

# Review of interim results

January – September 1998

## *A new bank emerges...*

- Operating profit up 5 per cent at FIM 6.2 billion (SEK 9.1 billion)
- Return on equity 21 per cent
- Earnings per share FIM 2.17 in Merita Plc, SEK 3.18 in Nordbanken Holding
- Rapid progress in the integration of operations
- Growth in lending volumes
- Third-quarter result eroded by falling share prices and international market turbulence
- Net commission income up 9 per cent
- Operating expenses unchanged, adjusted for restructuring costs
- Loan losses at a low level; new provisions for international risks

Since January 1, 1998, the MeritaNordbanken Group has been operating as one single organization under common control.

This interim report presents the operating results and position of the MeritaNordbanken Group for the period January-September 1998 with pro forma comparative data for 1997. The MeritaNordbanken Group refers to MeritaNordbanken Plc and its subsidiaries (MeritaNordbanken Plc Group) and the 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. For the time being, the Group's sole reporting currency is the Finnish markka (FIM), while Nordbanken Holding AB continues to use the Swedish krona (SEK) as its accounting and reporting currency.

# Interim Report

January – September 1998

## Financial markets hit by global turmoil

During the first half of the year, MeritaNordbanken's home markets, Finland and Sweden, witnessed a continued strengthening in economic activity combined with moderate credit expansion, sustained strong demand for savings products, and a decline in short- and long-term interest rates.

This favourable picture changed in the third quarter, reflecting developments in the international environment. Problems emerging on the financial markets notably in Asia and Russia precipitated a serious deterioration in the economic performance of these regions. This, combined with expectations of falling corporate profits in the U.S.A. and Europe, had a negative impact on global stock market developments. Long-term government bond yields continued to decline in the third quarter, while the yields of securities involving a credit risk showed a rising trend. Against this background, economic forecasts for Sweden and Finland have repeatedly been revised downwards but continue to point to a basically healthy rate of GDP growth.

## Impact on the MeritaNordbanken Group

The MeritaNordbanken Group derives the majority of its earnings from its home markets Sweden and Finland, while international business accounts for a minor part of its total income. Commission income from capital market operations and earnings from trading likewise represent a relatively modest proportion of the overall income structure.

Even so, the Group's performance in the third quarter did not remain immune to financial market turbulence and the stock market decline. Owing to adverse developments in the global environment it was deemed necessary to review exposures to certain countries and to establish new country risk provisions. Furthermore, commission income from mutual fund management assumed a downward trend. Yet another consequence was the shrinking of unrealized gains in the Group's equity portfolio and the



*Hans Dalborg, President and Chief Executive*

contraction of the surplus accrued in its pension foundations and pension fund.

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

MeritaNordbanken's operating profit for January-September was FIM 6,217 million (SEK 9,068m), an increase of 5 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 approximately FIM 700 million (SEK 1,000m) on the nine-month result. Even excluding these items, the operating profit rose by 5 per cent from the corresponding 1997 figure, similarly adjusted for one-off items.

The return on equity was 21.0 per cent. Adjusted for one-off items, it was approximately 19 per cent.

Earnings per share for the first nine months of the year were FIM 2.17 in Merita Plc and SEK

### Non-recurring income and expense items, Jan - Sep 1998:

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 0.3bn (SEK 0.4bn)
Change in accounting principles	-FIM 0.4bn (SEK 0.6bn)

3.18 in Nordbanken Holding AB. Excluding one-off items, the corresponding figures were FIM 1.92 and SEK 2.81, respectively.

### **Impact of exchange rate movements on the result and financial position**

The Group's reporting currency is the Finnish markka, while a significant part of its income, expenses and balance sheet volume is generated and reported in Swedish kronor. The exchange rate between the Swedish krona and the Finnish markka therefore has an impact on the Group's performance.

During the third quarter, the Swedish krona continued to depreciate against the Finnish markka. From June 30 to September 30 the exchange rate fell by 5.7 per cent. Simultaneously the average exchange rate applicable to the translation of income statement items dropped by 1 per cent. Exchange rate movements during the third quarter as compared to the second one thus had a negative impact of over FIM 50 million on the operating result.

### **Smooth and speedy progress in the integration of operations**

The integration of the Group's banking operations in Sweden and Finland continues. Coordination projects completed to date include, for example, joint funding and market risk management within the Treasury function and a harmonized credit policy and decision-making process within the Credits function. The integration of the international network has also been completed, and all units now operate under the name of the MeritaNordbanken Group. The Group further has a single, centralized financial control and capital allocation function, with coordinated financial reporting.

The estimates announced in autumn 1997 regarding merger-related income and cost synergies and restructuring expenses remain unchanged.

### **Increase in income**

During January-September 1998, the Group's total income rose by 4 per cent to FIM 14,826

million (SEK 21,625m). Third-quarter income amounted to FIM 4,075 million, which was somewhat less than in the preceding quarter.

### *Net interest income*

Net interest income for January-September amounted to FIM 8,099 million (SEK 11,813m), a drop of 1 per cent compared with the same period in 1997.

From the second to the third quarter net interest income declined by FIM 119 million mainly as a result of exchange rate movements and lower yields on financial investments. The stabilization of margins noticeable on the Swedish market continued. In Finland margins remained under pressure, notably in housing loans.

### *Improvement in net commission income*

Net commission income for the first nine months of the year amounted to FIM 3,256 million (SEK 4,749m), an increase of 9 per cent compared with the same period in 1997.

The steep rise in net commission income as compared with the preceding year levelled off somewhat in the third quarter as the decline in stock prices eroded the value of mutual fund assets under management. Towards the end of the third quarter the net inflow of investments in Swedish and Finnish equity funds also began to decelerate. However, regular monthly saving in mutual funds was not materially affected.

### *Net result from financial operations*

Thanks to the first-quarter capital gain of almost FIM 1.2 billion (SEK 1.7bn) posted from the disposal of the Group's equity holding in the Sampo Insurance Company, the net result from financial operations for the nine months under review remained strong and amounted to FIM 1,724 million (SEK 2,515m).

The net result from financial operations in the third quarter was lower than in the preceding quarter, mainly reflecting the weaker performance of the Group's bond portfolio and the

negative result in trading in interest rate products. However, currency-related earnings developed favourably, and Trading as a whole reported a positive result. The negative impact exerted by the third-quarter stock market slide on the Group's equity holdings was cushioned in part by index-related put options acquired earlier.

#### *Increase in other operating income*

Other income for January-September was up 15 per cent at FIM 1,747 million (SEK 2,548m).

Other income in July-September was lower than in the preceding two quarters, which had benefited from dividends received, for example, in connection with the ownership restructuring of Nordisk Renting.

#### **Expenses under control**

The Group's total expenses for January-September, including merger-related restructuring costs, increased by 3 per cent to FIM 8,162 million (SEK 11,905m). Excluding restructuring costs, overall expenses remained more or less unchanged compared with the corresponding period last year. Third-quarter expenses were lower than those for the preceding three quarters.

#### *Personnel expenses*

Personnel expenses amounted to FIM 3,715 million (SEK 5,419m). This includes FIM 135 million (SEK 197m) of restructuring expenses, of which FIM 45 million in the third quarter. Adjusted for the impact of restructuring, personnel expenses rose by 4 per cent.

The number of banking employees within the Group continues to decrease. At the end of September it was 18,500, a net fall of approximately 600 persons since the announcement of the merger plan.

#### *Other expenses*

Other expenses declined by 1 per cent to FIM 4,447 million (SEK 6,488m). This included one-off restructuring expenses of FIM 150 million (SEK 219m), of which FIM 50 million was booked in the third quarter.

#### *Loan losses*

Net loan losses for the nine-month period under review totalled FIM 597 million (SEK 871m). Loan losses represented 0.2 per cent of total lending, as earlier.

The above amount included a provision of somewhat over FIM 200 million charged in the third quarter for international credit risks, primarily in respect of Russian banks, and a separate charge of slightly under FIM 150 million for country risks, based on a rating model focusing mainly on countries outside the OECD. This increase in the country risk provision resulted from the harmonization of loan-loss-allowance principles within the Group. In the same connection, the remaining part of the provision charged for Asian risks at the end of 1997 was unwound.

The Group's international exposures arise principally in the normal course of business from the financing of Nordic trade, Nordic investments and payment services. In view of developments in the international markets during the third quarter, the Group's lending exposures to certain countries and regions are summarized below. The table shows the net amounts after customer-specific provisions for possible loan losses. Approximately 70 per cent of the exposures consist of short-term receivables.

mFIM, Sep 30, 1998	Net exposure*	Of which: Banks
<b>Asia (excl. Japan)</b>	<b>3,681</b>	<b>2,644</b>
of which: China	1,018	837
Thailand	440	162
Indonesia	368	176
South Korea	260	259
Malaysia	152	91
<b>Japan</b>	<b>1,955</b>	<b>1,955</b>
<b>Latin America</b>	<b>2,054</b>	<b>1,332</b>
of which: Brazil	1,298	916
<b>Russia</b>	<b>114</b>	<b>82</b>

\*After customer-specific provisions

Apart from customer-specific provisions, the general country risk provision at the end of September amounted to FIM 890 million (SEK 1,369m).

*Continued decrease in problem loans*

The net volume of problem loans, including low-interest-rate receivables, continued to decrease in the third quarter and at the end of September amounted to FIM 6.6 billion (SEK 9.6bn), which was 23 per cent less than at the end of 1997. Provisions against these exposures at the end of September represented 67 per cent of the total volume.

*Interest-bearing securities*

At the end of September, interest-bearing securities classified as financial current assets and carried at market value totalled FIM 60 billion (SEK 92bn).

Securities held as financial fixed assets, carried at amortized acquisition value, totalled FIM 25 billion (SEK 38bn). Unrealized appreciation in this portfolio was FIM 0.6 billion (SEK 0.9bn).

*Shares and participations*

At the end of September, the market value of the Group's actively traded equity portfolios was FIM 0.3 billion (SEK 0.5bn).

Other equity holdings classified as financial current assets and valued at the lower of cost or market amounted to FIM 2.8 billion (SEK 4.3bn), with respective unrealized gains totalling FIM 1.3 billion (SEK 2.0bn). The unrealized appreciation in the portfolio fell by 38 per cent during the third quarter. In late October the unrealized appreciation was more or less unchanged.

*Other unrealized gains*

The surplus in the Group's pension foundations and pension fund, i.e. the difference between the market value of the assets and the pension liabilities, at the end of September was FIM 1.8 billion (SEK 2.7bn), having shrunk by 36 per cent during the third quarter. In late October the surplus was FIM 1.9 billion (SEK 2.9bn).

*Real estate*

The book value of the Group's real estate holdings at the end of September was FIM 21.5 billion (SEK 33.0bn). During the nine months

under review, the effective yield of Merita Real Estate's commercial real estate portfolio rose to 4.7 per cent.

Strategies are being developed to facilitate the envisaged long-term disposal of a major part of the Finnish real estate portfolio, and a new real estate organization will be introduced in November. Under the new organization, major office premises in Helsinki and other large cities - representing approximately 45 per cent of the total value of the portfolio - will be grouped under a new unit, Aleksia Real Estate, which is scheduled to be transferred to a separate company at the end of the year.

*Shareholders' equity*

As at September 30, 1998 MeritaNordbanken's shareholders' equity was FIM 29.4 billion (SEK 45.2bn). The Tier 1 ratio at the end of September was 7.7 per cent and the total capital ratio 10.4 per cent. The profit for the first half-year, after deduction of a standard dividend, is included in the calculation.

**Savings market: progress despite stock market volatility**

Household savings under management with MeritaNordbanken at the end of September totalled nearly FIM 250 billion (over SEK 380bn). This comprises all types of savings products, including bank deposits, mutual funds, insurance, retail bonds and share-index-linked bonds.

Deposits from the Finnish public remained unchanged during the third quarter. The Group's deposit market share in Finland in August was 41.5 per cent. The market share of household deposits in Finland was 38.0 per cent and that of corporate deposits 49.4 per cent. In Sweden, deposits developed favourably. The Group's deposit market share in the household sector at the end of September was 22.6 per cent and that in the corporate sector 18.6 per cent.

The net inflow of savings to the Group's mutual funds during the third quarter totalled FIM 1.0 billion. In the bearish stock market environment,

mutual fund savings decreased in the latter part of the third quarter, and savings were diverted from equity funds to mixed and bond funds. Total fund assets under management at the end of September amounted to FIM 66.7 billion. This excluded discretionary management of assets for the account of institutional investors, for example municipalities and foundations.

The Group's premium income from life assurance in the third quarter totalled FIM 1.0 billion. Unit-linked insurance accounted for FIM 0.5 billion of this. In June the Group started selling unit-linked insurance products of Merita Life Assurance Ltd through the Swedish distribution network. By the end of September, premium income from these new products in Sweden amounted to SEK 706 million.

#### Lending market

The Group's market share of total lending in Finland was 41.3 per cent and that in Sweden 14.6 per cent. In the Swedish household sector, the Group's market share of housing loans continued to increase, approaching 14 per cent. In Finland, the Group registered a rise in its lending to households while its market share declined marginally to 35.6 per cent.

#### Expansion of network banking services

Since its establishment, MeritaNordbanken has launched a number of new payment products, some of which are available in both Sweden and Finland. For example, in January it offered its customers free Visa-card withdrawals from cash dispensers in Finland and Sweden. Later the Group introduced a more favourable valuation practice for corporate payments between the two countries, another innovation well received by customers. The number of card users continued to rise vigorously, and at the end of September the total number of MeritaNordbanken ATM and debit cards in issue was 3.7 million.

The use of network banking services is rapidly gaining ground among the Group's customers. In Finland the number of network customers already exceeds 500,000. In Sweden the number

of customers using the Internet banking service is approaching 50,000 and the number of telephone banking customers has risen to 368,000. More than 400 Internet vendors in Finland already accept payments for Web purchases via the Group's electronic payment facility. An Internet-based invoicing and payment service, the first of its kind, was made available to the 1.8 million mobile phone customers of the Finnish telecommunications operator Sonera. A similar service is being developed for the Swedish market.

#### Legal proceedings

On September 1, 1998, the Stockholm District Court dismissed the action brought against Nordbanken by the Swedish company Yggdrasil.

#### High rating

In October, Moody's Investors Service assigned a long-term debt rating of Aa3 to Nordbanken Hypotek AB.

#### Share price development

During the third quarter, the price of the Merita A-share fell by 28 per cent to FIM 25.90 and the share price of Nordbanken Holding by 22 per cent to SEK 45.50. Simultaneously the bank and insurance index in Sweden dropped by 27 per cent, a trend paralleled by Finland. The combined market capitalization of the MeritaNordbanken Group at the end of September was FIM 59 billion / SEK 91 billion.

Stockholm / Helsinki, October 27, 1998



Hans Dalborg  
President and Group Chief Executive Officer

*This interim report has not been subject to summary review by the auditors.*

Income statement			
FIM million	Jan - Sep		Change %
	1998	Pro forma 1997	
Net interest income, Note 1	8,099	8,204	-1
Net commission income, Note 2	3,256	2,978	9
Net result from financial operations, Note 3	1,724	1,584	9
Other operating income, Note 4	1,747	1,522	15
<b>Total operating income</b>	<b>14,826</b>	<b>14,288</b>	<b>4</b>
Personnel expenses	-3,715	-3,431	8
Other expenses, Note 5	-4,447	-4,480	-1
<b>Total expenses</b>	<b>-8,162</b>	<b>-7,911</b>	<b>3</b>
<b>Profit before loan losses</b>	<b>6,664</b>	<b>6,377</b>	<b>5</b>
Loan losses, net	-597	-530	13
Profit from companies accounted for under the equity method	150	86	74
<b>Operating profit</b>	<b>6,217</b>	<b>5,933</b>	<b>5</b>
Refund of the surplus in the Pension Fund		98	
Taxes	-1,554	-1,097	42
Minority interest	-23	-27	-15
<b>Net profit for the period</b>	<b>4,640</b>	<b>4,907</b>	<b>-5</b>
<b>Note 1: Net interest income</b>			
FIM million	Jan - Sep		Change %
	1998	1997	
Interest income	22,805	21,518	6
Interest expenses	14,706	13,314	10
Net interest income	8,099	8,204	-1
<b>Note 2: Net commission income</b>			
FIM million	Jan - Sep		Change %
	1998	1997	
Securities operations	1,306	1,131	15
Payment transmission	786	758	4
Lending	901	919	-2
Deposits	129	132	-2
Other commission income	414	332	25
<b>Total commission income</b>	<b>3,536</b>	<b>3,272</b>	<b>8</b>
Commission expenses	-280	-294	-5
Net commission income	3,256	2,978	9

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

FIM million	Jan - Sep		Change %
	1998	1997	
<b>Equity-related items</b>			
Realized gains/losses	1,237	1,692	-27
Unrealized gains/losses	-6	-177	-97
	1,231	1,515	-19
<b>Interest-rate-related items</b>			
Debt redemption		-11	
Other realized gains/losses	719	331	117
Unrealized gains/losses	-530	-449	18
	189	-129	
Exchange rate changes	304	198	54
Total	1,724	1,584	9

**Note 4: Other income**

FIM million	Jan - Sep		Change %
	1998	1997	
Dividends	488	173	182
Real estate income	770	833	-8
Sale of real estate	17	87	-80
Other	472	429	10
Total	1,747	1,522	15

**Note 5: Other expenses**

FIM million	Jan - Sep		Change %
	1998	1997	
Administrative expenses	2,356	2,032	16
Depreciation	793	719	10
Write-downs on real estate		260	
Real estate expenses	414	467	-11
Other	884	1,002	-12
Total	4,447	4,480	-1

Balance Sheet		
FIM million	Sep 30 1998	Pro forma Dec 31 1997
Loans to financial institutions and central banks	64,964	79,662
Loans to the public	346,860	339,867
Interest-bearing securities		
Current assets	60,113	61,378
Financial fixed assets	24,943	29,403
Shares and participations	3,381	4,530
Shares and participations in subsidiaries* and associated companies	3,899	3,521
Real estate holdings	21,488	22,560
Other assets	38,157	41,963
<b>Total assets</b>	<b>563,805</b>	<b>582,884</b>
Due to financial institutions and central banks	104,269	106,864
Deposits from the public	236,348	233,309
Other borrowing from the public	9,154	15,649
Debt instruments outstanding	121,228	133,294
Other liabilities	46,940	41,795
Subordinated debt	16,052	23,694
Minority interest	398	420
Shareholders' equity	29,416	27,859
<b>Total liabilities and shareholders' equity</b>	<b>563,805</b>	<b>582,884</b>
Contingent liabilities	59,496	58,528
- of which on behalf of associated companies	0	66
<b>Capital adequacy</b>		
Capital base	38,641	40,693
Risk-weighted amount	371,566	361,720
Total capital ratio, %	10.4	11.3
Tier 1 ratio, %	7.7	7.4
* Subsidiaries accounted for under the equity method in accordance with the regulations issued by the Finnish Financial Supervision Authority.		

Exchange rates applied			
SEK 1 = FIM	1998 Jan-Sep	1997	
		Jan-Sep	Jan-Dec
Income statement (average)	0.6856	0.6751	0.6782
Balance sheet (at the end of period)	0.6502	0.6966	0.6863

## Financial ratios

	1998 Jan - Sep	Pro forma	
		1997 Jan - Sep	1997 Jan - Dec
Return on equity, %	21.0	26.0	18.9 *
Income/cost ratio			
- before loan losses	1.8	1.8	1.7
- after loan losses	1.7	1.7	1.5
Loan losses/ lending at the beginning of the year, %	0.2	0.2	0.4

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

## Share-related indicators

	1998 Jan - Sep	Pro forma	
		1997 Jan - Sep	1997 Jan - Dec
<i>Number of shares at the end of period, mill.</i>			
Merita Plc	832.0	830.5	830.5
- after full conversion	859.1	859.3	859.3
Nordbanken Holding AB	1,275.3	1,279.2 *	1,275.3
<i>Earnings/share (EPS)</i>			
Merita Plc	FIM 2.23	FIM 2.32	FIM 2.31 **
- after full conversion	FIM 2.17	FIM 2.25	FIM 2.25 **
Nordbanken Holding AB	SEK 3.18	SEK 3.34	SEK 3.33 **
<i>Equity/share at the end of period</i>			
Merita Plc	FIM 14.14	FIM 12.68	FIM 13.42
- after full conversion	FIM 14.13	FIM 12.71	FIM 13.43
Nordbanken Holding AB	SEK 21.29	SEK 17.72	SEK 19.10
<i>Market price at the end of period</i>			
Merita Plc, A-shares	FIM 25.90	FIM 25.10	FIM 29.80
Merita Plc, B-shares	FIM 25.80	FIM 24.60	FIM 28.70
Nordbanken Holding AB	SEK 45.50	SEK 36.90	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	Q 3 1998	Q 2 1998	Q 1 1998	Pro forma	
				Q 4 1997	Q 3 1997
Net interest income	2,638	2,757	2,704	2,798	2,821
Net commission income	1,067	1,154	1,035	1,114	1,010
Net result from financial operations	20	194	1,510	330	376
Other income	350	601	796	348	545
<b>Total operating income</b>	<b>4,075</b>	<b>4,706</b>	<b>6,045</b>	<b>4,590</b>	<b>4,752</b>
Personnel expenses	-1,261	-1,262	-1,192	-1,163	-1,166
Other operating expenses	-1,359	-1,566	-1,522	-2,198	-1,351
<b>Total expenses</b>	<b>-2,620</b>	<b>-2,828</b>	<b>-2,714</b>	<b>-3,361</b>	<b>-2,517</b>
<b>Profit before loan losses</b>	<b>1,455</b>	<b>1,878</b>	<b>3,331</b>	<b>1,229</b>	<b>2,235</b>
Loan losses, net	-196	-170	-231	-917	-76
Profit from companies accounted for under the equity method	53	64	33	10	36
<b>Operating profit</b>	<b>1,312</b>	<b>1,772</b>	<b>3,133</b>	<b>322</b>	<b>2,195</b>
Refund from pension foundation/funds	-	-	-	1,447	98
Taxes	-328	-443	-783	-322	-417
Minority interest	-6	-9	-8	-9	-6
<b>Net profit for the period</b>	<b>978</b>	<b>1,320</b>	<b>2,342</b>	<b>1,438</b>	<b>1,870</b>

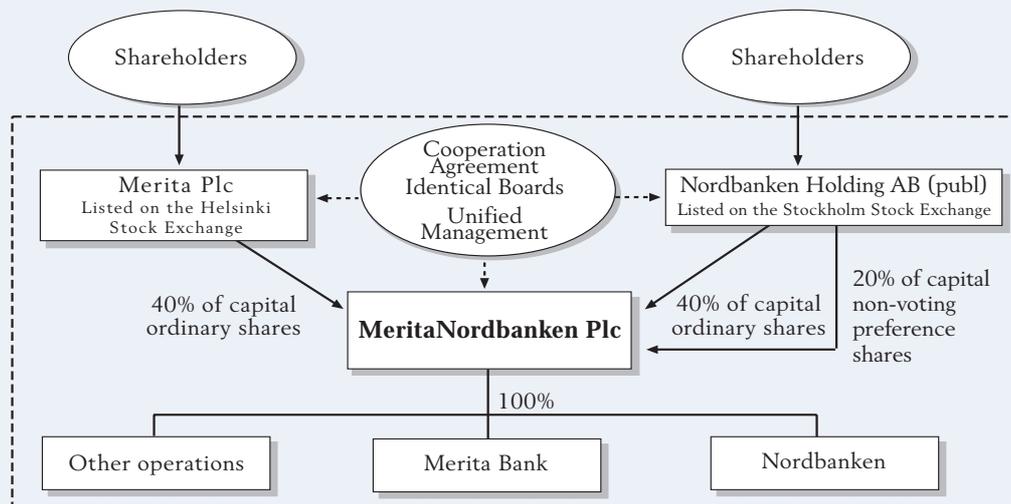
  

Problem loans				
FIM million	Sep 30 1998	Jun 30 1998	Mar 31 1998	Pro forma
				Dec 31 1997 *
Doubtful receivables, gross	19,639	20,860	22,383	
Loan loss provision	-13,199	-13,591	-14,431	
Doubtful receivables, net	6,440	7,269	7,952	
Low-yielding receivables	142	158	234	
<b>Problem loans, total</b>	<b>6,582</b>	<b>7,427</b>	<b>8,186</b>	<b>8,598</b>
Loan loss provision/ doubtful receivables, gross	67.2 %	65.2 %	64.4 %	
Doubtful receivables/lending	1.9 %	2.1 %	2.3 %	

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

MeritaNordbanken Group

Legal structure



Merita Plc (Finland) and Nordbanken AB (publ) (Sweden) are the sole owners of MeritaNordbanken Plc, the Finnish parent company of the Merita-Nordbanken Plc Group. 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 September 30, 1998 was 832,020,744. During the first nine months, the number of shares increased by 1,566,838 (of which 600 have not been registered). Of this, 1,483,438 shares resulted from the exercise of equity warrants expiring on March 12, 1998. A

further increase of 83,400 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 27,099,000 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 1,856 million representing FIM 2.17\* per share. Equity per share was FIM 14.13\*.

Nordbanken Holding's share (60 per cent) of the profit for the period was SEK 4,061 million, representing SEK 3.18 per share. Equity per share was SEK 21.29.

\*Assuming conversion of all convertible bonds.

## Merita Plc and its associated company

### Interim report for January-September 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, the parent company of the MeritaNordbanken Plc Group. Together, the MeritaNordbanken Plc Group 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. The MeritaNordbanken Plc Group 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 the MeritaNordbanken Plc Group 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, constitute 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 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 the MeritaNordbanken Plc Group 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 1,856 million.

Including the equity interest in the associated company and an adjustment in accordance with the Cooperation Agreement, the shareholders' equity of Merita Plc, representing 40 per cent of the shareholders' equity of the entire MeritaNordbanken Group, is FIM 11,766 million.

### Income statement

FIM million	Merita Plc, incl. the associated company			Merita Plc		
	Jan – Sep 1998	Pro forma		Jan – Sep 1998	Jan – Sep 1997	Jan – Dec 1997
		Jan – Sep 1997	Jan – Dec 1997			
Net interest income	-34	-74	-142	-34	-74	-142
Dividends received		16	27	0	480	707
Net income from securities trading	792	114	114	792	114	114
Other income	3	9	11	3	9	11
Total income	761	64	9	761	529	689
Refund of the surplus in the Pension Fund		39	618			631
Expenses	-71	-24	-56	-71	-24	-56
Total expenses	-71	15	562	-71	-24	575
Profit from the company accounted for under the equity method	1,573	1,873	2,028	690	505	1,264
Adjustment in accordance with the Cooperation Agreement	-404					
<b>Operating profit</b>	<b>1,859</b>	<b>1,952</b>	<b>2,599</b>	<b>690</b>	<b>505</b>	<b>1,264</b>
Group contribution						457
Direct taxes, Note 1	-3	11	-61	-3	11	-251
<b>Profit for the period</b>	<b>1,856</b>	<b>1,963</b>	<b>2,538</b>	<b>687</b>	<b>515</b>	<b>1,470</b>
Turnover				858	654	902

## Balance sheet

FIM million	Merita Plc, incl. the associated company			Merita Plc		
	Sep 30 1998	Pro forma		Sep 30 1998	Sep 30 1997	Dec 31 1997
		Sep 30 1997	Dec 31 1997			
Shares in the associated company	10,817	12,042	11,828	9,811	11,377	11,536
Shares and participations	1	887	887	1	887	887
Debt securities	906	905	905	906	905	905
Other receivables	980	392	1,108	980	392	1,108
Other assets	29	20	20	29	20	20
<b>Total assets</b>	<b>12,733</b>	<b>14,246</b>	<b>14,747</b>	<b>11,727</b>	<b>13,582</b>	<b>14,455</b>
Shareholders' equity, Note 2	11,766	10,528	11,144	10,761	9,864	10,852
Statutory provisions	27	21	23	27	21	23
Debt securities issued to the public and subordinated liabilities	903	2,935	2,680	903	2,935	2,680
Other liabilities	37	761	900	37	761	900
<b>Total liabilities and shareholders' equity</b>	<b>12,733</b>	<b>14,246</b>	<b>14,747</b>	<b>11,727</b>	<b>13,582</b>	<b>14,455</b>
Contingent liabilities	8	83	8	8	83	8
Derivative instruments, nominal value		301	303		301	303
- credit equivalent		24	24		24	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. Shareholders' equity

FIM million	Merita Plc		
	Sep 30 1998	Pro forma	
		Sep 30 1997	Dec 31 1997
Shareholders' equity excluding the associated company	10,761	9,864	10,852
Share of shareholders' equity in the associated company	1,114	664	292
Adjustment in accordance with the Cooperation Agreement	-108		
Shareholders' equity including the associated company	11,766	10,528	11,144

Financial ratios including the associated company, see page 11

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

### Interim report for January-September 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, the parent company of the MeritaNordbanken Plc Group. Together, the MeritaNordbanken Plc Group 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. The MeritaNordbanken Plc Group 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 the MeritaNordbanken Plc Group 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, constitute 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 31 million. Its share (60 per cent) of the consolidated profit of the MeritaNordbanken Plc Group is reported under "Profit from companies accounted for under the equity method", together with an adjustment of SEK 589 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 4,061 million.

Including the equity interest in the associated company and an adjustment in accordance with the Cooperation Agreement, the shareholders' equity of Nordbanken Holding, representing 60 per cent of the shareholders' equity of the entire MeritaNordbanken Group, is SEK 27,145 million.

### Income statement

SEK million	Nordbanken Holding AB including the associated company			Nordbanken Holding AB*		
	Jan - Sep 1998	Pro forma		Jan - Sep 1998	Jan - Sep 1997	Jan - Dec 1997
		Jan - Sep 1997	Jan - Dec 1997			
Anticipated dividends						4,934
Net interest income	51			51		
Expenses	-8			-8		
Profit from the company accounted for under the equity method	3,441					
Adjustment in accordance with the Cooperation Agreement	589	4,361	5,614			
<b>Profit before taxes</b>	<b>4,073</b>	<b>4,361</b>	<b>5,614</b>	<b>43</b>		<b>4,934</b>
Taxes	-12			-12		
<b>Profit for the period</b>	<b>4,061</b>	<b>4,361</b>	<b>5,614</b>	<b>31</b>		<b>4,934</b>

\* 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.

## Balance sheet

SEK million	Nordbanken Holding AB including the associated company			Nordbanken Holding AB*		
	Sep 30 1998	Pro forma		Sep30 1998	Sep 30 1997	Dec 31 1997
		Sep 30 1997	Dec 31 1997			
Shares in associated companies	25,369		20,512	13,239		13,053
Long-term receivables			1,981			1,981
Short-term receivables	2,042		1,914	2,042		1,914
<b>Total assets</b>	<b>27,411</b>		<b>24,407</b>	<b>15,281</b>		<b>16,948</b>
Shareholders' equity, not 1	27,145	22,671	24,356	15,015		16,897
Short-term liabilities	266		51	266		51
<b>Total liabilities and shareholders' equity</b>	<b>27,411</b>		<b>24,407</b>	<b>15,281</b>		<b>16,948</b>

\* 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. Shareholders' equity

SEK million	Sep 30 1998	Pro forma	
		Sep 30 1997	Dec 31 1997
Shareholders' equity excluding the associated company	15,015		16,897
Share of shareholders' equity in the associated company	11,964	} 22,671	7,459
Adjustment in accordance with the Cooperation Agreement	166		
Shareholders' equity including the associated company	27,145	22,671	24,356

Financial ratios including the associated company, see page 11

## MeritaNordbanken Group

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