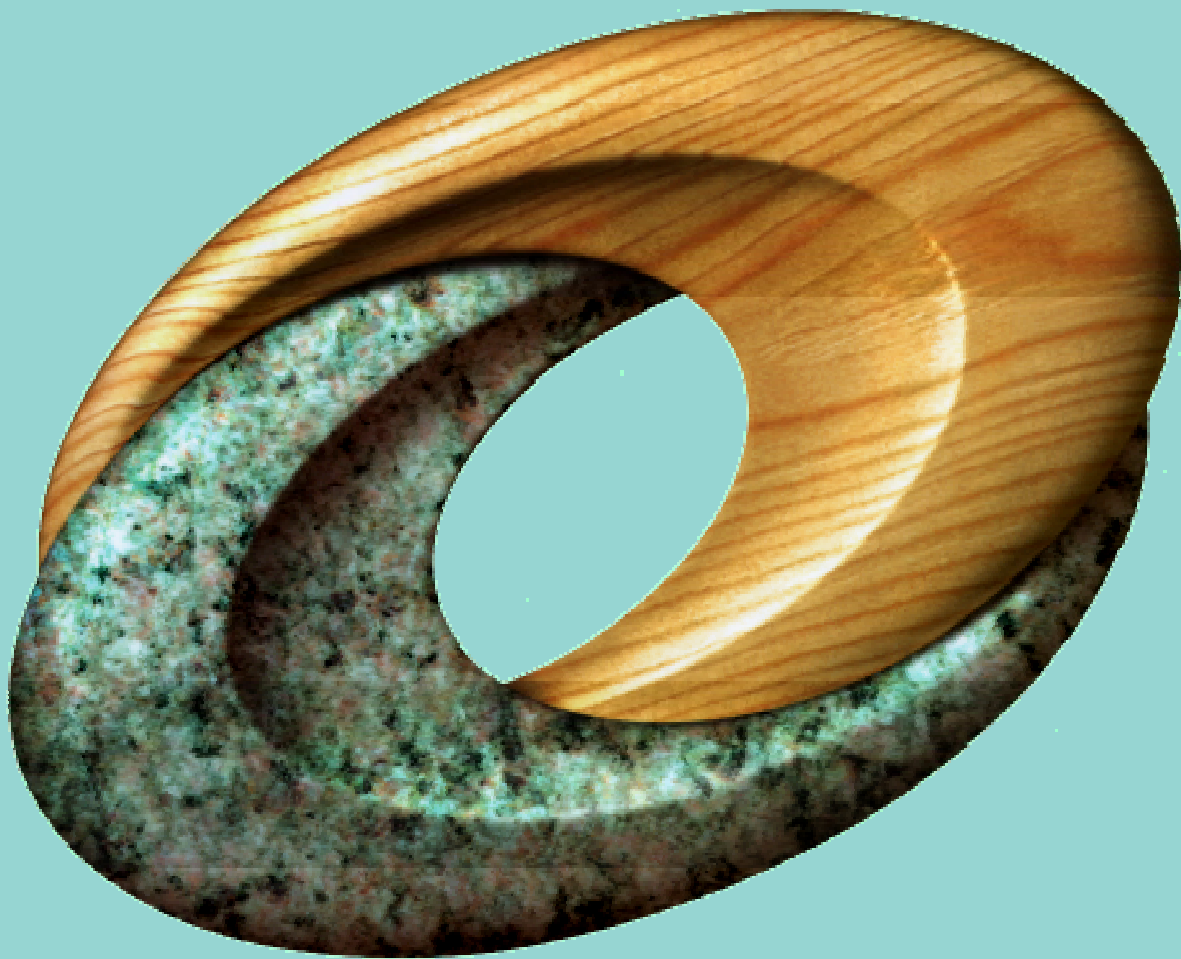


Merita Group Annual Report 1997



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* The Report of Merita Bank's Board of Management is not included in this annual report as a separate section. Its contents are identical with the Banking section of the Review of operations of Merita Plc. The Report of the Board of Management, duly signed by the Board of Management and confirmed by the Supervisory Board, has been presented to the Bank's Auditors. After presentation to the Annual General Meeting of Shareholders, it will be filed with the Finnish Trade Register.

Photo: Magnus Scharmanoff

1997 in brief

<i>FIM million</i>	1997	1996
Profit on ordinary operations	4 073	2 435
Profit before appropriations and taxes	4 073	2 021
Income/cost ratio (banking)	1.86	1.49
Total assets	298 733	271 950
Equity capital	17 380	14 788
Equity capital per share, FIM	16.36	12.85
Earnings per share, FIM	2.31	1.19
Capital adequacy, %	10.7	11.1
Number of employees, December 31	13 716	15 885

In October 1997 the Boards of Directors of Merita and Nordbanken announced a merger plan resulting in the creation of MeritaNordbanken, one of the leading financial services groups in North East Europe.

The Extraordinary General Meeting of Merita shareholders approved the merger plan in November.

MeritaNordbanken has been functioning as a single operational and financial entity since the beginning of 1998. In legal terms, the merger will be consummated in spring 1998, when Merita subsidiaries become subsidiaries of MeritaNordbanken Plc. As the Finnish holding company, Merita will hold 40 per cent of the shares and 50 per cent of the votes in MeritaNordbanken.



Chief Executive's statement

The Finnish economy continued to develop favourably in 1997, with GDP growth proceeding at a vigorous pace, inflation remaining subdued and interest rates staying at low levels. This provided a favourable environment for the banking industry. The propitious operating conditions were reflected in the results of the Merita Group. We are starting the present year from a strong position.

In many ways, 1998 marks the beginning of a new era. The merger of the Unitas and KOP Groups has been brought to a successful conclusion. The projected reductions in staff levels have been completed, and the savings targets have been achieved. All this has significantly improved our profitability. At the same time we have been able to retain our market share.

Following a review of Group policy last year, the long-term equity portfolio has been substantially down-scaled. These disposals have reduced our funding requirement and released capital for other purposes. What used to be unrealized appreciation in the equity portfolio has been translated into tangible gains.

Thanks to our strong performance in the past year, we are able to pay a higher dividend to our shareholders. Our equity base has also strengthened appreciably. The capital investments accepted from the Government of Finland in 1992 have been repaid in their entirety. We have finally put the banking crisis behind us.

The only item outstanding is unpaid interest on the Government's capital investment for 1,080 days, approximately FIM 900 million, which pursuant to the terms and conditions of the capital certificates has been forfeited. On the other hand, it is more than offset by appreciation in the value of the shares received by the Government from Merita's predecessor banks as part of the consideration paid for the two quarters of the business of the Savings Bank of Finland which they purchased in 1993. The rise in the market value of these shares since the time of the purchase amply exceeds the unpaid interest on the capital investment, with Merita shares alone accounting for FIM 500 million of the appreciation.

Merita's brisk progress and improved profitability have had a visible impact on its market capitalization. At the end of 1992, the entire capital stock of our predecessors Unitas and Kansallis-Osake-Pankki could have been bought for an amount not much higher than FIM 3.5 billion. By the end of 1997 the market value of Merita shares had risen to approximately FIM 25 billion.

Almost FIM 4 billion of the rise in our market capitalization dates from the months immediately following the announcement of the Merita-Nordbanken merger. As of the beginning of 1998, Merita has been, operationally and financially, part of the Finnish-Swedish MeritaNordbanken Group. I am confident that by joining forces we shall best ensure our future operating potential and our ability to deliver increasing value to shareholders also over the long term.



Vesa Vainio

Shares and shareholders

The share capital of Merita Plc is FIM 8,304,539,060. Pursuant to the Articles of Association, the minimum share capital is FIM 4,000,000,000 and the maximum share capital FIM 16,000,000,000, within which limits the share capital can be increased or lowered without amending the Articles of Association. The Board of Directors currently holds no authorizations to decide on an increase in the share capital. The authorization effective from April 22, 1996 to April 22, 1997 was not exercised.

Merita shares are divided into two classes, A and B. The nominal value of both classes of shares is FIM 10. The total number of shares issued and outstanding is 830,453,906, of which 763,253,906, i.e. 92 per cent, are A shares and 67,200,000, i.e. 8 per cent, are B shares.

B shares carry pre-emptive right to a fixed annual dividend of 8 per cent of the nominal value of the share, payable out of distributable profits prior to payment of dividend on A shares. If, in any year, such dividend cannot be distributed, B shares shall entitle the holder to obtain the balance out of profit funds disposable in the subsequent year prior to payment of dividend on A shares. In the event that it is not possible to distribute the outstanding amount on B shares in the subsequent year, B shareholders shall forfeit the right to receive the outstanding amount in later years. If a dividend in excess of 8 per cent of the nominal value of the shares is paid on A shares, an additional dividend of half the amount by which the dividend paid on A shares exceeds 8 per cent shall be payable on B shares.

At a General Meeting each A share carries ten (10) votes and each B share one (1) vote. Pursuant to article 10 of the Articles of Association concerning voting at a general meeting, no one may exercise more than 5 per cent of the votes represented at the meeting. Article 23 of the Articles of Association includes a redemption clause providing that a shareholder who acquires 33 1/3 or 50 per cent of all shares or votes in the company shall become subject to redemption liability if redemption is demanded by other shareholders.

On October 22, 1997, the Board of Directors of Merita Plc signed a shareholder agreement with Nordbanken Holding AB (publ) concerning ownership of Merita-Nordbanken Plc. The agreement provides for the eventuality that a third party should acquire a controlling interest in either Merita or Nordbanken Holding.

Share price development

Merita shares are traded on the Helsinki Stock Exchange and quoted in the SEAQ

International system in London. The price of the Merita A share in Helsinki on the last business day of the year, December 30, 1997, was FIM 29.80, showing a rise of 106.9 per cent from the 1996 closing price of FIM 14.40. During the same period, the price of the B share rose by 81.6 per cent to FIM 28.70 from FIM 15.80 at the end of 1996. This compares with a gain of 35.16 per cent in the HEX all-share index. Boosted by Merita's dominant weight, the bank and finance sector index advanced by 101.68 per cent, significantly outperforming the market.

Trading volume

Total trading in Merita shares on the Helsinki Stock Exchange in 1997 amounted to FIM 8,951 million, compared with FIM 3,553 million in 1996. Trading in A shares increased by FIM 5,004 million to FIM 8,417 million, while trading in B shares increased from FIM 140 million to FIM 534 million.

Distribution of Merita Plc shareholding, 31.12.1997

Number of shares	Number of shareholders	% of shareholders	Number of shares	% of capital stock
1-1 000	246 831	78.1	67 200 543	8.1
1 001-10 000	65 472	20.7	170 413 953	20.5
10 001-100 000	3 583	1.1	78 594 745	9.5
100 001-	199	0.1	268 103 788	32.3
Nominee-registered	16	0.0	245 016 674	29.5
On collective book-entry accounts			1 124 203	0.1
Total	316 101	100.0	830 453 906	100.0

Merita Plc shares ¹

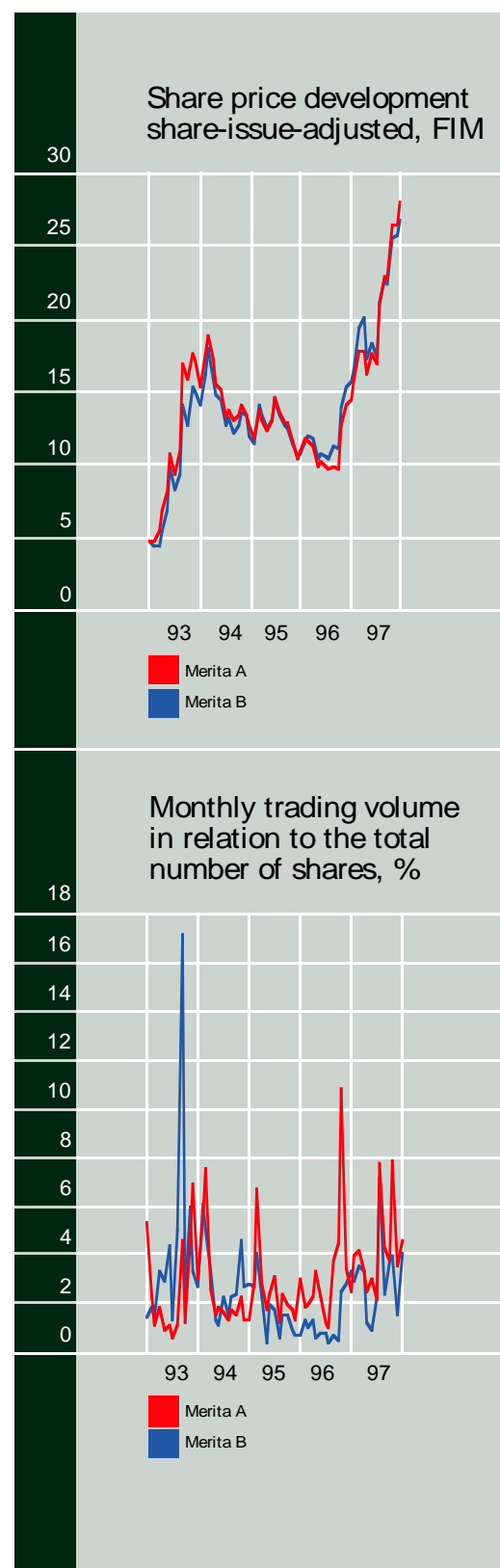
	1993	1994	1995	1996	1997
A, B and C shares total					
Average number of shares, million	389	484	744	830	830
Number of shares, 31.12., million	484	484	830	830	830
Market capitalization, 31.12., FIM mill.	7 228	5 858	9 128	12 053	24 674
Earnings per share (EPS), FIM	-7.14	-2.61	0.52	1.19	2.31 ²
Equity per share, FIM (net asset value)	13.58	11.00	10.62	12.85	16.36 ²
Dividend payout ratio, %	-	-	-	21.6	32.6 ⁴
A shares					
Trading average, FIM	14.00	16.12	12.80	11.30	20.86
Trading low, FIM	4.20	12.00	10.20	9.10	14.10
Trading high, FIM	20.99	20.60	15.10	15.20	30.00
Shares traded, 1 000	74 071	125 085	129 141	294 667	387 495
% of all A shares	27.4	30.0	31.0	38.6	50.8
Average number of shares, million	298	417	677	763	763
Number of shares, 31.12., million	417	417	763	763	763
Market capitalization, 31.12., FIM mill.	6 294	5 085	8 396	10 991	22 745
Dividend/share, FIM	-	-	-	0.20	1.00 ⁴
Effective dividend yield, %	-	-	-	1.4	3.4 ⁴
Price/earnings (P/E)	-	-	21.3	12.1	12.9
B shares					
Trading average, FIM	11.68	14.61	12.90	12.09	21.16
Trading low, FIM	3.63	11.30	10.30	10.00	15.70
Trading high, FIM	17.26	19.20	15.00	16.50	29.00
Shares traded, 1 000	26 331	23 591	12 622	10 506	24 681
% of all B shares	48.7	35.1	18.8	15.6	36.7
Average number of shares, million	58	67	67	67	67
Number of shares, 31.12., million	67	67	67	67	67
Market capitalization, 31.12., FIM mill.	934	773	732	1 062	1 929
Dividend/share, FIM	-	-	-	1.60	0.90 ⁴
Effective dividend yield, %	-	-	-	10.1	3.1 ⁴
Price/earnings (P/E)	-	-	21.1	13.3	12.4
C shares³					
Trading average, FIM	11.35	-	-	-	-
Trading low, FIM	3.95	-	-	-	-
Trading high, FIM	20.18	-	-	-	-
Shares traded, 1 000	8 443	-	-	-	-
% of all C shares	28.1	-	-	-	-
Average number of shares, million	33	-	-	-	-
Number of shares, 31.12., million	-	-	-	-	-
Market capitalization, 31.12., FIM mill.	-	-	-	-	-

¹ Share-issue adjusted, calculated in accordance with the provisions of the Finnish Financial Supervision Authority, see page 44.

² Assuming exercise of all subscription rights carried by convertible bonds and bonds with equity warrants, EPS would be 2.23 and equity capital per share would be higher than that shown in the table.

³ C shares were converted to A shares on 23.12.1993.

⁴ Board of Directors' proposal for 1997.



Market capitalization

Merita's market capitalization on the last trading day of the year, December 30, 1997, was FIM 24,674 million.

Dividend

The Board of Directors proposes that the General Meeting of Shareholders declare a dividend of 10 per cent of nominal value, i.e. FIM 1.00 per share, on A shares and a dividend of 9 per cent, i.e. FIM 0.90 per share, on B shares for the year 1997.

Bonds with equity warrants

1990–1998

During 1997, a total of 2,457 new A shares were subscribed through exercise of warrants outstanding in respect of bonds issued

by Union Bank of Finland Ltd (Merita Plc) to its management and staff in 1990. The exercise price was FIM 28.94 per share.

The resultant increase of FIM 24,570 in the share capital was entered in the Trade Register on December 29, 1997. The new shares rank for dividend for the first time for 1997.

The remaining warrants, expiring on March 12, 1998, are exercisable into 1,650,563 A shares. Any shares that may be thus subscribed during 1998 will carry entitlement to dividend as of 1998.

Convertible bonds 1992

In 1992, convertible bonds were issued to the public by Merita Plc in the amount of FIM 906.1 million, each bond of

Merita Plc shareholders by sector, 31.12.1997

	% of shareholders	% of shares
Private corporates	1.3	10.6
Public corporates	0.0	8.1
Financial and insurance institutions	0.0	8.9
Public sector organizations	0.1	4.2
Non-profit organizations	1.0	3.6
Households	97.2	33.7
Foreign owners	0.3	30.9
Total	100.0	100.0

Increases in Merita Plc share capital 1993–1997

Form and time of increase	Subscription ratio or subscriber	Subscription price, FIM	Number of new shares	Dividend entitlement	Increase in share capital FIM million	New share capital FIM million
Rights issue 13.9.–13.10.93	3:1 100 new shares for 1 conv. bond	A:10.00 B:10.00 C:10.00	A: 89 370 133 B: 16 800 000 C: 9 624 036	1/1 1993 1/1 1993 1/1 1993	1 157.9	4 359.9
Directed issue 13.9.–13.10.93	public	A:15.70	A: 30 000 000	1/1 1993	300.0	4 659.9
Directed issue 3.11.93	Government Guarantee Fund	A:15.90	A: 18 000 000	1/1 1993	180.0	4 839.9
Directed issue 29.12.95	1 new Merita Ltd share for each 3 Kansallis-Yhtymä Oy shares	A:10.00	A:346 457 170	1/1 1995	3 464.6	8 304.5
Subscriptions with warrants (bonds with warrants 1990)	personnel	A:28.94	A: 2 457	1/1 1997	0.0	8 304.5

FIM 10,000 being convertible into 300 A shares of Merita at a mathematical conversion price of FIM 33.33 per share. Conversion may take place annually between January 2 and November 30, however no later than August 17, 2042. As a result of conversion, the total number of A shares in issue can increase by a maximum of 27,182,400, carrying an aggregate 271,824,000 votes. The corresponding maximum increase in the company's share capital is FIM 271.8 million.

The above-mentioned convertible bonds rank as Upper Tier 2 capital. In the absence of distributable funds, the issuer may defer payment of interest on the bonds on the condition that no dividend may be paid until interest outstanding on the bonds has been paid in full. No unpaid interest was outstanding at the end of 1997. The annual rate of interest payable on the bonds is the six-month Helibor plus 1.75 percentage points.

The company has the right to repay the principal amount of the bonds in full or in part on August 17, 2002 or any time thereafter subject to meeting the capital adequacy requirements set out in the terms and conditions of the bonds.

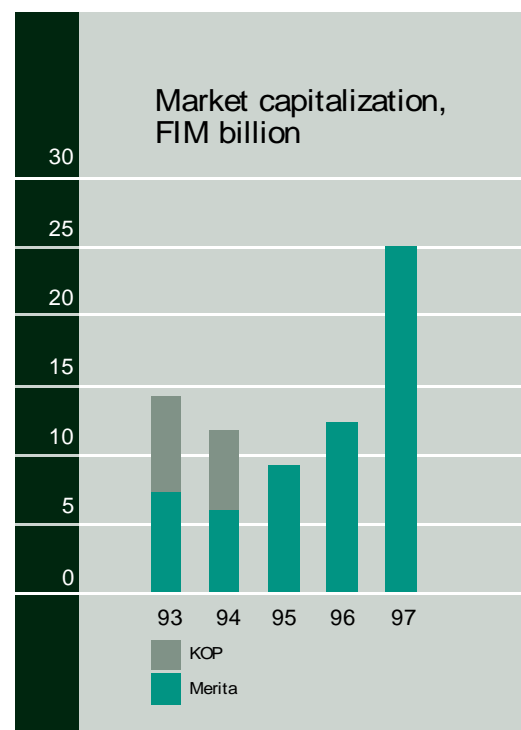
Shareholders

The year-end number of Merita shareholders was 316,101, approximately 25,000 fewer than at the end of 1996. Shares registered in the name of nominees represented 29.5 per cent of the total number of shares, while 1.4 per cent of the shares were registered directly in the name of foreign beneficial owners. Altogether, shares held by foreign investors represented 33.1 per cent of the total number of votes.

Management's interests are discussed in Note 33 to the financial statements on page 76.

Merita Plc – Largest shareholders according to the shareholder register, 31.12.1997

	% of shares	% of votes
Arsenal Asset Management Company	7.7	8.3
UPM-Kymmene Corporation	2.7	2.8
Pohjola Insurance Company	1.7	1.8
Suomi Mutual Life Assurance Company	1.6	1.7
Sampo Insurance Company	1.2	1.3
Pension Insurance Company Ilmarinen	1.2	1.3
Merita Ltd Pension Fund	1.2	1.3
Meiji Mutual Life Insurance Company	1.0	1.1
Onninen Investment Ltd	1.0	1.0
Pension-Varma Mutual Insurance Company	0.9	0.9





Pradeep Gupta is responsible for International Equity Investments at Merita Asset Management.

The Merita Group

Description of the Group

The merger of Merita and Nordbanken will bring about major changes in Group organization. Under the new holding structure, the Finnish holding company Merita Plc will own 40 per cent of the shares of Merita-Nordbanken Plc, the parent company of the MeritaNordbanken Group. The Swedish holding company Nordbanken Holding AB (publ) will hold 60 per cent of the shares. With voting rights divided equally between the two shareholders, MeritaNordbanken will not be consolidated with either of the holding groups.

The transfer of Merita subsidiaries to MeritaNordbanken will be completed during spring 1998. Operationally and financially, the MeritaNordbanken Group has already been functioning as a single entity since the beginning of 1998, with Merita Bank Ltd serving as the Group's banking arm in Finland and Nordbanken AB fulfilling the same function in Sweden. Merita-Nordbanken's operations are divided into five principal business areas: Retail Banking, Asset Management, Corporate Banking, Markets, and Real Estate.

Banking

The core business of the Merita Group organization has been Merita Bank Ltd with its subsidiaries. Under the new Group structure, Merita Bank will carry on its domestic and international banking business as a subsidiary of MeritaNordbanken, accepting deposits from households, companies and institutions, granting credit, issuing guarantees, providing finance for leasing, hire purchase and factoring operations and of-

fering credit card services through its specialized finance companies. Merita Bank occupies a prominent position on the Finnish money, capital and securities markets.

In 1997 Merita Bank was divided into three main business areas: Retail Bank, Corporate Bank and Investment Banking. Since the beginning of 1998, when Merita-Nordbanken commenced operations as a single economic entity, Merita Bank's business has been part of the joint organization.

In the MeritaNordbanken Group, Retail Banking is divided into eight regional banks, three in Finland and five in Sweden, each constituting a profit centre of its own. The Retail Banking business mix comprises deposits from the public, housing loans, consumer credit, and lending to small and medium-sized companies. Approximately 40 per cent of Finnish households and 60 per cent of small and medium-sized companies use Merita as their principal bank. The Bank has some 3 million personal customers and 350,000 commercial and institutional customers.

The range of Retail Banking services is complemented by products offered by Group subsidiaries. Merita Finance Ltd, the largest finance house in Finland, is responsible for leasing, hire purchase, factoring and vendor finance services, while Merita Customer Finance Ltd focuses on consumer credit. Industrial Bank of Finland Ltd raises funds through public issues of collateralized industrial bonds for the financing of long-term investment projects launched or guaranteed by municipalities.

MeritaNordbanken's Retail Banking function further includes former Merita Retail Bank units Merita Private Bank and Merita Bank Luxembourg S.A., which specialize in sophisticated asset management and investment advisory services. The Luxembourg subsidiary also has four international investment funds under management.

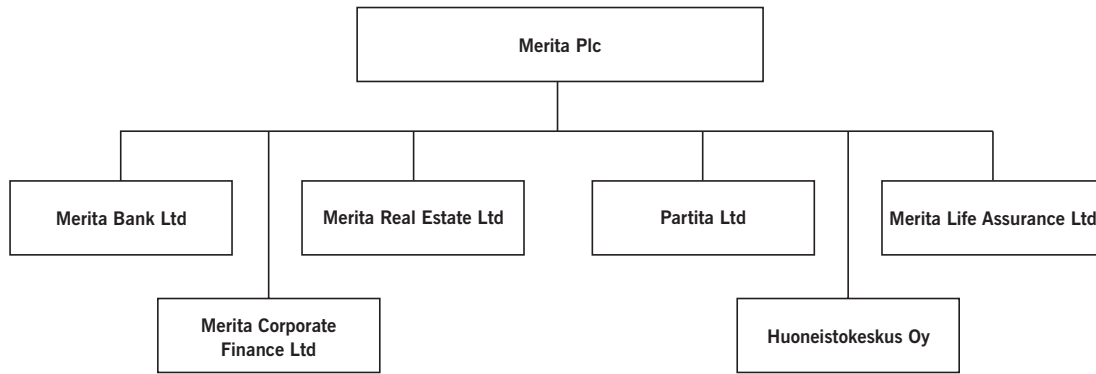
Merita Bank is a leading provider of banking services to large corporations and institutions. Its Corporate Customers division has a clientele comprising over 250 major corporations. In its present form, the Corporate Customers division attends to part of the business previously handled by Merita Corporate Bank. It offers a wide range of services in Finland and globally through its international network and correspondent banks worldwide. It also has responsibility for international trade financing.

In MeritaNordbanken, trading and capital market operations in Finland and abroad, which previously were part of Merita Investment Banking, are organized under the business unit Markets. The former Investment Banking subsidiary Merita Securities Ltd also belongs to this unit. Merita Fund Management Ltd and Merita Asset Management Ltd are organized under Asset Management, and Merita Corporate Finance Ltd is part of Corporate Banking.

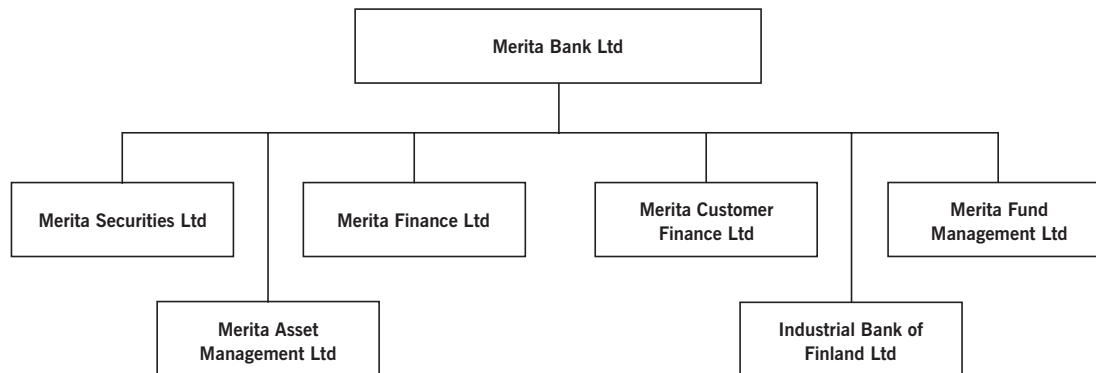
The Trading and Capital Markets unit conducts extensive operations in the domestic and international money, foreign exchange and capital markets. It offers a broad coverage of cash and derivative

Group structure, December 31, 1997

Merita Group



Merita Bank Group



The charts include the principal subsidiaries.

instruments and debt issue services to Group customers.

Merita Securities Ltd is the Group's securities brokerage and investment research arm and a member of the Helsinki Stock Exchange. Merita Fund Management Ltd is responsible for the management of 15 mutual funds registered in Finland. Merita Asset Management Ltd specializes in professional portfolio management for institutional customers. It also manages the investment portfolios of the Merita mutual funds. Merita Corporate Finance Ltd acts as an advisor in corporate restructurings and equity financings.

Insurance

The range of products and services provided by Merita Bank is complemented by the conventional and unit-linked life and pension products offered by Merita Life Assurance Ltd. This company, established in 1993, sells its products through Merita branches under the Selektä brand name. Merita Life Assurance Ltd is Finland's largest life assurance company in terms of premium income. In the MeritaNordbanken organization, the Group's insurance business is organized under Asset Management.

Equity investments

Merita and its Pension Fund and Foundation, which together form the Merita holding group, have significant ownership holdings in Finnish companies. The equity portfolio of the Merita holding group is managed by the Group subsidiary Partita Ltd, which also engages in securities trading.

Real estate business

Most of Merita's real estate holdings are owned and managed by Merita Real Estate Ltd, which specializes in property management and development. Merita Real Estate Ltd is the largest private-sector owner of real estate in Finland.

Merita's real estate portfolio comprises a total of 2.5 million square metres of floor space consisting mainly of commercial premises. In terms of capital employed, approximately 70 per cent of the properties are located in the Helsinki area. Premises occupied by the Group's own operations account for 16 per cent.

Real estate brokerage

The Group subsidiary Huoneistokeskus Oy specializes in the purchase, sale and leasing of residential properties. Together with Merita Bank it is equipped to offer a complete brokerage, loan and insurance service to home buyers and sellers. Huoneistokeskus Oy is part of MeritaNordbanken's Retail Banking function.

Service networks

Domestic network

In Finland, Merita Bank offers over-the-counter banking facilities at 536 outlets, which also provide life assurance and investment services. In addition, it has 25 shopping mall outlets specializing in sales and advisory services. Sophisticated asset management expertise is concentrated in 25 asset management units and the four branches of Merita Private Bank. The

domestic network further includes 22 service units catering to commercial customers.

International network

Merita Bank has branches in London, New York, Singapore, Stockholm and Tallinn. The Stockholm Branch will be closed at the end of March 1998. The international network further includes subsidiaries in Luxembourg, New York and Singapore and representative offices in Beijing, Hong Kong, Moscow, St. Petersburg, Sao Paulo, Tokyo and Warsaw. In Russia, the Bank also participates in International Moscow Bank with a 12 per cent ownership stake, and in the Baltic Region it has agreed to acquire a controlling interest in Investment Bank of Latvia during 1998.

Electronic banking

Merita is a trail-blazer in the field of electronic banking. Its electronic services, marketed under the Solo brand, comprise a wide range of products from daily household banking to sophisticated cash management services to large corporations. Merita customers have access to the Bank's own 1,400-plus Solo payment ATMs and more than 2,000 pooled cash machines.

At the end of the year, over 330,000 customers were using Merita's Solo services, which include bill payments, account inquiries, stock trading and transactions in mutual fund units. The Solo Bank handles approximately one million transactions per month. The Solo service is available via all data networks, including the Internet, under an all-in-one service agreement embracing both PC and telephone banking facilities.

Human resources

The year-end number of Merita Group employees was 13,716, representing 13,550 full-time equivalent positions. Of these, 12,703 were employed within the Merita Bank Group.

As a result of the consolidation of certain equity and real estate investment companies, the Merita Group personnel figures include persons employed in industry and hotel business who are not members of Merita's banking staff.

The development of Merita's human resources is based on the strategies and common goals adopted by the Group.

Officers-in-charge have primary responsibility for the training of their personnel, and each employee is expected to take an active role in his or her individual progress. The preferred method is on-the-job learning.

The focal areas of Merita's human resources development are managerial, sales and customer service skills, computer literacy, the measuring of training results, and the development of learning techniques.

Merita Group Personnel 31.12.1997

Merita Bank Ltd	10 950
Contant Group	196
Fidenta Oy	221
Huoneistokeskus Oy	515
Merita Customer Finance Ltd	235
Merita Asset Management Ltd	32
Merita Invest Group	573
Merita Corporate Finance Ltd	18
Merita Life Assurance Ltd	46
Merita Real Estate Group	321
Merita Securities Ltd	66
Merita Fund Management Ltd	6
Merita Finance Ltd	276
Partita Ltd	15
Industrial Bank of Finland Ltd	12
Other	234
Total	13 716

Merita Group Personnel abroad 31.12.1997

London	135
Luxembourg	47
New York	98
Singapore	45
Tallinn	27
Stockholm	26
Representative offices	16
Total	394



Sanna-Mari Tapiala-Lustig has been employed by Merita Bank for over ten years. Thanks to today's advanced electronic banking facilities accessible by telephone or via personal computers and ATMs, she has more time for individual attention and advisory service.

Merita Plc: Review of operations

Operating environment

The vigorous expansion of the Finnish economy continued in 1997, with GDP growth exceeding 5 per cent. The key factor behind the brisk pace of economic growth was strong export performance, driven by a pick-up in demand and competitive prices.

Domestic demand also continued to grow steadily. The construction sector regained momentum following a long period of low activity, and construction investment increased by a good 10 per cent. The steepest rise was registered in housing investment, which increased by approximately one-third.

Despite the rapid rate of growth the economy remained remarkably balanced, with growing surpluses on trade and current account and inflation staying at low levels. Consumer prices rose by 1.2 per cent. Thanks to the strong performance of the economy, the central government net borrowing requirement declined significantly, and the EMU convergence criteria for the general government sector were met.

In the autumn the Bank of Finland announced a rise of 0.25 percentage point in its tender rate. Money market rates rose even more, reflecting expectations of further interest rate hikes. Towards the end of the year, the Asian crisis reversed market expectations, and interest rates began to come down slightly. Finnish bond yields also declined. The spread against German bonds narrowed, reflecting growing market confidence about monetary union. International bond yields showed a falling trend.

The Finnish markka depreciated slightly during the year. The ECU/FIM rate at the

end of the year was 5.99, compared with 5.77 one year earlier. The markka also weakened against the principal currencies, falling by 17 per cent against the U.S. dollar and by 4.3 per cent against the Japanese yen.

Share prices on the Helsinki Stock Exchange rose steeply until late October, when the global slide triggered by the Asian crisis sent prices falling. The decline came to a halt towards the end of the year, although great volatility persisted.

Trading activity was buoyant throughout the year, with total turnover on the Helsinki Stock Exchange reaching a new high at FIM 187 billion.

The improvement in the economic situation boosted demand for commercial real estate, resulting in a shortage of space at prime locations. Rents for office and business premises also began to rise. In September, the HCB index illustrating developments in office rents in the Helsinki Central Business District, calculated by the Institute for Real Estate Economics at the Turku School of Economics and Business Administration, showed a 12-month rise of 5.8 per cent.

During the year, total markka lending by Finnish banks increased by 4.0 per cent. However, with a persistent negative trend in foreign currency credits, total lending only rose by 1.0 per cent. Housing loans were up by 3.5 per cent.

Reflecting the market trend, interest rates on markka lending rose towards the end of the year. The average interest rate on new markka loans in December was 4.8 per

cent, compared with a low of 4.5 per cent registered in July. The average interest rate on new housing loans was 5.9 per cent.

There was also an increase in bank deposits despite the widening range of other investment products offered on the market. Accounts exempted from withholding tax attracted an increasing amount of funds, although a large volume of tax-exempt base-rate-linked fixed-term deposits matured during the year. The volume of taxable accounts contracted.

Investments in life and pension insurance continued to grow rapidly. However, growth in premium income decelerated. Investments in mutual funds also showed an upward trend.

No material change took place in the competitive setting or market shares during the year. Bank-owned insurance companies retained a major share of total premium income. According to preliminary data, they accounted for 47 per cent of total premiums written on individual life and pension insurance.

Merger of Merita and Nordbanken

On October 13, 1997 the Boards of Directors of Merita and Nordbanken unanimously recommended the merger of the two Groups' businesses to create the MeritaNordbanken Group, with a new financial holding company, MeritaNordbanken Plc, serving as its parent company. MeritaNordbanken Plc was registered in Finland in January 1998. The merging groups aim at strengthening their competitive position on the home markets and in entire North East Europe.

The shares of Merita subsidiaries will be transferred to MeritaNordbanken in spring 1998. Merita Plc will hold 40 per cent of the shares and 50 per cent of the voting rights in MeritaNordbanken.

The Nordic countries and the Baltic Sea Region are perceived as potential growth centres of the near future, holding a promise of new opportunities for the financial services industry. Customer demands are growing and traditional boundaries separating the banking, fund management and insurance sectors are eroding. Simultaneously rapid advances in information technology are diminishing barriers to entry to traditional banking markets and

fundamentally changing the way financial institutions distribute their products.

Future success on the Nordic markets against increasing competition will require not only proximity to customers but also sufficient critical mass to enable cost-efficient service and distribution. As part of the combined Group, Merita will be better positioned to meet tomorrow's challenges. Merita and Nordbanken believe that by comparing their operations and methods they will be able to choose best practices, thus leveraging mutual strengths.

Revenue synergies to be achieved over the first few years are estimated at FIM 240 million per year, and corresponding cost savings at FIM 450 million per year. The savings will derive mainly from the potential to reduce staffing levels in administrative functions, money and foreign exchange trading and international operations, where the combined downsizing potential is estimated at approximately 600 full-time equivalent positions. There is no overlap in the branch networks.

The overall improvement in performance as a result of the merger would thus be

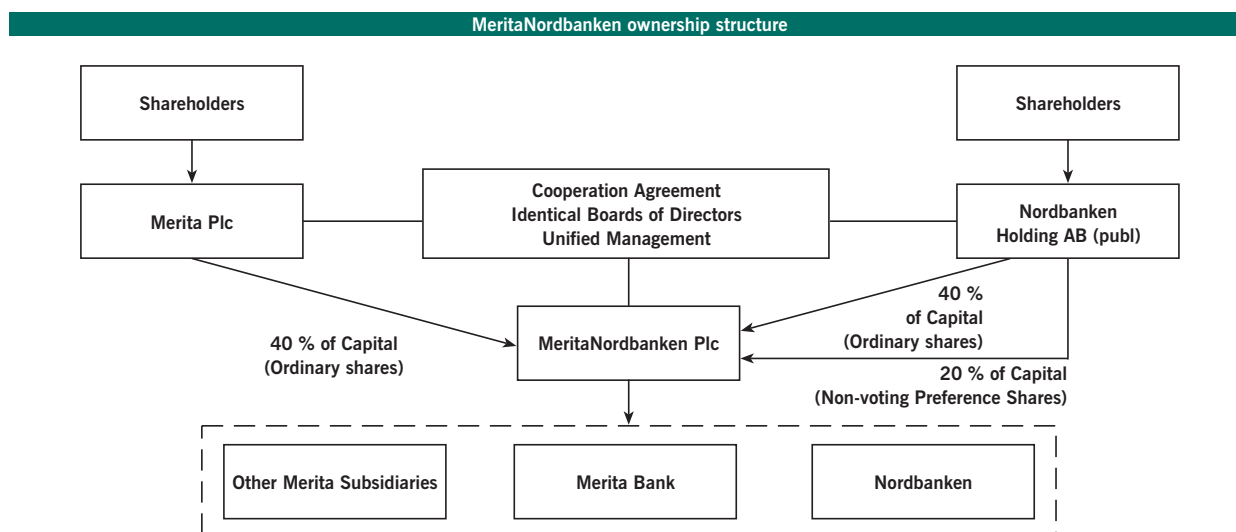
almost FIM 700 million per year, expected to be realized within a three-year period.

Non-recurring restructuring costs are expected to amount to FIM 590 million mainly during 1998.

The merger has been approved by the shareholders of Merita and Nordbanken and by the regulatory authorities. The new Group commenced operations as a single institution as of the beginning of 1998, and the legal consummation of the merger is scheduled to take place during the spring.

MeritaNordbanken has outlined a number of financial goals and targets, including a return on equity of at least 15 per cent and the payment of dividends ranging between 30 and 50 per cent of net profit. Merita and Nordbanken Holding have agreed to pursue a uniform dividend policy.

The new Group structure will mean that Merita shareholders also become owners of the MeritaNordbanken Group, as Merita owns 40 per cent of MeritaNordbanken. The merger documents guarantee the shareholders of Merita and Nordbanken Holding equal voting rights in the new company.



Operating results

The past year saw a significant strengthening in the performance of the Merita Group. This resulted in part from a decline in expenses and loan losses and significant gains on equity transactions. Net income from financial operations also developed favourably, reflecting a major reduction in capital employed in equity holdings and a contraction in zero-interest-rate receivables and other underperforming assets.

Consolidated profit on ordinary operations was FIM 4,073 million, compared with FIM 2,435 million in 1996. Profit after appropriations and taxes was FIM 3,303 million, up from FIM 1,720 million in the preceding year.

Net income from financial operations

Consolidated net income from financial operations increased by 6 per cent to FIM 4,338 million. This rise stemmed in part from the decrease in non-performing receivables and other zero-interest rate and low-yield assets and in part from the growth in deposits, which reduced the need for more expensive funding. Another beneficial factor was the narrowing gap between average non-interest-earning assets and average non-interest-bearing liabilities and equity capital, thanks to improved cash flow and the downsizing of the equity portfolio. The Group's overall interest rate spread, i.e. that between interest-bearing assets and liabilities, fell by 0.12 percentage point owing to changes in the balance sheet structure.

These are discussed from page 21 onwards.

Net income from securities trading

The buoyant stock market environment offered opportunities for equity trading and disposals of long-term equity holdings. Reflecting successful operations on the equity market, net income from securities trading increased by more than 70 per cent. Gains from equity transactions totalled FIM 2,095 million. Approximately FIM 1 billion of these derived from the downsizing of long-term holdings in line with the policy adopted in spring 1997. A gain of FIM 308 million was posted on the sale of the Group's holding in Starckjohann Oy. Gains on the trading portfolio accounted for approximately FIM 350 million.

Trading in debt securities showed a loss of FIM 100 million, consisting mainly of unrealized losses on interest-rate-related derivative instruments. Under applicable regulations, corresponding unrealized gains

on the portfolio of debt securities may not be recognized as income. Interest earned on debt securities is included in net income from financial operations.

Net income from foreign exchange dealing, FIM 147 million, was lower than in the preceding year, owing to weak performance during the first quarter.

Other income

Commission and fee income, FIM 2,363 million rose by 3 per cent despite a major fall in guarantee commissions. Fees earned from lending, securities brokerage and asset management increased. Reflecting the reduction in the equity portfolio, dividend income dropped by more than one-third.

Other operating income increased by 6 per cent to FIM 1,458 million. Most of this consisted of rental income on real estate holdings, boosted by a rise in rent levels

Merita Group – Net income from financial operations 1.1.-31.12.

<i>FIM million</i>	1997	1996	Change, %
Interest income	12 068	12 789	-5.6
Net income from leasing operations	293	309	-5.2
Total interest income	12 361	13 098	-5.6
Interest expenses	-8 023	-9 003	-10.9
Net income from financial operations	4 338	4 095	5.9
Net interest spread, % ¹	1.99	2.11	
Cost of funding net non-interest-earning assets, % ²	-0.20	-0.31	
Net interest margin, % ³	1.79	1.80	

¹ Net interest spread is calculated as interest income divided by average interest-earning assets minus interest expenses divided by average interest-bearing liabilities.

² Net non-interest-earning assets refer to the difference between non-interest-earning assets and non-interest-bearing liabilities, including shareholders' equity. Real estate holdings and shares, the net result of which is not included in net income from financial operations, have a negative effect on this item.

³ Net income from financial operations divided by average interest-earning assets for the period.

and an increase in the number of consolidated real estate companies.

Gains from the sale of real estate totalled FIM 593 million and corresponding losses FIM 514 million. The net gain of FIM 79 million is included in other operating income. Reversals of revaluation items in respect of properties sold amounted to FIM 238 million, which was charged directly against the revaluation reserve.

Expenses

The downward trend in expenses had a favourable influence on profitability. Excluding the impact of the actuarial surplus refunded by the Pension Fund, Group administrative and other operating expenses dropped by nearly FIM 650 million.

The actuarial surplus refunded to the Group by the Merita Ltd Pension Fund and the respective tax credit under the avoiron fiscal system were recognized as a reduction in expenses. The total amount thus refunded was FIM 1,545 million, of which the tax credit accounted for FIM 307 million. In 1996 the corresponding item

amounted to FIM 1,232 million.

Under the avoiron fiscal system, taxes assessed on the Pension Fund in respect of actuarial surpluses refunded are credited to the companies receiving the refund against future income taxes payable.

Excluding the impact of the refund of the actuarial surplus, the Merita Group's personnel expenses contracted by 9 per cent. At the end of the year, FIM 11 million remained unutilized under the FIM 194 million charge entered in the 1995 accounts for staff reduction costs following the merger of the Unitas and KOP Groups. The charge was unwound in the year-end accounts.

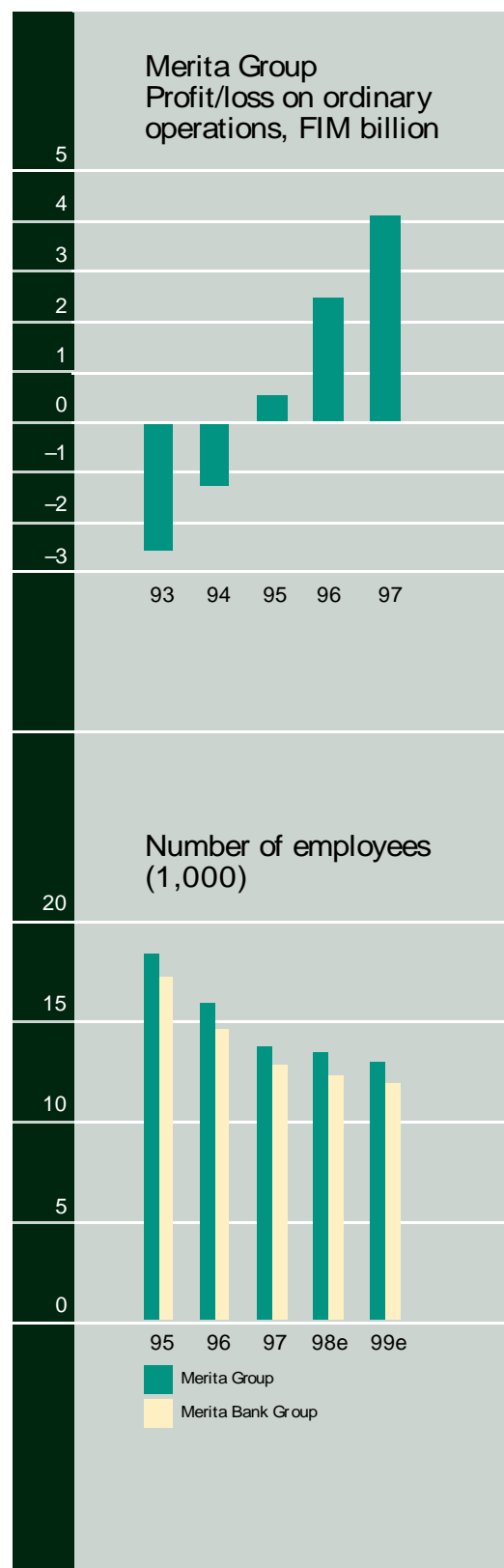
A new charge of FIM 66 million was entered under personnel expenses to cover expenses arising from the downsizing of staff in 1998 and 1999.

Other administrative expenses remained broadly unchanged at the previous year's levels. Preparations for Finland's potential entry into EMU continued. Data systems are being upgraded in order to meet the requirements of both the euro and the Year 2000, with the aim of achieving readiness in late

Major subsidiaries directly owned by Merita Plc

FIM million	Profit/loss on ordinary operations	Total assets
Merita Bank Group	3 039	293 962
Merita Real Estate Group	-953	22 888
Merita Life Assurance Group ¹	19	7 619
Partita Ltd	293	989
Merita Corporate Finance Ltd	35	50
Huoneistokeskus Oy ¹	20	203

¹ Consolidated by the equity method. Summaries of the financial statements of these companies are presented in Notes to the financial statements on page 84.



1998. The Group's total EMU transition costs are estimated at FIM 200 million over the years 1997-2002, with modifications to data systems accounting for approximately FIM 100 million. According to current estimates, the cost of the Y2k Readiness programme will be FIM 50 million. FIM 42 million was charged for related changes in systems in respect of 1997.

Other operating expenses decreased by almost one-quarter, mainly reflecting a decline in rents paid for office premises and a reduction in the Group's rental liabilities. Regulatory fees decreased significantly as a result of the winding up of the operations of the commercial banks' security fund, which eliminated the contribution requirement for 1997. As of 1998, similar contributions will be payable to the joint security fund established by all Finnish banks.

Depreciation charges

The rise in depreciation charges during the year was caused by additional write-downs of FIM 927 million on a number of individual real estate holdings. In addition, FIM 53 million representing reversals of earlier revaluations was applied against the revaluation reserve. Depreciation according to plan, FIM 717 million, was of the same order as in the preceding year. The year's extra charges stemmed in part from properties deemed to have permanently depreciated in value owing to changes in use or development plans. The FIM 110 million write-down on the Tietotalo property mentioned in the press release concerning the first-quarter results of the Merita Group is

not included in this figure, having been reversed as unnecessary based on a re-assessment of the use of the property.

Some of the write-downs focus on properties scheduled to be sold or securitized through separate companies within a few years. Following the merger of Merita and Nordbanken, the new Group adopted the target of accelerating the release of capital employed in Merita's real estate holdings. Owing to the thinness and still relatively undeveloped state of the Finnish real estate market, the short-term price potential of fixed-asset properties does not necessarily equal their value estimated on the basis of prospective rental revenue.

The combined Group's strong capital structure will permit an accelerated divestment of real estate holdings. The intention is to carry out the planned divestitures in a manner designed to maximize the net present value of the portfolio keeping in mind carrying costs. The Group aims to achieve the desired reduction in exposure through securitization as well as disposals. Possibilities of distributing part of the securitized holdings to shareholders will also be charted. The targeted level of capital employed in real estate is expected to be reached within the next 5-7 years.

Loan losses

Loan losses continued to decline. The loan loss charge, net of recoveries of losses booked in earlier years amounting to FIM 666 million, was FIM 1,242 million, a drop of almost 20 per cent compared with 1996. In addition, the FIM 200 million unallocated credit write-off entered in the 1994

accounts was utilized in its entirety.

A charge of FIM 500 million was taken at the year-end in respect of potential losses arising from the economic crisis in Asia. Merita's exposures to the countries hardest hit by the crisis are as follows: South Korea FIM 210 million, Thailand FIM 770 million, Malaysia FIM 240 million and Indonesia FIM 800 million. Receivables from companies relate principally to the financing of Finnish and other Nordic exports.

Direct taxes

Taxes paid by the Group for 1997 totalled FIM 571 million, representing 14 per cent of the profit before appropriations and taxes. The amount of tax was reduced notably by the deduction of losses carried forward from prior years in the accounts of Merita Bank. Most of the Bank's tax loss carry-forwards still available will be utilized in the taxation for 1997.

After the transfer of the holding company business of Merita Plc to MeritaNordbanken Plc, Merita's profits will consist almost exclusively of dividends paid by MeritaNordbanken. After the covering of taxes to be assessed on the basis of the dividend payable for 1997, Merita Plc will dispose of unutilized tax credits under the *avoir fiscal* system in the total amount of somewhat under FIM 400 million.

Tax credits and surpluses available to the MeritaNordbanken Group after taxes payable for 1997, amount to close on FIM 400 million. Owing to changes in ownership in connection with the transfer of business, utilization is subject to the approval of the tax authorities.

Merita Group – Capital adequacy¹

FIM million	1993	1994	1995	1996	1997
Tier 1	8 156	7 101	12 051	13 575	13 940 ²
Tier 2	5 909	4 643	9 092	9 514	9 821
./ deductions	82	175	1 156	1 524	2 367
Tier 3	–	–	–	431	254
Total own funds	13 983	11 569	19 987	21 995	21 648
Risk-weighted assets	125 999	108 453	193 357	198 322	202 412
Capital adequacy, %	11.1	10.7	10.3	11.1	10.7
Tier 1/ risk-weighted assets, %	6.5	6.5	6.2	6.8	6.9

¹ In accordance with the Credit Institutions Act the market risk capital requirement and the Tier 3 capital available for this purpose are included in the calculation of capital adequacy as from 31.12.1996. This change had no significant impact on Merita's capital adequacy ratio.

² The Government capital investment, FIM 1 726 million, is not included in equity capital in the calculation of capital adequacy.

Assets and liabilities

Total consolidated assets of the Merita Group rose to FIM 299 billion. A significant element in this increase was growth in short-term money market investments and liabilities due to interest-rate and liquidity repositioning by the Bank and its customers following the rise in domestic interest rates in the autumn.

A change in accounting practice involved the consolidation as of 1997 of certain real estate holdings previously excluded from the consolidated accounts. This consolidation, comprising some 900 real estate companies, was designed to simplify the administration of real estate assets and to facilitate comparison between the Group's accounting information and other information on developments in its real estate holdings. Its impact on total consolidated assets was not material, as the capital employed in these holdings had already been included in other asset items in previ-

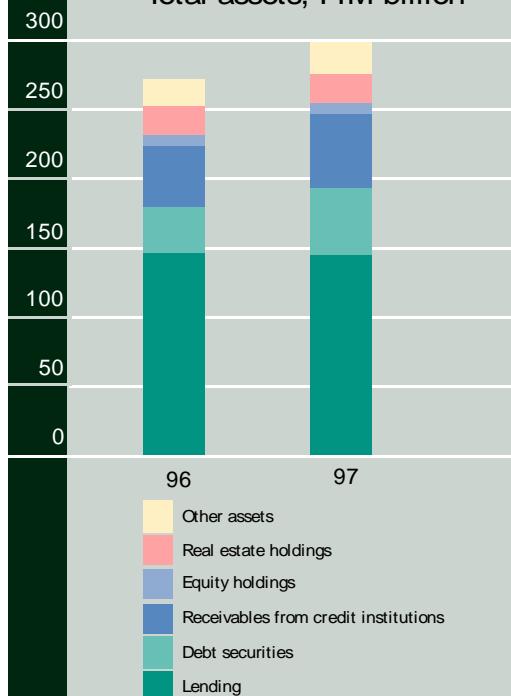
ous years. Likewise, the consolidation had no impact on the total volume and yield of the Group's real estate assets. Total consolidated assets of the Merita Real Estate Group at the end of the year were somewhat under FIM 23 billion.

The Group's non-performing receivables at the end of the year totalled FIM 2.9 billion, which was FIM 1.3 billion less than at the end of 1996. Low-yield receivables decreased by almost 1.6 billion to FIM 2.9 billion. Zero-interest-rate items accounted for slightly over FIM 1.3 billion.

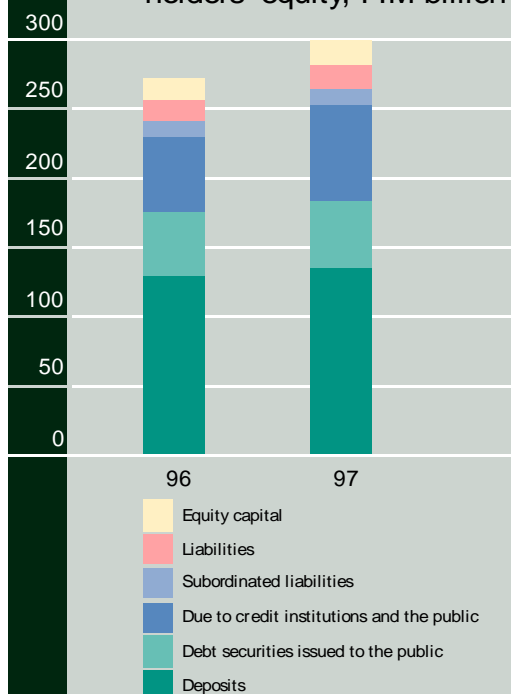
As of the beginning of 1997, the majority of foreclosed assets were reclassified as real estate and equity investments constituting part of normal business activity. The volume of foreclosed assets at the end of the year was FIM 0.2 billion.

Individual balance sheet items are discussed in more detail under the section "Banking", as they arise principally from the Group's banking operations.

Merita Group
Total assets, FIM billion



Merita Group
Total liabilities and shareholders' equity, FIM billion





Samuli Sipilä and Hilikka Relander, working at the Merita Foreign Exchange and Money Markets Desk in Helsinki, share the dealing room with some 120 colleagues.

Capital adequacy

The capital adequacy ratio of the Merita Group at the year-end was 10.7 per cent, a drop of 0.4 percentage point from the end of 1996. The Tier 1 ratio at the year-end was 6.9 per cent. The Government's capital investments were not taken into account in calculating Tier 1 capital. In February 1998 the Board of Management of Merita Bank decided to repay the remaining part of the Government capital investment, FIM 1,726 million, immediately after presentation of the 1997 accounts. The first part, amounting to FIM 1,749 million, was repaid in autumn 1997.

Human resources

The number of persons employed by the Merita Group at the end of the year was 13,716, a decrease of 2,169 from the end of 1996. The Merita Bank Group accounted for most of this reduction. The number of full-time equivalent positions at the end of 1997 was 13,550, i.e. 1,873 fewer than in 1996.

The above figures include the Merita Invest Group (formerly Sponsor Group), consolidated as of the beginning of 1997. Its staff, which at the beginning of the year exceeded 1,700, decreased to slightly under 600 by the year-end. As a result of consolidation, Merita Group staff numbers further include the employees of those industrial companies in which Merita Invest has an interest of over 50 per cent. From the Group's point of view, these are investments to be divested as and when the opportunity presents itself. Group staff will then decrease accordingly. Excluding the Merita Invest Group, Merita Group staff declined

by 1,013 from 14,156 to 13,143.

The projected decrease in staff numbers under the Merita downsizing plan is approximately 500 full-time equivalent positions annually during 1998–1999. The combined potential to reduce staffing levels by eliminating duplication between the organizations of Merita and Nordbanken is estimated at 600 full-time equivalent positions. The projected number of staff in the MeritaNordbanken Group at the end of 1998 is 13,300.

Changes in administrative boards

The composition of the Board of Directors of Merita Plc in 1997 was the following: Mr. Timo Peltola (Chairman), Mr. Erkki J. Toivanen (Deputy Chairman), and the following members: Mr. Casimir Ehrnrooth, Mr. Veikko Jääskeläinen, Mr. Jouko K. Leskinen, Mr. Tauno Matomäki, Mr. Vesa Vainio and Mr. Iiro Viinanen. Mr. Toivanen relinquished his position on November 23, 1997 having reached retirement age. Mr. Jääskeläinen, Mr. Leskinen, Mr. Matomäki and Mr. Viinanen tendered their resignation as of the end of 1997. With a view to the merger of Merita and Nordbanken, the General Meeting of Shareholders of Merita Plc held on November 26, 1997 elected a new Board of Directors consisting of the following persons: Mr. Timo Peltola (Chairman), Mr. Jacob Palmstierna (Deputy Chairman), and the following members: Mr. Dan Andersson, Mr. Rune Brandinger, Mr. Hans Dalborg, Mr. Casimir Ehrnrooth, Mr. Mikko Kivimäki, Mr. Bernt Magnusson, Mr. Juha Niemelä and Mr. Vesa Vainio. The term of office of the new Directors commenced on January 1, 1998.

Changes in the organization

At the end of June, Merita acquired the remaining 30 per cent of the capital stock of Huoneistokeskus Oy, which thus became its wholly owned subsidiary.

In September Merita sold the business operations of its subsidiary Huoneistomarkkinointi Oy, which specializes in commercial properties and related consulting and valuation services, to Swedish Catella AB.

Litigation

In a criminal process currently pending in the Helsinki Court of Appeal, Mr. Pertti Voutilainen, former Chairman and Chief Executive Officer of Kansallis-Osake-Pankki (KOP) and currently President of Merita Bank, is being charged for a securities market crime in connection with the marketing of a public offering of KOP shares in 1994. The Helsinki District Court dismissed all charges in this case in December 1996.

In a civil action also pending in the Helsinki Court of Appeal, 59 shareholders of KOP are claiming damages from Merita Plc based on allegations of distributing misleading information in connection with the above-mentioned public offering of KOP shares in 1994. In March 1997 the Helsinki District Court dismissed all charges and ordered the plaintiffs jointly and severally to compensate Merita for its litigation expenses.

In the normal course of business Merita Plc and other Merita companies are parties to a number of other legal disputes. None of these is believed to have a material adverse effect on the financial position of the Group.

Banking

The performance of the Merita Bank Group strengthened significantly in 1997. Consolidated profit on ordinary operations rose to FIM 3,039 million from FIM 1,762 million the year before. This improvement resulted from a rise in income and a decline in expenses.

Income

Net income from financial operations increased by more than FIM 200 million to FIM 4,806 million, mainly reflecting the decline in non-performing receivables and other low-yield assets and the increase in the deposit volume, which reduced funding costs. The interest rate spread between domestic markka lending and deposits increased. However, with money and capital market items accounting for a considerably larger proportion of the balance sheet mix than in the previous year, the overall interest rate spread, i.e. the difference between all interest-bearing assets and liabilities, narrowed to 1.98 percentage points from 2.10 percentage points in 1996. A number of factors, notably the decline in capital employed in equity holdings, caused a significant reduction in non-interest-earning assets in proportion to non-interest-bearing liabilities and equity capital. This also contributed to the rise in net income from financial operations.

Financial expenses included FIM 116 million of interest on the capital certificates held by the Government of Finland. The corresponding amount in 1996 was FIM 238 million. In September the Bank repaid in full the first part of the Government's

capital investment, FIM 1,749 million. Pursuant to a decision made in February 1998, the second part, FIM 1,726 million, will be repaid immediately after the presentation of the 1997 accounts.

Commission and fee income increased by 2 per cent despite a major fall in guarantee commissions. The pick-up in loan demand boosted lending commissions. Earnings from securities brokerage, asset management, legal services and fund management also exhibited an upward trend. The almost FIM 100 million drop in guarantee commissions resulted from subdued demand for "TEL loans", i.e. loans granted by pension insurance companies out of funds collected in the form of employment pension contributions, and from an overall decline in demand for loan guarantees.

Net income from securities trading increased by a good FIM 600 million to FIM 1,423 million, boosted by gains on equity transactions amounting to FIM 1,540 million.

The sale of the Bank's holding in Starckjohann Oy produced a gain of FIM 308 million. These shares had come into the Bank's possession as a result of a debt-equity conversion in connection with the company's corporate restructuring in 1994.

The loss of FIM 100 million posted on trading in debt securities consists principally of unrealized losses on interest-rate-related derivative instruments. These are offset by corresponding unrealized gains in the portfolio of debt securities, which under current regulations may not be recognized as income.

Net income from foreign exchange dealing, FIM 146 million, was approximately one-third lower than in the preceding year, mainly owing to weak performance in the first quarter. Another factor behind the drop in earnings from foreign exchange trading was the stability of exchange rates reflecting confidence about European monetary union. Its negative impact on trading income was already visible in 1996. On the other hand,

Merita Bank Ltd – Major domestic subsidiaries

<i>FIM million</i>	Profit on ordinary operations	Total assets
Merita Finance Group	312	11 064
Merita Customer Finance Group	157	4 247
Merita Invest Group	150 ¹	1 421
Merita Securities Ltd	71	109
Industrial Bank of Finland Ltd	38	2 318
Merita Fund Management Ltd	17	47
Merita Asset Management Ltd	16	30

¹ After depreciation on goodwill the negative impact on consolidated profit is FIM 9 million.

rouble trading for the account of customers increased significantly in 1997.

Earnings from companies consolidated by the equity method were reduced by the negative result posted by the Merita Real Estate Group, strained by extra write-downs. The Merita Invest Group (formerly Sponsor Group) is also carried under the equity method. Sponsor Oy, a development company temporarily owned since 1992, was consolidated as of the beginning of 1997.

The company's name was changed to Merita Invest Ltd in August 1997, when part of its portfolio of majority interests was sold to a new capital fund, Sponsor Fund I Ky.

Expenses

Total expenses of the Merita Bank Group for 1997 amounted to FIM 3,771 million, down from FIM 4,566 million in 1996. Part of the decline is accounted for by the impact of the actuarial surplus refunded by the Merita Ltd Pension Fund, of which FIM 903 million was paid to the Merita Bank Group. The corresponding refund to the Merita Bank Group in 1996 was FIM 646 million. If the refund is not taken into account, total expenses of the Merita Bank Group last year decreased by 10 per cent.

Personnel expenses, excluding the impact of the actuarial surplus, fell by 9 per cent due to lower staffing levels. Other administrative expenses remained more or less unchanged. Other operating expenses dropped by more than one-fifth thanks to a fall in rents for premises and in regulatory fees.

The income/cost ratio of the Merita Bank Group after depreciation charges was 1.86, compared with 1.49 in 1996. The impact of the actuarial surplus refunded by the Pension Fund is not taken into account in calculating this figure.

Loan losses

The net loan loss charge booked by the Merita Bank Group for the year under review was FIM 1,242 million, almost one-third less than a year earlier. It represented 0.6 per cent of total lending and commitments.

Recoveries of losses booked in earlier years totalled FIM 666 million. The unallocated credit write-off carried forward from 1994 was utilized in its entirety. The net loan loss charge taken for the year includes a country-group-specific provision of FIM 500 million for potential losses arising from the economic crisis in South East Asia.

Subsidiaries

Merita Finance Ltd

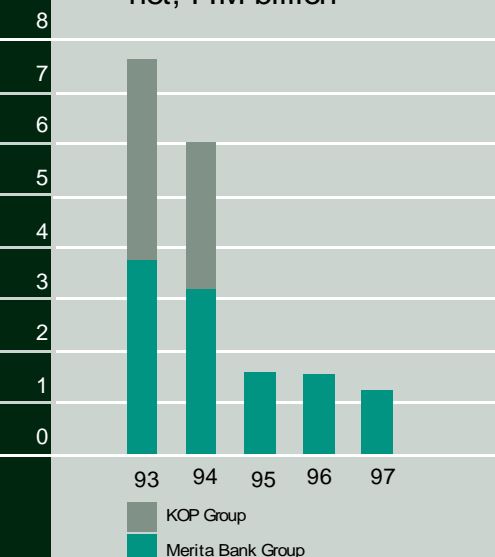
Merita Finance Ltd retained its position as the clear market leader in Finland. Its credit portfolio at the year-end totalled FIM 10.5 billion. In August, Merita Finance's associated company Estonian Industrial Leasing established a new subsidiary, Latvian Industrial Bank. Merita Finance expanded its range of services to include trailer leasing by acquiring the Finnish company M-Rent Oy.

In December Merita Finance Ltd and the local cooperative bank group agreed on cooperation in the sale and marketing of

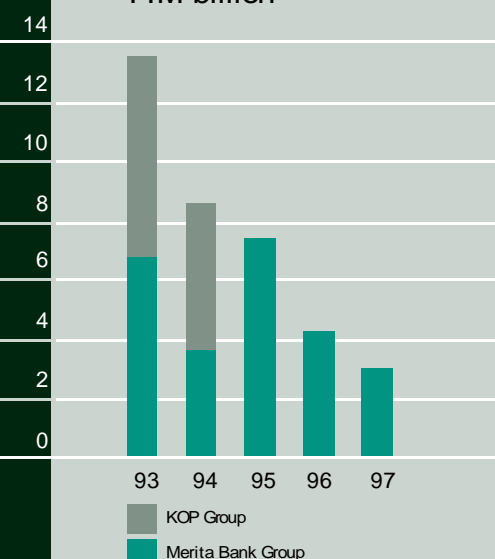
Merita Bank Group
Income/cost ratio



Merita Bank Group
Loan and guarantee losses,
net, FIM billion



Merita Bank Group
Non-performing receivables
FIM billion



finance company services. Pursuant to this agreement, the local cooperative banks offer Merita Finance's financial products to their customers.

Merita Customer Finance Ltd

Consumer credit utilization increased during the year. The year-end total of consumer credits outstanding in the books of Merita Customer Finance Ltd was FIM 4.1 billion, an increase of FIM 0.9 billion from the previous year-end.

As of January 1998, Merita Customer Finance has offered consumer credit facilities also via the Internet.

Industrial Bank of Finland Ltd

During the year, Industrial Bank of Finland introduced a FIM 1.5 billion debt issuing programme. Ten issues were launched under this programme, raising a total of FIM 722 million and resulting in an increase of 25 per cent in new funding.

Total lending by Industrial Bank of Finland at the year-end amounted to FIM 1.6 billion. New loans granted during the year totalled FIM 690 million, an increase of 49 per cent from 1996. In June the company registered an ancillary business name, Merita Kuntapankki.

Merita Asset Management Ltd

At the year-end, Merita Asset Management Ltd, which specializes in portfolio management services for institutional investors, had FIM 2.8 billion of customer assets under management on a discretionary basis and FIM 9.6 billion on an advisory basis. In addition, it was responsible for the manage-

ment of the portfolios of Merita Fund Management's mutual funds.

Merita Fund Management Ltd

Fund management has emerged as an increasingly important business area as customer funds have been channelled not only to bank accounts but also to alternative investment products. Merita Fund Management strengthened its position on the market in 1997 and at the year-end accounted for 27 per cent of the aggregate business of all mutual funds registered in Finland.

The combined market value of the company's 15 mutual funds registered in Finland at the year-end was FIM 5.0 billion, up from FIM 2.9 billion at the end of 1996.

In the autumn Merita Fund Management launched four new international funds: Merita World, Merita Europe, Merita America and Merita Asia. In the same connection the company selected J.P. Morgan Investment Management Inc. as its cooperation partner in the sphere of international investment services.

At the end of July the Finnish name of Merita Fund Management Ltd was changed to Merita Rahastoyhtiö Oy in accordance with an amendment to the Mutual Funds Act.

Merita Securities Ltd

The performance of Merita Securities Ltd developed favourably, reflecting lively trading on the Helsinki Stock Exchange. It was the leading equity broker on the Finnish market, accounting for 15 per cent of stock exchange turnover.

Merita Corporate Finance Ltd

Merita Corporate Finance, which specializes in equity financings and advisory services in connection with mergers, acquisitions and corporate and financial restructurings, won 50 mandates during the year, mainly from large and medium-sized Finnish companies. Its operations and profitability continued to develop favourably, with brisk growth notably in the volume of corporate restructurings. The company retained a strong position on the equity financing market, taking the role of domestic lead manager in a number of issues, including those by Rautaruukki, Rauma and YIT.

Human resources

The total number of persons employed by the Merita Bank Group at the year-end was 12,703, which was 1,879 fewer than one year earlier. Excluding the staff of the Merita Invest Group (formerly Sponsor Group), which was consolidated as of the beginning of the year, the year-end number of employees was 12,130, compared with 12,853 at the end of 1996.

Assets and liabilities

Total consolidated assets of the Merita Bank Group at the end of the year stood at approximately FIM 294 billion, up FIM 26 billion from the end of 1996. The increase stemmed primarily from readjustment of the Bank's and its customers' interest-rate and liquidity positions following the rise in interest rates in the autumn. This boosted short-term money market investments and liabilities. The markka equivalents of

foreign-currency-denominated items also showed an increase, mainly as a result of the appreciation of the U.S. dollar.

At the end of the year, money and capital market investments accounted for 36 per cent of total assets, while corresponding liabilities accounted for 44 per cent of the balance sheet total. Lending amounted to

close on FIM 150 billion, representing 50 per cent of total funds employed. This was somewhat less than at the end of 1996.

Although deposits increased significantly, exceeding FIM 134 billion, their share of total funding shrank to 46 per cent. As earlier, equity capital represented somewhat over 5 per cent of the balance sheet total.

Lending

Total lending increased modestly during the year, approaching FIM 150 billion at the year-end. Domestic lending contracted by approximately FIM 4 billion to FIM 132 billion, owing to highly competitive market conditions. The largest drop was registered in domestic lending in foreign currency, which suffered from the low level of market interest rates. At the end of the year it narrowly exceeded FIM 10 billion. Foreign lending showed a gain of one-third, stemming in part from the rise in the FIM equivalents of foreign currency items and in part from an increase in trade financing. Foreign lending accounted for slightly over 10 per cent of the Merita Bank Group's total lending volume.

Lending to domestic companies and institutions continued to decline. Excluding leasing finance, lending to Merita Group companies not belonging to the Merita Bank Group, and repo receivables, it accounted for 42 per cent of the Bank's total lending at the year-end, somewhat less than in 1996. Loans to households, a total of FIM 65 billion, represented 46 per cent of total lending, somewhat more than the year before. Reflecting the pick-up in the residential property market, home loans increased slightly and amounted to almost FIM 42 billion at the year-end.

Merita Bank's year-end market share of total domestic markka lending was 42.6 per cent, down 1.3 percentage points on the preceding year. Market share statistics do not include lending to subsidiaries. Merita Bank provides consumer credit also

Merita Bank Group – Assets 31.12.

<i>FIM billion</i>	1997	1996	Change
Finnish markka credits	112.4	112.8	-0.5
Foreign currency credits	26.5	25.4	1.1
Leased assets	4.1	4.3	-0.2
Repo claims	0.0	0.3	-0.3
Credits granted to Merita Group companies ¹	4.7	4.3	0.4
Credits carried at the Government's risk	1.8	2.4	-0.5
./ Unallocated write-offs	0.0	-0.2	0.2
Lending ²	149.5	149.3	0.2
Receivables from credit institutions	54.2	43.3	10.9
Debt securities not held as financial fixed assets	34.6	20.3	14.2
Other debt certificates	12.9	12.5	0.4
Debt certificates issued by Merita Group companies ¹	3.4	4.5	-1.1
Money and capital market investments	105.1	80.7	24.4
Shares	1.7	2.9	-1.2
Shares in subsidiaries and associated companies	15.1	16.6	-1.5
Accruals and prepayments	14.1	10.8	3.3
Liquid assets	3.7	3.0	0.7
Other	4.8	4.3	0.5
Other assets	22.6	18.1	4.5
Total	294.0	267.6	26.4
of which: foreign			
lending	17.6	13.3	4.3
money and capital market investments	60.0	48.9	11.1

¹ Receivables from Merita Group companies which do not belong to the Merita Bank Group.

² Receivables from the public and public sector organizations and leased assets.



Trust and partnership are the key ingredients of a successful banking relationship. Jyrki Tarkiainen, Corporate Analyst (left) and Matti Hautala, Vice President (right) have regular meetings with their customers. Here, Mr. Arvo Viinonen, Chairman of the Board of the Kojaltek Group, is discussing the future plans of his companies.

through its subsidiary Merita Customer Finance Ltd, whose credit portfolio at the year-end totalled over FIM 4 billion, showing an increase of one-quarter compared with 1996.

Credit risk

The portfolio of non-performing receivables has long been firmly on the decline. The majority of the remaining items derive from past bankruptcies, with estimated losses provided for earlier. Key elements in the assessment of future credit risks are an intimate knowledge of customers and an in-depth analysis of the Finnish economy, its current state and future prospects. Based on the positive economic outlook and its own risk analyses, the Bank believes that the profitability of its domestic customers, including those currently classified as risk exposures, will continue to develop favourably.

As for international customer risks, Merita deals predominantly with foreign banks. In order to limit its risks in this re-

gard, the Bank uses country and bank risk analyses and follows a selective policy when choosing its counterparties. The FIM 500 million specific provision entered in the 1997 accounts in respect of South East Asian exposures is deemed sufficient in the light of information currently available.

Barring unexpected major shocks to the operating environment, the Bank believes that loan losses will either sustain the present, reasonable level or possibly decline slightly.

Non-performing receivables and other low-yield assets

Thanks to general economic recovery and active management of the portfolio, non-performing receivables contracted by nearly FIM 1.3 billion, slightly exceeding FIM 2.9 billion at the close of the year. Non-performing receivables from households totalled somewhat over FIM 1 billion, a decrease of FIM 500 million compared with the previous year. Many of the items still outstanding stem from bankruptcies and

Merita Bank – Market shares, %

	31.12. 1997	31.12. 1996
Finnish markka deposits	40.7	40.7
Foreign currency deposits	72.9	70.2
Total deposits	42.0	42.0
Finnish markka credits	42.6	43.9
Foreign currency credits	46.6	63.5
Total lending	42.8	45.5

Merita Bank Group – Lending 31.12.

FIM billion	1997	1996	Change
Corporates	48.7	53.7	-5.1
Manufacturing	14.9	17.2	-2.3
Construction	2.2	2.7	-0.5
Trade, hotels and restaurants	9.1	11.0	-1.9
Real estate investment	7.5	7.2	0.3
Other	15.0	15.7	-0.6
Financial and insurance institutions	0.1	0.2	-0.1
Public sector organizations	1.8	1.8	-0.0
Non-profit organizations	8.1	7.9	0.2
Households	65.1	64.5	0.6
Foreign	17.0	12.5	4.5
Leased assets	4.1	4.3	-0.2
Repo claims	–	0.3	-0.3
Credits to Merita Group companies ¹	4.7	4.3	0.4
./. unallocated write-offs	–	-0.2	0.2
Total ¹	149.5	149.3	0.2
Of credits to households:			
housing loans ²	41.9	40.4	1.5
consumer credits	12.1	11.7	0.4
student loans	4.3	4.5	-0.3
other	6.8	7.8	-1.0

¹ Receivables from Merita Group companies which do not belong to the Merita Bank Group.

² Includes loans granted for the purchase of secondary residences.

other similar situations and are gradually being eliminated as the liquidation of corresponding collateral assets proceeds. The respective losses, based on best estimates, have been booked earlier.

Zero-interest-rate and other low-yield receivables, i.e. those with a zero or negative margin and bearing interest at rates of 3 per cent or lower, decreased by FIM 1.5 billion to slightly over FIM 2.8 billion. These do not include loans granted to Merita Group companies. Unlike the previous practice, low-yield receivables do not include loans where the pricing is based on corresponding deposits. This change in the classification basis reduced the total volume by somewhat over FIM 0.5 billion. Zero-interest-rate loans declined by almost FIM 0.6 billion to FIM 1.3 billion. Low-interest-rate lending to Merita Group companies contracted from a good FIM 3 billion to less than FIM 1.7 billion, of which slightly under FIM 300 million consisted of zero-interest-rate loans.

Foreclosed assets, i.e. assets acquired in satisfaction of loans, contracted from approximately FIM 2 billion to less than FIM 200 million, mainly because the shares of Merita Invest Ltd (formerly Sponsor Oy), previously reported under this item, were reclassified as equity investments within the framework of ordinary business operations. The restructuring of ownership of the Starckjohann Group caused a further reduction of over FIM 300 million in foreclosed assets.

Money and capital market investments

The volume of debt securities held for trading purposes and receivables from credit institutions increased significantly during the autumn, as the Bank and its customers readjusted their liquidity and interest rate

positions to the rise in market interest rates and as the Bank's markka liquidity increased. The growth focused on debt securities issued by banks and the Government of Finland and on markka-denominated receivables from foreign credit institutions.

Merita Bank Group – Liabilities and shareholders' equity 31.12.

<i>FIM billion</i>	1997	1996	Change
Tax-exempt Finnish markka			
- cheque and other current accounts	42.8	40.6	2.2
- fixed-term and other deposits	32.0	27.6	4.4
Taxable Finnish markka			
- cheque and other current accounts	30.7	27.5	3.2
- fixed-term and other deposits	13.2	20.1	-6.9
Foreign currency accounts	15.5	12.3	3.2
Deposits	134.2	128.0	6.1
Due to the public and public sector organizations	11.2	10.2	1.0
Due to credit institutions	55.1	40.0	15.1
Debt securities issued to the public	48.5	47.0	1.5
Subordinated liabilities	11.4	11.0	0.4
Due to Merita Group companies ¹	1.9	1.3	0.5
Money and capital market liabilities	128.1	109.5	18.6
Accruals and deferred income	9.5	8.2	1.3
Other	7.0	8.1	-1.1
Other liabilities	16.5	16.3	0.2
Total liabilities	278.7	253.8	24.9
Capital investments	3.8	4.1	-0.3
Other restricted equity	8.2	8.5	-0.2
Non-restricted equity	3.2	1.2	2.0
Equity capital	15.2	13.7	1.5
Total liabilities and shareholders' equity	294.0	267.6	26.4
of which: foreign			
deposits	4.5	3.9	0.6
money and capital market liabilities	67.3	59.8	7.4

¹ Due to Merita Group companies which do not belong to the Merita Bank Group.

Deposits

During the year, the Merita Bank Group's deposits from the public and public-sector organizations increased by over FIM 6 billion, exceeding FIM 134 billion at the year-end. This rise reflected the improved liquidity of households, companies and institutions and the perennial popularity of conventional bank deposits irrespective of the increasing appeal of mutual funds and insurance products, which also attracted a growing amount of funds.

Markka deposits rose by approximately FIM 3 billion. Markka-denominated current accounts, including cheque accounts, sustained a steady upward trend throughout the year, accounting for 62 per cent of total markka deposits at the year-end. Fixed-term markka deposits remained more or less unchanged at somewhat over FIM 41 billion. As a result of the fall in interest rates, the focus shifted to tax-exempt deposits although the last base-rate-linked fixed-term deposits qualifying for tax exemption matured at the end of the year. Other markka deposits contracted by more than FIM 2 billion. The share of tax-exempt deposits in the total volume of markka deposits carried in the books of the Merita Bank Group rose by 4 percentage points to 63 per cent.

Foreign currency deposits at the year-end exceeded FIM 15 billion, showing a gain of over FIM 3 billion. They accounted for nearly 12 per cent of total deposits at the year-end.

Merita Bank's market share of domestic markka deposits at the year-end was 40.7 per cent, unchanged from the preceding

year. The Bank's market share of domestic deposits in foreign currency rose to 72.9 per cent from 70.2 per cent at the end of 1996. Households accounted for 74 per cent of total markka deposits, companies and institutions for 21 per cent and public-sector organizations for less than 5 per cent.

Money and capital market funding

Insofar as deposits and equity capital do not cover the Group's lending and investments, the gap is covered by funds raised from the money and capital markets. The amount of money and capital market funding utilized also reflects fluctuations in the Bank's and its customers' liquidity and interest rate positions.

During the year under review, total money and capital market funding raised by the Bank increased by approximately FIM 19 billion to FIM 128 billion. Most of this growth stemmed from debts to credit institutions. Simultaneously money and capital market investments increased by more than FIM 24 billion. At the year-end total funding from the domestic money and capital markets amounted to FIM 61 billion, with certificates of deposit accounting for slightly under FIM 35 billion. Foreign currency funding represented 54 per cent of total money and capital market liabilities at the year-end.

In addition to deposits, most of the Bank's markka-denominated funding is raised from the domestic money and capital markets. The Bank has a FIM 2 billion domestic Medium Term Note programme for the issuance of debt on the wholesale and

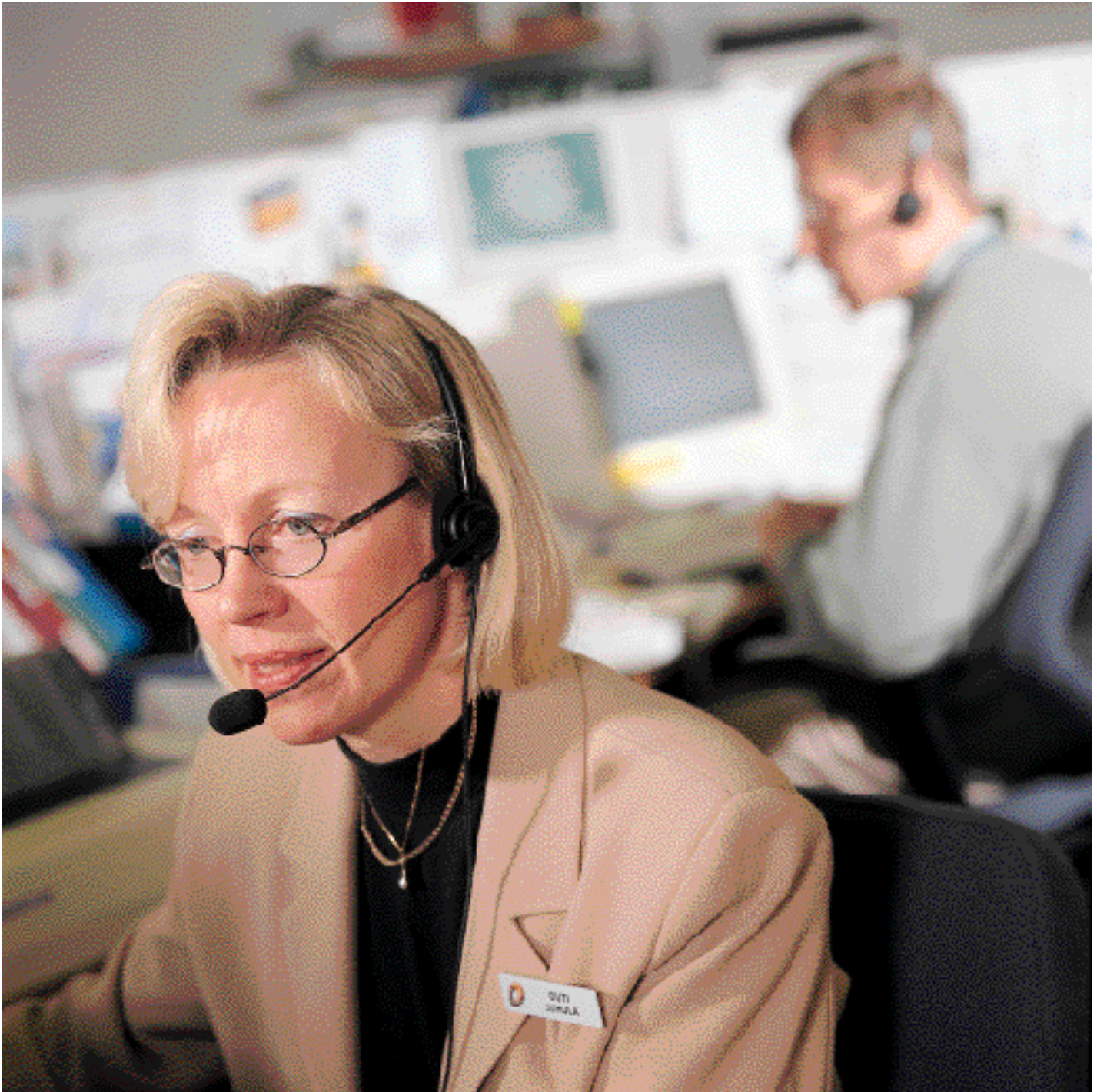
retail markets, and it has also launched two FIM 2 billion tap issues on the wholesale market. The total amount outstanding under these programmes at the year-end was FIM 1.4 billion.

Foreign currency funding consists of deposits from domestic and foreign credit institutions and of debt issues and loan transactions on the international money and capital markets. Merita Bank's principal debt issuing programmes are an ECU 2 billion Euro Medium Term Note programme and a USD 2.5 billion Euro Commercial Paper programme. The amounts outstanding under these programmes at the year-end were FIM 3.6 billion and slightly under FIM 100 million, respectively. In line with its Baltic Sea strategy, the Bank also issues minor amounts of debt securities to be auctioned on the Estonian kroon and Latvian lat markets.

In February 1997 Merita Bank waived entitlement to Government guarantees under the decision made by the Government of Finland in 1993 to guarantee or otherwise support the acquisition of equity capital from the markets by the then Union Bank of Finland and Kansallis-Osake-Pankki up to a maximum aggregate amount of FIM 2.8 billion subject to a final decision to be made separately in casu. The banks never applied for guarantees under this standby facility.

Equity capital

Thanks to the improvement in results, the year-end equity capital of the Merita Bank Group exceeded FIM 15 billion. FIM 3.8



As part of its commitment to customer convenience, Merita continues to develop its telephone banking facilities. Outi Juhola answers calls from all parts of Finland at the telephone banking centre open Monday to Friday from 8 a.m. to 8 p.m.

billion of this consisted of capital securities. One year earlier the corresponding figures were FIM 13.7 billion and FIM 4.1 billion.

Off-balance-sheet items

Commitments and contingent liabilities

The Merita Bank Group's commitments and contingent liabilities rose by FIM 2.4 billion to FIM 51.3 billion. Guarantees outstanding contracted by 11 per cent, reflecting a decline in the re-lending of employment pension contributions and an overall slackening of demand for lending guarantees. Commitments to extend credit increased notably at the Bank's foreign outlets. The year-end total, close on FIM 12 billion, was almost double the corresponding amount in 1996. Most of this increase resulted from syndicated loans to Nordic customers.

Derivative instruments

Merita uses derivative instruments both for hedging and trading purposes and in respect of interest-rate, exchange-rate and equity market risks.

Hedging is needed mainly to manage Merita's interest-rate mismatch risks inherent in loans and deposits in retail and wholesale accounts. Very often transactional hedging is used in conjunction with investment portfolios and long-term funding from the wholesale markets. Derivatives for hedging purposes can be used by different functions: internal bank and investment portfolios by using interest rate swaps to manage interest rate exposures; long-term funding operations by using cross-currency and in-

terest-rate swaps to manage liquidity and interest-rate exposures; and trading operations to cover risks mainly caused by customer transactions.

Merita Bank trades in derivative and cash instruments also to service clients' needs for a variety of derivative and non-derivative products. In addition to hedging these client transactions, Merita Bank also takes positions in derivative products seeking to anticipate future market developments in exchange rates and interest rates within limits fixed by the Risk Management Committee. Merita Bank is a market maker in markka-denominated interest-rate swaps, options, FRAs and bond futures and in forward exchange contracts and currency options.

Equity-linked derivatives are likewise used for both hedging and benefiting from short-term fluctuations in equity prices. Long-term equity holdings are hedged by option and future contracts. In trading, equity options, forward contracts and futures are also used for active position-taking.

Merita enters into transactions on the derivatives market only within limits established for its counterparties in accordance with the normal credit-granting procedure.

The notional amounts in the table on page 34 do not represent Merita's exposure to credit or market risks. Risk-weighted values are calculated for regulatory purposes for the calculation of credit equivalents. The figures are calculated by the original-exposure method applying a risk factor based on the type (interest-rate- or exchange-rate-related) and maturity of the contract.

Asset and liability management

The aim of market risk and liquidity management is to ensure that the Merita Group is not exposed to excessive risks arising from the structure of its balance sheet and cash flows.

The objective of Merita's asset and liability management is to limit potential adverse effects of interest rate and exchange rate movements on the Group's net interest income and earnings and thereby to enhance

Merita Bank Group – Off-balance-sheet commitments, 31.12.

<i>FIM billion</i>	1997	1996	Change
Guarantees	24.9	28.3	-3.4
Bill liabilities	1.5	0.7	0.7
Pledges	0.1	0.1	-0.1
Credit commitments	11.8	6.2	5.6
Other irrevocable commitments	9.8	10.4	-0.6
Commitments to Merita Group companies ¹	3.3	3.2	0.1
Total	51.3	48.9	2.4

¹ Commitments to Merita Group companies which do not belong to the Merita Bank Group.

Merita Bank Group – Derivative instruments 31.12.1997

<i>FIM billion</i>	Total derivative instruments	Nominal value of derivatives for trading purposes	Nominal value of derivatives for hedging purposes	Risk-weighted value	Credit equivalent
Interest-rate-related derivatives					
Forward rate agreements	1 540.0	1 540.0	–	1.2	
Interest-rate swaps	418.9	395.3	23.6	1.3	
Options	52.8	52.8	–	0.0	
Futures	16.1	16.1	–	–	
Total	2 027.8	2 003.2	23.6	2.5	13.6
Currency-related derivatives					
Forward agreements	314.1	81.1	232.9	2.2	
Interest-rate and currency swaps	14.8	8.1	6.7	0.7	
Options	28.7	28.7	–	0.1	
Total	357.5	117.9	239.6	2.9	10.3
Equity-linked derivatives	2.2	2.1	0.1		
Total derivative instruments	2 387.5	2 123.1	263.4	5.4	24.0

profitability, subject to risk management guidelines approved by the Risk Management Committee, and to control risk-taking in trading. The size and concentration of risks arising from the exchange-rate, interest-rate and liquidity sensitivity of Group assets and liabilities are regularly monitored and controlled.

Liquidity risk

One of the functions of Merita's liquidity management is to meet current funding requirements, including the replacement of existing funds as they mature or are withdrawn and the satisfaction of demand for additional borrowings. The objective is to maintain a proper balance between maturity distributions and stability and diversity of sources of funds.

Risk Management follows changes in liquidity, reports on these both to Management through the Asset and Liability Group and Risk Management Committee, and through them also to the Board of Directors and, furthermore, to the regulatory authorities. In addition, the Risk Management function and the Long-Term International Funding Department manage a liquidity reserve (i.e. a portfolio of liquid assets) which can be used to cover unexpected changes in the overall liquidity position.

The liquidity risk and short-term liquidity are reviewed daily in respect of both FIM and foreign-currency items. Short-term liquidity is reported separately for 10 and 30 days' cumulative net cash flows and for 14 days on a daily basis, calculated on money and capital market items. These

reports are provided mainly for daily risk management purposes. For operative cash management, the Money Market Department has at its disposal daily cash-flow forecasts, maturity tables and access to Merita's Risk Management Database information.

Interest-rate risk

The fundamental objectives of Merita's interest-rate risk management activities are to limit the effect of adverse interest rate movements on profitability and to safeguard net interest income and net income on securities trading by managing interest-rate exposure. Exposure to interest-rate movements principally arises when there is an imbalance between the repricing structure of assets and liabilities subject to periodically changing market interest rates

Merita Bank Group – Interest-rate positions by repricing dates, 31.12.1997

<i>FIM billion</i>	Total	Under 3 months	3–6 months	6–12 months	1–2 years	2–5 years	Over 5 years
Assets							
Finnish markka							
Receivables from credit institutions and central banks	15.1	10.2	1.3	0.8	0.1	0.1	2.8
Receivables from the public and public sector organizations	118.2	42.3	14.1	15.8	7.4	13.6	25.1
Debt securities	39.5	32.7	0.6	0.4	1.8	2.3	1.6
Shares	16.5	1.4	0.0	0.0	0.0	0.0	15.1
Other receivables	17.0	11.3	0.4	0.3	0.5	0.5	4.0
Total assets in Finnish markka	206.3	97.9	16.4	17.2	9.8	16.4	48.6
Foreign currencies							
Receivables from credit institutions and central banks	41.8	29.0	6.4	6.0	0.1	0.3	0.0
Receivables from the public and public sector organizations	27.3	18.9	5.2	0.9	0.8	1.1	0.4
Debt securities	11.4	8.4	0.3	0.7	1.3	0.8	0.0
Shares	0.2	0.1	0.0	0.0	0.0	0.0	0.1
Other receivables	7.0	6.0	0.0	0.0	0.0	0.0	0.9
Total assets in foreign currency	87.7	62.5	11.9	7.6	2.1	2.1	1.5
Total assets	294.0	160.3	28.3	24.8	11.9	18.5	50.0
Off-balance-sheet items							
Finnish markka	1 185.4	345.4	384.0	307.9	117.1	21.0	10.0
Foreign currencies	1 169.6	417.5	299.4	328.0	94.9	16.4	13.4
Liabilities							
In Finnish markka							
Due to credit institutions and central banks	7.8	6.3	0.1	1.5	0.0	0.0	0.0
Due to the public and public sector organizations	129.0	104.7	6.3	10.0	4.9	3.0	0.1
Bonds	5.1	1.3	0.0	0.3	0.6	2.5	0.4
CDs and ECP	34.7	19.3	6.5	8.8	0.0	0.0	0.0
Other liabilities	24.1	8.6	2.2	0.0	0.0	0.0	13.3
Total liabilities in Finnish markka	200.7	140.2	15.1	20.5	5.5	5.5	13.8
In foreign currency							
Due to credit institutions and central banks	47.3	39.6	4.7	2.5	0.3	0.0	0.0
Due to the public and public sector organizations	16.5	15.3	0.6	0.3	0.1	0.2	0.1
Bonds	4.8	1.8	0.3	0.2	0.2	2.3	0.0
CDs and ECP	4.7	2.7	0.9	1.1	0.0	0.0	0.0
Other liabilities	20.0	11.3	0.3	1.6	1.3	5.2	0.2
Total liabilities in foreign currency	93.3	70.6	6.9	5.7	1.9	7.8	0.4
Total liabilities	294.0	210.8	22.0	26.2	7.4	13.3	14.2
Off-balance-sheet items							
Finnish markka	1 190.3	338.3	372.9	338.8	110.7	16.4	13.2
Foreign currencies	1 164.1	420.1	290.9	328.8	100.0	14.0	10.4

(reference-rate-basis risk) and assets and liabilities subject to market interest rates which change at different times (repricing risk).

In Merita, interest-rate risk management is divided into management of the structural book (i.e. banking book) and management of the trading book.

The interest-rate risk arising from the structural position is monitored and measured mainly in terms of the effect of interest-rate movements on net interest income. Both static and dynamic analysis and alternative scenarios are applied. The static sensitivity analysis measures the effect on yearly net interest income of a 1 percentage point immediate and constant parallel shift in the yield curve assuming that the balance sheet structure and the other reference rates remain stable. Measured like this, the interest-rate sensitivity of the Merita Bank Group as at December 31, 1997 was only FIM 95 million in domestic currency and FIM 308 million in other currencies (negative change in each currency, no correlation between currencies). The Risk Management function reports on a regular basis to the Asset and Liability Group and the Risk Management Committee. The Risk Management Committee makes decisions on the desired level of exposure.

In order to limit and measure the interest-rate risk involved in the trading book subject to the limits established by the Risk Management Committee, Merita uses duration-based sensitivity analyses and VAR analyses. For exposures originating from interest-rate option contracts, an extended

sensitivity analysis is used, where also the non-linear risk profile and sensitivity of the option to future volatility of interest rates is monitored.

The VAR model is based on historical movements in interest rates and on their interdependencies. With a 99 per cent degree of probability, using historical movements, the model calculates the maximum decrease in the market value of interest-rate-sensitive items in the trading book during a given holding period, i.e. the period required to eliminate the risk or to close the exposure. The length of the holding period is assumed to be 10 days for all trading books. The VAR risk is reported weekly to the Market Risk Group and monthly to the Risk Management Committee.

The table on page 35 provides information on Merita Bank's interest-rate positions by repricing dates at December 31, 1997. Current accounts, including cheque accounts, totalling FIM 77 billion, are placed in the category of the shortest majority. FIM 44 billion of these carry interest at a fixed interest rate of 1 per cent and can be regarded as core deposits. This information is indicative of Merita's position on a single day only.

Exchange-rate risk

The aim of the Merita Bank Group's exchange-rate management policy is to minimize the effect of exchange-rate movements on profitability. Like interest-rate risk management, the management of exchange-rate risk is also divided into management of the structural book (i.e. banking book) and

management of the trading book. However, in practice the Group is not structurally exposed to exchange-rate movements, as all assets in foreign currencies are, as far as practicable, fully funded with liabilities in the same currency.

Merita Bank is a market-maker in Finnish markka and a participant in world foreign exchange markets in a number of other currencies in which it actively takes trading positions. Each operating trading centre is subject to exchange-rate exposure limits which are under the daily control of the Risk Management function. These limits are also consistent with the regulatory requirements of, and subject to monitoring by, the Finnish Financial Supervision Authority and the local monetary authorities in the countries in which Merita Bank operates. According to the regulatory requirements, the aggregate and individual foreign currency exposures of Merita Bank Group may not exceed 30 per cent and 15 per cent, respectively, of its own funds. The internal operating limits are defined within these external restrictions.

In order to control the risk arising from option contracts in the foreign exchange market, the bank applies an extended sensitivity analysis, whereby also the non-linear risk profile and sensitivity of the option contract to future exchange-rate volatility is monitored.

In addition to limit control, each unit's individual and the total exchange-rate risk is measured with a VAR model based on a one-day holding period and 99 per cent degree of probability. The VAR risk as well



In the vanguard of development. Matti Oivio (left), Marketta Priha, Vappu Säynätkari, Rauli Terho, Johanna Poikola, Tiina Halttunen, Janne Lehti and Sirkka Wright plan and develop Merita's electronic Solo services.

as the back-testing result of the VAR model are reported weekly to the Market Risk Group and monthly to the Risk Management Committee.

Equity price risk

Equity securities not held as financial fixed assets are divided into the long-term portfolio and the trading portfolio. Management of the Bank Group's equity market risk has been concentrated mainly in Partita Ltd. Like other risks, equity market risk is monitored by the Group Risk Management function.

To control the market risk in respect of both long-term equity holdings and the trading portfolio, Merita uses sensitivity analyses which take into account the non-linear risk profile of options and the impact of changes in market volatility. In addition, equity market risks are measured by VAR analyses based on different holding periods depending on the nature of the holdings. In long-term holdings the period used is three months and in short-term trading positions one day.

Capital adequacy

The Merita Bank Group's capital adequacy at the end of 1997 was 10.8 per cent, down 0.5 percentage point on the previous year-end. The Tier 1 ratio fell by 0.6 percentage point to 5.9 per cent. The Government's capital investment was not included in equity capital for the purpose of calculating capital adequacy.

In September Merita Bank issued non-cumulative step-up perpetual capital secu-

rities in the amount of USD 300 million on the international markets. The securities rank as Tier 1 capital of the Bank. Interest payments are subject to the availability of sufficient distributable funds. The capital securities are perpetual but subject to the approval of the regulatory authorities callable after five years. For the first five years, the annual cost of the funds to the Bank, including expenses, after swapping the proceeds, is equal to the six-month Libor plus around 0.85 percentage point.

Credit ratings

Merita Bank's credit ratings rose appreciably in December as Standard & Poor's upgraded the long-term debt rating by two notches from BBB+ to A and the short-term debt rating from A-2 to A-1.

Merita Bank – Agency Ratings

	31.12.1997	31.12.1996
Standard & Poor's:		
Long-term	A	BBB+
Short-term	A-1	A-2
Moody's:		
Long-term	A2	A2
Short-term	P-1	P-1
IBCA :		
Long-term	A	A
Short-term	A1	A1
Thomson Bankwatch:		
Long-term	A+	A+
Short-term	TBW-1	TBW-1

Merita Bank Group - Capital adequacy ¹

FIM million	1993	1994	1995	1996	1997
Tier 1	7 540	7 367	12 389	12 938	12 089 ²
Tier 2	5 600	4 642	9 078	9 500	9 818
./. deductions	4	29	152	210	233
Tier 3	–	–	–	326	219
Total own funds	13 136	11 980	21 315	22 555	21 893
Risk-weighted assets	126 552	109 280	195 989	199 002	203 477
Capital adequacy, %	10.4	11.0	10.9	11.3	10.8
Tier 1/ risk-weighted assets, %	6.0	6.7	6.3	6.5	5.9
Merita Bank Ltd					
capital adequacy, %	10.9	11.2	11.3	11.9	11.8

¹ In accordance with the Credit Institutions Act the market risk capital requirement and the Tier 3 capital available for this purpose are included in the calculation of capital adequacy as from 31.12.1996. This change had no significant impact on Merita's capital adequacy ratio.

² The Government capital investment, FIM 1 726 million, is not included in equity capital in the calculation of capital adequacy.

Organizational changes

The new Board of Management elected for the Bank by the Supervisory Board as of January 1, 1998 consists of the following persons: Mr. Hans Dalborg, Mr. Carl-Johan Granvik, Mr. Karl-Olof Hammarkvist, Mr. Sven-Åke Johansson, Mr. Kalevi Kontinen, Mr. Jussi Laitinen, Mr. Arne Liljedahl, Mr. Lars G Nordström, Mr. Markku Pohjola, Mr. Pertti Voutilainen and Mr. Claes Östberg.

Mr. Harri Hollmén resigned as head of Investment Banking in November.

The six regions within the earlier Retail Bank organization ceased to exist in spring 1997 as their tasks were transferred partly to the 40 districts and partly to centralized support units reporting directly to the Retail Bank management. The Investment Banking organization was likewise developed through the establishment of a new Asset Management unit. At the same time responsibility for institutional client asset management was transferred from Retail Bank to Investment Banking.

Under the new MeritaNordbanken organization effective as of January 1, 1998, retail banking operations in Finland are divided into three principal profit centres which comprise a total of 40 districts.

Based on an agreement with Finnfund and the Nordic Investment Bank, Merita Bank will acquire a majority holding in the Investment Bank of Latvia during 1998.

Merita Bank's representative offices in Frankfurt and Paris were closed at the end of June 1997.

Internet banking

As of the beginning of 1997, Merita's electronic "Solo" services were made available via the Internet. At the same time they were expanded to include time deposits and the purchase of bonds and mutual fund units. At the end of the year, 313,000 personal customers and 24,000 small companies were using the Bank's "Solo" service. Merita Bank is one of the world leaders in the sphere of electronic banking services in terms of the number of users as a percentage of the total customer base.

As of February 1998, Merita Bank Ltd and Finland's leading department store chain Oy Stockmann Ab have been offering their mutual customers a co-branded card functioning both as a Merita Bank Card and as a Stockmann Loyal Customer Card. The card also enables the holder to withdraw cash from Merita accounts at Stockmann's outlets.

Insurance

Merita Life Assurance Ltd reported a sharp rise in premium income from unit-linked insurance products for 1997. Premiums written from individual pension insurance policies likewise continued to increase.

Total premium income amounted to FIM 2,856 million, compared with FIM 3,027 million for 1996. Premiums written on unit-linked insurance products increased fivefold to FIM 493 million and those on individual pension plans were up a good 50 per cent at FIM 319 million.

The downward trend in premiums from life assurance last year resulted partly from low sales of capital redemption policies. These were not actively marketed because it was deemed to be in the Group's overall interest to focus on sales of comparable deposit and investment products.

The technical provisions of Merita Life Assurance at the end of the year totalled FIM 7,007 million. The company's guaranteed interest rate on non-unit-linked life and pension plans is 4.5 per cent and that on capital redemption policies 3.0 per cent. In addition, a bonus of 2.0 per cent will be paid on individual pension plans, 1.5 per cent on individual life assurance policies and 2.7 per cent on capital redemption policies for 1997. FIM 84.4 million was charged against the year's profit as a provision for future bonus payments.

Merita Life Assurance Ltd increased its share capital in May and again in December in order to ensure a sufficient capital base on the expanding market. Its solvency margin at the end of the year was three



A team is more than the sum of its parts. Eija Korhonen (left), Sirpa Koskipalo and Kaisa Silvonen working out individual life and pension insurance solutions for their clients.

times higher than the statutory minimum requirement.

Merita Life Assurance Ltd sustained its position as Finland's leading life assurance company in terms of premium income. Based on preliminary figures, its market share at the year-end was approximately 25 per cent.

Merita holding group Equity holdings 31.12.1997

<i>FIM million</i>	Book value	Market value ²
Merita Group ¹	4 089	5 453
- of which		
Merita Plc	887	1 732
Partita Ltd	304	336
Merita Bank Ltd	1 415	1 892
Pension funds	593	1 146
Total	4 682	6 599

¹ Excl. subsidiary and associated company holdings, foreclosed assets and assets acquired for the reorganization of customers' business operations.

² Unlisted shares at book value.

Merita holding Group – Major equity holdings

<i>Shareholding, %</i>	31.12.1997	31.12.1996
Sampo Insurance Company	15.3	18.5
Pohjola Insurance Company	12.8	15.9
Nokia Corporation	0.7	3.4
UPM-Kymmene Corporation	2.0	4.9
Metra Corporation	1.3	4.9
Oy Stockmann Ab	1.2	3.3
Asko Ltd	1.7	0.2
Lassila & Tikanoja Oy	2.4	10.6
Partek Corporation	0.9	0.0
Huhtamäki Oy	0.9	3.5
TT Tieto Oy	2.0	3.8
Finnlines Oy	0.8	1.2

Equity investments

Equity transactions made a substantial contribution to the performance of the Merita Group last year. Gains were posted both from normal trading and from the down-scaling of the Group's long-term investment portfolio. Total gains from equity transactions were FIM 2,095 million.

During the year, the Merita holding group, which consists of the Merita Group companies and staff pension institutions, registered a decrease of approximately FIM 2 billion in the book value of its equity holdings. Approximately FIM 1.5 billion of this fall focused on the pension institutions and FIM 500 million on Group companies.

The average amount of capital employed in equity holdings during the year was significantly lower than in 1996. Late in the year the book value of these holdings was boosted by the transfer of the shareholding in the Pohjola Insurance Company and certain other holdings from the books of the pension institutions to the Group. In respect of these holdings, the actual fund-

ing cost is reduced by the refund to Group companies of the actuarial surplus of the Merita Ltd Pension Fund.

The market value of the Merita holding group's equity portfolio at the end of the year was FIM 6.6 billion, down approximately FIM 2 billion on the previous year-end. This exceeded the book value by approximately FIM 1.9 billion. The corresponding unrealized appreciation in the Merita Group's equity portfolio was FIM 1.4 billion. Most of this increase in market value stemmed from the appreciation of insurance company shares.

At the end of the year the market value of the Group's holdings in the Sampo and Pohjola insurance companies was FIM 1,113 million in excess of their book value. In the consolidated accounts of the Merita Group these were previously classified as "securities held as financial fixed assets" and carried at cost. However, as of 1997 insurance company shares were reclassified as "securities not held as financial fixed assets" considering the fact that discussions conducted with both companies on several occasions concerning possibilities for closer cooperation had failed to lead to concrete results. This reclassification had no impact on the book value of the shares in question or on the profit for 1997.

The year-end market value of the Merita pension institutions' equity portfolio exceeded the corresponding book value by FIM 500 million. Subsequent to the refund of the actuarial surplus to the employer companies, the assets of the Merita Ltd Pension

Real estate business

Fund, at current market values, continue to exceed its actuarial deficit and other liabilities by approximately FIM 400 million. The approximate book value of the Pension Fund's equity holdings is FIM 250 million compared with an approximate market value of FIM 650 million.

Real estate brokerage

The past year was marked by lively trading activity on the Finnish real estate market. However, market volume as a whole contracted slightly. The Group's residential real estate agency Huoneistokeskus Oy handled a total of 14,200 sale transactions, 300 more than in the year before.

Brokerage fees earned by the company during the year amounted to FIM 251 million, an increase of FIM 33 million from 1996.

Reflecting the favourable development of the real estate market last year, the volume of premises available for letting in the Helsinki area reverted to normal. In certain types of properties, such as prime business and warehouse facilities, demand clearly exceeded supply, with vacant space becoming virtually nonexistent.

Total capital employed in the real estate portfolio of the Merita Real Estate Group at the end of the year was FIM 22.0 billion, i.e. FIM 2.6 billion less than one year earlier. The portfolio comprised 2.5 million square metres of floor space, consisting mainly of commercial real estate.

The effective yield on the commercial portfolio was 4.5 per cent, up 0.4 percentage point from the preceding year. The vacancy rate improved by 3 percentage points to 13 per cent. 16 per cent of the portfolio comprised premises occupied by Merita Group companies. The rents payable

for these premises represented the current market level.

Disposals during the year totalled approximately FIM 3 billion. New acquisitions amounted to FIM 700 million. Most of these consisted of swaps entered into for the purpose of developing the composition of the portfolio in the desired direction. The largest single transaction, conducted with Sponda Oy, involved the sale by Merita Real Estate of properties worth FIM 1.1 billion. Of the total consideration received, FIM 566 million consisted of Sponda Oy shares and the remainder of cash.

During the year Merita Real Estate launched a number of major development projects in the Helsinki area. These are designed to enhance the yield and quality of the company's real estate holdings. The most important project in progress is the renovation of the Kämp building, a historical and cultural landmark, which is being

Merita Group – Real estate investments 31.12.1997

	Floor area 1000 m ²	Capital employed FIM billion	Yield, % (effective)	Yield, % (potential)	Vacancy rate %	Own use %
Shops and offices	1 306	13.3	4.4	5.2	13.1	22.4
Industrial premises and warehouses	450	1.3	4.4	6.8	16.8	4.6
Hotels	162	0.8	5.3	5.6	3.6	0.4
Foreign properties	40	0.7	5.6	6.3	11.7	6.6
Total commercial real estate	1 958	16.0	4.5	5.4	13.2	16.2
Residential properties	106	0.7	3.1	4.5	18.0	5.5
Land and development projects	324	3.1				
Acquired during the year	121	0.5				
Shares in real estate companies		1.6				
Total real estate investments	2 509	22.0				

Capital employed in commercial real estate 31.12.1997, %

	Yield %	Capital employed FIM million
	<3	4 669
	3-7	8 485
	>7	2 838
Total		15 992

reconstructed as a five-star hotel in connection with an adjacent shopping mall project in central Helsinki. The estimated cost of this project is FIM 300 million.

In line with its adopted strategy, Merita is seeking to reduce its exposure to real estate as and when permitted by the market situation, and to improve the yield on these holdings through active development. Further yield increases are expected as a result of forthcoming renegotiations of leases on the majority of the portfolio in accordance with overall higher rental levels.

Outlook

The short-term outlook for the Finnish economy remains stable. Current indications are that the impact of the Asian crisis on the world economy will be of modest proportions and that favourable economic development will continue in Europe. Part of the sales lost in Asia will probably be offset by growing exports to key European markets.

The Asian situation is expected to lead to a drop in import prices, thus underpinning domestic demand. State finances are moving towards better equilibrium, and with a comfortable surplus in the trade account the external balance should not be threatened, even if imports outpace exports. Unemployment continues to decline slowly.

The likelihood of Finland's joining European monetary union bodes well for the stability of the Finnish currency and interest rates.

Lower import prices continue to reduce inflationary pressures. On the other hand, the strengthening of growth in Europe may lead to a minor rise in short-term interest rates towards the end of the year. In a low inflation environment, long-term interest rates can be expected to remain at moderate levels.

The stable economic conditions provide a favourable operating environment for the Group. However, in assessing the profit

outlook for the future, it is to be borne in mind that the 1997 accounts include significant income and expense items which will not necessarily be repeated in 1998. While the Group's equity portfolio still holds major unrealized gains, the appreciation is less broad-based than before.

Loan losses are expected to stay at current low levels. Barring a serious deterioration in the South East Asian situation, management believes that the provision entered in the 1997 accounts will cover potential losses arising from Group exposures to this area.

Operating expenses are projected to go on falling slightly as a result of cost savings to be derived from the Merita-Nordbanken merger and the development of Merita's branch network. On the other hand, the Group will also incur non-recurring restructuring costs.

In 1998, the results of Merita Plc will also reflect developments in the Nordbanken Group, as the Merita Group and the Nordbanken Group have been functioning as a single financial entity since the beginning of the year. The profit of Merita Plc for 1998 will consist of its share of the profit of the new MeritaNordbanken Group.

Financial and share-related indicators

The financial and share-related indicators in this Annual Report have been calculated in accordance with regulations issued by the Finnish Financial Supervision Authority as follows:

Share-related indicators

Earnings/share (EPS):

$$\frac{\text{Profit/loss on ordinary operations } -/+ \text{ minority interest } - \text{ taxes}}{\text{Adjusted number of shares, year average}}$$

Effective dividend yield, %:

$$\frac{\text{Dividend/share}}{\text{Adjusted share price on closing day}} \times 100$$

Trading average (share-issue-adjusted):

$$\frac{\text{Share turnover (FIM)}}{\text{Adjusted number of shares traded during the period, year average}}$$

Trading volume, %:

$$\frac{\text{Number of shares traded during the period}}{\text{Adjusted number of shares, year average}} \times 100$$

Market capitalization on closing day:

Number of shares \times last quotation on closing day

Equity /share:

$$\frac{\text{Equity (incl. voluntary reserves and depreciation difference after deduction of deferred tax liability)}}{\text{Adjusted number of shares on closing day}}$$

Dividend payout ratio, % :

$$\frac{\text{Dividend paid for the period}}{\text{Profit on ordinary operations}} \times 100$$

Dividend/share:

$$\frac{\text{Dividend paid for the period}}{\text{Adjusted number of shares on closing day}}$$

Price/earnings ratio (P/E):

$$\frac{\text{Adjusted last quotation on closing day}}{\text{Earnings/share}}$$

Financial ratios

Turnover:

Interest income, net income from leasing operations, dividend and commission income, net income from securities trading and foreign exchange dealing and other operating income

Return on assets, % (ROA):

$$\frac{\text{Profit/loss on ordinary operations after taxes}}{\text{Total assets (average for beginning and end of year)}} \times 100$$

Income/cost ratio:

$$\frac{\text{Net income from financial operations } + \text{ dividend income } + \text{ commission income } + \text{ net income from securities trading and foreign exchange dealing } + \text{ other operating income}}{\text{Commission expenses } + \text{ administrative expenses } + \text{ depreciation } + \text{ other operating expenses}}$$

Return on equity, % (ROE):

$$\frac{\text{Profit/loss on ordinary operations after taxes}}{\text{Equity (incl. voluntary reserves and depreciation difference after deduction of deferred tax liability) } + \text{ minority interest (average for beginning and end of year)}} \times 100$$

Equity to total assets, %:

$$\frac{\text{Equity (incl. voluntary reserves and depreciation difference after deduction of deferred tax liability) } + \text{ minority interest}}{\text{Total assets on closing day}} \times 100$$

Average number of employees:

Average of number of employees calculated per end of each month during the period

The profit and loss account item "Refund of the surplus in the Pension Fund" is not included in profit on ordinary operations or deducted from expenses in the calculation of the ratios. The preferred capital investment is not included in equity capital.

Exchange rates 31.12.1997 (Bank of Finland rates of exchange for key currencies)

FIM 1.0000	GBP 8.9920	DEM 3.0275	BEF 0.1468	FRF 0.9046	SGD 3.2294
USD 5.4207	SEK 0.6863	NLG 2.6861	CHF 3.7258	JPY 0.0417	ECU 5.9890

Merita in figures ¹

Merita Group 31.12., FIM million	1993	1994	Adjusted 1994	1995	1996	1997
Turnover	14 141	13 104	12 259	20 554	22 455	23 255
Net income from financial operations	2 182	2 359	2 636	3 841	4 095	4 338
% of turnover	15.4	18.0	21.5	18.7	18.2	18.7
Profit/loss on ordinary operations	-2 564	-1 273	-1 273	491	2 435	4 073
% of turnover	-18.1	-9.7	-10.4	2.4	10.8	17.5
Profit/loss before appropriations and taxes	-2 564	-1 173	-1 173	-126	2 021	4 073
% of turnover	-18.1	-8.9	-9.6	-0.6	9.0	17.5
Profit/loss on ordinary operations after taxes	-2 798	-1 307	-1 299	398	2 231	3 502
% of turnover	-19.8	-10.0	-10.6	1.9	9.9	15.1
Equity capital	8 322	7 492	7 478	12 928	14 788	17 380
Total assets	153 786	151 723	151 640	278 683	271 950	298 733
Earnings/share, FIM (EPS)	-7.14	-2.63	-2.61	0.52	1.19	2.31
Dividend payout ratio, %	-	-	-	-	21.6	32.6
Equity capital/share, FIM ²	13.58	11.03	11.00	10.62	12.85	16.36
Return on assets, % (ROA)	-1.85	-0.86	-0.85	0.18	0.36	0.69
Return on equity, % (ROE) ²	-39.0	-21.5	-21.5	5.5	10.0	15.7
Equity to total assets, % ²	4.4	3.5	3.5	3.3	4.0	4.7
Capital adequacy ratio, %	11.1	10.7	10.7	10.3	11.1	10.7 ³
Other income ⁴	2 377	3 056	2 750	4 317	5 192	5 983
Administrative and operating expenses	2 747	3 086	3 057	5 434	4 414	3 452
Loan and guarantee losses	3 773	3 180	3 180	1 726	1 495	1 242
Contingent liabilities	31 244	27 712	27 712	44 039	45 704	47 995
Gross capital expenditure on fixed assets	440	483	483	979	1 173	1 552
% of turnover	3.1	3.7	3.9	4.8	5.2	6.7
Number of employees, 31.12.	8 163	9 302	9 302	18 284	15 885	13 716
Number of employees, annual average	8 308	9 335	9 335	17 834	16 669	14 637

Merita Bank Group 31.12., FIM million	1993	1994	Adjusted 1994	1995	1996	1997
Turnover	13 872	12 371	11 525	17 227	17 916	18 530
Net income from financial operations	2 162	2 447	2 691	3 871	4 582	4 806
Profit/loss on ordinary operations	-2 509	-1 427	-1 427	425	1 762	3 039
% of turnover	-18.1	-11.5	-12.4	2.5	9.8	16.4
Profit/loss before appropriations and taxes	-2 662	-1 364	-1 364	-132	1 322	2 995
% of turnover	-19.2	-11.0	-11.8	-0.8	7.4	16.2
Profit/loss on ordinary operations after taxes	-2 522	-1 477	-1 469	426	1 550	2 593
Equity capital	7 669	7 718	7 703	12 622	13 729	15 229
Total assets	153 338	152 139	152 055	274 862	267 573	293 962
Contingent liabilities	31 366	27 797	27 797	48 274	48 940	51 309
Return on assets, % (ROA)	-1.68	-0.97	-0.96	0.20	0.33	0.60
Return on equity, % (ROE) ²	-39.0	-25.1	-25.0	6.0	9.9	16.0
Equity to total assets, % ²	4.0	3.7	3.6	3.1	3.6	3.9
Capital adequacy ratio, %	10.4	11.0	11.0	10.9	11.3	10.8
Income/cost ratio	1.40	1.50	1.56	1.39	1.49	1.86
Employees (full-time equivalent positions)	6 298	7 157	7 157	11 706	11 247	10 018
Domestic branches	371	375	375	674	553	536
Foreign branches	5	5	5	5	6	6

¹ The indicators are calculated using the formulas shown on page 44. The figures for 1994 are presented separately in accordance with the accounting regulations applicable in 1994 and 1995; the figures for previous years have not been adjusted to comply with the amended regulations. The Kansallis Banking Group and the Unitas Group merged on April 1, 1995 and the 1995 and 1996 figures are therefore not comparable with each other or with those for earlier years.

² The profit and loss account item "Refund of the surplus in the Pension Fund" is not included in profit on ordinary operations or deducted from expenses in the calculation of the ratios. The balance sheet item "Preferred capital investments" is not included in equity capital.

³ The Government capital investment, FIM 1 726 million, is not included in equity capital in the calculation of capital adequacy.

⁴ As of 1995 the item "Other income" consists of dividend income, commission income and expenses, net income from securities trading and foreign exchange dealing and other operating income.



Occupational health services are critical to the long-term wellbeing of staff. Heikki Noronen, Kirsti Pakkala and Eija Järvinen help Merita people stay in good shape.

Merita Plc and Merita Bank Ltd

Financial information

Merita Plc – Consolidated profit and loss account

FIM million	1.1.–31.12.1997		1.1.–31.12.1996 ¹		Note no
Interest income					34
On receivables from credit institutions and central banks		2 257		1 728	
On receivables from the public and public sector organizations		7 916		9 074	
On debt securities		1 998		1 826	
Other interest income		<u>-102</u>	12 068	<u>160</u>	12 789
Net income from leasing operations			293		309
Interest expenses					34
On liabilities to credit institutions and central banks		2 100		1 711	
On liabilities to the public and public sector organizations		2 713		3 651	
On debt securities issued to the public		2 151		2 504	
On subordinated liabilities		847		798	
On preferred capital investments		178		238	
Other interest expenses		<u>33</u>	-8 023	<u>101</u>	-9 003
Net income from financial operations			4 338		4 095
Dividend income			137		219
Commission income			2 363		2 303
Commission expenses			-39		-42
Net income from securities trading and foreign exchange dealing					
Net income from securities trading					
Debt securities	-100			230	
Shares and participations	2 008			883	
Other	<u>10</u>	1 919		<u>1</u>	1 114
Net income from foreign exchange dealing		<u>147</u>	2 065	<u>216</u>	1 330
Other operating income			1 458		1 381
Administrative expenses					
Personnel expenses					
Wages and salaries	2 134			2 242	
Pension expenses	311			360	28
Refund of the surplus in the Pension Fund	-1 545			-1 232	28
Other social security expenses	198			266	
Other personnel expenses	<u>64</u>	1 162		<u>95</u>	
Other administrative expenses		<u>1 015</u>	-2 177	<u>1 006</u>	-2 737
Depreciation			-1 644		-1 046
Other operating expenses			-1 275		-1 677
Loan and guarantee losses					24
Loan and guarantee losses		942		1 495	
Loan loss provision, Asia		500		-	
Change in unallocated write-offs		<u>-200</u>	-1 242	<u>-</u>	-1 495
Write-downs on securities held as financial fixed assets			-5		-6
Share of profit/loss of companies carried under the equity method			<u>96</u>		<u>110</u>
Profit on ordinary operations			4 073		2 435
Extraordinary expenses			-		<u>-414</u>
Profit before appropriations and taxes			4 073		2 021
Increase (-) / decrease (+) in voluntary reserves and depreciation difference			-162		-86
Direct taxes					
Taxes for the year and previous years		508		130	
Increase (-) / decrease (+) in deferred tax liability		<u>-63</u>	-571	<u>-74</u>	-204
Minority interest			<u>-37</u>		<u>-11</u>
Profit for the year			<u>3 303</u>		<u>1 720</u>

¹ The surplus refunded by the Pension Fund has been transferred under administrative expenses as an individual item. In the 1996 Financial Statements it was included in extraordinary income.

Merita Plc – Profit and loss account

FIM million	1.1.–31.12.1997		1.1.–31.12.1996 ¹		Note no
Interest income					34
On receivables from credit institutions and central banks	3		5		
On debt securities	59		91		
Other interest income	<u>5</u>	67	<u>10</u>	106	
Interest expenses					34
On liabilities to credit institutions and central banks	24		1		
On debt securities issued to the public	138		222		
On subordinated liabilities	45		55		
Other interest expenses	<u>2</u>	-209	<u>1</u>	-280	
Net income from financial operations		-142		-173	
Dividend income		707		392	34
Commission income		0		0	
Commission expenses		-3		-0	
Net income from securities trading and foreign exchange dealing					
Net income from securities trading					
Debt securities	-		5		
Shares and participations	<u>114</u>	114	<u>231</u>	236	
Other operating income		14		12	23
Administrative expenses					
Personnel expenses					
Wages and salaries	9		7		25
Pension expenses	0		-3		28
Refund of the surplus in the Pension Fund	-631		-574		28
Other social security expenses	0		1		
Other personnel expenses	<u>0</u>		<u>0</u>		
Other administrative expenses		<u>-621</u>	<u>-569</u>	540	
		36	29		
Depreciation		-0		-0	
Other operating expenses		-10		-66	23
Loan and guarantee losses		-		-39	24
Write-downs on securities held as financial fixed assets		-		-36	
Profit on ordinary operations		1 264		865	
Extraordinary income		<u>457</u>		<u>198</u>	37
Profit before appropriations and taxes		1 722		1 063	
Increase (-) / decrease (+) in voluntary reserves and depreciation difference					
Change in the reserve for general banking risks	-		8		
Change in other voluntary reserves	<u>-</u>	-	<u>123</u>	130	
Direct taxes		-251		-67	
Profit for the year		<u>1 470</u>		<u>1 126</u>	

¹ The surplus refunded by the Pension Fund has been transferred under administrative expenses as an individual item. In the 1996 Financial Statements it was included in extraordinary income.

Merita Plc – Consolidated balance sheet

FIM million	31.12.1997		31.12.1996		Note no
Assets					
Liquid assets					
Cash in hand	980			962	
Receivables from central banks repayable on demand	<u>2 754</u>	3 734		<u>2 060</u>	3 022
Receivables from credit institutions and central banks					
Receivables from central banks not repayable on demand	29			22	2,3,5,7
Receivables from credit institutions	1 310			1 119	
Repayable on demand	<u>52 859</u>	54 169	54 197	<u>42 166</u>	43 285
Other				43 307	
Receivables from the public and public sector organizations					
Unallocated write-offs		140 790		142 373	2,3,4,5,7
		-		-200	6
Leased assets					
		4 063		4 270	9,14
Debt securities					
Issued by public sector organizations	26 649			11 070	1,2,3,5
Other	<u>20 927</u>	47 576		<u>21 882</u>	7,10,11
32 952					
Shares and participations					
		4 131		4 617	10-13,15
Shares and participations in associated companies and subsidiaries					
Credit institutions	3			3	13,36
Other	<u>3 456</u>	3 459		<u>3 566</u>	
3 569					
Intangible assets					
Group consolidation goodwill	657			747	13
Other intangible assets	<u>139</u>	796		<u>147</u>	14
893					
Tangible assets					
Land and buildings					13
Owner-occupied	2 776			3 074	14
Other	<u>14 162</u>	16 938		<u>10 700</u>	
13 775					
Shares and participations in real estate companies					14,15
Owner-occupied	741			730	
Other	<u>2 333</u>	3 074		<u>6 862</u>	
7 593					
Machinery and equipment	666			774	
Other tangible assets	<u>604</u>	21 283		<u>601</u>	22 743
22 743					
Other assets					
Cash items in the process of collection	615			1 176	
Guarantee claims	772			1 011	
Other	<u>2 578</u>	3 965		<u>785</u>	2 972
2 972					
Accruals and prepayments					
Interest	10 947			7 979	
Other	<u>3 791</u>	14 739		<u>3 453</u>	11 432
11 432					
		<u>298 733</u>		<u>271 950</u>	

Liabilities and shareholders' funds**Liabilities****Due to credit institutions and central banks**

Due to central banks		5			486				2,3
Due to credit institutions									
Repayable on demand	3 689				2 161				
Other	<u>53 035</u>	<u>56 724</u>	<u>56 728</u>		<u>38 494</u>	<u>40 655</u>		41 141	

Due to the public and public sector organizations

Deposits									2,3
Repayable on demand	83 770				79 241				
Other	<u>50 229</u>	<u>133 999</u>			<u>48 694</u>	<u>127 935</u>			
Other liabilities		<u>12 196</u>	<u>146 196</u>			<u>11 612</u>		139 547	

Debt securities issued to the public

Bonds		6 855				6 285			1,2,3,17
Other		<u>41 926</u>	<u>48 780</u>			<u>41 437</u>		47 722	

Other liabilities

Cash items in the process of collection		4 627				4 712			
Other		<u>1 657</u>	<u>6 284</u>			<u>2 689</u>		7 401	

Accruals and deferred income

Interest		8 042				6 419			
Other		<u>1 529</u>	<u>9 571</u>			<u>1 913</u>		8 332	

Statutory provisions

Pension provisions		96				93			38
Other statutory provisions		<u>799</u>	<u>895</u>			<u>743</u>		836	

Subordinated liabilities

			<u>12 318</u>					11 884	17-19
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Deferred tax liability

			<u>161</u>					97	
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Minority interest

			<u>420</u>					203	
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Equity capital

Restricted equity									20
Share capital	8 305				8 305				31
Ordinary reserve	339				339				
Revaluation reserve	26				261				
Preferred capital investments	<u>3 793</u>	<u>12 463</u>			<u>4 120</u>	<u>13 024</u>			32
Non-restricted equity									
Profit/loss from previous years	1 120				-287				
Transferred from voluntary reserves and depreciation difference	493				331				
Profit for the year	<u>3 303</u>	<u>4 917</u>	<u>17 380</u>		<u>1 720</u>	<u>1 763</u>		<u>14 788</u>	

			<u>298 733</u>						
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						<u>271 950</u>			
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Off-balance-sheet commitments

Commitments on behalf of customers in favour of third parties									26
Bills of exchange	1 453				735				
Guarantees and pledges	<u>24 958</u>	<u>26 411</u>			<u>28 417</u>	<u>29 152</u>			
Irrevocable commitments in favour of customers		<u>21 585</u>	<u>47 995</u>			<u>16 552</u>		<u>45 704</u>	

Merita Plc – Balance sheet

FIM million	31.12.1997		31.12.1996		Note no
Assets					
Receivables from credit institutions and central banks					
Receivables from central banks repayable on demand		48		39	2
Debt securities					
Issued by public sector organizations	10		46		1,2,7,10,11
Other	<u>905</u>	915	<u>905</u>	951	
Shares and participations					
Shares and participations in Group associated companies					
Other than credit institutions		0		–	10–13
Shares and participations in Group companies					
Credit institutions	8 863		8 863		13,36
Other	<u>2 673</u>	11 536	<u>1 754</u>	10 617	13,36
Intangible assets					
		–		0	13
Tangible assets					
Land and buildings					13
Owner-occupied	0		0		14
Other	<u>13</u>	13	<u>13</u>	13	
Machinery and equipment		1		1	
Other tangible assets		<u>0</u>	<u>0</u>	14	
Other assets					
Guarantee claims		4		4	
Other		<u>1</u>		<u>9</u>	14
Accruals and prepayments					
Interest		17		27	
Other		<u>1 033</u>	<u>1 050</u>	<u>801</u>	828
		<u>14 455</u>		<u>13 549</u>	
Liabilities and shareholders' funds					
Liabilities					
Due to credit institutions and central banks					
Due to credit institutions		803		649	2,3
Debt securities issued to the public					
Bonds	1 774		2 177		1,2,17
Other		<u>–</u>	<u>49</u>	2 226	
Other liabilities					
		6		6	
Accruals and deferred income					
Interest		84		92	
Other		<u>7</u>	<u>91</u>	<u>8</u>	99
Statutory provisions					
Pension provisions		2		2	38
Other statutory provisions		<u>21</u>	<u>23</u>	<u>19</u>	21
Subordinated liabilities					
		906		906	18,19
Equity capital					
Restricted equity					20
Share capital	8 305		8 305		31
Ordinary reserve	<u>211</u>	8 516	<u>211</u>	8 516	
Non-restricted equity					
Reversals of revaluations	866		–		
Profit for the year	<u>1 470</u>	<u>2 336</u>	<u>1 126</u>	<u>1 126</u>	9 642
		<u>14 455</u>		<u>13 549</u>	
Off-balance-sheet commitments					
Commitments on behalf of customers in favour of third parties					26
Guarantees and pledges		<u>8</u>	<u>8</u>	<u>246</u>	<u>246</u>

Proposals of the Board of Directors to the General Meeting and Auditors' Report

Proposals of the Board of Directors to the General Meeting

Result for the year and respective action

The consolidated distributable equity capital as at 31 December 1997 is FIM 4,423 million.

The non-restricted equity capital of the parent company as at 31 December 1997 is FIM 2,335,792,342.05.

FIM 1,470,181,945.15 of this has arisen from the year under review.

We propose that:

1. A dividend be paid as follows

– FIM 1.00 on A shares, totalling	FIM 763,253,906.00
– FIM 0.90 on B shares, totalling	FIM 60,480,000.00
	<u>FIM 823,733,906.00</u>
2. FIM 646,448,039.15 of the profit for the year be retained in the profits account.

Helsinki, 26 February 1998

Vesa Vainio	Jacob Palmstierna	Hans Dalborg
Dan Andersson	Rune Brandinger	Casimir Ehrnrooth
Mikko Kivimäki	Bernt Magnusson	Juha Niemelä
	Timo Peltola	

Auditors' Report

to the shareholders of Merita Plc

We have audited the accounting records and the financial statements as well as the administration by the Board of Directors and the Chief Executive of Merita Plc for the financial year 1997. The financial statements, which include the report of the Board of Directors, consolidated and parent company profit and loss accounts, balance sheets and notes to the financial statements, have been prepared by the Board of Directors and the Chief Executive. Based on our audit, we express our opinion on these financial statements and the company's administration.

We have conducted our audit in accordance with generally accepted auditing standards in Finland. These standards require that we plan and perform the audit in order to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes the examination, on a test basis, of evidence supporting the amounts and disclosures in the financial statements, the assessment of the accounting principles used and significant estimates made by the management, as well as the evaluation of the overall financial statements presentation. The purpose of our audit of the administration has been to see that the Board of Directors and the Chief Executive have complied with the rules of the Finnish Companies Act and Credit Institutions Act.

In our opinion, the financial statements have been prepared in accordance with the Finnish Credit Institutions Act, Accounting Act and other rules and regulations governing the preparation of financial statements in Finland. The financial statements give a true and fair view, as defined in the Accounting Act, of both the consolidated and the parent company result of operations for the financial period under audit as well as of the Group's and the parent company's financial position at the year-end. The financial statements may be adopted and the Chairman and Deputy Chairman of the Board of Directors and other members of the Board of Directors as well as the Chief Executive of the parent company may be discharged from liability for the financial year audited by us. The proposal by the Board of Directors to the General Meeting of Shareholders regarding the distribution of retained earnings is in compliance with the Finnish Companies Act.

We have reviewed the interim financial statements published by the company during the year. It is our understanding that the interim financial statements have been prepared in accordance with the rules and regulations governing the preparation of such statements in Finland.

Helsinki, 26 February 1998

Eric Haglund Authorized Public Accountant	Mauri Palvi Authorized Public Accountant	Eero Suomela Authorized Public Accountant
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Merita Bank Ltd – Consolidated profit and loss account

FIM million	1.1.–31.12.1997		1.1.–31.12.1996 ¹		Note no
Interest income					34
On receivables from credit institutions and central banks		2 256		1 729	
On receivables from the public and public sector organizations		8 110		9 227	
On debt securities		2 155		2 025	
Other interest income		<u>-106</u>	12 415	<u>149</u>	13 130
Net income from leasing operations			293		311
Interest expenses					34
On liabilities to credit institutions and central banks		2 055		1 688	
On liabilities to the public and public sector organizations		2 653		3 591	
On debt securities issued to the public		2 137		2 443	
On subordinated liabilities		847		799	
On preferred capital investments		178		238	
Other interest expenses		<u>31</u>	-7 902	<u>100</u>	-8 860
Net income from financial operations			4 806		4 582
Dividend income			100		168
Commission income			2 350		2 302
Commission expenses			-38		-30
Net income from securities trading and foreign exchange dealing					
Net income from securities trading					
Debt securities	-107			223	
Shares and participations	1 520			561	
Other	<u>10</u>	1 423		<u>1</u>	
Net income from foreign exchange dealing		<u>146</u>	1 569	<u>217</u>	1 003
Other operating income			536		331
Administrative expenses					
Personnel expenses					
Wages and salaries	2 063			2 176	
Pension expenses	307			351	28
Refund of the surplus in the Pension Fund	-903			-646	28
Other social security expenses	185			258	
Other personnel expenses	<u>63</u>	1 715		<u>94</u>	
Other administrative expenses		<u>1 003</u>	-2 718	<u>996</u>	-3 230
Depreciation			-332		-385
Other operating expenses			-1 053		-1 336
Loan and guarantee losses					24
Loan and guarantee losses		942		1 507	
Loan loss provision, Asia		500		-	
Change in unallocated write-offs		<u>-200</u>	-1 242	<u>-</u>	-1 507
Write-downs on securities held as financial fixed assets			-5		-6
Share of profit/loss of companies carried under the equity method			-933		-130
Profit on ordinary operations			3 039		1 762
Extraordinary expenses			-44		-440
Profit before appropriations and taxes			2 995		1 322
Increase (-) / decrease (+) in voluntary reserves and depreciation difference			-162		-190
Direct taxes					
Taxes for the year and previous years		383		138	
Increase (-) / decrease (+) in deferred tax liability		<u>-63</u>	-446	<u>-74</u>	-212
Minority interest			-31		-11
Profit for the year			<u>2 356</u>		<u>909</u>

¹ The surplus refunded by the Pension Fund has been transferred under administrative expenses as an individual item. In the 1996 Financial Statements it was included in extraordinary income.

Merita Bank Ltd – Profit and loss account

	1.1.–31.12.1997		1.1.–31.12.1996 ¹		Note no
Interest income					34
On receivables from credit institutions and central banks		2 785		2 217	
On receivables from the public and public sector organizations		7 122		8 219	
On debt securities		2 141		2 065	
Other interest income		<u>-124</u>	11 925	<u>130</u>	12 631
Interest expenses					34
On liabilities to credit institutions and central banks		2 152		1 782	
On liabilities to the public and public sector organizations		2 562		3 488	
On debt securities issued to the public		2 052		2 339	
On subordinated liabilities		842		793	
On preferred capital investments		178		238	
Other interest expenses		<u>22</u>	-7 807	<u>90</u>	-8 731
Net income from financial operations			4 118		3 900
Dividend income			356		408
Commission income			1 913		1 958
Commission expenses			-42		-26
Net income from securities trading and foreign exchange dealing					
Net income from securities trading					
Debt securities	-122			204	
Shares and participations	1 498			580	
Other	<u>-1</u>	1 375		<u>-</u>	784
Net income from foreign exchange dealing		<u>140</u>	1 515	<u>212</u>	996
Other operating income			454		422
Administrative expenses					
Personnel expenses					
Wages and salaries	1 886			2 011	25
Pension expenses	282			333	28
Refund of the surplus in the Pension Fund	-882			-626	28
Other social security expenses	172			244	
Other personnel expenses	<u>59</u>	1 517		<u>91</u>	2 053
Other administrative expenses		<u>916</u>	-2 433	<u>928</u>	-2 981
Depreciation			-296		-351
Other operating expenses			-1 004		-1 273
Loan and guarantee losses					
Loan and guarantee losses		906		1 493	
Loan loss provision, Asia		484		-	
Change in unallocated write-offs		<u>-200</u>	-1 190	<u>-</u>	-1 493
Profit on ordinary operations			3 391		1 559
Extraordinary expenses			-		-401
Profit before appropriations and taxes			3 391		1 159
Direct taxes			-320		-120
Profit for the year			<u>3 071</u>		<u>1 039</u>

¹ The surplus refunded by the Pension Fund has been transferred under administrative expenses as an individual item. In the 1996 Financial Statements it was included in extraordinary income.

Merita Bank Ltd – Consolidated balance sheet

FIM million	31.12.1997		31.12.1996		Note no
Assets					
Liquid assets					
Cash in hand	980		962		
Receivables from central banks repayable on demand	<u>2 754</u>	3 734	<u>2 060</u>	3 022	
Receivables from credit institutions and central banks					
Receivables from central banks not repayable on demand	29		22		2,3,5,7
Receivables from credit institutions	1 293		1 115		
Repayable on demand	<u>52 858</u>	54 151	<u>42 162</u>	43 277	
Other		54 180		43 299	
Receivables from the public and public sector organizations					
Unallocated write-offs		145 458		145 260	2,3,4,5,7
		-		-200	6
Leased assets					
		4 063		4 270	9,14
Debt securities					
Issued by public sector organizations	26 637		11 022		1,2,3,5,7,10,11
Other	<u>24 242</u>	50 879	<u>26 338</u>	37 360	
Shares and participations					
		1 663		2 909	10-13,15
Shares and participations in associated companies and subsidiaries					
Credit institutions	3		3		13,36
Other	<u>15 092</u>	15 095	<u>16 555</u>	16 558	
Intangible assets					
Group consolidation goodwill	51		64		13
Other intangible assets	<u>105</u>	156	<u>88</u>	153	
Tangible assets					
Land and buildings					13
Owner-occupied	60		60		14
Other	<u>18</u>	78	<u>22</u>	83	
Shares and participations in real estate companies					14,15
Owner-occupied	30		13		
Other	<u>1</u>	32	<u>1</u>	14	
Machinery and equipment		590		691	
Other tangible assets		<u>374</u>		<u>403</u>	
		1 075		1 191	
Other assets					
Cash items in the process of collection	615		1 176		
Guarantee claims	768		1 007		
Other	<u>2 139</u>	3 522	<u>738</u>	2 920	
Accruals and prepayments					
Interest	11 033		8 060		
Other	<u>3 105</u>	14 138	<u>2 772</u>	10 832	
		<u>293 962</u>		<u>267 573</u>	

Liabilities and shareholders' funds**Liabilities****Due to credit institutions and central banks**

Due to central banks		5			486				2,3
Due to credit institutions									
Repayable on demand	3 689				2 161				
Other	<u>51 407</u>	<u>55 096</u>	<u>55 100</u>		<u>37 355</u>	<u>39 516</u>	<u>40 002</u>		

Due to the public and public sector organizations

Deposits									2,3
Repayable on demand	83 923				79 342				
Other	<u>50 229</u>	<u>134 152</u>			<u>48 695</u>	<u>128 037</u>			
Other liabilities		<u>11 387</u>	<u>145 539</u>			<u>10 274</u>	<u>138 311</u>		

Debt securities issued to the public

Bonds		6 581				5 865			1,2,3,17
Other		<u>42 681</u>	<u>49 262</u>			<u>41 481</u>	<u>47 345</u>		

Other liabilities

Cash items in the process of collection		4 627				4 712			
Other		<u>1 389</u>	<u>6 016</u>			<u>2 518</u>	<u>7 229</u>		

Accruals and deferred income

Interest		8 017				6 386			
Other		<u>1 498</u>	<u>9 516</u>			<u>1 845</u>	<u>8 231</u>		

Statutory provisions

Pension provisions		94				91			38
Other statutory provisions		<u>691</u>	<u>785</u>			<u>634</u>	<u>725</u>		

Subordinated liabilities

			<u>12 306</u>				<u>11 871</u>		17-19
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Deferred tax liability

			<u>161</u>				<u>97</u>		
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Minority interest

			<u>49</u>				<u>32</u>		
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Equity capital

Restricted equity									20
Share capital	6 024				6 024				31
Ordinary reserve	2 180				2 180				
Revaluation reserve	25				248				
Preferred capital investments	<u>3 793</u>	<u>12 022</u>			<u>4 120</u>	<u>12 572</u>			32
Non-restricted equity									
Profit/loss from previous years	439				-1				
Transferred from voluntary reserves and depreciation difference	412				250				
Profit for the year	<u>2 356</u>	<u>3 207</u>	<u>15 229</u>		<u>909</u>	<u>1 157</u>	<u>13 729</u>		

			<u>293 962</u>						
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						<u>267 573</u>			
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Off-balance-sheet commitments

Commitments on behalf of customers in favour of third parties									26
Bills of exchange	1 453				735				
Guarantees and pledges	<u>28 178</u>	<u>29 631</u>			<u>31 644</u>	<u>32 379</u>			
Irrevocable commitments in favour of customers		<u>21 678</u>	<u>51 309</u>			<u>16 562</u>	<u>48 940</u>		

Merita Bank Ltd – Balance sheet

<i>FIM million</i>	31.12.1997		31.12.1996		<i>Note no</i>
Assets					
Liquid assets					
Cash in hand	979		961		
Receivables from central banks repayable on demand	<u>2 754</u>	3 733	<u>2 060</u>	3 021	
Receivables from credit institutions and central banks					
Receivables from central banks not repayable on demand	29		22		2,3,7
Receivables from credit institutions Repayable on demand	1 374		1 107		
Other	<u>66 218</u>	67 591	<u>53 892</u>	54 999	55 021
Receivables from the public and public sector organizations					
Unallocated write-offs	131 971		132 871		2,3,4,5,7
	<u>-</u>	131 971	<u>-200</u>	132 671	6
Debt securities					
Issued by public sector organizations	26 613		10 937		1,2,3,5,
Other	<u>24 219</u>	50 831	<u>26 940</u>	37 877	7,10,11
Shares and participations					
		1 439		2 847	10-13,15
Shares and participations in Group associated companies					
Other than credit institutions		14 750		14 760	13,36
Shares and participations in Group companies					
Credit institutions	1 869		1 928		13,36
Other	<u>1 763</u>	3 632	<u>2 048</u>	3 976	
Intangible assets					
		95		81	13
Tangible assets					
Land and buildings					
Owner-occupied	29		27		14
Other	<u>18</u>	47	<u>21</u>	48	
Shares and participations in real estate companies					
Owner-occupied	12		9		14,15
Other	<u>0</u>	12	<u>0</u>	10	
Machinery and equipment					
Other tangible assets	553		658		
	<u>410</u>	1 023	<u>430</u>	1 146	
Other assets					
Cash items in the process of collection	615		1 176		
Guarantee claims	769		1 008		
Other	<u>2 100</u>	3 483	<u>710</u>	2 894	
Accruals and prepayments					
Interest	11 087		8 123		
Other	<u>2 837</u>	13 924	<u>2 594</u>	10 717	
		<u>292 503</u>		<u>265 011</u>	

FIM million

31.12.1997

31.12.1996

Note no

Liabilities and shareholders' funds**Liabilities****Due to credit institutions and central banks**

Due to central banks		5			486			2,3
Due to credit institutions								
Repayable on demand	3 723				2 144			
Other	53 761	57 484	57 489	39 419	41 563	42 048		

Due to the public and public sector organizations

Deposits								2,3
Repayable on demand	83 954				79 372			
Other	48 787	132 741		47 355	126 728			
Other liabilities		10 957	143 698		9 404	136 132		

Debt securities issued to the public

Bonds		4 837			4 283			1,2,3,17
Other		42 908	47 744		41 752	46 036		

Other liabilities

Cash items in the process of collection		4 462			4 546			
Other		1 156	5 618		2 327	6 873		

Accruals and deferred income

Interest		8 010			6 366			
Other		1 160	9 169		1 582	7 948		

Statutory provisions

Pension provisions		91			88			38
Other statutory provisions		655	746		601	690		

Subordinated liabilities

			12 247			11 814		17-19
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Equity capital

Restricted equity								20
Share capital	6 024				6 024			31
Ordinary reserve	2 052				2 052			
Preferred capital investments	3 793	11 869		4 120	12 196			32
Non-restricted equity								
Profit from previous years	852			236				
Profit for the year	3 071	3 922	15 792	1 039	1 275	13 471		

292 503265 011**Off-balance-sheet commitments**

Commitments on behalf of customers in favour of third parties								26
Bills of exchange	1 452				734			
Guarantees and pledges	30 618	32 070		34 269	35 003			
Irrevocable commitments in favour of customers		17 963	50 033		13 051	48 054		

Proposals of the Board of Management to the General Meeting, Statement of the Supervisory Board and Auditors' Report

Proposals of the Board of Management to the General Meeting

Result for the year and respective action

The consolidated distributable equity capital as at 31 December 1997 is FIM 2,795 million.

The non-restricted equity capital of the parent company as at 31 December 1997 is FIM 3,922,410,469.78, consisting of the following items:

– profit for the year	FIM 3,070,666,662.95
– profit from previous years	FIM 851,743,806.83
	<hr/>
	FIM 3,922,410,469.78

We propose that

1. A dividend of FIM 1.35 be paid per share, totalling FIM 813,233,679.30.
2. For worthy public causes be reserved FIM 1,500,000.
3. FIM 2,255,932,983.65 of the profit for the year be retained in the profits account. Including the profit from previous years, the undistributed profit funds thus amount to FIM 3,107,676,790.48.

Helsinki 25 February 1998

Hans Dalborg	Carl-Johan Granvik	Karl-Olof Hammarkvist
Sven-Åke Johansson	Kalevi Kontinen	Jussi Laitinen
Arne Liljedahl	Lars G Nordström	Markku Pohjola
Pertti Voutilainen	Claes Östberg	

Statement of the Supervisory Board

The financial statements of Merita Bank Ltd for the year 1997 have been drawn up in accordance with the principles approved by the Supervisory Board. The Supervisory Board has confirmed these statements for presentation to the General Meeting and endorses the Board of Management's proposal in respect of the result for the year.

Helsinki, 25 February 1998

For and on behalf of the Supervisory Board:

Maunu Ihalainen	Edward Andersson	Aino Sallinen
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Auditors' Report

to the General Meeting of Merita Bank Ltd

We have audited the accounting records and the financial statements as well as the administration by the Supervisory Board, the Board of Management and the Chief Executive of Merita Bank Ltd for the financial year 1997. The financial statements, which comprise the report of the Board of Management, the consolidated and parent company profit and loss accounts and balance sheets and the notes to the financial statements, have been prepared by the Board of Management and the Chief Executive and verified by the Supervisory Board. Based on our audit, we express our opinion on these financial statements and the bank's administration.

We have conducted our audit in accordance with generally accepted auditing standards in Finland. These standards require that we plan and perform the audit in order to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes the examination, on a test basis, of evidence supporting the amounts and disclosures in the financial statements, an assessment of the accounting principles used and significant estimates made by the management, as well as an evaluation of the overall financial statements presentation. The purpose of our audit of the administration has been to see that the Supervisory Board, the Board of Management and the Chief Executive have complied with the rules of the Finnish Credit Institutions Act, Commercial Banks Act and Companies Act.

In our opinion, the financial statements have been prepared in accordance with the Finnish Credit Institutions Act, Accounting Act and other rules and regulations governing the preparation of financial statements in Finland. The financial statements give a true and fair view, as defined in the Accounting Act, of both the consolidated and the parent bank result of operations for the financial period under audit and of the Group's and the parent bank's financial position at the year-end. The financial statements may be adopted. The members of the Supervisory Board, the Chairman of the Board of Management, the members and deputy members of the Board of Management, the President and his deputy can be discharged from liability for the financial year audited by us. The proposal submitted to the General Meeting by the Board of Management and endorsed by the Supervisory Board regarding the distribution of retained earnings is in compliance with Finnish legislation.

Helsinki, 25 February 1998

Eric Haglund
Authorized Public Accountant

Mauri Palvi
Authorized Public Accountant

Accounting policies

The policies outlined below apply to the financial statements of both Merita Plc and its Group and Merita Bank Ltd and its Group.

The financial statements have been drawn up and are presented in accordance with the provisions of the Credit Institutions Act and the Finnish Financial Supervision Authority regulations. The financial statements of subsidiaries are included in the consolidated financial statements in accordance with the parent company's accounting policies.

Scope of the consolidated financial statements

The consolidated financial statements include the financial statements of the parent company, and of those subsidiaries and associated companies directly or indirectly owned by it.

Pursuant to permission of the Finnish Financial Supervision Authority, companies in respect of which the Group or associated company relationship is based on assets not held as financial fixed assets, acquired to replace collateral security (foreclosed assets) or for the reorganization of customers' business operations are not included in the consolidated financial statements.

Information on Group and associated companies and their treatment in the consolidated financial statements is provided in the Notes to the financial statements on pages 78-84.

Consolidation

The financial statements of Group companies which are credit or financial institutions or investment services, fund management or ancillary services companies have been combined line by line applying the acquisition method. Voluntary reserves and depreciation difference, after deduction of deferred taxes, in subsidiary companies' balance sheets at the time of acquisition have not been included in equity capital in the elimination of internal shareholdings. The financial statements of other Group companies and associated companies have been combined applying the equity method.

The accounting principles applied in consolidation are discussed in Notes to the financial statements on page 84.

Foreign currency items

The balance sheet items and commitments of Group companies have been translated into Finnish markkas at the Bank of Finland rates of exchange on the last day of the year. However, items entered in the balance sheet under tangible assets have been translated at rates quoted by the Bank of Finland on the acquisition date, except where the acquisition is covered by a corresponding foreign-currency-denominated liability.

Receivables and liabilities attaching to currency swap agreements have been booked using the rate of exchange of the original currency of the agreement.

Receivables and liabilities

Receivables and liabilities are carried at the price paid or received on acquisition. Where this amount differs from the nominal value, the difference is spread over the maturity period as interest. Where the estimated realizable value of a receivable item on the closing day is lower than the book value defined as specified above, the item is entered in the balance sheet at the estimated realizable value.

Items included in the balance sheet under Other assets, Other liabilities and Accruals have been booked at nominal value. However, items stemming from derivative contracts entered in the balance sheet as assets or liabilities are valued as presented below under "Derivative contracts".

Securities not held as financial fixed assets

Securities not held as financial fixed assets are reported at the lower of cost or estimated realizable value. The estimated realizable value applied in respect of listed securities is the final closing price of the year. The estimated realizable value applied in respect of non-listed shares

is the lower of book value or expected selling price and, in respect of non-listed debt securities, the present value of the principal and interest flow discounted by the market rate of interest.

The difference between cost and nominal value of debt securities, when significant, is accrued in interest income.

Securities held as financial fixed assets

Shares in subsidiaries and associated companies, other shares necessary for the acquisition of services required by the Group and debt securities intended to be held until maturity are classified as securities held as financial fixed assets.

Securities held as financial fixed assets are valued at cost. Where the estimated realizable value of such securities is permanently lower than cost, the difference is recognized as expenses. Any difference between the cost and nominal value of debt securities is accrued in interest income.

Tangible and intangible assets and depreciation

Real estate shares are entered in the balance sheet at cost or, where the estimated realizable value is permanently lower than cost, at the estimated realizable value. Buildings and other tangible and intangible assets are carried at cost less depreciation according to plan. Where their estimated realizable value is permanently lower than book value, the difference is booked under expenses as additional depreciation. Variable costs arising from acquisition of tangible and intangible assets are included in the cost of the asset.

Certain real estate holdings have been revalued in previous years. The surplus on revaluation has been entered under the revaluation reserve. No depreciation has been charged on revaluations.

The depreciation plans of Group companies follow uniform depreciation policies based on the estimated useful life of the asset. Depreciation on buildings and structures is computed on a straight

line basis mainly over 40-60 years. Other acquisition costs of tangible and intangible assets are depreciated under the straight line method mainly over 5-15 years. Depreciation according to plan on leased assets is charged at amounts corresponding to repayments of principal included in leasing rents.

Depreciation entered in the financial statements of Group companies engaged in leasing operations may exceed depreciation according to plan. The depreciation difference is shown separately in the consolidated balance sheet in the same way as voluntary reserves.

Securities repurchase and resale agreements and securities lending and borrowing

Securities sold or purchased on binding repurchase and resale terms and securities lent are included in the original balance sheet item irrespective of the agreement. Any difference between the sale and purchase price is recognized as interest and spread over the life of the agreement. Securities borrowed are not entered in the balance sheet.

Statutory provisions

The balance sheet item "Statutory provisions" covers liability for pensions payable out of Group companies' funds and other specific future expenditure and losses the incurrance of which is probable. Items relating to valuation of assets are entered as deductions from the corresponding asset item.

Voluntary reserves

Finnish legislation permits general reserves in accounting. These voluntary reserves relate to taxation and their amount does not reflect envisaged risks. The voluntary reserves of Group companies are broken down in the consolidated balance sheet into equity capital and deferred tax liability. In accordance with the Finnish Financial Supervision regulation, separate items for the change in voluntary reserves adjusted with deferred tax liability, and the change in deferred tax

liability are shown on the profit and loss account. No part of voluntary reserves is included in equity capital for the purpose of calculating distributable funds.

Preferred capital investments

Preferred capital investments, included in restricted equity capital in accordance with the Credit Institutions Act, are shown as a separate item in the balance sheet. No collateral may be provided for this type of investment and it is not callable by the investor. Repayment is subject to permission of the Financial Supervision Authority. Interest may be paid only out of distributable funds.

Net income on leasing operations

Net income on leasing operations as shown in the consolidated profit and loss account covers leasing rents less depreciation according to plan.

Loan and guarantee losses

Realized loan losses, specific loan loss provisions and losses on the sale of assets acquired to replace a claim arising out of financing a customer are included in loan and guarantee losses. Specific loan loss provisions are allocated either against specific items or, with the permission of the Finnish Financial Supervision Authority, against receivable categories. A specific loan loss provision is made once it has become probable that no payment will be received on the principal amount. Recoveries of items previously written off as loan losses are reversed against current period loan losses. For the determination of write-offs collateral assets are valued at estimated realizable value at the time of disposal.

Unallocated probable write-offs

With the permission of the Finnish Financial Supervision Authority, unallocated probable write-offs were charged against profit for the year in 1993 and 1994. The remaining balance of these write-offs was utilized during 1997.

Non-performing receivables

The entire principal amount of a receivable is considered non-performing when interest, principal or part thereof is 90 days past due. In the case of customers declared bankrupt a receivable is entered as non-performing as of the bankruptcy declaration date. Receivables based on guarantees are considered non-performing upon payment based on the guarantee.

Most receivables are secured or collateralized. The final loss depends on the value of the collateral. Non-performing receivables are therefore not indicative of future loan losses.

Once an item has been classified as non-performing, interest receivables are deducted from income.

Extraordinary items

Exceptional income and expenses, significant in amount and unrelated to the ordinary business operations of Group companies, are classified as extraordinary income and expenses. Extraordinary items are specified in Notes to the financial statements on page 82.

Pension arrangements

Staff pension arrangements and liabilities are discussed in Notes to the financial statements on page 74.

Derivative contracts

Changes in the value of derivative contracts are recognized as income or expenses on the basis of the market price on the closing date, with the following exceptions:

In evaluating derivative contracts related to specific items to be hedged, the change in the value of the item hedged has been taken into account, neutralizing the impact on results.

Interest-type items arising from forward agreements are accrued as interest.

Items entered in the balance sheet on the basis of derivative contracts are included in accruals.

Notes to the financial statements (figures in millions of Finnish markkas unless otherwise stated)

The notes are presented in the order prescribed by the Finnish Financial Supervision Authority. Notes 1-38 include corresponding consolidated figures.

1 Breakdown of debt securities (under assets) and debt securities issued to the public (under liabilities) at the end of the period

	Merita Plc				Merita Bank Ltd			
	Group		Parent company		Group		Parent company	
	1997	1996	1997	1996	1997	1996	1997	1996
Debt securities (assets)								
Certificates of deposit	10 311	12 097	–	–	10 311	12 097	10 192	11 990
Commercial paper	352	281	–	–	352	281	334	271
Treasury bills	9 967	2 024	–	–	9 967	2 022	9 967	2 015
Local authority paper	3	22	–	–	3	22	3	7
Subordinated debt securities	1 894	1 151	–	–	2 252	1 503	2 327	1 585
Convertible bonds	286	565	905	905	658	1 178	653	1 165
Bonds with equity warrants	–	–	–	–	–	–	–	–
Other bonds	24 613	16 537	10	46	27 137	19 872	27 197	20 657
Other	150	275	–	–	200	385	158	185
Total	47 576	32 952	915	951	50 879	37 360	50 831	37 877
Debt securities issued to the public								
Certificates of deposit	38 557	34 050	–	–	39 342	34 442	39 569	34 714
Commercial paper	30	348	–	49	–	–	–	–
Bonds	6 855	6 285	1 774	2 177	6 581	5 865	4 837	4 283
Other	3 339	7 039	–	–	3 339	7 039	3 339	7 039
Total	48 780	47 722	1 774	2 226	49 262	47 345	47 744	46 036

2 Maturity breakdown of receivables and liabilities 31.12.1997

	Merita Plc		Merita Bank Ltd	
	Group	Parent company	Group	Parent company
Receivables				
<i>Less than 3 months</i>				
Receivables from credit institutions and central banks	39 053	48	39 036	45 948
Receivables from the public and public sector organizations	17 151	–	17 228	15 513
Debt securities	13 636	–	14 907	14 899
<i>3 - 12 months</i>				
Receivables from credit institutions and central banks	13 962	–	13 962	17 473
Receivables from the public and public sector organizations	15 926	–	16 282	13 199
Debt securities	9 451	10	9 919	9 928
<i>1 - 5 years</i>				
Receivables from credit institutions and central banks	862	–	862	3 261
Receivables from the public and public sector organizations	53 206	–	56 832	48 928
Debt securities	18 221	–	18 271	18 216
<i>Over 5 years</i>				
Receivables from credit institutions and central banks	320	–	320	937
Receivables from the public and public sector organizations	54 508	–	55 116	54 331
Debt securities	6 268	905	7 783	7 789
Liabilities				
<i>Less than 3 months</i>				
Due to credit institutions and central banks	45 752	–	45 590	47 928
Due to the public and public sector organizations	63 300	–	63 624	61 877
Debt securities issued to the public	21 655	–	22 411	22 456
<i>3 - 12 months</i>				
Due to credit institutions and central banks	9 254	303	8 847	8 893
Due to the public and public sector organizations	22 100	–	22 006	21 947
Debt securities issued to the public	19 072	300	19 072	19 048
<i>1 - 5 years</i>				
Due to credit institutions and central banks	1 638	500	580	584
Due to the public and public sector organizations	30 519	–	29 737	29 724
Debt securities issued to the public	7 587	274	7 313	5 782
<i>Over 5 years</i>				
Due to credit institutions and central banks	84	–	83	83
Due to the public and public sector organizations	30 277	–	30 173	30 151
Debt securities issued to the public	467	1 200	467	459

Receivables from the public and public sector organizations payable on demand amounted to FIM 85 million in the Merita Group and to FIM 83 million in the Merita Bank Group. Merita Bank Ltd had no such receivables. Cheque accounts and other demand deposit accounts are included in the shortest maturity category. Other current accounts are classified in different maturity categories on the basis of their historical pattern.

3 Breakdown of assets and liabilities into Finnish markka and foreign currency items 31.12.1997

	Merita Plc				Merita Bank Ltd			
	Group		Parent company		Group		Parent company	
	FIM	Foreign currency	FIM	Foreign currency	FIM	Foreign currency	FIM	Foreign currency
Assets								
Receivables from credit institutions and central banks	12 416	41 781	48	–	12 405	41 775	24 164	43 456
Receivables from the public and public sector organizations	114 239	26 552	–	–	118 176	27 283	106 047	25 924
Debt securities	36 167	11 409	915	–	39 470	11 409	39 583	11 249
Other assets	48 206	7 964	13 492	1	36 235	7 211	34 971	7 110
Total	211 028	87 706	14 454	1	206 285	87 677	204 764	87 739
Liabilities								
Due to credit institutions and central banks	9 138	47 590	500	303	7 845	47 255	8 512	48 976
Due to the public and public sector organizations	129 664	16 532	–	–	128 992	16 547	128 739	14 959
Debt securities issued to the public	39 272	9 508	1 774	–	39 754	9 508	38 236	9 508
Subordinated liabilities	1 147	11 171	906	–	1 135	11 171	1 135	11 112
Other liabilities	9 770	6 981	119	2	9 343	6 973	8 646	6 887
Total	188 991	91 782	3 299	304	187 069	91 455	185 268	91 443

4 Receivables from the public and public sector organizations by sector and respective specific loan loss provisions at the end of the period

	Merita Plc				Merita Bank Ltd			
	Group		Parent company		Group		Parent company	
	1997	1996	1997	1996	1997	1996	1997	1996
Corporates	48 736	54 703	–	–	52 690	57 642	47 602	52 246
Financial and insurance institutions	73	205	–	–	73	205	71	202
Public sector organizations	1 772	1 795	–	–	1 772	1 795	943	1 137
Non-profit organizations	8 159	8 214	–	–	8 266	7 953	8 008	7 768
Households	65 063	64 495	–	–	65 063	64 495	59 034	59 687
Foreign borrowers	16 987	12 961	–	–	17 594	13 171	16 313	11 831
Unallocated credit write-off	–	–200	–	–	–	–200	–	–200
Total	140 790	142 173	–	–	145 458	145 060	131 971	132 671
Specific loan loss provisions at the beginning of the period	8 041	8 774	–	–	8 037	8 774	7 869	8 774
New provisions made during the period (+)	1 903	1 280	–	–	1 903	1 277	1 800	1 205
Provisions unwound during the period (–)	574	446	–	–	574	401	539	340
Loan losses covered by specific loan loss provisions and realized during the period (–)	884	2 128	–	–	884	2 128	849	2 114
Specific loan loss provisions at the end of the period	8 486	7 479	–	–	8 481	7 522	8 281	7 525

The difference between loan loss provisions at the beginning of 1997 and at the end of 1996 is due to a more detailed division into realized loan losses and specific loan loss provisions.

5 Debt securities and other receivables held as financial fixed assets: difference between the nominal value and the book value at the end of the period

	Merita Plc				Merita Bank Ltd			
	Group		Parent company		Group		Parent company	
	1997	1996	1997	1996	1997	1996	1997	1996
Difference between nominal value and lower book value								
Debt securities	149	111	–	–	153	116	152	114
Receivables from credit institutions and central banks	–	–	–	–	–	–	–	–
Receivables from the public and public sector organizations	253	266	–	–	253	266	244	261
Total	401	377	–	–	406	382	396	375
Difference between book value and lower nominal value								
Debt securities	344	363	–	–	344	362	342	355
Receivables from credit institutions and central banks	–	–	–	–	–	–	–	–
Receivables from the public and public sector organizations	–	–	–	–	–	–	–	–
Total	344	363	–	–	344	362	342	355

6 Non-performing and other zero-interest-rate receivables by sector at the end of the period

	Merita Plc				Merita Bank Ltd			
	Group		Parent company		Group		Parent company	
	1997	1996	1997	1996	1997	1996	1997	1996
Non-performing receivables								
Corporates	1 292	2 122	–	–	1 292	2 122	1 254	2 068
Financial and insurance institutions	3	16	–	–	3	16	3	16
Public sector organizations	–	–	–	–	–	–	–	–
Non-profit organizations	42	86	–	–	42	86	42	86
Households	1 023	1 548	–	–	1 023	1 548	956	1 490
Foreign borrowers	550	629	4	4	546	624	515	610
./. Unallocated credit write-off	–	–200	–	–	–	–200	–	–200
Total ¹	2 910	4 201	4	4	2 906	4 196	2 770	4 070
% of receivables and contingent liabilities ²	1.4	2.0	0.5	0.4	1.3	2.0	1.4	2.1
Other zero-interest-rate receivables								
Corporates	1 001	1 499	–	–	1 229	1 750	1 175	1 690
Financial institutions	–	–	–	–	–	–	–	–
Public sector organizations	–	–	–	–	–	–	–	–
Non-profit organizations	18	4	–	–	6	4	6	4
Households	123	131	–	–	123	131	119	127
Foreign borrowers	198	324	–	–	228	468	228	468
Total ^{1,3}	1 341	1 957	–	–	1 586	2 353	1 528	2 288
% of receivables and contingent liabilities ²	0.6	1.0	–	–	0.7	1.1	0.8	1.2

¹ In addition, non-performing and zero-interest-rate receivables for FIM 1 846 million carried at the risk of the Government Guarantee Fund (31.12.1996 FIM 2 164 million).

² Receivables from the public and public sector organizations, leased assets, debt securities held as financial fixed assets, guarantee claims and commitments on behalf of customers in favour of third parties.

³ Includes FIM 133 million of loans granted to companies acquired to replace collateral security or for restructuring purposes.

7 Subordinated receivables at the end of the period

	Merita Plc				Merita Bank Ltd			
	Group		Parent company		Group		Parent company	
	1997	1996	1997	1996	1997	1996	1997	1996
Debentures	535	440	–	–	698	596	773	674
of which issued by Group companies	–	–	–	–	–	–	83	83
by associated companies	1	1	–	–	1	1	–	–
Other debt securities	1 366	584	905	905	1 561	779	1 554	911
of which issued by Group companies	–	–	905	905	–	–	129	139
by associated companies	–	–	–	–	–	–	–	–
Receivables from credit institutions and central banks	–	–	–	–	–	–	410	350
of which from Group companies	–	–	–	–	–	–	410	350
from associated companies	–	–	–	–	–	–	–	–
Receivables from the public and public sector organizations	252	322	–	–	232	302	205	284
of which from Group companies	2	88	–	–	2	88	2	88
from associated companies	11	14	–	–	11	14	11	14
Total	2 153	1 346	905	905	2 492	1 678	2 942	2 219

Receivables from Group and associated companies include FIM 142 million of receivables from companies acquired for restructuring purposes and not included in the consolidated accounts.

8 Loans and guarantees granted to members of controlling and administrative boards 31.12.1997

	Merita Plc	Merita Bank Ltd
Members and deputy members of the Supervisory Board	–	35
Members and deputy members of the Board of Directors and the Board of Management, Chairman, President and Managing Directors	0	11
Auditors and deputy auditors	–	–

Incl. loans and guarantees granted by companies belonging to the Group or consolidation group concerned to members of controlling and administrative boards and to corporations or individuals sharing material financial interests with such members, as defined in the Credit Institutions Act.

9 Leased assets at the end of the period

	Merita Plc				Merita Bank Ltd			
	Group		Parent company		Group		Parent company	
	1997	1996	1997	1996	1997	1996	1997	1996
Prepayments	113	25	–	–	113	25	–	–
Machinery and equipment	2 395	2 721	–	–	2 395	2 721	–	–
Fixed assets and buildings	1 539	1 356	–	–	1 539	1 356	–	–
Other assets	16	168	–	–	16	168	–	–
Total	4 063	4 270	–	–	4 063	4 270	–	–

10 Book values of securities by asset type and securities lending 31.12.1997

	Merita Plc				Merita Bank Ltd			
	Group		Parent company		Group		Parent company	
	Publicly listed	Other	Publicly listed	Other	Publicly listed	Other	Publicly listed	Other
Debt securities								
Not held as financial fixed assets	34 624		10		35 601		35 601	
Other	12 952		905		15 279		15 230	
Shares and participations								
Not held as financial fixed assets	3 051	951	829	56	1 284	240	1 105	202
Other	0	128	–	1	0	138	0	133

The Merita Group had neither lent nor borrowed securities at the end of the period. The classification and valuation policies are presented under Accounting policies.

11 Difference between the market value and the lower book value of securities at the end of the period

	Merita Plc				Merita Bank Ltd			
	Group		Parent company		Group		Parent company	
	1997	1996	1997	1996	1997	1996	1997	1996
Securities not held as financial fixed assets								
Debt securities	197	159	1	4	192	147	196	151
Publicly listed shares and participations	1 364	815	845	12	481	610	477	608
Publicly listed shares and participations held as financial fixed assets	0	190	–	86	0	58	0	58

12 Long-term equity holdings 31.12.1997

Line of business	Number of shares owned	Share-holding %	Total nominal value of shares owned	Total book value of shares owned
Shares held by Merita Bank Ltd				
Cedel Group, Luxemburg	40	1.9	0	8
Oy Datatie Ab, Helsinki	105	9.0	1	2
Helsinki Telephone Association, Helsinki	3 082	0.0	3	8
Helsinki Halli Oy, Helsinki	16	0.3	0	1
Indekon Oy, Lappeenranta	21 180	6.7	2	3
International Moscow Bank, Moscow	3 300	12.0	41	51
Kehitysyhtiö Savon Teknia Oy, Kuopio	48 127	8.5	2	3
Pikespo Invest Oy, Tampere	25 500	11.1	3	3
Oy Radiolinja Ab, Helsinki	944	1.9	5	5
Rahakontti Oy, Helsinki	9 850	14.5	10	10
Finnish Central Securities Depository Ltd, Helsinki	5 850	13.0	6	12
Vuotekno Oy, Helsinki	10	6.7	1	1
Oy Wedeco Ab, Vaasa	40	3.2	1	1

In addition, 144 companies the total book value of which is FIM 10 million.

<i>(continued)</i>	<i>Line of business</i>	<i>Number of shares owned</i>	<i>Share-holding %</i>	<i>Total nominal value of shares owned</i>	<i>Total book value of shares owned</i>
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Other shares held by the Merita Bank Group

Helsinki Telephone Association, Helsinki	telecommunication	301	0.0	0	1
Helsinki Halli Oy, Helsinki	multi-purpose hall	24	0.4	0	2

In addition, 33 companies the total book value of which is FIM 2 million.

Shares held by Merita Plc

OKR-Issuers Co-Operative, Helsinki	training, holding company	20	4.8	1	1
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In addition, 2 companies the total book value of which is less than FIM 1 million.

Other shares held by the Merita Group

Tropiclandia Oy, Vaasa	spa hotel	1 400	9.3	1	1
Vaasan Matkailu Oy, Vaasa	travel agency	1 100	9.0	1	1

In addition, 53 companies the total book value of which is FIM 3 million.

Group subsidiaries and associated companies (Note 36) and real estate companies are not listed under this note.

In previous financial statements shares held by Group companies in Sampo Insurance Company and Pohjola Insurance Company were included in long-term equity holdings. Due to changes reviewed on page 41 these shares have been classified as "Shares not held as financial fixed assets" since the first half of 1997.

13 Shares held as financial fixed assets and tangible and intangible assets: book values and changes therein during the period

	Merita Plc		Merita Bank Ltd	
	<i>Group</i>	<i>Parent company</i>	<i>Group</i>	<i>Parent company</i>
Owner-occupied land, buildings and shares in real estate companies				
Book value 1.1.1997	3 805	0	73	37
Increase	163	–	28	13
Decrease	52	–	9	8
Transfer between asset items	–209	–	–	–
Depreciation	190	–	2	1
Book value 31.12.1997	3 517	0	91	41
Revaluations included in book value	210	–	–	–
Land, buildings and shares in real estate companies in other than own use				
Book value 1.1.1997	17 563	13	24	21
Increase ¹	2 519	–	0	0
Decrease	2 791	–	5	3
Transfer between asset items	209	–	–	–
Depreciation	1 005	–	–	–
Book value 31.12.1997	16 495	13	19	18
Revaluations included in book value	317	–	–	–
Shares in subsidiaries and associated companies and other shares and participations				
Book value 1.1.1997	5 249	11 648	17 091	19 248
Increase ²	449	923	153	605
Decrease	2 104	1 033	2 005	864
Depreciation ³	5	–	5	473
Book value 31.12.1997	3 588	11 537	15 234	18 516
Revaluations included in book value	–	–	–	–

(continued)	Merita Plc		Merita Bank Ltd	
	Group	Parent company	Group	Parent company
Machinery and equipment and other tangible and intangible items				
Book value 1.1.1997	2 268	1	1 247	1 169
Increase ⁴	737	0	297	244
Decrease	490	0	93	58
Depreciation	449	–	330	295
Book value 31.12.1997	2 067	1	1 121	1 059

¹ A good FIM 1.5 billion of the increase is due to the broadening of the consolidation base (see Note 40) and a good FIM 700 million is due to real estate acquisitions by the Merita Real Estate Group.

² Major individual items: Increase of FIM 302 million in the share capital of Merita Life Assurance Ltd, a subsidiary of Merita Plc carried under the equity method, and increase of FIM 575 million in the share capital of Nordica Invest Ltd, a subsidiary of Merita Plc.

³ Incl. items entered under write-downs on securities held as financial fixed assets.

⁴ The most significant investments under this item were real estate development projects, FIM 270 million; system projects, FIM 63 million; and replacement of the Bank's EDP equipment, FIM 46 million.

14 Book value of non-owner-occupied real estate holdings and loans and guarantees granted to non-consolidated real estate companies at the end of the period

Real estate holdings are carried at cost less depreciation according to plan. The valuation of real estate holdings is a continuous process. Write-downs entered in the profit and loss account are primarily allocated to real estate holdings the present value of which is expected to be materially and permanently lower than book value, calculated according to future rental income. The most significant change in the structure of Merita Real Estate Ltd's real estate holdings during 1997 was the transfer of 11 properties to Sponda Oy. The value of these was FIM 1.1 billion. Sponda Oy shares were subscribed for FIM 566 million.

	Merita Plc							
	Group				Parent company			
	Real estate book value	Shares book value	No-yield properties book value	No-yield properties %	Real estate book value	Shares book value	No-yield properties book value	No-yield properties %
Domestic real estate holdings								
Residential premises	447	225	113	16.8	–	–	–	–
Business and office premises	9 001	1 557	2 046	19.4	–	13	–	–
Industrial premises	727	106	110	13.3	–	–	–	–
Agricultural and forest land	908	181	17	1.5	–	–	–	–
Other land areas	2 260	198	875	35.6	–	–	–	–
Financial leasing properties ¹	1 161	378	–	–	–	–	–	–
Other	239	71	66	21.4	–	0	–	–
Foreign real estate holdings	574	0	23	4.0	–	–	–	–
Total	15 318	2 717	3 250	18.0	–	13	–	–

	Merita Bank Ltd							
	Group				Parent company			
	Real estate book value	Shares book value	No-yield properties book value	No-yield properties %	Real estate book value	Shares book value	No-yield properties book value	No-yield properties %
Domestic real estate holdings								
Residential premises	–	–	–	–	–	–	–	–
Business and office premises	–	1	–	–	–	–	–	–
Industrial premises	–	–	–	–	–	–	–	–
Agricultural and forest land	–	–	–	–	–	–	–	–
Other land areas	–	–	–	–	–	–	–	–
Financial leasing properties ¹	1 161	378	–	–	–	–	–	–
Other	3	0	–	–	3	0	–	–
Foreign real estate holdings	15	0	–	–	15	–	–	–
Total	1 179	380	–	–	18	0	–	–

	Merita Plc		Merita Bank Ltd	
	Group	Parent company	Group	Parent company
Loans and guarantees granted to non-consolidated subsidiaries	157	–	157	–
associated companies	179	–	47	–

¹ Included in the balance sheet item Leased assets.

² Properties not leased at the accounting date.

15 Book value of foreclosed assets and assets acquired for the reorganization of customers' business operations, at the end of the period

	Merita Plc				Merita Bank Ltd			
	Group		Parent company		Group		Parent company	
	1997	1996	1997	1996	1997	1996	1997	1996
Foreclosed assets								
Real estate holdings ¹	19	4 724	–	–	19	22	18	21
Other shares and participations ¹	18	1 452	–	–	18	1 452	–	1 432
Other assets	0	74	–	–	0	1	1	1
Shares and participations acquired for the reorganisation of customers' business operations	139	475	–	–	139	475	139	475
Total	176	6 725	–	–	176	1 950	157	1 929

¹ The 1997 consolidated financial statements include such subsidiaries acquired in satisfaction of loans which were not consolidated in previous years. Consolidation is based on the reclassification of these companies as part of the Group's ordinary business operations.

16 Assets pledged as collateral on behalf of the company or other parties, underlying liabilities and commitments, and assets sold on binding repurchase terms, at the end of the period

	Merita Plc				Merita Bank Ltd			
	Group		Parent company		Group		Parent company	
	1997	1996	1997	1996	1997	1996	1997	1996
Assets pledged as collateral								
Debt securities	5 254	2 951	–	–	5 254	2 951	5 237	2 930
Shares and participations	40	137	–	4	–	103	–	103
Real estate holdings	801	479	–	–	–	–	–	–
Leased assets	–	522	–	–	–	522	–	–
Other assets	4	16	–	–	4	16	–	–
Underlying liabilities and commitments								
Due to credit institutions and central banks	4 384	2 000	–	–	4 384	2 000	4 384	2 000
Due to the public and public sector organizations	871	923	–	–	114	444	114	–
Debt securities issued to the public	21	38	–	–	21	38	–	–
Other liabilities	1 167	472	–	–	–	441	–	441
Assets sold on binding repurchase terms								
Debt securities	443	699	–	–	443	699	443	699
Shares and participations	–	–	–	–	–	–	–	–

17 Difference between the nominal value and the book value of liabilities at the end of the period

	Merita Plc				Merita Bank Ltd			
	Group		Parent company		Group		Parent company	
	1997	1996	1997	1996	1997	1996	1997	1996
Difference between nominal value and lower book value								
Due to the public and public sector organizations	–	26	–	–	–	26	–	26
Debt securities issued to the public	472	472	0	1	473	471	471	470
Subordinated liabilities	36	17	–	–	36	17	36	17
Total	508	515	0	1	509	514	507	512
Difference between book value and lower nominal value								
Due to the public and public sector organizations	–	6	–	–	–	6	–	6
Debt securities issued to the public	12	10	–	–	12	10	10	7
Subordinated liabilities	0	19	–	–	0	19	0	19
Total	12	35	–	–	12	35	10	32

18 Convertible bonds and bonds with equity warrants in issue 31.12.1997

	Outstanding amount FIM million	Termination of conversion period	Number of bonds in issue	Number and type of shares available for conversion
Issued by Merita Plc				
Convertible bonds 1992	906	17.8.2042	90 608	27 182 400, A
Issued by Merita Bank Ltd				
Convertible bonds 1992 ¹	905	17.8.2042	905	78 696 085

¹ Directed to Merita Plc

Authorizations held by the Merita Plc Board of Directors to issue shares, equity warrants and convertible bonds are explained under Shares and shareholders on page 6. Conversion rights related to the Government's preferred capital investments are discussed under Note 32.

19 Subordinated liabilities at the end of the period

	Merita Plc				Merita Bank Ltd			
	Group		Parent company		Group		Parent company	
	1997	1996	1997	1996	1997	1996	1997	1996
Liabilities with book value exceeding 10% of all subordinated liabilities	2 699 ^{1,2}	2 185 ^{1,2}	906 ¹	906 ¹	2 699 ²	1 279 ²	2 699 ²	1 279 ²
Other subordinated liabilities ³	9 619	9 699	–	–	9 606	10 592	9 548	10 535
Total	12 318	11 884	906	906	12 306	11 871	12 247	11 814
	5 096	3 992	906	906	5 095	3 991	5 095	3 991
of which perpetual bonds								
Perpetual bonds directed to Group companies	–	–	–	–	905	905	905	905
Perpetual bonds directed to associated companies	–	–	–	–	–	–	–	–

¹ Merita Plc FIM 906 million, interest rate 5.1% (floating) maturing 17.8.2042. Merita Plc has the right to extend the loan period. Not callable by the creditors. In the event of dissolution of the company, the liability is subordinate to the company's other commitments, while ranking at least equal with the company's other debentures or other comparable debts. Share conversion and other conditions, see Note 18. The loan may be repaid after 17.8.2002.

² Merita Bank Ltd FIM 1 351 million (USD 249 million) interest rate 9.75% maturing 15.12.1998 and Merita Bank Ltd FIM 1 348 million (USD 249 million) interest rate 6.5% maturing 15.1.2006. The issuer is the bank's New York branch. In the event of dissolution of the company, the liability is subordinate to the company's other commitments, while ranking at least equal with the bank's other debentures and other comparable debts. Holders are entitled to call the bonds i.a. if interest is 30 days overdue or if the operations of the New York branch are closed. No equity conversion option.

³ According to the terms of five debenture loans issued between 1987 and 1989 the creditors may demand immediate repayment if the bank fails to meet the loan terms. FIM 330 million of these loans is included in own funds for the purpose of calculating capital adequacy as per 31.12.1997. The other loans are not callable by the creditors.

20 Changes in equity capital during the period

	Restricted equity				Non-restricted equity			
	Share capital	Ordinary reserve	Re-valuation reserve ¹	Preferred capital certificates ²	Transferred from voluntary reserves ³	Accumulated profit/loss ⁴	Profit/loss for the year	Total equity capital
Merita Group								
1.1.1997	8 305	339	261	4 120	331	1 432	–	14 788
Increase	0	0	–	1 641	162	6	3 303	5 113
Decrease	–	–	–235	–1 968	–	–318	–	–2 521
31.12.1997	8 305	339	26	3 793	493	1 120	3 303	17 380
Merita Plc								
1.1.1997	8 305	211	–	–	–	1 126	–	9 642
Increase	0	0	–	–	–	–	1 470	1 470
Decrease	–	–	–	–	–	–260	–	–260
31.12.1997	8 305	211	–	–	–	866	1 470	10 852
Merita Bank Group								
1.1.1997	6 024	2 180	248	4 120	250	907	–	13 729
Increase	–	–	–	1 641	162	6	2 356	4 166
Decrease	–	–	–224	–1 968	–	–474	–	–2 666
31.12.1997	6 024	2 180	25	3 793	412	439	2 356	15 229

(continued)	Restricted equity				Non-restricted equity			Total equity capital
	Share capital	Ordinary reserve	Re-valuation reserve ¹	Preferred capital certificates ²	Transferred from voluntary reserves ³	Accumulated profit/loss ⁴	Profit/loss for the year	
Merita Bank Ltd								
1.1.1997	6 024	2 052	–	4 120	–	1 275	–	13 471
Increase	–	–	–	1 641	–	–	3 071	4 712
Decrease	–	–	–	–1 968	–	–423	–	–2 391
31.12.1997	6 024	2 052	–	3 793	–	852	3 071	15 792

Pursuant to their Articles of Association Group companies have no obligation to transfer any part of the 1997 profit to restricted equity.

¹ Revalued items were sold during the year, resulting in additional income against the revaluation reserve in the amount of FIM 235 million in the Merita Group and FIM 224 million in the Merita Bank Group.

² Merita Bank Ltd repaid the entire principal of the Government preferred capital investment, FIM 1 749 million, accepted by Union Bank of Finland Ltd in 1992. The bank launched non-cumulative step-up perpetual capital securities in the amount of USD 300 million (FIM 1 626 million) on the international markets. The securities qualify as Tier 1 capital in the calculation of capital adequacy. Merita Bank Ltd also repaid international capital securities for USD 22.5 million and DEM 38.3 million (totalling FIM 219 million).

³ Group companies increased their voluntary reserves in the net amount of FIM 225 million in the Merita Group and the Merita Bank Group. Voluntary reserves are included in the balance sheet under equity capital after deduction of deferred tax liability. The tax rate applicable during the period was 28%.

⁴ Merita Plc paid a dividend of FIM 260 million to shareholders outside the Group and Merita Bank Ltd paid a dividend of FIM 422 million to Merita Plc.

Other changes were mainly the result of exchange rate movements.

21 Breakdown of income by sector and geographical market 1.1.-31.12.1997

	Merita Plc		Merita Bank Ltd	
	Group	Parent company	Group	Parent company
By sector				
Banking	8 456	–	8 456	8 356
Mortgage banking	44	–	44	–
Credit card operations	402	–	402	–
Finance company operations	688	–	546	–
Fund management	61	–	61	–
Investment services	200	–	156	–
Securities trading	300	–	–	–
Real estate investment	829	–	–	–
Real estate operations	258	–	6	–
Real estate brokerage ¹	288	–	–	–
Data processing	116	–	116	–
Insurance ¹	3 201	–	–	–
Other	1 439	693	653	–
Total	16 283	693	10 441	8 356
By geographical market				
Finland	15 867	693	10 057	8 074
Great Britain	100	–	94	93
Luxembourg	72	–	61	–
Sweden	6	–	6	6
Singapore	61	–	61	31
Estonia	10	–	10	10
The United States	151	–	151	142
Other	17	–	1	–
Total	16 283	693	10 441	8 356

Income includes the Group companies' net income from financial operations, dividend and commission income, net income from securities trading and foreign exchange dealing and other operating income. In respect of insurance operations the item includes net premiums written and investment income. Intra-group items have not been eliminated.

¹ Included in the consolidated profit and loss account under "Share of profit/loss of companies carried under the equity method".

22 Net income on leasing operations

The parent companies, Merita Plc and Merita Bank Ltd, are not engaged in leasing operations. The item "Net income from leasing operations" in the consolidated profit and loss account includes only leasing rents and depreciation on leased assets according to plan.

23 Other operating income and expenses during the period

	Merita Plc				Merita Bank Ltd			
	Group		Parent company		Group		Parent company	
	1997	1996	1997	1996	1997	1996	1997	1996
Income								
Rental and dividend income from real estate holdings	1 001	917	–	–	2	1	1	0
Capital gains on the sale of real estate holdings ¹	79	92	–	–	225	7	–	–
Other income	378	372	14	12	310	323	453	422
Total	1 458	1 381	14	12	536	331	454	422
Expenses								
Rental expenses	275	377	1	1	570	710	556	693
Expenses on real estate holdings	496	518	0	1	4	6	3	4
Capital losses on the sale of real estate holdings	–	17	–	0	–	0	–	–
Other expenses	504	765	10	64	479	619	444	576
Total	1 275	1 677	10	66	1 053	1 336	1 004	1 273

¹ In 1997, both capital gains and capital losses were included in this item in the Merita Group. Capital losses of FIM 518 million were deducted from capital gains.

24 Loan and guarantee losses and write-downs on securities held as financial fixed assets during the period

	Merita Plc				Merita Bank Ltd			
	Group		Parent company		Group		Parent company	
	1997	1996	1997	1996	1997	1996	1997	1996
Balance sheet item								
Receivables from credit institutions and central banks	173	7	–	–	173	7	173	7
Receivables from the public and public sector organizations	1 472	1 594	–	–	1 472	1 591	1 358	1 522
Leased assets	4	12	–	–	4	12	–	–
Guarantees and other off-balance-sheet items	118	45	–	39	118	6	118	–
Other	341	366	–	–	341	374	341	369
Charged against the unallocated credit write-off	–200	–	–	–	–200	–	–200	–
Loan and guarantee losses, gross	1 908	2 023	–	39	1 908	1 989	1 790	1 898
Deductions	666	528	–	–	666	483	600	405
Loan and guarantee losses in the profit and loss account	1 242	1 495	–	39	1 242	1 507	1 190	1 493
% of receivables and contingent liabilities¹	0,6	0,7	–	3,4	0,6	0,7	0,6	0,8
Write-downs on securities held as financial fixed assets	5	6	–	36	5	6	–	–
Loan losses realized during the period, total	1 089	2 459	–	–	1 089	2 459	1 039	2 431
Loan losses covered by specific loan loss provisions and realized during the period	–884	–2 128	–	–	–884	–2 128	–849	–2 114
Recoveries of loan losses realized in previous years	–92	–82	–	–	–92	–82	–61	–65
Specific loan loss provisions made during the period	1 903	1 691	–	39	1 903	1 658	1 800	1 591
Provisions unwound during the period	–574	–446	–	–	–574	–401	–539	–350
Charged against the unallocated credit write-off	–200	–	–	–	–200	–	–200	–
Loan and guarantee losses in the profit and loss account	1 242	1 495	–	39	1 242	1 507	1 190	1 493

Specific loan loss provisions have been allocated to respective receivable items. The item also includes a credit loss provision allocated to Asian commitments, FIM 500 million, of which FIM 170 million is allocated to receivables from credit institutions. Collateral for loans written off has been valued as indicated in Accounting Policies.

¹ Receivables from the public and public sector organizations, leased assets, debt securities held as financial fixed assets, guarantee claims and commitments given on behalf of customers in favour of third parties.

25 Salaries and remunerations paid to members of controlling and administrative boards and respective pension commitments 1.1.-31.12.1997

	Merita Plc		Merita Bank Ltd	
	Salaries and remunerations	Pension commitments	Salaries and remunerations	Pension commitments
Members and deputy members of the Supervisory Board	–	–	1	–
Members and deputy members of the Board of Directors and the Board of Management, the Chairman, President and Managing Directors	4	1	14	8

Merita Plc

Remunerations paid to the Chairman of the Board of Directors in 1997 amounted to FIM 297 000. The salary paid to the President and CEO was FIM 2 634 000. The latter amount includes a bonus of FIM 615 240 explained below under “Merita Bank”.

Remunerations paid to the Deputy Chairman of the Board of Directors in 1997 amounted to FIM 226 200.

No agreements on severance pay, pension or other compensation have been made with those members of the Board of Directors who are not employed by Merita. If the employment contract of Mr Vesa Vainio, President and CEO, is terminated by Merita with a period of notice of 6 months, he shall be entitled to an overall pension corresponding to full retirement pension, which is 60% of pensionable salary. Any salaries received from other employers before he reaches the age of 60 will be deducted from the pension payable to Mr Vainio by Merita.

Merita Bank Ltd

No separate remuneration was paid to the Chairman of the Board of Management (President and CEO of Merita Plc). The salary paid to the President of the bank in 1997 amounted to FIM 1 799 889.

The bank has an annual incentive plan for its Board of Management, assessing the performance of each Board Member’s area of responsibility and success in reaching the objectives set for the financial period. The highest bonus equals three months’ salary. Bonuses paid to the Board of Management (for the year 1996) totalled FIM 1 985 960. Of this amount FIM 615 240 was paid to the Chairman and CEO and FIM 133 900 to the President of the bank in 1997.

The maximum severance pay available to a member or deputy member of the Board of Management during the period of notice and upon termination of employment is 12 months’ salary or, alternatively, 24 months’ salary. Any salaries received from other employers during the said periods will be deducted from such remunerations.

The retirement age of the members and deputy members of the Board of Management is 60 years. The overall pension is 60% of pensionable salary.

Auditors

Remunerations paid to auditors in 1997 amounted to FIM 5 231 979. The amount covers the audit of all Merita Group companies. Of this amount FIM 4 518 695 refers to audits in companies domiciled in Finland and FIM 713 284 to audits of companies and units located abroad.

26 Off-balance-sheet commitments at the end of the period

	Merita Plc				Merita Bank Ltd			
	Group		Parent company		Group		Parent company	
	1997	1996	1997	1996	1997	1996	1997	1996
Guarantees	24 894	28 302	8	246	28 114	31 529	30 618	34 269
of which on behalf of subsidiaries	–	–	–	239	–	–	291	98
on behalf of associated companies	66	11	–	–	2 491	2 436	2 491	2 436
Bill liabilities	1 453	735	–	–	1 453	735	1 452	734
of which on behalf of subsidiaries	–	–	–	–	–	–	–	–
on behalf of associated companies	–	–	–	–	–	–	–	–
Credit commitments	11 791	6 154	–	–	11 878	6 154	8 292	3 020
of which to subsidiaries	–	–	–	–	–	–	–	–
to associated companies	–	–	–	–	87	–	87	–
Other commitments and pledges	9 857	10 512	–	–	9 864	10 522	9 671	10 032
of which to subsidiaries or on their behalf	–	–	–	–	–	–	114	–
to associated companies or on their behalf	88	–	–	–	95	10	88	–
Total	47 995	45 704	8	246	51 309	48 940	50 033	48 054
Derivative contracts: credit equivalents	23 959	21 418	24	6	23 984	21 418	23 991	21 388
Interest-rate-linked derivative contracts	13 637	8 984	–	–	13 637	8 984	13 691	9 011
Currency-linked derivative contracts	10 322	12 434	24	6	10 346	12 434	10 300	12 377

(continued)	Merita Plc				Merita Bank Ltd			
	Group		Parent company		Group		Parent company	
	1997	1996	1997	1996	1997	1996	1997	1996
Derivative contracts: value of the underlying instruments (gross)								
Contracts made for hedging purposes								
<i>Interest rate-linked derivatives</i>								
Futures and forwards	–	5 391	–	–	–	5 391	–	5 391
Options purchased	–	3 181	–	–	–	3 181	–	3 181
Options written	–	–	–	–	–	–	–	–
Interest rate swap agreements	23 618	35 389	–	–	23 618	35 389	25 472	36 046
<i>Currency-linked derivatives</i>								
Futures and forwards	232 920	118 556	–	–	232 920	118 556	232 867	118 344
Options purchased	–	–	–	–	–	–	–	–
Options written	–	–	–	–	–	–	–	–
Interest rate and currency swap agreements	6 703	7 972	303	301	6 735	8 094	6 676	7 914
<i>Equity-linked derivatives</i>								
Futures and forwards	11	–	–	–	–	–	–	–
Options purchased	125	743	–	–	125	743	226	743
Options written	–	–	–	–	–	–	–	–
<i>Other derivatives</i>	1 083	–	–	–	1 083	–	1 083	–
Futures and forwards, total	232 931	123 947	–	–	232 920	123 947	232 867	123 736
Other contracts, total	31 529	47 285	303	301	31 561	47 407	33 457	47 884
Contracts made for other than hedging purposes								
<i>Interest rate-linked derivatives</i>								
Futures and forwards	1 556 084	1 056 756	–	–	1 556 084	1 056 756	1 556 084	1 056 756
Options purchased	22 052	6 457	–	–	22 052	6 457	22 052	6 457
Options written	30 705	16 416	–	–	30 705	16 416	30 705	16 416
Interest rate swap agreements	395 330	231 429	–	–	395 330	231 429	395 674	232 088
<i>Currency-linked derivatives</i>								
Futures and forwards	81 134	206 553	–	–	81 134	206 553	81 120	206 571
Options purchased	15 627	78 349	–	–	15 627	78 349	15 627	78 349
Options written	13 042	85 603	–	–	13 042	85 603	13 042	85 603
Interest rate and currency swap agreements	8 091	10 022	–	–	8 392	10 022	8 392	10 022
<i>Equity-linked derivatives</i>								
Futures and forwards	336	10	–	–	342	10	–	10
Options purchased	1 550	419	–	–	185	52	80	52
Options written	183	66	–	–	183	66	40	54
<i>Other derivatives</i>	167	–	–	–	167	–	167	–
Futures and forwards, total	1 637 554	1 263 318	–	–	1 637 560	1 263 318	1 637 204	1 263 337
Other contracts, total	486 747	428 761	–	–	485 683	428 394	485 780	429 041

27 Leasing liabilities

The nominal value of rentals payable by Merita Bank Ltd in 1998 is FIM 13 million and in subsequent years FIM 13 million. Other Group companies have no material leasing liabilities.

28 Liabilities arising from pension commitments 31.12.1997

Statutory pensions for employees of domestic Group companies are arranged through insurance. Statutory pensions for employees of foreign units are arranged in accordance with local laws and regulations.

Supplementary pensions for employees are arranged through Merita Ltd Pension Fund and Foundation. The Group's pension commitments, FIM 1 556 million in the Merita Ltd Pension Fund and FIM 1 857 million in the Merita Ltd Pension Foundation, are fully covered. The pension institutions charged no contributions for the year 1997.

The pension liability arising from pensions payable directly out of Group companies' funds amounts to FIM 96 million in the Merita Group and FIM 93 million in the Merita Bank Group. A statutory provision in the full amount of these liabilities has been entered in the balance sheet.

Refund of the surplus accrued in the Merita Ltd Pension Fund:

With the permission of the Ministry for Social Affairs and Health the Merita Ltd Pension Fund refunded the surplus accrued in the Pension Fund, FIM 1 239 million, to the employer companies in connection with the closing of accounts for the year 1997. The share of Merita Plc was FIM 567 million, that of Merita Bank Ltd FIM 646 million and that of the Merita Bank Group FIM 670 million. The refund of the surplus is shown as a separate item in the profit and loss account under expenses. On December 31, 1997 the market value of the assets covering the liabilities of the Pension Fund, after the above refund, exceeded the amount of liabilities by approximately FIM 400 million.

29 Fiduciary services

The fiduciary services offered by the Group include safe custody and management of customers' assets, consulting, portfolio accounting services for associations, foundations and estates and assistance in estate inventories, estate administration, non-contentious jurisdiction, and loan intermediation.

On 31.12.1997 loans out of customer funds arranged through the Group's intermediary amounted to FIM 1 607 million.

30 Personnel

	Merita Plc		Merita Bank Ltd	
	Group	Parent company	Group	Parent company
Average number of employees 1997¹	14 637	11	13 448	11 250
Change from the previous year, persons	-2 032	-1	-2 016	-1 345
%	-12.2	-8.3	-13.0	-10.7
Full-time	13 495	11	12 341	10 181
Change from the previous year, persons	-2 012	-1	-1 992	-1 322
Part-time	1 142	-	1 107	1 069
Change from the previous year, persons	-21	-	-24	-23
Employees by sector 31.12.1997				
Banking	10 997	-	10 997	10 950
Mortgage banking	12	-	12	-
Credit card operations	235	-	235	-
Finance company operations	539	-	539	-
Fund management	6	-	6	-
Investment services	120	-	120	-
Securities trading	15	-	-	-
Real estate investment	161	-	-	-
Real estate operations	160	-	-	-
Real estate brokerage	515	-	-	-
Data processing	221	-	221	-
Insurance	46	-	-	-
Other	689	12	573	-
Total	13 716	12	12 703	10 950
Employees by geographical market 31.12.1997				
Finland ²	13 338	12	12 325	10 619
Great Britain	135	-	135	135
Luxembourg	47	-	47	-
Sweden	26	-	26	26
Singapore	45	-	45	45
Estonia	27	-	27	27
The United States	98	-	98	98
Total	13 716	12	12 703	10 950

¹ Average of end-of-month numbers of employees. The figures also include the personnel of companies which belonged to the Group in 1996 but were included in the consolidated financial statements for the first time in 1997. This has been taken into account when adjusting the 1996 figures for comparison.

² Including 16 persons employed by foreign representative offices.

31 Shares

Shares of Merita Plc

Merita Plc has two classes of shares: A and B. The nominal value of the shares is FIM 10. Pursuant to the Articles of Association there are a minimum of 365 million and a maximum of 1 460 million A shares and a minimum of 35 million and a maximum of 140 million B shares. The current number of A shares in issue is 763 253 906, representing 92% of the total, and the number of B shares is 67 200 000, i.e. 8% of the total.

At a General Meeting each A share carries ten votes and each B share one vote.

In the event of an increase in the share capital holders of A shares have pre-emptive right to subscribe for new A shares and holders of B shares for new B shares.

B shares carry pre-emptive right over A shares to a fixed annual dividend payable out of distributable profit funds of 8% of the nominal value of the share. If, in any year, such dividend cannot be distributed, B shares entitle the holder to obtain the balance out of profit funds disposable in the subsequent year prior to payment of dividend on A shares. In the event that it is not possible to distribute the outstanding amount on B shares in the subsequent year, B shares shall no longer be entitled to receive the outstanding amount in later years. If a dividend in excess of 8% of the nominal value of the share is paid on A shares, an additional dividend of half the amount by which the dividend paid on A shares exceeds 8% shall be paid on B shares.

On 31.12.1997 Merita Plc held no shares of its own.

Shares of Merita Bank Ltd

The nominal value of Merita Bank Ltd shares is FIM 10. Pursuant to the Articles of Association the Bank's minimum share capital is FIM 4 billion and maximum share capital FIM 16 billion. All the 602 million shares in issue are held by Merita Plc.

32 Preferred capital investments

	Merita Plc		Merita Bank Ltd	
	Group	Parent company	Group	Parent company
Government preferred capital investment	1 726	–	1 726	1 726
Other FIM-denominated preferred capital investments	251	–	251	251
Foreign currency denominated preferred capital investments	1 816	–	1 816	1 816
Total	3 793	–	3 793	3 793

Interest may be paid on the Government preferred capital investment only out of the bank's distributable funds. In the event that interest or part thereof cannot be paid due to lack of distributable funds, the investor has no right to claim payment of such interest later. However, full interest for the financial year must be paid on the preferred capital investment before the Bank may pay dividend on its share capital.

The Bank may repay the preferred capital investment only with the permission of the Finnish Financial Supervision Authority and on the condition that repayment will not cause the Bank's or its Group's capital adequacy to fall below the statutory minimum. The capital certificate is not callable by the investor. The Board of Management of Merita Bank Ltd decided in February 1998 to repay the Government capital investment, FIM 1 726 million, as soon as the financial statements have been submitted.

In September 1997, Merita Bank Ltd issued non-cumulative step-up perpetual capital securities in the amount of USD 300 million in the international markets. These are included in Tier 1 capital for the calculation of capital adequacy. Interest may be paid on the securities only out of the bank's distributable funds. The securities are perpetual but subject to regulatory approval may be repaid after five years of issuance. The annual cost of the loan during the first five years, after all expenses, corresponds to the six-month Libor plus approximately 0.85 percentage point.

33 Shareholders and management's interests 31.12.1997

Merita Plc

Largest shareholders according to the shareholder register

	Number of shares	% of capital stock	% of votes
Arsenal Asset Management Company	63 933 333	7.7	8.3
UPM-Kymmene Corporation	22 567 614	2.7	2.8
Pohjola Insurance Company	13 880 000	1.7	1.8
Suomi Mutual Life Assurance Company	13 582 261	1.6	1.7
Sampo Insurance Company	9 969 000	1.2	1.3
Pension Insurance Company Ilmarinen	9 956 215	1.2	1.3
Merita Ltd Pension Fund	9 734 028	1.2	1.3
Meiji Mutual Life Insurance Company	8 538 666	1.0	1.1
Onninen Investment Ltd	7 900 600	1.0	1.0
Pension-Varma Mutual Insurance Company	7 233 204	0.9	0.9

Members of Merita Plc's Board of Directors own a total of 25 784 Merita A shares and a total of 480 B shares, i.e. 26 264 shares in all. The total number of votes carried by these shares is 258 320, representing 0.003% of the total number of votes carried by the company's shares.

Members of Merita Plc's Board of Directors hold no convertible bonds or equity warrants issued by the company.

Members and deputy members of Merita Bank Ltd's Board of Management own a total of 35 414 Merita A shares and a total of 14 650 B shares, i.e. 50 064 shares in all. The total number of votes carried by these shares is 368 790, representing 0.005% of the total number of votes carried by the company's shares.

Members and deputy members of Merita Bank Ltd's Board of Management hold equity warrants issued by the company to its personnel exercisable into 463 922 Merita A shares in the year 1998. Assuming exercise of all subscription rights carried by these, the total percentage of votes carried by the shares held by members and deputy members of the Merita Bank Ltd's Board of Management would be 0.02%.

At the year-end 29.5% of Merita Plc shares were registered under nominees. These shares represent 31.6% of the votes. Nominee-registered shares and shares registered in the name of foreign beneficial owners represent 30.9% of all Merita Ltd shares and 33.1% of the votes.

Merita Plc – Managements' holdings (Board of Directors as from 1.1.1998)

Merita Bank Ltd – Managements' holdings (Board of Management as from 1.1.1998)

	Merita Plc – Managements' holdings			Merita Bank Ltd – Managements' holdings		
	A shares	B shares	Total	A shares	B shares	Warrants
Andersson Dan	–	–	–	–	–	–
Brandinger Rune	–	–	–	–	–	–
Dalborg Hans	–	–	–	2 133	–	20 170
Ehnrooth Casimir	9 701	480	10 181	–	–	–
Kivimäki Mikko	3 130	–	3 130	–	–	–
Magnusson Bernt	–	–	–	2 752	9 108	–
Niemelä Juha	–	–	–	–	–	–
Palmstierna Jacob	–	–	–	–	–	–
Peltola Timo	5 086	–	5 086	2 069	–	20 170
Vainio Vesa	2 793	–	2 793	6 767	–	–
				–	–	–
	20 710	480	21 190	13 721	9 108	60 511

(continued)

Shareholders by sector

	% of shareholders	% of shares
Private corporates	1.3	10.6
Public corporates	0.0	8.1
Financial and insurance institutions	0.0	8.9
Public sector organizations	0.1	4.2
Non-profit organizations	1.0	3.6
Households	97.2	33.7
Foreign owners	0.3	30.9
Total	100.0	100.0

Distribution of shareholding

Number of shares	Number of shareholders	% of shareholders	Number of shares	% of capital stock
1-1 000	246 831	78.1	67 200 543	8.1
1 001-10 000	65 472	20.7	170 413 953	20.5
10 001-100 000	3 583	1.1	78 594 745	9.5
100 001-	199	0.1	268 103 788	32.3
Nominee-registered	16	0.0	245 016 674	29.5
In collective book-entry accounts			1 124 203	0.1
Total	316 101	100.0	830 453 906	100.0

Merita Bank Ltd

All Merita Bank Ltd shares are held by Merita Plc. Members of the Board of Management hold no convertible bonds or equity warrants issued by the company.

34 Financial income received from and financial expenses paid to Group and associated companies 1.1.-31.12.1997

	Merita Plc		Merita Bank Ltd ¹	
	Group companies	Associated companies	Group companies	Associated companies
Interest income	57	–	940	60
Interest expenses	99	–	219	2
Dividend income	680	–	240	18

The figures do not include interest income of FIM 31.5 million and dividend income of FIM 0.6 million received from or interest expenses of FIM 0.4 million paid to non-consolidated Group and associated companies acquired for restructuring purposes.

¹ Incl. income received from and expenses paid to Merita Plc and its Group and associated companies.

35 Receivables from and liabilities to Group and associated companies 31.12.1997

	Merita Plc		Merita Bank Ltd ¹	
	Group companies	Associated companies	Group companies	Associated companies
Receivables				
Receivables from credit institutions and central banks	48	–	13 823	–
Receivables from the public and public sector organizations	–	–	5 167	979
Debt securities	905	–	3 584	675
Other receivables	–	–	1	0
Accruals and prepayments	474	–	267	15
Total	1 427	–	22 842	1 669
Liabilities				
Due to credit institutions and central banks	–	–	2 398	307
Due to the public and public sector organizations	–	–	615	75
Debt securities issued to the public	1 500	–	1 924	8
Subordinated liabilities	0	–	905	–
Other liabilities	–	–	9	0
Accruals and deferred income	61	–	82	8
Total	1 562	–	5 934	398

The figures do not include receivables of FIM 851.9 million from and liabilities of FIM 91.3 million to non-consolidated Group and associated companies acquired for restructuring purposes.

¹ Incl. receivables from and liabilities to Merita Plc and its Group and associated companies.

36 Subsidiaries and associated companies 1997

The Merita Group has two parallel sub-groups, the Merita Real Estate Group and the Merita Bank Group. The Group companies of the Merita Real Estate Group are associated companies of the Merita Bank Group. The Merita Bank Group controls 95.19% of the shares and 49.75% of the votes of Merita Real Estate Ltd.

Companies included in the consolidated financial statements

	Ref.	Number of shares	Share-holding %	Voting rights %	Total nominal value	Total book value	Profit/loss for the year 1997
Subsidiaries directly owned by Merita Plc							
<i>Domestic</i>							
Banks							
Merita Bank Ltd, Helsinki		602 395 318	100	100	6 023	8 863	2 071
Financial institutions							
Nordica Invest Oy, Helsinki		1 150 170	100	100	115	575	0
Partita Ltd, Helsinki		1 827 220	100	100	365	690	9
Perimistöimisto Contant Oy, Turku (incl. the holding of the Merita Bank Group)		650	100	100	1	24	1
Investment services companies							
Merita Corporate Finance Ltd, Helsinki		38 667	77	77	4	11	25
Insurance company							
Merita Life Assurance Ltd, Espoo	1	145 600	100	100	146	542	15
Real estate brokerage companies							
Huoneistokeskus Oy, Helsinki	1	400	100	100	3	108	17
Merita Kiinteistöomistus Oy, Helsinki (former name Huoneistomarkkinointi Oy)	1	50 000	100	100	5	23	16
Real estate investment company							
Kiinteistösijoitus Oy Citycon, Helsinki	1.2	17 223 667	56	56	172	155	5
Merita Real Estate Ltd		10 610 000	100	100	10 610	15 257	-810
Other companies							
Unitas Congress Center Ltd, Helsinki	1	100	100	100	1	1	2
Subsidiaries of Merita Real Estate Ltd							
<i>Domestic</i>							
Real estate investment companies							
Henrikin Liikekiinteistöt Oy, Helsinki		11 700	53	53	0	8	-0
Kiinteistö-Kompas Oy, Helsinki		560	85	85	84	84	1
Merita Kiinteistökehitys Oy, Helsinki		46 500	100	100	46	53	31
PMA-Invest Oy, Helsinki		5 100	100	100	1	107	-25
Pons Brevis Oy, Helsinki		45 016	100	100	45	120	-38
Rasi Hotelliikiinteistöt Oy, Helsinki		100 000 000	100	100	40	20	42
Ukon Vakka Oy, Helsinki		6	100	100	0	8	-14
Vaasan Hotelliikiinteistöt Oy, Vaasa		19 600	100	100	20	0	-19
Real estate companies							
Aleksanterinkatu 13 Koy, Helsinki		1 500	100	100	0	238	-67
Aleksanterinkatu 17 Koy, Helsinki		14 127	93	93	1	457	-115
Aleksanterinkatu 36 A Koy, Helsinki		30	100	100	0	108	-2
Aleksanterinkatu 36 B Koy, Helsinki		100	100	100	0	161	-3
Aleksis Kiven katu 3-5 Koy, Helsinki		22 069	100	100	22	273	-8
Aleksis Kiven katu 7 Koy, Helsinki		8 506	100	100	9	88	-2
Espoon Asemakuja 2 Koy, Espoo		13 200	100	100	3	65	-22
Fleminginkatu 27 Koy, Helsinki		113 671	100	100	11	242	-5
Helsingin Erottajankulma Koy, Helsinki		7 021	100	100	0	0	0
Helsingin Fredrikinkatu 19 As Oy, Helsinki		4 360	74	74	0	45	-1
Helsingin Sorvaajankatu 9 Koy, Helsinki		282	100	100	0	66	-21
Helsingin Väinämöisenlinna Koy, Helsinki		83 739	100	100	42	141	-4
Itälahdenkatu 2 Koy, Helsinki		6 686	100	100	40	33	-0
Jyväskylän Kauppakatu 31 Koy, Jyväskylä		5 000	100	100	0	80	-3
Jyväskylän Kolmikulma Koy, Jyväskylä		187 536	97	97	19	113	-41
Kajaanin Liiketalo Koy, Kajaani		150	100	100	0	43	-22
Kanavaranta 3 Koy, Helsinki		6 958	100	100	49	48	-2
Kauppakeskus Kluuvi Koy, Helsinki		273 273	100	100	137	464	-173
Kolohongan Teollisuuskiinteistö Koy, Vantaa		24 860	100	100	0	112	-2
Kämp-Kiinteistöt Oy, Helsinki		13 200	100	100	26	125	-3
Lahden Hämeenkatu 20 Koy, Lahti		8 135	67	67	0	30	-0
Levytie 2 Koy, Helsinki		5 400	100	100	54	107	-3
Mechelininkatu 34 A Koy, Helsinki		15 000	100	100	0	25	-3
Merkurius Oy, Helsinki		68 418	100	100	34	87	-5
Mikonkatu 17 Koy, Helsinki		15 000	100	100	2	105	-24
Mikonkatu 9 Koy, Helsinki		9 552	100	100	1	167	-1
Mikonlinna Oy Ab, Helsinki		10 000	100	100	1	314	-2
Niittykummun Toimistotalo Oy, Espoo		1 500	100	100	0	117	-3
Opastinsilta 8 Koy, Helsinki		7 729	100	100	1	65	-2
Paulon Talo Koy, Helsinki		36 677	100	100	18	92	-25
Porin Itäpuisto 2-4 Koy, Pori		900	100	100	1	0	-26
Porkkalankatu 5 Koy, Helsinki		101	100	100	0	76	-3
Ruosilantie 16 Koy, Helsinki		41 633	100	100	42	342	-2
Siltasaarenkatu 14 Koy, Helsinki		7 315	100	100	1	129	-3
Sörnäistenkatu 1 Koy, Helsinki		45 000	100	100	0	316	-3
Tapiolan Vesiputoustalo Koy, Espoo		1 142	100	100	0	123	-1

Companies included in the consolidated financial statements
(continued)

	Ref.	Number of shares	Share-holding %	Voting rights %	Total nominal value	Total book value	Profit/loss for the year 1997
Tietotalo Koy, Espoo		15 000	100	100	0	536	-11
Tikkurilan Kauppakeskus Koy, Vantaa		2 489 705	84	84	25	189	-3
Turun Brahenkatu 8 Koy, Turku		6 670	100	100	33	33	-2
Vantaan Vanha Porvoontie 221 Koy, Vantaa		28	83	83	1	97	0
Veromies Koy, Vantaa		1 160	100	100	1	41	0
Vetokuja 1 Koy, Vantaa		13 877	100	100	2	48	-1
Wasa Torgcentrum Fast Ab, Vaasa		1 500	100	100	0	96	-3
Other real estate companies							
Yhdysluoto Oy, Helsinki		400	100	100	0	1	4
Other companies							
Hotelli Pohjanhovi Oy, Rovaniemi	1	50	100	100	1	2	-74
<i>International</i>							
Real estate investment companies							
Merita Real Estate (U.K.) Ltd, Lontoo		21 000 500	100	100	189	83	-4
Sakau (Luxembourg) S.A., Luxembourg		309 996	100	100	46	0	-5
Sopoka B.V., Rotterdam		19 999	100	100	54	0	0
The Wiels Centre Holding B.V., Amsterdam		15 000	100	100	40	9	2
Verdelago Holding B.V., Amsterdam	2	200	100	100	1	0	-0
Real estate operation companies							
Place de l'Etoile S.A., Luxembourg		4 501	100	100	66	80	-0
Sopoka S.A., Luxembourg		54 374	100	100	80	0	-4
Other							
G.H.R. Albisano, Albisano		499 000	100	100	2	45	-5
Subsidiaries of Merita Bank Ltd							
<i>Domestic</i>							
Banks							
Industrial Bank of Finland Ltd, Helsinki		1 080 000	100	100	108	187	47
Financial institutions							
Helsingin Pantti-Osakeyhtiö, Helsinki		486 000	100	100	10	25	6
Merita Customer Finance Ltd, Helsinki		14 000	100	100	140	280	91
Merita Capital Ltd, Helsinki		25 000	100	100	25	25	0
Merita Finance Ltd, Helsinki		29 650 000	100	100	792	1 250	64
Perimistoimisto Contant Oy, Turku		500	78	78	1	24	0
Tukirahoitus Oy, Oulu		71	100	100	1	28	0
Investment services companies							
Merita Asset Management Ltd, Helsinki (former name Matlak Oy)		10 000	100	100	10	19	11
Matlak Oy, Helsinki (former name Merita Asset Management Ltd)		5 000	100	100	50	69	1
Merita Delta Ltd, Helsinki		50 000	100	100	50	50	1
Merita Securities Ltd, Helsinki		96 850	75	75	10	13	52
Fund management companies							
Investa Fund Management Ltd, Helsinki		40 000	100	100	4	4	-0
Merita Fund Management Ltd, Helsinki		200 000	100	100	20	24	13
Real estate companies							
Lahden Hansa Oy, Lahti		20 000	100	100	0	141	0
Levytie 6 Koy, Helsinki		147	100	100	156	156	0
Ristipellontie 4 Koy, Helsinki		1 484	100	100	148	158	-0
Tampereen Kirkkokatu 7 Koy, Tampere		280	100	100	297	297	0
Porin Sokos Koy, Pori		10 000	100	100	10	23	0
Vantaan Jaakonkatu 2, Vantaa		100	100	100	0	0	0
VKR-Kiinteistöt Oy, Vantaa		600	60	60	6	6	0
Other companies							
Merita Invest Ltd, Helsinki	1	52 885 225	100	100	108	1 422	92
Other companies/data processing							
Fidenta Oy, Espoo		4 000	40	60	0	1	22
Merita Systems Oy, Helsinki		200	60	60	0	0	-0
<i>International</i>							
Banks							
American Scandinavian Banking Corp., New York		20 000	100	100	27	61	3
Merita Bank Luxembourg S.A., Luxembourg		41 000	100	100	50	102	13
Merita Merchant Bank Singapore Ltd, Singapore		25 000 000	100	100	56	112	-51
Financial institutions							
Merita Securities (U.K.) Ltd, London		701 001	100	100	6	6	0
Merita Holdings (U.K.) Ltd, London		49 010 000	100	100	441	13	0
Merita Finance (U.K.) Ltd., London		100 000	100	100	1	1	0
Subsidiaries of Merita Invest Ltd							
<i>Domestic</i>							
Other companies							
Rotator Oy, Tampere		15	100	100	0	0	23
Oy Saunatec Ltd, Espoo		1 452 500	61	61	7	73	6
Stimato Oy, Helsinki		110 000	100	100	10	20	-17

Companies included in the consolidated financial statements
(continued)

	Ref.	Number of shares	Share-holding %	Voting rights %	Total nominal value	Total book value	Profit/loss for the year 1997
Associated companies of Merita Plc							
1							
<i>Domestic</i>							
Finance companies							
HEX Ltd, Helsinki Securities and Derivatives Exchange, Clearing House, Helsinki		2 778 101	28	28	28	50	—
Associated companies of Merita Real Estate Ltd							
1							
<i>Domestic</i>							
Real estate investment companies							
Aleksin Alueen Kehitys Oy, Helsinki		13 498	46	46	0	0	0
Kansalliset Liikekiinteistöt Oy, Helsinki	2	419	50	50	419	430	11
Oy Realinvest Ab, Helsinki	2	16 132 200	47	47	403	403	15
Turun Arvokiinteistöt Oy, Turku	2	1 148 416	47	46	20	5	-3
World Trade Center Helsinki Oy, Helsinki		10	33	33	0	0	0
Associated companies of Merita Bank Ltd							
1							
<i>Domestic</i>							
Financial institutions							
Eurocard Oy, Helsinki		10 690	28	28	11	12	9
Luottokunta, Helsinki		18 260	29	29	9	53	69
Toimiraha Oy, Helsinki (former name Automatia Rahakortit Oy)	2	9 500	22	22	10	13	-12
TP-Salkku Oy, Helsinki		2 000	20	20	2	2	-0
Other companies							
ATM Automatia Ltd, Helsinki		6	22	22	20	20	6
Pulpros Oy, Helsinki		29 240	49	49	29	44	6
Suomen Asiakastieto Oy, Helsinki		24 000	22	22	3	0	13
<i>International</i>							
Financial institutions							
Estonian Industrial Leasing Ltd, Tallinn		8 999	20	20	3	2	1
Freja Finance S.A., Luxembourg		17 800	22	22	26	0	-4
Associated companies of Merita Invest Ltd							
1							
<i>Domestic</i>							
Other companies							
Suunto Oy, Espoo	2	1 242 850	22	22	6	68	15

¹ Combined in the consolidated financial statements applying the equity method.

² Group data

Other companies included in the consolidated financial statements; total assets of less than FIM 60 million	Merita Plc			Merita Bank Ltd		
	Number of companies	Total assets	Book value of shares	Number of companies	Total assets	Book value of shares
Real estate companies						
Subsidiaries	895	4 682	4 531	5	128	127
Associated companies	1	11	3	886	4 429	4 248
Other companies						
Subsidiaries	59	172	44	47	104	30
Associated companies	8	28	8	20	96	22

Companies merged, dissolved or transferred outside the Group during the year

Line of business	Total assets	Profit/loss for the year 1997
<i>Domestic</i>		
Bulevardi 1 Koy, Helsinki	Real estate company	68
Helsingin Erottajanmäki Koy, Helsinki	Real estate company	75
Keskuskatu 1 B Koy, Helsinki	Real estate company	108
Keskustahotelli Koy, Helsinki	Real estate company	212
Mannerheimintie 2 Koy, Helsinki	Real estate company	97
Simonkatu 8 Koy, Helsinki	Real estate company	196
Turunlinnantie 10 Koy, Helsinki	Real estate company	70

Other companies merged, dissolved or transferred outside the Group during the year; total assets of less than FIM 60 million	Merita Plc			Merita Bank Ltd		
	Number of companies	Total assets	Book value of shares	Number of companies	Total assets	Book value of shares
Real estate companies						
Subsidiaries	88	503	310	–	–	–
Other companies						
Subsidiaries	2	18	4	1	4	1

The impact on non-restricted equity capital of the subsidiary mergers, dissolutions and transfers in 1997 was FIM –141 million in the Merita Group and FIM –132 million in the Merita Bank Group.

Companies excluded from the consolidated financial statements

Ref.	Number of shares	Share-holding %	Voting rights %	Total nominal value	Total book value	Latest confirmed profit/loss for the year	
Holdings acquired to secure receivables							
Subsidiaries of Merita Bank Ltd							
<i>Domestic</i>							
	1	6 212 000	57	57	9	1	–2
	1	101 500	100	100	10	1	11
	1	485 000	100	100	5	0	0
	1	400 000	100	100	4	0	–6
	1	55 000	100	100	6	0	–10
	1	20 000	100	100	1	47	42
		990	100	100	1	0	–8
		522	82	82	3	1	3
	1	1 001 100	100	100	11	0	–43
	1	2 554 546	99	99	26	50	–15
<i>International</i>							
		1 000	100	100	0	7	1
Associated companies of Merita Bank Ltd							
<i>Domestic</i>							
		835	33	33	1	0	–0
		5 000	29	29	1	4	0

¹ Group data

Associated real estate companies excluded from the consolidated financial statements due to their minor significance

Associated companies of Merita Real Estate Ltd

<i>Domestic</i>							
		40 000	22	22	40	104	–0
		4 000	50	50	1	112	–15
		4 156	35	35	0	51	–0
		12 100	31	31	1	19	0
		2 182	27	27	0	16	–0
		6 934	36	36	1	51	0

Associated companies of Merita Bank Ltd

<i>Domestic</i>							
		25 975	49	49	156	156	0

Other companies excluded from the consolidated financial statements; total assets of less than FIM 60 million	Merita Plc			Merita Bank Ltd		
	Number of companies	Total assets	Book value of shares	Number of companies	Total assets	Book value of shares
Real estate companies						
Subsidiaries	14	362	207	14	362	207
Associated companies	293	107	25	293	107	25
Other companies						
Subsidiaries	7	62	2	5	62	2
Associated companies	2	59	0	4	59	0

37 Extraordinary income and expenses 1.1.-31.12.1997

	Merita Plc		Merita Bank Ltd	
	Group	Parent company	Group	Parent company
Income, Group contribution	-	457	-	-
Expenses, Group contribution	-	-	44	-

38 Statutory provisions at the end of the period

	Merita Plc				Merita Bank Ltd			
	Group		Parent company		Group		Parent company	
	1997	1996	1997	1996	1997	1996	1997	1996
Pension provisions	96	93	2	2	94	91	91	88
Guarantee and other similar provisions	320	290	-	-	320	290	320	284
Rental provisions	176	246	-	-	137	177	137	177
Provisions for severance payments to redundant employees	66	37	-	-	66	37	66	37
Provisions for stamp duty claims	73	66	21	19	52	47	52	47
Other	163	104	-	-	116	83	80	57
Total	895	836	23	21	785	725	746	690

39 Changes in the consolidated financial statements

No changes were made to the accounting policies applicable to the consolidated financial statements during the year 1997.

40 Changes in the Group structure

Changes in the Group structure are discussed in Note 36; the changes had no material impact on the consolidated financial statements.

The 1997 consolidated financial statements include such subsidiaries acquired to secure Group receivables which were not consolidated in previous years. Consolidation is based on a decision to include these companies in the Group's ordinary business operations. The impact of the companies on the Group's performance is minor.

The real estate assets carried in the consolidated balance sheet increased by somewhat over FIM 1.5 billion due to the consolidation of these companies.

41 Special procedures approved by the Financial Supervision Authority

With the permission of the Finnish Financial Supervision, the consolidated financial statements do not include companies in respect of which the Group or associated company relationship is based on equity holdings acquired for temporary ownership to secure Group receivables.

Such equity holdings are carried at the lower of cost or estimated market value at the date of closing the accounts. The non-consolidation of these companies has no such impact on the Group's performance or financial position as would impair the accuracy or sufficiency of the information provided in the consolidated financial statements.

The financial statements of Kiinteistösiijoitus Oy Citycon, in which Merita Group companies have a 56% holding, has with the permission of the Finnish Financial Supervision Authority been carried under the equity method, because the subsidiary relationship is not intended to be of a long-term nature. The method of consolidation has no effect on Group results and no material impact on the consolidated balance sheet as compared with the line-by-line method of consolidation.

A charge of FIM 500 million was taken in the 1997 financial statements of the Merita Bank Group in respect of potential losses arising from the economic crisis in Asia. Pursuant to the decision of the Finnish Financial Supervision Authority, this provision is presented as a separate item after loan losses in the profit and loss accounts of the companies concerned and in the consolidated profit and loss accounts of Merita Plc and Merita Bank Ltd.

42 Non-consolidated subsidiaries and associated companies

These comprise equity interests in subsidiary and associated companies acquired for the purpose of restructuring a customer's operations and intended as temporary. The companies in question engage in business materially different from that of the Group. The table below is based on their latest official accounts.

Profit and loss account data	Financial period	Turnover*	Variable expenses	Fixed costs	Operating profit	Depreciation	Financial income and expenses	Extraordinary items	Profit/loss for the period
Subsidiaries									
Alcom Oy ¹	1.1.–31.12.1996	102	*	*	3	5	-3	2	-2
Huurre Group Oy ¹	1.1.–31.12.1996	332	*	*	26	9	-4	-0	11
Laxma Yhtymä Oy ¹	1.1.–31.12.1996	87	73	12	4	3	-2	0	0
Mantica Oy ¹	1.3.1996–28.2.1997	775	*	*	39	27	-0	3	-6
P.T.A. Group Oy ¹	1.1.–31.12.1996	160	94	58	5	10	-5	0	-10
PMA–Yhtymä Oy ¹	1.1.–31.12.1996	734	521	66	152	22	-89	-4	42
Sasmox Oy	1.1.–31.12.1996	38	27	5	6	2	-1	0	3
Savon Hotellit Oy	1.9.1996–31.8.1997	28	6	18	4	2	-3	-5	-8
Teräsbetoni Oy ¹	1.1.–31.12.1996	232	*	*	-13	7	-6	-18	-43
Tunturipyörä Oy ¹	1.1.–31.12.1996	283	*	*	15	7	-11	-14	-15
International subsidiaries									
TMLW Corp.	1.1.–31.12.1997	*	*	0	*	*	1	*	1
Associated companies									
Huippupaikat Oy	1.7.1996–30.6.1997	26	10	6	10	6	-4	0	-0
Palace Hotel Oy Ab	1.1.–31.12.1996	37	*	*	4	2	-1	0	0

* Not available

Balance sheet data	Fixed assets	Valuation items (assets)	Current and financial assets	Equity capital	Provisions	Valuation items (liabilities)	Liabilities
Subsidiaries							
Alcom Oy ¹	29	–	37	-72	–	–	137
Huurre Group Oy ¹	97	–	98	23	4	–	166
Laxma Yhtymä Oy ¹	28	–	44	6	–	–	66
Mantica Oy ¹	172	3	127	-27	33	–	208
P.T.A. Group Oy ¹	54	–	63	4	0	–	113
PMA–Yhtymä Oy ¹	46	–	399	-469	52	–	862
Sasmox Oy	14	–	9	7	0	–	16
Savon Hotellit Oy	35	–	2	-8	–	–	45
Teräsbetoni Oy ¹	27	–	157	-96	11	–	186
Tunturipyörä Oy ¹	88	–	146	13	26	–	195
International subsidiaries							
TMLW Corp.	–	–	4	4	–	–	–
Associated companies							
Huippupaikat Oy	77	–	6	-30	–	–	114
Palace Hotel Oy Ab	19	–	2	4	–	–	17

¹ Group data

During 1997 the Bank strengthened the balance sheets of these companies in the amount of approximately FIM 22 million through conversion of loans either directly to equity capital or to subordinated debt. In addition, the bank converted previously subordinated loans into equity capital in the amount of FIM 456 million.

Measures taken to restructure a customer's business operations include analysis of operations, structural arrangements, planning and implementation of restructuring and development measures and strengthening of the capital and financing structure. The measures are taken together with other owners and lenders and the company's management with regard to the prevailing market situation and the competitive setting.

The shares in question are held by Merita Bank Ltd.

Furthermore, the consolidated accounts exclude foreclosed real estate companies and, pursuant to regulations issued by the Financial Supervision Authority, such minor real estate companies the non-consolidation of which has no material impact on the Group's results or financial position. The compilation of financial information on such companies within the schedule set for the consolidated financial statements would require an unreasonable amount of work compared with the additional informative value to be gained by consolidation.

The number of non-consolidated companies and the book values of their shares are presented in Note 36.

43 Consolidation of subsidiaries other than financial or credit institutions, fund management or investment service companies or ancillary service companies and associated companies

Associated companies and those subsidiaries which are not financial or credit institutions, fund management or investment service companies or ancillary service companies as referred to in the regulations of the Financial Supervision Authority are consolidated by the equity method.

The valuation and allocation principles followed by these companies do not differ from those applied by the Group in any way which would have a material impact on the consolidated financial statements.

Summaries of the profit and loss accounts 1.1.–31.12.1997 and balance sheets as at 31.12.1997 of major subsidiaries consolidated by the equity method:

	Merita Life Assurance Group		Huoneistokeskus Oy	Merita Invest Group
Net premiums written ¹	2 855	Operating income	393	649
Net investment income	383	Expenses and depreciation	-370	-530
Claims incurred ¹	-169	Profit before appropriations and taxes	17	143
Change in provision for unearned premiums ¹	2 974	Profit for the period	17	131
Operating expenses	-76			
Balance on technical account	19	Fixed assets and other long-term expenditure	52	253
Profit for the period	14	Current and liquid assets	153	1 168
Equity capital and reserves	571	Equity capital and reserves	37	1 147
Technical provisions	7 007	Total assets	205	1 421
Total assets	7 619			

¹ After reinsurers' share

44 Subsidiaries other than financial or credit institutions, fund management, investment service or ancillary service companies: Intra-Group receivables, liabilities and directorships

These subsidiaries comprise Merita Life Assurance Ltd, Merita Invest Ltd, Huoneistokeskus Oy, Merita Kiinteistöomistus Oy, Unitas Congress Center Ltd, M-Rent Oy, Rakennusliike Leo Heinänen Oy, Kiinteistösjointus Oy Citycon, Hotelli Pohjanhovi, Turun Majakkarakanta, Majakkarakannan Huolto, PMA-Kiinteistöönvälitys LKV and Kamppi Hotel. The consolidated balance sheet of Merita Plc includes receivables from these companies in the amount of FIM 181 million and liabilities to these companies in the amount of FIM 1 023 million.

Among the five Members and five Deputy Members of the Board of Directors of Merita Life Assurance Ltd, Mr. Eino Halonen and Mr. Martti Huhtamäki (Members) and Mr. Kari Jordan and Mr. Ari Laakso (Deputy Members) were also Ordinary or Deputy Members of the Board of Management of Merita Bank Ltd on 31.12.1997. On the three-member Board of Directors of Merita Invest Ltd, Mr. Jorma Laakkonen and Mr. Kari Jordan and on the four-member Board of Directors of Huoneistokeskus Oy, Mr. Eino Halonen, Mr. Heikki Hyppönen and Mr. Harri Sailas were also Members or Deputy Members of the Board of Management of Merita Bank Ltd. Furthermore, Mr. Heikki Hyppönen is one of the five Members on the Board of Directors of Merita Kiinteistöomistus Oy.

45 Consolidation of foreign subsidiaries, joint ventures and associated companies: Currency translation and translation surplus/deficit

The profit and loss account items of foreign subsidiaries and associated companies have been translated into Finnish markkas at the annual mean rates of exchange based on the rates quoted by the Bank of Finland on the last day of each month. On- and off-balance-sheet items of Group companies have been translated at the rates of exchange quoted by the Bank of Finland on the last day of the year.

In the consolidated accounts, any surplus or deficit arising from the translation of Group companies' profit or loss for the year as a result of the difference between the annual mean rate of exchange and the rate of exchange prevailing at the date of closing the accounts is applied against profits from previous years. Such translation surplus is FIM 4.1 million in the Merita Group and FIM 4.4 million in the Merita Bank Group.

In the consolidated accounts of the Merita Group, FIM 0.2 million has been charged against profits from previous years for the deficit arising from the elimination of internal ownership as a result of the difference between the rate of exchange applicable at the time of acquisition of the respective equity holding and the rate of exchange prevailing at the date of closing the accounts. The corresponding surplus in the consolidated accounts of the Merita Bank Group is FIM 0.02 million.

46 Amount and reporting of any elimination surplus/deficit arising from the elimination of internal ownership

In the consolidated accounts, any difference between the amount paid for a subsidiary's shares and the corresponding share of the subsidiary's equity capital at the time of acquisition is allocated partly on "goodwill" or "consolidation reserve" and partly on the subsidiary's assets. Such elimination difference in the consolidated accounts of the Merita Group amounts to FIM 2 854 million and that in the consolidated accounts of the Merita Bank Group to FIM 51 million. Depreciation charges on allocations on different types of assets are computed in accordance with the relevant depreciation schedules as explained in Accounting Policies. Goodwill is depreciated by equal annual instalments over periods ranging from 5 to 10 years. FIM 1 900 million of the elimination surplus in the consolidated balance sheet of Merita Plc is allocated to real estate assets.

FIM 750 million of the goodwill in the consolidated balance sheet of Merita Plc stems from the merger of the Kansallis and Unitas Groups in 1995. After depreciation, this item amounted to FIM 600 million on 31.12.1997. This part of the goodwill will be depreciated over 10 years as from the financial year 1996, i.e. FIM 75 million annually. Depreciation charged on goodwill in 1997 totalled FIM 254 million in the Merita Group and FIM 168 million in the Merita Bank Group.

In the consolidated accounts, non-Group owners' shares of the results and equity capital of subsidiaries consolidated according to the acquisition method are shown in the consolidated profit and loss account and balance sheet as minority interests.

47 Internal equity holdings

On 31.12.1997, Merita Group companies held no shares of Merita Plc.

Administration and management, 1997

Merita Plc

Board of Directors and President

The Board of Directors of Merita Plc is responsible for the administration of the company and the proper organization of its operations in accordance with the Articles of Association. The Board decides on major principles of policy and issues of wide implications which, with regard to the scope and nature of the company's and the Group's operations, do not constitute part of the day-to-day administration of the parent company or other Group companies.

The Annual General Meeting of Shareholders elects the members of the Board of Directors for a term of three years. The General Meeting also determines the Directors' remuneration. The Board elects a Chairman and a Deputy Chairman from among its members.

Board members are not employed by the Merita Group, with the exception of Mr. Vesa Vainio, President of Merita Plc.

The President is appointed to serve until further notice. The President's remuneration is determined by the Board of Directors.

The emoluments paid to the Directors and the President are discussed in Note 25 on page 73. Information on the Directors and the President is presented on page 86.

Merita Bank Ltd – Board of Management and President

The Board of Management of Merita Bank Ltd serves as its Board of Directors. It also serves as the Executive Board of the entire Merita Group and prepares matters to be submitted to the Board of Directors of Merita Plc.

The Board of Management consists of ordinary members and deputy members, all employed by the Bank. Deputy members attend Board meetings when so required by their respective areas of responsibility.

The Bank's Supervisory Board appoints and discharges the Chairman, members and deputy members of the Board of Management and the President, who is also a Board member, and

determines their remuneration. The current President is Mr. Pertti Voutilainen.

The emoluments paid to the members and deputy members of the Board of Management are set out in Note 25 on page 73. Information on Board members and deputy members and their responsibilities is presented on page 88.

Supervisory Board

The duty of the Bank's Supervisory Board is to ensure that the Bank is managed with due diligence and expertise in accordance with the law and the Articles of Association. The Supervisory Board appoints the members and deputy members of the Bank's Board of Management, the President and Executive Vice Presidents, and determines their remuneration. It also issues general policy directives on issues of far-reaching importance, ensures an audit of the bank's management and administration at least twice a year and convenes the General Meeting. The Supervisory Board further decides on the granting of credit to Board members.

New members to replace those due to retire by rotation each year are elected to the Supervisory Board for a three-year term by the Annual General Meeting. Representatives of staff are elected separately in accordance with the law. Since the Bank is a wholly owned subsidiary of Merita Plc, the sole shareholder's voting rights are exercised at its General Meetings by a duly appointed representative of Merita Plc in accordance with the instructions of the Board of Directors.

The Supervisory Board elects from among its members a Chairman and two Deputy Chairmen for a term of one year at a time. The members of the Supervisory Board and their respective terms of office are listed on pages 86–87.

Auditors

Two Auditors are appointed for Merita Plc and Merita Bank Ltd by their respective Annual General Meetings for a term of one year at a time. The Auditors must be public accountants or

audit firms authorized by the Finnish Central Chamber of Commerce. The Auditors of Merita Plc and Merita Bank Ltd are listed on pages 86 and 88.

Changes in administration and management

In accordance with the Merita-Nordbanken merger plan, the Group's administration and management were reorganized as of January 1, 1998. The changes in the composition of the Board of Directors of Merita Plc and the Board of Management and Supervisory Board of Merita Bank Ltd are presented on pages 86–88.

Following the merger, the Group is managed by the Board of Directors of Merita-Nordbanken, consisting of ten members. The Chairman is Mr. Vesa Vainio. In order to ensure that the companies act as one single entity, it is the intention that the same persons should also be members of the Boards of Directors of Merita Plc and Nordbanken Holding AB (publ), however, with the exception that the Chairman of the Board of Directors of Merita Plc is Mr. Timo Peltola and that of Nordbanken Holding AB (publ) Mr. Jacob Palmstierna. The Chairman and Deputy Chairman of the Board of Directors and the Chief Executive Officer prepare matters to be dealt with by the Board of Directors. The Board meets monthly and performs its duties in accordance with the rules of procedure adopted by it. The Board is divided into the Credit Committee, the Treasury Committee, the Audit Committee and the Compensation Committee.

The Chief Executive Officer of the Merita-Nordbanken Group and President of Merita-Nordbanken is Mr. Hans Dalborg. The Group Executive Board consists of Mr. Dalborg and 10 Executive Vice Presidents responsible for the various functions of the Group. The Group Executive Board holds weekly meetings chaired by the Group Chief Executive Officer. Members of the Executive Board are also members of the Board of Management of Merita Bank and the Board of Directors of Nordbanken.

Merita Plc and Merita Bank Ltd Administration and Management

Merita Plc

Board of Directors, December 31, 1997

Timo Peltola, 51
Chairman

E.J.Toivanen, 70
Deputy Chairman
until reaching retirement age,
November 23, 1997

Casimir Ehrnrooth, 66

Veikko Jääskeläinen, 66 *)

Jouko K. Leskinen, 54 *)

Tauno Matomäki, 60 *)

Vesa Vainio, 55

Iiro Viinanen, 53 *)

*) until December 31, 1997

Board of Directors as of January 1, 1998

The term of office of all members of the Board of Directors of Merita Plc will expire at the close of the 1998 Annual General Meeting of Shareholders. The same persons have also been elected as members of the Boards of Directors of Nordbanken Holding and Merita-Nordbanken as of January 1, 1998.

Timo Peltola, 51
Chairman of the Board of Directors, Merita since 1995; President and CEO, Huhtamäki Oy; Deputy Chairman of the Supervisory Board, Pension Insurance Company Ilmarinen Ltd.

Jacob Palmstierna, 63
Deputy Chairman of the Board of Directors, Merita and MeritaNordbanken;
Chairman of the Board of Directors, Nordbanken Holding; Member of the Board of Directors, Nordbanken 1991, Chairman 1992–1997;
Chairman of the Board of Directors, AB Bilia and Siemens-Element AB; Member of the Board of Directors, NCC AB, Nordstjärna AB, Avesta Sheffield AB and ICB Shipping AB.

Dan Andersson, 49
Member of the Board of Directors, Nordbanken 1995–1997; Economist, Swedish Trade Union Confederation; Member of the Board, 4th AP Fund; Member of the Fund Council of the National Social Insurance Board.

Rune Brandinger, 66
President, Nordbanken Holding; Member of the Board of Directors, Nordbanken 1992–1997; Chairman of the Board, Vasakronan AB, Elektronikgruppen AB, Cepro AB, the Swedish Sawmill Association and Alfaskop AB; Member of the Board, AssiDomän Skog & Trä AB, Atle Karolin Verkstads AB, AB Svenska Miljöstyrelsen, Swebus AB and the Federation of Swedish Industries.

Hans Dalborg, 56
President and Chief Executive Officer, MeritaNordbanken (See Merita Bank, Board of Management).

Casimir Ehrnrooth, 66
Member of the Board of Directors, Merita since 1992; Chairman of the Board of Directors, Nokia Corporation; Member of the Board of Directors, UPM-Kymmene Corporation and Incentive AB (Sweden).

Mikko Kivimäki, 59
Chairman, President and CEO, Rautaruukki Oy; Chairman of the Board of Directors, Federation of Finnish Metal and Engineering Industries; Deputy Chairman of the Board of Directors, Mutual Insurance Company Pension-Varma and Teollisuusvakuutus Oy; Member of the Board and Executive Committee, Confederation of Finnish Industry and Employers; Member of the Board of Directors, Pension Insurance Company Sampo Pension Ltd; Deputy Chairman of the Supervisory Board of YIT-Corporation.

Bernt Magnusson, 56
Member of the Board of Directors, Nordbanken, 1991–1997; Chairman of the Board, NCC AB and Swedish Match AB; Deputy Chairman of the Board, Avesta Sheffield AB; Member of the Board

of Directors, Burmah Castrol plc, Silja Oy Ab, Höganäs AB, ICB Shipping AB, Net Insight AB, Industriförbundet and the Stockholm Chamber of Commerce; Advisor, European Bank for Reconstruction and Development.

Juha Niemelä, 51
President and CEO, UPM-Kymmene Corporation, Chairman of the Board of Directors, Finnish Forest Industries Federation; Member of the Board and Executive Committee, Confederation of Finnish Industry and Employers; Member of the Board of Directors, Rauma Ltd, Oy Metsä-Botnia Ab and Oy Metsä-Rauma Ab.

Vesa Vainio, 55
President and Member of the Board of Directors, Merita since 1992; Chairman of the Board of Directors of MeritaNordbanken and Deputy Chairman of the Board of Directors of Nordbanken Holding as of January 1, 1998; Chairman of the Board of Management and Chief Executive Officer of Merita Bank and Chief Executive Officer of Merita, 1992–1997; Chairman of the Board of Directors, Central Chamber of Commerce; Deputy Chairman of the Board of Directors, Metra Corporation and UPM-Kymmene Corporation; Member of the Board of Directors, Nokia Corporation and the Finnish Bankers' Association.

Auditors, 1997

Eric Haglund
Authorized Public Accountant
KPMG Wideri Oy Ab

Mauri Palvi
Authorized Public Accountant
KPMG Wideri Oy Ab

Eero Suomela
Authorized Public Accountant
KPMG Wideri Oy Ab

Deputy Auditors:

KPMG Wideri Oy Ab
Authorized audit company

Merita Bank Ltd

Supervisory Board, December 31, 1997

Edward Andersson, 64
Professor
Chairman of the Supervisory Board, 2000 *)

Aino Sallinen, 50
Rector, University of Jyväskylä
Deputy Chairman of the Supervisory Board, 2000

Maunu Ihalainen, 60
Administrative Director of the Finnish Social Democratic Party
Deputy Chairman of the Supervisory Board, 1998

Krister Ahlström, 57
President and CEO
A.Ahlstrom Corporation, 2000

Kalevi Aro, 50
President
Aro-Yhtymä Oy, 2000

Fredrik Björnberg, 59
Chairman of the Board
Myllykoski Oy, 1999

Mauri Eerola, 61
Third President of the Central Union of Agricultural Producers and Forest Owners, 1998

Georg Ehrnrooth, 57
President and CEO
Metra Corporation, 1999

Reino Hanhinen, 54
President and CEO
YIT-Corporation, 1998

Erik Hartwall, 56
Managing Director
Hartwall Group Ltd, 1999

*) The information provided on each member of the Supervisory Board includes the final year of his or her term of office. Apart from representatives of staff, members of the Supervisory Board are elected for a term expiring at the conclusion of the third Annual General Meeting following election.

Merita Bank Ltd

Ari Heiniö, 52
Managing Director
OY Stockmann AB, 1999

Paula Hopponen, 42
Bank officer
Merita Bank Ltd

Gustav Hägglund, 59
General, Chief of Defence
Finnish Defence Forces, 1999

Jukka Härmälä, 51
President and CEO
Enso Oyj, 1999

Jaakko Ihamuotila, 58
Chairman and CEO
Neste Oy, 1998

Risto Ihamuotila, 59
Chancellor
University of Helsinki, 1999

Liisa Joronen, 53
Chairman of the Board
SOL Palvelut Oy, 1999

L.J. Jouhki, 53
President and CEO
Thomesto Trading Companies Ltd,
1998

Jyrki Juusela, 54
President and CEO
Outokumpu Oyj, 1999

Heimo Karinen, 58
Chairman and CEO
Kemira Oyj, 1999

Mikko Ketonen, 52
Chairman of the Board
TS-Yhtymä Oy, 1998

Eero Kinnunen, 60
Chairman and CEO
Kesko Ltd, 1999

Mikko Kivimäki, 58
Chairman, President and CEO
Rautaruukki Oy, 1998
Resigned 31st December 1997
(see Merita Plc, Board of Directors)

Markku Koskenniemi, 55
President
Tammerneon Oy, 1999

Jere Lahti, 54
President and CEO
SOK Corporation, 1998

Jarmo Leppiniemi, 49
Professor,
President, Finnish Shareholders'
Association, 1999

Pekka Luhtanen, 60
Managing Director
L-Fashion Group Oy, 2000

Juhani Majjala, 58
President and CEO
Lassila & Tikanoja Group, 2000

Markku Mannerkoski, 61
Director General
Technical Research Centre of
Finland, 2000

Pirjo Manninen, 52
Bank officer
Merita Bank Ltd

Uolevi Manninen, 60
Former President and CEO
Tuko Oy, 1998

Heikki Marttinen, 51
Chairman and CEO
IVO Group Ltd, 2000

Björn Mattsson, 57
President & CEO
Cultor Corporation, 1998

Kurt Nordman, 59
Chairman
Helsinki Telephone Association,
1998

Jorma Ollila, 47
President and CEO
Nokia Corporation, 2000

Sinikka Partanen, 56
Bank officer
Merita Bank Ltd
Resigned 31st December 1997

Heikki Pentti, 51
Chairman
Lemminkäinen Oy, 1998

Harri Piehl, 57
President
JP Operations Management Ltd,
1998

Paavo Pitkänen, 55
Managing Director
Pension-Varma Mutual
Insurance Co., 1998

Antti Potila, 59
President and CEO
Finnair Oyj, 1998

Esa Rannila, 43
Chairman of the Board
Rumtec Oy, 2000

Olli Reenpää, 63
Managing Director
Otava Publishing Company Ltd,
1998

Kaija Roukala-Hyvärinen, 44
Chief Shop Steward
Merita Bank Ltd

Martin Saarikangas, 60
Chairman and CEO
Kvaerner Masa-Yards Inc., 2000

Matti Salminen, 56
Chief Executive
Raisio Group, 2000

Kari O. Sohlberg, 57
Managing Director and CEO
Oy G.W. Sohlberg Ab, 1998

Sven Sohlström, 60
Managing Director
Oy Katternö Ab, 2000

Marianne Stenius, 46
Professor,
Rector, Swedish School of
Economics and Business
Administration, 1999

Reijo Ståhlberg, 45
Branch manager
Merita Bank Ltd
Resigned 31st December 1997

Matti Sundberg, 55
President and CEO
Valmet Corporation, 2000

Ilkka Suominen, 58
President and CEO
Alko Group Ltd, 2000

Christoffer Taxell, 49
President and CEO
Partek Corporation, 1998

Pekka Tuomisto, 57
Director General
The Social Insurance Institution,
1999

New Members as of 1st January 1998:

Patric Fredell, 58
President
Siljans Sågverk AB, 1998

Kirsti Latva, 52
Bank officer
Merita Bank Ltd

Marcus Lunden, 42
Deputy Chief Shop Steward
Bank officer
Merita Bank Ltd

Fredrik Sunde, 38
Branch Manager
Merita Bank Ltd

Merita Bank Ltd

Merita Bank Ltd Board of Management December 31, 1997

Ordinary Members:

Vesa Vainio, 55
Chairman

Pertti Voutilainen, 57

Carl-Johan Granvik, 48

Markku Pohjola, 49

Kari Jordan, 41

Kalevi Kontinen, 56

Jorma Laakkonen, 54

Ari Laakso, 50

Eino Halonen, 48

Deputy members:

Bo Harald, 49

Martti Huhtamäki, 58

Heikki Hyppönen, 52

Jussi Laitinen, 41

Harri Sailas, 46

Merita Bank Ltd Board of Management as of January 1, 1998

Ordinary Members:

All members of the Board of Management of Merita Bank are also members of the Board of Directors of Nordbanken.

Hans Dalborg, 56
President and Chief Executive Officer, MeritaNordbanken; Chairman of the Board of Management, Merita Bank; Chairman of the Board of Directors, Nordbanken. Member of the Board of Directors, Nordbanken, 1991–1997; Various senior positions, Skandia Group, 1972–1991; Senior Executive Vice President and Chief Operating Officer, Skandia Group, 1989–1991; Chairman of the Board of Directors, Royal Swedish Opera; Member of the Board of Directors, Stockholm Concert Hall Foundation, Östekonomiska institutet and Svenska Spel AB; Member of the Royal Swedish Academy of Engineering Sciences.

Carl-Johan Granvik, 48
Executive Vice President
Area of responsibility: Corporate Banking, International Operations, Corporate Finance and Special Financing.
Employed by the Bank since 1974.

Karl-Olof Hammarkvist, 52
Executive Vice President
Area of responsibility: Asset Management.
Employed by the Bank since 1991. Executive Vice President, President and CEO, Skandia International, 1986–1991.

Sven-Åke Johansson, 58
Executive Vice President
Area of responsibility: Treasury and Real Estate.
Employed by the Bank since 1991. Executive Vice President, Skanska AB, 1989–1991; Before that, various senior positions in the metal and construction industries; Chairman of the Board of Directors, Nordisk Renting AB; Deputy Chairman of the Board of Directors,

Kjessler & Mannerstråle AB, Member of the Board of Directors, SSAB Svenskt Stål AB.

Kalevi Kontinen, 56
Executive Vice President
Area of responsibility: Information Technology and Strategic Analysis. Employed by the Bank since 1984. Member of the Board of Directors, TT Tieto Oy.

Jussi Laitinen, 41
Executive Vice President
Area of responsibility: Markets. Employed by the Bank since 1993. Treasurer, Spontel Oy, 1988–1993; Chairman of the Board of Directors, HEX Ltd (Helsinki Securities and Derivatives Exchange, Clearing House).

Arne Liljedahl, 47
Executive Vice President
Area of responsibility: Financial Control and Accounting.
Employed by the Bank since 1983.

Lars G Nordström, 54
Executive Vice President
Area of responsibility: Regional Banks, Service Networks, Head of Retail Banking, President, Nordbanken. Employed by the Bank since 1993. Employed by Skandinaviska Enskilda Banken, 1970–1993, Executive Vice President since 1989.

Markku Pohjola, 49
Executive Vice President
Area of responsibility: Products and Markets, Deputy Head of Retail Banking. Employed by the Bank since 1972. Chairman of the Board of Directors, Luottokunta.

Pertti Voutilainen, 57
Executive Vice President
Area of responsibility: Group Staffs and Industry Issues, President, Merita Bank. Chairman and CEO, Kansallis-Osake-Pankki, 1992–1995; Chairman of the Executive Board, Outokumpu Oy, 1980–1991; Chairman of the Board of Directors, Finnish Bankers'

Association; Chairman, Centre for Finnish Business and Policy Studies; Member of the Board of Directors, Pohjola Insurance Company Ltd and European Banking Federation.

Claes Östberg, 53
Executive Vice President
Area of responsibility: Credits. Employed by the Bank since 1977.

Auditors, 1997:

Eric Haglund
Authorized Public Accountant
KPMG Wideri Oy Ab

Mauri Palvi
Authorized Public Accountant
KPMG Wideri Oy Ab

Deputy Auditors:

KPMG Wideri Oy Ab
Authorized audit company

Merita Group in Finland

Merita Plc and its subsidiaries

Merita Plc

Registration number 40.495
Aleksanterinkatu 30
P.O.Box 84,
FIN-00101 HELSINKI
Telephone: +358 9 12341
Telefax: +358 9 165 42211

Merita Bank Ltd

Registration number 513.752
Head office:
Aleksanterinkatu 30, Helsinki
FIN-00020 MERITA
Telephone: +358 9 1651
Telefax: +358 9 165 42838
Telex:
124407 mrit fi (general)
124525 mrex fi (treasury)
SWIFT-address: MRITFIHH
Internet: <http://www.merita.fi>

Huoneistokeskus Oy

Melkonkatu 16 A
FIN-00210 HELSINKI
Telephone: +358 9 180 3750
Telefax: +358 9 180 3786
Managing Director:
Matti Wigg (a.i.)

Merita Corporate Finance Ltd

Pohjoisesplanadi 33 A
FIN-00100 HELSINKI
Telephone: +358 9 478 5031
Telefax: +358 9 4785 0341
Managing Director:
Petri Siponen (a.i.)

Merita Life Assurance Ltd

Asemakuja 2, Espoo
FIN-00020 MERITA
Telephone: +358 9 165 27601
Telefax: +358 9 859 4622
Managing Director:
Seppo Ilvessalo

Merita Real Estate Ltd

Asemapäällikönkatu 7, Helsinki
FIN-00020 MERITA
Telephone: +358 9 828 51
Telefax: +358 9 828 57890
Managing Director:
Heikki Hyppönen

Partita Ltd

Pohjoisesplanadi 27 C
FIN-00100 HELSINKI
Telephone: +358 9 625 921
Telefax: +358 9 625 247
Managing Director:
Juha Korhonen

Unitas Congress Center Ltd

Ramsinniementie 14
FIN-00980 HELSINKI
Telephone: +358 9 31911
Telefax: +358 9 319 1400
Managing Director:
Pirjo Ruotsalainen

Subsidiaries of Merita Bank Ltd

Fidentia Oy

Nihtisillantie 3
P.O.Box 24, FIN-02631 ESPOO
Telephone: +358 9 82 820
Telefax: +358 9 523 133
Managing Director:
Ulla-Maija Keränen

Oy Helsingin Huutokauppakamari

Helsinginkatu 1
FIN-00500 HELSINKI
Telephone: +358 9 2705 3085
Telefax: +358 9 2705 3088
Managing Director:
Martti Huotelin

Helsingin Pantti-Osakeyhtiö

Mikonkatu 15
FIN-00100 HELSINKI
Telephone: +358 9 270 5301
Telefax: +358 9 2705 3029
Managing Director:
Martti Huotelin

Merita Customer Finance Ltd

Sörnäistenkatu 1, Helsinki
FIN-00020 MERITA
Telephone: +358 9 77281
Telefax: +358 9 773 2337
Managing Director:
Matti Willamo

Merita Asset Management Ltd

Fabianinkatu 29, Helsinki
FIN-00020 MERITA
Telephone: +358 9 1651
Telefax: +358 9 165 43818
Managing Director:
Jaakko Ojala (a.i.)

Merita Capital Ltd

Fabianinkatu 29 B, Helsinki
FIN-00020 MERITA
Telephone: +358 9 1651
Telefax: +358 9 625 878
Managing Director:
Jouko Helomaa

Merita Delta Ltd

Fabianinkatu 29 B, Helsinki
FIN-00020 MERITA
Telephone: +358 9 12341
Telefax: +358 9 1234 0389
Managing Director:
Allan Eriksén

Merita Invest Oy

Mikonkatu 1 B
FIN-00100 HELSINKI
Telephone: +358 9 1651
Telefax: +358 9 165 42080
Managing Director:
Risto Wartiovaara

Merita Securities Ltd

Fabianinkatu 29 B, Helsinki
FIN-00020 MERITA
Telephone: +358 9 12341
Telefax: +358 9 1234 0400
Telex: 125811 unisc fi
Managing Director:
Reijo Knuutinen

Merita Fund Management Ltd

Fabianinkatu 29 B, Helsinki
FIN-00020 MERITA
Telephone: +358 9 12341
Telefax: +358 9 612 1426
Managing Director:
Thomas Eriksson (a.i.)

Merita Finance Ltd

Sörnäistenkatu 1, Helsinki
FIN-00020 MERITA
Telephone: +358 9 18581
Telefax: +358 9 1858 9140
Managing Director:
Jarmo Laiho

Perimistoimisto Contant Oy

Yliopistonkatu 30
P.O.Box 20, FIN-20101 TURKU
Telephone: +358 2 270 000
Telefax: +358 2 270 0100
Managing Director:
Lassi Karppinen

Industrial Bank of Finland Ltd

Aleksanterinkatu 30
P.O.Box 165,
FIN-00101 HELSINKI
Telephone: +358 9 165 42901
Telefax: +358 9 608 951
Managing Director:
Seppo Leinonen

Tukirahoitus Oy

Kirkkokatu 21 B
FIN-90100 OULU
Telephone: +358 8 880 9830
Telefax: +358 8 880 9809
Managing Director:
Kari Haapasalo

Merita Bank international network

Branches, subsidiaries and associated bank

Merita Bank Ltd

London Branch

19 Thomas More Street
LONDON E1 9YW
Telephone: +44 171 265 3333
Telefax: +44 171 709 7003
General Manager:
Hannu Linnoinen

Merita Bank Luxembourg S.A.

189 avenue de la Faiencerie
P.O. Box 569
L-2015 LUXEMBOURG
Telephone: +352 477 6111
Telefax: +352 477 611 251
Managing Director: Kjell Westermark

Merita Bank Ltd

New York Branch

American Scandinavian Banking Corporation

Merita Bank Ltd

Grand Cayman Branch

437 Madison Avenue
NEW YORK, NY 10022
Telephone: +1 212 318 9300
Telefax: +1 212 421 4420
General Manager/President:
Jukka Niemi

Merita Bank Ltd

Singapore Branch

Merita Merchant Bank

Singapore Ltd.

50 Raffles Place # 15-01
Singapore Land Tower
SINGAPORE 048623
Telephone: +65 225 8211
Telefax: +65 225 5469
General Manager/
Managing Director: Johnny Backman

Merita Bank Ltd

Tallinn Branch

Harju 6
EE 0001 TALLINN
Telephone: +372 6 283200
Telefax: +372 6 283201
General Manager: Heikki Viitanen

Associated bank

International Moscow Bank

9 Prechistsenskaya Naberezhnaya
(formerly: Kropotkinskaya Nab.)
119034 MOSCOW
Telephone: +7 501 258 7317
Telefax: +7 501 258 7368
General Manager:
Raimo Saastamoinen

International Moscow Bank

St. Petersburg Branch
Street address: 1/12 Voznesensky Pr.
190000 ST. PETERSBURG
Mailing address: P.O. Box 97
FIN-53501 LAPPEENRANTA
Telephone: +7 812 219 4394
Telefax: +7 812 315 3406
Manager: Petri Loikkanen

Representative offices

Brazil

Merita Bank Ltd
Sao Paulo Representative Office
Rua Oscar Freire 379-cj. 122
CEP - 01426-001
SAO PAULO S.P.
Telephone: +55 11 881 9499
Telefax: +55 11 881 9368
Representative: Marie Sjö Dahl

China

Merita Bank Ltd
Beijing Representative Office
905 Landmark Tower
8 North Dongsanhuan Road
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Telephone: +86 10 6590 0181
Telefax: +86 10 6590 0182
Representative: Danny Wen

Hong Kong

Merita Bank Ltd
Hong Kong Representative Office
3705 Peregrine Tower
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HONG KONG
Telephone: +852 2523 7505
Telefax: +852 2526 7674
Representatives: Harri Valkonen,
Raymond Kwong

Japan

Merita Bank Ltd
Tokyo Representative Office
SF Kayabacho Building, 4th Floor
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Chuo-ku, TOKYO 103
Telephone: +81 3 5641 2551
Telefax: +81 3 5641 2550
Representative: Jukka Suomela

Poland

Merita Bank Ltd
Warsaw Representative Office
25, Jana Pawla II, 6th floor
00-854 WARSAW
Telephone: +48 22 653 4770
Telefax: +48 22 653 4771
Representative: Sami Loukkola

Russia

Merita Bank Ltd
Moscow Representative Office
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103062 MOSCOW
Mailing address: PL 294
FIN-53101 LAPPEENRANTA
Telephone: +7 095 721 1646
Sat.tel: +7 501 721 1646
Telefax: +7 095 721 1647
Sat.fax: +7 501 721 1647
Representative: Sirpa Sara-aho

Merita Bank Ltd
St. Petersburg Representative Office
Entrance: Ulitsa Malaya
Konyushennaya 1/3
Sweden House, office B 42
191186 ST. PETERSBURG
Mailing address: PL 102
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Information on Group development

The MeritaNordbanken Group will publish an Interim Report on May 5, August 19 and October 27, 1998.

The Annual General Meetings of Merita Plc and MeritaNordbanken Plc will be held on April 20, 1998.

