

POSTIPANKKI

ANNUAL REPORT

1997



Postipankki has been registered as a public limited company on 16 December, 1997. Since that, the Bank's trade name is Postipankki Oyj. "Oyj" is the abbreviation of "julkinen osakeyhtiö", a public limited company incorporated in Finland.

In future, information on Postipankki Oyj's performance will be published in conjunction with the PV Group Oyj interim reports and annual accounts. PV Group Oyj will publish interim reports quarterly. The dates in 1998 will be 6 May, 12 August and 4 November.

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Postipankki's potential for business success was greatly boosted in 1997.

The Bank's operating profit improved from the previous year setting a new record for the second year in succession. Particularly gratifying was the fact that business volumes started to grow, with in particular new housing and corporate loans showing good progress. The favourable trend in profits was supported by our exceptionally low credit losses and substantial recoveries. Consequently, profits are up on the previous year despite the fall in business income.

In autumn 1997, Postipankki's owner, the Republic of Finland, decided to combine two State-owned credit institutions operating on market terms – Postipankki and Finnish Export Credit Ltd – under a single holding company. This new financial grouping started operating at the beginning of 1998.

Postipankki's Chairman and Chief Executive, Eino Keinänen, became full-time Chairman of the Board of the new holding company, PV Group Oyj, when it was established in December 1997. I wish to thank him most warmly for his work during the two years he spent at the head of Postipankki. The encouraging profit performance demonstrated by the Bank during Mr. Keinänen's term provides his successors with both a firm springboard and a challenge in their efforts to improve performance still further.

The new financial group formed by Postipankki and Finnish Export Credit is a strong provider of financial, investment and payment transaction services in the Finnish financial market. The ownership arrangement will reinforce the existing business strengths of the companies in the new Group, offer excellent potential for further improvement in customer services, combine the resources of two major financial institutions and expand their risk-taking capacity.

Postipankki and the new Group are faced by a highly challenging business environment where old operating mod-

els do not guarantee success. Data networks and new technology offer service channels of superb cost effectiveness, and if a financial enterprise is to survive, it must exploit them to the full. The single EU currency, the Euro, will greatly expand the market area covered by banking. It will no longer be a strictly delimited industry, and banking enterprises will have to seize upon every business opportunity offered by sectors outside what is usually considered banking business.

Postipankki's potential for succeeding amid the competitive banking environment of the future is good. It has long shown the way in Finland in service areas such as telephone banking. Its business operations embody both huge opportunities for development and a clear need to achieve even greater cost effectiveness.

Our main goal is to build Postipankki into Finland's best bank by the beginning of the new millennium. Cornerstones for achieving this goal include excellent customer satisfaction, superb quality of customer service, and efficiency and good profitability in business operations.

There is no doubt that reaching these goals will require substantial improvements in the Bank's business operations and financial performance already during this year. The income to cost ratio must be substantially improved. Attempts to achieve higher profitability and effectiveness will not succeed without boosting the volume of business: thus we must expand our share of the main business markets. At the same time, we must keep the Bank's capital adequacy at a solid level.

Finally, I should like to thank the staff of the whole Postipankki Group for their successful work during the past year. As we advance towards our common goals we can embark on further development of the Bank's business in a spirit of cooperation and open-mindedness.

Pentti Hakkarainen



Top management of PV Group Oyj and Postipankki Oyj 1 February, 1998. Seated from left PV Group's Chairman of the Board Eino Keinänen and President and CEO Harri Hollmén, Postipankki's President Pentti Hakkarainen and Member of the Board Maarit Näkyvä. Standing from left Members of the Board, Ilkka Hallavo, Peter Johansson, Jussi Osola, Juhani Paloheimo, Eero Tuomainen and Matti Inha.

GROUP 31.12.

FIM million	1993	1994	1995	1996	1997
Revenues	9 750	8 217	7 938	8 069	7 328
Net income from financial operations		2 625	2 198	1 955	2 238
– percentage of revenues		31,9	27,7	24,2	30,5
Profit before provisions for bad and doubtful debts	1 586	573	126	987	599
Operating profit/loss	– 354	– 685	– 502	602	668
– percentage of revenues	– 3,6	– 8,3	– 6,3	7,5	9,1
Operating profit/loss less taxes	– 369	– 710	– 523	575	641
Profit/loss before appropriations and taxes	– 354	– 685	– 502	544	647
– percentage of revenues	– 3,6	– 8,3	– 6,3	6,7	8,8
Income to cost ratio	1,65	1,19	1,04	1,35	1,22
Balance sheet, total	120 718	113 680	115 519	118 489	125 258
– return on equity, %	– 7,3	– 15,6	– 12,9	13,8	14,3
– return on assets, %	– 0,33	– 0,61	– 0,46	0,49	0,53
– equity/total assets, %	4,1	3,7	3,4	3,7	3,7
– capital adequacy ratio, % ¹⁾	11,1	10,7	10,2	10,7	9,5
Capital and reserves	4 905	4 192	3 677	4 192	4 525
Off-balance sheet items	17 274	15 197	19 348	20 592	25 383
Staff numbers at year end	5 446	6 300	5 943	5 454	5 088

POSTIPANKKI OYJ 31.12.

FIM million	1993	1994	1995	1996	1997
Revenues	9 076	7 651	7 359	7 440	6 673
Net income from financial operations		2 486	2 078	1 845	2 137
– percentage of revenues		32,5	28,2	24,8	32,0
Profit before provisions for bad and doubtful debts	1 507	478	62	922	536
Operating profit/loss	– 372	– 758	– 557	509	592
– percentage of revenues	– 4,1	– 9,9	– 7,6	6,8	8,9
Operating profit/loss less taxes	– 382	– 767	– 557	505	590
Profit/loss before appropriations and taxes	– 372	– 758	– 557	451	571
– percentage of revenues	– 4,1	– 9,9	– 7,6	6,1	8,6
Income to cost ratio	1,64	1,16	1,02	1,34	1,21
Balance sheet, total	118 275	111 655	112 952	116 033	124 089
– return on equity, %	– 7,7	– 17,5	– 15,0	13,8	14,6
– return on assets, %	– 0,35	– 0,67	– 0,50	0,44	0,49
– equity/total assets, %	4,0	3,6	3,0	3,4	3,4
– capital adequacy ratio, % ¹⁾	10,9	10,5	9,7	10,2	9,1
Capital and reserves and untaxed reserves	4 766	3 999	3 442	3 889	4 179
Domestic deposits	44 957	44 204	50 286	48 261	49 664
Domestic lendings	55 902	53 304	52 887	51 674	58 058
Off-balance sheet items	17 481	15 049	18 206	19 730	24 805
Staff numbers at year end	5 237	6 102	5 748	5 040	4 647

¹⁾ 1993 Deposit Bank Act (1269/90 4:29 §), as of 1994 Act on Credit Institutions (1607/93 9:78 §) and amendments to the Act as of 1 August 1996 (570/96 9:78 a–c §)

FORMULAS USED IN CALCULATING THE FINANCIAL HIGHLIGHTS

The financial highlights are calculated as referred to in the regulations of the Financial Supervision Authority.

Revenues:

Consisting of interest receivable, net leasing income, dividend income, fees and commissions receivable, net income from transactions in securities and foreign exchange dealing and other operating income

Return on assets, % (ROA):

$\frac{\text{Operating profit/loss less taxes}}{\text{Average balance sheet}} \times 100$

Return on equity, % (ROE):

$\frac{\text{Operating profit/loss less taxes}}{\text{Capital and reserves + minority interests + untaxed reserves and depreciation difference less imputed taxes due (average)}} \times 100$

Equity/total assets, %:

$\frac{\text{Capital and reserves + minority interests + untaxed reserves and depreciation difference less imputed taxes due}}{\text{Balance sheet, total}} \times 100$

The economy expanded very rapidly in 1997. The average year-on-year increase in total output was around 5 per cent, against only just over 3 per cent in 1996 when there was a temporary decline in export demand. Thanks to the fast upswing and various job-creation measures, the unemployment rate fell by a good percentage point.

Finland's important export markets in Europe picked up over the year, and exports to Russia also boomed. Imports increased, but by far less than exports. The terms of trade deteriorated, however, mainly because prices of paper products fell early in the year, while at the same time import prices, especially for agricultural products, rose substantially. The balance of trade surplus rose, as did the surplus on current account. The economy's net interest-bearing debt thus continued to decrease appreciably.

Private consumption increased and household purchasing power improved. Consumer confidence in the economy remained strong, and an EU comparison showed the Finns to be top of the list in terms of optimism about economic prospects. Demand for housing and consumer durables was brisk. Partly because of internal migration, housing prices continued to rise in major towns, prompting greater demand for housing loans.

Public sector spending did not rise and public investments increased. Housing investments continued to display the fast upward trend that began in late 1996. Otherwise, private investment was slack, holding back any rise in corporate demand for credit.

Inflation remained moderate and the average rise in consumer prices was only 1.2 per cent, most of this comprising the rise in housing costs. Alarmed by fast rises in the asset prices early in the year and the risk this posed to the stability of consumer prices, the Bank of Finland tightened its monetary policy in September. The price rise then slowed down towards year end, and the Asian crisis brought downward pressure on import prices. The two-year incomes settlement signed in December also included fairly low pay rises, so fears of inflation in the latter half of 1997 calmed down appreciably.

The central government debt continued to rise, but more slowly. Tax revenues increased and expenditure fell. The net public borrowing requirement was also reduced by the fact that the banks repaid some of the capital investment they had received from the government in 1992.

The value of the Finnish Markka relative to the German mark was fairly stable all year, though strong capital inflows into Finland in January boosted the currency temporarily, prompting action by the Bank of Finland to avert appreciation pressures. Towards year end the Markka approached a rate of 3.04 to the German mark, this being the central rate for these currencies in the ERM. The central rate for the Markka against the ecu is 5.85424. Like other EU currencies, the Finnish markka weakened against the US dollar.

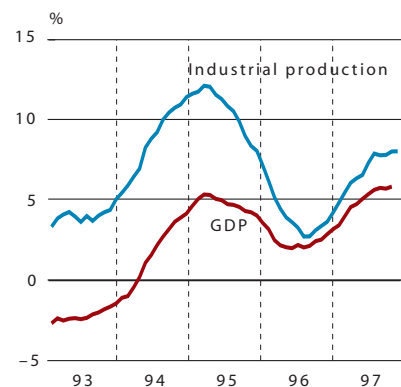
The fall in international interest rates, the low rate of inflation in Finland and moderate inflationary prospects, the lower public borrowing requirement and the good external balance all helped to create the conditions for a fall in Finnish interest rates at the end of 1997. Short-term market rates had risen in September, when the Bank of Finland raised the tender rate by 0.25 percentage points. The markets expected a

further tightening in the autumn, and this was reflected in rising money market rates. These expectations proved unjustified, however, and the Helibor interbank rates were cut right at the end of the year.

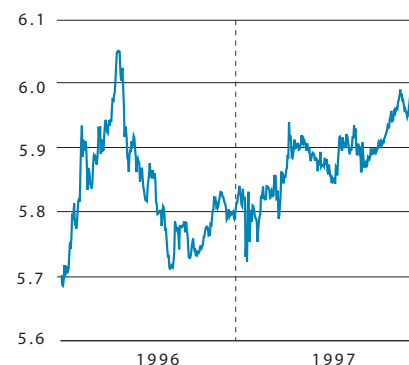
Share prices rose sharply during 1997, though the trend was reversed at year end. The Helsinki Exchanges HEX index was 32 per cent higher on 31 December than it had been a year earlier.

The financial position of companies and households continued to be good. Low interest rates and positive expectations of future economic trends increased demand for bank loans. Though outstanding corporate loans in foreign currencies continued to decline, the total sum of outstanding bank loans took a turn for the increase. Deposits by the public also increased, as people moved money from tax-exempt fixed-term accounts to other deposits. Bank customers also diversified their investments into government bonds, mutual funds and life assurance policies.

PRODUCTION
12-months change in annual moving total



EXTERNAL VALUE OF THE MARKKA
FIM/ECU



Postipankki Group's results improved again in 1997. Operating profit rose by FIM 67 million to FIM 668 million.

Profit before appropriations and taxes stood at FIM 647 million, and profit for the financial year amounted to FIM 619 million, compared with FIM 480 million in 1996.

This improvement is largely attributable to higher net income from financial operations and lower operating expenses. The Bank made far fewer provisions for bad and doubtful debts than in 1996, and the releases and recoveries of amounts previously written off exceeded losses entered in 1997.

NET INCOME FROM FINANCIAL OPERATIONS UP 14 PER CENT

Group net income from financial operations rose by FIM 283 million to FIM 2,238 million. Increased lending, lower non-performing and other non-interest earning loans and the interest rate adjustments on savings and transaction accounts early in the year all helped to improve the margin on Markka lending and deposits. Most of the increase in net income from financial operations derived from money market operations, however. Overall, foreign exchange dealing and money market operations made a profit, even though net income from securities trading was negative.

Transactions in securities showed a FIM 202 million loss, including the revaluation on both interest rate and equity instruments and dealing profits and losses for the year. The negative income from transactions in securities derived largely from money market instruments, although this should be considered together with net income from financial operations. The unrealised gains arising from valuation of interest rate swaps at the end of the previous year were released in 1997 partly in the form of a negative revaluation, partly as a positive interest income in net income from financial operations. Profits on foreign exchange dealing amounted to FIM 110 million, slightly more than in 1996.

Fees and commissions receivable declined by over FIM 50 million, due to lower income from managing new issues, payment transactions and guarantees. Other income items remained largely unchanged.

OPERATING EXPENSES DOWN 5 PER CENT

Operating expenses and depreciation together decreased by FIM 139 million, i.e. 5 per cent. Among staff costs, salaries and wages fell by FIM 24 million and pension expenses by FIM 46 million, as the Bank's contribution to the pension foundation was lower than the year before. FIM 21 million

OPERATING PROFITS OF POSTIPANKKI GROUP AND GROUP UNDERTAKINGS IN 1997 AND 1996

Operating profits of Postipankki Oyj and its subsidiaries before elimination of intra-group transactions

	Postipankki Group			Postipankki Oyj			PSP-Municipality Bank Ltd		PSP- finance Ltd		Other Group undertakings, total	
	1997	1996	Change	1997	1996	Change	1997	1996	1997	1996	1997	1996
Interest receivable	5 767	5 772	0 %	5 648	5 605	1 %	147	171	51	66	67	56
Net leasing income	+ 68	80	- 14 %	1	1				68	79		
Interest payable	- 3 598	3 897	- 8 %	3 512	3 761	- 7 %	127	145	70	78	23	39
Net income from financial operations =	2 238	1 955	14 %	2 137	1 845	16 %	20	26	50	67	44	17
Dividend income	+ 8	8	- 4 %	30	26	12 %				1	1	
Fees and commissions receivable	+ 907	960	- 6 %	867	925	- 6 %	1	1	11	10	40	29
Fees and commissions payable	- 137	140	- 2 %	134	135	0 %	1	2	1	2	9	8
Net income from transactions in securities	+ - 202	556		- 202	556							
Net income from foreign exchange dealing	+ 110	106	3 %	112	105	6 %					- 2	1
Other operating income	+ 222	227	- 2 %	204	205	- 1 %			12	11	285	193
Operating income	= 3 145	3 673	- 14 %	3 014	3 528	- 15 %	19	25	72	88	359	232
Staff costs	- 1 060	1 126	- 6 %	961	1 050	- 8 %	1	2	22	23	80	53
Other administrative expenses	- 1 094	1 039	5 %	1 168	1 086	8 %	1	1	9	9	165	110
Depreciation	- 200	237	- 16 %	165	208	- 21 %			2	4	30	25
Other operating expenses	- 192	283	- 32 %	183	263	- 30 %	1	1	8	14	36	22
Operating expenses	- 2 546	2 686	- 5 %	2 477	2 606	- 5 %	3	3	41	49	311	210
Profit before provisions for bad and doubtful debts	= 599	987	- 39 %	536	922	- 42 %	17	22	31	40	48	22
Provisions for bad and doubtful debts ¹⁾	- 54	300		- 55	295					3	2	2
Amounts written off securities ²⁾	-	92		-	118							
Income from equity accounted companies ³⁾	+ 15	7	127 %									
Operating profit	= 668	602	11 %	592	509	16 %	17	22	31	37	46	20
Balance sheet at end of year	125 258	118 489	6 %	124 089	116 033	7 %	2 429	2 247	2 481	2 235	1 843	1 437

¹⁾ Includes loss on disposal of lease assets

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

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

paid out to cover the Bank's pension liability in previous years was booked under extraordinary expenses.

Reimbursements paid to post offices for banking services fell by FIM 30 million, but the overall total was increased by a FIM 25 million reimbursement to cover the costs of the new computer system introduced at post offices. Other administrative expenses rose by FIM 60 million mainly because of IT costs. Depreciation decreased by FIM 38 million, due to the fact that the previous year's figure included write-downs on values of real estate.

Other operating expenses were FIM 91 million lower than a year earlier. Rental expenses fell by FIM 27 million. Because the Guarantee Fund of the commercial banks and Postipankki Ltd was dissolved, no contribution was collected for 1997. In 1996, the contribution was FIM 45 million.

Before provisions for bad and doubtful debts, the profit stood at FIM 599 million, against FIM 987 million in 1996.

RECOVERIES AND RELEASES OF BAD DEBT PROVISIONS BOOSTED PROFITS

Provisions for bad and doubtful debts amounted to FIM 160 million, with specific provisions totalling FIM 55 million. Releases of provisions and recoveries of amounts previously written off were FIM 214 million, giving a net recovery of FIM 54 million. In 1996, the net amount of provisions for bad and doubtful debts was FIM 300 million. In addition to this, FIM 92 million was entered as write-offs in respect of securities held as financial fixed assets. Compared with the previous year, the positive impact of the fall in provisions for bad and doubtful debts and in amounts of written off securities, together with recoveries and releases totalled FIM 446 million.

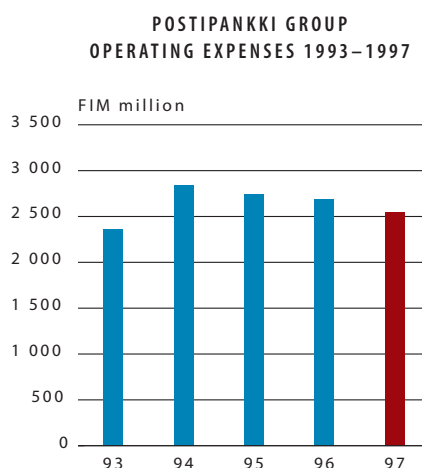
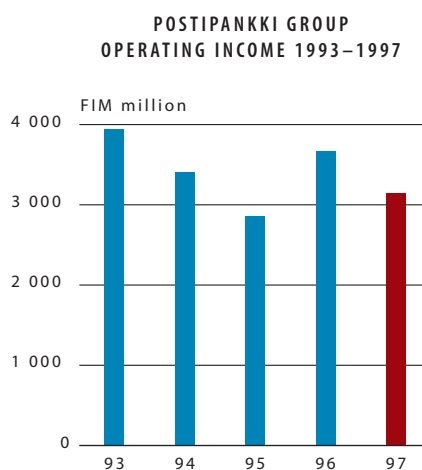
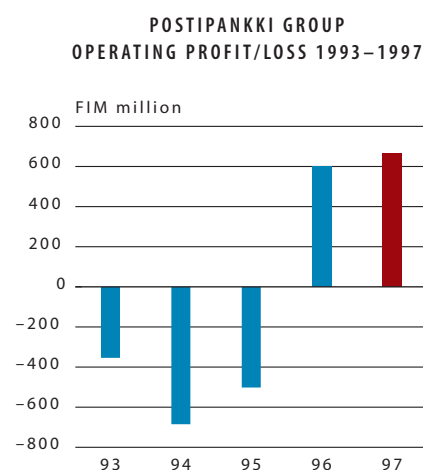
Postipankki and the special receivership set up for Kansa Pension Insurance Company settled a dispute concerning guarantee liabilities in November 1997. Under the agreement, Postipankki paid the receivership FIM 369 million. This did not have any effect on the 1997 result, as provisions for these contingent liabilities had already been charged to the profit and loss account.

Consolidated non-performing and other non-interest earning loans decreased in 1997. After provisions for bad and doubtful debts, the year end figure was FIM 649 million, or FIM 363 million less than a year earlier. The corresponding figure for Postipankki Oyj at the end of 1997 was FIM 630 million.

FUTURE PROSPECTS

Consolidated profit for 1998 is estimated to be as good as in 1997 although no exceptional income, such as significant recoveries of loans and advances previously written off and releases of provisions, is expected. The new corporate structure provides good preconditions for an appreciable boost in business volumes, in retail services and services for SMEs in particular.

In addition, the aim is to achieve an increase in the Bank's market share of new products, such as private customer asset management.



The change-over to the EU single currency, the Euro, looks likely to proceed according to the original schedule, starting at the beginning of 1999. Finland will probably be among the first wave of countries joining the Economic and Monetary Union (EMU). In Postipankki, preparations for the introduction of the first phase of Euro will be completed by the end of 1998. The Bank estimates that the direct costs of EMU transition in 1997–2001 will be around FIM 150 million, with the necessary IT alterations accounting for about FIM 70 million.

NEW GROUP STRUCTURE

In October 1997, the Finnish government decided to combine two State-owned financial institutions – Postipankki Ltd and Finnish Export Credit Ltd – under a single holding company. The aim was to strengthen the two companies' operating potential in their respective key business sectors, to eliminate existing overlaps in their functions and to boost the cost effectiveness of business operations.

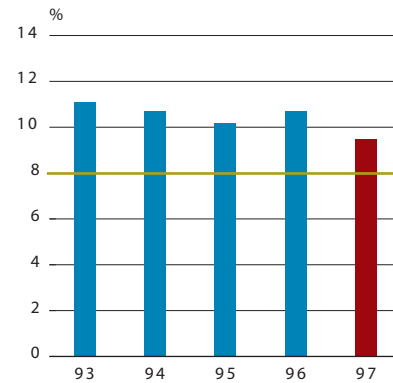
In December, the government set up a new holding company called PV Group Oyj. Through an ownership reshuffle on 18 December, 1997, the government exchanged its shares in Postipankki and Finnish Export Credit for shares in PV Group. The Finnish government owns all the share capital of PV Group.

In the new PV Group, Postipankki will concentrate on households, SMEs and public sector customers by providing efficient service, payment transactions and treasury services. Finnish Export Credit will sell banking services to large Finnish companies and their foreign customers. An investment banking company will also be set up later to handle other services such as mergers and acquisitions and related advisory services, asset management, and share issues and brokerage. The Group's parent company, PV Group Oyj, will concern itself with the strategic management of the entire Group's business, and certain central administrative functions such as risk management, group accounting and corporate communications.

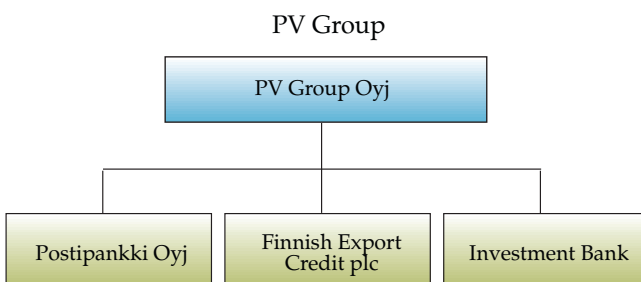
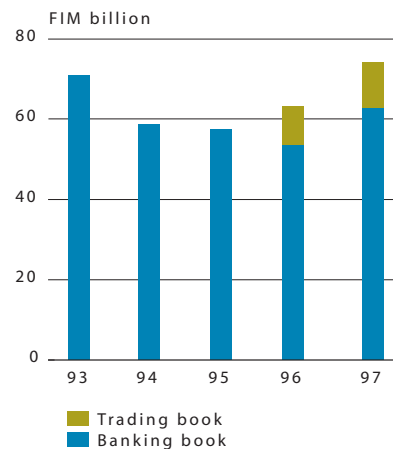
In December 1997 Postipankki's Chairman and Chief Executive Eino Keinänen was appointed full-time Chairman of the PV Group Board and Harri Hollmén as President and CEO.

At the end of 1997 PV Group's share capital was FIM 1,284 million and its total capital and reserves FIM 8,204 million.

POSTIPANKKI GROUP
CAPITAL ADEQUACY RATIO
1993–1997



POSTIPANKKI GROUP
RISK-WEIGHTED ASSETS
1993–1997



Postipankki's share capital on 31 December, 1997 was FIM 630 million. The Republic of Finland owns PV Group Oyj, which in turn holds all of the 63 million shares of the Bank, with a nominal value of FIM 10 each.

An extraordinary shareholders' meeting of 11 December, 1997 amended Postipankki's Articles of Association, deleting an earlier clause concerning two classes of shares with different voting rights. The former Articles allowed the Bank to have A shares conferring 5 votes at shareholders' meetings and B shares conferring 1 vote. The Bank's entire share capital now comprises A shares.

In December 1997 the Bank repaid the FIM 903 million capital notes subscribed by the Finnish government in August 1992. Part of the notes was replaced by FIM 700 million capital notes placed with domestic investors and counted as Tier 1 capital.

In June 1997 the Bank issued a USD 100 million subordinated debenture. In accordance with the Act on Credit Institutions, FIM 2,114 million of Group dated subordinated debentures outstanding at the end of the financial year were included in Tier 2 capital. Perpetual subordinated debentures amounted to FIM 569 million. In addition, FIM 154 million was counted as Tier 3 capital to cover market risk.

Postipankki Group's risk-weighted assets stood at FIM 74.1 billion at the year end, up 17 per cent, or FIM 10.8 billion, on the previous year. FIM 7.7 billion of the increase com-

prised loans and advances, due to a rise in corporate loans and money market instruments. The risk-weighted amount of guarantees and other contingent liabilities and commitments rose by FIM 1.0 billion and trading assets by FIM 2.0 billion.

At the end of the year, the Postipankki Group's Tier 1 capital stood at FIM 4,228 million and total capital at FIM 7,005 million. Calculated as required by the Act on Credit Institutions, Postipankki Group's capital adequacy ratio was 9.5 per cent at the end of the year, compared with 10.7 a year earlier. The ratio was reduced mainly by the increase in risk-weighted assets as a result of growing business volumes over the year and by repayment of the government capital notes in December. At the year end, the ratio of Tier 1 capital to consolidated risk assets was 5.7 per cent.

The risk-weighted assets of the whole PV Group at the end of 1997 were FIM 91.8 billion, Tier 1 capital FIM 8.6 billion, and total capital FIM 12.2 billion. PV Group's capital adequacy ratio was 13.3 per cent and the ratio of Tier 1 capital to risk-weighted assets was 9.4 per cent.

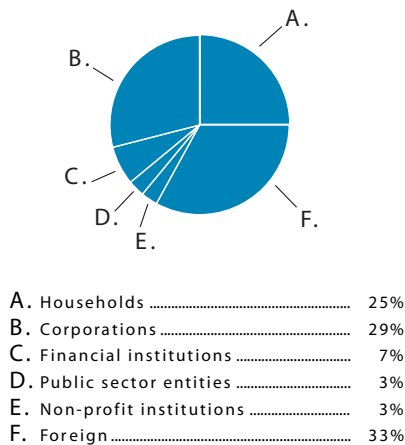
According to the Postipankki Act, the Bank's commitments are backed up by a State guarantee for an amount up to one half of its combined Tier 1 and Tier 2 capital. If the Bank's capital is insufficient to cover its commitments, the State will be responsible for meeting them up to the amount of the guarantee.

CAPITAL ADEQUACY

Year ended 31 December	Postipankki Group		Postipankki Oyj	
	1997	1996	1997	1996
CAPITAL, FIM million				
TIER 1	4 228.2	4 190.6	3 898.3	3 700.9
Share capital	630.0	630.0	630.0	630.0
Reserves	1 710.3	1 710.3	1 646.8	1 646.8
Capital notes	700.0	903.0	700.0	903.0
Distributable capital	1 000.5	488.8	900.3	415.1
Minority interests	67.3	190.8		
Untaxed reserves	421.3	428.6	238.8	262.1
Intangible assets	- 301.2	- 160.9	- 217.6	- 156.2
TIER 2	2 683.3	2 369.3	2 518.3	2 338.1
Dated subordinated debt	2 114.1	1 881.7	1 949.2	1 850.4
Perpetual subordinated debt	569.2	487.6	569.2	487.6
DEDUCTIONS FROM CAPITAL	60.7	40.2	59.2	37.2
TIER 3	154.5	259.4	154.5	259.4
TOTAL CAPITAL	7 005.3	6 779.1	6 512.0	6 261.2
RISK-WEIGHTED ASSETS (on-balance sheet and off-balance sheet)	74 057.7	63 289.1	71 326.4	61 585.0
CAPITAL ADEQUACY RATIO, %*				
- Total capital/risk-weighted assets	9.5	10.7	9.1	10.2
- of which Tier 1 capital/risk-weighted assets	5.7	6.6	5.5	6.0

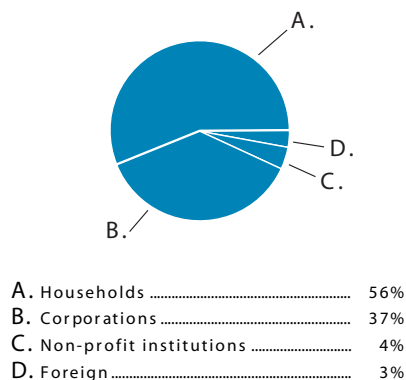
* Calculated according to the regulations of the Finnish Financial Supervision Authority (106.6, from 31 December 1997), which meet the requirements of the Council Directives 89/299/EEC on the own funds of credit institutions and 93/6/EEC on the capital adequacy of investment firms and credit institutions.

POSTIPANKKI GROUP
LOANS AND ADVANCES* AND CONTINGENT
LIABILITIES BY CATEGORY OF BORROWER,
31 DEC. 1997, FIM 87 720 million



* Incl. loans and advances to credit institutions and customers and lease assets

POSTIPANKKI GROUP
NON-PERFORMING AND OTHER NON-INTEREST
EARNING LOANS BY CATEGORY OF BORROWER
31 DEC. 1997, FIM 649 million



CREDIT RISK

The Board of Management approves principles of credit risk management and the credit risk policy for the whole Group. These are reviewed at least once a year. Principles are used to guide the targeting of counterparty credit risks in both lending and treasury products geographically, industrially and by different categories of customers' creditworthiness. Maximum amounts are also set to risk concentrations.

Guidelines for credit risk management are issued at Group level. The basic premise for corporate credit risk management is that all customers are allotted a responsible account officer who is familiar with their business operations and follows profit performance. The Bank has an internal credit rating system that utilises agreed methods. Rating is a continuous process which covers over 95 per cent of all corporate loans and other credit exposures. The credit rating given is the foundation for measuring the total amount of credit risk. In the case of personal customers, creditworthiness is assessed using credit scoring.

Credit decisions are made both by the Board of Management and, through Board decisions delegating authorisation, by named persons jointly entitled to make credit decisions. In addition to customers' creditworthiness, the credit decisions are based on collateral or covenants.

Credit risk management and control rely on constant monitoring of customers' creditworthiness and the value of collateral and covenants, monitoring of country, customer and product limits, and on risk reporting.

Large exposures are reported both internally and to the Financial Supervision Authority. In accordance with chapter 8 of the Act on Credit Institutions, a 'large exposure' means, calculated as referred to in the Act, an amount equalling to at least 10 per cent of the bank's capital. The total amount of such risks must not exceed 800 per cent of the bank's capital. In the case of corporate customers, individual risk must not exceed 25 per cent of the Bank's capital. However, in respect of existing large exposures, transitional rules are being applied during a period lasting up to the year 2001.

In line with approved credit policy, Postipankki Group's new loans in 1997 were granted mainly to customers with good or satisfactory creditworthiness. Nearly 90 per cent of the new lending was to Finnish customers. About half of the new corporate loans went to the manufacturing and energy sectors. Loans to personal customers were domestic comprising mainly home loans.

The concentration of the lending and credit exposures to Group's corporate customers are presented industrially and geographically on pages 18 and 19 respectively.

Due to the improving economic environment and the credit policy adopted, the financial condition of the Group's customers continued to improve during 1997. Non-performing loans fell by over a third, resulting in a diminishing credit risk in the loan portfolio.

At the end of the year, Group's exposure to borrowers in the Far East countries experiencing economic crisis was 3 per cent of the total exposure. 84 per cent of the Far East exposure was to Japanese banks. The exposure to South Korea, Indonesia and Thailand, the most turbulent of these countries, amounted to FIM 0,5 billion at the end of the year. By the beginning of February 1998, the exposure was decreased to FIM 0,4 billion of which over 10 per cent comprised direct corporate risks and the rest bank risks.

MARKET RISK

The principles of market risk management and risk limits are set by the Board of Management, which also decides on risk management strategy. Treasury and Capital Markets Division is responsible for management of the Bank's market risks. The monitoring of market and balance sheet risks has been delegated to an asset and liability management committee which reports directly to the Board of Management. Treasury and Capital Markets has its own risk management committee which reports to the asset and liability management committee.

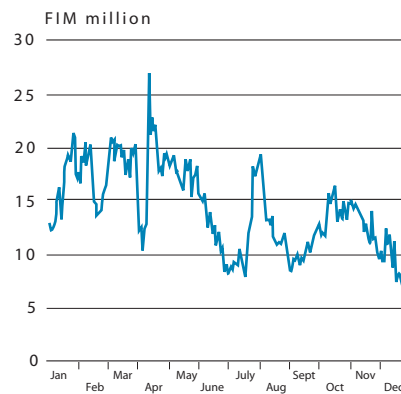
Within Business Control Division, the risk management function is responsible for the independent assessment and analysis of market risk, for risk reporting and for monitoring market risk limits independently of business operations. Business Control Division is also responsible for monitoring and analysing the balance sheet structure.

The Value at Risk (VaR) technique, based on stochastic simulation, is used to estimate market risks. VaR figures for Bank positions involving interest rate, foreign exchange rate and equity risks are calculated on the basis of a one-day investment period. The risk figure (VaR 1%) calculated for each position gives the maximum loss at a statistical probability of 99 per cent. The volatility and correlation parameters for the risk model are updated daily and based on the last 60 days' data. Limits set to VaR figures are monitored daily using risk reporting. VaR figures calculated in this manner estimate risks under normal market conditions.

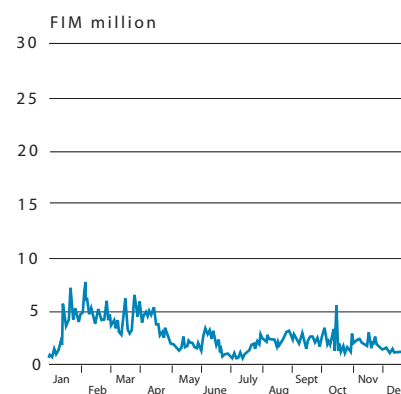
To get the most comprehensive risk picture, the Bank also makes numerous stress tests on a daily basis. Stress tests indicate the behaviour of positions under abnormal market conditions and when correlations are changing. Stress test limits have also been set to certain key positions.

The interest rate risk expressed through Postipankki's VaR 1% figure varied during 1997 between FIM 8 million and 27 million. The foreign exchange and equity risks were substantially smaller. The Bank's foreign exchange risk varied between FIM 0.8 million and 8 million and the equity risk between FIM 0.5 million and 8.5 million. It should also be noted that risk figures react readily to changes in volatilities and correlations in addition to those in the size of the position.

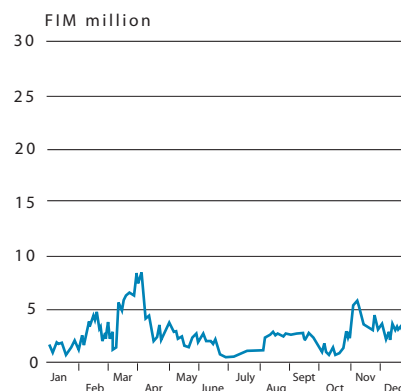
POSTIPANKKI
INTEREST RATE RISK (VaR 1%)
1997



POSTIPANKKI
EXCHANGE RATE RISK (VaR 1%)
1997



POSTIPANKKI
EQUITY RISK (VaR 1%)
1997



The Group's balance sheet total rose by FIM 6.8 billion, or 6 per cent during the year. Loans and advances to customers rose by FIM 4.3 billion, nearly 10 per cent. Market investments also increased substantially. Customer deposits with Postipankki grew by 3 per cent.

FUNDING

Core deposits by the public in Postipankki at the end of December were at approximately the same level as at the beginning of the year. Funds in investment accounts increased appreciably over the year. At the same time, however, balances on savings and current accounts declined. There were more funds in postal giro accounts at the year end than a year earlier, and the average daily balances in these accounts rose markedly. Funds in domestic foreign currency accounts rose

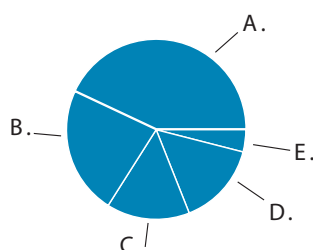
by approximately FIM 1 billion in Markka equivalent during the year. Domestic money and capital market funding also increased considerably.

Postipankki Oyj has certificate of deposit and medium-term note programmes in the U.S. and European markets with a total Markka equivalent of some FIM 27 billion. The utilisation rate of these programmes during 1997 was very low.

LENDING AND OTHER ASSETS

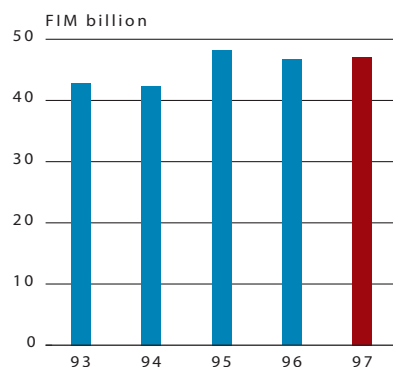
Postipankki's domestic lending rose by 12 per cent during 1997. Both Markka-denominated loans and those denominated in foreign currencies increased rapidly, after several years of decline.

POSTIPANKKI
DOMESTIC FUNDING
31 DECEMBER, 1997



A. Households	43%
B. Corporate sector	23%
C. Public sector	15%
D. Financial institutions	15%
E. Other entities	4%

POSTIPANKKI
DOMESTIC MARKKA DEPOSITS
YEAR ENDED 31 DECEMBER



POSTIPANKKI RATINGS ON 31 DECEMBER 1997

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

FUNDING

	31 December 1997 FIM million	Change 1997 FIM million	%
GROUP			
Liabilities to credit institutions and central banks	27 780	952	4
Liabilities to customers	55 460	-2 212	-4
- deposits	50 093	1 414	3
- other liabilities	5 366	-3 626	-40
Debt securities in issue	30 164	6 585	28
Other liabilities	7 262	1 235	20
Shareholders' funds and untaxed reserves	4 592	209	5
Total balance sheet	125 258	6 769	6
POSTIPANKKI OYJ			
Core deposits	34 214	-47	0
Postal giro accounts	12 861	446	4
Foreign currency deposits	2 589	1 004	63
Domestic deposits	49 664	1 403	3
Funding from domestic money and capital markets	31 053	-2 800	-8
Funding from foreign money and capital markets	32 044	8 578	37
Other liabilities	7 150	586	9
Shareholders' funds and untaxed reserves	4 179	290	7
Total balance sheet	124 089	8 057	7

Loans to households remained at approximately the same level and stood at FIM 21.6 billion at the year end. New housing loans topped the previous year's figure, however, and total housing loans amounted to FIM 15.0 billion on 31 December. Corporate loans started to rise during the year. The Bank's investment in domestic bonds increased rapidly, totalling FIM 12.0 billion at the year end. Bonds issued by the government accounted for FIM 9.1 billion of this.

The interest payable on Bank liabilities during the year was 3.1 per cent, while the corresponding interest income on loans and advances was 5.2 per cent, giving an interest margin of 2.1 per cent, or approximately the same as in 1996.

DERIVATIVE CONTRACTS

Based on the value of the underlying instruments, 3 per cent of the Bank's derivative contracts were used as hedges at the year end. Derivative contracts taken out to hedge assets, liabilities or other transactions are treated in the accounts on an equivalent basis to the items being hedged. All other derivative contracts are marked to market and the resultant profits and losses are included in net income from transactions in securities and foreign exchange dealing.

The risk from derivative contracts is within the risk limits set by the Board of Management.

Calculated in accordance with the requirements of the Finnish capital adequacy standards, the credit equivalent amount of the Postipankki Group's derivative contracts at the end of the year was FIM 10.4 billion and the risk-weighted amount FIM 3.0 billion.

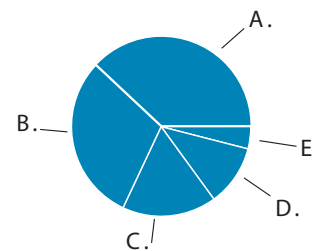
The section on Accounting Policies and item 26 in the Notes give details of the Group's derivative contracts.

LENDING AND OTHER ASSETS

GROUP	31 December 1997	Change 1997	
	FIM million	FIM million	%
Loans and advances to credit institutions and central banks	30 954	10 746	53
Loans and advances to customers	50 826	4 268	9
Debt securities	31 162	- 8 255	- 21
Other assets ^{*)}	12 317	11	0
Total balance sheet	125 258	6 769	6
POSTIPANKKI OYJ			
FIM-denominated loans	40 023	3 206	9
Foreign currency loans	6 059	937	18
Bonds and notes	11 977	2 242	23
Domestic lending	58 058	6 384	12
Domestic market instruments	19 597	- 6 969	- 26
Foreign lending and market instruments	35 126	8 594	32
Other assets ^{*)}	11 309	48	0
Total balance sheet	124 089	8 057	7

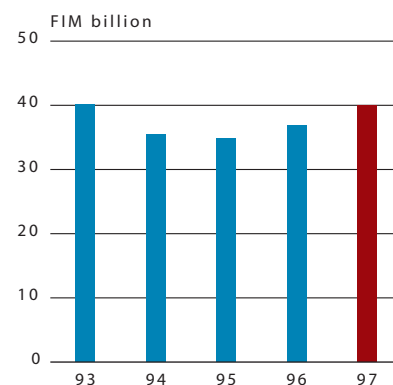
^{*)} Includes shares and participations, intangible and tangible assets, other assets, and prepayments and accrued income

POSTIPANKKI
DOMESTIC LENDING
31 DECEMBER 1997

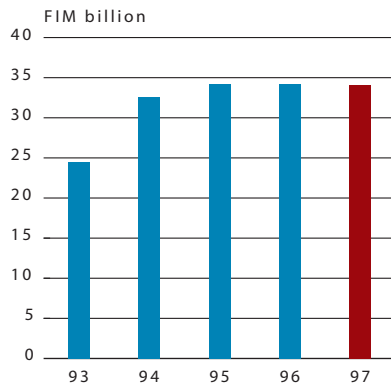


A. Households	38%
B. Corporate sector	30%
C. Public sector	17%
D. Financial institutions	11%
E. Other entities	4%

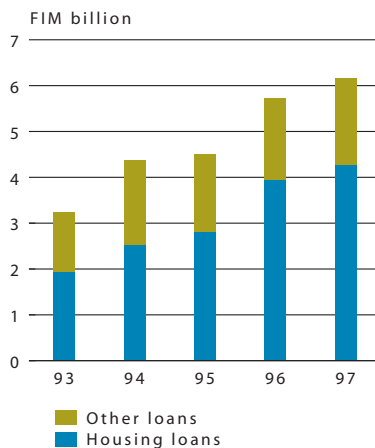
POSTIPANKKI
DOMESTIC MARKKA LENDING
YEAR ENDED 31 DECEMBER



CORE DEPOSITS WITH POSTIPANKKI
31 DECEMBER



POSTIPANKKI
NEW LENDING TO HOUSEHOLDS
1993-1997



The performance of Retail Banking improved in 1997, but profitability cannot yet be judged as satisfactory. In future, a better result will call for more substantial revenues as well as tight cost control.

RETAIL DEPOSITS, INVESTMENT SERVICES AND LENDING

Deposits by retail customers remained unchanged. Early in the year the Bank cut the interest paid on fixed rate tax-exempt transaction and savings accounts from 2 to 1 per cent, following a fall in the general interest rate level. Taxable transaction accounts and certain investment accounts were converted into corresponding tax-exempt accounts, simplifying the range of account types.

Parallel with traditional deposit products, various investment services, including mutual funds and life assurance products, were increasingly marketed to personal customers.

Six share issues were sold through the Bank's branch network. The largest was the Helsinki Telephone Corporation issue, which involved 108,000 subscribers in the metropolitan area over a course of six weeks. Postipankki issued eight bonds of its own targeted at retail customers.

Households continued to take out more new loans, and more new housing loans were granted than ever before.

The Postipankki prime rate was 4.25 per cent all year.

Provisions for bad and doubtful debts among retail customers amounted to FIM 32 million. Non-performing and other non-interest earning loans stood at FIM 363 million at the year end, 21 per cent less than in 1996.

BRANCH NETWORK

At the beginning of the year Retail Banking had 75 branches. At the end of the year the number was 63 with four sub-branches. There were Phone Banking units in Helsinki and Kuopio, and a new one was opened in Oulu in January 1998.

The number of post offices providing Postipankki services fell by 191 during the year, to 514. Eleven of these are Åland Post offices. In 1998, the number of Finland Post offices offering banking services will further decrease by approximately 25.

Within the Phone Banking, both the number of calls and sales have grown rapidly. Customer advisors received or made some 1.2 million calls during the year, and some 2 million calls were also made to the automatic telephone service. Phone Banking introduced a new Call Center system (CTI) to promote even better customer service, and enable overall quality to improve.

At the year end, 2,072 Automatia Pankkiautomaatit Oy ATMs served Postipankki customers, and the Bank had 269 ATMs with bill payment facility. In addition, Postipankki customers had the use of nearly 700 payment ATMs belonging to cooperative banks. Payment of bills through ATMs grew by nearly 25 per cent, and the rapid change in customer banking habits in general continued. Banking transactions at branch offices decreased, and the use of bank cards and self-service channels increased considerably.

FUTURE DEVELOPMENTS

A new workstation system was introduced at all the Bank's own branches and in the Phone Banking centres. About 1,200 new workstations were installed in all.

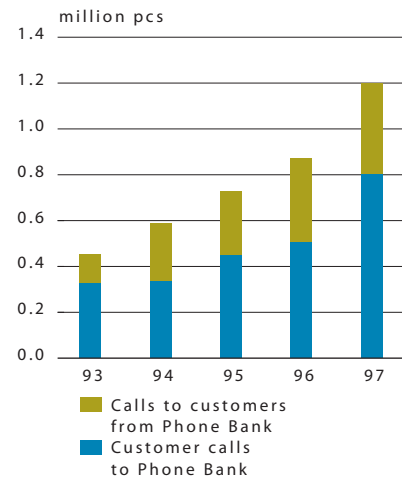
An Internet version of Postipankki's on-line banking system Rahalinja was introduced. New on-line banking agreements were made with 25,200 customers during the year, making a grand total of around 65,000 users.

In April, Automatia Rahakortit Oy, which is owned by three Finnish banks, Postipankki, Merita and cooperative banks, began to offer their customers a new reloadable smart card facility, integrated into their ATM and debit cards. About 100,000 Postipankki customers had taken advantage of this facility by the end of the year.

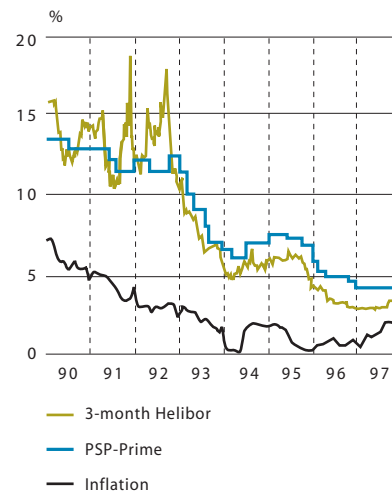
During the year a new service was launched in cooperation with retail traders, allowing customers to withdraw cash at shop check-outs using their debit cards. At the end of 1997 Postipankki customers were already able to withdraw cash at over 60 shops in different parts of Finland.

Codetermination negotiations with special terms were launched in 1997 concerning staff cuts of 503 persons resulting from changes in Retail Banking operations in 1998–2000.

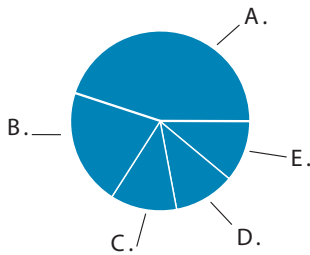
PHONE BANKING
Personal service
Number of calls 1993–1997



POSTIPANKKI PRIME RATE

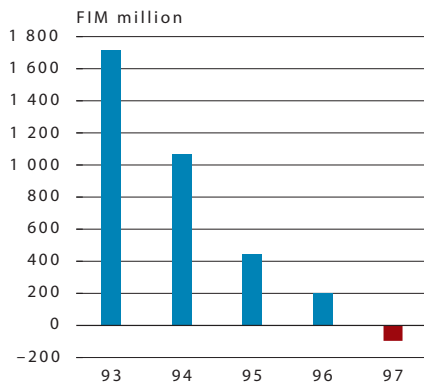


POSTIPANKKI GROUP LENDING AND CREDIT EXPOSURE TO CORPORATE CLIENTS BY INDUSTRIAL SECTOR 31 DECEMBER, 1997

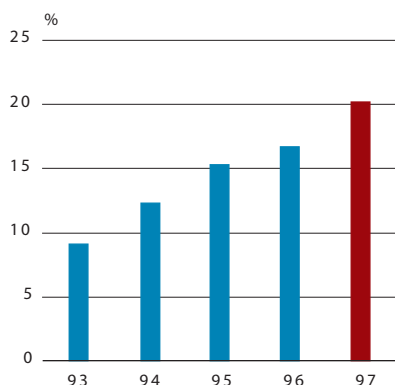


A. Manufacturing	45%
B. Construction and real estate services	21%
C. Trade	11%
D. Power and water supply	11%
E. Other services	12%

POSTIPANKKI GROUP CORPORATE CREDIT LOSSES 1993-1997



POSTIPANKKI'S MARKET SHARE OF NEW MARKKA LENDING TO THE CORPORATE SECTOR 1993-1997



1997 was a good year for Corporate Banking. In particular, performance was improved by lower provisions for bad and doubtful debts, and substantial releases and recoveries. Customer liquidity remained good and consequently deposit volumes increased.

Postipankki Group's total credit exposure to corporations and institutions (loans and advances, guarantees and other off-balance-sheet items and derivative contracts) was FIM 120 billion at the year end, up 8 per cent, or FIM 10 billion, on 1996.

Recoveries of the Group corporate loans and advances previously written off and releases of provisions in 1997 exceeded the new provisions for bad and doubtful debts for the year by FIM 86 million. The new provisions in 1997 amounted to FIM 95 million while the amount of recoveries was FIM 181 million. Compared to the net recovery of FIM 86 million in 1997, the net loss in 1996 was FIM 174 million.

Non-performing and other non-interest earning loans to corporations and institutional customers fell by 48 per cent during the year, to FIM 286 million.

Postipankki had 22 corporate branches with 55 service points at the end of year, i.e. the same number as in 1996.

Postipankki's role as a significant financier of major Finnish corporations remained solid. The volume of payment transactions and cash management services provided to large corporate customers rose substantially.

Total lending to small and medium business customers rose by approximately 30 per cent. The economic upswing boosted demand for banking services, and the number of corporate customers rose. Postipankki retained its leading status as a provider of banking services to the public sector organisations.

Volumes for domestic payment transaction services rose by 9 per cent during the year. Foreign payments, postal giro account balances and the computerisation of customers' payment transactions continued to increase.

The most important financing project was the Järvenpää-Lahti motorway, which is being financed with venture capital. Postipankki acted as a special adviser in the competitive tendering for the construction of the motorway, and later arranged the funding package and a loan to the customer, Tiettyö Nelostie Oy.

For Treasury and Capital Markets Division, 1997 was a fairly satisfactory year in a highly competitive market environment, though the profits declined on 1996.

Foreign exchange dealing on the Bank's own account brought good results. In money market operations, the negative income in Net income from transactions in securities derived largely from losses on valuation when the previously shown unrealised gains released. At the same time, however, the net interest income from money market operations increased substantially.

The market value of assets under management rose by 50 per cent, to approximately FIM 8.2 billion.

A new product on the Finnish bond market in 1997 was a corporate tap issue. Postipankki acted as the arranger for all the three corporate tap issues during the year. In addition, the Bank arranged the first domestic corporate medium term note -programme as well as several private placements for other issuers. Postipankki continued to be the market leader in arranging public bond issues for corporates.

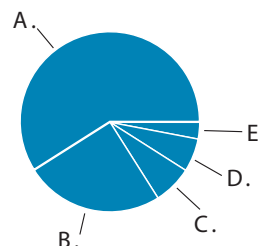
Postipankki was the arranger for six syndicated loans, and participated in 22 syndicated loans in Finland and the Nordic countries.

The Bank acted as an advisor in several corporate restructurings. The Bank was the arranger and an adviser in the initial public issues of Helsinki Telephone Corporation and Novo Group. In addition, the Bank participated in four other equity issues.

Postipankki's foreign branches provided customers with treasury and corporate banking services in London and New York. The New York branch also administers a branch in Grand Cayman. In October 1997 it was decided that the Singapore branch would be closed down by 31 May, 1998, at the latest. In future, Group customers will be served by the Southeast Asian office of Finnish Export Credit Ltd in Singapore. The representative offices in Stockholm, Tallinn, Moscow and Tokyo support head office and branch marketing.

Both the London and the New York branches showed a profit in 1997, but Singapore branch recorded a loss.

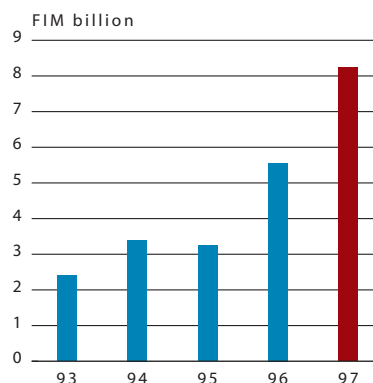
POSTIPANKKI GROUP
FOREIGN LENDING AND CREDIT EXPOSURE*
31 DECEMBER, 1997



A. EU countries	59%
B. North America	25%
C. Far East	7%
D. Other Western Europe	6%
E. Others	3%

* Incl. loans and advances, contingent liabilities and the total credit equivalent amount of commitments and derivative contracts

ASSET MANAGEMENT SERVICES
FUNDS UNDER MANAGEMENT
31 DECEMBER



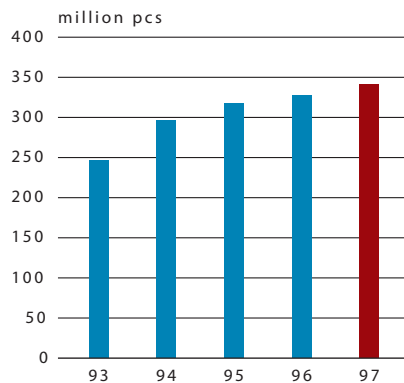
PAYMENT SERVICES

The volume of Postipankki payment transactions concerning domestic payments increased by 4 per cent in 1997, to 341 million. In the case of retail customers, most of the increase comprised use of payment ATMs, home banking services, self-service telephones and bank cards. Among corporate services, use of the on-line payment service and bill payment service increased most. In the autumn, the volume of electronic account statements among corporations and institutions exceeded paper statements. Foreign payment transactions rose by 11 per cent, to 1.3 million.

In the spring 1997, the payment service centres launched codetermination negotiations which ended in October. According to the development plans for the payment service activities, almost 400 person-work-years fewer will be needed in 1998–1999 than at present. The cuts will come at the Helsinki and Tampere payment service centres, and the Oulu centre will close down completely after its work is transferred to Tampere during 1998.

Electronic links between customers and the Bank increased by over 40 per cent. At the end of the year there were 23,300 on-line customers and 65,100 home banking customers. Demand for payment transaction services focused on electronic products. Among corporations and institutions, the proportion of all payment transactions carried out electronically rose to 94 per cent; among retail customers the corresponding figure was 55 per cent. At the same time, use of conventional bill payment services in the branch network fell by 25 per cent.

NUMBERS OF POSTIPANKKI
PAYMENT TRANSACTIONS
1993–1997

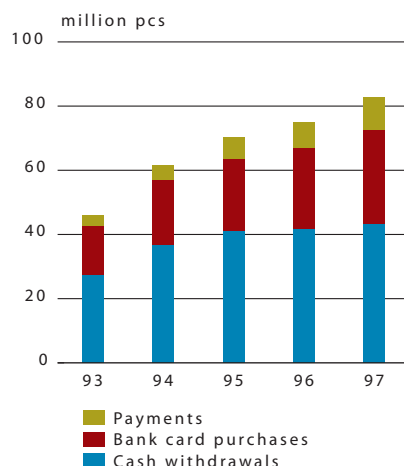


INFORMATION TECHNOLOGY

Postipankki's main IT projects were related to the introduction of the Euro and the start of the new millennium. Work on these began in 1997, and both will continue actively in 1998.

Postipankki's IT investments in 1997 totalled FIM 132 million, with hardware accounting for FIM 52 million and software for FIM 80 million.

USE OF POSTIPANKKI ATM CARDS
AND BANK CARDS
1993–1997



REAL ESTATE

The Bank's net investment in real estate and shares in real estate and property companies totalled FIM 92 million during 1997, against FIM 157 million in the previous year. The total book value of these assets in the consolidated balance sheet at the year end was FIM 3.3 billion. Less than half of the property is occupied for Bank's own activities. Net income from property occupied for other than own activities was over 5 per cent in 1997, classified in the proportion to invested assets as follows:

Net income %	Invested assets FIM million
Less than 3%	475
3–7%	843
Over 7%	646
Total	1 964

ADMINISTRATION AND ORGANIZATION

The Annual General Meeting on 6 March, 1997 re-elected Pekka Vennamo, President and CEO, Jukka Wuolijoki, Director General, and Raimo Liikkanen, MP, all of whom had resigned by rotation, to the Supervisory Board of Postipankki for a term of three years. Juhani Nyysönen, Credit Analyst, was elected as staff representative to replace Antti Paatola, Information Officer, who resigned by rotation. At his own request, Pertti Kukkonen, Managing Director, was released from the duties of Supervisory Board member and Mari Kiviniemi, MP, was elected to replace him for the rest of the term, i.e. to the closure of the 1998 Annual General Meeting.

On 2 April, 1997, the Supervisory Board elected Anssi Rauramo, MP, Chairman and Antti Paasio, Professor, Vice Chairman. The other members of the Supervisory Board were Gustav Björkstrand, Rector, Tuulikki Kannisto, Director, Maija Perho, MP, Jarmo Rantanen, Marketing Director, and Raimo Sailas, Permanent State Secretary.

An Extraordinary General Meeting decided on 11 December, 1997 on amendments in the Articles of Association required by the foundation of the new PV Group. At the same meeting Postipankki was changed into a public limited company (Oyj). Also, Raimo Sailas resigned from membership of the Supervisory Board. Jarmo Kilpelä, Financial Councillor, was elected to replace him for the rest of the term, i.e. to the closure of the 1999 Annual General Meeting. Furthermore, the Extraordinary General Meeting elected Pertti Valtonen, Industrial Councillor, as a new Supervisory Board member for a term of three years.

Eino Keinänen was Chairman of the Board of Management and Chief Executive up to 11 December, 1997. After Mr. Keinänen was elected full-time Chairman of the Board of PV Group Oyj, he resigned from his post as Chairman and Chief Executive. In accordance with the Articles of Association, the Supervisory Board elected Harri Hollmén, LL.M., as Chairman of the Postipankki Board of Management on 11 December, 1997. At the same meeting the Board appointed Pentti Hakkarainen, LL.M., M.Sc. (Econ.) President and Maarit Näkyvä, M.Sc. (Econ.) Board member as of 1 January, 1998. Harri Hollmén was elected President up to 31 December, 1997. Juhani Paloheimo continued as Executive Vice President. The other members of the Board of Management were Messrs Eero Tuomainen, Ilkka Hallavo, Matti Inha, Peter Johansson and Jussi Osola.

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

PERSONNEL

The number of Postipankki Group staff fell again. The average number for the year was 5,264, down 513 on 1996. The year-end number was 5,088, or 366 fewer than a year earlier.

The Bank's staff number for 1997 averaged 4,839, or 524 fewer than in 1996. At the year end, the staff numbered 4,647, which is 393 lower than a year ago. Of these, 4,436 were permanent full-time employees and 211 part-time or fixed-

term employees.

The main staff cuts were in retail banking and payment services. Altogether 252 people were made redundant due to productivity improvements.

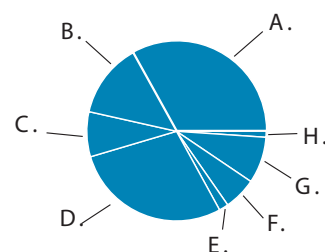
Group wages, salaries and fees amounted to FIM 826 million, with management accounting for FIM 11 million of this.

The Bank's wages, salaries and fees amounted to FIM 750 million, with members of the Supervisory Board and Board of Management accounting for FIM 8 million.

Postipankki's collective agreement is based on the national collective bargaining framework for 1998–1999.

FIM 22 million was transferred to the Postipankki Group personnel fund.

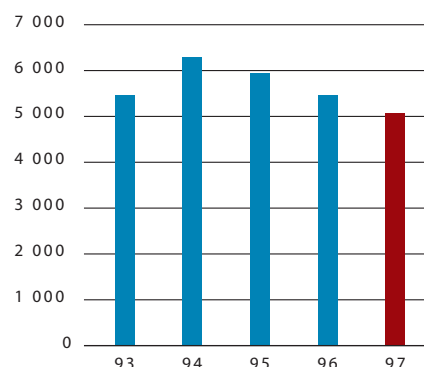
POSTIPANKKI GROUP
STAFF NUMBERS BY SECTOR
1 JANUARY 1998



A. Retail Banking	1 676
B. Corporate Banking	681
C. Treasury and Capital Markets	411
D. Payment Services, Information Technology and Real Estate Management	1 440
E. Business Control	86
F. Group Administration	298
G. Subsidiaries	441
H. Management Support Services	55

Total 5 088

POSTIPANKKI GROUP STAFF NUMBERS
YEAR ENDED 31 DECEMBER



PSP-MUNICIPALITY BANK LTD

PSP-Municipality Bank Ltd's operating profit was FIM 17 million, against FIM 22 million in 1996. The result was satisfactory. The balance sheet total rose by 8 per cent, to FIM 2.4 billion.

Capital adequacy ratio at the year end was 10.7 per cent. The bank employed an average of 7 persons.

PSP-FINANCE LTD

PSP-finance Ltd's operating profit was FIM 31 million, against FIM 37 million in 1996. The result was satisfactory. The balance sheet total rose by 11 per cent, to FIM 2.5 billion. Leasing finance rose to 140 million accounting for about 60 per cent of the balance sheet total. The development of hire-purchase and factoring was also favourable.

Due to recoveries of bad debts, the net provisions for bad and doubtful debts amounted to FIM 1 million. Non-performing and other non-interest earning loans amounted to FIM 5 million at the year end. Capital adequacy ratio was 10.3 per cent at the year end, and the staff averaged 110.

MB FINANCE GROUP LTD

MB Finance Group's operating profit was FIM 9 million in 1997, and its balance sheet total FIM 189 million. Capital adequacy ratio was 45.9 per cent, and the staff averaged 9. The operating profit of the MB Mezzanine Fund Ky, set up in December 1996 and managed by MB Finance Group, totalled FIM 9 million. FIM 218 million of the Fund's total capital of FIM 600 million was invested.

In addition to the MB Mezzanine Fund Ky, MB Finance Group has founded two capital funds, the MB Equity Fund Ky and the MB Equity Fund II Ky, which have been managed since beginning of this year by MB Equity Partners Oy, which was founded in November 1997. The total capital of these funds is FIM 336 million, FIM 64 million of which was invested. The funds started operations in 1996 and 1997.

LEIJONA LIFE INSURANCE COMPANY LTD

The Leijona Life Insurance Company Ltd's profit before taxes was FIM 10 million and its balance sheet total FIM 975 million. Premium income went up by 19 per cent, to FIM 492 million. The company's premium reserve totalled FIM 871 million at the year end. Net income from investment was FIM 38 million. The company employed 14 people at the year end.

Share capital was increased from FIM 70 million to FIM 120 million by a decision of an extraordinary shareholders' meeting on 26 January, 1998. At the same time, Postipankki redeemed Leijona shares owned by Suomi Mutual Life Assurance Company, raising Postipankki's holding to 85.8 per cent.

PSW REALTY WORLD LTD

PSW Realty World Ltd's operating profit was FIM 1.3 million, and its balance sheet total FIM 5 million. It employed an

average of 7 people. At the year end, the company's franchising chain included 48 agencies and one outlet specializing in office premises. Commissions invoiced amounted to FIM 81 million, an increase of FIM 23 million. The total value of home-buying business was around FIM 1,804 million.

SUOMEN TILILUOTTO OY

Suomen Tililuotto Oy's revenues totalled FIM 39 million and the balance sheet total was FIM 158 million. The average staff number was 38. The company performed well, with operating profit increasing from FIM 8 million to FIM 12 million. Capital adequacy ratio was 9.3 per cent at year end. The number of credit cards granted by the company was roughly 270,000.

SUOMEN TILIRAHOITUS OY

Suomen Tilirahoitus Oy's entire stock was transferred to Postipankki Ltd on 24 October, 1997. The company will be merged into Suomen Tililuotto Oy in 1998.

Suomen Tilirahoitus Oy's revenues totalled FIM 30 million and the balance sheet total was FIM 159 million. The average staff number was 22. The company performed well, with operating profit increasing from FIM 8 million to FIM 11 million. Capital adequacy ratio was 14.6 per cent. The number of credit cards granted by the company was roughly 65,000.

POSTIPANKKI FUND MANAGEMENT COMPANIES

Leijona Fund Management Company Ltd, former Presta Fund Management Company Ltd, manages Investment Fund Leijona-Valtio, which specialises in short-term interest rate product investments, Investment Fund Leijona-Obligaatio, which specialises in domestic bonds, and Investment Fund Leijona-Osake, which specialises in Finnish equities. The combined assets of these funds totalled FIM 246 million. The company employed an average of six persons.

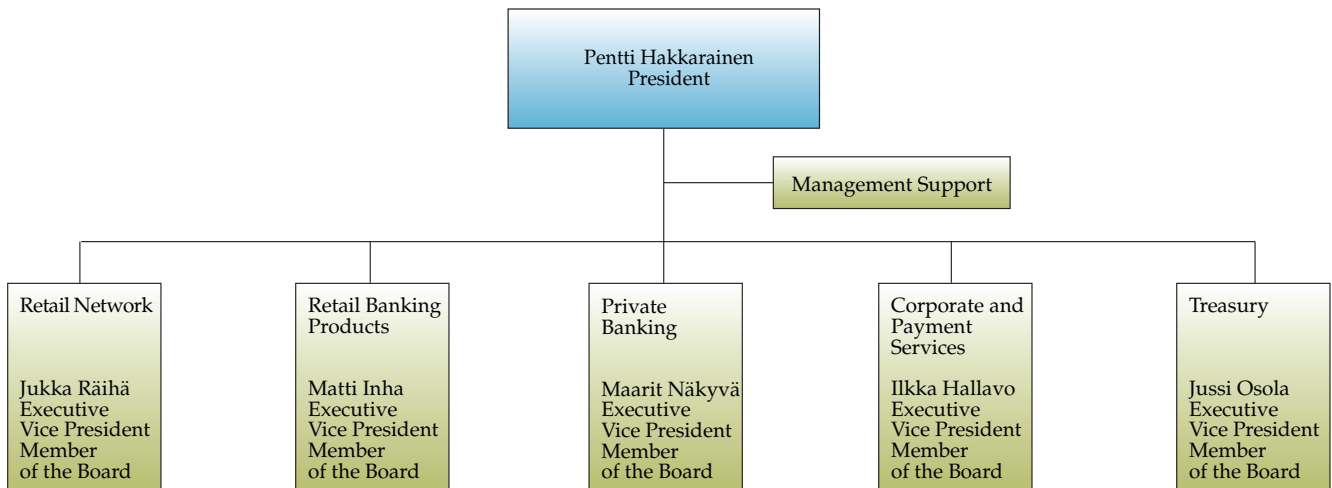
PSP Fund Management Company Ltd manages investment funds targeted especially at corporate customers and institutions. These funds include the PSP-Lyhytkorko and PSP-Pitkäkorko investment funds, which specialise in Finnish interest rate investments, the PSP-Osake and PSP-Kasvu-osake investment funds, which specialise in Finnish equities, and PSP-Euro Osake investment fund, which specialises in European shares. The total assets of these funds amounted to FIM 1,129 million. The average staff number was 3.

TIETOLEIJONA OY

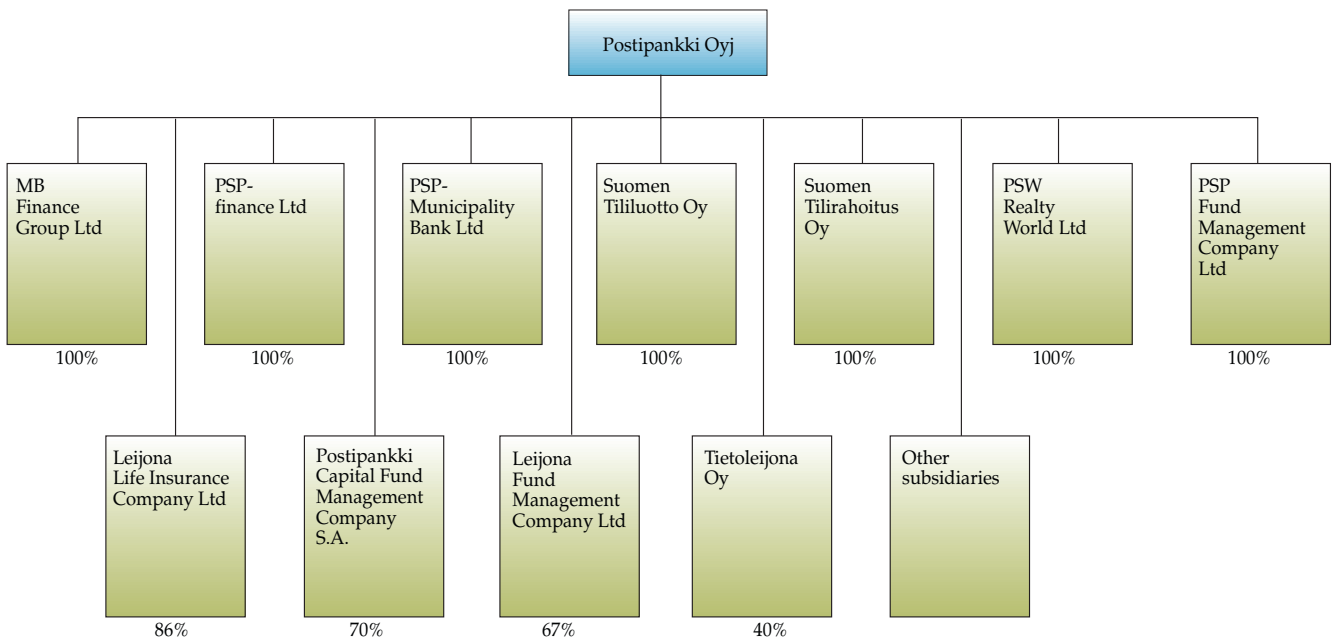
Tietoleijona Oy, a company jointly owned by the Bank and TT Tieto Group, is responsible for implementing and producing Postipankki Group's information technology systems.

Revenues totalled FIM 242 million and operating profit FIM 18 million. The company employed an average of 232 people during 1997.

Postipankki Oyj
1 April, 1998



Postipankki Group
1 February, 1998



	1.1. – 31.12.1997		1.1. – 31.12.1996	
Interest receivable				
arising from				
loans and advances to credit institutions				
and central banks	1 243.0		912.2	
loans and advances to customers	2 543.2		2 732.1	
debt securities	1 902.1		2 126.6	
Other interest receivable	78.7	5 767.0	1.4	5 772.3
Net leasing income		68.3		79.5
Interest payable				
arising from				
liabilities to credit institutions				
and central banks	1 413.9		1 017.2	
liabilities to customers	891.5		1 256.3	
debt securities in issue	1 001.7		1 259.1	
subordinated liabilities	182.2		222.8	
capital notes	34.9		52.0	
Other interest payable	73.3	-3 597.5	89.3	-3 896.7
Net income from financial operations		2 237.8		1 955.1
Dividend income		8.2		8.5
Fees and commissions receivable		906.8		959.6
Fees and commissions payable		-137.3		-140.0
Net income from transactions in securities and foreign exchange dealing				
from transactions in securities				
Debt securities	3.6		434.9	
Shares and participations	10.6		41.3	
Other	-216.3	-202.1	80.0	556.1
from foreign exchange dealing		109.7		106.1
Other operating income		222.2		227.2
Administrative expenses				
Staff costs				
Wages and salaries	826.0		850.1	
Pension costs	90.6		136.2	
Other social security costs	83.0		82.8	
Other staff-related costs	60.9	1 060.3	57.2	1 126.4
Other administrative expenses		1 094.2		1 038.9
Depreciation		-199.5		-237.5
Other operating expenses		-192.2		-283.0
Provisions for bad and doubtful debts		54.1		-300.0
Write-offs in respect of securities held as financial fixed assets		-		-91.6
Income from companies accounted for by the equity method		15.1		6.6
Operating profit		668.2		601.7
Extraordinary expenses		-21.0		-58.0
Profit before appropriations and taxes		647.2		543.7
Change in untaxed reserves and depreciation difference		7.3		-34.7
Taxes				
Taxes for the financial year and previous years	16.6		17.7	
Change in imputed taxes due	11.0	-27.6	8.8	-26.5
Minority interests		-8.0		-2.1
Profit for the financial year		618.8		480.4

	1.1. – 31.12.1997		1.1. – 31.12.1996	
Interest receivable				
arising from				
loans and advances to credit institutions and central banks	1 347.8		1 005.8	
loans and advances to customers	2 309.0		2 465.0	
debt securities	1 911.9		2 131.7	
Other interest receivable	79.4	5 648.1	2.2	5 604.6
Net income from leasing activities		0.5		1.0
Interest payable				
arising from				
liabilities to credit institutions and central banks	1 410.6		1 010.7	
liabilities to customers	889.9		1 237.8	
debt securities in issue	925.1		1 154.7	
subordinated liabilities	178.0		216.5	
capital notes	34.9		52.0	
Other interest payable	73.3	- 3 511.8	89.3	- 3 761.0
Net income from financial operations		2 136.8		1 844.6
Dividend income		29.7		26.4
Fees and commissions receivable		867.3		924.6
Fees and commissions payable		- 134.4		- 134.7
Net income from transactions in securities and foreign exchange dealing				
from transactions in securities				
Debt securities	3.6		434.9	
Shares and participations	10.7		41.3	
Other	- 216.3	- 202.0	80.3	556.4
from foreign exchange dealing		112.0		105.2
Other operating income		204.1		205.4
Administrative expenses				
Staff costs				
Wages and salaries	750.4		791.3	
Pension costs	76.9		126.9	
Other social security costs	76.6		77.6	
Other staff-related costs	57.0	960.9	53.7	1 049.5
Reimbursements to post offices		551.5		556.0
Other administrative expenses		616.1		529.7
Depreciation		- 165.3		- 208.3
Other operating expenses		- 183.4		- 262.5
Provisions for bad and doubtful debts		55.3		- 295.2
Write-offs in respect of securities held as financial fixed assets		-		- 117.8
Operating profit		591.6		509.0
Extraordinary expenses		- 21.0		- 58.0
Profit before appropriations and taxes		570.6		451.0
Change in untaxed reserves and depreciation difference				
Change in other untaxed reserves		23.3		-
Taxes		- 1.6		- 4.4
Profit for the financial year		592.3		446.6

ASSETS	31.12.1997		31.12.1996	
Liquid assets				
Cash in hand	998.1		849.4	
Balances with central banks	1 609.0	2 607.1	1 816.4	2 665.7
Loans and advances to credit institutions and central banks				
Loans and advances to central banks not repayable on demand	2 800.1		0.1	
Loans and advances to credit institutions				
Repayable on demand	92.3		97.2	
Other	26 452.4	29 344.8	18 294.5	18 391.8
Loans and advances to customers		50 825.6		46 558.0
Lease assets		1 451.0		1 361.1
Debt securities				
Issued by public bodies	14 373.9		19 691.2	
Other debt securities	16 788.1	31 162.0	19 725.4	39 416.6
Shares and participations		424.3		172.5
Shares and participations in associated undertakings and subsidiaries				
Credit institutions	-		-	
Other	123.7	123.7	105.4	105.4
Intangible assets				
Goodwill	76.9		-	
Other intangible assets	224.3	301.2	160.9	160.9
Tangible assets				
Land and buildings				
Occupied for own activities	1 192.3		1 149.3	
Other	1 523.5	2 715.8	1 624.7	2 774.0
Shares and participations in property companies				
Occupied for own activities	169.9		163.0	
Other	365.0	534.9	407.4	570.4
Equipment	190.8		174.4	
Other tangible assets	7.9	3 449.3	7.5	3 526.2
Other assets				
Cash items in course of collection from other banks	20.2		700.7	
Guarantee claims	138.0		155.5	
Other	1 543.1	1 701.4	1 144.8	2 001.0
Prepayments and accrued income				
Accrued interest	2 871.9		2 721.1	
Other	995.6	3 867.5	1 408.4	4 129.5
		125 258.0		118 488.7

FIM million

LIABILITIES	31.12.1997		31.12.1996	
Liabilities:				
Liabilities to credit institutions and central banks				
Central banks		2 866.5		8 510.3
Credit institutions				
Repayable on demand	247.9		226.6	
Other	24 665.3	24 913.1	18 090.7	18 317.3
				26 827.7
Liabilities to customers				
Customer accounts				
Repayable on demand	45 937.4		43 466.5	
Other	4 156.0	50 093.4	5 213.0	48 679.5
Other liabilities		5 366.2		8 992.4
				57 671.9
Debt securities in issue				
Bonds and notes		3 674.1		3 912.2
Other		23 168.4	26 842.5	16 799.0
				20 711.2
Other liabilities				
Cash items in course of transmission to other banks		1 777.5		1 380.4
Other		2 759.8	4 537.3	2 145.3
				3 525.8
Accruals and deferred income				
Accrued interest		1 034.7		1 041.9
Other		1 582.2	2 616.9	1 288.3
				2 330.2
Provisions for liabilities and charges				
Other provisions			34.3	
				110.5
Subordinated liabilities			3 322.0	
				2 868.3
Imputed taxes due			73.3	
				60.1
Minority interests			67.3	
				190.8
Capital and reserves:				
Undistributable capital:				
Share capital	630.0		630.0	
Reserves	1 710.3		1 710.3	
Capital notes	700.0	3 040.3	903.0	3 243.3
Distributable capital:				
Profit brought forward	444.7		39.8	
Proportion of untaxed reserves and depreciation difference transferred to capital	421.3		428.6	
Profit for the financial year	618.8	1 484.9	4 525.2	480.4
				948.9
				4 192.2
			125 258.0	118 488.7
OFF-BALANCE SHEET ITEMS				
Contingent liabilities				
Acceptances and endorsements		620.2		519.4
Guarantees and assets pledged as collateral security		8 898.4	9 518.6	8 892.3
				9 411.6
Commitments			15 864.4	
			25 382.9	
				11 180.4
				20 592.0

FIM million

ASSETS	31.12.1997		31.12.1996	
Liquid assets				
Cash in hand	998.1		849.3	
Balances with central banks	1 609.0	2 607.1	1 816.4	2 665.7
Loans and advances to credit institutions and central banks				
Loans and advances to central banks not repayable on demand	2 800.0		0.0	
Loans and advances to credit institutions				
Repayable on demand	80.3		92.3	
Other	30 227.1	33 107.4	20 587.1	20 679.4
Loans and advances to customers		47 122.6		43 163.5
Lease assets		7.1		58.9
Debt securities				
Issued by public bodies	14 333.1		19 676.4	
Other debt securities	16 867.2	31 200.3	19 731.9	39 408.2
Shares and participations		386.9		170.2
Shares and participations in associated undertakings				
Credit institutions	-		-	
Other	49.9	49.9	47.3	47.3
Shares and participations in Group undertakings				
Credit institutions	369.7		249.7	
Other	282.1	651.8	178.2	427.9
Intangible assets		217.6		156.2
Tangible assets				
Land and buildings				
Occupied for own activities	1 070.1		1 149.3	
Other	755.5	1 825.6	759.7	1 909.0
Shares and participations in property companies				
Occupied for own activities	252.1		250.1	
Other	970.9	1 223.0	889.0	1 139.1
Equipment		159.2		145.9
Other tangible assets		7.8		7.4
Other assets				
Cash items in course of collection from other banks	20.2		700.7	
Guarantee claims	138.0		155.5	
Other	1 531.7	1 689.9	1 134.4	1 990.6
Prepayments and accrued income				
Accrued interest	2 863.2		2 707.3	
Other	969.7	3 832.8	1 356.2	4 063.5
		124 089.0		116 032.8

FIM million

LIABILITIES**31.12.1997****31.12.1996**

Liabilities:					
Liabilities to credit institutions and central banks					
Central banks		2 866.5		8 510.3	
Credit institutions					
Repayable on demand	336.2		27 830.0	289.2	
Other	24 627.3	24 963.5		18 002.9	26 802.4
Liabilities to customers					
Customer accounts					
Repayable on demand	45 965.1		55 380.5	43 478.9	
Other	4 156.0	50 121.1		5 223.0	48 701.9
Other liabilities		5 259.4		8 903.4	57 605.3
Debt securities in issue					
Bonds and notes		3 202.8		3 234.9	
Other		23 140.0	26 342.8	15 816.1	19 051.0
Other liabilities					
Cash items in course of transmission to other banks		1 777.5		1 380.4	
Other		2 732.0	4 509.5	2 132.6	3 513.0
Accruals and deferred income					
Accrued interest		1 012.6		1 008.7	
Other		1 502.5	2 515.1	1 223.6	2 232.3
Provisions for liabilities and charges					
Other provisions			30.0		107.0
Untaxed reserves					
Fund for general banking risks		238.8		238.8	
Other untaxed reserves		–	238.8	23.3	262.1
Subordinated liabilities			3 302.0		2 833.3
			120 148.8		112 406.4
Capital and reserves:					
Undistributable capital:					
Share capital	630.0			630.0	
Reserves	1 646.8			1 646.8	
Capital notes	700.0	2 976.8		903.0	3 179.8
Distributable capital:					
Profit brought forward	371.0			–	
Profit for the financial year	592.3	963.3	3 940.2	446.6	446.6
			124 089.0		116 032.8
OFF-BALANCE SHEET ITEMS					
Contingent liabilities					
Acceptances and endorsements		620.2		519.4	
Guarantees and assets pledged as collateral security		9 025.9	9 646.0	9 285.3	9 804.7
Commitments			15 158.9		9 924.9
			24 804.9		19 729.6

FIM million

The annual accounts have been drawn up in accordance with the provisions of the Accounting Act and Act on Credit Institutions, and the Financial Supervision regulations on annual accounts (57/420/96 and 61/420/96). The Financial Supervision regulations meet the requirements of the Fourth Council directive (78/660/EEC) and the Seventh Council directive (83/349/EEC), and the Council directive on the annual accounts and consolidated accounts of banks and other financial institutions (86/635/EEC).

CONSOLIDATED ACCOUNTS

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

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

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

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

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

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

FOREIGN CURRENCY ITEMS

The Group's foreign currency-denominated assets, liabilities and off-balance sheet items have been translated into Finnish

Markkas using the Bank of Finland middle rate on the balance sheet date. If currency claims or liabilities are tied to a specific exchange rate, that rate was used for the translation. Assets and liabilities hedged by a currency swap are entered at the rate of the original currency.

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

Exchange rate differences arising from consolidation are entered under capital and reserves.

ASSETS AND LIABILITIES

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

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

LEASE ASSETS

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

DEBT SECURITIES

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

Debt securities for trading purposes

Debt securities are acquired for trading purposes and valued at the lower of cost and market value. The market value is the quoted price on the balance sheet date or the net present value of the future cash flows discounted at the current market interest rate. Profits and losses on the sale of securities and the unrealised gains and losses arising from valuation

are entered under 'Net income from transactions in securities'. Any material discount or premium on debt securities has been accrued as interest receivable or a deduction in it.

Debt securities held as financial fixed assets

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

SALE AND REPURCHASE AGREEMENTS OF SECURITIES

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

EQUITY SHARES AND PARTICIPATIONS

Shares for trading purposes

Equity shares include shares and participations acquired for trading or investment purposes as well as shares acquired in settlement of unpaid loans and those acquired in connection with reorganisation of a customer's business operations. Shares are valued at the lower of cost and market value. Profits and losses on equity shares trading and the unrealised gains and losses arising from valuation are recorded in 'Net income from transactions in securities'. Profits and losses on the sale of shares acquired in settlement of unpaid loans and those acquired in connection with reorganisation of the customer's business operations and the unrealised losses arising from valuation are charged to the profit and loss account under 'Provisions for bad and doubtful debts'.

Shares held as financial fixed assets

Equity shares held as financial fixed assets comprise shares and participations in subsidiaries and associated undertakings and shares and participations in companies needed in order to acquire services ancillary to banking. Shares are valued at cost less any permanent diminution in value. The

diminution in value is charged to the profit and loss account under 'Write-offs in respect of securities held as financial fixed assets'.

TANGIBLE AND INTANGIBLE ASSETS

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

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

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

Straight-line depreciation according to plan is applied over the estimated useful economic life of the assets. The depreciation periods are 20 to 40 years for buildings and constructions and 4 to 10 years for equipment. Other long-term expenditure items are depreciated over their expected useful life. Notes 13 and 14.

CAPITAL NOTES

According to the Act on Credit Institutions (30.12.1993/1607), section 36, the capital notes shall be treated as undistributable capital and shown as a separate item in the capital and reserves. The interest on the capital notes can be paid only from the distributable capital. The capital notes cannot be secured by a collateral and the noteholders cannot terminate them. The capital notes can be repaid only with consent of the Finnish Financial Supervision Authority and on condition that after such payment, the capital adequacy ratio of the Bank or the Group does not fall below the minimum level set forth in the Act on Credit Institutions. Note 32.

PROVISIONS FOR LIABILITIES AND CHARGES AND UNTAXED RESERVES

Provisions for liabilities and charges

Provisions for liabilities and charges comprise future specific charges which are probable or likely to occur but the amount and time of occurrence of which are yet unknown. The provisions do not include items related to the valuation of balance sheet items, but the amounts of valuations are written off the balance sheet items in question. Note 38.

Untaxed reserves

Untaxed reserves are used in planning accounting and tax-

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

NON-PERFORMING LOANS AND OTHER NON-INTEREST EARNING LENDINGS

Loans are regarded as non-performing if either the principal or the interest on a loan become overdue by 90 days. Loans to companies declared bankrupt are entered as non-performing on the date that the bankruptcy is declared. Bank guarantees are entered as non-performing when the bank has made a payment on a basis of a guarantee and presented as a separate item under 'Other assets'. Unpaid interest on loans recorded as non-performing is not accrued.

Other non-interest earning lendings comprise loans from which no income of any kind will be received. Under Finnish regulations, loans and advances that do not earn interest based on agreement with customers are presented under the item non-performing loans. Note 6.

PROVISIONS FOR BAD AND DOUBTFUL DEBTS

Provisions for bad and doubtful debts charged to the profit and loss account are net of the specific provisions for bad and doubtful loans and advances and contingent liabilities, releases of provisions, write-offs and recoveries of amounts previously written off. The provisions for bad and doubtful debts also include the unrealised losses arising from valuation of assets taken into the books in settlement of unpaid loans and losses on the sale of such assets. Profits on sale are treated as deductions.

A specific provision is made when a loan or a guarantee claim is non-performing and the estimated sale value of the asset pledged as collateral does not cover the principal of the loan, but the insolvency of the customer or the guarantor has not been confirmed by the authorities. The loans and advances classified as bad debts are written off when there is no

realistic prospect of recovery and the authorities have confirmed the insolvency of a customer.

The specific provisions for bad and doubtful debts are deducted from the balance sheet items, so all the figures concerning loans and advances presented in this report are net amounts.

Under Finnish regulations, general provisions and allowances used to describe the accumulated balance sheet amount created by bad debt provisions and held against the value of loans and advances are not made. Note 24.

EXTRAORDINARY ITEMS

Extraordinary expenses include a contribution to the Posti-pankki Pension Fund to cover pension liability incurred in previous years. Note 37.

DERIVATIVE CONTRACTS

The majority of the derivative contracts is made for trading purposes and marked to market. The resultant profits and losses and dealing profits and losses are included in 'Net income from transactions in securities and foreign exchange dealing', except the net interest payments or receipts under the interest rate and cross currency swaps which are included in 'Net income from financial operations'.

Derivative contracts which are accounted for as hedges are mainly used for specific hedging. The income and expenses arising from such contracts are included in the profit and loss account in accordance with the accounting treatment of the underlying transactions and the contracts are valued on an equivalent basis to the item being hedged.

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

Items in respect of derivative contracts to be entered in the balance sheet are included in accrued income and accruals. Note 26.

1. Debt securities held and issued
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34. Financial income received from and financial expenses paid to Group and associated undertakings
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37. Extraordinary expenses
38. Provisions for liabilities and charges

ADDITIONAL NOTES TO THE CONSOLIDATED ACCOUNTS

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

1. Debt securities held and issued

	Group		Postipankki Oyj	
	31.12.1997	31.12.1996	31.12.1997	31.12.1996
Assets				
Certificates of deposit	3 443.7	4 377.5	3 443.2	4 377.5
Commercial paper	845.2	61.3	845.2	61.3
Treasury bills	2 499.9	8 879.4	2 471.3	8 846.8
Local authority paper	–	–	–	–
Subordinated debt securities	245.2	139.2	225.2	119.2
Convertible bonds	11.9	42.5	11.9	42.5
Bonds with equity warrants	–	–	–	–
Other bonds and notes	23 364.8	20 630.8	23 452.1	20 675.0
Other	751.3	5 286.0	751.3	5 286.0
Total	31 162.0	39 416.6	31 200.3	39 408.2
Liabilities				
Certificates of deposit	23 168.4	16 799.0	23 140.0	15 816.1
Bonds and notes	3 674.1	3 912.2	3 202.8	3 234.9
Other	–	–	–	–
Total	26 842.5	20 711.2	26 342.8	19 051.0

2. Maturity analysis of assets and liabilities

	Group		Postipankki Oyj	
	31.12.1997	31.12.1996	31.12.1997	31.12.1996
Assets				
<i>Less than 3 months</i>				
Loans and advances to credit institutions and central banks	19 885.6	11 763.3	21 587.4	12 446.0
Loans and advances to customers	–	–	–	–
Repayable on demand	–	–	–	–
Other	8 995.6	7 640.1	8 367.4	7 273.1
Debt securities	3 727.1	9 483.9	3 705.0	9 473.1
<i>3–12 months</i>				
Loans and advances to credit institutions and central banks	8 622.3	5 927.6	9 234.0	6 334.1
Loans and advances to customers	6 268.2	5 546.7	5 647.5	4 959.9
Debt securities	6 932.2	15 934.0	6 999.5	15 911.6
<i>1–5 years</i>				
Loans and advances to credit institutions and central banks	741.9	578.3	1 528.6	1 192.6
Loans and advances to customers	20 492.0	19 713.6	18 964.8	18 260.2
Debt securities	15 222.9	12 062.3	15 220.9	12 109.6
<i>Over 5 years</i>				
Loans and advances to credit institutions and central banks	95.0	122.6	757.4	706.8
Loans and advances to customers	15 069.8	13 657.6	14 142.9	12 670.3
Debt securities	5 279.8	1 936.3	5 274.8	1 913.9
Liabilities				
<i>Less than 3 months</i>				
Liabilities to credit institutions and central banks	21 928.0	22 078.5	21 978.4	22 141.2
Liabilities to customers	53 939.8	54 098.3	53 896.2	54 073.1
Debt securities in issue	11 677.7	10 803.8	11 591.3	9 846.2
<i>3–12 months</i>				
Liabilities to credit institutions and central banks	5 378.6	4 327.2	5 378.6	4 274.3
Liabilities to customers	1 189.3	3 190.2	1 188.1	3 187.2
Debt securities in issue	12 561.1	6 615.1	12 448.1	6 433.2
<i>1–5 years</i>				
Liabilities to credit institutions and central banks	465.8	408.0	465.8	373.0
Liabilities to customers	203.3	214.9	170.8	179.8
Debt securities in issue	2 517.4	3 214.8	2 242.1	2 723.6
<i>Over 5 years</i>				
Liabilities to credit institutions and central banks	7.3	13.9	7.3	13.9
Liabilities to customers	127.2	168.4	125.5	165.2
Debt securities	86.3	77.5	61.3	48.0

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

3. Assets and liabilities denominated in foreign currencies

Group	31.12.1997		31.12.1996	
	in FIM	in foreign currency	in FIM	in foreign currency
Assets				
Loans and advances to credit institutions and central banks	6 220.1	23 124.6	1 378.8	17 013.0
Loans and advances to customers	40 391.6	10 434.0	38 875.6	7 682.4
Debt securities	19 662.6	11 499.4	29 646.1	9 770.5
Other assets	11 535.6	2 390.0	11 947.6	2 174.7
Total	77 810.0	47 448.0	81 848.1	36 640.6
Liabilities				
Liabilities to credit institutions and central banks	3 873.8	23 905.9	9 455.3	17 372.4
Liabilities to customers	51 359.1	4 100.6	54 769.5	2 902.3
Debt securities in issue	21 304.1	5 538.4	17 493.9	3 217.3
Subordinated liabilities	422.6	2 899.4	440.3	2 428.0
Other liabilities	5 429.3	1 798.2	4 883.0	973.0
Total	82 388.9	38 242.4	87 042.0	26 893.1
Postipankki Oyj				
Assets				
Loans and advances to credit institutions and central banks	9 982.8	23 124.6	3 670.5	17 008.9
Loans and advances to customers	36 765.9	10 356.7	35 526.1	7 637.3
Debt securities	19 700.8	11 499.4	29 637.7	9 770.5
Other assets	10 271.7	2 387.0	10 614.1	2 167.6
Total	76 721.2	47 367.7	79 448.5	36 584.4
Liabilities				
Liabilities to credit institutions and central banks	3 924.2	23 905.8	9 472.9	17 329.5
Liabilities to customers	51 279.9	4 100.6	54 703.0	2 902.3
Debt securities in issue	20 804.4	5 538.4	15 833.6	3 217.3
Subordinated liabilities	402.6	2 899.4	405.3	2 428.0
Other liabilities	5 226.4	1 798.2	4 772.3	973.0
Total	81 637.6	38 242.3	85 187.1	26 850.2

4. Loans and advances to customers by category of borrower and specific provisions for bad and doubtful debts

	Group		Postipankki Oyj	
	31.12.1997	31.12.1996	31.12.1997	31.12.1996
Loans and advances to customers				
Corporations	18 226.8	16 478.5	16 673.1	14 924.6
Financial and insurance institutions	295.4	335.7	295.4	335.6
Public sector entities	2 136.8	2 154.2	1 048.9	1 110.4
Non-profit institutions	2 846.3	2 506.1	2 342.0	2 076.0
Households	22 236.1	22 060.2	21 740.6	21 699.6
Foreign	5 084.2	3 023.3	5 022.5	3 017.3
Total⁾	50 825.6	46 558.0	47 122.6	43 163.5
Specific provisions for bad and doubtful debts				
Provisions at beginning of year	419.7	358.7	415.2	352.0
+ New provisions for year	51.6	181.8	48.7	178.4
- Releases of provisions	84.0	74.7	82.0	73.9
- Provisions written off	51.4	46.0	50.5	41.3
Provisions at end of year	336.0	419.7	331.5	415.2

⁾ Net amount

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

	31.12.1997		31.12.1996	
	Loans Total	Guarantees Total	Loans Total	Guarantees Total
Group				
Members and deputy members of the Supervisory Board	2.7	-	3.0	-
Members and deputy members of the Board of Management, Chief General Manager and Deputy Chief General Managers Auditors and deputy auditors	13.6	-	10.0	-
Total	<u>16.4</u>	<u>-</u>	<u>13.0</u>	<u>-</u>
Postipankki Oyj				
Members and deputy members of the Supervisory Board	2.7	-	3.0	-
Members and deputy members of the Board of Management, Chief General Manager and Deputy Chief General Managers Auditors and deputy auditors	1.9	-	2.4	-
Total	<u>4.6</u>	<u>-</u>	<u>5.4</u>	<u>-</u>

9. Lease assets

	Group		Postipankki Oyj	
	31.12.1997	31.12.1996	31.12.1997	31.12.1996
Prepayments	20.9	11.1	-	-
Equipment	1 226.5	1 135.2	7.1	58.9
Properties and buildings	190.5	194.2	-	-
Other assets	13.1	20.6	-	-
Total	<u>1 451.0</u>	<u>1 361.1</u>	<u>7.1</u>	<u>58.9</u>

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

	31.12.1997		31.12.1996	
Group				
Debt securities				
for trading purposes	16 946.1		25 040.3	
held as financial fixed assets	<u>14 215.9</u>		<u>14 376.3</u>	
Total	<u>31 162.0</u>		<u>39 416.6</u>	
Equity shares and participations	Listed	Unlisted	Listed	Unlisted
for trading purposes	113.0	275.0	67.9	68.3
held as financial fixed assets	<u>0.1</u>	<u>36.1</u>	<u>-</u>	<u>36.3</u>
Total	<u>113.1</u>	<u>311.2</u>	<u>67.9</u>	<u>104.6</u>
Postipankki Oyj				
Debt securities				
for trading purposes	17 021.3		25 065.7	
held as financial fixed assets	<u>14 178.9</u>		<u>14 342.6</u>	
Total	<u>31 200.3</u>		<u>39 408.2</u>	
Equity shares and participations	Listed	Unlisted	Listed	Unlisted
for trading purposes	111.7	239.1	67.9	66.2
held as financial fixed assets	<u>0.1</u>	<u>36.0</u>	<u>-</u>	<u>36.1</u>
Total	<u>111.8</u>	<u>275.0</u>	<u>67.9</u>	<u>102.3</u>

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

Securities lending

	Group		Postipankki Oyj	
	31.12.1997	31.12.1996	31.12.1997	31.12.1996
Shares lent	-	-	-	-
Shares borrowed	-	-	-	-

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

	Group		Postipankki Oyj	
	31.12.1997	31.12.1996	31.12.1997	31.12.1996
Securities for trading purposes				
Debt securities	122.1	94.1	109.9	94.1
Equity shares, listed	119.7	11.9	109.5	11.9

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

Company, registered office, nature of business	Holding of shares and participations			
	Number of shares	Percentage of equity capital held	Nominal value of shares	Book value of shares
Postipankki Oyj, 31.12.1997				
Eurocard Oy, Helsinki, credit card services	3 818	10.10	3.8	4.2
Helsinki Money Market Centre, (will be dissolved), Helsinki, domestic money market instrument clearing	4 800	7.07	4.8	4.8
HEX Oy, Helsinki, securities and derivatives exchange	643 759	6.45	6.4	8.1
Itä-Pasilan Pysäköinti Oy, Helsinki, parking facility	34	2.18	0.1	1.6
Luottokunta Osuuskunta, Helsinki, credit card services	6 000	9.31	3.0	3.8
The Finnish Central Securities Depository Ltd, Helsinki, domestic money market instrument clearing	2 700	6.00	2.7	5.4
			20.8	27.8
Other companies, total *)	Number of companies 64		7.5	8.3
			28.4	36.1
Group 31.12.1997				
Company holdings the same as for the Postipankki Oyj			20.8	27.8
Other companies, total *)	Number of companies 67		7.7	8.4
			28.6	36.2

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

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

	Book value at beginning of year	Acquisitions	Disposals	Depreciation for year	Transfers between items occupied for own activities/ for other activities	Book value at end of year
Group						
Shares and participations	36.3	0.2	0.3	-	-	36.2
Shares and participations in Group and associated undertakings	105.4	23.2	4.9	-	-	123.7
Intangible assets	160.9	180.2	0.6	39.3	-	301.2
Tangible assets						
Land and buildings						
Occupied for own activities	1 149.3	131.9	-	44.6	- 44.3	1 192.3
Other	1 624.7	12.3	111.5	46.4	44.3	1 523.5
Shares and participations in property companies						
Occupied for own activities	163.0	40.2	58.0	-	24.6	169.9
Other	407.4	8.0	25.8	-	- 24.6	365.0
Equipment	174.4	87.9	2.3	69.2	-	190.8
Other tangible assets	7.5	1.0	0.6	-	-	7.9
Total	3 828.9	485.0	203.9	199.5	-	3 910.4

The book values do not include revaluations.

	Book value at beginning of year	Acquisitions	Disposals	Depreciation for year	Transfers between items occupied for own activities / for other activities	Book value at end of year
Postipankki Oyj						
Shares and participations	36.1	0.2	0.3	–	–	36.1
Shares and participations in associated undertakings	47.3	7.5	4.9	–	–	49.9
Shares and participations in Group undertakings	427.9	223.9	–	–	–	651.8
Intangible assets	156.2	95.5	0.4	33.6	–	217.6
Tangible assets						
Land and buildings						
Occupied for own activities	1 149.3	6.9	–	41.8	– 44.3	1 070.1
Other	759.7	8.6	29.2	27.8	44.3	755.5
Shares and participations in property companies						
Occupied for own activities	250.1	54.0	58.0	–	6.0	252.1
Other	889.0	113.6	25.8	–	– 6.0	970.9
Equipment	145.9	77.6	2.2	62.1	–	159.2
Other tangible assets	7.4	0.3	–	–	–	7.8
Total	3 869.0	588.0	120.8	165.3	–	4 170.9

The book values do not include revaluations.

14. Property holdings

Principles used in valuation of property and shares in property companies occupied for other than own activities

Dividing the properties and shares in property companies between those occupied for own activities and those for other activities is based on square metres occupied. The share of surplus areas is calculated as percentage of the total area and book value of the areas occupied for other than own activities.

The fair values of property and the shares in property companies are reviewed quarterly. The values are written down on the basis of permanent diminution in value. The reviews are based on the net rental income received or that is potential to receive as well as rates of interest applied in property markets. In respect of material and permanent diminution in values of assets, in 1997 only assets acquired to safeguard loans were written down. Valuation principles remained unchanged in 1997.

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

	Book value 31.12.1997		Share of surplus areas	
	Properties	Shares in property companies	Book value	
			FIM million	%
Housing	–	8.2	0.4	5
Business and office property	1 474.3	354.8	212.1	12
Industrial property	–	1.9	1.9	100
Agricultural and forest land	30.6	–	–	–
Buildings under construction	–	–	–	–
Financial lease property	–	–	–	–
Other domestic activities	–	0.1	–	–
Foreign	18.6	–	–	–
Total	1 523.5	365.0	214.4	11
Loans and advances to property companies and guarantees on behalf of them				
Group companies ^{*)}		5.8		
Associated companies ^{*)}		112.7	118.5	
Share of liabilities relating to the shares in property companies. ^{*)}		–		

^{*)} Excluded from consolidation

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

Book value of assets

	Group		Postipankki Oyj	
	31.12.1997	31.12.1996	31.12.1997	31.12.1996
Assets which had been pledged as collateral security and acquired by the Bank in settlement of unpaid loans				
Properties and shares and participations in property companies	92.6	119.3	92.6	119.3
Other shares and participations	4.9	4.8	4.9	4.8
Other assets	–	–	–	–
Total	97.6	124.1	97.6	124.1
Assets acquired in connection with the reorganisation of a customer's business operations	4.8	4.7	4.8	4.6

FIM million

16. Assets pledged as collateral security on the Group's own behalf and on behalf of third parties, secured liabilities and commitments and assets sold under agreements to repurchase

	Group		Postipankki Oyj	
	31.12.1997	31.12.1996	31.12.1997	31.12.1996
Assets pledged as collateral security				
Lease assets	33.5	38.3	–	–
Debt securities	20.6	14.7	–	–
Land	–	80.0	–	–
Floating charge	40.0	–	–	–
Secured liabilities and commitments				
Liabilities to credit institutions and central banks	38.0	80.0		
Debt securities in issue	20.6	14.7		
On behalf of third parties	33.5	38.3		
Assets sold under agreements to repurchase				
	Group		Postipankki Oyj	
	31.12.1997	31.12.1996	31.12.1997	31.12.1996
Debt securities	4 330.4	9 904.4	4 330.4	9 904.4

In 1997, the assets sold under agreements to repurchase include contracts of FIM 2.8 billion with the Bank of Finland, against which the Bank of Finland has the rights to set off Postipankki's deposit at the Central Bank.

17. Unamortised discounts and premiums on liabilities

	31.12.1997		31.12.1996	
	Discounts	Premiums	Discounts	Premiums
Group				
Liabilities to customers	–	–	–	–
Debt securities in issue				
Bonds and medium term notes	12.8	1.4	16.0	2.0
Other	158.8	–	143.2	–
	<u>171.6</u>	<u>1.4</u>	<u>159.2</u>	<u>2.0</u>
Postipankki Oyj				
Liabilities to customers	–	–	–	–
Debt securities in issue				
Bonds and medium term notes	12.8	1.4	16.0	2.0
Other	158.8	–	143.2	–
	<u>171.6</u>	<u>1.4</u>	<u>159.2</u>	<u>2.0</u>

18. Bonds with warrants and convertible bonds in issue

	Group		Postipankki Oyj	
	31.12.1997	31.12.1996	31.12.1997	31.12.1996
	–	–	–	–

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

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

19. Subordinated liabilities

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

	Amount in FIM million		Currency	Interest %	Remaining maturity
	31.12.1997	31.12.1996			
Postipankki Oyj, debenture ¹⁾	400.0	400.0	FIM	8.50	29.3.2008
Postipankki Oyj, debenture ²⁾	540.3	–	USD	6.16	23.6.2007
Postipankki Oyj, debenture ³⁾	569.2	487.6	USD	6.58	Perpetual
Total	1 509.4	887.6			

¹⁾ The debenture is repayable, at the option of the Bank, on any interest payment date after year 2002.

²⁾ The debenture is repayable, at the option of the Bank, on any interest payment date after 23.6.2002

³⁾ The debenture is repayable, at the option of the Bank, on any interest payment date.

Amounts include:

Due to Group undertakings	–	–
Due to associated undertakings	–	–

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

	Group		Postipankki Oyj	
	31.12.1997	31.12.1996	31.12.1997	31.12.1996
Total,	1 812.5	1 980.7	1 792.5	1 945.7
– amount of liabilities which the creditors can demand to be repaid prematurely	–	–	–	–
– amount of perpetuals	–	–	–	–
Amounts include:				
Due to Group undertakings	7.0	7.0	–	–
Due to associated undertakings	–	–	–	–

FIM million

20. Movements in capital and reserves

	Share capital	Capital notes	Other undistributable capital	Distributable capital	Total
Group					
Book value 31.12.1996	630.0	903.0	1 710.3	948.9	4 192.2
Dividends				- 31.5	- 31.5
Additional dividends				- 44.1	- 44.1
Increases		700.0			700.0
Decreases		- 903.0			- 903.0
Movements in untaxed reserves				- 7.3	- 7.3
Exchange rate translation differences				0.1	0.1
Profit for the financial year				618.8	618.8
Book value 31.12.1997	630.0	700.0	1 710.3	1 484.9	4 525.2
Postipankki Oyj					
Book value 31.12.1996	630.0	903.0	1 646.8	446.6	3 626.5
Dividends				- 31.5	- 31.5
Additional dividends				- 44.1	- 44.1
Increases		700.0			700.0
Decreases		- 903.0			- 903.0
Profit for the financial year				592.3	592.3
Book value 31.12.1997	630.0	700.0	1 646.8	963.3	3 940.2

21. Segmental information

Group	1997		1996	
	Income	Staff number average	Income	Staff number average
By class of business				
Banking	3 147.9	4 839	3 662.7	5 363
Credit card services	59.4	39	33.3	37
Finance company operations	74.4	110	86.8	121
Financing and investment	34.0	15	43.9	17
Unit trust services	22.3	8	7.1	4
Other activities	271.1	253	184.6	235
Total	3 609.1	5 264	4 018.4	5 777
By geographical segment				
Finland	3 520.2	5 157	3 975.3	5 660
United Kingdom	28.0	42	47.0	40
United States	56.0	42	- 21.9	47
Singapore	3.7	23	16.8	30
Luxemburg	1.3	-	1.2	-
Total	3 609.1	5 264	4 018.4	5 777
Postipankki Oyj				
By class of business				
Banking	3 147.9	4 839	3 662.7	5 363
Credit card services	-	-	-	-
Finance company operations	-	-	-	-
Financing and investment	-	-	-	-
Unit trust services	-	-	-	-
Other activities	-	-	-	-
Total	3 147.9	4 839	3 662.7	5 363
By geographical segment				
Finland	3 060.3	4 732	3 620.7	5 246
United Kingdom	28.0	42	47.0	40
United States	56.0	42	- 21.9	47
Singapore	3.7	23	16.8	30
Luxemburg	-	-	-	-
Total	3 147.9	4 839	3 662.7	5 363

22. Net income from leasing activities

	Postipankki Oyj	
	1997	1996
Rental income	13.8	17.1
Depreciation according to plan	- 13.3	- 16.1
Total	0.5	1.0

FIM million

23. Other operating income and expenses

	Group		Postipankki Oyj	
	1997	1996	1997	1996
Other operating income				
Rental and dividend income from properties and property companies	142.5	137.7	146.2	137.6
Profit on disposal of properties and property companies occupied for other than own activities	-	-	-	-
Other income	79.7	89.5	57.9	67.8
Total	222.2	227.2	204.1	205.4
Other operating expenses				
Rental expenses	47.8	74.8	42.3	71.3
Expenses on properties and property companies	82.2	88.9	91.2	85.6
Loss on disposal of properties and property companies occupied for other than own activities	-	-	-	-
Other expenses	62.2	119.3	49.8	105.6
Total	192.2	283.0	183.4	262.5

24. Provisions for bad and doubtful debts plus write-offs in respect of debt securities held as financial fixed assets

Group	1997		1996	
	Gross amount	Releases and recoveries	Gross amount	Releases and recoveries
Provisions for bad and doubtful debts				
Loans and advances to customers	136.5	194.4	427.5	166.0
Loans and advances to credit institutions and central banks	-	1.0	5.2	86.3
Lease assets	1.3	-	1.4	-
Guarantees and other contingent liabilities	18.8	6.0	111.4	6.5
Other	3.1	12.4	13.5	-
Total	159.7	213.8	558.9	258.9
Amount written off securities held as financial fixed assets	-	-	12.0	-
Total amount written off for the year ¹⁾		+ 159.2		+ 317.8
Specific provisions written off during the year		- 54.1		- 46.0
Recoveries of loans and guarantees written off in previous years		- 129.7		- 180.3
New specific provisions for the year		+ 54.6		+ 285.8
Releases of provisions for the year		- 84.1		- 77.2
Charge to profit and loss account		- 54.1		300.0

¹⁾The total amount written off loans and guarantee claims includes amounts which have been written off directly without provisioning and those for which a specific provision had been made before writing off.

Postipankki Oyj	1997		1996	
	Gross amount	Releases and recoveries	Gross amount	Releases and recoveries
Provisions for bad and doubtful debts				
Loans and advances to customers	132.0	189.8	419.7	161.2
Loans and advances to credit institutions and central banks	-	1.0	5.2	86.3
Guarantees and other contingent liabilities	18.8	6.0	111.4	6.5
Other	3.1	12.4	13.1	-
Total	153.9	209.1	549.3	254.1
Amount written off securities held as financial fixed assets	-	-	12.0	-
Total amount written off for the year ¹⁾		+ 155.4		+ 308.2
Specific provisions written off during the year		- 53.2		- 41.3
Recoveries of loans and guarantees written off in previous years		- 127.1		- 177.7
New specific provisions for the year		+ 51.7		+ 282.4
Releases of provisions		- 82.0		- 76.4
Charge to profit and loss account		- 55.3		295.2

¹⁾The total amount written off loans and guarantee claims includes amounts which have been written off directly without provisioning and those for which a specific provision had been made before writing off.

The collateral for loans has been valued at fair value when entering provisions and write-offs.

25. Emoluments of members of administrative and supervisory bodies

	Group		Postipankki Oyj	
	1997	1996	1997	1996
Members and deputy members of the Supervisory Board	0.3	0.2	0.3	0.2
Members and deputy members of the Board of Management and the President and Executive Vice Presidents	10.6	10.7	8.0	7.8
Total	10.9	10.9	8.3	8.1

Postipankki Oyj has not made any pension commitments for members of the Supervisory Board and the Board of Management, the President or the Executive Vice President.

In the case of members of the Supervisory Board, the Bank has normal employment pension insurance, on which FIM 0.1 million was paid out in premiums in 1997.

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

26. Off-balance sheet items

	Group		Postipankki Oyj	
	31.12.1997	31.12.1996	31.12.1997	31.12.1996
Guarantees and assets pledged as collateral security,	8 898.4	8 892.3	9 025.9	9 285.3
of which on behalf of				
Group undertakings	165.5	169.0	165.5	169.0
Associated undertakings	–	8.0	–	8.0
Undrawn loans, overdraft facilities and commitments to lend,	12 148.9	8 379.2	11 027.3	6 670.6
of which to				
Group undertakings	–	–	671.1	317.3
Associated undertakings	–	4.8	–	4.8
Underwriting commitments,	3 532.9	2 470.8	3 532.9	2 470.8
of which to				
Group undertakings	–	–	–	–
Associated undertakings	–	–	–	–
Other commitments,	802.8	849.8	1 218.9	1 302.9
of which to or on behalf of				
Group undertakings	–	–	417.6	455.4
Associated undertakings	–	14.0	–	11.6
Total,	25 382.9	20 592.0	24 804.9	19 729.6
of which to or on behalf of				
Group undertakings	165.5	169.0	1 254.2	941.7
Associated undertakings	–	26.7	–	24.4

Derivative contracts

Group	31.12.1997		31.12.1996	
	Values of underlying instruments		Values of underlying instruments	
	For hedging purposes	For other purposes ^{*)}	For hedging purposes	For other purposes ^{*)}
<i>Interest rate contracts</i>				
Futures and forward rate agreements	–	398 823.7	1 298.1	368 405.0
Options				
Purchased	–	10 421.5	–	32 315.5
Written	–	23 913.3	–	35 543.6
Interest rate swaps	15 831.9	148 978.9	12 686.7	131 456.6
	15 831.9	582 137.4	13 984.8	567 720.6
<i>Exchange rate contracts</i>				
Futures and forward foreign exchange	–	152 372.3	–	112 520.4
Options				
Purchased	–	4 194.1	–	3 346.5
Written	–	4 595.8	–	3 709.4
Interest rate and cross currency swaps	5 920.1	7 705.2	5 719.0	17 255.6
	5 920.1	168 867.5	5 719.0	136 831.9
<i>Equity contracts</i>				
Futures and forwards	5.3	0.0	8.6	40.4
Options				
Purchased	–	70.3	–	127.4
Written	–	–	–	662.6
	5.3	70.4	8.6	830.4

^{*)} Valued at market value

	Credit equivalent amount of contracts	Risk-weighted amount of contracts	Credit equivalent amount of contracts	Risk-weighted amount of contracts
Interest rate contracts	4 369.2	1 238.1	4 513.5	1 213.1
Exchange rate contracts	6 055.6	1 715.4	5 761.8	1 887.2

FIM million

Derivative contracts

Postipankki Oyj	31.12.1997		31.12.1996	
	Values of underlying instruments		Values of underlying instruments	
	For hedging purposes	For other purposes *)	For hedging purposes	For other purposes *)
<i>Interest rate contracts</i>				
Futures and forward rate agreements	–	398 823.7	1 298.1	368 405.0
Options				
Purchased	–	10 421.5	–	32 315.5
Written	–	23 913.3	–	35 543.6
Interest rate swaps	15 831.9	149 173.9	12 686.7	131 726.6
	<u>15 831.9</u>	<u>582 332.4</u>	<u>13 984.8</u>	<u>567 990.6</u>
<i>Exchange rate contracts</i>				
Futures and forward foreign exchange	–	152 372.3	–	112 520.4
Options				
Purchased	–	4 194.1	–	3 346.5
Written	–	4 595.8	–	3 709.4
Interest rate and cross currency swaps	5 920.1	7 725.5	5 719.0	17 298.3
	<u>5 920.1</u>	<u>168 887.7</u>	<u>5 719.0</u>	<u>136 874.5</u>
<i>Equity contracts</i>				
Futures and forwards	5.3	–	8.6	40.4
Options				
Purchased	–	70.3	–	127.4
Written	–	–	–	662.6
	<u>5.3</u>	<u>70.3</u>	<u>8.6</u>	<u>830.4</u>
*) Valued at market value				
	Credit equivalent amount of contracts	Risk-weighted amount of contracts	Credit equivalent amount of contracts	Risk-weighted amount of contracts
Interest rate contracts	4 370.5	1 238.4	4 516.1	1 213.6
Exchange rate contracts	6 063.1	1 716.9	5 769.1	1 888.6

27. Lease commitments

	Group	Postipankki Oyj
Major rental payments falling due in 1998	–	–
in years thereafter	–	–

28. Pension commitments

On 31 December 1997, the uncovered part of Postipankki Oyj's liability deficit to the Postipankki Pension Fund amounted to FIM 73.2 million, of which the statutory liability deficit referred to in the Pension Act (1536/93) and the Ministry of Social Affairs and Health decision amounted to FIM 12.2 million.

The 1997 contribution determined on the basis of the increase in Pension Fund pension liability and Fund profit was FIM 70.5 million.

The pension security of employees of the Group undertakings has been arranged under a pension insurance scheme.

29. Asset management services supplied

Asset management services supplied by Postipankki Oyj and its subsidiaries:

Asset management services based on an agreement between a customer and the Bank, comprising the planning, investments and reporting on investment activities
Unit trust services
Securities custody services

Amount of customer funds intermediated as credits to other customers on 31 December 1997 –

30. Staff numbers

Group	1997		1996	
	Average for the year	Change for the year	Average for the year	Change for the year
Full-time staff	5 100	– 502	5 602	– 335
Part-time staff	164	– 11	175	– 15
Total	<u>5 264</u>	<u>– 513</u>	<u>5 777</u>	<u>– 350</u>
Postipankki Oyj				
Full-time staff	4 683	– 516	5 199	– 549
Part-time staff	156	– 8	164	– 18
Total	<u>4 839</u>	<u>– 524</u>	<u>5 363</u>	<u>– 567</u>

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

FIM million

31. Classes of shares and own shares

The share capital of Postipankki Oyj is FIM 630 million, comprising 63 000 000 shares of FIM 10 each. Each share has one vote.

In the Postipankki Act (10.12.1997/1071), section 3, it is provided that the government or a company which the government controls by virtue of a direct ownership of shares, shall own and control the shares of Postipankki Oyj an amount which equals to at least 51 per cent of all the shares and the voting rights in the Bank.

32. Terms of the capital notes

Postipankki Oyj repaid the capital notes of FIM 903 million and the interest of FIM 34 million on them for the year 1997 to the Finnish government on 22 December 1997. The capital notes were subscribed on 28 August 1992.

On 22 December 1997, the Bank issued unsecured capital notes referred to in the Act on Credit Institutions, (1607/1993), section 36, totalling FIM 700 million.

The noteholders cannot terminate or otherwise demand repayment of the notes or a part of them.

The principal of and the interest on the notes are subordinated to the claims of other subordinated and unsubordinated creditors of the Bank.

The notes can be repaid only with the consent of the Finnish Financial Supervision Authority and on condition that after such payment, the capital adequacy ratio of the Bank or the Group does not fall below the minimum level set forth in the Act on Credit Institutions.

The interest on the capital notes is non-cumulative and can be paid only to the extent that the distributable capital of the Bank and the Group, according to the most recent approved annual accounts, is sufficient.

33. Shareholder analysis and directors' shareholding

PV Group Oyj owns all of the 63 000 000 shares of Postipankki Oyj.

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

	Interest receivable	Interest payable	Dividend income	Total
1997				
Group undertakings	128.8	1.2	19.8	147.4
Associated undertakings	<u>14.0</u>	<u>0.6</u>	<u>2.5</u>	<u>15.9</u>
Total	<u>142.8</u>	<u>1.8</u>	<u>22.4</u>	<u>163.3</u>
	Interest receivable	Interest payable	Dividend income	Total
1996				
Group undertakings	111.1	23.5	14.7	102.3
Associated undertakings	<u>12.0</u>	<u>0.1</u>	<u>3.9</u>	<u>15.8</u>
Total	<u>123.2</u>	<u>23.6</u>	<u>18.5</u>	<u>118.1</u>

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

31.12.1997	Group- under- takings	Associated under- takings	Total
Assets			
Loans and advances to credit institutions and central banks	3 774.8	–	3 774.8
Loans and advances to customers	224.5	276.8	501.2
Debt securities	125.2	–	125.2
Other assets	0.8	–	0.8
Prepayments and accrued income	<u>40.8</u>	<u>1.2</u>	<u>42.0</u>
Total	<u>4 166.1</u>	<u>278.0</u>	<u>4 444.1</u>
	Group- under- takings	Associated under- takings	Total
Liabilities			
Liabilities to credit institutions and central banks	88.4	–	88.4
Liabilities to customers	27.7	29.2	56.9
Debt securities in issue	1.5	0.8	2.3
Other liabilities	13.7	–	13.7
Accruals and deferred income	<u>3.6</u>	<u>–</u>	<u>3.6</u>
Total	<u>134.8</u>	<u>30.0</u>	<u>164.8</u>

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

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

36. Shares and participations in Group and associated undertakings

Company, registered office, nature of business	Holdings of shares and participations					Profit/ loss shown in the most recent annual accounts FIM million
	Number of shares	Percentage of equity capital held	Percentage of voting rights	Nominal value of shares total	Book value of shares total	
		%	%	FIM/foreign currency million	FIM million	
Group undertakings 31.12.1997						
Capsella Invest Oy, Helsinki, property management	10	100.00	100.00	0.2	1.0	0.0
Leijona Life Insurance Company Ltd, Helsinki, insurance	44 500	63.57	63.57	44.5	44.5	7.8
Kiinteistö Oy Hervannan Tieteenkatu 1, Tampere, property company	100 000	100.00	100.00	1.0	67.0	–3.6
Kiinteistö Oy Kaivokatu 6, Helsinki, property company	19 291	100.00	100.00	0.2	190.8	–3.5
Kiinteistö Oy Kaivokatu 8, Helsinki, property company	13 859	81.70	81.70	13.9	252.5	–5.6
Kiinteistö Oy Keskuskatu 6, Helsinki, property company	30 487	100.00	100.00	30.5	166.5	0.6
Kiinteistö Oy Taalintehtaankatu, Turku, property company	50	100.00	100.00	0.1	0.1	0.0
Leijona Fund Management Company Ltd, Helsinki, unit trust	6 000	66.67	66.67	6.0	6.9	1.5
MB Equity Partners Ltd, Helsinki, unit trust management	12 000	40.00	60.00	0.1	0.1	0.0
MB Finance Group Ltd, Helsinki, finance and investment	50 000	100.00	100.00	50.0	50.1	5.8
MB Mezzanine Fund Ky, Helsinki, mezzanine financing	2	100.00	100.00	0.1	218.1	8.8
Oulunkylän Toimistokeskus Oy, Helsinki, property company	5 000	100.00	100.00	0.1	1.3	–4.5
Postipankki Capital Fund Management Company S.A., Luxemburg, unit trust	17 500	70.00	70.00	LUF 3.5	0.4	0.8
Postipankki U.S. Inc. Delaware, other financing	100	100.00	100.00	USD 0.0	0.0	0.0
PSP-Municipality Bank Ltd, Helsinki, municipality financing	4 000	100.00	100.00	40.0	40.0	7.2
PSP Fund Management Company Ltd, Helsinki, unit trust	10 000	100.00	100.00	10.0	10.0	1.0
PSP-finance Ltd, Helsinki, finance	1 398	100.00	100.00	139.8	149.5	12.2
PSP (U.K.) Leasing Ltd, London, finance	150 000	100.00	100.00	GBP 0.2	0.0	0.0
PSP (U.K.) Nominees Ltd. London, other financing	100	100.00	100.00	GBP 0.0	0.0	0.0
PSW Realty World Ltd, Helsinki, estate agency	10 150	100.00	100.00	1.0	2.0	1.3
Suomen Tililuotto Oy, Helsinki, credit card services	1 000	100.00	100.00	10.0	10.1	8.6
Suomen Tilirahoitus Oy, Helsinki, credit card services	1 600	100.00	100.00	16.0	120.0	7.7
Tietoleijona Oy, Espoo, IT services	6 000	40.00	60.00	0.6	1.2	13.1
Associated undertakings 31.12.1997						
Automatia Pankkiautomaatit Oy, Helsinki, electronic banking services	6	33.33	33.33	30.0	30.1	5.8
Keravan Kauppakeskus Oy, Kerava, property company	2 056	22.49	22.49	0.0	19.9	–2.3
MB Equity Fund Ky, Helsinki, investment	2	20.93	22.22	0.1	8.8	1.2
Toimiraha Oy, (Automatia Rahakortit Oy), Helsinki, electronic banking services	9 500	33.33	33.33	9.5	12.5	–12.4
TP-salkku Oy (will be dissolved), Helsinki, collection	3 000	20.00	20.00	1.8	0.0	0.0

Companies excluded from consolidation with permission from of the Financial Supervision Authority are shown in item 4 in the additional notes to the consolidated accounts.

In addition, there are 54 housing and property companies which are excluded from consolidation. The book value of these shares was FIM 376.5 million, and the most recent combined balance sheet total FIM 531.9 million. Also ten other companies with book value of shares total FIM 57.7 million and combined balance sheet total FIM 260.6 million were excluded from consolidation. The financial information is mainly based on the annual accounts of 1996.

37. Extraordinary expenses	Group		Postipankki Oyj	
	1997	1996	1997	1996
Coverage of pension liabilities	21.0	21.0	21.0	21.0
Provision for costs arising from transfer to single currency	–	37.0	–	37.0
Total	21.0	58.0	21.0	58.0

38. Provisions for liabilities and charges	Group		Postipankki Oyj	
	31.12.1997	31.12.1996	31.12.1997	31.12.1996
Provision for guarantees and other similar provisions	–	70.0	–	70.0
Provision for costs arising from transfer to single currency	30.0	37.0	30.0	37.0
Other provisions	4.3	3.5	–	–
Total	34.3	110.5	30.0	107.0

ADDITIONAL NOTES TO THE CONSOLIDATED ACCOUNTS

1. Changes in consolidation principles and methods

The consolidated accounts were drawn up according to Regulation 106.2 on the consolidated accounts of credit institutions issued by the Financial Supervision Authority on 3 December, 1996 and taking effect on 1st January, 1997. The consolidation principles are described in more detail under 'Accounting policies'.

2. Changes in Group structure

The Group shareholding in Novo Group (former KT-Tietokeskus Oy), which was an associated company, fell below 20 per cent on 30 April 1997.

The shares of Kiinteistö Oy Tornion Itäranta 4, former Group company, were sold on 4 August 1997.

The name of the Presta Fund Management Company Ltd was changed to Leijona Fund Management Company Ltd from 1st September 1997.

Postipankki Oyj's shareholding in Kiinteistö Oy Helsingin Kaivokatu 8 increased from 71.84 per cent to 81.74 per cent on 2nd October 1997.

Postipankki Oyj acquired all the share capital of Suomen Tilirahoitus Oy on 23 October 1997.

Postipankki Oyj subscribed for 500 shares when Toimiraha Oy raised its share capital on 8 December 1997. The subscription for shares has no impact on the Postipankki's holding in the company.

On 19 November 1997, Postipankki Oyj and the management of MB Corporate Finance Ltd set up a management company, MB Equity Partners Ltd, who will also be the general partner of the unit trusts (MB Equity Fund Ky and MB Equity Fund II Ky). The share capital of the new company is FIM 500 000 and the ownership is divided between Postipankki Oyj and the management of the company so that Postipankki Oyj owns 40 per cent of the share capital and 60 per cent of the voting rights and the management of the company owns 60 per cent of the share capital and 40 per cent of the voting rights.

The name of MB Corporate Finance Ltd was changed to MB Finance Group Ltd.

In December 1997, Postipankki Oyj and Merita Kiinteistöt Ltd exchanged holdings in property companies. By this arrangement, Postipankki Oyj's holding in Kiinteistö Oy Helsingin Keskuskatu 6 increased from 52.3 per cent to 100 per cent. In exchange Postipankki disposed of holdings in certain property companies which had been excluded from consolidation.

In 1997, Postipankki Group increased investment in MB Mezzanine Fund Ky by FIM 66.2 million.

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

3. Special permission granted by the Financial Supervision Authority

By decision 16/420/97 of 23 March 1997, the Financial Supervision Authority granted Postipankki Ltd permission to exclude the accounts of companies acquired to safeguard claims, from consolidation. Details on the companies are given in item 4.

4. Subsidiaries and associated undertakings excluded from consolidation

	Helsingin Yrittäjä- talo Oy	Nokian Hotelli- kiinteistö Group
Profit and loss account		
Turnover	3.5	10.8
Variable expenses	-	-
Fixed expenses	1.9	0.5
Depreciation	1.4	-
Financial income and expenses	-0.2	-4.4
Extraordinary items	-	-0.1
Profit for the financial year	0.0	5.8
Balance sheet		
Fixed assets	78.7	120.2
Valuation items	-	-
Stocks and financial assets	0.3	12.2
Shareholders' equity	75.9	45.5
Untaxed reserves	-	-
Liabilities	3.1	86.9

With permission from the Financial Supervision Authority, the companies had been excluded from consolidation. This procedure has no material effect on the results and financial position of the Group.

The shares in the companies have been acquired to safeguard claims. The book value of the shares equal to their probable sale value.

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

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

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

Two subsidiaries were incorporated into the consolidated accounts using the equity method. On the balance sheet date, claims on the subsidiaries amounted to FIM 3.4 million and liabilities to them to FIM 24.6 million.

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

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

8. Consolidation differences

The positive consolidation difference (goodwill) amounted to FIM 90.7 million on 31 December 1997. The differences arising on acquisition of property companies are included in the balance sheet item 'Tangible assets' and will be depreciated according to plan for the asset item concerned. The differences arising on acquisition of other subsidiaries are shown as a separate item in the consolidated balance sheet under heading 'Intangible assets' and will be depreciated over their estimated useful economic life.

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

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

The Group distributable capital totalled FIM 1,064 million at 31 December, 1997.

The parent company distributable capital was FIM 963,338,729.13 at 31 December, 1997.

Profit for the financial year FIM 592,301,722.44

Profit brought forward FIM 371,037,006.69

Distributable capital at 31 December, 1997 FIM 963,338,729.13

We propose that a dividend of FIM 63,000,000.00 i.e. ten per cent, be distributed on share capital.

We also propose that the remainder of the profit for the financial year be carried over as retained earnings under distributable capital, distributable capital including profit brought forward thus totalling FIM 900,338,729.13.

Helsinki, 11 February 1998

Harri Hollmén

Pentti Hakkarainen

Juhani Paloheimo

Eero Tuomainen

Ilkka Hallavo

Matti Inha

Peter Johansson

Jussi Osola

Maarit Näkyvä

STATEMENT OF THE SUPERVISORY BOARD

The Supervisory Board of Postipankki Oyj has approved the annual accounts and consolidated accounts of Postipankki Oyj for 1997, and the proposal for the distribution of the profit for the financial year, and has certified the financial statements for presentation to the Annual General Meeting.

Helsinki, 11 February 1998

Anssi Rauramo

Antti Paasio

Gustav Björkstrand

Tuulikki Kannisto

Jarmo Kilpelä

Mari Kiviniemi

Raimo Liikkanen

Juhani Nyssönen

Maija Perho

Jarmo Rantanen

Pertti Valtonen

Pekka Vennamo

Jukka Wuolijoki

TO POSTIPANKKI OYJ'S SHAREHOLDER

We have audited the Postipankki Oyj's bookkeeping, annual accounts and administration for the financial year 1 January–31 December 1997. The annual accounts prepared by the Board of Management and the President and approved by the Supervisory Board include a report on operations, and the consolidated and Postipankki Oyj's profit and loss accounts, balance sheets, and notes to the accounts. On the basis of our audit, we hereby issue a statement on the annual accounts and the Bank's administration.

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

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

Helsinki, 26 February 1998

Kunto Pekkala APA

Pekka Räisänen APA

Tilintarkastajien Oy – Ernst & Young
Auditing Corporation

Jorma Jäske APA

SUPERVISORY BOARD

Anssi Rauramo, 45
Chairman

Antti Paasio, 49
Vice Chairman

Gustav Björkstrand, 56

Tuulikki Kannisto, 57

Jarmo Kilpelä, 41

Mari Kiviniemi, 29

Raimo Liikkanen, 55

Juhani Nyyssönen, 48

Maija Perho, 49

Jarmo Rantanen, 50

Pertti Valtonen, 49

Pekka Vennamo, 53

Jukka Wuolijoki, 53

BOARD OF MANAGEMENT

Harri Hollmén, 48
Chairman of the Board

Pentti Hakkarainen, 39
President
Vice Chairman of the Board

Juhani Paloheimo, 58
Executive Vice President
Member of the Board
(until 31 May, 1998)

Ilkka Hallavo, 42
Executive Vice President
Member of the Board

Matti Inha, 48
Executive Vice President
Member of the Board

Peter Johansson, 40
Executive Vice President
Member of the Board
(until 28 February, 1998)

Maarit Näkyvä, 44
Executive Vice President
Member of the Board

Jussi Osola, 49
Executive Vice President
Member of the Board

Eero Tuomainen, 59
Executive Vice President
Member of the Board
(until 28 February, 1998)

Jukka Räihä, 50
Executive Vice President
Member of the Board
(from 1 April, 1998)

AUDITORS

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

Responsible auditor
Jorma Jäske
APA

Kunto Pekkala
APA

Pekka Räisänen
APA

Mikael Holmström
APA
Deputy Auditor

Marja Tikka
APA
Deputy Auditor

CODETERMINATION COMMITTEE

Representing Postipankki:

Pentti Hakkarainen, Chairman (Kaarina Holkkola)
Eero Tuomainen (Reijo Vartiainen)
Tuula Kantele (Jarmo Lankinen)

Representing the Employees:

Hanna Koivisto, Vice Chairman (Helena Arovaara)
Tuula Heino (Anneli Pettersson)
Tarja Lankila (Seija Lahtela)
Marja Lamberg (Arja Siimes)

Representing Middle Management:

Juhani Nyyssönen (Raimo Björkqvist)
Jaakko Hirvelä (Aarne Palin)

Representing Maintenance:

Reijo Koskinen (Sirpa Lepistö)

Deputy representative in parentheses

	1.1. – 31.12.1997		1.1. – 31.12.1996	
Interest receivable				
arising from				
loans and advances to credit institutions and central banks	229.3		168.3	
loans and advances to customers	469.2		504.0	
debt securities	350.9		392.3	
Other interest receivable	14.5	1 063.9	0.3	1 064.9
Net leasing income		12.6		14.7
Interest payable				
arising from				
liabilities to credit institutions and central banks	260.8		187.6	
liabilities to customers	164.5		231.8	
debt securities in issue	184.8		232.3	
subordinated liabilities	33.6		41.1	
capital notes	6.4		9.6	
Other interest payable	13.5	- 663.7	16.5	- 718.9
Net income from financial operations		412.8		360.7
Dividend income		1.5		1.6
Fees and commissions receivable		167.3		177.0
Fees and commissions payable		- 25.3		- 25.8
Net income from transactions in securities and foreign exchange dealing				
from transactions in securities				
Debt securities	0.7		80.2	
Shares and participations	2.0		7.6	
Other	- 39.9	- 37.3	14.8	102.6
from foreign exchange dealing		20.2		19.6
Other operating income		41.0		41.9
Administrative expenses				
Staff costs				
Wages and salaries	152.4		156.8	
Pension costs	16.7		25.1	
Other social security costs	15.3		15.3	
Other staff-related costs	11.2	195.6	10.6	207.8
Other administrative expenses		201.9		191.7
Depreciation		- 36.8		- 43.8
Other operating expenses		- 35.5		- 52.2
Provisions for bad and doubtful debts		10.0		- 55.3
Write-offs in respect of securities held as financial fixed assets		-		16.9
Income from companies accounted for by the equity method		2.8		1.2
Operating profit		123.3		111.0
Extraordinary expenses		- 3.9		- 10.7
Profit before appropriations and taxes		119.4		100.3
Change in untaxed reserves and depreciation difference		1.3		- 6.4
Taxes				
Taxes for the financial year and previous years	3.1		3.3	
Change in imputed taxes due	2.0	- 5.1	1.6	- 4.9
Minority interests		- 1.5		- 0.4
Profit for the financial year		114.2		88.6

USD million

Figures are based on middle exchange rate of December 31, 1997 USD 1 = FIM 5.4207

ASSETS	31.12.1997	31.12.1996
Liquid assets	481.0	491.8
Loans and advances to credit institutions and central banks	5 413.5	3 392.9
Loans and advances to customers	9 376.2	8 588.9
Lease assets	267.7	251.1
Debt securities	5 748.7	7 271.5
Shares and participations	78.3	31.8
Shares and participations in associated undertakings and subsidiaries	22.8	19.4
Intangible and tangible assets	691.9	680.2
Other assets	313.9	369.1
Prepayments and accrued income	713.5	761.8
	<u>23 107.3</u>	<u>21 858.6</u>
LIABILITIES		
Liabilities:		
Liabilities to credit institutions and central banks	5 124.7	4 949.1
Liabilities to customers	10 231.1	10 639.2
Debt securities in issue	4 951.8	3 820.8
Other liabilities	837.0	650.4
Accruals and deferred income	482.8	429.9
Provisions for liabilities and charges	6.3	20.4
Subordinated liabilities	612.8	529.1
Imputed taxes due	13.5	11.1
Minority interests	12.4	35.2
Capital and reserves:	834.8	773.4
	<u>23 107.3</u>	<u>21 858.6</u>
OFF-BALANCE SHEET ITEMS		
Contingent liabilities	1 756.0	1 736.2
Commitments	2 926.6	2 062.5
	<u>4 682.6</u>	<u>3 798.8</u>

USD million

Figures are based on middle exchange rate of December 31, 1997 USD 1 = FIM 5.4207

HEAD OFFICE

Unioninkatu 22, FIN-00007 HELSINKI 7
Tel: +358 204 2511 (general)

Treasury and Capital Markets:

Treasury
Fax: +358 9 179 337, Telex: 121701 pspex fi
Capital Markets
Fax: +358 204 25 3634, Telex: 121079 pspse fi
International Network and Financial Institutions
Fax: +358 204 25 3766, +358 9 669 063
Telex: 123 687 pspus fi
Foreign Payments
Fax: +358 204 25 2672, Telex: 121698 pgiro fi
Group Administration
Fax: +358 204 25 2608, SWIFT: PSPBFIHH
<http://www.psp.fi>

BOARD OF MANAGEMENT

Harri Hollmén, Chairman of the Board
Pentti Hakkarainen, President
Juhani Paloheimo, Executive Vice President,
Payment Services, Information Technology and
Real Estate Management
Ilkka Hallavo, Executive Vice President, Corporate
Banking
Matti Inha, Executive Vice President, Retail Banking
Peter Johansson, Executive Vice President, Business
Control
Maarit Näkyvä, Executive Vice President, Private
Banking
Jussi Osola, Executive Vice President, Treasury and
Capital Markets
Eero Tuomainen, Executive Vice President, Group
Administration

BUSINESS CONTACTS

RETAIL BANKING

Products and Services
Juhani Vesanto, Deputy General Manager
Branches
Juhani Kangas, Deputy General Manager
Self-services
Ari Häll, Assistant General Manager
Telephone Banking
Arto Smedberg, Assistant General Manager
Customer Relationships
Barbro Karhulahti, Assistant General Manager
Personnel
Tuula Kantele, Deputy General Manager
Planning
Pekka Kainulainen, Deputy General Manager

PRIVATE BANKING

Leijona Life Insurance Company Ltd
Mikko Palomäki, Managing Director
Leijona Fund Management Company Ltd,
PSP Fund Management Company Ltd
Susanna Miekko-oja, Managing Director
Private Banking Service Support
Marko Backström, Senior Manager

CORPORATE BANKING

Trade and Project Finance
Kai Heinonen, Assistant General Manager

Foreign Corporate Customers

Timo Kajanoja, Assistant General Manager
Sirkka Aura, Assistant General Manager

Corporate Banking Services

Sanna Kaivola, Assistant General Manager
Public Sector Customers and Organizations
Pertti Mattila, Deputy General Manager

Corporate Branches

Jarmo Lankinen, Deputy General Manager

Credit Allocation and Risk Management

Aki Palo, Deputy General Manager
Jukka Mäenpää, Assistant General Manager

Marketing

Ara Hopia, Assistant General Manager

TREASURY AND CAPITAL MARKETS

Trading

Risto Tornivaara, Deputy General Manager

Asset Management

Ari Aaltonen, Deputy General Manager

Investment Banking

Jussi Osola, Member of the Board, a.i.

International Network and Financial Institutions

Topi Vesteri, Deputy General Manager

International Network

Lawrence Murray, Assistant General Manager

Financial Institutions

Martin Relander, Assistant General Manager

Treasury Sales

Matti Villikka, Deputy General Manager

Financial Control and Operations

Reijo Jokelainen, Deputy General Manager

Middle office and Accounting

Riikka-Liisa Petroff, Assistant General Manager

Management support

Jukka Tuovila, Assistant General Manager

PAYMENT SERVICES, INFORMATION TECHNOLOGY AND
REAL ESTATE MANAGEMENT**Foreign Payment Services**

Kaarina Merilinna, Assistant General Manager

BUSINESS CONTROL

Strategic Planning

Reijo Mikkonen, Deputy General Manager

Financial Accounting

Matti Heikkilä, Deputy General Manager

Accounting and Asset & Liability Management**Support**

Jyrki Appelqvist, Assistant General Manager

Information Services

Markku Köykkä, Assistant General Manager

Risk Management

Markku Pehkonen,
Deputy General Manager

Emu-Coordinator

Olavi Luukkonen, Deputy General Manager

GROUP ADMINISTRATION

Corporate Communications

Eero Waronen, Deputy General Manager

Economic Research

Tarja Heinonen, Chief Economist

Administration and Legal Affairs

Olli Härmänmaa, Deputy General Manager,
Secretary of Supervisory Board and
Board of Management

BRANCHES

Postipankki Oyj,

London Branch

10-12 Little Trinity Lane

London EC4V 2AA

UNITED KINGDOM

Tel: +44 171 489 0303

Fax: +44 171 489 1142

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Matti Hyyrynen, General Manager

Seppo Leskinen, Assistant General Manager, Treasury

Anthony Eves, Assistant General Manager, Banking

Colin Bateman-Jones, Senior Manager, Nordic Desk

Postipankki Oyj,

New York Branch

Postipankki Oyj,

Grand Cayman Branch

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New York, NY 10022

USA

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Fax: +1 212 758 0011

Telex: 6737069 pspny

Pekka Vataja, General Manager

Lawrence M. Malm, Deputy General Manager

Matti Peltonen, Senior Vice President, Treasury

Ari Kaarakainen, Vice President, Finnish and Nordic

Corporates

Gary Tanner, Senior Vice President, North American

Corporates

Postipankki Oyj,

Singapore Branch

80 Raffles Place #52-01

UOB Plaza 1

SINGAPORE 048624

Tel: +65 538 9611

Fax: +65 538 8586

Telex: RS 23334 ppspsin

Jukka Ohls, General Manager

(Branch to be closed in spring 1998)

REPRESENTATIVE OFFICES

Postipankki Moscow

Representative Office

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119034 Moscow

RUSSIAN FEDERATION

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Fax: +7 095 230 2048

Telex: 413018 ppk ru

Irene Matinpalo, Chief Representative

Postipankki Tokyo

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Chiyoda-ku, Tokyo

JAPAN

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Ilkka Pöyhönen, Chief Representative

Postipankki Stockholm

Representative Office

Regeringsgatan 38

S-111 56 Stockholm

SWEDEN

Tel: +46 8 143 645

Fax: +46 8 203 824

Henrik Lagerstedt, Chief Representative

Postipankki Tallinn

Representative Office

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EE 0100 Tallinn

ESTONIA

Tel: +372-6-461 090

Fax: +372-6-461 093

Kurt Mikkola, Chief Representative

FIM RATES OF EXCHANGE MIDDLE RATES 31 DECEMBER 1997

CHF 1 = FIM 3.7258

DEM 1 = FIM 3.0275

ECU 1 = FIM 5.9890

FRF 1 = FIM 0.9046

GBP 1 = FIM 8.9920

JPY 1 = FIM 0.0417

SEK 1 = FIM 0.6863

USD 1 = FIM 5.4207

