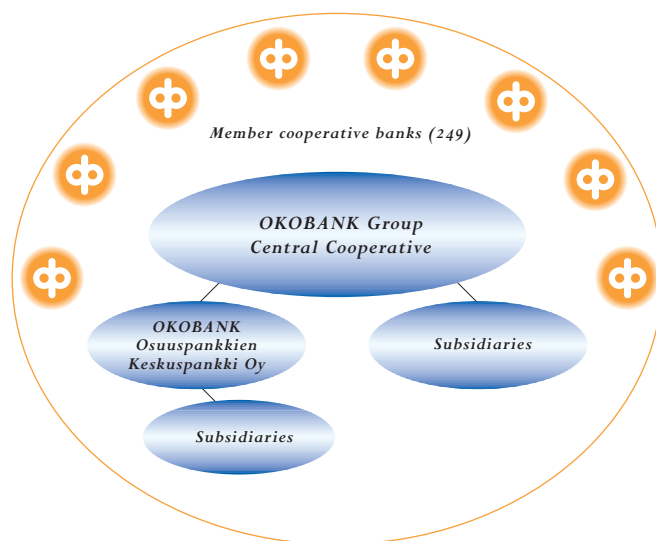


1997

*OKOBANK Group*  
*OKOBANK Group Central Cooperative*





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### Operational concept of the OKOBANK Group

The independent Finnish banks belonging to the OKOBANK Group offer the best banking service and promote the financial success of their members and their customers.

The OKOBANK Group's strength is based on development-driven customer service operations, close co-operation, local decision-making and skilled personnel.

The core values that guide the OKOBANK Group's operations are membership, a people-first approach, reliability, the will to succeed and group solidarity.

# OKOBANK Group

The OKOBANK Group began a new form of joint operations on July 1, 1997. It is based on an amendment to the Cooperative Bank Act, which came into force in August 1996, and the decisions on going over to the new joint operations were made in the first half of 1997. The OKOBANK Group is composed of the member banks and the OKOBANK Group Central Cooperative with its subsidiaries.

The OKOBANK Group Central Cooperative is the statutory central institution of the Group. It is a cooperative which is owned by the independent Group member banks and it was formed from the Central Association of the Finnish Cooperative Banks. The OKOBANK Group Central Cooperative functions as the Group's know-how and service centre. For its member banks, it produces centralised services as well as controls and supervises the risk management, capital adequacy and liquidity of the member banks. In addition, it safeguards the interests of the entire bank group.

OKOBANK Osuuspankkien Keskuspankki Oy is a subsidiary of the OKOBANK Group Central Cooperative. The bank acts as the central financial institution of the cooperative banks and as an independent commercial bank. OKOBANK's Series A share is listed on the Helsinki Exchanges.

The OKOBANK Group operates on the money, foreign exchange and capital markets via OKOBANK. Among OKOBANK's central bank tasks is to support and advise the member banks in the management of market risks. OKOBANK also handles the OKOBANK Group's account relationships with the Bank of Finland and ultimately sees to it that the member banks have sufficient financing and liquidity. OKOBANK has published its own Annual Report for 1997.

The new form of joint operations will increase the Group's competitiveness and promote its adaptation to the new

demands facing the banking sector. The system will increase the effectiveness of the Group's risk management and the handling of its capital adequacy requirements whilst furthermore strengthening the position of the member banks as independent local banks.

The OKOBANK Group numbers 250 member banks, OKOBANK included. They maintain a nationwide service network.

## OKOBANK Group key figures

	1997	1996
<i>Member banks</i>	250	255
<i>Branches</i>	745	788
<i>Staff</i>	8 695	9 243
<i>Individual members, thousands</i>	647	610
<i>Market share of FIM deposits, %</i>	31.0	31.7
<i>Market share of FIM credits, %</i>	31.2	31.2
<i>FIM million</i>		
<i>Total assets</i>	135 657	141 462
<i>Turnover</i>	9 885	10 755
<i>Net income from financial operations</i>	3 755	3 680
<i>Profit before loan and guarantee losses</i>	2 590	2 493
<i>Loan and guarantee losses</i>	1 272	1 666
<i>Write-downs</i>	146	129
<i>Net operating profit</i>	1 181	705
<i>Non-performing and zero-interest claims</i>	2 583	4 017
<i>Equity capital</i>	5 887	5 984
<i>Capital adequacy ratio, %</i>	11.6	11.3
<i>Income/expenses ratio</i>	1.68	1.64

The figures for 1996 correspond to the present OKOBANK Group, see page 15.

Five-year review of the OKOBANK Group is on page 48.

## Chairman's review

The past year, 1997, was in two ways especially significant for the OKOBANK Group: we brought to completion our structural overhaul, which has long been in preparation, and we achieved the best result in our history. The events of the year under review strengthened the OKOBANK Group as a provider of reliable and dynamic banking services.

### *The economy and banks on a growth track*

The national economy and the financial industry developed in the same direction in 1997. The positive trend in the economy contributed to making possible a substantial improvement in banks' earnings. The banking industry has clearly left behind it the exceptionally difficult times it went through in the past decade.

In the international economy, the year unfolded fairly peacefully up to the autumn. The currency and stock exchange disturbances that began in Asia caused violent market fluctuations everywhere, but they did not have an essential impact on the economic trend in the EU and in the United States. Economic growth in Finland was stable and broad-based as the domestic market began to catch up with the success which the export industry is enjoying. The trend in our interest rates moved in the wake of Germany's without serious disturbances, and the pressure which the Finnish markka came under in January did not jeopardise the steady trend.

Efforts to meet the convergence criteria for the third stage of EMU continued in most of the EU countries. The stability of the EU money market is strengthened by the fact that the objectives connected with curbing the public sector deficit are generally recognised to be correct. Last year the economic policy measures, particularly budgetary cuts, nevertheless also slowed down economic growth in the EU countries. The growth in production was not fast enough to send unemployment heading downward. In the light of this factor and slowing inflation

together with a growing current account surplus, it is evident that there is both room for and a need to pursue an economic policy that supports growth.

### *A solid improvement in earnings*

The OKOBANK Group improved its result for the fourth year running. The Group generated higher net operating profit than ever before. This helped to strengthen capital adequacy and thereby enabled the Group to repay most of the capital investments made by the Government and the Government Security Fund. The Group will pay the remainder during the current year, as it has already announced.

The improved earnings were based to a large extent on the same factors as in recent years: the amount of loan losses decreased and staff costs diminished. This trend will strengthen the Group's result in the current year, too. As competition becomes ever keener, it is of primary importance that the OKOBANK Group attends to the healthy development of income. Active product development and channelling resources into sales must be used to expand the income base because in open competition, achieving a substantial increase in the interest rate margin is not a realistic alternative.

### *A far-reaching remake*

Apart from the improved profitability, the year for the banks was characterised by extensive realignments in all three big bank groups. The structural changes reflected adjustment to both old burdens and new opportunities. From the standpoint of the OKOBANK Group, the most important thing was to strengthen its own structures without compromising on the principle of ownership based on membership.

The Central Association of the Finnish Cooperative Banks, which has safeguarded the bank group's interests and



Antti Tanskanen

provided services for it since 1928, stepped aside to make way for the OKOBANK Group Central Cooperative. The purpose of this and the entire structural overhaul has been to strengthen the position of the member banks and to create for the entire Group the best possible framework for success in the financial market of the next millennium.

The OKOBANK Group's new form of joint operations began at the start of July. Slightly less than a tenth of our former group did not come round to accept the will of the large majority. This meant a setback for Finnish cooperative bank operations as a whole, but it does not dim the outlook of the nationwide OKOBANK Group for the years ahead.

Our strengths are our broad base of more than two million Finnish customers and our banking expertise that has been honed to a level of high quality over the years. This covers both services based on personal contact and the making available of information technology to customers. The application of the latest information technology solutions to daily banking services is becoming more important by the day, and it is precisely in this area that the OKOBANK Group has in recent years repeatedly been in the vanguard of development, also receiving international recognition.

### *Meeting keener competition*

International deregulation of the financial markets meant keener competition in the domestic market in 1997. Foreign banks strengthened their presence in Finland, and this showed up above all in corporate financing and in the securities market. Although our financial market is small by EU standards, it attracts new entrants, particularly in certain special sectors of banking. The country's boundaries and its national currency no longer protect Finnish banks as they used to do.

In 1994 the OKOBANK Group began preparation for

the third stage of EMU and the introduction of the euro, and during the report year the pace of these activities quickened. We are carrying out the necessary changes with the smallest possible costs and in a co-ordinated manner, and we will be ready to do business and to cope with the technical aspects of the changeover in good time before the third stage begins. A central part of the strengthening of our competitive position revolves around furnishing our customers with adequate and knowledgeable information about the changes which the introduction of the euro will require.

The OKOBANK Group is preparing to grow and prosper in changing competition conditions. Last year we began formulating our new OP-100 Strategy that will be carried out in close co-operation with the member banks and with the Central Cooperative. The new Group structure and new strategy form a good foundation for building the retail banking operations of the future.

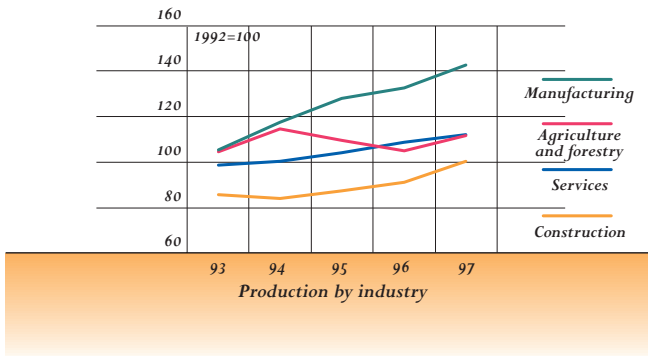
We shall achieve success as a banking group that is made up of independent cooperative banks and remains in Finnish ownership. Satisfying the international service needs of our customers who operate in Finland does not call for ownership arrangements, but instead we are able to see to our customers' basic needs competitively by means of our overseas network of banking relationships and our international partners.

I wish to thank all our customers for your solid confidence in us during 1997. I also thank our entire personnel as well as those who have worked in positions of administration and corporate governance for their fine contribution during a very demanding but interesting year.

Helsinki February 12, 1998

Antti Tanskanen

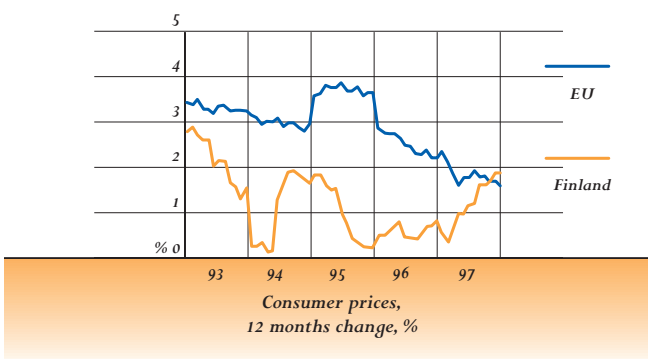
# Operating environment



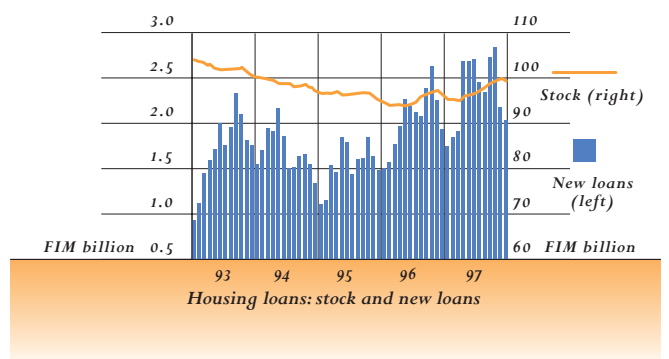
1997 was the fourth year in a row of relatively fast growth for the Finnish economy. Total output grew by nearly 6 per cent – considerably faster than in most of the other EU countries. Output increased in all the main industries, and fastest of all in the construction field.



The expectations of Finland's membership of EMU narrowed the spread in long interest rates compared with Germany. At its widest, the interest rate margin was of the order of half a percentage point. The spread between short interest rates compared with Germany was very small all year long. At its lowest, the three-month Helibor was 0.2 percentage point below the corresponding German rate. During the year the external value of the Finnish markka drew closer to the ERM average exchange rate that had been set in the autumn of the previous year.



Consumer prices rose on average by 1.2 per cent during 1997. The slight quickening in inflation to near two per cent towards the end of the year was mainly due to the rise in housing costs. In the latter months of the year homes throughout Finland were about 15 per cent more expensive than they were a year earlier and there were still large regional price differences. In other respects the changes in consumer prices were fairly minor. This together with high unemployment and a growing current account surplus indicates that growth still has further to go.



Households' favourable sentiment about the economy, the low level of interest rates and the substantial rise in the prices of housing further increased the demand for housing loans. More new housing loans were taken out than ever before after the deep recession, and banks' total amount of housing loans again topped the FIM 100 billion in the late autumn.

*The housing market is booming. The OKOBANK Group's Housing Service offers much more than just financing.*



# The leading retail banking group

Following the shakeout in the bank market, the OKOBANK Group is the only nationwide local bank group in Finland. The objective that was set in the OP-100 Strategy that was confirmed in February 1998 is for the OKOBANK Group to be the leading retail bank in Finland in 2002.

Retail banking underpins the bank group's business operations. This encompasses domestic and international banking service for retail customers, small and medium-sized enterprises and people employed in agriculture and forestry. These are the services in which the OKOBANK Group seeks to establish its leadership. The bank group's good corporate image will be maintained and further developed so that it has the best corporate image of all the Finnish banks.

The OKOBANK Group already has a solid position in the Finnish bank market. Gauged in terms of FIM-deposits from the public, the Group ranks second. The Group's portfolio of markka deposits totalled FIM 89.9 billion at the close of the year and it represented a market share of 31 per cent of the deposit banks' markka deposits. The total amount of markka credits was FIM 84.3 billion, for a market share of 31.2 per cent of the deposit banks' markka credits.

Of the OKOBANK Group's credit portfolio, 54 per cent consists of lending to private individuals, 36 per cent to corporate and public entity sector, and 10 per cent to agriculture and forestry.

## A nationwide service network

The OKOBANK Group's service network comprises branch offices and service outlets, telebank and self-service facilities. At the end of the year the bank group had a total of 745 branch offices and 14 other service outlets. The number of branch

offices diminished by 43 during the year.

OKOBANK has a branch office in Stockholm, and representative offices in Moscow, New York, St Petersburg and Tallinn. It has been decided to close the London representative office in April 1998. OKOBANK is also a member of the UNICO Banking Group, which comprises cooperative banks operating in ten European countries.

Forty new payment ATMs were placed in use, bringing the OKOBANK Group's number of such ATMs to 677 at the end of the year. In addition, Postipankki's 269 payment ATMs are in reciprocal use with those of the OKOBANK Group. At the end of the year the large banks' jointly owned Automatia Ltd had 2 071 cash dispensers in operation.

Customers receive personal telephone service from the personnel of OP Telebank. About 40 per cent of the OKOBANK Group's customers made use of OP Telebank's services at the turn of the year.

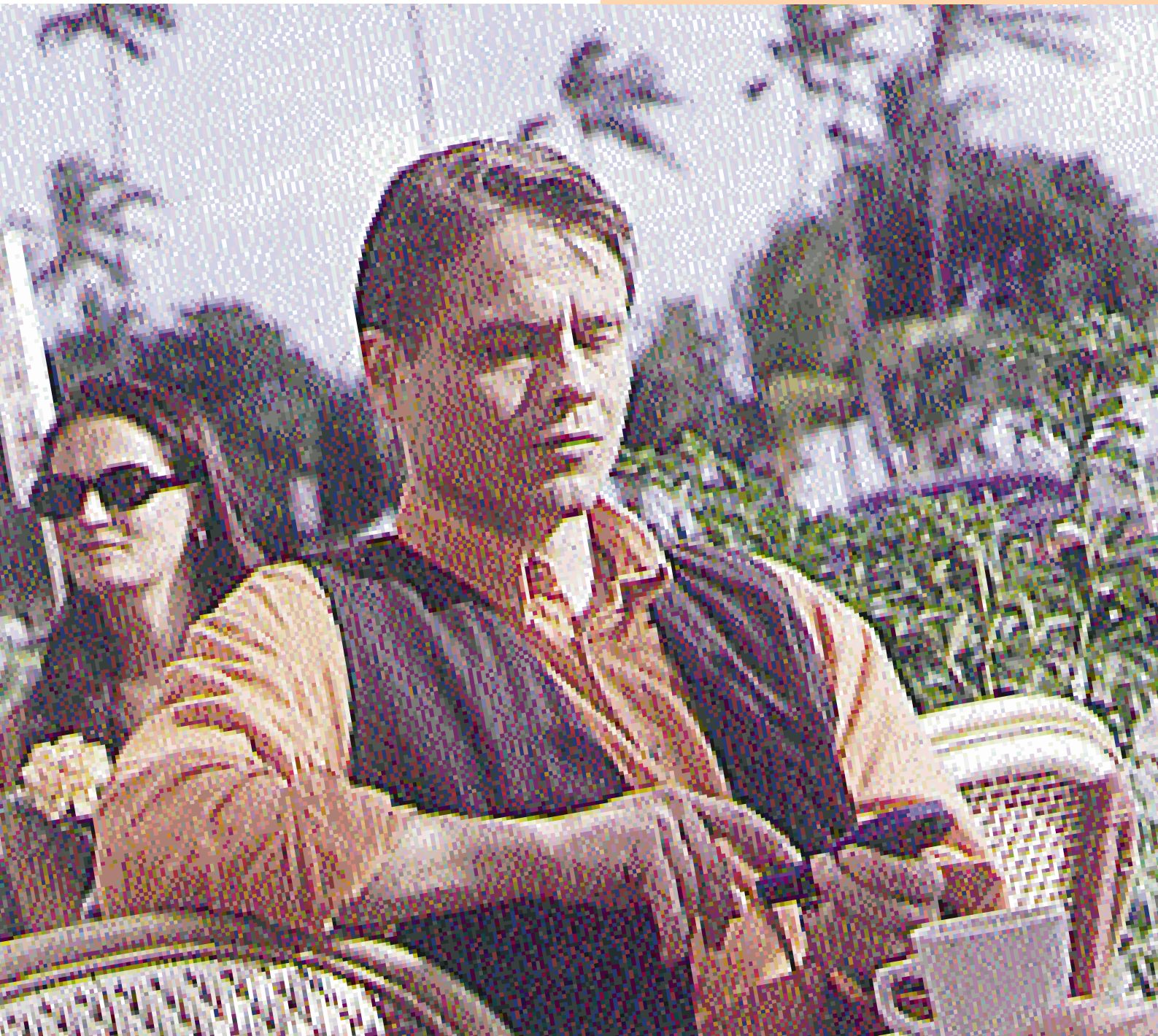
Self-services provided by automatic machines, telephone and computers are increasing constantly. In 1997 self-services had already risen to 80 per cent of all of the basic services transacted by customers.

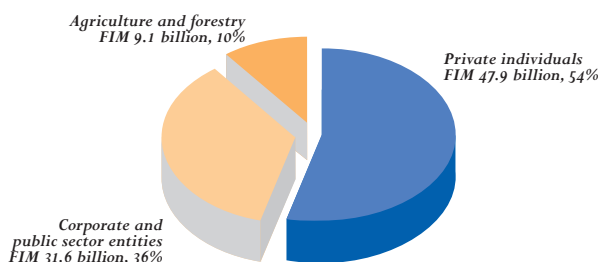
The Gold Coin telebanking service saw a nearly 50 per cent increase in its number of customers, to 205 000. A factor that contributed to the growth was the GSM telephone service which the OKOBANK Group started in 1996 – the first bank in the world to do so. In September 1997 the GSM service received the Innovation of the Year Award at the international Smart Card Conference in Helsinki.

The number of customers using the Gold Coin terminal service doubled, to 95 000. The spread of Internet services has had a major influence on the growth of Gold Coin terminal service agreements. The OKOBANK Group revamped its Internet home page and service in the autumn 1997, especially diversi-



*The OKOBANK Group's GSM service enables you to do your most important banking any time you choose.*





OKOBANK Group credits by customer sectors,  
Dec. 31, 1997

FIM billion	Dec. 31, 1997
Enterprises	29.5
Manufacturing	7.5
Construction	2.6
Commerce, catering and hotels	6.4
Business to business services	8.0
Others	5.0
Public and other entities	2.1
Private individuals	47.9
Agriculture and forestry	<u>9.1</u>
Total	88.5

OKOBANK Group lending by customer sectors

fyng and improving its Gold Coin services. New services included the execution of securities transactions, insurance services, loan applications, electronic payments and message intermediation.

### Every third Finn is our customer

The OKOBANK Group has a strong position as the main bank of private individuals. According to market surveys, approximately one Finn in three considers a member bank of the OKOBANK Group to be their main bank. A large proportion of the customers are also members of their own cooperative bank. Recruitment of members was stepped up further, leading to an increase of 37 000 members during the year, for a total of 647 000 members.

The OKOBANK Group has an important position especially as the bank of wage and salary earners. During the year co-operation with wage-earners' organisations was expanded, notably by renewing agreements with the Confederation of Unions for Academic Professionals and the Central Organisation of Finnish Trade Unions and by concluding new agreements with them and with the nationwide member organisations of the Finnish Confederation of Salaried Employees.

The OKOBANK Group's total credits to private individuals stood at nearly FIM 48 billion at the end of 1997. The housing loan portfolio grew by about 4 per cent and was more than FIM 38 billion at the end of the year. The OKOBANK Group had about a third of the deposit banks' total housing loans. During the year a special housing service package was developed, according to which customers are offered not only financing services but also advisory services connected with buying and building a house.

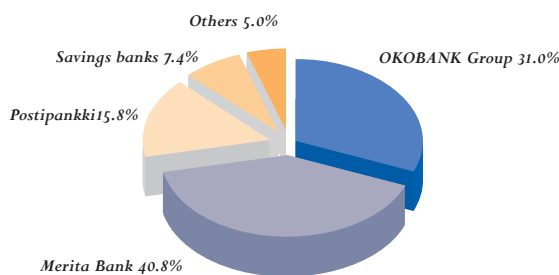
Private individuals' deposits with the OKOBANK Group increased by more than FIM one billion during the year and rose to about FIM 59 billion.

New forms of service that were mainly beamed at private individuals were the introduction of electronic purses, cash withdrawals at a store cash register as well as the granting of Eurocards and MasterCard to private individuals. The electronic purse is a product that has been launched jointly by the Finnish banks and is overseen by Automatia Ltd. The OKOBANK Group was the first bank to introduce cash withdrawals at a store cash register and it was also the first to grant MasterCard to private individuals.

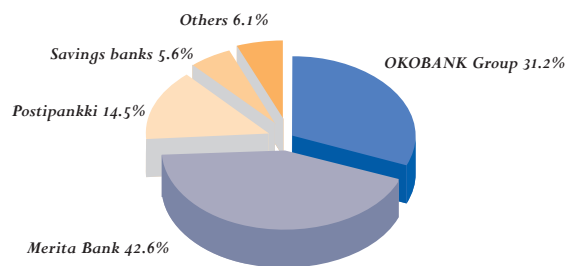
The OKOBANK Group also offers its customers payment protection. The Group's Payment Protection Plan was the first extensive insurance cover related to bank loans in Finland. It provides cover, among other things, against unemployment and short-term occupational disability or serious illness. The Plan has become an established part of the credits granted by member banks, and customers greatly value the advantages it provides. Every third new housing loan and every fourth short term loan is protected by the Plan.

Unsecured credit card lending and investment services for retail customers are offered by OP-Kotipankki Oy, which is in charge of the OKOBANK Group's telebank operations. OP-Kotipankki serves retail customers both directly and via the Group's service network.

Okopankki Oy serves retail customers in the Greater Helsinki area. During the year under review the bank rounded out its service network and introduced more flexible service hours. The bank's total loans grew by more than FIM 200 million, to FIM 5.1 billion, during the year.



Market shares in FIM deposits,  
Dec. 31, 1997



Market shares in FIM credits,  
Dec. 31, 1997

## A quarter share of corporate banking

The competitive situation within corporate financing services remained tight. The corporate sector's total loans taken out in Finland declined further. The OKOBANK Group's total loans to companies and public sector entities stood at FIM 31.6 billion at the close of the year – nearly at the same level as a year earlier. The Group has nearly a quarter share of the corporate financing provided by the deposit banks and other credit institutions.

The OKOBANK Group Central Cooperative is responsible for developing the OKOBANK Group's financial services that are offered to corporate customers. According to the division of labour within the Group, the member banks offer these services to small and medium-sized companies that operate in their own territories. Operations at the local level are furthermore supported by OKOBANK's subsidiaries, who offer their own products. OKOBANK's Corporate Bank in turn is specialised in nationwide financing service for large and medium-sized companies and offers a comprehensive range of products.

The OKOBANK Group offers long-term financing for public sector entities. It obtains the funds used for this purpose from the bond market via the member banks' network of offices, and it is thus also able to offer long-term investment products to the customers of the member banks.

The OKOBANK Group also offers corporate customers financing services that are backed by security and receivables. These include hire purchase, leasing and factoring services, to which collection and subledger management services can also be added. During the report year new products were developed, particularly in the area of working capital financing. The new mode of financing export receivables will help companies as they increasingly go global and the new forest financing is

designed to meet the financing needs of forest owners. The new products will come out on the market in the current year.

The OKOBANK Group also has a strong position in handling companies' payment transactions. The amount of domestic payments made through the Group grew by 10 per cent, and the amount of international payments grew by 13 per cent on the previous year.

## A transformation in saving

The favourable trend in the securities market continued in 1997. The HEX general index that tracks the prices of shares listed on the Helsinki Exchanges was 32 per cent higher at the end of the year than it was a year earlier. Turnover on the Helsinki Exchanges nearly doubled compared with the previous year and rose to a record level of more than FIM 186 billion.

The OKOBANK Group offers its customers versatile asset management and investment services. Saving through buying insurance in particular has rapidly become a popular form of investment. The OKOBANK Group's investment insurance policies are Kultaturva-Pension and Kultaturva-Savings. They are offered by the bank group's own Aurum Life Assurance Company. It has firmly established its position as one of Finland's largest life assurance companies, especially as measured in terms of premium income from policies taken out by private individuals.

The OKOBANK Group acts as a broker for domestic and foreign shares, bonds and notes, mutual fund shares and derivative instruments. It also offers asset management services to institutional investors, companies and private individuals. During the review year the bank group executed share trades totalling FIM 12.6 billion, which corresponded to a good 3 per

cent market share of the total turnover on the Helsinki Exchanges. The amount of client funds under management grew during the year to about FIM 8.7 billion, from FIM 5 billion.

The OKOBANK Group also arranges equity and bond financing and carries out corporate arrangements. On the busy share issue market in 1997, a large number of new companies gained listings on the stock exchange. About FIM 600 million of capital was obtained for clients through sales of shares.

The aggregate capital managed by the OKOBANK Group's mutual funds grew by 85 per cent during the year, to FIM 1.4 billion. The bank group's mutual funds are OP-Delta, OP-Interest, OP-Markka, OP-Forest, OP-Pirkka and OP-Yield as well as Opstock Global Balanced and Opstock Global Equity. The funds are managed by OP-Rahastoyhtiö Oy.

## **A strong position in financing agriculture and forestry**

Total agricultural output grew somewhat from the 1996 level. The lowering of transitional subsidies according to the EU agreement and the slight rise in costs lowered net income from agriculture somewhat. Income from forestry, however, grew substantially. The wood trade was at record levels. The largest-ever volume of roundwood was felled in private forests – 48 million cubic metres. Income increased substantially owing to this and to the rise in the price of roundwood, and it totalled

about FIM 9 billion.

After several quiet years, investments by rural entrepreneurs began to swing to rapid growth. This was speeded up by the increased investment support from the EU, which was directed at farms in southern Finland. There were a particularly large number of projects in pig breeding and poultry production. Investments to increase the size of farms, however, moved ahead slowly, and only about one thousand farms changed owner.

The decline in the portfolio of loans to agricultural customers came to a halt during 1997. This was largely due to the release of pent-up investment needs. The amount of credits which the OKOBANK Group granted to agriculture and forestry was about FIM 11.6 billion at the end of the year, with interest-subsidised loans accounting for FIM 2.5 billion of this amount and FIM 2.6 billion coming in the form of loans mediated from Treasury funds.

The OKOBANK Group's share of bank financing to the agricultural and forestry sector was about 62 per cent. The Group's share of income from forestry grew. According to a study, about 60 per cent of forest owners are customers of the OKOBANK Group.

The use of rationalised banking services spread amongst agricultural and forestry customers. The use of network services was promoted by marketing an Internet-based transaction package to rural entrepreneurs in conjunction with communications companies.

*The use of modern information technology is spreading among farmers. Bank services are right at one's fingertips.*



# Annual report of the OKOBANK Group

## Group structure and joint operations

The OKOBANK Group began a new form of joint operations on July 1, 1997. It is based on an amendment to the Cooperative Bank Act, which came into force in August 1996. The OKOBANK Group Central Cooperative acts as the statutory central institution of the bank group. The Central Cooperative was formed from the Central Association of the Finnish Cooperative Banks. Decision to amend the statutes of the Central Association was made in January 1997.

The OKOBANK Group is composed of the independent local member banks and the OKOBANK Group Central Cooperative with its subsidiaries. All in all, 252 cooperative banks amended their statutes, and OKOBANK Osuuspankkien Keskuspankki Oy its Articles of Association, in the manner specified in the Act and became members of the Central Cooperative. A total of 44 cooperative banks remained outside the realigned organisation.

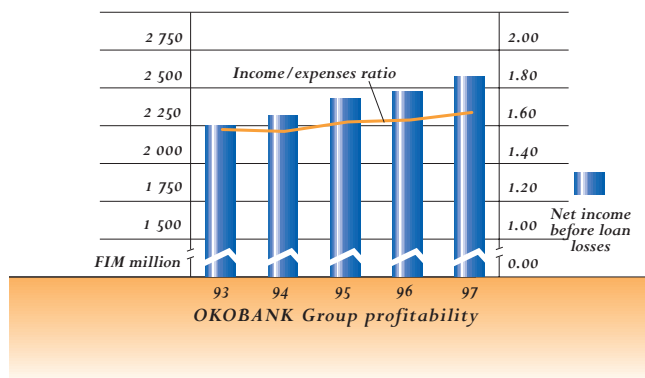
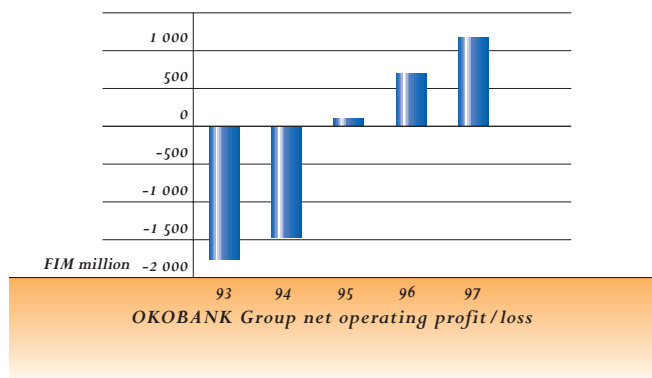
Owing to mergers during the year the number of member banks was reduced by three. Kylmäkosken Osuuspankki merged with Toijalan Osuuspankki, Merijärven Osuuspankki with Oulaisten Osuuspankki and Revonlahden Osuuspankki with Paavolan Osuuspankki. In addition, Palojoen Osuuspankki merged with Huittisten Osuuspankki, and due to the merger Palojoen Osuuspankki did not make a separate decision on becoming a member bank. The Central Cooperative thus had 250 member banks at the end of the year, i.e. 249 cooperative banks and OKOBANK. A list of the OKOBANK Group's member cooperative banks is given on page 32 of the Annual Report.

In its daily operations, the OKOBANK Group relies on independence and local decision-making at all the banks belonging to the Group. Joint operations emphasise and strengthen the membership of the independent banks within a unified bank

group. Joint operations are also enhanced by access to the Group's resources both in local and nationwide banking activities. The amalgamation of the cooperative banks gives each bank the joint security of the entire OKOBANK Group because the member credit institutions give each other cover by acting as lenders of last resort for each other's liabilities and commitments in the manner specified in Chapter 2 a of the Cooperative Bank Act. The cover is also defined in the statutes of the Central Cooperative and its member banks as well as in OKOBANK's Articles of Association.

The Central Cooperative issues the member cooperative banks and OKOBANK joint guidelines on the basis of which the banks implement their own risk management. If necessary, the Central Cooperative steers individual member banks by issuing special guidelines if the bank's capital adequacy, liquidity or risk management are jeopardised. Supervision of the member credit institutions is carried out in accordance with the risk management and auditing system that has been approved by the Central Cooperative's Supervisory Board. The means of exercising supervision are reporting and risk analysis methods in which the main attention is on risks connected with lending as well as on real-estate and asset and liability risks. In addition, audits are used in carrying out supervision. In precisely defined cases the cooperative banks can be granted exemptions from certain provisions of the Credit Institution Act.

The OKOBANK Group's resources safeguard the operations of all the member credit institutions. The authorities supervise capital adequacy, liquidity and customer risks at the level of the entire Group. The loss equalisation system is based on the actions carried out by the OKOBANK Group Mutual Insurance Company and on membership of the OKOBANK Group Security Fund. All the Group's member banks belong to the OKOBANK Group Insurance Company and the OKO-



BANK Group Security Fund. An individual bank can, if needed, temporarily operate on the basis of the capital adequacy calculated for the OKOBANK Group even though its own capital adequacy is not sufficient.

## Operations and result

### *A record result – net operating profit reaches nearly FIM 1.2 billion*

The OKOBANK Group achieved a record-making net operating profit of FIM 1 181 million in 1997. The net operating profit in the previous year was FIM 705 million, and the growth on the year was accordingly 68 per cent. The improvement was mainly due to the reduction in loan and guarantee losses.

Of the OKOBANK Group's 250 member banks, 234 posted a profit in 1997. The number of loss-making banks fell from the previous year's 33 to 16.

The OKOBANK Group's total income remained roughly on a par with the previous year and totalled FIM 6 391 million. Total expenses declined by 2 per cent to FIM 3 800 million.

The bank group's most important income item, net income from financial operations, was FIM 3 755 million, an increase of 2 per cent on 1996. During 1997 net income from financial operations rose steadily: it improved in each quarter of the year.

The growth in net income from financial operations was due to a number of factors. The renewal of accounts that was carried out in the spring evened out the changes in borrowing and lending interest rates, thus improving the management of interest rate risk and increasing net income from financial operations. Furthermore, the slight rise in the level of interest rates beginning in the summer had a positive effect on net income from financial operations. In addition, net income from financial

operations was buoyed by the revival in demand for credits and the contraction in non-performing claims. Interest on the Government's capital investments totalled FIM 90 million during the financial year.

Other income amounted to FIM 2 635 million, or about FIM 60 million less than in the previous year. The reduction was due to the substantial decrease in net income from securities transactions compared with 1996, when it was exceptionally large.

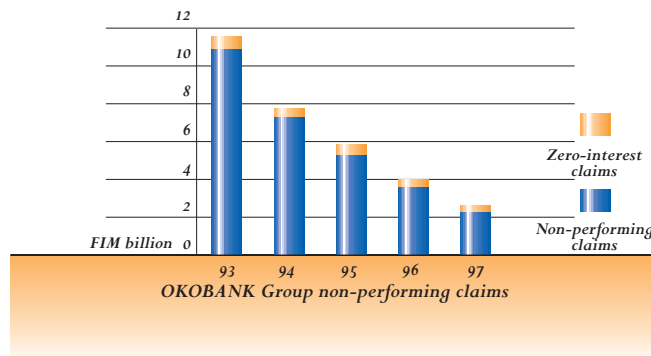
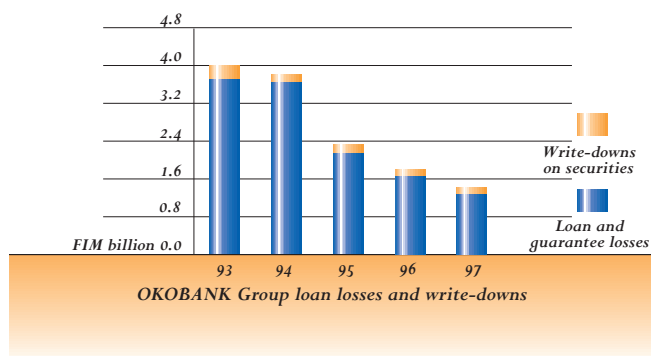
Commission and fee income totalled FIM 1 450 million, or FIM 26 million less than in 1996. The decrease was attributable to the smaller commission and fee income on securities transactions and lending.

Staff costs were down by 5 per cent and totalled FIM 1 741 million. Other expenses, however, grew somewhat and were FIM 2 059 million. The increase was due to the higher level of other administrative expenses.

The OKOBANK Group's net income before loan losses rose by FIM 97 million, or almost 4 per cent, from the previous year and was FIM 2 590 million. The income/expenses ratio was 1.68, as against 1.64 in 1996.

### *OKOBANK Group performance*

FIM million	1997	1996	Change, %
Net income from financial operations	3 755	3 680	2
Other operating income	2 635	2 692	- 2
Total income	6 391	6 372	0
Staff costs	1 741	1 832	- 5
Other expenses	2 059	2 047	1
Total expenses	3 800	3 879	- 2
Profit before loan and guarantee losses	2 590	2 493	4
Loan and guarantee losses	1 272	1 666	- 24
Write-downs on securities	146	129	13
Share of profit/loss of companies included using the equity method	9	7	29
Net operating profit	1 181	705	68
Income/expenses ratio	1.68	1.64	



### Loan losses down by a quarter

Loan and guarantee losses contracted by nearly a quarter from 1996 and were FIM 1 272 million. The member banks' share of this amount was FIM 1 213 million and OKOBANK Consolidated's share was FIM 59 million. In 1996 the OKOBANK Group's loan and guarantee losses were FIM 1 666 million, of which the member cooperative banks' share was FIM 1 495 million and OKOBANK Consolidated's share was FIM 171 million. The Group booked some FIM 146 million of write-downs on securities held as financial fixed assets in 1997, or FIM 17 million more than a year earlier.

The OKOBANK Group's non-performing claims totalled FIM 2.3 billion at the end of 1997, down FIM 1.3 billion on the previous year. In addition, the bank group had FIM 0.3 billion of zero-interest claims, as against FIM 0.4 billion a year earlier.

In both 1996 and 1997 the reduction in the OKOBANK Group's total non-performing claims has exceeded the loan and guarantee losses booked. In 1997 the Group booked 36 per cent of the outstanding non-performing claims as loan losses. In 1997 non-performing claims were under 3 per cent of the loan portfolio.

### Loans and deposits up

The OKOBANK Group's portfolio of FIM-credits was FIM 84.3 billion at the end of 1997, slightly greater than a year earlier. The member cooperative banks' credit portfolio at the turn of the year stood at FIM 67.4 billion. Okopankki's credit portfolio was FIM 5.1 billion and that of the rest of OKOBANK Consolidated FIM 11.8 billion.

The OKOBANK Group's total FIM-deposits grew by nearly one per cent and totalled FIM 89.9 billion. Total deposits with the member cooperative banks were FIM 82.6 billion, those with Okopankki FIM 5.3 billion and total deposits with

the other units of OKOBANK Consolidated amounted to FIM 2 billion.

### Real-estate holdings shrink

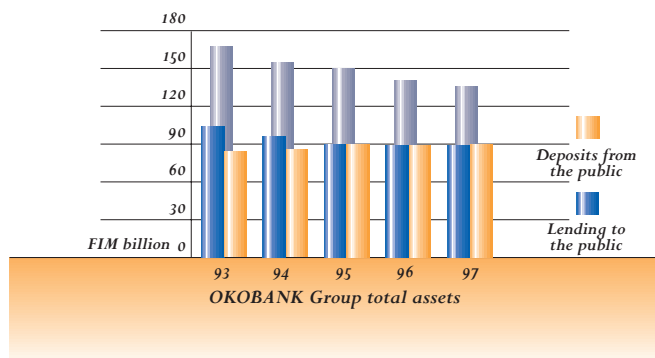
According to the member banks' unaudited statements of real-estate holdings, the capital invested in real estate held by the member banks and their consolidated subsidiaries shrank during the financial year from FIM 12.7 billion to FIM 11.9 billion. The invested capital includes not only the book value of the holdings but also the proportion of the debt which the member banks' holding represents in the real-estate company. The figures include real estate and shares and participations in real-estate corporations that are both in use and not in own use. Residential units accounted for FIM 1.5 billion of the invested capital at the end of the year. According to the statements of real-estate holdings, the net yield from real estate and shares and participations in real-estate corporations other than those in own use was 4.5 per cent.

The member banks and other institutions consolidated within the OKOBANK Group's annual accounts wrote down the values of real-estate holdings in their accounts by a total of FIM 121.4 million. Disposals of real-estate holdings other than those in own use resulted in gains on sale totalling FIM 61.2 million and losses on sale totalling FIM 50 million during the financial year. The breakdown of real-estate holdings by type of property, the principles of valuing real-estate holdings and the risk associated with the real-estate holdings are described in Note 9.

### Total assets: FIM 136 billion

The OKOBANK Group's total assets as at December 31, 1997, stood at FIM 135.7 billion, down FIM 5.8 billion on the previous year. During the year the Group's claims on credit institutions and central banks diminished by FIM 2.7 billion and the total debt securities contracted by FIM 1.6 billion.





The OKOBANK Group's annual accounts for 1997 have been prepared according to the Financial Supervision's regulations concerning the amalgamation of the cooperative banks. It has not been possible to calculate all the relevant comparison figures for previous years according to the statutes of the amalgamation, but instead the figures for the 44 cooperative banks that remained outside the amalgamation have been subtracted from the figures for the entire former OKOBANK Group. Additional information on the comparability of the figures is given in the section on accounting policies.

#### Annual accounts according to the new regulations

### OKOBANK Group domestic funding

FIM billion	Dec. 31, 1997	Dec. 31, 1996	Change, %
Deposit accounts	72.0	72.3	- 0
Cheque accounts	17.9	17.0	5
FIM deposits	89.9	89.3	1
Foreign currency deposits	0.8	1.1	- 27
Deposits from the public, total	90.7	90.4	0
Other funding	24.1	24.1	0
From money markets	17.6	16.9	4
From capital markets	6.4	7.2	- 11
Domestic funding, total	114.8	114.5	0

### OKOBANK Group domestic lending and market investments

FIM billion	Dec. 31, 1997	Dec. 31, 1996	Change, %
FIM credits	84.3	83.8	1
Credits from Treasury funds	3.1	3.4	- 9
Credits in foreign currency	1.5	2.0	- 23
Total lending to the public and public sector entities	88.9	89.1	- 0
Bonds	6.6	6.6	- 1
Domestic lending	95.5	95.8	- 0
Market investments	11.7	13.3	- 12
Domestic lending and market investments, total	107.2	109.1	- 2

### Capital adequacy ratio 11.6 per cent

The OKOBANK Group's capital adequacy ratio at the end of 1997 was 11.6 per cent. A year earlier it was 11.3 per cent.

The capital adequacy structure improved significantly. This was due to improved profitability and the member banks' acquisition of cooperative capital. During the year the cooperative capital grew by FIM 438 million, to FIM 1.4 billion.

The OKOBANK Group's Tier I own funds were FIM

5 331 million. This figure includes FIM 709 million of the Government's capital investment that was made in 1992. Tier I own funds at the end of 1996 amounted to FIM 5 448 million, which included FIM 2 022 million of capital investments by the Government and the Government Security Fund.

In 1997 the OKOBANK Group repaid a total of FIM 1 314 million of these capital investments. In June, 14 cooperative banks repaid a total of FIM 45.2 million of the Government Security Fund's capital investments. In December, FIM 815.6 million of the Government's capital investments and FIM 453 million of the Government Security Fund's capital investments were repaid. The repayment was carried out such that 13 member banks of the Group themselves paid a total of FIM 146.2 million of capital investments. In addition, OKOBANK redeemed, from the Government, capital certificates of 27 member banks in a total amount of FIM 1 122.4 million and made capital investments of FIM 1 268.6 million in these banks.

Following these repayments, the OKOBANK Group (Osuuspankki Realum) still had FIM 709 million of the Government's capital investment on its books. This will be repaid during 1998.

The OKOBANK Group's capital adequacy was furthermore supported by its capital funding programme, in line with which OKOBANK issued a USD 135 million perpetual loan on the international market. In addition, the member banks and OKOBANK issued three debenture loans in Finland, by means of which they acquired a total of FIM 488 million of capital. Thanks to these measures, the OKOBANK Group's Tier II own funds grew by nearly FIM half a billion and totalled FIM 4.8 billion at the end of the year.

### **OKOBANK Group capital adequacy**

<i>FIM million</i>	<i>Dec. 31, 1997</i>	<i>Dec. 31, 1996</i>
<i>Own funds</i>		
<i>Tier I</i>	5 331	5 448
<i>Tier II</i>	4 797	4 306
<i>Deductions</i>	434	210
<i>Total</i>	9 694	9 544
<i>Risk-weighted receivables and commitments</i>	83 240	84 626
<i>Capital adequacy ratio, %</i>	11.6	11.3

### **Reduced support contributions by the OKOBANK Group Security Fund**

The OKOBANK Group Security Fund granted FIM 394 million in support to its member banks in 1997, or FIM 93 million less than in 1996. The need for support was reduced by the change-over to the new form of joint operations as well as by transfers of the Government's capital investments within the OKOBANK Group, as was done last year. In addition, the Security Fund paid FIM 69 million of interest on the capital investments which the member banks received from the Government on behalf of those banks which did not have distributable funds on the basis of their 1996 financial statements.

The Security Fund collected FIM 855 million of contributions from its member banks at the maximum statutory collection rate (%). The Security Fund's own equity capital totalled FIM 21 million.

The Security Fund's total assets were FIM 3 543 million. The total amount of the member banks' loans granted to the Security Fund declined by FIM 151 million and was FIM 2 930 million at the end of the year. The total amount of the liabilities in the Security Fund's financial statements as at December 31, 1997

(FIM 4 634 million) and the liabilities estimated up to December 31, 2004 (FIM 1 811 million) was FIM 6 445 million at the end of 1997. This figure includes, among other things, the above-mentioned loans and the guarantees provided by the Security Fund as well as the contributions needed to support the phasing out of Osuuspankki Realum. About two thirds of the Fund's total liabilities mentioned previously have been caused by support decisions which are connected with the losses booked by the end of 1997 by the banks supported by the Security Fund. The capital investments subscribed by the Security Fund have not been taken into account as a factor reducing liabilities, nor have other assets in the Security Fund's balance sheet.

### **Salaries and personnel**

The OKOBANK Group had an average payroll of 8 951 employees during the financial year, and 8 695 employees at the end of the year. Total wages and salaries during the financial year were FIM 1 366 million.

### **The OKOBANK Group's outlook for the future**

The OKOBANK Group posted a record result for the 1997 financial year. The total amount of loan and guarantee losses as well as write-downs on securities declined for the fourth year in succession.

The OKOBANK Group estimates that its result will improve further in the current year. The estimate is based on the present trend in the national economy and on the assumption that significant market disturbances will not occur.

## Accounting policies

The 1997 annual accounts of the OKOBANK Group (the amalgamation of the cooperative banks) were consolidated for the first time in accordance with the regulations of the Cooperative Bank Act and the Financial Supervision concerning the annual accounts of the amalgamation of the cooperative banks. The annual accounts of the OKOBANK Group do not constitute full consolidated annual accounts as specified in the Accounting Act. Joined annual accounts are drawn up from the audited annual accounts of the central organisation and the member credit institutions and their subsidiaries in compliance with the provisions or regulations issued on the consolidated annual accounts of a credit institution, where applicable. The auditors of the OKOBANK Group Central Cooperative audit the consolidated annual accounts.

The OKOBANK Group's annual accounts comprise a consolidated profit and loss account and balance sheet, the notes to them and the report on operations. The comparison figures for the previous year which are stated in the annual accounts as well as other figures describing the period previous to the 1997 financial year have been obtained by subtracting the figures for the 44 cooperative banks that remained outside the OKOBANK Group from the OKOBANK Group's figures for each specific reporting period. Adjustments due to changes in the accounting policy have not been made in the figures for the previous financial year. Accordingly, the figures are not fully comparable with those of the year under review. The changes in the accounting policy have only a minor effect on the profit and loss account and the balance sheet. All the figures and tables describing the operations and financial position of the OKOBANK Group for 1996 and previous periods are unaudited.

In accordance with the regulation which the Financial Supervision has issued concerning the preparation of the amalgamation's annual accounts, the OKOBANK Group's

annual accounts contain 19 notes summarising the financial institution's 36 notes. The Notes to the OKOBANK Group's annual accounts contain references to the number of the credit institution's corresponding note to the annual accounts.

Principles applied in consolidating the annual accounts of the OKOBANK Group

### *Principles applied in consolidating the annual accounts of the OKOBANK Group*

#### *Extent of the OKOBANK Group's annual accounts*

In accordance with a regulation of the Financial Supervision, the OKOBANK Group's financial statements comprise a consolidation of the financial statements of the cooperative banks which are members of the OKOBANK Group Central Cooperative, the OKOBANK Group Central Cooperative, OKOBANK, the OKOBANK Group Security Fund, the OKOBANK Group Mutual Insurance Company as well as those companies in which the OKOBANK Group's voting interest is directly or indirectly more than 50 per cent. Associated companies and joint ventures in which OKOBANK Consolidated has a 20–50 per cent holding have been included in the consolidated annual accounts in the equity method. The companies can be excluded from the annual accounts if the total assets are less than FIM 60 million and if exclusion of the company have a minor effect on the OKOBANK Group's financial position.

In accordance with the regulations, the consolidation of the OKOBANK Group includes the annual accounts of the member cooperative banks (listed on page 32), the OKOBANK Group Central Cooperative (Helsinki), OKOBANK Consolidated (Helsinki), the OKOBANK Group Security Fund (Helsinki), the OKOBANK Group Mutual Insurance Company (Hel-

sinki), Op-Tukku Oy (Helsinki), Kiinteistö Oy Pekurinkulma (Oulu), Jyväskylän Kassatalo Oy (Jyväskylä), Kiinteistöjoitusyhtiö-Nopkin Oy (Jyväskylä), Kiinteistö Oy Krassipuisto (Vantaa), Kiinteistö Oy Vammalan Torikeskus (Vammala), Tammermaan OP-Kiinteistökeskus (Tampere) and Keski-Suomen Tilaja kiinteistöpalvelu Oy (Jyväskylä). Aurum Life Assurance Company has been consolidated according to the equity method.

More detailed information on the operations of OKOBANK and its consolidated subsidiaries is given in the Annual Report of OKOBANK Osuuspankkien Keskuspankki Oy.

The OKOBANK Group's annual accounts exclude 336 subsidiaries and associated companies of cooperative banks. These have been consolidated in the consolidated annual accounts of the cooperative bank in question. The aggregate total assets of these companies amount to FIM 2 394 million (1.8 per cent of the OKOBANK Group's total assets). The consolidation of the companies in the Group's annual accounts would have reduced its equity capital by FIM 115 million but improved the capital adequacy by about 0.1 percentage point.

### ***Consolidation of the annual accounts***

The credit and financial institutions, investment service companies, mutual funds and service companies pursuant to the annual account regulations issued by the Financial Supervision and the OKOBANK Group Mutual Insurance Company have been consolidated according to the acquisition cost method. Ultimately OKOBANK Group's equity capital comprises the equity capital of the member cooperative banks and OKOBANK to the extent that the shares and participations are held by companies not belonging to the OKOBANK Group. The OKOBANK Group Security Fund has also been consolidated in the OKOBANK Group's annual accounts according to the acquisition cost method. The proportion which the cooperative banks not belonging to the OKOBANK Group represent in the Security Fund's result and equity capital has been separated out as minority interest. In the consolidation, the entity comprised by the cooperative banks has been treated as a parent company in the technical sense.

The OKOBANK Group began its new form of joint operations on July 1, 1997. The Group's profit and loss account includes, however, figures of the entire 1997 financial year.

Intra-Group business transactions included in the separate annual accounts, internal ownership and distribution of profits as well as intra-Group receivables and liabilities have been eliminated.

### ***Principles applied in preparing the annual accounts of the member banks***

The annual accounts of the credit and financial institutions as well as investment service companies belonging to the OKOBANK Group have been prepared in accordance with the provisions of the Credit Institution Act and the regulations of the Financial Supervision which were in force on the date of closing the books. The OKOBANK Group Central Cooperative, as the central institution of the OKOBANK Group, has issued its member credit institutions more detailed guidelines for preparing the annual accounts.

### ***Items denominated in foreign currency***

Foreign currency-denominated balance sheet items, off-balance sheet items as well as the annual account information concerning foreign subsidiaries and OKOBANK's foreign branch office have been translated into Finnish markkaa using the average exchange rates of the foreign currencies on the closing date. The foreign exchange rate differences arising from the valuation are included in the profit and loss account item Net income from foreign exchange dealing.

### ***Receivables***

A receivable is entered in the balance sheet at the value that was paid for it at the moment of acquisition or at its market value, whichever is lower. The difference between the acquisition cost and the nominal value of the receivable is periodised as interest income and is an increase or decrease in the acquisition cost of the receivable.

### ***Debt securities***

Debt securities are divided into debt securities not held as financial fixed assets and those that are held as financial fixed assets. The breakdown is presented in the notes to the annual accounts. Included in the item Other are debt securities which are to be held as financial fixed assets up to their due date. Debt securities held as financial fixed assets are to be held up to their due date. Debt securities not held as financial fixed assets are valued at the acquisition cost, adjusted for the periodised price difference, or the market value on the closing date, whichever is lower. Other debt securities are valued at the acquisition cost, adjusted for the periodised price difference, or the market value in so far as their value on the closing date is permanently lower than their book value.

Gains and losses on debt securities not held as financial fixed assets as well as changes due to write-downs are entered in net income from securities transactions. Write-downs on other debt securities are entered under the item Write-downs

on securities held as financial fixed assets. Any reversals of write-downs are entered as a correction to the same item in the profit and loss account.

#### ***Purchase price of Savings Bank of Finland***

The price paid for the purchase of the business operations of Savings Bank of Finland Ltd in 1993 has been credited to accrued income and prepayments. The capitalised purchase price will be amortised over the period when the purchased credit portfolio falls due, but nevertheless over a maximum of 12 years.

#### ***Repurchase and resale agreements concerning debt securities***

The purchase price of securities purchased on irrevocable resale terms has been entered as a receivable in the balance sheet item according to the party to the agreement. The difference between the purchase price and resale price is periodised as interest income for the period of validity of the agreement.

The sale price of securities sold on irrevocable repurchase conditions that has been entered as a liability and the difference between the sale price and repurchase price is booked as interest expense for the period of validity of the agreement. Securities sold under repurchase obligations are included in the original balance sheet item irrespective of the agreement.

#### ***Shares and participations***

Shares are divided into shares not held as financial fixed assets and those which are held as financial fixed assets. The breakdown is presented in the Notes to the annual accounts. Treated as shares held as financial fixed assets are shares in subsidiaries and associated companies, other shares acquired for long-term ownership as well as shares and participations which it is necessary for the credit institution to own in order to procure the services it requires.

Shares not held as financial fixed assets are valued at the acquisition cost or the market value on the closing date, whichever is lower. Other shares and participations are valued at the acquisition cost or their market value in so far as their value on the closing date is permanently lower than their book value.

Gains and losses on the sale of shares not held as financial fixed assets as well as changes due to write-downs have been entered in net income from securities transactions. Write-downs on other shares have been entered in the item Write-downs on securities held as financial fixed assets. Reversals on write-downs have been entered as a correction to the same item in the profit and loss account.

#### ***Tangible and intangible assets***

The balance sheet value of tangible and intangible assets is the acquisition cost less planned depreciation and any additional depreciation. In the separate annual accounts, the accumulated difference between booked and planned depreciation is included in voluntary provisions in the balance sheet.

The gains and losses on the sale of real-estate properties and real-estate corporations that are in own use are included in extraordinary items. Gains on the sale of shares in real estate and real-estate corporations that are not in own use are entered as Other operating income and the losses on such sales as Other operating expenses. Permanent write-downs on real-estate shares are entered in the item Write-downs on securities not held as financial fixed assets. Any reversals of write-downs are booked as a correction to the same item in the profit and loss account.

Tangible and intangible assets subject to wear are depreciated according to the depreciation plans determined for each individual company. On the basis of the regulation issued by the Financial Supervision, a real-estate company that is a subsidiary can omit the entry of depreciation according to plan in its separate annual accounts. The depreciation in the OKO-BANK Group's annual accounts, however, is adjusted to conform to the plan.

#### ***Derivative contracts***

Accrued interest on interest rate swaps and the point difference of currency forward contracts have been booked under net income from financial operations, as has the share for the financial year of the income and expenses on interest rate forward contracts which are used to hedge interest-bearing balance sheet items other than those not held as financial fixed assets.

The result for the financial year of a change in the market values of derivative contracts taken out for hedging purposes has been booked under net income from securities transactions, which also includes the valuation result of contracts taken out for trading purposes.

The changes in the valuation of hedging contracts have been treated in a manner corresponding to the change in valuation of balance sheet items that are to be hedged.

Premiums paid on options have been valued at the acquisition cost or the market value, whichever is lower, and income or expenses have been entered in the net income from securities transactions. The change in the FIM countervalue of derivative contracts denominated in foreign currency has nevertheless been entered in net income from foreign exchange transactions.

### ***Non-performing claims***

In accordance with the regulation of the Financial Supervision, a receivable is considered to be non-performing when its interest or principal, or part of either, is overdue by 90 days.

A guarantee receivable is classified as non-performing as soon as the bank has effected the payment on the grounds of the guarantee. The accrued interest on non-performing claims has been cancelled when the claim has been classified as non-performing. The amount of non-performing claims is given in the Notes to the annual accounts.

### ***Loan and guarantee losses***

Loan and guarantee losses comprise irredeemable losses and shortfalls on receivables and guarantee commitments as well as write-downs on assets. Write-downs are entered as specific credit loss provisions when it has become apparent that a payment will not be received for the receivable or to the extent that a repayment is not expected from collateral.

In reporting loan losses, property serving as collateral for the receivable is valued at the estimated realisable market value of the property.

Recoveries on receivables written off in previous years have been reported as a reduction in the loan and guarantee losses.

### ***Extraordinary items***

Extraordinary income and expenses include such substantial and extraordinary items as are not involved in the ordinary operations of the consolidated companies during the financial year.

### ***Pension expenditure***

The statutory pension security of companies and institutions consolidated within the Group has as a rule been arranged through the OKOBANK Group Pension Fund and supplementary pension security through the OKOBANK Group Pension Foundation.

### ***Compulsory provisions***

Entered as compulsory provisions is a provision for such itemisable future expenses as are probable or certain but whose amount and time of occurrence is still uncertain.

### ***Voluntary provisions and depreciation difference***

The voluntary provisions and depreciation difference in the separate annual accounts of individual consolidated companies include voluntary appropriations, such as loan loss provisions as well as the difference between booked and planned depreciation. In the OKOBANK Group's balance sheet, voluntary provisions and the depreciation difference are divided, in accordance with the regulation issued by the Financial Supervision, between distributable equity capital and the imputed deferred tax liability, and in the profit and loss account they are booked under the change in provisions and the change in the imputed deferred tax liability. The corporate tax percentage in force at the time of preparing the annual accounts has been used in calculating the imputed deferred tax liability.

## OKOBANK Group profit and loss account

FIM million	January 1 to December 31, 1997		January 1 to December 31, 1996	
Interest income				
Claims on credit institutions and central banks	364		274	
Claims on the public and public sector entities	5 502		6 175	
Debt securities	1 084		1 431	
Other interest income	139	7 088	13	7 893
Net leasing income		22		35
Interest expenses				
Liabilities to credit institutions and central banks	183		214	
Liabilities to the public and public sector entities	1 524		2 174	
Debt securities issued to the public	837		1 215	
Subordinated liabilities	499		507	
Capital investments	90		108	
Other interest expenses	223	3 355	29	4 248
<b>Net income from financial operations</b>		<b>3 755</b>		<b>3 680</b>
Dividend income		33		36
Commission income		1 450		1 476
Commission expenses		134		163
Net income from securities transactions and foreign exchange dealing				
Net income from securities transactions				
Debt securities	46		246	
Shares and participations	86		139	
Other	41	173	19	404
Net income from foreign exchange dealing		52	225	39
Other operating income		926		737
Administrative expenses				
Staff costs				
Wages and salaries	1 366		1 452	
Pension costs	210		201	
Other social security costs	111		115	
Other staff-related costs	55	1 741	64	1 832
Other administrative expenses		699	2 440	625
Depreciation		382		404
Other operating expenses		843		856
Loan and guarantee losses		1 272		1 666
Write-downs on securities held as financial fixed assets		146		129
Share of profit/loss of companies included in the accounts using the equity method		9		7
<b>Net operating profit</b>		<b>1 181</b>		<b>705</b>
Extraordinary income		35		151
Extraordinary expenses		54		148
<b>Profit before appropriations and taxes</b>		<b>1 162</b>		<b>708</b>
Change in voluntary provisions and depreciation difference		-91		-6
Direct taxes				
Taxes for the financial year and previous financial years	336		246	
Change in imputed taxes due	35	372	-3	243
Share of profit for the financial year attributable to minority interests		5		7
<b>Profit for the financial year</b>		<b>694</b>		<b>453</b>

## OKOBANK Group balance sheet

<i>Assets</i>	December 31, 1997		December 31, 1996	
FIM million				
Liquid assets				
Cash in hand	1 115		1 183	
Claims on central banks repayable on demand	<u>1 035</u>	2 149	<u>2</u>	1 185
Claims on credit institutions and central banks				
Claims on central banks other than those repayable on demand	1 578		1 618	
Claims on credit institutions				
Repayable on demand	264		121	
Other	<u>6 664</u>	6 928	<u>9 457</u>	9 578
Claims on the public and public sector entities		89 319		89 688
Leasing assets		621		615
Debt securities				
Claims on public sector entities	10 545		10 605	
Other	<u>8 534</u>	19 079	<u>10 121</u>	20 726
Shares and participations		716		772
Shares and participations in subsidiaries and associated companies				
Credit institutions	43		–	
Other	<u>539</u>	582	<u>487</u>	487
Intangible assets				
Consolidated goodwill	7		6	
Other intangible assets	<u>119</u>	126	<u>91</u>	98
Tangible assets				
Land and buildings				
In own use	1 568		1 781	
Other	<u>1 954</u>	3 523	<u>1 592</u>	3 373
Shares and participations in real estate corporations				
In own use	1 515		1 783	
Other	<u>4 688</u>	6 203	<u>4 659</u>	6 443
Machinery and equipment	375		328	
Other tangible assets	<u>161</u>	10 262	<u>160</u>	10 304
Other assets				
Cash items in the process of collection	83		504	
Guarantee claims	519		818	
Other	<u>452</u>	1 053	<u>900</u>	2 222
Accrued income and prepayments				
Interest	3 137		3 723	
Other	<u>107</u>	3 244	<u>446</u>	4 169
		<u><u>135 657</u></u>		<u><u>141 462</u></u>



<i>Liabilities</i>	December 31, 1997			December 31, 1996		
FIM million						
<i>Liabilities</i>						
Liabilities to credit institutions and central banks						
Central banks		2			3 116	
Credit institutions						
Repayable on demand	381			400		
Other	<u>3 093</u>	<u>3 474</u>	3 476	<u>2 991</u>	<u>3 391</u>	6 507
Liabilities to the public and public sector entities						
Deposits						
Repayable on demand	28 394			31 277		
Other	<u>62 887</u>	<u>91 281</u>		<u>59 761</u>	<u>91 037</u>	
Other liabilities		<u>4 648</u>	95 929		<u>5 667</u>	96 704
Debt securities issued to the public						
Bonds		3 072			4 520	
Other		<u>13 577</u>	16 649		<u>12 808</u>	17 329
Other liabilities						
Cash items in the process of collection		1 722			1 644	
Other		<u>1 768</u>	3 490		<u>3 388</u>	5 032
Accrued expenses and deferred income						
Interest		2 187			2 568	
Other		<u>510</u>	2 696		<u>767</u>	3 336
Compulsory provisions						
Pension provisions		7			1	
Other compulsory provisions		<u>125</u>	131		<u>109</u>	110
Subordinated liabilities						
Imputed taxes due			449			413
Minority interests			29			32
<i>Equity capital</i>						
Restricted equity						
Share capital and cooperative capital	1 818			1 353		
Reserve fund	3 914			4 231		
Revaluation reserve	344			356		
Capital investments	<u>709</u>	6 785		<u>2 022</u>	7 963	
Distributable equity						
Profit/loss brought forward	-2 744			-3 489		
Proportion of voluntary provisions and depreciation difference transferred to equity capital	1 152			1 057		
Profit for the financial year	<u>694</u>	<u>-898</u>	<u>5 887</u>	<u>453</u>	<u>-1 979</u>	<u>5 984</u>
			<u><u>135 657</u></u>			<u><u>141 462</u></u>
<i>Off balance sheet commitments</i>						
Commitments given to a third party on behalf of a customer						
Bills of exchange			—			—
Guarantees and pledges			7 900			8 664
Irrevocable commitments given in favour of a customer			<u>6 742</u>			<u>6 136</u>
Total			14 642			14 800

## OKOBANK Group financial ratios

	1997	1996
Turnover, FIM million	9 885	10 755
Net operating profit, FIM million	1 181	705
% of turnover	11.9	6.6
Profit before voluntary provisions and taxes, FIM million	1 162	708
% of turnover	11.8	6.6
Return on equity (ROE)*, %	17.6	11.6
Return on assets (ROA), %	0.59	0.32
Equity/total assets ratio, %*	3.8	2.8
Income/expenses ratio	1.68	1.64

\*The ratio is calculated without capital investments.

### Calculation of key ratios

#### Turnover

The sum total of interest income, income from leasing operations, dividend income, commission income, net income from securities transactions and foreign exchange dealing and other operating income.

#### Net operating profit/loss

Net operating profit/loss according to the profit and loss account

#### Profit or loss before voluntary provisions and taxes

Profit/loss before appropriations and taxes according to the profit and loss account

#### Return on equity (ROE), %

$$\frac{\text{Net operating profit/loss less taxes}}{\text{Equity capital + minority interests + voluntary provisions + depreciation difference less deferred taxes due}} \times 100$$

(average of the figures for the beginning and the end of the year)

#### Return on assets (ROA), %

$$\frac{\text{Net operating profit/less taxes}}{\text{Average balance sheet total (average of the figures for the beginning and the end of the year)}} \times 100$$

#### Equity/total assets ratio, %

$$\frac{\text{Equity capital + minority interests + voluntary provisions + depreciation difference less deferred taxes due}}{\text{Total assets}} \times 100$$

#### Income to expenses ratio

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

## Notes to the accounts

The notes are numbered according to regulation 306.2 of the Financial Supervision. Given in brackets beside the heading of the note is the corresponding number of the note in the credit institution's accounts.

FIM million

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**1) Debt securities (under assets) and debt securities issued to the public (under liabilities) by type of instrument (1)**

Assets	
Certificates of deposit	7 097
Commercial paper	10
Treasury bills	2 530
Local authority paper	10
Subordinated debt securities	54
Convertible bonds	78
Bonds with equity warrants	1
Other bonds	9 259
Other	40
Total	19 079
Liabilities	
Certificates of deposit	13 004
Bonds	3 072
Other	574
Total	16 649

**2) Maturity breakdown of claims and liabilities by balance sheet item (2)**

According to the remaining maturity	3 months or less	3 months to 1 year	1 to 5 years	over 5 years
Claims on credit institutions and central banks	5 002	1 912	393	1 199
Claims on the public and public sector entities	9 548	12 513	41 365	25 893
Debt securities issued to the public	7 874	4 303	4 515	2 386
Claims on credit institutions and central banks	2 076	1 298	11	91
Claims on the public and public sector entities	79 511	4 060	10 761	1 598
Debt securities issued to the public	5 389	8 233	2 927	100

The item Claims on the public and public sector entities does not include claims repayable on demand. Other than fixed term deposits have been reported in the category 3 months or less.

**3) Assets and liabilities denominated in domestic and foreign currency (3)**

	FIM	Foreign
Claims on credit institutions and central banks	2 545	5 961
Claims on the public and public sector entities	87 434	1 885
Debt securities	18 264	815
Other assets	17 905	848
Total assets	126 149	9 508
Liabilities to credit institutions and central banks	2 208	1 268
Liabilities to the public and public sector entities	94 588	1 341
Debt securities issued to the public	16 111	538
Subordinated liabilities	3 392	3 528
Other liabilities	5 774	993
Total liabilities	122 072	7 668

**4) Lending broken down by sectors and specific loan loss provisions (4)**

Claims on the public and public sector entities by sectors	
Enterprises	24 099
Financial institutions	388
Public sector entities	1 299
Non-profit institutions	3 398
Households	59 933
Foreign	401
Total	89 319

Specific loan loss provisions made in respect of claims on the public and public sector entities

Specific loan loss provisions at the beginning of the financial year	1 368
+ new provisions made during the financial year	740
- provisions reversed during the financial year	-97
- actual loan losses during the financial year, for which specific loan loss provisions have previously been made	-242
Specific loan loss provisions at the end of the financial year	1 768

Specific loan loss provisions have not been reported for 1993 and for previous years.

**5) Non-performing and other zero-interest claims (6)**

Enterprises	988
Financial institutions	16
Public sector entities	0
Non-profit institutions	42
Households	1 490
Foreign	46
Total	2 583

6) Securities by type of asset, broken down into quoted and other securities, and lent or borrowed securities (10)

Debt securities	
Not held as financial fixed assets	12 346
Other	<u>6 733</u>
Total	19 079
Shares and participations	
Not held as financial fixed assets	
Quoted securities	372
Other	86
Other	
Quoted securities	21
Other	<u>238</u>
Total	716

Principles applied in the breakdown of different types of assets and in their valuation have been disclosed in the accounting policies of the annual report.

At the end of 1997 OKOBANK Group did not have lent or borrowed securities.

7) The aggregate difference between the market values and the book values of securities (11)

Debt securities not held as financial fixed assets	108
Quoted shares and participations	
Not held as financial fixed assets	98
Other	21

Reported without eliminations

8) Increases and decreases in securities held as financial fixed assets and in tangible and intangible assets (13)

	Shares and participations excluding shares and participations in real estate corporations	Land and buildings in own use plus shares and participations in real estate corporations	Land and buildings not in own use, plus shares and participations in real estate corporations	Machinery, equipment and other tangible and intangible assets not previously mentioned
Book value at the beginning of the financial year	780	3 564	6 251	586
+ net increases in purchase prices during the year	77	111	108	294
– depreciations and write- downs for the year	17	66	218	218
+ revaluations for the year	–	–	–	–
– reversing items for revaluations for the year	–	9	15	–
+ transfers between different types of assets	–	-517	517	–
Book value at the end of the financial year	840	3 083	6 643	662
Revaluations total	–	586	576	–

## 9) Real-estate holdings, itemised (14)

### 9 a) The principles and methods used in valuing shares and participations in properties and real-estate corporations that are not in own use

The institutions belonging to the OKOBANK Group value their real-estate holdings and shares and participations in real-estate companies independently, taking into account the local conditions.

The vast majority of the property not in own use has been appraised using the yield value method. The rental yield from vacant premises has in general been estimated according to the going rental level. When determining the net yield requirement, the location, usage purpose and special features of the property as well as any appreciation expectations have as a rule been taken into account.

In addition to the yield value method, the sale price method has mainly been used for residential units as well as land, water and forest areas. In making the appraisals, account has generally been taken of the special features of each property, also making use of published real-estate statistics and forecasts.

The criteria applied in making write-downs are the permanence and substantive nature of the write-downs.

Major changes have not taken place in the valuation principles compared with the previous financial year.

### 9 b) The book value of real estate and shares and participations in real-estate corporations other than those in own use, itemised by type of property, as well as the total amount of credits and guarantees granted to real-estate corporations that are subsidiaries and associated companies, but which have been excluded from the consolidated annual accounts

Type of property	Book value		Proportion of non-yielding properties*)	
	Real estate	Shares and participations	FIM million	%
Residential units and houses	43	1 104	98	8.6
Business and office real estate	1 393	2 975	213	4.9
Industrial real estate	107	381	35	7.2
Land, water and forest areas (not built up)	314	169	350	72.4
Uncompleted buildings	10	14	8	35.1
Financial leasing properties	28	82	–	–
Other domestic real estate	17	45	20	32.5
Foreign real estate	70	–	–	–
Real estate, total	1 983	4 770	724	10.7

### Credits and guarantees granted to real-estate corporations

To subsidiaries	900
To associated companies	277

Non-freehold portion of shares and participations in real-estate corporations 831

\*) A non-yielding property refers to land areas and buildings which are unleased at the balance sheet date as well as to shares and participations in real-estate corporations, which shares and participations entitle their holders to the possession of premises which were unleased at the close of the financial year and for which rental income has not been received for the three months immediately preceding the closing of the annual accounts.

### 9 c) Major changes in the structure of real-estate holdings as well as major risks connected with real-estate holdings

The book value of real estate and shares and participations in real-estate corporations that were in other than own use grew by FIM 392 million during the financial year. The growth was due to transfers of types of property out of real-estate holdings in own use as well as to changes that occurred in the extent of the OKOBANK Group's annual accounts.

Risk may be associated with the balance sheet values of individual real-estate properties as well as shares and participations in real-estate corporations, but taken as a whole, the real-estate property of the OKOBANK Group does not involve a significant risk of loss.

### 9 d) The breakdown according to the net yield (per cent) of the large member banks' real-estate properties and shares and participations in real-estate corporations which are in other than own use

The Financial Supervision has carried out a study of the real-estate holdings of 16 large member banks of the OKOBANK Group Central Cooperative, the analysis being based on a sample of real-estate properties as well as shares and participations in real-estate corporations which are other than those in own use. The net return on capital invested in the real-estate properties as well as in shares and participations in real-estate corporations that were included in the sample was 4.1 per cent, and the invested capital was divided according to the net return as follows:

Net return (per cent)	Invested capital	Proportion
–3%	1 251	29.0%
3%–7%	2 364	54.9%
7%–	695	16.1%
Total	4 310	100.0%

According to the unaudited statements of real-estate holdings of all the member banks the net return on capital invested in real-estate properties as well as shares and participations in real-estate corporations other than those in own use was 4.5 per cent.

**10) Assets serving as collateral security for unpaid claims and assets acquired for the reorganisation of customer's business operations (15)**

Assets acquired as security for claims

Real estate and shares and participations in real estate corporations	1 637
Other shares and participations	51
Other assets	14
<b>Total</b>	<b>1 702</b>

Assets acquired for the reorganisation of customer's business operations	10
--	----

**11) Subordinated liabilities (19)**

*11 a) Liabilities with a book value equivalent to more than 10 per cent of the total amount of subordinated liabilities*

USD 150 million (FIM 813 million equivalent) perpetual bonds. The interest rate was 7.31% on December 31, 1997. With the prior consent of the Financial Supervision, all the bonds may be redeemed on any interest payment date falling in or after September 1999, on giving advance notice as stated in the terms and conditions.

USD 135 million (FIM 732 million equivalent) perpetual bonds. The interest rate was 6.41% on December 31, 1997. With the prior consent of the Financial Supervision, all the bonds may be redeemed on any interest payment date falling in or after September 2002, on giving advance notice as stated in the terms and conditions.

*11 b) Subordinated liabilities other than those mentioned above*

The total FIM equivalent of the other liabilities in the Group's accounts was FIM 5 374 million. Creditors do not have put-option. No perpetuals are included in these liabilities.

**12) Increases and decreases in equity capital during the financial year, itemised (20)**

	Book value at the beginning of the financial year	Increases for the financial year	Decreases for the financial year	Book value at the end of the financial year
Cooperative and share capital	1 353	660	196	1 818
Reserve fund	4 231	45	361	3 914
Revaluation reserve	356	—	12	344
Capital certificates	2 022	—	1 314	709
<b>Restricted equity, total</b>	<b>7 963</b>	<b>705</b>	<b>1 883</b>	<b>6 785</b>
Profit/loss brought forward	-3 037	293	—	-2 744
Proportion of voluntary provisions and depreciation difference transferred to equity capital	1 057	95	—	1 152
Profit for the financial year	—	—	—	694
<b>Distributable equity, total</b>	<b>-1 979</b>	<b>387</b>	<b>—</b>	<b>-898</b>
<b>Equity capital, total</b>	<b>5 984</b>	<b>1 093</b>	<b>1 883</b>	<b>5 887</b>

### 13) Income by field of activity and geographical market (21)

Income refers to the total for the profit and loss account items Net income from financial operations, Dividend income, Commission income, Net income from securities transactions and foreign exchange dealing, and Other operating income. Income has been reported without eliminations.

	Income by field of activity	Staff in average
Banking	6 483	8 088
Mortgage banking	50	15
Finance company operations	101	112
Investment firm operations	85	42
Mutual fund operations	22	8
Other *	1 873	686
Total	8 613	8 951

	Income by geographical market	Staff in average
Finland	8 560	8 928
Sweden	50	23
Cayman Islands	3	–
Total	8 613	8 951

\* Includes the income and average staff of OKOBANK Group Central Cooperative, OKOBANK Group Security Fund and OKOBANK Group Mutual Insurance Company

### 14) Other operating income and expenses, itemised (23)

Rental and dividend income from real estate and real estate corporations	575
Capital gains from the sale of shares and participations in real estate and real estate corporations not in own use	61
Other income	290
Total	926

Rental expenses	86
Expenses from real estate and real estate corporations	559
Capital losses from the sale of shares and participations in real estate and real estate corporations	50
Other expenses	149
Total	843

### 15) Loan and guarantee losses plus write-downs in respect of securities held as financial fixed assets, itemised (24)

	Loan losses, gross	Deductions
In respect of claims on the public and public sector entities	1 210	119
In respect of claims on credit institutions and central banks	–	1
In respect of leasing assets	–	–
In respect of guarantees and other off-balance sheet items	263	69
In respect of other items	36	48
Total	1 508	237

(Profit and loss account item Loan and guarantee losses)

In respect of debt securities held as financial fixed assets	10	1
--	----	---

#### Breakdown of loan and guarantee losses

+ Actual loan losses during the financial year, total	895
– Actual loan losses during the financial year for which a specific loan loss provision has previously been made	-374
– Recoveries in respect of actual loan losses during previous financial years	-71
+ Specific loan loss provisions made during the financial year	917
– Reversals of specific loan loss provisions during the financial year	-105
– Net losses from the sales of temporary holdings of property	10
Loan and guarantee losses entered in the annual accounts	1 272

The principles according to which the collateral for loans was valued when loan losses were entered are shown in the accounting policies of the annual report.



### 16) Off-balance sheet commitments, itemised (26)

Off-balance sheet commitments (derivative commitments excluded) which are equivalent to more than 10 per cent of the total amount of off-balance sheet commitments

Guarantees	5 172
Guarantee commitments	2 444
Unused standby facilities	6 302

#### Derivative commitments

Values of the underlying instruments	For hedging purposes	Other
Interest rate derivatives		
Futures and forwards	–	303 483
Options		
Purchased	–	–
Written	–	–
Interest rate swaps	5 494	45 724
Currency derivatives		
Futures and forwards	45 608	–
Options		
Purchased	–	595
Written	–	991
Interest rate and currency swaps	449	881
Share derivatives		
Futures and forwards	–	–
Options		
Purchased	–	–
Written	–	–
Total	51 551	351 675

In the case of interest rate derivative contracts, the nominal value is entered as the value of the underlying asset, in case of currency derivative contracts, the equivalent markka value of the purchased currency on the balance sheet date and, in the case of share derivative contracts, the market value of the shares on the balance sheet date. The values are given as gross figures.

#### Equivalent credit values of the contracts

Interest rate derivative contracts	1 333
Currency derivative contracts	1 189
Total	2 522

### 17) Pension liabilities (28)

The statutory pension liabilities of the staff of the consolidated companies have as a rule been arranged through the OKOBANK Group Pension Fund and the supplementary pension benefits through the OKOBANK Group Pension Foundation.

On Group level, the pension liabilities have been covered in full.

### 18) Number of staff, average (30)

	During the financial year	Change over the previous year
Full-time staff	8 293	-651
Part-time staff	658	-31
Total	8 951	-682

The breakdown of the staff by operations and geographical markets is shown in note 13.

### 19) Terms and conditions of capital investments (32)

The amount of the capital investments in the OKOBANK Group is FIM 708.6 million. The capital investments consist entirely of so-called Government capital investments. The capital investment certificates have been issued by Osuuspankki Realum.

Principal terms and conditions of the Government's capital investment made in 1992:

A bank that has issued capital investment debt can pay interest on the capital investment only to the extent that the bank is permitted to distribute profits. The Government does not have the right to terminate the investment or otherwise to demand that the issuer repay the principal in full or in part. The capital investment can be repaid only with the permission of the Financial Supervision.

The interest on the capital investment in 1997 was the financing cost of the Government's one-year Treasury notes plus a 0.50 percentage point margin. In 1998 the margin will rise to 1.50 percentage point.

The OKOBANK Group Security Fund has given the Government an interest guarantee for the capital investment debt issued by Osuuspankki Realum. In addition, the OKOBANK Group Security Fund has given a last resort commitment to redeem the capital certificates from the Government by December 31, 2002, at the latest.

## Member cooperative banks of the OKOBANK Group

Name of the bank, domicile, name of managing director, total assets on Dec. 31, 1997  
(FIM million, advance data). Op stands for Osuuspankki (a cooperative bank).

Alajärven Op Alajärvi Pentti Mäkelä 584	Haapamäen Seudun Op Keuruu Tauno Vuorenmaa 165	litin Op Iitti Hannu Viitanen 315	Karvian Op Karvia Muisto Parikka 145	Kokkolan Op Kokkola Aatto Ainali 1 248	Köyliön Op Köyliö Matti Hyrsylä 254
Alastaron Op Alastaro Petri Antila 198	Haapaveden Op Haapavesi Kalervo Karvonen 285	Ikaalisten Op Ikaalinen Antero Sorri 250	Kaustisten Op Kaustinen Asko Ahonen 249	Kontiolahden Op Kontiolahti Esko Mononen 210	Laitilan Op Laitila Hannu Nyman 400
Alavieskan Op Alavieska Ismo Talus 128	Hailuodon Op Hailuoto Veijo Nissilä 85	Ilomantsin Op Ilomantsi Kalevi Hämäläinen 271	Keikyän Op Äetsä Reino Väililä 89	Korpilahden Op Korpilahti Juha Luomala 191	Lapin Op Lappi Vesa Parkkali 211
Alavuden Seudun Op Alavus Jussi Ruuhela 500	Halsuan Op Halsua Tapio Jokela 95	Itä-Uudenmaan Op Porvoo Arto Nurmi-Aro 537	Kemin Seudun Op Kemi Pertti Stöckel 747	Korsnäs Andelsbank Korsnäs Jan-Erik Westerdahl 182	Lappo Andelsbank Brändö Torsten Nordberg 36
Andelsbanken för Åland Maarianhamina Håkan Clemes 518	Haminan Seudun Op Hamina Markku Vanhala 510	Janakkalan Op Janakkala Vesa Lehikoinen 750	Kerimäen Op Kerimäki Kari Korhonen 160	Kotkan Seudun Op Kotka Seppo Haapasalo 870	Lemin Op Lemi Eero Innanen 149
Andelsbanken Raseborg Karjaa Bo Thölix 687	Harjavalan Op Harjavalta Jarmo Tuovinen 333	Joensuun Op Joensuu Antti Heliövaara 803	Keski-Suomen Op Jyväskylä Aimo Ekonen 4 550	Kouvolan Seudun Op Kouvola Marjo Partio 1 354	Leppävirran Op Leppävirta Ilkka Martikainen 364
Artjärven Op Artjärvi Antti Hult 186	Hartolan Op Hartola Teemu Hauta-Aho 176	Jokioisten Op Jokioinen Vesa Rantanen 186	Keski-Uudenmaan Op Järvenpää Leif Laine 2 411	Kronoby Andelsbank Kruunupyö Sten-Ole Nybäck 294	Lieksan Op Lieksa Jorma Lehikoinen 526
Asikkalan Op Asikkala Jari Laaksonen 241	Hauhon Op Hauho Timo Metsola 134	Juuan Op Juuka Tuomo Mustonen 291	Kestilän Op Kestilä Hans Aikio 88	Kuhmalahden Op Kuhmalampi Risto Mattila 93	Limingan Op Liminka Urpo Ojala 158
Askaisten Op Askainen Arja Ahola 91	Haukivuoren Op Haukivuori Seppo Laurila 94	Juvan Op Juva Kari Pitkälä 352	Kesälahden Op Kesälahti Erkki Kukkonen 155	Kuhmoisten Op Kuhmoinen Heikki Vilppala 117	Liperin Op Liperi Jalo Lehtovaara 438
Askolan Op Askola Irja Mänttälä 139	Heinäveden Op Heinävesi Ville Pääntönen 197	Jämsän Seudun Op Jämsä Heikki Rosti 531	Kihmiön Op Kihniö Ari Heinonen 86	Kuhmon Op Kuhmo Erkki Airaksinen 432	Lohtajan Op Lohtaja Veijo Uusitalo 178
Auran Op Aura Pekka Rinne 217	Himangan Op Himanka Kalevi Humalajoki 214	Kainuun Op Kajaani vt. Kari Sissala 1 104	Kiittelysvaaran Op Kiittelysvaara Pasi Leppänen 135	Kuopion Op Kuopio Jaakko Ojanperä 1 800	Loimaan Op Loimaan kunta Heimo Korttesniemi 391
Elimäen Op Elimäki Pertti Olander 491	Hinnerjoen Op Eura Jukka Tuomisto 81	Kalajoen Op Kalajoki Markku Sarkkinen 403	Kiikalan Op Kiikala Jouko Marjalaakso 74	Kuortaneen Op Kuortane Markku Jaatinen 197	Loimaan Seudun Op Loimaan kaupunki Tuomo Maunuksela 374
Enon Op Eno Aulis Keronen 284	Hirvensalmen Op Hirvensalmi Risto Rouhiainen 132	Kalkkisten Op Asikkala Esko-Pekka Markkanen 59	Kiikalan Rekijoen Op Kiikala Antti Riikonen 102	Kurun Op Kuru Markku Jokela 95	Lokalahden Op Uusikaupunki Seppo Penttilä 98
Etelä-Karjalan Op Lappeenranta Risto Kiljunen 2 580	Honkilahtien Op Eura Olavi Juhola 111	Kangasalan Op Kangasala Veikko Poranen 356	Kiikolaisten Op Kiikola Pertti Kärki 75	Kuusamon Op Kuusamo Jari Himanen 479	Lopen Op Loppi Tapio Mikkola 263
Etelä-Pohjanmaan Op Seinäjäki Esko Ala-Äijälä 2 062	Huhtamon Op Huittinen Päivikki Järvinen 56	Kangasniemen Op Kangasniemi Leo Pakkanen 333	Kiskon Op Kisko Pekka Anttonen 144	Kuusjoen Op Kuusjoki Rauno Hurme 98	Luhangan Op Luhanka Pekka Pietilä 83
Etelä-Savon Op Mikkeli Raimo Rekikoski 1 444	Huittisten Op Huittinen Erkki Böös 346	Kankaanpään Op Kankaanpää Teuvo Pakkala 279	Kiteen Seudun Op Kitee Pertti Hämäläinen 770	Kuusjoen Ylikulman Op Kuusjoki Mikko Ruusunen 57	Luopioisten Op Luopioinen Esa Jokinen 91
Eurajoen Op Eurajoki Harri Hiitiö 135	Humppilan Op Humppila Jari Salokangas 220	Kannuksen Op Kannus Markku Niskala 205	Kiukaisten Op Kiukainen Jari Valonen 113	Kymijoen Op Anjalankoski Heikki Pykälistö 453	Luumäen Op Luumäki Eero Kettunen 188
Euran Op Eura Lenni Kankaanpää 300	Hämeenkosken Op Koski Hl. Keijo Bragge 115	Karjalan Op Mynämäki Pertti Laaksonen 86	Koillis-Savon Op Kaavi Erkki Eronen 489	Kärkölään Op Kärkölä Lasse Kalervo 164	Luvian Op Luvia Eero Tervakangas 153
Forssan Seudun Op Forssa Seppo Jokinen 994	Hämeenlinnan Seudun Op Hämeenlinna Ossi Halonen 1 369	Karkun Op Vammala Raimo Virtanen 62	Koivun-Pertunmaan Op Hartola Erkki Partanen 147	Kärsämäen Op Kärsämäki Timo Suhonen 131	Länsi-Uudenmaan Op Lohja Jukka Karasjärvi 1 613
Haapajärven Op Haapajärvi Kari Ahola 192	Iisalmen Op Iisalmi Eero Mähönen 663	Karunan Op Sauvo Esko Lehtonen 53	Kokemäen Op Kokemäki Matti Ollila 401	Käylän Op Kuusamo Heikki Heikkilä 60	Maaningan Op Maaninka Reijo Kananen 207

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Maskun Op Masku Jarmo Nurmi 232	Osuspankki Realum Helsinki Olli Latola 2 321	Porvoon Op Porvoo Pertti Hellqvist 918	Rymättylän Op Rymättylä Antero Nikki 188	Taivalkosken Op Taivalkoski Riitta-Liisa Ahokumpu 125	Varkauden Op Varkaus Pekka Vilhunen 528
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Niinijoen Op Loimaa Timo Seikkula 110	Perttelin Op Pertteli Turkka Saarniniemi 153	Rantasalmen Op Rantasalmi Vesa Auvinen 304	Sotkamon Op Sotkamo Ilkka Arvio 325	Utajärven Op Utajärvi Raimo Tuovinen 240	Ypäjän Op Ypäjä Kimmo Ranta 245
Nilsian Op Nilsia Mikko Lahtela 376	Peräseinäjoen Op Peräseinäjoki Olavi Ilola 281	Rantsilan Op Rantsila Ismo Välijärvi 106	Strömfors Andelsbank Ruotsinpyhtää Mats Majander 25	Uudenkaupungin Seudun Op Uusikaupunki Juha-Pekka Nieminen 458	Ähtärin Op Ähtäri Esko Kokkila 141
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## Statement concerning the annual accounts

We have adopted these consolidated annual accounts of the group of cooperative banks specified in the Cooperative Bank Act for the financial year January 1 – December 31, 1997.

The annual accounts will be presented and made available for scrutiny at the annual cooperative meeting of the OKOBANK Group Central Cooperative.

Helsinki, March 10, 1998

Executive Board of the OKOBANK Group Central Cooperative

Antti Tanskanen  
Mikael Silvennoinen  
Keijo Manner

Reijo Karhinen  
Esko Hollman  
Heikki Vitie

## Auditors' Report

We have audited the consolidated financial statements of the amalgamation of the cooperative banks (the OKOBANK Group) pursuant to the Cooperative Bank Act for the financial year January 1 – December 31, 1997. The financial statements prepared by the Executive Board and managing director of the OKOBANK Group's central institution, the OKOBANK Group Central Cooperative, include the report of the Executive Board, the profit and loss account, balance sheet and notes to the financial statements. Based on our audit we express an opinion on these financial statements.

The audit has been conducted in accordance with Finnish Standards on Auditing. In carrying out the audit, we have acquainted ourselves with the financial statement information of the Group's member institutions, the auditors' reports and other auditor-related reports to the extent we have deemed necessary. In addition, we have examined the guidelines and

accounting policy of the financial statements as well as gone through the compilation and consolidation of the financial statement information of the Group's member institutions.

Information has been obtained from all the member institutions to be consolidated within the Group and it has been included in the consolidated financial statements. The consolidation of the financial statements from the financial statement information has been carried out substantially correctly and in compliance with the regulations issued by the Financial Supervision.

On the basis of our audit and with reference to what has been said above, we observe that the consolidated financial statements give a true and fair view, as defined in the Cooperative Bank Act and the guidelines issued by the Financial Supervision, of the OKOBANK Group's result of operations as well as of the financial position.

Helsinki, March 17, 1998

SVH Coopers & Lybrand Oy  
Authorised Public Accountants  
Tauno Haataja  
Authorised Public Accountant

Eero Huusko  
Authorised Public Accountant

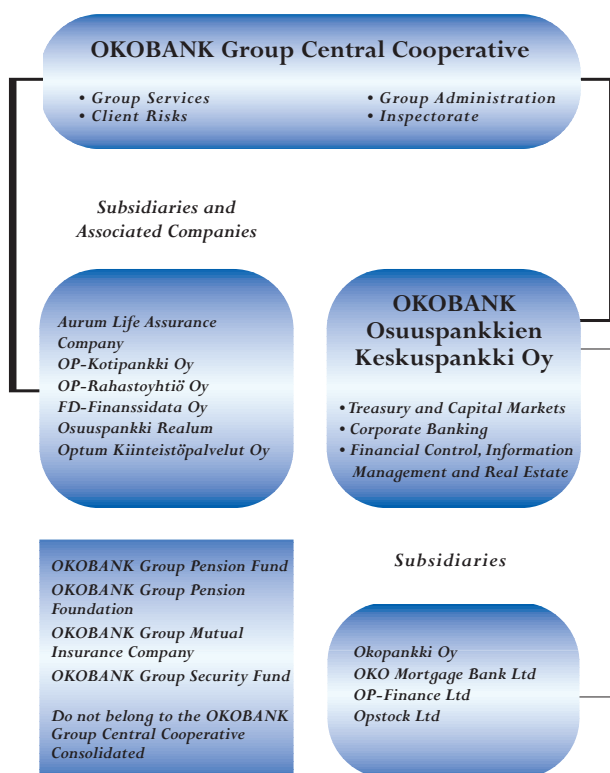
Reino Majala  
Authorised Public Accountant

*Outlets at shopping centres are taking banking to the people.*



# OKOBANK Group Central Cooperative

## OKOBANK Group Central Cooperative Consolidated 1998



The OKOBANK Group Central Cooperative was entered in the Trade Register on May 23, 1997. The Central Cooperative concentrated on the principles and on practical arrangements of the OKOBANK Group's new form of joint operations. The organisation and the ways of working within the Central Cooperative Consolidated were elaborated.

In June the Central Cooperative purchased from the cooperative banks, an amount of OKOBANK's Series K shares which raised the number of votes conferred by the shares owned by the Central Cooperative to 53.3 per cent. As a result of these purchases OKOBANK became a subsidiary of the Central Cooperative. At the end of 1997, the Central Cooperative together with its subsidiary Osuuspankki Realum held 40.3 per cent of OKOBANK's shares and 57.2 per cent of the voting rights they confer.

Also in June the Supervisory Boards of the Central Cooperative and OKOBANK approved a plan concerning the organisation of functions and the division of labour between the Central Cooperative and OKOBANK. In accordance with the plan, at the beginning of the current year OKOBANK sold to the Central Cooperative its 70 per cent holding in FD Finanssidata Oy, the entire shares outstanding in its wholly owned OP-Rahastoyhtiö Oy fund management company and 7 000 shares of OP-Kotipankki Oy. Following the deal OKOBANK Consolidated's holding in Kotipankki fell to about 48 per cent, from 58 per cent. In addition, OKOBANK sold to the Central Cooperative the service operations of its Agrifinancing Department and its Payment Services Department.

In June the Supervisory Board of the Central Cooperative also decided to renew the OKOBANK Group's joint group strategy. The factors underlying the decision were the structural realignment of the bank group as well as the general changes in the financial industry both in Finland and abroad.



*Managing Director  
Reijo Karhinen*

The strategy was drafted in working groups in which the cooperative banks and the OKOBANK Group Central Cooperative were represented comprehensively. The plan formulated by the working groups was discussed widely throughout the bank group, and the Supervisory Board of the Central Cooperative approved the strategy in February 1998.

The strategy, dubbed OP-100, has been charted up to the year 2002, when Finnish cooperative banking will celebrate its centennial. The strategy encompasses the bank group's renewed operational concept, core values and ethical principles as well as the principles of the Group's joint operations, risk management and Group control and its main business objectives and policy guidelines. In accordance with its strategy, the OKOBANK Group's objective is to be the leading retail bank in Finland.

In July 1997 the Central Cooperative agreed with the cooperative banks that remained outside the bank group that it would produce their essential central bank, information system and other support services up to the autumn 1998.

## **Result of OKOBANK Group Central Cooperative Consolidated**

OKOBANK Group Central Cooperative Consolidated is a business group comprising the OKOBANK Group Central Cooperative and its consolidated subsidiaries, the most important of which is OKOBANK Osuuspankkien Keskuspankki Oy. OKOBANK Consolidated in turn is composed of the parent bank OKOBANK and its subsidiaries.

The consolidated annual accounts of OKOBANK Group Central Cooperative Consolidated have been prepared for the year 1997 for the first time and the annual accounts thus do not include profit and loss accounts and balance sheets for the

previous year, nor do they give comparison data for the previous year. The annual accounts contain the figures for OKOBANK Consolidated only for the period July 1 to December 31, 1997.

The net operating profit of OKOBANK Group Central Cooperative Consolidated was FIM 136 million. Total income amounted to FIM 1 083 million, of which net income from financial operations was FIM 294 million. Total expenses were FIM 904 million, of which staff costs amounted to FIM 268 million. Loan and guarantee losses were FIM 19 million and write-downs on securities totalled FIM 7 million. Profit before appropriations and taxes was FIM 140 million and the profit for the financial year was FIM 42 million.

### *Performance of OKOBANK Group Central Cooperative Consolidated*

<i>FIM million</i>	<i>1997</i>
<i>Net income from financial operations</i>	<i>294</i>
<i>Other operating income</i>	<i>789</i>
<i>Total income</i>	<i>1 083</i>
<i>Staff costs</i>	<i>268</i>
<i>Other operating expenses</i>	<i>636</i>
<i>Total expenses</i>	<i>904</i>
<i>Profit before loan and guarantee losses</i>	<i>163</i>
<i>Loan and guarantee losses</i>	<i>19</i>
<i>Write-downs on securities</i>	<i>7</i>
<i>Net operating profit</i>	<i>136</i>

At the end of 1997 OKOBANK Group Central Cooperative Consolidated had total assets of FIM 53 billion and the OKOBANK Group Central Cooperative had total assets of FIM 878 million.

The Central Cooperative's cooperative capital was FIM 588 million. The Executive Board proposes that annual interest of 5.25 per cent be paid on the cooperative capital.

#### *Capital adequacy of OKOBANK Group Central Cooperative Consolidated*

<i>FIM million</i>	<i>Dec. 31, 1997</i>
<i>Own funds</i>	
<i>Tier I</i>	2 874
<i>Tier II</i>	2 874
<i>Deductions</i>	1 306
<i>Tier III</i>	49
<i>Total</i>	4 492
<i>Risk-weighted receivables and commitments</i>	26 130
<i>Capital adequacy ratio, %</i>	17.2

#### **Administration and personnel**

On April 18, 1997, the Supervisory Board elected the members and deputy members of the Central Association's Executive Board to the Executive Board of the Central Cooperative. Chief Executive Officer Antti Tanskanen is the chairman of the Executive Board and the deputy chairman is Reijo Karhinen, Managing Director of the Central Cooperative. The members elected to the Executive Board were Pentti Hakkarainen, Esko Hollman, Keijo Manner and Heikki Vitie and the deputy members were Tuomas Hinttula, Matti Korkeela, Tapio Kukkonen and Raimo Tammilehto. Markku Niinikoski was elected to the post of director with responsibility for the Audit function.

Tapio Kukkonen retired on November 1, 1997. Pentti Hakkarainen resigned his seat on the Executive Board on December 11, 1997. Mikael Silvennoinen, who was appointed managing director of OKOBANK was elected a member of the Executive Board of the Central Cooperative on December 15, 1997.

The Central Cooperative held its first cooperative meeting on May 27, 1997. At that time, the annual accounts of the Central Cooperative's predecessor, the Central Association of

the Finnish Cooperative Banks, were approved and release from liability was granted to the persons responsible for the accounts. At the meeting a new 36-member Supervisory Board was elected for the Central Cooperative, its distribution of seats being determined on the dual basis of the regional principle and the capital adequacy of the banks belonging to the associations of cooperative banks. On June 3, 1997, the Supervisory Board elected Professor Seppo Penttinen as its chairman. He is also the chairman of the Supervisory Board of OKOBANK. Heikki Pykälistö and Esa Swanljung were elected as deputy chairmen. The members of the Supervisory Board are listed on page 46 of the Annual Report.

When the Central Cooperative began operations, the Central Association's entire personnel were transferred to its employ. At the end of 1997, the Central Cooperative had a payroll of 378 employees and OKOBANK Group Central Cooperative Consolidated had a payroll of 1 795 employees.

#### **Major subsidiaries and consolidated companies**

##### ***OKOBANK Osuuspankkien Keskuspankki Oy***

The most important subsidiary within OKOBANK Group Central Cooperative Consolidated is OKOBANK Osuuspankkien Keskuspankki Oy.

OKOBANK Consolidated's net operating profit for 1997 was FIM 283 million, an increase of FIM 53 million on the previous year. The improved result was due to the substantial reduction in loan and guarantee losses as well as write-downs. OKOBANK Consolidated's return on equity (ROE) rose to 7 per cent from the previous year's 6.6 per cent.

OKOBANK Consolidated's balance sheet at the end of the year stood at FIM 53.1 billion. The balance sheet contracted by FIM 4.2 billion, or by 7 per cent.

OKOBANK Consolidated's capital adequacy ratio was 19.5 per cent, or 0.9 percentage point higher than at the end of 1996. Tier I own funds amounted to 10.1 per cent of the total amount of risk-weighted claims and commitments. The capital adequacy ratio was improved by the growth in Tier I own funds.



OKOBANK Consolidated had a payroll of 1 336 people at the end of 1997, or 126 people less than at the end of the previous year.

OKOBANK's net operating profit for 1997 was FIM 176 million, up FIM 84 million on the previous year. The improvement in the net profit was due to the substantial decrease in loan and guarantee losses as well as write-downs. In addition, net operating profit includes FIM 48 million more of dividends from subsidiaries and avoiron fiscal credits on company taxes than were booked in the previous year.

OKOBANK's balance sheet stood at FIM 43.8 billion, down FIM 1.9 billion on the previous year. Equity capital at the end of the year totalled FIM 2 551 million, of which FIM 472 million was distributable equity capital. The proposed dividend payout is 9 per cent on Series A shares and 8 per cent on Series K shares.

OKOBANK's capital adequacy ratio was 23.5 per cent, or one percentage point higher than at the end of the previous year.

OKOBANK had a payroll of 460 employees at the end of the year.

More detailed information on the operations of OKOBANK and OKOBANK Consolidated and their subsidiaries is given in the Annual Report of OKOBANK Osuuspankkien Keskuspankki Oy.

## **Aurum**

### ***Life Assurance Company***

In 1997 Aurum Life Assurance Company directed a share issue at the OKOBANK Group Central Cooperative and its member banks. The share capital increase from FIM 90 million to FIM 181.5 million was entered in the Trade Register on December 4, 1997. As a result of the share capital increase, OKOBANK's holding in Aurum declined to 49.6 per cent and Aurum became a consolidated company of the Central Cooperative. At the end of 1997 the Central Cooperative Consolidated held 72.8 per cent of the voting rights conferred by Aurum's shares.

In 1997 the growth in the premium income of the entire life assurance field came to a halt, but total technical reserves continued their stable growth. Aurum's premium income was

FIM 1 253 million, of which savings life insurance policies accounted for FIM 1 175 million and individual pension insurance was FIM 78 million.

Net income from investment operations was FIM 125 million. At the end of the year, 91 per cent of the investments was in different kinds of fixed-income instruments and 9 per cent was in shares and participations. The company's total assets at the end of the year were FIM 2 952 million.

Customers' savings with Aurum, i.e. the total underwriting reserves, totalled FIM 2 517 million at the end of the year and they were divided among about 34 600 policies. A customer bonus of 2 per cent – on top of the 4.5 per cent calculated interest – was paid on pension insurance policies and a corresponding bonus of 1.5 per cent was paid on savings policies. Aurum paid compensation totalling FIM 26 million.

Aurum's profit for the financial year was FIM 9 million. The authorised capital at the end of the year was FIM 451 million, of which restricted equity capital amounted to FIM 414 million. The statutory minimum requirement was FIM 100 million.

Aurum had a payroll of 23 employees at the end of the year.

### ***OP-Kotipankki Oy***

At the beginning of 1998 the Central Cooperative bought 7 000 shares of OP-Kotipankki Oy from OKOBANK. As a result of the deal, Kotipankki became a consolidated company of the Central Cooperative. At the end of 1997 OKOBANK Group Central Cooperative Consolidated held 57.7 per cent of Kotipankki's voting rights. Kotipankki nevertheless operated as an OKOBANK subsidiary throughout the year under review.

OP-Kotipankki's net operating profit was FIM 11 million, down FIM 9 million on the previous year. Net income from financial operations was FIM 30 million. The amount of commission and fee income grew and loan losses were cut in half. The heavy outlays made on selling Gold Card credits – which increased the sales commissions paid to the member banks – cut into OP-Kotipankki's net operating profit.

Kotipankki had total assets of FIM 593 million, or almost one hundred million less than in 1996. The bank's capital ade-

quacy ratio at the end of 1997 was 15.5 per cent.

Kotipankki had a payroll of 24 employees at the end of the year.

### ***OP-Rahastoyhtiö Oy***

The Central Cooperative also bought the entire shares outstanding of OP-Rahastoyhtiö Oy from OKOBANK at the beginning of 1998, and OP-Rahastoyhtiö became a subsidiary of the Central Cooperative. OP-Rahastoyhtiö nevertheless operated as an OKOBANK subsidiary throughout the year under review.

OP-Rahastoyhtiö manages the OKOBANK Group's nationwide mutual funds and two international mutual funds that were established in the spring 1997.

OP-Rahastoyhtiö Oy had net operating profit of FIM 4.5 million, up FIM 2 million on the previous year. The company's income came from management fees collected from its mutual funds as well as fees on the subscription and redemption of shares. Income amounted to FIM 21 million, an increase of about 60 per cent on the previous financial year. The growth was attributable to the 85 per cent increase during the year in capital under management by the mutual funds.

The company employed 8 people at the end of 1997.

### ***FD Finanssidata Oy***

FD Finanssidata Oy also became a subsidiary of the Central Cooperative as from the beginning of 1998 when the Central Cooperative bought a 70 per cent holding in FD Finanssidata

from OKOBANK. The company nevertheless operated as an OKOBANK subsidiary throughout the year under review.

FD Finanssidata is responsible for the OKOBANK Group's centralised information technology services.

FD Finanssidata's net operating profit was FIM 8 million, or a million less than in the previous year. Turnover was FIM 249 million and total assets were FIM 62 million.

The company had a payroll of 250 employees at the end of the year.

### ***Osuuspankki Realum***

Osuuspankki Realum was set up in 1996 as an asset management bank for part of the former Suur-Helsingin Osuuspankki (SHOP). At that time the Central Association of the Finnish Cooperative Banks redeemed the shares of SHOP's cooperative members and the Central Association became Realum's only owner.

On the basis of an exemption granted by the Financial Supervision up to January 1, 2001, Osuuspankki Realum has not been consolidated in the annual accounts of OKOBANK Group Central Cooperative Consolidated, but it is included in the annual accounts of the entire OKOBANK Group.

Osuuspankki Realum's total assets at the end of 1997 were FIM 2.3 billion, its net operating loss was FIM 362 million and its profit for the financial year was FIM 140 million.

The bank employed 51 people at the end of the year.

## Services to the OKOBANK Group

### Quality services on a centralised basis

The OKOBANK Group's retail banking services have been centralised within the Central Cooperative's Group Services function. The task of Group Services is to produce competitive and high quality centralised services for the member banks and their customers. In addition to producing, developing and marketing these services, the unit is engaged in implementing the OKOBANK Group's strategic policies together with the member banks.

1997 saw the recovery of banking operations and an increased demand for banking services. Other important trends and tasks were the growing importance of the electric service network, technical preparations for the euro and the year 2000 as well as the setting apart of the services delivered to the cooperative banks that remained outside the OKOBANK Group from those of the member banks.

### *Marketing in support of sales*

In 1997 the OKOBANK Group's corporate image and customers' satisfaction with the member banks were the best of all the large banks. Customers felt that their cooperative bank was reliable, took their life situation into account and showed it considered them important.

The main task of marketing was to support the sale of housing loans and consumer credits. The housing loan portfolio in particular showed a positive trend. In marketing connected with the Group's funding activities, the accent was not only on deposits but also on other investment products, such as investment insurance policies and mutual funds.

During the year many cooperative banks actively marketed becoming a member of the bank because this cements the customer relationship and brings value added to it. The main theme of the Cooperative Bank Week that was celebrated in October was As a member, you're a step ahead.

The focus in the marketing of customer services was on electronic service channels that are not tied to office opening hours, such as terminal and telebanking services.

Sales-driven operations were developed and the Group adopted graphical guidelines for marketing communications,

along with a unified look in its advertising.

The customer magazine Kultaraha had an average printing of about 713 000 copies. Other customer magazines were Hippo (for children) and two publications specialising in agriculture and forestry. Osuuspankkilehti and the Swedish language equivalent Andelsbanknytt were sent out to salaried and administrative employees.

### *Workstation upgrade ahead of schedule*

The areas that were highlighted in the development of information technology services in 1997 were renewals of the branch offices' workstation, self-service and real-estate management systems.

The introduction of the new workstation system that supports a sales-driven approach to operations and includes numerous new services began in February. By the end of the year, more than 3 500 workstations had been installed at the member banks. This clearly exceeded the targets that had been set.

The new Gold Coin terminal and telebanking service solution as well as the new Gold Link bank link software that can be downloaded from the Internet were placed in use. Other important development projects that were important for the quality of customer service and the efficiency of internal operations within the entire Group were a system upgrade for real-estate management and the introduction of an electronic archive.

### Renewing risk management

As the OKOBANK Group's new form of joint operations got under way, the Central Cooperative's risk management was overhauled in accordance with amended legislation and other regulations.

A large part of the risk management tasks remained as they were. The overhaul involved redefining the division of labour between the Central Cooperative's risk management function and OKOBANK as well as coordination of the entire bank group's risk management. Separate risk management systems were also reorganised. In addition, the Central Cooper-

ative maintains a risk monitoring system for the bank group as a whole.

In 1997 the focus of risk management shifted from the support and control of member banks that are in difficulties to activities that support the prevention of risks for all the member banks as well as training connected with risk management. The bank group's risk management is also discussed on page 12 in connection with the OKOBANK Group's report of operations.

Company analysis and analysis of the annual accounts of corporate customers support the member banks' corporate financing and the risk management connected with it. The revival of the economy after the long recession was clearly reflected in the increased number of analyses of new projects. Company analyses were made of more than 1 300 corporate entities and the number of analyses of annual accounts rose to about 14 000. The expertise of the corporate analysis staff was also utilised in mapping out the total risk of some of the member banks' corporate financing and in studies of different industries.

### ***More unified risk equalisation***

The coverage system which is part of the cooperative banks' new form of joint operations supplements the Group's risk equalisation, which up to now has been based on the operations of the OKOBANK Group Mutual Insurance Company and membership of the OKOBANK Group Security Fund. The Insurance Company and Security Fund are still part of the Central Cooperative's operational entity, but they are not an integral part of OKOBANK Group Central Cooperative Consolidated.

The OKOBANK Group Security Fund is a statutory security fund whose members are all the cooperative banks, OKOBANK, Okopankki Oy and OP-Kotipankki Oy. The Security Fund safeguards the stable operations of the banks belonging to it. The Fund's operations are described in more detail on page 16 in connection with the OKOBANK Group's report of operations.

The legislative amendment concerning protection of deposits, which came into force at the beginning of 1998, will

cause changes in risk equalisation when the deposit protection fund of all the banks begins its operations. According to the relevant act, the OKOBANK Group Security Fund will for the time being retain its position as a compulsory security fund.

The OKOBANK Group Mutual Insurance Company's main type of insurance is credit insurance that evens out the member banks' loan loss risks. In addition, the company is engaged in operations connected with guarantee, liability and burglary and theft insurance. The company is owned by the cooperative banks, the Central Cooperative, OKOBANK, Okopankki Oy and OKO Mortgage Bank Ltd.

The total amount of the premiums collected by the OKOBANK Group Mutual Insurance Company was FIM 252 million, of which credit insurance accounted for 97.6 per cent. Compensation payments totalled FIM 416 million, a large part of which were covered with premiums collected in previous years. A total of FIM 30 million was recovered through follow-up collection from debtors who had caused a credit loss. The OKOBANK Group Mutual Insurance Company had total assets of FIM 1.1 billion and it employed a staff of 34 people.

### ***Strong demand for legal services***

Work on bank-related legislation continued throughout the year. The emphasis in the legal services provided by the Central Cooperative was on tasks connected with the Group's new form of joint operations. Preparation of the reforms connected with the Credit Institution Act, which came into force as from the beginning of 1998, also occupied an important place in the safeguarding of the OKOBANK Group's legal interests. In addition, the legal staff participated in co-operation with the European cooperative bank groups with the aim of developing legislation concerning the financial industry.

The tasks connected with the OKOBANK Group's legal special training were mainly concerned with the new Companies Act, tax law, debt restructuring and collateral. In addition, the Legal Affairs Department was responsible for the member banks' legal advisory services and information as well as for handling legal assignments.

## Highlighting the new joint operations

When the OKOBANK Group's new form of joint operations was in the preparation stage, a good deal of background material was needed both for the Executive Boards and Supervisory Boards and for the member banks. The preparatory work also called for large inputs into financial administration as well as into external and internal communications.

Within the Central Cooperative, the Group Administration function is responsible for these services. It directs and develops production of the services for the needs of planning and managing the OKOBANK Group's strategy, and it keeps track of how the objectives set have been achieved. The function is also responsible for centralised communications, profit and loss calculations at the Group level, the Central Cooperative's financial administration, personnel development, centralised personnel administration services and pension services as well as internal services within OKOBANK Group Central Cooperative Consolidated.

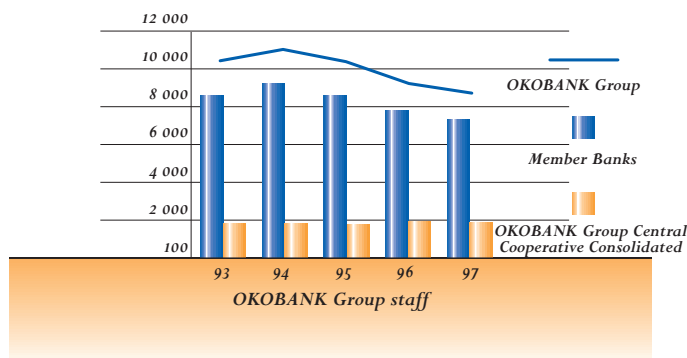
### *Staff redundancies - increases in training*

The OKOBANK Group continued to adjust its staff levels to changing tasks and needs. The number of staff was reduced by 548 employees during the year, or by nearly 6 per cent, and it was 8 695 employees at year-end. The average age of the employees was 44 years.

During the year means were developed to ensure the adequacy and quality of the OKOBANK Group's key personnel resources in coming years.

In the spring OKOBANK Group Central Cooperative Consolidated carried out a personnel survey on the basis of which several development projects were started with the aim of improving workplace efficiency and management. An overhaul of the information systems for personnel administration was also started.

Personnel training increased markedly from the 1996 level. The number of training days arranged by the OKOBANK Group Institute rose to more than 20 000, and the training was rounded out by the member banks' internal training in matters of timely interest.



Central areas of personnel development were the use of the newest information technology, sales skills, knowledge of products and services as well as workplace leadership and efficiency.

### *Group accounting gains official status*

The OKOBANK Group's interim report for the January-September period was prepared for the first time in accordance with the regulations which the Financial Supervision has issued to the amalgamation of cooperative banks. The Group's accounts thus became official and subject to an audit.

During the year the reporting of the OKOBANK Group and its member banks for regulatory officials was developed and the member banks placed in use an updated operations control system.

### *Business operations developed within the entire bank group*

The development of banking operations was reorganised. The objective is that the member banks and the Central Cooperative will together enhance the entire Group's business operations and promote the implementation of the Group's strategy, values and goals. The aim of the reorganisation is also to coordinate development measures that are carried on at OKOBANK Group Central Cooperative Consolidated's different units so that they serve the member banks' ever-changing business operations in a way that makes them efficient and profit-oriented.

During the year new ways of working were designed and put into use at many of the member banks. The primary trend at the member banks was the combining and efficient utilisation of personnel and other resources, notably by using new service channels. Joint development and consultation days connected with various themes were arranged for the managing directors of the member banks.

### *Pension liabilities covered in their entirety*

The OKOBANK Group Pension Fund and the OKOBANK Group Pension Foundation belong to the Central Cooperative's operational entity, but they are not an integral part of OKOBANK Group Central Cooperative Consolidated.

The OKOBANK Group Pension Fund handles the statutory pension benefits of the salaried employees of the OKOBANK Group and the cooperative banks which operate outside it. The Pension Fund's shareholders are the cooperative banks, the OKOBANK Group Central Cooperative and OKOBANK as well as the companies and institutions they own, i.e. a total of 411 employers. All the salaried employees on their payroll are members of the Pension Fund. The Fund's pension insurance premium in 1997 was 18.7 per cent of salaries paid. Of this amount, 4.5 percentage points represented the employees' contribution.

The OKOBANK Group Pension Foundation supplements the Pension Fund's statutory pension and other benefits. No new beneficiaries have been admitted to the foundation after June 30, 1991.

The Pension Fund's statutory pension liability and the pension liability concerning the supplementary benefits provided by the Pension Foundation have been covered in full.

The Pension Fund and Pension Foundation paid out pensions and allowances totalling FIM 282.1 million. There were a total of 4 271 beneficiaries of old age, disability and survivors' pensions.

### **Audit reorganised**

The tasks of the OKOBANK Group Inspectorate, which previously operated as a separate unit, were reorganised by forming an Audit function within the Central Cooperative. It reports to the Chief Executive Officer in accordance with the standing orders approved by the Supervisory Board. The function comprises the Inspectorate, the internal audit function of the Central Cooperative and the Bank Security unit.

All the member cooperative banks belonging to the Central Cooperative were audited in 1997. Apart from monitoring legal compliance, the auditing of risk management was again stressed. The internal audit function carried out audits at the Central Cooperative's units according to plan and also inspected all of Okopankki's offices. The Bank Security unit had to respond to an increasing number of inquiries from the authorities.

### **Preparations for EMU pick up speed**

The OKOBANK Group began to prepare for the third stage of EMU already in 1994. An EMU Management Group was set up in the spring 1995 and it was expanded in the spring 1996, when EMU working groups were set up.

The objective is to implement the necessary changes with the minimum of costs and in a coordinated manner so as to be well prepared in respect of both business and technical capabilities in good time before the beginning of the third stage of EMU. Providing customers with adequate and expert information about the changes required in going over to the euro is a central part of strengthening the OKOBANK Group's competitive position.

The modification works are carried out under the direction of the EMU Management Group at the Central Cooperative, which is also responsible for information, marketing and training concerning EMU and the euro and for providing materials connected with these functions. The member banks see to the implementation of the business plans, personnel training and information provided to customers.

From the beginning of 1997 a project manager was appointed to coordinate implementation of the project, and at the same time the EMU working groups were expanded. Modifications to the information systems were separated out as a project of their own. Detailed final reports of the EMU working groups were published in May.

In the spring a Euro Advisory Network was established, which will operate as a liaison body between the Central Cooperative's EMU project and the member banks. Some 240 trained Euro Advisers will be deployed amongst the euro banks. In the autumn the focus of the project shifted to modifications of the information system as well as to training, information and marketing.

In the spring the OKOBANK Group published a guide in Finnish on EMU and euro for corporate customers. The experts involved in the euro projects have appeared at a large number of customer sessions that have been primarily intended for corporate customers of the member banks.

The EMU project been carried out in co-operation with the Ministry of Finance, the Bank of Finland, the Finnish Bankers' Association as well as together with numerous companies, institutions and associations. International cooperation has been pursued with the Unico banks and the Association of European Cooperative Banks as well as other organisations.

# OKOBANK Group Central Cooperative organisation

## March 1, 1998

	<u>Group Services</u>	<u>Group Administration</u>	<u>Client Risks</u>	<u>Audit Function</u>
CHAIRMAN AND CHIEF EXECUTIVE OFFICER Antti Tanskanen	Keijo Manner	Heikki Vitie	Esko Hollman	Markku Niinikoski
DEPUTY CHAIRMAN AND MANAGING DIRECTOR Reijo Karhinen	SERVICE NETWORK DEVELOPMENT OP-KOTIPANKKI OY (TELEBANK) Matti Korkeela	MANAGEMENT SUPPORT AND CORPORATE COMMUNICATIONS RESEARCH FOUNDATIONS Matti Huomo	LEGAL SERVICES Tuomas Hinttula	INTERNAL AUDIT Heikki Yli-Juuti
	PRODUCT AND SERVICE OPERATIONS GROUP MARKETING Pekka Sarvi-Peräkylä	GROUP ACCOUNTING Antti Saarelainen	RISK MANAGEMENT OKOBANK GROUP MUTUAL INSURANCE COMPANY OKOBANK GROUP SECURITY FUND Pekka Jaakkola	THE COOPERATIVE BANK INSPECTORATE Tapani Santala
	MUTUAL FUNDS AND INVESTMENT COMPANIES Harri Nummela	DEPARTMENT OF DEVELOPMENT Aila Tikkala		
	AURUM LIFE ASSURANCE COMPANY LTD Raimo Voutilainen	PERSONNEL DEPARTMENT Juha Laitinen		
	PAYMENT SERVICES Raimo Vaalaranta	OCCUPATIONAL HEALTH SERVICES Tapio Ropponen		
	AGRIFINANCING Raimo Tammilehto	OKOBANK GROUP PENSION FUND OKOBANK GROUP PENSION FOUNDATION Pekka Korhonen		OSUUSPANKKI REALUM Olli Latola
	INFORMATION TECHNOLOGY SERVICES FD FINANSSIDATA OY Markku Mäkinen			OPTUM KIINTEISTÖPALVELUT OY Olli Latola

# OKOBANK Group Central Cooperative Supervisory Board and Executive Board March 1, 1998

## Supervisory Board

### Regionally Elected Members and

• members elected on the basis of capital adequacy of the member banks in the region

#### **Etelä-Pohjanmaa**

Antero Luomajärvi  
1997–2000  
Principal, Ilmajoki

• Simo Ilomäki  
1997–  
Managing Director  
Vimpeli

#### **Etelä-Suomi**

Vesa Lehikoinen  
1997–1999  
Managing Director  
Janakkala

• Timo Alaviuhkola  
1997–  
Head of Research Station  
Hyvinkää

• Jorma Pitkälä  
1997–  
Farmer, Hämeenkoski

#### **Kainuu**

Keijo Väänänen  
1997–1998  
Assistant Professor, Vaala

• Erkki Airaksinen  
1997–  
Managing Director  
Kuhmo

#### **Keski-Pohjanmaa**

Ilkka Heinonen  
1997–1998  
Principal, Haapajärvi

#### **Keski-Suomi**

Erkki Laatikainen  
1997–1999  
Editor-in-Chief, Jyväskylä

#### **Kymi-Vuoksi**

Seppo Penttinen  
1997–2000  
Professor, Savitaipale  
Chairman

• Paavo Aho  
1997–  
Colonel, Elimäki

• Risto Kiljunen  
1997–  
Managing Director  
Lappeenranta

#### **Lappi**

Tauno Raistakka  
1997–1998  
Farmer, Posio

#### **Pirkka-Häme**

Heikki Teräväinen  
1997–1999  
Managing Director  
Toijala

• Martti Talja  
1997–  
Development Manager  
Mänttä

#### **Pohjois-Karjala**

Jorma Lehikoinen  
1997–1999  
Managing Director  
Lieksa

• Heikki Pirinen  
1997–  
Principal, Kitee

#### **Pohjois-Pohjanmaa**

Paavo Haapakoski  
1997–1998  
Principal, Pyhäjoki

• Kalervo Karvonen  
1997–  
Managing Director  
Haapavesi

#### **Pohjois-Savo**

Matti Pulkkinen  
1997–2000  
Director of District  
Medical Services, Kuopio

• Erkki Eronen  
1997–  
Managing Director, Kaavi

#### **Satakunta**

Jorma Pere  
1997–1999  
Managing Director, Eura

• Simo Kauppi  
1997–  
Managing Director, Rauma

• Pentti Pihko  
1997–  
Farmer, Punkalaidun

• Jukka Ramstedt  
1997–  
Managing Director  
Pori

#### **Suur-Savo**

Leo Pakkanen  
1997–2000  
Managing Director  
Kangasniemi

• Asko Ruuskanen  
1997–  
Principal, Savonlinna

#### **Sydkusten**

Johan Signell  
1997–1998  
Financial Manager  
Hanko

#### **Varsinais-Suomi**

Turkka Saarniniemi  
1997–2000  
Managing Director  
Pertteli

• Pauli Salminen  
1997–  
Managing Director  
Loimaa

• Pertti Ruotsalainen  
1997–  
Hospital Physicist  
Mynämäki

#### **Österbotten**

Kaj Skåtar  
1997–1998  
Managing Director  
Vaasa

### Other members

Maria Kaisa Aula  
1997–1999  
Member of Parliament  
Tervola

Esa Härmälä  
1997–1999  
Chairman, Central Union of  
Agricultural Producers  
Helsinki

Heikki Pykälistö  
1997–2000  
Managing Director  
Anjalankoski  
Deputy Chairman

Esa Swanljung  
1997–2000  
President, Finnish Confederation  
of Salaried Employees  
Helsinki  
Deputy Chairman





*From left:  
Heikki Vitie  
Markku Niinikoski  
Keijo Manner  
Esko Hollman  
Mikael Silvennoinen  
Antti Tanskanen  
Reijo Karhinen*

## Executive Board

### *Chairman*

Antti Tanskanen  
Chief Executive Officer  
Helsinki

### *Deputy Chairman*

Reijo Karhinen  
Managing Director of  
OKOBANK Group Central  
Cooperative  
Helsinki

### *Members*

Mikael Silvennoinen  
Managing Director of  
OKOBANK  
Espoo

Esko Hollman  
Executive Director  
Espoo

Keijo Manner  
Executive Director  
Helsinki

Heikki Vitie  
Executive Director  
Espoo

### *Deputy Members*

Tuomas Hinttula  
Executive Director  
Helsinki

Matti Korkeela  
Executive Director  
Vantaa

Raimo Tammilehto  
Executive Director  
Espoo

Inspection Director  
Markku Niinikoski (Vantaa)  
attends the Executive Board's  
meetings.

Secretary of the Board  
Markku Koponen  
Järvenpää

## Auditors and Deputies

### *Auditors*

SVH Coopers & Lybrand Oy  
Authorised Public Accountants  
Helsinki

Eero Huusko  
Authorised Public Accountant  
Kajaani

Reino Majala  
Authorised Public Accountant  
Turku

### *Deputies*

Kauko Lehtonen  
Authorised Public Accountant  
Turku

Auno Inkeröinen  
Authorised Public Accountant  
Mikkeli

# Five-year review of the OKOBANK Group

	1993	1994	1995	1996	1997
<i>Network, staff and members</i>					
Group member banks	260	259	258	255	250
Branches	854	887	848	788	745
Staff	10 437	11 021	10 366	9 243	8 695
Payment ATMs	231	440	550	637	677
Bank cards (1 000)	1 246	1 305	1 390	1 508	1 636
Individual members (1 000 people)	591	590	621	610	647
Cooperative capital (FIM million)	517	573	705	1 006	1 444
<i>Balance sheet items (FIM billion)</i>					
Total assets	166.6	154.3	150.2	141.5	135.7
FIM deposits	84.4	86.1	89.7	89.3	89.9
Market share, %	31.3	31.3	30.9	31.7	31.0
FIM credits	88.2	84.7	82.9	83.8	84.3
Market share, %	31.8	31.3	31.7	31.2	31.2
Non-performing claims	10.9	7.3	5.3	3.6	2.3
Zero-interest claims	0.7	0.5	0.5	0.4	0.3
Equity capital	7.7	5.4	5.4	6.0	5.9
<i>Profit and loss account items (FIM million)</i>					
Turnover	15 616	12 775	12 172	10 755	9 885
Net income from financial operations	3 528	4 284	4 233	3 680	3 755
Other operating income	2 511	2 077	2 107	2 692	2 635
Total income	6 039	6 361	6 340	6 372	6 391
Total expenses	3 787	4 028	3 893	3 879	3 800
Profit before loan and guarantee losses	2 252	2 333	2 447	2 493	2 590
Loan and guarantee losses	3 716	3 651	2 147	1 666	1 272
Write-downs on securities	294	151	190	129	146
Share of profit/loss of companies included using the equity method			3	7	9
Net operating profit/loss	- 1 758	- 1 469	113	705	1 181
<i>Ratios</i>					
Income/expenses ratio	1.59	1.58	1.63	1.64	1.68
Return on assets (ROA), %	- 1.2	- 1.0	0.0	0.3	0.6

The figures for 1993-1996 correspond to the present OKOBANK Group, see page 15.

## Contact addresses

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+358-9-404 2219 (Executive  
Board)

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www.oko.fi

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00510 Helsinki

Telex:  
124714 okohe fi (general)  
123280 okofx fi (foreign exchange)

S.W.I.F.T. code:  
OKOY FI HH

### *OKOBANK abroad*

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Managing Director: Stefan Silfver

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Representative: Kari Tolvanen

Moscow Representative Office  
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Representative: Kari Tolvanen

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Telefax: +372-6-266 494  
Representative: Ville Jumppanen

Affiliated company

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Telex: 178905 dgsec uc  
Managing Director: Valentin Graf  
Kerssenbrock

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Herengracht 386  
NL-1016 CJ Amsterdam  
Telephone: +31-20-6222 252  
Telefax: +31-20-6267 846  
Secretary General:  
Pierre Torquebiau

### *Member banks of the UNICO Banking Group*

Banco Cooperativo Español S.A., Spain  
CERA Bank, Belgium  
Crédit Agricole, France  
DG Bank Deutsche  
Genossenschaftsbank, Germany  
Förenings Sparbanken AB, Sweden  
ICCREA, Italy  
OKOBANK Osuuspankkien  
Keskuspankki Oy, Finland  
Rabobank Nederland, The Netherlands  
Raiffeisen Zentralbank  
Österreich AG, Austria  
Union of Swiss Raiffeisen Banks,  
Switzerland

