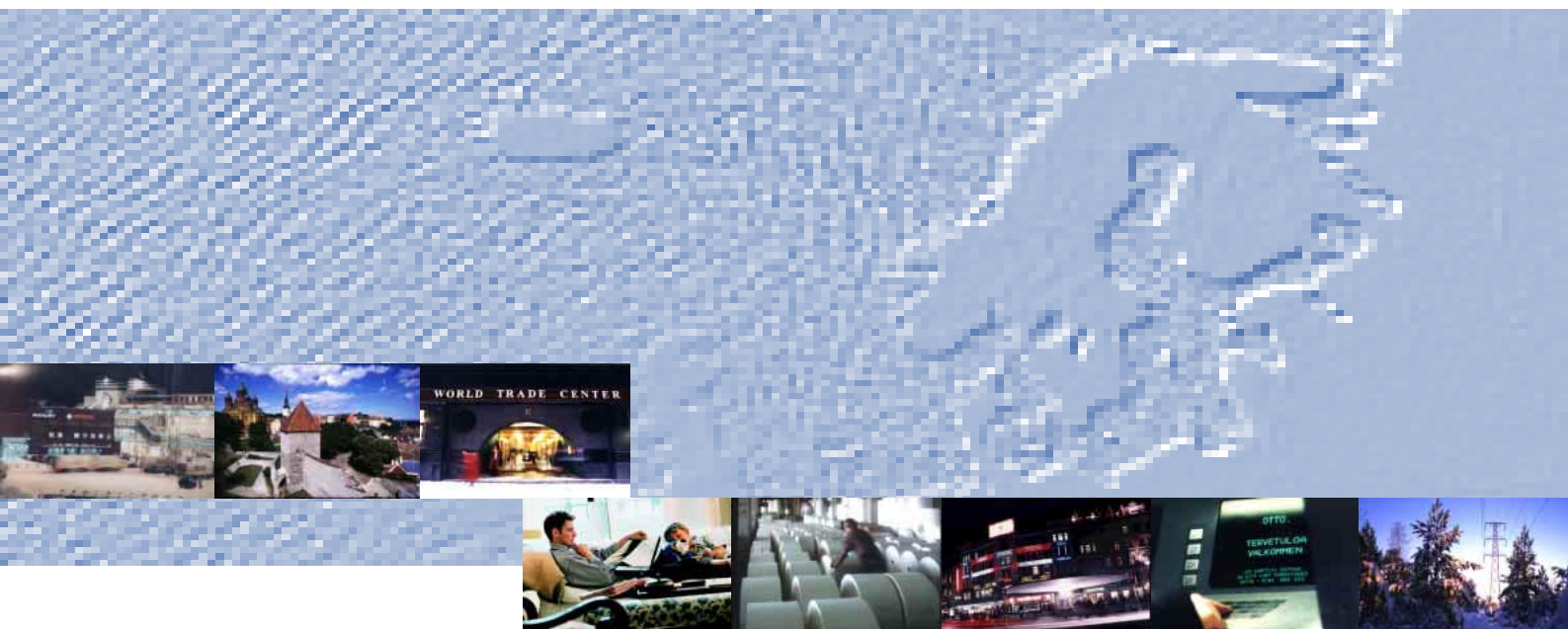


Annual Report 1998

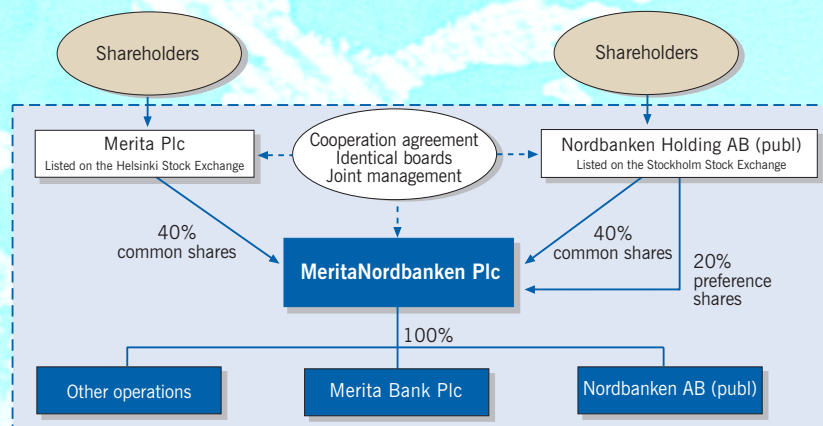


Merita-Nordbanken Group

Annual Report 1998

The MeritaNordbanken Group comprises MeritaNordbanken and the two holding companies Merita Plc in Finland and Nordbanken Holding AB (publ) in Sweden.

Legal structure



This annual report covers the operations of the MeritaNordbanken Group, whose legal structure is illustrated above. The Group includes the listed companies Merita Plc and Nordbanken Holding AB (publ), as well as the jointly owned MeritaNordbanken Plc, with its subsidiaries Merita Bank Plc and Nordbanken AB (publ).

The MeritaNordbanken Group is managed as a single unit. The two holding companies are the sole owners of MeritaNordbanken Plc. Shareholders in Merita Plc and Nordbanken Holding AB (publ) are entitled to 40% and 60%, respectively, of the Group's capital and earnings.

Nordbanken Holding's preference shares in MeritaNordbanken Plc are due to be converted to common stock, subject to certain conditions. (See also page 95.)

Concepts and definitions

The terms MeritaNordbanken and "the Bank" are used jointly to designate the operations conducted by MeritaNordbanken Group. The term MeritaNordbanken is also used to designate the MeritaNordbanken Group's business concept. The significance in individual cases is shown by the context.

Merita Plc is also referred to in the text as Merita. Nordbanken Holding AB (publ) is also referred to as Nordbanken Holding AB or Nordbanken Holding. The annual reports for Merita Plc and Nordbanken Holding AB (publ) are presented after the report for the MeritaNordbanken Group.

This is a translation of the original Swedish Annual Reports, which are available on request from MeritaNordbanken, Investor Relations.



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Annual General Meetings

Nordbanken Holding AB (publ)

The Annual General Meeting of Nordbanken Holding AB (publ) will be held on Thursday, March 25, 1999 at 3.00 p.m. in the Annex, Globen, Stockholm. (See also page 96.)

Merita Plc

The Annual General Meeting of Merita Plc will be held on Monday, March 29, 1999 at 3.00 p.m. in the Congress Wing of the Helsinki Trade Fair Center, Rautatieäisenkatu 3, Helsinki. (See also page 106.)

Financial reports, 1999

MeritaNordbanken Group will publish the following reports during 1999:

January – March	April 28
January – June	August 25
January – September	October 26

Currency translation rates

In this annual report, the MeritaNordbanken Group presents income statements and other financial data in Finnish markka. Certain data are also provided in euro and Swedish krona.

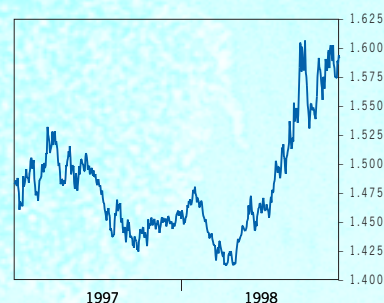
As of the first quarterly report in 1999, which will be published on April 28, 1999, the Group's financial reporting will be presented in euro.

Exchange rates used in converting currencies for the 1998 financial year.

	FIM	SEK
Income statements (average rate)	100	148.35
	67.41	100
Balance sheets (year-end rate)	100	159.57
	62.67	100

Where relevant, conversion to euro is based on the official conversion rate.

Trend in the exchange rate for the Finnish markka and the Swedish krona during 1997-1998





MeritaNordbanken in brief

MeritaNordbanken is one of the leading Nordic bank groups, with a broad range of financial products and services.

The customer base comprises over 6.5 million individuals and 400,000 companies and institutions. Customers in Sweden and Finland are offered services via 800 bank offices, some 1,000 Swedish post offices and through effective telephone bank and Internet services. Approximately one million customers use the Group's electronic banking services.

The Group manages some FIM 250 bn, or about EUR 42 bn, on behalf of private customers. In addition to the Nordic branch office network, the Group is

represented in 19 countries. The Group has more than 19,000 employees, of whom some 18,000 are employed in actual banking operations.

MeritaNordbanken's total market capitalization at year-end amounted to EUR 11.5 bn.

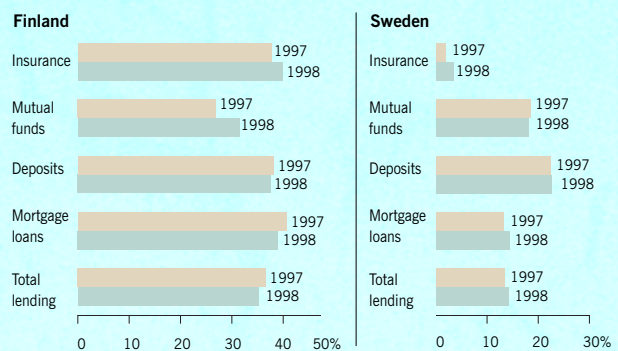
bn	FIM	SEK	EUR
Total assets	571.0	911.1	96.0
Lending	355.7	567.6	59.8
Deposits	228.7	365.0	38.5
Shareholders' equity	28.4	45.3	4.8
Operating profit	8.1	12.1	1.4

MeritaNordbanken 1998

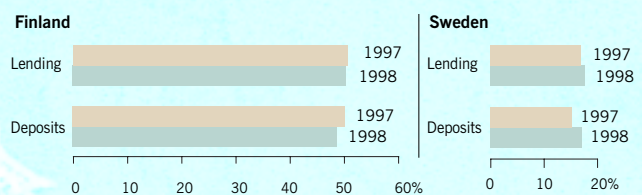
The first year of the new bank

- MeritaNordbanken was established through the merger of Finland's largest banking group, Merita, and the major Swedish bank, Nordbanken.
- The merger is progressing rapidly and on schedule.
- Return on equity amounted to 14.3%. Return on equity, excluding items affecting comparability, was 18.7%.
- Operating profit totaled FIM 8.1 bn, corresponding to SEK 12.1 bn, or EUR 1.4 bn.
- Earnings per share in Merita Plc, were FIM 1.96, and SEK 2.92 in Nordbanken Holding AB.
- The proposed dividend is FIM 1.05 and SEK 1.64 respectively.
- Share sales provided major gains.
- Launch of an effective program for the divestment of Finnish real estate.
- Number of employees in banking operations was reduced by 616, net, during the year.

Market share, private market, December 31



Market share, corporate market, December 31



Chief Executive Officer's comments

*The merger is opening
increasingly more opportunities.*



Hans Dalborg

MeritaNordbanken's first year of operations is a story of strength.

During a year of intensive work on the merger of Merita and Nordbanken, the new Group achieved fine results at the same time that important steps were taken to streamline the Bank and pursue its Nordic and Baltic region strategy.

Operating profit improved by 13 percent, to FIM 8.1 bn (SEK 12.1 bn), largely the result of strong earnings in the retail sector. After write-downs of real estate holdings in Finland amounting to FIM 3.7 bn, among other measures, profit for the year after tax was FIM 4.2 bn (SEK 6.2 bn).

The merger is being implemented as planned. MeritaNordbanken is a unified bank group with a common financial language. The projected synergies from rationalization and increased sales are being realized at the rate planned, and restructuring costs are being held within the frameworks estimated.

Operations are being streamlined and focused. Shareholdings in Finland have been divested and the real estate portfolio in Finland is being liquidated more rapidly than had been planned earlier.

The Nordic and Baltic region strategy is being intensified. Finnish and Swedish commerce and industry, in particular, are becoming more closely integrated and an increasing number of companies are defining the Nordic and Baltic region as their home market. As the leading Nordic eurobank and Internet bank, with a market capitalization of nearly EUR 12 bn – the highest of any financial company in the region – MeritaNordbanken is positioned to both benefit from, and contribute to, this development.

A new currency

At year-end 1998, the European Monetary Union was introduced and Finland, along with ten other EU countries, acquired a new currency.

EMU will have far-reaching effects on our customers and the banking group. The Group will increasingly use the euro as the currency for business, accounting and share listings.

Stable market growth

1998 was characterized by stable growth in MeritaNordbanken's home markets in Finland and Sweden, at the same time as financial unrest grew in the international arena. Developments in Southeast Asia have stabilized but nevertheless entail reduced demand for many Finnish and Swedish companies, at the same time as many companies are encountering stiffer price competition.

The economic crisis in Russia affected the Nordic countries to a lesser extent than many expected. To date, the Baltic economies have also coped with the pressure.

Expanding region

The Nordic and Baltic area is increasingly emerging as a European zone with good growth potential. Political cooperation has been strengthened and an increasing number of companies define the region as their domestic market. MeritaNordbanken is well positioned to utilize and contribute positively to this development.

Favourable earnings

MeritaNordbanken's earnings during its first year of operations matched expectations. Compared with the pro forma results for 1997, operating profit increased 13% to FIM 8.1 bn. After adjustments for items affecting comparability, operating profit improved by 16%. Adjusted for these items, the return on equity amounted to 18.7%.

Business operations are integrated and comprise five business areas – Retail, Corporate, Markets, Asset Management and Real Estate. Annual earnings for each of these business areas are presented in this annual report.

Retail banking operations, which dominate Group activities in terms of volume and earnings, have a solid earnings capacity and good profitability. Improved customer offers are being developed through product exchange and new customer concepts. These offer customers a superior range and better profitability for the Group. Bank transactions via the Internet are increasing rapidly. This reflects customer satisfaction in an area in which the Group's strong position will be further consolidated.

Asset Management increased its volumes and

maintained high earnings despite unrest on stock markets. This has been done through the cross-selling of Finnish and Swedish products, for instance.

The competitiveness of the Corporate business area was significantly enhanced in conjunction with the merger. MeritaNordbanken was able to offer Merita's expertise to both existing and new customers. Some of Nordbanken's specialties were offered to Finnish customers. Nonetheless, earnings are less than satisfactory due to low-yield assets deriving from the Finnish financial market crisis, and new provisions for international loan risks.

The Markets business area appeared set to provide satisfactory earnings for the year. However, as a result of improper share transactions within the Nordbanken Equity Trading unit, earnings have been charged with a provision of FIM 195 M. This is an extremely serious incident and has led to strong reactions within the Group. Intensive efforts are in progress to clarify the circumstances and responsibility. The matter is currently the subject of a criminal investigation.

The Group's aggregate earnings confirm that the strategic direction is the correct one and offers the potential for growth and profitability. I see even more opportunities in the selected position and strategy than I did a year ago.

Year of implementation

If 1997 was the year of decision-making, then 1998 was the year of implementation, with the focus on Finland and Sweden. The objective was that two strong national banks would create an integrated bank organization with responsibility clearly divided between different functions, such as regional banks, treasury, data processing, accounting, and asset management, etc. It was also important to create a common financial language.

One year after the merger of Merita and Nordbanken, MeritaNordbanken is a cohesive and functioning bank group. Legally it consists of two banks in a holding company owned by two listed companies. Customers encounter well-known brands in Finland and Sweden, which gain strength from the new brand, MeritaNordbanken.

Merger commitments realized

Naturally, the merger has dominated the internal life of the Group. But it has not taken the introverted and antagonistic form which perhaps many had expected. There are two reasons for this.

First, executives and employees have continued to be motivated by their customer perspective. I have noted spontaneous enthusiasm and cooperation in such areas as Corporate, Asset Management, Accounting, Treasury and Credit.

Second, this is a merger for growth between equal and complementary companies, in which specialist expertise is exchanged and enriches work. It is not based solely on the idea of eliminating work duplication.

It involves the strengthening of the competitiveness of the Corporate business area and ensures that the regional banks can maintain their local identity, with improved central back-up for new products and effective marketing.

It is on this basis, and looking at the results already achieved, that I believe that the commitments made in conjunction with the merger will be realized. The anticipated cost and revenue synergies are materializing steadily and work is progressing at an intensive pace. The estimated costs of the merger will not be exceeded.

Forceful streamlining – sharper focus

MeritaNordbanken's real estate portfolio in Finland was restructured and it was decided to speed up the schedule for its phase-out. This entailed a need for considerable write-downs. In addition, in 1998, large holdings in the former strategic share portfolio in Finland were divested. These actions permit a sharper focus on core business.

Employees who create value

The Group's overall objective is to generate value for shareholders. This derives from the value created for customers by our employees. Committed and skilled employees are a prerequisite for enhancing customer benefits. Consequently, our aim is to be the most attractive employer in the Nordic banking industry, and one which offers maximum customer satisfaction in the market for priority customer groups.

During 1998, the Group's workforce made conscientious efforts to improve customer service – both despite and thanks to the merger. They deserve the sincere thanks of Group management, the Board and shareholders for their efforts. In 1998, FIM 129 M was allocated to the employees' profit-sharing system, corresponding to FIM 9,600 or SEK 14,000 for full-time employees. Since the system was in operation in Finland for only seven months of the first year, allocations there amounted to 7/12 of this amount.

The IT revolution has just begun

As in the case of MeritaNordbanken and other companies, the expression "business as usual" is becoming less relevant. At the same time as ongoing operations must be well managed, and the merger advanced and strategies realized, a number of projects must also be implemented.

Thanks to its sophisticated information technology, MeritaNordbanken will consolidate its position as the leading Internet bank. Although we already speak of an IT revolution, we are in fact just at the beginning of a development which will permit us to offer smoother and more value-adding bank services. MeritaNordbanken's distribution strategy is based on high availabil-

ity. This imposes major demands on our ability to utilize the new technology profitably.

During 1998, preparations for the introduction of the euro and Y2K required substantial resources (FIM 270 M). Of course, these were necessary investments and we are proud of the way in which the transition to the euro proceeded in both Helsinki and Stockholm. Likewise, I am confident that our projects ahead of Y2K will secure the Group's functional capability.

Growth areas


1999 will be a year when growth in the region outside our national markets will demand more time and consideration from management and the Board. The direction selected entails that growth in the Baltic countries and Poland will primarily be organic, with minor acquisitions to complement operations. We believe it is important that expansion occurs with MeritaNordbanken having complete ownership control in these markets. In Denmark and Norway, the focus of restructuring discussions in the financial sector has begun to center on cross-border cooperation.

With the experience we have gained from the merger, combined with our position as a leading euro bank and Internet bank, and with joint product development already in place, we have much to offer to any restructuring transactions and to new markets in the region.

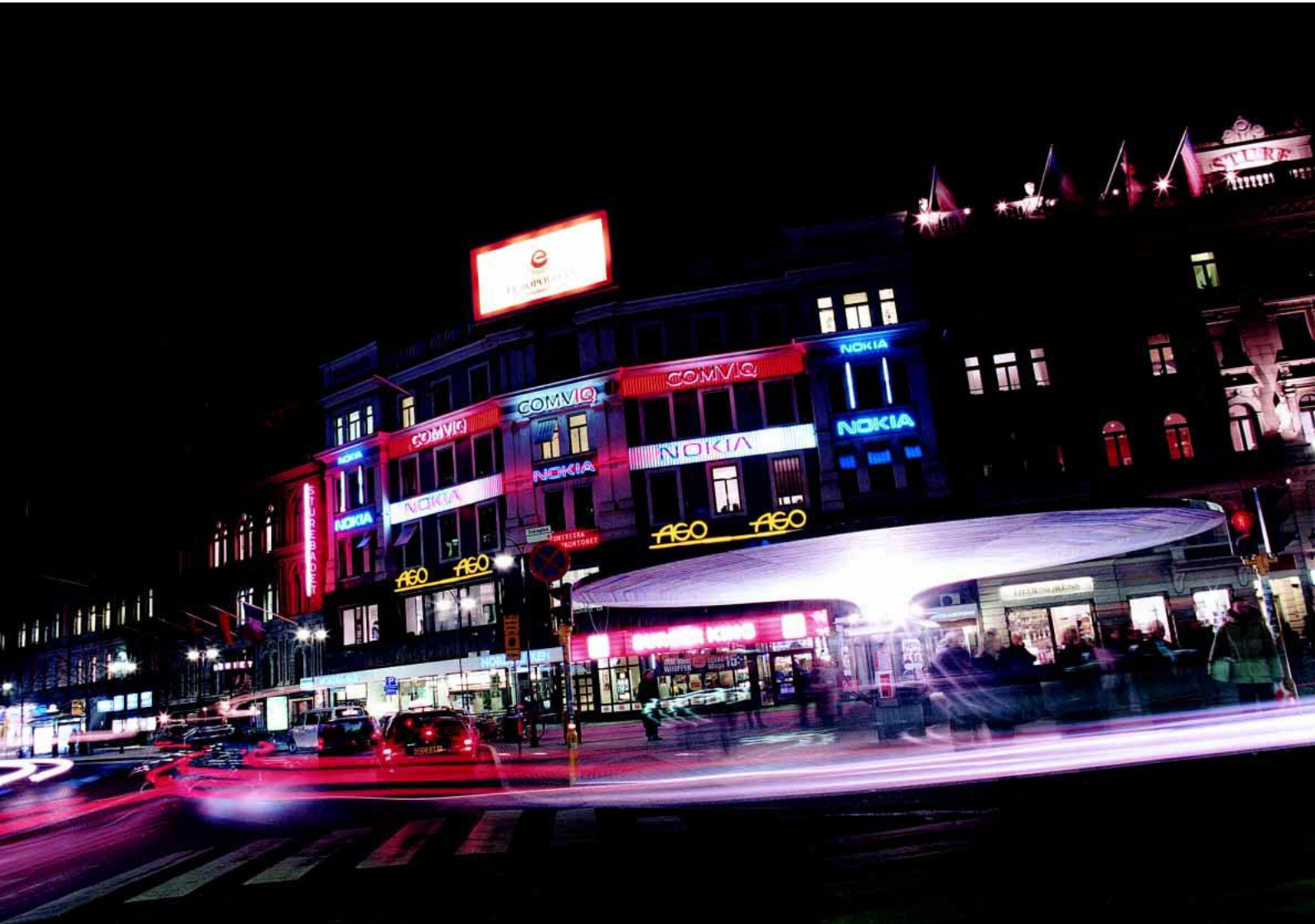
Continuing efficiency enhancement

There is every reason to believe that 1999 will be a year of good growth in MeritaNordbanken's domestic markets. We expect low inflation and low interest rates in Finland and Sweden. However, this means that the conditions for interest income and financial revenues are not quite as promising as they were in 1998. This implies that the ongoing quest for cost savings must continue. Increased efficiency and productivity are key conditions for ensuring that the Group can meet its high profitability targets.

At the same time as rationalization and efficiency-enhancement projects will be implemented to underpin earnings, the Baltic strategy will progress further. The product and systems integration will continue to add to our competitiveness.



Hans Dalborg



Trade in goods and services among the Nordic countries – particularly between Sweden and Finland – has been conducted for hundreds of years. 1998 saw the creation of the first banking group with a strong base in both Sweden and Finland, namely, MeritaNordbanken. Photos in this Annual Report reflect the high level of interaction between the two countries.

1998 – the year of the merger

The agreement covering the merger of Merita and Nordbanken was announced on October 13, 1997. Two months later, one hundred executives were appointed to assume functional responsibility for operating units, business areas, products and staff functions. Functional responsibility usually includes taking charge of operations in both Sweden and Finland. On January 1, 1998, efforts to complete the merger began in earnest.

The prospectus published as a guide for the shareholders in both companies presented the synergies expected of the merger. Within three years, the merger was projected to provide synergies equivalent to almost FIM 700 M annually. Nonrecurring costs for restructuring were initially estimated to amount to FIM 590 M, which was fully charged against 1998 earnings. The results achieved during the first year and the current plans mean that management's expectations remain intact.

Considerable progress was made in 1998. In line with the established strategy of MeritaNordbanken, which is aimed at focusing and expanding banking operations, substantial shareholdings were divested during the year. In addition, a decision was made to increase the pace of divestment of non-bank-related real estate. In addition to these developments, the first year of the merger provided the following effects:

- New corporate customers, active in both Finland and Sweden, were added to the customer base. One attraction for new customers is MeritaNordbanken's ability to enhance the efficiency of payments between the countries.
- The sale of unit-linked insurance from Merita Life commenced in Sweden in June. Swedish premium volume rose to SEK 1.1 bn during the year.
- Two joint mutual funds were launched – Nordic Small Cap and Euroland. These funds attained volumes of FIM 140 M and FIM 304 M respectively in 1998.
- The number of payments between Sweden and Finland via MeritaNordbanken surged 60% between the initial and final months of the year.
- The Swedish concept of mortgage loans was introduced into Finland in 1998 and was met by considerable customer interest. At year-end these loans amounted to FIM 560 M.
- The number of Internet customers is rising rapidly. A new model for the Internet will be introduced into Sweden during 1999, thereby facilitating more convenient customer connection.
- Private banking, a well proven and successful concept in Finland, was also launched at the beginning of 1999 in Sweden.
- No-cost ATM withdrawals for private customers with a VISA card were introduced in both countries. Finnish customers made some 50,000 withdrawals via ATMs in Sweden during the year.
- Financial control and capital allocation were coordinated. Uniform result reporting was introduced.
- Credit operations were coordinated. Effective 1998, credit ratings are conducted using uniform principles. The decision-making process is fully integrated.
- Treasury – the Group's own financial operations – is fully coordinated within a single unit. Borrowing and financing have been efficiency-enhanced.
- Following the merger, Merita Bank gained a higher credit rating, leading to lower borrowing costs for MeritaNordbanken.
- International operations were integrated and are conducted under the joint name MeritaNordbanken Group. The number of Sweden-linked customers and transactions is rising rapidly.
- Cost levels for joint technology and systems development are estimated to decline some FIM 50 M in 1999 on an annual basis, despite major programs in conjunction with the introduction of the euro and Y2K.
- Cuts in personnel are proceeding on schedule.

Share data, key ratios and rating

The MeritaNordbanken Group comprises MeritaNordbanken Plc with its subsidiaries and the two holding companies Merita Plc, which is listed on the Helsinki Stock Exchange, and Nordbanken Holding AB (publ), which is listed on the Stockholm Stock Exchange.

Share price trend

Nordbanken Holding's share price rose 15.8% in 1998, while Merita A shares increased 8.1%. The general index of the Stockholm Stock Exchange advanced 10.2% during the same period, while the HEX index of the Helsinki Stock Exchange soared a full 68.5%, primarily as a result of the sharp rise in Nokia shares. Total market capitalization of MeritaNordbanken amounted to EUR 11.5 bn (corresponding to FIM 68.3 bn or SEK 109.1 bn) at year-end. The stock market trend during the year may be divided into three phases, with a steady positive trend during the first six months. The Nordbanken Holding share noted a peak price on July 15, at SEK 65. This was followed by a period of falling prices on world markets, which, for Nordbanken Holding, culminated on October 8 with a low for the year of SEK 36 per share. The share price subsequently recovered before closing at a paid price of SEK 52 on the last trading day of 1998.

The trend was similar for the Merita share, which noted an annual high of FIM 39.70 on April 22. On October 8, paid price for the Merita share was FIM 21.00, representing an annual low, before it subsequently climbed and finished the year at FIM 32.20.

Turnover

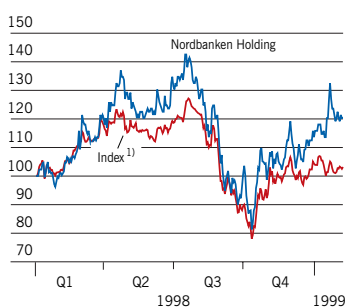
Turnover in the Merita share amounted to FIM 15,112 M, corresponding to 487 million shares (both series A and B). The Merita share was the third most traded share on the Helsinki Stock Exchange. Turnover in the Nordbanken Holding share totaled SEK 34,072 M, or 678 million shares. This made Nordbanken Holding the thirteenth most traded share on the Stockholm Stock Exchange.

Number of shares

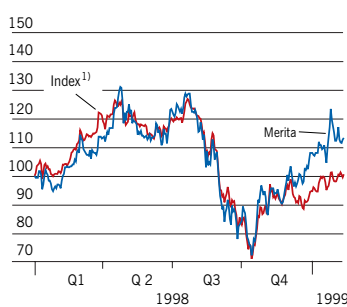
At December 31, 1998, the number of shares in Merita Plc amounted to 832,020,744 shares. All shares carry one voting right following the amalgamation of the former series A and B shares as a result of a decision of the General Meeting on October 28, 1998. During 1998, the number of Merita shares increased by a total of 1,566,838. Of this increase, 1,483,438 shares derived from the exercise of equity warrant expiring on March 12, 1998. Also, the number of shares increased by 83,400 as a result of the conversion of the 1992

Share trend

Nordbanken Holding

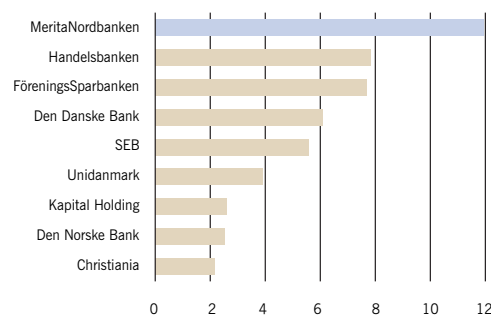


Merita



1) Datastream Banks Retail Scandinavia Index.

Market capitalization of Nordic banks, February 1999, euro bn.



convertible loan. As a result of outstanding conversions, the share stock may rise by a maximum of 27,099,000 shares to total 859,119,744 shares.

The number of shares in Nordbanken Holding AB amounts to 1,275,267,441 shares. All shares carry one voting right.

Earnings and shareholders' equity per share

Merita Plc's share (40%) of net profit for the year amounted to FIM 1,671 M, corresponding to FIM 1.96 per share (after full conversion). Shareholders' equity per share was FIM 13.64 (after full conversion).

Key ratios	1998	1997
Total capital ratio, %	9.9	11.3
Core capital ratio, %	7.3	7.4
Operating profit/Average, total assets, %	1.4	1.1
Nonperforming loans ratio, %	1.7	2.5
Return on shareholders' equity, %	14.3	24.8
- excluding items affecting comparability	18.7	19.6
Net interest income/Average total assets, %	1.9	2.0
Income-to-cost ratio		
- before loan losses	1.8	1.7
- after loan losses	1.7	1.5
Loan loss level, %	0.2	0.4
Number of employees	19,741	20,582
- of whom those employed in banking operations	18,346	18,962
Number of branch offices	766	804

Nordbanken Holding's share (60%) of net profit for the period amounted to SEK 3,719 M, corresponding to SEK 2.92 per share. Shareholders' equity per share was SEK 21.30.

Dividend

The Boards of Directors propose a dividend per Nordbanken Holding share of SEK 1.64 and 1.05 per Merita share. The proposed record dates are March 30 and April 1, 1999, respectively. Dividend payments are expected to be made on April 8 and April 12, 1999, respectively.

Share data	1998	1997
<i>Shares outstanding at end of period, millions</i>		
Merita Plc	832.0	830.5
- after full conversion	859.1	859.3
Nordbanken Holding AB	1,275.3	1,275.3
<i>Earnings per share</i>		
Merita Plc, FIM	1.96	2.97
- excl. items affecting comparability	2.51	2.26
Nordbanken Holding AB, SEK	2.92	4.40
- excl. items affecting comparability	3.74	3.35
<i>Shareholders' equity per share at end of period</i>		
Merita Plc, FIM	13.64	13.43
Nordbanken Holding AB, SEK	21.30	19.10
<i>Share price at end of period</i>		
Merita A series, FIM	32.20	29.80
Merita B series, FIM	-	28.70
Nordbanken Holding AB, SEK	52.00	44.80
<i>Dividends</i>		
Merita A series, FIM	1.05	1.00
Nordbanken Holding AB, SEK	1.64	1.50
<i>P/E ratio</i>		
Merita Plc	16.4	10.0
excl. items affecting comparability	12.8	13.2
Nordbanken Holding AB	17.8	10.2
excl. items affecting comparability	13.9	13.4
<i>Market capitalization /Shareholders' equity</i>		
Merita Plc	2.4	2.2
Nordbanken Holding AB	2.4	2.3
<i>Direct yield, %</i>		
Merita Plc	3.3	3.4
Nordbanken Holding AB	3.2	3.3

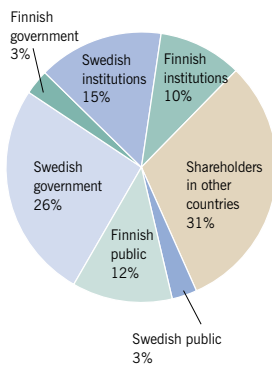
Shareholders

At the close of 1998, the two holding companies had a total of some 400,000 shareholders, with nearly 300,000 shareholders in Merita Plc and slightly more than 100,000 in Nordbanken Holding. The distribution of the various shareholder categories is shown in the pie chart below.

The table on the right shows the known registered shareholders with more than an aggregate of 5 million shares in either of the holding companies, Merita Plc and/or Nordbanken Holding AB. A list of shareholders in each holding company is presented on pages 97 and 109.

Shareholders in
MeritaNordbanken

The two Parent Companies combined,
December 31, 1998



Combined shareholder structure of the two holding companies, December 31, 1998

(Shareholders with more than 5 million shares in any of the holding companies)

		Shareholder in:
Kingdom of Sweden	25.5%	NBH
Arsenal	3.1%	Me
SPP	2.3%	NBH
AMF Pension	1.8%	NBH
Nordbanken mutual funds	1.4%	NBH
Skandia	1.0%	NBH
Handelsbanken mutual funds	0.8%	NBH
Nordbanken Profit-sharing Foundation	0.8%	NBH
AMF Insurance	0.8%	NBH
Fidelity Investments	0.8%	NBH
SEB + Trygg + ABB mutual funds	0.6%	NBH
Suomi Mutual Life Assurance	0.6%	Me
Pohjola Non-life Insurance Company	0.6%	Me
Varma-Sampo Mutual Pension Insurance Company	0.5%	Me
Ilmarinen Mutual Pension Insurance Company	0.5%	Me
Merita Plc Pension Foundation	0.5%	Me
Wasa Insurance	0.4%	NBH
Meiji Life Insurance Company	0.4%	Me
Onninen Sijoitus Oy	0.4%	Me
Merita Plc Pension Fund	0.3%	Me
A. Ahlström Osakeyhtiö	0.2%	Me

Percentages are calculated according to the following:
For shareholders in Nordbanken Holding:
Shareholder percentage in Nordbanken Holding x 0.6

For shareholders in Merita Plc:
Shareholder percentage in Merita Plc x 0.4

Source: Finnish Central Securities Depository Ltd and the Swedish Securities Register Center (VPC AB) and DN Ågarservice AB.

Rating, February 1999

	Moody's		S & P		Fitch IBCA		Thomson Bankwatch	
	Short term	Long term	Short term	Long term	Short term	Long term	Short term	Long term
Merita Bank	P-1	A2	A-1	A	F1	A	TBW-1	AA-
Nordbanken	P-1	A1	A-1	A	F1	A+	TBW-1	AA-
Nordbanken Hypotek		Aa3						

Definitions and glossary

Capital base

The capital base constitutes the numerator in calculating the total capital ratio. It consists of the sum of core capital (see separate definition) and supplementary capital (consisting of subordinated debenture loans), after deduction for the percentage of ownership in excess of five percent in companies that conduct insurance or finance operations requiring a license.

Core capital

It consists of shareholders' equity, including the percentage of equity in untaxed reserves and Tier 1 instruments, reduced by goodwill. A portion of the capital base (see separate definition).

Core capital ratio

Core capital as a percentage of risk-weighted amount.

Credit scoring

A statistical method for determining creditworthiness which takes into account the loan applicant's behavior and financial resources.

Currency option

A contract between the writer of an option and a counterparty covering the right but not the obligation to exchange currencies at a set exchange rate at a future date. The buyer of the option pays a premium for the right to conduct the transaction.

Direct yield per share

Dividend as a percentage of the market price of the shares at December 30.

Duration

The average weighted maturity of future payment flows expressed as the number of years.

Earnings per share

Net profit divided by the number of shares outstanding after full conversion.

Forward transaction

A contract to purchase or sell that is intended to be implemented on a predetermined future date at a price which is determined when the contract is made.

FRA

"Forward Rate Agreement." An agreement between two parties on a rate of interest on borrowing or lending transactions in the future; for example, a lending transaction covering six months and taking effect three months from the date of the agreement. The agreed rate is locked in at the beginning of the period and the difference between the agreed rate and actual market rate constitutes the resulting profit or loss.

Income-to-cost ratio before loan losses

Operating income in relation to operating costs.

Income-to-cost ratio after loan losses

Operating income in relation to operating costs, plus loan losses.

Interest-rate option

A contract between a writer of an option and a counterparty covering the right but not an obligation to buy or sell a bond at a predetermined price at a future date. The buyer of the option pays a premium for the right to conduct the transaction.

Interest-rate swap

An agreement whereby two parties exchange interest-payment flows with each other without affecting the principal amount.

Loan loss level

Loan losses as a percentage of the opening balance of loans to the public.

Nonperforming loans ratio

Net nonperforming loans as a percentage of total loans to the public.

Price/Earnings (P/E) ratio

The share price at December 30 relative to earnings per share.

Repo

"Repurchase Agreement." A financing arrangement involving a sale of interest-bearing securities linked with a future repurchase at a predetermined interest rate/price.

Reserve ratio for nonperforming loans

Reserve for possible loan losses as a percentage of gross nonperforming loans.

Return on shareholders' equity

Net profit as a percentage of average shareholders' equity. Average shareholders' equity is adjusted for new share issues and dividends, and includes minority interest in earnings.

Risk-weighted amount

Total assets as shown in balance sheet and off-balance-sheet items valued on the basis of credit and market risks in accordance with regulations governing capital adequacy.

Total capital ratio

Capital base as a percentage of risk-weighted amount.

Shareholders' equity per share

Shareholders' equity as shown in the balance sheet divided by the number of shares outstanding after full conversion.

VaR (Value-at-Risk)

A risk measure for market risks. VaR is the most probable expected loss from unfavorable market movements over a specified time period.

Economic trend

In Finland in particular, but also in Sweden, domestic demand strengthened relatively and thus assumed the role of growth engine. A similar trend was noted in the rest of Europe.

In Finland and Sweden, the crises in Asia and Russia resulted in a considerable weakening in export growth in 1998 following the unusually sharp volume growth of 13% in both countries in 1997. Finnish exports to Russia plummeted during the autumn, at the same time as export demand from other markets continued to remain buoyant. The impact of the Asian crisis on Swedish exports was offset by favorable demand in Europe and North America. Overall export growth was cut to some 6.5% for both Finland and Sweden.

Although the increase in exports – and thus also the rise in industrial output – sagged towards the close of 1998, GDP growth amounted to slightly more than 5%. Growth during the past year was attributable primarily to the sharp increase in private consumption demand and capital spending.

Swedish households witnessed a strengthening in their financial standing. Consumption volume rose about 3% in 1998. Real income rose more than in many years as a result of low inflation. Public finances showed a surplus or was in balance after budget cuts.

Finnish credit market

The major trend in the Finnish credit market was the increase in household mortgage loans. The value of the total mortgage loan stock reached record levels, surging 13% in 1998. This was most likely due to pent-up demand among many households to improve their housing situation. This trend was backed by the improvements in the economy, with falling unemployment leading to greater public confidence in the future and steady real income increases, combined with general expectations of falling interest rates.

The demand for corporate credit increased during the second half of the year. The increase in aggregate credit to the corporate sector amounted to 14%. The investment climate was very good. In addition, there were consumer loans and leasing. Loans from finance companies and so forth increased 25% in 1998.

Bank deposits rose 4.6% during the year. This meant that a large portion of the increase in the country's living standard was used for savings. Insurance and mutual funds savings surged by 20-25% and 56%, respectively, from their previously a low levels.

Swedish credit market

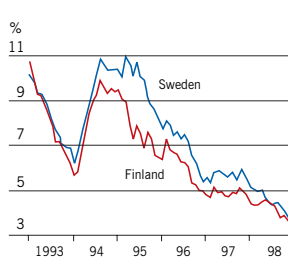
The Swedish credit market was highly marked by the trend in economic conditions in 1998, with rising domestic demand and a decline in exports and expenditure among companies. Total lending to the public by banks and mortgage institutions rose 3.8%. Bank loans to the Swedish public increased 8.5%, with a slight slowing in the rate of increase during the autumn. This applied both to lending to the public and to households. Credit granting to households by mortgage institutions rose 5-6%, whereas loans to companies declined. The total increase in lending from mortgage institutions was no more than 1% in 1998.

Bank deposits in the Swedish market increased 3% in 1998 and were favored by the discontinuation of National Savings Funds and other factors. Despite the turbulence in stock markets, mutual fund volumes increased by SEK 43 bn in 1998. However, during the second half of the year, a shift from equity funds to money market and bond funds was noted.

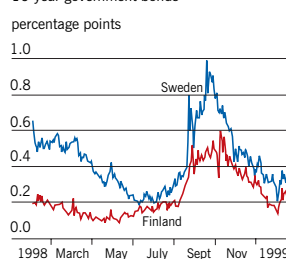
Long-term inflation trend



Interest rates. 5-year government bonds, Finnish markka and Swedish krona



Interest-rate differential vis-à-vis Germany



Exchange rates for the Finnish markka and Swedish krona against DEM





Economic and financial objectives

MeritaNordbanken's economic and financial objectives are under review. The following objectives applied in 1998.

MeritaNordbanken's overall *economic objective* is to sustain a profitability level that is competitive in the risk capital market, currently estimated to be a minimum of 15% over a business cycle.

Moreover, MeritaNordbanken aims to be one of the best Nordic banks in terms of profitability.

The overall *financial objective* is to retain a high core capital ratio of well above 6.5% so that a high rating and cost-effective financing can be attained.

Attaining the operational and financial objectives

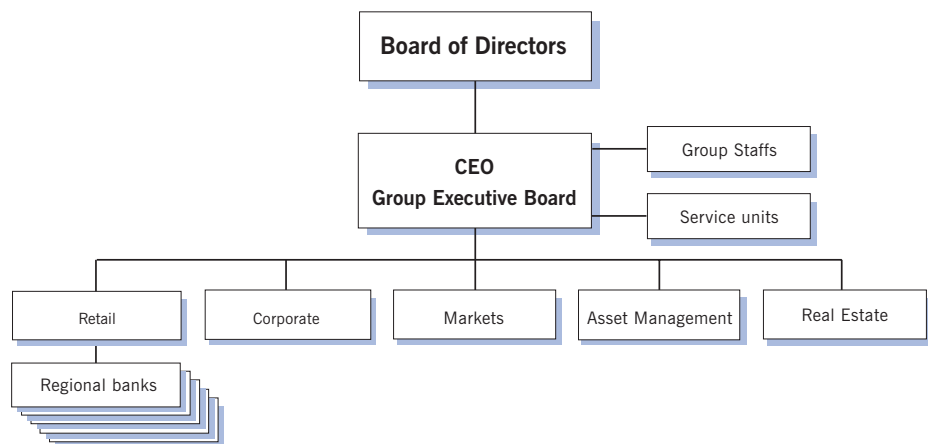
requires that the following benchmarks are taken into account in banking operations: an income-to-cost ratio of at least 1.8 after loan losses of a maximum of 0.5% over a business cycle, as well as limited and controlled interest, currency and liquidity risks.

Dividend

The objective is that dividends will amount to between 30% and 50% of net profit. The level depends on market yield requirements and core capital requirements.

Results by business area

MeritaNordbanken's operations are organized in five major operating units: Retail, Corporate, Markets, Asset Management and Real Estate.



Operating units function as decentralized profit centers. This essentially means that the Group's total business relations with customers are reported in the customer unit's income statement and balance sheet. Shareholders' equity is allocated among customer units and a profitability target is established.

Shareholders' equity is allocated among the business areas basically in accordance with prevailing capital adequacy rules, with exception of Real Estate.

Changes in principles for capital allocation and internal redistribution will be introduced in 1999 as a result of the ongoing coordination of operations in Finland and Sweden.

Asset Management, and Markets to a certain extent, have *product responsibility*, which means that the customer unit must have access to a competitive and profitable product range. Monitoring of a product responsibility unit is conducted through the gauging of the product earnings, which cover all income and expenses attributable to the particular product including, for instance, sales expenses within Regional Bank operations.

The accompanying presentation also shows the redistribution of income items among the operating units in the MeritaNordbanken Group.

For example, in the case of Asset Management, earnings are essentially redistributed to customer units in Regional Bank operations and Corporate.

Regional bank operations, within Retail, accounted for FIM 4,866 M, or 60%, of the Group's operating profit in 1998. Larger business volumes contributed to rising income while the ongoing efficiency-enhancement program aimed resulted in cost reductions. Combined with falling loan losses, this meant that profitability in overall Regional Bank operations was favourable and the return on allotted shareholders' equity was more than 25%.

Corporate's competitiveness was strengthened considerably by the merger of Merita and Nordbanken, with an increase in business volumes during the year. Operating profit amounted to FIM 338 M and was adversely affected by substantial loss provisions to cover international credit exposure as well as low-yield assets outstanding from the Finnish finance market crisis. As result of these factors, profitability in 1998 was low.

Markets reported an operating profit of FIM 217 M in 1998. A volatile market trend gave rise to highly fluctuating earnings. During the sharp swings in the interest-rate market in the third quarter, trading in interest-bearing securities reported a loss while earnings in other quarters were favorable. Currency-related earnings performed well, although the introduction of the euro slightly reduced earnings already in 1998.

Earnings from equity trading moved in line with the favourable stock market trend throughout most of the year. As a result of improper equity transactions, earnings were charged with a provision of FIM 195 M.

Asset Management experienced a successful year with buoyant sales of mutual funds in Finland and Sweden, despite market unrest in autumn. Volumes under management rose 27%, with income rising to FIM 1,200 M. Discretionary management also increased its income. In the insurance sector, premium income increased sharply as a result of the introduction of unit-linked insurance in the Swedish market. Product earnings for Asset Management, which includes all management income as well as expenses for management, sales and distribution, progressed favorably and amounted to FIM 655 M.

Real Estate was the subject of in-depth analysis during the year, resulting in a decision to accelerate the phase-

out of the Finnish real estate portfolio. The requisite write-downs were implemented to create the conditions for substantial sales as early as 1999. Shareholders' equity corresponding to an equity/assets ratio of 35% was allocated to Real Estate. Pressure on consolidated earnings will ease steadily as a result of the phase-out program.

Treasury investments: Falling market interest rates led to rising prices for interest-bearing securities, and thus the contribution to earnings from treasury investments amounted to a full FIM 1,455 M, following charges (more than FIM 200 M) for early loan redemption.

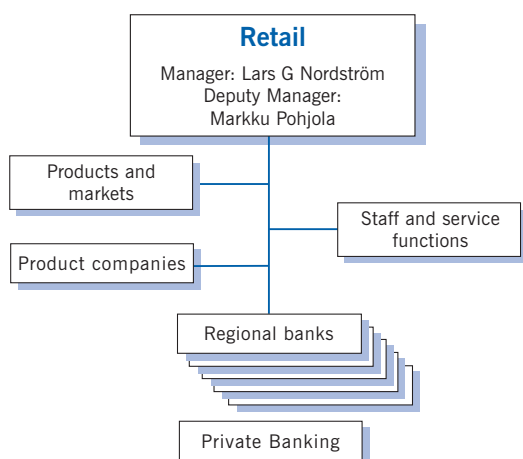
Miscellaneous: This item includes income and expenses which are not directly related to any of the operating units. These include realized gains on shareholdings, not reallocated earnings from certain subsidiaries, restructuring costs and Group adjustments.

Operating units								
Business area	Retail	Corporate	Markets	Asset Management	Real Estate ¹⁾	Treasury investments	Miscellaneous	Total
Earnings (FIM million)								
Income	12,347	1,629	934	1,200	486	1,475	1,851	19,922
Expenses	-6,825	-797	-717	-247	-1,166	-20	-1,244	-11,016
Loan losses	-656	-494	-	-	-	-	326	-824
Profits in associated companies							63	63
Operating profit	4,866	338	217	953	-680	1,455	996	8,145
of which reallocated	885	44	-138	-791	-	-	-	0
Write-down of property					-3,670			
Result					-4,350			
Volumes (FIM bn)								
Lending/guarantees	275	113						
Savings and investments	302	15						
Personnel								
Number of employees	11,244	1,312	615	238	270			
Product earnings (FIM million)								
Income				1,200				
Administrative expenses				-247				
Sales and distribution expenses				-298				
Product earnings				655				
¹⁾ Income was reduced by net financial items. Expenses include depreciation according to plan (FIM 339 M) and sales losses (FIM 317 M).								



Retail

Retail operations comprise regional banks, a number of product companies and staff and service functions. With Finland and Sweden as a base, regional bank operations – the primary activity – will develop, market and offer a comprehensive range of financial products and services to a broad network of individuals, companies and institutions, as well as to the public sector.



With a customer base of 6.5 million individuals, MeritaNordbanken is the largest retail bank in the Nordic region. In addition, more than 400,000 companies and institutions as well as large sections of the public sector are bank customers. The total business volume in retail operations (lending/guarantees and savings/investments) amounted to some FIM 577 bn at year-end.

Cross-selling

During 1998, all staff, service functions and product areas in retail operations were integrated so that the units have functional responsibility for markets in both Finland and Sweden. Consequently, there is a single manager in charge of each customer group or product category, for example.

This means that new products and concepts have been established or will be introduced in Finland and Sweden. The best products from Merita will be adopted within Nordbanken and vice versa. Innovations that have already been introduced or are about to be launched include:

- Long-term mortgage loans, based on the Swedish model, were introduced in Finland in spring 1998.
- Unit-linked insurance, from Finland, was included in the product range in Sweden in June.

Regional bank operations, FIM million

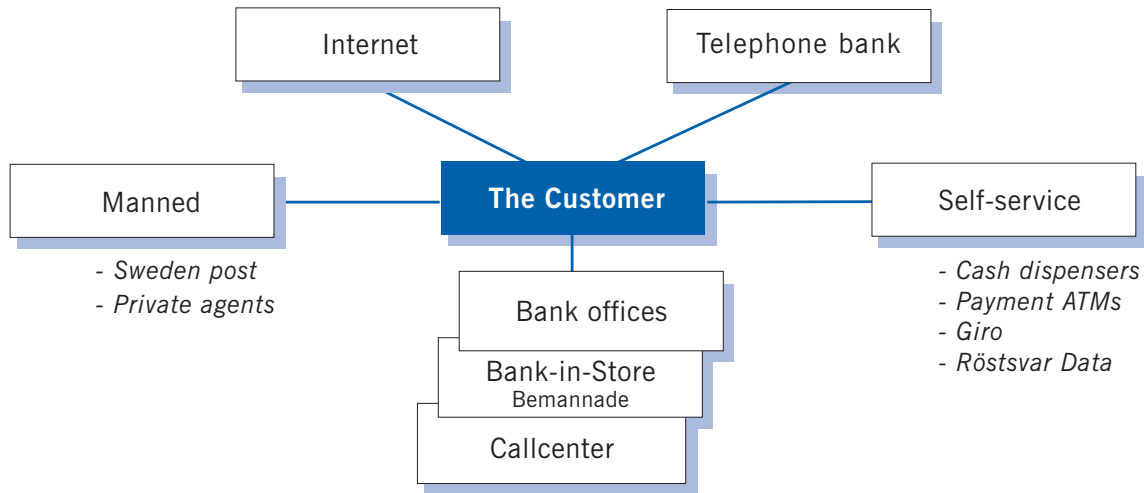
Income	12,347
Expenses	-6,825
Loan losses	-656
Operating profit	4,866

Regional banks	Helsinki & Uusimaa	Central & Western Finland	Eastern & Northern Finland	Southern Sweden	Western Sweden	Stockholm	Central Sweden	Northern Sweden	Total
Number of branches	135	163	206	53	56	50	71	32	766
Lending	32,538	28,619	33,014	30,272	31,971	51,644	34,240	23,267	265,565
Guarantees	2,332	1,554	1,949	1,189	742	667	807	691	9,931
Deposits	45,149	34,489	36,960	14,092	17,123	30,768	22,193	12,586	213,360
Mutual funds	2,559	1,646	1,726	10,375	11,209	20,605	13,956	9,544	71,620
Insurance	3,852	2,980	2,751	1,039	1,078	2,458	1,393	1,028	16,579
Number of employees	2,299	2,144	2,672	687	946	943	925	628	11,244

Volumes in FIM million

Data as per December 31, 1998

MeritaNordbanken's distribution channels



- A new mutual fund concept, based on multi-currency funds registered in Finland, was introduced in both Finland and Sweden in June.
- Monthly savings in mutual funds were introduced in Finland during the second quarter.
- A special customer concept for large and midsize companies was introduced in Sweden during the winter.
- In Sweden in January 1999, Internet services were also introduced for telephone bank customers by means of a simplified registration procedure.
- A private banking concept based on a Finnish model was launched in Sweden in January 1999.
- New customer concepts for the private market will be introduced in Finland in spring 1999.

Also, within the units that produce these products – back office and central production – experience is utilized and best practice applied. Appraisal of the processes in the two banks was completed during 1998 and alterations will commence in 1999.

Customer service

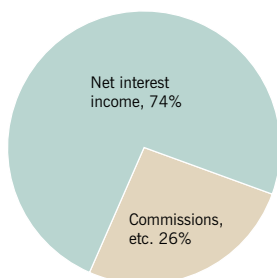
Customers in MeritaNordbanken were able to benefit from the merger already in early 1998. Examples of this include faster payments between Finland and Sweden as well as to/from the Baltic region. Since January 1998, private customers in both countries have been able to use their VISA card to make withdrawals free of charge from ATMs.

A unified approach to marketing was introduced in spring and since then marketing campaigns in Finland and Sweden have been coordinated.

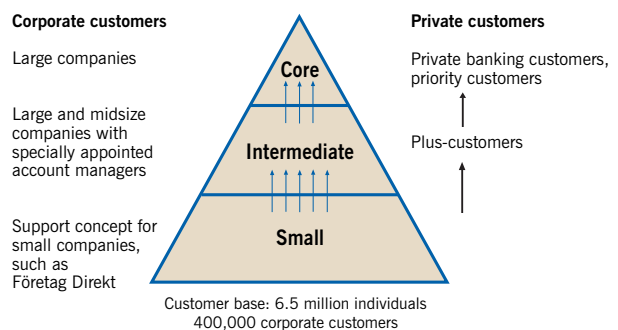
An important aspect of MeritaNordbanken's strategy is to utilize the major potential for added sales that already exists in the current customer base and, using various customer concepts and pricing, induce customers to centralize most of their transactions in the bank. This will be achieved by means of long-term relations with high customer satisfaction which provide stable, favorable profitability for operations.

A shared vision of how the service network will look in the longer term was established in 1998 and a

Distribution of income



Sales strategy and customer concept



distribution strategy was drawn up. An important principle underlying the distribution strategy is the status of the regions and branch offices as profit centers.

Customers are currently served via a service network that comprises almost 800 branch offices and service outlets as well as 1,000 Swedish post offices. In addition, there are 1,400 Solo ATMs and more than 2,000 cash dispensers in use in Finland. In Sweden, there are 550 wholly owned ATMs and a total of 2,400 cash dispensers available to the bank's customers through agreements with other banks.

Technology facilitates access to services

MeritaNordbanken's contact channels with customers and its approach to the sale and distribution of its products are changing rapidly. Forces driving this development are:

- increasingly accessible network services,
- ever-greater use of cards and thus less need for cash,
- development and adaptation of the branch office network to provide lower costs and higher availability,
- and, in a longer term, a larger proportion of electronic invoices/bills.

The number of individuals who conduct their bank transactions via the Internet or telephone bank is increasing rapidly. The Internet is the main factor underlying the increase, whereas the telephone bank concept has progressed to a more mature phase.

The possibility to conduct purchases via the Internet is increasing very fast and instead of debiting a credit card, the customers pay in cash by transferring money directly from their own bank account to the seller's account in a secure manner.

In Finland, bills have traditionally been paid by means of Solo ATMs or manually at a branch office. In this market, Internet payments increased 30% in 1998. The number of bills paid at teller counters declined by 12% in 1998.

In Sweden, post and bankgiro payments are expected to decrease in favor of Internet payments.

Via a telephone bank and PC/Internet, customers can currently make payments, open deposit accounts, purchase and sell mutual fund units and securities, apply for loans and order various bank products. With some 400,000 customers in full-service telephone banks and about 580,000 PC/Internet bank customers, MeritaNordbanken is probably Europe's largest bank in this field. Thanks to simple customer procedures, accessibility to Nordbanken's Internet services was enhanced at the beginning of 1999.

The availability and speed of the Internet makes this channel highly competitive and more rapid growth is expected when traffic can move via the cable-TV network and by means of interactive TV.

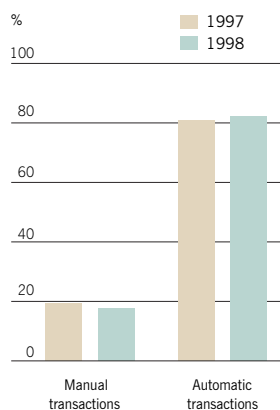
Reduction in cash handling

Cards are gradually taking over as a means of payment and checks are becoming increasingly rare. In Sweden, the introduction of the Cash card has moved slowly but in pace with it being linked as an extra function to other cards, expansion is expected to increase. Moreover, cash-back transactions are becoming more common. This means customers pay with a card and debit their accounts with a higher amount than the purchase involves and receive cash as change. Customers feel that this is convenient, and the bank does not need branch offices and ATMs to the same extent in order to supply customers with cash, while stores can reduce their cash handling.

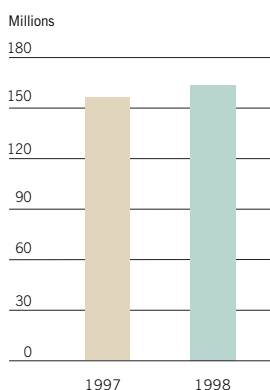
Closer service – fewer branch offices

The number of branch offices has been reduced steadily in recent years. Instead, smaller units have been established – without cash or bank vaults – where customers are active, meaning in shopping centers,

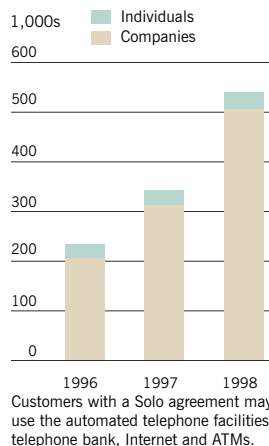
Distribution of manual/automatic transactions, 1997-1998, MeritaNordbanken



ATM withdrawals trend 1997-1998, MeritaNordbanken



Number of Solo agreements



Customer trend, automated telephone service (Sweden)



communication hubs or in residential areas. These outlets sell the Bank's products and provide advice. Manned branch offices are also being established in new forms, such as the Bank-in-Store concept. There are currently 36 Bank-in-Store outlets in Finland and two in Sweden.

Other forms used to reach customers include agents such as Sweden Post or the Post-in-Store concept in Sweden or private agents, channels which are now being tested in Finland. Private agents may, for example, be individuals, convenience goods stores in rural areas or a real estate broker. Thanks to these distribution channels, customers gain greater access and longer opening hours, at the same time as the Bank's expenses are reduced.

In Finland, office premises were reduced from 265,000 m² to 246,000 m² in 1998 – reducing rental costs by 8%. In Sweden, the cost of premises for bank operations was reduced by 4% as a result of fewer and smaller facilities.

MeritaNordbanken is steadily expanding its call-center function for branch offices. This enhances branch office efficiency. Those calling a bank office are automatically routed to a call-center, which can either handle the customer's request directly, or take a message and ensure that the customer is called or linked up to the telephone bank. There are currently five call-centers in Sweden and one in Finland, and branch offices are being steadily linked up. The staff at a call-center also work actively with telephone sales and the booking of customer meetings.

In cooperation with a major customer, MeritaNordbanken has commenced trial operations using electronic invoices/bills. Eventually, these will be sent as e-mail, thereby facilitating handling for customers. Electronic management of bills will make it easier and cheaper for the supplier to identify and account for payments.

Regional banks

MeritaNordbanken has eight regional banks which are responsible for all customers in each of the geographi-

cal areas, as well as a special unit, Private Banking, which focuses on customers with considerable investment requirements. A total of some 11,000 employees work directly in the banking operations, meaning bank and regional offices. In addition, there are 100 employees in Private Banking.

Within each regional bank, both the branch offices and the regions are responsible for the risk and results for their particular customers. The branch office in Sweden or in Finland is responsible for development and profitability for all customers within its geographic area and is always responsible for credit decisions. This facilitates directing customers to various distribution channels, such as telephone banks and Internet channels or to business partners such as Sweden Post. The practical task of introducing uniform working methods and standardizing branch office decor and equipment commenced in 1998.

Accordingly, business decisions are highly decentralized, which provides high quality and considerable efficiency. Working methods and processes as well as customer concepts are highly standardized to ensure high quality at low cost.

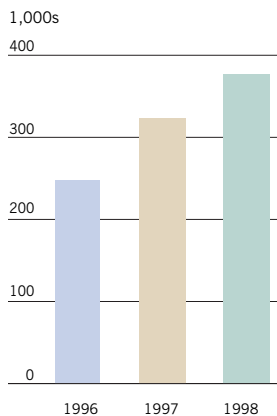
Private Banking

Private Banking is responsible for providing services for MeritaNordbanken's wealthy private customers with more than SEK 1 M/FIM 500,000 to invest. Private Banking has provided favorable experience and the concept is now being introduced in Sweden.

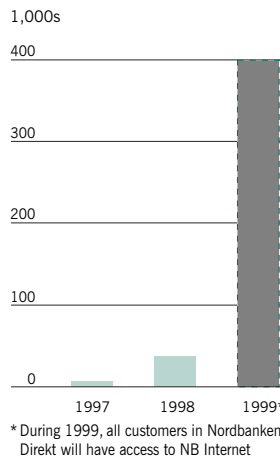
The first private banks in Swedish regional bank operations were established in January 1999. Nordbanken expects to start up 10-12 fully operative units during the year. Each facility has an average of two advisers and many of these supplemented their expertise with additional training in 1998.

Finnish regional bank operations include 25 wealth service units offering consulting activities for private customers, and four Private Banking units that also

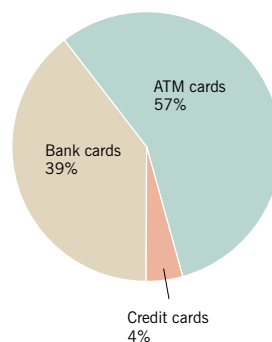
Customer trend
Telephone banking Nordbanken
Direkt (Sweden)



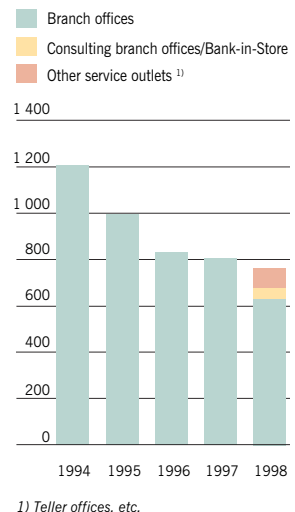
Trend in the number of Internet
customers (Sweden)



Cards issued
Total 3.8 million



Number of branch offices



offer discretionary management. The Private Banking unit in Helsinki and MeritaNordbanken Luxembourg S.A. are independent operating units. Both offer a comprehensive selection of Private Banking services.

At year-end 1998, Private Banking operations managed a volume of FIM 45 bn on behalf of 20,000 customers. The number of managers and advisers totaled over 200. Earnings in 1998 were favorable, with a uniform growth in the number of customers and business volumes.

Cooperation with Sweden Post

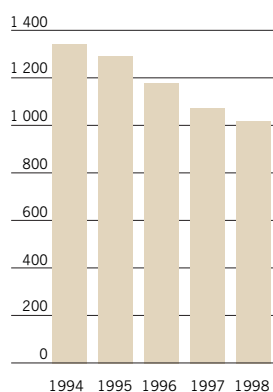
Cooperation with Sweden Post is an important part of MeritaNordbanken's brand and distribution strategy. Nordbanken has cooperated with Sweden Post for many years. In Sweden, Nordbanken customers can conduct many of their bank transactions at any of Sweden Post's approximately 1,000 offices. Also, since autumn 1996, cooperation has been conducted under the Postbanken brand. The business concept is that Sweden Post provides an uncomplicated but comprehensive range of bank products to meet the most common needs of private customers. Postbanken is designed to suit the widespread distribution channel made up of Sweden Post's network of offices. At year-end 1998, Postbanken had 331,000 customers with total deposits and lending of SEK 7 bn (FIM 5 bn). These customers come mainly from other Swedish banks than Nordbanken.

Single organization for all retail operations

Retail's product and market organization is responsible for developing and providing basic, standardized products suitable for mass markets and broad-based, efficient distribution. A joint product manager is responsible for the concept in both Finland and Sweden. The

Number of post offices

Nordbanken customers can carry out many banking matters at Swedish Post offices.



organization is also in charge of customizing solutions for individual customers via, for example, Private Banking or corporate service units.

• Corporate and Financing

develops service concepts and products aimed at companies, such as corporate accounts, long and short-term lending and financing products for private individuals, such as personal loans and mortgage loans.

• Personal Customers and Deposits

is responsible for customer concepts for private individuals and deposit products.

• Asset Management and Private Banking

develops service concepts for wealthy customers and products for long-term management of savings in, for example, funds and securities.

• Payments and Network Banking

provides all types of payment services. This unit also develops new generations of network services for transactions via the Internet, telephone bank and other media.

• Market Support

is in charge of market communications through traditional advertising media as well as direct mail, and is also responsible for market analysis.

• Distribution and Service Network

designs and operates distribution strategies, including the configuration of branch office networks, and coordinates the service range and distribution channels, and is responsible for relations with business partners such as Sweden Post.

• Productivity and Production

has overall responsibility for product development and supervises certain joint back-office functions.

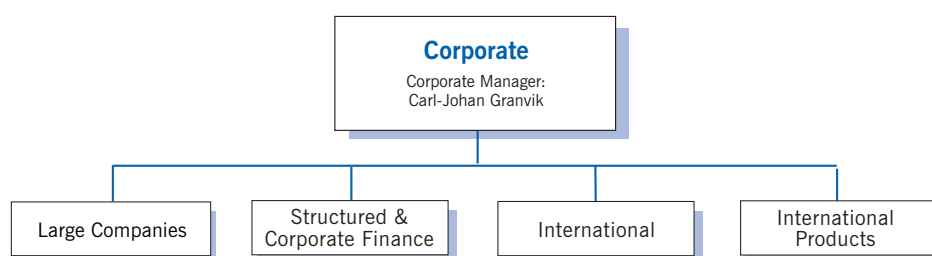
Product companies

Retail also includes a large number of highly specialized product companies that produce and deliver products that supplement the bank's product line. Products include leasing, factoring, mortgage loans and other services to meet customers' financial requirements. These are marketed primarily through the branch office network but also through other channels. Product companies are described on pages 90–93.

At year-end 1998, Industrial Bank of Finland was merged with Merita Bank. This occurred as a result of changes in legislation and in the market, which made it possible to provide the Industrial Bank's product range directly from Merita Bank.

Corporate

Corporate is responsible for MeritaNordbanken's large corporate customers, Structured & Corporate Finance, international operations and international products.



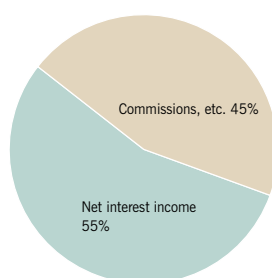
Corporate, FIM million	
Income	1,629
Expenses	-797
Loan losses	-494
Operating profit	338

The merger of Merita and Nordbanken has entailed far-reaching integration of operations. Corporate works with a similar customer structure in Finland and Sweden and with joint international customers, primarily financial institutions.

The organization, which was established at the beginning of the year, is now functioning with cross-border areas of responsibility. This has permitted in-depth integration of operations. The major challenge during the year was the preparations for the introduction of the euro and its implications for customer action.

The continuing integration imposes major demands on the development of system support for operations.

Distribution of income



Large Companies

Large Companies deals with MeritaNordbanken's most demanding corporate customers. The unit in Finland has some 200 customers and further customer segmentation will lead to a sharper focus of operations. The number of customers in Sweden amounts to a little more than 100, in addition to some 80 Nordic shipping customers.

Amid stiff competition, MeritaNordbanken

retained its strong market position in Finland. Demand for new loans was weak, due to increased activity involving various commercial paper programs and the utilization of existing loan agreements. MeritaNordbanken assisted customers by organizing and trading in domestic as well as foreign commercial paper programs. Demand for euro-cash pool solutions has increased in both countries.

In Sweden, the merger with Merita was met by a very positive customer response. The broadened product program led to several transactions, including commercial paper programs and a favorable development of export financing.

MeritaNordbanken maintained its status as the leading bank for shipping companies in Finland and Sweden. At the end of 1998, shipping-related operations in the Turunmaa and Åland district were integrated with Corporate Ship Finance. Thus, the unit is now represented in Gothenburg, Stockholm, Helsinki, Turku and London. The international shipping business cycle moved down in 1998 and is expected to remain weak during the current year.

Earnings for the year were unsatisfactory. Some FIM 4 bn in low-yield assets in the wake of the finance crisis in Finland dragged down earnings through a reduction in net interest income, valuation losses and loan loss provisions.

Structured & Corporate Finance

By combining the various units for special financing and corporate finance in Nordbanken with Merita Corporate Finance's operations in Finland, an effective investment bank has been created to handle Nordic business.

The bank had a prominent role in the two major privatizations in Finland, namely, those of Sonera and Fortum. In the energy sector, MeritaNordbanken played a key function in major restructuring deals between Finnish and Swedish companies, as exemplified by Birka Energi. Acquisition financing also progressed well. The Bank participated in the financing of corporate acquisitions with a total value exceeding FIM 6 bn. Earnings for the year were favorable.

International

During the year, a common identity was created for the international activities of both banks under the name MeritaNordbanken Group. Uniform limits and business relations with joint counterparties - primarily banks and financial institutions - were established. Swedish desks have been established within the inter-

national units in Merita to take charge of marketing to Swedish customers. In New York, for instance, this has helped to more than double the business volumes deriving from Swedish customers in less than a year.

During the year, MeritaNordbanken acquired a majority shareholding in the Investment Bank of Latvia. MeritaNordbanken's branch office in Tallinn is now the third largest deposit bank in Estonia. In Copenhagen, a branch office has been established to secure payments to and from Denmark on behalf of customers. A branch office with similar responsibilities will be opened in Oslo in spring 1999.

Preparations for the launch of the euro and related payments services required major efforts during 1998. The aim is to offer customers a first-class euro concept via the Bank's own units and business partners.

Operations during the year were characterized by the considerable unrest in international financial markets during the third quarter, primarily as a result of the economic collapse in Russia and the continuing financial crisis in Asia. Although MeritaNordbanken endeavors to keep a low risk profile, earnings were affected by provision requirements, notably in Russia and Asia. In addition the various country-specific reserve principles were harmonized within the Group, which added a further FIM 190 M to the reserve requirement. Consequently, overall International operations reported negative earnings for the year.

International Products

Turmoil on financial markets also affected documentary payments. Volumes generally fell, but despite this, the Bank succeeded in maintaining its market shares of about 75% in Finland and almost 30% in Sweden, following a slight increase during the year. Joint, standardized export financing products were introduced in 1998. In the area of sophisticated export financing, the Bank was able to assist its customers in export deals involving countries and markets traditionally regarded as difficult. The volume of currency credits stabilized following a protracted period of declining demand.

Since the beginning of 1999, custodial services have been included among International Products. Demand for custodial services has risen sharply as a result of greater international interest in Finnish and Swedish securities. At the same time, there is a greater need to assist the Bank's Finnish and Swedish customers in procuring custodial services for foreign investments. The new organization consolidates MeritaNordbanken's competitiveness in this growth area. The product unit needs only to cover its costs, while earnings are distributed among customer units.



Markets

Markets is responsible for MeritaNordbanken's operations in currency, interest-rate, money-market and equity trading.



Markets, FIM million	
Income	934
Expenses	-717
Loan losses	-
Operating profit	217

For Markets, the year was characterized by the final preparations prior to the introduction of the euro, turbulence in emerging markets, increased electronic trading, higher credit margins and sharply rising but volatile stock prices.

The earnings picture was very mixed. The trading departments in Sweden and Finland performed well, despite the unrest in early autumn. Another pleasing element was that equity trading in Finland posted a record year.

As a result of unauthorized equity transactions within Nordbanken, these earnings were charged with a provision of FIM 195 M. The matter is under criminal investigation. An investigative committee has been appointed to review internal routines.

Trading operations in London were under critical examination during the year after several years of poor profitability. Increased electronic trading and relatively high costs forced a restructuring of operations. Accordingly, trading in London was reoriented from risk taking to mainly serving the branch offices' Scandinavian and local customers. Operations in New York and Singapore progressed well in 1998.

Organization

Markets operates in Helsinki, Stockholm, Malmö, Gothenburg, Sundsvall, London, New York and Tallinn. The organization includes a centralized processing unit, Securities Service, whose operational target is to cover costs.

A major organizational change was conducted during the year between Markets and Treasury. External short-term market financing was moved over to Treasury. This model had earlier been applied in Swedish operations.

During the year, work commenced on coordinating risk-taking, product development and marketing of the three areas of operations that are active globally, namely, currency trading, market-making in bonds and capital market operations.

Coordination commenced of activities in risk appraisal, risk monitoring and other middle-office functions.

At year-end, a number of projects were launched to review back-office routines and IT investments in Finland and Sweden.

In equity trading, cooperation between Finland and Sweden began with the coordination of analysis operations.

Outlook

The launch of the euro has heavily influenced Markets' future direction and structure. The transition entails a reduction in income from traditional currency and interest-rate trading, but rising volumes and income from capital market operations and equity trading. Cost discipline and coordinated development programs for currency and interest-rate trading have priority. Customer service will remain decentralized while risk-taking and administrative routines will become increasingly centralized.

MeritaNordbanken continues to command a strong position in both Finland and Sweden as a traditional trading bank for customers.

The Bank remains the leading organizer for loan syndicates and capital market programs in Finland and is very prominent in the Swedish Medium Term Note (MTN) and Commercial Paper markets. Aggressive efforts will continue to be applied to make the Bank the leading issue organizer and distributor of money-market instruments in Finland and Sweden.

In equity trading, MeritaNordbanken is the major player on the Finnish stock market with market share of 18%. In Sweden, the market share was about 2% of volume but more than 5% of all transactions, reflecting the Bank's focus on providing service for Swedish customers in the branch office network. Despite the setback in Sweden towards the close of the year, efforts will continue to be directed towards broadening the product program for institutional customers. This is necessary to ensure quality enhancement and larger market shares in this growth area.

1999 marked the launch of the next generation of the program for Internet share trading for individuals. This program will strengthen MeritaNordbanken's position within its large customer base.



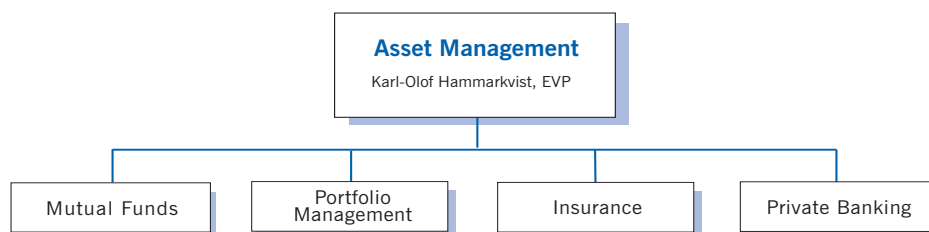
Tallinn



Copenhagen

Asset Management

With Finland and Sweden as its base, MeritaNordbanken Asset Management will produce and market a broad range of investment products for the bank's customer network.



	Mutual funds	Portfolio Management	Insurance	Total
Result, FIM million				
Income	930	94	176	1,200
Expenses	-384	-38	-123	-545
Operating profit	546	56	53	655
Volumes, FIM bn	75	35	17	127

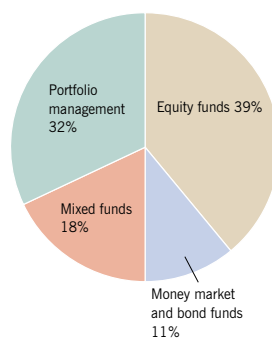
MeritaNordbanken Asset Management is one of the largest fund management units in the Nordic region, with managed assets amounting to FIM 127 bn. The unit is sufficiently large to:

- offer a broad range of products, thereby offering customers a wide selection.
- conduct rational management operations by utilizing economies of scale,
- conduct considerable marketing programs, and
- attract skilled individuals to its organization.

Asset Management is distinctly result-oriented. This means that a competitive result must be attained, at the same time as operations achieve targets in terms of market share and customer satisfaction.

The bank's strong market position and well-developed distribution network provide the conditions for continuing strong expansion in operations.

Distribution of funds



Total assets under management:
FIM 110 bn

Coordination in markets

MeritaNordbanken Asset Management's first year was characterized by intensive integration work and major efforts in a market becoming increasingly competitive.

Since the spring of 1998, management of mutual funds and portfolios is carried out in a common, reinforced organization for the two domestic markets in Finland and Sweden and with partly a common system. However, there still remains work in completing a common IT platform. Product and concept development with the mutual funds and portfolio areas is already being carried out jointly and coordination is

also being effected in the marketing area. Other positive effects include joint training and product development.

The two life insurance companies, Livia in Sweden and Merita Life in Finland, work under separate conditions in their respective markets. This applies to taxes, regulatory systems and the competitive situation. Despite these differences, two major cooperation projects – unit-linked insurance and occupational pensions – were carried out during the year. In addition, cooperation regarding strategy and development issues was initiated.

Overall, integration is well advanced with regard to structure and processes. There are still positive effects of the merger to be capitalized, which will occur in pace with placing new computer systems in operation.

Mutual Funds

Demand in the Finnish mutual fund market increased strongly during the year and developed from FIM 18.6 bn to FIM 29.1 bn. Equity and mixed funds rose faster than the market average at the same time as funds increasingly became a savings product for the broad private market. MeritaNordbanken captured slightly more than 43% of the net inflow in the market and had a market share at year-end of 31.5% of the total savings volume. The number of fund savers more than doubled during the year, due, among other factors, to monthly savings which started during the summer and improved sales support in the branch offices.

In Sweden, equity funds dominated, accounting for two thirds of the total fund assets. Fund savings currently exceed bank deposits with regard to savings by private persons. As a result of the trend on the stock exchange in recent years, shares and equity funds have performed better than other significant investment alternatives. The four large banks combined control 85% of the mutual fund market in Sweden. However, competition in the Swedish mutual fund market rose sharply during the year. The reason is that an increasing

number of companies are entering the market to compete for the occupational pension and future defined-contribution plans in the future. Nordbanken Funds' market share declined somewhat to 18.1% (18.4) of total fund assets and 14% (16) of the net inflow in the market. Combined, Nordbanken's mutual funds exceeded their comparable indexes.

Two new funds were launched concurrently in Finland and Sweden – MeritaNordbanken Nordic Small Cap and MeritaNordbanken Euroland. Both are so-called multicurrency funds, registered in Finland but with the possibility for customers to invest Finnish markka as well as Swedish kronor.

Portfolio Management

Competition increased strongly during the year and a growing portion of the major customers' purchases are currently carried through consultants. To an increasing degree, growth in Sweden is occurring in the segment just below major customers. To meet this demand, MeritaNordbanken successfully introduced four funds aimed at investment needs of medium-sized companies and institutions. Cooperation with the branch offices was intensified to reach these customers cost-effectively.

In Finland, operations mainly involved establishing a stable platform for future expansion. Demand for discretionary management is beginning to grow and, accordingly, interest by other players in participating in the market.

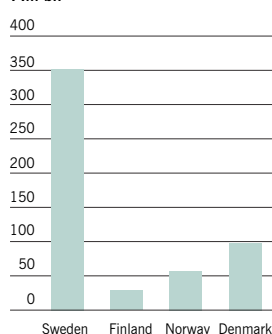
During the year, MeritaNordbanken increased assets under discretionary management for institutions in Sweden by SEK 3.8 bn to SEK 30.3 bn and in Finland by FIM 3.5 bn to FIM 15.9 bn.

Life insurance/IPS

Demand for capital insurance remained strong in Sweden, while pension insurance and IPS (Individual

Distribution of mutual funds in Nordic countries

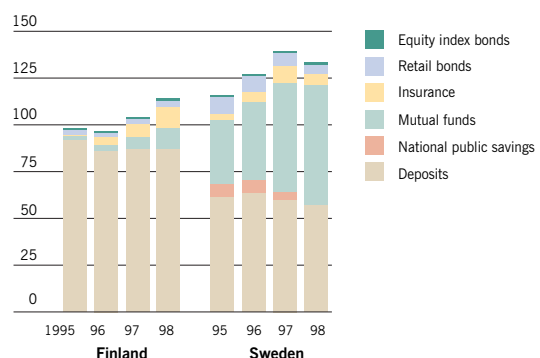
Assets under management, December 31, 1998
FIM bn



Sources: Helsinki Stock Exchange
InvesteringsFörenings Rådet, Sweden
Fondstatistik AB and Verdepappers Förenings

MeritaNordbanken, household savings

FIM bn



In SEK, the volumes in Sweden rose in 1998. The decline in the diagram is due to the translation to FIM.

Pension Savings) developed somewhat slower. In June, MeritaNordbanken launched unit-linked insurances on the Swedish market and by year-end achieved a market share of slightly more than 5% of new-subscription volume. Occupational pension products were introduced in the autumn on the labor market within the framework of the SAF/LO union agreements. The market share was 1.6%.

Livia, which was selected by the Sparöversikt magazine as the best life-insurance company of the 1990s, reached premium income of more than SEK 1 billion. In Finland, Merita Life faced a somewhat more reserved demand than in the preceding year. However, the trend turned toward the end of the year and Merita Life posted an increased of 2% in premium volume. Including extraordinary premium payments, volumes rose 27%. In addition, the sale of the company's unit-linked insurance began in Sweden with favorable results. Including the Swedish sales, premium volume increased by a full 53% to FIM 4,378 M.

Private Banking

The focus during the year was on development efforts toward starting operation in Sweden similar to the private banking units in Finland. The introductions will be ongoing beginning in January 1999. Work with a new portfolio system and improved support to the so-called OPY units was intensified in Finland. See page 22 for a more detailed description.

Organization for growth

MeritaNordbanken has now organized to achieve strong and sustainable growth in the field of asset management. MeritaNordbanken's resources to meet increased demand for international investment alternatives have been strengthened through the addition of analysts as well as portfolio managers. In Finland, the already strong

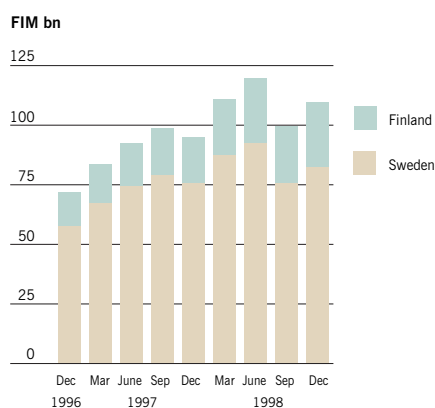
market position, based on a nationwide distribution network, is being further strengthened. The future aim is that the market share for funds will exceed 40%. In Sweden, the fund market share, which is currently 18%, will exceed 20% in a few years. With regard to portfolio management, the goal is for MeritaNordbanken to become one of the three leading managers in terms of quality and volume. In the life insurance field, the Bank's position as market leader in Finland will be reinforced concurrent with an increase in premium income and IPS pension volumes in Sweden.

Future prospects

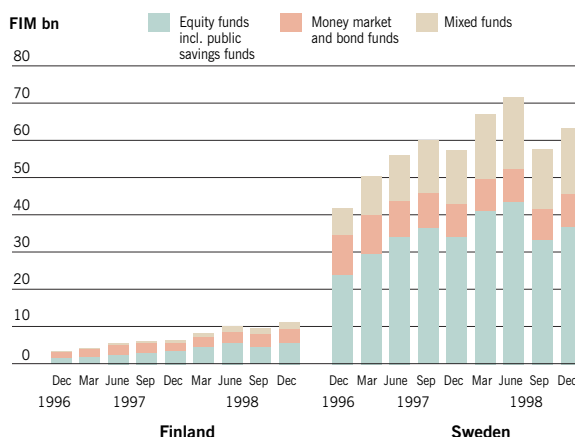
Asset management is a growth area throughout the western world. MeritaNordbanken has good prospects of growing organically in the years immediately ahead through, for example:

- further development of unit-linked insurance in Sweden and Finland,
- offering mutual fund savings to broad-based customer groups in Finland,
- developing products and organizations for the future defined-contribution and occupational pension systems in Sweden,
- developing complementary distribution forms for mutual funds and life insurance,
- strengthening and expanding discretionary management in both Finland and Sweden.

MeritaNordbanken, fund volume under management, including discretionary management



MeritaNordbanken, trend by fund, excl. discretionary management



Real estate

MeritaNordbanken's real estate portfolio represents a substantial value, most of which is in Finland. Real estate operations are not part of the Group's core activities. Accordingly, properties not used in the bank's operations will be divested.

The ongoing improvement in the Finnish market for commercial properties, with rising demand and higher leasing and rental levels, created increasingly favorable conditions for adding value, developing and divesting the Group's property portfolio.

Taking into account the market trend and after analysis of conditions, it was decided in December 1998 to divide and divest the Group's Finnish property portfolio at a more rapid pace than previously planned. The decision is in line with the strategy which MeritaNordbanken established in 1997 and which aims at focusing and expanding the banking operations.

It is estimated that the divestment program, which involves a number of structural measures, will be carried out so that most of the property portfolio will be disposed of during the period 1999-2001. The program is scheduled to be completed in its entirety by 2003.

Among other effects, a more rapid divestment means that the adverse impact on the Group's earnings will be successively reduced. At an interest of slightly more than 3.5% on liabilities and shareholders' equity, it is estimated that the negative earnings effect has been about FIM 0.5 bn during 1998, excluding write-downs and sales losses.

MeritaNordbanken Property holdings at the beginning of 1999, FIM bn	
Aleksia	7.7
Dividum	0.3
Shopping centers, Finland	0.8
Divestment properties, Finland	4.7
Divestment properties, Sweden	0.3
Property shares	1.3
Bank properties, Finland	2.9
Bank properties, Sweden	1.8
Total	19.8

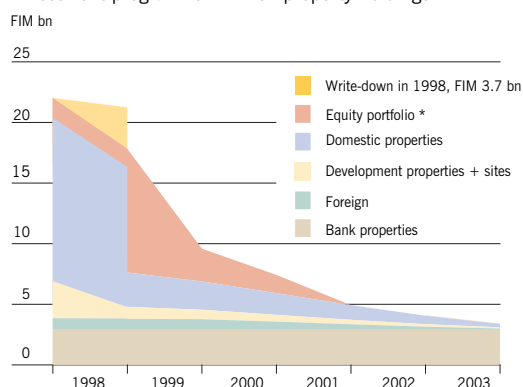
Adjustment to market value

To facilitate a more rapid disposal, a writedown (incl. sales losses) was applied in the 1998 financial statements on the property value in Merita Real Estate of slightly more than FIM 3.7 bn to a book value of FIM 17.6 bn. The writedowns are based on external market appraisals conducted in the autumn by Huom! (Catella) and Peltola & Pulkkanen.

Divestment process for Finnish property holdings



Divestment program for Finnish property holdings



* Incl. Aleksia, Hotels and Shopping Centers and Aleksia debts

Real estate company Aleksia Ltd formed

A high-quality portfolio of 173 properties, with a total of about one million square meters of rentable space, of which 75% is office and retail properties, was transferred from Merita Fastigheter to the newly formed Aleksia. The portfolio is concentrated to the Helsinki region, where more than 80% of Aleksia's property value is located. Aleksia has a total of 120 properties in the Helsinki portfolio, with nearly 600,000 square meters of rentable space. The other properties are located in four large cities: Tampere, Turku, Oulu and Jyväskylä.

A number of ongoing construction and development projects were also transferred to Aleksia, all of which will be divested in the years immediately ahead. These projects include mainly Kämp (hotel and shopping mall, about 20,000 square meters) and Metropol 2001 (entertainment and recreational center, about 40,000 square meters), both located in central Helsinki, and the Matinkylä business center in Espoo.

After writedowns of FIM 2.2 bn, the book value of the Aleksia property portfolio amounted to FIM 7.7 bn. The market value is about FIM 8.4 bn. Accordingly, the company is one of the largest pure real estate companies in the Nordic region. The planned shareholders' equity for Aleksia is FIM 2.7 bn, which yields an equity/assets ratio of 35%. Initially, Aleksia is estimated to have a yield of 5.4%.

Within the framework for Aleksia's external financing of FIM 5.0 bn, project-related, initially interest-free loans account for FIM 1.6 bn. In pace with the completion of the projects in progress, which are scheduled to be completed in 2002, the latter loans will be converted to interest-bearing loans. The earnings effect of the interest-free loans amounts initially for MeritaNordbanken to about FIM 50 M annually. The effect declines successively in pace with completion of the projects.

A decision will be made during 1999 regarding earlier forms for the transfer of Aleksia from MeritaNordbanken to a new owner. During 1999, if favorable market conditions prevail, a sale and stock exchange listing of the shares will be implemented.

Hotel properties in exchange deal

Merita Real Estate transferred 16 wholly owned and 2 partly owned hotel properties to Kansalliset Liikekiinteistöt Oy (KLK). As consideration, KLK transferred 17 commercial properties to Merita Real Estate most of which were further transferred to Aleksia. The value of the exchange deal was FIM 670 M.

Prior to the exchange transaction, the transferred properties were written down, with an earnings effect on Merita Real Estate in 1998 of about FIM 0.2 bn.

KLK is changing name to Dividum and is being restructured into a pure hotel properties company. A new company management was appointed. Dividum is 50% owned by MeritaNordbanken, 35% by the Sampo Group and 15% by the bankrupt estate of Eläke-Kansa and Kansa International Corporation. MeritaNordbanken's holding in Dividum has a book value of FIM 326 M.

After the exchange deal, Dividum owns a total of 23 hotel properties with more than 4,000 rooms and a booked property value of FIM 1.1 bn. The property portfolio includes the three largest hotels at the Helsinki-Vantaa Airport (Cumulus Airport, Ramada Airport and Holiday Inn), Hotel Pohjanhovi in Rovaniemi and Hotell Aulanko in Hämeenlinna.

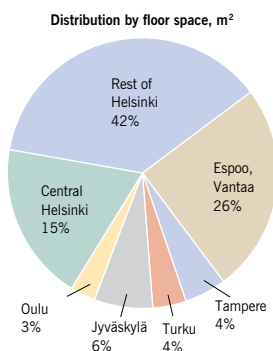
Dividum intends to increase its portfolios of hotel properties and broaden its ownership sphere. A stock exchange listing of the company is planned as soon as conditions allow.

Shopping and business centers transferred to partly owned company

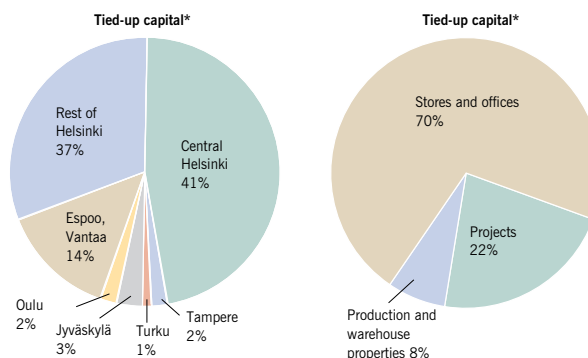
In cooperation with Kesko, Sampo and Pohjola, Merita Real Estate is establishing a specialized property company at the beginning of 1999 aimed at ownership and management of shopping centers in Finland.

The company comprises interests in 14 properties with a value of FIM 2.0 bn. At establishment of the company, Merita Real Estate transferred market valued shopping center properties amounting to FIM 0.8 bn,

Aleksia's properties by location



Aleksia's properties by type



* Tied-up capital refers to book value adjusted for loan participations in partly owned properties

of which half against cash payment and the balance in shares in the new company.

Initially, MeritaNordbanken's ownership interest amounts to 39%. The company may later be listed on the stock exchange.

The writedowns in Merita Fastigheter of the properties transferred to the new company amounted to slightly less than FIM 0.2 bn.

Remaining properties in MeritaNordbanken's Finnish portfolio

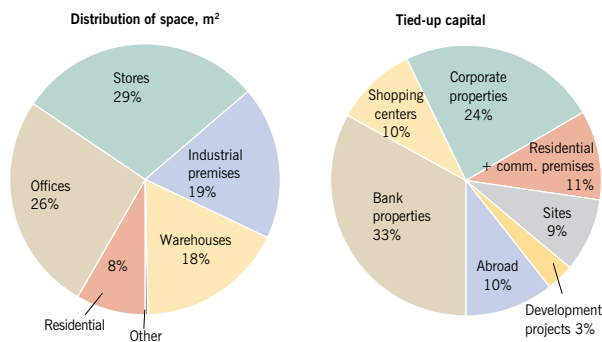
More than 1,700 objects outside the bank's operations are mainly properties taken over for the protection of claims and are three fourths office and warehouse properties, residential and international properties and one fourth land and development projects.

After writedowns of FIM 1.0 bn, these properties have a book value of FIM 4.5 bn. Excluding land and development projects, the properties provide a yield of 4.8%. Most of these properties will be sold in the next three years.

The properties used in actual bank operations have a book value of FIM 2.9 bn. These properties produce a yield of approximately 4.3% and were not subject to write-downs in the financial statements for 1998.

Merita Real Estate

Distribution of properties at the beginning of 1999 (excl. Aleksia)



* Tied-up capital refers to book value adjusted for loan participations in partly owned properties

MeritaNordbanken's Swedish properties

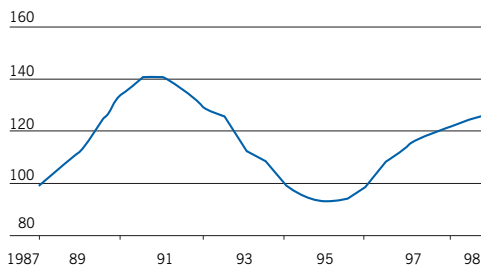
The Swedish properties are held in Nordbanken Fastigheter AB and comprise properties in which the bank is normally the main tenant. Over the long term, the portfolio is being concentrated to large properties in Stockholm, Gothenburg and Malmö as well as other regional capitals.

Currently, the company owns properties with a book value of SEK 2.8 bn. The market value is SEK 4.6 bn. In total, Nordbanken Fastigheter manages 255,000 square meters, of which 157,000 square meters are occupied by the bank. The vacancy rate in the portfolio at year-end was 5.6%. The total rental revenues in 1998 amounted to SEK 381 M, of which SEK 293 M from internal tenants. The number of employees was 43.

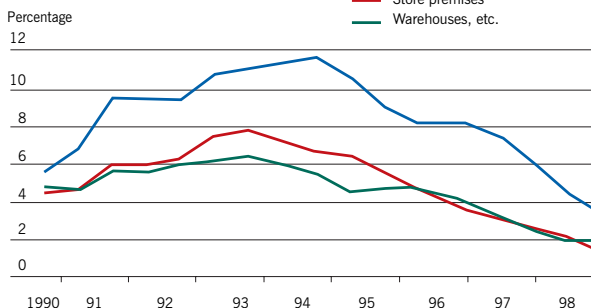
A number of large projects were completed during the year, such as the so-called Passage connected to the NK Building in Stockholm and renovation of the head office in the same block.

Fastighets AB Stämjärnet, the Group's Swedish company for disposal of properties taken over for protection of claims, contained 43 properties at year-end 1998, with an appraised market value of SEK 0.5 bn. Final disposal of these properties is expected to be completed during 1999, with the exception of a few properties abroad.

Rental index for office premises in central Helsinki



Vacancy rate, Helsinki





Personnel

The number of employees amounted to 19,741 at the end of 1998. A total of 18,346 persons worked in actual bank operations, a net decline of slightly more than 700 since the merger was announced. An increase of 250 employees has occurred within IT and in the Baltic states.

Personnel work is aimed at developmental efforts so that business opportunities can be fully utilized and value added for the owners, customers and employees. During 1998 this has largely involved preparing the employees for the changes caused by the merger of Merita and Nordbanken and the ongoing trends in the industry.

The bank industry is characterized by comprehensive changes. New technologies, increased competition, new distribution forms and changes in customer demands are placing heavy demands on the development of the employees' skills. Sharply growing customer consultation and specialist work means that an increasing number of bank positions require an academic background and extensive advancement training. Concurrently, as the result of the use of modern computer and telecom technologies, routine assignments are declining with a gradual scaling-down in the number of such personnel as a consequence.

Common values

A decisive factor for the formation of MeritaNordbanken was the vision of a unified and competitive bank group for the Nordic and Baltic regions, as formulated by the Boards and managements and presented in connection with the merger recommendation. During 1998, this vision has been the focal point of extensive efforts to create a strategy for the Group and a corporate culture based on common values.

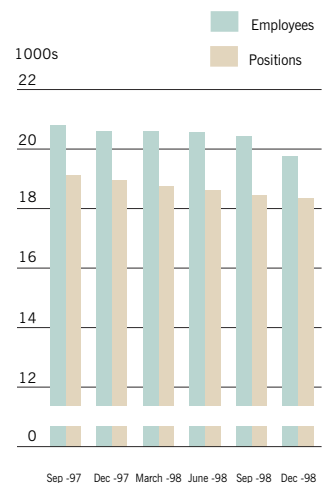
Group management determined the strategic main direction for each business area and prepared extensive information and discussion material. Each unit manager has been responsible for conducting sessions about vision, strategies and goals as a step in the anchoring process. Thereafter, the significance of the Group's direction for the employee's own unit was discussed during the operational planning for 1999. The results have been documented in plans and budgets which in many cases were also formulated in individual undertakings and goals. The intention is to develop this process for operational planning into a joint system for goal-oriented management.

Developed job assignments

MeritaNordbanken's long-term goal is to be the finance industry's most attractive employer in the Nordic region. With this goal, the Group can attract young employees with the attitude, qualifications and aptitude to create shareholder value through superior customer benefits. In order to realize this, MeritaNordbanken attempts to offer developmental and inspirational duties with good career opportunities. New recruitment focuses mainly on versatile, qualified applicants with an academic education. In order to offer new employees in Sweden the best possibilities to learn about banking and the various career paths, a new partially Internet-based trainee program has been developed and will be launched during 1999. The program is formulated so as to attract the best college students. Test activities with trainees in the legal field and in some regional banks during 1997/98 yielded very favorable results.

The attitude of the employees and their job satisfaction are measured regularly. The goal is that these measurements should show favorable and rising values.

Number of full-time positions and employees in MeritaNordbanken



The measurement results are used as a basis for improvement actions within each unit and for Group initiatives when appropriate.

Skills for service and customer benefit

The competence of the employees and how it is applied in the workplace is decisive to the success of MeritaNordbanken. The key words are customer benefit and customer satisfaction, with a focus on such benefit and satisfaction for which the customer is willing to pay.

At MeritaNordbanken, competence is defined as a combination of knowledge, ability and willingness. Accordingly, a significant step in the development activities aimed at increasing the employee's skills is to improve the interaction between the factors which, combined, make up competence.

An important starting point is that each employee is responsible for his or her own competence, while the manager carries the responsibility for the combined skills within the unit and ensures that they develop in pace with customer and other external demands.

A particularly comprehensive program for new know-how was carried out during 1998 as a preparation for the introduction of the euro, which involved all employees training. Otherwise, development and learning should be inherent in daily work and carried out in the workplace. In this manner, they can be best adapted to changed customer needs and contribute to increased efficiency in work performance. A good example of this is the "Finnish Champion" project within the regional bank operations in Finland. The project is aimed at increasing the personal development and competitiveness of the branch office staff.

Language studies are a natural element of international operations. Many Finnish employees have further improved their Swedish while employees in Sweden with assignments in both countries focused on learning Finnish words and expressions within their special area.

The aim of being able to communicate effectively in English is clear among the employees in Finland and Sweden.

Number of employees declined

The Group had a total of 19,741 employees at the end of 1998, of whom 18,346 worked in actual banking operations. This was a net decline of 616 employees during the year. During 1998, 600 new employees were recruited.

A program for adapting the number of employees to new work forms and to the new joint organization is being carried out during 1998-2000, in accordance with plans established within both banks separately and as a result of the merger. Slightly more than 30% of the reduction of 2,000 staff within a three-year period, which was announced at the time of the merger, has been realized.

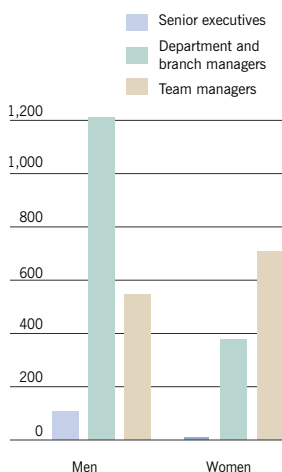
Group Council

MeritaNordbanken has established a Group Council to promote cooperation with employee representatives. The aim is to create an information exchange about the progress of the merger and the Group's strategic development. The emphasis of this work is on the consequences of the merger for the organization and its assignments and, accordingly, for the Group's employees. The Group Council has nine members, of which six are representatives of the employees, equally divided between Finland and Sweden, and three employer representatives. The Group Council meets four times annually. Information about what is discussed at the meetings is disseminated to all employees.

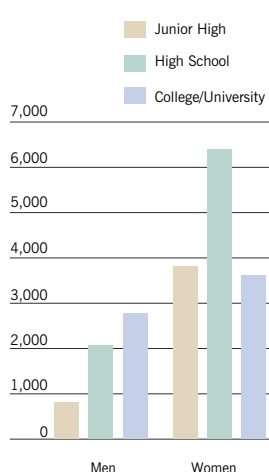
Direct co-determination is regulated by labor market legislation and agreements in each country.

Two employee representatives participate in the work of the Board of Directors.

Managers in MeritaNordbanken - distribution of men and women December 31, 1998



Educational profile of MeritaNordbanken's personnel December 31, 1997



Personnel fund and profit-sharing system

A personnel fund was formed within the Merita Bank in June 1998, Nordbanken has had a profit-sharing system since 1995. The aim of the personnel fund and profit-sharing system is to increase the interest of the employees in profit and profitability goals.

Environment

Although banking operations are not directly associated with environmental impact, MeritaNordbanken consumes both materials and energy. Consistent and long-term improvement efforts regarding environmental issues provide MeritaNordbanken environmental gains as well as cost savings. In its loan operations, MeritaNordbanken is increasingly focusing customer awareness on environmental aspects.

Awareness of the significance of environmental aspects has increased strongly in recent years. A growing number of people are realizing that both private persons and companies must adapt to long-term ecologically sustainable development to protect and improve the environment. In many industries, a well-planned environmental profile has become a competitive factor with a major impact on business success.

Environmental work within MeritaNordbanken is aimed at creating a distinct environmental profile for the bank. Environmental efforts in various forms are not new to MeritaNordbanken, Environmental criteria for selection of suppliers, for example, are specified in the Group's purchasing policy and worn-out equipment is disposed of environmentally. There are also specific routines for paper recycling and use of environmentally labeled paper. In the real estate operations, major efforts are made to reduce energy consumption, which also reduces costs.

Collective approach

In 1998, environmental efforts were established as an integral part of Nordbanken's business and operational planning. As a result, all branch offices and departments in Sweden have developed a local environment plan. Based on these plans, environmental efforts have been integrated into day-to-day operations within the bank. The platform for the environmental programs comprises, "Guidelines for Nordbanken's Environmental Work" and experience gathered during 1997 in environmental work and training for all employees.

Within Merita Bank, the environmental criteria have been taken into account in such areas as purchasing policy, worn-out equipment, paper use and recycling. An environmental program was developed within Merita Bank applying the same principles as in Nordbanken.

A common environmental policy was developed during 1998 to achieve a coordinated environmental management program within the entire MeritaNord-

banken organization. The document, which presents MeritaNordbanken's ambitions in this field, has also provided the basis for environmental training material for all the employees in MeritaNordbanken and a training program for all the employees in Finland. It was decided to establish a joint Environmental Council to coordinate the Group's environmental efforts. Information that MeritaNordbanken conducts an active environmental program has been disseminated through the Bank's participation in open environmental seminars and the placing of advertisements in the daily and trade press.

Low risk of unknown, future demands

The demand for, and the meaning of, environmental responsibility will change successively. Environmental goals are variable and, among other influences, are affected by social values, new technical solutions and actions of competitors. In the future, increasingly stringent demands will be placed on companies in this respect. This is both a challenge and an opportunity for MeritaNordbanken. The pace of the transformation into a more environmentally oriented operation is determined by the employees in MeritaNordbanken, customer requirements, bank environmental policies, economic development and regulatory demands. MeritaNordbanken will act in such a manner that the Group faces very low risk of encountering unknown future requirements.

Environmental risk assessment in granting loans

Environmentally related risks are expected to gain increasingly greater importance in the repayment capability of borrowers. Accordingly, within MeritaNordbanken environmental analyses are an important element in judging customers' creditworthiness.



Information Technology (IT)

The customer's use of self-service banking via Internet, telephone, ATMs and cards continues to grow during all hours of the day. As a result, the strategic importance of computer operations for the Bank's service level, accessibility and cost efficiency is increasing.

System development

The main tasks in Finland and Sweden during the year were the introduction of the euro, adaptation of work routines prior to the millennium shift and the introduction of new products and services for MeritaNordbanken in Finland and Sweden. More than half of the development resources were applied to these tasks.

The largest task was adapting to the euro. Work proceeded well as did the transition to the new currency, which was introduced in Finland in January 1999. Concurrently, the Group launched products based on euro. In Sweden, currency functions were integrated into most of the bank's processes and some preparations for a forthcoming Swedish entry into EMU were included in the work. In Finland, euro preparations focused on foreign payments and services for companies cash management. In this area, the demand for other currency products is expected to decline as a result of the euro.

During the year, most of the code revision work was carried out and production modified prior to the shift to the year 2000. This work was assigned lower priority than the euro adjustment but nevertheless carried out largely as planned, with a limited amount of work delayed until early 1999.

At the beginning of 1998, more rapid payments between Finland and Sweden were introduced for corporate customers and it was possible to make cash withdrawals via ATMs without any fee being charged. With the help of a Finnish insurance system, unit-linked insurance was launched via Livia in Sweden. In a corresponding fashion, saving in mutual funds was introduced in Finland based on a Swedish fund system.

System investments were also made in Internet services, telephony, sales support and "data mining." These are areas in which MeritaNordbanken holds a leading position, technically, functionally and operationally, both in a national and an international perspective. Infrastructural investments were made in computer systems in both countries to gain integration, function and cost advantages.

The integration of computer systems across national borders will be intensified beginning in 1999. Initially, this will involve self-service, Internet, trading and international systems. With coordinated efforts and applying the same solutions in both banks, the aim is to increase productivity and reduce costs for development work.

Accessibility and computer operations

Taking into account the intense process of change, the quality of the central computer operations has been good. There were occasional problems in Finland as well as in Sweden with certain processes, but as a result of an intensive focus on quality and follow-up actions, the past few months, including the year-end transition, were virtually problem-free.

The load on the computers has increased and capacity has been expanded correspondingly. Additional increases will be made in early 1999 to handle the final tests prior to the millennium shift, the continued increase in transaction volume and readiness goals. The number of business transactions during the most transaction-intensive hours in Finland was 10 million, compared with 9 million at the peak in 1997.

Coordinated computer organization

Coordination efforts within Data are being intensified and as of year-end Merita Data and Nordbanken Data are being replaced by a common IT unit, MeritaNordbanken Data. The goal is to further strengthen Group competitiveness through a common and uniform strategy, goal formulation and coordinated and prioritized development efforts.

Computer production in 1998

Direct customer links ¹⁾	1,606,000
Bill payment and cash dispensing machines ²⁾	6,020
Internal bank workstations	19,500
Servers in networks	1,380
Value transactions, million	1,288
Print-outs, million of pages	173
Sealed dispatches, million	78
Computer capacity, MIPS	2,403
Storage capacity, GB	10,300

¹⁾ Via telephone, 1,001,000
Via data network, 605,000

²⁾ Of which, jointly owned with other banks, 3,940

Year 2000

The final changes prior to the millennium shift will be made in 1999. In addition, the affected systems will be tested. A major effort will involve testing the exchange of information with the Bank's counterparties.

The development project was initially planned so that the most intensive adaptation work would be carried out in 1998. Final tests and final planning prior to the millennium shift will occur in 1999. During 1998, most of the software adjustments were implemented. They have functioned fault-free in daily operations as well as during the year-end transition. Certain minor alignment tasks were postponed until 1999 and the entire preparation work will be fully completed by September 15.

As of September 15, specific limitations will apply to installed systems to ensure that high quality is maintained prior to the year-end transition.

The results achieved to date do not give rise to any concern that the Bank's systems will not function according to set goals.

Another important area is to secure the function of so-called embedded systems, processor functions built into various equipment. An inventory and remedial action will be completed prior to summer 1999. Only a limited number of these systems are critical to the bank's operations.

Bank operations are also highly dependent on the supply of electricity and smoothly functioning telecommunications. Emergency power units are available in each country.

In Finland and Sweden, the Bank has a daily readiness level to deal with functional problems due to

the major role the Bank plays in the payment systems. This readiness includes reserve facilities for computer operations that are expanded in pace with the normal production facilities. The higher level of readiness created prior to the millennium shift focuses on being able to rapidly deal with any disturbances which arise from outside the bank. This planning will be completed in the autumn of 1999.

In considering loans to corporate customers, the Bank has tested the counterparty's preparedness prior to the millennium shift through a series of questions. The main aim is to emphasize the importance of preparation also for the customer and to identify any apparent weaknesses in planning and readiness. The Bank is not able to check the validity of the information provided.

MeritaNordbanken's work with the year-2000 issue is monitored by corporate management, the Board, internal and external auditors and the financial supervisory authorities in Sweden and Finland.

The international units, which are responsible for their own IT systems, have presented their preparation and action plans prior to the year 2000 for review by the central computer unit. The general situation complies with the status mentioned above.

The total costs for adapting to the millennium shift amounted to FIM 110 M in 1998 and are estimated at FIM 70 M in 1999.

EMU

The euro was introduced in Finland on January 1, 1999, as a currency parallel with the markka or as a replacement, and in Sweden as a foreign currency. Extensive preparations for the euro had been underway for a long time within MeritaNordbanken. The IT-related systems preparations taken for the euro have now been tested under real conditions and have functioned well.

MeritaNordbanken has prioritized preparations for the EMU and the euro in Finland as well as Sweden. The introduction of the euro is viewed as highly significant for the competitive situation of many corporate customers and, subsequently, their demand for financial services. The euro is expected to be the dominant currency in many companies' foreign trade, in Finland as well as in Sweden.

The euro is being used increasingly in foreign exchange, as the companies' financing currency and on the international capital markets.

Naturally, the introduction of the euro has different effects on domestic bankservices in Finland and Sweden. The euro is Finland's currency, although contracts during the 1999-2001 transition period can be written in markka or euro. The development of financial services in euro for the Finnish market has focused on being able to provide financial products in markka or euro at the customer's discretion.

In Sweden, the euro is a foreign currency, and the financial services provided in euro must be handled separately from the domestic currency, the krona. In the Swedish market, the euro has rapidly become a very important foreign currency. As a result, products in foreign currencies, particularly the euro, to Swedish corporate customers and private customers have been broadened and improved.

The IT-related consequences of the introduction of the euro differ substantially between Finland and Sweden in terms of banking services, but in areas such as foreign exchange and international payments the preparations for the euro were more similar.

Merita Bank is responsible for the Group's liquidity in euro.

In addition to IT development, the preparatory work for the euro in 1998 involved extensive personnel training and information to the customers. Most of the personnel in Finland and Sweden have participated in training activities. A large number of information meetings were held with corporate and private customers in Finland and with corporate customers in Sweden. Information about EMU and euro has been provided to customers through various publications and via Internet.

The costs of preparing for the euro totaled about FIM 160 M, corresponding to EUR 27 M, of which most related to costs for IT preparations.

Swedish membership in the EMU would result in simplifications for MeritaNordbanken. With the same currency in the Group's main markets, competitiveness is strengthened. Swedish EMU membership would also benefit the Swedish customers, in their capacity as purchasers of financial services.

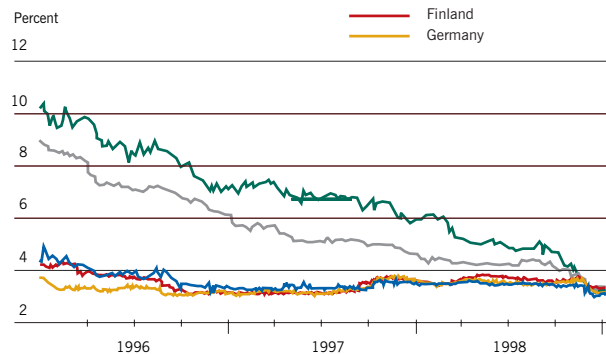
Official conversion rates

between the euro and currencies in the eurozone

Belgium	BEF	40.3399
Finland	FIM	5.94573
France	FRF	6.55957
Ireland	IEP	0.787564
Italy	ITL	1936.27
Luxembourg	LUF	40.3399
Netherlands	NLG	2.20371
Portugal	PTE	200.482
Spain	ESP	166.386
Germany	DEM	1.95583
Austria	ATS	13.7603

Interest rate trend

3-month rates in certain countries





Profit and profitability

MeritaNordbanken's operating profit for 1998 was FIM 8,145 M, an increase of 13% compared with the pro forma result for 1997. Despite major write-downs on real estate, presented on the income statement after operating profit, the return on equity was 14.3%. In addition to real-estate write-downs, the year's result reflects the impact of a number of other items affecting comparability with a total positive net effect of FIM 1.3 bn. Excluding these, operating profit was FIM 6.9 bn, up 16% from the preceding year's figure, similarly adjusted, and the return on equity was 18.7%.

Items affecting comparability

A number of measures were taken during MeritaNordbanken's first fiscal year to coordinate operations and to increase the Group's focus on core operations. These have affected Group profit before taxes adversely in an amount of FIM 1.5 bn. These items were:

- Capital gains on the disposal of equity holdings, FIM 2.0 bn
- Profit contribution from Nordisk Renting, FIM 0.3 bn
- Restructuring expenses, FIM 0.6 bn
- Harmonization of accounting and valuation principles, expense of FIM 0.4 bn
- Write-downs on real estate holdings, FIM 3.7 bn
- Surplus refunded by Group's pension foundations and pension fund, FIM 0.9 bn

Adjusted for the above items affecting comparabil-

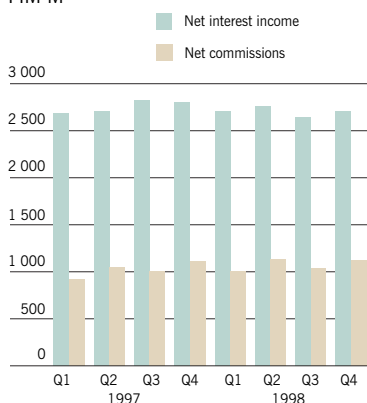
ity, the underlying operating profit amounted to FIM 6.9 bn, up 16% compared with the preceding year, similarly adjusted. The profit improvement was attributable primarily to declining market rates which resulted in substantial gains on the Group's bond holdings, sharply reduced loan losses and operating expenses were somewhat lower.

Profit for the year and earnings per share

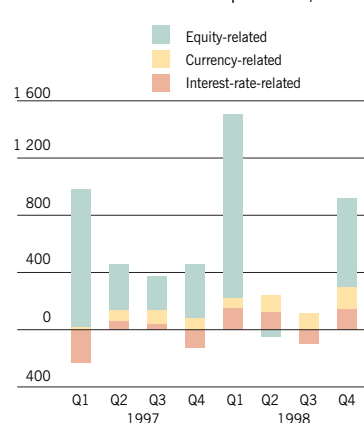
As a result of the items affecting comparability, profit for the year fell 34% compared with a year earlier to FIM 4,178 M.

Earnings per share amounted to FIM 1.96 in Merita Plc (FIM 2.51 per share excluding items affecting comparability) and SEK 2.92 in Nordbanken Holding AB (SEK 3.74 per share excluding items affecting comparability).

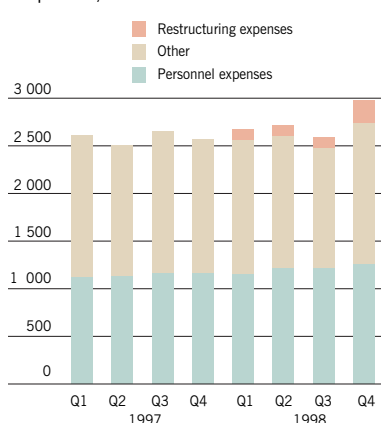
Net interest income and net commissions, FIM M



Net result from financial operations, FIM M



Expenses, FIM M



Rise in income

During the year, the Group's total income rose by 6% to FIM 19,922 M. Also after excluding items affecting comparability, revenues rose somewhat.

Net interest income declined 2%. Net interest income in Sweden decreased, largely because of the positive income effects in 1997 of debt prepayments, i.e. repurchase of own bonds, which has now ceased. In Finland net interest income increased primarily as a result of a reduction in low-yield assets and a decline in problem loans.

The fall in market interest rates, combined with intense competition, added to pressures on margins. Growth in the Group's lending of 12% (excluding currency effects) was focused largely on low-risk business, such as housing loans, which has also contributed to the narrowing of the average interest rate spread.

Net commission income was up 5%. Commission income rose 8% attributable primarily to continued brisk growth in mutual fund savings. Commissions from equity trading and payment transfers also contributed to the increase, while the Finnish market for guarantees for reborrowing from pension institutes declined during the year.

The year's *net result from financial operations* was a hefty FIM 2,643 M, reflecting a combined capital gain of over FIM 2,000 M from the disposal of the Group's equity holdings in the Sampo Insurance Company, Nokia Corporation and the Tieto Group.

During the year a broadening of ownership and exchange listing of the Finnish real estate company Sponda was carried out. MeritaNordbanken's ownership interest was reduced from slightly more than 17% to about 12%, resulting in a loss and write-down totaling about FIM 180 M.

A provision of FIM 195 M was charged against the year's result for the potential loss arising from unauthorized equity transactions.

The continued decline in interest rates on the Swedish market boosted the prices of interest-bearing securities. As a result, realized and unrealized gains on the Group's bond portfolios carried at market value increased to FIM 545 M as compared to a loss of FIM 246 M in 1997. The result from currency-related operations also developed favorably, amounting to FIM

460 M, up from FIM 284 M in 1997. Towards the end of the year, prepayments of FIM 7.3 bn in debts prompted by the downward trend in interest rates caused extra expenses of slightly more than FIM 200 M, an amount which will be offset by lower interest expenses over the coming years.

Other income was up 16%. The increase stemmed principally from a rise in dividend income in connection with the ownership restructuring of Nordisk Renting.

Unchanged costs

The Group's total expenses, including restructuring expenses, increased by 7%. Excluding items affecting comparability, overall expenses declined.

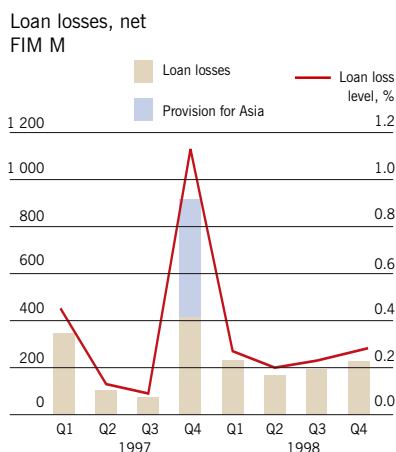
Personnel expenses amounted to FIM 5,236 M. This includes FIM 374 M of restructuring expenses. Adjusted for the impact of restructuring and the increase in the transfer to profit-sharing foundations as a result of the establishment of a personnel fund in Finland, personnel expenses rose by 4%.

Other expenses rose 1% to FIM 5,780 M. Adjusted for items affecting comparability, other expenses fell by 5%.

Lower loan losses

Net loan losses declined by FIM 623 M, or 43 % to FIM 824 M. The loan loss ratio amounted to 0.2% of total lending (0.4). Loan losses in 1997 were affected by a provision of FIM 500 M for loss risks in Asia. During 1998, the Group's provisions policy regarding risks in countries outside the OECD was harmonized. In conjunction with this coordination, the Asian provision from 1997 was eliminated. The crisis in the Russian banking system in autumn 1998 resulted in an increased provision requirement of slightly more than FIM 200 M. The Group's exposure against certain countries is shown on pages 50-51.

Low interest rates and relatively favorable business trends in the domestic markets in Sweden and Finland resulted in a substantial recovery of previous provisions.



Items reported after operating profit

In view of market developments and an analysis of future prospects, it was decided in December 1998 to redistribute and dispose of the Group's real estate holdings in Finland at an accelerated pace than earlier planned. Additional writedowns of FIM 3,670 M were taken to facilitate this process.

In view of the considerable surplus accruing in the Group's pension fund and pension foundations, an extra refund of FIM 901 M was withdrawn in 1998. The corresponding refund a year earlier was FIM 1,545 M.

Taxes

The tax expense for the year was FIM 1,173 M, corresponding to a tax charge of 21.8%. The relatively low tax rate is attributable mainly to deferred taxes now being taken into account also in the Finnish part of the Group. The tax charge for operations in Sweden was 25.4%.

Income statement						
FIM million	1998	1997 Pro forma	Q 4 1998	Q 3 1998	Q 2 1998	Q 1 1998
Net interest income	10,806	11,002	2,707	2,638	2,757	2,704
Net commission income, note 1	4,294	4,092	1,123	1,036	1,130	1,005
Net income from financial operations, note 2	2,643	1,915	919	20	194	1,510
Other income, note 3	2,179	1,870	468	339	590	782
Total income	19,922	18,879	5,216	4,032	4,671	6,001
Personnel expenses	-5,236	-4,594	-1,499	-1,266	-1,271	-1,200
Other expenses, note 4	-5,780	-5,699	-1,477	-1,312	-1,522	-1,469
Total expenses	-11,016	-10,293	-2,976	-2,578	-2,793	-2,669
Profit before loan losses	8,906	8,586	2,241	1,455	1,878	3,332
Loan losses, net	-824	-1,447	-227	-196	-170	-231
Equity share in subsidiaries and associated companies	63	96	-87	53	64	33
Operating profit	8,145	7,235	1,927	1,312	1,772	3,134
Writedowns on real estate holdings	-3,670	-980	-3,670	-	-	-
Refund of surplus in the Pension Fund/Foundation	901	1,545	901	-	-	-
Taxes	-1,173	-1,419	184	-286	-387	-684
Minority interest	-25	-36	-1	-6	-9	-9
Profit for the period	4,178	6,345	-659	1,020	1,376	2,441

The quarterly results have been adjusted compared with the data in interim reports.

Note 1. Net commission income

FIM million	1998	1997	Q4 1998	Q3 1998	Q2 1998	Q1 1998
Securities	1,900	1,587	533	453	495	418
Payment transfers	1,148	1,138	287	286	291	283
Lending	1,043	1,044	254	262	266	260
Deposits	171	189	41	39	48	42
Guarantees	236	290	54	59	62	61
Other commissions	345	245	100	79	94	73
Total commission income	4,843	4,493	1,271	1,178	1,257	1,137
Commission expenses	-549	-401	-148	-143	-127	-132
Commissions, net	4,294	4,092	1,123	1,036	1,130	1,005

Note 2. Net income from financial operations

FIM million	1998	1997	Q4 1998	Q3 1998	Q2 1998	Q1 1998
Equity-related items						
Realized gains/losses	2,352	2,099	1,115	10	-33	1,260
Unrealized gains/losses	-499	-210	-494	-13	-17	24
	1,853	1,889	621	-3	-49	1,284
Interest-rate-related items						
Debt redemption	-212	-12	-212	-	-	-
Other realized gains/losses	710	315	-8	214	448	56
Unrealized gains/losses	-165	-561	365	-309	-318	97
	333	-258	145	-95	130	154
Foreign exchange gains/losses	460	284	156	119	113	73
Other	-3	-	-3	-	-	-
Total	2,643	1,915	919	20	194	1,510

Note 3. Other income

FIM million	1998	1997	Q4 1998	Q3 1998	Q2 1998	Q1 1998
Dividends	496	355	8	-1	151	337
Income from real estate	1,037	1,102	268	256	236	278
Sale of real estate	-10	-106	-27	11	3	2
Other	656	519	218	72	200	165
Total	2,179	1,870	468	339	590	782

Note 4. Other expenses

FIM million	1998	1997	Q4 1998	Q3 1998	Q2 1998	Q1 1998
Administration expenses	-3,190	-3,039	-856	-679	-848	-806
Depreciation	-1,008	-946	-215	-284	-258	-251
Real Estate expenses	-599	-622	-185	-134	-139	-142
Other	-983	-1,092	-221	-216	-276	-272
Total	-5,780	-5,699	-1,477	-1,312	-1,522	-1,470



Financial structure

Financial structure refers to how the balance sheet is dimensioned in terms of volumes, currencies, repricing periods and risks.

Effective management of the balance sheet provides the basis for added value in earnings.

Focus and levels of risk

MeritaNordbanken's assets amounted at year-end to FIM 571 bn, of which FIM 356 bn or 62% consisted of loans to the public.

Fixed interest lending is financed mainly through borrowing in the open market, using primarily bonds and commercial paper. Borrowing is structured in such a manner that it matches lending in terms of currencies and repricing periods. Market risks are thereby kept at a minimum.

Surplus deposits combined with subordinated debt and equity capital constitute the financial platform for long-term and short-term investment activity.

In Sweden, the surplus is invested in bonds, while in Finland it is mainly invested in real estate and shares. Most of the share portfolio was divested gradually during the year.

Including Trading's holdings of FIM 22 bn, holdings of interest-bearing securities amounted to FIM 81 bn, corresponding to 14% of total assets. Securities in the long-term portion of the portfolio, which are held to maturity, amounted to FIM 22 bn, and are reported

as financial fixed assets. The surplus value of that portfolio (difference between market value and book value) totaled FIM 717 M. The remaining surplus deposits are used for medium and short-term investments to ensure they are available to meet an expansion in the Bank's lending operations. These investments are accounted for as financial current assets and are reported at market value.

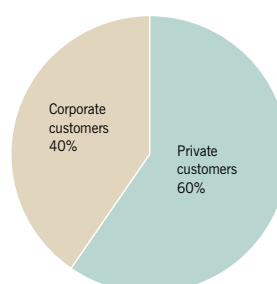
The book value of real estate holdings amounted to FIM 18 bn at year end.

Following the sale of shareholdings in Sampo, Nokia and Tieto, the book value of the Group's (previously strategic) shareholdings was FIM 3 bn.

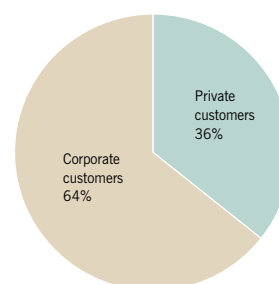
Expansion potential

In brief, lending to corporations and individuals combined with the securities portfolios totaled 77% of total assets. Surplus deposits and the strong capital base permit considerable expansion in lending.

Deposits



Lending



Assets

Lending

Loans to the public

Loans increased 4.7% in 1998. The weakening of the Swedish krona by 9% had an adverse impact on volumes expressed in Finnish markka. Adjusted for the weakening krona, lending increased 12%. The greatest growth was reported in the corporate sector. Most lending was in domestic currencies (Finnish markka or Swedish krona). The percentage of total lending to the public used by foreign customers amounted at year-end to 8% of which (FIM bn):

- Nordic region (excl. Finland and Sweden)	1.5
- Baltic area	0.8
- OECD countries (excl. Nordic region)	18.2
- Other countries	7.7

Almost all lending to foreign customers involved companies, and most of it was granted against guarantees by banks or credit institutions.

Corporate market

Lending to companies, including state and municipal companies, increased by almost 6% during the year. Taking into account the depreciation of the krona, lending was up by nearly 12% and involved all industries in the table. A considerable share of lending for real estate management operations involved state and municipal companies. The item "Other companies" includes foreign customers, which are not distributed by industry.

Households

Lending to households increased 3% during the year. Home mortgages dominated in terms of their share of the volume expansion during the year, nearly 80%, and also in terms of their share of the loan portfolio accounting for 73%. The volume of consumer loans also rose during the year. Excluding the effects of the krona depreciation, lending to households was up almost 8% during the year.

Public sector

Lending to the Swedish municipalities declined 2% during the year to FIM 8.3 bn, whereas lending to Finnish municipalities remained unchanged at FIM 1.7 bn.

Customer structure of loan portfolio

Dec. 31, FIM bn	1998	%	1997	%
Companies	209.6	58.9	197.8	58.2
Households	135.4	38.1	131.4	38.7
Public sector	10.7	3.0	10.7	3.1
Total	355.7	100.0	339.9	100.0

Distribution of corporate customers, by industry

Dec. 31, FIM bn	1998	%	1997	%
Real estate management	56.9	27.1	53.1	26.9
Construction	16.5	7.9	15.3	7.8
Transport	17.1	8.2	17.2	8.7
Trade & services	20.4	9.7	20.5	10.3
Manufacturing	31.6	15.1	29.4	14.8
Financial operations	6.7	3.2	6.2	3.1
Renting, consulting and other company services	21.5	10.3	19.6	9.9
Other companies	38.9	18.5	36.5	18.5
Total	209.6	100.0	197.8	100.0

Lending to households

Dec. 31, FIM bn	1998	1997
Mortgage loans	99.1	96.1
Consumer loans	32.2	31.0
Student loans guaranteed by the Finnish government	4.1	4.3
Total	135.4	131.4

Lending to the public sector

Dec. 31, FIM bn	1998	1997
Municipalities	10.0	10.2
Finnish and Swedish governments	0.2	0.1
Other public institutions	0.5	0.4
Total	10.7	10.7

Lending to credit institutions

Most lending to foreign banks involved banks within the OECD.

The table below shows the total exposure for certain countries at year-end. Most of the exposure was to banks. The exposure primarily covered Nordic trade finance, investments and payment transfers. 92% of lending to credit institutions was of a short-term character, that is, with a maturity of less than one year.

Risk-classified commitments

During 1998, MeritaNordbanken established a uniform model for risk classification of customer commitments. The model and working procedures represent a harmonization of the techniques previously used by Merita Bank and Nordbanken.

For each customer/customer group within the Group, there is a specific unit responsible for handling credit, which continues to be responsible for the lending also in cases in which these undertakings become problem loans.

In cases where the unit concludes that there is an increased risk of future loss, the customer undertaking is risk classified. Such a risk classification is carried out for company commitments and for large loans to private individuals. Nordbanken uses a standard model for most household loans, which means that no individual risk classification is conducted. Merita Bank applies risk classification for all problem commitments.

Class 1 risk refers to customer commitments in which the company/corporate group is no longer fulfilling its undertakings, or other circumstances indicate uncertainty regarding the repayment of the loan (such as bankruptcy). An appraisal is made of the

potential risk of loss on these commitments and a provision is established. This means that the value of the balance-sheet receivable is written down by an amount corresponding to the estimated loss. To reduce the risk of loss, the unit in charge must prepare a plan of action to restructure or liquidate the loan.

Class 2 risk encompasses commitments that are still being handled well but where the customer's repayment capacity is regarded as having been substantially weakened due to weak profitability, lack of liquidity and/or a risk of significant deterioration in financial position. The unit in charge must also prepare a plan of action for commitments of this type.

In 1998, the volume of risk-classified commitments declined as a result of the economic trend and lower interest rates, combined with active programs implemented by the units in charge. A review of risk-classified commitments and current action plans is conducted each quarter in connection with interim reports and the annual report.

Real estate management companies accounted at year-end for 19% of risk-classified lending volume, while 18% was attributable to Trade & Service. A small number of large commitments continue to be of major significance for the total volume of risk-classified commitments.

Special country-risk reserve

Historically, it has always been difficult to forecast a country's ability to fulfill its payment commitments. Payment capacity can change relatively quickly as a result of a combination of various factors in the country and/or internationally. In recent years, it has been possible to avoid/delay a general suspension of payments – leading to moratoriums and resulting renegotiations –

Exposure, net in certain countries December 31, 1998, FIM million		
	Total	of which, banks
Asia	3,722	2,537
of which, Japan	743	636
China	794	548
Singapore	411	178
Thailand	369	143
Indonesia	345	170
South Korea	223	223
Malaysia	109	51
Eastern Europe	1,409	703
of which, Estonia	367	311
Latvia	264	84
Lithuania	247	30
Poland	130	21
Russia	62	54
Latin America	1,759	1,084
of which, Brazil	859	504
Chile	299	101
Argentina	175	134
Other		
Turkey	666	480

Risk-classified commitments		
Dec. 31, FIM bn	1998	%
Class 1	15,517	68
Class 2	7,405	32
Total	22,922	100

Distribution of Class 1 and 2 risks, by industry		
Dec. 31, FIM million	1998	%
Real estate management	4,474	19.5
Construction	2,278	9.9
Transport	2,212	9.6
Trade & services	4,200	18.3
Manufacturing	2,726	11.9
Financial operations	636	2.8
Renting, consulting and other company services	3,473	15.2
Other companies ¹⁾	2,923	12.8
Total	22,922	10.0

¹⁾ Other companies include some household loans.

by arranging bridging facilities through the IMF, the World Bank, regional development banks or other countries in the region where the problem has arisen. However, the effects on the particular country's economy and its business and industry have been far-reaching. Companies have become insolvent, with serious repercussions on the banking system. A special country-risk reserve has been established within the Bank in order to be financially prepared to meet such events. This covers countries outside the OECD as well as OECD countries for which MeritaNordbanken feels it is warranted in view of the country's economic and political situation.

The basis for estimating the required reserve is the country-risk appraisal which is continually presented by EIU (The Economist Intelligence Unit, London) and the size of MeritaNordbanken's outstanding net receivables due from counterparties in the particular country.

Problem loans

Problem loans, include – in addition to net nonperforming loans (that is, after deducting for reserves) – loans with interest deferments. The total volume of problem loans declined by 29% during 1998.

Loans with interest deferments in the table below include only commitments that are regarded as secure, which means that nonperforming loans include substantial volumes of commitments with interest deferments. In many cases, these low-yield receivables derive from the Finnish financial market crisis during the first half of the 1990s. Corresponding loans in Nordbanken and Gota Bank were taken over by Securum and Retriiva at the beginning of the 1990s.

The volume of "Assets taken over for protection of claims" continues to decline. Primarily real estate is being divested. The total shareholding increased by one commitment.

Nonperforming loans

Nonperforming loans are defined as loans on which payments of interest or principal are more than 60 days

Problem loans and property taken over		
Dec. 31, FIM million	1998	1997
Nonperforming loans, gross	18,937	23,391
Loan loss provisions	-12,969	-15,057
Nonperforming loans, net	5,968	8,334
Loans with interest deferments	100	264
Total problem loans	6,068	8,598
Reserve as percentage of nonperforming loans, gross	68.5	64.4
Net nonperforming loans as a percentage of lending	1.7	2.5
Assets taken over for protection of claims	590	845

overdue – unpaid loans – or where other circumstances cause uncertainty as to repayment of the loan – and for which the value of the collateral does not cover the principal and accrued interest by an adequate margin.

Net nonperforming loans at year-end amounted to FIM 5,968 M, a decrease of FIM 2,366 M, or 28%, since year-end 1997 pro forma.

An analysis by industry of the volume of nonperforming loans shows that the proportion in relation to lending is largest for Construction, and Trade & Service.

Nonperforming loans in the household sector are shown in the table below, distributed among three categories. The table shows that risk is considerably lower in credit granting backed by collateral in residential property than for other household lending.

In the case of nonperforming loans, a loss reserve is established in an amount equal to the amount that it is estimated would not be covered by the collateral if the loan was liquidated. Individual evaluations are made of corporate commitments and large loans to private individuals. The total credit risk attached to household nonperforming loans in Nordbanken is calculated using a statistical model. Merita Bank, however, conducts an individual appraisal in each case.

The total reserve for outstanding customer commitments was reduced during the year as a result of the decline in gross nonperforming loans. The reserve at year-end amounted to FIM 12,969 M, corresponding to a reserve ratio of 69%.

The special country-risk reserve totaled FIM 1,004 M. This type of reserve was established jointly for the Group during the year. The Asian reserve, established on December 31, 1997, was included in the total country-risk reserve as of the third quarter.

Nonperforming loans, households		
Dec. 31, FIM million	1998	% of lending
Mortgage loans	249	0.3
Consumer loans	423	1.3
Student loans guaranteed by the Finnish government	43	1.0
Total	715	0.5

Net nonperforming corporate loans, by industry		
Dec. 31, FIM million	1998	% of lending
Real estate management	554	1.0
Construction	907	5.5
Transport	49	0.3
Trade & services	898	4.4
Manufacturing	316	1.0
Financial operations	21	0.3
Renting, consulting and other company services	532	2.5
Other companies	1,187	3.1
Total	4,464	2.1

Interest-bearing securities

Interest-bearing securities are divided into two categories – current assets and fixed assets. Securities classified as current assets are valued continually and price changes are included in the income statement. Securities classified as fixed assets are held to maturity. Fluctuations in the prices of these assets do not impact on earnings. Covering daily payment flows for the bank customers and the Bank's own flows requires a mortgageable securities volume of some FIM 20 bn. Most of these securities are classified as fixed assets.

Current assets

Most of MeritaNordbanken's interest-bearing financial current assets are handled by Treasury and are distributed among portfolios with short-term and medium-term investment horizons, referred to as investment portfolios. Trading utilize very flexible positions to capitalize on short-term interest-rate movements.

The limits for interest-rate exposure established by the Board of Directors mainly apply to these units.

The investment portfolios contain primarily listed Swedish and Finnish government and mortgage bonds and Treasury bills, but also such off-balance-sheet items as interest-rate swaps, futures and FRAs.

At year-end 1998, the holdings of securities in the investment portfolios amounted to FIM 35.7 bn, with FIM 13.4 bn in Swedish securities and FIM 19.9 bn

in Finnish securities. The remaining holdings consisted of foreign securities. The average maturity of the investment portfolios was 2.6 years, with an average duration of 2.2 years. The direct yield (effective annual rate of interest) was 4.2%. The portfolios had a risk exposure corresponding to VaR FIM 344 M at year-end.

The yield on the investment portfolios was higher than the yield on the comparable Stockholm Stock Exchange bond index.

Fixed assets

Holdings of interest-bearing securities intended to be held to maturity are reported as financial fixed assets. The portfolio contains mainly listed government bonds and mortgage bonds.

The holdings amounted to FIM 22.0 bn, of which FIM 13.5 bn was in Swedish securities and FIM 4.8 bn was in Finnish securities. The average maturity of the portfolio was 2.6 years, with an average duration of 1.8 years. The yield (effective annual rate of interest) on the portfolio was 4.6%.

1998 was characterized by falling interest rates, which created a high net interest income in the portfolio. Unrealized surplus value in the securities holdings, meaning the difference between the current market value and the accrued acquisition value amounted at year-end to FIM 717 M, as against FIM 303 M in 1997.

Shares and participations

The Group's shareholdings in actively managed trading portfolios had a market value of some FIM 0.4 bn at year-end.

Other shares, reported as financial current assets, valued according to the lower of cost or market principle, amounted to FIM 2.3 bn, a decline of FIM 1.1 bn since the preceding year. The decline is attributable to the divestment of shareholdings in the Sampo insurance company, Nokia, and others in 1998.

The surplus value in the remaining holdings

amounted to FIM 1.1 bn at year-end, of which FIM 0.7 bn pertained to shares in Pohjola, which were divested during January 1999.

The Group also has shares and participations in subsidiaries and associated companies, amounting to FIM 3.7 bn. These relate to the subsidiaries Merita Invest, Huoneistokeskus and Merita Livförsäkring, as well as the Group's associated companies, which are consolidated according to the equity method.

Real estate

The book value of real estate holdings amounted to FIM 17.8 bn, a decline of FIM 4.8 bn during 1998. Real estate write-downs of FIM 3.7 bn towards the close of the year on the Group's Finnish real estate

holdings accounted largely for the decrease. The remaining reduction of a net FIM 1.1 bn was due to sales.

Other assets

Other assets totaled FIM 41.3 bn, of which positive valuation adjustments related to derivatives represented FIM 18.8 bn and accrued income accounted for FIM 9.2 bn.

Liabilities and Shareholders' equity

Deposits from the public

Deposits from the public constitute MeritaNordbanken's key source of funding and accounted for FIM 229 bn at December 31, 1998, or 42% of total liabilities. Of these deposits, FIM 121 bn were in Finnish markka and FIM 98 bn in Swedish krona.

Since MeritaNordbanken's main market consists of Finland and Sweden, few of the bank's customers have surpluses in currencies other than Finnish markka or Swedish kronor. This means that deposits in other currencies represent only a limited source of financing. At year-end 1998, these deposits corresponded to FIM 10 bn.

Deposits in Swedish kronor increased during the year by 11%, relating to deposits from both private individuals and companies.

Deposits in Finnish markka rose 2%. The increase related to deposits from companies, while the volume of private deposits remained relatively stable during the year.

Total deposits decreased, however, by 2% as a result of declining volumes in other currencies and the exchange rate effect when translating the Group's deposits in Swedish kronor to Finnish markka.

Borrowing

Borrowing in domestic currencies

The borrowing in Finnish markka and Swedish kronor that is required on top of financing via deposits and shareholders' equity primarily takes the form of loans from financial institutions and issues of money market instruments, bonds and subordinated debenture loans.

The Banks have several loan programs, for example, bank certificates, Medium-Term Notes and an MBB

program. The long-term borrowing is employed mainly to finance the operations of Nordbanken Hypotek and Industrikredit. Bonds outstanding at December 31, 1998 amounted to FIM 54.3 bn, with an average time to maturity of 2.5 years.

At year-end, MeritaNordbanken's fixed-term debenture loans amounted to FIM 2.0 bn, with a total average time to maturity of 2.5 years.

Borrowing in foreign currency

Assets in foreign currencies are financed through borrowing in matching currencies and maturities and through loans from financial institutions and through issues in the international money and capital markets.

MeritaNordbanken has four foreign loan programs: European Medium Term Notes, U.S. Medium Term Notes, European Commercial Papers and U.S. Commercial Papers.

Bonds outstanding amounted to an equivalent of FIM 4.2 bn, with an average time to maturity of 1.1 years.

Outstanding subordinated debenture loans amounted to the equivalent of FIM 8.1 bn with an average time to maturity of 2.5 years. In addition, the Group had undated debenture and capital loans totaling FIM 5.1 bn at year-end.

Borrowing		
December 31, FIM bn	1998	1997
Loans from credit institutions and central banks	103.7	106.9
Borrowing from the general public	12.2	15.6
Certificates	76.4	73.7
Bonds, etc.	58.5	59.6
Subordinated debt	13.4	19.9
Capital loans	1.8	3.8
Total	266.0	279.5

Other liabilities

Other liabilities amounted to FIM 48.0 bn. The major items consisted of negative valuation adjustments related to derivative instruments, amounting to FIM 17.1 bn (Compare with "Other assets" on page 53.) and accrued expenses of FIM 7.1 bn.

Shareholders' equity

At January 1, 1998, the shareholders' equity in MeritaNordbanken amounted to FIM 27.9 bn. Of this amount, FIM 2.1 bn was utilized for payment of the dividend approved at the 1998 Annual General Meetings. Net profit for the year increased shareholders' equity by FIM 4.2 bn. The depreciation of the krona during the year resulted in a negative translation difference of SEK 1.4 bn in converting to Finnish markka. This factor, combined with the ongoing compulsory redemption of outstanding shares in Nordbanken, meant that the increase in shareholders' equity was limited to FIM 0.5 bn. Shareholders' equity at year-end totaled FIM 28.4 bn.

Pension Foundation/Fund

Nordbanken's pension commitments are mainly secured through allocations to the Nordbanken Pension Foundation. Its net asset value amounted to the equivalent of FIM 4,064 M, covering pension commitments of FIM 3,145 M.

Merita Plc's Pension Fund and Pension Foundation are responsible for the personnel's supplementary pension cover in the Finnish companies. During the year, pension commitment of FIM 687 M pertaining to Merita Plc was transferred from the Pension Fund to Merita Life Assurance Ltd. At the end of the year and after the refund of FIM 654 M out of the Pension Fund's surplus (including tax credits), the fair value of the assets of the Pension Fund and Pension Foundation totaled FIM 3,454 M, covering a pension commitment of FIM 2,824 M.

Off-balance-sheet commitments

As part of its commercial operations, the Bank has substantial off-balance-sheet commitments. They pertain in part to such commercial products as guarantees, letters of credit, credit commitments and the like, and in part to financial commitments in the form of derivative instruments. The latter pertain primarily to contracts to exchange currencies at a future date (currency forwards), contracts to purchase and sell interest-bearing securities at a future date (interest-rate futures), and contracts to exchange interest-rate payments (swaps, FRAs).

The table below shows nominal amounts. These amounts are not comparable and do not in any way constitute a quantification of the credit or market risks associated with the Bank's off-balance-sheet commitments.

Off-balance-sheet commitments		
Dec. 31, FIM bn	Nominal amounts	
	1998	1997
Guarantees	29	32
Credit commitments	28	21
Unutilized credit facilities	31	33
Other contingent liabilities	5	13
Derivative instruments	2,208	3,313
Total	2,301	3,412

Derivative instruments

Derivative instruments have a wide area of application and are used in part for taking positions, and in part for hedging purposes. Most of MeritaNordbanken's derivative transactions originate in customer transactions and market-making activities. These transactions are designed to reduce market risk.

The most common derivative instrument is a forward contract on foreign exchange rates. This product is offered to a wide range of customers to hedge foreign exchange risks. In nominal terms, however, FRAs and swaps are considerably larger. Options volumes are relatively small. Derivative volumes declined considerably during 1998, due mainly to the adaptation of trading for the introduction of the euro.

Most of the derivative contracts outstanding are valued continually in the Bank's balance sheet and accordingly affect reported earnings.

Deferral hedge accounting is applied to all derivative instruments not reported in the balance sheet. Hedge accounting means that profits and losses are reported simultaneously. Organizationally, this is done in Treasury within its mandate as the Group's internal bank.

The value of financial derivative instruments is affected by exchange-rate and interest-rate movements in financial markets. Accordingly, derivatives affect the

Derivative instruments			
Dec. 31, 1998, FIM million	Nominal amounts		
	Total	Undertaking for hedging purposes	Other
Interest-related contracts			
Futures and FRAs	1,112,556	–	1,112,556
Options purchased	9,186	–	9,186
Options written	11,815	–	11,815
Interest rate swaps	607,297	20,774	586,523
Total	1,740,854	20,774	1,720,080
	<i>(Dec. 31, 1997) (2,727,309)</i>	<i>(29,045)</i>	<i>(2,698,264)</i>
Currency-related contracts			
Futures and forwards	416,949	176,955	239,994
Options purchased	10,018	–	10,018
Options written	9,916	–	9,916
Currency interest-rate swaps	26,884	11,050	15,834
Total	463,767	188,005	275,762
	<i>(Dec. 31, 1997) (580,193)</i>	<i>(244,320)</i>	<i>(335,873)</i>
Equity-related contracts			
	3,474	2,403	1,071
	<i>(Dec. 31, 1997) (4,075)</i>	<i>(2,006)</i>	<i>(2,069)</i>
Other derivative contracts			
	191	–	191
	<i>(Dec. 31, 1997) (1,250)</i>	<i>(1,083)</i>	<i>(167)</i>
Total	2,208,286	211,182	1,997,104
	<i>(Dec. 31, 1997) (3,312,827)</i>	<i>(276,454)</i>	<i>(3,036,373)</i>

Bank's exposure to market risk. Management of the Bank's market risks is carried out within limits established by the Bank's Board of Directors. Exposure to interest-rate, currency and equity risks in the derivatives area is managed and monitored continually as part of the Bank's overall management of these types of risks.

Counterparty risks

The credit risk in a derivative contract is the risk that the counterparty may default on its obligation on the contract date. The Bank must then take the place of the counterparty, replace the contract and conduct a corresponding transaction at the prevailing market price.

Credit risk exposure in a derivative contract is measured according to one of the following methods:

1. As the contract's current market value (replacement value) plus a safety margin for additional price or interest-rate movements during the life of the contract.
2. As the contract's nominal amount multiplied by a risk weighting. The size of the risk weighting is based on the nature of the contract and its maturity.

Both methods used in calculating the credit risk exposure in derivatives trading are used in accordance

with instructions issued by the supervisory authorities in Sweden and Finland.

The total exposure for one and the same counterparty is measured as the sum of all contracts with a positive market value, without taking into consideration any negative market values (liabilities). Thus, netting of contracts is not applied in calculating the Bank's exposure.

The risk that counterparties might default on their obligations is monitored continuously. To ensure high credit quality in the derivative portfolios, counterparties are scrutinized in accordance with the same procedures used in ordinary credit approvals.

The Bank is exposed to counterparty risk in instruments that are traded "over the counter" (OTC) directly with a counterparty. In contrast, a clearing institution becomes the counterparty when instruments are traded via an exchange. Counterparty risk is managed and reduced in clearing institutions through various systems of ongoing settlements and provision of marginal collateral. In accordance with current capital adequacy regulations, such instruments do not require capital since the counterparty risk is considered to be negligible. At year-end 1998 the Bank's total exposure to counterparty risk in derivative instruments, expressed as the risk-weighted amount, totaled FIM 5.9 bn.

Capital adequacy

The ultimate purpose of capital adequacy rules is to safeguard the financial stability of the banking system by ensuring that shareholders' equity amounts to a certain level relative to the exposure to credit and market risk on the asset side as well as off-balance-sheet items. The rules constitute the core of the system of controls which many countries apply to banks. Through an international agreement, essentially equivalent rules are applied throughout the entire industrialized world. The minimum capital adequacy level, expressed as the total capital ratio – the capital base as a percentage of risk-weighted amount – is fixed at 8%.

At year-end, the total capital ratio amounted to

9.9% (11.3) and the core capital ratio was 7.3% (7.4). The decline in the total capital ratio resulted from a reduction in the volume of debenture loans.

Capital adequacy		
December 31, FIM bn	1998	1997
Capital base	37.4	40.7
of which, core capital	27.7	26.8
Risk-weighted amount	378.9	361.7
Total capital ratio, %	9.9	11.3
Core capital ratio, %	7.3	7.4



Risk management

MeritaNordbanken develops and maintains systems to measure and monitor the Group's credit risks as well as its financial and operational risks. The Board of Directors decides on limits and Group Executive Management subsequently allocates these to the risk-taking units. Risk limits are established on the basis of MeritaNordbanken's business focus and profitability targets and are related to its core capital.

Benchmarks for the Group's risk exposure

MeritaNordbanken's business operations and earnings center on the servicing of Finnish and Swedish customers.

This business focus is combined with limited risk exposure to maintain reasonably stable earnings.

The objective of the Bank's risk exposure is to avoid jeopardizing more than a fraction of the growth in shareholders' equity during a particular financial year. Extremely improbable market fluctuations would be required to eliminate earnings for the entire year. This objective characterizes the further development of methods for measuring, analyzing, limiting and controlling risks and risk management.

MeritaNordbanken's overall economic objective is to achieve a return on equity that is competitive in the risk capital market, currently estimated to be at least 15% after loan losses over a business cycle. The prevailing benchmark of a maximum of 0.5% loan losses over a business cycle corresponds to a credit risk level equivalent to a 4.7 percentage-point reduction in return on equity.

Market risks are limited to less than a 4 percentage-point reduction in return on equity, corresponding at most to earnings for one quarter.

Equity risk in investment holdings is limited to 1.5 percentage points for a 10% change in stock prices.

Price risk in real estate, which with a 10% decline in prices corresponds to about a 5 percentage-point fall in return on equity, will be steadily reduced through divestments.

Administrative, legal and technical risks are kept within manageable levels at reasonable costs.

Overall, risk exposure is set to increase in the future with the expansion of core operations, but will be reduced in equity and property investments.

Credit risks

During the year, the Group adopted joint credit instructions. The ensuing credit process will ensure that uniform credit appraisals are conducted, based primarily on repayment capacity for each individual customer. The credit process must also be time efficient. Customer limits granted will be reviewed annually. Credit scoring is used in household lending, creating the conditions for speedy – but nonetheless sound – credit decisions.

Customer and credit responsibility is clearly defined. For each individual company/corporate group there is a credit unit in charge with overall responsibility for all the customer's transactions with MeritaNordbanken. This unit continues to be responsible for customer commitments and their handling in the event the commitment becomes problem loans.

At the end of each quarter, a review is made of the total portfolio of problem loans. A unit with credit responsibility must draw up an action plan for risk-classified commitments. This is discussed, and subsequently a decision is made regarding provision for anticipated losses.

Credit granting is based on knowledge of the customer and the market. MeritaNordbanken's expertise and its further enhancement represent a prerequisite for continuing credit expansion. Substantial resources are provided for credit training to ensure that individual employees have adequate skills for credit granting.

Financial risks

Normal banking operations involve active exposure to calculated financial risks. Changes in various interest rates, foreign exchange rates, equity prices and commodity prices impact on the Bank's earnings. MeritaNordbanken manages these risks by measuring and limiting risk-taking and ensuring that it is undertaken

within approved limits. For this purpose, current methods are being further developed to measure and calculate risk, combined with the upgrading of systems and routines to regularly measure, report and monitor that risk-taking is being conducted within the allocated mandate. During 1998, an extensive program was conducted to ensure that measurement, reporting and control of financial risk are conducted in a uniform manner within Nordbanken. In June 1998, the Board of Directors decided on new joint risk limits. A new risk policy was drawn up to regulate the handling of financial risk-taking in the Group. Uniform risk definitions, risk-measurement methods and limits are now applied throughout the Group.

Risk control

The objective of handling MeritaNordbanken's financial risk exposure is to improve the return on capital, given an acceptable risk level. The fundamental principle for handling financial risks within MeritaNordbanken is that risk-taking will primarily be limited to the Treasury and Markets units. An exception is the strategic equity risk which is primarily handled by Partita Ltd. Other units apply the matching principle, meaning that interest, currency and due date structures match for assets and liabilities.

The decision-making organs in MeritaNordbanken regarding financial risks are the Board, the Treasury Committee and Group Executive Management. The Board determines the risk level and sets overall limits, Group Executive Management decides on the allocation of limits to risk-taking units and risk-measurement methods. The task of the Board's Treasury Committee is to monitor the Group's financial operations and make decisions concerning changes in Group exposure within the limits set by the Board.

The Financial Risk Control, a central staff function, has primary responsibility for ensuring compliance with risk limits, analyzing and reporting consolidated risk-taking within the Group. The Financial Risk Control regularly presents reports on the trend in risk to the Board, Treasury Committee and Group Executive Management.

The controllers in each risk-taking unit are responsible for identifying, calculating and controlling financial risks within the unit and submitting daily reports to Financial Risk Control.

Measurement methods

It is crucial to measure and analyze financial risks using several methods, since there is no single measure of risk that can be relied on to measure future risk. Financial risk in MeritaNordbanken is measured, for example, using Value at Risk, various standardized sensitivity measures, different combined scenario simulations (which take into account the non-linear character of options) as well as stress tests.

Value at Risk (VaR) is a statistical measure that gauges the maximum loss which, with a certain probability, will arise over a given time interval in normal market conditions. MeritaNordbanken limits interest and currency risks by using a VaR model based on two years' unweighted historical data, a 99% degree of

probability and a 10-day close-out period. Analysis of VaR with other parameters, such as VaR estimated using exponentially weighted historical data, is conducted continually.

The standardized *sensitivity* measure used is a 1% parallel shift for interest rate risks, a 5% change in aggregate net position for currency risks, a 10% change in market value for equity risk and a 20% change in market value for commodity risks.

Combined *scenario simulations* are used especially to measure non-linear risk, meaning the risk that arises in options-related instruments. The simulation consists of a gradual change in various market parameters, in which the worst outcome of the simulation expresses the risk involved in these positions.

Stress tests, which consist of subjectively selected scenarios and the simulation of historical processes in current time, are of major importance in estimating financial risks in the event of extreme market occurrences.

Interest rate risk and limits

Exposure to fluctuations in interest rates arises when there is imbalance in interest rate structure between assets and liabilities and their off-balance sheet equivalents. Interest rate risk is defined in MeritaNordbanken as the risk of changes in market interest rates leading to capital losses or lower net interest income. The type of risk that can lead to capital losses is referred to as price risk, and that which may lead to a deterioration in net interest income is referred to as income risk. Most of the interest rate risk frequently relates to portfolios managed by the Treasury unit.

The overall limits for price risk are based on VaR for linear risks and scenario simulation for non-linear risks. At December 31, 1998, the Board approved a VaR limit of FIM 885 M and scenario simulation limit of FIM 112 M. Average utilization was FIM 302 M and FIM 11 M, respectively.

The income risk is measured for the entire balance sheet and the table on page 60 shows the repricing distribution as of December 31, 1998. The table merely indicates the Group's position on a certain day. The reported interest-rate positions generally show that an increase in market rates of one percentage point reduces net interest income for the next 12 month period by FIM 300 M (1% of cumulative exposure of FIM 30,018 M). In this calculation it is assumed that no market transactions occurred during the period. With the exception of transactions in the trading portfolio, information is based on contract terms and conditions.

Currency risk and limits

Exposure to fluctuations in exchange rates arises when assets and liabilities in the same currency are not of the same magnitude. This exposure is curtailed through the matching of assets and liabilities. Active taking of currency risks may only be undertaken by the Markets and Treasury units. The overall limits for currency risk are based on VaR for linear risks and scenario simulation for non-linear risks. Internal currency risk limits have

been established within the framework of the instructions from the Swedish and Finnish financial supervisory authorities. At December 31, 1998, the VaR limit drawn up by the Board amounted to FIM 196 M and the scenario simulation limit totaled FIM 140 M. The average risk was FIM 24 M and FIM 21 M, respectively.

Equity risk and limits

Equity risk is defined as the risk of changes in the market value of stocks or stock-related instruments as a result of changes in stock prices. MeritaNordbanken's equity risk can be divided into strategic holdings and traded stocks and stock-derivatives. The Group's strategic equity risks are managed primarily by Partita Ltd and trading risks by Markets. The overall limits for equity risk are based on scenario simulation. At December 31, 1998, the equity risk limit set by the Board for strategic holdings amounted to FIM 590 M, with FIM 112 M for trading risks. Equity risk declined significantly during the year as a result of the divestment of the strategic shareholding. The average risk was FIM 419 M and FIM 31 M, respectively.

Commodity risk and limits

Commodity risk is defined as the risk of changes in market value of commodity-related instruments as a result of changes in commodity prices. MeritaNordbanken's commodity risk in 1998 was small and was managed by the Markets unit. The overall limit for com-

modity risk is based on sensitivity measurements. At December 31, 1998, the commodity risk established by the Board of Directors amounted to FIM 15 M. The average risk was FIM 0.4 M.

Liquidity risk

The purpose of MeritaNordbanken's liquidity management is to ensure that sufficient funds are available to the Bank to fulfill its undertakings to customers and counterparties. These can involve, for example, repayment of financing on maturity, disbursement of new loans or payments for ongoing operations. MeritaNordbanken has many sources of finance, of which borrowing from the public in Swedish krona and Finnish markka is the most important. Other financing sources are the money market, bond market and interbank market. MeritaNordbanken's foreign currency financing is conducted primarily through borrowing from international credit institutions via commercial paper programs, and through issues of long-term instruments on the international capital market.

Short-term liquidity risk is measured through cash flow forecasts in various currencies over a time horizon of 14 and 30 days.

Operational risk

Operational risk is defined within the Group as EDP risks, administrative, technical and legal risks. These

Repricing distribution							
Fixed-interest-rate periods December 31, 1998, FIM million	Less than 3 mos.	3 to 6 mos.	6 to 12 mos.	1 to 2 years	2 to 5 years	>5 years	Non- repricing
Assets							
Interest-bearing assets ¹⁾	235,324	65,661	41,674	30,249	64,393	15,771	5,968
Trading	45,133	–	–	–	–	–	–
Off-balance-sheet items ²⁾	241,383	49,786	40,916	11,428	6,575	3,166	–
Non-interest-bearing assets	–	–	–	–	–	–	66,822
Total assets	521,840	115,477	82,590	41,677	70,968	18,937	72,790
Liabilities and shareholders' equity							
Interest-bearing liabilities	357,466	46,479	33,010	17,216	32,069	8,384	–
Off-balance-sheet items ²⁾	221,746	53,626	37,568	10,071	24,687	5,556	–
Non-interest-bearing liabilities ³⁾	–	–	–	–	–	–	76,371
Total liabilities and shareholders' equity	579,212	100,105	70,578	27,287	56,756	13,940	76,371
Exposure	-57,372	15,342	12,012	14,930	14,212	4,997	-3,581
Cumulative exposure	-57,372	-42,030	-30,018	-15,628	-1,416	-3,581	–
<p>¹⁾ The Group's nonperforming loans, net, are included in the category "Non-repricing".</p> <p>²⁾ Off-balance-sheet items consist of derivative instruments that are used by the Group to hedge items in the balance sheet or to change them in a synthetic manner. Amounts do not include derivative instruments in the Bank's trading portfolio, except currency forwards. Derivative instruments traded between the Trading unit and Treasury are treated as if they were external transactions. The purpose is to show the impact of these trades on the Group's overall interest-rate exposure.</p> <p>³⁾ Includes Group shareholders' equity amounting to FIM 28,366 M.</p>							

risks exist in the infrastructure and working methods in all operations within the Group. Overall benchmarks for managing operational risks are set by the Group's security policy.

Operational risks are managed and controlled in ongoing operations. Each unit manager is primarily responsible for identifying, limiting and controlling these risks. Ongoing efforts to curtail the operational risks are conducted by managers and employees as part of daily activities.

A special model is used for systematic risk appraisal in order to attain cost-effective cover against operational risks. This method is used for both business units and business-support units. Risk appraisal is applied to existing operations and to any modifications of them.

The Group has a special crisis group and action plans to handle major strains in the event of a crisis or catastrophe. A special catastrophe plan has been prepared for computer operations.

To ensure additional protection against risks that may arise in operations, such as asset loss and liability, the Group has an insurance program which covers general and liability insurance in what is regarded as a reasonable amount.

Crime risk

An important feature of operational risk appraisal is to protect the Bank from internal and external crime. However, it is difficult to create watertight protection against all types of crime to which the Bank may be exposed. Protecting the Bank from crime committed by employees in a position of trust, and who may be familiar with the control system and be able to circumvent it, is one of the most difficult aspects in the risk management area.

At the beginning of 1999, a stock trader employed in Nordbanken was arrested by the Swedish Financial Crime Authority and charged with gross fraud and gross embezzlement. The charges were based on improper stock transactions which had continued over a number of months. As a result of these actions, Nordbanken suffered an estimated loss of SEK 290 M, corresponding to FIM 195 M.

The incident is a serious one and although it was revealed through the internal control system, it obviously gives rise to a critical review of prevailing routines in order to impede and prevent crimes aimed at the Bank and to ensure earlier detection of improper actions and faulty management.

The matter is the subject of a criminal investigation and has been reported to the Financial Supervisory Authority and to the insurance company involved.

Legal proceedings

Nordbanken Holding AB (publ)

Nordbanken Holding AB (publ) is not the subject of any legal proceedings.

Merita Plc

The criminal case against Pertti Voutilainen, President of Merita Bank and previously CEO and Chairman of the Board of Directors of what was formerly Kansallis-Osake-Pankki, relates to an infringement of the Securities Market Act in connection with the marketing of the Kansallis share issue in autumn 1994. After Helsinki District Court rejected the lawsuit in December 1996, the Court of Appeal in Helsinki passed a judgment in August 1998 overturning the District Court's ruling and remitted the case to the District Court for a retrial. The basis for the Court of Appeal's decision was that those who had appealed the District Court's ruling ought, according to the law, to have been granted the plaintiff's right to plead before the court. Pertti Voutilainen, President of Merita Bank, petitioned the Supreme Court for leave to appeal.

A total of 59 private shareholders in Kansallis-

Osake-Pankki have instituted a civil suit against Merita Plc on the basis of allegations of misleading information in connection with the above-mentioned share issue in 1994. In March 1997, Helsinki District Court rejected all damage claims. Following an appeal, the case is now pending in the Court of Appeal in Helsinki.

MeritaNordbanken Plc

MeritaNordbanken Plc is not the subject of any legal proceedings. Within the framework of the banks' normal business operations, however, the subsidiaries Nordbanken AB (publ) and Merita Bank Plc face a number of claims in lawsuits and other legal disputes, most of which involve comparatively small amounts. None of these disputes is considered likely to have any significant adverse effect on the banks or their financial position.

In the suit between Yggdrasil AB and Nordbanken, described in detail in previous Annual Reports, the Stockholm District Court dismissed Yggdrasil's claim in a ruling given on September 1, 1998. Yggdrasil appealed the District Court decision to the Court of Appeal.

Taxes

The presentation below summarizes the most important regulations affecting the taxation of the MeritaNordbanken Group and dividends to shareholders.

Companies

Taxable income for MeritaNordbanken Plc and subsidiaries is taxed at a rate of 28%.

Distributable earnings are to be transferred from operating subsidiaries via MeritaNordbanken Plc to Merita Plc and Nordbanken Holding AB and be subsequently distributed to shareholders. According to the Finnish tax system, a company paying a dividend must pay at least 7/18 in tax on the dividend. If the tax that the company has to pay as a result of its taxable income is less than 7/18 of the dividend paid for the fiscal year, the company must pay supplementary tax equivalent to the differential. Among other implications, this means that dividends that MeritaNordbanken Plc receives from its Finnish subsidiaries will not result in any extra tax burden. These earnings can then be further distributed to Merita Plc and Nordbanken

Holding AB and from there be further distributed to shareholders without extra corporate tax. If profits in the Finnish subsidiaries do not suffice for the dividend that MeritaNordbanken Plc intends to further distribute to Merita Plc and Nordbanken Holding AB, MeritaNordbanken Plc may be affected by supplementary tax on earnings transferred from Nordbanken AB (publ).

Shareholders

Merita Plc is a Finnish company registered on the Helsinki Stock Exchange, and Nordbanken Holding AB is a Swedish company registered on the Stockholm Stock Exchange. This means that Merita and Nordbanken Holding do not need to pay coupon tax on dividends paid to their respective domestic shareholders.

Income Statements

FIM million	Note	1998	1997 Pro forma
Interest income	1	30,318	29,168
Interest expenses	1	-19,512	-18,166
Net interest income	1	10,806	11,002
Dividends received		496	355
Net commission income	2	4,294	4,092
Net result from financial operations	3	2,643	1,915
Other operating income	4	1,683	1,515
Total operating income		19,922	18,879
Personnel expenses	5	-5,236	-4,594
Other expenses	6	-4,772	-4,753
Depreciation and write-downs on tangible and intangible assets	7	-1,008	-946
Total operating expenses		-11,016	-10,293
Profit before loan losses		8,906	8,586
Loan losses, net	8	-824	-1,447
Profit from companies accounted for under the equity method		63	96
Operating profit		8,145	7,235
Write-downs on real estate holdings		-3,670	- 980
Refund of surplus in the Pension Foundation/Fund		901	1,545
Taxes	9	-1,173	-1,419
Minority interest		-25	-36
Net profit for the year		4,178	6,345

Balance Sheets

FIM million	Note	1998	1997 Pro forma
Assets			
Liquid assets	10	5,926	4,975
Debt securities eligible for refinancing with central banks	11	46,231	52,303
Loans to credit institutions	12	66,364	79,662
Loans to the public	13	355,722	339,867
Interest-bearing securities	17	35,197	38,478
Shares and participations	19	3,075	4,530
Shares and participations in Group and associated companies	20	3,68	3,521
Intangible assets	21	617	796
Tangible assets			
Real estate holdings	22	17,785	22,560
Other tangible assets		1,643	1,720
Other assets	24	25,532	23,966
Prepaid expenses and accrued income	25	9,221	10,506
Total assets		571,000	582,884
Liabilities and shareholders' equity			
Due to credit institutions and central banks	26	103,654	106,864
Deposits from the public	27	228,744	233,309
Other borrowing from the public		12,203	15,649
Debt instruments outstanding	29	134,891	133,294
Other liabilities	30	37,530	33,220
Accrued expenses and prepaid income	31	7,330	5,870
Provisions	32	1,106	1,146
Subordinated debt	33	13,357	19,901
Deferred tax liabilities		1,651	1,559
Capital loans		1,780	3,793
Minority interest		388	420
Total liabilities		542,634	555,025
Shareholders' equity	34		
Share capital		13,915	14,431
Restricted reserves		4,723	5,029
Non-restricted reserves		5,550	2,054
Profit for the year		4,178	6,345
Total shareholders' equity		28,366	27,859
Total liabilities and shareholders' equity		571,000	582,884
Off-balance-sheet commitments			
Commitments on behalf of customers in favour of third parties	40		
Guarantees and pledges		29,410	31,566
Other commitments		3,075	3,655
Irrevocable commitments in favour of customers			
Securities repurchase commitments		100	100
Other commitments		60,817	63,612
		93,402	98,933
Other notes			
Doubtful receivables	14	Maturity breakdown of receivables and liabilities	36
Property taken over for protection of claims	15	Pledged assets	37
Subordinated receivables	16	Assets and liabilities in foreign currency	38
Total holdings of interest-bearing securities	18	Pension commitments	39
Change in shares held as financial fixed assets and tangible assets	23	Off-balance-sheet liabilities	40
Difference between nominal value and book value of liabilities	28	Derivative instruments	41
Capital adequacy	35	Average number of personnel	42
		Subsidiaries and associated companies	43

Accounting principles

The Annual Report for the MeritaNordbanken Group has been prepared in accordance with Finnish and Swedish accounting laws and the regulations issued by the relevant supervisory authorities. The differences that exist between the two sets of regulations are of no material significance. In all essential aspects, it has proved possible to coordinate the accounting principles applied in Group companies. Remaining adjustments have been made in the consolidated accounts. These pertain to reclassifications and have no effect on the Group's earnings or financial position.

Changes in accounting principles

During 1998, the principles for depreciation of equipment were harmonized. Compared with the pro forma financial statements for 1997, the harmonization has had the effect of shortening the depreciation period for the Group's Finnish companies. The new depreciation principles are applicable to investments made in 1998 or subsequently. Moreover, expenses for software are now written off directly in the Finnish units also. Capitalized expenses relating to software amounted to slightly more than FIM 100 million at the end of 1997. These expenses were written off during 1998. Beginning with the current year, deferred taxes will also be reported for the Finnish units. Deferred tax receivables attributable to prior years amounted to FIM 310 M. In addition, certain items have been reclassified in the income statements. The changes do not significantly affect the degree of comparability with the results from the preceding year.

Consolidated accounts

The MeritaNordbanken Group includes MeritaNordbanken Plc and its subsidiaries, as well as the two holding companies, Merita Plc and Nordbanken Holding AB. The Group accounts were prepared in accordance with the pooling method. This means in principle that the merging companies' assets and liabilities, as well as their revenues and expenses, are combined at their book value.

The Group has used the acquisition method to prepare the consolidated accounts for subsidiaries of MeritaNordbanken, i.e. for subgroups.

The equity method of accounting is used in the case of subsidiaries that are not credit institutions or securities companies, or whose operations are not linked to a company in one of these categories, and in the case of associated companies, where the share of voting rights is between 20% and 50%.

Companies taken over for the protection of claims, holdings in Finnish associated companies that constitute mutual property companies with separate

property holdings and Livsförsäkringsbolaget Livia, which operates according to mutual principles, are not included in the consolidated accounts.

Lists of subsidiaries and associated companies are given in the specifications of the respective balance sheet items.

The earnings of acquired and divested companies are included in the income statements only for that portion of the year during which each of the companies belonged to the Group.

The Group's accounting currency is the Finnish mark. MeritaNordbanken uses the current method when translating the financial statements of non-Finnish subsidiaries. This means that the assets and liabilities of foreign subsidiaries have been translated at the year-end exchange rate and that items in the income statement are translated at the average exchange rate for the year. Translation differences are charged or credited directly to shareholders' equity.

Reporting of business transactions

Business transactions are reported at the time that risks and rights are transferred between parties. This means that trade date accounting is applied for transactions in the money and bond market, stock market and currency market.

Deposit and lending transactions, including repurchase agreements, are reported on the settlement date.

Assets and liabilities are reported in gross amounts in most cases. Netting of assets and liabilities is used, however, if a statutory right to offset the commitments exists and settlement occurs simultaneously.

Receivables and payables arising from the sale and purchase of securities are also reported net in those cases where the transaction is settled through a clearing house.

Leasing

MeritaNordbanken's leasing operations mainly comprise financial leasing. In reporting financial leasing transactions, the leasing item is reported as lending to the lessee. Lease payments net of depreciation are reported as interest income.

Repos and other repurchasing agreements

A genuine repurchase transaction is defined as an agreement covering both the sale of an asset, usually interest-bearing securities, and the subsequent repurchase of the asset at an agreed price. Such agreements are reported as loan transactions rather than influencing securities holdings. The assets are reported in the balance sheet of the transferring party and the purchase

price received is posted as a liability. The receiving party reports the payment as a receivable due from the transferring party. The difference between the purchase consideration in the spot market and futures market is annualized over the term of the agreement.

Assets transferred in repurchase transactions are reported under "Assets pledged for own liabilities."

Financial fixed assets/current assets

Loan receivables and securities holdings for which there is an intent and ability to hold until maturity constitute financial fixed assets. All of MeritaNordbanken's loan receivables are in this category. They are reported in the balance sheet at their acquisition value after deduction for incurred and possible loan losses and provision for country risks. See also the section on problem loans and loan losses.

Securities which are classified as financial fixed assets include shares held for strategic business purposes, as well as certain interest-bearing securities which are specified from the date of acquisition and managed in a separate portfolio. These securities are carried at acquisition value/amortized cost after consideration for any permanent declines in fair value. Reclassification of securities between financial fixed assets and current financial assets is allowed only under limited circumstances. If any such reclassifications are made, the effect on earnings must be disclosed in the notes to the financial statements.

Other securities are reported as financial current assets. All securities and derivatives which are actively managed are valued at fair value, with the exception of financial instruments which have been accounted for as a hedge. (See "Hedge accounting" below.) This category includes almost all interest-bearing securities, as well as equity securities included in trading operations. Otherwise, financial current assets are valued at the lower of acquisition value/fair value.

The acquisition value of interest-rate-related instruments is calculated as the present value of future payment flows discounted based on the effective acquisition rate, that is, the interest rate at which the instrument was acquired. The accrued acquisition value changes successively so that it is equal to the instrument's nominal value on the maturity date. For coupon instruments this means that any premium or discount is amortized or accreted into interest income over the remaining term. The acquisition value of outstanding debt instruments is calculated in the same manner.

Interest income and interest expense related to interest-rate swaps not accounted for as hedges are reported in "Net result from financial operations."

Derivative instruments with positive fair value are reported in the balance sheet as "Other assets", while derivatives with negative fair value are reported as "Other liabilities". Accrued interest income and expenses pertaining to interest-rate swaps which are accounted for as hedges are also reported as other assets or liabilities.

Immediate profit/loss recognition in connection with early debt extinguishment

MeritaNordbanken applies immediate recognition of income gains and losses in conjunction with early extinguishment of debt, that is, purchase of its own securities. These realized income items – the difference between replacement cost and the book value of the debt redeemed – reflect price changes that have already occurred in the market. The results are reported separately in "Net result from financial operations."

Subsequent sale of acquired bonds is treated as though the bonds had been newly issued. The immediate income recognition has the effect of eliminating future amortization in net interest income of the difference between the nominal and acquisition value of the asset and liability items in question.

Hedge accounting

Deferral hedge accounting with acquisition valuation is applied to hedging holdings of financial instruments which are not valued at fair value.

The hedging and hedged positions are reported without taking into account changes in value provided that changes in fair value for the hedging and the hedge positions essentially cancel each other out in terms of the amounts involved. If additional unrealized losses arise, they are reported immediately in the balance sheet and income statements.

Hedge accounting with acquisition valuation does not cover the currency risk to which the Group is exposed through the hedge instrument or through the underlying assets and/or liabilities.

Translation of assets and liabilities in foreign currencies

Assets and liabilities denominated in foreign currencies are translated at the year-end exchange rate, corresponding to the average of official buying and selling rates. Cash in foreign currencies are treated as receivables in foreign currencies.

Forward positions in foreign currencies are valued at the current rate for forward contracts with the equivalent remaining maturity.

When currency-related derivative instruments are used for currency hedging, the currency hedging and the corresponding protected item are translated at the year-end rate.

Reporting of problem loans and property taken over to protect claims

The Notes to the Balance Sheet provide an overview of the extent of "problem loans", that is, loans with interest deferments, nonperforming loans and assets taken over for the protection of claims. The following paragraphs define these concepts and state what special accounting rules apply in each case.

Loans with interest deferments refer to those

cases where interest rates have been lowered after renegotiation to enable borrowers in temporary payment difficulties to improve their situation. Concessions are normally granted on the condition that the borrower will repay the deferred amount at a later date. The reported volumes refer to loans of at least SEK 1 million on which the interest rate has been lowered to less than the market level, which in this context means equal to or lower than the prevailing cost of financing. Loans with negotiated interest deferments are not classified as nonperforming.

A receivable is classified as nonperforming if the interest, principal or utilized overdraft is more than 60 days past due or if other circumstances give reason for uncertainty as to repayment of the receivable, and if at the same time the value of the collateral does not cover, by an adequate margin, the amount of the principal and accrued interest.

When a receivable is classified as nonperforming, it is transferred to cash-based interest accounting. Accrued interest income is thus no longer reported in the accounts, and any amounts relating to the earlier portion of the year are reversed.

Information about property taken over to protect claims is provided in a note to the balance sheet, and is divided into shares, real estate and other assets. These assets are valued at acquisition value or fair value, whichever is lower. In the case of real estate that has been taken over, the fair value consists of a conservatively appraised market value, less selling costs.

Loan losses

Receivables are reported in the balance sheet after subtracting incurred losses, write-downs for possible losses and provision for country risks.

Incurred losses (charge-offs) are those losses whose amount is regarded as finally established or highly probable because a bankruptcy administrator has provided an estimate of the percentage of assets to be distributed, creditors have accepted a composition proposal, or claims have otherwise been moderated.

Write-down for a possible loan loss is made if the value of the collateral does not cover the loan amount on a nonperforming receivable, and the repayment capacity of the borrower is not expected to improve sufficiently within two years. The receivable is written down to the amount that the bank is expected to recover, considering the value of the collateral. If the collateral is an asset with a market quotation, valuation is based on the quoted value, otherwise on the estimated market value. If the collateral consists of property mortgages, the underlying property value is appraised using the same methods as for properties taken over for the protection of claims.

For a portion of consumer loans, the necessary

loss provision is calculated in accordance with a collective valuation based on historical loss trends for various categories of loans (home mortgage loans, other secured loans, salary account loans and other unsecured loans).

Provisions for loan losses related to country risks are made based on country risk estimates presented by EIU (The Economist Intelligence Unit, London) and the Group's outstanding net claim against counterparties in each country.

Provisions for loss risks on loan guarantees outstanding are reported under "Provisions" in the balance sheet. In estimating the costs to redeem extended guarantees, the value of existing recourse rights is taken into account.

Tangible and intangible fixed assets

Fixed assets are reported at their acquisition value less depreciation according to plan. If it is deemed likely that the fair value will consistently be less than the book value, the value is written down as required.

Depreciation of furniture, fixtures and equipment

Expenses for software are normally expensed immediately. In the case of major investments, straight-line depreciation over a period of not more than five years may be applied. Investments in PC equipment are depreciated straight-line over three years, while the depreciation period for other equipment is five years.

Depreciation of buildings

Straight-line depreciation is applied to buildings, with the depreciation period varying between 25 and 60 years. Depreciation of excess values (in the consolidated accounts) of buildings is calculated at varying percentage rates, based on the remaining depreciation period for the property holding in question.

Valuation of real estate

Properties were valued by external valuation institutions in conjunction with the restructuring of real estate operations. Any resulting write-downs are reported separately from operating income and expenses.

Pension costs

Reporting of the Group's pension costs includes pension insurance premiums (including premiums for publicly regulated pensions in Finland), pensions payable (mainly Swedish companies), and provisions/charges paid to pension funds, with reductions for any applicable compensation for pension costs. Drawings on surplus funds in excess of the reported costs for company pensions are reported in the consolidated accounts as a separate item after operating profit.

Notes to the financial statements

Note 1: Interest income and expenses

FIM million	1998	1997
Interest income		
Loans to credit institutions	3,485	2,917
Loans to the public	22,032	22,045
Interest-bearing securities	4,603	4,309
Other interest-bearing assets	198	-103
Total interest income	30,318	29,168
of which: net income on leasing operations	285	293
Interest expenses		
Due to credit institutions	4,845	3,735
Deposits and other borrowing from the public	5,373	5,237
Debt instruments outstanding	7,769	7,633
Subordinated debt	1,234	1,340
Capital loans	133	178
Other interest-bearing liabilities	158	43
Total interest expenses	19,512	18,166
Net interest income	10,806	11,002

Note 2: Net commission income

FIM million	1998	1997
Commission income		
Payment transmission	1,148	1,138
Lending	1,043	1,044
Deposits	171	189
Guarantees	236	290
Securities	1,900	1,587
Other commission income	345	245
Total commission income	4,843	4,493
Commission expenses		
Payment transmission	417	293
Securities	89	73
Other commission expenses	43	35
Total commission expenses	549	401
Net commission income	4,294	4,092

Note 3: Net result from financial operations

FIM million	1998	1997
Equity-related items		
Realized gains/losses	2,352	2,099
Unrealized gains/losses	-499	-210
	1,853	1,889
Interest-rate-related items		
Debt redemption	-212	-12
Other realized gains/losses	710	315
Unrealized gains/losses	-165	-561
	333	-258
Other	- 3	-
Foreign exchange gains/losses	460	284
Net result from financial operations	2,643	1,915

Note 4: Other operating income

FIM million	1998	1997
Sale of shares and participations	83	19
Sale of shares and participations, Group companies	100	23
Sale of real estate (net)	-10	-105
Net operating result from properties taken over for protection of claims	21	35
Real estate income	1,018	1,067
Insurance compensation	-	106
Sundry operating income	471	370
Total other operating income	1,683	1,515

Note 5: Personnel expenses

FIM million	1998	1997
Salaries and fees (specification below)	3,736	3,436
Pension expenses	338	311
Social insurance contributions	784	661
Allocation to profit sharing foundations	129	79
Other personnel expenses	249	107
Total personnel expenses	5,236	4,594
<i>Salaries and fees</i>		
To Boards of Directors and senior executives	24	
To other employees	3,712	
	3,736	

The total pension costs for the year with regard to Board members and Group management amounted to FIM 24.9 million. Total pension obligations regarding the above amount to FIM 44.1 million.

Remuneration to Board of Directors

The main Board work regarding Merita Plc, Nordbanken Holding AB (publ) and MeritaNordbanken Plc is conducted in the last-named company. Accordingly, Board fees are only paid in this company.

The Chairman of the Board Vesa Vainio received a fixed fee of FIM 700,000. In addition, Vesa Vainio in his function as President of Merita Plc received compensation of FIM 2,366,592, of which FIM 482,040 is variable salary from 1997. Moreover, Vesa Vainio had car and housing benefits. As regards his former function as CEO in Merita, there is a pension obligation. He is entitled to old-age pension amounting to 60% of pensionable salary for his lifetime.

Vice Chairman Jacob Palmstierna received a fixed fee of FIM 700,000. In addition, Jacob Palmstierna is compensated for the reduction in the pension paid by SEB which is a result of his serving as a member of the Board of MeritaNordbanken. Compensation for this is paid to and including April 1999. During 1998 this amounted to FIM 561,625.

Other Board members not employed by MeritaNordbanken each received FIM 130,000 in fixed fee and a fee for Board meeting and Committee meetings. Total remuneration to Board members was FIM 3,148,826. A separate payment was made to the Board Chairman in Merita Plc of FIM 50,000 and to the President of Nordbanken Holding of FIM 67,410.

There are no commitments for severance pay, pensions or similar compensation to the members of the Board who are not employed by MeritaNordbanken.

Remuneration to Group Management

The salary terms for the CEO are developed by the Compensation Committee and approved by the Board of Directors. The salary terms for other members of Group Management are developed by the CEO and approved by the Board of Directors.

The CEO (President of MeritaNordbanken Plc) was paid a salary of FIM 3,811,388, of which FIM 776,900 was variable salary pertaining to 1997. The CEO also had car and housing benefits. To the other members of Group Management, salaries totaling FIM 17.1 M was paid, of which FIM 2.8 M was variable salary pertaining to 1997. These executives had car and, in some cases, housing benefits. In accordance with the employment contracts for these executives, salary during the notice period before termination and with regard to severance pay may not total more than 24 months' salary and must be reduced by the salary amount that the executive receives as a result of any other employment during the last 18 months of payment.

These executives are entitled to retire with a pension at age 60. For the CEO through age 65, a pension equal to 75% of pension-entitled salary is paid and, thereafter old-age pension, a maximum of 65% of compensation up to 130 base amounts (in Sweden), and 32.5% of the rest. For the other Swedish members of Group Management, pension is paid to age 65 at 70% of the pension-entitled salary. Thereafter pension is paid in accordance with occupational pension plans. The Finnish members of Group Management receive 60% of pension-entitled salary for life.

Loans to Board members and senior executives

Loans to Group Management and Board members amounted at the end of the fiscal year to FIM 6.9 million, of which FIM 0 to the CEO and FIM 1.6 million to other Board members.

Note 6: Other expenses

FIM million	1998	1997
Information technology *)	755	700
Marketing	371	321
Postage and telephone	436	427
Other administrative expenses	1,118	1,055
Compensation to Sweden Post	510	536
Rents	711	586
Real estate expenses	599	622
Sundry expenses	272	506
Total other expenses	4,772	4,753

*) EDP use, service and maintenance expenses and consulting fees.

Note 7: Depreciation and write-downs on tangible and intangible assets

FIM million	1998	1997
Depreciation according to plan		
– tangible assets	856	787
– goodwill	111	108
– other intangible assets	41	51
Total	1,008	946

Write-downs on real estate holdings of FIM 3,670 million (FIM 980 million) are shown as a separate item after operating profit.

Note 8: Loan losses, net

FIM million	1998	1997
Actual loan losses during the year	2,344	1,983
Previous loan loss provisions utilized during the year	-1,538	-1,474
Recoveries of loan losses incurred in previous years	-293	-301
Specific loan loss provisions made during the year	1,678	2,599
Reversal of previous provisions	-1,367	-1,160
Charged against unallocated credit write-offs	–	-200
Total loan losses	824	1,447
Of which, country risks	175	-37

	1998		1997	
	Loan losses, gross ¹⁾	Reversal ²⁾	Loan losses, gross ¹⁾	Reversal ²⁾
Breakdown by balance sheet item				
Loans to credit institutions	322	3	173	20
Loans to the public	2,109	1,653	2,917	1,434
Guarantees and other contingent liabilities	3	5	18	–
Property taken over for protection of claims	51	–	–	7
Charged against unallocated credit write-offs	–	–	- 200	–
Total loan losses	2,485	1,661	2,908	1,461

¹⁾ Actual loan losses, net, and new provisions.

²⁾ Incl. items recovered.

Note 9: Taxes

FIM million	1998	1997
Income taxes	1,216	1,065
Deferred taxes	-43*)	354
Total taxes	1,173	1,419

*) Of which, FIM 310 million pertaining to prior years.

Note 10: Liquid assets

The item includes cash in hand and claims on the Bank of Finland and the Central Bank of Sweden repayable on demand.

Note 11: Debt securities eligible for refinancing with central banks

FIM million	1998	1997
Government securities	37,871	43,687
Certificates of deposit		
– Bank of Finland	4,103	4,821
– other	3,965	3,515
Other eligible securities	292	280
Total	46,231	52,303

Note 12: Loans to credit institutions

FIM million	1998	1997
Central banks	16	29
Other credit institutions		
– repayable on demand	1,982	3,600
– other funds	64,366	76,033
Total	66,364	79,662

Note 13: Loans to the public

FIM million	1998	1997
Corporate	209,630	197,765
Public sector	10,736	10,668
Households	135,356	131,434
Total	355,722	339,867

Note 14: Nonperforming loans

FIM million	1998	1997
Nonperforming loans, gross	18,937	23,391
Loan loss provisions	-12,969	-15,057
Nonperforming loans, net	5,968	8,334
Nonperforming loans, net/lending, %	1.7	2.5

Note 15: Property taken over for protection of claims

FIM million	1998	1997
Book value of property taken over for protection of claims		
Real estate and shares in real estate companies	401	688
Other shares	50	18
Other property taken over for restructuring of customers' business operations	139	139
Total	590	845

Note 16: Subordinated receivables

FIM million	1998	1997
Loans to the public	241	252
Interest-bearing securities	2,157	1,901
Total	2,398	2,153

Note 17: Interest-bearing securities

FIM million	1998	1997
Issued by the public sector	1,301	3,098
Issued by other borrowers	33,896	35,380
Total	35,197	38,478

Note 18: Total holdings of interest-bearing securities, Notes 11 and 17

FIM million	1998		1997	
	Publicly listed	Other	Publicly listed	Other
Current assets	59,379	63	61,378	–
Financial fixed assets	18,490	3,496	23,687	5,716
Total	77,869	3,559	85,065	5,716
Difference between the market value and the book value, financial fixed assets	717	–	303	–

FIM million	1998	1997
Difference between nominal value and book value, financial fixed assets		
– higher nominal value	780	516
– lower nominal value	168	627
Interest-bearing securities by issuer		
Finnish and Swedish issuers		
– government	37,365	43,082
– municipalities	480	854
– banks	8,580	8,886
– housing companies	18,731	18,875
– other	11,335	11,244
Other issuers		
– foreign governments	506	605
– other	4,431	7,235
Total book value	81,428	90,781

Note 19: Shares and participations

FIM million	1998		1997	
	Publicly listed	Other	Publicly listed	Other
Current assets	2,306	424	3,214	1,039
Financial fixed assets	194	151	2	275
Total	2,500	575	3,216	1,314
Difference between the market value and a lower book value, publicly listed shares				
– current assets	1,105	–	1,731	–
– financial fixed assets	–	–	73	–
Total	1,105	–	1,804	–

At the end of the period the MeritaNordbanken Group had borrowed securities in the amount of FIM 131 million with an average loan period of one month. The Group had no lent securities.

Note 20: Shares and participations in Group and associated companies

FIM million	1998	1997
Shares and participations in subsidiaries		
Other than credit institutions	2,113	2,264
Total	2,113	2,264
Shares and participations in associated companies		
Credit institutions	145	133
Other	1,429	1,124
Total	1,574	1,257

Note 21: Intangible assets

FIM million	1998	1997
Goodwill*)	569	659
Other	48	137
Total	617	796

*) In addition, goodwill of FIM 147 million (FIM 297 million) exists as a result of subsidiaries consolidated in accordance with the equity method. The amount is included in Shares and participations in subsidiaries and associated companies.

Note 22: Real estate and shares in real estate companies

FIM million	1998	1997
Land and buildings		
– owner-occupied	4,244	4,728
– other	10,980	14,758
Shares in real estate companies		
– owner-occupied	221	741
– other	2,340	2,333
Total	17,785	22,560

Note 23: Change in shares held as financial fixed assets and tangible assets

FIM million	1998
Shares, excluding real estate companies	
Acquisition value at the beginning of the year	3,817
+ Increase during the year	566
- Decrease during the year	-200
+/- Transfer between asset items	-5
+/- Write-downs and reversal of write-downs made during the year	-124
- Accumulated write-downs at the beginning of the year	-22
Book value at the end of the year	4,032
Buildings, land and real estate companies	
Acquisition value at the beginning of the year	24,304
+ Acquisitions during the year	3,676
- Sales during the year	-2,310
+/- Transfer between asset items	88
- Depreciation according to plan for the year	-340
+/- Write-downs and reversal of write-downs made during the year	-3,504
+ Accumulated depreciation/write-downs on real estate sold/disposed of during the year	442
- Accumulated depreciation according to plan at the beginning of the year	-2,947
- Accumulated write-downs at the beginning of the year	-1,652
+ Accumulated revaluations at the beginning of the year	54
- Reversed revaluations	-26
Book value at the end of the year	17,785
Other tangible assets	
Acquisition value at the beginning of the year	3,322
+ Acquisitions during the year	1,113
- Sales during the year	-119
+/- Transfer between asset items	-563
- Depreciation according to plan for the year	-536
+/- Write-downs and reversal of write-downs made during the year	-8
+ Accumulated depreciation/write-downs on items sold/disposed of during the year	54
- Accumulated depreciation according to plan at the beginning of the year	-1,620
Book value at the end of the year	1,643

Note 24: Other assets

FIM million	1998	1997
Clearing claims	540	615
Claims on securities settlement proceeds	3,465	2,379
Guarantee claims	675	772
Derivative instruments	18,842	16,695
Other claims	2,010	3,505
Total	25,532	23,966

Note 25: Prepaid expenses and accrued income

FIM million	1998	1997
Accrued interest income	6,827	7,836
Other accrued income	2,349	2,505
Prepaid expenses	45	165
Total	9,221	10,506

Note 26: Due to credit institutions and central banks

FIM million	1998	1997
Central banks	3,962	7,889
Other credit institutions		
– repayable on demand	4,032	6,659
– other	95,660	92,316
Total	103,654	106,864

Note 27: Deposits from the public

FIM million	1998	1997
Repayable on demand	182,445	182,241
Other	46,299	51,068
Total	228,744	233,309

Note 28: Difference between nominal value and book value of liabilities

FIM million	1998	1997
Nominal value higher than book value	1,262	2,181
Nominal value lower than book value	628	1,761

Note 29: Debt instruments outstanding

FIM million	1998	1997
Certificates of deposit	71,763	54,772
Bonds	58,528	59,641
Other instruments	4,600	18,881
Total	134,891	133,294

Note 30: Other liabilities

FIM million	1998	1997
Clearing liabilities	4,498	4,627
Liabilities on securities settlement proceeds	2,245	2,428
Derivative instruments	17,107	15,855
Sundry liabilities	13,680	10,310
Total	37,530	33,220

Note 31: Accrued expenses and prepaid income

FIM million	1998	1997
Accrued interest expenses	4,563	3,171
Other accrued expenses	2,491	2,356
Prepaid income	276	343
Total	7,330	5,870

Note 32: Provisions

FIM million	1998	1997
Pensions	114	101
Guarantees	269	448
Restructuring measures	471	120
Rental liabilities	143	176
Other provisions	109	301
Total	1,106	1,146

Note 33: Subordinated debt

FIM million	1998	1997
Dated subordinated debenture loans	7,978	12,978
Undated subordinated debenture loans	5,071	6,923
Other subordinated debt	308	–
Total	13,357	19,901

Note 34: Shareholders' equity

FIM million	Equity capital	Restricted reserves	Non-restricted reserves	Total
Shareholders' equity at the beginning of the year	14,431	5,029	8,207	27,667
Change in reserve for unrealized gains (1997)	–	- 447	447	–
Dividends paid	–	–	- 2,137	- 2,137
Subscription of share capital	16	30	–	46
Exchange rate changes	- 532	- 323	- 482	- 1,337
Transfers between restricted and non-restricted capital during the year	–	597	-597	–
Other changes	–	-163	112	51
Profit for the year	–	–	4,178	4,178
Shareholders' equity at the end of the year	13,915	4,723	9,728	28,366

Note 35: Capital adequacy

FIM million	1998	1997
Capital base	37,401	40,693
Risk-weighted amount	378,936	361,720
Total capital ratio, %	9.9	11.3
Core capital ratio, %	7.3	7.4

Note 36: Maturity breakdown of receivables and liabilities

FIM million	Remaining maturity, Dec, 31, 1998			
	Less than 3 months	3–12 months	1–5 years	Over 5 years
Receivables				
Debt securities eligible for refinancing with central banks	9,238	7,210	23,257	6,526
Loans to credit institutions	50,638	9,401	5,806	519
Loans to the public	69,495	55,274	112,154	118,799
Interest-bearing securities	5,095	7,683	17,828	4,591
Liabilities				
Liabilities to credit institutions and central banks	81,974	20,004	1,474	202
Deposits and other borrowing from the public	147,780	26,678	31,538	34,951
Debt instruments outstanding	38,805	56,320	36,484	3,282

Note 37: Pledged assets

FIM million	1998	1997
Assets pledged for own liabilities		
Property mortgages	538	848
Leasing contracts	1,505	1,687
Securities, etc.	36,213	27,090
Total	38,256	29,625
The above pledges pertain to the following liability items:		
– due to credit institutions and central banks	22,189	25,282
– deposits from the public	2,406	3,360
– debt instruments outstanding	1,100	21
– other debts and commitments	15	1,167
Total	25,710	29,830
Other pledged assets	301	312

Note 38: Assets and liabilities in foreign currencies

	EURO currencies	SEK	USD	Other
Assets				
Loans to credit institutions	24,705	14,988	21,171	5,499
Loans to the public	137,543	180,942	25,385	11,853
Interest-bearing securities	35,263	38,044	6,173	1,948
Other assets ¹⁾				67,486
Total assets	197,511	233,974	52,729	86,786
Liabilities				
Due to credit institutions	35,560	32,213	24,893	10,987
Deposits and other borrowing from the public	126,095	100,850	10,449	3,552
Debt instruments outstanding	48,810	55,052	36,929	9,238
Other liabilities ¹⁾				48,006
Total liabilities	210,465	188,115	72,271	71,783

¹⁾ Other assets and liabilities have not been broken down according to currency.

Note 39: Pension commitments

Statutory pensions for employees of Finnish Group companies are arranged through insurance. The premiums are paid by the companies. Supplementary pensions for employees are arranged through the pension foundations and pension fund. A minor part of the pension commitments is carried on respective companies' balance sheets as a provision under liabilities. In Swedish Group companies, pension liabilities are mainly borne by the companies themselves, but are fully covered through the affiliated pension foundation. A minor part of the pension commitments is arranged through insurance, and liabilities arising from certain individual old commitments are carried on respective companies' balance sheets under liabilities.

At the end of the year, the fair value of the assets of Group pension funds and foundations was FIM 7,518 M, which exceeds the amount of liabilities by FIM 1,550 M. Pension liabilities carried in Group companies' accounts amounted to FIM 114 M.

Note 40: Off-balance-sheet commitments

FIM million	1998	1997
Guarantees	29,410	31,566
Stand-by facilities	27,843	21,198
Credit lines	30,916	32,823
Other commitments	5,233	13,346
Total	93,402	98,933

Of which, on behalf of Group and associated companies

FIM million	1998		1997	
	Group companies	Associated companies	Group companies	Associated companies
Guarantees	–	12	–	66
Other	–	80	–	88
Total	–	92	–	154

Note 41: Derivative instruments

FIM million	1998		1997	
	Contracts made for hedging purposes	Other	Contracts made for hedging purposes	Other
Nominal value				
Interest-rate-related				
Futures and forwards	–	1,112,556	1,647	2,069,736
Options				
Purchased	–	9,186	–	23,150
Written	–	11,815	–	31,563
Interest-rate swap agreements	20,774	586,523	27,398	573,815
Currency-related				
Futures and forwards	176,955	239,994	232,920	292,216
Options				
Purchased	–	10,018	–	17,222
Written	–	9,916	–	14,766
Interest-rate swap agreements	11,050	15,834	11,400	11,669
Equity-related				
Futures and forwards	–	869	11	336
Options				
Purchased	1,406	112	1,060	1,550
Written	997	90	935	183
Other derivative instruments	–	191	1,083	167
Credit equivalents				
Interest-rate-related instruments		16,022		19,829
Currency-related instruments		13,783		17,020

Not 42: Average number of employees

	1998	1997
Full-time	18,179	19,490
Part-time	2,297	2,094

Not 43: Subsidiaries and associated companies

FIM million	Domicile	Shareholding, %	Book value
Subsidiaries included in the consolidated financial statements			
<i>Finnish</i>			
MeritaNordbanken Plc	Helsinki	100	19,124
Subsidiaries of MeritaNordbanken Plc			
<i>Finnish</i>			
Contant Oy ¹⁾	Turku	100	34
Huoneistokeskus Oy ²⁾	Helsinki	100	108
Merita Bank Plc	Helsinki	100	8,863
Merita Corporate Finance Ltd	Helsinki	100	23
Merita Real Estate Ltd ³⁾	Helsinki	100	2,875
Merita Kiinteistöomistus Oy	Helsinki	100	23
Merita Life Assurance Ltd ²⁾	Espoo	100	542
Nordica Invest Oy	Helsinki	100	575
Partita Ltd	Helsinki	100	690
Unitas Congress Center Ltd ²⁾	Helsinki	100	1
<i>Swedish</i>			
Nordbanken AB	Stockholm	100	8,400
Subsidiaries of Nordbanken AB			
<i>Swedish</i>			
AB Industrikredit	Stockholm	100	1,067
Fastighets AB Stämjärnet	Stockholm	100	63
Nordbanken Fastigheter AB	Stockholm	100	562
Nordbanken Finans AB	Stockholm	100	642
Nordbanken Hypotek AB	Stockholm	100	3,233
Nordbanken Kapitalförvaltning AB	Stockholm	100	49
Nordbanken Kommunlån AB	Stockholm	100	86
<i>Other</i>			
Nordbanken North America Inc.	Delaware	100	0
Nordbanken Reinsurance S.A.	Luxembourg	100	7
Subsidiaries of Merita Bank Plc			
<i>Finnish</i>			
Fidenta Oy	Espoo	40	1
Hatanpään valtatie 30 Koy	Tampere	100	104
Helsingin Pantti-Osakeyhtiö	Helsinki	100	35
Investa Fund Management Ltd	Helsinki	100	4
Lahden Hansa Oy	Lahti	100	141
Levytie 6 Koy	Helsinki	100	156
Merita Asset Management Ltd	Helsinki	100	19
Merita Capital Ltd	Helsinki	100	25
Merita Delta Ltd	Helsinki	100	50
Merita Finance Ltd	Helsinki	100	1,250
Merita Fund Management Ltd	Helsinki	100	24
Merita Securities Ltd	Helsinki	75	16
Merita Invest Ltd	Helsinki	100	1,432

	Domicile	Shareholding, %	Book value
Merita Customer Finance Ltd	Helsinki	100	280
Merita Systems Oy	Helsinki	60	0
Multihermia Koy	Tampere	100	55
Porin Sokos Koy	Pori	100	33
Ristipellontie 4 Koy	Helsinki	100	158
Oy Saunatec Ltd	Espoo	57	77
Stimato Oy	Helsinki	100	30
Tampereen Kirkkokatu 7 Koy	Tampere	100	297
Tukirahoitus Oy	Oulu	100	28
Vantaan Jaakonkatu ²⁾	Vantaa	100	0
VKR-Kiinteistöt Oy	Vantaa	60	6
<i>Other</i>			
American Scandinavian Banking Corp.	New York	100	57
Estonian Industrial Leasing Ltd	Tallinn	80	13
Investment Bank of Latvia	Riga	72	50
Merita Finance (U.K.) Ltd.	London	100	1
Merita Holdings (U.K.) Ltd	London	100	13
MeritaNordbanken Luxembourg S.A.	Luxembourg	100	103
MeritaNordbanken Merchant Bank Singapore Ltd	Singapore	100	108
Merita North America Inc.	Delaware	100	0
Merita Securities (U.K.) Ltd	London	100	2

Associated companies included in the consolidated financial statements

Associated companies of MeritaNordbanken Plc

Swedish

Nordisk Renting AB ²⁾	Stockholm	40	260
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Associated companies of Merita Bank Plc

Finnish

ATM Automatia Ltd	Helsinki	33	30
Eurocard Oy	Helsinki	28	12
Kreditlaget	Helsinki	28	53
Pulpros Oy	Helsinki	49	44
Securus Oy	Helsinki	35	0
Suomen Asiakastieto Oy	Helsinki	32	0
Suomen Suorakauppa Oy	Helsinki	25	0
Suunto Oy	Espoo	23	42
Toimiraha Oy	Helsinki	33	13

Other

Freja Finance S.A.	Luxemburg	33	0
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¹⁾ Portion of share capital in Merita Bank Group is 77% and the book value FIM 24 million.

²⁾ Consolidated under the equity method.

³⁾ Merita Bank Group's percentage of votes in Merita Real Estate Ltd is 49.75%.

February 23, 1999

Vesa Vainio
Chairman

Jacob Palmstierna
Vice Chairman

Hans Dalborg
Chief Executive Officer

Dan Andersson

Rune Brandinger

Casimir Ehrnrooth

Mikko Kivimäki

Bernt Magnusson

Juha Niemelä

Timo Peltola

Auditors' Report

In our capacity as auditors of Merita Plc and Nordbanken Holding AB (publ), we have examined the attached accounts of the MeritaNordbanken Group. These accounts are a pro forma summary of the accounts of Merita Plc and Nordbanken Holding AB (publ) and the associated company, MeritaNordbanken Plc, jointly owned by these two companies.

MeritaNordbanken Plc is the holding company for Merita Bank and Nordbanken.

In our opinion, the accounts of the MeritaNordbanken Group have been correctly compiled, based on the accounts of the constituent companies.

February 23, 1999

Eric Haglund
Authorized Public Accountant

Caj Nackstad
Authorized Public Accountant

Board of Directors

In accordance with the cooperation agreement between Merita Plc and Nordbanken Holding AB (publ), the Boards of Directors of these companies and MeritaNordbanken Plc have the same members. In MeritaNordbanken Plc there are also two Board members who represent the employees.

It is intended that the position of Chairman of the Board of MeritaNordbanken Plc will alternate annually between the Chairman of the Board of Nordbanken Holdings and Merita's President.

In principle, the Board of Directors meets once monthly. Board matters are prepared within a Presiding Committee consisting of the Chairman, Vice Chairman and Chief Executive Officer. The Presiding Committee meets every second week.

The Board of Directors of MeritaNordbanken Plc comprises four committees:

Credit Committee: The committee handles any lending commitments that exceed certain limits established by the Boards of the two banks. Before decisions can be made by the banks' Boards of Directors in such matters, the financial commitment must be approved by the committee. During 1998, the Credit Committee comprised Board members Palmstierna (Chairman), Vainio, Brandinger, Dalborg and Ehrnrooth. The committee met 44 times during the year.

Treasury Committee: The committee oversees the Group's financial operations and liquidity situation and

makes decisions in these areas with the authorization of the Board of Directors. During 1998 the Treasury Committee comprised, in addition to certain key executives, Board members Vainio (Chairman), Palmstierna, Andersson and Peltola. The committee met four times during the year.

Auditing Committee: The committee oversees the internal auditing function within the Group and prepares auditing-related matters for consideration by the Board of Directors. During 1998 the Auditing Committee comprised Board members Niemelä (Chairman), Brandinger and Dalborg. The committee met once during the year.

Compensation Committee: The committee presents proposals to the Board of Directors regarding the CEO's conditions of employment. The CEO also consults with the committee regarding the conditions of employment for Group Management and other senior executives. During 1998 the Compensation Committee comprised Board members Vainio (Chairman), Palmstierna and Dalborg. The CEO does not participate in deliberations on his own conditions of employment. The committee meets as necessary in conjunction with meetings of the Presiding Committee.

Members of the Board of Directors of Merita Plc, Nordbanken Holding AB (publ) and MeritaNordbanken Plc

Vesa Vainio

Born 1942. Board Chairman of MeritaNordbanken. Vice Chairman of Nordbanken Holding. President of Merita. Board Chairman of the Central Chamber of Commerce, Vice Chairman of Metra Corporation. Board member of Nokia Group and UPM-Kymmene Corporation.
Shareholding: 2,793 Merita.

Jacob Palmstierna

Born 1934. Hon. Ph.D (Econ.). Board Chairman of Nordbanken Holding. Vice Chairman of MeritaNordbanken and Merita. Board Chairman of Bilia AB and Siemens Elema AB. Board member of NCC AB, Nordstjernan AB, Avesta Sheffield AB and ICB Shipping AB, among other companies.
Shareholding: 22,400 Nordbanken Holding.

Hans Dalborg

Born 1941. Ph.D. President and CEO of MeritaNordbanken and Chairman of the Board of Management of Merita Bank and Board Chairman of Nordbanken. Board Chairman of the Royal Opera in Stockholm, Board member of the Stockholm Concert Hall Foundation, the East Economics Institute and AB Svenska Spel. Member of the Swedish Academy of Engineering Sciences (IVA).
Shareholding: 37,700 (with family) Nordbanken Holding and 3,000 Merita.

Dan Andersson

Born 1948. Undersecretary, Ministry of Industry and Commerce. Board Member of 4th AP Fund and the Fund Council of the National Social Insurance Board.
Shareholding: 0.

Rune Brandinger

Born 1931. Former president of Södra Skogsägarna. President of Nordbanken Holding. Board Chairman of Vasakronan AB, Elektronikgruppen AB, Cepro AB, Alfaskop AB, the Swedish Sawmill Association, AB Träteck and SwIT Yrkesutbildning. Board member of Atle Karolin Verkstads AB, AB Svenska Miljöstyrningsrådet, Swebus AB and the Federation of Swedish Industries.
Shareholding: 8,400 Nordbanken Holding.

Casimir Ehrnrooth

Born 1931. Board Chairman of Nokia Group. Board member of UPM-Kymmene Corporation and member of Continental AG's Supervisory Board.
Shareholding: 10,181 Merita.

Mikko Kivimäki

Born 1939. Chief Executive Officer and Board Chairman of Rautaruukki Oy. Board Chairman of the Central Association of the Metal Industry. Vice Chairman of Pension Insurance Companies Varma Sampo and Industrial Insurance Company Ltd. Member of the Supervisory Board of YIT Corporation. Board member of the Executive Committee of the Confederation of Finnish Industry and Employers. Board Chairman of Swedish National Maritime Administration.
Shareholding: 3,130 Merita.

Bernt Magnusson

Born 1941. Board Chairman, NCC AB and Swedish Match AB. Vice Chairman of Avesta Sheffield AB, Net Insight AB and the Stockholm Chamber of Commerce. Chairman of the Business Tax Delegation. Board member of Burmah Castrol plc, Neptun Maritime Abp, Höganäs AB, ICB Shipping AB, Emtunga International AB and Federation of Swedish Industries. Advisor in the European Bank for Reconstruction and Development.
Shareholding: 2,400 Nordbanken Holding.

Juha Niemelä

Born 1946. Chief Executive Officer of UPM-Kymmene Corporation. Board Chairman of the Finnish Forestry Industry Federation. Member of the Board and the Executive Committee, Confederation of Finnish Industry and Employers. Board member of Rauma Corporation, Oy Metsä-Botnia Ab and Oy Metsä-Rauma Ab.
Shareholding: 3,100 Merita.

Timo Peltola

Born 1946. Hon. Ph.D (Econ.). Board Chairman and Chief Executive Officer of Huhtamäki Oyj. Board Chairman of Merita. Vice Chairman of the Supervisory Board of Pension Insurance Company Ilmarinen Ltd. Member of the Supervisory Board of the Finnish Cultural Fund. Member of the Supervisory Board of the Finnish Trade Fairs Association.
Shareholding: 5,086 Merita.

Other members of the Board of Directors of MeritaNordbanken Plc

Bertel Finskas

Born 1948. Bank manager.
Shareholding: 1,400 Nordbanken Holding.

Kaija Roukala-Hyvärinen

Born 1953. Chief staff representative.
Shareholding: 120 Merita.



Jacob Palmstierna
Vesa Vainio
Hans Dalborg



Dan Andersson
Rune Brandinger
Casimir Ehrnrooth



Mikko Kivimäki
Bernt Magnusson
Juha Niemelä



Timo Peltola
Bertel Finskas
Kaija Roukala-
Hyvärinen

Group Management

Hans Dalborg

President and Chief Executive Officer
Employed since 1991
Shareholding: 37,700 (with family) Nordbanken Holding and 3,000 Merita.

Carl-Johan Granvik

Corporate
Employed since 1974
Shareholding: 2,133 Merita.

Karl-Olof Hammarkvist

Asset Management
Employed since 1991
Shareholding: 2,100 (with family) Nordbanken Holding.

Sven-Åke Johansson

Real Estate and Treasury
Employed since 1991
Shareholding: 12,000 (with family) Nordbanken Holding.

Kalevi Kontinen

IT Systems and Strategic Analysis
Employed since 1984
Shareholding: 5,000 Merita.

Jussi Laitinen

Markets
Employed since 1993
Shareholding: 11,860 (with family) Merita.

Arne Liljedahl

Accounting and Control
Employed since 1983
Shareholding: 2,800 (with family) Nordbanken Holding.

Lars G. Nordström

Regions and Distribution Channels
Retail
(President, Nordbanken AB)
Employed since 1993
Shareholding: 7,000 Nordbanken Holding.

Markku Pohjola

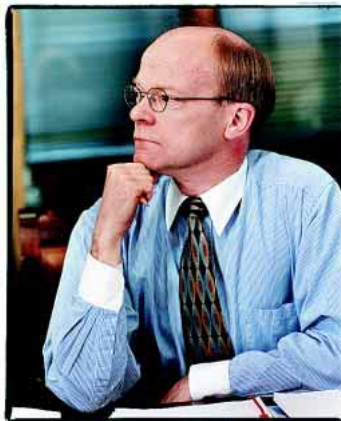
Product Areas and Markets,
Retail (Deputy)
Employed since 1971
Shareholding: 4,000 Merita.

Pertti Voutilainen

Other Group Staffs and banking issues
(President, Merita Bank Plc)
Employed since 1992
Shareholding: 6,767 Merita.

Claes Östberg

Credit Policy and Credit Control
Employed since 1977
Shareholding: 9,700 (with family) Nordbanken Holding.



Hans Dalborg
Carl-Johan Granvik
Karl-Olof
Hammarkvist



Sven-Åke Johansson
Kalevi Kontinen
Jussi Laitinen



Arne Liljedahl
Lars G Nordström
Markku Pohjola



Pertti Voutilainen
Claes Östberg

Auditors

The Annual General Meetings of the two holding companies, Merita Plc and Nordbanken Holding AB (publ), have each appointed two authorized public accountants to examine the companies' financial statements and administrations in accordance with Finnish and Swedish law respectively. In order to facilitate full coordination of the external audits

throughout the Group, the Annual General Meetings of the two companies also decided that one of the auditors appointed to each company has the right to participate in the auditing of the other company. This will ensure that the operations of the MeritaNordbanken Group are audited in a coordinated manner.

Merita Plc

Auditors:

Eric Haglund, Authorized Public Accountant
Mauri Palvi, Authorized Public Accountant,
both from KPMG Wideri Oy Ab

Deputy auditors:

KPMG Wideri Oy Ab, a firm of auditors
Eero Suomela, Authorized Public Accountant

Nordbanken Holding AB

Auditors:

Caj Nackstad, Authorized Public Accountant
Per-Olof Akteus, Authorized Public Accountant
both from KPMG Bohlins AB

Eric Haglund participates in the auditing of Nordbanken Holding AB and
Caj Nackstad participates in the auditing of Merita Plc.

MeritaNordbanken Plc

Auditors:

Eric Haglund, Authorized Public Accountant
Mauri Palvi, Authorized Public Accountant

Caj Nackstad, Authorized Public Accountant, participates in the auditing
of the MeritaNordbanken Group.

Merita Bank Plc

Auditors:

Eric Haglund, Authorized Public Accountant
Mauri Palvi, Authorized Public Accountant

Nordbanken AB (publ)

Auditors:

Caj Nackstad, Authorized Public Accountant
Per-Olof Akteus, Authorized Public Accountant

Stefan Tolstoy, Authorized Public Accountant,
appointed by the Swedish Financial Supervisory
Authority

Senior Executives

President and CEO

Hans Dalborg

Retail

Lars G Nordström
Markku Pohjola, Deputy

Regional banks

Helsinki and Uusimaa
Central and Western Finland
Eastern and Northern Finland
and Ostrobothnia
Northern Sweden
Stockholm
Central Sweden
Western Sweden
Southern Sweden
Private Banking

Kari Jordan
Pekka Ojala
Harri Sailas
Hans Jacobson
Magnus Falk
Johan Sylvén
Sten Lindblad
Arne Bernroth
Eira Palin-Lehtinen

Products and markets

Corporate and Financing

Jukka M. S. Salonen
Chister Furustedt,
Deputy

Private Customers
and Deposits

Roland Olsson
Jukka Perttula,
Deputy

Asset Management and
Private Banking
Payments and Network
Banking

Karl-Olof Hammarkvist
Bo Harald
Kurt Gustavsson,
Deputy

Staff and service functions

Market Support

Maj Stjernfeldt
Timo Lahtinen,
Deputy

Distribution and
Service Network

Thomas Neckmar
Pentti Tirkkonen,
Deputy

Production and Productivity

Sofie Wakter
Timo Linnavuori,
Deputy

Other operational units

Asset Management

Karl-Olof
Hammarkvist

Mutual Funds
and Investment Management
Portfolio Management
Life insurance

Staffan Grefbäck
Anders Oscarsson
Seppo Ilvessalo
Gunnar Andersson
Eira Palin-Lehtinen

Private Banking

Corporate

Structured and
Corporate Finance
Corporate
International
International Products

Carl-Johan Granvik
Björn Carlsson
Jorma Laakonen
K G Lindvall
Kari Kangas

Markets

Trading

Jussi Laitinen

Jussi Laitinen
Christer Serenhov
David Britton
Johan Grevelius
Reijo Knuutinen
Lars Jonasson

Equity Trading

Securities Service

Real Estate and Treasury

Aleksia Real Estate
Merita Real Estate
NB Fastigheter and
Stämjärnet

Sven-Åke Johansson

Heikki Hyppönen
Juha Olkinuora
Jan Lilja

Other units

Group Staffs

Accounting and Control

Control
Group Reports
Treasury

Arne Liljedahl

Martti Huhtamäki,
Deputy
Siv Svensson
Bo Ranhamn
Jakob Grinbaum
Fanny Borgström,
Deputy

Financial Risk Control
Credit
Internal auditing

Louise Lindgren
Claes Östberg
Kari Ahonen
Göran Karlsson
Lars Thalén

Information
(including corporate image)
Investor Relations
Management Secretariat

Björn Westberg
Peter Forsblad

Other Group Staffs

Economic Secretariat

Pertti Voutilainen

Nils Lundgren
Juha Ahtola
Olle Djerf
Tord Arnerup
Kari Souminen
Margareta Leijonhuvud
Sven Karlsson

Legal and tax issues

Taxes in Sweden
Executive Procurement
Personnel administration and
administrative coordination
Internal Service

Ari Laakso
Markku Mikkola
Kjell Oldén
Jouko Varjonen
Leif Larsson

Security
Operative risk control

IT Systems

Service units

MNB Data

Kalevi Kontinen

Bengt-Åke Eriksson

Major subsidiaries

MeritaNordbanken Kapitalförvaltning

President - Nordbanken Kapitalförvaltning: Staffan Grefbäck
President - Nordbanken Fonder och Allemansfonder: Thomas Eriksson
President - Nordbanken Portföljförvaltning: Anders Oscarsson
President - Merita Fund Management Ltd: Jari Sundström
President - Merita Asset Management Ltd: Jaakko Ojala (interim)

Nordbanken Kapitalförvaltning comprises Nordbanken's fund companies in Stockholm and Luxembourg as well as Nordbanken Portföljförvaltning, which manages portfolios for institutional investors. Merita Fondbolag and Merita Asset Management are comparable units in Helsinki. The companies follow common investment strategies, develop products jointly and utilize common systems. The objective is to fully utilize the synergies in this area of operations. At year-end 1998 the companies combined had FIM 109.7 bn under management, with 238 employees.

MeritaNordbanken Livförsäkring

President - Livförsäkringsaktiebolaget LIVIA AB (publ): Gunnar Andersson
President - Merita Life Assurance Ltd: Seppo Ilvessalo

Livia and Merita Life are the Group's two life insurance companies. They are organized and structured to be part of a bank group and, accordingly, highly cost-effective. Livia is operated as a mutual company while Merita Life is consolidated. The companies' products are characterized by simplicity, value for the money and a good return on capital. At year-end 1998, Livia's retrospective reserve amounted to SEK 9.3 bn, with 34 employees. Merita Life's claims liability amounted to FIM 10.8 bn, with 56 employees.

Nordbanken Hypotek AB (publ)

President - Eva Andersson

Nordbanken Hypotek is one of Sweden's larger mortgage companies; it offers a competitive range of a long-term property financing solutions through the Bank's network of offices. These solutions are designed to meet customers' needs for secure long-term planning and loan structures. Nordbanken Hypotek hold a long-term rating of Aa3 by Moody's Investor Service, which gives the company good possibilities to borrow internationally on competitive terms.

The favorable trend of the company's volume of business and earnings continued during 1998. The company's share of the market increased by 0.81 percentage points, to 12.42%, during the year. Its share of the Private segment of the market was 14.33%. Lending, which increased by SEK 9 bn during the year, amounted at December 31, 1998 to SEK 126 bn. Of the company's total lending, 72% was secured by mortgages on residential properties. Lending to municipalities, secured by municipal or national-government guarantees, accounted for 19%, and other lending for 9%.

Operating income amounted to SEK 1,151 M, an increase of 5%.

The company had 72 employees.

Nordbanken Industrikredit AB (publ)

President - Rolf Melin

Nordbanken Industrikredit focuses on long-term financing for – primarily – small and medium-size companies. Its loan products are marketed to the Bank's customers via the office network,

The loan portfolio at year-end amounted to SEK 21.6 bn. Operating income in 1998 amounted to SEK 232.4 M. The work of coordinating operations with Nordbanken Hypotek was begun during the year. It was also decided to merge the company with the bank in the year 2000.

Nordbanken Kommunlån AB (publ)

President - Torgny Wistedt

Nordbanken Kommunlån's mission is to offer the bank's customers in the municipality and county council sector a competitive range of long-term financing solutions on terms providing good profitability for the Group.

The market for lending to municipalities and municipally owned companies is exposed to severe competition from both domestic and international credit institutions and by the fact that municipalities can borrow directly in the credit market.

Loans outstanding at year-end amounted to SEK 10 bn. The company's operating income amounted to SEK 21 M. The company had three employees.

Nordbanken Kommunlån is being coordinated with Nordbanken Hypotek through a merger in 1999.

Nordbanken Finans AB (publ)

President - Stefan Källström

Nordbanken Finans is MeritaNordbanken's finance company in Sweden. It is responsible for finance-company products in Sweden, Norway and Denmark. The principal products are leasing, installment plans, factoring, contract financing and credit cards. The products are marketed primarily through the network of Bank offices but also by suppliers and retailers in situations where financing is offered in connection with a sale.

The company's sales in 1998 amounted to SEK 8.2 bn, an increase of 22% compared with the preceding year. Total assets at year-end 1998 amounted to SEK 21.6 bn. Lending rose by 26%, to SEK 19.6 bn, and income amounted to SEK 296 M. The company had 243 employees at the end of the year.

The Structured Finance business area experienced another successful year, with sales of SEK 2.2 bn, the greater part of which pertained to aircraft financing. Nordbanken Finans is today the largest company in the Nordic region in the field of aircraft financing.

The area of cooperation with suppliers continued to develop favorably, with sales increasing 55%, to SEK 1.4 bn.

A new business area, Cards, was started during 1998. It is responsible for corporate cards, selective private cards and unsecured loans to private individuals. Effective in 1999, the "First Card" corporate card is entirely a Nordbanken Finans product, following acquisition of rights to the brand name from American Express. The "functionality" of First Card is being maintained through continuing cooperation with Nyman & Schultz.

Merita Finance Ltd

President - Jarmo Laiho

Merita Finance is the Group's finance company in Finland. The company is also responsible for the markets in the Baltic States, Poland and Russia. The company's principal products are equipment leasing, real estate leasing, installment contracts, factoring, contract financing and charge cards. These products are marketed through the Bank's network of offices and by suppliers and retailers in situations where financing is offered in connection with a sale. Merita Finance has two subsidiaries in Finland: Tukirahoitus Oy and M-Rent Oy. The company also conducts finance-company operations in Estonia and Latvia through Estonian Industrial Leasing Ltd. and MeritaNordbanken Latvia Finance Ltd., respectively.

Total assets of the parent company at December 31, 1998 amounted to FIM 12.4 bn., with lending totaling FIM 11.9 bn. Profit for the full year amounted to FIM 309 M, a decrease of 3% compared with 1997. The company had 298 employees.

Merita Customer Finance Ltd

President - Matti Willamo

Merita Customer Finance manages and markets part of the Merita Bank Group's consumer loans. The business may be classified in three different areas: cooperation with retailers on sales financing, the administration of consumer loans, and direct sales of unsecured loans to private individuals.

At year-end 1998, total assets amounted to FIM 5.1 bn and profit for the year was FIM 157 M. The company has 226 employees.

Merita Capital Ltd

President - Jouko Helomaa

Merita Capital invests risk capital and manages the Profita Fund I Kb capital fund. Merita Bank owns 42% of the fund's capital. The other investors in the fund are mainly insurance companies.

Merita Capital has 6 employees. The profit for 1998 amounted to FIM 1.0 M.

At the end of 1998 Merita Capital, and Profita Fund each had invested FIM 39 M in 12 companies. During the year Merita Capital and Profita Fund invested a total of FIM 37 M in seven companies. The Profita Fund, which was founded at the end of 1996 has a fund life that is limited by contract to 10 years.

Merita Real Estate Ltd

President - Juha Olkinuora

Merita Real Estate, which owns and manages the Merita Group's real estate holdings, supports Merita Bank with its expertise in real estate matters. Merita Real Estate acquires, manages, improves and sells buildings and apartments as needed by Merita Bank and also serves as the landlord for internal and external tenants.

The company's operations in the next few years will consist largely of active efforts to liquidate properties. In the longer-term future Merita Real Estate will own and manage only properties that are needed for the Group's operations.

As of January 1, 1999 the total property holdings amounted to 1,238,857 square meters of space with a book value of FIM 8.2 bn. Properties used by the bank accounted for 318,064 square meters of space and FIM 2.9 bn of book value.

Merita Real Estate had 90 employees at the beginning of 1999. It incurred a loss of FIM 3.4 bn in 1998.

Aleksia Ltd

President - Heikki Hyppönen

Aleksia is a newly formed company that owns and manages commercial properties in growth areas in Finland. On January 1, 1999, approximately 170 properties and certain employees were transferred from Merita Real Estate to Aleksia. The company's objective is to maintain and increase the value of properties, and their yield potential, by developing and investing in properties. Through its activities, Aleksia aims to strengthen the position of its real estate operations and attract outside investors. The company is considering listing its shares on the stock exchanges in Helsinki and Stockholm.

Nordbanken Fastigheter AB

President - Jan Lilja

Nordbanken Fastigheter owns and manages the bank's properties used in operations in Sweden. The company is also responsible for managing and enhancing properties belonging to Nordbanken's Pension Foundation, Livsförsäkrings AB Livia and other companies closely related to Nordbanken. It also conducts training and consulting activities involving real estate matters within the bank.

Two properties and the holding in Borlänge Centrum, with a book value of SEK 46 M, were divested during the year, resulting in a capital gain of SEK 17 M.

Nordbanken Fastigheter is managing a total of 255,230 square meters of space, of which 156,680 are being used by the bank. The vacancy rate in the properties at December 31, 1998 was 5.6%. The book value of the holdings was SEK 3,036 M and the market value was estimated to be SEK 4,559 M. Total rental revenue amounted to SEK 381 M, of which SEK 293 M was generated within the Group. The company had 43 employees at year-end.

Fastighets AB Stämjärnet

President - Jan Lilja

The company acquires, manages, enhances and then sells properties that have been pledged as collateral for defaulted loans in Nordbanken. The objective is for Nordbanken to incur lower credit losses from property-related transactions as a result of Stämjärnet's activity than would be the case with an immediate liquidation of the pledged property in the real estate market in default situations.

During 1998 65 properties were sold for a total of SEK 361 M, resulting in a reported capital gain of SEK 18 M. The company's remaining holdings consist of 43 properties with a total of 75,475 square meters of rentable space. At December 31, 1998 the market value of the properties was estimated at SEK 473 M. The vacancy rate at the end of 1998 was 21.4%. The company has no employees; all management and administrative functions are handled by Nordbanken Fastigheter.

Huoneistokeskus Oy

President - Matti Tossavainen

Huoneistokeskus offers real estate brokerage services in connection with purchases, property sales and renting operations. Together with Merita Bank, Huoneistokeskus offers complete service when customers change residences.

Huoneistokeskus is clearly the market leader in its field. During 1998 it arranged 15,000 residential property transactions with a market value of approximately FIM 9 bn. The company is part of the Retail operations within the MeritaNordbanken organization.

The company had 526 employees. Its profit in 1998 amounted to FIM 27.4 M.



Nordbanken Holding 1998

Board of Directors' Report

Corporate registration number 556547-0977. Registered office: Stockholm, Sweden.

The holding companies Nordbanken Holding AB (publ) and Merita Plc are the sole owners of MeritaNordbanken Plc with its subsidiaries. Together, MeritaNordbanken, its subsidiaries and the two holding companies form the MeritaNordbanken Group.

The annual report of the MeritaNordbanken Group, including income statements and balance sheets, is an essential and integral part of Nordbanken Holding's annual report. To illustrate Nordbanken Holding's financial development and position, income statements and balance sheets for Nordbanken Holding are presented below including and excluding the associated company MeritaNordbanken.

Key ratios for the Merita Nordbanken Group are presented on page 10.

Significant events

Through an offer to the shareholders of Nordbanken AB in November and December of 1997, Nordbanken Holding became the owner of 99.7% of the shares in Nordbanken AB. Nordbanken Holding thereby acquired the right to obtain the remaining Nordbanken AB shares through so-called compulsory redemption. These redemption proceedings began on December 18, 1997 and are still under way. In February 1998 Nordbanken Holding invited the remaining Nordbanken AB shareholders to tender their shares for a fixed price (SEK 306 per share) rather than participate in the compulsory redemption. A large percentage of these shareholders have taken advantage of this offer.

Nordbanken Holding was granted "advance possession" of the shares on March 11, 1998, against provision of collateral. Nordbanken Holding was thereby able to be registered at Värdepapperscentralen (Swedish Securities Register Center) on March 16, 1998 as the owner of all Nordbanken shares.

On April 1, 1998, Nordbanken Holding transferred its entire holding in Nordbanken AB to MeritaNordbanken Plc in exchange for shares in the latter company. In a corresponding manner, Merita Plc on March 31, 1998 transferred all of its operations to MeritaNordbanken Plc in exchange for shares in that company. The MeritaNordbanken Group was formed in this way. The increases in the share capital of MeritaNordbanken Plc were recorded in the Commercial Register on April 18, 1998.

In accordance with a cooperation agreement dated October 13, 1997, Nordbanken Holding AB (publ), Merita Plc and MeritaNordbanken Plc with its subsidiaries are being managed as a single unit. To accomplish this, the agreement prescribes that any differences in the capital structures of the owner companies, as well as their assets and liabilities including liquid assets shall not affect the financial position of the respective shareholder communities. The agreement also states that Nordbanken Holding and Merita Plc shall work together to ensure that funds are transferred, as needed, from MeritaNordbanken Plc with its subsidiaries to the holding companies.

The shareholders in Nordbanken Holding and Merita Plc have rights to 60% and 40%, of the total Group equity capital, respectively.

The following also applies in connection with the cooperation agreement. Nordbanken Holding's preferred shares in MeritaNordbanken shall be converted, one for one, to common shares in a number of situations. The conversion shall be effected if a third party becomes a shareholder in MeritaNordbanken, provided that, after conversion, no shareholder holds shares carrying more than 50% of the voting rights in MeritaNordbanken, or if a General Meeting of MeritaNordbanken shareholders approves a conversion unanimously. In addition, the General Meeting has the right to vote unanimously to redeem the preferred shares. All common and preferred shares in MeritaNordbanken carry equal rights to dividends. If conversion or redemption has not taken place by January 1, 2001, the preferred shares shall thereafter carry rights to a dividend that exceeds by 20% the dividend paid on the common shares. This would mean that the 60/40 relationship, when applied to the dividend, would become approximately 61.5/38.5.

If the preferred shares are converted in 2001 or later, the higher dividend will cease to be paid, effective in the fiscal year in which the conversion takes place.

Personnel

Nordbanken Holding had one employee – the president – during the fiscal year 1998. No fees were paid to the company's Board of Directors.

Earnings and financial position

Nordbanken Holding's profit for the year, excluding the associated company, amounted to SEK 42 million, compared with SEK 4,934 million (anticipated dividend) for 1997. Nordbanken Holding's (60%) interest in profit of MeritaNordbanken Plc with its subsidiaries in 1998 is reported among participations in associated companies, which also includes an adjustment of SEK 710 million in accordance with the cooperation agreement. Profit in 1998 has also been credited with 60% of a refund from pension foundation and fund, SEK 802 million, (1997: SEK 1,367 million) and charged with 60% of the write-down of real estate, SEK 3,267 million (1997: SEK 867 million). Profit for the year amounted to SEK 3,719 million (1997: SEK 5,613 million, pro forma) and was equal to 60% of MeritaNordbanken Group's profit.

Including a share of the capital in associated companies, and after adjustments in accordance with the cooperation agreement, Nordbanken Holding's equity capital amounted to 60% of the total shareholders' equity of the MeritaNordbanken Group – SEK 27,157 million, compared with SEK 24,356 million, pro forma, at December 31, 1997.

Share capital and number of shares

The share capital in Nordbanken Holding amounts to SEK 8,927 million, represented by 1,275,267,441 shares, par value SEK 7 each. All shares carry equal rights to the company's assets and profits. Each shareholder eligible to vote at a General Meeting of shareholders may vote the full number of shares held, without restrictions. There are no known shareholder agreements.

Share price trend, trading volume and market capitalization

The price of the company's shares rose by 15.8% during 1998. The total return, including dividend of SEK 1.50 per share, amounted to 19.2%. The highest price paid was SEK 65 (July 15) and the lowest was SEK 36 (October 8).

During the same period the Stockholm Stock Exchange Banking and Insurance Index rose by 18.0%, and the General Index by 10.2%.

Nordbanken Holding's shares were the thirteenth-most-actively-traded on the Stockholm Stock Exchange. The total volume of trading amounted to SEK 34,072 million, equal to 678 million shares. Nordbanken Holding thereby accounted for 1.9% of the total turnover on the Exchange.

The market capitalization of Nordbanken Holding's shares at December 31, 1998 was SEK 66,314 million, equal to 2.7% of the total value of all shares traded on the Exchange. The market capitalization was thus equal to 244% of the company's equity capital.

Trading in derivatives

Nordbanken Holding's shares can also be traded in the

form of put and call options and futures contracts and share loans in the Stockholm options market (OM Stockholm AB). Warburg Dillon Read also issues long-term warrants in Nordbanken Holding that are traded on the Stockholm Stock Exchange.

Shareholders

At year-end 1998 Nordbanken Holding had just under 102,000 shareholders, representing an increase of nearly 11,000 during the year. Private individuals own approximately 5.7% of the shares, Swedish institutions slightly more than 24%, and foreign shareholders approximately 27.5%. The remaining shares, 42.5%, are held by the Swedish Government.

Dividend

The Board of Directors of Nordbanken Holding (publ) proposes that a dividend of SEK 1.64 per share be paid for the year 1998.

Annual General Meeting

The Annual General Meeting of Nordbanken Holding AB (publ) will be held Thursday, March 25, 1999, at 3:00 p.m. in the Annex of Globen, in Stockholm, Sweden.

Notification

Shareholders who wish to participate in the Meeting

must be recorded in the share register maintained by Värdepapperscentralen VPC AB (Swedish Securities Register Center) not later than Monday, March 15, 1999, and

must give Nordbanken Holding AB (publ) notice, not later than 1:00 p.m., Monday, March 22, 1999, of their intention to attend in one of the following ways:

In writing, addressed to Group Legal Department, SE-105 71, Stockholm, Sweden,
by telephone, +46-8 614 97 10,
by telefax, +46-8 614 87 70, or
via the Internet: www.meritanordbanken.com

To be eligible to participate in the Meeting, shareholders whose shares are registered in the name of a trustee must temporarily re-register the shares in their own name. Such re-registration must be effected at VPC AB by Monday, March 15, 1999. Accordingly, shareholders must advise trustees in ample time prior to that date.

Dividend and record date

The Board of Directors proposes that a dividend of SEK 1.64 per share be paid for 1998 and that Tuesday, March 30, 1999 be the record date for the dividend. If the Annual General Meeting approves the Board's proposal, it is expected that the dividend will be distributed by VPC on April 8, 1999.

Nordbanken Holding's largest shareholders

December 31, 1998	Number of shares	Percentage of capital and votes
Swedish Government	542,015,102	42.5
SPP	47,879,920	3.8
AMF Pension	38,900,000	3.1
Nordbanken mutual funds	29,182,416	2.3
Skandia	22,245,050	1.7
Svenska Handelsbanken's mutual funds	17,551,900	1.4
NB Profit-sharing Foundation	17,419,800	1.4
AMF Insurance	16,820,800	1.3
Fidelity Investments	16,510,184	1.3
SEB + Trygg + ABB mutual funds	13,241,200	1.0

Source: DN Ågarservice AB and Swedish Securities Register Center (VPC) AB

Distribution of shares

December 31, 1998	Number of shareholders	Percent of total	Number of shares held	Percent of total	Number of shares per shareholder
1-1,000	88,334	86.6	52,639,202	4.1	596
1,001-5,000	11,245	11.0	23,964,403	1.9	2,131
5,001-50,000	1,903	1.9	27,282,273	2.1	14,336
50,001-100,000	157	0.2	11,508,385	0.9	73,302
100,001-1,000,000	246	0.2	84,679,823	6.6	344,227
1,000,001-	95	0.1	1,075,193,355	84.3	11,317,825
Total	101,980	100.0	1,275,267,441	100.0	

Source: Swedish Securities Register Center (VPC) AB.

Data per share¹⁾

	Nordbanken Holding		Nordbanken		
	1998	1997 Pro forma	1996	1995	1994
Number of shares, 000s	1,275,267	1,275,267	182,742	215,000	429,761
Profit for year, SEK ²⁾	2.92	4.40	29.41	22.65	13.97
Shareholders' equity, SEK ²⁾	21.30	19.10	95.27	86.74	76.78
Dividend, SEK ²⁾³⁾	1.64	1.50	9.50	7.50	4.65
Share price, December 30, SEK	52.00	44.80	206.50	115.00	–
Market capitalization/Shareholders' equity	2.4	2.3	2.2	1.3	–
P/E ratio	17.8	10.2	7.0	5.1	–
Direct yield, %	3.2	3.3	4.6	6.5	–

1) See page 12 for definitions. Data for 1997 and 1998 pertains to Nordbanken Holding, while data prior to 1997 pertains to Nordbanken. In connection with the exchange of shares in 1997 shareholders were offered 7 Nordbanken Holding shares for each Nordbanken share held.

2) Data per share prior to 1995 has been adjusted to reflect the increase in par value from SEK 12.50 to SEK 25.00 and the corresponding reduction in number of shares that was combined with a small bonus issue before the reversed split in 1995.

3) An extra dividend of SEK 9.30 per share was paid out September 29, 1995. Proposed dividend for 1998.

Income Statements

SEK million	Nordbanken Holding including the associated company			Nordbanken Holding ¹⁾	
	Note	1998	1997 Pro forma	1998	1997
Operating income		–	–	–	–
Operating expenses					
Personnel expenses	2	0	–	0	–
Other administrative expenses		-12	–	-12	–
Operating loss		-12	–	-12	–
Net result from financial investments					
Anticipated dividend		–	–	–	4,934
Interest income		78	–	78	–
Interest expenses		-8	–	-8	–
Profit from companies accounted for under the equity method		5,432	} 5,113		
Adjustment in accordance with the cooperation agreement		710			
Profit after financial items		6,200	5,113	58	4,934
Refund from pension foundation/fund ²⁾		802	1,367		
Write-downs of real estate ²⁾		-3,267	-867		
Profit before tax		3,735	5,613	58	4,934
Tax on profit for the year ³⁾		-16	–	-16	–
Net profit for the year		3,719	5,613	42	4,934

1) Nordbanken Holding AB (publ) was registered October 8, 1997. The first financial period of the company thus covered the period from October 8, 1997 to December 31, 1997.

2) 60% of the refund from the Pension Foundation/Fund of the MeritaNordbanken Group and 60% of the Group's write-downs on real estate holdings have been included in the income statement.

3) Tax on the profit for the year includes only Nordbanken Holding's taxes. Nordbanken Holding AB's share of other MeritaNordbanken Group taxes is reported under "Profit from companies accounted for under the equity method" and amounts to SEK 1,028 M (in 1997 1,255 M).

Balance Sheets

SEK million, December 31	Note	Nordbanken Holding including the associated company		Nordbanken Holding	
		1998	1997 Pro forma	1998	1997
Assets					
Fixed assets					
<i>Financial fixed assets</i>					
Shares in credit institutions		–	–	–	13,053
Shares in associated companies	3	25,373	20,512	13,242	–
Long-term receivables	4	–	1,981	–	1,981
Total fixed assets		25,373	22,493	13,242	15,034
Current assets					
Short-term receivables	4	7	1,913	7	1,913
Short-term investments	4	1,800	–	1,800	–
Bank deposits		239	1	239	1
Total current assets		2,046	1,914	2,046	1,914
Total assets		27,419	24,407	15,288	16,948
Shareholders' equity and liabilities					
Shareholders' equity					
<i>Restricted Shareholders' equity</i>					
Share capital		8,927	8,927	8,927	8,927
Premium reserve		3,036	3,036	3,036	3,036
<i>Non-restricted Shareholders' equity</i>					
Retained earnings		3,021*	–*	3,021	–
Profit for the year		42*	4,934*	42	4,934
Share of capital in associated companies		11,812	7,459		
Adjustment in accordance with the cooperation agreement		319			
Total shareholders' equity		27,157	24,356	15,026	16,897
Liabilities					
Short-term liabilities	6	262	51	262	51
Total liabilities		262	51	262	51
Total shareholders' equity and liabilities		27,419	24,407	15,288	16,948
Collateral pledged (bank funds) in connection with compulsory redemption proceedings		207	–	207	–
Contingent liabilities		8	–	8	–

* Excluding the associated company.

Statements of changes in financial position

SEK million	Nordbanken Holding	
	1998	1997
Funds provided		
Profit after financial items	58	4,934
Taxes	-16	-
Company formations/new issue of shares	-	1
Change in working capital		
Increase in current receivables	-	-1,913
Decrease in current receivables	106	-
Increase in current liabilities	211	51
Decrease in long-term receivables	1,981	-
Total funds provided	2,340	3,073
Funds applied		
Investments in shares	189	1,090
Increase in long-term receivables	-	1,981
Reduction of share capital	-	1
Dividends to shareholders	1,913	-
Total funds applied	2,102	3,072
Change in liquid funds	238	1

Notes to the Financial Statements

Note 1. Accounting principles

The accounts for the year have been prepared in accordance with the Annual Accounts Act.

Costs arising in connection with the compulsory redemption of shares were capitalized in 1998, as were acquisitions of shares during the year. These amounted to a total of SEK 189 M. As of December 31, 1998, 141,929 shares had not been redeemed.

Consolidated accounts have not been prepared since the Company holds 50% of the voting rights in MeritaNordbanken Plc. (See also Note 3.)

The equity method has been applied in the accounts including the associated company. In addition, the share of profits and share of shareholders' equity have been adjusted in accordance with the cooperation agreement.

Note 2. Personnel

The company had one employee, the president, in 1998. The amount paid in salary was SEK 100,000. Social security charges amounted to SEK 24,000. No fees were paid to the Board of Directors.

There are no commitments pertaining to severance payments, pensions or similar compensation for the President or Members of the Board of Directors.

There are no loans outstanding to the president or members of the Board of Directors.

Note 3. Shares

December 31, 1998	Number of shares	Par value, FIM million	Book value SEK million	Market value	Percentage of votes ¹⁾
Fixed assets					
MeritaNordbanken Plc ²⁾					
Common shares	560,000,000	5,600	13,242	-	50(40)
Preferred shares	280,000,000	2,800	-	-	0 (20)

¹⁾ Difference in percentage of capital is shown in parenthesis.

²⁾ Merita Nordbanken Plc, whose registered office is in Helsinki, Finland, has registration number 725 985. Shareholders' equity as of December 31, 1998: FIM 20,916 M. Profit for year January 12, 1998-December 31, 1998: FIM 2,705 M. Equity capital of the MeritaNordbanken Group as of December 31, 1998 amounted to FIM 28,366 M and profit for the year was FIM 4,178 M.

Note 4. Receivables

December 31, SEK million	1998	1997
Long-term financial assets		
Long-term receivables from Nordbanken AB	–	1,981
Current assets		
Current receivables from Nordbanken AB	–	1,913
Short-term investment in associated company	1,800	–
Other current receivables	0	–
Prepaid expenses and accrued income	7	–
Total	1,807	3,894

Note 5. Change in shareholders' equity ¹⁾

Nordbanken Holding AB (publ), excluding associated companies

SEK million	Share capital	Premium reserve	Unrestricted equity	Profit for year	Total
January 1, 1998	8,927	3,036	4,934		16,897
Dividend paid			- 1,913		- 1,913
Profit for the year				42	42
December 31, 1998	8,927	3,036	3,021	42	15,026

¹⁾ At December 31, 1998, the company's share capital amounted to SEK 8,926,872,087, represented by 1,275,267,441 shares, par value SEK 7 each.**Note 6. Liabilities**

December 31, SEK million	1998	1997
Current liabilities to associated companies	203	–
Tax liability	5	–
Other current liabilities	43	1
Accrued expenses	11	50
Total	262	51

Proposed Distribution of Earnings

According to the company's balance sheet, the following amount is at the disposal of the Annual General Meeting of Shareholders:

	SEK million
Profit carried forward	3,021
Net profit for the year	42
Total	3,063

The Board of Directors and the President propose that these earnings be distributed as follows:

	SEK million
Dividends paid to shareholders, SEK 1.64 per share	2,091
To be carried forward	972
Total	3,063

February 23, 1999

Jacob Palmstierna, Chairman

Hans Dalborg

Bernt Magnusson

Vesa Vainio, Vice Chairman

Casimir Ehrnrooth

Juha Niemelä

Dan Andersson

Mikko Kivimäki

Timo Peltola

Rune Brandinger, President

Board of Directors

The Board of Directors in Nordbanken Holding AB (publ) consists of the same persons as the boards of Merita Plc and MeritaNordbanken Plc.

The Board's work is coordinated with the board work in Merita Plc and MeritaNordbanken Plc. For a more detailed description of this and for information about the board members, see pages 83-84. A copy of

said pages has been attached to the original Annual Report. No specific distribution of work between the members in Nordbanken Holding's board has been established. Palmstierna, Andersson, Dalborg, Magnusson and Brandinger have been board members since October, 1997. Vainio, Ehrnrooth, Kivimäki, Niemelä and Peltola have been board members since 1998.

Auditors' Report

To the Annual General Meeting of Nordbanken Holding AB (publ),
corporate registration no. 556547-0977.

We have audited the financial statements, the accounts and the administration of the Board of Directors and the Managing Director of Nordbanken Holding AB (publ) for 1998. These accounts and the administration of the Company are the responsibility of the Board of Directors and the Managing Director. Our responsibility is to express an opinion on the financial statements and the administration based on our audit.

We conducted our audit in accordance with Generally Accepted Auditing Standards in Sweden. Those Standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and their application by the Board of Directors and the Managing Director, as well as evaluating the overall presentation of information in the financial statements. We examined significant decisions, actions taken and circumstances of the Company in order to be able to determine the possible liability to the Company

of any Board member or the Managing Director or whether they have in some other way acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

In our opinion, the financial statements have been prepared in accordance with the Annual Accounts Act, and, consequently we recommend

that the income statement and the balance sheet be adopted, and

that the profit be dealt with in accordance with the proposal in the Administration Report.

In our opinion, the Board members and the Managing Director have not committed any act or been guilty of any omission, which could give rise to any liability to the Company. We therefore recommend

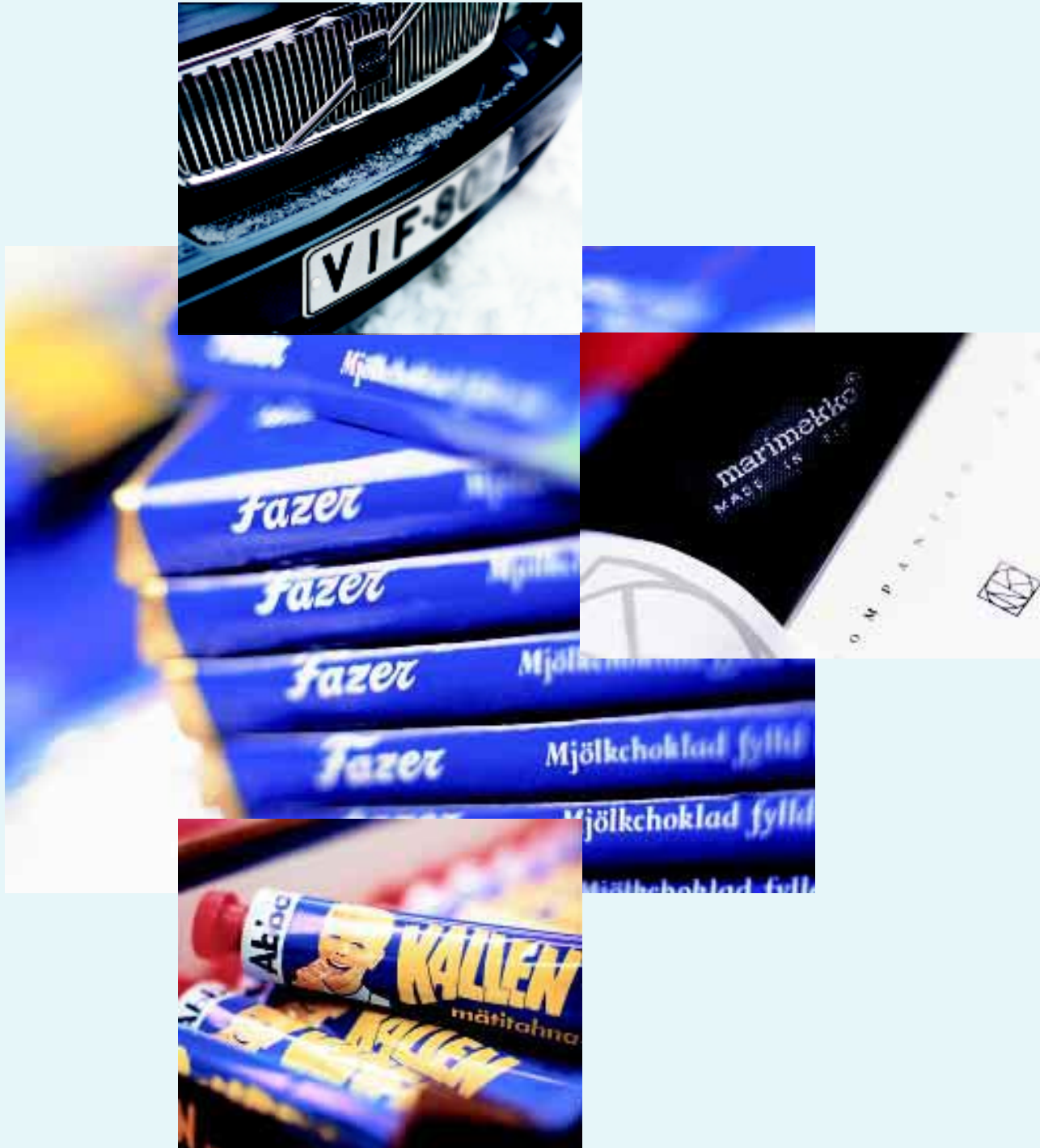
that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Stockholm, February 23, 1999

Caj Nackstad
Authorized Public Accountant

Per-Olof Akteus
Authorized Public Accountant

*For a description of the auditing work,
please refer to the section, Auditors, on page 88.*



Merita Plc 1998

Board of Directors' Report

Registration number 40,495. The company is based in Helsinki, Finland.

The holding companies Merita Plc and Nordbanken Holding AB (publ) are the sole owners of MeritaNordbanken Plc with its subsidiaries. Together, MeritaNordbanken, its subsidiaries and the two holding companies form the MeritaNordbanken Group.

The MeritaNordbanken Group's annual report, including income statements and balance sheets, are an essential and integrated part of Merita Plc's annual accounts. In order to illustrate Merita Plc's financial development and position, the following income statements and balance sheets for the company, Merita Plc, are presented below including and excluding the associated company, MeritaNordbanken.

Key ratios for the MeritaNordbanken Group are presented on page 10.

Significant events

On March 31, 1998, Merita Plc transferred all its business operations to MeritaNordbanken Plc in return for shares in that company. At the same time, Merita Plc ceased to act as Parent Company in the Merita Group. In a corresponding manner, on April 1, 1998, Nordbanken Holding AB transferred in kind its entire share holdings in Nordbanken to MeritaNordbanken Plc in return for shares in that company. The MeritaNordbanken Group was formed in this way. The increases in share capital in MeritaNordbanken Plc were entered in the Finnish Commercial Register on April 18, 1998.

In accordance with the cooperation agreement of October 13, 1997, Merita Plc, Nordbanken Holding AB and the MeritaNordbanken Plc with its subsidiaries are managed as one unit. In order to achieve this, a number of provisions are included in the agreement including that possible differences in the owner companies' capital structure and assets and liabilities, including liquid assets, shall not affect the respective shareholder communities' position in financial respects. Additional provisions in the agreement state that Merita Plc and Nordbanken Holding AB shall work to see that, when needed, the requisite amount of resources are transferred from the MeritaNordbanken Plc with its subsidiaries to the owner companies.

Shareholders in Merita Plc and Nordbanken Holding have rights to 40 and 60% of the Group's total capital, respectively.

In accordance with the cooperation agreement, the following also applies: Nordbanken Holding's preferred shares in MeritaNordbanken shall be converted to ordinary shares at a ratio of 1:1 under certain circumstances. Conversion will occur if a third party becomes a shareholder in MeritaNordbanken, and it is foreseen that no shareholder, after conversion, has shares corresponding to more than 50% of the voting rights in MeritaNordbanken, or if a General Meeting of MeritaNordbanken unanimously decides that a conversion shall occur. In addition, the General Meeting can unanimously decide to redeem the preferred shares. All ordinary and preferred shares in MeritaNordbanken have the same rights to dividends. If conversion or redemption has not occurred by January 1, 2001, preferred shares will, however, be entitled to receive dividends that exceed the dividends paid on ordinary shares by 20%. This would mean that a 60/40 ratio in regard to dividends would become 61.5/38.5.

If preferred shares are converted in 2001 or later, the higher dividend payment will cease as of the beginning of the fiscal year in which the conversion takes place.

Earnings and financial position

Merita Plc's share (40%) of the earnings in MeritaNordbanken Plc with its subsidiaries' is reported among associated company participations, where a negative adjustment of FIM 478 M is included in accordance with the cooperative agreement. Earnings in 1998 were also credited 40% of the refund from pension foundation and fund of FIM 360 M (FIM 618 M in 1997), and charged 40%, FIM 1,468 M (392), in property write-downs. Hereafter, earnings correspond to 40% of all of the MeritaNordbanken Group's profits and amounted to FIM 1,671 M (FIM 2,538 M pro forma 1997).

With additions for participations in the capital of the associated company and after adjustment due to the cooperation agreement, Merita Plc's shareholders' equity corresponds to 40% of the shareholders' equity for the entire MeritaNordbanken Group, FIM 11,346 M.

Profit for the year for Merita Plc, excluding the associated company, was FIM 816 M. That income includes a capital gain of FIM 782 M as a result of the sale of shares in the insurance company, Sampo.

Dividend

The Board of Directors of Merita Plc proposes a dividend of FIM 1.05 per share.

Annual General Meeting

The Annual General Meeting of Merita Plc will be held Monday, March 29, 1999, at 3:00 p.m., in the Fair Center, the Congress Wing, Rautatieläisenkatu 3, in Helsinki.

Application

In accordance with chapter 3a, Section 11 in the Companies Act, shareholders that are entered in the company's shareholders' register not later than Wednesday, March 24, 1999 have the right to participate in the Annual General Meeting. Shareholders that have not transferred their shares to the Book-Entry System have the right to participate in the Annual General Meeting provided that the shareholder was listed in the company's shareholders' register prior to October 16, 1992 (KOP) or November 20, 1992 (Unitas). In the latter case, shareholders should be able to produce their share certificate or some other document, which verifies that ownership rights to the shares have been transferred to value-apportioning account.

Shareholders wishing to participate in the Annual

General Meeting must notify the company not later than 4:15 p.m. on Wednesday, March 24, 1999.

In the event a power of attorney is granted, on the basis of which the authorized representative will be utilizing the shareholder's voting rights at the Annual General Meeting, it is to be entered into the shareholders' register prior to the aforementioned application deadline.

Application shall be made by mail at the following address:

Merita Plc
2599 Share Register
P.O.B 84
FIN-00101 Helsinki, Finland

or by telephone at +358 9 165 40631 or +358 9 165 40632 between 9:15 a.m. and 4:15 p.m. The letter shall reach the recipient prior to the registration deadline.

Registrations can also be entered via the Internet at the following address: www.meritanordbanken.com

Dividend and record date

At the Annual General Meeting, the Board of Directors will propose payment of a dividend for 1998 of FIM 1.05 per share. The dividend approved by the Annual General Meeting will be paid to shareholders that are entered in the shareholders' register maintained for the

Increase in Merita Plc's share capital 1994 – 1998

Issue type	Subscription ratio or subscriber	Subscription price (FIM)	Number of new shares	Dividend rights	Increase in share capital, FIM million	New share capital, FIM million
Direct issue 29-12-1995	1 new share in Merita Plc for 3 shares in Kansallis-Yhtymä Oy	10.00	346,457,170	1/1 1995	3,465	8,305
Subscriptions with warrants (warrant financing 1990)	Personnel					
- 1997		28.94	2,457	1/1 1997	0	8,305
- 1998		28.94	1,483,438	1/1 1998	15	8,319
Conversion by convertible bonds 1992 - 1998	300 new shares against a convertible bond (nominal value of FIM 10,000)	33.33	83,400	1/1 1999	1	8,320

For definitions of key ratios, see page 12.

Distribution of shares

December 31, 1998	Number of shareholders	Shareholders, %	Number of shares	Number of shares, %	Number of shares per shareholder
1-1,000	231,590	78.6	62,534,830	7.5	270
1,001-10,000	59,658	20.2	154,287,933	18.5	2,586
10,001-100,000	3,155	1.1	68,456,541	8.2	21,698
100,001-1,000,000	161	0.1	45,561,338	5.5	282,990
1,000,001-	32	0.0	195,746,923	23.5	6,117,091
Held in trust	13	0.0	304,466,146	36.6	23,420,473
In collective Book-Entry account			967,033	0.1	
Total	294,609	100.0	832,020,744	100.0	2,824

Source: Finnish Central Securities Depository Ltd.

company by the Finnish Central Securities Depository Ltd.

The Board of Directors will propose that the record date for payment be April 1, 1999, and that the dividends be paid out April 12, 1999.

Share capital and outstanding shares

At the end of 1998, Merita Plc's share capital totaled FIM 8,320,207,440. In accordance with the Articles of Association, minimum share capital is FIM 4,000,000,000 and the maximum is 16,000,000,000, which are the limits within which share capital can increase or decrease without changing the Articles of Association. The Board has no authorization to make a decision concerning an increase in share capital. The share's nominal value at year's end was FIM 10, and the number of outstanding shares was 832,020,744.

The number of shares increased to a combined total of 1,566,838 in 1998. Of this increase, 1,483,438 shares are attributable to subscriptions during the remaining warrant financing, whose subscription period expired on March 12, 1998. The number of shares further increased as a result of the conversion of convertible bonds from 1992.

As an adjustment for the introduction of the Euro, beginning in 1999 the company's share capital will be denominated in euro. The shares no longer have a nominal value.

Voting rights at the Annual General Meeting

At the General Meeting of shareholders held on October 28, 1998, it was decided that the company's two share series (Series A and B) would be combined. Hereafter, all shares carry the same voting rights and

Merita Plc shares / Per-share data¹⁾

	1998	1997	1996	1995	1994
Combined share series					
Average number of shares, million	832	830	830	744	484
Number of shares December 31, million	832	830	830	830	484
Market value, December 31, FIM M	26,791	24,674	12,053	9,128	5,858
Earnings per share (EPS) FIM (after full conversion)	1.96	2.97	2.57	0.49	-2.61
Shareholders' equity/share, FIM (after full conversion)	13.64	13.43	13.58	11.50	11.00
Dividend/profit, %	53.5	33.7	21.6	–	–
Market value/shareholders' equity	2.4	2.2	1.3	1.0	1.1
Series A shares					
Average price, FIM	31.84	20.86	11.30	12.80	16.12
Lowest price, FIM	21.30	14.10	9.10	10.20	12.00
Highest price, FIM	39.70	30.00	15.20	15.10	20.60
Volume of trading, 1,000s	468,374	387,495	294,667	129,141	125,085
Volume of trading in % of shares	61.3	50.8	38.6	16.9	30.0
Average number of shares, million	764	763	763	677	417
Number of shares December 31, million	832	763	763	763	417
Market value December 31, M	26,791	22,745	10,991	8,396	5,085
Dividend per share, FIM	1.05	1.00	0.20	–	–
Effective dividend yield, %	3.3	3.4	1.4	–	–
Price/earnings ratio (P/E ratio)	16.4	10.0	5.6	22.4	–
Series B shares²⁾					
Average price, FIM	30.16	21.16	12.09	12.90	14.61
Lowest price, FIM	21.00	15.70	10.00	10.30	11.30
Highest price, FIM	37.60	29.00	16.50	15.00	19.20
Volume of trading, 1,000s	18,738	24,681	10,506	12,622	23,591
Volume of trading in % of shares	27.9	36.7	15.6	18.8	35.1
Average number of shares, million	67	67	67	67	67
Number of shares December 31, million	–	67	67	67	67
Market value December 31, FIM, M	–	1,929	1,062	732	773
Dividend per share, FIM	–	0.90	1.60	–	–
Effective dividend yield, %	–	3.1	10.1	–	–
Price/earnings ratio (P/E ratio)	–	9.7	6.1	22.2	–

¹⁾ Issue adjusted, calculated in accordance with regulations set forth by the Finnish Financial Supervision Authority.

²⁾ Series B shares were combined with Series A shares on November 5, 1998.

the same rights to the company's profits, equity capital and dividends. Previously, the Series A share granted 10 votes and the Series B share 1 vote. In addition, the Series B shares had preferential rights to dividends up to a certain level before the Series A shares could obtain dividends.

In accordance with Section 9 in the Articles of Association, no one can vote for more than 1/20 of the votes represented at the General Meeting. In accordance with Section 20 of the Articles of Association, shareholders that have acquired 33 1/3 or 50% of all shares or votes in the company are required to offer them for redemption to the other shareholders if they so demand.

The Board of Directors of Merita entered into an agreement on October 22, 1997 with Nordbanken Holding AB (publ) concerning ownership of MeritaNordbanken Plc. The agreement regulates the conditions upon which a third party can acquire a controlling position in either Merita or Nordbanken Holding.

Convertible bonds 1992

In 1992, Merita Plc issued convertible bonds of FIM 906.1 M. Every bond has a nominal value of FIM 10,000 and entitles the holder to subscribe to 300 Series A shares for FIM 33.33 per share. Conversion can be carried out annually between January 2 and November 30, however, not later than August 17, 2042. The company has retained the right to repay the loan capital in its entirety or in smaller payments August 17, 2002 or at any time after that date.

As of December 31, 1998, the amount outstanding was FIM 903.3 M. Through the conversions, the total number of shares can increase with a maximum of 27,099,000 shares and share capital of FIM 270,990,000. In this way, the total number of shares can increase to a maximum of 859,119,744 shares.

Share price trend, turnover and market capitalization

Merita shares are listed on the Helsinki Stock Exchange. Merita's Series A shares rose by 8.1% in 1998, while the Helsinki general index rose by 68.5%, primarily due to the sharp rise in Nokia shares. The

Largest holders of Merita Plc shares

December 31, 1998	Number of shares	Percent of capital and votes
Arsenal Asset Management Company Ltd	63,933,333	7.7
Suomi Mutual Life Assurance Company	13,000,001	1.6
Pohjola Insurance Company	12,542,308	1.5
Varma-Sampo Mutual Pension Insurance Company	10,516,101	1.3
Ilmarinen Mutual Pension Insurance Company	10,370,298	1.2
Merita Plc Pension Foundation	9,734,028	1.2
Meiji Life Insurance Company	8,538,666	1.0
Onninen Investment Ltd	7,900,600	0.9
Merita Plc Pension Fund	7,070,173	0.8
A. Ahlström Osakeyhtiö	5,147,918	0.6

Source: Finnish Central Depository Ltd.

share had a high of FIM 39.70 on April 22 and a low of FIM 21 on October 8.

Merita was the third most actively traded share on the Helsinki Stock exchange in 1998. Total trading volume amounted to FIM 15,112 M, corresponding to 487 M shares.

Merita's market capitalization at year-end was FIM 26,791 M. Therefore, the market capitalization was 236% of shareholders' equity.

Shareholders

At the end of 1998, Merita Plc had more than 294,000 shareholders. This means that the number of shareholders decreased by nearly 21,500 during the year. Private investors own more than 30% of the outstanding shares, Finnish institutions own approximately 24%, and foreign investors own approximately 38%. The remaining 7.7% is owned by the Finnish government through the Arsenal Asset Management Company.

Prospects

If the economy continues to develop favorably in 1999, the profit, disregarding items of a nonrecurring nature, is expected to show stable development.

Income Statements

FIM million	Note	Merita Plc including the associated company		Merita Plc	
		1998	Pro forma 1997	1998	1997
Interest income		151	67	151	67
Interest expenses		-108	-209	-108	-209
Net interest income		43	-142	43	-142
Revenue from equity investments in					
Group companies		-	-	6	680
Other companies		0	27	0	27
Commission income		-	0	-	0
Commission expenses		-1	-3	-1	-3
Net result from securities trading		792	114	792	114
Other operating revenue		40	14	40	14
		874	10	880	690
Administrative expenses					
Personnel expenses					
Salaries and fees		-4	-9	-4	-9
Staff-related costs					
Pension costs		-18	-0	-18	-0
Other staff-related expenses		-0	-0	-0	-0
Other administrative expenses		-66	-36	-66	-36
Depreciation and write-downs on tangible and intangible assets		-0	-0	-0	-0
Other operating expenses		-7	-11	-7	-11
		-95	-56	-95	-56
Profit from companies accounted for under the equity method		2,403	2,419	-	-
Adjustment in accordance with the cooperation agreement		-478		-	-
Operating profit		2,704	2,373	785	634
Refund from the Pension Fund/Foundation ¹⁾	10	360	618	25	631
Group contribution received		-	-	-	457
Real estate write-downs ¹⁾		-1,468	-392	-64	-
Profit before taxes		1,596	2,599	747	1,722
Income taxes ²⁾	9	75	-61	69	-252
Net profit for the year		1,671	2,538	816	1,470

¹⁾ 40% of the refund from the Pension Foundation/Funds of the MeritaNordbanken Group and 40% of the Group's write-downs on real estate holdings have been included in the income statement.

²⁾ Income taxes include only Merita Plc's taxes. Merita Plc's share of other MeritaNordbanken Group taxes is reported under "Profit from companies accounted for under the equity method" and amounted to FIM 545 M (in 1997 FIM 506 M).

Balance Sheets

FIM million	Note	Merita Plc including the associated company		Merita Plc	
		1998	Pro forma 1997	1998	1997
Assets					
Debt securities eligible for refinancing with central banks		938	10	938	10
Loans to credit institutions repayable on demand		214	48	214	48
Debt securities issued by non-public institutions		906	905	906	905
Shares and participations	2	1	887	1	887
Shares and participations in associated companies	2	10,267	11,828	9,811	0
Share and participations in Group companies	2	–	–	–	11,536
Tangible assets					
Real estate and shares and participations in real estate companies		–	13	–	13
Other tangible assets		–	1	–	1
Other assets		3	6	3	6
Prepaid expenses and accrued income		79	1,049	79	1,049
		12,408	14,747	11,952	14,455
Liabilities and shareholders' equity					
<i>Liabilities</i>					
Due to credit institutions, other than repayable on demand		–	803	–	803
Bonds		–	1,774	–	1,774
Other liabilities		70	6	70	6
Accrued expenses and prepaid income		81	91	81	91
Provisions	3				
Provisions for pensions		8	2	8	2
Other provisions		–	21	–	21
Subordinated liabilities	4	903	906	903	906
Liabilities		1,062	3,603	1,062	3,603
<i>Shareholders' equity</i>	5				
Share capital		8,320	8,305	8,320	8,305
Share premium reserve		30	–	30	–
Ordinary reserve		211	211	211	211
Retained earnings		1,114	90	1,513	866
Profit for the year		1,671	2,538	816	1,470
Shareholders' equity		11,346	11,144	10,890	10,852
		12,408	14,747	11,952	14,455
Off-balance-sheet commitments					
Commitments on behalf of customers in favour of third parties					
Guarantees and pledges		8	8	8	8

Accounting Principles

The annual accounts are prepared in accordance with the Act on Credit Institutions and the Accounting Act and other regulations and provisions governing preparation of financial statements. This printed version of the Annual Report contains only the notes which are significant for an assessment of the company's income statement and balance sheet and financial position. The original documentation signed by the Board of Directors contains all the specified notes. A copy of the original document can be requested from Accounting and Control.

Consolidated accounts have not been prepared since the company's voting interest in MeritaNordbanken Plc is 50%. The equity method is used in reporting the interest in MeritaNordbanken Plc with its subsidiaries. Thus, adjustments are made in

accordance with the cooperation agreement so that Merita Plc's earnings and shareholders' equity corresponds to 40% of the earnings and shareholders' equity in the MeritaNordbanken Group.

In the pro forma financial statement for 1997, including the associated company, investments in Group companies at that time were treated as investments in associated companies.

Liabilities and receivables are shown in the balance sheet at the amount paid or received when incurred. Reporting of securities as permanent holdings refers to shareholdings in MeritaNordbanken Plc and of interest-bearing securities. These securities holdings are shown at the acquisition value. Other securities are shown as current assets and are valued at the lower of acquisition value or market value.

Note 1: Subordinated receivables

FIM million	1998	1997
Receivables	906	905
due from Group companies	–	905
due from the associated company	906	–

Note 2: Shares and participations

FIM million	1998		1997	
	Publicly listed	Other	Publicly listed	Other
Book value				
- current assets	–	–	829	56
- other	–	1	–	1
Total	0	1	829	58

Difference between the market value and a lower book value for publicly listed shares ¹⁾

- current assets	–	–	845	–
Total	0	–	845	–

There were no borrowed or lent securities at the close of the period.

¹⁾ Excluding shares in subsidiaries and associated companies. Merita Plc does not have any own shares issued by itself.

Book value of shares and participations in subsidiaries and associated companies

FIM million	Merita Plc including the associated company Pro forma		Merita Plc	
	1998	1997	1998	1997
Subsidiaries ¹⁾				
- credit institutions	–	–	–	8,863
- other	–	–	–	2,673
Total	–	–	–	11,536
Associated companies				
- other than credit institutions	10,268	11,828	9,811	–
Total	10,268	11,828	9,811	11,536

¹⁾ Subsidiaries were not consolidated in 1997, but in the pro forma financial statements including the associated company, the shares were treated as associated companies.

Shareholding, Dec. 31, 1998, associated company	Location	% of share capital	% of votes	Total book value
MeritaNordbanken Plc	Helsinki	40.0	50.0	FIM 9,811 million

Note 3: Provisions

FIM million	1998	1997
Provisions for pensions	8	2
Other provisions	–	21
Total	8	23

Note 4: Subordinated liabilities

FIM million	1998	1997
Subordinated liabilities with a book value exceeding 10% of total subordinated debt ¹⁾	903	906
- of which, perpetual bonds	903	906

¹⁾ Convertible bonds, see page 109.

Note 5: Shareholders' equity

FIM million Merita Plc incl. the associated company	Share capital	Restricted reserves	Retained earnings	Total
January 1, 1998	8,305	211	2,628	11,144
Dividend	-	-	-824	-824
Conversion of bonds	15	30	-	45
Other changes	-	-	-690	-690
Profit for the year	-	-	1,671	1,671
December 31, 1998	8,320	241	2,785	11,346
Merita Plc excl. the associated company	8,320	241	2,328	10,890
Of which, distributable			2,328	2,328

	Dec. 31, 1998	Dec. 31, 1997
Shareholders' equity excl. the associated company	10,890	10,852
Equity participations in the associated company	657	292
Adjustment according to cooperation agreement	-200	
Shareholders' equity incl. the associated company	11,346	11,144

Note 6: Shares in Merita Plc

See pages 107-108.

Note 7: Shareholders

The largest shareholders according to the share register, see page 109.

Note 8: Assets and liabilities in domestic and foreign currency

All assets and liabilities are in Finnish markka.

Note 9: Income tax

FIM million	1998	1997
Deferred tax receivables	–	–
Tax on income from ordinary operations	-70 ¹⁾	251
Tax on extraordinary items	–	–
Total	-70	251

1) After recovery of FIM 146 M pertaining to previously expensed taxes.

Note 10: Pension commitments**Employees' pension protection and pension liabilities**

The statutory pension protection for Merita Plc's employees is covered through insurance. The employees' supplementary pension plan is covered by Merita Plc's Pension Fund and Foundation except for the part of the pension liability, FIM 687 million which was transferred during the year from the Pension Fund to Merita Life Assurance Ltd.

The pension institutions charged no contributions for the year 1998. Pension liabilities are fully covered. Merita Plc reported FIM 25 million as refund of surplus in the Pension Fund. The sum comprises a cash payment of FIM 18 million and related tax benefits of FIM 7 million.

Due to the direct pension liability of FIM 8 million, a statutory provision for the full amount was booked.

Note 11: Shares, convertible bonds and bonds with equity warrants issued

No decision was made during the financial year to issue shares, equity warrants or convertible bonds. The General Meeting has given no authorization for issuance of shares, equity warrants or convertible bonds.

Note 12: Personnel and information on members of administrative and controlling boards

	1998	1997
Average number of employees during the year	6	11
Change since preceding year, persons	-5	-1
%	-45	-8
Full-time employees	4	11
Change since preceding year	-7	1
Part-time employees	–	–
Change since preceding year	–	–

Remuneration of FIM 2,366,592 was paid to the President of Merita Plc. Of this amount FIM 482,040 consisted of performance-related pay for 1997. Furthermore, the President enjoyed a company car and housing benefit. He is entitled to a pension of 60% of the pensionable salary throughout pensionable age. No remunerations were paid to the Board Members.

Note 13:

Merita's registered office is in Helsinki. MeritaNordbanken Plc is Merita Plc's associated company.

Note 14: Intra-group items**Financial income received from and financial expenses paid to Group and associated companies**

FIM million	1998	
	Group companies	Associated company
Interest income	–	83
Interest expenses	–	44
Income from equity investments	6	–

Receivables from and liabilities to Group and associated companies

FIM million	1998	
	Group companies	Associated company
Receivables		
Debt securities eligible for refinancing with Central banks	–	938
Loans to credit institutions	–	214
Debt securities	–	906
Other receivables	–	1
Prepaid expenses and accrued income	–	17
Total	–	2,076
Liabilities		
Other liabilities	–	64
Accrued expenses and prepaid income	–	0
Total	–	64

The Board of Directors' proposal to the Annual General Meeting

Profit for the year and proposed disposal of earnings

The Company's shareholder's equity available for distribution as of December 31, 1998 is FIM 2,328,175,027.35, and including the associated company, FIM 2,785 M. Profit for the year was FIM 816,116,591.30

We propose that these earnings be distributed as follows:

Dividends to be paid to shareholders, FIM 1.05 per share	FIM	873,621,781.20
To be carried forward	FIM	<u>1,454,553,246.15</u>
		2,328,175,027.35

February 23, 1999

Timo Peltola, Chairman

Rune Brandinger

Mikko Kivimäki

Jacob Palmstierna, Vice Chairman

Hans Dalborg

Bernt Magnusson

Dan Andersson

Casimir Ehrnrooth

Juha Niemelä

Vesa Vainio, President

The Board of Directors in Merita Plc consists of the same persons as the boards of Nordbanken Holding AB (publ) and MeritaNordbanken Plc.

The Board's work is coordinated with the board work in Nordbanken Holding and MeritaNordbanken Plc. For a more detailed description of this and for

information about the board members, see pages 83-84. A copy of said pages has been attached to the original Annual Report. No specific distribution of work between the members in Merita Plc's board has been established.

Auditors' Report

To the General Meeting of Merita Plc.

We have audited the accounting records and the financial statements as well as the administration by the Board of Directors and the Chief Executive of Merita Plc for the financial year 1998. The financial statements, which include the report of the Board of Directors, parent company including associated company and parent company profit and loss accounts, balance sheets and notes to the financial statements, have been prepared by the Board of Directors and the Chief Executive. The financial information of MeritaNordbanken Group is comprised in the financial statements. Based on our audit, we express our opinion on these financial statements and the company's administration.

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

see that the Board of Directors and the Chief Executive have complied with the rules of the Finnish Companies Act and Credit Institutions Act.

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

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

Helsinki, February 23, 1999

Erik Haglund
Authorized Public Accountant

Mauri Palvi
Authorized Public Accountant

For a description of the auditing work refer to the section "Auditors", page 88.

Administration and management 1998

Merita Plc's Board and President

The task of Merita Plc's Board of Directors is to provide for the company's administration and ensure that its operations are organized for the purpose stated in the Article of Association. Merita's Board decides on such principle and wide-ranging items which in relation to the company's operations and quality cannot be delegated to the company's daily administration.

Merita Plc's shareholders annually elect the members of the Board at the Annual General Meeting. The Meeting also determines the fees to be paid to the Board members. The Board elects among its members the Chairman and the Vice Chairman.

Except for the CEO Hans Dalborg and the President of Merita Plc, Vesa Vainio, the Board members are not employed by the MeritaNordbanken Group.

The President shall manage the company's daily operations in accordance with guidelines and recommendations of the Board.

The fees to the Board Chairman and the President during 1998 are shown in Note 12 to the accounts on page 115. Personal data about the Board members and the CEO are provided on page 84.

Auditors

Merita Plc's Annual General Meeting elects the company's two auditors and two deputy auditors for a term of one year. There should be auditors and one auditor or an auditing firm approved by the Central Chamber of Commerce. Merita Plc's auditors are presented on page 88.

Change in administration and management

As a result of the merger of Merita and Nordbanken, the Group's administration and management was reorganized as of January 1, 1998.

After the merger, the joint Group was managed by MeritaNordbanken Plc's Board of ten members, with Vesa Vainio as Chairman. The intention is that the same persons are also members of the Board of Merita Plc and Nordbanken Holding AB (publ) so that the companies would operate as a single unit. Timo Peltola is Chairman of Merita Plc and Jacob Palmstierna of Nordbanken Holding AB (publ).

MeritaNordbanken's presiding committee, which comprises the Chairman, Vice Chairman and CEO, prepares the matters to be addressed by the Board. The Board meets once a month and follows a fixed work procedure involving a loan committee, finance committee, audit committee and compensation committee.

Hans Dalborg is the CEO of the MeritaNordbanken Group and President of MeritaNordbanken. In addition to Dalborg, the Group's operative Group management comprises ten executives who are responsible for various functions. Meeting of Group management are held once a week, chaired by Dalborg. Members of Group management serve concurrently in Merita Bank's management and Nordbanken's Board.

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