

POSTIPANKKI ANNUAL REPORT 1996



Postipankki interim reports will be issued
May 7, 1997 (January-March)
August 13, 1997 (January-June)
November 5, 1997 (January-September)

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Economic activity picked up in Finland in the second half of 1996 after a temporary slowing of growth in the early part of the year. This improvement was primarily attributable to a revival in private consumption. At the same time activity in the building construction industry remained weak and there was no marked improvement in the unemployment situation. Both inflation and interest rates remained low, however, and the balance in the central government finances improved.

In Europe, there was growing confidence that economic and monetary union (EMU) within the EU would materialise on schedule. Due to its better economic performance, Finland is likely to fulfil the criteria for EMU membership in 1997, and, subject to Parliament consent, will thus be able to enter stage three of EMU as soon as it begins in January 1999. One important step towards meeting the EMU criteria was taken in October, when the Finnish markka was linked to the Exchange Rate Mechanism (ERM).

For the banking industry, the change-over to a single European currency, the euro, will be an exceptionally demanding challenge, but one that Postipankki is already actively preparing for. Work at this stage includes adjustments in IT systems, staff training and changes in banking services called for by the introduction of the euro. The Bank will ensure that its customers remain confident in Postipankki's ability to manage their money matters safely and securely in the new EMU environment, and that it can adapt its own business operations to EMU in a competitive way.

Postipankki Group succeeded in showing a profit in

1996, as expected, and the year's result was satisfactory. Even so, the underlying profitability of our operations is still inadequate, and increasing income and reducing costs further will be necessary.

The profitability of our banking operations was reduced by narrower interest margins, which meant that net income from financial operations was lower than in 1995. However, lower loan and guarantee losses, a strong performance by our securities trading, and lower operating expenses all helped to produce a positive result.

Non-performing claims and other low-yielding assets represent only a small part of Postipankki's balance sheet. This will help the Bank to strengthen its standing amongst the competition. We have every confidence that the Postipankki Group will show a profit also in 1997, although we estimate that the levels of 1996 will not be reached.

With the closure of several banks in the '90s, the aggregate number of bank personnel in the industry has halved, and Postipankki together with the other Finnish banks have continued to reduce their levels of personnel. This has led to great uncertainty, which can only be eradicated as economic growth gradually strengthens and stabilizes. The pressure on banks' personnel in terms of productivity is intensifying and result targets are demanding. As Postipankki's performance in 1996 shows, the Bank has both the desire and the ability to achieve good results, and for this it largely has its excellent staff to thank.

Eino Keinänen



Postipankki Ltd's Board of Management. Seated from left Chairman and Chief Executive Eino Keinänen, Ilkka Hallavo and Peter Johansson. Standing from left Eero Tuomainen, Matti Inha, Vice Chairman of the Board Juhani Paloheimo and Jussi Osola.

FIVE-YEAR SUMMARY

Group Dec. 31 FIM million	1992	1993	1994	1995	1996
Revenues	11 946	9 750	8 217	7 938	8 069
Net income from financial operations ¹⁾			2 625	2 198	1 955
– percentage of revenues			31.9	27.7	24.2
Profit before loan and guarantee losses	1 142	1 586	573	126	987
Operating profit/loss	– 640	– 354	– 685	– 502	602
– percentage of revenues	– 5.4	– 3.6	– 8.3	– 6.3	7.5
Operating profit/loss less taxes	– 671	– 369	– 710	– 523	575
Profit/loss before appropriations and taxes	– 640	– 354	– 685	– 502	544
– percentage of revenues	– 5.4	– 3.6	– 8.3	– 6.3	6.7
Income to cost ratio	1.48	1.65	1.19	1.04	1.35
Balance sheet, total	104 032	120 718	113 680	115 519	118 489
– return on equity, %	– 13.1	– 7.3	– 15.6	– 12.9	13.8
– return on assets, %	– 0.63	– 0.33	– 0.61	– 0.46	0.49
– equity/total assets, %	5.1	4.1	3.7	3.4	3.7
– capital adequacy ratio, % ²⁾	12.1	11.1	10.7	10.2	10.7
Shareholders' funds ³⁾	5 266	4 905	4 192	3 677	4 192
Off-balance sheet items	17 543	17 274	15 197	19 348	20 592
Staff numbers at year end	5 995	5 446	6 300	5 943	5 454
Postipankki Ltd Dec. 31 FIM million					
Revenues	10 845	9 076	7 651	7 359	7 440
Net income from financial operations ¹⁾			2 486	2 078	1 845
– percentage of revenues			32.5	28.2	24.8
Profit before loan and guarantee losses	1 084	1 507	478	62	922
Operating profit/loss	– 644	– 372	– 758	– 557	509
– percentage of revenues	– 5.9	– 4.1	– 9.9	– 7.6	6.8
Operating profit/loss less taxes	– 664	– 382	– 767	– 557	505
Profit/loss before appropriations and taxes	– 550	– 372	– 758	– 557	451
– percentage of revenues	– 5.1	– 4.1	– 9.9	– 7.6	6.1
Income to cost ratio	1.48	1.64	1.16	1.02	1.34
Balance sheet, total	101 002	118 275	111 655	112 952	116 033
– return on equity, %	– 13.4	– 7.7	– 17.5	– 15.0	13.8
– return on assets, %	– 0.66	– 0.35	– 0.67	– 0.50	0.44
– equity/total assets, %	5.1	4.0	3.6	3.0	3.4
– capital adequacy ratio, % ²⁾	12.1	10.9	10.5	9.7	10.2
Shareholders' funds and untaxed reserves	5 148	4 766	3 999	3 442	3 889
Domestic deposits	31 747	44 957	44 204	50 286	48 261
Domestic lending	48 716	55 902	53 304	52 887	51 674
Off-balance sheet items	18 131	17 481	15 049	18 206	19 730
Staff numbers at year end	5 761	5 237	6 102	5 748	5 040

¹⁾ Financial Supervision regulations 106.1 and 106.2 which came into effect on January 1, 1996

²⁾ 1992–1993 Deposit Bank Act (1269/90 4:29 §), as of 1994 Act on Credit Institutions (1607/93 9:78 §) and as of 1.8.1996 Act on Credit Institutions (570/96 9:78 a–c §)

³⁾ Untaxed reserves divided between the shareholders' funds and imputed taxes due

The rate of economic growth slowed in the first half of 1996 because of weaker demand in the export markets. Averaged over the whole year, total output rose around 3 per cent, compared with well over 4 per cent in both 1994 and 1995. The unemployment rate fell almost one percentage point, largely due to various job-creation measures.

Export prospects improved as the year progressed, however, and there was only a small increase in imports. Since export prices for forest industry products and base metals fell while the world market price of oil rose, the terms of trade deteriorated. The balance of trade was well in surplus, though, as was the current account. As a result, the country's foreign interest-bearing debt continued to decrease.

Private consumption increased, and the purchasing power of households increased appreciably. In the autumn, consumer confidence in the economy rose to a record high, and increasing numbers ventured to buy homes and consumer durables. As the housing market revived, prices started to rise and demand for housing loans also picked up.

Public sector consumer expenditure rose only very moderately. Public sector investments increased, but the growth in private sector investment remained low. Private sector investments were concentrated in machinery and equipment. Towards the year end, building and construction increased.

Inflation continued to be very low, and the average rise in consumer prices was only 0.6 per cent. The underlying inflation which is the single most factor in determining monetary policy was close to zero. Central government debt increased still further, although the borrowing requirement proved much smaller than in 1995.

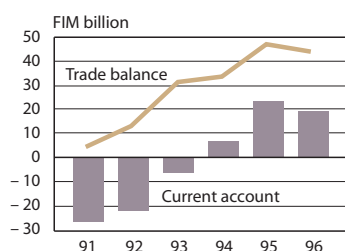
The Finnish markka was linked to the EU's Exchange Rate Mechanism (ERM) on October 14. When the Italian lira returned to the ERM more than a month later, the central rate of the markka to the ECU was 5.85424. The permitted fluctuation range relative to other ERM currencies is in a 15 per cent band. The external value of the markka weakened slightly relative to the ECU basket in the course of the year.

The government's reduced need for funding and the low inflation rate, positive external balance and fall in international interest rates at the end of the year all made it possible for interest rates to be cut in Finland. Long-term market rates fell nearly one percentage point, and short-term rates also decreased more than one percentage point following cuts in the Bank of Finland's tender rate. The base rate was cut twice, by 0.75 percentage points in total, and the banks lowered their prime rates substantially.

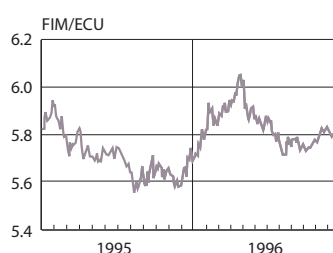
The financial position of companies and households remained good. Falling interest rates and general confidence in the economy boosted demand for markka-denominated bank loans, although in contrast currency loans taken out by companies continued to decline. Deposits by the public decreased, as funds released from maturing tax-exempt fixed-term deposits were put to other uses. Banks and their customers continued to invest large sums in government bonds. Mutual funds investing in securities of up to a year proved more popular, as did life assurances linked to endowments.

Restructuring of the banking industry continued, and the number of branches and staff decreased further. Competition in the banking sector was severe, but profitability improved nonetheless.

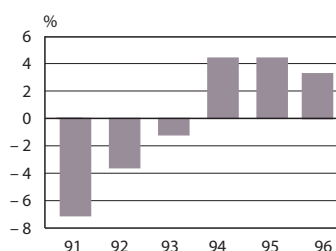
EXTERNAL BALANCE



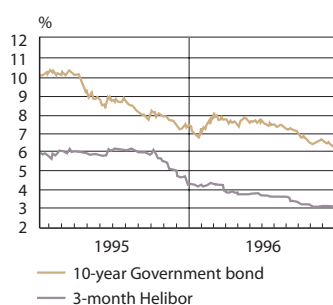
EXTERNAL VALUE OF THE MARKKA



ANNUAL CHANGE IN GDP



DOMESTIC INTEREST RATES



Postipankki Group results improved in 1996. Operating profit totalled FIM 602 million; compared with the FIM 502 million loss shown in 1995, an improvement of FIM 1,104 million. Profit before appropriations and taxes amounted to FIM 544 million, and profit for the financial year to FIM 480 million, compared to a FIM 558 million loss in 1995.

This improvement can largely be attributed to the substantial rise in net income from transactions in securities and the decrease in loan losses. The narrowing interest margin reduced net income from financial operations, but Group operating expenses, excluding additional depreciations on real estate owned by the Bank, fell 4 per cent.

Net income from financial operations decreased FIM 243 million to FIM 1,955 million. Falling interest rates during the year greatly reduced the interest margin between markka-denominated lending and deposits. Net income from financial operations was also reduced by the FIM 52 million in interest payable on the capital certificate subscribed by the government.

Fees and commissions receivable rose FIM 76 million, boosted partly by the 'package pricing' adopted for transaction accounts as of the beginning of the year and by fees and commissions from securities transactions. Fees and commissions payable fell FIM 15 million.

Net income from transactions in securities improved by FIM 876 million, to FIM 556 million, largely because of dealing profits on bonds and other debt securities. The loss shown in 1995 had been caused by losses on derivative contracts. Net foreign exchange income rose FIM 21 million. Other operating income increased FIM 57 million, including an increase in rental income

accounting for FIM 28 million.

Operating expenses and depreciation fell by FIM 55 million. Administrative expenses were down by FIM 40 million, to FIM 2,165 million, with staff costs accounting for a drop of FIM 11 million. Reimbursements paid to post offices for banking services performed fell by FIM 28 million to FIM 556 million.

Depreciation rose FIM 32 million, as the Bank made additional depreciations on real estate to a total of FIM 42 million.

Before loan and guarantee losses, profit rose to FIM 987 million, against FIM 126 million in 1995.

Loan and guarantee losses amounted to FIM 300 million. Realised loan losses totalled FIM 272 million and specific loan loss provisions FIM 286 million. FIM 258 million was recovered in losses and provisions recorded in earlier years. FIM 86 million was released against written down book value on loans to the former Soviet Union which were sold during the year. Households accounted for FIM 126 million of net consolidated loan losses and corporate and institutional customers for FIM 174 million.

Consolidated non-performing and zero-interest lending decreased. At the end of 1996 the figure after loan loss entries was FIM 1,011 million, i.e. FIM 457 million less than a year earlier.

Write-offs on securities held as financial fixed assets amounted to FIM 92 million, with those on debt securities accounting for FIM 12 million. Of the total FIM 118 million in write-offs incurred by the Bank, FIM 101 million related to shares in real estate and property corporations. FIM 26 million of the Parent Company's write-offs concerned shares in associated companies.

OPERATING PROFITS/LOSSES OF POSTIPANKKI GROUP AND GROUP UNDERTAKINGS IN 1996 AND 1995

Operating profit/loss of the individual Group undertakings before intra-group eliminations

	Postipankki Group			Postipankki Ltd			PSP-Municipality Bank Ltd		PSP-finance Ltd		Other Group undertakings, total	
	1996	1995	Change	1996	1995	Change	1996	1995	1996	1995	1996	1995
Interest receivable	5 772	6 747	-14%	5 605	6 570	-15%	171	193	66	67	56	120
Net leasing income	+ 80	90	-11%	1	2				79	88		
Interest payable	- 3 897	4 638	-16%	3 761	4 493	-16%	145	161	78	84	39	103
Net income from financial operations	= 1 955	2 198	-11%	1 845	2 078	-11%	26	32	67	71	17	17
Dividend income	+ 8	4	90%	26	21	26%			1			1
Fees and commissions receivable	+ 960	884	9%	925	855	8%	1	1	10	11	29	24
Fees and commissions payable	- 140	155	-10%	135	150	-10%	2	3	2	2	8	7
Net income from transactions in securities	+ 556	-320		556	-320							
Net income from foreign exchange dealing	+ 106	85	25%	105	83	27%				-1	1	3
Other operating income	+ 227	170	34%	205	140	47%			11	14	193	25
Staff costs	- 1 126	1 137	-1%	1 050	1 100	-5%	2	2	23	26	53	9
Other administrative expenses	- 1 039	1 068	-3%	1 086	1 049	3%	1		9	7	110	14
Depreciation	- 237	206	15%	208	185	13%			4	4	25	16
Other operating expenses	- 283	329	-14%	263	311	-15%	1	1	14	10	22	17
Profit before loan and guarantee losses	= 987	126		922	62		22	27	40	47	22	7
Loan and guarantee losses ¹⁾	- 300	631	-52%	295	619	-52%			3	4	2	8
Write-offs on securities ²⁾	- 92			118								
Income from equity accounted companies ³⁾	+ 7	3										
Operating profit/loss	= 602	-502		509	-557		22	27	37	43	20	-1
Balance sheet at end of year	118 489	115 519	3%	116 033	112 952	3%	2 247	2 131	2 235	1 889	1 437	521

¹⁾ Includes loss on disposal of lease assets

²⁾ Write-offs in respect of securities held as financial fixed assets

³⁾ Income from associated undertakings and subsidiaries accounted for by using the equity method

FIM million

Extraordinary charges include FIM 21 million representing the proportion of the pension liability deficit in previous years covered by the Bank and FIM 37 million as a provision against the cost of introducing the EU common currency, the euro.

**FUTURE PROSPECTS
AND PREPARATIONS FOR EMU**

The Group is expected to show a profit in 1997, although it will be smaller than in 1996, partly because low interest rates will maintain a narrow interest margin between lending and deposits. Income from transactions in securities is unlikely to reach the same level as in 1996, either.

Postipankki's operating environment will be greatly affected by the possible transfer to an EU single currency, the euro, from 1999 onwards.

Although competition is expected to get tougher in the banking sector in the EMU environment, Postipankki's standing in the provision of Finnish retail and corporate financial, investment and payment transaction services should not be threatened, due to its familiarity with domestic financial markets and its excellent product and technology skills. However, the Bank must be able to improve the basic profitability of its business operations, an area where it has excellent potential, as a result of the steps that have been taken since the mid '90s to make its branch network and payment transactions more efficient.

The transition to EMU is expected to incur Postipankki in additional costs of up to FIM 150 million in 1997–2001. The biggest cost item of approximately FIM 70 million will be caused by the conversion of its information systems.

Postipankki Ltd's share capital on December 31, 1996 was FIM 630 million. The Republic of Finland owns all the Bank's 63 million shares, nominal value FIM 10 each.

In August 1992, the Bank elected to take its pro-rata FIM 903 million share of the State's direct capital investment in support of the banking sector.

The Act on Credit Institutions was amended on July 26, 1996 (570/96), requiring credit institutions and their groups to have sufficient capital resources to cover the market risks relating to its trading assets. The trading assets are counted to include all debt securities, shares and derivative contracts traded and any short-term debt instruments issued to hedge the trading position.

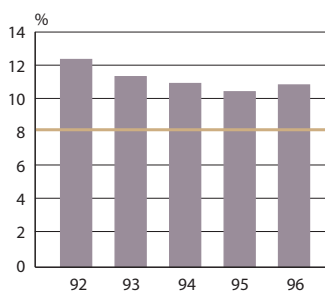
In accordance with the provisions of the Act on Credit Institutions, FIM 1,882 million of Group dated subordinated debentures outstanding at the end of the financial year were included in Tier 2 capital. Perpetual subordinated debentures amounted to FIM 488 million. In addition, FIM 259 million was counted as Tier 3 capital to cover market risk.

The Postipankki Group's risk-weighted assets increased by 10 per cent, to FIM 63,289 million, partly as a result of capital requirements to cover market risk.

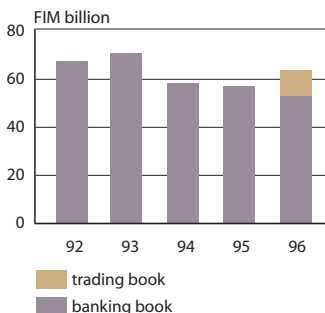
Calculated as required by the Act on Credit Institutions, the Group's capital adequacy ratio was 10.7 per cent at the end of the year.

According to the Postipankki Act, the Bank's commitments are backed up by a State guarantee for an amount up to one half of its combined Tier 1 and Tier 2 capital. If the Bank's capital is insufficient to cover its commitments, the State will be responsible for meeting them up to the amount of the guarantee. The guarantee cannot be reduced from a level once reached even if the amount of Postipankki's capital would fall.

**CAPITAL ADEQUACY OF THE
POSTIPANKKI GROUP IN 1992–1996**



**POSTIPANKKI GROUP
RISK-WEIGHTED ASSETS**



CAPITAL ADEQUACY

	Group		Postipankki Ltd	
	Dec. 31, 1996	Dec. 31, 1995	Dec. 31, 1996	Dec. 31, 1995
CAPITAL, FIM million				
TIER 1	4 190.6	3 791.4	3 700.9	3 312.2
Share capital	630.0	630.0	630.0	630.0
Reserves	1 710.3	2 267.1	1 646.8	2 203.7
Capital certificates	903.0	903.0	903.0	903.0
Distributable capital	488.8	- 516.9	415.1	- 556.8
Minority interests	190.8	246.8		
Untaxed reserves	428.6	394.0	262.1	262.1
Intangible assets	- 160.9	- 132.6	- 156.2	- 129.8
TIER 2	2 369.3	2 133.2	2 338.1	2 113.8
Dated subordinated debt	1 881.7	1 675.5	1 850.4	1 656.1
Perpetual subordinated debt	487.6	457.7	487.6	457.7
DEDUCTIONS FROM CAPITAL	40.2	40.2	37.2	40.5
TIER 3 *)	259.4		259.4	
TOTAL CAPITAL *)	6 779.1	5 884.4	6 261.2	5 385.5
RISK-WEIGHTED ASSETS (ON-BALANCE SHEET AND OFF-BALANCE SHEET) *)	63 289.1	57 502.1	61 585.0	55 772.4
CAPITAL ADEQUACY RATIO, %				
- Total capital/risk-weighted assets	10.7	10.2	10.2	9.7
- of which tier 1 capital/risk-weighted assets	6.6	6.6	6.0	5.9

*) Resulting from changes in rules to measure the capital adequacy ratio, the figures for 1996 and 1995 are not comparable.

The Group's balance sheet total rose FIM 3.0 billion during the year. Lending started to expand late in the year, and by year end had reached the same level as on January 1. Most of the increase comprised market investments.

FUNDING

Ordinary deposits by the public in Postipankki were somewhat higher at the end of December than at the beginning of the year, and the Bank's market share grew over the twelve months. Balances in ordinary savings and transaction accounts increased as tax-exempt fixed-term accounts matured. On the last day of the year there was less money in postal giro accounts than a year

earlier. Calculated as a daily balance average over the whole year, however, funds in giro accounts rose.

Domestic money and capital market funding increased.

Postipankki Ltd has US and EURO certificate of deposit and medium-term note programmes with a total countervalue of some FIM 23 billion. The utilisation rate of these programmes during 1996 was very low.

LENDING AND OTHER ASSETS

Postipankki's domestic lending decreased 2 per cent in 1996, but towards year end markka-denominated loans started to rise sharply. Loans denominated in foreign currencies and Bank investments in domestic bonds

POSTIPANKKI RATINGS ON DECEMBER 31, 1996

	Short-term funding	Long-term funding
IBCA	A1	A+
Moody's	P-1	A1
Standard & Poor's	A-2	BBB+
Thomson BankWatch	TBW-1	A+

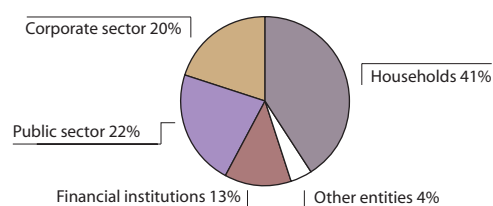
FUNDING

GROUP	Dec. 31, 1996 FIM million	Change in 1996 FIM million	%
Liabilities to credit institutions and central banks	26 828	10 295	62
Liabilities to the public and public sector entities	57 672	-1 412	-2
- Deposits	48 679	-2 238	-4
- Other liabilities	8 992	826	10
Debt securities in issue	23 580	-4 026	-15
Other liabilities	5 916	-2 457	-29
Shareholders' funds and untaxed reserves	4 493	570	15
Total balance sheet	118 489	2 970	3

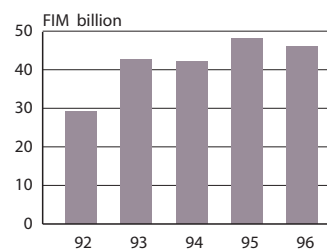
POSTIPANKKI LTD

Core deposits	34 261	86	0
Postal giro accounts	12 415	-1 628	-12
Foreign currency deposits	1 585	-483	-23
Domestic deposits	48 261	-2 025	-4
Funding from domestic money and capital markets	33 852	7 995	31
Funding from foreign money and capital markets	23 466	-995	-4
Other liabilities	6 565	-2 341	-26
Shareholders' funds and untaxed reserves	3 889	447	13
Total balance sheet	116 033	3 081	3

POSTIPANKKI'S DOMESTIC FUNDING BY CUSTOMER SECTOR DECEMBER 31, 1996



DOMESTIC MARKKA DEPOSITS DECEMBER 31



decreased. Loans to households slipped back early in the year, but stabilised after the summer. In contrast, new housing loans increased. Markka-denominated loans to companies decreased slightly, while loans to financial institutions increased substantially.

The interest payable on the Bank's liabilities during the year was 3.6 per cent, while the corresponding interest income on claims was 5.6 per cent, giving an interest margin of 2.0 per cent, compared with 2.3 per cent in 1995.

DERIVATIVE CONTRACTS

Almost all of the Bank's derivative contracts are marked to market monthly. The remainder are treated as hedges.

The risk from derivative contracts is included in the risk limits approved by the Board of Management. This risk is monitored daily as part of the value-at-risk monitoring system introduced in May 1996.

Calculated using capital adequacy standards, the credit equivalent amount of the Postipankki Group's derivative contracts at the end of the year was FIM 10.3 billion, and the risk-weighted amount FIM 3.1 billion.

The section on Accounting Policies and Item 26 in the Notes give details of the Group's derivative contracts.

LENDING AND OTHER ASSETS

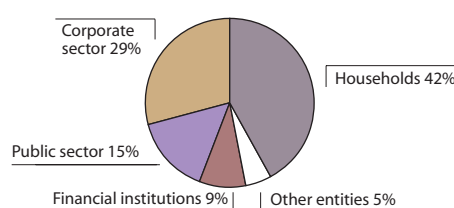
GROUP	Dec. 31, 1996 FIM million	Change in 1996 FIM million	%
Claims on credit institutions and central banks	20 208	4 239	27
Claims on the public and public sector entities	46 558	528	1
Debt securities	39 417	4 118	12
Other assets *)	12 306	- 5 914	- 32
Total balance sheet	118 489	2 970	3

POSTIPANKKI LTD

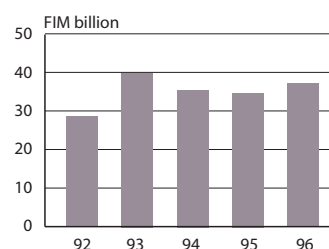
FIM-denominated loans	36 817	1 948	6
Foreign currency loans	5 122	- 1 464	- 22
Bonds and notes	9 735	- 1 697	- 15
Domestic lending	51 674	- 1 213	- 2
Domestic market instruments	26 566	5 846	28
Foreign lending and market instruments	26 532	4 532	21
Other assets *)	11 262	- 6 084	- 35
Total balance sheet	116 033	3 081	3

*) Includes the following items: shares and participations, intangible and tangible assets, other assets and prepayments and accrued income

POSTIPANKKI'S DOMESTIC LENDING BY CUSTOMER SECTOR
DECEMBER 31, 1996



DOMESTIC MARKKA LOANS
DECEMBER 31



Resulting from strong measures to increase efficiency, Retail Banking's performance improved radically in 1996, even though the interest margins narrowed still further as interest rates fell. Profitability cannot yet be considered satisfactory, however. In future, better results will call for costs to be brought down to a level that proves durable amid tougher European competition.

Loan and guarantee losses from retail customers totalled FIM 124 million. Non-performing and zero-interest lendings stood at FIM 446 million at year end, i.e. 37 per cent lower than a year earlier.

NETWORK

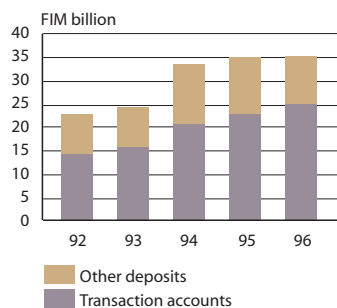
There were 81 Retail Banking branches at the beginning of the year and 75 at the end, together with four sub-branches, three being new-style outlets located at supermarkets and opened during the year. There were Phone Banking units in Helsinki and Kuopio. The number of post offices offering Postipankki services fell by 233 during the year, to 705. Of these, 11 were Åland Post offices.

Postipankki and Finland Post Ltd signed a five-year cooperation agreement in April under which the two companies will continue to cooperate along former lines, but with a reduced network. This has replaced the earlier annual agreements. At the end of 1998, about 540 Postipankki and Finland Post branches will be offering banking services, which means that 450 post offices will have stopped providing such services between 1996 and 1998. The number of Postipankki branches will fall by 18.

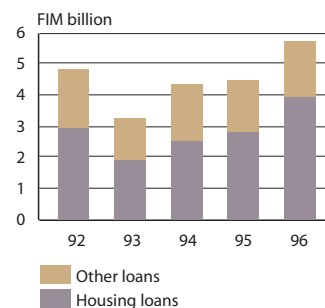
Use of the Phone Banking system and other new service modes increased rapidly. Use of the Rahalinja PC Home Banking available to retail customers expanded substantially, and the service was also made available to Internet users.

At year end, Postipankki customers had the use of 2,093 Automatia Pankkiautomaatit Oy ATM cash points, and 206 Postipankki payment ATMs. As common use of the same system by all Finland's banking groups came to an end, Postipankki agreed on bilateral payment ATM cooperation with the cooperative banks. Consequently, Postipankki customers can use nearly 900 joint Postipankki/cooperative bank ATMs.

HOUSEHOLD DEPOSITS WITH POSTIPANKKI
DECEMBER 31



POSTIPANKKI
NEW LENDING TO HOUSEHOLDS



RETAIL DEPOSITS, INVESTMENT SERVICES AND LENDING

Total deposits by retail customers in Postipankki remained unchanged. The popularity of tax-exempt transaction and savings accounts grew, while deposits in taxable accounts decreased. The range of transaction accounts offered by the Bank changed at the beginning of the year, and now all accounts employ 'package pricing'.

As a result of the sharp fall in money market rates, the Bank decided in September to cut the interest paid on fixed-interest transaction and savings accounts from 2 per cent to 1 per cent as of February 1, 1997. At the same time, customers were informed that the interest rates on transaction and investment accounts were to be harmonised. The change affects about 1.5 million accounts and nearly as many customers.

Trade in bonds continued to be brisk, and the total amount sold during the year was FIM 3.1 billion. Postipankki issued eight bonds in its own name aimed at retail customers.

Demand for credit on the part of private individuals grew sharply on the previous year. However, as many

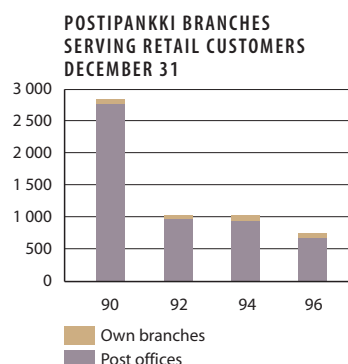
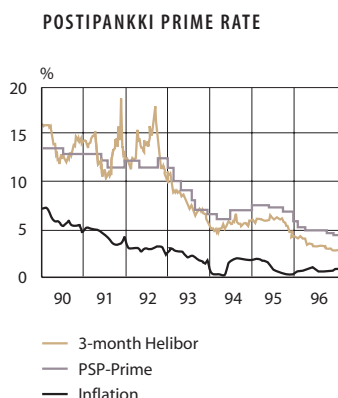
loans were repaid as new ones were taken out, total lending remained practically unchanged. Over the year, more than FIM 500 million in new housing loans guaranteed by the State were granted.

The general fall in interest rates was also reflected in the Postipankki Prime Rate. This was cut five times during the year, from 6.75 to 4.25 per cent.

FUTURE DEVELOPMENTS

The new system developed as a result of Postipankki and Finland Post's joint branch workstation project will be introduced in the course of 1997 at all Bank branches and in the Phone Banking centres. It will mean installing about 1,200 new workstations and training staff for the new environment.

At the beginning of 1996, Automatia Rahakortit Oy, with Postipankki Ltd, Merita Bank Ltd and the cooperative banks, started work on the technical aspects of a cash card system. The new Avant microchip cash card will be introduced gradually during 1997. The card is best suited to small purchases, and can be 'recharged' at any Automatia cash point.



Corporate Banking started to perform better in 1996, but profitability did not reach a satisfactory level. Demand for loans improved, outstanding loans rose slightly and loan losses continued to drop. Customer liquidity remained good, boosting deposit volumes.

At the end of 1996 Postipankki had 22 Corporate Banking branches, i.e. the same number as a year earlier.

Postipankki Group's total credit exposure to corporations and institutions calculated as a credit equivalent amount of loans and bank guarantees, derivatives and other off-balance-sheet items totalled FIM 127 billion at year end, a rise of FIM 11 billion.

The loan and guarantee losses of corporations and institutions decreased by FIM 307 million to FIM 172 million. Losses from corporate customers in Finland amounted to FIM 248 million. Recoveries of loan losses recorded earlier on foreign claims reduced the net amount of Postipankki's loan and guarantee losses by FIM 76 million.

The volume of non-performing and zero-interest lending to corporations and institutions fell 27 per cent during the year, to FIM 542 million.

Postipankki's position as a leading financier of major Finnish companies remained strong, and certain substan-

tial loan arrangements at the end of the year boosted total lending to such customers. Postipankki took part in most syndicated loans to Finnish corporations and also arranged direct bilateral stand-by facilities for several customers.

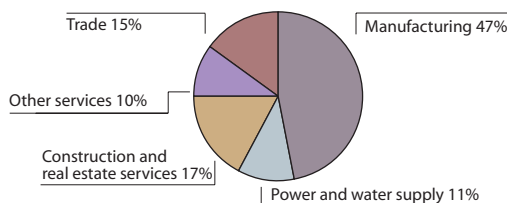
Demand for payment transaction and cash management services among major customers increased appreciably. Postipankki also helped to improve the cash management systems of companies abroad, especially in the Baltic region and in CEE countries.

Total lending to small and medium-sized corporate customers remained around the 1995 level. The improvement in economic conditions increased demand for banking services, and the number of such corporate customers grew.

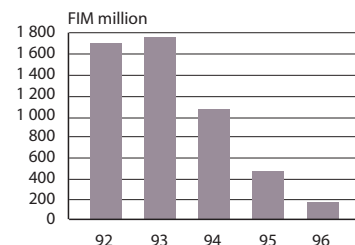
Volumes for payment transaction services, foreign payments, postal giro account balances and the computerisation of customers' payment transactions all increased.

Postipankki's share of the banking service market for public corporations and organisations remained high.

POSTIPANKKI GROUP LENDING AND CREDIT EXPOSURE TO CORPORATE CLIENTS BY INDUSTRIAL SECTOR DECEMBER 31, 1996



POSTIPANKKI GROUP CREDIT LOSSES FROM COMPANIES AND INSTITUTIONS 1992-1996



Treasury, capital markets and securities operations and the Bank's international network collectively showed a profit in 1996, improving greatly on 1995. Performance was thus satisfactory.

In particular, interest instrument trading recorded a good result. The Bank's foreign exchange income also increased compared to 1995. Revenues were boosted both by successful wholesale activities and by higher customer volumes.

Treasury operations were expanded into the new convertible currencies of Russia, CEE countries and the Baltic republics.

Postipankki's performance on the equity and equity derivative markets improved. The Bank's asset management greatly improved its standing as a fund manager for corporations, and the market value of assets under management rose over FIM 2 billion, to FIM 5.5 billion.

Postipankki was the lead arranger in several important bond issues, specifically Asset Management Company Arsenal Ltd's FIM 2.5 billion serial loan and Fennica 2, a FIM 1.5 billion securitisation issue by the Housing Fund of Finland. Postipankki also arranged the first Finnish bond programme for Municipality Finance Ltd. The Bank likewise arranged several issues for

companies, in which the principal amounts raised amounted to 60 per cent of public FIM-denominated corporate bonds issued in 1996.

Postipankki arranged or participated in altogether 27 syndicated loans in Finland and the Nordic countries.

The Bank has acted as an advisor in several corporate restructurings and arranged equity issues for KCI Konecranes International Oy, Valmet Corporation and Kemira Oy.

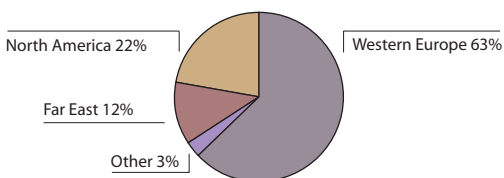
Postipankki has foreign branches in London, New York and Singapore, and representative offices in Stockholm, Tallinn, Moscow and Tokyo. In addition, Postipankki has a Grand Cayman branch, which is administered by New York branch.

The London branch continued to operate satisfactorily, and showed a profit in 1996.

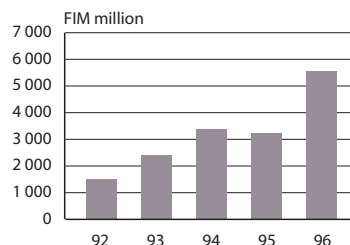
The operations of the New York and Singapore branches were rationalised and expenses cut. New York showed a much better result than in 1995, but still failed to make a profit. The Singapore branch also made a loss.

All three branches offered customers treasury and corporate banking services. The representative offices support head office and branch marketing.

POSTIPANKKI GROUP
FOREIGN CLAIMS AND COMMITMENTS
DECEMBER 31, 1996



FUNDS IN ASSET
MANAGEMENT SERVICE
1992-1996



PAYMENT SERVICES

The volume of Postipankki account transactions concerning domestic payments grew 3 per cent in 1996, to 326 million. In the case of retail customers, most of the increase comprised use of payment ATMs, home terminals and bank cards. Among corporate services, use of the invoice payment service increased most. Foreign payment transactions rose nearly 10 per cent, to 1.2 million.

Demand for payment transaction services focused on electronic services. Computerised account transfers represented over 91 per cent of all payment transactions by corporations and organisations, and 51 per cent in the case of retail customers. At the same time, use of over-the-counter bill payment services declined sharply. Direct electronic links between customers and the Bank increased 12 per cent over the year. On December 31, the Bank had 20,800 on-line customers and 400 users of the customer terminal system.

During 1996 a development project was launched aimed at formulating a model for processing bank giro forms based on image processing techniques. Once it is completed, the workstation-based system will automate handling of such payment forms. Other important development projects included the incorporation of cash card technology into the Bank's account system and a new bank statement for retail customers.

INFORMATION TECHNOLOGY

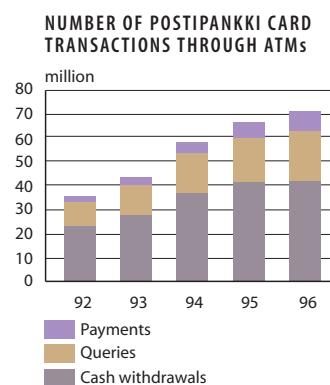
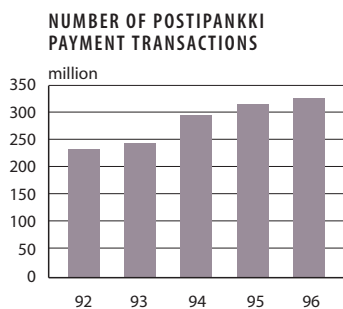
Postipankki's information technology functions and responsibilities were reorganised during 1996. Postipankki Ltd and TT Tieto Oy set up a company, called Tietoleijona Oy, which produces the specialised banking system services needed by the Bank. Postipankki buys hardware capacity from the TT Tieto Oy service centre, plus related specialised services and operations. The IT functions still handled by Postipankki Group were centralised in a new Information Technology unit.

Postipankki's IT investments in 1996 amounted to FIM 92 million. The Bank's mainframe was transferred to TT Tieto Oy as part of the reorganisation.

REAL ESTATE

Postipankki Ltd's net investments in real estate and shares in real estate and property corporations amounted to FIM 194 million in 1996, against FIM 326 million the previous year.

Mainly due to the Bank's reduced need for premises and the vacancy of premises leased to Finland Post Ltd, the Bank made depreciation and write-offs totalling FIM 143 million on real estate and shares in real estate and property corporations. Following these entries, the estimated market value of the investments corresponds to or exceeds their book value. The total book value of these assets in the consolidated balance sheet was FIM 3.3 billion at the end of the year.



ADMINISTRATION AND ORGANISATION

The Annual General Meeting on March 5, 1996 re-elected Tuulikki Kannisto and Jarmo Rantanen (staff representative), both of whom were to resign by rotation, to the Supervisory Board of Postipankki Ltd for a term of three years. Raimo Sailas was the elected Ministry of Finance representative to replace Veikko Kantola, who resigned by rotation. Maija Perho, MP, was elected to replace Harri Hiltunen, who also resigned by rotation. At his own request, Pertti Paasio was released from his duties as a Supervisory Board member as of March 5, 1996, and Professor Antti Paasio was elected to replace him for the rest of his term.

On April 3, 1996, the Supervisory Board elected Anssi Rauramo Chairman and Professor Antti Paasio Vice Chairman.

Eino Keinänen was Chairman and Chief Executive as well as Chief General Manager and Juhani Paloheimo, Deputy Chief General Manager, was Vice Chairman of the Board. The other members of the Board of Management were Messrs Eero Tuomainen, Ilkka Hallavo, Matti Inha, Peter Johansson and Jussi Osola.

The Annual General Meeting elected the auditing corporation Tilintarkastajien Oy – Ernst & Young as the Bank’s auditors, with Jorma Jäske, APA, as responsible auditor, and Kunto Pekkala, APA, and Pekka Räisänen, APA, as the other auditors. Mikael Holmström, APA, was elected deputy auditor.

PERSONNEL

The Postipankki Group staff decreased appreciably during the year. The average total for 1996 was 5,777, but by the end of the year the staff numbered 5,454, i.e. 489 less than a year earlier.

The Bank’s staff figure for 1996 averaged 5,363, or 567 less than in 1995. At year end, the staff numbered 5,040. Of these, 4,834 had permanent full-time jobs and 206 part-time or fixed-term jobs.

The Bank’s staff was cut by 708 during 1996. More than third of this reduction was caused by the information technology reorganisation on April 1, 1996, when 200 people were transferred to Tietoleijona and 48 left the Group for TT Tieto. Otherwise, the main cuts were in payment services and retail banking. Altogether 269 people were discharged for production-related or business reasons.

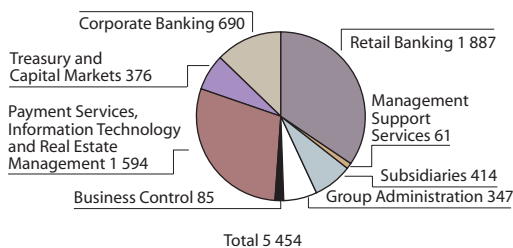
Group wages, salaries and fees amounted to FIM 850 million, with senior management accounting for FIM 11 million of this.

Postipankki Ltd’s wages, salaries and fees came to FIM 791 million, with members of the Supervisory Board and Board of Management accounting for FIM 8 million.

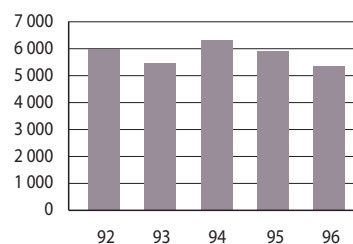
Postipankki’s wage agreements are based on the national collective bargaining framework agreed on for 1996–1997.

A FIM 23 million profit contribution for the financial year was made to the Postipankki Group personnel fund.

POSTIPANKKI GROUP STAFF BY SECTOR
JANUARY 1, 1997



POSTIPANKKI GROUP NUMBER OF STAFF
DECEMBER 31



PSP-MUNICIPALITY BANK LTD

PSP-Municipality Bank Ltd's operating profit was FIM 22 million, against FIM 27 million in 1995. The balance sheet total rose 5 per cent, to FIM 2.2 billion.

Capital adequacy at year end, calculated according to the Act on Credit Institutions, was 38.2 per cent. The bank employed an average of 8 staff.

PSP-FINANCE LTD

PSP-finance Ltd's operating profit was FIM 37 million, against FIM 43 million in 1995. The balance sheet total rose 18 per cent, to FIM 2.2 billion. Leasing finance accounted for nearly 60 per cent of this total.

PSP-finance recorded only FIM 1.4 million in loan losses. Non-performing loans in the balance sheet amounted to FIM 10 million. Capital adequacy was 14.4 per cent at year end, and the staff averaged 121.

MB CORPORATE FINANCE LTD

MB Corporate Finance Ltd's operating profit was FIM 10 million in 1996, and its balance sheet total FIM 167 million. Capital adequacy was 49 per cent, and the staff averaged 9.

At year end, the company administered two funds, the MB Mezzanine Fund Ky (capital FIM 600 million) and the MB Equity Fund Ky (capital FIM 86 million). Both funds invest in unlisted companies through mezzanine financing or equity investments.

LEIJONA LIFE INSURANCE COMPANY LTD

The Leijona Life Insurance Company Ltd's operating profit was FIM 10 million and its balance sheet total FIM 444 million. Premium income during the year totalled FIM 413 million. Investment income was FIM 10 million. Share capital was raised from FIM 35 million to FIM 70 million by a decision of an extraordinary shareholders' meeting on January 21, 1997, raising Postipankki's hold-

ing to 63.6 per cent. The company employed an average of 7 people during the year.

PSW REALTY WORLD LTD

PSW Realty World Ltd's operating profit was FIM 0.7 million, and its balance sheet total FIM 3 million. It employed an average of 5 people. At year end, the company's franchising chain included 36 agencies and one outlet specializing in office premises. Commissions invoiced came to FIM 58 million, an increase of FIM 28 million. The total value of home-buying business was around FIM 1,205 million.

SUOMEN TILILUOTTO OY

Suomen Tililuotto Oy's operating profit was FIM 8 million and balance sheet total FIM 160 million. Capital adequacy was 6.7 per cent. The average number of staff was 37.

POSTIPANKKI FUND MANAGEMENT COMPANIES

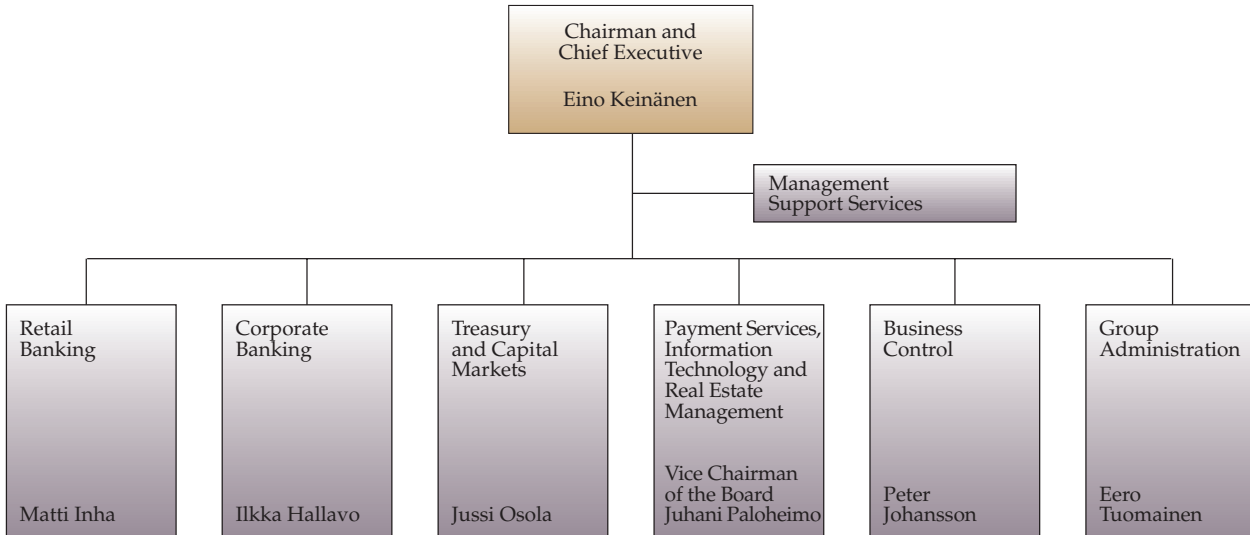
Presta Fund Management Company Ltd's operating profit in 1996 was FIM 1.6 million. Postipankki Capital Fund Management Company S.A. is an international investment fund registered in Luxembourg which manages funds specializing in markka-denominated fixed-income investments and international share investments. The funds managed by the new Postipankki Fund Management Company Ltd started their operations during the year.

TIETOLEIJONA OY

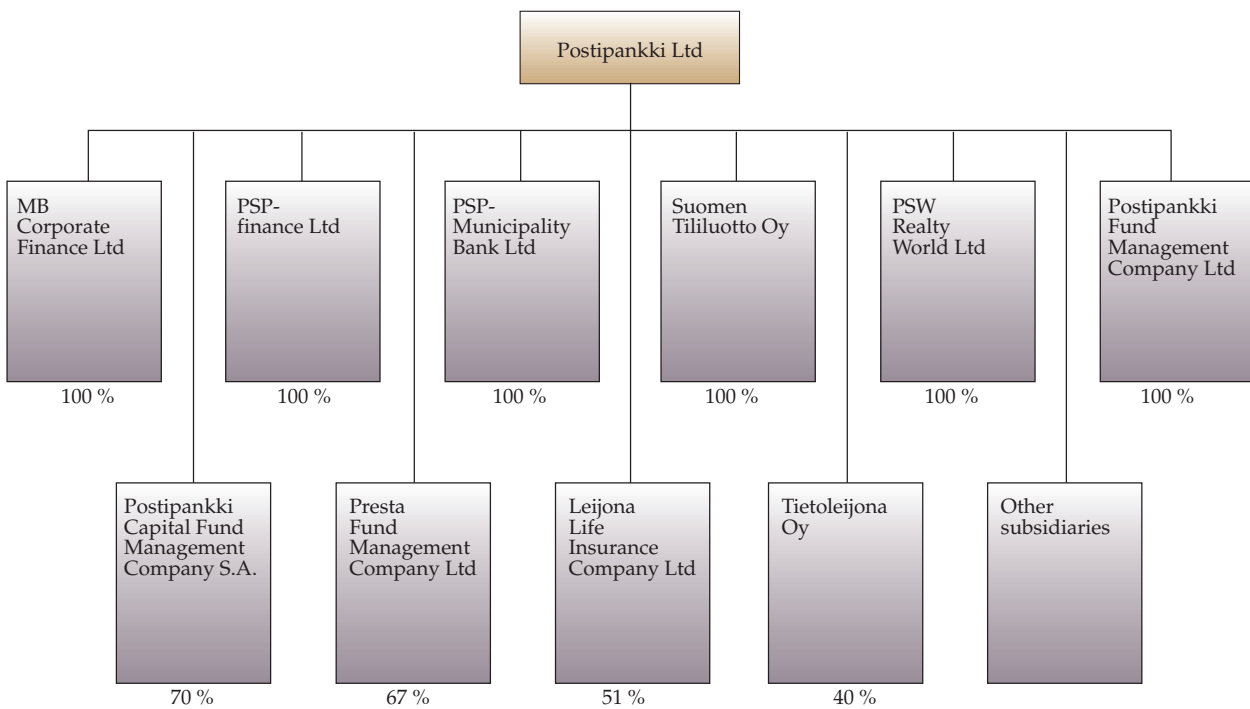
Operative management of Postipankki Group's information technology was transferred to Tietoleijona Oy, a company founded by the Bank and TT Tieto Oy which started operating on April 1, 1996.

Operating profit for the first year totalled FIM 13 million and turnover FIM 163 million. The company employed an average of 225 people.

Postipankki Ltd, January 1, 1997



Postipankki Group, January 1, 1997



The annual accounts have been drawn up in accordance with the provisions of the Accounting Act and Act on Credit Institutions, and the Financial Supervision regulations on annual accounts (123/420/95 and 124/420/95). The Financial Supervision regulations meet the requirements of the Fourth Council directive (78/660/ETY) and the Seventh Council directive (83/349/ETY), and the Council directive on the annual accounts and consolidated accounts of banks and other financial institutions (86/635/ETY).

CONSOLIDATED ACCOUNTS

The consolidated accounts include the accounts of Postipankki Ltd and its domestic and foreign subsidiaries and associated companies, either directly or indirectly owned.

The accounts of subsidiaries engaged in credit and financial institution operations and those of subsidiaries engaged in investment service and unit trust operations as well as services ancillary to banking have been included in the consolidated accounts line by line. The annual accounts of other subsidiaries have been dealt with by the equity method of accounting.

Companies of whose voting rights the Group owns 20–50% have been included as associated companies. The annual accounts of associated companies have been accounted for by using the equity method.

The small property companies and subsidiaries and associated companies engaged in business with a balance sheet total of under FIM 60 million have been excluded from consolidation. Under a permit from the Financial Supervision, companies listed in Note 4 in the additional Notes to the consolidated accounts have also been excluded from consolidation. The omission of these companies had no effect on the true and fair view of the financial position and results of the Group.

All intra-group income, expenditure, claims, liabilities and profit distributed have been eliminated. Holdings within the Group have been eliminated using the acquisition method. The acquisition cost of subsidiaries has been set off against the capital and reserves at the date of acquisition. Differences arising from elimination are entered under the relevant balance sheet items. Minority interests in subsidiaries' capital and reserves are shown as a separate item in the consolidated balance sheet; this mainly comprises minority interests in property companies.

Group companies and changes in them are explained in Note 36 and in Note 2 in the additional Notes to the consolidated accounts.

FOREIGN CURRENCY ITEMS

The Group's foreign currency-denominated assets, liabilities and off-balance sheet items have been translated into Finnish markkas using the Bank of Finland middle rate on the balance sheet date. If currency claims or liabilities are tied to a specific exchange rate, that rate was used for the translation. Assets and liabilities hedged by a currency swap are entered at the rate of the original currency.

Exchange rate differences arising from valuations are entered under net income from foreign exchange dealing.

Conversion differences arising from consolidation are entered under capital and reserves.

ASSETS AND LIABILITIES

Assets and liabilities are entered in the accounts at the amount paid or received at the time of acquisition or issue, adjusted for the amortisation of premiums and discounts arising on acquisition or issue. The amortisation of premiums and discounts is accrued as interest receivable or interest payable in the profit and loss account over the life of the contract. If the probable values of loans and other claims are estimated lower than the book value, the difference has been entered in the manner indicated in 'Loan and guarantee losses'.

Items entered in the balance sheet concerning derivatives are explained in 'Derivative contracts'.

LEASING ASSETS

Leasing contracts are entered in the balance sheet at cost less depreciation according to plan. The depreciation according to plan is stated at the amount of recovered capital from leasing rents. Rental income from leasing, depreciation and additional depreciation on lease assets, as well as profits and losses on the sale of assets are entered in the parent company profit and loss account under 'Net income from leasing activities'. In the consolidated accounts, net income from leasing activities includes rental income from lease assets, profits on sale and depreciation according to plan. Additional depreciation and losses on sale of lease assets are entered in the profit and loss account item 'Loan and guarantee losses'.

DEBT SECURITIES

Debt securities comprise certificates of deposit, commercial paper, local authority paper, Treasury bills, government bonds, other bonds and medium term notes and other debt securities.

Debt securities for trading purposes

Debt securities are acquired for trading purposes and valued at the lower of cost and market value. The market value is the quoted price on the balance sheet date or the present value of the future cash flows discounted at the current market interest rate. Profits and losses on the sale of securities and the unrealized gains and losses arising from valuation are entered under 'Net income from transactions in securities'. Any material discount or premium on debt securities has been accrued as interest receivable or a deduction in it.

Debt securities held as financial fixed assets

Debt securities held as financial fixed assets comprise debt securities acquired with the intention of holding them until maturity. Securities are valued at cost less any permanent diminution in value. The diminution in value is charged to the profit and loss account under 'Write-offs on securities held as financial fixed assets'. The discounts and premiums arising on acquisitions have been amortised and accrued as interest receivable or a deduction in it.

SALE AND REPURCHASE AGREEMENTS OF SECURITIES

The purchase price of securities purchased under commitment to re-sell them at a predetermined price is entered as a loan in the balance sheet item for the contract party. The difference between the sale price and purchase price is entered as interest receivable and accrued income over the life of the contract. Conversely, the sale price of securities sold under commitment to repurchase them is entered under liabilities in the balance sheet item for the contract party. The difference between the repurchase price and the sale price is accrued as interest payable and accruals over the life of the contract. Securities sold under commitment to repurchase them are included in the original balance sheet item irrespective of the contract.

EQUITY SHARES AND PARTICIPATIONS

Shares for trading purposes

Equity shares include shares and participations acquired for trading and investment purposes as well as shares acquired in settlement of unpaid loans and those acquired in connection with reorganization of a customer's business operations. Shares are valued at the lower of cost and market value. Profits and losses on equity shares trading and the unrealized gains and losses arising from valuation are recorded in 'Net income from transactions in securities'. Profits and losses on the sale of shares ac-

quired in settlement of unpaid loans and those acquired in connection with reorganization of the customer's business operations and the unrealized losses arising from valuation are charged to the profit and loss account under 'Loan and guarantee losses'.

Shares held as financial fixed assets

Equity shares held as financial fixed assets comprise shares and participations in subsidiaries and associated undertakings and shares and participations in companies needed in order to acquire services ancillary to banking. Shares are valued at cost less any permanent diminution in value. The diminution in value is charged to the profit and loss account under 'Write-offs on securities held as financial fixed assets'.

TANGIBLE AND INTANGIBLE ASSETS

Shares and participations in property companies are valued at cost less any permanent diminution in value. The diminution in value is charged to the profit and loss account under item 'Write-offs on securities held as financial fixed assets'. In the case of property company shares acquired in settlement of unpaid loans, any permanent diminution in value is entered as a loan loss.

Properties are entered in the balance sheet at cost less depreciation according to plan. The permanent diminution in value of properties occupied for other than the Bank's own activities is entered under depreciation.

Other tangible and intangible assets are entered in the balance sheet at cost less depreciation according to plan.

Straight-line depreciation according to plan is applied over the estimated useful economic life of the assets. The depreciation periods are 20 to 40 years for buildings and constructions and 4 to 10 years for machinery and equipment. Other long-term expenditure items are depreciated over their effective period.

CAPITAL CERTIFICATES

The capital certificates are shown as a separate item under undistributable capital. Interest on the certificates can be paid only from distributable funds. No collateral can be written for the certificates, nor can they be withdrawn. The principal of the capital certificates can be repaid only subject to the Financial Supervision's prior approval. See Note 32.

PROVISIONS

Provisions for liabilities and charges

Provisions for liabilities and charges comprise future

specifiable charges which are probable or likely to occur but the amount and time of occurrence of which are yet unknown. The provisions do not include items related to the valuation of balance sheet items but they are written off the balance sheet items in question. See Note 38.

Untaxed reserves

Untaxed reserves are used in planning accounting and taxation. The amount of or movements in untaxed reserves do not reflect Group risks. The reserves shown in the parent company balance sheet and profit and loss account also include the imputed taxes due. In the consolidated balance sheet, untaxed reserves are divided into capital and reserves and imputed taxes due. If a Group company has confirmed losses, however, the imputed taxes due are not deducted.

NON-PERFORMING LOANS AND OTHER ZERO-INTEREST LENDING

Loans are regarded as non-performing if either the interest or the principal payments have been in arrears for three months. Claims on companies declared bankrupt are entered as non-performing on the date that bankruptcy is declared. Bank guarantees are entered as non-performing when the bank has made a disbursement. Unpaid interest on loans recorded as non-performing is not accrued. Other zero-interest lendings include claims from which no income of any kind will be received and whose zero interest is based on a contract.

LOAN AND GUARANTEE LOSSES

Loan and guarantee losses comprise realised loan losses, written off loans and other claims in the balance sheet items 'Claims on credit institutions and central banks' and 'Claims on the public and public sector entities' and in off-balance sheet items, together with specific loan loss provisions for them. Loan losses also include the unrealised losses arising from valuation of assets taken onto the books in settlement of unpaid loans and losses on the sale of such assets. Deductions in loan losses include amounts recovered in respect of claims earlier written off as realised loan losses, releases of specific loan loss provisions and profits on the sale of assets acquired in settlement of an unpaid loan.

Loan losses are entered as realised losses when the authorities have issued a decision on the customer's insolvency. The loss is entered as a specific loan loss provision if the debtor's and guarantor's insolvency has not

been decided by the authorities but the claim has been entered as non-performing and the market value of assets pledged as collateral security is not sufficient to cover the amount of the claim.

EXTRAORDINARY ITEMS

Extraordinary expenses include a contribution to the Postipankki Pension Fund to cover pension liability incurred in previous years. The item also includes a provision for costs arising from the transfer to the single currency. See Note 37.

DERIVATIVE CONTRACTS

Income and expenses related to derivative contracts used for hedging purposes are included as income or expense in the same category of the profit and loss account as the income or expense accruing to the balance sheet item which is being hedged. Value adjustments are treated on an equivalent basis to the balance sheet items to be hedged. Derivatives for hedging purposes comprise mainly those used for specific hedging, while, previously, the contracts taken out to hedge a position were also treated as hedges in the accounts. The practice was changed in the interim report of June. Only derivatives related to New York branch's CMO (Collateralized Mortgage Obligation) portfolio are treated as hedging a position.

Income, expenditure and valuations related to interest rate and equity contracts used for purposes other than hedging are entered under 'Net income from transactions in securities', with the exception of the interest rate differential paid for or received from interest rate and exchange rate derivatives, which is entered under 'Net income from financial operations'. Interest rate and exchange rate derivatives are entered at market value. Equity and stock index options and forwards are valued at the lower of contract and market value. Income and expenses arising from the valuation of derivatives are entered in 'Net income from transactions in securities'.

Income and expenditure arising from exchange rate related derivatives are entered in 'Net income from foreign exchange dealing'. Income or expenditure arising from the difference between the forward rate and spot rate of foreign exchange forwards are spread as interest over the life of the contracts.

Items in respect of derivatives to be entered in the balance sheet are included in accrued income and accruals.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	1.1. – 31.12.1996		1.1. – 31.12.1995	
Interest receivable				
arising from				
claims on credit institutions and central banks	914.3		828.0	
claims on the public and public sector entities	2 732.1		3 441.4	
debt securities	2 126.6		2 400.0	
Other interest receivable	-0.7	5 772.3	77.2	6 746.6
Net leasing income		79.5		89.6
Interest payable				
arising from				
liabilities to credit institutions and central banks	1 020.3		1 193.7	
liabilities to the public and public sector entities	1 256.3		1 876.6	
debt securities in issue	1 259.1		1 386.1	
subordinated liabilities	222.8		209.7	
capital certificates	52.0		-	
Other interest payable	86.2	-3 896.7	-27.7	-4 638.5
Net income from financial operations		1 955.1		2 197.7
Dividend income		8.5		4.5
Fees and commissions receivable		959.6		884.0
Fees and commissions payable		-140.0		-154.8
Net income from transactions in securities and foreign exchange dealing				
Net income from transactions in securities				
Debt securities	434.9		13.0	
Shares and participations	41.3		4.6	
Other	80.0	556.1	-337.3	-319.7
Net income from foreign exchange dealing	106.1	662.2	84.7	-235.0
Other operating income		227.2		170.1
Administrative expenses				
Staff costs				
Wages and salaries	850.1		846.6	
Pension costs	136.2		148.5	
Other social security costs	82.8		104.8	
Other staff-related costs	57.2	1 126.4	37.0	1 136.9
Other administrative expenses	1 038.9	-2 165.3	1 068.2	-2 205.1
Depreciation		-237.5		-206.0
Other operating expenses		-283.0		-329.4
Loan and guarantee losses		-300.0		-630.9
Write-offs on securities held as financial fixed assets		-91.6		-
Income from companies accounted for by the equity method		6.6		3.0
Operating profit/loss		601.7		-501.9
Extraordinary expenses		-58.0		-
Profit/loss before appropriations and taxes		543.7		-501.9
Change in untaxed reserves and depreciation difference		-34.7		-38.0
Taxes				
Taxes for the financial year and previous years	17.7		6.7	
Change in imputed taxes due	8.8	-26.5	14.8	-21.5
Minority interests		-2.1		2.9
Profit/loss for the financial year		480.4		-558.4

FIM million

CONSOLIDATED BALANCE SHEET

ASSETS	31.12.1996		31.12.1995	
Liquid assets				
Cash in hand	849.4		715.9	
Claims on central banks repayable on demand	1 816.4	2 665.7	4 373.8	5 089.7
Claims on credit institutions and central banks				
Claims on central banks not repayable on demand	0.1		-	
Claims on credit institutions Repayable on demand	97.2		101.5	
Other	18 294.5	18 391.7	11 494.2	11 595.7
Claims on the public and public sector entities		46 558.0		46 030.0
Leasing assets		1 361.1		1 117.8
Debt securities				
Issued by public sector entities	19 691.2		15 671.4	
Issued by other issuers	19 725.4	39 416.6	19 627.4	35 298.8
Shares and participations		172.5		175.7
Shares and participations in associated undertakings and subsidiaries				
Credit institutions	-		-	
Other	105.4	105.4	75.9	75.9
Intangible assets				
Goodwill	-		-	
Other intangible assets	160.9	160.9	132.6	132.6
Tangible assets				
Land and buildings				
Occupied for own activities	1 149.3		1 341.3	
Other	1 624.7	2 774.0	1 416.6	2 757.9
Shares and participations in property companies				
Occupied for own activities	163.0		141.0	
Other	407.4	570.4	474.6	615.6
Machinery and equipment		174.4		250.0
Other tangible assets		7.5		7.3
Other assets				
Cash items in the course of collection from other banks	700.7		62.7	
Guarantee claims	155.5		247.6	
Other	1 144.8	2 001.0	4 815.6	5 125.9
Prepayments and accrued income				
Interest	2 721.3		5 145.5	
Other	1 408.2	4 129.5	2 100.2	7 245.7
		118 488.7		115 518.6

FIM million

LIABILITIES	31.12.1996		31.12.1995	
Liabilities:				
Liabilities to credit institutions and central banks				
Central banks		8 510.3		237.9
Credit institutions				
Repayable on demand	226.6		210.2	
Other	18 090.7	18 317.3	16 084.6	16 294.8
				16 532.7
Liabilities to the public and public sector entities				
Deposits				
Repayable on demand	43 466.5		38 957.9	
Other	5 213.0	48 679.5	11 959.6	50 917.4
Other liabilities		8 992.4		8 166.0
				59 083.4
Debt securities in issue				
Bonds and notes		3 912.2		6 129.2
Other		16 799.0		18 709.4
				24 838.6
Other liabilities				
Cash items in the course of transmission to other banks		1 380.4		1 439.7
Other		2 145.3		2 406.3
				3 846.0
Accruals and deferred income				
Interest		1 042.4		3 106.3
Other		1 287.9		1 369.9
				4 476.2
Provisions for liabilities and charges				
Other provisions for liabilities and charges			110.5	-
Subordinated liabilities			2 868.3	2 766.5
Imputed taxes due			60.1	51.3
Minority interests			190.8	246.8
Capital and reserves:				
Undistributable capital:				
Share capital	630.0		630.0	
Reserves	1 710.3		2 267.1	
Capital certificates	903.0	3 243.3	903.0	3 800.1
Distributable capital:				
Profit brought forward	39.8		41.5	
Proportion of untaxed reserves and depreciation difference transferred to capital	428.6		394.0	
Profit/loss for the financial year	480.4	948.9	4 192.2	- 558.4
			- 122.9	3 677.1
			118 488.7	115 518.6
OFF-BALANCE SHEET ITEMS				
Contingent liabilities				
Acceptances and endorsements		519.4		496.6
Guarantees and assets pledged as collateral security		8 892.3	9 411.6	9 994.2
Commitments			11 180.4	9 353.6
			20 592.0	19 347.8

FIM million

PROFIT AND LOSS ACCOUNT OF POSTIPANKKI LTD

	1.1. – 31.12.1996		1.1. – 31.12.1995	
Interest receivable				
arising from				
claims on credit institutions and central banks	1 007.9		937.8	
claims on the public and public sector entities	2 465.0		3 148.9	
debt securities	2 131.7		2 407.6	
Other interest receivable	0.1	5 604.6	75.8	6 570.2
Net income from leasing activities		1.0		1.6
Interest payable				
arising from				
liabilities to credit institutions and central banks	1 013.8		1 187.8	
liabilities to the public and public sector entities	1 237.8		1 791.5	
debt securities in issue	1 154.7		1 338.8	
subordinated liabilities	216.5		203.0	
capital certificates	52.0			
Other interest payable	86.2	- 3 761.0	- 27.7	- 4 493.4
Net income from financial operations		1 844.6		2 078.4
Dividend income		26.4		21.1
Fees and commissions receivable		924.6		854.6
Fees and commissions payable		- 134.7		- 149.7
Net income from transactions in securities and foreign exchange dealing				
Net income from transactions in securities				
Debt securities	434.9		13.0	
Shares and participations	41.3		4.6	
Other	80.3	556.4	- 337.3	- 319.7
Net income from foreign exchange dealing	105.2	661.7	82.7	- 237.0
Other operating income		205.4		140.1
Administrative expenses				
Staff costs				
Wages and salaries	791.3		819.4	
Pension costs	126.9		143.7	
Social security costs	77.6		101.7	
Other staff-related costs	53.7	1 049.5	35.5	1 100.4
Reimbursements to post offices	556.0		583.5	
Other administrative expenses	529.7	- 2 135.1	465.7	- 2 149.5
Depreciation		- 208.3		- 185.0
Other operating expenses		- 262.5		- 310.7
Loan and guarantee losses		- 295.2		- 619.2
Write-off on securities held as financial fixed assets		- 117.8		-
Operating profit/loss		509.0		- 557.0
Extraordinary expenses		- 58.0		-
Profit/loss before appropriations and taxes		451.0		- 557.0
Taxes				
Taxes for the financial year	4.4		3.2	
Taxes for previous years	-	- 4.4	- 3.3	0.2
Profit/loss for the financial year		446.6		- 556.8

FIM million

BALANCE SHEET OF POSTIPANKKI LTD

ASSETS	31.12.1996		31.12.1995	
Liquid assets				
Cash in hand	849.3		715.9	
Claims on central banks repayable on demand	1 816.4	2 665.7	4 373.8	5 089.7
Claims on credit institutions and central banks				
Claims on central banks not repayable on demand	-		-	
Claims on credit institutions	92.3		96.4	
Repayable on demand	20 587.1	20 679.4	13 238.1	13 334.5
Other	20 679.4	20 679.4	13 334.5	13 334.5
Claims on the public and public sector entities		43 163.5		42 862.8
Leasing assets		58.9		21.8
Debt securities				
Issued by public sector entities	19 676.4		15 677.3	
Issued by other issuers	19 731.9	39 408.2	19 689.0	35 366.3
Shares and participations		170.2		171.7
Shares and participations in associated undertakings				
Credit institutions	-		-	
Other undertakings	47.3	47.3	39.4	39.4
Shares and participations in Group undertakings				
Credit institutions	249.7		249.7	
Other undertakings	178.2	427.9	40.1	289.8
Intangible assets		156.2		129.8
Tangible assets				
Land and buildings				
Occupied for own activities	1 149.3		1 341.3	
Other	759.7	1 909.0	676.7	2 018.0
Shares and participations in property companies				
Occupied for own activities	250.1		243.3	
Other	889.0	1 139.1	812.9	1 056.2
Machinery and equipment		145.9		230.9
Other tangible assets		7.4	7.2	3 312.3
Other assets				
Cash items in the course of collection from other banks	700.7		62.7	
Guarantee claims	155.5		247.6	
Other	1 134.4	1 990.6	4 806.5	5 116.7
Prepayments and accrued income				
Interest	2 707.5		5 135.6	
Other	1 356.0	4 063.5	2 081.4	7 217.0
		116 032.8		112 952.0

FIM million

LIABILITIES	31.12.1996		31.12.1995	
Liabilities:				
Liabilities to credit institutions and central banks				
Central banks		8 510.3		237.9
Credit institutions				
Repayable on demand	289.2		161.5	
Other	18 002.9	18 292.1	16 089.1	16 250.7
				16 488.6
Liabilities to the public and public sector entities				
Deposits				
Repayable on demand	43 478.9		38 963.7	
Other	5 223.0	48 701.9	11 959.6	50 923.2
Other liabilities		8 903.4		8 030.6
				58 953.8
Debt securities in issue				
Bonds and notes		3 234.9		5 254.4
Other		15 816.1	19 051.0	17 910.9
				23 165.2
Other liabilities				
Cash items in the course of transmission to other banks		1 380.4		1 439.7
Other		2 132.6	3 513.0	2 385.2
				3 824.9
Accruals and deferred income				
Interest		1 009.1		3 059.8
Other		1 223.1	2 232.3	1 306.3
				4 366.0
Provisions for liabilities and charges				
Other provisions for liabilities and charges			107.0	-
Untaxed reserves				
Fund for general banking risks		238.8		238.8
Other untaxed reserves		23.3	262.1	23.3
				262.1
Subordinated liabilities			2 833.3	2 711.5
			112 406.4	109 772.1
Capital and reserves				
Undistributable capital:				
Share capital	630.0		630.0	
Reserves	1 646.8		2 203.7	
Capital certificates	903.0	3 179.8	903.0	3 736.7
Distributable capital:				
Profit/loss for the financial year		446.6	3 626.5	- 556.8
			116 032.8	112 952.0
OFF-BALANCE SHEET ITEMS				
Contingent liabilities				
Acceptances and endorsements		519.4		496.6
Guarantees and assets pledged as collateral security		9 285.3	9 804.7	9 787.5
				10 284.1
Commitments			9 924.9	7 922.1
			19 729.6	18 206.2

FIM million

The notes to the accounts are presented in the order prescribed by the Financial Supervision Authority

1. Debt securities held and issued
2. Maturity analysis of assets and liabilities
3. Assets and liabilities denominated in foreign currencies
4. Claims on the public and public sector entities by customer sector and specific loan loss provisions
5. Differences between the nominal values and book values of debt securities held as financial fixed assets and other claims
6. Non-performing loans and other zero-interest lending
7. Subordinated assets
8. Loans and guarantees granted to members of administrative and supervisory bodies
9. Leasing assets
10. Securities by type of asset divided between listed and unlisted securities and securities lending
11. Difference between the market value and book value of securities
12. Shares and participations intended for use on a continuing basis
13. Movements in shares and participations held as financial fixed assets and in tangible and intangible assets
14. Property holdings
15. Assets acquired in settlement of unpaid loans and those acquired in connection with the reorganisation of a customer's business operations
16. Assets pledged as collateral security on the Group's own behalf and on behalf of third parties and liabilities and commitments against which the assets have been pledged
17. Differences between the nominal values and book values of liabilities
18. Bonds with warrants and convertible bonds in issue
19. Subordinated liabilities
20. Movements in capital and reserves
21. Segmental information
22. Net income from leasing activities (Postipankki Ltd)
23. Other operating income and expenses
24. Loan and guarantee losses plus write-offs in respect of debt securities held as financial fixed assets
25. Emoluments of members of administrative and supervisory bodies
26. Off-balance sheet items
27. Lease commitments
28. Pension commitments
29. Asset management services supplied
30. Staff numbers
31. Classes of shares in the Bank's share capital and own shares
32. Terms of the capital certificates
33. Shareholder analysis and directors' shareholding
34. Financial income received from and financial expenses paid to Group and associated undertakings
35. Claims on and liabilities to Group and associated undertakings and guarantees on behalf of them
36. Shares and participations in Group and associated undertakings
37. Extraordinary expenses
38. Provisions for liabilities and charges

ADDITIONAL NOTES TO THE CONSOLIDATED ACCOUNTS

1. Changes in consolidation principles and methods
2. Changes in Group structure
3. Special permission granted by the Financial Supervision Authority
4. Subsidiaries and associated undertakings excluded from consolidation
5. Accounting policies observed in incorporating associated undertakings and subsidiaries that are not credit or financial institutions or ancillary services undertakings in the consolidated accounts
6. Information needed to assess the relationships between subsidiaries that are not credit or financial institutions, or ancillary services undertakings or other undertakings in the same Group incorporated in the consolidated accounts
7. Conversion principles applied in incorporating the annual accounts of foreign subsidiaries and associated undertakings in the consolidated accounts, and the amount of the conversion difference
8. Total amount of the difference arising when intra-group holdings are eliminated and the principles applied in entering it
9. Total amount and book value of own shares and participations held by Group undertakings

1. Debt securities held and issued

	Group		Postipankki Ltd	
	31.12.1996	31.12.1995	31.12.1996	31.12.1995
Assets				
Certificates of deposit	4 377.5	6 577.9	4 377.5	6 577.9
Commercial paper	61.3	92.3	61.3	92.3
Treasury bills	8 879.4	2 264.4	8 846.8	2 219.8
Local authority paper	–	–	–	–
Subordinated debt securities	139.2	52.0	119.2	47.0
Convertible bonds	42.5	152.1	42.5	152.1
Bonds with equity warrants	–	14.7	–	9.2
Other bonds and notes	20 630.8	21 389.6	20 675.0	21 512.2
Other	5 286.0	4 755.8	5 286.0	4 755.8
Total	39 416.6	35 298.8	39 408.2	35 366.3
Liabilities				
Certificates of deposit	16 799.0	18 709.4	15 816.1	17 910.9
Bonds and notes	3 912.2	6 129.2	3 234.9	5 254.4
Other	–	–	–	–
Total	20 711.2	24 838.6	19 051.0	23 165.2

2. Maturity analysis of assets and liabilities

	Group		Postipankki Ltd	
	31.12.1996	31.12.1995	31.12.1996	31.12.1995
Assets				
<i>Less than 3 months</i>				
Claims on credit institutions and central banks	11 763.3	8 268.5	12 446.0	8 629.3
Claims on the public and public sector entities				
Repayable on demand	–	–	–	–
Other	7 640.1	7 132.5	7 273.1	6 768.2
Debt securities	9 483.9	10 168.9	9 473.1	10 133.6
<i>3–12 months</i>				
Claims on credit institutions and central banks	5 927.6	2 291.1	6 334.1	2 879.5
Claims on the public and public sector entities	5 546.7	6 430.2	4 959.9	5 779.5
Debt securities	15 934.0	7 868.6	15 911.6	7 878.6
<i>1–5 years</i>				
Claims on credit institutions and central banks	578.3	930.6	1 192.6	1 396.0
Claims on the public and public sector entities	19 713.6	19 261.8	18 260.2	17 777.5
Debt securities	12 062.3	11 572.8	12 109.6	11 670.7
<i>Over 5 years</i>				
Claims on credit institutions and central banks	122.6	105.4	706.8	429.7
Claims on the public and public sector entities	13 657.6	13 205.5	12 670.3	12 537.6
Debt securities	1 936.3	5 688.5	1 913.9	5 683.5
Liabilities				
<i>Less than 3 months</i>				
Liabilities to credit institutions and central banks	22 078.5	13 121.6	22 141.2	13 164.5
Liabilities to the public and public sector entities	54 098.3	50 385.0	54 073.1	50 344.6
Debt securities in issue	10 803.8	12 679.9	9 846.2	11 860.7
<i>3–12 months</i>				
Liabilities to credit institutions and central banks	4 327.2	2 817.4	4 274.3	2 817.4
Liabilities to the public and public sector entities	3 190.2	5 138.0	3 187.2	5 113.5
Debt securities in issue	6 615.1	8 728.2	6 433.2	8 514.6
<i>1–5 years</i>				
Liabilities to credit institutions and central banks	408.0	351.2	373.0	264.2
Liabilities to the public and public sector entities	214.9	3 337.2	179.8	3 287.7
Debt securities in issue	3 214.8	2 713.4	2 723.6	2 136.0
<i>Over 5 years</i>				
Liabilities to credit institutions and central banks	13.9	242.5	13.9	242.5
Liabilities to the public and public sector entities	168.4	223.2	165.2	208.0
Debt securities	77.5	717.0	48.0	654.0

Deposits without agreed maturity dates or periods of notice are included in the category 'less than 3 months'.

3. Assets and liabilities denominated in foreign currencies

Group	31.12.1996		31.12.1995	
	FIM	Foreign currency	FIM	Foreign currency
Assets				
Claims on credit institutions and central banks	1 378.8	17 013.0	578.2	11 017.5
Claims on the public and public sector entities	38 875.6	7 682.4	37 227.2	8 802.7
Debt securities	29 646.1	9 770.5	24 069.8	11 229.0
Other assets	11 947.6	2 174.7	16 361.7	6 232.4
Total	81 848.1	36 640.6	78 237.1	37 281.6
Liabilities				
Liabilities to credit institutions and central banks	9 455.3	17 372.4	864.4	15 668.4
Liabilities to the public and public sector entities	54 769.5	2 902.3	55 750.1	3 333.3
Debt securities in issue	17 493.9	3 217.3	19 147.4	5 691.2
Subordinated liabilities	440.3	2 428.0	62.9	2 703.6
Other liabilities	4 883.0	973.0	6 272.7	2 100.8
Total	87 042.0	26 893.1	82 097.5	29 497.2
Postipankki Ltd				
Assets				
Claims on credit institutions and central banks	3 670.5	17 008.9	2 321.7	11 012.8
Claims on the public and public sector entities	35 526.1	7 637.3	34 298.8	8 564.0
Debt securities	29 637.7	9 770.5	24 137.3	11 229.0
Other assets	10 614.1	2 167.6	15 164.9	6 223.5
Total	79 448.5	36 584.4	75 922.8	37 029.2
Liabilities				
Liabilities to credit institutions and central banks	9 472.9	17 329.5	862.2	15 626.3
Liabilities to the public and public sector entities	54 703.0	2 902.3	55 620.6	3 333.3
Debt securities in issue	15 833.6	3 217.3	17 474.1	5 691.2
Subordinated liabilities	405.3	2 428.0	7.9	2 703.6
Other liabilities	4 772.3	973.0	6 090.1	2 100.8
Total	85 187.1	26 850.2	80 054.8	29 455.2

4. Claims on the public and public sector entities by customer sector and specific loan loss provisions

	Group		Postipankki Ltd	
	31.12.1996	31.12.1995	31.12.1996	31.12.1995
Claims on the public and public sector entities				
Enterprises	16 478.5	14 641.5	14 924.6	13 432.6
Financial and insurance institutions	335.7	26.2	335.6	26.2
Public sector entities	2 154.2	2 451.7	1 110.4	1 398.9
Non-profit institutions	2 506.1	2 851.1	2 076.0	2 362.8
Households	22 060.2	22 984.9	21 699.6	22 567.7
Foreign	3 023.3	3 074.5	3 017.3	3 074.5
Total	46 558.0	46 030.0	43 163.5	42 862.8
Specific loan loss provisions				
Provisions at beginning of year	545.0	688.4	538.2	683.2
+ New provisions for year	181.8	86.5	178.4	83.3
- Releases of provisions	74.7	8.1	73.9	7.4
- Provisions written off	46.0	221.9	41.3	220.9
Provisions at end of year	606.0	545.0	601.5	538.2

5. Differences between the nominal values and book values of debt securities held as financial fixed assets and other claims

	31.12.1996		31.12.1995	
	Discounts	Premiums	Discounts	Premiums
Group				
Claims on credit institutions and central banks	-	-	-	-
Claims on the public and public sector entities	-	-	-	-
Debt securities held as financial fixed assets *)	29.1	222.1	148.7	498.6
Postipankki Ltd				
Claims on credit institutions and central banks	-	-	-	-
Claims on the public and public sector entities	-	-	-	-
Debt securities held as financial fixed assets *)	28.5	221.8	148.7	498.6

*) The market value of debt securities exceeds their book value

6. Non-performing loans and other zero-interest lending

By customer sector	31.12.1996			31.12.1995
	Non-performing loans	Other zero-interest lending	Total	Total
Group				
Enterprises	349.0	29.0	378.0	503.9
Financial and insurance institutions	-	0.1	0.1	3.0
Public sector entities	0.1	-	0.1	-
Non-profit institutions	32.7	28.6	61.3	138.8
Households	448.4	8.7	457.0	722.0
Foreign	104.9	10.1	114.9	100.9
Total *)	935.1	76.4	1 011.5	1 468.7
Postipankki Ltd				
Enterprises	342.8	29.0	371.7	498.4
Financial and insurance institutions	-	0.1	0.1	3.0
Public sector entities	-	-	-	-
Non-profit institutions	32.3	28.6	60.9	138.8
Households	437.7	8.2	445.8	702.6
Foreign	104.9	4.0	108.9	100.9
Total *)	917.6	69.8	987.4	1 443.9

*) In addition, at risk of Asset Management Company Arsenal Ltd

	1 067.4	1.4	1 068.8	1 169.8
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Non-performing and other zero-interest loans in the Bank's balance sheet transferred from Savings Bank of Finland – SBF Ltd, whose credit loss risk and financial costs are borne by Asset Management Company Arsenal.

7. Subordinated assets

	Group		Postipankki Ltd	
	31.12.1996	31.12.1995	31.12.1996	31.12.1995
Claims on credit institutions and central banks	-	-	7.0	7.0
Claims on the public and public sector entities	180.3	87.7	0.3	70.7
Debt securities	139.2	52.0	119.2	47.0
Other assets	-	-	-	-
Total	319.5	139.7	126.5	124.7
Amounts include				
- due from Group undertakings	-	-	7.0	9.0
- due from associated undertakings	-	-	-	-

8. Loans and guarantees granted to members of administrative and supervisory bodies

	31.12.1996		31.12.1995	
	Loans Total	Guarantees Total	Loans Total	Guarantees Total
Group				
Members and deputy members of the Supervisory Board	3.0	–	5.3	–
Members and deputy members of the Board of Management, Chief General Manager and Deputy Chief General Managers Auditors and deputy auditors	10.0	–	12.0	–
Total	13.0	–	17.3	–
Postipankki Ltd				
Members and deputy members of the Supervisory Board	3.0	–	5.3	–
Members and deputy members of the Board of Management, Chief General Manager and Deputy Chief General Managers Auditors and deputy auditors	2.4	–	1.9	–
Total	5.4	–	7.2	–

9. Leasing assets

	Group		Postipankki Ltd	
	31.12.1996	31.12.1995	31.12.1996	31.12.1995
Prepayments	11.1	16.4	–	–
Machinery and equipment	1 135.2	871.5	58.9	21.8
Properties and buildings	194.2	205.4	–	–
Other assets	20.6	24.6	–	–
Total	1 361.1	1 117.8	58.9	21.8

10. Securities by type of asset divided between listed and unlisted securities and securities lending

	31.12.1996		31.12.1995	
Group				
Debt securities				
for trading purposes	25 040.3		17 761.2	
held as financial fixed assets	14 376.3		17 537.6	
Total	39 416.6		35 298.8	
Equity shares and participations				
for trading purposes	Listed 67.9	Unlisted 68.3	Listed 73.1	Unlisted 73.3
held as financial fixed assets	–	36.3	–	29.3
Total	67.9	104.6	73.1	102.6
Postipankki Ltd				
Debt securities				
for trading purposes	25 065.7		17 797.3	
held as financial fixed assets	14 342.6		17 569.0	
Total	39 408.2		35 366.3	
Equity shares and participations				
for trading purposes	Listed 67.9	Unlisted 66.2	Listed 73.1	Unlisted 70.7
held as financial fixed assets	–	36.1	–	27.9
Total	67.9	102.3	73.1	98.6

Principles applied in valuation and in breakdown of assets by type are disclosed in Accounting policies.

Securities lending	Group		Postipankki Ltd	
	31.12.1996	31.12.1995	31.12.1996	31.12.1995
Shares lent	–	–	–	–
Shares borrowed	–	–	–	–

11. Difference between the market value and book value of securities

	Group		Postipankki Ltd	
	31.12.1996	31.12.1995	31.12.1996	31.12.1995
Debt securities, for trading purposes	94.1	54.6	94.1	54.5
Equity shares, for trading purposes, listed	11.9	4.0	11.9	4.0

12. Shares and participations intended for use on a continuing basis

Company, registered office, nature of business	Holding of shares and participations			
	Number of shares	Percentage of equity capital held	Nominal value of shares	Book value of shares
Postipankki Ltd, 31.12.1996				
Eurocard Oy, Helsinki, credit card services	3 818	10.10	3.8	4.2
Helsinki Money Market Centre, (will be dissolved), Helsinki, domestic money market instrument clearing	4 800	7.07	4.8	4.8
Itä-Pasilan Pysäköinti Oy, Helsinki, parking facility	34	2.18	0.1	1.6
Luottokunta Osuuskunta, Helsinki, credit card services	6 000	9.44	3.0	3.8
The Finnish Central Securities Depository Ltd, Helsinki, domestic money market instrument clearing	2 700	6.00	2.7	5.4
SOM Ltd, Securities and Derivatives Exchange, Clearing House, Helsinki	91 484	9.10	6.4	7.5
			20.8	27.2
Other companies, total *)	Number of companies 66		8.3	8.9
			29.1	36.1
Group, 31.12.1996				
Company holdings the same as for the Postipankki Ltd			20.8	27.2
Other companies, total *)	Number of companies 67		8.5	9.2
			29.3	36.4

*) The total holding in companies where the nominal and the book values of shares are less than FIM one million or less than an amount corresponding to five per cent of the equity capital shown in the balance sheet of the investing company.

13. Movements in shares and participations held as financial fixed assets and in tangible and intangible assets

	Book value at beginning of year	Acquisitions	Disposals	Depreciation for year	Transfers Properties occupied for own activities/ for other activities	Book value at end of year
Group						
Shares and participations	29.3	9.2	2.2	-	-	36.3
Shares and participations in Group and associated undertakings	75.9	38.3	8.8	-	-	105.4
Intangible assets	132.6	84.1	12.7	43.0	-	160.9
Tangible assets						
Land and buildings						
Occupied for own activities	1 341.3	11.7	20.4	56.2	- 127.0	1 149.3
Other	1 416.6	158.0	2.7	74.3	127.0	1 624.7
Shares and participations in property companies						
Occupied for own activities	141.0	90.0	46.9	-	- 21.0	163.0
Other	474.6	132.8	221.1	-	21.0	407.4
Machinery and equipment	250.0	62.8	74.4	64.0	-	174.4
Other tangible assets	7.3	0.2	-	-	-	7.5
Total	3 868.6	587.1	389.3	237.5	-	3 828.9

The book values do not include revaluations.

	Book value at beginning of year	Acquisitions	Disposals	Depreciation for year	Transfers Properties occupied for own activities/ for other activities	Book value at end of year
Postipankki Ltd						
Shares and participations	27.9	9.2	1.0	–	–	36.1
Shares and participations in associated undertakings	39.4	10.9	3.0	–	–	47.3
Shares and participations in Group undertakings	289.8	143.8	5.8	–	–	427.9
Intangible assets	129.8	79.2	12.7	40.2	–	156.2
Tangible assets						
Land and buildings						
Occupied for own activities	1 341.3	11.7	20.4	56.2	– 127.0	1 149.3
Other	676.7	14.8	2.7	56.1	127.0	759.7
Shares and participations in property companies						
Occupied for own activities	243.3	67.0	39.1	–	– 21.0	250.1
Other	812.9	132.8	77.8	–	21.0	889.0
Machinery and equipment	230.9	44.9	74.1	55.8	–	145.9
Other tangible assets	7.2	0.2	–	–	–	7.4
Total	3 799.3	514.6	236.6	208.3	–	3 869.0

The book values do not include revaluations.

14. Property holdings

The book value of real properties and shares in property companies occupied for other than own activities – by activity

	Group		Postipankki Ltd	
	31.12.1996	31.12.1995	31.12.1996	31.12.1995
Domestic properties				
Housing	6.5	6.0	6.5	6.0
Business and office property	1 989.1	1 847.5	1 605.8	1 445.9
Industrial property	11.0	11.9	11.0	11.9
Agricultural and forest land	0.5	0.5	0.5	0.5
Other land areas	24.8	24.8	24.8	24.8
Financial lease property	64.6	65.3	–	–
Other	0.1	0.5	0.1	0.5
Total	2 096.7	1 956.6	1 648.7	1 489.6
Foreign property	–	–	–	–
Total	2 096.7	1 956.6	1 648.7	1 489.6

15. Assets acquired in settlement of unpaid loans and those acquired in connection with the reorganisation of a customer's business operations

Book value of assets

	Group		Postipankki Ltd	
	31.12.1996	31.12.1995	31.12.1996	31.12.1995
Assets pledged as collateral security				
Real estate and shares and participations in property companies	119.3	107.0	119.3	107.0
Other shares and participations	4.8	5.5	4.8	5.5
Other assets	–	–	–	–
Total	124.1	112.6	124.1	112.5

Assets acquired in connection with the reorganisation of a customer's business operations

	4.7	0.3	4.6	0.3
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16. Assets pledged as collateral security on the Group's own behalf and on behalf of third parties and liabilities and commitments against which the assets have been pledged

	Book value of assets 31.12.1996	Type of asset	Liability items for which the assets have been pledged or if they have been pledged on behalf of third parties, a note to that effect		
Group	38.3	Lease assets	On behalf of third parties		
	14.7	Debt securities	On behalf of third parties		
	80.0	Land	Liabilities to credit institutions		
	<u>133.1</u>				
Postipankki Ltd	-				
		Group	Postipankki Ltd		
		31.12.1996	31.12.1995	31.12.1996	31.12.1995
Assets sold under agreements to repurchase		9 904.4	2 643.6	9 904.4	2 643.6

17. Differences between the nominal values and book values of liabilities

	31.12.1996		31.12.1995	
	Discounts	Premiums	Discounts	Premiums
Group				
Liabilities to the public and public sector entities	-	-	0.1	-
Debt securities in issue				
Bonds and notes	16.0	2.0	21.9	0.3
Other	<u>143.2</u>	-	<u>241.9</u>	-
	<u>159.2</u>	<u>2.0</u>	<u>263.8</u>	<u>0.3</u>
Postipankki Ltd				
Liabilities to the public and public sector entities	-	-	-	-
Debt securities in issue				
Bonds and notes	16.0	2.0	21.9	0.3
Other	<u>143.2</u>	-	<u>232.0</u>	-
	<u>159.2</u>	<u>2.0</u>	<u>253.9</u>	<u>0.3</u>

18. Bonds with warrants and convertible bonds in issue

	Group		Postipankki Ltd	
	31.12.1996	31.12.1995	31.12.1996	31.12.1995
	-	-	-	-

The Group companies did not issue any bonds with warrants or convertible bonds.

The Postipankki Ltd Annual General Meeting has not issued any authorizations concerning rights issues and the issuance of bonds with equity warrants or convertible bonds.

19a. Subordinated liabilities with a book value more than 10 per cent of the total amount of such liabilities

	Amount		Currency	Interest %	Remaining maturity
	31.12.1996	31.12.1995			
Postipankki Ltd, debenture ¹⁾	487.6	457.7	USD	6.45	Perpetual
Postipankki Ltd, debenture ²⁾	400.0		FIM	8.50	29.3.2008

¹⁾ The debenture is repayable, at the option of the Bank, on any interest payment date.

²⁾ The debenture is repayable, at the option on the Bank, on any interest payment date after year 2002.

Amounts include:

- Due to Group undertakings	-
- Due to associated undertakings	-

19b. Subordinated liabilities other than those mentioned in item 19a.

	Group		Postipankki Ltd	
	31.12.1996	31.12.1995	31.12.1996	31.12.1995
Total,	1 980.7	2 315.9	1 945.7	2 253.9
- amount of liabilities which creditors can demand to be repaid prematurely	-	-	-	-
- amount of perpetuals	-	-	-	-
Amounts include:				
- Due to Group undertakings	7.0	9.0	-	-
- Due to associated undertakings	-	-	-	-

FIM million

20. Movements in capital and reserves

	Share capital	Capital certificates	Other undistributable capital	Distributable capital	Total
Group					
Book value 31.12.1995	630.0	903.0	2 267.1	- 122.9	3 677.1
Losses covered from reserves			- 556.8	556.8	0.0
Movements in untaxed reserves				34.7	34.7
Conversion difference			-	- 0.1	- 0.1
Profit for the financial year				480.4	480.4
Book value 31.12.1996	<u>630.0</u>	<u>903.0</u>	<u>1 710.3</u>	<u>948.9</u>	<u>4 192.2</u>
Postipankki Ltd					
Book value 31.12.1995	630.0	903.0	2 203.7	- 556.8	3 179.8
Losses covered from reserves			- 556.8	556.8	0.0
Profit for the financial year				446.6	446.6
Book value 31.12.1996	<u>630.0</u>	<u>903.0</u>	<u>1 646.8</u>	<u>446.6</u>	<u>3 626.5</u>

21. Segmental information

Group	1996		1995	
	Income	Staff number average	Income	Staff number average
By class of business				
Banking	3 662.7	5 363	2 857.1	5 930
Credit card services	33.3	37	35.0	38
Finance company operations	86.8	121	94.8	135
Financing and investment	17.1	9	7.1	9
Unit trust services	7.1	4	6.8	3
Other activities	211.4	243	53.8	12
Total	<u>4 018.4</u>	<u>5 777</u>	<u>3 054.5</u>	<u>6 127</u>

By geographical segment	1996		1995	
	Income	Staff number average	Income	Staff number average
Finland	3 975.3	5 660	3 454.2	6 008
United Kingdom	47.0	40	38.7	40
United States	- 21.9	47	- 453.8	51
Singapore	16.8	30	14.1	28
Luxemburg	1.2	-	1.3	-
Total	<u>4 018.4</u>	<u>5 777</u>	<u>3 054.5</u>	<u>6 127</u>

Postipankki Ltd	1996		1995	
	Income	Staff number average	Income	Staff number average
By class of business				
Banking	3 662.7	5 363	2 857.1	5 930
Credit card services	-	-	-	-
Finance	-	-	-	-
Financing and investment	-	-	-	-
Unit trust services	-	-	-	-
Other activities	-	-	-	-
Total	<u>3 662.7</u>	<u>5 363</u>	<u>2 857.1</u>	<u>5 930</u>

By geographical segment	1996		1995	
	Income	Staff number average	Income	Staff number average
Finland	3 620.7	5 246	3 258.1	5 811
United Kingdom	47.0	40	38.7	40
United States	- 21.9	47	- 453.8	51
Singapore	16.8	30	14.1	28
Luxemburg	-	-	-	-
Total	<u>3 662.7</u>	<u>5 363</u>	<u>2 857.1</u>	<u>5 930</u>

22. Net income from leasing activities

	Postipankki Ltd	
	1996	1995
Rental income	17.1	9.6
Depreciation according to plan	- 16.1	- 8.0
Total	<u>1.0</u>	<u>1.6</u>

23. Other operating income and expenses

	Group		Postipankki Ltd	
	1996	1995	1996	1995
Other operating income				
Rental and dividend income from real properties and property companies	137.7	105.4	137.6	105.1
Profit on disposal of real properties and property companies occupied for other than own activities	-	0.7	-	0.7
Other income	89.5	64.1	67.8	34.4
Total	227.2	170.1	205.4	140.1
Other operating expenses				
Rental expenses	74.8	87.9	71.3	90.1
Expenses on real properties and property companies	88.9	92.8	85.6	77.3
Loss on disposal of real properties and property companies occupied for other than own activities	-	0.5	-	0.5
Other expenses	119.3	148.2	105.6	142.8
Total	283.0	329.4	262.5	310.7

24. Loan and guarantee losses plus write-offs in respect of debt securities held as financial fixed assets

Group	1996		1995	
	Gross amount	Releases and recoveries	Gross amount	Releases and recoveries
Loan and guarantee losses on				
Claims on the public and public sector entities	427.5	166.0	534.0	51.6
Claims on credit institutions and central banks	5.2	86.3	23.5	-
Lease assets	1.4	-	3.2	0.1
Guarantees and other off-balance sheet items	111.4	6.5	70.9	5.5
Other	13.5	-	57.2	0.7
Total	558.9	258.9	688.8	57.9
Amount written off securities held as financial fixed assets	12.0	-	-	-
Loans and guarantees written off for the year		+ 317.8		+ 1 030.4
Specific provisions written off as loan losses		- 46.0		- 428.2
Recoveries of loans and guarantees written off in previous years		- 180.3		- 49.8
New specific provisions for the year		+ 285.8		+ 86.6
Releases of provisions		- 77.2		- 8.1
Charge to profit and loss account		300.0		630.9
Amount included in the new specific provisions, which is estimated on a basis of pools of customers or pools of loans		-		-
Postipankki Ltd				
Loan and guarantee losses on				
Claims on the public and public sector entities	419.7	161.2	522.0	48.2
Claims on credit institutions and central banks	5.2	86.3	23.5	-
Guarantees and other off-balance sheet items	111.4	6.5	70.9	5.5
Other	13.1	-	57.2	0.7
Total	549.3	254.1	673.7	54.5
Amount written off securities held as financial fixed assets	12.0	-	-	-
Loans and guarantees written off for the year		+ 308.2		+ 1 017.5
Specific provisions written off as loan losses		- 41.3		- 427.2
Recoveries of loans and guarantees written off in previous years		- 177.7		- 47.1
New specific provisions for the year		+ 282.4		+ 83.4
Releases of provisions		- 76.4		- 7.4
Charge to profit and loss account		295.2		619.2
Amount included in the new specific provisions, which is estimated on a basis of pools of customers or pools of loans		-		-

The collateral for loans has been valued at fair value when entering loan losses.

25. Emoluments of members of administrative and supervisory bodies

	Group		Postipankki Ltd	
	1996	1995	1996	1995
Members and deputy members of the Supervisory Board	0.2	0.3	0.2	0.3
Members and deputy members of the Board of Management and the Chief General Manager and Deputy Chief General Manager	10.7	10.3	7.8	8.6
Total	10.9	10.6	8.1	8.8

Postipankki Ltd has not made any pension commitments for members of the Supervisory Board and the Board of Management, the Chief General Manager or the Deputy Chief General Manager. In the case of members of the Supervisory Board, the Bank has normal employment pension insurance, on which FIM 0,1 million was paid out in premiums in 1996.

Group companies have no pension commitments or voluntary employment pension insurances concerning members of their administrative or supervisory bodies.

26. Off-balance sheet items

	Group		Postipankki Ltd	
	31.12.1996	31.12.1995	31.12.1996	31.12.1995
Guarantees and assets pledged as collateral security,	8 892.3	9 497.6	9 285.3	9 787.5
of which on behalf of				
Group undertakings	–	–	169.0	201.4
Associated undertakings	8.0	3.2	8.0	3.2
Undrawn loans and overdraft facilities, commitments to lend,	8 379.2	8 458.1	6 670.6	6 848.6
of which to				
Group undertakings	–	–	317.3	247.7
Associated undertakings	4.8	–	4.8	–
Underwriting commitments,	2 470.8	853.5	2 470.8	1 034.5
of which to				
Group undertakings	–	–	–	181.0
Associated undertakings	–	–	–	–
Other commitments,	849.8	538.6	1 302.9	535.7
of which to or on behalf of				
Group undertakings	–	–	455.4	–
Associated undertakings	14.0	–	11.6	–
Total,	20 592.0	19 347.8	19 729.6	18 206.2
of which to or on behalf of				
Group undertakings	–	–	941.7	630.2
Associated undertakings	26.7	3.2	24.4	3.2

Derivative contracts

Group	31.12.1996		31.12.1995	
	Values of underlying instruments		Values of underlying instruments	
	For hedging purposes	For other *)	For hedging purposes	For other *)
<i>Interest rate contracts</i>				
Futures and forward rate agreements	1 298.1	368 405.0	15 728.3	201 194.6
Options				
Purchased	–	32 315.5	2 658.7	7 805.0
Written	–	35 543.6	–	6 323.0
Interest rate swaps	12 686.7	131 456.6	31 458.4	83 603.2
	13 984.8	567 720.6	49 845.4	298 925.7
<i>Exchange rate contracts</i>				
Futures and forward foreign exchange	–	112 520.4	21.1	101 154.0
Options				
Purchased	–	3 346.5	–	2 617.6
Written	–	3 709.4	–	3 170.8
Interest rate and cross currency swaps	5 719.0	17 255.6	17 313.1	6 647.6
	5 719.0	136 831.9	17 334.2	113 590.0
<i>Equity contracts</i>				
Futures and forwards	8.6	40.4	9.6	67.1
Options				
Purchased	–	127.4	–	86.9
Written	–	662.6	–	85.5
	8.6	830.4	9.6	239.5
*) Valued at market value				
	Credit equivalent amount of contracts	Risk-weighted amount of contracts	Credit equivalent amount of contracts	Risk-weighted amount of contracts
Interest rate contracts	4 513.5	1 213.1	3 138.0	731.0
Exchange rate contracts	5 761.8	1 887.2	5 821.5	1 826.3

Derivative contracts	31.12.1996		31.12.1995	
	Values of underlying instruments		Values of underlying instruments	
Postipankki Ltd	For hedging purposes	For other *)	For hedging purposes	For other *)
<i>Interest rate contracts</i>				
Futures and forward rate agreements	1 298.1	368 405.0	15 728.3	201 194.6
Options				
Purchased	–	32 315.5	2 658.7	7 805.0
Written	–	35 543.6	–	6 323.0
Interest rate swaps	12 686.7	131 726.6	31 458.4	83 923.2
	<u>13 984.8</u>	<u>567 990.6</u>	<u>49 845.4</u>	<u>299 245.8</u>
<i>Exchange rate contracts</i>				
Futures and forward foreign exchange	–	112 520.4	–	101 154.0
Options				
Purchased	–	3 346.5	–	2 617.6
Written	–	3 709.4	–	3 170.8
Interest rate and cross currency swaps	5 719.0	17 298.3	17 313.1	6 767.1
	<u>5 719.0</u>	<u>136 874.5</u>	<u>17 313.1</u>	<u>113 709.4</u>
<i>Equity contracts</i>				
Futures and forwards	8.6	40.4	9.6	67.1
Options				
Purchased	–	127.4	–	86.9
Written	–	662.6	–	85.5
	<u>8.6</u>	<u>830.4</u>	<u>9.6</u>	<u>239.5</u>
*) Valued at market value				
	Credit equivalent amount of contracts	Risk-weighted amount of contracts	Credit equivalent amount of contracts	Risk-weighted amount of contracts
Interest rate contracts	4 516.1	1 213.6	3 139.9	731.4
Exchange rate contracts	5 769.1	1 888.6	5 837.2	1 829.5

27. Lease commitments

	Group		Postipankki Ltd	
	1996	1995	1996	1995
Major leasing payments				
Payments for the following year	–	–	–	–
Payments for subsequent years	–	–	–	–

28. Pension commitments

On December 31, 1996, the uncovered part of Postipankki Ltd's liability deficit to the Postipankki Pension Fund amounted to FIM 97,0 million, of which the 1996 statutory liability deficit referred to in the Pension Act (1536/93) and the Ministry of Social Affairs and Health decision amounted to FIM 15,0 million. The 1996 contribution determined on the basis of the increase in Pension Fund pension liability and Fund profit was FIM 121,6 million. The pension security of Group company personnel has been arranged under a pension insurance scheme.

29. Asset management services supplied

Asset management services supplied by Postipankki Ltd and its subsidiaries:
 Asset management services based on an agreement between a customer and the Bank and comprising the planning and implementation of and reporting on investment activities
 Unit trust services
 Securities custody services

Amount of customer funds intermediated as credits to other customers on December 31, 1996 was FIM 20,0 million (Postipankki Ltd). These funds are not treated as assets in the Bank's balance sheet.

30. Staff numbers

	1996		1995	
	Average for the year	Change for the year	Average for the year	Change for the year
Group				
Full-time staff	5 602	– 335	5 937	18
Part-time staff	175	– 15	190	35
Total	<u>5 777</u>	<u>– 350</u>	<u>6 127</u>	<u>53</u>
Postipankki Ltd				
Full-time staff	5 199	– 549	5 748	27
Part-time staff	164	– 18	182	34
Total	<u>5 363</u>	<u>– 567</u>	<u>5 930</u>	<u>61</u>

Staff numbers by class of business and geographical segment are shown under item 21.

FIM million

31. Classes of shares in the Bank's share capital and own shares

Postipankki Ltd has issued only A shares. The number of shares is 63,000,000 and the nominal value FIM 10 each. The votes conferred by the shares number 315,000,000.

Under section 3 of the Postipankki Act, government ownership and holding of the Bank's stock is equivalent to at least 51 per cent of all the shares and of the votes conferred by all the shares.

The shareholders have priority to subscribe new shares when share capital is increased.

32. Terms of the capital certificates

The Finnish government subscribed the capital certificates of FIM 903.0 million, issued by Postipankki Ltd, on August 28, 1992.

The government, which owns all of Postipankki Ltd's shares, does not have the right to withdraw the investment or otherwise demand repayment of the principal thereof in full or in part.

The Bank is permitted to repay the principal, provided prior approval has been obtained from the Financial Supervision, and provided that the capital adequacy ratio of the Bank or the Group does not fall below the level set out in the Act on Credit Institutions as a result of the repayment.

The interest on the capital certificates for the year 1996 amounted to FIM 52.0 million (5.76%). The interest to be paid on the capital certificates is determined by the funding cost of one-year Treasury bills plus a margin of 0.50 basis points.

33. Shareholder analysis and directors' shareholding

The Finnish government owns all 63 million Postipankki Ltd shares. The Minister of Finance represents the Council of State at Postipankki Ltd shareholders' meetings by virtue of authorization of the Council of State.

34. Financial income received from and financial expenses paid to Group and associated undertakings

	Interest receivable	Interest payable	Dividend income	Total
1996				
Group undertakings	111.1	23.5	14.7	102.3
Associated undertakings	12.0	0.1	3.9	15.8
Total	123.2	23.6	18.5	118.1
	Interest receivable	Interest payable	Dividend income	Total
1995				
Group undertakings	131.7	76.8	15.6	70.5
Associated undertakings	8.2	7.7	1.5	2.0
Total	139.9	84.5	17.1	72.5

35. Claims on and liabilities to Group and associated undertakings and guarantees on behalf of them

31.12.1996	Group under- takings	Associated under- takings	Total
Assets			
Claims on credit institutions and central banks	2 292.6	–	2 292.6
Claims on the public and public sector entities	170.4	307.8	478.2
Debt securities	75.4	–	75.4
Other assets	1.2	–	1.2
Prepayments and accrued income	34.9	1.0	35.9
Total	2 574.4	308.8	2 883.2
	Group under- takings	Associated under- takings	Total
Liabilities			
Liabilities to credit institutions and central banks	62.6	–	62.6
Liabilities to the public and public sector entities	46.9	56.4	103.3
Debt securities in issue	–	–	–
Other liabilities	11.5	–	11.5
Accruals and deferred income	4.6	–	4.6
Total	125.7	56.4	182.1

Claims on and liabilities to Group and associated undertakings and guarantees on behalf of them

31.12.1995	Group under-takings	Associated under-takings	Total
Assets			
Claims on credit institutions and central banks	1 743.9	–	1 743.9
Claims on the public and public sector entities	167.4	195.3	362.7
Debt securities	124.9	–	124.9
Other assets	0.0	–	0.0
Prepayments and accrued income	45.5	1.1	46.6
Total	2 081.7	196.4	2 278.1
Liabilities			
Liabilities to credit institutions and central banks	42.8	–	42.8
Liabilities to the public and public sector entities	7.6	6.5	14.1
Debt securities in issue	558.6	–	558.6
Other liabilities	0.0	–	0.0
Accruals and deferred income	7.3	0.0	7.3
Total	616.4	6.5	622.9

Guarantees on behalf of Group and associated undertakings are shown under item 26.

36. Shares and participations in Group and associated undertakings

Company, registered office, nature of business	Holdings of shares and participations					Profit/ loss shown in the most recent annual accounts FIM million
	Number of shares	Percentage of equity capital held	Percentage of voting rights	Nominal value of shares total FIM/ foreign currency million	Book value of shares total FIM million	
Group undertakings 31.12.1996		%	%			
Capsella Invest Oy, Helsinki, property management	10	100.00	100.00	0.2	1.0	0.0
Helsingin Yrittäjätalo Oy, Helsinki, property company *)	7 231	53.79	53.79	0.1	38.6	0.0
Leijona Life Insurance Company Ltd, Helsinki, insurance	18 000	51.43	51.43	18.0	18.0	9.9
Kiinteistö Oy Hervannan Tieteenkatu 1, Tampere, property company	100 000	100.00	100.00	1.0	67.0	0.0
Kiinteistö Oy Kaivokatu 6, Helsinki, property company	19 291	100.00	100.00	0.2	190.8	– 3.7
Kiinteistö Oy Kaivokatu 8, Helsinki, property company	12 187	71.84	71.84	12.2	225.0	– 5.7
Kiinteistö Oy Keskuskatu 6, Helsinki, property company	15 944	52.30	52.30	15.9	88.2	– 4.4
Kiinteistö Oy Taalintehtaankatu, Turku, property company	50	100.00	100.00	0.1	0.1	0.0
MB Mezzanine Fund Ky, Helsinki, mezzanine financing	2	100.00	100.00	0.1	140.0	0.4
MB Corporate Finance Ltd, Helsinki, finance and investment	50 000	100.00	100.00	50.0	50.1	6.7
Nokian Hotellikiinteistö Oy, Nokia, property company *)	2 000	100.00	100.00	10.0	9.5	3.8
Nokian Kylpylähotelli Oy, Nokia, hotel company *)	399 476	92.47	92.47	4.0	4.2	1.5
Oulunkylän Toimistokeskus Oy, Helsinki, property company *)	385	100.00	100.00	0.0	1.3	– 88.1
Pasilan Toimitalo Oy, Helsinki, property company *)	4 617 698	51.53	51.53	23.1	13.0	7.2
Postipankki Capital Fund Management Company S.A., Luxemburg, unit trust	17 500	70.00	70.00	LUF 3.5	0.4	0.6
Postipankki U.S. Inc. Delaware, other financing	100	100.00	100.00	USD 0.0	0.0	0.0
Presta Fund Management Company Ltd, Helsinki, unit trust	6 000	66.67	66.67	6.0	6.9	1.6
PSP-Municipality Bank Ltd, Helsinki, municipality financing	4 000	100.00	100.00	40.0	40.0	10.7
Postipankki Fund Management Company Ltd, Helsinki, unit trust	10 000	100.00	100.00	10.0	10.0	0.2
PSP-finance Ltd, Helsinki, finance	1 398	100.00	100.00	139.8	149.5	2.0
PSP (U.K.) Leasing Ltd, London, finance	150 000	100.00	100.00	GBP 0.2	0.0	0.1
PSP (U.K.) Nominees Ltd, London, other financing	100	100.00	100.00	GBP 0.0	0.0	0.0
PSW Realty World Ltd, Helsinki, estate agency	10 150	100.00	100.00	1.0	2.0	0.7
Suomen Tililuotto Oy, Helsinki, credit card services	1 000	100.00	100.00	10.0	10.1	5.6
Tietoleijona Oy, Espoo, IT services	6 000	40.00	60.00	0.6	1.2	7.8

FIM million

Company, registered office, nature of business	Holdings of shares and participations					Profit/ loss shown in the most recent annual accounts FIM million
	Number of shares	Percentage of equity capital held	Percentage of voting rights	Nominal value of shares total FIM/ foreign currency million	Book value of shares total FIM million	
		%	%			
Associated undertakings 31.12.1996						
Automatia Pankkiautomaatit Oy, Helsinki, electronic banking services	6	33.33	33.33	30.0	30.1	13.4
Keravan Kauppakeskus Oy, Kerava, property company	2 056	22.49	22.49	0.0	19.9	- 67.0
KT-Tietokeskus Oy, Helsinki, IT services	250 796	20.12	20.12	5.0	5.1	21.6
MB Equity Fund Ky, Helsinki, investment	2	20.93	22.20	0.1	4.0	- 0.5
Toimiraha Oy, (Automatia Rahakortit Oy), Helsinki, electronic banking services	9 000	33.33	33.33	9.0	9.0	6.2
TP-salkku Oy (will be dissolved), Helsinki, collection	3 000	20.00	20.00	1.8	0.0	0.0
YIT MNS-Projektit Oy, Helsinki, building *)	3 600	24.00	24.00	0.0	0.0	- 5.4

*) Excluded from consolidation.

Similarly, 54 housing and property companies are excluded from consolidation. The book value of these shares was FIM 247,2 million, and the most recent combined balance sheet total FIM 579,1 million. Also seven other companies with book value of shares total FIM 5,1 million and combined balance sheet total FIM 37,6 million were excluded from consolidation. The financial information is based on the accounts made up to 31. December 1995.

37. Extraordinary expenses 1996	Group 1996	Postipankki Ltd 1996
Coverage of pension liabilities	21.0	21.0
Costs arising from transfer to single currency	37.0	37.0
Total	58.0	58.0

38. Provisions for liabilities and charges	Group 31.12.1996	Postipankki Ltd 31.12.1996
Provision for guarantees and other similar provisions	70.0	70.0
Provision for costs arising from transfer to single currency	37.0	37.0
Other provisions	3.5	
Total	110.5	107.0

ADDITIONAL NOTES TO THE CONSOLIDATED ACCOUNTS

1. Changes in consolidation principles and methods

The consolidated accounts were drawn up according to Regulation 106.2 on the consolidated accounts of credit institutions issued by the Financial Supervision Authority on November 6, 1995 and taking effect on January 1, 1996. The consolidation principles are described in more detail under 'Accounting policies'.

2. Changes in Group structure

The subsidiary Avainrahoitus Oy was merged with PSP-finance on February 29, 1996.

The name of Automatia Rahakortit Oy was changed to Toimiraha Oy and in the same connection the company's share capital was raised to FIM 27 million. The increase had no impact on Postipankki's holding in the company, which is 33.33 per cent.

The whole business and shares in Tietoperintä Oy and its subsidiary and associated undertakings were sold on February 15, 1996.

Tietoperintä Oy was an associated undertaking of Postipankki Ltd, with 20 per cent holding. The company's shareholders have undertaken measures to dissolve the company. The procedure is still pending.

The shareholding in Kiinteistö Oy Kaivokatu 8 was increased from 51.23 per cent to 71.84 per cent, and in Pasilan Toimitalo Oy from 21.25 per cent to 51.53 per cent.

Management of Postipankki Group's information technology was transferred to Tietoleijona Oy, which started operating on April 1, 1996.

The Company was set up by Postipankki Ltd and TT Tieto Oy. Postipankki holds 40 per cent of the company's share capital and 60 per cent of the voting rights.

On December 3, 1996, Postipankki Ltd and MB Corporate Finance Ltd set up MB Mezzanine Fund Ky to deal in mezzanine financing.

The company's general partner is MB Corporate Finance Ltd, with a 1 per cent holding. Postipankki Ltd is a silent partner with a 99 per cent holding.

Ownership of the real property of the Hervanta payment service centre in Tampere was transferred to Kiinteistö Oy Hervannan

Tieteenkatu 1, which is consolidated in the accounts as a Postipankki Ltd subsidiary.

Suomen Sijoitusosake Oy was dissolved on November 29, 1996.

A more detailed account of holdings in the above companies is given in item 36.

3. Special permission granted by the Financial Supervision Authority

By decision 21/420/96 of April 19, 1996, the Financial Supervision Authority granted Postipankki Ltd permission to exclude the accounts of companies acquired to safeguard claims, from consolidation. Details on the companies are given in item 4.

4. Subsidiaries and associated undertakings excluded from consolidation

	Helsingin Yrittäjä- talo Oy	Pasilan Toimi- talo Oy	Nokian Hotelli- kiinteistö Oy	Oulunkylän Toimisto- keskus Oy
Profit and loss account				
Turnover	4.2	6.0	49.0	3.2
Variable expenses	–	–	–	–
Fixed expenses	1.9	3.8	36.7	3.1
Depreciation	1.7	0.0	1.4	4.1
Financial income and expenses	– 0.6	– 1.0	– 5.5	– 0.6
Extraordinary items	–	6.0	–	– 83.5
Profit/loss for the financial year	0.0	7.2	5.3	– 88.1
Balance sheet				
Fixed assets	81.8	51.2	123.7	149.6
Valuation items	–	–	–	0.0
Inventories and financial assets	0.5	0.4	13.9	6.2
Shareholders' equity	75.9	31.5	42.6	83.9
Untaxed reserves	–	–	–	–
Liabilities	6.4	20.1	95.0	71.9

With permission from the Financial Supervision Authority, the companies had been excluded from consolidation. This procedure has no material effect on the results and financial position of the Group. The shares in the companies have been acquired to safeguard claims. The book value of the shares equal to their probable sale value.

5. Accounting policies observed in incorporating associated undertakings and subsidiaries that are not credit or financial institutions or ancillary services undertakings in the consolidated accounts

Associated undertakings and subsidiaries that are not credit or financial institutions or ancillary services undertakings have been incorporated in the consolidated accounts using the equity method.

6. Information needed to assess the relationships between subsidiaries that are not credit or financial institutions, or ancillary services undertakings or other undertakings in the same Group incorporated in the consolidated accounts

Two subsidiaries were incorporated into the consolidated accounts using the equity method. On the balance sheet date, claims on the subsidiaries amounted to FIM 3.4 million and liabilities to them to FIM 20.3 million.

7. Conversion principles applied in incorporating the annual accounts of foreign subsidiaries and associated undertakings in the consolidated accounts, and the amount of the conversion difference

The annual accounts of foreign subsidiaries have been translated into Finnish markkas at the Bank of Finland middle rate quoted on the balance sheet date. The subsequent conversion and exchange rate differential of FIM 0.1 million has been entered under equity capital.

8. Total amount of the difference arising when intra-group holdings are eliminated and the principles applied in entering it

The amount of the difference arising from the elimination of intra-group holdings was FIM 16.2 million on December 31, 1996. The elimination difference has been allocated entirely to the balance sheet item 'Tangible assets' and depreciated according to the plan for the asset item concerned.

9. Total amount and book value of own shares and participations held by Group undertakings

The Group undertakings do not hold any shares of their own.

THE BOARD OF MANAGEMENT'S PROPOSAL TO THE ANNUAL GENERAL MEETING FOR THE DISTRIBUTION OF POSTIPANKKI LTD PROFITS

Profit for the financial year	FIM 446 637 006.69
Undistributed profits from previous years	–
Total distributable capital	<u>FIM 446 637 006.69</u>

We propose that a dividend of FIM 31 500 000.00 i.e. five per cent, be distributed on share capital.

We also propose that the remainder of the profit for the financial year be carried over as retained earnings under distributable capital.

Helsinki, February 12, 1997

Eino Keinänen

Juhani Paloheimo

Eero Tuomainen

Ilkka Hallavo

Matti Inha

Peter Johansson

Jussi Osola

STATEMENT OF THE SUPERVISORY BOARD

The Supervisory Board of Postipankki Ltd has approved the annual accounts and consolidated accounts of Postipankki Ltd for 1996, and the proposal for the distribution of the profit for the financial year, and has certified the financial statements for presentation to the Annual General Meeting.

Helsinki, February 12, 1997

Anssi Rauramo

Antti Paasio

Raimo Sailas

Pekka Vennamo

Jukka Wuolijoki

Gustav Björkstrand

Tuulikki Kannisto

Pertti Kukkonen

Raimo Liikkanen

Maija Perho

Antti Paatola

Jarmo Rantanen

TO POSTIPANKKI LTD'S SHAREHOLDER

We have audited the Postipankki Ltd bookkeeping, annual accounts and administration for the financial year January 1–December 31, 1996. The annual accounts prepared by the Board of Management and the Chief General Manager and approved by the Supervisory Board include a report on operations, and the consolidated and Postipankki Ltd profit and loss accounts, balance sheets, and notes to the accounts. On the basis of our audit, we hereby issue a statement on the annual accounts and the Bank's administration.

The audit was conducted in accordance with generally accepted auditing standards. The bookkeeping, and the accounting policies, content and presentation of the annual accounts were thus examined to a sufficient extent to confirm that the accounts do not contain essential errors or shortcomings. In the audit of administration, the legality of the activities of the members of the Bank's Supervisory Board and the Board of Management, and of the Chief General Manager was studied on basis of the provisions of the Companies Act, the Act on Postipankki Ltd and the Act on Credit Institutions.

We state that the annual accounts have been drawn up in accordance with the Bookkeeping Act and other rules and regulations concerning the compilation of annual accounts. The annual accounts give a true and fair view on the results and financial position of the Group and Postipankki Ltd in the manner referred to in the Bookkeeping Act. We have studied the interim reports published during the financial year. In our opinion, the interim reports were drawn up in accordance with the relevant provisions. The annual accounts and the consolidated accounts can be approved, and discharge from liability can be granted to the members of the Bank's Supervisory Board, the Chairman of the Board of Management, the Chief General Manager and Deputy Chief General Manager, plus other members of the Board of Management for the financial year audited by us. The proposal by the Board of Management regarding the disposition of the profit for the year, as outlined in the annual report, is in compliance with the Companies Act.

Helsinki, February 26, 1997

Kunto Pekkala APA

Pekka Räisänen APA

Tilintarkastajien Oy – Ernst & Young
Auditing Corporation

Jorma Jäske APA

SUPERVISORY BOARD

Anssi Rauramo
Chairman

Antti Paasio
Vice Chairman

Raimo Sailas

Pekka Vennamo

Jukka Wuolijoki

Gustav Björkstrand

Tuulikki Kannisto

Pertti Kukkonen

Raimo Liikkanen

Maija Perho

Antti Paatola

Jarmo Rantanen

BOARD OF MANAGEMENT

Eino Keinänen
Chairman and Chief Executive

Juhani Paloheimo
Vice Chairman of the Board

Eero Tuomainen
Member of the Board

Ilkka Hallavo
Member of the Board

Matti Inha
Member of the Board

Peter Johansson
Member of the Board

Jussi Osola
Member of the Board

AUDITORS

**Tilintarkastajien Oy –
Ernst & Young**
Authorized Public
Accountants

Responsible auditor
Jorma Jäske
APA

Kunto Pekkala
APA

Pekka Räisänen
APA

Mikael Holmström
APA
Deputy Auditor

CODETERMINATION COMMITTEE

Representing Postipankki:

Eino Keinänen, Chairman
Eero Tuomainen
Tuula Kantele

(Kaarina Holkkola)
(Reijo Vartiainen)
(Jarmo Lankinen)

Representing the Employees:

Hanna Koivisto, Vice Chairman
Marjatta Jourio
Tarja Lankila
Marja Lamberg

(Helena Arovaara)
(Anneli Pettersson)
(Seija Lahtela)
(Arja Siimes)

Representing Middle Management:

Juhani Nyyssönen
Jaakko Hirvelä

(Raimo Björkvist)
(Aarne Palin)

Representing Maintenance:

Reijo Koskinen

(Sirpa Lepistö)

Deputy representative in parentheses

CONSOLIDATED PROFIT AND LOSS ACCOUNT IN USD

	1.1. – 31.12.1996		1.1. – 31.12.1995	
Interest receivable				
arising from				
claims on credit institutions and central banks	196.9		178.3	
claims on the public and public sector entities	588.3		741.1	
debt securities	457.9		516.8	
Other interest receivable	- 0.2	1 243.0	16.6	1 452.8
Net leasing income		17.1		19.3
Interest payable				
arising from				
liabilities to credit institutions and central banks	219.7		257.1	
liabilities to the public and public sector entities	270.5		404.1	
debt securities in issue	271.1		298.5	
subordinated liabilities	48.0		45.2	
capital certificates	11.2		-	
Other interest payable	18.6	- 839.1	- 6.0	- 998.8
Net income from financial operations		421.0		473.3
Dividend income		1.8		1.0
Fees and commissions receivable		206.6		190.4
Fees and commissions payable		- 30.1		- 33.3
Net income from transactions in securities and foreign exchange dealing				
Net income from transactions in securities				
Debt securities	93.6		2.8	
Shares and participations	8.9		1.0	
Other	17.2	119.7	- 72.6	- 68.8
Net income from foreign exchange dealing	22.8	142.6	18.2	- 50.6
Other operating income		48.9		36.6
Administrative expenses				
Staff costs				
Wages and salaries	183.1		182.3	
Pension costs	29.3		32.0	
Other social security costs	17.8		22.6	
Other staff-related costs	12.3	242.5	8.0	244.8
Other administrative expenses	223.7	- 466.3	230.0	- 474.8
Depreciation		- 51.1		- 44.3
Other operating expenses		- 60.9		- 70.9
Loan and guarantee losses		- 64.6		- 135.9
Write-offs on securities held as financial fixed assets		- 19.7		-
Income from companies accounted for by the equity method		1.4		0.6
Operating profit/loss		129.6		- 108.1
Extraordinary expenses		- 12.5		-
Profit/loss before appropriations and taxes		117.1		- 108.1
Change in untaxed reserves and depreciation difference		- 7.5		- 8.2
Taxes				
Taxes for the financial year and previous years	3.8		1.4	
Change in imputed taxes due	1.9	- 5.7	3.2	- 4.6
Minority interests		- 0.5		0.6
Profit/loss for the financial year		103.5		- 120.2

USD million

CONSOLIDATED BALANCE SHEET IN USD

ASSETS	31.12.1996	31.12.1995
Liquid assets	574.0	1 096.0
Claims on credit institutions and central banks	3 960.4	2 497.0
Claims on the public and public sector entities	10 025.6	9 911.9
Leasing assets	293.1	240.7
Debt securities	8 487.8	7 601.1
Shares and participations	37.1	37.8
Shares and participations in associated undertakings and subsidiaries	22.7	16.4
Intangible and tangible assets	794.0	810.4
Other assets	430.9	1 103.8
Prepayments and accrued income	889.2	1 560.3
	25 514.9	24 875.3
	25 514.9	24 875.3
LIABILITIES		
Liabilities:		
Liabilities to credit institutions and central banks	5 777.0	3 560.1
Liabilities to the public and public sector entities	12 418.8	12 722.8
Debt securities in issue	4 459.9	5 348.6
Other liabilities	759.2	828.2
Accruals and deferred income	501.8	963.9
Provisions for liabilities and charges	23.8	-
Subordinated liabilities	617.7	595.7
Imputed taxes due	12.9	11.0
Minority interests	41.1	53.1
Capital and reserves:	902.7	791.8
	25 514.9	24 875.3
	25 514.9	24 875.3
OFF-BALANCE SHEET ITEMS		
Contingent liabilities	2 026.7	2 152.1
Commitments	2 407.5	2 014.2
	4 434.2	4 166.3
	4 434.2	4 166.3

USD million

Figures are based on middle exchange rate of December 31, 1996 USD 1 = FIM 4.6439

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Capital Markets

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International Network and Financial Institutions

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Telex: 123 687 pspus fi

Foreign Payments

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Group Administration

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BOARD OF MANAGEMENT

Eino Keinänen, Chairman and Chief Executive
Juhani Paloheimo, Vice Chairman of the Board,
Payment Services, Information Technology and
Real Estate Management

Eero Tuomainen, Member of the Board, Group
Administration

Ilkka Hallavo, Member of the Board, Corporate Banking

Matti Inha, Member of the Board, Retail Banking

Peter Johansson, Member of the Board, Business
Control

Jussi Osola, Member of the Board, Treasury and Capital
Markets

BUSINESS CONTACTS

RETAIL BANKING

Products and Services

Juhani Vesanto, Deputy General Manager

Personnel

Tuula Kantele, Deputy General Manager

Branches

Juhani Kangas, Deputy General Manager

Telephone Banking and New Service Channels

Arto Smedberg, Assistant General Manager

Marketing

Kari Liinakoski, Assistant General Manager

Planning

Pekka Kainulainen, Assistant General Manager

CORPORATE BANKING

Major Corporate Customers

Tapani Kaskeala, Deputy General Manager

Trade and Project Finance

Lawrence Murray, Assistant General Manager

Corporate Banking Services

Sanna Kaivola, Assistant General Manager

Public Sector Customers and Organizations

Pertti Mattila, Deputy General Manager

Corporate Branches

Jarmo Lankinen, Deputy General Manager

Credit Allocation and Risk Management

Aki Palo, Deputy General Manager

Jukka Mäenpää, Assistant General Manager

TREASURY AND CAPITAL MARKETS

Securities

Ari Aaltonen, Deputy General Manager

Capital Markets

Teuvo Rossi, Deputy General Manager

Riitta Salonen, Deputy General Manager

International Network and Financial Institutions

Topi Vesteri, Deputy General Manager

International Network

Matti Villikka, Assistant General Manager

Financial Institutions

Martin Relander, Assistant General Manager

Foreign Corporate Customers

Timo Kajanoja, Assistant General Manager

Treasury

Risto Tornivaara, Deputy General Manager

Treasury Development

Erkki Lepistö, Deputy General Manager

Financial Control and Operations

Reijo Jokinen, Deputy General Manager

**PAYMENT SERVICES, INFORMATION TECHNOLOGY AND
REAL ESTATE MANAGEMENT**

Foreign Payment Services

Kaarina Merilinna, Assistant General Manager

BUSINESS CONTROL

Strategic Planning

Reijo Mikkonen, Deputy General Manager

Financial Accounting

Matti Heikkilä, Deputy General Manager

**Accounting and Asset & Liability Management
Support**

Jyrki Appelqvist, Assistant General Manager

Information Services

Markku Köykkä, Assistant General Manager

Risk Management

Markku Pehkonen,

Assistant General Manager (from June 1, 1997)

Emu-Coordinator

Olavi Luukkonen, Deputy General Manager

GROUP ADMINISTRATION

Corporate Communications

Eero Waronen, Deputy General Manager

Economic Research

Tarja Heinonen, Chief Economist

Administration and Legal Affairs

Olli Härmänmaa, Deputy General Manager,

Secretary of Supervisory Board and

Board of Management

BRANCHES

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Seppo Leskinen, Assistant General Manager, Treasury

Anthony Eves, Assistant General Manager, Banking

Colin Bateman-Jones, Senior Manager, Nordic Desk

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Matti Peltonen, Senior Vice President, Treasury

Sirkka Aura, Vice President, Finnish and Nordic

Corporates

Gary Tanner, Senior Vice President, North American

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Charles Wheeler, Deputy General Manager, Treasury

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FIM RATES OF EXCHANGE MIDDLE RATES DECEMBER 31, 1996

CHF 1 = FIM 3.4392

DEM 1 = FIM 2.9880

ECU 1 = FIM 5.7700

FRF 1 = FIM 0.8862

GBP 1 = FIM 7.8690

JPY 1 = FIM 0.03999

SEK 1 = FIM 0.6748

USD 1 = FIM 4.6439

