

# Review of interim results

January-June 1998

MeritaNordbanken

## *A new bank emerges...*

- Continued good performance of combined banking operations
- Operating profit up 31 per cent at FIM 4.9 billion (SEK 7.1 billion)
- Adjusted for one-off items: an increase of 25 per cent in operating profit
- Return on equity 25 per cent; excluding one-off items 20 per cent
- Earnings per share FIM 1.71 in Merita Plc, SEK 2.49 in Nordbanken Holding
- Growth in lending, increase in net interest income
- Net commission income up 11 per cent
- Major gains from disposals of equity holdings
- Earnings from the bond portfolio boosted by lower interest rates in Sweden
- Growing volumes of new Group services

Since January 1, 1998, the MeritaNordbanken Group has been operating as one single organization under common control. All legal formalities for the formation of the Group have been completed.

This interim report presents the operating results and position of the MeritaNordbanken Group for the period January-June 1998 with pro forma comparative data for 1997. The financial statements have been drawn up by the pooling-of-interests method. The MeritaNordbanken Group refers to MeritaNordbanken Plc, its subsidiaries and its two publicly listed holding companies Merita Plc and Nordbanken Holding AB (publ). The Group plans to adopt the euro as its accounting and reporting currency as soon as practicable. During the transitional period, the Group's figures are stated only in Finnish markkas (FIM), while Nordbanken Holding AB and Nordbanken AB continue to use the Swedish krona (SEK) as their accounting and reporting currency.

# Interim Report

January-June 1998

During the six months under review, MeritaNordbanken's home markets, Finland and Sweden, witnessed a continued strengthening in economic activity combined with moderate credit expansion. Interest rates continued to fall, notably in Sweden. Throughout the period, there was an active interest in savings products, a trend reflected primarily in mutual funds and unit-linked insurance but also highlighted by the sustained rise in stock prices on both home markets during January-June.

## Operating results, return on equity and earnings per share

MeritaNordbanken's operating profit for the first six months of the year was FIM 4,905 million (SEK 7,084m), an increase of 31 per cent compared with the pro forma result for the same period in 1997.

A number of non-recurring items had a net favourable impact of somewhat over FIM 900 million\* (SEK 1,300m) on the half-year result. Corresponding items in 1997 amounted to somewhat over FIM 500 million (slightly under SEK 800m).

Excluding these items, the operating profit was approximately FIM 4,000 million (SEK 5,800m), up 25 per cent from the 1997 figure, similarly adjusted for one-off items. The adjusted operating profit for the second quarter of the year was FIM 2,100 million (SEK 3,000m) compared with FIM 1,900 million (SEK 2,800m) for the first quarter of 1998 and FIM 1,800 million (SEK 2,700m) for the second quarter of 1997.

The return on equity was 25.4 per cent. Adjusted for the above-mentioned non-recurring items, it was 20 per cent.

Earnings per share were FIM 1.71 in Merita Plc (FIM 1.39 excl. one-off items) and SEK 2.49 in Nordbanken Holding AB (SEK 2.03 excl. one-off items).



*Hans Dalborg, President and Chief Executive*

## Impact of the merger

Coordination of banking operations in Sweden and Finland is proceeding with increased intensity, notably in marketing, customer service and product development. Management has seen no reason to change its earlier estimate of merger-related synergy benefits (approximately FIM 0.7 billion / SEK 1 billion annually by the year 2001), restructuring expenses (approximately FIM 0.6 billion / SEK 0.9 billion) and reductions in the need for banking personnel.

The coordination of financial reporting continues, and year-end financial statements will show operating results by business sector.

### \* Non-recurring income and expense items:

Capital gain on the disposal of equity holding	
Sampo Insurance Company	+FIM 1.2bn (SEK 1.7bn)
Contribution	
from Nordisk Renting	+FIM 0.3bn (SEK 0.5bn)
Loss arising from equity holding	
Real estate company	
Sponda Plc	-FIM 0.1bn (SEK 0.2bn)
Restructuring expenses	-FIM 0.2bn (SEK 0.3bn)
Change	
in accounting principles	-FIM 0.3bn (SEK 0.4bn)

### Rise in income

During the first half-year, the Group's total income rose by 13 per cent to FIM 10,751 million (SEK 15,527m).

#### *Net interest income stable*

Net interest income showed a steady trend, amounting to FIM 5,461 million (SEK 7,887m), a gain of 1 per cent on the first half of 1997. Net interest income from Sweden decreased, a trend largely explained by the fact that the comparative figure for 1997 was boosted by debt prepayments, which no longer exerted a similar favourable influence on the 1998 results. In Sweden, margins stabilized somewhat during the first half-year. In Finland, net interest income rose by 10 per cent, primarily as a result of a reduction in low-yield receivables, declining volumes of problem loans and changes in the funding structure.

#### *Improvement in net commission income*

Net commission income rose by 11 per cent to FIM 2,189 million (SEK 3,161m). In Sweden, commission income was up 23 per cent, mainly reflecting brisk growth in mutual funds and payment transmission services. In Finland, the increase in net commission income was only 3 per cent, a lag attributable in part to a shrinking contribution from bank guarantees for re-lending by pension insurance institutions, while earnings from mutual fund management and equity brokerage continued to rise. The Group's combined gross revenue from mutual funds and portfolio management, before expenses arising from administration, advisory services, sales and customer contacts, totalled FIM 511 million (SEK 738m).

#### *Rise in net result from financial operations*

The divestment of the Group's equity holding in the Sampo Insurance Company produced a capital gain of almost FIM 1.2 billion (SEK 1.7bn). A capital loss and write-down totalling FIM 0.1 billion (SEK 0.15bn) were

posted in connection with transactions conducted in May to broaden the shareholder base of the Finnish real estate company Sponda Plc and to reduce the Group's ownership interest from over 17 per cent to approximately 12 per cent.

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 during the second quarter by FIM 98 million (SEK 140m) to FIM 284 million (SEK 410m).

#### *Increase in other operating income*

Other income was up 43 per cent at FIM 1,397 million (SEK 2,018m). This increase derived mainly from a rise in dividend income, for example, in connection with the ownership restructuring of Nordisk Renting.

### Expenses

The Group's total expenses, including FIM 190 million (SEK 274m) of merger-related restructuring expenses, amounted to FIM 5,542 million (SEK 8,004m). Excluding restructuring costs and the other one-off items discussed in the foregoing, overall expenses remained broadly unchanged.

#### *Personnel expenses*

Personnel expenses amounted to FIM 2,454 million (SEK 3,544m). This includes FIM 90 million (SEK 130m) of restructuring expenses. Adjusted for the impact of restructuring and the change in accounting principles, the rise was 3 per cent.

The number of banking employees within the Group at the end of June was 18,600, a net fall of approximately 500 persons since the announcement of the merger plan.

#### *Other expenses*

Other expenses, including one-off restructuring expenses of FIM 100 million (SEK 145m), declined by 1 per cent to FIM 3,088 million

(SEK 4,460m). Investments in information technology and marketing increased.

#### *Loan losses*

Net loan losses totalled FIM 401 million (SEK 579m), representing 0.2 per cent of total lending. Approximately half of the net loan losses for the period resulted from the harmonisation of loan-loss-allowance principles within the Group.

At the end of June, the Group's Asian exposure was down at FIM 6.4 billion (SEK 9.3bn), of which 80 per cent consisted of receivables from banks. Net exposure to Russia currently amounts to somewhat under FIM 0.5 billion (SEK 0.7bn) and is based on currencies other than the rouble. The provisions charged earlier for Asian and Russian exposures are deemed to remain sufficient.

### **Developments in business volumes**

#### *Increase in lending*

The Group's lending to the public at the end of the first half-year totalled FIM 358 billion (SEK 520bn), showing a 12-month gain of 10 per cent.

#### *Decrease in problem loans*

During January-June, net problem loans declined by almost 14 per cent to FIM 7.4 billion (SEK 10.8bn). Provisions against these exposures at the end of June represented 65 per cent of the total amount.

#### *Interest-bearing securities*

At the end of the period, interest-bearing securities classified as financial current assets totalled FIM 60 billion (SEK 87bn). The average duration of the portfolio, excluding securities held for trading, was 1.9 years.

Securities held as financial fixed assets, carried at amortised acquisition value, totalled FIM 28 billion (SEK 40bn). Unrealized appreciation in this portfolio was FIM 0.7 billion (SEK 1.0bn).

#### *Shares and participations*

At the end of June, the market value of the Group's actively traded equity portfolios was FIM 0.6 billion (SEK 0.8bn).

Other equity holdings valued at the lower of cost or market, amounted to FIM 3.1 billion (SEK 4.4bn), with unrealized gains totalling FIM 2.0 billion (SEK 3.0bn).

#### *Other unrealized gains*

Unrealized gains on the investment portfolios of the Group's pension foundations and pension fund at the end of June totalled FIM 2.8 billion (SEK 4.0bn).

#### *Real estate*

The book value of the Group's real estate holdings at the end of the first half-year was FIM 21.9 billion (SEK 31.7bn), with 89 per cent of the properties carried in the books of Merita Real Estate Ltd. The effective yield on its commercial real estate portfolio in January-June was 4.7 per cent, up 0.2 percentage point from the end of 1997. During the current year the real estate holdings are being reorganised into separate business areas with a view to gradual disposal of majority control. The timetable of the disposal programme will depend on developments in the Finnish capital and real estate markets and the Group's non-restricted equity capital. An important step in the development of the Finnish market was the introduction to the Stock Exchange of the real estate company Sponda, whose initial public offering was heavily oversubscribed.

The real estate income and expenses included in the consolidated accounts do not comprise all items arising from real estate business, such as interest expenses, the cost of capital employed and administrative expenses. For this reason they do not illustrate the full impact of real estate business on the Group's operating results. According to a notional assessment based on the market-rate pricing

of all capital employed, the negative impact of real estate business on the Group's half-year result was approximately FIM 0.4 billion (SEK 0.6bn).

#### *Deposits*

Deposits from the public at the end of June totalled FIM 241 billion (SEK 350bn), showing a 12-month gain of 5 per cent.

#### *Equity capital*

As at June 30, 1998 MeritaNordbanken's equity capital was FIM 29.3 billion (SEK 42.5bn).

The Tier 1 ratio at the end of June was 7.9 per cent and the total capital ratio 11.6 per cent. The profit for the period, after deduction of a standard dividend, is included in equity capital for the calculation of the interim capital ratio.

### **Markets**

#### *Asset management, mutual funds and insurance products*

Customer savings under management with MeritaNordbanken at the end of June totalled almost FIM 260 billion (SEK 375bn). This comprises all types of savings products, including bank deposits, mutual funds, insurance, retail bonds, share-index-linked bonds, etc.

The net inflow of savings to the Group's mutual funds in Sweden during January-June 1998 totalled SEK 3.7 billion, bringing total fund assets under management (excl. discretionary management) to SEK 98.7 billion. The Group's mutual fund market share in Sweden on June 30 was 18.6 per cent.

The Finnish public continues to manifest increasing interest in mutual funds. Net investments in MeritaNordbanken funds in Finland during the first half-year totalled FIM 2.5 billion. The Group's share of the Finnish mutual fund market rose notably towards the end of the period, at times well exceeding 50

per cent of net savings. The combined asset value of the Group's funds in Finland at the end of June was FIM 10.1 billion, representing a market share of 29.1 per cent.

Including discretionary management of institutional portfolios, total assets under management on June 30 amounted to FIM 115 billion (SEK 166bn), making MeritaNordbanken one of the largest asset managers in the Nordic region.

The Group's life assurance business continued to make vigorous progress, with premium income for the first half-year amounting to FIM 2.1 billion (SEK 3.0bn). Unit-linked insurance products accounted for FIM 0.9 billion (SEK 1.3bn) of this.

#### *A broadening range of Group-wide products*

Since the beginning of the year, MeritaNordbanken has been launching new cross-border products at an average pace of at least one new product per month. In January it offered its customers free Visa-card withdrawals from cash dispensers in Finland and Sweden. In February the Swedish long-term housing-loan concept was introduced in Finland. In March the Group announced a service enhancement for corporate payment transmission between the two countries, and in April the first Swedish equity fund was launched on the Finnish market. In June the popular unit-linked insurance products developed in Finland became available through the Swedish distribution network. In the following two months, they generated premium income in excess of SEK 500 million. In June the Group also unveiled its first joint equity fund, Nordic Small Cap, with units available in either FIM or SEK. Two months later the fund amounted to FIM 159 million (SEK 230m).

#### *Market shares*

Deposits from the Finnish public rose slightly during the first six months of the year, and the Group's market share in May remained

unchanged at 42.7 per cent. The Group's market share of household deposits in Finland rose to 38.2 per cent and that of FIM deposits from companies to 49.5 per cent. In Sweden the Group accounted for 22.2 per cent of deposits from households and for 18.5 per cent of deposits from companies.

The Group's market share of lending to companies in Finland was 49.2 per cent and that in Sweden 15.2 per cent. In Sweden, the market share of housing loans continued to increase, approaching 14 per cent at the end of the period. In Finland, the Group likewise registered a rise in its lending to households while its market share declined marginally to 36.1 per cent.

#### Sights on the Baltic region

Based on its financial strength and focused strategy, MeritaNordbanken plans to increase its presence on the growing markets of the Baltic rim. In the first half-year, the Group acquired majority control of Investment Bank of Latvia, Riga, and increased its ownership interest in the finance company Estonian Industrial Leasing Ltd, Tallinn, to 80 per cent.

#### The year 2000 and transition to the euro

The turn of the millennium and the introduction of the euro present major challenges not least to financial institutions. MeritaNordbanken launched its own readiness project back in 1995-1996 and expects to complete most of its Y2k programme by the

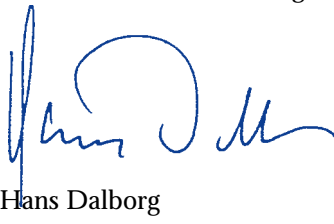
end of the current year.

The Group's banking operations in Finland will change over to the euro as of January 1, 1999. In Sweden demand for euro-based products is also expected to increase. In this new environment, MeritaNordbanken will have a unique competitive edge, thanks to its ability to draw on the Group's combined euro expertise for the benefit of Swedish and other customers. Total costs arising from the upgrading of data systems for the adoption of the euro amount to approximately FIM 200 million (SEK 300m).

#### Share price development

From January to June 1998, the price of the Merita A-share rose by 21.5 per cent to FIM 36.20 while the share price of Nordbanken Holding advanced by 30.3 per cent to SEK 58.50. The combined market capitalization of the MeritaNordbanken Group at the end of the period was thus FIM 81 billion / SEK 118 billion.

Stockholm / Helsinki, August 19, 1998



Hans Dalborg  
President and Group Chief Executive Officer

*This interim report has been subject to summary review by the auditors.*



## Income statement

FIM million	Jan - June		Change %
	1998	Pro forma 1997	
Net interest income, Note 1	5,461	5,383	1
Net commission income, Note 2	2,189	1,967	11
Net result from financial operations, Note 3	1,704	1,209	41
Other operating income, Note 4	1,397	977	43
Total operating income	10,751	9,536	13
Personnel expenses	-2,454 *	-2,265	8
Other expenses, Note 5	-3,088	-3,129	-1
Total expenses	-5,542	-5,394	3
<b>Profit before loan losses</b>	<b>5,209</b>	<b>4,142</b>	<b>26</b>
Loan losses, net	-401	-454	-12
Profit from companies accounted for under the equity method	97	50	94
<b>Operating profit</b>	<b>4,905</b>	<b>3,738</b>	<b>31</b>
Taxes	-1,226	-680	80
Minority interest	-17	-21	-19
<b>Net profit for the period</b>	<b>3,662</b>	<b>3,037</b>	<b>21</b>

\* Excluding restructuring expenses and change in accounting principles; FIM 2,333 million.

## Note 1: Net interest income

FIM million	Jan - June		Change %
	1998	1997	
Interest income	15,287	14,207	8
Interest expenses	9,826	8,824	11
Net interest income	5,461	5,383	1

## Note 2: Net commission income

FIM million	Jan - June		Change %
	1998	1997	
Securities operations	779	641	22
Payment transmission	525	494	6
Lending	601	477	26
Deposits	90	86	5
Other commission income	374	467	-20
Total commission income	2,369	2,165	9
Commission expenses	-180	-198	-9
Net commission income	2,189	1,967	11



**Note 3: Net result from financial operations**

FIM million	Jan - June		Change %
	1998	1997	
<b>Equity-related items</b>			
Realized gains/losses	1,228	1,373	-11
Unrealized gains/losses	7	-84	
	1,235	1,289	-4
<b>Interest-rate-related items</b>			
Debt redemption		-11	
Other realized gains/losses	505	313	61
Unrealized gains/losses	-221	-479	-54
	284	-179	258
Exchange rate changes	185	99	87
Total	1,704	1,209	41

**Note 4: Other income**

FIM million	Jan - June		Change %
	1998	1997	
Dividends	488	165	196
Real estate income	514	548	-6
Sale of real estate	5	-3	
Other	390	267	46
Total	1,397	977	43

**Note 5: Other expenses**

FIM million	Jan - June		Change %
	1998	1997	
Administrative expenses	1,672	1,499	12
Depreciation	509	487	5
Write-downs on real estate		260	
Real estate expenses	281	332	-15
Other	626	551	14
Total	3,088	3,129	-1

## Balance Sheet

	June 30 1998	Pro forma Dec 31 1997
<b>FIM million</b>		
Loans to financial institutions and central banks	64,436	79,662
Loans to the public	358,455	339,867
Interest-bearing securities		
Current assets	60,007	61,378
Financial fixed assets	27,536	29,403
Shares and participations	3,667	4,530
Shares and participations in subsidiaries* and associated companies	3,876	3,521
Real estate holdings	21,867	22,560
Other assets	38,924	41,963
<b>Total assets</b>	<b>578,768</b>	<b>582,884</b>
Due to financial institutions and central banks	91,645	106,864
Deposits from the public	241,293	233,309
Other borrowing from the public	12,206	15,649
Debt instruments outstanding	133,794	133,294
Other liabilities	50,725	41,795
Subordinated debt	19,383	23,694
Minority interest	429	420
Equity capital	29,293	27,859
<b>Total liabilities and equity capital</b>	<b>578,768</b>	<b>582,884</b>
Contingent liabilities	62,012	58,528
- of which on behalf of associated companies	499	66
<b>Capital adequacy</b>		
Capital base	43,298	40,693
Risk-weighted amount	373,366	361,720
Total capital ratio, %	11.6	11.3
Tier 1 ratio, %	7.9	7.4

\* Subsidiaries accounted for under the equity method in accordance with the regulations issued by the Financial Supervision Authority.

Exchange rates applied	1998 Jan-June	1997 Jan-June	1997 Jan-Dec
<b>SEK 1 = FIM</b>			
Income statement (average)	0.6924	0.6683	0.6782
Balance sheet (at the end of period)	0.6892	0.6719	0.6863

## Financial and share-related indicators

Financial ratios	1998 Jan - June	Pro forma	
		1997 Jan - June	1997 Jan - Dec
Return on equity, %	25.4	25.8	18.9 *
Income/cost ratio			
- before credit losses	1.9	1.7	1.7
- after credit losses	1.8	1.6	1.5
Loan losses/ lending at the beginning of the year, %	0.2	0.3	0.4

\* Including refund of the surplus in the Pension Fund, 24.8%.

Share-related indicators	1998 Jan - June	Pro forma	
		1997 Jan - June	1997 Jan - Dec

Number of shares at the end of period, mill.

Merita Plc	832.0	830.5	830.5
- after full conversion	859.1	859.1	859.1
Nordbanken Holding AB	1,275.3	1,279.2 *	1,275.3

Earnings/share (EPS)

Merita Plc	FIM 1.76	FIM 1.46	FIM 2.31**
- after full conversion	FIM 1.71	FIM 1.42	FIM 2.25**
Nordbanken Holding AB	SEK 2.49	SEK 2.13	SEK 3.33**

Equity/share at the end of period

Merita Plc	FIM 14.08	FIM 11.70	FIM 13.42
- after full conversion	FIM 14.07	FIM 11.76	FIM 13.43
Nordbanken Holding AB	SEK 20.00	SEK 16.95	SEK 19.10

Market price at the end of period

Merita Plc., A-shares	FIM 36.20	FIM 17.30	FIM 29.80
Merita Plc., B-shares	FIM 33.00	FIM 17.50	FIM 28.70
Nordbanken Holding AB	SEK 58.50	SEK 37.30	SEK 44.80

\* The number of Nordbanken shares multiplied by seven.

\*\* Excl. refund of the surplus in the Pension Fund.

### Quarterly income statement

FIM million			Pro forma			
	Q 2 1998	Q 1* 1998	Q 4 1997	Q 3 1997	Q 2 1997	Q 1 1997
Net interest income	2,757	2,704	2,798	2,821	2,702	2,681
Net commission income	1,154	1,035	1,114	1,010	1,043	925
Net result from financial operations	194	1,510	330	376	457	752
Other income	601	796	348	545	516	461
Total operating income	4,706	6,045	4,590	4,752	4,718	4,819
Personnel expenses	-1,262	-1,192	-1,163	-1,166	-1,143	-1,122
Other expenses	-1,566	-1,522	-2,198	-1,351	-1,627	-1,503
Total expenses	-2,828	-2,714	-3,361	-2,517	-2,770	-2,625
<b>Profit before loan losses</b>	<b>1,878</b>	<b>3,331</b>	<b>1,229</b>	<b>2,235</b>	<b>1,948</b>	<b>2,194</b>
Loan losses, net	-170	-231	-917	-76	-106	-348
Profit from companies accounted for under the equity method	64	33	10	36	21	29
<b>Operating profit</b>	<b>1,772</b>	<b>3,133</b>	<b>322</b>	<b>2,195</b>	<b>1,863</b>	<b>1,875</b>
Refund from pension foundation/funds	–	–	1,447	98	–	–
Taxes	-443	-783	-322	-417	-339	-341
Minority interest	-9	-8	-9	-6	-12	-9
<b>Net profit for the period</b>	<b>1,320</b>	<b>2,342</b>	<b>1,438</b>	<b>1,870</b>	<b>1,512</b>	<b>1,525</b>

\* Items under net interest income (FIM +19 million), net result from financial operations (FIM -33 million) and other income (FIM +14 million) have been reclassified in accordance with the new regulations of the Finnish Financial Supervision Authority. The pro forma figures for 1997 have not been adjusted.

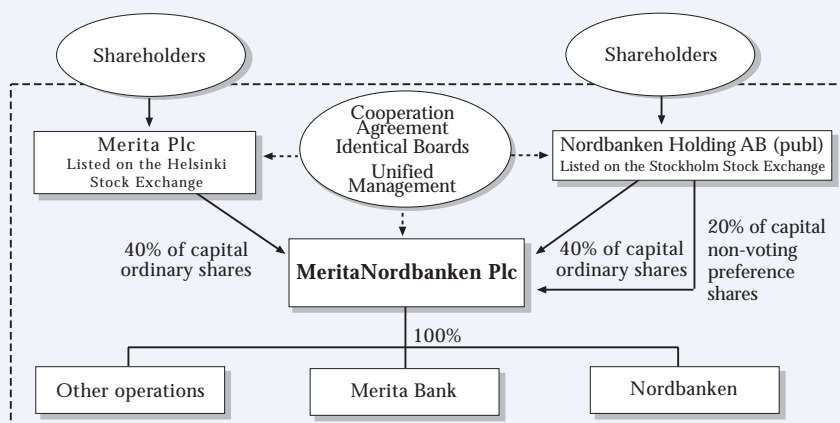
### Problem loans

FIM million	June 30 1998	March 31 1998	Pro forma Dec 31 1997*
Doubtful receivables, gross	20,860	22,383	
Loan loss provision	-13,591	-14,431	
Doubtful receivables, net	7,269	7,952	
Low-yielding receivables	158	234	
Problem loans, total	7,427	8,186	8,598
Loan loss provision/ doubtful receivables, gross	65.2%	64.4%	
Doubtful receivables/lending	2.1%	2.3%	

\* Problem loans have been reclassified; the figures for previous years are therefore not comparable.

## MeritaNordbanken Group structure

## Legal structure



Merita Plc (Finland) and Nordbanken Holding AB (publ) (Sweden) are the sole owners of MeritaNordbanken Plc, a Finnish company with subsidiaries in Finland and Sweden. The two holding companies together form a transparent channel for investment in the MeritaNordbanken Group.

Pursuant to mutual agreement, the MeritaNordbanken Group is managed as a single unit. Shareholders of Merita Plc are entitled to 40 per cent of the Group's capital and shareholders of Nordbanken Holding to 60 per cent.

The number of Merita Plc shares as at June 30, 1998 was 832,020,144. During the first half-year, the number of shares increased by 1,566,238. Of this, 1,483,438 shares resulted from the exercise of equity warrants expiring on March 12, 1998. A further increase of 82,800 shares stemmed from the conversion into equity of convertible bonds issued in 1992. Assuming

conversion of all convertible bonds still outstanding, the number of shares can increase by a maximum of 27,099,600 shares to a total of 859,119,744. The number of Nordbanken Holding AB (publ) shares issued and outstanding is 1,275,267,441.

Merita Plc's share (40 per cent) of the profit for the period was FIM 1,465 million representing FIM 1.71 per share, assuming conversion of all convertible bonds. Equity per share was FIM 14.07.

Nordbanken Holding's share (60 per cent) of the profit for the period was SEK 3,173 million, representing SEK 2.49 per share. Equity per share was SEK 20.00.

The interim report of MeritaNordbanken and its subsidiaries has been filed with the Trade Register. Copies are available from MeritaNordbanken, Accounting and Control.

## Merita Plc and its associated companies

### Interim report for January-June 1998

This review, together with the interim report of the MeritaNordbanken Group, constitutes the interim report of Merita Plc.

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.

On March 31, 1998 Merita Plc transferred all its business operations to MeritaNordbanken Plc as a contribution in kind in consideration of shares in the company. At the same time Merita Plc ceased to be the parent company of the Merita Group. Similarly, on April 1, 1998, Nordbanken Holding AB transferred its holding of Nordbanken shares in its entirety to MeritaNordbanken Plc as a contribution in kind in consideration of shares in the company. A new entity formed by MeritaNordbanken and its subsidiaries was created as a result of these transfers. The respective increases in the share capital of MeritaNordbanken Plc were entered in the Finnish Trade Register on April 18, 1998.

Pursuant to the Cooperation Agreement of October 13, 1997, Merita Plc, Nordbanken Holding AB and MeritaNordbanken with its subsidiaries are managed as one single entity. For this purpose it is provided in the Agreement, inter alia, that differences in the holding companies' capital structure or assets and liabilities, including liquid funds, shall not financially affect the respective shareholder communities and that Merita Plc and Nordbanken Holding AB shall,

where necessary, arrange a transfer of funds between MeritaNordbanken and its holding companies.

Merita Plc shareholders are entitled to 40 per cent of the Group's capital and Nordbanken Holding shareholders to 60 per cent.

The interim report of the MeritaNordbanken Group, including income statements and balance sheets, is an integral part of the interim report of Merita Plc. In order to illustrate the financial development and position of Merita Plc strictly from the company's own point of view, the attached material also comprises the income statements and balance sheets of Merita Plc including its associated company MeritaNordbanken.

The profit for the first half-year includes part of the capital gain (FIM 782 million) from the sale of the equity holding in the Sampo Insurance Company. Merita Plc's share (40 per cent) of the consolidated profit of MeritaNordbanken and its subsidiaries is reported under "Profit from companies accounted for under the equity method", together with an adjustment of FIM 404 million pursuant to the Cooperation Agreement. After these items, the profit of Merita Plc for the period under review represents 40 per cent of the profit of the entire MeritaNordbanken Group and amounts to FIM 1,465 million.

Including the equity interest in the associated company and an adjustment in accordance with the Cooperation Agreement, the equity capital of Merita Plc, representing 40 per cent of the equity capital of the entire MeritaNordbanken Group, is FIM 11,717 million.

## Income statement

FIM million	Merita Plc, incl. the associated company Pro forma			Merita Plc		
	Jan – June 1998	Jan – June 1997	Jan - Dec 1997	Jan – June 1998	Jan – June 1997	Jan - Dec 1997
Net interest income	-43	-61	-142	-43	-61	-142
Dividends received	0	16	27	0	480	707
Net income from securities trading	792	65	114	792	65	114
Other income	3	7	11	3	7	11
Total income	752	27	9	752	492	689
Refund of the surplus in the Pension Fund			618			631
Expenses	-67	-17	-56	-67	-17	-56
Total expenses	-67	-17	562	-67	-17	575
Profit from companies accounted for under the equity method	1,187					
Adjustment in accordance with the Cooperation Agreement	-404	1,194	2,028			
Operating profit	1,468	1,204	2,599	685	475	1,264
Group contribution						457
Direct taxes, note 1	-3	10	-61	-3	10	-251
Profit for the period	1,465	1,215	2,538	682	485	1,470
Turnover				837	117	221



## Balance sheet

FIM million	Merita Plc, incl. the associated company Pro forma			Merita Plc		
	June 30 1998	June 30 1997	Dec 31 1997	June 30 1998	June 30 1997	Dec 31 1997
Shares in subsidiaries and associated companies	10,772	11,234	11,828	9,811	11,367	11,536
Shares and participations	1	898	887	1	898	887
Debt securities	906	905	905	906	905	905
Other receivables	1,002	538	1,108	1,002	538	1,108
Other assets	35	20	20	35	20	20
<b>Total assets</b>	<b>12,716</b>	<b>13,595</b>	<b>14,747</b>	<b>11,755</b>	<b>13,728</b>	<b>14,455</b>
Equity capital, note 2	11,717	9,719	11,144	10,756	9,852	10,852
Statutory provisions	27	21	23	27	21	23
Debt securities issued to the public and subordinated liabilities	903	3,114	2,680	903	3,114	2,680
Other liabilities	69	741	900	69	741	900
<b>Total liabilities and equity capital</b>	<b>12,716</b>	<b>13,595</b>	<b>14,747</b>	<b>11,755</b>	<b>13,728</b>	<b>14,455</b>
Contingent liabilities	8	264	8	8	264	8
Derivative instruments, nominal value		301	303		301	303
- credit equivalent		15	24		15	24

## Note 1. Taxes

Allowance for loss equalization has been taken into account in the calculation of Merita Plc's taxes.  
The taxes for the MeritaNordbanken Group are reported according to estimated taxes to be paid for the year.

## Note 2. Equity capital

FIM million	June 30 1998	Pro forma	
		June 30 1997	Dec 31 1997
Equity capital excluding the associated company	10,756	9,852	10,852
Share of equity capital in the associated company	1,042	-133	292
Adjustment in accordance with the Cooperation Agreement	-81		
Equity capital including the associated company	11,717	9,719	11,144

Key ratios including associated companies, see page 11

## Nordbanken Holding AB (publ) and its associated companies

### Interim report for January-June 1998

This review, together with the interim report of the MeritaNordbanken Group, constitutes the interim report of Nordbanken Holding AB.

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.

On April 1, 1998 Nordbanken Holding transferred its equity holding in Nordbanken to MeritaNordbanken Plc as a contribution in kind in consideration of shares in the company. Similarly, on March 31, 1998, Merita Plc transferred all its businesses to MeritaNordbanken Plc as a contribution in kind in consideration of shares in the company. A new entity formed by MeritaNordbanken and its subsidiaries was created as a result of these transfers. The respective increases in the share capital of MeritaNordbanken Plc were entered in the Finnish Trade Register on April 18, 1998.

Pursuant to the Cooperation Agreement of October 13, 1997, Nordbanken Holding AB, Merita Plc and MeritaNordbanken with its subsidiaries are managed as one single entity. For this purpose it is provided in the Agreement, inter alia, that differences in the holding companies' capital structure or assets and liabilities, including liquid funds, shall not financially affect the respective shareholder communities and that Nordbanken Holding AB and Merita Plc shall, where necessary, arrange a transfer of funds between MeritaNordbanken and its holding companies.

Nordbanken Holding shareholders are entitled to 60 per cent of the Group's capital and Merita shareholders to 40 per cent.

The interim report of the MeritaNordbanken Group, including income statements and balance sheets, is an integral part of the interim report of Nordbanken Holding AB. In order to illustrate the financial development and position of Nordbanken Holding strictly from the company's own point of view, the attached material also comprises the income statements and balance sheets of Nordbanken Holding including its associated company MeritaNordbanken.

The profit of Nordbanken Holding for the period under review, excluding earnings from the associated company, was SEK 17 million. Its share (60 per cent) of the consolidated profit of MeritaNordbanken and its subsidiaries is reported under "Profit from companies accounted for under the equity method", together with an adjustment of SEK 584 million pursuant to the Cooperation Agreement. After these items, the profit of Nordbanken Holding AB for the period under review represents 60 per cent of the profit of the entire MeritaNordbanken Group and amounts to SEK 3,173 million.

Including the equity interest in the associated company and an adjustment in accordance with the Cooperation Agreement, the equity capital of Nordbanken Holding, representing 60 per cent of the equity capital of the entire MeritaNordbanken Group, is SEK 25,502 million.

## Income statement

SEK million	Nordbanken Holding including the associated company			Nordbanken Holding*		
	Pro forma					
	Jan – June 1998	Jan – June 1997	Jan - Dec 1997	Jan – June 1998	Jan – June 1997	Jan - Dec 1997
Anticipated dividends						4,934
Net interest income	30			30		
Expenses	-6			-6		
Profit from companies accounted for under the equity method	2,572	2,727	5,614			
Adjustment in accordance with the Cooperation Agreement	584					
Profit before taxes	3,180	2,727	5,614	24		4,934
Taxes	-7			-7		
Profit for the period	3,173	2,727	5,614	17		4,934

## Balance sheet

SEK million	Nordbanken Holding including the associated company			Nordbanken Holding*		
	Pro forma					
	June 30 1998	June 30 1997	Dec 31 1997	June 30 1998	June 30 1997	Dec 31 1997
Shares in associated companies	23,739		20,512	13,239		13,053
Long-term receivables			1,981			1,981
Short-term receivables	2,027		1,914	2,027		1,914
Total assets	25,766		24,407	15,266		16,948
Equity capital , not 1	25,502	21,697	24,356	15,002		16,897
Short-term liabilities	264		51	264		51
Total liabilities and equity capital	25,766		24,407	15,266		16,948

\* Nordbanken Holding AB was registered on October 8, 1997. The first financial period of the company thus covered the period from October 8, 1997 to December 31, 1997.

## Note 1. Equity capital

SEK million	June 30 1998	Pro forma	
		June 30 1997	Dec 31 1997
Equity capital excluding associated companies	15,002		16,897
Share of equity capital in associated companies	10,383	21,697	7,459
Adjustment in accordance with the Cooperation Agreement	117		
Equity capital including associated companies	25,502	21,697	24,356

Key ratios including associated companies, see page 11

## Merita Bank Plc

### Interim Report for January-June 1998

Since March 31, 1998, Merita Bank has been a wholly owned subsidiary of MeritaNordbanken Plc. Its operations are totally integrated with the MeritaNordbanken Group and therefore included in the Group's interim report. In accordance with regulatory requirements, a separate interim report for the Merita Bank Group is also presented in the following.

The Merita Bank Group's operating profit for the first half-year was FIM 1,596 million (compared with FIM 1,378 million for the corresponding period in 1997).

Income totalled FIM 4,655 million (FIM 4,524 million), with net interest income amounting to FIM 2,572 million.

The net result from financial operations declined, as capital gains on the disposal of equity holdings contracted by FIM 420 million to FIM 470 million. FIM 374 million of the gains booked for the period resulted from the sale of the bank's equity interest in the Sampo Insurance Company.

Expenses amounted to FIM 2,585 million (FIM 2,598 million).

Net loan losses were FIM 400 million (FIM 325 million). Approximately half of the net loan losses

booked for the period resulted from the harmonization of loan-loss-allowance principles within the Group.

During January-June, the net volume of problem loans declined by almost 14 per cent to FIM 6.4 billion.

Lending to the public, including leasing credits, increased somewhat, totalling FIM 153 billion at the end of June. Deposits from the public totalled FIM 136 billion, a 12-month gain of 2.5 per cent.

The capital adequacy ratio as at June 30, 1998 was 10.5 per cent. The profit for the period, after deduction of a standard dividend, is included in the capital base for the calculation of the interim capital ratio. The remaining part of the capital investment of the Government of Finland, FIM 1.7 billion, was repaid in February.

Given the continuation of favourable economic developments in Finland during the second half-year, the business operations and results of the Merita Bank Group, excluding items of a non-recurring nature, are expected to show a stable trend.

Helsinki, August 19, 1998

Board of Management

### Auditors' report

We have conducted a summary review of the Interim Report of Merita Bank Plc for the period January-June 1998 in accordance with the recommendations issued by the Institute of Authorized Public Accountants in Finland.

A summary review has material limitations as compared with an audit.

Nothing has come to our attention that would cause us to believe that the Interim Report does not meet the requirements applicable to such reports under the prevailing rules and regulations.

Helsinki, August 19, 1998

Eric Haglund  
Authorized Public Accountant

Mauri Palvi  
Authorized Public Accountant

Income statement			
FIM million	Jan - June 1998	Jan - June 1997	Jan -Dec 1997
Interest income	6,557	6,189	12,708
Interest expenses	-3,985	-3,861	-7,902
Net interest income	2,572	2,328	4,806
Dividends received	31	72	100
Commission income	1,204	1,170	2,350
Commission expenses	-20	-24	-38
Net result from financial operations	630	830	1,569
Other operating income	238	148	536
Total operating income	4,655	4,524	9,323
Personnel expenses	-1,328	-1,300	-1,715
Other administrative expenses	-554	-480	-1,003
Depreciation and write-downs on tangible and intangible assets	-167	-170	-332
Other operating expenses	-536	-648	-1,053
Total expenses	-2,585	-2,598	-4,103
Loan losses	-400	-325	-1,242
Write-downs on securities held as financial fixed assets			-5
Profit from companies accounted for under the equity method	-74	-223	-934
<b>Operating profit</b>	<b>1,596</b>	<b>1,378</b>	<b>3,039</b>
Extraordinary items			-44
Profit before taxes	1,596	1,378	2,995
Taxes for the period	-447	-92	-446
Minority items	-19	-17	-31
<b>Profit for the period</b>	<b>1,130</b>	<b>1,269</b>	<b>2,518</b>

Since 1998 Finnish banks have been allowed to value securities held for active trading purposes at market value. The amount of this kind of unrealized gains at the beginning of 1997 was FIM 219 million, which amount is included in the profit for the period under review (Net income from securities trading). The corresponding valuation was made in the MeritaNordbanken Group pro forma accounts already for the year 1997 and the income accrued was included in equity capital on January 1, 1997.

In addition, the changes in the Group accounting principles encumber the result by FIM 0.3 billion.

In accordance with the new regulations of the Finnish Financial Supervision Authority, interest income on swaps and gains on the sale of leased assets are entered in the income statement in a new way (reclassification). The comparative figures for 1997 have not been adjusted.

Balance sheets			
FIM million	June 30 1998	Dec 31 1997	June 30 1997
Liquid assets	4,315	3,734	2,049
Debt securities entitling to central bank finance	24,370	32,316	22,403
Loans to financial institutions	52,267	54,180	47,164
Loans to the public and public sector organizations	148,401	145,458	145,180
Leased assets	4,230	4,063	4,506
Interest-bearing securities	15,643	18,563	20,199
Shares and participations	1,668	1,663	1,229
Shares and participations in subsidiaries and associated companies	15,157	15,095	16,188
Intangible assets	64	105	99
Consolidation goodwill	50	51	55
Tangible assets	1,014	1,075	1,114
Other assets	11,350	3,522	5,532
Accruals and prepayments	5,682	14,137	10,447
<b>Total assets</b>	<b>284,211</b>	<b>293,962</b>	<b>276,165</b>
Due to financial institutions and central banks	41,586	55,100	44,744
Due to the public and public sector organizations	145,460	145,539	139,533
Debt instruments outstanding	48,688	49,262	45,299
Other liabilities	17,924	6,177	10,096
Accruals and deferred income	4,396	9,515	8,887
Statutory provisions	512	785	632
Subordinated debt	11,839	12,306	12,569
Minority interest	71	49	35
Share capital	6,024	6,024	6,024
Revaluation reserve	23	25	245
Other restricted reserves	2,180	2,180	2,180
Preferred capital securities	1,899	3,793	3,911
Non-restricted reserves	492	412	252
Retained earnings	1,987	277	489
Profit for the period	1,130	2,518	1,269
<b>Total liabilities and equity capital</b>	<b>284,211</b>	<b>293,962</b>	<b>276,165</b>

Off-balance-sheet commitments			
FIM million	June 30 1998	Dec 31 1997	June 30 1997
<b>Contingent liabilities</b>			
Commitments on behalf of customers in favour of third parties	30,686	29,631	30,639
Irrevocable commitments in favour of customers	23,551	21,678	18,044
<b>Derivative instruments (nominal amount)</b>			
<u>Contracts made for hedging purposes</u>			
Interest-rate-related derivatives	18,539	23,618	25,317
Currency-related derivatives	199,176	239,655	170,454
Equity-related derivatives	386	125	1,627
Other derivatives	794	1,083	
<u>Contracts made for other than hedging purposes</u>			
Interest-rate-related derivatives	1,737,613	2,004,171	1,782,288
Currency-related derivatives	89,949	118,195	239,934
Equity-related derivatives	1,120	710	352
Other derivatives		167	
Interest-rate-related derivatives, credit equivalent	11,878	13,637	12,375
Currency-related derivatives, credit equivalent	9,270	10,346	9,731
<b>Other information</b>			
Number of employees, average	12,685	13,446	13,837
Turnover	9,fi432	18,530	9,239
<b>Capital adequacy</b>			
Preferred capital certificates included in Tier 1	1,899	1,876	3,726
Total Tier 1	12,550	12,089	12,189
Total Tier 2	9,298	9,818	10,386
Tier 3		219	1,000
Deductions	223	233	216
Total own funds	21,625	21,893	23,359
Risk-weighted items (Off-balance-sheet receivables, investments and commitments)	205,848	203,477	199,794
Capital adequacy, %	10.5	10.8	11.7
Tier 1/risk-weighted items, %	6.1	5.9	6.1



## Nordbanken AB (publ)

### Interim report for January-June 1998

Nordbanken is a wholly owned subsidiary of MeritaNordbanken Plc. Its business is totally integrated with the MeritaNordbanken Group and therefore included in the Group's interim report. In accordance with regulatory requirements, a separate interim report for the Nordbanken Group is also presented in the following.

The Nordbanken Group's operating profit for the first half-year was SEK 3,960 million (SEK 3,016 million for the corresponding period in 1997).

Income rose to SEK 7,483 million (SEK 6,508 million), an improvement attributable in part to successful bond transactions, which boosted the overall result from financial operations.

Expenses amounted to SEK 3,548 million (SEK 3,298 million). The rise reflected continued investments in information technology and increased marketing efforts.

Loan losses, net of capital gains on the sale of foreclosed assets, shrank to SEK 1 million (SEK 194 million).

Lending to the public at the end of June stood at SEK 307 billion, up 8 per cent on a 12-month basis, while deposits from the public increased by 6 per cent to SEK 153 billion.

The capital adequacy ratio at the end of June was 10.4 per cent. The profit for the period, after deduction of a standard dividend, is included in the capital base for the calculation of the interim capital ratio.

Stockholm, August 19, 1998

Board of Directors

### Auditors' report

We have conducted a summary review of this Interim Report. A summary review has material limitations as compared with an audit. Nothing has come to our attention that would cause us to believe that the Interim Report (including the income statement and balance sheet of the parent bank) does not meet the requirements applicable to such reports under existing legislation governing the annual financial statements of credit institutions and securities companies.

Stockholm, August 19, 1998

Caj Nackstad

Per-Olof Akteus

Stephan Tolstoy  
Accountant authorized by  
Finansinspektionen (Financial  
Supervisory Authority)

### NOTE

The Interim Report sent to the Swedish Financial Supervisory Authority also includes the parent bank's income statements and balance sheets.

Income statement			
SEK million	Jan - June 1998	Jan - June 1997	Jan - Dec 1997
Interest income	12,925	12,252	24,791
Interest expenses	-8,442	-7,328	-14,956
Net interest income	4,483	4,924	9,835
Dividends received	578	101	322
Commission income	1,680	1,478	3,141
Commission expenses	-231	-258	-534
Net result from financial operations	729	35	38
Other operating income	244	228	435
Total operating income	7,483	6,508	13,237
Personnel expenses	-1,505	-1,438	-2,937
Other administrative expenses	-1,855	-1,674	-3,632
Depreciation and write-downs on tangible and intangible assets	-188	-186	-336
Total expenses	-3,548	-3,298	-6,905
<b>Profit before loan losses</b>	<b>3,935</b>	<b>3,210</b>	<b>6,332</b>
Loan losses, net, Note 1	-27	-217	-314
Change in value of property taken over	26	23	11
Profit from companies accounted for under the equity method	26		
<b>Operating profit</b>	<b>3,960</b>	<b>3,016</b>	<b>6,029</b>
Actuarial adjustment for pension liabilities*	75	63	155
Direct taxes	-1,009	-740	-1,321
<b>Profit for the period</b>	<b>3,026</b>	<b>2,339</b>	<b>4,863</b>
* The accounts of the MeritaNordbanken Group include the actuarial adjustment for pension liabilities as a deduction from personnel expenses.			

Balance sheet			
SEK million	June 30 1998	Dec 31 1997	June 30 1997
Loans to financial institutions	26,587	37,105	25,260
Loans to the public and public sector organizations	307,217	284,153	270,471
Interest-bearing securities			
Current assets	22,914	23,971	24,045
Financial fixed assets	48,813	38,692	32,753
Other assets	31,383	29,741	31,166
<b>Total assets</b>	<b>436,914</b>	<b>413,662</b>	<b>383,695</b>
Deposits from the public	153,391	144,703	147,501
Other borrowing from the public	2,337	5,031	5,860
Due to financial institutions	86,753	73,053	50,139
Debt instruments outstanding	125,548	123,144	117,920
Other liabilities	38,328	35,153	32,788
Subordinated debt	10,934	11,048	11,476
Equity capital	19,623	21,530	18,011
<b>Total liabilities and equity capital</b>	<b>436,914</b>	<b>413,662</b>	<b>383,695</b>
Capital adequacy, %	10.4	11.1	12.4
Tier 1/risk-weighted items, %	6.8	7.1	7.9
Risk-weighted items	248,050	232,077	216,550

**Note 1. Loan losses, net**

SEK million	Jan - June 1998	Jan - June 1997
Individually appraised receivables		
Losses incurred during the period	-402	-611
Previous provisions utilized	373	565
Provision for possible loan losses	-232	-502
Recovery of previous incurred losses	50	89
Reversal of previous provisions	337	312
	126	-147
Receivables appraised by category		
Losses incurred during the period	-90	-110
Recovery of previous incurred losses	48	40
Reversal/provision to reserves for possible loan losses	-42	-70
Country risks	-111	
Contingent liabilities		
Total	-27	-217

**Problem loans and property taken over for protection of claims**

SEK million	June 30 1998	Dec 31 1997	June 30 1997
Doubtful receivables, gross	5,221	5,763	6,475
Loan loss provision	-4,011	-4,491	-4,770
Doubtful receivables, net	1,210	1,272	1,705
Low-yielding receivables	230	383	462
Problem loans, total	1,440	1,655	2,167
Property taken over for protection of claims	838	975	1,171
of which real estate	682	853	1,051
shares and convertible bonds	156	122	120
Non-performing receivables on which interest is calculated	67	78	121

**Derivative instruments**

June 30, 1998, SEK million	Interest-rate-related derivatives		Equity-related derivatives		Currency-related derivatives	
	Market value	Book value	Market value	Book value	Market value	Book value
Positive values	9,009	8,730	502		3,917	3,862
Negative values	12,103	10,081	502		3,286	3,257

The majority of the outstanding derivative instruments are carried in the balance sheet at market value and have therefore an impact on the income statement.

The difference between market value and book value derives from derivative instruments acquired for hedging purposes and carried at cost. The difference is offset by the difference between market value and book value of the hedged balance sheet items.



## MeritaNordbanken

### Investor Relations

Hamngatan 10, SE-105 71 Stockholm

Aleksanderinkatu 30, Helsinki FIN-00020 MERITA

Stockholm tel + 46 8 614 78 51, fax + 46 8 614 87 10

Internet: [www.nb.se](http://www.nb.se)

[www.meritanordbanken.com](http://www.meritanordbanken.com)

Helsinki tel + 358 9 165 42471, fax + 358 9 165 42838

E-mail: [investor.relations@nb.se](mailto:investor.relations@nb.se)

E-mail: [tania.makijarvi@merinet.merita.mailnet.fi](mailto:tania.makijarvi@merinet.merita.mailnet.fi)

Internet: [www.merita.fi](http://www.merita.fi)

[www.meritanordbanken.com](http://www.meritanordbanken.com)