in these countries.

NOTE 29. Liabilities to financial institutions	**31 Dec. 2008**	**31 Dec. 2007**
Liabilities to central banks	101	110
Liabilities to financial institutions		
Repayable on demand		
Deposits	674	534
Total	674	534
Other than repayable on demand		
Deposits	2,868	2,095
Other liabilities	0	0
Total	2,868	2,095
Total liabilities to financial institutions and central banks	**3,643**	**2,739**

NOTE 30. Financial liabilities at fair value through profit or loss	**31 Dec. 2008**	**31 Dec. 2007**
Financial liabilities held for trading		
Repo liabilities	131	
Short selling of securities	8	52
Total	138	52
Total financial liabilities at fair value through profit or loss	**138**	**52**

NOTE 31. Derivative contracts	**31 Dec. 2008**	**31 Dec. 2007**
Held for trading		
Interest rate derivatives	1,383	480
Currency derivatives	82	7
Equity and index derivatives	46	6
Credit derivatives	21	1
Other	2	
Total	1,532	494
Hedging derivative contracts – fair value hedging		
Interest rate derivatives	98	41
Currency derivatives	13	13
Total	111	54
Total derivative contracts	**1,644**	**548**

The derivative contracts balance-sheet item includes negative changes in fair value and premiums received.

NOTE 32. Liabilities to customers

	31 Dec. 2008	31 Dec. 2007
Deposits		
Repayable on demand		
Private	2	2
Companies and public corporations	1,184	890
Total	1,186	892
Other		
Private	1	9
Companies and public corporations	311	0
Total	312	9
Other financial liabilities		
Repayable on demand		
Private	0	0
Total	0	0
Other		
Companies and public corporations	2,010	1,836
Total	2,010	1,836
Total liabilities to customers	**3,508**	**2,738**

NOTE 33. Non-life Insurance liabilities

	31 Dec. 2008	31 Dec. 2007
Insurance contract liabilities	2,115	2,017
Provision for joint guarantee system	39	38
Direct insurance liabilities	74	71
Reinsurance liabilities	9	15
Derivative contracts		0
Total Non-life Insurance liabilities	**2,238**	**2,140**

Non-life Insurance contract liabilities and reinsurers' share

	31 Dec. 2008			31 Dec. 2007		
EUR million	**Gross**	**Reinsurers' share**	**Net**	**Gross**	**Reinsurers' share**	**Net**
Provision for unpaid claims for annuities	1,026	-3	1,023	1,010		1,010
Other provisions by case	160	-57	103	136	-34	102
Special provision for occupational diseases	37		37	41		41
Collective liability (IBNR)	494	-5	489	463	-5	458
Reserved loss adjustment expenses	53		53	50		50
Provision for unearned premiums	344	-21	323	315	-22	293
Provision for unexpired risks	1		1	2		2
Total Non-life Insurance contract liabilities	2,115	-87	2,028	2,017	-61	1,956

Changes in insurance contract liabilities and reinsurance contract receivables

EUR million	2008 Gross	2008 Reinsurance	2008 Net	2007 Gross	2007 Reinsurance	2007 Net
Provision for unpaid claims						
Provision for known unpaid claims	1,236	-34	1,202	1,219	-45	1,174
Collective liability (IBNR)	463	-5	458	464	-6	458
Liability/reinsurers' share 1 January	1,699	-39	1,660	1,683	-51	1,632
Claims paid in financial year	-654	14	-640	-603	14	-588
Change in liability/receivable	684	-41	643	593	-10	583
Current period claims	707	-50	656	665	-3	661
Increase (decrease) from previous financial years	-23	9	-13	-27	-6	-33
Change in discount rate				-28		-28
Other change in reserving basis				-17		-17
Unwinding of discount	41		41	38		38
Liabilities related to sold assets	1		1	-12	7	-5
Foreign exchange gains (losses)	-1		-1			
Liability/reinsurers' share 31 December	1,770	-66	1,704	1,699	-39	1,660
Case-specific provision for unpaid claims	1,276	-61	1,215	1,236	-34	1,202
Collective liability (IBNR)	494	-5	489	463	-5	458
Liability/reinsurers' share 31 December	1,770	-66	1,704	1,699	-39	1,660
Provision for unearned premiums						
Liability/reinsurers' share 1 January	315	-22	293	285	-31	254
Increase	319	-4	315	264	-9	255
Decrease	-294	5	-289	-226	11	-215
Exchange rate gains (losses)	0		0			
Change in discount rate				-1		-1
Other change in reserving basis				4		4
Liabilities related to sold assets	2		2	-12	7	-5
Unwinding of discount	1		1	1		1
Liability/reinsurers' share 31 December	344	-21	323	315	-22	293
Provision for unexpired risks						
Liability/reinsurers' share 1 January	2		2	0		0
Increase				2		2
Decrease	-1		-1			
Liability/reinsurers' share 31 December	1		1	2		2
Total Non-life Insurance contract liabilities	**2,115**	**-87**	**2,028**	**2,017**	**-61**	**1,956**

The provision for unearned premiums represents obligation relating to insurance cover which has not yet expired at the year-end. The provision for unexpired risks relates 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.

For corporate insurance contracts, the provision for unearned premiums has been determined by contract in accordance with the pro rata parte temporis rule. The same rule has also been applied to private customers' insurance contracts, but this has been technically carried out by 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 2008, the discount rate used was 3.5% (2007: 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, most of which arise from occupational diseases coverable under statutory workers' compensation insurance. The forecasted cash flow of these claims is based on an analysis carried out in 2001, 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

The Group did not make any changes in the determination of contract liabilities in 2008.

Effect of changes in methods and assumptions on amount of liability	**2008**	**2007**
EUR million (increase +/decrease - in liability)		
Change in discount rate		-29
Change in reserving basis of collective liability		-17
Adjustment to calculation of unearned premium provision		4
Total		-42

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	Total
Estimated total claims expenditure						
At end of occurrence year	523	540	603	638	707	3,010
1 year later	528	540	611	633		
2 years later	521	535	591			
3 years later	515	529				
4 years later	518					
Current estimate of accumulated claims expenditure	518	529	591	633	707	2,977
Accumulated claims paid	-473	-478	-495	-484	-344	-2,273
Provision for unpaid claims for 2004–2008	45	51	96	148	363	703
Provision for unpaid claims for previous years						270

Development of asbestos claims (EUR million)

Financial year	Collective liability	Known liabilities for annuities	Claims paid	Claims incurred	Changes in reserving basis*	Adequacy
2004	39	32	-3	-4	2	-3
2005	35	32	-3	1	1	2
2006	32	33	-3	-1		-1
2007	28	33	-4	0	-1	-1
2008	28	34	-3	-4		-4

* Changes in the mortality basis and the discount rate during 2005–08.

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

* Effect of changes in the discount rate on final annuity capital.

Claims triangles, net business (EUR million)

	Occurrence year					
	2004	**2005**	**2006**	**2007**	**2008**	**Total**
Estimated total claims expenditure						
At end of occurrence year	504	511	580	621	656	2,873
1 year later	510	519	593	623		
2 years later	503	509	575			
3 years later	500	509				
4 years later	499					
Current estimate of accumulated claims expenditure	499	509	575	623	656	2,863
Accumulated claims paid	-457	-464	-479	-480	-343	-2,223
Provision for unpaid claims for 2004–2008	42	45	96	144	314	640
Provision for unpaid claims for previous years						267

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 2008, liabilities related to claims administration contracts totalled EUR 47 million (48).

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 34. Debt securities issued to the public

EUR million	Average interest rate, %	31 Dec. 2008	Average interest rate, %	31 Dec. 2007
Bonds	3.6	6,432	4.6	7,249
Other				
Certificates of deposit	4.6	5,349	4.7	2,987
Commercial paper holdings	3.3	4,684	4.6	2,653
Other	0.8	208	1.2	109
Included in own portfolio in trading (–)		-247		-143
Total debt securities issued to the public		**16,425**		**12,856**

Long-term loans and interest rate linkages	Nominal amount	Interest rate	Maturity
OKO Osuuspankkien Keskuspankki Oyj ("OKO Bank") Issue of AUD 22,000,000 Floating Rate Instruments Due 18 February 2009	10.9	3 mth BBSW LIBOR + 0.17%	18 Feb. 2009
OKO Bank Plc ("OKO Bank" or The "Issuer") Issue of EUR 125,000,000 Frn Due May 2009	125.0	3 mth Euribor %	25 May 2009
OKO Osuuspankkien Keskuspankki Oyj ("OKO Bank") Issue of EUR 600,000,000 Floating Rate Instruments Due March 2009	600.0	3 mth Euribor + 0.10%	18 March 2009
OKO Osuuspankkien Keskuspankki Oyj ("OKO Bank") Issue of NOK 400,000,000 5.2 % Fixed Rate Notes Due June 2014	41.0	5.2%	16 June 2014
OKO Osuuspankkien Keskuspankki Oyj ("OKO Bank") Issue of SEK 150,000,000 4.11 % Notes Due 22 October 2009	13.8	4.11%	22 Oct. 2009
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 Osuuspankkien Keskuspankki Oyj ("OKO Bank") Issue of U.S.$ 500,000,000 Floating Rate Instruments Due November 2009	359.3	3 mth US dollar LIBOR + 0.075%	18 Nov. 2009
OKO Osuuspankkien Keskuspankki Oyj ("OKO BANK") Issue of NOK 1,000,000,000 Fixed Rate Notes Due 15 February 2016	102.6	Fixed 4.185%	15 Feb. 2016
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 ("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 50,000,000 5 Year Floating Rate Instruments Due March 2011	50.0	EUB3M +0.07	8 March 2011
OKO Osuuspankkien Keskuspankki Oyj ("OKO BANK") Issue of EUR 100,000,000 Floating Rate Instruments Due 3 April 2009	100.0	EUB3M +0.04	3 April 2009
OKO Bank Plc ("OKO Bank") Issue of EUR 100,000,000 Floating Rate Notes Due January 2009	100.0	EUB6M +0.02	15 Jan. 2009
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 Bank Plc ("OKO BANK") Issue of EUR 750,000,000 Floating Rate Instruments Due June 2011	750.0	EUB3M +0.08	21 June 2011
OKO Bank Plc ("OKO BANK") Issue of EUR 75,000,000 Floating Rate Notes Due March 2009	75.0	EUB3M +0.02	6 March 2009
Pohjola Bank Plc ("OKO BANK") Issue of EUR 30,000,000 Extendible Floating Rate Instruments May 2009	30.0	EUB1M +0.03	11 May 2009
Pohjola Bank Plc ("OKO BANK") Issue of EUR 30,000,000 Extendible Floating Rate Instruments July 2009	30.0	EUB1M +0.03	10 July 2009
Pohjola Bank Plc ("OKO BANK") Issue of EUR 120,000,000 Extendible Floating Rate Instruments August 2009	30.0	EUB1M +0.03	11 Aug. 2009
Pohjola Bank Plc ("OKO BANK") Issue of EUR 10,000,000 Extendible Floating Rate Instruments November 2009	10.0	EUB1M +0.04	11 Nov. 2009

OKO Bank Plc ("OKO BANK") Issue of CHF 250,000,000 Floating Rate Notes Due November 2009	168.4	CHL3M +0.0000	2 Nov. 2009
OKO Bank Plc ("OKO Bank" Or The "Issuer") Issue of 2.995% Fixed Rate CHF 50.000.000 Due March 2009	33.7	Fixed 2.995%	20 March 2009
OKO Bank Plc ("OKO BANK" or The "ISSUER") Issue of GBP 350,000,000 Floating Rate Notes Due 21 November 2011	367.5	3 mth GBP libor +0.05	21 Nov. 2011
OKO Bank Plc ("OKO Bank" or The "Issuer") Issue of JPY 10.000,000,000 Fixed Rate Instruments Due 20 January 2009	79.3	Fixed 0.05%	20 Jan. 2009
OKO Bank Plc ("OKO Bank" or The "Issuer") Issue of EUR 50.000.000.00 Flouting Rate Instruments Due February 2010	50.0	Fixed 0.05%	
Pohjola 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+30bp	10 March 2011
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
JPY 8,000,000,000 Term Loan Facility	63.4	0.85%	9 July 2012
JPY 2,000,000,000 Term Loan Facility	15.9	1.706%	30 Nov. 2015
JPY 5,000,000,000 Term Loan Facility	39.6	1.41%	7 Sept. 2012
JPY 3,000,000,000 Term Loan Facility	23.8	1.645%	17 Nov. 2014

The interest rate is the rate according to the issue currency. The euro equivalents have been calculated using the average rate of the European Central Bank on the balance sheet date. In addition, the nominal amount of structured bonds issued by Pohjola Bank was EUR 520 million (465). 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 35. Provisions and other liabilities	**31 Dec. 2008**	**31 Dec. 2007**
Provisions	0	1
Other liabilities		
Payment transfer liabilities	360	481
Accrued expenses		
Interest payable	638	521
Other accrued expenses	69	61
Other	454	595
Total	1,521	1,659
Total provisions and other liabilities	**1,522**	**1,659**

The item Other under Other liabilities consists eg of EUR 22 million (288) in accounts payable on securities, EUR 263 million (228) in liabilities for equities and derivative contracts and EUR 10 million (10) in pension liabilities.

Changes in provisions

	Onerous contracts	**Other provisions**	**Total**
1 Jan. 2008	1		1
Increase in provisions	0		0
Provisions used	-1		-1
31 Dec. 2008	0		0

Onerous contracts
The Group has a number of non-cancellable lease contracts on facilities which the Group can no longer utilise in its operations. The Group has been able to sublease some of the facilities, but rental income from the leases does not cover rental expenses paid by the Group. The provision for onerous contracts fully covers the net loss from these contracts and the rental liability of other contracts.

NOTE 36. Tax liabilities	**31 Dec. 2008**	**31 Dec. 2007**
Income tax liabilities	1	14
Deferred tax liabilities	367	357
Total tax liabilities	**368**	**371**

A specification of deferred tax liabilities can be found in Note 28.

NOTE 37. Subordinated liabilities

	Average interest rate, %	**31 Dec. 2008**	**Average interest rate, %**	**31 Dec. 2007**
Subordinated loans	5.1	310	4.8	193
Other				
Perpetual loans	5.0	255	5.1	286
Debentures	3.8	757	4.7	471
Total subordinated liabilities		**1,322**		**950**

Subordinated loans

Subordinated loans included in Tier 1

1) Subordinated loan of 10 billion Japanese yen (equivalent of EUR 79 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 –1.6 million in change in fair value recognised for hedging (–17.8).

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 Supervision 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 Supervision 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 Supervision 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 Supervision 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 Supervision Authority. The loan carries an interest based on 3-month USD Libor + 20 bps.
6. A debenture loan of EUR 170 million which can be called in at the earliest in 2013, subject to authorisation by the Financial Supervision Authority. The loan carries a variable interest based on 3-month Euribor + 1.90% until 2013 and subsequently a 3-month Euribor +1.50%.
7. A debenture loan of EUR 100 million which can be called in at the earliest in 2013, subject to authorisation by the Financial Supervision 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 34.1 million (25.1) on 31 December 2008.

Issue date	Carrying amount, EUR million	Interest rate, %	Due date
4 June 2003	5.3	3.4 %	4 June 2009
19 November 2003	6.8	3.9 %	19 November 2009
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	3.5	4.1 %	3 March 2013

Pohjola Bank 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 (0.2).

NOTE 38. Shareholders' equity	**31 Dec. 2008**	**31 Dec. 2007**
Capital and reserves attributable to equity holders 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	-180	7
Other restricted reserves	1	1
Non-restricted reserves		
Other non-restricted reserves	72	27
Retained earnings		
Profit (loss) for previous periods	508	473
Profit (loss) for the period	88	212
Capital and reserves attributable to equity holders of the Parent	**1,640**	**1,869**
Minority interest	**0**	**0**
Total shareholders' equity	**1,640**	**1,869**

	Number of shares		Share	Share premium	Treasury	
	Series A	Series K	capital	account	shares	Total
1 January 2007	159,564,128	43,981,352	428	519		946
Conversion of shares	194,580	-194,580				
31 December 2007	159,564,128	43,786,772	428	519		946
31 December 2008	159,564,128	43,786,772	428	519		946

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 2.10 (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 or its subsidiaries or associates did not hold Pohjola Bank treasury shares. The General Meeting has not authorised Pohjola Bank to purchase treasury shares.

Proposed distribution of dividend

The Board of Directors will propose to the Annual General Meeting that a dividend of EUR 0.23 (0.65) be distributed on each Series A share and EUR 0.20 (0.62) on each Series K share, totalling EUR 45 million (131).

Reserves

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.

Other restricted reserves

These reserves consist of retained earnings based on the Articles of Association or rules which describe their purpose.

Translation differences

Translation differences include translation differences arising from the conversion of foreign subsidiaries' financial statements.

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 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 deals with risk management and capital adequacy management principles. Information on risk exposure by Banking and the Group Functions can be found in Notes 39–70 and that by Non-life Insurance in Notes 71–82.

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 39. Assets and impairment losses recognised on them for the financial year

	31 Dec. 2008		31 Dec. 2007	
EUR million	**Balance sheet value**	**Impair-ment losses**	**Balance sheet value**	**Impair-ment losses**
Cash and cash equivalents	2,260		448	
Receivables from financial institutions	6,644		5,217	
Financial assets at fair value through profit or loss				
Notes and bonds	3,255		4,701	
Shares and participations	0		0	
Derivative contracts				
Held for trading	1,443		496	
Hedging	43		32	
Loans and other receivables				
Loans granted	9,018	23	6,867	19
Bonds and notes	709	9		
Finance lease receivables	593		452	
Guarantee receivables	4		0	1
Other receivables	1,963		1,969	
Available-for-sale financial assets				
Notes and bonds	68		618	
Shares and participations	84		82	
Held-to-maturity financial assets				
Notes and bonds	1,103			
Off-balance-sheet commitments				
Bank guarantees	1,071		531	
Total	**28,260**	**32**	**21,414**	**20**

NOTE 40. Impairments by risk type	**31 Dec. 2008**	**31 Dec. 2007**
Based on credit risk	32	20
Total	**32**	**20**

NOTE 41. Exposure

31 Dec. 2008	Finland Balance sheet value	Finland Impair-ments	Finland Accrued interest	Other countries Balance sheet value	Other countries Impair-ments	Other countries Accrued interest
Assets						
Receivables from financial 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**

31 Dec. 2007	Finland Balance sheet value	Finland Impair-ments	Finland Accrued interest	Other countries Balance sheet value	Other countries Impair-ments	Other countries Accrued interest
Assets						
Receivables from financial institutions	4,955		21	262		2
Receivables from customers	8,258	20	62	577		3
Finance leases	452			0		
Notes and bonds	2,558		14	2,761		25
Other	8		0	118		
Total	**16,232**	**20**	**98**	**3,718**		**29**
Off-balance-sheet commitments						
Unused standby credit facilities	3,385			71		
Guarantees and letters of credit	1,875			330		
Derivative contracts	59			456		
Other	110			396		
Total	**5,429**			**1,253**		
Total exposure	**21,661**	**20**	**98**	**4,971**		**29**

The tables show the recognised positive market value of derivative contracts.

NOTE 42. Exposure by sector

31 Dec. 2008	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 corporations	874	276	57		1,207
Total	**18,435**	**5,525**	**5,799**	**2,064**	**31,823**

31 Dec. 2007	Balance sheet values Finnish	Foreign	Off-balance-sheet Finnish	Foreign	Total
Non-banking corporate sector	8,001	371	5,020	280	13,671
Financial institutions and insurance companies	6,596	3,283	337	972	11,188
Households	731	2	17	1	752
Non-profit organisations	204	0	15		219
Public corporations	798	91	40		929
Total	**16,330**	**3,747**	**5,429**	**1,253**	**26,759**

The balance sheet values are accounting balances including impairments and accrued interest income.

NOTE 43. Receivables from credit institutions and customers, and doubtful receivables

31 Dec. 2008	Not impaired (gross)	Impaired (gross)	Total	Total impair-ments	Balance sheet value
Receivables from credit institutions and custom					
Receivables from financial 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 corporations	371		371		371
Total	**18,891**	**64**	**18,955**	**32**	**18,923**

31 Dec. 2007	Not impaired (gross)	Impaired (gross)	Total	Total impair-ments	Balance sheet value
Receivables from credit institutions and custom					
Receivables from financial institutions	5,217		5,217		5,217
Receivables from customers, of which	8,828	27	8,855	20	8,836
Bank guarantee receivables	0	1	1	1	0
Finance leases	452		452		452
Overdrafts	8		8		8
Total	**14,506**	**27**	**14,533**	**20**	**14,513**
Receivables from credit institutions and customers by sector					
Non-banking corporate sector	7,731	27	7,758	17	7,741
Financial institutions and insurance companies	5,442		5,442		5,442
Households	735		735	2	733
Non-profit organisations	201	0	202	0	202
Public corporations	395		395		395
Total	**14,506**	**27**	**14,533**	**20**	**14,513**

31 Dec. 2008	Not impaired (gross)	Impaired (gross)	Total	Arrears	Impair-ments
Doubtful receivables					
Receivables from financial 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 corporations	1		1	0	
Total	**47**	**64**	**111**	**32**	**32**

31 Dec. 2007	Not impaired (gross)	Impaired (gross)	Total	Arrears	Impair-ments
Doubtful receivables					
Receivables from customers, of which	16	29	45	16	20
Bank guarantee receivables	0	1	1	0	1
Finance leases	1		1	1	
Overdrafts	8		8		
Total	**25**	**29**	**54**	**17**	**20**
Doubtful receivables by sector					
Non-banking corporate sector	8	28	36	13	17
Financial institutions and insurance companies	8		8	0	
Households	9		9	4	2
Non-profit organisations	0	0	0	0	0
Public corporations			0	0	
Total	**25**	**29**	**54**	**17**	**20**

31 Dec. 2008	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

31 Dec. 2007	Total portfolio	Impair-ments	Balance sheet value
Doubtful receivables			
Non-performing	24	8	15
Zero-interest	2	2	1
Underpriced	2	1	0
Other	26	8	18

Past due but not impaired financial assets by maturity

		Days	
31 Dec. 2008	30–90	Over 90–180	Over 180
Past due but not impaired loans and receivables	62	16	20

		Days	
31 Dec. 2007	30–90	Over 90–180	Over 180
Past due but not impaired loans and receivables	53	8	11

NOTE 44. Credit losses and impairments

Credit losses and impairments*

EUR million	2002	2003	2004	2005	2006	2007	2008
impairments	3	5	4	8	7	11	37
Reversals	-6	-3	-3	-5	-6	-10	-9
Net credit losses and impairments	-3	2	1	3	1	1	28

*The share of Retail Banking sold in 2005 is eliminated from the 2001–05 figures.

A total of EUR 37 million (11) 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 9 million (10). The net impact of credit and guarantee losses and impairments on profit came to EUR 28 million (1).

In 2008, credit and guarantee losses and impairments accounted for 0.15% (0.01) of the credit and guarantee portfolio.

NOTE 45. Corporate exposure by sector

	Net exposure			
31 Dec. 2008	Balance sheet	Off-balance-sheet	Total	Percentage distribution
Trade	1,272	619	1,891	11.7
Metal industry	638	1,214	1,852	11.4
Lease and management of flats	1,380	53	1,432	8.8
Other industry	766	578	1,344	8.3
Lease and management of other real property	975	271	1,246	7.7
Services	825	411	1,236	7.6
Other sectors	846	389	1,235	7.6
Transport and traffic	562	465	1,027	6.3
Construction	436	609	1,045	6.4
Forest industry	624	338	962	5.9
Energy production	459	444	903	5.6
Property investment	606	39	645	4.0
Food industry	386	204	590	3.6
Telecommunications and electronics	182	152	333	2.1
Communications and publishing	217	63	280	1.7
Housing corporations	165	40	206	1.3
Total	**10,338**	**5,890**	**16,227**	**100.0**

31 Dec. 2007	Net exposure Balance sheet	Off-balance-sheet	Total	Percentage distribution
Trade	1,077	661	1,738	12.7
Metal industry	591	1,029	1,620	11.8
Lease and management of flats	1,237	112	1,349	9.9
Other sectors	806	161	967	7.1
Construction	387	555	943	6.9
Forest industry	548	384	931	6.8
Other industry	429	442	871	6.4
Services	603	255	858	6.3
Transport and traffic	390	452	842	6.2
Lease and management of other real property	651	176	827	6.0
Energy production	358	434	792	5.8
Food industry	320	268	587	4.3
Property investment	492	82	575	4.2
Telecommunications and electronics	148	220	367	2.7
Housing corporations	231	5	236	1.7
Communications and publishing	103	65	168	1.2
Total	**8,371**	**5,300**	**13,671**	**100.0**

NOTE 46. Corporate exposure by rating category

	31 Dec. 2008		31 Dec. 2007	
Rating	Net exposure	%	Net exposure	%
1–2	597	3.7	702	5.1
3–4	4,813	29.7	6,679	48.9
5–6	6,853	42.2	2,816	20.6
7–8	2,921	18.0	2,873	21.0
9–10	447	2.8	313	2.3
11–12	103	0.6	66	0.5
Non-rated	495	3.0	222	1.6
Total	**16,227**	**100.0**	**13,671**	**100.0**

NOTE 47. Corporate exposure by the amount of customer’s exposure

31 Dec. 2008

Amount of net exposure, EUR million	Finland	Other countries	Total	%
0–1	1,078	117	1,195	7.4
1–10	2,275	236	2,512	15.5
10–50	4,015	493	4,507	27.8
50–100	3,030	64	3,094	19.1
Over 100	4,919		4,919	30.3
Total	**15,318**	**910**	**16,227**	**100.0**

31 Dec. 2007

Amount of net exposure, EUR million	Finland	Other countries	Total	%
0–1	976	31	1,007	7.4
1–10	2,163	197	2,361	17.3
10–50	3,588	360	3,948	28.9
50–100	2,383	63	2,445	17.9
Over 100	3,910		3,910	28.6
Total	**13,021**	**651**	**13,671**	**100.0**

NOTE 48. Liabilities of financial institutions and insurance companies by rating category

	31 Dec. 2008		31 Dec. 2007	
Credit rating, consistent with Moody's *)	Net liabilities	%	Net liabilities	%
Aaa	1,843	13.3	1,831	16.4
Aa1 - Aa3	10,257	74.1	7,935	70.9
A1 - A3	1,042	7.5	835	7.5
Baa1 - Baa3	374	2.7	202	1.8
Ba1 - Ba3	75	0.5	230	2.1
B1 - B3	111	0.8	82	0.7
Caa1 or lower	2	0.0		0.0
Non-rated	141	1.0	73	0.7
Total	**13,845**	**100.0**	**11,188**	**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 49. Secondary country risk by country risk category, excl. Finland

		31 Dec. 2008		31 Dec. 2007	
Country risk	Moody's equivalent	Net exposure	%	Net exposure	%
Category 1	Aaa	6,798	89.9	4,462	89.8
Category 2	Aa1–A3	361	4.8	210	4.2
Category 3	Baa1–Baa3	184	2.4	186	3.8
Category 4	Ba1–B3	218	2.9	108	2.2
Category 5	Caa1–C	0	0.0	0	0.0
Total		**7,561**	**100.0**	**4,967**	**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 50. Collateral received by type of collateral

EUR million	31 Dec. 2008	%	31 Dec. 2007	%
Object of financing as collateral	1,546	29.2	1,454	31.1
Public-sector guarantees	1,447	27.3	1,282	27.4
Property or lease mortgage on office or industrial property	986	18.6	781	16.7
Property or lease mortgage on residential property	267	5.0	251	5.4
Shares in housing corporations, and housing associations and property companies in residential use	264	5.0	219	4.7
Business mortgage	256	4.8	216	4.6
Shares and participations, other	221	4.2	189	4.1
Other collateral	145	2.7	140	3.0
Factoring	99	1.9	95	2.0
Bank guarantee	64	1.2	46	1.0
Total	**5,297**	**100.0**	**4,674**	**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 51. Funding structure

	31 Dec. 2008	%	31 Dec. 2007	%
Liabilities to financial institutions	3,643	12.9	2,739	12.0
Financial liabilities at fair value through profit or loss	138	0.5	52	0.2
Liabilities to customers				
Deposits	1,498	5.3	902	3.9
Other	2,010	7.1	1,837	8.0
Debt securities issued to the public				
Certificates of deposit and ECPs	10,033	35.6	5,640	24.7
Bonds	6,392	22.7	7,216	31.6
Other liabilities	1,521	5.4	1,659	7.3
Subordinated liabilities	1,322	4.7	950	4.2
Shareholders' equity	1,640	5.8	1,869	8.2
Total	**28,198**	**100.0**	**22,862**	**100.0**

NOTE 52. Maturity of assets and liabilities by residual term to maturity

31 Dec. 2008	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 financial 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 financial institutions	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**

31 Dec. 2007	Less than 3 months	3–12 months	1–5 years	5–10 years	More than 10 years	Total
Liquid assets	448					448
Financial assets at fair value through profit or loss						
Notes and bonds	1,077	752	1,907	965	0	4,701
Receivables from financial institutions	1,472	1,769	1,588	365	22	5,217
Receivables from customers	1,517	1,282	3,586	1,613	1,291	9,288
Available-for-sale financial assets						
Notes and bonds	16	78	370	154		618
Total assets	**4,529**	**3,881**	**7,451**	**3,097**	**1,313**	**20,271**
Liabilities to financial institutions	2,567	124	32	16		2,739
Financial liabilities at fair value through profit or loss	52					52
Liabilities to customers	2,179	8	9	270	273	2,738
Debt securities issued to the public	5,633	2,028	4,912	283		12,856
Subordinated liabilities			757	108	85	950
Total liabilities	**10,431**	**2,160**	**5,709**	**676**	**358**	**19,334**

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 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 1.9 billion (1.4).

NOTE 53. Liquidity reserves

In order to secure OP-Pohjola Group's liquidity, Pohjola maintains liquidity reserves, with the targeted amount accounting for around 8% of the banking business balance sheet of OP-Pohjola Group.

EUR million	31 Dec. 2008	31 Dec. 2007
Cash and cash equivalents	2,258	446
Short-term notes and bonds	2,191	1,581
Long-term notes and bonds		
Financial assets held for trading	1,269	638
Financial assets at fair value through profit or loss	43	2,481
Available-for-sale financial assets	56	603
Held-to-maturity financial assets	1,103	
Loans and other receivables	2,916	
Total liquidity reserves	**9,835**	**5,749**

Liquidity reserves by maturity and credit rating on 31 December 2008, EUR million

Year(s)	0–1	1–3	3–5	5–7	7–10	10–	Total	Proportion
Aaa	2,564	724	707	287	385	180	4,847	49.3 %
Aa1 - Aa3	2,140	937	370	109	17	2	3,576	36.4 %
A1 - A3	188	169	211		55		622	6.3 %
Baa1 - Baa3	314	66	19	3			402	4.1 %
Ba1 or lower		1		19			20	0.2 %
Internally rated	31	159	146	21	11		368	3.7 %
Total	**5,237**	**2,056**	**1,454**	**439**	**468**	**182**	**9,835**	**100.0 %**

The average remaining maturity of liquidity reserves is 2.4 years.

Based on OP-Pohjola Group's internal rating, Internally rated financial assets consist mainly of notes and bonds issued by Finnish companies and institutions.

NOTE 54. Maturities of assets and liabilities by maturity or repricing

31 Dec. 2008	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 financial 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 financial 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.

31 Dec. 2007	1 month or less	>1–3 months	>3–12 months	>1–2 years	>2–5 years	>5 years	Total
Cash and cash equivalents	448						448
Financial assets at fair value through profit or loss							
Notes and bonds	760	2,276	808	182	335	340	4,701
Receivables from financial institutions	1,384	1,419	2,174	85	103	51	5,217
Receivables from customers	2,593	2,481	2,547	349	610	707	9,288
Available-for-sale financial assets							
Notes and bonds	163	255	30		124	46	618
Total assets	**5,349**	**6,432**	**5,559**	**616**	**1,172**	**1,144**	**20,271**
Liabilities to financial institutions	2,349	218	124	10	22	16	2,739
Financial liabilities at fair value through profit or loss	52						52
Liabilities to customers	2,178	553	7	0	0		2,738
Debt securities issued to the public	2,809	7,854	1,581	122	236	253	12,856
Subordinated liabilities		453	50	12	374	61	950
Total liabilities	**7,388**	**9,077**	**1,763**	**145**	**632**	**329**	**19,334**

Debt repayable on demand totalled EUR 1.4 billion, consisting mainly of public deposits.

NOTE 55. Sensitivity analysis of market risk

On 31 December 2008, market risks accounted for 4% (5) of the risk-weighted assets).

EUR million	Risk parameter	Change	31 Dec. 2008	31 Dec. 2007
Interest-rate risk	Interest rate	1 percentage point	16	18
Currency risk	Market value	20 percentage points	4	1
Volatility risk				
Interest rate volatility	Volatility	20 percentage points	1	2
Currency volatility	Volatility	10 percentage points	2	1
Credit risk premium *	Credit risk margin	0.1 percentage point	4	11
Price risk				
Equity portfolio	Market value	20 percentage points	2	3
Private equity funds	Market value	20 percentage points	7	6
Real estate risk	Market value	10 percentage points	2	3

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

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

NOTE 56. Equity risk

On 31 December 2008, the market value of equity and venture capital funds totalled EUR 43 million (44), of which the equity portfolio represented EUR 8 million (14) and the venture capital funds including their investment commitments EUR 34 million (30). The three proportionally largest sectors in the equity portfolio were as follows: basic industry 24%, information technology 25% and industrial products and services 21%.

Investments in venture capital funds totalled EUR 17 million (16) and binding unexecuted investment commitments EUR 18 million (14).

NOTE 57. Real estate risk

On 31 December 2008, capital invested in property holdings amounted to EUR 29 million (27), with properties in own use representing EUR 3 million (3). In addition, holdings in property investment companies totalled EUR 2 million (10).

In 2008, 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 22 and Note 26 (Property in own use) provide detailed information on changes in investment property during the financial year.

NOTE 58. Capital resources

EUR million	31 Dec. 2008
Tier 1 capital	
Paid-up equity capital	428
Other reserves	747
Retained earnings	382
Minority interest	0
Profit for the financial year	42
Hybrid capital	274
Voluntary provisions	329
Tier 1 capital before deductions	**2,202**
Profit distribution proposed by the Board	-45
Intangible assets	-144
Excess funding of pension liability and change in fair value of investment property	-30
Deductions from Tier 1 capital	-755
Net Tier 1 capital	**1,228**
Tier 2 capital	
Fair value reserve	-22
Other Tier 2 capital	1,033
Deductions from Tier 2 capital	-755
Net Tier 2 capital	**256**
Tier 3 capital	**46**
Total capital	**1,530**
Deductions from Tier 1 and 2 capital	**-1,510**
Investment in insurance companies, financial institutions and other companies	-1,410
Shortfall of expected losses over impairments	-100

EUR 1,409 million in investments in Pohjola Group insurance companies and a one-million-euro investment in Luottokunta were deducted from capital resources.

NOTE 59. Minimum capital requirement

31 Dec. 2008, EUR million	Capital requirement	Risk-weighted assets*
Credit and counterparty risk	**929**	**11,615**
Central government and central banks, Standardised Approach	1	14
Credit institutions, Standardised Approach	98	1,227
Corporate	719	8,992
Under Foundation Internal Risk-Based Approach (FIRB)	699	8,739
Under Standardised Approach	20	252
Retail, Standardised Approach	82	1,021
Secured by real estates	0	0
Other	82	1,021

Equity investments	14	176
PD/LGD method	4	46
Other	4	46
Basic Indicator Approach	10	131
Private equity investments	5	63
Listed equity investments	2	24
Other	4	44
Securitisation positions	8	98
Other	7	88
Market risks	**47**	**583**
Trading book	47	583
Position risk	47	583
Operational risk	**47**	**586**
Capital requirement during transition period	**27**	**336**
Total	**1,050**	**13,120**

*Risk-weighted assets = Capital requirement / 0.08

Capital requirement for counterparty risk amounts to EUR 41 million.

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 60. Capital ratios

Capital adaquacy, EUR million	**31 Dec. 2008**
Total regulatory capital	1,530
Total minimum capital requirement	1,050
Capital excess (+) / shortfall (-)	481
Tier 1 ratio, %	9.4
Total capital ratio, %	11.7

NOTE 61. Total exposures by exposure class

31 Dec. 2008, EUR million	On-balance-sheet exposures	Off-balance-sheet exposures	Derivatives exposures	Securitisation 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 62. Exposure split by geographic region and exposure class

31 Dec. 2008, EUR million	Central government and central banks	Credit institutions	Corporate	Retail	Equity investments	Securitation 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 63. Exposure split by residual maturity and exposure class

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 64. Corporate exposures by sector

31 Dec. 2008, EUR million	Exposure	RWA	Capital requirement
Metal industry	2,330	938	75
Trade	2,206	1,084	87
Other sectors	1,992	1,240	99
Other industry	1,694	990	79
Services	1,283	706	57
Lease and management of flats	1,232	272	22
Constructions	1,230	619	50
Lease and management of other real property	1,135	594	48
Transport and traffic	1,101	640	51
Energy production	1,012	187	15
Forest industry	987	970	78
Property investment	683	319	25
Food industry	631	339	27
Housing corporations	549	147	12
Telecommunications and electronics	409	235	19
Communications and publishing	285	130	10
Total	**18,760**	**9,408**	**753**

Corporate exposures by sector also include corporate customers with retail exposures.

NOTE 65. Exposures (credit risk under SA) by risk weight before and after credit risk mitigation

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 66. 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. 2008

Rating category	Exposure, MEUR	Average PD, %	Average risk weight, %	RWA	Minimum capital require-ment
1–2	548	0.0	14.6	61	5
3–4	5,911	0.1	32.2	1,275	102
5–6	7,810	0.6	69.4	3,887	311
7–8	2,922	2.8	122.6	2,763	221
9–10	423	16.6	202.9	574	46
11–12	130	100.0			
Non-rated	157	4.9	155.4	179	14
Total	**17,902**	**1.9**	**67.5**	**8,739**	**699**

The Internal Ratings Based Approach was used for Pohjola Bank plc's corporate exposures.

Equity investments by rating category and PD grade 31 Dec. 2008

Rating category	Exposure, 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 and OP Life Assurance Company.

NOTE 67. Equity investments, BIA

31 Dec. 2008, EUR million	Exposure	RWA	Minimum capital require-ment
Private equity investments, risk weight 190%	33	63	5
Listed equity investments, 290%	8	24	2
Other, risk weight 370%	12	44	4
Total	**53**	**131**	**10**

NOTE 68. Expected loss and impairments

Expected loss and impairments, loss for 2008, EUR million	EL	Impairments
Corporate exposures	48	24
Equity investments	1	
Total	**49**	**24**

The table above shows the expected loss calculated using OP-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 Internal Ratings Based Approach. The expected loss is an estimate of average annual losses arising from credit risk. With the exception of the last few months of the year, 2008 was characterised by a favourable credit cycle, i.e. recognised impairments were considerably lower than the expected loss, as expected.

NOTE 69. Collateral used in capital adequacy measurement

31 Dec. 2008, EUR million	Exposure	Guaran-tees	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 70. 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, additional collateral of EUR 17 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 3.1 million.

Risk exposure by Non-life Insurance

NOTE 71. Risk-bearing capacity

On 31 December 2008, the solvency capital of Non-life Insurance amounted to EUR 608 million (613) and the solvency ratio stood at 66% (72). As a result of internal dividend distribution decisions made in the fourth quarter and the repayment of Pohjola Insurance Ltd's subordinated loan, Non-life Insurance capitalisation came closer to the target level of 70%. Pohjola's Board of Directors has confirmed credit rating A as the target for Non-life Insurance. Credit rating issued by Standard & Poor's for Pohjola Non-life Insurance is A+ (December 2008).

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. 2008		31 Dec. 2007	
	EUR million	Risk-bearing capacity, %	EUR million	Risk-bearing capacity, %
Solvency capital	608		613	
Claims incurred*	643	95	583	105
Insurance premium revenue*	923	66**	850	72**
Insurance contract liabilities*	2,028	30	1,956	31
Investment portfolio	2,415	25	2,511	24

* Reinsurers' share (net business) deducted

** Solvency ratio

NOTE 72. 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 2008, EUR million	Change in risk parameter	Effect on profit/solvency, EUR million	Effect on combined ratio
Insurance portfolio or insurance premium revenue	923	Up by 1%	9	Up by 1 percentage point
Claims incurred	-643	Up by 1%	-6	Down by 1 percentage point
Major loss, over EUR 5 million		1 major loss	-5	Down by 1 percentage point
Personnel costs	-111	Up by 8%	-9	Down by 1 percentage point
Expenses by function *	-254	Up by 4%	-10	Down by 1 percentage point

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

NOTE 73. 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
2008	9	11	7	4
2007	8	11	6	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
2008	3	6	9	2
2007	2	6	5	4

*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	**2008**	**2007**	**2008**	**2007**
Contract guarantees	46	62	46	62
Loan guarantees	27	43	27	43
Other	8	9	7	8
Guarantee insurance	**81**	**114**	**80**	**113**
Decennial insurance	**1,763**	**1,522**	**1,536**	**1,311**

* For insurance company's own account after reinsurers' share and before counter guarantee

NOTE 74. Trend in major losses

Number of detected major losses by year of detection for 2004–08

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
2004			1	1		1
2005	1		3	6		
2006	1		1	11		
2007	2			6	4	
2008			1	3	3	
			Total claims, EUR million		208	
Gross amount, total claims, EUR million						
2004–08	**13**		**18**	**145**	**18**	**13**

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
2004				1		
2005	1			6		
2006	1			10		
2007	1			5	3	
2008			1	3	3	
			Total claims, EUR million		118	
Net amount, total claims, EUR million						
2004–08	**9**		**2**	**91**	**16**	

NOTE 75. 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.

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 %**

2007. EUR million	Gross IP revenue	Net IP revenue	Net CR*	Net** CR*
Statutory lines	361	356	85 %	92 %
Other accident and health	78	77	89 %	104 %
Hull and cargo	193	187	97 %	96 %
Property and business interruption	209	179	90 %	89 %
Liability and legal expenses	56	48	102 %	103 %
Long-term	4	4	56 %	56 %
Total	**900**	**850**	**90 %**	**94 %**

* 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 76. 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. 2008	Risk parameter	Change	Effect on solvency capital, EUR million 31 Dec. 2008	31 Dec. 2007
Collective liability	494	Inflation	0.25 percentage points	-3	-2
Discounted insurance contract liabilities	1,268	Life expectancy	1 year	-29	-29
Discounted insurance contract liabilities	1,268	Discount rate	0.1 percentage point	-15	-15

Information on the nature of liabilities	2007	2006
Net liabilities due to insurance contracts (EUR million)		
Latent occupational diseases	40	41
Other	1,988	1,915
Total (before transfers)	2,028	1,956
Duration of debt (years)		
Discounted insurance contract liabilities	11.9	11.7
Undiscounted insurance contract liabilities	2.4	2.2
Total	8.3	8.3
Discounted net debt (EUR million)		
Known provision for claims for annuities	1,023	1,010
Collective liability	205	201
Provision for unearned premiums	34	33
Total	1,262	1,244

NOTE 77. Insurance contract liabilities by estimated maturity

31 Dec. 2008	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 34 million in discounted liability

31 Dec. 2007	0–1 yr	1–5 yrs	5–10 yrs	10–15yrs	Over 15 yrs	Total
Provision for unearned premiums	211	61	15	3	6	296
Provision for unpaid claims						
Undiscounted	258	114	53	12	12	449
Discounted	82	298	272	193	367	1,211
Total insurance contract liabilities	**551**	**473**	**340**	**208**	**384**	**1,956**

*) Includes EUR 33 million in discounted liability

NOTE 78. Risk exposure of insurance investments

Allocation of investment portfolio	31 Dec. 2008 Fair value, EUR million*		31 Dec. 2007 Fair value, EUR million*	
Money market total	279	12 %		
Money market instruments and deposits**	174	7 %	51	2 %
Derivative instruments***	105	4 %		
Total bonds and bond funds	1,690	70 %	1,722	69 %
Governments	688	28 %	686	27 %
Inflation-indexed bonds	67	3 %		
Investment Grade	773	32 %	882	35 %
Emerging markets and High Yield	152	6 %	155	6 %
Structured investments	10	0 %		
Total equities	190	8 %	413	16 %
Finland	58	2 %	97	4 %
Developed markets	127	5 %	172	7 %
Emerging markets	17	1 %	30	1 %
Fixed assets and unlisted equities	7	0 %	6	0 %
Private equity investments	85	4 %	108	4 %
Equity derivatives***	-105	-4 %		
Total alternative investments	111	5 %	188	7 %
Hedge funds	67	3 %	91	4 %
Commodities	10	0 %	23	1 %
Convertible bonds	35	1 %	73	3 %
Total property investments	145	6 %	138	5 %
Direct property investments	106	4 %	101	4 %
Indirect property investments	39	2 %	36	1 %
Total	**2,415**	**100 %**	**2,511**	**100 %**

* Includes accrued interest income

** Includes settlement receivables and liabilities and market value of derivatives EUR 0.6 million (+3.3)

***Effect of derivatives on the allocation of the asset class (delta-weighted equivalents)

NOTE 79. 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.

Non-life Insurance	Portfolio at fair value, EUR million 31 Dec. 2008	Risk parameter	Change	Effect on solvency capital, EUR million 31 Dec. 2008	31 Dec. 2007
Bonds and bond funds *	1,899	Interest rate	1 percentage point	82	69
Equities **	164	Market value	20 percentage points	33	78
Capital investments and unquoted equities	92	Market value	20 percentage points	18	23
Commodities	10		20 percentage points	2	5
Real property	145		10 percentage points	15	14
Currency	60	Currency value	20 percentage points	12	20
Credit risk premium***	1,143	Credit spread	0.1 percentage point	3	4
Derivatives****		Volatility	20 percentage points		

* 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 80. 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 33).

Fair value by duration or repricing date, EUR million *)	31 Dec. 2008	31 Dec. 2007
0–1 year	500	428
>1–3 years	379	378
>3–5 years	338	435
>5–7 years	140	183
>7–10 years	212	293
>10 years	296	125
Total	**1,865**	**1,843**
Modified duration	4.3	3.8
Effective interest rate, %	5.3	4.8

*) Includes money-market investments and deposits, bonds, convertible bonds and bond funds.

Fixed-income portfolio by maturity and credit rating on 31 Dec 2008, EUR million

Year(s)	0–1	1–3	3–5	5–7	7–10	10–	Total	%
AAA	38	121	76	61	94	216	607	33 %
AA	108	100	114	14	27	23	386	21 %
A	38	188	161	46	39	85	556	30 %
BBB	31	71	84	9	4	7	206	11 %
BB+ or lower	35	24	10	7	5	10	92	5 %
Internally rated	4	6	4	3	0	1	18	1 %
	254	512	449	139	170	342	1,865	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 S&P's AA–.
The term to maturity of the Non-life Insurance fixed-income portfolio averages 6.96 years (calculated on the basis of the call date and the maturity date).

NOTE 81. Currency risk

Foreign currency exposure, EUR million	**31 Dec. 2008**	**31 Dec. 2007**
USD	8	42
SEK	3	-6
JPY	2	12
GBP	-3	3
EEK, LVL, LTL**	-39	-33
Other	6	5
Total *	**60**	**101**

* The currency exposure was 2.5% (4.0) of the investment portfolio. It is calculated as the sum total of individual currencies' intrinsic values.

** ERM2 currencies.

NOTE 82. Counterparty risk

	31 Dec. 2008		**31 Dec. 2007**	
Credit rating, EUR million	Investment*	Insurance**	Investment*	Insurance**
AAA	607	3	613	0
AA	386	29	270	16
A	556	28	600	21
BBB	206	0	170	0
BB+ or lower	92		98	
Internally rated	18	27	19	29
Total	**1,865**	**87**	**1,769**	**67**

* 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 83. Fair value of assets and liabilities

Financial assets	**31 Dec. 2008**		**31 Dec. 2007**	
EUR million	**Fair value**	**Carrying amount**	**Fair value**	**Carrying amount**
Cash and cash equivalents	2,260	2,260	448	448
Financial assets at fair value through profit or loss				
Financial assets held for trading				
Notes and bonds				
Measured at fair value	3,213	3,213	2,220	2,220
Equities				
Measured at fair value	0	0	0	0
Financial assets at fair value through profit or loss at inception				
Notes and bonds				
Measured at fair value	43	43	2,481	2,481
Derivative contracts				
Measured at fair value	1,559	1,559	518	518
Receivables from financial institutions *	6,597	6,644	5,217	5,217
Receivables from customers *	12,206	12,279	9,288	9,288
Investment assets				
Available-for-sale financial assets				
Notes and bonds				
Measured at fair value	68	68	618	618
Equities				
Measured at fair value	28	28	19	19
Measured at cost	59	59	63	63
Held-to-maturity financial assets				
Notes and bonds	1,024	1,103		
Total financial assets 31 December	**27,056**	**27,256**	**20,882**	**20,882**

Financial liabilities				
Liabilities to financial institutions	3,643	3,643	2,739	2,739
Financial liabilities at fair value through profit or loss				
Short sales	138	138	52	52
Derivative contracts				
Measured at fair value	1,896	1,896	720	720
Liabilities to customers	3,508	3,508	2,738	2,738
Debt securities issued to the public				
Hedged	1,372	1,372	1,723	1,723
Unhedged	15,053	15,053	11,133	11,133
Subordinated liabilities				
Hedged	888	888	669	669
Unhedged	434	434	280	280
Total financial liabilities 31 December	**26,933**	**26,933**	**20,054**	**20,054**

* The fair value of items included in Receivables from financial institutions and customers includes impairments recognised on the balance sheet.

NOTE 84. Collateral given

	31 Dec. 2008 Balance sheet value	31 Dec. 2007 Balance sheet value
Given on behalf of own liabilities and commitments		
Mortgages	1	1
Pledges	4,134	2,631
Other	400	110
Total	4,534	2,742
Given on behalf of others		
Other		13
Total		13
Total collateral given		
Mortgages	1	1
Others	4,134	2,631
Pledges	400	123
Total	**4,534**	**2,755**
Total collateralised liabilities	614	564

Growth in pledges was due to growth in collateral required for the maintenance of liquidity.

NOTE 85. Financial collateral held

	31 Dec. 2008	31 Dec. 2007
Fair value of collateral received		
Other	125	95
Total	**125**	**95**

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 125 million on the balance sheet date (94.7). 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	31 Dec. 2008	31 Dec. 2007
Guarantees	1,133	570
Other guarantee liabilities	1,476	1,489
Loan commitments	3,149	3,456
Commitments related to short-term trade transactions	152	145
Other	416	506
Total off-balance-sheet commitments	**6,328**	**6,167**

NOTE 87. Derivative contracts

Derivatives held for trading 31 December 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	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							
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**

Derivatives held for trading 31 December 2007

	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	20,383	20,510	5,048	45,941	221	230	396
Forward rate agreements	2,250			2,250	0	0	0
OTC interest rate options							
Call and caps							
Purchased	1,750	5,562	1,403	8,714	132	0	181
Written	1,513	5,507	1,522	8,542	0	115	
Put and floors							
Purchased	3,834	1,513	322	5,669	12	5	24
Written	1,066	1,384	224	2,674		4	
Total OTC interest rate derivatives	30,795	34,476	8,519	73,791	366	355	602
Interest rate futures	3,756	3,301		7,057	2	2	
Interest rate options							
Call							
Purchased	1,000			1,000		0	
Written	5,349			5,349	0	0	
Put							
Purchased	1,000			1,000	0		
Written	500			500		0	
Total exchange traded derivatives	11,606	3,301		14,907	2	2	
Total interest rate derivatives	42,401	37,777	8,519	88,697	368	357	602

Currency derivatives							
Forward exchange agreements	7,989	126	298	8,414	53	88	164
Interest rate and currency swaps	23		430	453	16	15	48
Currency options							
Call							
Purchased	164			164	3		5
Written	235			235		4	
Put							
Purchased	137			137	1		2
Written	210			210		1	
Total OTC currency derivatives	8,759	126	728	9,613	73	109	219
Total currency derivatives	8,759	126	728	9,613	73	109	219
Equity and index derivatives							
Forward equity agreements							
Equity index options							
Call							
Purchased	14	263	58	334	51		79
Put							
Purchased		1		1	0		0
Total OTC equity and index derivatives	14	264	58	335	51		79
Total equity and index derivatives	14	264	58	335	51		79
Credit derivatives							
Credit default swaps	71	125		196	0	1	1
Total credit derivatives	71	125		196	0	1	1
Other							
Other options							
Call							
Purchased		6		6	2		2
Put							
Purchased	8			8			0
Total other OTC derivatives	8	6		14	2		2
Total other derivatives	8	6		14	2		2
Total derivatives held for trading	**51,252**	**38,299**	**9,305**	**98,856**	**495**	**466**	**903**

Derivative contracts held for hedging – fair value hedging 31 December 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	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							
Interest rate and currency swaps	665	809	263	1,737	39	300	106
Total OTC currency derivatives	665	809	263	1,737	39	300	106
Total currency derivatives	665	809	263	1,737	39	300	106
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**

Derivative contracts held for hedging – fair value hedging 31 December 2007

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	1,990	1,244	298	3,533	19	21	30
Total OTC interest rate derivatives	1,990	1,244	298	3,533	19	21	30
Total interest rate derivatives	1,990	1,244	298	3,533	19	21	30
Currency derivatives							
Interest rate and currency swaps	372	1,524	267	2,163	4	233	104
Total OTC currency derivatives	372	1,524	267	2,163	4	233	104
Total currency derivatives	372	1,524	267	2,163	4	233	104
Total derivatives held for hedging	**2,362**	**2,768**	**565**	**5,696**	**23**	**254**	**134**

Derivative contracts at fair value through profit or loss at inception 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
Currency derivatives							
Forward exchange agreements	94			94	3	1	2
Total derivatives	**94**			**94**	**3**	**1**	**2**

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**

Total derivative contracts 31 Dec. 2007

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	44,391	39,021	8,818	92,230	388	378	632
Currency derivatives	9,131	1,650	995	11,775	77	342	323
Equity and index-linked derivatives	14	264	58	335	51		79
Credit derivatives	71	125		196	0	1	1
Other derivatives	8	6		14	2		2
Total derivatives	**53,615**	**41,067**	**9,870**	**104,551**	**518**	**720**	**1,037**

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. This concerned some 2.1% of the company's shares (about 3.4 million shares). 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. 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 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. 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.

Pohjola Bank plc has a receivable of EUR 2 million from a private customer, confirmed by the Supreme Court. Owing to this customer's solvency, no major amounts can be expected.

The tax agent has filed a complaint of the deferral of the dissolution loss for 2003–2005 taxation, arising from the dissolution of Pohjola Hallintopalvelu Oyj. The Board of Adjustment of the Tax Office for Major Corporations has rejected claims for correction applying to this deferral of the dissolution loss. In its ruling issued on 12 February 2008, the Helsinki Administrative Court dismissed the tax agent's appeal with respect to the years 2003 and 2004. The tax agent's petition for leave of appeal and the appeal are pending at the Supreme Administrative Court. With respect the year 2005, the case is on hand at the Helsinki Administrative Court and the process is not expected to have any financial implications.

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 13 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. 2008	31 Dec. 2007
No later than 1 year	11	12
Later than 1 year and no later than 5 years	37	37
Later than 5 years	15	22
Total	**63**	**71**
Expected future minimum lease payments from non-cancellable subleases	56	17

Pohjola Group as Lessor

Pohjola Group companies have leased out investment properties they own, which generated lease income of EUR 13 million (11). In addition to investment properties, the Group has primarily leased out passenger cars, which generated lease income of EUR 23 million (16).

Future minimum lease payments receivable under non-cancellable operating leases

EUR million	31 Dec. 2008	31 Dec. 2007
No later than 1 year	42	32
Later than 1 year and no later than 5 years	84	63
Later than 5 years	15	16
Total	**141**	**111**

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 consultative 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 2008 totalled EUR 20.2 billion and consultative asset management portfolio EUR 3.2 billion.

NOTE 91. Holdings in other companies

Changes in subsidiaries and associates in 2008

In connection with the parent company's adoption of a new name on 1 March 2008, Pohjola Non-Life Insurance Company was renamed Pohjola Insurance Ltd, OKO Corporate Finance Ltd was renamed Pohjola Corporate Finance Ltd and OKO Venture Capital Ltd was renamed Pohjola Capital Partners Ltd.

In May 2008, Pohjola Private Equity Funds Ltd established a subsidiary, SMF I Fund Ltd, which acts as Selected Mezzanine Funds I Ky's general partner.

Following regulatory approval, the acquisition on 21 December 2007 of K-Finance Ltd, a Kesko Corporation subsidiary, was finalised on 31 January 2008. On 1 April 2008, K-Finance Ltd was renamed Pohjola Finance Ltd.

The sale on 21 December 2007 of OKO Capital East Ltd's subsidiary, ZAO OKO Capital Vostok, was finalised on 12 March 2008.

Holdings in subsidiaries included in the consolidated financial statements 2008

Company	Domicile/ home country	Shareholding %	Votes, %
Subsidiaries of Pohjola Bank plc:			
Pohjola Asset Management Ltd	Helsinki	90	90
Pohjola Corporate Finance Ltd	Helsinki	64	64
Pohjola Capital Partners Ltd	Helsinki	65	65
OKO Capital East Ltd	Helsinki	70	70
Pohjola Insurance Ltd	Helsinki	100	100
A-Insurance Ltd	Helsinki	100	100
Seesam International Insurance Company Ltd	Estonia	100	100
Joint Stock Insurance Company "Seesam Latvia"	Latvia	100	100
Joint Stock Insurance Company "Seesam Lithuania	Lithuania	100	100
Eurooppalainen Insurance Company Ltd	Helsinki	100	100
Pohjola Property Management Ltd	Helsinki	100	100
Pohjolan IT Procurement Ltd	Helsinki	100	100
Conventum Venture Finance Oy	Helsinki	100	100
Kaivokadun PL-hallinto Oy	Helsinki	100	100
Real Estate Fund Finland Oy	Helsinki	100	100
Pohjola Private Equity Funds Oy	Helsinki	69.75	69.75
SPEF I Oy	Helsinki	100	100
SMF I Fund Ltd	Helsinki	100	100
Pohjola Finance Ltd	Helsinki	100	100
Pohjola Finance Estonia AS	Estonia	100	100

Holdings in subsidiaries included in the consolidated financial statements 2007

Company	Domicile/ home country	Shareholding %	Votes, %
Subsidiaries of Pohjola Bank plc:			
Pohjola Asset Management Ltd	Helsinki	86.50	86.50
Pohjola Corporate Finance Ltd	Helsinki	64	64
Pohjola Capital Partners Ltd	Helsinki	71	71
OKO Capital East Ltd	Helsinki	70	70
ZAO OKO Capital Vostok	Russia	100	100
Pohjola Insurance Ltd	Helsinki	100	100
A-Insurance Ltd	Helsinki	100	100
Seesam International Insurance Company Ltd	Estonia	100	100
Joint Stock Insurance Company "Seesam Latvia"	Latvia	100	100
Joint Stock Insurance Company "Seesam Lithuania	Lithuania	100	100
Eurooppalainen Insurance Company Ltd	Helsinki	100	100
Pohjola Property Management Ltd	Helsinki	100	100
Pohjolan IT Procurement Ltd	Helsinki	100	100
Conventum Venture Finance Oy	Helsinki	100	100
Kaivokadun PL-hallinto Oy	Helsinki	100	100
Real Estate Fund Finland Oy	Helsinki	100	100
Pohjola Private Equity Funds Oy	Helsinki	67.04	67.04
SPEF I Oy	Helsinki	100	100

Holdings in associates included in the consolidated financial statements 2008

Name	Domicile	Assets	Liabilities	Net sales	Profit/Loss	Holding, %
Autovahinkokeskus Oy	Espoo	7	2	6	1	27.8
Vahinkopalvelu Oy	Loppi	1	0	3	0	46.7

Holdings in associates included in the consolidated financial statements 2007

Name	Domicile	Assets	Liabilities	Net sales	Profit/Loss	Holding, %
Autovahinkokeskus Oy	Espoo	6	2	4	0	27.8
Vahinkopalvelu Oy	Loppi	1	0	3	0	46.7

Holdings in joint ventures included in the consolidated financial statements 2008

Name	Domicile	Holding, %
Kiinteistö Oy Kanta-Sarvis II	Tampere	100
Tikkurilan Kauppatalo Oy	Helsinki	53.7
Kiinteistö Oy Helsingin Puutarhurinkuja 2	Helsinki	100
Kiinteistö Oy Vantaan Kisällintie 13	Helsinki	100

The consolidated financial statements include the share of assets and related liabilities under joint control.

Holdings in joint ventures included in the consolidated financial statements 2007

Name	Domicile	Holding, %
Kiinteistö Oy Kanta-Sarvis II	Tampere	100
Tikkurilan Kauppatalo Oy	Helsinki	53.7
Kiinteistö Oy Helsingin Puutarhurinkuja 2	Helsinki	100
Kiinteistö Oy Vantaan Kisällintie 13	Helsinki	100

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 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		288
Interest expenses	11		218
Dividend income	0		5
Other income from Non-life Insurance	4		
Commission income	1	0	24
Commission expenses	2	0	3
Trading income			58
Trading expenses			91
Other operating income	9		14
Operating expenses	86		7
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.

Related-party transactions in 2007

EUR million	Parent company	Adminis-trative personnel	Others *
Loans	4		1,325
Other receivables	64		486
Deposits			420
Other liabilities	2		230
Interest income	2		172
Interest expenses	6		102
Dividend income			4
Other income from Non-life Insurance	3		2
Commission income	1		27
Commission expenses	2		3
Trading income			3
Trading expenses			4
Other operating income	6		11
Operating expenses	59		5
Off-balance-sheet commitments			
Guarantees	8		45
Irrevocable commitments			77
Salaries and other short-term benefits			
Salaries and other short-term benefits		1	
Related-party holdings			
Number of shares	60,825,897	72,278	4,220,946

* 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 2008

The Annual General Meeting approved the following Board emoluments:

Emoluments paid to Board members in 2008 totalled EUR 512,500. The Chairman's monthly emoluments totalled EUR 7,000, the Vice Chairman's EUR 5,000 and other members EUR 4,000. All Board members received an attendance allowance of EUR 500 for each meeting.

Reijo Karhinen, Chairman	EUR 93,900
Tony Vepsäläinen, Vice Chairman	EUR 78,300
Board members:	
Merja Auvinen	EUR 59,400
Eino Halonen	EUR 57,000
Simo Kauppi	EUR 59,000
Satu Lähteenmäki	EUR 60,400
Tom von Weymarn	EUR 60,000
Markku Vesterinen	EUR 44,500

Salaries and performance-based bonuses paid to the President and CEO and his deputy in the financial year ending 31 December 2008 were as follows:

Mikael Silvennoinen, President and CEO	EUR 716,599
Ilkka Salonen, Deputy CEO until 31 Dec. 2008	EUR 287,680

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 the President and CEO of Pohjola Bank plc, heads of business divisions and departments and those in charge of separately defined managerial, supervisory and expert duties. On 31 December 2008, the scheme covered 134 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 2006–08 as annual bonuses.

In 2008, target indicators for the management incentive scheme were as follows:

-Pohjola Group's earnings per share for the financial year, target 1 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 82,501, 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 0.03 million 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 2008, the Fund had 2,394 Pohjola Group employees. At the end of 2008, no members of the staff of Group subsidiaries were included in the Fund, excluding Pohjola Insurance's personnel.

In 2008, the amount of profit-based bonuses based on profit for 2007 and transferred to the Personnel Fund totalled around EUR 0.4 million.

The profit-based bonuses transferred to the Personnel Fund in 2008 and 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 2009 to be transferred to the Fund account for 3.0% of the combined salaries and wages earned by the Fund's members in 2009.

NOTE 94. Events after the balance sheet date

At its meeting on12 February, Pohjola Bank plc's Board of Directors decided on measures to be taken to strengthen the company's capital base. Accordingly, this capital increase could be implemented in the spring 2009 through a rights issue of around EUR 300 million for the existing shareholders, subject to a Board authorisation issued by the Annual General Meeting.

PARENT COMPANY FINANCIAL STATEMENTS, FAS

FINANCIAL STATEMENTS

Income statement

EUR million	2008	2007
Interest income	3,129	2,207
Net lease income	36	26
Interest expenses	-2,977	-2,122
Net interest income	**187**	**111**
Income from equity investments	24	81
From subsidiaries	16	72
From affiliates	1	1
From other companies	7	8
Commissions and fees	81	83
Commission expenses	-22	-24
Net income from securities and foreign exchange trading	-96	-28
Net income from securities trading	-83	-48
Net income from foreign exchange trading	-13	19
Net income from available-for-sale financial assets	1	17
Net income from hedge accounting	0	0
Net income from investment property	-1	4
Other operating income	18	21
Administrative expenses	-97	-85
Personnel costs	-51	-46
Wages and salaries	-40	-38
Social expenses	-11	-8
Pension costs	-7	-5
Other social expenses	-3	-3
Other administrative expenses	-47	-39
Depreciation/amortisation and write-downs on tangible and intangible assets	-5	-5
Other operating expenses	-13	-27
Impairment losses on loans and other commitments	-27	-1
Impairment losses on other financial assets		
Operating profit	**51**	**146**
Appropriations	-36	-67
Income taxes	0	0
Taxes for the financial year	-2	0
Taxes for previous financial years	-1	-1
Change in deferred taxes	4	1
Profit from operations after taxes	**15**	**79**
Profit for the financial year	**15**	**79**

Balance sheet

ASSETS

EUR million	31 Dec. 2008	31 Dec. 2007
Cash and cash equivalents	2,260	448
Notes and bonds eligible for refinancing with central banks	4,043	3,572
Government bills		
Other	4,043	3,572
Receivables from financial institutions	6,638	5,217
Repayable on demand	165	249
Other	6,473	4,967
Receivables from the public and public sector entities	11,683	8,789
Repayable on demand	0	0
Other	11,683	8,789
Lease assets	707	577
Notes and bonds	618	1,875
From public sector entities	85	188
From other	532	1,687
Shares and participations	76	68
Shares and participations in affiliates	1	
Shares and participations in subsidiaries	1,285	1,216
Derivative contracts	1,486	528
Intangible assets	18	13
Tangible assets	28	28
Investment property and shares and participations in investment property	22	22
Other property and shares and participations in property companies	3	3
Other tangible assets	3	3
Other assets	499	533
Deferred income and advances paid	731	572
Deferred tax assets	16	6
Total assets	**30,088**	**23,441**

LIABILITIES

EUR million	31 Dec. 2008	31 Dec. 2007
Liabilities		
Liabilities to credit institutions	3,646	2,741
Central banks	101	110
Financial institutions	3,545	2,631
Repayable on demand	677	536
Other	2,868	2,095
Liabilities to the public and public sector entities	3,554	2,773
Deposits	1,530	908
Repayable on demand	1,218	898
Other	312	9
Other liabilities	2,023	1,866
Repayable on demand	0	0
Other	2,023	1,865
Debt securities issued to the public	16,728	13,022
Bonds	6,487	7,264
Other	10,241	5,758
Derivative contracts and other liabilities held for trading	1,782	601
Other liabilities	786	1,056
Other liabilities	786	1,056
Provisions		
Deferred expenses and advances received	667	545
Subordinated liabilities	1,272	950
Subordinated loans	260	193
Other	1,012	757
Total liabilities	**28,434**	**21,687**
Appropriations	**475**	**439**
Depreciation difference	95	76
Voluntary provisions	380	363
Shareholders' equity		
Share capital	428	428
Share capital	428	428
Share premium account	524	524
Other restricted reserves	142	161
Reserve fund	164	164
Fair value reserve	-22	-3
Cash flow hedging		
Translation differences		
Fair value measurement	-22	-3
Non-restricted reserves	23	23
Other reserves	23	23
Retained earnings	48	100
Profit for the financial year	15	79
Total shareholders' equity	**1,180**	**1,315**
Total liabilities and shareholders' equity	**30,088**	**23,441**
Off-balance-sheet commitments	**6,381**	**6,120**
Commitments given to a third party on behalf of customers	2,766	2,200
Guarantees and pledges	2,613	2,055
Other	152	145
Irrevocable commitments given on behalf of customers	3,616	3,920
Securities repurchase commitments	18	14
Other	3,598	3,906

Cash flow statement

EUR million	31 Dec. 2008	31 Dec. 2007
Cash flow from operating activities		
Profit for the financial year	15	79
Adjustments to profit for the financial year	200	119
Increase (-) or decrease (+) in operating assets	**-3,895**	**-2,031**
Notes and bonds eligible for refinancing with central banks	-1,241	301
Receivables from financial institutions	689	384
Receivables from the public and public sector entities	-2,281	-1,311
Lease assets	-270	-209
Notes and bonds	-620	-828
Shares and participations	4	24
Derivative contracts	-75	-62
Investment property	-2	6
Other assets	-98	-336
Increase (+) or decrease (-) in operating liabilities	**1,722**	**1,868**
Liabilities to financial institutions and central banks	905	350
Liabilities to the public and public sector entities	780	672
Derivative contracts and other liabilities held for trading	179	128
Other liabilities	-143	718
Income tax paid	-6	-7
Dividends received	24	21
A. Net cash from operating activities	**-1,941**	**50**
Cash flow from investing activities		
Increases in held-to-maturity financial assets	-161	
Decreases in held-to-maturity financial assets	0	
Acquisition of subsidiaries and associates	-122	-11
Disposal of subsidiaries and associates	34	12
Purchase of tangible and intangible assets	-9	-5
Proceeds from sale of tangible and intangible assets	0	4
B. Net cash used in investing activities	**-258**	**0**
Cash flow from financing activities		
Increases in subordinated liabilities	455	153
Decreases in subordinated liabilities	-132	-126
Increases in debt securities issued to the public	45,300	29,383
Decreases in debt securities issued to the public	-41,566	-29,733
Dividends paid	-131	-131
C. Net cash used in financing activities	**3,926**	**-453**
Cash and cash equivalents transferred due to combination	**1,728**	**-404**
Cash and cash equivalents at year-start	**697**	**1,101**
Cash and cash equivalents at year-end	**2,425**	**697**
Interest received	**2,967**	**2,013**
Interest paid	**-2,917**	**-1,924**
Adjustments to profit for the financial year		
Non-cash items		
Change in fair value for trading	50	66
Unrealised net gains on	-31	-46
Change in fair value of investment assets	1	-18
Depreciation/amortisation, change in depreciation/amortisation difference and voluntary p	181	191
Impairment losses on receivables	28	4
Other	-30	-81
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		3
Total adjustments	**200**	**119**
Cash and cash equivalents		
Liquid assets	2,260	448
Receivables from financial institutions payable on demand	165	249
Total	**2,425**	**697**

PARENT COMPANY'S (POHJOLA BANK PLC) ACCOUNTING POLICIES

GENERAL INFORMATION

Pohjola Bank plc (hereinafter Pohjola) 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.

Pohjola Bank plc belongs to OP-Pohjola Group, which consists of 227 member cooperative banks and their central institution, OP-Pohjola Group Central Cooperative with its subsidiaries. The amalgamation of the cooperative banks is supervised as a single entity and OP-Pohjola Group Central Cooperative and its member credit institutions are ultimately liable for each other's debt and commitments.

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 Supervision 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 have been prepared on the basis of original acquisition costs, 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, derivative contracts 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

The European Commission issued Commission Regulation (EC) No. 1004/2008 on 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. 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.

Pohjola Group reclassified notes and bonds acquired to secure OP-Pohjola Group's liquidity, with a view to clarifying their actual purpose of use. In connection with reclassification, notes and bonds were reclassified out of the financial assets held for trading category into the Loans and other receivables, Available-for-sale financial assets and Financial assets held to maturity categories. These notes and bonds were upon initial recognition classified as financial assets held for trading, but, with a view to providing clearer financial statements information, in the financial statements for 2007 they were reclassified as the Financial assets at fair value through profit or loss at inception category.

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 20.

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

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. The valuation techniques used include the discounted cash flow method, net present value techniques and a comparison with similar instruments quoted in an active market. 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.

Offsetting financial assets and liabilities

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.

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 the 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 other receivables, held-to-maturity investments, available-for-sale financial assets, financial liabilities at fair value through profit or loss and other financial liabilities, in accordance with their measurement practice. 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 assets 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 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 held for trading
All financial assets and liabilities which 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. Financial assets and liabilities held for trading include financial 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
In accordance with Pohjola Group's risk management principles, Pohjola Bank plc manages 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. Financial assets irrevocably recognised at fair value through profit or loss at inception comprise bonds used in the management of liquidity. Since the business involves investment on a longer-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 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. Financial assets categorised into this item are recognised in the balance sheet item determined by the counterparty, either under 'Receivables from credit institutions' or 'Receivables from the public and public sector entities'.

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 charge in the income statement.

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 the case of minor customer exposure, impairments are assessed and recognised on a collective basis. Indemnity received due to impairments is recognised as an adjustment for impairment losses. Recognition of interest on the reduced 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 as an allowance of loans in the balance sheet and as 'Impairment losses on loans and other commitments' in the income statement.

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 based on experience of the extent to which payment defaults lead to credit losses and of the amount to which the realisation of collateral will cover the incurred loss.

After the completion of all debt-collection measures, or otherwise based on the management's decision, the loan is derecognised. Following the derecognition, payments received are recognised as an adjustment to impairments of receivables.

If there is subsequent objective evidence of the improved solvency of the creditor previously included in impairment testing, the amount of the impairment loss will be reassessed and any change in the recoverable amount will be recorded in the income statement.

Interest on a non-performing receivable will be recognised as revenue if the receivable has become non-performing one on 1 January 2005 or thereafter. Non-performing receivables refer to receivables whose interest, principal or part thereof has been due for payment and outstanding for three months. Receivables from a company declared bankrupt is recorded as non-performing ones no later than the date when the company was declared bankrupt. Receivables based on guarantee given are recorded as non-performing ones when payment based on the guarantee is settled.

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.

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.

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.

Available-for-sale financial assets are recognised at cost at the time of acquisition and 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.

The company monitors impairments of available-for-sale financial assets in accordance with its risk management principles. If there is objective evidence of an impaired investment, the difference between the purchase cost and the fair value on the review date, less impairments losses previously recognised on the asset in question included in the financial asset, 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 share increases subsequently, this increase will be recognised in shareholders' equity.

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.

Shares and holdings in affiliates and Group companies
Shares and holdings and other equity investments in affiliates and 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 losses. 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 countervalue 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

Pohjola Bank plc concludes derivative contracts which are in fact used to hedge against financial risks but which do not fulfil the current criteria for hedge accounting and thus cannot be treated as hedging in accounting. Derivative instruments deemed as economic hedges but not qualified for hedge accounting are treated in the same way as instruments held for trading.

The Bank'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.

Currently, Pohjola Bank plc applies fair value hedges to hedge against interest rate risks, involving long-term fixed-rate liabilities (Bank's own issues), individual bond and loan portfolios, as well as individual loans.

When a financial instrument is designated as a hedging one, the relationship between the hedging instrument(s) and the hedged item(s) 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, at inception and throughout its life, the changes in the fair value of the hedged item are offset by the changes in the fair value of the hedging instrument within a range of 80%–125%.

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 no longer meets the effectiveness criteria.

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.

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.

Property leased out under operating lease and property shares are presented under 'Investment property and shares and holdings in investment property' in the balance sheet and rental income under 'Net income from investment property' in the income statement.

Rental expenses for leased assets are recognised in the income statement as fixed instalments under 'Other operating expenses' over the lease term.

INTANGIBLE ASSETS

Intangible assets are stated at cost less amortisation and write-downs. These assets are amortised over their estimated useful lives, which is 3–5 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 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 any 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 obligations

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 Pohjola Bank plc 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 counter value 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 credit loss provision permitted by the Business Income Tax Act for deposit banks.

According to this Act, a deposit bank may deduct a credit 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 credit 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 the Bank'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.

Pohjola Bank plc 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	2008	2007
Interest income		
Receivables from financial institutions	274	270
Receivables from the public and public sector entities	547	396
Notes and bonds	344	224
Derivative contracts	1,954	1,309
Other	10	7
Total	**3,129**	**2,207**
Of which interest income from impaired receivables	1	1
Interest expenses		
Liabilities to financial institutions	174	94
Liabilities to the public and public sector entities	110	84
Debt securities issued to the public	645	599
Derivative contracts and other liabilities held for trading	1,987	1,290
Subordinated liabilities	53	46
Other	8	8
Total	**2,977**	**2,122**

Interest income received from Group and associated companies and interest expenses paid to them

	2008		2007	
	Subsidiaries	Associates	Subsidiaries	Associates
Interest income	11		3	
Interest expenses	5		7	

NOTE 2. Net lease income	2008	2007
Lease income	182	150
Planned depreciation	-139	-118
Capital gains and losses (net) on the disposal of lease assets	-1	-1
Commissions and fees	1	1
Other income	0	0
Other expenses	-8	-6
Total	**36**	**26**

NOTE 3. Income from equity investments	2008	2007
Available for sale	7	8
Subsidiaries	16	72
Affiliates	1	1
Total	**24**	**81**

NOTE 4. Commissions and fees	2008	2007
Commissions and fees		
Lending	23	22
Deposits	0	0
Payment transfers	13	12
Mutual funds	0	1
Asset management	5	9
Legal services	0	0
Securities brokerage	20	25
Securities issuance	1	2
Guarantees	9	6
Other	8	4
Total	**81**	**83**
Commission expenses		
Service fees paid	3	3
Other	19	21
Total	**22**	**24**

NOTE 5. Net income from securities and foreign exchange trading	2008	2007
Capital gains and losses		
Notes and bonds*	-14	-8
Shares and participations	0	0
Total	**-14**	**-8**
Due to fair value changes		
Notes and bonds*	-39	-65
Shares and participations		
Derivative contracts	-30	26
Other		
Total	**-69**	**-39**

***** 'Notes and bonds' include EUR -15.5 million (0.2) in capital gains on and EUR -65.2 million (67.4) in fair value changes in financial assets at fair value through profit or loss at inception.

Total net income from securities trading	**-83**	**-48**
Net income from foreign exchange trading	**-13**	**19**
Total net income from securities and foreign exchange trading	**-96**	**-28**

NOTE 6. Net income from available-for-sale financial assets	2008	2007
Notes and bonds		
Capital gains and losses	3	0
Transferred from fair value reserve during the financial year	-3	1
Total	0	0
Shares and participations		
Capital gains and losses	0	3
Impairment losses	0	0
Transferred from fair value reserve during the financial year	1	14
Total	1	17
Total net income from available-for-sale financial assets	**1**	**17**

NOTE 7. Net income from hedge accounting	2008	2007
Net income from hedging instruments	-31	-1
Net income from hedged items	31	1
Total	**0**	**0**

NOTE 8. Net income from investment property	2008	2007
Rental and dividend income	2	3
Other income	0	0
Capital gains	0	2
Rental expenses	-1	-1
Planned depreciation		
Capital losses	-2	-4
Write-downs and their reversals	0	2
Other expenses	0	1
Total	**-1**	**4**

NOTE 9. Other operating income	2008	2007
Rental income from property in own use	0	0
Capital gains on property in own use	0	
Other	18	21
Total	**18**	**21**

NOTE 10. Depreciation/amortisation and write-downs on tangible and intangible assets	2008	2007
Planned depreciation	5	5
Write-down	0	
Total	**5**	**5**

NOTE 11. Other operating expenses	2008	2007
Rental expenses	4	4
Expenses for property in own use	0	1
Other	8	23
Total	**13**	**27**

NOTE 12. Impairment losses on loans and other commitments and other financial assets

	Gross impairment losses on individually assessed receivable	Gross impairment losses on collective assessed receivable	Reductions	Entered in income statement
Impairment losses on loans and other commitments				
Receivables from financial institutions				
Receivables from the public and public sector entities	25	1	8	18
Guarantees and other off-balance-sheet items				
Other	10		1	10
Total	**35**	**1**	**8**	**27**
Total impairment losses	**35**	**1**	**8**	**27**

NOTE 13. Income taxes

	2008	2007
Income taxes from operations	0	0
Total income taxes	**0**	**0**

NOTE 14. Income and expenses other than those from operations

The most significant expenses in 2007 included in this item are EUR 10 million in liquidated damages obligated by the Arbitral Tribunal payable to 32 savings banks. Based on the ruling by the Arbitral Tribunal, Pohjola Group plc (Pohjola) was not in material breach of the regulations under the shareholder agreement regarding Nooa Savings Bank.

The dispute over the shareholder agreement related to Pohjola Bank plc (formerly OKO Bank plc) buying on 12 September 2005 the majority shareholding in Pohjola from Suomi Mutual Life Assurance Company and Ilmarinen Mutual Pension Insurance Company. Following the acquisition, cooperation between the savings bank and Pohjola, regarding Nooa Savings Bank, came to and end.

NOTE 15. Income, operating profit or loss and assets and liabilities by Division

	Corporate Banking	Markets	Group Treasury	Other	Total
Income*	153	55	-4	10	214
Operating profit	66	5	-26	6	51
Assets	12,066	3,410	13,240	1,372	30,088
Liabilities	1,424	2,137	24,863	10	28,434
Personnel	409	147	56	83	695

***** 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 16. Receivables from financial institutions	31 Dec. 2008	31 Dec. 2007
Repayable on demand		
Deposits	76	154
Other	90	95
Total	**165**	**249**
Other than those repayable on demand		
Deposits	7	6
Other	6,466	4,961
Total	**6,473**	**4,967**
Total receivables from financial institutions	**6,638**	**5,217**
of which subordinated receivables	**42**	**42**

Pohjola Bank plc has only receivables repayable on demand from the Bank of Finland.

NOTE 17. Receivables from the public and public sector entities	31 Dec. 2008	31 Dec. 2007
Receivables from the public and public sector entities by sector		
Non-banking corporate sector and housing corporations	9,110	6,937
Financial institutions and insurance companies	257	4
Public sector entities	305	347
Non-profit organisations serving households	211	198
Households	751	730
Foreign	1,053	578
Collective impairments	-6	-5
Total	**11,683**	**8,789**
of which subordinated receivables	**1**	**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	20	18
+ Write-downs on individually assessed receivables during the financial year	19	10
+/- Write-downs on collectively assessed receivables during the financial year	1	1
- Write-downs reversed for individually assessed receivables during the financial year	-6	-9
- Actual impairment losses recorded during the financial year	-3	-1
of which write-downs on individually assessed receivables were made previously		
Write-downs at year-end	**31**	**20**

NOTE 18. Lease assets	31 Dec. 2008	31 Dec. 2007
Advance payments	63	82
Machinery and equipment	530	432
Real property and buildings	98	53
Other assets	16	10
Total	**707**	**577**

NOTE 19. Notes and bonds

Notes and bonds eligible for refinancing with central banks and other notes and bonds 31 December 2008

	Eligible for refinancing with central banks	Other notes and bonds	Total	Of which subordi-nated
Financial assets at fair value through profit or loss	2,996	506	3,502	42
Available for sale		56	56	0
Held to maturity	1,047	56	1,103	0
Total	**4,043**	**618**	**4,661**	**42**

Publicly-quoted and other notes and bonds 31 December 2008

	Publicly-quoted	Other	Total
Financial assets at fair value through profit or loss	3,361	141	3,502
Available for sale	56		56
Held to maturity	1,091	12	1,103
Total	**4,508**	**154**	**4,661**

The Financial assets through profit or loss at fair value category includes EUR 42.5 million in financial assets at fair value through profit or loss at inception, of which publicly quoted ones amount to EUR 38.9 million.

Notes and bonds by type	**31 Dec. 2008**	**31 Dec. 2007**
Financial assets at fair value through profit or loss		
Local authority papers	63	327
Commercial papers	43	43
Certificates of deposit	2,084	1,211
Convertible bonds	0	0
Other bonds	1,311	3,262
Total	**3,502**	**4,844**
Other bonds	56	603
Total	**56**	**603**
Held to maturity		
Other bonds	1,103	
Other		
Total	**1,103**	

By 31 December 2008, all Pohjola Bank plc's notes and bonds accrued interest recognised in accounting.

NOTE 20. Reclassified notes and bonds

In the latter half of 2008, Pohjola Group reclassified notes and bonds due to inactive markets caused by the financial crisis. In practice, determining fair values reliably has become impossible. Previously, almost EUR 3.8 billion in notes and bonds at fair value was classified as those carried at amortised cost.

Notes and bonds were reclassified using fair values on 1 July 2008, on the basis of which new purchase prices were determined for the reclassified notes and bonds.

The table below shows reclassifications using carrying amounts on 1 July 2008.

EUR million	Before reclassification	After reclassification: Loans and other receivables	Held-to-maturity investments	Available-for-sale financial assets
Financial assets at fair value through profit or loss	2,222	1,226	942	54
Available-for-sale financial assets	1,576	1,576		
	3,798	**2,802**	**942**	**54**

The table below shows the carrying amounts and fair values of the reclassified notes and bonds on 31 December 2008.

31 Dec 2008, EUR million	Carrying amount	Fair value	Effective interest rate	Impairments arising from credit risk
Loans and other receivables	2,816	2695	5.2	9
Investments held to maturity	946	864	4.5	
Available-for-sale financial assets	55	55	5.1	
	3,816	**3,614**		

The reclassification improved earnings before tax by EUR 125 million and the fair value reserve before tax by EUR 30 million. The price difference of notes and bonds recognised in the income statement totalled EUR 16.6 million. In 2007, notes and bonds of EUR–46.7 million were recognised in earnings before tax and the fair value reserve before tax showed EUR–5 million.

If notes and bonds were not reclassified and had been measured using fair values available in the inactive market, earnings before tax for 2008 would have been EUR 183 million lower. The fair value reserve before tax would have been EUR 23 million smaller.

Pohjola Bank plc used derivatives to hedge against interest rate risks, applying hedge accounting from 1 October 2008.

NOTE 21. Shares and participations

	Publicly quoted	Other	Total
Shares and participations			
Available for sale	8	68	76
Shares in subsidiaries		1,285	1,285
Total	**8**	**1,353**	**1,361**

EUR 4.8 million in shares and participations other than those quoted publicly was measured at fair value and the rest at cost.

	31 Dec. 2008	31 Dec. 2007
Shares and participations by sector		
Non-banking corporate sector and housing corporations	51	83
Financial institutions and insurance companies	1,293	1,182
Foreign entities	19	18
Total	**1,362**	**1,284**

NOTE 22. Derivative contracts

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 forwards	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

Derivative contracts for hedging purposes in 2007

	Nominal values/residual term to maturity				Fair values	
	<1 year	1–5 years	>5 years	Total	Positive	Negative
Interest rate derivatives	**1,990**	**1,244**	**298**	**3,533**	**19**	**31**
Interest rate swaps	1,990	1,244	298	3,533	19	31
Currency derivatives	**372**	**1,524**	**267**	**2,163**	**4**	**233**
Interest rate and currency swaps	372	1,524	267	2,163	4	233

Derivative contracts held for trading in 2007

	Nominal values/residual term to maturity				Fair values	
	<1 year	1–5 years	>5 years	Total	Positive	Negative
Interest rate derivatives	**42,401**	**37,777**	**8,519**	**88,697**	**368**	**347**
Futures and forward contracts	6,006	3,301		9,307	2	2
Options	**16,012**	**13,966**	**3,471**	**33,449**	**145**	**125**
Called	7,583	7,075	1,725	16,383	144	5
Put	8,428	6,891	1,746	17,066	0	119
Interest rate swaps	20,383	20,510	5,048	45,941	221	220
Currency derivatives	**8,632**	**126**	**728**	**9,486**	**73**	**109**
Futures and forwards	7,863	126	298	8,288	53	88
Options	**746**			**746**	**4**	**5**
Called	301			301	4	
Put	445			445		5
Interest rate and currency swaps	23		430	453	16	15

Equity derivatives	**14**	**264**	**58**	**335**	**51**	**0**
Futures and forwards						
Options	**14**	**264**	**58**	**335**	**51**	**0**
Called	14	264	58	335	51	
Put						
Other derivatives	**79**	**86**	**45**	**210**	**2**	**1**
Futures and forwards						
Options	**8**	**6**	**0**	**14**	**2**	**0**
Called	8	6	0	14	2	0
Put						
Credit derivatives	71	80	45	196	0	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 2007

	Made for hedging purposes	Held for trading
Interest rate derivatives	**30**	**602**
Futures and forward contracts		0
Options		205
Called		205
Put		
Interest rate swaps	30	396
Currency derivatives	**104**	**215**
Futures and forwards		160
Options		7
Called		7
Put		
Interest rate and currency swaps	104	48
Equity derivatives		**79**
Futures and forwards		
Options		79
Called		79
Put		
Other derivatives		**3**
Options		2
Called		2
Put		
Credit derivatives		1

The parent company has no derivative contracts whose counterparty is a Pohjola Group company.

NOTE 23. Intangible assets	31 Dec. 2008	31 Dec. 2007
IT costs	7	8
Other long-term expenditure	11	5
Total	**18**	**13**

NOTE 24. Tangible assets

	In own use	Investment property Book value	Fair value
Property holdings			
Land and water	0	0	0
Buildings	0		
Shares and holdings in property companies	2	22	24
Total	**3**	**22**	**25**

NOTE 25. Changes in intangible and tangible assets during the financial year

	Intangible assets	Invest-ment property	Proper-ty in own use	Other tangible assets
Acquisition cost 1 January	46	26	4	69
+ increases during the year	9	2	0	0
- decreases during the year		2	0	0
- planned depreciation/amortisation	4		0	0
-/+ impairment losses and their reversals		2		
+ accumulated depreciation/amortisation and write-downs on adjustments and transfers 1 January			0	0
- accumulated depreciation/amortisation 1 January	33	0	0	65
- accumulated impairment 1 January		3	1	
Book value 31 December	**18**	**22**	**3**	**3**

NOTE 26. Other assets	31 Dec. 2008	31 Dec. 2007
Sales receivables from securities	13	233
Margin receivables related to derivative contracts	26	9
Receivables from payment transfers	5	88
Other	454	204
Total	**499**	**533**

The item Other includes EUR 385 million (95) in foreign CSA collateral receivables.

NOTE 27. Deferred income and advances paid	31 Dec. 2008	31 Dec. 2007
Interest		
Interest receivables	677	552
Interest advances paid	40	4
Total	**717**	**556**
Other		
Other advances paid	4	4
Other deferred income	10	12
Total	**14**	**16**
Total deferred income and advances paid	**731**	**572**

NOTE 28. Deferred tax assets and liabilities

	Deferred tax assets	Deferred tax liabilities	Net
From timing differences	8		8
From other temporary differences	8		8
Total	**16**		**16**

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 2008

The balance sheet does not include any revaluation.

Appropriations

	Balance sheet value	Deferred tax liability	Net
Depreciation difference	95	25	70
Voluntary provisions	380	99	281
Total	**475**	**123**	**351**

Depreciation difference and voluntary provisions have been entered in the balance sheet to the amount of non-deducted deferred tax.

NOTE 29. Debt securities issued to the public

	Book value 31 Dec. 2008	Nominal value 31 Dec. 2008	Book value 31 Dec. 2007	Nominal value 31 Dec. 2007
Certificates of deposit	5,349	5,435	2,996	3,030
Bonds	6,487	6,583	7,264	7,338
Other	4,892	4,937	2,762	2,777
Total	**16,728**	**16,955**	**13,022**	**13,145**

NOTE 30. Other liabilities	**31 Dec. 2008**	**31 Dec. 2007**
Payment transfer liabilities	360	481
Accounts payable on securities	22	288
Margin liabilities related to derivative contracts	125	45
Other	278	242
Total	**786**	**1,056**

Other' includes EUR 263 million (228) in equity and derivative liabilities.

NOTE 31. Statutory provisions

Statutory provisions do not exist.

NOTE 32. Deferred expenses and advances received	31 Dec. 2008	31 Dec. 2007
Interest		
Interest liabilities	636	516
Interest advances received	1	1
Total	**636**	**516**
Other		
Other advance payments received	3	3
Other deferred expenses	28	26
Total	**32**	**29**
Total deferred expenses and advances received	**667**	**545**

NOTE 33. Subordinated liabilities

	Book value	Nominal value
Perpetual loans	255	255
Other loan commitments issued by the financial institution	757	758
Subordinated loans	260	279
Total	**1,272**	**1,292**

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 Supervision 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 Supervision Authority. A fixed 3.875% interest is paid on the loan annually. The loan is included in upper Tier 2 capital.
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 Supervision Authority. A fixed 3.5% interest is paid on the loan annually. The loan is included in lower Tier 2 capital.
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 Supervision Authority. The loan carries an interest based on 3-month Euribor + 17.5 bps. The loan is included in upper Tier 2 capital.
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 Supervision Authority. The loan carries an interest based on 3-month USD Libor + 20 bps.
6. A debenture loan of EUR 170 million which can be called in at the earliest in 2013, subject to authorisation by the Financial Supervision Authority. The loan carries a variable interest based on 3-month Euribor + 1.90% until 2013 and 3-month Euribor + 1.50% thereafter.
7. A debenture loan of EUR 100 million which can be called in at the earliest in 2013, subject to authorisation by the Financial Supervision 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 34.1 million (25.1) on 31 December 2008.

Issue date	Book value, EUR million	Interest rate, %	Due date
4 June 2003	5.4	3.4 %	4 June 2009
19 November 2003	6.8	3.9 %	19 November 2009
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	3.3 %	8 March 2012
20 September 2006	0.2	3.85 %	20 September 2012
3 March 2008	3.5	4.10 %	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 (0.2).

Subordinated loans

Subordinated loans included in Tier 1

1) Subordinated loan of 10 billion Japanese yen (equivalent of EUR 79 million). The loan is included in Tier 1 at the issue price of EUR 73.7 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 –1.6 million in change in fair value recognised for hedging (–17.8).

NOTE 34. Shareholders’ equity

	Shareholder's equity at year-start	Increases	Decreases	Transfers between items	Shareholder's equity at year-end
Total shareholders’ equity	**1,315**				**1,180**
Share capital	428				428
Share issue					
Share premium account	524				524
Other restricted reserves	**161**				**142**
Reserve fund	164				164
Fair value reserve	-3		25		-22
Fair value measurement	-3		25		-22
Non-restricted funds	**23**				**23**
Other funds	23				23
Retained earnings or losses after adjus	179		131		48
Profit or loss for the financial year		15			15

Changes in fair value reserve

	At year-start	Increases	Decreases	Trans-ferred to income statement	At year-end
Notes and bonds	-4		13	3	-14
Shares and participations	1		8	1	-8
Total	**-3**		**21**	**3**	**-22**

NOTE 35. Restricted and non-restricted equity and non-distributable equity items

Shareholders' equity 31 Dec. 2008	
Restricted equity	1,093
Non-restricted equity	86
Total shareholders’ equity	**1,180**
Distributable funds 31 Dec. 2008	
Non-restricted equity	86
Fair value reserve	-22
Distributable funds	**64**

NOTE 36a. Financial assets and liabilities by maturity 31 December 2008

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	1,213	1,053	1,248	347	182
Receivables from financial institutions	1,903	1,021	2,761	931	22
Receivables from the public and public sector entities	2,662	1,700	4,114	1,946	1,261
Notes and bonds	146	84	300	88	0
Liabilities to credit institutions and central banks	2,966	629	40	11	0
Liabilities to the public and public sector entities	2,685	289	20	324	236
Debt securities issued to the public	8,116	3,911	4,404	298	0
Subordinated liabilities	0	12	1,050	126	84
Total	**19,691**	**8,698**	**13,936**	**4,070**	**1,785**

Deposits other than fixed-term deposits are included in the maturity class 'less than 3 months'.

NOTE 36b. Fair values and book values of financial assets and liabilities 31 December 2008

Financial assets	Book value	Fair value
Liquid assets	2,260	2,260
Receivables from financial institutions	6,638	6,591
Receivables from the public and public sector entities	11,683	11,610
Notes and bonds	4,661	4,582
Shares and participations	76	76
Shares and participations in affiliates	1	1
Shares and participations in subsidiaries	1,285	1,285
Derivative contracts	1,559	1,559
Total	**28,163**	**27,963**
Financial liabilities		
Liabilities to credit institutions and central banks	3,646	3,646
Liabilities to the public and public sector entities	3,554	3,554
Debt securities issued to the public	16,728	16,728
Derivative contracts and other liabilities held for trading	2,034	2,034
Subordinated liabilities	1,272	1,272
Total	**27,233**	**27,233**

NOTE 37. Assets and liabilities denominated in euros and foreign currencies 31 December 2008

			Of which	
	Euros	Foreign currencies	Subsidiaries	Associates
Receivables from financial institutions	6,378	260		
Receivables from the public and public sector entities	10,921	761	247	
Notes and bonds	4,642	19		
Derivative contracts	1,315	171		
Other assets	5,572	48	1,289	
Liabilities to credit institutions and central banks	3,267	378	2	
Liabilities to the public and public sector entities	3,190	364	45	
Debt securities issued to the public	13,554	3,173	56	
Derivative contracts and liabilities held for trading	1,624	158		
Subordinated liabilities	854	418		
Other liabilities	1,396	57	0	
Total	**52,713**	**5,809**	**1,639**	

OTHER NOTES

NOTE 38. 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	159,564,128	43,786,772	203,350,900
Percentage of share capital	78.5	21.5	100
Votes per share	1	5	
Percentage of votes	42.2	57.8	100

The stated value of Pohjola Bank plc's share is EUR 2.10. The stated value is an approximation. The number of issued shares was doubled without altering the share capital, based on a decision made by the Annual General Meeting of 31 March 2004.

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 2008.

Long-term management incentive scheme

The long-term management incentive scheme applies to the President and CEO of Pohjola Bank plc, heads of business divisions and departments and those in charge of separately defined managerial, supervisory and expert duties. On 31 December 2008, the scheme covered 71 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 2006–08 as annual bonuses.

In 2008, target indicators for the management incentive scheme were as follows:

Pohjola Group's earnings per share for the financial year, target 1 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 82,501, 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 0.03 million 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 2008, the Fund had 673 Pohjola Bank plc's salaried employees.

In 2008, the amount of profit-based bonuses based on profit for 2007 and transferred to the Personnel Fund totalled around EUR 0.4 million.

The profit-based bonuses transferred to the Personnel Fund in 2008 and 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 2009 to be transferred to the Fund account for 3.0% of the combined salaries and wages earned by the Fund's members in 2009.

NOTE 39. Major shareholders and breakdown of shareholding

Major shareholders in terms of votes

(10 largest shareholders based on the Shareholder Register on 31 December 2008)

		No. of shares	Total no. of shares	% of shares	No. of votes	% of votes
OP-Pohjola Group Central Cooperative	A	22,236,657				
	K	38,589,240	60,825,897	29.9	215,182,857	56.9
Suomi Mutual Life Assurance Company	A	20,833,700				
	K		20,833,700	10.2	20,833,700	5.5
Ilmarinen Mutual Pension Insurance Company	A	20,335,090				
	K		20,335,090	10.0	20,335,090	5.4
Oulun Osuuspankki	A	1,599,042				
	K	1,012,400	2,611,442	1.3	6,661,042	1.8
Keski-Uudenmaan Osuuspankki	A					
	K	491,800	491,800	0.2	2,459,000	0.6
Keski-Suomen Osuus-pankki	A	8,000				
	K	456,560	464,560	0.2	2,290,800	0.6
Länsi-Suomen Osuus-pankki	A	699,204				
	K	251,820	951,024	0.5	1,958,304	0.5
OP Bank Group Pension Fund	A	1,880,793				
	K		1,880,793	0.9	1,880,793	0.5
Pohjolan Osuuspankki	A	549,720				
	K	255,220	804,940	0.4	1,825,820	0.5
OP Bank Group Pension Foundation	A	1,800,000				
	K		1,800,000	0.9	1,800,000	0.5
Total			110,999,246	54.5	275,227,406	72.8
Nominee-registered shares	A		35,426,209	17.4	35,426,209	9.4
Total number of shareholders			30,592			

Major shareholders in terms of shareholdings
(10 largest shareholders based on the Shareholder Register on 31 December 2008)

	No. of shares	% of shares	% of votes
OP-Pohjola Group Central Cooperative	60,825,897	29.9	56.9
Suomi Mutual Life Assurance Company	20,833,700	10.2	5.5
Ilmarinen Mutual Pension Insurance Company	20,335,090	10.0	5.4
Oulun Osuuspankki	2,611,442	1.3	1.8
OP Bank Group Pension Fund	1,880,793	0.9	0.5
OP Bank Group Pension Foundation	1,800,000	0.9	0.5
Turun Seudun Osuuspankki	1,314,197	0.6	0.4
Länsi-Suomen Osuuspankki	951,024	0.5	0.5
Folketrygdfondet	939,018	0.5	0.2
Etelä-Karjalan Osuuspankki	849,721	0.4	0.2
Total	**112,340,882**	**55.2**	**71.9**
Nominee-registered shares	35,426,209	17.4	9.4

Shareholdings by number of shares held (based on the Shareholder Register on 31 December 2008)
Number of shares (Series A and K shares)

	No. of share-holders	% of share-holders	No. of shares	% of shares
1–100	4,760	15.6	320,959	0.2
101–1000	21,084	68.9	6,950,327	3.4
1001–10 000	4,203	13.7	11,682,314	5.7
10 001–50 000	355	1.2	7,411,979	3.6
50 001–100 000	72	0.2	5,056,643	2.5
100 001–	118	0.4	171,928,678	84.5
In joint account				
Total	**30,592**	**100**	**203,350,900**	**100**

Shareholdings by sector (based on the Shareholder Register on 31 December 2008)

Shareholder type	Share-holders	% of share-holders	No. of shares	% of shares	No. of votes	% of votes
Non-banking corporate sector	848	2.8	4,584,969	2.3	4,584,969	1.2
OP-Pohjola Group Central Cooperative and member cooperative banks	228	0.8	89,998,353	44.3	265,145,441	70.1
Other financial institutions and insurance companies	39	0.1	22,873,533	11.2	22,873,533	6.0
Public sector entities	30	0.1	24,823,344	12.2	24,823,344	6.6
Non-profit organisations	313	1.0	3,043,771	1.5	3,043,771	0.8
Households	29,079	95.1	21,460,965	10.6	21,460,965	5.7
Foreign	41	0.1	1,109,756	0.5	1,109,756	0.3
Nominee-registered shareholders	14	0.0	35,456,209	17.4	35,456,209	9.4
In joint account						
Total	**30,592**	**100**	**203,350,900**	**100**	**378,497,988**	**100**

NOTE 40. Assets pledged as collateral 31 December 2008

Assets pledged as collateral

	Pledges	Mort- gages	Total
Collateral pledged on behalf of own debt			
Other liabilities	400		400
Total	**400**		**400**
Other collateral given on own behalf	**4,127**		**4,127**
Total collateral given	**4,527**		**4,527**

Secured liabilities totalled EUR 612 million.

Other collateral given on own behalf consists of collateral required for the maintenance of liquidity.

NOTE 41. Pension liabilities

Direct liabilities from pension commitments	3
Share of the excess margin of pension liabilities on the pension fund and on other liabilities	-
Repayment of the excess margin of the pension fund recorded as pension cost adjustment	-

The statutory pension cover for Pohjola Bank plc employees is managed through the OP Bank Group Pension Fund and the supplementary pension cover through the OP Bank Group Pension Foundation. The Foundation has not accepted new beneficiaries since 30 June 1991. Pohjola Bank plc's pension liabilities are fully covered.

NOTE 42. 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 43. Off-balance-sheet commitments

	On behalf of subsidiaries	On behalf of affiliates	On behalf of others	Total
Off-balance-sheet commitments 31 December 2008			**6,381**	**6,381**
Commitments given to a third party on behalf of customers			**2,766**	**2,766**
Guarantees and pledges			2,613	
Other			152	
Irrevocable commitments given on behalf of customers			**3,616**	**3,616**
Loan commitments			3,263	
Other			353	

NOTE 44. Other contingent liabilities and commitments at the year-end

On 31 December 2008, Pohjola Bank plc's commitments to private equity funds amounted to EUR 17.8 million and relate to those presented in Note 42.

Client assets related to brokerage amounted to EUR 1.4 million included in

Liabilities to the public and public sector entities'.

Accounts payable related to brokerage totalled EUR 60.9 million and accounts receivable EUR 59.5 million.

NOTE 45. Personnel and members of administrative bodies, and related parties

Average personnel in 2008	Average no.	Change during the year
Permanent full-time personnel	591	61
Permanent part-time personnel	20	-2
Fixed-term personnel	59	-4
Total	**671**	**55**

Remuneration paid to members of administrative bodies in 2008	Wages and salaries, EUR million
Members of the Board of Directors, President and CEO, and Deputy CEO	2

The Annual General Meeting approved the following Board emoluments:

Emoluments paid to Board members in 2008 totalled EUR 512,500.

The Chairman's monthly emoluments totalled EUR 7,000, the Vice Chairman's EUR 5,000 and other members EUR 4,000. All Board members received an attendance allowance of EUR 500 for each meeting.

Reijo Karhinen, Chairman EUR 93,900

Tony Vepsäläinen, Vice Chairman EUR 78,300

Members of the Board of Directors:

Merja Auvinen EUR 59,400

Eino Halonen EUR 57,000

Simo Kauppi EUR 59,000

Satu Lähteenmäki EUR 60,400

Tom von Weymarn EUR 60,000

Markku Vesterinen EUR 44,500

Salaries and performance-based bonuses paid to the President and CEO and his deputy in the financial year ending 31 December 2008 were as follows:

Mikael Silvennoinen, President and CEO	EUR 716,599.
Ilkka Salonen, Deputy CEO until 31 December 2008	EUR 287,680.

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 2008

As at 31 December 2008 and 31 December 2007, 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	**2008**
Audit	EUR 165,924
Other services based on legislation*	
Tax counselling	
Other services	EUR 312,081
Total	

* 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.	50
Guarantees and other off-balance-sheet commitments 31 Dec.	8

No impairments have been recognised for the items.

Management holdings

On 31 December 2008, Pohjola Bank plc's Board members, President and CEO and Deputy CEO held a total of 63,421 Series A shares, accounting for 0.031% of all shares and 0.017 of votes conferred by all shares.

NOTE 46. Holdings in other companies 31 December 2008

Subsidiaries	Holding, %	Equity capital	Profit or loss for the financial year
Pohjola Asset Management Ltd Helsinki	90	27	16
Pohjola Capital Partners Ltd Helsinki	65	2	1
OKO Capital East Ltd Helsinki	70	0	0
Pohjola Corporate Finance Ltd Helsinki	64	1	0
Kiinteistö Oy Kanta-Sarvis II Tampere	100	8	
Avainholdco Oy Helsinki	100	1	0
Pohjola Insurance Ltd Helsinki	100	63	-121
A-Insurance Ltd Helsinki	100	25	-8
Pohjola Property Management Ltd Tampere	100	1	1
Pohjola IT Procurement Ltd Helsinki	100	7	1
Kaivokadun PL-Hallinto Oy Helsinki	100	5	0
Seesam Latvia Latvia	100	8	2
Seesam Lithuania Lithuania	100	5	0
Seesam International Insurance Company Ltd. Viro	100	20	3
Vakuutuspalvelu Otava Oy Helsinki	100	0	0
Conventum Venture Finance Ltd. Helsinki	100	10	-3
Northclaims Oy Helsinki	100	0	0
Pohjola Finance Ltd Helsinki	100	19	1

Pohjola Bank plc has no holdings in affiliates or companies in which it would have unlimited liability.

NOTE 47. 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, 12 February 2009

The Report by the Board of Directors and the Financial Statements signed by:

Reijo Karhinen

Merja Auvinen

Eino Halonen

Simo Kauppi

Satu Lähteenmäki

Tony Vepsäläinen

Markku Vesterinen

Tom von Weymarn

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 1 January–31 December 2008. The financial statements comprise the consolidated balance sheet, income statement, cash flow statement, statement of changes in equity 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 the 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 of 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 law and that its financial affairs have been arranged in a reliable manner.

Auditor's 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 on 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 Companies Act and the 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 judgement, including the assessment of the risks of material misstatement of the financial statements, 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 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 the International Financial Reporting Standards (IFRS) as adopted by the EU.

Opinion on the Company's Financial Statements and the Report by the Board of Directors

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

Opinion on Discharge from Liability and Distribution of Profit

We recommend that the parent company's financial statements and the consolidated financial statements be adopted. The proposal by the Board of Directors regarding the use of the profit as shown on the balance sheet is in compliance with the 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, 18 February 2009

KPMG OY AB

Sixten Nyman Authorised Public Accountant in Finland	Raimo Saarikivi Authorised Public Accountant in Finland

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