

Public

## EXCHANGE OFFERS

by Nordbanken Holding AB (publ)  
to the Shareholders and Holders of Convertible Bonds of Merita Plc

and

## LISTING PARTICULARS

of Shares in and Convertible Bonds of Nordbanken Holding AB (publ)

14 November 1999

**MeritaNordbanken**

This prospectus has been prepared in accordance with Finnish law and regulations, including the Finnish Securities Markets Act (495/1989, as amended), the decision of the Finnish Ministry of Finance on prospectus (19.3.1998/197) and the exemption granted by the Finnish Financial Supervision (number 118/271/99).

Further, this prospectus has been prepared in compliance with the regulations of Chapter 4, Sections 18–26 and Chapter 5, Section 16 of the Swedish Companies Act (1975:1385).

This prospectus has been approved by the Finnish Financial Supervision. The Financial Supervision assumes no responsibility for the correctness of the information contained in this prospectus.

This prospectus has been accepted by the Stockholm Stock Exchange in accordance with the regulations of Chapter 5, Section 5b of the Swedish Securities Exchange and Clearing House Act (1992:543). This acceptance does not constitute a guarantee by the Stockholm Stock Exchange that the factual information in this prospectus is correct and complete.

This prospectus and the Exchange Offers (as defined below) shall be governed by Finnish law. Furthermore this prospectus, to the extent permissible, shall also be governed by Swedish compulsory laws and regulations. Any disputes relating hereto shall be settled exclusively by Finnish courts.

This prospectus is prepared in the Finnish language and translated into English and Swedish. In the event of any discrepancy between the three versions of the prospectus, the Finnish version shall prevail.

Any shares or convertible bonds of Nordbanken Holding (as defined below), to be delivered in connection with the Exchange Offers or upon conversion of convertible bonds, will not be registered under the U.S. Securities Act of 1933, as amended, or under any relevant securities laws of any state of the United States. Accordingly, the shares or convertible bonds of Nordbanken Holding may not be offered, sold or delivered within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and otherwise in accordance with all applicable state securities laws.

The Exchange Offers have not been registered in Canada, Japan or Australia and have not been made directly or indirectly in Canada, Japan or Australia. Any shares or convertible bonds to be issued by Nordbanken Holding pursuant to the Exchange Offers will not be registered in Canada, Japan or Australia and may not be offered, directly or indirectly in Canada, Japan or Australia.

No document issued in connection with the Exchange Offers may be passed on to any person in the United Kingdom unless that person is of a kind described in Article 11 (3) of the Financial Services Act of 1986 (Investment Advertisements) (Exemptions) Order 1996, or is a person to whom the document may otherwise lawfully be issued or passed on.

No offering is made hereby to persons whose participation in the Exchange Offers requires that further prospecti are issued or that registration or other measures are taken in addition to those required under Finnish or Swedish law. Copies of this document, the related acceptance forms or of any related offering documents shall not be mailed to or otherwise distributed or sent in, into or from any country where such distribution or offering would require any such additional measures to be taken or would be in conflict with any law or regulation of such country or region. This prospectus may not be used for, or in connection with, any offer to, or solicitation by, anyone in any jurisdiction or under any circumstances in which such offer or solicitation is not authorised or is unlawful.

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## I. GENERAL INFORMATION

### 1. CERTAIN DEFINITIONS

*Acceptance Form* means the form by which the shareholders in Merita, as defined, may accept the Share Exchange Offer, as defined.

*Acceptance Form for Bondholders* means the form by which the holders of Merita Convertible Bonds, as defined, may accept the Convertible Bond Exchange Offer, as defined.

*Christiania Bank* means Christiania Bank og Kreditkasse ASA, a limited company domiciled in the Kingdom of Norway, organisation number 911 044 110.

*Convertible Bond Exchange Offer* means the offer by Nordbanken Holding to the holders of Merita Convertible Bonds, as further described under "The Convertible Bond Exchange Offer" below, to exchange all their Merita Convertible Bonds for newly issued Nordbanken Holding Convertible Bonds, as defined.

*Co-operation Agreement* means the agreement dated 13 October 1997 together with the supplementary agreement dated 22 October 1997 between Merita and Nordbanken Holding, both as defined.

*Exchange Offers* means both the Share Exchange Offer and the Convertible Bond Exchange Offer, as defined, which both constitute public tender offers within the meaning of Chapter 6 of the Finnish Securities Markets Act.

*Exchange Offer Period* means the period for the acceptance of the Share Exchange Offer and the Convertible Bond Exchange Offer commencing on 24 November at 10.00 a.m. and expiring at 4.30 p.m. Finnish time on 15 December 1999, including any extension of either or both of the Exchange Offers.

*Finnish Depository Receipt* or "FDR" means a form of a right that will be issued as a book-entry in accordance with Section 26 b of the Finnish Act on Book-Entries (826/1991, as amended). FDR is a security as defined in Chapter 1, Section 2, Subsection 1, Paragraph 2 of the Securities Markets Act.

*FCSD* or *Central Securities Depository* means Suomen Arvopaperikeskus Oy, Finnish Central Securities Depository Ltd.

*Helsinki Exchanges*, "HEX" and "HSE" mean Helsinki Securities and Derivatives Exchange, Clearing House Ltd.

*Merger Agreement* means the merger agreement dated 13 October 1997 between Merita and Nordbanken Holding, both as defined.

*Merita* means Merita Plc, register number 40.495.

*Merita Bank* means Merita Bank Plc, register number 513.752.

*Merita Bank Group* means Merita Bank and its subsidiaries.

*Merita Convertible Bond* means each convertible bond bearing the nominal value of FIM 10,000 relating to the convertible bond loan issued by Merita (former Unitas Bank Ltd), as defined, on 17 August 1992.

*Merita Exchanged Share* means a Merita Share for which acceptance of the Share Exchange Offer has been issued. Merita Exchanged Shares form a new book-entry class and they will be entered into the book-entry accounts of Merita shareholders who have accepted the Share Exchange Offer.

*Merita Shares* means all shares outstanding in Merita at any time.

*MeritaNordbanken Plc* means MeritaNordbanken Plc, register number 725.985.

*MeritaNordbanken Group* or *Group* means the two listed holding companies Merita and Nordbanken Holding, both as defined, the jointly owned MeritaNordbanken Plc with its subsidiaries, mainly Merita Bank and Nordbanken, as defined.

*New Merger Agreement* means the merger agreement dated 20 September 1999 between Merita and Nordbanken Holding, attached to this prospectus as Appendix B.

*Nordbanken* means Nordbanken AB (publ), register number 502010-5523.

*Nordbanken Group* means Nordbanken and its subsidiaries.

*Nordbanken Holding* means Nordbanken Holding AB (publ), a limited company domiciled in the Kingdom of Sweden, register number 556547-0977.

*Nordbanken Holding Convertible Bond* means each convertible bond bearing the nominal value of EUR 1,681.88 to be issued by Nordbanken Holding as consideration in the Convertible Bond Exchange Offer, as defined.

*Nordbanken Holding Shares* means the new shares in Nordbanken Holding to be issued as consideration in the Share Exchange Offer, as defined.

*Nordbanken Holding Subscription Receipt* means a book-entry entitlement to be issued by Merita Bank entitling the holder to receive Nordbanken Holding Shares in the form of FDRs, as further described in the General Terms and Conditions of Nordbanken Holding AB (publ) Subscription Receipt, attached to this prospectus as Appendix E.2.

*Nordbanken Holding FDR* means a book-entry entitlement to be issued by Merita Bank in the Finnish book-entry system entitling the holder to receive one share in Nordbanken Holding, as further described in the General Terms and Conditions of Nordbanken Holding AB (publ) Share Depository Receipt, attached to this prospectus as Appendix E.1.

*Prospectus* means this offer document/listing particulars.

*Share Exchange Offer* means the offer by Nordbanken Holding to the shareholders of Merita, as further described under "The Share Exchange Offer" below, to exchange all their Merita Shares for Nordbanken Holding Shares.

*Stockholm Stock Exchange* and "SSE" means OM Stockholmsbörsen AB.

*Unified Group* means Nordbanken Holding together with its subsidiaries assuming that the Share Exchange Offer has been completed.

*VP-account* means a securities account (avstämningskonto) in the Swedish paperless securities depository system.

*VPC* means VPC AB, the Swedish Central Securities Depository and Clearing Organisation.

References herein to "SEK" and "Swedish kronor" are to the lawful currency of the Kingdom of Sweden, references to "FIM" and "Finnish markkaa" and "markka" are to the lawful currency of the Republic of Finland and "NOK" and "Norwegian kronor" are to the lawful currency of the Kingdom of Norway. References to "Euro", "EUR" and "€" are to the single currency of the European Union member states participating in the European Monetary Union.

## 2. NOTES CONCERNING THE FINANCIAL INFORMATION

The annual financial statements for 1997 and 1998 of Merita, Merita Bank Group and the Group's other Finnish companies and interim financial statements for 1998 and 1999 of the same have been prepared in accordance with Finnish accounting laws and regulations issued by relevant supervisory authorities. The annual financial statements for 1997 and 1998 and interim financial statements for 1998 and 1999 of the MeritaNordbanken Group have been prepared essentially in accordance with Finnish accounting laws and to the extent applicable regulations issued by relevant supervisory authorities. The annual and interim financial statements of Nordbanken Holding and Nordbanken Group for 1998 and 1999 have been prepared in accordance with Swedish accounting laws and applicable regulations respectively.

The differences that exist between the two sets of regulations are of no material significance. In all essential aspects, it has been possible to co-ordinate the accounting principles applied in the companies that constitute the MeritaNordbanken Group. Remaining adjustments have been made in the consolidated accounts of the MeritaNordbanken Group. These pertain to reclassifications and have no effect on the Group's earnings or financial position.

This prospectus contains pro forma unaudited financial accounts regarding MeritaNordbanken Group for the financial year 1997, which have been subject to summary review by the auditors. See “Financial Information – MeritaNordbanken Group”. Further, under “Changes Arising from the Unification of Nordbanken Holding and Merita” certain unaudited pro forma information regarding Nordbanken Holding and Merita is provided. Such pro forma information is provided for illustrative purposes only and does not purport to project the results of operations for any period.

The accounting currency of the MeritaNordbanken Group has been Finnish markka, which has been fixed to Euro at the rate of EUR 1.00 to FIM 5.94573. The assets and liabilities of foreign subsidiaries have been converted at the year-end exchange rate and that items in the income statement are translated at the average exchange rate for the year. Conversion differences are charged or credited directly to shareholders’ equity.

For more detailed information, see “Financial Information”.

### 3. NOTES CONCERNING THE FUTURE STATEMENTS

This prospectus contains certain forward-looking statements with respect to the financial condition, results of operations and business of Nordbanken Holding and the MeritaNordbanken Group and certain of the plans and objectives of the MeritaNordbanken Group after unification. Among other statements, statements under “Background and Objectives, “Changes Arising from the Unification of Nordbanken Holding and Merita” and Recent Developments and Outlook” with regard to management expectations, including, in particular, benefits to the MeritaNordbanken Group as a result of the unification, and statements, among others, with regard to the MeritaNordbanken Group’s financial objectives and targets and millennium-related matters are forward-looking in nature. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and development to differ materially from those expressed or implied by these forward-looking statements. These factors include, among other things, changes in demand for the products or services of MeritaNordbanken Group, the impact of competition, changes in the economic conditions in Sweden and/or Finland, general levels of interest rates and unforeseen costs arising in the process of unification. Further, this prospectus contains financial information based on pro forma calculations. This information is indicative only, and does not aim to predict results for any period.

### 4. PERSONS RESPONSIBLE FOR THE INFORMATION IN THE PROSPECTUS

Save for the information in respect of Merita, the Board of Directors of Nordbanken Holding accepts responsibility for the completeness and accuracy of the information contained in this prospectus. The Board of Directors of Merita accepts responsibility for the completeness and accuracy of the information on Merita. Further, the Board of Management of Merita Bank accepts responsibility for the completeness and accuracy of the information on the Nordbanken Holding FDRs under “The Exchange Offers – Trading in Nordbanken Holding Shares – Trading of the Nordbanken Holding FDRs on the Helsinki Exchanges and Information on the Issuer of Nordbanken Holding FDRs and Subscription Receipts” below as well as the General Terms and Conditions of the Nordbanken Holding AB (publ) Share Depository Receipt and Subscription Receipt, attached to this prospectus as Appendices E.1. and E.2. To the best of the knowledge and belief of the members of the Boards of Directors of Nordbanken Holding and Merita and the Board of Management of Merita Bank, the information contained in this prospectus is in accordance with the facts and does not omit anything likely to affect the validity of such information.

Stockholm 14 November 1999	Helsinki 14 November 1999	Helsinki 14 November 1999
NORDBANKEN HOLDING AB (publ)	MERITA PLC	MERITA BANK PLC
Board of Directors	Board of Directors	Board of Management

### 5. AVAILABILITY OF THE DOCUMENTS

The documents referred to in this prospectus required by law to be held available for the shareholders can be found at the main office of Nordbanken Holding AB (publ), Hamngatan 10, SE-105 71 Stockholm and at the main office of Merita Plc, Aleksanterinkatu 36, FI-00100 Helsinki.

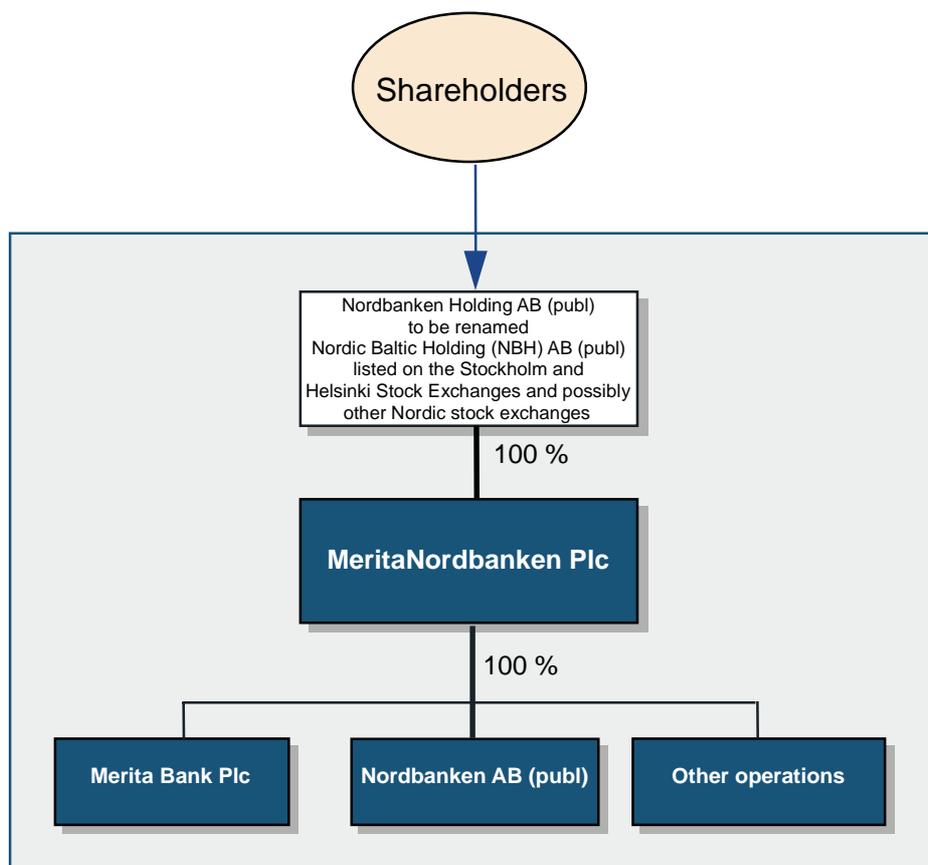
## II. SUMMARY

### I. BACKGROUND AND OBJECTIVES

At the time of announcement of the merger of Merita and Nordbanken in 1997, the parties stated their aim to replace the initial dual-holding company structure with a more simple structure. The proposed Exchange Offers, when completed, will help to overcome certain practical difficulties associated with this initial legal structure. The unification of Nordbanken Holding and Merita is an important step to allow the Group to realise its pan-Nordic targets and to participate pro-actively in future industry consolidation.

The unification will bring the MeritaNordbanken Group a single quoted share. This should remove the share price discrepancy and facilitate the raising of new equity capital. A single share will be more transparent for the financial markets and the concentration of trading in a single share should improve liquidity. The streamlined group structure will tie up less capital and allow dividends to flow faster from the operating subsidiaries to ultimate shareholders of the holding company. Also, the decision-making and planning processes will be simplified reducing the operational and legal risks associated with the dual-holding structure.

The streamlining of the Group structure is to be achieved in two steps; completion of the Share Exchange Offer that will leave the Group with a single listed holding company, and the subsequent merger of Merita and MeritaNordbanken Plc, see "Background and Objectives – Further Plans relating to Merita", that will leave MeritaNordbanken Plc directly owned by the holding company. The following chart illustrates the structure of the Unified Group:



## 2. EXCHANGE OFFERS

Nordbanken Holding offers to acquire, by means of a public tender offer, all the Merita Shares and the Merita Convertible Bonds.

The Share Exchange Offer is made on the following basis:

For each Merita Share 1.02 Nordbanken Holding Shares will be received.

The Convertible Bond Exchange Offer is made on the following basis:

For a Merita Convertible Bond with nominal value of FIM 10,000 a Nordbanken Holding Convertible Bond with nominal value of EUR 1,681.88 will be received.

The exchange ratio is based on and reflects the 40/60 economic relationship agreed in the 1997 Co-operation and Merger Agreements providing for the creation of the MeritaNordbanken Group.

The implementation of the Exchange Offers requires that the Extraordinary General Meetings of Shareholders of Nordbanken Holding and Merita, to be held on 19 November 1999 and 23 November 1999 respectively, pass all necessary resolutions, such as acceptance of the New Merger Agreement, the issues of the Nordbanken Holding Shares and the Nordbanken Holding Convertible Bonds as well as the amendment of Merita's and Nordbanken Holding's Articles of Association, respectively.

The Exchange Offers are conditional inter alia upon acceptance of the Share Exchange Offer to such an extent that Nordbanken Holding becomes the owner of more than 90 per cent of the Merita Shares, and upon receiving necessary statutory and regulatory approvals.

The Nordbanken Holding Shares will rank *pari passu* with the existing shares in Nordbanken Holding, including the right to receive dividends from Nordbanken Holding for the financial year 1999.

The Exchange Offer Period for both the Share Exchange Offer and the Convertible Bond Exchange Offer shall commence at 10.00 a.m. on 24 November 1999 and expire at 4.30 p.m. Finnish time on 15 December 1999. Nordbanken Holding reserves the right to extend the periods for accepting both the Share Exchange Offer and the Convertible Bond Exchange Offer.

## 3. CHANGES ARISING FROM THE UNIFICATION

Unification, via the Exchange Offers, involves changes to the legal structure of the MeritaNordbanken Group, but will not have a direct effect on the Group's business operations. Dividend policy and financial targets will not be altered by the adoption of the new structure.

The holding company, Nordbanken Holding, will be renamed. The permanent name is expected to be announced in the first half of year 2000. Until then use of an interim name, Nordic Baltic Holding (NBH) AB (publ) has been proposed to the Extraordinary General Meeting of Shareholders of Nordbanken Holding to be held on 19 November 1999.

The New Merger Agreement sets out the process to unify Merita and Nordbanken Holding, and proposes changes to the Articles of Association of both Nordbanken Holding and Merita. The main amendments for Nordbanken Holding relate to the new interim name, to the scope of business, to the instructions for appointment of board members and to the convocation to the General Meeting of Shareholders. For Merita the main amendments relate to the removal of the voting restriction and redemption clauses from the Articles of Association.

Neither the members of the Boards of Directors nor the Group Executive Management will change as a direct result of the Share Exchange Offer.

Nordbanken Holding will issue new shares as consideration in the Share Exchange Offer, however, assuming full acceptance of the Share Exchange Offer, the effect of this on the Tier 1 ratio and pro forma earnings per share calculations for the Unified Group is immaterial.

Holders of Merita Convertible Bonds who accept the Convertible Bond Exchange Offer will receive newly issued Nordbanken Holding Convertible Bonds.

#### 4. TRADING IN NORDBANKEN HOLDING SHARES AND MERITA SHARES

The intention is that the Share Exchange Offer shall be implemented so that the shareholders of Merita shall have the possibility for uninterrupted trading on the Helsinki Exchanges.

Nordbanken Holding shares are traded on the A-list of the Stockholm Stock Exchange. Merita Shares are traded on the main list of the Helsinki Exchanges. The Merita Shares will continue to be traded on the main list of the Helsinki Exchanges until such shares will be de-listed. However, such de-listing will in no event occur until Nordbanken Holding has become the owner of all the Merita Shares.

It is the intention of Nordbanken Holding to submit an application to the Helsinki Exchanges to list the Nordbanken Holding Shares on the main list of the Helsinki Exchanges as well as register the newly issued Nordbanken Holding Shares on the A-list of the Stockholm Stock Exchange.

It is the intention that, due to the Share Exchange Offer, Merita Shares, which have been tendered for exchange, will be temporarily listed on the main list of the Helsinki Exchanges – in addition to already listed Merita Shares – as a separate book-entry class. The tendered Merita Share is called a Merita Exchanged Share.

A Merita Share is converted into a Merita Exchanged Share on the book-entry account of the shareholder when the shareholder has accepted the Share Exchange Offer. The trading in Merita Exchanged Shares is expected to commence as from 25 November 1999. The Merita Exchanged Share is expected to be subject to trading until Nordbanken Holding makes the final announcement that the Share Exchange Offer will be completed. The announcement is expected to be made on or about 27 December 1999.

Provided that Nordbanken Holding will complete the Share Exchange Offer, for each Merita Exchanged Share one Nordbanken Holding Subscription Receipt will be received. One Nordbanken Holding Subscription Receipt entitles the holder to 1.02 Nordbanken Holding Shares (in the form of FDRs). The Nordbanken Holding Subscription Receipt is expected to be subject to trading as a new book-entry class on the pre-list of the Helsinki Exchanges as from 28 December 1999. The intention is that the trading in Merita Exchanged Share on the main list of Helsinki Exchanges shall end 27 December 1999.

In the event that Nordbanken Holding announces that the Share Exchange Offer will not be completed, the Merita Exchanged Shares shall be converted back to Merita Shares.

The final consideration, Nordbanken Holding Shares (in the form of FDRs) shall be delivered against Nordbanken Holding Subscription Receipts. This is expected to take place on or about 17 January 2000. At this time the trading in Nordbanken Holding Subscription Receipts on the pre-list of the Helsinki Exchanges shall end and the intention is that simultaneously the trading in Nordbanken Holding Shares in the form of FDRs on the main list of Helsinki Exchanges shall commence.

It is further the intention of Nordbanken Holding to submit an application to the Helsinki Exchanges to list the Nordbanken Holding Convertible Bonds on the Helsinki Exchanges. Merita Convertible Bonds will continue to be traded on the Helsinki Exchanges until de-listing, which will in no event occur until the Convertible Bond Exchange Offer has been completed.

The above mentioned dates are estimated dates. If the Exchange Offer Period is extended, the dates may be changed respectively.

## 5. IMPORTANT DATES

19 November 1999	Prospectus available
19 November 1999	Extraordinary General Meeting of Shareholders in Nordbanken Holding
23 November 1999	Extraordinary General Meeting of Shareholders in Merita
24 November 1999 (10.00 a.m.)	Commencement of the Exchange Offer Period
25 November 1999	Commencement of the trading of Merita Exchanged Shares on the main list of HSE
30 November 1999	Last day for conversion of Merita Convertible Bonds into Merita Shares in order to be able to participate in the Share Exchange Offer
15 December 1999 (4.30 p.m.)	End of the Exchange Offer Period, if not extended before that date
27 December 1999 (on or about)	Announcement of the results of the Exchange Offers
27 December 1999 (on or about)	Trading of Merita Exchanged Shares on the main list of HSE ends
28 December 1999 (on or about)	Nordbanken Holding Subscription Receipts registered in the book-entry accounts, 1.00 Merita Exchanged Share → 1.00 Nordbanken Holding Subscription Receipt
28 December 1999 (on or about)	Listing of the Nordbanken Holding Subscription Receipts on the pre-list of HSE
17 January 2000 (on or about)	Nordbanken Holding Shares in the form of FDRs are entered into the book-entry accounts of the shareholders, 1.00 Nordbanken Holding Subscription Receipt → 1.02 Nordbanken Holding Shares (as FDR)
17 January 2000 (on or about)	The listing of Nordbanken Holding Shares as FDRs on the main list of HSE

### III. THE RECOMMENDATION OF THE BOARD OF DIRECTORS OF MERITA PLC

The Board of Directors of Merita Plc recommends that the shareholders and holders of convertible bonds of Merita Plc accept the Exchange Offers.

Timo Peltola

Jacob Palmstierna

Vesa Vainio

Dan Andersson

Edward Andersson

Rune Brandinger

Hans Dalborg

Mikko Kivimäki

Bernt Magnusson

Juha Niemelä

## IV. INVESTMENT CONSIDERATIONS

Before participating in the Exchange Offers Merita shareholders or potential other investors should consider all of the information contained in the prospectus including the investment considerations set forth below.

### NON-COMPLETION OF THE UNIFICATION

The Share Exchange Offer is subject to the conditions precedent described in the terms and conditions of the Share Exchange Offer. There can be no assurances that the Share Exchange Offer is completed and that the unification of the two holding companies is carried out as planned. If the Share Exchange Offer is not completed, the New Merger Agreement would cease to be in force pursuant to the provisions of the New Merger Agreement, the dual-holding company structure would remain in place, and the MeritaNordbanken Group would continue to operate according to the Co-operation Agreement.

See “The Exchange Offers – The Share Exchange Offer – Conditions Precedent to the Share Exchange Offer”.

### VOTING RIGHTS AND CORPORATE GOVERNANCE ISSUES

In the present group structure the principal operating company (MeritaNordbanken Plc) is controlled by two different holding companies pursuant to the Co-operation Agreement. It is the intention that the Boards of these holding companies, with the exception of the chairman, have the same composition, which is currently the case. In matters requiring shareholder resolution in MeritaNordbanken Plc, which is controlled by the two holding companies Merita and Nordbanken Holding through their equal voting rights, neither shareholder has a casting vote at the General Meeting of Shareholders. If the Share Exchange Offer and unification is completed the legal and operational risks associated with this structure would be reduced.

However, assuming the completion of the Share Exchange Offer the voting power of Merita’s and Nordbanken Holding’s shareholders will fully reflect the economic ownership in matters requiring shareholder resolution in the General Meetings of Shareholders in comparison to the situation prior to the unification when both Merita and Nordbanken Holding had separate groups of shareholders and voting power in MeritaNordbanken Plc was divided equally between Merita and Nordbanken Holding.

See “Background and Objectives – Strategic and Financial Rationale” and “Changes Arising from the Unification of Nordbanken Holding and Merita”.

### YEAR 2000 ISSUES

The technical implementation and completion of the Exchange Offers are dependent among other things upon the trading and settlement systems of the Helsinki Exchanges and the Stockholm Stock Exchange, the book-entry systems within the FCSD and the VPC and of the Finnish book-entry registrars. Due to the proximity of the year 2000 and the IT risks related to this event, delays or interruptions in trading or settlement affecting the Exchange Offers may occur.

For a description of the Year 2000 issues regarding the MeritaNordbanken Group see “Complementary Information affecting the Economic Position of Nordbanken Holding and MeritaNordbanken Group”

### LIQUIDITY OF NORDBANKEN HOLDING SHARES IN FINLAND

Prior to the planned listing on the Helsinki Exchanges, the existing Nordbanken Holding shares have not been subject to public trading in Finland.

There can be no assurances that the market will provide liquidity through the Helsinki Exchanges. This may have an adverse effect on the price of the Nordbanken Holding Shares in the form of FDRs in the secondary market as opposed to the price on the primary market on the Stockholm Stock Exchange.

## **FINNISH DEPOSITORY RECEIPTS, NORDBANKEN HOLDING FDRS**

The trading in Nordbanken Holding Shares on the Helsinki Exchanges will be handled through Finnish Depository Receipts, which are book-entry entitlements issued by Merita Bank. Each investor is required to read the General Terms and Conditions of the Nordbanken Holding FDRs, where their legal features and the procedure, through which each Nordbanken Holding FDR holder is entitled to dividend and other rights pertaining to the Nordbanken Holding Share, are described.

If certain forms of dividend payment or equity transactions are not legally or technically possible in the Finnish book-entry system, the issuer of FDRs is entitled, in accordance with international depository receipt market practice, to compensate the holder of FDRs instead through a cash payment or not to carry out the transaction through FDRs in Finland at all. The FDR holder is entitled at any time to convert his/her holding into Nordbanken Holding Shares registered in a Swedish VP-account.

For taxation purposes an investment in a Nordbanken Holding FDR is treated as an investment in a non-Finnish share.

See “General Terms and Conditions of the Nordbanken Holding FDRs”, Appendix E.1. and “The Exchange Offers – Taxation Issues relating to the Share Exchange Offer”

## **TAXATION ISSUES**

The taxation of a Merita shareholder will change as a result of the acceptance and completion of the Share Exchange Offer. Dividend income received from Nordbanken Holding does not qualify for a tax credit under the Finnish imputation system and therefore the tax credit for a Finnish resident shareholder is lost. Also, for the purposes of wealth taxation for a Finnish resident shareholder, Nordbanken Holding Shares are currently valued at fair market value whereas the shares of Merita are valued at 70 per cent of their fair market value.

For further description of taxation issues, see “The Exchange Offers – Taxation issues relating to the Share Exchange Offer” and “Taxation issues relating to the Convertible Bond Exchange Offer”, respectively.

## **THE EXCHANGE RATE RISK RELATED TO THE INVESTMENT**

An investment in the Nordbanken Holding Shares through FDRs is currently denominated in Swedish kronor, although the trading and settlement on the Helsinki Exchanges takes place in Euro.

Nordbanken Holding pays dividends in accordance with the decision of the General Meeting of Shareholders to its shareholders in Swedish kronor. The FDR issuer will convert the dividend to Finnish markka or Euro at the exchange rate prevailing at the time of the payment, pursuant to the General Terms and Conditions of the Nordbanken Holding AB (publ) Share Depository Receipt, see Appendix E.1.

## V. BACKGROUND AND OBJECTIVES

### I. STRATEGIC AND FINANCIAL RATIONALE

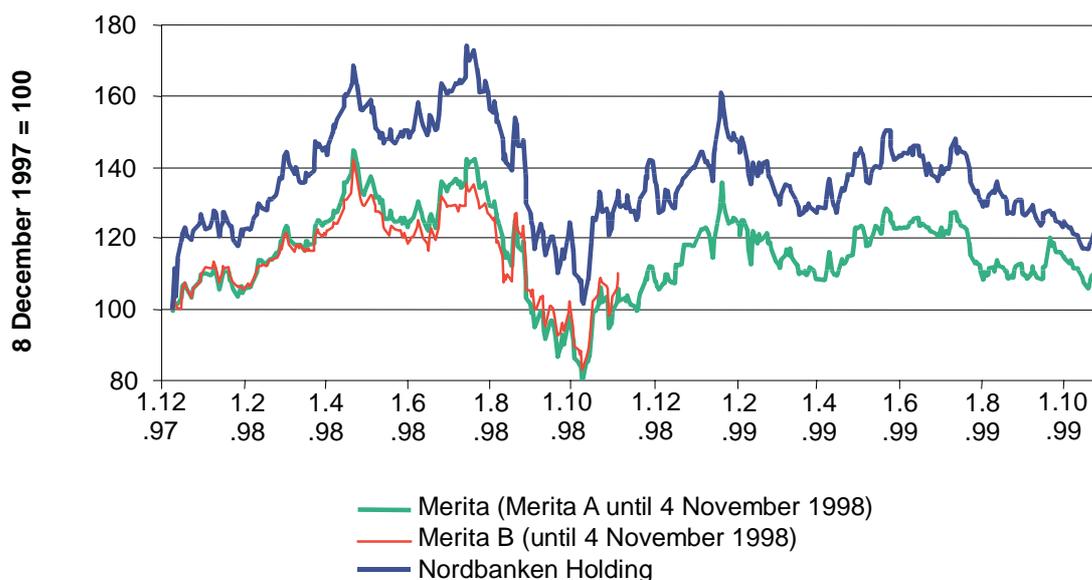
From its conception the ambition of the MeritaNordbanken Group has been to form the leading pan-Nordic financial services group with a strong presence in the whole Nordic and Baltic region. The Group has repeatedly expressed its wish to include leading financial institutions from other Nordic countries.

At the time of the announcement of the merger of Merita and Nordbanken in 1997 it was agreed that the initial legal structure was a temporary solution. The parties agreed to aim for a more simple structure.

The MeritaNordbanken Group's current dual-holding company structure has a number of practical difficulties, and has created a persistent share price differential.

The figure below illustrates how, since 8 December 1997, the first date for trading of the two shares after the merger of Nordbanken and Merita, the share price of Merita has lagged that of Nordbanken Holding. The share prices have been rebased to 100 as at 8 December 1997.

**Average volume weighted share price daily indexed from  
8 December 1997 to 29 October 1999**



Source: the Helsinki Exchanges and the Stockholm Stock Exchange

Since the announcement of the Share Exchange Offer to unify the Group structure on 20 September 1999, the share price discrepancy has become smaller, as demonstrated in the figure above.

The Share Exchange Offer, if completed, will bring the MeritaNordbanken Group a single quoted share and a more streamlined group structure. This is an important step to allow the Group to realise its pan-Nordic targets and to participate pro-actively in future industry consolidation.

The simplification of the Group structure is expected to bring benefits in several areas. Less capital will be tied-up and the new structure will allow dividends to flow faster and more directly from the operating subsidiaries to ultimate shareholders of the holding company.

The decision-making process will be simplified, reducing the legal and operational risks associated with having the principal operational company controlled by two different holding companies. Taxation is expected to be more efficiently controlled within the new legal structure.

Under the new group structure, with Nordbanken Holding as the parent company, the internal cost of supplementary tax within the group, approximately FIM 200 million, can be avoided when MeritaNordbanken Plc distributes dividends to its parent company Nordbanken Holding. The current group structure may cause payment of supplementary tax, pursuant to both current Finnish regulations as well as to regulations set out in the government proposal (117/1999) regarding the taxation of transit dividends proposed to enter into force in the year 2000, when MeritaNordbanken Plc is distributing dividends to Merita and Nordbanken Holding. However, it has been estimated, applying the new regulations set out in the government proposal, that the internal cost of supplementary tax within the group would decrease, if the current group structure is maintained in its present form.

There are also several benefits arising from the move to a single share. The single share should remove the share price discrepancy and the Group will be better able to issue shares and therefore raise capital. A single share will be more transparent for the financial markets, and the concentration of trading in a single share should improve liquidity. A single share may lead to inclusion of the share in additional indices. As part of the unification, the preference shares in MeritaNordbanken Plc currently owned by Nordbanken Holding, which, as from the financial year 2001, under certain circumstances entitle Nordbanken Holding to a higher dividend, will be converted into ordinary shares in MeritaNordbanken Plc, subject to a decision by MeritaNordbanken Plc's General Meeting of Shareholders.

## **2. ISSUANCE OF THE NORDBANKEN HOLDING SHARES AND CONVERTIBLE BONDS**

The Exchange Offers are based on and subject to approval at the Extraordinary General Meeting of Shareholders of Nordbanken Holding to be held on 19 November 1999 of the proposed resolutions to issue the Nordbanken Holding Shares and Convertible Bonds.

Assuming the Extraordinary General Meeting of Shareholders resolves to issue the Nordbanken Holding Shares and Convertible Bonds in accordance with the proposal of the Board of Directors in order to consummate the Exchange Offers, a maximum of 876,302,138 Nordbanken Holding Shares, bearing the nominal value of SEK 4.50 and a maximum of 90,328 Nordbanken Holding Convertible Bonds shall be issued. Assuming full acceptance of the Share Exchange Offer and no conversion of Merita Convertible Bonds prior to the completion of the Share Exchange Offer, the new issue of Nordbanken Holding Shares would represent 40 per cent of all the shares and votes in Nordbanken Holding. The aggregate nominal value of the Nordbanken Holding Shares will amount to a maximum of SEK 3,943,359,621 and the aggregate nominal value of the Nordbanken Holding Convertible Bonds to a maximum of EUR 151,920,857.

Pursuant to the terms of the issue, the subscription of the Nordbanken Holding Shares will be paid, as consideration in kind, with Merita Shares, and as a result of the new issue, the share capital of Nordbanken Holding will be increased with a maximum of SEK 3,943,359,621. On the assumption that the Share Exchange Offer is fully accepted and that there is no conversion of the Merita Convertible Bonds, the premium fund would increase with the amount of SEK 8,743 million (based on the FIM/SEK exchange rate as of 30 September 1999).

Nordbanken Holding Shares and Nordbanken Holding Convertible Bonds are offered for subscription to shareholders in Merita and holders of Merita Convertible Bonds, respectively. The deviation from the pre-emptive right of subscription of shareholders in Nordbanken Holding is proposed in order to give effect to the unification of Nordbanken Holding and Merita. The exchange ratio is based on and reflects the 40/60 economic relationship agreed in the 1997 Merger Agreement and Co-operation Agreement providing for the creation of the MeritaNordbanken Group.

Reports of the Board of Directors and auditors of Nordbanken Holding, as required by the Swedish Companies Act, relating to the issue of Nordbanken Holding Shares and Nordbanken Holding Convertible Bonds are annexed hereto as Appendix G.

## **3. COMPULSORY REDEMPTION AND DE-LISTING OF SHARES IN MERITA**

Provided that the Share Exchange Offer is completed, Nordbanken Holding must make a redemption offer pursuant to Chapter 6, Section 6 of the Finnish Securities Markets Act, and pursuant to this redemption offer, Nordbanken Holding must publish a redemption offer document as soon as the conditions for redemption have been fulfilled in accordance with the said act. In case the redemption price is higher than the tender price in the Share Exchange Offer, those Merita shareholders who have accepted the Share Exchange Offer must be paid the balance prior to the end of the redemption procedure. Such payment, if applicable, will be made by Nordbanken Holding in cash.

Provided that Nordbanken Holding becomes the owner of more than 90 per cent of the total number of Merita Shares as a result of the Share Exchange Offer or otherwise, Nordbanken Holding intends to redeem the outstanding Merita Shares pursuant to the regulations on compulsory redemption in Chapter 14, Sections from 19 to 21 of the Finnish Companies Act.

An application for de-listing of the Merita Shares from the Helsinki Exchanges will be filed when Nordbanken Holding becomes the owner of all Merita Shares.

#### **4. FURTHER PLANS RELATING TO MERITA**

Provided that the Share Exchange Offer is completed and Nordbanken Holding becomes the owner of all Merita Shares it is the intention of Nordbanken Holding to merge Merita into MeritaNordbanken Plc or into another group company in which merger MeritaNordbanken Plc or the other group company would be the surviving company. Provided that the merger is completed, it is the intention that in connection with the merger, the holders of any outstanding Merita Convertible Bonds shall be offered the opportunity to convert the Merita Convertible Bonds into Merita Shares prior to the completion of the merger. The intention is that, at the completion of the merger, the outstanding capital of the Merita Convertible Bonds, if any, would be assumed by MeritaNordbanken Plc or by the other group company, but the right to convert the capital of the Merita Convertible Bonds into shares would cease to exist.

Provided that the merger is completed, the merger procedure may commence during the compulsory redemption procedure referred to above, see "Compulsory Redemption and De-listing of Shares in Merita", above. Any Merita Shares issued as a result of conversion of the Merita Convertible Bonds prior to the completion of the merger would be subject to the compulsory redemption by Nordbanken Holding.

## VI. THE EXCHANGE OFFERS

The Exchange Offers comprise the Share Exchange Offer (see section 1 below) and the Convertible Bond Exchange Offer (see section 2 below), which constitute a public tender offer within the meaning of Chapter 6 of the Finnish Securities Markets Act.

### 1. THE SHARE EXCHANGE OFFER

#### 1.1. Terms and Conditions of the Share Exchange Offer

The shareholders of Merita may exchange their Merita Shares for Nordbanken Holding Shares in accordance with and subject to the following terms and conditions.

##### 1.1.1. The Target of the Share Exchange Offer

The target of the Share Exchange Offer is all the Merita Shares.

Nordbanken Holding is currently holding no shares in Merita. Merita is currently holding no shares in Nordbanken Holding.

##### 1.1.2. Consideration

In exchange for one (1) Merita Share the Merita shareholder will receive 1.02 Nordbanken Holding Shares.

The Nordbanken Holding Shares will be registered with the Finnish book-entry system in the form of Finnish Depository Receipts. For further details, see “3. Trading in Nordbanken Holding Shares”.

Shareholders of Merita will not receive fractions of Nordbanken Holding Shares. Instead, fractional entitlements following from the exchange ratio will subsequently be combined and sold on the Stockholm Stock Exchange on behalf of the Merita shareholders having right thereto. Proceeds of the sale will be distributed pro rata to the shareholders entitled to the fractional entitlements. See section “1.2.4. Fractional entitlements” below.

The Nordbanken Holding Shares will carry the right to dividends for the financial period ending 31 December 1999.

##### 1.1.3. Conditions Precedent to the Share Exchange Offer

The Share Exchange Offer is subject to the following conditions:

- a. that the Extraordinary General Meetings of Shareholders in Nordbanken Holding and Merita resolve to approve the New Merger Agreement, that the Extraordinary General Meeting of Shareholders in Nordbanken Holding resolves to issue the Nordbanken Holding Shares and the Nordbanken Holding Convertible Bonds and to amend the Articles of Association of the company as contemplated in the New Merger Agreement, and that the Extraordinary General Meeting of Shareholders in Merita resolves to amend the Articles of Association of the company as contemplated in the New Merger Agreement,
- b. that the Share Exchange Offer is unconditionally and irrevocably accepted to such an extent that Nordbanken Holding becomes the owner of Merita Shares representing more than 90 per cent of the total number of Merita Shares,
- c. that all necessary statutory and regulatory permits are obtained, that no authority shall intervene in such a way that may result in a situation where the Share Exchange Offer cannot be implemented and that no circumstances occur which may significantly alter the preconditions for the unification between Merita and Nordbanken Holding,
- d. that the acquisition of the Merita Shares by Nordbanken Holding, at the discretion of Nordbanken Holding, is neither in whole nor in part made impossible or significantly more difficult as a result of legislation, court rulings, authority permits or the like in Finland, Sweden or in any other country, existing at the time of Nordbanken Holding’s decision thereon or is to be expected, or of any other circumstance beyond the control of Nordbanken Holding.

Nordbanken Holding reserves the right, at its sole discretion, to complete the Share Exchange Offer even in case one or more of the above conditions is not fulfilled.

#### **1.1.4. Period for Acceptance**

The period for acceptance of the Share Exchange Offer, the Exchange Offer Period, will commence at 10.00 a.m. Finnish time on 24 November at 10.00 a.m. and expire at 4.30 p.m. Finnish time on 15 December 1999.

Nordbanken Holding reserves the right to extend the Exchange Offer Period for an additional period not exceeding 160 days. Eventual extension of the Exchange Offer Period is announced before the end of the Exchange Offer period. Should Nordbanken Holding choose to extend the Exchange Offer Period, the conditions precedent to the Share Exchange Offer shall remain valid during the extended period, unless waived by Nordbanken Holding.

#### **1.1.5. Accepting the Share Exchange Offer**

The Share Exchange Offer may be accepted by way of filling out and returning the Acceptance Form. Acceptance Forms will be sent to the shareholders of Merita before the start of the Exchange Offer Period. Acceptance Forms are also available for Merita shareholders in all branches of Merita Bank. The Share Exchange Offer may also be accepted through Solo Bank on the Internet ([www.merita.fi](http://www.merita.fi)) or by phone (local net charge), using Solo Identification Code, to Merita Customer Service, tel. 0200 3000 (in Finnish) or 0200 5000 (in Swedish). For further instructions, see section "1.2.1. Acceptance Procedure" below.

A shareholder may accept the Share Exchange Offer only in respect of such shareholder's entire holding of Merita Shares.

#### **1.1.6. Irrevocable Acceptances**

An acceptance of the Share Exchange Offer is irrevocable. A shareholder who has accepted the Share Exchange Offer may not withdraw his acceptance and may not sell or dispose of his Merita Shares unless in compliance with the terms and conditions of the Share Exchange Offer. Even in case the Exchange Offer Period is extended or in case any of the conditions precedent to the Share Exchange Offer have been waived by Nordbanken Holding, the acceptance may not be withdrawn.

According to the Finnish Securities Markets Act, Chapter 6, Section 5, if a tender offer has been made subject to the acquisition of a certain proportion of ownership or voting rights, the party having accepted the offer may, at the close of the tender period, withdraw from the trade if the offeror does not acquire the portion of ownership or voting rights indicated in the tender offer. The right to withdraw from the trade does, however, not exist if the offeror undertakes to announce to the party that has accepted the offer that a higher price which the offeror shall pay or receive from a third party for the security tendered within one year from the end of the tender period as well as to pay the difference between the said price and the price tendered.

In accordance with the above provisions Nordbanken Holding hereby undertakes, in the event it decides to complete the Share Exchange Offer even if it is not accepted to such an extent that Nordbanken Holding becomes the owner of Merita Shares representing more than 90 per cent of the total number of Merita Shares, to inform the shareholders who have accepted the Share Exchange Offer in case Nordbanken Holding has, within the period of time referred to in the said provisions, paid or received a higher price for the tendered Merita Shares and to pay the difference between such higher price and the price tendered to the shareholders who have accepted the Share Exchange Offer. Accordingly, pursuant to the above provisions, Merita shareholders who have accepted the Share Exchange Offer may not withdraw their acceptances. However, if Nordbanken Holding decides not to complete the Share Exchange Offer, the aforementioned commitment shall not become applicable.

Merita Bank has obtained from certain shareholders in Merita preliminary assignments whereby the shareholder has authorised Merita Bank to accept the Share Exchange Offer on behalf of such shareholder as the Exchange Offer Period commences. Merita Shares tendered for exchange by way of the preliminary assignment will be converted into Merita Exchanged Shares (see section "1.2.2. Merita Exchanged Shares") following the commencement of the Exchange Offer Period. Pursuant to the terms of the preliminary assignment, the assignment and thereto related acceptance of the Share Exchange Offer may be cancelled during the Exchange Offer Period. The cancellation must occur in writing at Merita Bank branches or be sent to Merita Bank, address Merita Bank, 2590, Issue Services, Box 84, FI-00101 Helsinki. No costs will be charged for the cancellation. A shareholder who has given a preliminary assignment for acceptance of the Share Exchange Offer may not sell his Merita Shares unless and until the

assignment has been cancelled. In case of a cancellation of the preliminary assignment in accordance with the above, the Merita Exchanged Shares will be converted back into Merita Shares in the respective book-entry accounts without undue delay after receipt of the cancellation. However, the shareholder shall be entitled to sell or dispose of the Merita Exchanged Shares in accordance with the above terms without cancelling the preliminary assignment. The preliminary assignment can no longer be cancelled after such disposal.

#### **1.1.7. Trading with Merita Shares during the Exchange Offer Period**

Merita Shares which have not been tendered for exchange under the Share Exchange Offer will continue to be traded on the main list of the Helsinki Exchanges during the Exchange Offer Period.

Following receipt of a duly completed acceptance of the Share Exchange Offer, Merita Shares tendered for exchange will be converted into a new book-entry class, Merita Exchanged Shares. One Merita Exchanged Share is equal to one Merita Share which has been tendered for exchange. The Merita Exchanged Shares are expected to be subject to trading – in addition to Merita Shares – on the main list of the Helsinki Exchanges as from 25 November 1999, for further details, see section “1.2.2. Merita Exchanged Shares” below.

#### **1.1.8. Announcement of the Result of the Share Exchange Offer**

The result of the Share Exchange Offer will be made public by an announcement to be issued after the end of the Exchange Offer Period or by the end of the extended Exchange Offer Period, if applicable. The announcement will include information as to whether or not the Share Exchange Offer will be completed by Nordbanken Holding.

It is expected that the result of the Share Exchange Offer will be announced on or about 27 December 1999, provided that the Exchange Offer Period is not extended prior to that date.

#### **1.1.9. Transfer of Title and Settlement**

Following the announcement that the conditions precedent to the completion of the Share Exchange Offer have been fulfilled or that Nordbanken Holding has otherwise decided to complete the Share Exchange Offer (see “1.1.8. Announcement of the Result of the Share Exchange Offer”), the title to the Merita Shares which have been tendered for exchange under the Share Exchange Offer shall pass to Nordbanken Holding by way of such Merita Shares being registered on the book-entry account of Nordbanken Holding in the Finnish book-entry system.

In exchange for each Merita Exchanged Share one Nordbanken Holding Subscription Receipt will be received. A Subscription Receipt is a book-entry entitlement to be issued by Merita Bank in the Finnish book-entry system, the holder of which is entitled to receive Nordbanken Holding Shares pursuant to the terms and exchange ratio (1:1.02) of the Share Exchange Offer. Nordbanken Holding Shares, in the form of FDRs, will be entered into the book-entry accounts of the holders of the Nordbanken Holding Subscription Receipts later, on or about 17 January 2000. For further details, see section “1.2.3. Settlement and Nordbanken Holding Subscription Receipts” below.

Nordbanken Holding reserves the right to postpone the date for settlement for technical reasons or other similar reasons beyond the control of Nordbanken Holding.

Nordbanken Holding Subscription Receipts are expected to be subject to trading on the Helsinki Exchanges prelist from 28 December 1999 until the date on which the newly issued Nordbanken Holding Shares have been entered into the shareholders' book-entry accounts.

#### **1.1.10. Costs and Finnish Transfer Tax**

No costs will be charged from the shareholders in Merita for accepting the Share Exchange Offer.

Nordbanken Holding shall be responsible for Finnish transfer taxes levied on the exchange of the shares as well as other eventual duties and fees relating to book-entry registrations in connection with the Share Exchange Offer.

Each book-entry registrar may charge the shareholder a fee for the Merita Exchanged Shares and Nordbanken Holding Subscription Receipts during the trading on the Helsinki Exchanges pursuant to its price lists for Finnish shares.

### 1.1.11. Other Matters

All other matters in respect of the Share Exchange Offer shall be decided by the Board of Directors of Nordbanken Holding, or any person or corporate body designated by the Board of Directors.

### 1.1.12. Governing Law

The Share Exchange Offer and its acceptance are governed by Finnish law.

## 1.2. Instructions to Merita Shareholders and Other Issues

### 1.2.1. Acceptance Procedure

The Acceptance Form, together with an information brochure and a pre-addressed envelope, will be sent to each Merita shareholder registered in the shareholders' register as of 10 November 1999. Acceptance Forms are also available at all Merita Bank branches.

A shareholder in Merita who wishes to accept the Share Exchange Offer, and who is directly registered in the shareholders' register of Merita shall (a) return the Acceptance Form with the pre-addressed envelope sent to shareholders or by following the guidelines given to him by his book entry registrar or (b) return the Acceptance Form to one of the branches of Merita Bank. A shareholder in Merita who has access to Solo Bank may also accept the Share Exchange Offer through Solo Bank on the Internet following the instructions included therein or by phone, using Solo Identification Code (local net charge), to Merita Customer Service, tel. 0200 3000 (in Finnish) or 0200 5000 (in Swedish).

If the tendered shares in Merita have been pledged, the pledgee must approve the acceptance.

Nordbanken Holding reserves the right to disregard incomplete or improperly filled out Acceptance Forms.

Shareholders whose Merita Shares are registered in the name of a nominee with a bank or other custodial institution and who wish to accept the Share Exchange Offer shall make such acceptance in accordance with the instructions of their nominee. Such shareholders will not automatically receive this prospectus, the Acceptance Form or other related documents.

By the acceptance of the Share Exchange Offer, the shareholder in Merita instructs and authorises Merita Bank to subscribe for the Nordbanken Holding Shares pursuant to the terms of the Share Exchange Offer and to transfer the title to the Merita Shares owned by such shareholder to Nordbanken Holding as the payment of the subscription. Acceptance will also authorise the combination and sale of the fractional entitlements of Nordbanken Holding Shares. See section "1.2.4. Fractional Entitlements" below.

Merita shareholders must submit the Acceptance Form or accept the Share Exchange Offer through Solo Bank in accordance with the above instructions during the Exchange Offer Period, i.e. not later than 4.30 p.m. Helsinki time on 15 December 1999. Acceptance Forms returned by mail should arrive prior to the close of the Exchange Offer Period.

### 1.2.2. Merita Exchanged Shares

Following receipt of a duly completed acceptance, the Merita Exchanged Shares will be registered on the book-entry account of the shareholders who have accepted the Share Exchange Offer. During the Exchange Offer Period and until the announcement of the completion of the Share Exchange Offer by Nordbanken Holding, each one (1) Merita Exchanged Share is equal to one (1) Merita Share. Following announcement by Nordbanken Holding that the Share Exchange Offer will be completed, each Merita Exchanged Share will be converted into one (1) Nordbanken Holding Subscription Receipt in the book-entry system. If the Share Exchange Offer is not completed, the Merita Exchanged Shares will be converted back into Merita Shares and entered into the book-entry accounts of the holders of the Merita Exchanged Shares.

Merita Exchanged Shares carry the same rights as Merita Shares.

An application will be made to the Helsinki Exchanges to list Merita Exchanged Shares on the main list of the Helsinki Exchanges as from 25 November 1999. Should the Share Exchange Offer not be completed by

Nordbanken Holding, trading in Merita Exchanged Shares will cease as soon as Nordbanken Holding has announced that the Share Exchange Offer will not be completed. At the same time Merita Exchanged Shares will be converted back into Merita Shares as soon as practically possible.

The Merita shareholder who has accepted the Share Exchange Offer must allow five (5) banking days for the registration of the acceptance before the Merita Exchanged Shares are entered into the book-entry account of such shareholder and become eligible for trading.

### **1.2.3 Settlement and Nordbanken Holding Subscription Receipts**

Following announcement by Nordbanken Holding that the Share Exchange Offer will be completed, Nordbanken Holding Subscription Receipts will be entered into the book-entry accounts of the holders of the Merita Exchanged Shares. For each one (1) Merita Exchanged Share one (1) Nordbanken Holding Subscription Receipt will be registered and, thus, Nordbanken Holding Subscription Receipts replace Merita Exchanged Shares in the relevant book-entry accounts.

Until the delivery of the Nordbanken Holding Shares, the Nordbanken Holding Subscription Receipts represent the right to receive Nordbanken Holding Shares (including eventual proceeds of the sale of fractional entitlements) in accordance with the exchange ratio and other terms of the Share Exchange Offer. Accordingly, for each one (1) Nordbanken Holding Subscription Receipt 1,02 Nordbanken Holding Shares will be received. Nordbanken Holding Shares will be delivered by way of entering new Nordbanken Holding Shares in the form of Finnish Depository Receipts to the book-entry accounts of the holders of the Nordbanken Holding Subscription Receipts. As to fractions of shares, see "1.2.4. Fractional Entitlements" below.

Provided that the announcement of completion of the Share Exchange Offer by Nordbanken Holding is made by 27 December 1999, the Nordbanken Holding Subscription Receipts are expected to be entered into the relevant book-entry accounts and become eligible for trading on or about 28 December 1999 and the new Nordbanken Holding Shares in the form of Finnish Depository Receipts are expected to be entered into the book-entry accounts of the holders of the Nordbanken Holding Subscription Rights on or about 17 January 2000, from which date the trading in Nordbanken Holding Shares (in the form of FDRs) is also expected to commence on the Helsinki Exchanges.

For more detailed terms of the Nordbanken Holding Subscription Receipts and FDRs, see Appendices E.1. and E.2.

### **1.2.4. Fractional Entitlements**

Nordbanken Holding will only issue whole shares. To the extent the amount of Nordbanken Holding Shares which a shareholder of Merita is entitled to receive in exchange for his Merita Shares is not a whole number, such fractional entitlements will be combined with other shareholders' fractional entitlements and subsequently be sold on the Stockholm Stock Exchange on behalf of such shareholders. Each such shareholder in Merita who would not receive full consideration as Nordbanken Holding Shares will receive a cash consideration corresponding to the fraction of the price of the non-received share, which price shall be based on the average sale price of all the shares combined from the fractional entitlements and sold on behalf of the shareholders.

By the acceptance of the Share Exchange Offer the shareholder instructs Merita Bank to combine the fractional entitlements of a Nordbanken Holding Share and sell them on the Stockholm Stock Exchange. The sale is intended to take place without delay after the Nordbanken Holding Shares have been listed for trading on the Stockholm Stock Exchange.

The payment of the consideration for the fractional entitlements will be made into the bank account related to the book-entry account of the holders of the Nordbanken Holding Subscription Receipts within 30 banking days after the sale and purchase. The right to receive the payment will be determined by the ownership of the Nordbanken Holding Subscription Receipts as at the date immediately prior to the conversion of the receipts into Nordbanken Holding FDRs, i.e. on or about 14 January 2000. Nordbanken Holding FDRs will not include the right to receive the payment of the consideration for the fractional entitlements.

No commissions will be charged from the selling shareholders for the sale of fractional entitlements.

### 1.3. Taxation issues relating to the Share Exchange Offer

The following is a summary of certain Finnish tax consequences related to the Share Exchange Offer for shareholders who are resident in Finland for tax purposes unless otherwise stated. The summary is based on tax laws of Finland in effect on the date of this prospectus, and is subject to changes in Finnish legislation. This summary is intended to provide general information only.

The description below does not cover tax issues in cases where foreign shareholders are deemed residents of Finland for tax purposes due to their personal and financial relations to Finland or where shares are held as business assets in business operations or held by a partnership. Shareholders of Merita are advised to consult their own tax advisors as to the tax consequences in their particular situation resulting from the Share Exchange Offer.

#### Taxation of Capital Gains

The disposal of the Merita Shares in exchange of the Nordbanken Holding shares under the Share Exchange Offer will not give rise to any immediate taxation. Instead, the acquisition cost of the shares received in exchange is deemed to be the undepreciated acquisition cost of the shares transferred in taxation. As a cash payment is not used as consideration, the exchange of shares does not cause capital gain (or loss) tax consequences for the Finnish resident shareholders. The taxation of an eventual capital gain (or loss) is deferred until the shares are further transferred (subject to the condition that eventual tax deferral provisions cannot be applied again).

The later disposal of the received Nordbanken Holding Shares, a disposal of Nordbanken Holding FDRs as well as the disposal of the combined fractional entitlements of Nordbanken Holding Shares on the Stockholm Stock Exchange in accordance with this Share Exchange Offer are subject to capital gain taxation for the shareholder. In the computation of taxable capital gains derived from the transactions, the taxpayer has an option to deduct either the acquisition cost, calculated on a pro rata basis on the received shares and their fractions, and the other eventual costs related to the exchange of shares from the disposal proceeds of these shares or a presumptive cost equal to 20 per cent of the disposal proceeds or for shares owned for at least 10 years, 50 per cent thereof. The taxable capital gain is taxed at a flat rate of 28 per cent (it is anticipated that the rate will be 29 per cent as of year 2000).

If a Finnish resident person who receives newly issued Nordbanken Holding Shares in exchange for Merita Shares becomes a non-resident in Finland (due to the Finnish internal provisions or due to the relevant tax treaty) before three years have passed from the end of the tax year in which the exchange of shares was carried out, the non-taxed capital gain (i.e. the deferred tax) will be taxed in the year the person moves to another country (so called exit tax).

#### Dividend Income

According to Finnish tax legislation dividend income received from Nordbanken Holding does not qualify for a tax credit under the Finnish imputation system and therefore an entitlement to a tax credit is lost by a Finnish resident shareholder of Merita in the Share Exchange Offer.

Dividend income distributed by Nordbanken Holding to a Finnish resident shareholder or a holder of Nordbanken Holding FDRs is taxed in Sweden at a rate of 15 per cent of the gross amount of the dividend (withholding tax), when tax treaty entitlement can be applied. Tax treaty entitlements can be applied e.g. to individuals and corporate bodies liable to tax in Finland by reason of domicile, residence, place of management or any other criteria of similar nature. In case treaty entitlement is not available, tax is levied in Sweden at a rate of 30 per cent. Dividends shall be exempt from tax in Sweden, if the beneficial owner is a company which owns directly at least 10 per cent of the capital of the company paying the dividends.

Furthermore, Finland and Sweden may mutually agree that dividends received by an enumerated institution with public, charitable or other purposes benefiting society, that is exempt from taxation pursuant to the law in Finland, shall be exempt from the tax on dividends from companies in Sweden.

According to the Finnish National Board of Taxes dividends received from a company listed on a foreign stock exchange are taxed in Finland as capital income. Therefore, it can be concluded that the dividend distributed by Nordbanken Holding to a Finnish tax resident is taxable at a rate of 28 per cent in Finland (it is anticipated that the rate will be 29 per cent as of year 2000). Taking into consideration that tax is also imposed on the dividend in Sweden, Finland grants a credit to avoid double taxation. The withholding tax cannot be credited to tax exempt entities which do not pay tax on received dividends.

However, in cases where dividends are distributed by Nordbanken Holding to a company that is a resident of Finland, the dividend income is exempt from Finnish taxation, if the recipient controls directly at least 10 per cent of the shares of Nordbanken Holding.

### **Transfer Tax**

On the basis of the Share Exchange Offer, Nordbanken Holding pays a transfer tax of 1.6 per cent on behalf of the shareholder, when the transferor is a Finnish tax resident, a Finnish branch office of a foreign credit institution or a Finnish branch of a foreign investment service institution.

### **Wealth Tax**

The Nordbanken Holding Shares are valued at fair market value for net wealth taxation for Finnish resident shareholders whereas listed Merita Shares are valued at 70 per cent of their fair market value.

Net wealth tax is imposed on property owned on 31 December of the tax year. The tax is FIM 500 on a net wealth of FIM 1.1 million and 0.9 per cent on the excess.

## **2. THE CONVERTIBLE BOND EXCHANGE OFFER**

### **2.1. Terms and Conditions of the Convertible Bond Exchange Offer**

The holders of Merita Convertible Bonds may exchange their Merita Convertible Bonds for Nordbanken Holding Convertible Bonds in accordance with and subject to the terms and conditions below.

#### **2.1.1. The Target of the Convertible Bond Exchange Offer**

The target of the Convertible Bond Exchange Offer is all the Merita Convertible Bonds.

Nordbanken Holding is currently not holding any Merita Convertible Bonds.

The holders of the Merita Convertible Bonds may, instead, choose to participate in the Share Exchange Offer made to the shareholders of Merita by converting their Merita Convertible Bonds into Merita Shares in accordance with the terms of the Merita Convertible Bonds by 30 November 1999 and thereafter accepting the Share Exchange Offer in accordance with the terms and conditions of the Share Exchange Offer (see section "Terms and Conditions of the Share Exchange Offer" above).

#### **2.1.2. Consideration**

In exchange for each Merita Convertible Bond bearing the nominal value of FIM 10,000 the holder of such bond will receive a Nordbanken Holding Convertible Bond bearing the nominal value of EUR 1,681.88.

The issue price for Nordbanken Holding Convertible Bonds shall correspond to the nominal value. The Nordbanken Holding Convertible Bonds shall mature on 17 August 2042, in so far as the loan has not been repaid or converted into shares prior to that and carry an interest as from 1 September 1999 with the annual interest rate corresponding to Euribor, six months, with the addition of 1.75 percentage points up to 1 September 2002 and thereafter with an addition of 3.75 percentage points. Nordbanken Holding shall have the right to repay the loan in full or in part as from 17 August 2002.

The Nordbanken Holding Convertible Bonds may be converted into shares in Nordbanken Holding. The conversion may take place during the maturity of the Nordbanken Holding Convertible Bonds. The conversion rate shall correspond to the amount of EUR 5.60. In accordance with this, one new share will be received for each full amount of the conversion rate of the aggregate nominal value of the Nordbanken Holding Convertible Bond which the holder wishes to convert at the same time. One bond bearing the nominal value of EUR 1,681.88 may thus be converted into 300 shares.

The Nordbanken Holding Convertible Bonds shall be subordinated and in the event of liquidation or bankruptcy of the company the bonds shall have the right to receive payment from the assets of the company after the non-subordinated liabilities of the company and have equal rights (*pari passu*) with other subordinated liabilities which are not expressly subordinated to the Nordbanken Holding Convertible Bonds.

For other terms of issue of the Nordbanken Holding Convertible Bonds, see Appendix D.

### **2.1.3. Conditions Precedent to the Convertible Bond Exchange Offer**

The Convertible Bond Exchange Offer shall be subject to the conditions precedent, as applicable, referred to in section "1.1.3. Conditions Precedent to the Share Exchange Offer" above as well as that the Share Exchange Offer shall be completed in accordance with its terms.

Nordbanken Holding reserves the right, at its sole discretion, to complete the Convertible Bond Exchange Offer even in case one or more of the conditions precedent is not fulfilled.

### **2.1.4. Period for Acceptance**

The period for acceptance of the Convertible Bond Exchange Offer, the Exchange Offer Period, will commence at 10.00 a.m. Finnish time 24 November at 10.00 a.m. and expire at 4.30 p.m. Finnish time on 15 December 1999.

Nordbanken Holding reserves the right to extend the Exchange Offer Period for an additional period not exceeding 160 days. Eventual extension of the Exchange Offer Period is announced before the end of the Exchange Offer Period. Should Nordbanken Holding choose to extend the Exchange Offer Period, the conditions precedent to the Convertible Bond Exchange Offer shall remain valid during the extended period, unless waived by Nordbanken Holding.

### **2.1.5. Accepting the Convertible Bond Exchange Offer**

The Convertible Bond Exchange Offer may be accepted by way of filling out and returning the Acceptance Form for Bondholders. Acceptance Forms for Bondholders will be sent to the holders of Merita Convertible Bonds, whose address and details are accessible to Merita, before the commencement of the Exchange Offer Period. Acceptance Forms for Bondholders are also available at Merita Bank branches providing custodial services. For further instructions see "2.2.1. Acceptance Procedure" below.

### **2.1.6. Irrevocable Acceptances**

An acceptance of the Convertible Bond Exchange Offer is irrevocable. A bondholder who has accepted the Convertible Bond Exchange Offer may not withdraw his acceptance and may not sell or dispose of his Merita Convertible Bonds unless in compliance with the terms and conditions of this Convertible Bond Exchange Offer. Even in case the Exchange Offer Period is extended or in case any of the conditions precedent to the Convertible Bond Exchange Offer have been waived by Nordbanken Holding, the acceptance may not be withdrawn.

### **2.1.7. Trading with the Merita Convertible Bonds during the Exchange Offer Period**

The Merita Convertible Bonds which have not been tendered for exchange under the Convertible Bond Exchange Offer will continue to be traded on the Helsinki Exchanges during the Exchange Offer Period.

### **2.1.8. Announcement of the Result**

The result of the Convertible Bond Exchange Offer will be made public in connection with the announcement of the Share Exchange Offer. The announcement will include information as to whether or not the Convertible Bond Exchange Offer will be completed by Nordbanken Holding.

### **2.1.9. Transfer of Title and Settlement**

Following the announcement that the conditions precedent to the completion of the Convertible Bond Exchange Offer have been fulfilled or that Nordbanken Holding has otherwise decided to complete the Convertible Bond Exchange Offer (see "2.1.8. Announcement of the Result" above), the title to the Merita Convertible Bonds for which the Convertible Bond Exchange Offer has been accepted shall pass to Nordbanken Holding and settlement will begin. For further details, see "2.2.2. Settlement" below.

Nordbanken Holding reserves the right to postpone the time for settlement for technical reasons or other similar reasons beyond its control.

### **2.1.10. Costs and Finnish Transfer Tax**

No costs will be charged from the holders of Merita Convertible Bonds for accepting the Convertible Bond Exchange Offer.

Nordbanken Holding shall be responsible for Finnish transfer taxes levied on the exchange of the Merita Convertible Bonds to Nordbanken Holding Convertible Bonds.

### **2.1.11. Other Matters**

All other matters in respect of the Convertible Bond Exchange Offer shall be decided by the Board of Directors of Nordbanken Holding, or any person or corporate body designated by them.

### **2.1.12. Governing Law**

The Convertible Bond Exchange Offer and its acceptance are governed by Finnish law.

## **2.2. Instructions to the Holders of Merita Convertible Bonds and Other Issues**

### **2.2.1. Acceptance Procedure**

The Acceptance Forms for Bondholders will be sent to each holder of Merita Convertible Bonds, whose address and details are accessible to Merita. Acceptance Forms for Bondholders are also available at all Merita Bank branches providing custodial services.

A holder of Merita Convertible Bonds who wishes to accept the Convertible Bond Exchange Offer must return the duly completed Acceptance Form for Bondholders together with the relevant Merita Convertible Bonds to one of the custodial service branches of Merita Bank. Merita Bank will issue a receipt to the bondholder against which the Nordbanken Holding Convertible Bonds will be delivered (the "Bond Subscription Receipt").

If the tendered Merita Convertible Bond has been pledged, the pledgee must approve the acceptance.

Nordbanken Holding reserves the right to disregard incomplete or improperly filled out Acceptance Forms for Bondholders.

By the acceptance of the Convertible Bond Exchange Offer, the holder of Merita Convertible Bonds instructs and authorises Merita Bank to subscribe for the Nordbanken Holding Convertible Bonds pursuant to the terms of this Convertible Bond Exchange Offer and to transfer the title of the Merita Convertible Bonds owned by such holder to Nordbanken Holding as the payment of the subscription.

The Acceptance Form for Bondholders together with the relevant Merita Convertible Bonds must be submitted by the holders of the Merita Convertible Bonds in accordance with the above instructions during the Exchange Offer Period, i.e. not later than 4.30 p.m. Helsinki time on 15 December 1999.

### **2.2.2. Settlement**

Following an announcement by Nordbanken Holding to complete the Convertible Bond Exchange Offer, a written confirmation thereof will be sent to each holder of Merita Convertible Bonds who has accepted the Convertible Bond Exchange Offer at the address indicated by such holder in the Acceptance Form for Bondholders.

The Nordbanken Holding Convertible Bonds will be delivered against the Bond Subscription Receipts. The delivery date of the Nordbanken Holding Convertible Bonds will be included in the written confirmation of acceptance.

In case the Convertible Bond Exchange Offer is not completed, the Merita Convertible Bonds will be returned against the relevant Bond Subscription Receipts. The return of the relevant bonds will occur without undue delay following an announcement by Nordbanken Holding that the Convertible Bond Exchange Offer will not be completed.

An application will be made to the Helsinki Exchanges to list the Nordbanken Holding Convertible Bonds on the Helsinki Exchanges as from 31 January 2000.

### 2.3. Taxation issues relating to the Convertible Bond Exchange Offer

The following is a summary of certain Finnish tax consequences related to the Convertible Bond Exchange Offer for holders of convertible bonds who are resident in Finland for tax purposes unless otherwise stated. The summary is based on tax laws of Finland as in effect on the date of this prospectus, and is subject to changes in Finnish legislation. This summary is intended to provide general information only.

The description below does not cover tax issues in cases where foreign bondholders are deemed residents of Finland for tax purposes due to their personal and financial relations to Finland or where shares are held as business assets in business operations or held by a partnership. Holders of Merita Convertible Bonds are advised to consult their own tax advisors as to the tax consequences in their particular situation resulting from the Convertible Bond Exchange Offer.

The conversion of a Merita Convertible Bond to shares issued by Merita does not cause any tax consequences to the owner, because the conversion of a convertible bond to shares is not deemed a taxable alienation. The period of ownership of the shares is deemed to have started at the acquisition of the convertible bond and their deemed acquisition cost is the acquisition cost of the Merita Convertible Bond. The alienation of the shares results in a taxable capital gain or a loss which can be set off against capital gains during the tax year or following three tax years. Capital gains are taxed at the rate of 28 per cent in the tax year 1999. The Finnish Government has in public given notice of its intention to raise the tax rate of capital income to 29 per cent as of year 2000. However, the disposal of the Merita Shares in the exchange of shares under the Share Exchange Offer shall not give rise to any immediate taxation. Instead, the acquisition cost of Nordbanken Holding Shares received in exchange is deemed to be the undepreciated acquisition cost of the shares transferred in taxation. As a cash payment is not used as consideration, the exchange of shares does not cause capital gain (or loss) tax consequences for the Finnish resident shareholders. The taxation of an eventual capital gain (or loss) is deferred until the shares are further transferred (subject to the condition that eventual tax deferral provisions cannot be applied again).

The exchange of a Merita Convertible Bond to a Nordbanken Holding Convertible Bond is regarded as an alienation subject to tax. The alienation price is deemed to be the fair market price of the Nordbanken Holding Convertible Bond at the moment of the exchange. Respectively the acquisition cost of the convertible bond issued by Nordbanken Holding is deemed to be its fair market value at the time of the exchange. When computing the taxable capital gain the part of acquisition cost which has not been deducted as well as costs incurred for the purpose of acquiring the income are deducted from the sales price.

The conversion of a Nordbanken Holding Convertible Bond to shares issued by Nordbanken Holding may result in the taxation of the capital gain in Finland. An advance ruling will be applied from the tax authorities. The interest paid on a Nordbanken Holding Convertible Bond is not subject to withholding tax in Sweden, if the recipient does not have a permanent establishment in Sweden to which the convertible bond is deemed to belong to. In Finland the interest is regarded as capital income subject to tax at the rate of 28 per cent in the tax year 1999.

The sale of a Merita Convertible Bond or Nordbanken Holding Convertible Bond causes a capital gain or a capital loss for the vendor.

## 3. TRADING IN NORDBANKEN HOLDING SHARES

### 3.1. General

The shares of Nordbanken Holding are subject to public trading on the Stockholm Stock Exchange. The trading is denominated both in Swedish kronor and in Euro.

It is the intention of Nordbanken Holding to apply for a secondary listing of the Nordbanken Holding Shares on the Helsinki Exchanges. See "3.3. Trading of the Nordbanken Holding FDRs on the Helsinki Exchanges" below. The listing is expected to commence on or about 17 January 2000, subject to the completion of the Share Exchange Offer.

The Swedish legislation relating to shareholders rights in Nordbanken Holding is described below, see Appendix F.

### 3.2. Trading on the Stockholm Stock Exchange

The shares of Nordbanken Holding have been subject to public trading since December 1997.

For further information, see “Nordbanken Holding and Merita – Market Information”.

### 3.3. Trading of the Nordbanken Holding FDRs on the Helsinki Exchanges

#### General

Trading in Nordbanken Holding Shares on the Helsinki Exchanges will be executed through Finnish Depository Receipts, Nordbanken Holding FDRs, that will be issued in Finland. The issuer of FDRs will be Merita Bank.

A FDR is a form of a right that will be issued as a book-entry in accordance with Section 26 b of the Finnish Act on Book-Entries (826/1991, as amended, “Book-Entry Act”). A FDR is a security as defined in Chapter 1, Section 2, Subsection 1, Paragraph 2 of the Securities Markets Act (495/1989, as amended, “Securities Markets Act”). Nordbanken Holding FDRs will be entered into the Finnish book-entry system on or about 17 January 2000.

The number of Nordbanken Holding FDRs issued will at all times correspond to the number of underlying Nordbanken Holding shares kept in custody in the name of Merita Bank, for the account of Nordbanken Holding FDR holders, by Nordbanken as a custodian bank appointed by Merita Bank.

The rights and duties of investors and the FDR issuer are described in the General Terms and Conditions of Nordbanken Holding FDR (Appendix E.1.).

One Nordbanken Holding FDR represents one Nordbanken Holding Share, as defined in the General FDR terms.

#### Nordbanken Holding Share Depository Receipts and the Finnish Paperless Securities System

The FDRs are issued within the Finnish paperless security system based on computerised book-entries. The book-entry system is mandatory for the companies/shares listed on the Helsinki Exchanges.

Nordbanken Holding FDRs will be entered into the Finnish book-entry system and as a result an FDR holder, or his nominee, must establish a securities account as well as a FIM/EUR money account in Finland, as any holder of Finnish securities, or disclose the number of a previously opened book-entry and money account. All transactions in securities and FDRs registered with the book-entry system are executed as computerised book-entries. The registrar confirms each book-entry by sending a notification of each transaction to the investor holding the respective book-entry account. Investors also receive an annual statement of their holdings as at the end of each calendar year.

#### Trading in FDRs

Trading in FDRs will be effected on the Helsinki Exchanges in the HETI system (Helsinki Exchanges Automated Trading and Information System), which is a decentralised and fully automated order driven system. Trading is conducted on the basis of trading lots. The trading lot for Nordbanken Holding FDRs will be 500 FDRs.

Trading on the Helsinki Exchanges is in Euro.

The transactions are normally cleared in the automated clearing and settlement system (KATI) on the third (3) banking day following the transaction. Normal trading rules apply to trading in Nordbanken Holding FDRs. A prerequisite for trading is that the Nordbanken Holding FDR holder, like any holder of a Finnish listed security, has a book-entry account with an attached FIM/EUR money account.

The investor gives a Nordbanken Holding FDR purchase or sale order executable on the Helsinki Exchanges to his own broker who charges the investor a commission according to his price list. Trading orders can also be given at the branches of Merita Bank that provide custodial services and through the SOLO portfolio management service. Further information relating to trading in Nordbanken Holding FDRs is available at stock brokers, Merita and Merita Bank’s Custodial Services and customer service, tel. 0200 3000 (in Finnish) or 0200 5000 (in Swedish).

An investor can also purchase Nordbanken Holding shares on the Stockholm Stock Exchange. A broker will charge any applicable fees for such a transaction order.

### **Converting Nordbanken Holding shares into Nordbanken Holding FDRs**

A holder of Nordbanken Holding shares, that are held on a Swedish VP-account, can convert his holding into Nordbanken Holding FDRs by giving both his Swedish account-operator with whom his Shares are registered and the Finnish book-entry registrar with whom he wants to deposit the Nordbanken Holding FDRs an order to this effect. The investor is responsible for ensuring that his book-entry registrar has the capability of handling FDRs.

Upon giving the conversion order to his Swedish account-operator, the investor must also ask for reception instructions for the Swedish custodian bank, Nordbanken, appointed by the FDR issuer to whom the FDR issuer provides clearing instructions.

Conversion is conditional upon the fact that all clearing procedures for the shares representing the FDRs have been completed and that all the obligations towards the company owed by the shareholder requesting the conversion have been fulfilled. The conversion usually takes three (3) banking days to complete.

The FDR issuer shall have the right to charge for the expenses arising from conversion of the Nordbanken Holding shares in accordance with its current price list, including the conversion costs charged by the foreign custodian bank. Currently, the issuer will charge FIM 700 for each conversion order, irrespective of the number of FDRs or shares thus converted.

Book-entry registrars may also charge the investor fees in connection with procedures performed by them.

### **Converting Nordbanken Holding FDRs into Nordbanken Holding shares**

A holder of Nordbanken Holding FDRs, that have been deposited in a Finnish book-entry account, can convert his holding into Nordbanken Holding shares by giving both his Finnish book-entry registrar with whom his FDRs are registered and the Swedish account-operator with whom he wants to deposit the Nordbanken Holding shares an order to this effect.

Upon giving the conversion order to his Finnish book-entry registrar, the investor must also ask for delivery instructions for the Swedish custodian bank appointed by the FDR issuer to whom the FDR issuer provides clearing instructions.

Conversion is conditional upon the fact that all clearing procedures for the FDRs have been completed and that all the obligations towards the FDR issuer owed by the FDR holder requesting the conversion have been fulfilled. The conversion usually takes three (3) banking days to complete.

The FDR issuer shall have the right to charge for the expenses arising from conversion of the FDRs in accordance with its current price list, including the conversion costs charged by the foreign custodian bank. Currently, the issuer will charge FIM 700 for each conversion order, irrespective of the number of FDRs or shares thus converted.

Book-entry registrars may also charge the investor fees in connection with procedures performed by them.

### **Certain Rights attached to FDRs**

The following is a brief description of certain rights, duties and procedures that are described in more detail in the General FDR terms, see Appendix E.1.

#### *The right of an FDR holder to Participate in Nordbanken Holding's General Meeting of Shareholders and Voting Rights*

Nordbanken Holding will announce the company's notice of General Meeting of Shareholders in at least one nation-wide daily newspaper in Finland. The invitation to the General Meeting of Shareholders will include the FDRs issuer's notice of the record date for Finnish FDR holders, instructions for the FDR holders and information on where the documents relating to the meeting are available for public examination and where copies of them can be ordered.

The right of a Nordbanken Holding FDR holder to participate in Nordbanken Holding's General Meeting of Shareholders will be determined by the ownership at the record date. According to applicable Swedish law, the record date is currently the tenth business day prior to the day of the Meeting.

Each share carries one vote at General Meetings of Shareholders of Nordbanken Holding.

A Nordbanken Holding FDR holder must notify the FDR issuer, by the due date set by the FDR issuer, of his intention to attend the General Meeting of Shareholders and/or to exercise his voting right. The FDR issuer will have the documents relating to the General Meeting of Shareholders available for inspection by the investors and for copies of them to be ordered.

#### *Dividend Payments*

The right of Nordbanken Holding FDR holders to receive dividends distributed by the company will be determined by the ownership of shares in Nordbanken Holding on the record date for payment of dividend. Nordbanken Holding will pay the dividend on the shares represented by the Nordbanken Holding FDRs in a single sum to the FDR issuer who in turn is responsible for distributing the dividend to the Nordbanken Holding FDR holders in proportion to their holdings.

Nordbanken Holding shall procure that withholding tax pursuant to Swedish legislation will be withheld. See “General FDR Terms”, Appendix E.1 and “Swedish Legislation Affecting a Shareholder in Nordbanken Holding – Swedish Taxation for Non-Residents”, Appendix F.

The FDR issuer will convert the dividend paid in Swedish kronor into Euro or Finnish markka at the rate prevailing at the date of payment and transfer the funds to book-entry registrars who will in turn pay the FDR holders either in Euro or in Finnish markka. The FDR issuer will not charge the FDR holders a separate fee for the distribution of the dividend. However, the Nordbanken Holding FDR issuer retains the right to deduct from the dividend, before it is paid to FDR holders, any taxes or charges in accordance with Finnish or Swedish legislation, which the FDR holder is charged and any applicable currency exchange and repatriation expenses.

#### *Equity Transactions*

The issuer will apply the effects of any equity transactions decided by the company on the Nordbanken Holding FDRs in accordance with the General FDR terms. The FDR issuer will determine the record date applicable for the Nordbanken Holding FDRs separately for each equity transaction.

#### **Transferability of Nordbanken Holding FDRs**

Nordbanken Holding FDRs entered into the book-entry system are freely transferable.

#### **Information to Nordbanken Holding FDR holders**

The FDR issuer notifies the FDR holders, upon receipt of information addressed to shareholders from the company or any other information prepared in relation to Nordbanken Holding FDRs or the General FDR Terms by publishing such information in at least one nation-wide daily newspaper in Finland. Alternatively the FDR issuer may hand such information over to book-entry registrars who in turn inform their clients in a manner specified in the rules of the book-entry registers at any time in force. The FDR issuer is responsible for providing the same information to the Helsinki Exchanges. The FDR issuer's notification responsibility is in force for as long as the FDRs are subject to public trading on the Helsinki Exchanges.

#### **3.4. Taxation of Nordbanken Holding FDRs**

The summary of certain tax issues under “1.3. Taxation issues relating to the Share Exchange Offer” above also includes the relevant information relating to the taxation of Nordbanken Holding FDRs.

#### **3.5. Information on the issuer of Nordbanken Holding FDRs and Subscription Receipts**

##### **Merita Bank Plc**

The Nordbanken Holding FDRs and Subscription Receipts will be issued by Merita Bank. Merita Bank is a public limited company registered in the Finnish Trade Register on 30 April 1991. Merita Bank's domicile is Helsinki and its trade register number is 513.752. Merita Bank is a credit institution under the Finnish Act on Credit Institutions, and is operating under Finnish law.

The Board of Management of Merita Bank consists of the following persons:

Hans Dalborg (chairman), Stockholm  
Carl-Johan Granvik, Espoo  
Jakob Grinbaum, Uppsala  
Karl-Olof Hammarkvist, Stockholm  
Kalevi Kontinen, Sipoo  
Jussi Laitinen, Helsinki  
Arne Liljedahl, Uppsala  
Lars G Nordström, Uppsala  
Markku Pohjola, Espoo  
Pertti Voutilainen, Espoo

The annual report of Merita Bank for the accounting period 1998 and interim report for the period 1 January – 30 June 1999 are available to investors at the address: MeritaNordbanken Group Communications, Aleksanterinkatu 36 B, FI-00100 Helsinki, Finland.

## VII. NORDBANKEN HOLDING AND MERITA

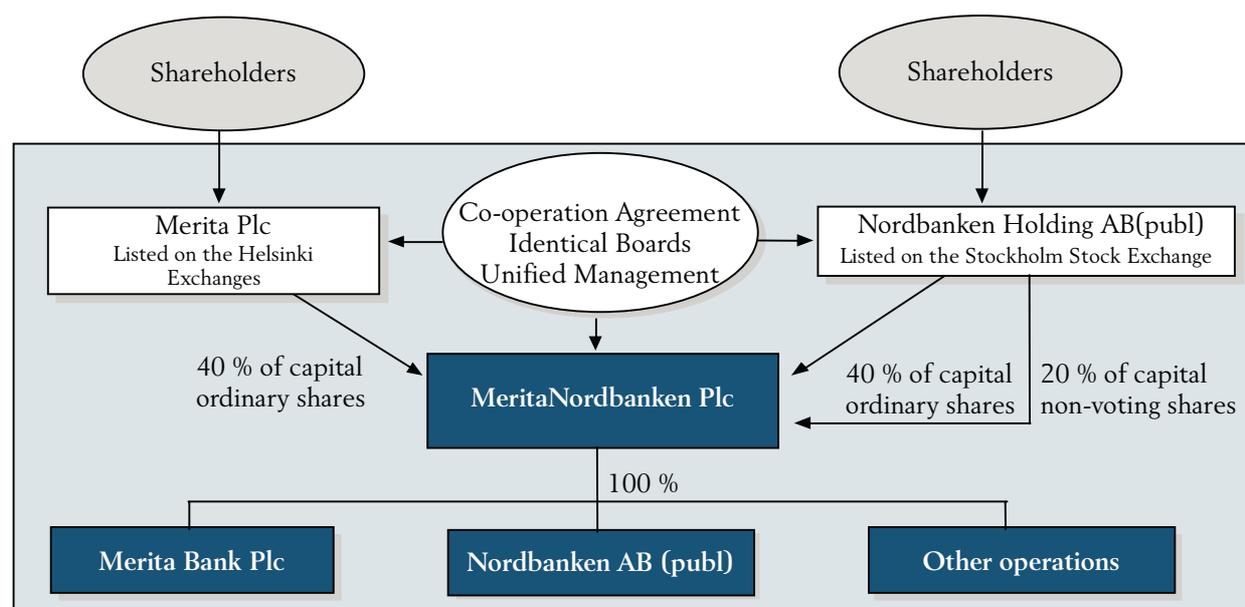
### I. BACKGROUND AND PRESENT STRUCTURE

On 13 October 1997, Merita and Nordbanken Holding entered into a merger agreement and a co-operation agreement. These agreements, together with a supplementary agreement dated 22 October 1997 between the parties, were intended to effect the combination of the banking and other operations of Merita and Nordbanken and to provide a framework for their continuing relationship.

The merger was effected through a dual-holding company structure in which Nordbanken Holding and Merita jointly own an intermediate holding company, MeritaNordbanken Plc, which holds the operating subsidiaries of the Group in Sweden and in Finland.

Nordbanken Holding and Merita are both listed companies, Nordbanken Holding on the Stockholm Stock Exchange and Merita on the Helsinki Exchanges. The two holding companies have a total of approximately 380,000 shareholders.

The following chart illustrates the present structure of MeritaNordbanken Group which was formed after implementation of the merger in 1997.



The MeritaNordbanken Group is managed as a single unit. The two holding companies are the sole owners of MeritaNordbanken Plc, which is legally domiciled in Finland. Shareholders in Merita and Nordbanken Holding are entitled to 40 per cent and 60 per cent, respectively, of the Group's capital and earnings. MeritaNordbanken Plc is together with its main subsidiaries, Merita Bank and Nordbanken, one of the leading Nordic bank groups.

### 2. GENERAL INFORMATION

#### 2.1. Nordbanken Holding

The name of the company is Nordbanken Holding AB (publ). The company is a public company. The domicile of Nordbanken Holding is Stockholm and its registered office is at Hamngatan 10, SE-105 71 Stockholm, Sweden. Nordbanken Holding was registered in the Swedish Patent and Registration Office on 8 October 1997 with the register number 556547-0977. Nordbanken Holding is governed by the Swedish Companies Act.

Section 3 in the current Articles of Association of Nordbanken Holding provides that the scope of business of the company is to (i) directly or indirectly own and administer the shares in Nordbanken, registration number 502010-5523 and (ii), together with Merita (register number 40.495) own and administer the shares in MeritaNordbanken Plc.

Nordbanken Holding was founded by Ms Maria Snöbohm acting as attorney for and on behalf of Nordbanken, and since April 1998 Corporate legal counsel in MeritaNordbanken Group. Office address: Nordbanken AB (publ), Hamngatan 10, SE-105 71 Stockholm.

Nordbanken Holding has not had any other employees than the Managing Director, Mr. Rune Brandinger.

## 2.2. Merita

The name of the company is Merita Plc. Its domicile is in Helsinki and its registered office is at Aleksanterinkatu 36, FI-00100 Helsinki. Merita was registered on 29 October 1919 in the Finnish Trade Register with register number 40.495.

The scope of business of the company pursuant to Section 2 in current Articles of Association is, together with Nordbanken Holding, to own and manage shares in MeritaNordbanken Plc and to attend to funding and investor relations. Merita may also own and manage shares and other securities directly related to the aforesaid business.

Since 1998 Merita has had five employees including the Managing Director, Mr. Vesa Vainio.

## 3. MANAGEMENT

### 3.1. Nordbanken Holding

#### Board of Directors

The Board of Directors of Nordbanken Holding consists of ten members. As of the date of this prospectus the members of the Board of Directors and their principal occupations are the following:

**Jacob Palmstierna**, born 1934, Board Chairman of MeritaNordbanken Plc and Nordbanken Holding. Vice Chairman of Merita. Board Chairman of Bilia AB and Siemens-Elementa AB. Board member of NCC AB, Nordstjernan AB and Avesta Sheffield AB, among other companies. Office address: Nordbanken Holding AB (publ), Hamngatan 10, SE-105 71 Stockholm. Shareholding in MeritaNordbanken Group: 22,400 shares in Nordbanken Holding.

**Vesa Vainio**, born 1942. President of Merita. Vice Chairman of the Board of MeritaNordbanken Plc and Nordbanken Holding. Board Chairman of the Central Chamber of Commerce, Vice Chairman of Metra Corporation. Board member of Nokia Group and UPM-Kymmene Corporation. Office address: MeritaNordbanken Plc, Aleksanterinkatu 36, 00020 Merita. Shareholding in MeritaNordbanken Group: 2,793 shares in Merita.

**Hans Dalborg**, born 1941. President and the Chief Executive Officer of MeritaNordbanken Plc 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, Stockholm Institute of Transition Economics and East European Economies and AB Svenska Spel. Member of the Swedish Academy of Engineering Sciences (IVA). Office address: MeritaNordbanken Plc, Hamngatan 10, SE-105 71 Stockholm. Shareholding in MeritaNordbanken Group: 37,700 (with family) shares in Nordbanken Holding and 3,000 shares in Merita.

**Dan Andersson**, born 1948. State Secretary, Ministry of Industry, Employment and Communications. Office address: Jakobsgatan 26, SE-103 33 Stockholm. No shareholding in MeritaNordbanken Group.

**Edward Andersson**, born 1933. Professor, Member of the Board of Directors of Nokia Corporation, Member of the Board of Directors of Helvar Merca Oy Ab, Member of the Board of Mutual Life Assurance Company Suomi, Chairman of the Kauniainen Municipal Council, Chairman of the Board of Directors of Sigrd Juselius Foundation, Ella and Georg Ehrnrooth Foundation and Föreningen Konstsamfundet. Office address: MeritaNordbanken Plc, Aleksanterinkatu 36, 00020 Merita. Shareholding in MeritaNordbanken Group: 25,000 shares in Merita.

**Rune Brandinger**, born 1931. President of Nordbanken Holding. Board Chairman of Vasakronan AB, Civitas AB, Elektronikgruppen AB, AB Trätek och SwIT Yrkesutbildning. Board member of Atle Karolin Verkstads AB, AB Svenska Miljöstyrningsrådet, Cepro AB, Swebus AB and the Federation of Swedish Industries. Office address: Nordbanken Holding AB (publ), Hamngatan 10, SE-105 71 Stockholm. Shareholding in MeritaNordbanken Group: 8,400 shares in Nordbanken Holding.

**Mikko Kivimäki**, born 1939. Chief Executive Officer and Board Chairman of Rautaruukki Oy. Board Chairman of the Central Association of Metal Industry. Vice Chairman of Pension Insurance Companies Varma Sampo and Industrial Insurance Company Ltd. Member of the Supervisory Board of YIT Corporation. Member of the Executive Committee of the Board of the Confederation of Finnish Industry and Employers. Board Chairman of National Maritime Administration. Vice Chairman of the Board of Metso Corporation. Office address: Rautaruukki Oy, Fredrikinkatu 51–53, 00100 Helsinki. Shareholding in MeritaNordbanken Group: 3,130 shares in Merita.

**Bernt Magnusson**, born 1941. Board Chairman of Assi Domän AB and Swedish Match AB. Vice Chairman of Avesta Sheffield AB and Net Insight AB. Board member of Volvo Cars AB, Burmah Castrol plc, Höganäs AB, Emtunga International AB, Federation of Swedish Industries and Stockholm Chamber of Commerce. Advisor to the European Bank for Reconstruction and Development. Office address: Hovslagargatan 5 B, SE-111 48 Stockholm. Shareholding in MeritaNordbanken Group: 2,400 shares in Nordbanken Holding.

**Juha Niemelä**, born 1946. Chief Executive Officer of UPM-Kymmene Corporation. Board Chairman of the Finnish Forestry Industries Federation. Member of the Executive Committee of the Board of the Confederation of Finnish Industry and Employers. Board member of Oy Metsä-Botnia Ab and Oy Metsä-Rauma Ab. Office address: UPM-Kymmene Corporation, Eteläesplanadi 2, 00100 Helsinki. Shareholding in MeritaNordbanken Group: 3,100 shares in Merita.

**Timo Peltola**, born 1946, Board Chairman and Chief Executive Officer of Huhtamaki Van Leer. 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. Office address: Huhtamaki Van Leer, Länsituulentie 7, 02100 Espoo. Shareholding in MeritaNordbanken Group: 5,086 shares in Merita.

#### **Managing Director**

The Managing Director of Nordbanken Holding is Mr. Rune Brandinger, born 1931.

### **3.2. Merita**

#### **Board of Directors**

The Board of Directors of Merita consists of ten members, all of whom are the same members as in Nordbanken Holding, see “Nordbanken Holding – Board of Directors” above.

#### **Managing Director**

The Managing Director of Merita is Mr. Vesa Vainio, born 1942.

### **4. AUDITORS**

The auditors of Nordbanken Holding, Merita and MeritaNordbanken Plc are described in Appendix H.

### **5. DIRECTORS' COMPENSATION AND SHAREHOLDING**

#### **Fees paid to the Board Members**

The main Board work regarding Merita, Nordbanken Holding and MeritaNordbanken Plc is conducted in the last mentioned company. Accordingly, Board fees are only paid in this company.

The Chairman of the Board Jacob Palmstierna receives an annual fixed fee of FIM 700,000. In addition, Jacob Palmstierna was compensated for the reduction in the pension paid by Skandinaviska Enskilda Banken AB (publ)

which is a result of his serving as a member of the Board of Nordbanken Holding. Compensation for this was paid to and including April 1999. During 1998 this amounted to SEK 833,148 and in 1999 SEK 277,716.

Vice Chairman Vesa Vainio receives an annual fixed fee of FIM 700,000. In addition, Vesa Vainio in his function as President of Merita will receive compensation of FIM 2,760,000, of which FIM 1,003,000 is salary for 1998. Moreover, Vesa Vainio has car and housing benefits. As regards his former function as the Chief Executive Officer of Merita, there is a pension obligation. He is entitled to old age pension amounting to 60 per cent of pensionable salary for his lifetime.

Other Board members, not employed by MeritaNordbanken Plc or its subsidiaries will receive FIM 130,000 as an annual fixed fee and a fee for each attended Board Meeting. All Board members not employed by MeritaNordbanken Plc or its subsidiaries also receive a fee for each attended Committee meeting in MeritaNordbanken Plc. Total remuneration to Board members shall be subject to a limit of FIM 4 million per annum. A separate payment is made to the Chairman of the Board of Directors of Merita amounting to FIM 60,000 and to the Managing Director of Nordbanken Holding amounting to SEK 100,000.

### Shareholding of the Board Members

The total shareholding of the members of the Board as of 29 October 1999, is 70,900 shares in Nordbanken Holding and 42,109 shares in Merita.

## 6. SHARE CAPITAL, SHARES AND SHAREHOLDERS

### 6.1. Nordbanken Holding

#### Share Capital and Shares

According to the present Articles of Association of Nordbanken Holding the minimum share capital of the company is SEK 4,000,000,000 and the maximum share capital is SEK 16,000,000,000 within which limits the share capital may be increased or decreased without amendment of the Articles of Association. The registered share capital of the company is SEK 8,926,872,087 as of the date of this prospectus. The present number of shares in Nordbanken Holding is 1,275,267,441 with a nominal value of SEK 7 each.

Nordbanken Holding was registered on 8 October 1997 with a share capital of SEK 500,000. The share capital was raised on 28 October 1997 to SEK 560,000. On 17 December 1997 the share capital was reduced by SEK 560,000 and on the same day increased to SEK 8,926,872,087.

Nordbanken Holding has not issued any convertible loans, option loans or option rights, on the basis of which the share capital of the company may be increased.

At the date of this prospectus, the Board of Directors of Nordbanken Holding is not authorised to increase the share capital of the company by issuance of new shares, convertible loans or option rights nor to acquire any shares of the outstanding capital stock of Nordbanken Holding. However, the Extraordinary General Meeting of Shareholders on 19 November 1999 includes a proposal to authorise the Board of Directors to decide on new issues of Nordbanken Holding Shares and Nordbanken Holding Convertible Bonds in order to undertake the settlement of the consideration under the Exchange Offers, see "Background and Objectives – Issuance of the Nordbanken Holding Shares and Convertible Bonds".

All shares in Nordbanken Holding carry equal rights with respect to the assets and profits as well as equal voting and other shareholders' rights in the company. Each share carries one vote. Pursuant to the Articles of Association of Nordbanken Holding each shareholder is entitled to vote for the full number of shares held. There are no regulations on special voting majorities in the Articles of Association.

No shareholder's agreements between the shareholders of Nordbanken Holding have come to the knowledge of the Board of Directors of Nordbanken Holding.

According to the present Articles of Association the shares of Nordbanken Holding are not subject to any transfer restrictions or redemption obligations.

The shares of the Nordbanken Holding are issued in paperless form and entered into the Swedish VP-system. The Nordbanken Holding Shares shall be registered as FDRs in the Finnish book-entry system (see "The Exchange Offers – Trading of the Nordbanken Holding FDRs on the Helsinki Exchanges").

### Shareholders

As of 30 September 1999 Nordbanken Holding had 97,152 shareholders. The largest shareholder of Nordbanken Holding is the Kingdom of Sweden, which owns 542,015,102 shares equalling 42.5 per cent of the capital and votes. As of 30 June 1999 private individuals hold approximately 5.3 per cent of the shares, whereas Swedish institutions hold approximately 26.5 per cent. The proportion of shareholders resident abroad is approximately 25.7 per cent. The Kingdom of Sweden is the only shareholder with over 20 per cent of the shares and votes in the company.

The following chart shows the ten largest shareholders in Nordbanken Holding:

Shareholders as of 30 September 1999	Number of shares held	Per cent of capital and votes held
Kingdom of Sweden	542,015,102	42.5
SPP	53,606,474	4.2
AMF Pension	39,560,000	3.1
Nordbanken mutual funds	29,209,416	2.3
Skandia	25,946,563	2.0
SEB mutual funds	23,888,610	1.9
Handelsbanken mutual funds	23,125,520	1.8
Nordbanken Profit-sharing foundation	19,186,300	1.5
AMF Insurance	17,808,600	1.4
Fourth National Pension Fund	13,045,000	1.0

## 6.2. Merita

### Share Capital and Shares

The minimum share capital of Merita is EUR 672,751,705.85 and the maximum EUR 2,691,006,823.38, within which limits the share capital can be increased or decreased without amendment of the Articles of Association. As at 29 October 1999, the registered, fully paid share capital of the company is EUR 1,399,359,446.19.

According to the Articles of Association the minimum number of shares shall be 400,000,000 and the maximum number 1,600,000,000. As at 29 October 1999 the number of shares in the company is 832,021,344. The shares do not have a nominal value, but the countervalue for accounting purposes of each share is EUR 1.68, which is not an exact value. After combining the share classes A and B at the General Meeting of Shareholders held in October 1998 all shares in Merita carry equal rights with respect to the assets and profits as well as equal voting and other shareholders' rights in the company.

At the General Meeting of Shareholders each share in Merita shall have one vote. The Articles of Association of Merita provide that no one can vote for more than 1/20 of the votes represented at the General Meeting of Shareholders. The Board of Directors of Merita has proposed for the Extraordinary General Meeting of Shareholders to be held on 23 November 1999 that the said voting limitation be revoked.

No shareholders' agreements between the shareholders of Merita have come to the knowledge of the Board of Directors of Merita.

During 1996–1999 the following increases of share capital have been executed in Merita:

#### Increase in Merita's share capital 1996–1999

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
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 of convertible bonds 1992	300 new shares against a convertible bond					
– 1998	(nominal value of FIM 10,000)	33.33	83,400	1/1 1999	1	8,320
– 1999 (registered 4 October 1999)		33.33	600	1/1 2000	0	8,320

At the date of this prospectus, the Board of Directors of Merita is not authorised to increase the share capital of Merita by issuance of new shares, convertible loans or option rights nor to acquire any shares of the outstanding capital stock of the company.

In 1992 Merita (former Unitas Bank Ltd) issued a convertible bond loan for the amount of FIM 906,080,000. The nominal value of each convertible bond (Merita Convertible Bond) is FIM 10,000 and each bond entitles the holder to subscribe for 300 shares in Merita. The Convertible Bonds may be converted into shares during the period from 2 January to 30 November each year, however, not later than 17 August 2042. Merita has retained the right to repay the loan capital in its entirety or in instalments on 17 August 2002 or at any time thereafter. If all bonds are converted into shares in Merita the share capital of Merita may be increased by a maximum of FIM 271,824,000. As of 29 October 1999 the share capital had been increased by a total of FIM 840,000 on the basis of conversions. Assuming the remaining Convertible Bonds are converted in full, the number of shares may increase by 27,098,400 shares and thus the total number of shares may increase to a maximum of 859,119,744 shares. As of 29 October 1999, holders of Merita Convertible Bonds have requested conversion regarding 1,800 shares, which have not yet been registered, such shares being included in the 27,098,400 shares mentioned above.

According to the Articles of Association the shares of Merita are not subject to any transfer restrictions.

#### Shareholders

As of 30 September 1999 Merita had 280,447 shareholders. The largest shareholder of the company is Arsenal Asset Management Company Limited (a company mainly owned by the Republic of Finland), which owns 63,933,333 shares equalling 7.7 per cent of the capital and votes. As of 21 October 1999, private individuals held approximately 28 per cent of the shares, whereas Finnish institutions held approximately 23 per cent. The proportion of shares held by foreign investors is approximately 41 per cent. No single shareholder holds directly or indirectly more than 20 per cent of the shares and votes in the company.

The following chart shows the ten largest shareholders in Merita:

Shareholders as of 30 September 1999 <sup>1</sup>	Number of shares held	Per cent of capital and votes held
Arsenal Asset Management Company Limited <sup>2</sup>	63,933,333	7.7
Suomi Mutual Life Assurance Company	13,000,001	1.6
Ilmarinen Mutual Pension Insurance Company	10,374,298	1.2
Varma-Sampo Mutual Pension Insurance Company	10,293,000	1.2
Merita Plc Pension Foundation	9,734,028	1.2
Meiji Life Insurance Company	8,538,666	1.0
Pohjola Insurance Company	8,135,438	1.0
Onninen Investment Limited	7,900,600	0.9
Merita Plc Pension Fund	7,070,173	0.8
Pohjola Group Insurance Company	5,744,562	0.7

<sup>1</sup> Based on information currently available to Merita.

<sup>2</sup> Since 30 September 1999 all Merita shares held by Arsenal Asset Management Company have been transferred to Solidium Ltd. However, this transfer has not been registered in the share register of Merita as of 29 October 1999.

## 7. MARKET INFORMATION

### 7.1. Trading in the Shares of Nordbanken Holding

In 1991 the Swedish state took over all the shares in Nordbanken which at that time was listed on the Stockholm Stock Exchange. In connection with the initial public offering in October 1995, 34.5 per cent of the shares were sold out to the public by the Swedish state. The shares of Nordbanken were listed on the "A-list" of the Stockholm Stock Exchange on 2 November 1995. On 2 January 1996, the shares were moved to the list of most-traded shares.

Nordbanken Holding was formed in October 1997 in connection with the announcement of the merger between Merita and Nordbanken. The purpose of Nordbanken Holding was initially to acquire all the shares of Nordbanken and later to combine the ownership of the two banks, Nordbanken and Merita Bank, through the jointly owned MeritaNordbanken Plc.

The shares of Nordbanken Holding has been subject to public trading on the Stockholm Stock Exchange, the list of most-traded shares, since December 1997. Turnover in the share for the first 9 months of 1999 totalled SEK 26,704 million or 528 million shares (SEK 34,072 million or 678 million shares for 1998, 12 months). A parallel quotation of the shares in Euro and SEK on the Stockholm Stock Exchange has existed since 4 October 1999.

The market capitalisation of Nordbanken Holding was SEK 60,423 million (EUR 6,967 million) as of 29 October 1999.

It is the intention of Nordbanken Holding to make an application to the Helsinki Exchanges to list the Nordbanken Holding Shares in the form of FDRs in connection with the Share Exchange Offer on the main list of the Helsinki Exchanges simultaneously with the registration of the Nordbanken Holding Shares on the Stockholm Stock Exchange. Trading and settlement on the Helsinki Exchanges will be in Euro. Quotation of the Nordbanken Holding Shares on the Helsinki Exchanges is expected to commence on or about 17 January 2000.

### 7.2. Trading in the Shares of Merita

The Merita Shares or its predecessors have been traded on the Helsinki Exchanges since 1912. At present the Merita Shares are traded on the main list. After amalgamation of the former class A and B shares on 5 November 1998 only one class of Merita Shares is subject to trading.

The market capitalisation of Merita was EUR 4,540 million as of 29 October 1999.

The Merita Shares will continue to be traded on the main list of the Helsinki Exchanges until such shares are de-listed by the Helsinki Exchanges in accordance with Merita's application, which is not expected to take place earlier than the date when Nordbanken Holding has become owner of all Merita Shares.

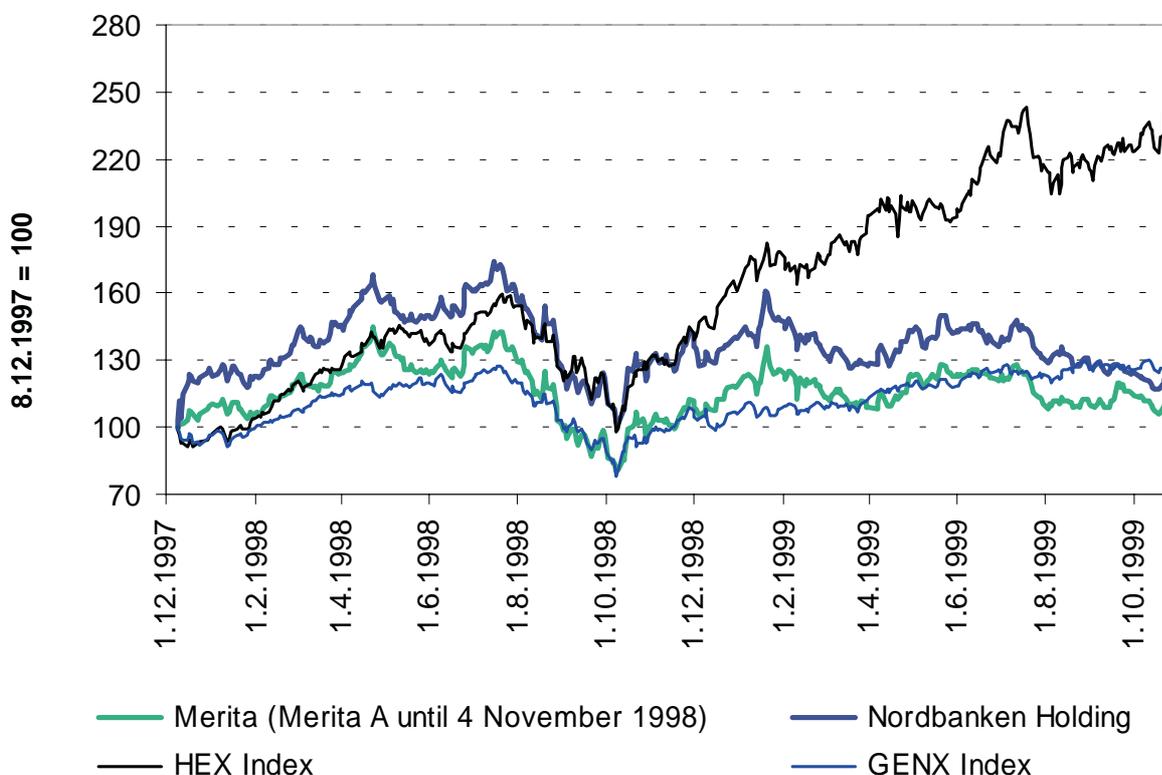
**7.3. Share Price Development of Nordbanken Holding and Merita**

During the last 12 months preceding the announcement of the Exchange Offers, i.e. from 21 September 1998 to 20 September 1999 the average price of a Merita Share, weighted by the volume of the trade was FIM 30.41 and EUR 5.12.

During the same period, the average price of a Nordbanken Holding Share, weighted by the volume of the trade was SEK 49.29 and EUR 5.68 using the Swedish Central Bank’s (Sveriges Riksbank) exchange rate between Euro and SEK as of 29 October 1999 that was 8.6725.

The figure below illustrates the share price development of Nordbanken Holding and Merita as from 8 December 1997 through 29 October 1999. For comparison, the Swedish General Index and the HEX index have been included. All have been indexed on 8 December 1997 to a value of 100.

**Daily indexed from 8 December 1997 to 29 October 1999**



Source: Helsinki Exchanges and Stockholm Stock Exchange

## VIII. CHANGES ARISING FROM THE UNIFICATION OF NORDBANKEN HOLDING AND MERITA

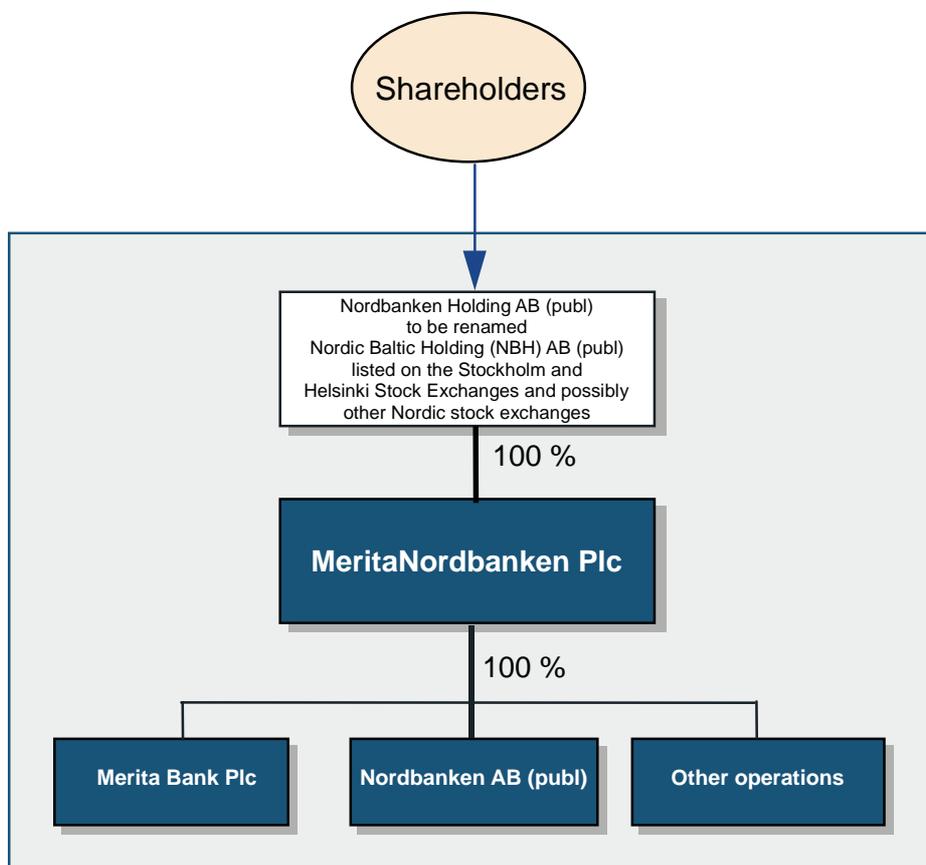
The following section presents the Unified Group, as it would be if the Exchange Offers were completed. The description of the Unified Group does not include Christiania Bank. For further details of the public offer to the shareholders of Christiania Bank, and its effect on the Unified Group, see “Recent Developments and Outlook – The Offer to Shareholders of Christiania Bank”.

### 1. GROUP STRUCTURE AND OPERATIONS

The goal of the unification and thereto related Exchange Offers is that Nordbanken Holding shall become the owner of all Merita Shares. This will be subject to completion of the Exchange Offers and that Nordbanken Holding will thereafter acquire any outstanding Merita Shares by means of the redemption procedure pursuant to the Finnish Securities Markets and Companies Act. It is further the intention that Merita will thereafter be merged into MeritaNordbanken Plc, the parent company to the banking groups, or into another group company. In such a merger MeritaNordbanken Plc (directly owned 100 per cent by Nordbanken Holding) or the other group company will be as the surviving entity. Thus, at the end of the reorganisation process the group will consist of a holding company, domiciled in Sweden, holding all the shares of the parent company, domiciled in Finland, to the banking groups. The shares in the holding company will be listed on the Helsinki and Stockholm Stock Exchanges and possibly on other Nordic stock exchanges.

The holding company, currently Nordbanken Holding, will be a company with limited liability under the Swedish Companies Act, with its registered office in Stockholm. The parent company to the banking groups, currently MeritaNordbanken Plc, will be turned into a credit institution with limited liability under the Finnish Companies Act and with its registered office in Helsinki.

The following illustrates the structure of the Unified Group:



As part of the unification process, both the holding company and the parent company to the banking group will be renamed. It has been proposed to the Extraordinary General Meeting of Shareholders of Nordbanken Holding to be held on 19 November 1999 that Nordbanken Holding should adopt the new name of Nordic Baltic Holding (NBH) AB (publ). The new name is intended as temporary and is expected to be replaced by a new permanent name in the first half of 2000.

As part of the unification, the preference shares in MeritaNordbanken Plc currently owned by Nordbanken Holding which, as from the financial year 2001, under certain circumstances entitle Nordbanken Holding to a higher dividend, will be converted into ordinary shares in MeritaNordbanken Plc, subject to a decision by the MeritaNordbanken Plc's General Meeting of Shareholders.

The completion of the Exchange Offers will not have any direct effect on the operations of the MeritaNordbanken Group.

## **2. NEW MERGER AGREEMENT**

The New Merger Agreement was entered into between Merita and Nordbanken Holding on 20 September 1999 in conjunction with the public announcement of the unification of the legal structure of MeritaNordbanken Group and the offer to the shareholders of Christiania Bank to acquire all the shares in Christiania Bank. The New Merger Agreement is subject to that the Extraordinary General Meetings of Shareholders of Nordbanken Holding and Merita respectively pass resolutions to approve the New Merger Agreement.

The full text of the New Merger Agreement (excluding appendices) can be found under Appendix B below.

## **3. CORPORATE GOVERNANCE**

The New Merger Agreement stipulates that it shall be aimed at that the holding company's Board of Directors, seen as a whole, for its operations possesses the requisite knowledge and experience of the civic, business and cultural conditions prevailing in the regions and market areas in which the group's principal operations are conducted. It shall thereby be aimed at that the Board of Directors consists of an equal number of members from each of the Nordic countries concerned. The Chief Executive Officer should also be a member of the Board of Directors. Further, it should be possible to appoint one or more Board members with or without any particular links as referred to above.

According to the proposed new Articles of Association of Nordbanken Holding, the Board of Directors shall consist of a minimum of six and a maximum of fifteen members. The members of the Board of Directors shall be appointed for a term of two years.

The General Meetings of Shareholders of Nordbanken Holding will be held in Stockholm. The shareholders are entitled to participate in General Meetings of Shareholders, in addition to in the premises for the General Meeting of Shareholders in Stockholm, also, via telecom links, in premises in Helsinki and, if the Board of Directors so decides, in other locations. The languages employed at the General Meetings are to be Finnish and Swedish and, if the Board of Directors so decides, also other languages. The shareholders will thus be able to exercise full shareholders' rights from Helsinki and if decided, other locations.

## **4. MANAGEMENT**

The New Merger Agreement stipulates that, when appointing employees in leading positions in the group, efforts shall be made to ensure that they, seen as a whole, possess the requisite knowledge and experience of the civic, business and cultural conditions prevailing in the regions and market areas in which the group's principal operations are conducted.

## **5. SUMMARY OF PROPOSED CHANGES TO THE ARTICLES OF ASSOCIATION OF NORDBANKEN HOLDING AND MERITA**

The Extraordinary General Meeting of Shareholders in Nordbanken Holding on 19 November 1999 will decide on the proposed amendments to the Articles of Association of Nordbanken Holding. The proposed major amendments are the following: (i) the name of the company is to be changed to Nordic Baltic Holding (NBH) AB (publ); (ii) change of the scope of business of the company; (iii) in the election of the members of the Board of Directors the New Merger Agreement stipulates that it shall be aimed at that the holding company's Board of

Directors, seen as a whole, for its operations possesses the requisite knowledge and experience of the civic, business and cultural conditions prevailing in the regions and market areas in which the group's principal operations are conducted; (iv) rules regarding General Meetings of Shareholders.

See the proposed new Articles of Association of Nordbanken Holding, Appendix C.1.

The Extraordinary General Meeting of Shareholders in Merita on 23 November 1999 will decide on the proposed amendments to the Articles of Association of Merita, primarily relating to the removal of the voting right restriction.

See the proposed new Articles of Association of Merita, Appendix C.2.

## 6. SHARE CAPITAL, SHARES AND SHAREHOLDERS

As of the date of this prospectus, the share capital in Nordbanken Holding amounted to SEK 8,926,872,087, represented by 1,275,267,441 shares, each with a nominal value of SEK 7.

Following conversion into equity of the Merita Convertible Bonds during the period 2 January 1999 to 29 October 1999, the share capital of Merita has increased by EUR 1,009.13 represented by 600 shares. The total number of shares in Merita as at 29 October 1999 amounted to 832,021,344.

Nordbanken Holding offers to acquire all the Merita Shares in exchange for Nordbanken Holding Shares so that against each share in Merita the shareholders of Merita will receive 1.02 Nordbanken Holding Shares. On the basis of the proposed acceptance of the New Merger Agreement and the proposed resolutions relating thereto, the share capital of Nordbanken Holding will be increased by SEK 3,818,977,965 through issuance of 848,661,770 Nordbanken Holding Shares with a nominal value of SEK 4.50 each, assuming full acceptance of the Share Exchange Offer and no conversion of the Merita Convertible Bonds. This increase of share capital is expected to be registered with the Patent and Registrations Office in Sweden on or about 28 December 1999. On assumption that the Share Exchange Offer is fully accepted and no conversion of the Merita Convertible Bonds, the premium fund would increase with the amount of SEK 8,743 million based on the FIM/SEK exchange rate as of 30 September 1999.

Furthermore, Nordbanken Holding offers to exchange all the Merita Convertible Bonds for Nordbanken Holding Convertible Bonds issued on similar terms and conditions. The outstanding amount of the loan relating to the Merita Convertible Bonds is as of 29 October 1999 FIM 903,220,000, equivalent to EUR 151,910,699. Upon full conversion, the share capital would increase by FIM 270,966,000 or EUR 45,573,209.68 and FIM 18,000 or EUR 3,027.38 based on already converted Merita Convertible Bonds not registered as shares, represented by altogether 27,098,400 shares in Merita.

The holders of the Merita Convertible Bonds may, instead, participate in the Share Exchange Offer made to the shareholders in Merita. In such a case the holder of the Merita Convertible Bond should convert the bond into shares in Merita by 30 November 1999 and thereafter comply with the terms and conditions of the Share Exchange Offer. If all Merita Convertible Bonds were converted into Merita Shares and such shares were tendered for exchange under the Share Exchange Offer, the maximum amount of newly issued shares in Nordbanken Holding would be 876,302,138 shares.

In connection with the Exchange Offers and the creation of the Unified Group with Nordbanken Holding as the parent holding company, there is a need to create additional distributable reserves in Nordbanken Holding. It is therefore proposed to the Extraordinary General Meeting of Shareholders in Nordbanken Holding to be held on 19 November 1999 to decide on a reduction of the nominal value per Nordbanken Holding share from SEK 7 to SEK 4.50. In connection therewith a reduction of the premium fund from SEK 3,036,297,483 to SEK 0 is proposed. The reduced amounts will be allocated to a reserve which is to be utilised as decided by a General Meeting of Shareholders. See table in "Unaudited Pro Forma Financial Information" below.

The changes in the share capital of Nordbanken Holding following the Exchange Offers and the reduction in nominal value are as follows:

Event	Share Capital (SEK)	Total Number of Shares
As of the date of this prospectus	8,926,872,087.00	1,275,267,441
Reduction of nominal value	(3,188,168,602.50)	1,275,267,441
New issue of shares to the shareholders of Merita <sup>1</sup>	3,818,977,965.00	848,661,770
Total post Share Exchange Offer	9,557,681,449.50	2,123,929,211

<sup>1</sup> On assumption that the Share Exchange Offer and the Convertible Bond Exchange Offer are fully accepted based on the outstanding Merita Shares and Merita Convertible Bonds as of 29 October 1999.

As at 30 September 1999, the Unified Group would have had a combined shareholder base of approximately 380,000 shareholders.

As at 30 June 1999, Nordic institutional investors held 25 per cent, and Nordic private individuals held 14 per cent of the shares in the holding companies of the MeritaNordbanken Group. Shareholders outside Finland and Sweden owned 32 per cent. The Swedish and Finnish states owned 26 per cent and 3 per cent, respectively.

The pro forma table below shows the largest shareholders in Nordbanken Holding under the assumption that all shareholders in Merita fully accept the Share Exchange Offer in respect of their Merita Shares as of 30 September 1999.

Shareholder	Number of shares held	Percentage of capital and votes held
Kingdom of Sweden	542,015,102	25.5
Arsenal Asset Management Company Limited <sup>1</sup>	65,212,000	3.1
SPP	53,606,474	2.5
AMF Pension	39,560,000	1.9
Nordbanken mutual funds	29,209,416	1.4
Skandia	25,946,563	1.2
SEB mutual funds	23,888,610	1.1
Handelsbanken mutual funds	23,125,520	1.1
Nordbanken Profit-sharing foundation	19,186,300	0.9
AMF Insurance	17,808,600	0.8
Suomi Mutual Life Assurance Company	13,260,001	0.6
Fourth National Pension Fund	13,045,000	0.6
Ilmarinen Mutual Pension Insurance Company	10,581,784	0.5
Varma-Sampo Mutual Pension Insurance Company	10,498,860	0.5
Merita Plc Pension Foundation	9,928,709	0.5
Länsförsäkringar Wasa	9,437,986	0.4
Meiji Life Insurance Company	8,709,439	0.4
Pohjola Insurance Company	8,298,147	0.4
Onninen Investment Limited	8,058,612	0.4
Merita Plc Pension Fund	7,211,576	0.3

<sup>1</sup> Since 30 September 1999 all Merita shares held by Arsenal Asset Management Company have been transferred to Solidium Ltd. However, this transfer has not been registered in the share register of Merita as of 29 October 1999.

## 7. DIVIDEND POLICY AND FINANCIAL TARGETS

The task of the MeritaNordbanken Group is to create value for its shareholders through share price and dividend development that rank among those of the leading listed financial institutions in the Nordic region.

The Unified Group's dividend policy and financial targets as set forth for the MeritaNordbanken Group will not be affected by the unification.

The following financial targets were adopted as of August 1999. It should be noted that the Group will not necessarily meet these financial targets when undertaking strategic initiatives.

#### *Earnings per share*

The MeritaNordbanken Group aims to sustain its position as one of the leading listed financial institutions in the Nordic region in terms of earnings per share.

#### *Return on equity*

The MeritaNordbanken Group also aims to remain one of the leading listed financial institutions in the Nordic region in terms of return on equity.

- The objective is to sustain a return on equity at least equal to the average risk-free interest rate in Finland and Sweden +8 percentage points.

#### *Tier 1 capital*

The MeritaNordbanken Group will not employ more capital than required for the healthy development of its operations, while maintaining a sufficient capital base to ensure high credit ratings and cost-efficient funding.

- A minimum core capital ratio of 6.5 per cent is deemed sufficient for this purpose.

#### *Dividend policy*

The MeritaNordbanken Group seeks to pursue a generous dividend policy. The annual level depends on market yield requirements and the amount of core capital needed for the development of operations.

- The objective is that dividends will amount to between 40 and 60 per cent of annual net profit.

#### *Income*

The Group's aim is to sustain stable and broadly based growth in earnings through an increasing contribution from commission income.

- Net commission income should gradually rise to a level equal to half of net interest income.

#### *Expenses*

The aim is to sustain high cost-efficiency, ranking among the best financial institutions in the Nordic region.

- The cost/income ratio, before loan losses, in core operations may not exceed 55 per cent.

#### *Risk exposure*

The Group aims at limited and controlled risk exposure, while constantly availing itself of opportunities to boost profits and increase the return on equity within acceptable risk limits. Lending is subject to strict quality requirements.

- The moving average of loan losses over a five-year period may not exceed 0.4 per cent of the loan portfolio.
- Market risks are limited to a 4 percentage-point reduction in return on equity.
- Administrative, legal and technical risks are kept within manageable limits at reasonable cost.

## **8. UNAUDITED PRO FORMA FINANCIAL INFORMATION**

The published 1998 annual accounts for MeritaNordbanken Group include MeritaNordbanken Plc and its subsidiaries, as well as the two holding companies, Merita and Nordbanken Holding.

In accordance with the Co-operation Agreement dated 13 October 1997, Nordbanken Holding, Merita and MeritaNordbanken Plc with its subsidiaries are being managed as a single unit. To accomplish this, the Co-operation

Agreement prescribes that any differences in the capital structures of the two holding companies, as well as their assets and liabilities including liquid assets, shall not affect the financial position of the respective shareholder communities. The shareholders in Nordbanken Holding and Merita are entitled to 60 per cent and 40 per cent respectively, of the MeritaNordbanken Group's equity capital and earnings.

The Share Exchange Offer, if completed, will affect this arrangement whereby the combined shareholder communities in Nordbanken Holding will be entitled to 100 per cent of MeritaNordbanken Group's equity capital and earnings.

#### Nordbanken Holding Pro Forma Balance Sheet

The intragroup holdings of the new Nordbanken Holding Group will be eliminated in accordance with the pooling-of-interests method of accounting. This means that the new consolidated balance sheet of Nordbanken Holding will in all material respects replicate that of the MeritaNordbanken Group except for the division between non-distributable and distributable funds, see below.

The following table illustrates the changes in the Nordbanken Holding parent balance sheet as a result of the Exchange Offers.

Nordbanken Holding SEK (million)	Published 30 Sep 1999	Pro forma <sup>1</sup> 30 Sep 1999
Shares in the associated company	13,243	–
Shares in subsidiaries	–	25,805
Other assets	1,447	2,772
<b>Total assets</b>	<b>14,690</b>	<b>28,577</b>
Liabilities	264	1,589
Share capital	8,927	9,558
Premium fund	3,036	8,743
Distributable funds	2,463	8,687
Shareholders' equity	14,426	26,988
<b>Total liabilities and shareholders' equity</b>	<b>14,690</b>	<b>28,577</b>
Number of shares	1,275,267,441	2,123,929,211
Nominal value, SEK	7.00	4.50

<sup>1</sup> On assumption that the Share Exchange Offer and the Convertible Bond Exchange Offer are fully accepted based on the outstanding Merita Shares and Merita Convertible Bonds. The 600 Merita Shares converted against Merita Convertible Bonds in 1999 before 30 September 1999, have been taken into account in the pro forma balance sheet, see "Share Capital, Shares and Shareholders – Merita." The transfer tax possibly to be paid by Nordbanken Holding in the event the Share Exchange Offer is completed is not included in the acquisition cost of the shares in subsidiaries. The amount of the transfer tax is estimated to be a maximum of EUR 40 million.

The reduction of the share capital and the premium fund (before the new issue of shares) totalling SEK 6,224 million or EUR 713 million are transferred to distributable equity. The effect of the transfer on the shareholders' equity of the MeritaNordbanken Group is the same as for the parent.

Assuming full acceptance of the Share Exchange Offer and no conversion of the Merita Convertible Bonds, the Tier 1 capital ratio of MeritaNordbanken Group will not be affected by the unification.

#### Nordbanken Holding Pro Forma per Share Data

Due to the enlarged number of shares of Nordbanken Holding, the per share data will change as a result of the Share Exchange Offer. The following table presents pro forma earnings and shareholders' equity per share assuming full acceptance of the Share Exchange Offer. For comparative purposes, the table also includes the per share data for a Nordbanken Holding and a Merita shareholder respectively, excluding the effects of the Share Exchange Offer.

**Share Data**

SEK	January – September			January – December		
	pro forma 1999	Nordbanken Holding 1999	Merita 1999	pro forma 1998	Nordbanken Holding 1998	Merita <sup>2</sup> 1998
Shares outstanding at end of period, million	2,123.9	1,275.3	832.0	2,123.9	1,275.3	832.0
– after full dilution	2,151.0	–	859.1	2,151.0	–	859.1
Earnings per share	3.24	3.23	3.30	2.92	2.92	2.98
– excluding items affecting comparability	2.89	2.89	2.96	3.74	3.74	3.82
Earnings per share <sup>1</sup>	3.21	–	3.22	2.91	–	2.91
– excluding items affecting comparability	2.87	–	2.88	3.72	–	3.73
Shareholders' equity per share	22.10	22.08	22.57	21.31	21.30	21.76
Shareholders' equity per share <sup>1</sup>	22.45	–	22.49	21.74	–	21.77
Dividend per share	–	–	–	1.64	1.64	–

<sup>1</sup> After full dilution.

<sup>2</sup> Exchange rates used are the ones used in the reports published.

The unification is expected to lead to various benefits for the Unified Group, see “Background and Objectives – Strategic and Financial Rationale”. The pro forma financial information above is presented for illustrative purposes only and does not purport either to represent what the financial position or results of operations would have been had the formation of the Unified Group in fact occurred on the dates indicated or to project the results of operations for any future period.

**Financial Statements**

The consolidated financial statements of Nordbanken Holding will be prepared in accordance with Swedish accounting laws and the regulations issued by the relevant supervisory authorities. The fiscal year of Nordbanken Holding will end on 31 December each year. The reporting currency for the Unified Group will be Swedish kronor and Euro. Financial reports will be produced in the Finnish, Swedish and English languages and in Norwegian subject to the completion of the offer for Christiania Bank.

**Auditors**

KPMG Bohlins AB, Authorised Public Accountants has been appointed as statutory auditors of Nordbanken Holding.

KPMG Wideri Oy Ab, Authorised Public Accountants, has the right to participate in the auditing of Nordbanken Holding.

**9. CREDIT RATINGS**

After the MeritaNordbanken Group's announcement of 20 September 1999 of the offer for Christiania Bank and the planned unification of Merita and Nordbanken Holding, Moody's Investor Services confirmed the following deposit, debt and financial strength ratings: A1/P – 1/C with positive outlook for Merita Bank and A1/P – 1/C + for Nordbanken. Fitch IBCA affirmed the A+ Long-term and F1 Short-term ratings for each of Merita Bank and Nordbanken. Standard & Poor's affirmed its A/A-1 counterparty credit ratings on Merita Bank and Nordbanken and remarked that the outlook for Merita Bank and Nordbanken is stable. Thompson Bankwatch affirmed the AA-Long-term and TBW-1 Short-term ratings for both Merita Bank and Nordbanken.

Moody's Investor Services has noted in connection with the said announcement that the unification will not alter the overall creditworthiness of Merita Bank and Nordbanken, since they are not affected by the restructuring.

## IX. BUSINESS OF THE MERITANORDBANKEN GROUP

### 1. PREFACE

The MeritaNordbanken Group combines leading retail and wholesale capabilities. The customer base comprises over 6.5 million individual customers, approximately 400,000 small and medium-sized companies and institutions as well as approximately 400 large companies. It manages one of the leading European retail operations with a current return on equity of about 25 per cent, accounting for around 60 per cent of aggregate profits.

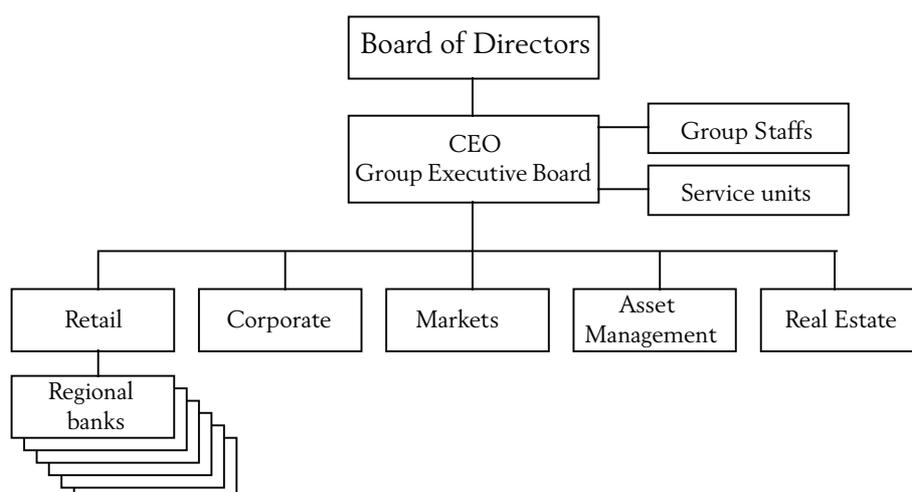
Customers in Sweden and Finland are offered services via 735 branch offices, Swedish post offices and through Internet and telephone banking services. However, the agreement between Nordbanken and the Swedish Post relating to the services of Swedish post offices will end on 1 April 2001. MeritaNordbanken Group's electronic banking services are used by over one million customers, approximately 850,000 of which have a contract for the use of network-based services. In addition to the Nordic and Baltic service network (including branches in Copenhagen, Denmark and Oslo, Norway, two branches in Tallinn, Estonia, a subsidiary in Riga, Latvia, a partly owned bank in Moscow, Russia, and a bank in Gdynia, Poland, in which MeritaNordbanken Group is to become the major shareholder), MeritaNordbanken Group is represented in several other countries.

MeritaNordbanken Group had total assets amounting to EUR 96 billion at the end of 1998 and EUR 98 billion at the end of the third quarter 1999. As of year-end 1998 the MeritaNordbanken Group had total lending of EUR 60 billion and EUR 38 billion of deposits. The corresponding figures at the end of the third quarter 1999 were EUR 67 billion and EUR 39 billion. MeritaNordbanken Group is one of the leading asset managers in the Nordic region with assets under management amounting to EUR 26.2 billion as at the end of September 1999.

At the year-end 1998 the Tier 1 ratio for the MeritaNordbanken Group amounted to 7.3 per cent and it had increased to 7.8 per cent at the end of the third quarter of 1999. The corresponding figures for the total capital ratio were 9.9 per cent and 10.8 per cent.

MeritaNordbanken Group reported an operating profit of EUR 1.4 billion for 1998 and an operating profit of EUR 1.1 billion for the first nine months of 1999. Earnings per Merita share for 1998 amounted to FIM 1.96 (EUR 0.33) and earnings per Nordbanken Holding share to SEK 2.92. Correspondingly, earnings per share for the first nine months of 1999 amounted to EUR 0.36 for the Merita share and SEK 3.23 for the Nordbanken Holding share.

The operations of MeritaNordbanken Group are organised in five major operating units: Retail, Corporate, Markets, Asset Management and Real Estate.



Operating units function as decentralised profit centres. 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 the exception of Real Estate.

Changes in principles for capital allocation and internal redistribution are being introduced in 1999 as a result of the ongoing co-ordination 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 the Regional Bank operations.

## 2. AREAS OF BUSINESS

*Retail.* The Retail business area is responsible for the development, marketing and provision of a full range of financial products and services for a broad group of private individuals, companies and institutions, as well as for the public sector. The MeritaNordbanken Group's customer base consists of approximately 6.5 million individuals in Sweden and Finland (about one-half of the combined population of the two countries) and approximately 400,000 companies and institutions. The Retail business area is responsible for developing and providing basic and standardised products suitable for mass markets and broad-based distribution channels as well as products and customer concepts for targeted customer groups with specific and demanding needs, such as private banking and advanced advisory services for the so called mid-market.

As at 30 September 1999, MeritaNordbanken Group had a combined distribution network of 735 branches. Products and services are also available through post offices in Sweden (until 1 April 2001, see above) as well as an extensive network of automated teller and payment systems. The MeritaNordbanken Group provides personal computer-based and internet banking services to customers in Sweden and Finland as well as a telephone banking service.

The MeritaNordbanken Group has nine geographical regional banks that are responsible for all customers in the geographical area and a special function, (the "Private Bank-function"), which focuses on customers with large investment requirements. Each regional bank is responsible for the risk and earnings arising from its particular customers, with decentralised decision making and standardised procedures and processes to ensure quality and low cost. The organisation of the regional banks is as follows: Helsinki/Uusimaa (2,145 employees); Central and Western Finland (2,050 employees), Eastern and Northern Finland and Pohjanmaa (2,588 employees), Southern Sweden (676 employees); Western Sweden (920 employees); Stockholm (908 employees); Central Sweden (923 employees); Northern Sweden (582 employees) and the recently established Poland and Baltic Sea Region (66 employees). The Private Bank-function, focusing on customers with individual investment requirements exceeding FIM 5 million, comprises approximately 90 employees in Helsinki and a unit in Luxembourg for internationally active customers.

*Corporate.* The Corporate business area is responsible for the MeritaNordbanken Group's services to large companies, structured and corporate finance, international operations and international bank products. Corporate operations are managed as a single business unit and consist of industry groups in Sweden and Finland as well as a specific group with global responsibility for customers active in shipping. Customers are served through offices in Helsinki, Stockholm, Gothenburg and Malmö. The structured and corporate finance function will merge with the investment bank group Maizels, Westerberg & Co acquired in November 1999. The new organisation offers advisory services, M&A, equity corporate finance, acquisition- and project finance. Customers will be served through offices in Stockholm, Helsinki and London under the name Maizels, MeritaNordbanken, Investment Banking. The name profiles the affiliation with the MeritaNordbanken Group, while also indicating autonomy and independence in advisory services and in representing the customers' interest. Other units within the corporate business area include an international unit which is specifically responsible for customer and loan responsibilities of foreign companies, banks and other financial institutions. In these operations, MeritaNordbanken seeks to be the leading Nordic bank group for foreign correspondent banks and companies for services such as payments, trade financing, account holding and custodial management. Through its international network of offices, the MeritaNordbanken Group offers its customers bank services through its own offices in key financial centres such as London, New York and Singapore. In addition, banking services are being broadened via a partly owned bank in Russia. An international product unit offers customers the potential for trade financing in various forms. The product range includes debt collection, letters of credit, guarantees, export financing, currency credits and other advanced financing products.

*Markets.* The Markets business area is responsible for MeritaNordbanken Group's operations in currency, interest rate, money market and equity trading. The operations of Markets business area are conducted in Helsinki, Stockholm, Malmö, Gothenburg, Sundsvall, London, New York, and Tallinn. The Markets business area is organised on a geographic basis. In Finland, MeritaNordbanken Group is the largest and the market leader in virtually all product areas in trading and equity trading. Sweden, which is a larger market, is currently the MeritaNordbanken Group's growth market. Equity trading in Finland is conducted centrally from Helsinki. In Sweden equity trading is divided into a central unit in Stockholm and regional equity trading units in the regional banks in Sweden. The central unit in Stockholm is responsible for analysis, institutional trading and co-ordination of regional equity trading. There is no overlap in equity trading operations in Finland and Sweden. Risk Management for the Markets division is run on a centralised basis.

*Asset Management.* The Asset Management business area offers a wide assortment of mutual funds, traditional as well as unit linked life insurance products and institutional portfolio management. The investment management organisation is fully integrated while sales support for mutual funds and portfolio management services is decentralised to the various country markets. For tax and market reasons the two life insurance companies act independently with one major exception – unit linked insurance where Merita Life (Merita Life Insurance Ltd) is the sole product provider with LIVIA Life (Livförsäkringsaktiebolaget LIVIA (publ)) acting as its Swedish sales agent. The Asset Management unit is responsible for development of the private banking concept.

*Real Estate.* The Real Estate business area is responsible for managing the real estate portfolio of the MeritaNordbanken Group. A considerable portion of the properties in the real estate portfolio are not used in the operations of the MeritaNordbanken Group and are therefore part of a divestment programme which includes restructuring, enhancement and, in certain cases, development prior to disposal. Taking into account the market trend and after analysis of conditions, it was decided in December 1998 to divide and divest of the MeritaNordbanken Group's Finnish property portfolio at a more rapid pace than previously planned. The decision is in line with the strategy which MeritaNordbanken Group established in 1997 which aims at focusing and expanding the banking operations. It is estimated that the divestment programme, 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. This includes a public listing of the Finnish real estate company Aleksia Plc which, according to Aleksia Plc's public announcement, is expected to occur at the beginning of year 2000. The programme is scheduled to be completed in its entirety by 2003. Among other effects, a more rapid divestment means that the adverse impact on the MeritaNordbanken Group's earnings will be successively reduced. The book value of the MeritaNordbanken Group's real estate holdings as at 31 December 1998 was approximately FIM 19.8 billion and Merita Real Estate Ltd accounted for 89 per cent of the portfolio.

For information on the results of operations, see "Financial Information".

### 3. INVESTMENT OPERATIONS

#### 3.1. General Information

The explicit strategy of the MeritaNordbanken Group is to focus on its core business operations. Consequently the Group has significantly reduced its equity holdings.

At the end of the third quarter 1999, the Group's equity holdings classified as financial current assets, carried at the lower of cost or market, amounted to EUR 0.2 billion, with unrealised gains at the end of the period totalling EUR 0.1 billion.

At the end of 1998 the Group's equity holdings, classified as current and fixed financial assets, totalled EUR 0.5 billion, with unrealised gains amounting to EUR 0.2 billion.

At the close of the third quarter 1999, holdings of interest-bearing securities classified as fixed financial assets amounted to EUR 5.1 billion, which corresponded to the market value. At the end of 1998, holdings of interest-bearing securities classified as fixed financial assets totalled EUR 3.7 billion, with the difference between the market value and the book value amounting to EUR 0.1 billion.

The total book value of interest-bearing securities at the end of 1998 amounted to EUR 13.7 billion.

The Group's other investments mainly comprise investments in business premises as well as in information processing and communication equipment. There are no investment activities, ongoing or planned, that would exceed those required to refurbish worn premises and to replace economically or technically outdated equipment.

### 3.2. Specific Information on Investments

Excluding the Group's holdings in subsidiaries and associated companies, there are no equity holdings, that would have a significant impact on the assessment of the Group's assets and liabilities, financial position or earnings.

### 3.3. Major Subsidiaries

A table of subsidiaries and their ownership can be found in "Financial Information – MeritaNordbanken Group – Financial Statements 1998 and Pro Forma Financial Information 1997 in Note 43".

#### *Asset Management Subsidiaries*

Asset Management subsidiaries comprise Nordbanken Kapitalförvaltning AB in Sweden, Merita Fund Management Ltd and Merita Asset Management Ltd in Helsinki and MeritaNordbanken Luxembourg S.A. The companies, together with some asset management units of Merita Bank and Nordbanken follow common investment strategies, develop products jointly and utilise common systems. The objective is to utilise fully the synergies in this area of operations. At year-end 1998 the companies combined had EUR 21 billion under management, with 238 employees. The corresponding figures at the end of September 1999 were EUR 26 billion and 267 employees.

#### *Life Insurance Subsidiaries*

Livförsäkringsaktiebolaget LIVIA AB (publ) and Merita Life Insurance Ltd are the Group's two life insurance companies. They are organised and structured to be part of the Group. LIVIA is operated as a mutual company while Merita Life is consolidated. At year-end 1998, LIVIA's retrospective reserve amounted to SEK 9.3 billion, with 34 employees. Merita Life's claims liability amounted to FIM 10.8 billion, with 56 employees. As at 30 September 1999 the corresponding figures for Merita Life were FIM 16.1 billion and 66 employees.

#### *Nordbanken Hypotek AB (publ)*

Nordbanken Hypotek is one of Sweden's largest mortgage companies. It offers a range of 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 has a long-term rating of Aa3 by Moody's Investor Service allowing it to borrow internationally on competitive terms.

The favourable trend of Nordbanken Hypotek's volume of business and earnings continued during 1998. Nordbanken Hypotek's share of the market increased by 0.81 percentage points, to 12.42 per cent, during the year. Its share of the private segment of the market was 14.33 per cent. Lending, which increased by SEK 9 billion during the year, amounted at 31 December 1998 to SEK 126 billion. Of Nordbanken Hypotek's total lending, 72 per cent was secured by mortgages on residential properties. Lending to municipalities, secured by municipal or national-government guarantees, accounted for 19 per cent, and other lending for 9 per cent. Since year-end lending has increased by SEK 12 billion to SEK 138 billion.

Operating income for 1998 amounted to SEK 1,151 million, an increase of 5 per cent. The operating income for the first nine months of 1999 amounted to SEK 849 million. Nordbanken Hypotek had 72 employees at the year-end 1998.

In November 1999 Nordbanken Kommunlån AB (publ) was merged into Nordbanken Hypotek.

#### *Nordbanken Kommunlån AB (publ)*

Nordbanken Kommunlån's mission is to offer Nordbanken'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 1998 amounted to SEK 10 billion. The corresponding figure at 30 September 1999 was SEK 8.3 billion. The company's operating profit amounted to SEK 21 million in 1998 and the operating profit for nine months 1999 was SEK 15.7 million. The company had three employees at year-end 1998.

#### *Nordbanken Industrikredit AB (publ)*

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

The loan portfolio at year-end 1998 amounted to SEK 21.6 billion and at the end of September 1999 it amounted to SEK 20.7 billion. Operating income in 1998 amounted to SEK 232.4 million and for the first nine months 1999 operating income amounted to SEK 203.6 million. The operations of the company were co-ordinated with Nordbanken Hypotek was begun during the year. It was also decided to merge the company with Nordbanken in the year 2000.

#### *Nordbanken Finans AB (publ)*

Nordbanken Finans is Nordbanken'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 branches 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 billion, an increase of 22 per cent compared with the preceding year. Total assets at year-end 1998 amounted to SEK 21.6 billion. Lending rose by 26 per cent, to SEK 19.6 billion, and income amounted to SEK 296 million. The company had 243 employees at the end of the year. Total lending at 30 September 1999 amounted to SEK 21.8 billion and the income for the first nine months 1999 was SEK 276 million.

The Structured Finance business area had sales of SEK 2.2 billion in 1998, the greater part of which pertained to aircraft financing. Nordbanken Finans is the largest company in the Nordic region in the field of aircraft financing.

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 co-operation with Nyman & Schultz.

#### *Merita Finance Ltd*

Merita Finance is Merita Bank's finance company in Finland. Merita Finance is also responsible for the markets in the Baltic States, Poland and Russia. Merita Finance'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. Merita Finance also conducts finance-company operations in Estonia, Latvia and Lithuania through Estonian Industrial Leasing Ltd, MeritaNordbanken Finance Latvia Ltd. and MeritaNordbanken Lit Ltd, respectively.

Total assets of the parent company at 31 December 1998 amounted to FIM 12.4 billion, with lending totaling FIM 11.9 billion. The corresponding figures at 30 September 1999 were FIM 13.8 billion and FIM 13.4 billion. Profit for the full year amounted to FIM 309 million, a decrease of 3 per cent compared with 1997. Profit for the first nine months 1999 was FIM 208 million. Merita Finance had 298 employees at the end of year 1998.

#### *Merita Customer Finance Ltd*

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

At year-end 1998, total assets amounted to FIM 5.1 billion and profit for the year was FIM 157 million. The company had 226 employees at the end of year 1998. At the end of September 1999 total assets amounted to FIM 5.6 billion and the profit for the first nine months 1999 was FIM 166 million.

### *Merita Capital Ltd*

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

Merita Capital had 6 employees at the end of the year 1998. The profit for 1998 amounted to FIM 1.0 million and the profit for the first nine months in 1999 amounted to FIM 2.1 million.

At the end of 1998 Merita Capital and Profita Fund each had invested FIM 39 million in 12 companies. During 1998 Merita Capital and Profita Fund invested a total of FIM 37 million 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 Corporate Finance Ltd*

Merita Corporate Finance is MeritaNordbanken Group's investment banking unit in Finland operating as part of the MeritaNordbanken Group's structured and corporate finance function. The operations of Merita Corporate Finance will be merged with the newly acquired investment bank Maizels, Westerberg & Co.

At year-end 1998 Merita Corporate Finance had 20 employees. The operating profit for 1998 amounted to FIM 38 million.

### *Merita Real Estate Ltd*

Merita Real Estate, which owns and manages the Merita Bank 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 Merita Real Estate will own and manage only properties that are needed for the Merita Bank Group's operations.

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

Merita Real Estate had 90 employees at the end of year 1998. It incurred a loss of FIM 3.4 billion in 1998.

### *Aleksia Plc*

Aleksia owns, manages and develops high quality commercial properties in growth areas in Finland. The property portfolio consists of approximately 170 properties which were transferred or bought from Merita Real Estate in January 1999. Aleksia's objective is to provide its shareholders competitive total returns through efficient property management and active portfolio development.

Aleksia was formed in October 1998 as part of MeritaNordbanken Group's property divestiture program with the intention of selling the shares and obtaining a public listing. The listing is expected to take place early 2000.

Aleksia started its operations 1 January 1999 and during its first six months of operations the company recorded a turnover of FIM 314.9 million and a profit of FIM 48.1 million. As of 30 June 1999 the book value of properties was FIM 8.0 billion and the number of employees 86.

### *Nordbanken Fastigheter AB*

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

Two properties and the holding in Borlänge Centrum, with a book value of SEK 46 million, were divested during 1998, resulting in a capital gain of SEK 17 million.

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

#### *Fastighets AB Stämjärnet*

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

#### *Huoneistokeskus Oy*

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

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

The company had 510 employees at the end of September 1999. Its profit in 1998 amounted to FIM 27.4 million and during the first nine months 1999 the profit amounted to FIM 27.3 million.

## 4. MANAGEMENT

### 4.1. General

In accordance with the Co-operation Agreement between Merita and Nordbanken Holding, the Boards of Directors of Merita, Nordbanken Holding and MeritaNordbanken Plc consists of the same members. In addition, there are two Board members representing the employees of MeritaNordbanken Group in the Board of Directors of MeritaNordbanken Plc. The position of the Chairman of the Board of MeritaNordbanken Plc shall alternate annually between the Chairman of the Board of Nordbanken Holding and the President of Merita.

### 4.2. Management of MeritaNordbanken Plc

#### Board of Directors

The Board of Directors of MeritaNordbanken Plc consists of 12 members, ten of whom are the same members as in Nordbanken Holding and Merita, see "Nordbanken Holding and Merita – Management" above. Further, the following two persons, representing the personnel of MeritaNordbanken Group, are members of the Board of Directors:

**Bertel Finskas**, Bank manager, born 1948. Office address: Nordbanken AB (publ), Hamngatan 10, SE-105 71 Stockholm. Shareholding in MeritaNordbanken Group: 1,400 shares in Nordbanken Holding.

**Kaija Roukala-Hyvärinen**, Chief staff representative, born 1953. Office address: Merita Bank Plc, Aleksis Kivenkatu 3-5, FI-00020 Merita. Shareholding in MeritaNordbanken Group: 120 shares in Merita.

## Committees

The Board of Directors of MeritaNordbanken Plc has nominated four committees from amongst its members. The committees, the members and the tasks of the committees are the following:

*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 1999, the Credit Committee is comprised of Board members Jacob Palmstierna (Chairman), Vesa Vainio, Rune Brandinger, Hans Dalborg and Edward Andersson.

*Treasury Committee:* The committee oversees the Group's financial operations and liquidity situation and makes decisions in these areas with the authorisation of the Board of Directors. During 1999 the Treasury Committee is comprised of, in addition to certain key executives, Board members Vesa Vainio (Chairman), Jacob Palmstierna, Dan Andersson and Timo Peltola.

*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 1999 the Auditing Committee is comprised of Board members Juha Niemelä (Chairman), Rune Brandinger and Hans Dalborg.

*Compensation Committee:* The committee presents proposals to the Board of Directors regarding the Chief Executive Officer's conditions of employment. The Chief Executive Officer also consults with the committee regarding the conditions of employment for Group Management and other senior executives. During 1999 the Compensation Committee is comprised of Board members Jacob Palmstierna (Chairman), Vesa Vainio and Hans Dalborg. The Chief Executive Officer does not participate in deliberations on his own conditions of employment.

## Managing Director

The Managing Director of MeritaNordbanken Plc is Mr. Hans Dalborg, born 1941.

### 4.3. Group Executive Management

As of the date of this prospectus the following persons managed the operations of the MeritaNordbanken Group as members of the Group Executive Management:

**Hans Dalborg**, President and Group Chief Executive. Employed since 1991.

**Magnus Falk**, Retail: Stockholm Regional Bank, Consumer Banking. Employed since 1986.

**Carl-Johan Granvik**, Credits, Risk Management. Employed since 1974.

**Jakob Grinbaum**, Treasury. Employed since 1976.

**Karl-Olof Hammarkvist**, Asset Management. Employed since 1991.

**Bo Harald**, Retail: Payments and Network Banking. Employed since 1974.

**Kari Jordan**, Retail: Helsinki and Uusimaa Regional Bank, Commercial Banking. Employed since 1994.

**Kalevi Kontinen**, IT Systems and Strategic Analysis. Employed since 1984. Member until 31 March 2000, and will thereafter continue as Senior Advisor on IT issues.

**Jussi Laitinen**, Markets. Employed since 1993.

**Arne Liljedahl**, Accounting and Control. Employed since 1983.

**Lars G Nordström**, Head of Retail. (Managing Director, Nordbanken). Employed since 1993.

**Markku Pohjola**, Head of Corporate. Employed since 1971.

**Pertti Voutilainen**, Other Group Staff, Industry Issues and Real Estate. (Managing Director, Merita Bank). Employed since 1992.

Co-opted Member of Group Executive Management:  
**Lars Thalén**, Group Identity and Communications.

Secretary to the Group Executive Management:  
**Peter Forsblad**, Management Secretariat

*Executive Committee:*

Hans Dalborg, Carl-Johan Granvik, Arne Liljedahl, Lars G Nordström, Markku Pohjola and Pertti Voutilainen

#### **4.4. Directors' Compensation**

The total pension costs for the year 1998 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.

For remuneration to the Board of Directors see "Nordbanken Holding and Merita – Directors Compensation and Shareholding".

#### **Remuneration to Group Management**

The salary terms for the Chief Executive Officer 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 Chief Executive Officer and approved by the Board of Directors.

The Chief Executive Officer (President of MeritaNordbanken Plc) will be paid a salary of SEK 5,884,000 for 1999, of which SEK 1,384,000 is variable salary pertaining to 1998. The Chief Executive Officer also has car and 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.

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

#### **Loans to Board Members and Senior Executives**

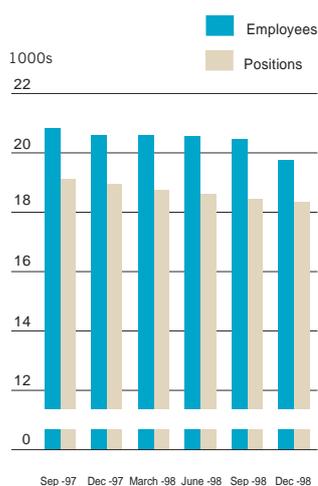
Loans to Group Executive Management and Board members amounted at the end of the fiscal year 1998 to FIM 6.9 million, of which FIM 1.6 million to the Members of the Board of Directors and 5.3 million to the members of the Group Executive Management.

## 5. PERSONNEL

### 5.1. General

The aggregate number of employees within the MeritaNordbanken Group 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 occurred within IT and in the Baltic states during 1998. At September 30, 1999, the aggregate number of employees declined to 19,225.

**Number of full-time positions and employees in MeritaNordbanken**



The following charts illustrate the division of the personnel of the MeritaNordbanken Group in accordance with its sectors of activity as well as the geographical division of the personnel:

MeritaNordbanken Group Personnel / Sectors of activity	31 December 1998 persons	30 September 1999 persons	Change persons
Retail	14,147	13,931	-216
– Regional banks	11,244	10,858	-386
– Product companies, staff and service functions, etc.	2,903	3,073	170
Corporate	1,312	1,264	-48
Markets	615	619	4
Asset Management	238	267	29
Computer Services	1,180	1,168	-12
Other service functions	188	140	-48
Group Staffs	700	669	-31
<b>Banking operations, total</b>	<b>18,380</b>	<b>18,058</b>	<b>-322</b>
Real Estate	270	227	-43
Real Estate Brokerage	531	510	-21
Other	560	430	-130
<b>Group total</b>	<b>19,741</b>	<b>19,225</b>	<b>- 516</b>

<b>MeritaNordbanken Group</b>	<b>31 December 1998</b>	<b>30 September 1999</b>	<b>Change</b>
Personnel / Market areas	persons	persons	persons
Finland	12,548	12,052	-496
Sweden	6,764	6,724	-40
Great Britain	112	96	-16
Latvia	67	81	14
Lithuania	0	6	6
Luxembourg	49	54	5
Singapore	46	44	-2
Estonia	60	78	18
United States of America	95	90	-5
<b>In total</b>	<b>19,741</b>	<b>19,225</b>	<b>-516</b>

Personnel work is aimed at developmental efforts so that business opportunities can be fully utilised and value added for the owners, customers and employees. During 1998 this largely involved preparing employees for the changes caused by the merger of Merita and Nordbanken and the ongoing trends in the industry. During 1999, this work has continued with the emphasis laid on future challenges.

### **Common Values**

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

### **Developed Job Assignments**

The long-term goal of MeritaNordbanken Group is to be the finance industry's most attractive employer in the Nordic region. With this goal, the Group aims to attract suitably qualified employees. In order to realise this, MeritaNordbanken Group 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 was launched during 1999.

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

### **Employees Representation**

MeritaNordbanken Group has established a Group Council to promote co-operation 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 organisation 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 are employer representatives. The Group Council meets four times annually. Information about what is discussed at the meetings is disseminated to all employees.

Two employee representatives have been elected to the Board of Directors of MeritaNordbanken Plc, see "Management of MeritaNordbanken Plc – Board of Directors".

### Personnel Fund and Profit-sharing system

To increase employee interest in profit and profitability goals, a profit-related incentive system has been created for the personnel of the MeritaNordbanken Group. Employees of the Swedish companies belonging to the Group participate in the profit-sharing foundation of Nordbanken, formed in 1995. In Finland the Merita Personnel Fund, established in 1998, covers all employees of Merita Bank, its wholly-owned subsidiaries and other Finnish companies forming a part of business operations of the MeritaNordbanken Group.

Profit targets are established for the Group as a whole. Allocations to the profit-sharing foundation and personnel fund are made when the profit reported by the Group exceeds the target set for the period in question. Participants are entitled to start withdrawing accumulated amounts after completion of five years of membership, after which a certain fraction of the accumulated balance will be separated annually and designated as the withdrawable part.

## 6. MERITANORDBANKEN PLC

The minimum share capital of MeritaNordbanken Plc is FIM 5,000,000,000 and the maximum share capital FIM 20,000,000,000, within which limits the share capital may be increased or decreased without amendment of the Articles of Association. The registered share capital is FIM 14,000,000,000, which is fully paid. The share capital has not been amended during 1998 or 1999.

The share capital is divided into 1,400,000,000 shares with the nominal value of FIM 10 each. The minimum number of shares in the company is 500,000,000 and the maximum number 2,000,000,000. The shares may be divided into series of either ordinary shares or preference shares, in which event the minimum number of ordinary shares is 500,000,000 and the maximum number 1,600,000,000. As regards the preference shares the minimum number is 100,000,000 and the maximum number 400,000,000. The registered number of ordinary shares is 1,120,000,000 and of preference shares 280,000,000.

MeritaNordbanken Plc has not issued any convertible loans or option rights and the Board of Directors of the company is not authorised to increase the share capital by any such issuances.

Each ordinary share shall have one vote. The preference shares carry the right to vote only when the Shareholders' Meeting passes a resolution on such amendment of the Articles of Association which effects the rights of an owner of a preference share when the voting right is prescribed in the Finnish Companies Act. In the event that a preference share carries the right to vote each share shall have one vote.

All ordinary and preference shares in MeritaNordbanken Plc carry an equal right to dividends. However, the preference shares will be entitled to dividends, as from the financial year 2001, that are 20 per cent in excess of the dividends per share on the ordinary shares if either of the following events have not happened by 1 January 2001:

- (i) Conversion of Nordbanken Holding's preference shares in MeritaNordbanken Plc (on a share-for-share basis) into ordinary shares, on the basis of a third party acquiring shares in MeritaNordbanken Plc exceeding 50 per cent of the voting rights (after conversion) or on the basis of unanimous decision of the shareholders in MeritaNordbanken Plc;
- (ii) redemption of the preference shares on the basis of unanimous decision of the shareholders in MeritaNordbanken Plc.

The shareholders of MeritaNordbanken Plc are Merita and Nordbanken Holding. Merita has 40 per cent of the total amount of shares consisting of ordinary shares and Nordbanken Holding has 60 per cent of the shares consisting of ordinary shares of an amount of 40 per cent of the total stock and preference shares representing 20 per cent of the total stock. Thus, both shareholders have 50 per cent of the votes in the company.

## X. RESULTS OF OPERATIONS OF MERITANORDBANKEN GROUP, KEY FINANCIAL RATIOS AND SHARE-RELATED INDICATORS

### 1. GENERAL

The information contained in this section is taken from the 1998 Annual Report of the MeritaNordbanken Group. This section should be read in conjunction with the financial statements and interim report of the Group, see "Financial Information". With regard to subsections 4 and 5, information is also based on the 1999 nine months interim report of the Group.

### 2. PROFIT AND PROFITABILITY

MeritaNordbanken Group's operating profit for 1998 was FIM 8,145 million, an increase of 13 per cent 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 per cent. 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 billion. Excluding these, operating profit was FIM 6.9 billion, up 16 per cent from the preceding year's figure, similarly adjusted, and the return on equity was 18.7 per cent.

#### Items Affecting Comparability

A number of measures were taken during MeritaNordbanken Group's first fiscal year to co-ordinate 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 billion. These items were:

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

Adjusted for the above items affecting comparability, the underlying operating profit amounted to FIM 6.9 billion, up 16 per cent 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 per cent compared with a year earlier to FIM 4,178 million.

Earnings per share amounted to FIM 1.96 in Merita and SEK 2.92 in Nordbanken Holding. Excluding items affecting comparability, earnings per share amounted to FIM 2.51 and SEK 3.74.

#### Rise in Income

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

*Net interest income* declined 2 per cent. 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 per cent (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 per cent. Commission income rose 8 per cent 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 FIM 2,643 million, reflecting a combined capital gain of over FIM 2,000 million 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 Group's ownership interest was reduced from slightly more than 17 per cent to about 12 per cent, resulting in a loss and write-down totalling about FIM 180 million.

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

The continued decline in interest rates on the Swedish market boosted the prices of interest-bearing securities. As a result, realised and unrealised gains on the Group's bond portfolios carried at market value increased to FIM 545 million as compared to a loss of FIM 246 million in 1997. The result from currency-related operations also developed favourably, amounting to FIM 460 million, up from FIM 284 million in 1997. Towards the end of the year, prepayments of FIM 7.3 billion in debts prompted by the downward trend in interest rates caused extra expenses of slightly more than FIM 200 million, an amount which will be offset by lower interest expenses over the coming years.

*Other income* was up 16 per cent. The increase stemmed principally from a rise in dividend income in connection with the ownership restructuring of Nordisk Renting AB publ.

#### **Unchanged Costs**

The Group's total expenses, including restructuring expenses, increased by 7 per cent during 1998. Excluding items affecting comparability, overall expenses declined.

*Personnel expenses* amounted to FIM 5,236 million. This includes FIM 374 million 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 per cent.

*Other expenses* rose 1 per cent to FIM 5,780 million. Adjusted for items affecting comparability, other expenses fell by 5 per cent.

#### **Lower Loan Losses**

Net loan losses declined by FIM 623 million, or 43 per cent to FIM 824 million. The loan loss ratio amounted to 0.2 per cent of total lending (0.4 preceding year). Loan losses in 1997 were affected by a provision of FIM 500 million for loss risks in Asia. During 1998, the Group's provisions policy regarding risks in countries outside the OECD was harmonised. In conjunction with this co-ordination, 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 million.

Low interest rates and relatively favourable 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. The decision was based on a new analysis relating to the market development and preconditions for holdings disposals. Additional writedowns of FIM 3,670 million 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 million was withdrawn in 1998. The corresponding refund a year earlier was FIM 1,545 million.

## Taxes

The tax expense for the year was FIM 1,173 million, corresponding to a tax charge of 21.8 per cent. The relatively low tax rate is attributable mainly to deferred taxes now being taken into account also in the Finnish part of the Group from the beginning of the accounting period in 1998. The tax charge for operations in Sweden was 25.4 per cent.

## 3. 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 and for limited risks.

### FOCUS AND LEVELS OF RISK

MeritaNordbanken Group's assets amounted at year-end to FIM 571 billion, of which FIM 356 billion or 62 per cent 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 1998.

Including Trading's holdings of FIM 22 billion, holdings of interest-bearing securities amounted to FIM 81 billion, corresponding to 14 per cent of total assets. Securities in the long-term portion of the portfolio, which are held to maturity, amounted to FIM 22 billion, and are reported as financial fixed assets. The surplus value of that portfolio (difference between market value and book value) totalled FIM 717 million. The remaining surplus deposits are used for medium and short-term investments to ensure they are available to meet an expansion in the Group'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 billion at year end.

Following the sale of shareholdings in Sampo, Nokia and Tieto, the book value of the Group's shareholdings was FIM 3 billion.

### Expansion Potential

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

## ASSETS

### Lending

#### Loans to the Public

Loans increased 4.7 per cent in 1998. The weakening of the Swedish krona by 9 per cent had an adverse impact on volumes expressed in Finnish markka. Adjusted for the weakening Swedish krona, lending increased 12 per cent. 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 per cent of which (FIM billion):

– 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 per cent during the year. Taking into account the depreciation of the Swedish krona, lending was up by nearly 12 per cent and involved all industries. A considerable share of lending for real estate management operations involved state and municipal companies.

#### *Households*

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

#### *Public Sector*

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

### **Lending to Credit Institutions**

Most lending to foreign banks involved banks within the OECD.

Most of the exposure was to banks. The exposure primarily covered Nordic trade finance, investments and payment transfers. 92 per cent 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 Group established a uniform model for risk classification of customer commitments. The model and working procedures represent a harmonisation 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 per cent of risk-classified lending volume, while 18 per cent 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 fulfil 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 – 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 Group in order to be financially prepared to meet such events. This covers countries outside the OECD as well as OECD countries for which MeritaNordbanken Group 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 Group'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 per cent during 1998.

Loans with interest deferments 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. In Sweden, corresponding loans in Nordbanken and Göta Bank were taken over by Securum and Retriva at the beginning of the 1990s.

The volume of "Assets taken over for protection of claims" continues to decline, primarily due to real estate divestments. 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 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 million, a decrease of FIM 2,366 million, or 28 per cent, 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.

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 million, corresponding to a reserve ratio of 69 per cent of gross non-performing loans.

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

## 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 Group's own flows requires a mortgageable securities volume of approximately FIM 20 billion. Most of these securities are classified as fixed assets.

### *Current Assets*

Most of MeritaNordbanken Group'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 utilise very flexible positions to capitalise 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 billion, with FIM 13.4 billion in Swedish securities and FIM 19.9 billion 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 per cent. The portfolios had a risk exposure corresponding to VaR of FIM 344 million 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 billion, of which FIM 13.5 billion was in Swedish securities and FIM 4.8 billion 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 per cent.

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

## Shares and Participations

The Group's shareholdings in actively managed trading portfolios had a market value of some FIM 0.4 billion 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 billion, a decline of FIM 1.1 billion 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 billion at year-end, of which FIM 0.7 billion 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 billion. 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 billion, a decline of FIM 4.8 billion during 1998. Real estate write-downs of FIM 3.7 billion 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 billion was due to sales.

## Other Assets

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

## LIABILITIES AND SHAREHOLDERS' EQUITY

### Deposits from the Public

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

Since MeritaNordbanken Group's main market consists of Finland and Sweden, few of the Group'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 billion. Deposits in Swedish kronor increased during the year by 11 per cent, relating to deposits from both private individuals and companies.

Deposits in Finnish markka rose 2 per cent. 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 per cent 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.

Merita Bank and Nordbanken 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 31 December 1998 amounted to FIM 54.3 billion, with an average time to maturity of 2.5 years.

At year-end, MeritaNordbanken Group's fixed-term debenture loans amounted to FIM 2.0 billion, 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 Group 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 billion, with an average time to maturity of 1.1 years.

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

### Other Liabilities

Other liabilities amounted to FIM 48.0 billion. The major items consisted of negative valuation adjustments related to derivative instruments, amounting to FIM 17.1 billion and accrued expenses of FIM 7.1 billion.

### Shareholders' Equity

At 1 January 1998, the shareholders' equity in MeritaNordbanken Group amounted to FIM 27.9 billion. Of this amount, FIM 2.1 billion was utilised for payment of the dividend approved at the 1998 Annual General Meetings of Shareholders. Net profit for the year increased shareholders' equity by FIM 4.2 billion. Due to the depreciation of the Swedish krona the shareholders' equity decreased by FIM 1.4 billion. 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 billion. Shareholders' equity at year-end totalled FIM 28.4 billion.

### *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 million, covering pension commitments of FIM 3,145 million.

Merita'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 million pertaining to Merita was transferred from the Pension Fund to Merita Life Assurance Ltd. At the end of the year and after the refund of FIM 654 million out of the Pension Fund's surplus (including tax credits), the fair value of the assets of the Pension Fund and Pension Foundation totalled FIM 3,454 million, covering a pension commitment of FIM 2,824 million.

### OFF-BALANCE-SHEET COMMITMENTS

As part of its commercial operations, the Group 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).

### 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 Group'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 and 1999, 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. Organisationally, 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 Group's exposure to market risk. Management of the Group's market risks is carried out within limits established by the Board of Directors. Exposure to interest-rate, currency and equity risks in the derivatives area is managed and monitored continually as part of the Group'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 Group 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 Group'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 scrutinised in accordance with the same procedures used in ordinary credit approvals.

The Group 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 the year-end 1998 the exposure to counterparty risk in derivative instruments, expressed as the risk-weighted amount, totaled FIM 5.9 billion.

### 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 industrialised 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 per cent.

At year-end 1998, the total capital ratio amounted to 9.9 per cent (11.3) and the Tier 1 capital ratio was 7.3 per cent (7.4). The decline in the total capital ratio resulted from a reduction in the volume of debenture loans.

**4. RESULTS BY BUSINESS AREA**

The following chart illustrates the result of MeritaNordbanken Group's business areas for the first nine months of 1999 as presented in the Group's interim report for the same period:

EUR million	Retail	Corpo- rate	Markets	Asset mana- gement	Real estate	Treasury	Other	Total
<b>Operating profit/loss</b>								
Income	1,465	318	99	189	83	77	6	2,237
Expenses	-839	-111	-75	-34	-120	-13	-41	-1,233
Loan losses	-6	-7	-	-	-	-	-7	-20
Profit from companies accounted for under the equity method	-	-	-	-	3	-	64	67
<b>Operating profit/loss</b>	<b>620</b>	<b>200</b>	<b>24</b>	<b>155</b>	<b>-34</b>	<b>64</b>	<b>22</b>	<b>1,051</b>
of which reallocated	128	3	-13	-118				
<i>Operating profit/loss</i>								
Q 3, 1999	224	62	-2	48	-11	10	-49	282
Q 2, 1999	198	85	-3	60	-12	-17	-31	280
Q1, 1999	198	53	29	47	-11	71	102	489
12 months 1998	818	57	36	160	-114	296	117	1,370
<b>Product earnings</b>								
Income				189				
Administrative expenses				-34				
Sales and distribution expenses				-39				
<b>Product earnings</b>				<b>116</b>				
<i>Product earnings</i>								
Q 3, 1999				34				
Q 2, 1999				48				
Q 1, 1999				34				
12 months 1998				110				

## 5. KEY FINANCIAL RATIOS AND SHARE-RELATED INDICATORS

MeritaNordbanken Group Financial ratios	Jan – Sep		Jan – Dec	
	1999	1998	1998	Pro forma 1997
Turnover, EUR million	4,465	4,948	6,632	6,231
Operating profit, EUR million	1,051	1,046	1,370	1,217
% of turnover	23.5	21.1	20.7	19.5
Profit/loss before appropriations and taxes, EUR million	1,051	1,046	904	1,312
% of turnover	23.5	21.1	13.6	21.1
Shareholders' equity, EUR million	5,381	4,981	4,771	4,686
Total assets, EUR, million	97,733	94,825	96,034	98,034
Return on equity, %	20.0	21.0	14.3	24.8
– excluding items affecting comparability	18.0	19.2	18.7	19.6
Return on assets, %	1.1	1.1	0.7	1.2
– excluding items affecting comparability	0.9	1.0	0.9	0.9
Equity to total assets, %	5.6	5.3	5.0	4.9
Capital base, EUR million	7,273	6,499	6,290	6,844
Risk-weighted amount, EUR million	67,317	62,493	63,732	60,837
Total capital ratio, %	10.8	10.4	9.9	11.3
Tier I ratio, %	7.8	7.7	7.3	7.4
Cost/income ratio, %				
– before loan losses	55	55	55	55
– after loan losses	56	59	59	62
Loan losses/lending at the beginning of the year, %	0.0	0.2	0.2	0.4

Shareholders' equity of Nordbanken Holding (including the associated company) accounts for 60 per cent of the Group's shareholder equity and the profit of Nordbanken Holding (including the associated company) accounts for 60 per cent of that of the Group. As a result, the return on equity, the return on assets and the equity to total asset ratios of Nordbanken Holding (including the associated company), equal those of the Group's.

For more information on the balance construction and profits, see XIII. Financial Information.

Nordbanken Holding Financial ratios	Jan – Sep		Jan – Dec	
	1999	1998	1998	Pro forma 1997
Return on equity, %	20.0	21.0	14.3	24.8
Return on assets, %	1.1	1.1	0.7	1.2
Equity on total assets, %	5.6	5.3	5.0	4.9

Share-related indicators	Jan – Sep		Jan – Dec	
	1999	1998	1998	Pro forma 1997
<i>Shares outstanding at end of period, mill.</i>				
Merita	832.0	832.0	832.0	830.5
– after full conversion	859.1	859.1	859.1	859.3
Nordbanken Holding	1,275.3	1,275.3	1,275.3	1,275.3
<i>Average number of shares, million</i>				
Merita	832.0	831.6	831.7	830.5
Nordbanken Holding	1,275.3	1,275.3	1,275.3	1,277.5

	Jan – Sep		Jan – Dec	
	1999	1998	1998	Pro forma 1997
<i>Earnings per share (EPS)</i>				
Merita after full conversion	EUR 0.36	EUR 0.38	EUR 0.33	EUR 0.50
– excluding items affecting comparability	EUR 0.32	EUR 0.33	EUR 0.42	EUR 0.38
Nordbanken Holding	SEK 3.23	SEK 3.32	SEK 2.92	SEK 4.40
– excluding items affecting comparability	SEK 2.89	SEK 2.86	SEK 3.74	SEK 3.35
<i>Shareholders' equity per share at end of period</i>				
Merita after full conversion	EUR 2.58	EUR 2.39	EUR 2.29	EUR 2.26
Nordbanken Holding	SEK 22.08	SEK 21.43	SEK 21.30	SEK 19.10
<i>Share price</i>				
Merita <sup>1</sup> (at the end of period)	EUR 5.28	EUR 4.36	EUR 5.42	EUR 5.01
– high	EUR 6.32	EUR 6.68	EUR 6.68	EUR 5.05
– low	EUR 4.88	EUR 3.87	EUR 3.58	EUR 2.37
– average	EUR 5.40	EUR 5.51	EUR 5.36	EUR 3.51
Merita B <sup>2</sup> (at the end of period)	–	EUR 4.34	–	EUR 4.83
– high	–	EUR 6.32	EUR 6.32	EUR 4.88
– low	–	EUR 3.87	EUR 3.53	EUR 2.64
– average	–	EUR 5.17	EUR 5.07	EUR 3.56
Nordbanken Holding (at the end of period)	SEK 46.00	SEK 45.50	SEK 52.00	SEK 44.80
– high	SEK 61.00	SEK 65.00	SEK 65.00	n.a.
– low	SEK 45.00	SEK 39.90	SEK 36.00	n.a.
– average	SEK 50.60	SEK 51.80	SEK 50.30	n.a.
<i>Dividends</i>				
Merita	–	–	EUR 0.18	EUR 0.17
Nordbanken Holding	–	–	SEK 1.64	SEK 1.50
<i>Dividend/profit, %</i>				
Merita	–	–	53.5	33.7
Nordbanken Holding	–	–	56.3	34.1
<i>P/E ratio</i>				
Merita	14.6	11.4	16.4	10.0
– excluding items affecting comparability	16.3	13.3	12.8	13.2
Nordbanken Holding	14.2	13.7	17.8	10.2
– excluding items affecting comparability	15.9	15.9	13.9	13.4
<i>Total market capitalisation, EUR billion</i>				
Merita	11.1	10.0	11.5	10.7
<i>Market capitalisation/shareholders' equity</i>				
Merita	2.0	1.8	2.4	2.2
Nordbanken Holding	2.1	2.1	2.4	2.3
<i>Direct yield, % (Effective dividend yield)</i>				
Merita	–	–	3.3	3.4
Nordbanken Holding	–	–	3.2	3.3
<i>Volume of trading, 1000s</i>				
Merita	262,580	369,325	487,112	412,176
Nordbanken Holding	528,386	491,628	678,036	n.a.
<i>Volume of trading in % of shares</i>				
Merita	31.6	44.1	58.6	49.6
Nordbanken Holding	55.2	51.4	53.2	n.a.

<sup>1</sup> Only Merita A until November 4, 1998.<sup>2</sup> Series B shares were combined with series A shares on November 5, 1998.

The financial ratios have been calculated in accordance with the following formulas:

**Return on equity, %:**

$$\frac{\text{profit for the period}}{\text{average shareholders' equity adjusted for new share issues and dividends + minority interest}} \times 100$$

**Return on assets, %:**

$$\frac{\text{profit for the period}}{\text{average total assets}} \times 100$$

**Equity to total assets %:**

$$\frac{\text{shareholders' equity and minority interest}}{\text{total assets on closing day}} \times 100$$

**Cost/income ratio before loan losses:**

$$\frac{\text{administrative expenses + depreciation + other expenses}}{\text{net interest income + dividends + net commission income + net result from financial operations + other income}}$$

**Cost/income ratio after loan losses:**

$$\frac{\text{administrative expenses + depreciation + other expenses + loan losses}}{\text{net interest income + dividends + net commission income + net result from financial operations + other income}}$$

**Turnover:**

Interest income, dividends, net commission income, net result from financial operations and other income

**Earnings/share (EPS):**

$$\frac{\text{profit for the period}}{\text{average number of shares (after full conversion)}}$$

**Shareholders' equity per share:**

$$\frac{\text{shareholders' equity at the end of period}}{\text{number of shares (after full conversion)}}$$

**Price/earnings ratio (P/E):**

$$\frac{\text{adjusted last quotation on closing day}}{\text{earnings/share}}$$

**Market value/shareholders' equity:**

$$\frac{\text{number of shares x last quotation on closing day}}{\text{shareholders' equity}}$$

**Direct yield, % (Effective dividend yield, %):**

$$\frac{\text{dividend/share}}{\text{adjusted last quotation on closing day}} \times 100$$

## XI. COMPLEMENTARY INFORMATION AFFECTING THE ECONOMIC POSITION OF NORDBANKEN HOLDING AND MERITANORDBANKEN GROUP

### I. RISK MANAGEMENT

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

#### Benchmarks for the Risk Exposure

MeritaNordbanken Group'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 Group'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 equal to the average risk-free interest rate in Finland and Sweden + 8 percentage interest. The moving average loan losses over a five-year period may not exceed 0.4 per cent of the loan portfolio.

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 property investments.

#### Credit Risks

The Group adopted joint credit instructions during the year 1998. The ensuing credit process has ensured that uniform credit appraisals are conducted, based primarily on repayment capacity for each individual customer. Customer limits granted are 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 Group. 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. The MeritaNordbanken Group'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 Group's earnings. MeritaNordbanken Group 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 within the MeritaNordbanken Group to ensure that measurement, reporting and control of financial risk are conducted in a uniform manner within MeritaNordbanken. In June 1998, the Board of Directors of MeritaNordbanken Group 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 Group'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 Group is that risk-taking will primarily be limited to the Treasury and Markets units. Other units apply the matching principle, meaning that interest, currency and due date structures match for assets and liabilities.

The decision-making organs in the MeritaNordbanken Group regarding financial risks are the Board of Directors of MeritaNordbanken Plc, the Risk Management Committee and Group Executive Management. The Board of Directors of MeritaNordbanken Plc 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 Risk Management Committee is to monitor the Group's financial operations and make decisions concerning changes in Group exposure within the limits set by the Board of Directors of MeritaNordbanken Plc.

The Financial Risk Group Control, a central staff function, has primary responsibility for ensuring compliance with risk limits, analysing and reporting consolidated risktaking within the Group. The Financial Risk Group Control regularly presents reports on the trend in risk to the Board of Directors of MeritaNordbanken Plc, Risk Management 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 analyse 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 Group is measured, for example, using Value at Risk, various standardised 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 Group limits interest and currency risks by using a VaR model based on two years' unweighted historical data, a 99 per cent confidence interval and a 10-day holding period. Analysis of VaR with other parameters, such as VaR estimated using exponentially weighted historical data, is conducted continually.

The standardised *sensitivity* measure used is a 1 per cent parallel shift for interest rate risks, a 5 per cent change in aggregate net position for currency risks, a 10 per cent change in market value for equity risk and a 20 per cent 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 Group 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 net interest income risk.

The overall limits for price risk are based on VaR for linear risks and scenario simulation for non-linear risks. At 30 September 1999 the Board approved VaR limit was EUR 149 million and scenario simulation limit was EUR 19 million. Average utilisation was EUR 36.6 million and EUR 1.8 million, respectively.

The net interest income risk is measured for the entire balance sheet. The reported interest-rate positions show that an increase in market rates of one percentage point reduces net interest income for the next 12 month period by EUR 0.82 million (1 per cent of cumulative exposure of EUR 82 million). 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 30 September 1999 the VaR limit drawn up by the Board of Directors of MeritaNordbanken Plc amounted to EUR 33 million and the scenario simulation limit totalled EUR 24 million. The average risk was EUR 3.8 million and EUR 2.3 million, 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 Group's equity risk can be divided into strategic holdings and traded stocks and stock-derivatives. The overall limits for equity risk are based on scenario simulation. At 30 September 1999 the equity risk limit set by the Board for strategic holdings amounted to EUR 99 million, with EUR 19 million for trading risks. The average risk was EUR 43.8 million and EUR 3.7 million, 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 Group's commodity risk during 1999 was small and was managed by the Markets unit. The overall limit for commodity risk is based on sensitivity measurements. At 30 September 1999 the commodity risk established by the Board of Directors of MeritaNordbanken Plc amounted to EUR 2 million. The average risk was EUR 0.02 million.

### Liquidity Risk

The purpose of MeritaNordbanken Group's liquidity management is to ensure that sufficient funds are available to the Group 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 Group 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 Group'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. The Board of Directors have set liquidity risk limits.

## **Operational Risk**

Operational risk is defined within the Group as EDP risks, administrative, technical and legal risks. These 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 Group from internal and external crime. However, it is difficult to create protection that is entirely secure against all types of crime to which the Group may be exposed. Protecting the Group 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 million, corresponding to FIM 195 million.

The incident was a serious one and although it was revealed through the internal control system, it gave rise to review of the routines in order to impede and prevent crimes aimed at the Bank and to ensure earlier detection of improper actions and faulty management. The Group has without undue delay launched an extensive program for corrective measures to be taken, involving significant changes in personnel and a review of internal controls and procedures.

The matter is the subject of a criminal investigation and has been reported to the Swedish Financial Supervisory Authority (the "Swedish FSA") and to the insurance company involved. The Swedish Financial Supervisory Authority issued on 13 August 1999 its assessment of the matter. It gave Nordbanken a warning and requires the Group to report on the results of the corrective measures currently in progress.

## **2. SUPERVISION AND OTHER REGULATORY ISSUES**

### **The Financial Supervision**

#### **Finland**

The Finnish Financial Supervision Authority (FSA) supervises as the principal supervisory authority Finnish financial markets and participants. Supervised entities include banks, brokerage firms, stock and derivatives exchanges, and management companies for mutual funds. The FSA operates in connection with the Bank of Finland but is an independent decision-making body.

The FSA is responsible for ensuring that supervised entities operate in accord with laws, decrees, regulations and guidelines and their own Articles of Association and rules. In addition to this legality control, the FSA also oversees overall market stability and issues regulation and guidelines on supervised entities' activities.

The FSA activities are based on the Act on the Financial Supervision Authority, by virtue of which it, inter alia, issues regulations and guidelines, supervises credit institutions, investment firms and market-places carries out on-site inspections and analyses information reported by supervised entities and integrates information attained in inspections for use in supervisory activities. The FSA co-operates with other authorities, notably the central bank, the Ministry of Finance and insurance supervisors.

The FSA supervises MeritaNordbanken Plc and such other companies of the same group that are subject to FSA's supervision pursuant to the law. Further, the FSA is responsible for MeritaNordbanken Plc's supervision on the group level.

### **Sweden**

The Swedish FSA is the principal supervisory authority for Swedish financial institutions. The Swedish FSA's supervisory responsibility encompasses, among other things, banks and other credit institutions, as well as insurance companies, securities businesses, fund managers and the Stockholm Stock Exchange.

The Swedish FSA's supervision is conducted through analysis of reports regarding, among other things, capital adequacy, large exposures and financial statements and through on-site inspections to ensure that each bank's operations comply with Swedish banking laws and regulations. The Swedish FSA's supervisory responsibility also encompasses Swedish bank's foreign branch offices.

The supervision is also conducted on a consolidated level. The Swedish FSA appoints one or more auditors for each bank who, together with the auditors appointed by the bank's shareholders, examine the administration and financial statements of the bank.

### **Large Exposures and Capital Adequacy**

#### **Finland**

The EC Directives on capital adequacy and large exposures were implemented into Finnish Law when the Credit Institutions Act entered into force on 1 January 1994.

Credit Institutions and consolidation groups of credit institutions as referred to in the Credit Institutions Act shall calculate the minimum of own funds required to cover the position risk and the settlement and counterparty risk associated with their trading book, the foreign exchange risk associated with their overall business and other equivalent risks in accordance with the provisions set forth in the act and in the regulations issued by the Finnish FSA.

Credit Institutions must, in accordance with the provisions set forth in the regulation issued by the Finnish FSA, submit reports on the own funds required to cover credit risk as laid down in the Credit Institutions Act. Credit Institutions are further required to submit reports on their consolidated capital requirement against credit risk in accordance with the guideline issued by the Finnish FSA.

Pursuant to the Credit Institutions Act, a credit institution must maintain a liquidity reserve in the form of cash and near cash items in an amount representing not less than 10 per cent of its liabilities (excluding liabilities to the Bank of Finland and liabilities incurred in connection with funds allocated by the government for specific purposes).

As for capital adequacy, the Credit Institutions Act follows the BIS guidelines. Under the Credit Institutions Act, Finnish banks are required to have a ratio of capital to assets and certain off-balance-sheet items, determined on a risk-weighted basis, of at least 8 per cent.

The Credit Institutions Act contains provisions on large exposures, i.e. exposures equal to or exceeding 10 per cent of the own funds of the institution. Under these provisions, no such customer exposure may exceed 25 per cent of the own funds of the institution. The aggregate amount of large exposures of a credit institution may not exceed 800 per cent of its own funds. However, the law provides for a period of transition, under which the requirements must be met at the latest by 31 December 2001.

## Sweden

To implement the EC Directives on capital adequacy and large exposures into Swedish law, the Swedish Parliament has enacted the Act on Capital Adequacy and Large Exposures of Credit Institutions and Securities Companies. Certain capital adequacy rules relating to credit risks and the large exposure rules, together with the rules on consolidated supervision, entered into force in part on 1 January 1995. Additional rules came into effect on 1 January 1996.

The capital adequacy rules which entered into force on 1 January 1996, relate primarily to an institution's capital base with reference to market risks, as opposed to credit risks. Credit risks refers to the risk that a counterparty of a credit institution and/or financial institution will not fulfil its obligations to the institution. Market risks relate to risks associated with a credit institution's and/or financial institution's own financial positions, on-balance sheet and off-balance sheet. Market risk is divided into different categories of risk for the trading book, namely, position risk, counterparty risk and, other risk. In addition, foreign exchange risk is calculated for the whole book.

An institution shall at all times have a capital base corresponding to the sum of the capital needed under the capital adequacy rules for its credit risks and its market risks. The capital base for credit risks must be 8 per cent of its risk-weighted assets and the capital base for its market risk shall correspond to the risk calculated according to the provisions set forth in the act.

In order to fulfil the capital adequacy rules for market risks, an institution is allowed to include additional items in its capital base, e.g., subordinated loans with an original maturity of at least two years in addition to what is allowed when calculating the capital base for credit risk.

Under the Act on Capital Adequacy and Large Exposures of Credit Institutions and Securities Companies, an institution's exposure against a customer or a group of connected customers is considered as "large" if the exposure exceeds 10 per cent of the capital base of the institution. Such exposure must be reported to the Swedish FSA. An exposure against a customer which is larger than 25 per cent of the capital base is not permitted. In certain situations lower limits apply. An institution's aggregate exposure for large exposures may not exceed 800 per cent of the capital base. If an institution does not comply with the rules, the Swedish FSA may order the institution to make redress. Such order may be combined with a penalty.

According to the transitional rules, an institution has a possibility to obtain permission from the Swedish FSA to gradually adhere to the rules regarding large exposures. An institution must comply with the rules not later than 31 December 2001. The transitional rules apply to exposures existing on 28 June 1994 (which is the date for the official announcement of the applicability of the relevant EC Directive under the European Economic Area Agreement).

## Restriction on Ownership

### Finland

Finnish banking legislation contains limitations on a bank's right to own shares in non-banking companies. A bank's investments in a non-banking company, in which it has a significant shareholding or significant holding of capital securities, may not exceed 15 per cent of the bank's or its consolidated group's shareholders' funds. Such investments taken together may not exceed 60 per cent of the own funds of the bank or its consolidated group. However, in the calculation of these percentages, certain items, notably shares acquired for the purpose of corporate restructuring, are not taken into account. A bank may invest in real estate and in the shares of real estate companies (excluding real estate and shares in real estate companies which have come into the bank's possession as security for unpaid claims) on the condition that the aggregate amount thus invested (together with a certain portion of the loans extended to such companies) does not exceed 13 per cent of the bank's total assets.

### Sweden

A bank is not permitted to acquire assets, except as expressly provided for through specific exemptions in the Swedish Banking Business Act. A bank has a possibility to acquire assets which are closely connected with the activities conducted by a bank, e.g., real estate necessary to provide premises for the activities and moveable property for leasing purposes. A Swedish bank may also acquire shares as an investment within a limit of 30 per cent of the bank's capital base. Such shareholdings in any one enterprise may amount to an aggregate of not more than five per cent of the limit. In addition, a shareholding may not, without permission by the Swedish FSA, equal

more than five per cent of the number of votes of all shares in the company. If the bank belongs to a group (Sw: koncern), this limit applies to the group's total holdings. It is also allowed for a banking company to acquire shares or parts in a Swedish or foreign insurance enterprise and a savings bank or a membership bank to acquire shares in a Swedish insurance company, provided that the acquisition is part of the organisation of the bank's business and that the government or, in matters of minor importance, the Swedish FSA grants permission to do so. Furthermore, to protect its claims, a bank may acquire foreclosed property or property which serves as security for the claim and, in settlement of a claim, acquire property which constitutes security for the claim or acquire other property if there is reason to believe that a bank otherwise would suffer considerable loss. In a situation where shares have been acquired pursuant to this provision, the bank may acquire further shares in the same company, provided that there is an obvious risk that the bank otherwise would suffer a loss.

### Deposit Guarantee Program

#### Finland

Pursuant to the Credit Institutions Act, a mutual deposit guarantee fund for all Finnish banks has been established. Membership of the fund is compulsory for all deposit banks. The annual fees to the fund are based on 0.05 per cent of the guaranteed deposit of each bank and an additional fee based on the consolidated capital adequacy of each bank. In the event a member bank as a result of financial difficulties is unable to fulfil its obligations, the claims of depositors held in accounts available to the public up to a limit of FIM 150,000 per depositor and the bank (excluding claims by financial institutions) will be paid out of the assets of the Fund on the basis of a decision of the FSA pursuant to the Credit Institutions Act. However, depositors of branches of Finnish banks within the EEA will be paid out of the assets of the fund to the extent such depositor would be paid out under any local deposit protection scheme.

#### Sweden

In accordance with an EC Directive an Act on Deposit Guarantee was enacted in Sweden on 1 January 1996. This deposit guarantee program protects depositors of banks having a licence to do business in Sweden upon such banks' bankruptcy. The deposit guarantee program guarantees deposits of up to SEK 250,000 per depositor and bank. The guarantee is financed by all of the banks having a licence in Sweden. Under the program, banks pay yearly fees equivalent in aggregate to 0.50 per cent of their total guaranteed deposits in the bank system. The total fee for institutions covered is presently equivalent to approximately SEK 2 billion per year. The fees are deposited on an interest bearing account with the Swedish National Debt Office ("Riksgäldskontoret"). If the balance of the account exceeds an amount corresponding to 2.5 per cent of the total guaranteed deposits, the total yearly fee will be reduced to 0.1 per cent of the total guaranteed deposits. The Deposit Guarantee Board ("Insättningsgarantinämnden") annually decides the fee for each respective bank paid on deposits.

### 3. CORPORATE TAXATION

The presentation below summarises the most important regulations affecting the taxation of the MeritaNordbanken Group and dividends to shareholders provided that the Share Exchange Offer is completed and Nordbanken Holding becomes the owner of all outstanding Merita Shares and the merger between Merita and MeritaNordbanken Plc as described above in section "Background and Objectives – Further Plans Relating to Merita" is completed.

Taxable income for MeritaNordbanken Plc and subsidiaries is taxed at a rate of 28 per cent. It is anticipated that the tax rate will be 29 per cent in Finland as of year 2000.

Distributable earnings are to be transferred from operating subsidiaries via MeritaNordbanken Plc to Nordbanken Holding and subsequently distributed to shareholders. According to the Finnish tax system, a company paying a dividend must pay at least 7/18 (expected to be 29/71 as of year 2000) 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 Nordbanken Holding and from there be further distributed to shareholders without extra corporate tax. However, Nordbanken Holding does not qualify for a tax credit on the basis of the dividends received from MeritaNordbanken Plc, if profits in the Finnish subsidiaries are not sufficient to cover the dividend that MeritaNordbanken Plc intends to distribute further to Nordbanken Holding, MeritaNordbanken Plc may be affected by supplementary tax on earnings transferred from Nordbanken. This

would only occur if the dividend distributed by MeritaNordbanken Plc exceeds the amount of the dividend distributed by Nordbanken during the same fiscal year. A change has been proposed to the Finnish tax system which would reduce the possibility that a company be obliged to pay supplementary tax.

#### **4. SIGNIFICANT LEGAL PROCEEDINGS**

##### **Nordbanken Holding**

Nordbanken Holding is not subject to any legal proceedings.

##### **Merita**

In 1996 criminal charges were brought against Mr. Pertti Voutilainen, President of Merita Bank and previously CEO and the Chairman of the Board of Directors of Kansallis-Osake-Pankki. These charges and criminal proceedings relate to a claimed infringement of the Securities Market Act in connection with the marketing of the shares of Kansallis-Osake-Pankki in its new issue of shares, "Kansallisanti" during autumn 1994.

After the Helsinki District Court rejected the charges in December 1996, the Helsinki Court of Appeal passed a judgement in August 1998 overturning the District Court's ruling and remedied the case back to the District Court for a retrial. The basis for the decision of the Court of Appeal was that certain complainants should have been granted the plaintiff's right to plead before the Court in the first phase, in the District Court. Mr. Pertti Voutilainen appealed to the Supreme of Court of Finland with respect to the decision of the Helsinki Court of Appeal, and the Supreme Court granted Mr. Voutilainen a leave to appeal in June 1999.

Further, a total of 59 private shareholders in former Kansallis-Osake-Pankki in 1996 started civil suits against Merita claiming for damages on the basis of their allegations concerning misleading information in connection with the above mentioned Kansallisanti-issue in 1994. In March 1997, the Helsinki District Court rejected all such claims for damages. After appeals by the claimants, the case is now pending in the Helsinki Court of Appeal.

##### **MeritaNordbanken Plc, Merita Bank and Nordbanken**

MeritaNordbanken Plc is not subject to any legal proceedings.

The subsidiaries, Nordbanken and Merita Bank are, in the normal course of business of a commercial bank, party to a number of claims in several lawsuits and other legal disputes, most of which involve sums which, taken together, are immaterial. None of these disputes, individually or in the aggregate, is considered likely to have any significant adverse effect on MeritaNordbanken Group's financial position or results of operations. See also "Complementary Information Affecting the Economic Position of Nordbanken Holding and MeritaNordbanken Group – Risk Management – Crime Risk".

#### **5. YEAR 2000 ISSUES**

The testing of the integration status of the MeritaNordbanken Group's data systems, the exchange of information with external counterparties and the checking of embedded systems and related modifications were completed in September 1999. No Year 2000 ("Y2K") problems of critical nature or material importance for the Group's operations were discovered. In all, only three (two in Finland and one in Sweden) changes in systems within limited areas and a number of minor adaptations remain to be carried out before the application of specific Y2K limitations to changes as of October/November. The system modifications and tests necessitated by the deviating banking day in Finland on 31 December 1999 will also be completed in time.

Operative planning for the turn of the year and the preparation for potential internal or external disturbances started in the summer of 1999 and has progressed well. An important part of this work focuses on the planning and production of information relating to the year 2000.

The inspection reports of the financial supervision authorities in Finland and Sweden and the local supervisory authorities in the countries in which the Group operates have contained no critical observations concerning the Group's Year 2000 compliance.

## 6. FINANCING OF THE SHARE EXCHANGE OFFER AND COSTS

Since the offered consideration in the Exchange Offers comprises Nordbanken Holding Shares and Nordbanken Holding Convertible Bonds and since the fractional shares of Nordbanken Holding will be sold on the Stockholm Stock Exchange on behalf of the Merita shareholders entitled thereto, Nordbanken Holding does not need external financing for the Exchange Offers. The taxes, duties and other costs relating to the implementation of the Exchange Offers will be financed through MeritaNordbanken Group's overall liquidity and liability management.

Nordbanken Holding estimates that its expenses relating to the Exchange Offers will be approximately EUR 5.8 million.

In addition, subject to completion of the Exchange Offers Nordbanken Holding shall be liable to pay Finnish transfer tax on the acquisition of Merita Shares and Convertible Bonds, the amount of which is 1.6 per cent from the transfer price (i.e. value of the Nordbanken Holding Shares and Nordbanken Holding Convertible Bonds delivered as consideration in the Exchange Offers). However, the transfer tax shall not be payable, when the transferor is not a Finnish tax resident, a Finnish branch office of a foreign credit institution or a Finnish branch of a foreign investment service institution.

## XII. RECENT DEVELOPMENTS AND OUTLOOK

### 1. DESCRIPTION OF THE MAIN EVENTS AND THE FINANCIAL PERFORMANCE FOR THE PERIOD 1 JANUARY – 30 SEPTEMBER 1999

Over the first nine months of 1999 the MeritaNordbanken Group continued its strong performance, maintaining a high return on equity, and reducing costs.

In the second quarter of 1999 the Group announced it would establish a new regional bank in Poland and the Baltic States. Mutual funds and unit-linked insurance showed strong growth. In the third quarter changes to the Group Executive Board were announced, and the intention to list Aleksia Plc, and to launch the Solo banking concept throughout the Group's area of operation. Mutual funds and insurance products continued to advance strongly in the third quarter, and the Group began offering WAP banking services in Finland, and the Solo Mall for e-commerce in Sweden. In September the Swedish Post gave notice of termination of the agreement under which Nordbanken's private customers have been able to transact banking business at post offices.

Operating profit, including items affecting comparability, for the first nine months of 1999 was EUR 1,051 million, in line with the operating profit for the comparable period of 1998 of EUR 1,046 million. Net profit for the first nine months of 1999 was EUR 774 million, a drop of five per cent compared with the same period of 1998. The stable development of operating profit was primarily an effect of rises in interest rates in the second and third quarters of 1999, and the resulting drop in the result from financial operations, off-set by lower expenses, lower loan losses and higher commission income.

The Group took steps in the second quarter to reduce interest rate exposure and to increase liquidity reserves in preparation for the year-end.

The third quarter 1999 cost/income ratio before loan losses was 59 per cent, compared to 62 per cent in the same period of 1998. The return on equity for the first nine months of 1999 was 20 per cent.

The interim report of MeritaNordbanken Group for the period 1 January - 30 September 1999 announced on 26 October 1999 is included under "Financial Information".

### 2. THE OFFER TO SHAREHOLDERS OF CHRISTIANIA BANK

On 20 September 1999, MeritaNordbanken Plc announced a cash offer to acquire Christiania Bank, the second largest bank in Norway. The offer of NOK 44 per share valued the entire share capital of Christiania Bank at NOK 24.3 billion. As of the date of this prospectus, MeritaNordbanken Group holds 55,068,000 shares in Christiania Bank, representing approximately 9.99 per cent of the share capital of the company. The initial offer period expired on 29 October 1999. On 28 October 1999, MeritaNordbanken Plc announced an extension of the offer period until 12 November 1999. On 12 November 1999, the offer period was further extended until 3 December 1999.

Upon completion of the offer, Christiania Bank will continue to operate as a commercial bank under its current name and will as such fully participate in the integration of the group. Christiania Bank will be owned by MeritaNordbanken Plc, alongside Merita Bank and Nordbanken, as a wholly owned subsidiary.

The composition of the Board of Directors and the Executive Management of MeritaNordbanken Plc will be adjusted to reflect the inclusion of Christiania Bank.

As the offer for Christiania Bank is a cash offer, there will be no direct change to the shareholder structure of the MeritaNordbanken Group, or to the share capital or the ordinary share par value of Nordbanken Holding. However, as part of the offer, the Swedish government has stated on 20 September 1999, that, should a sale of the Swedish state's shares in Nordbanken Holding be decided before 30 June, 2001, the intention is to offer those Christiania Bank shareholders who tendered their shares to MeritaNordbanken Plc, in connection with the offer, the opportunity to acquire shares in Nordbanken Holding. Such shareholders will be offered a maximum of 25 per cent of such a sale by the Swedish state. However, no decision of such a sale has been taken. There is no fixed timetable for such a sale of the state's holding in Nordbanken Holding.

Nordbanken Holding intends to apply for a secondary listing of its shares on the Oslo Stock Exchange. The Unified Group would thus be listed in Helsinki, Oslo and Stockholm.

The pre-tax revenue synergies and cost savings arising from the offer for Christiania Bank, are estimated to EUR 80 million per annum, within a three-year period, and MeritaNordbanken Plc expects to incur restructuring costs of EUR 75 million in association with the offer. It is management's belief that substantial further value will be created in the longer term. This would arise principally from the leading position that the combination of MeritaNordbanken Plc and Christiania Bank would occupy in the Nordic region, and from additional savings from further integration by simplified administration and sharing of processes and systems platforms in information technology.

The MeritaNordbanken Group and Christiania Bank together would be the largest banking group in the Nordic and Baltic region in terms of total assets. These would have amounted to approximately EUR 123 billion as at 30 June 1999. Retail customers will have access to the combined group in the Nordic and Baltic region through approximately 900 branch offices. The combined group will serve more than 7 million individual customers, including more than 800,000 Internet customers and 470,000 corporate and institutional customers. It would have had, as at 30 June, 1999, total lending of EUR 84 billion, total deposits of EUR 50 billion and assets under management amounting to EUR 28 billion.

The combined group will have significant market shares within its main markets; in Norway approximately 10 per cent, in Finland approximately 40 per cent and in Sweden approximately 20 per cent.

The combination of the MeritaNordbanken Group and Christiania Bank is expected to enhance earnings per share before goodwill amortisation in the first full year following completion. The Tier 1 capital ratio will decrease to about 5 per cent on completion of the offer. The management of MeritaNordbanken Plc is confident that this will rise to the stated group target of at least 6.5 per cent within a relatively short period of time mainly due to the combined group's strong recurring earnings power. Measures will also be taken to ensure a sufficient total capital ratio. The combined risk weighted assets, as of 30 June 1999, would have amounted to EUR 87 billion.

The offer for Christiania Bank is not expected to have any effect on dividend policy, or to change the financial targets of the group.

After MeritaNordbanken's announcement of September 20, 1999 in connection with the offer for Christiania Bank and the planned unification of Merita and Nordbanken Holding, Moody's Investor Services confirmed the following deposit, debt and financial strength ratings: A1/P – 1/C with positive outlook for Merita Bank and A1/P – 1/C + for Nordbanken. Moody's also, in connection with the said announcement, changed the outlook for Christiania Bank's A2 long-term rating and C financial strength rating from stable to positive. Standard & Poor's affirmed its A/A-1 counterparty credit ratings on Merita Bank and Nordbanken and remarked that the outlook for Merita Bank and Nordbanken is stable. Fitch IBCA affirmed the A+ Long-term and F1 Short-term ratings for each of Merita Bank, Nordbanken and Christiania Bank.

### **3. OTHER EVENTS SINCE 30 SEPTEMBER 1999**

In October 1999 MeritaNordbanken Group acquired the investment bank Maizels, Westerberg & Co, which operates in Stockholm and London, see "Business of MeritaNordbanken Group – Areas of Business – Corporate".

On 8 November 1999 Nordbanken announced the issue in the form of private placements of two subordinated bonds. The first, undated subordinated capital securities amounting to USD 350 million, qualifies for the Nordbanken's Tier 1 capital, and the second, subordinated notes amounting to USD 500 million qualifies as Tier 2 supplementary capital. The positive impact of the issue of the capital securities on the Tier 1 ratio of MeritaNordbanken Group as of 30 September 1999 will be approximately 0.4 percentage points and on the total capital ratio approximately 1.2 percentage points.

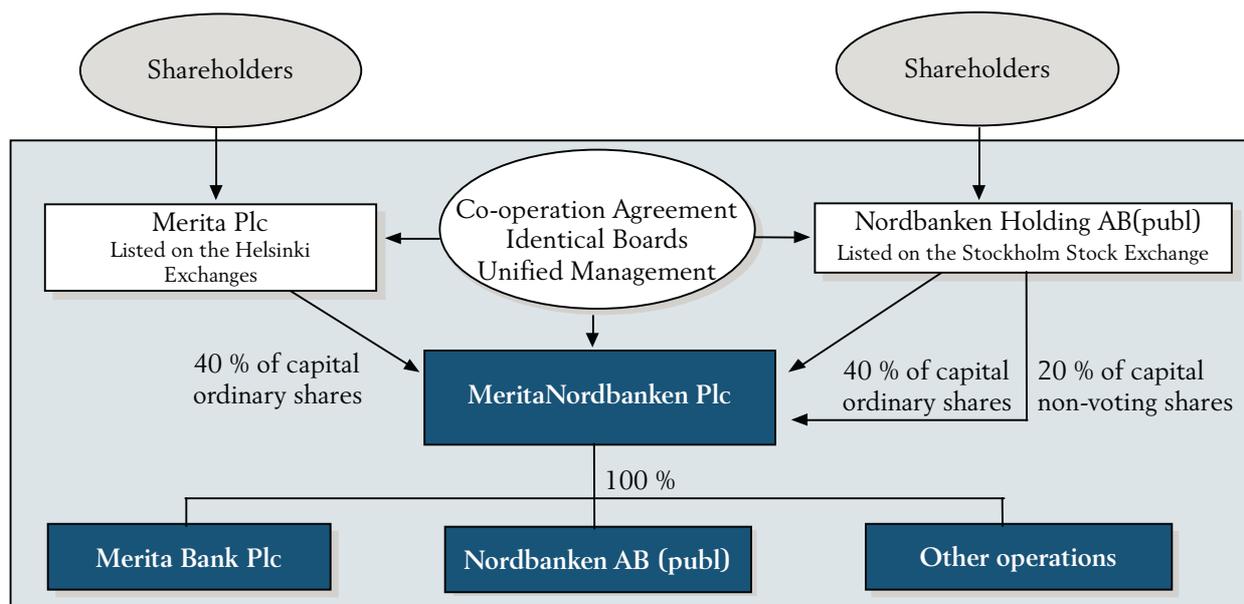
### **4. OUTLOOK FOR THE END OF THE YEAR 1999**

Given the continuation of favourable economic developments in Finland and Sweden during the fourth quarter of the year, the business operations and results of the MeritaNordbanken Group, excluding items of a non-recurring nature, are expected to show a stable trend.

### XIII. FINANCIAL INFORMATION

#### I. GENERAL

The financial information presented below in this chapter regarding MeritaNordbanken Group, as from the financial year 1998; includes MeritaNordbanken Plc and its subsidiaries as well as the two holding companies, Merita and Nordbanken Holding. The chart below illustrates the present structure of the MeritaNordbanken Group.



The financial information below contains the nine months interim reports for 1999, and financial statements and auditors' reports for 1998 and 1997, for both holding companies, Nordbanken Holding (offeror) and Merita (target company), and the nine months interim report for 1999, the 1998 financial statements and 1997 pro forma financial information for the MeritaNordbanken Group. The financial statements of Nordbanken Holding and Merita include the respective Board of Directors' reports. The Board of Directors' report for the MeritaNordbanken Group is not included in this section, as the information it contains is the basis for, and is included in, section IX, Business of the MeritaNordbanken Group, section X, Results of Operations of the MeritaNordbanken Group, Key Financial Ratios and Share-Related Indicators, section XI, Complementary Information affecting the Economic Position of Nordbanken Holding and MeritaNordbanken Group, and section XII, Recent Developments and Outlook.

The MeritaNordbanken Group Annual Report 1998 is available at all Merita branches and on the internet at [www.meritanordbanken.com](http://www.meritanordbanken.com).

## 2. NORDBANKEN HOLDING

### 2.1. Interim Report 1 January–30 September 1999

Nordbanken Holding AB (publ) and its associated company

#### Interim report for January-September 1999

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

The holding companies Nordbanken Holding AB (publ) (Nordbanken Holding) and Merita Plc (Merita) 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.

The interim report of the MeritaNordbanken Group, including the income statements and the balance sheets, is an integral part of the interim report of Nordbanken Holding. In order to illustrate the financial performance and position of Nordbanken Holding, the attached material comprises the income statements and balance sheets of Nordbanken Holding both including and excluding its associated company MeritaNordbanken.

In an exchange offer to shareholders of Nordbanken AB in November-December 1997, Nordbanken Holding acquired 99.7 per cent of the shares of the said company. It thereby became entitled to a compulsory acquisition of the remaining Nordbanken shares. The compulsory acquisition commenced on December 18, 1997 and continues for the time being. In February 1998 Nordbanken Holding offered the remaining Nordbanken shareholders an opportunity to sell their shares for a fixed price (SEK 306) instead of participating in the compulsory acquisition procedure. A major proportion of the shareholders in question have accepted the offer.

The shares of Nordbanken Holding are quoted on the Stockholm Stock Exchange in SEK and, as of October 4, 1999, also in euros.

As stated in the interim report of the MeritaNordbanken Group, Merita and Nordbanken Holding entered into a new merger agreement on September 20, 1999 for the purpose of simplifying the legal structure of the MeritaNordbanken Group. In accordance with this merger agreement, the Board of Directors of Nordbanken Holding decided to make an exchange offer to shareholders and holders of convertible bonds in Merita, respectively. The offering documents are expected to be available to Merita shareholders and holders of Merita convertible bonds in late November 1999.

As long as the outcome of the aforesaid exchange offers is not known, the following stipulations continue to apply. Pursuant to the current Cooperation Agreement, Nordbanken Holding AB (publ), Merita Plc and the MeritaNordbanken Plc Group are managed as one single entity. For this purpose the Cooperation Agreement provides, inter alia, that differ-

ences in the holding companies' capital structure or assets and liabilities, including liquid funds, shall not financially affect the respective shareholder communities and that, where necessary, Nordbanken Holding and Merita Plc shall ensure the transfer of adequate funds from the MeritaNordbanken Plc Group to the holding companies.

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

Pursuant to the current Cooperation Agreement, the preference shares in MeritaNordbanken held by Nordbanken Holding shall in certain situations be converted into ordinary shares on a one-for-one basis. Such conversion shall take place if a third party enters as a shareholder in MeritaNordbanken, provided, however, that no shareholder, after conversion, shall own shares representing more than 50 per cent of the votes in MeritaNordbanken; or if the general meeting of MeritaNordbanken unanimously decides that conversion shall take place. Furthermore, the general meeting may unanimously decide on the redemption of the preference shares. All ordinary and preference shares of MeritaNordbanken carry equal rights to dividends. However, if conversion or redemption has not taken place by January 1, 2001, the preference shares shall carry a right to dividends that exceed the dividends payable on ordinary shares by 20 per cent. This would mean that the 60/40 division of dividends would change to approximately 61.5/38.5. If conversion of the preference shares takes place in 2001 or later, the higher dividend as set out in the foregoing shall cease to be distributed as from the financial year during which the conversion takes place. The completion of the proposed Exchange Offer (see above) would mean that the preference shares would be converted into ordinary shares subject to the decision of MeritaNordbanken's General Meeting.

The profit of Nordbanken Holding for the period under review, excluding the associated company, was SEK 1,491 million, of which SEK 1,473 million consisted of the dividend paid by MeritaNordbanken Plc. Nordbanken Holding's 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 pursuant to the Cooperation Agreement. The result for the period under review thus represents 60 per cent of the profit of the entire MeritaNordbanken Group and amounts to SEK 4,124 million or SEK 3.23 per share. 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 28,163 million or SEK 22.08 per share.

## Income statements

SEK million	Nordbanken Holding AB including the associated company			Nordbanken Holding AB		
	Jan-Sep 1999	Jan-Sep 1998	Jan-Dec 1998	Jan-Sep 1999	Jan-Sep 1998	Jan-Dec 1998
<b>Operating income</b>	-	-	-	-	-	-
<b>Operating expenses</b>						
Personnel expenses	-0	-0	-0	-0	-0	-0
Other operating expenses	-8	-8	-12	-8	-8	-12
<b>Operating loss</b>	<b>-8</b>	<b>-8</b>	<b>-12</b>	<b>-8</b>	<b>-8</b>	<b>-12</b>
<b>Income from financial investments</b>						
Income from investments in the associated company	-	-	-	1,473	-	-
Interest income	39	56	78	39	56	78
Interest expenses	-6	-5	-8	-6	-5	-8
Profit from the company accounted for under the equity method	4,049	3,615	5,432			
Adjustment in accordance with the Cooperation Agreement	57	589	710			
<b>Profit after financial items</b>	<b>4,131</b>	<b>4,247</b>	<b>6,200</b>	<b>1,498</b>	<b>43</b>	<b>58</b>
Refund from the Pension Foundation/Fund <sup>1)</sup>	-	-	802			
Write-downs on real estate holdings <sup>1)</sup>	-	-	-3,267			
<b>Profit before taxes</b>	<b>4,131</b>	<b>4,247</b>	<b>3,735</b>	<b>1,498</b>	<b>43</b>	<b>58</b>
Tax on profit for the period <sup>2)</sup>	-7	-12	-16	-7	-12	-16
<b>Net profit for the period</b>	<b>4,124</b>	<b>4,235</b>	<b>3,719</b>	<b>1,491</b>	<b>31</b>	<b>42</b>

<sup>1)</sup> 60 per cent of the refund from the Pension Foundation/Fund of the MeritaNordbanken Group and 60 per cent of the Group's write-downs on real estate holdings have been included in the income statement.

<sup>2)</sup> Includes only Nordbanken Holding AB's taxes. Nordbanken Holding AB's share of other taxes of the MeritaNordbanken Group is reported under "Profit from the company accounted for under the equity method".

## Cash flow analysis

SEK million	Nordbanken Holding AB excluding the associated company		
	Jan-Sep 1999	Jan-Sep 1998	Jan-Dec 1998
<b>Ordinary business, investments and financial operations</b>			
Payments to suppliers and employees, etc.	-26	-7	-9
Interest received	32	43	65
Interest paid	-1	0	0
Income taxes paid	-13	-9	-12
Equity investments	-9	-193	-196
Dividends received	1,473	4,934	4,934
Dividends paid	-2,091	-1,913	-1,913
Cash flow for the period	-635	2,855	2,869
Liquid assets at the beginning of the period*	1,830	-1,039	-1,039
<b>Liquid assets at the end of the period*</b>	<b>1,195</b>	<b>1,816</b>	<b>1,830</b>

\* Liquid assets consist of disposable liquid assets (less short-term credits) and short-term investments with a maximum maturity of three months.

Balance sheets						
SEK million	Nordbanken Holding AB including the associated company			Nordbanken Holding AB		
	Sep 30 1999	Sep 30 1998	Dec 31 1998	Sep 30 1999	Sep 30 1998	Dec 31 1998
<b>Assets</b>						
<b>Fixed assets</b>						
<i>Financial fixed assets</i>						
Shares in associated companies	26,980	25,552	25,373	13,243	13,239	13,242
<b>Total fixed assets</b>	<b>26,980</b>	<b>25,552</b>	<b>25,373</b>	<b>13,243</b>	<b>13,239</b>	<b>13,242</b>
<b>Current assets</b>						
Short-term receivables	42	46	7	42	46	7
Short-term investments	1,140	1,780	1,800	1,140	1,780	1,800
Bank deposits	265	216	239	265	216	239
<b>Total current assets</b>	<b>1,447</b>	<b>2,042</b>	<b>2,046</b>	<b>1,447</b>	<b>2,042</b>	<b>2,046</b>
<b>Total assets</b>	<b>28,427</b>	<b>27,594</b>	<b>27,419</b>	<b>14,690</b>	<b>15,281</b>	<b>15,288</b>
<b>Shareholders' equity and liabilities</b>						
<b>Shareholders' equity</b>						
<i>Restricted shareholders' equity</i>						
Share capital	8,927	8,927	8,927	8,927	8,927	8,927
Premium reserve	3,036	3,036	3,036	3,036	3,036	3,036
<i>Non-restricted shareholders' equity</i>						
Retained earnings	972 *	3,021 *	3,021 *	972	3,021	3,021
Net profit for the period	1,491 *	31 *	42 *	1,491	31	42
Share of capital in the associated company	13,388	12,147	11,812			
Adjustment in accordance with the Cooperation Agreement	349	166	319			
<b>Total shareholders' equity</b>	<b>28,163</b>	<b>27,328</b>	<b>27,157</b>	<b>14,426</b>	<b>15,015</b>	<b>15,026</b>
<b>Liabilities</b>						
Short-term liabilities	264	266	262	264	266	262
<b>Total liabilities</b>	<b>264</b>	<b>266</b>	<b>262</b>	<b>264</b>	<b>266</b>	<b>262</b>
<b>Total shareholders' equity and liabilities</b>	<b>28,427</b>	<b>27,594</b>	<b>27,419</b>	<b>14,690</b>	<b>15,281</b>	<b>15,288</b>
Collateral pledged (bank funds) in connection with compulsory redemption proceedings	207	200	207	207	200	207
Contingent liabilities	9	8	8	9	8	8

\* Excluding the associated company.

## 2.2. Financial Statements 1998

# Nordbanken Holding 1998

## Board of Directors' Report

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](http://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
<b>Total</b>	<b>101,980</b>	<b>100.0</b>	<b>1,275,267,441</b>	<b>100.0</b>	

Source: Swedish Securities Register Center (VPC) AB.

**Data per share<sup>1)</sup>**

	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 <sup>2)</sup>	2.92	4.40	29.41	22.65	13.97
Shareholders' equity, SEK <sup>2)</sup>	21.30	19.10	95.27	86.74	76.78
Dividend, SEK <sup>2)3)</sup>	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 <sup>1)</sup>	
	Note	1998	1997 Pro forma	1998	1997
<b>Operating income</b>		-	-	-	-
<b>Operating expenses</b>					
Personnel expenses	2	0	-	0	-
Other administrative expenses		-12	-	-12	-
<b>Operating loss</b>		<b>-12</b>	-	<b>-12</b>	-
<b>Net result from financial investments</b>					
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			
<b>Profit after financial items</b>		<b>6,200</b>	<b>5,113</b>	<b>58</b>	<b>4,934</b>
Refund from pension foundation/fund <sup>2)</sup>		802	1,367		
Write-downs of real estate <sup>2)</sup>		-3,267	-867		
<b>Profit before tax</b>		<b>3,735</b>	<b>5,613</b>	<b>58</b>	<b>4,934</b>
Tax on profit for the year <sup>3)</sup>		-16	-	-16	-
<b>Net profit for the year</b>		<b>3,719</b>	<b>5,613</b>	<b>42</b>	<b>4,934</b>

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
<b>Assets</b>					
<b>Fixed assets</b>					
<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
<b>Total fixed assets</b>		<b>25,373</b>	<b>22,493</b>	<b>13,242</b>	<b>15,034</b>
<b>Current assets</b>					
Short-term receivables	4	7	1,913	7	1,913
Short-term investments	4	1,800	–	1,800	–
Bank deposits		239	1	239	1
<b>Total current assets</b>		<b>2,046</b>	<b>1,914</b>	<b>2,046</b>	<b>1,914</b>
<b>Total assets</b>		<b>27,419</b>	<b>24,407</b>	<b>15,288</b>	<b>16,948</b>
<b>Shareholders' equity and liabilities</b>					
<b>Shareholders' equity</b>					
<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			
<b>Total shareholders' equity</b>		<b>27,157</b>	<b>24,356</b>	<b>15,026</b>	<b>16,897</b>
<b>Liabilities</b>					
Short-term liabilities	6	262	51	262	51
<b>Total liabilities</b>		<b>262</b>	<b>51</b>	<b>262</b>	<b>51</b>
<b>Total shareholders' equity and liabilities</b>		<b>27,419</b>	<b>24,407</b>	<b>15,288</b>	<b>16,948</b>
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
<b>Funds provided</b>		
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	-
<b>Total funds provided</b>	<b>2,340</b>	<b>3,073</b>
<b>Funds applied</b>		
Investments in shares	189	1,090
Increase in long-term receivables	-	1,981
Reduction of share capital	-	1
Dividends to shareholders	1,913	-
<b>Total funds applied</b>	<b>2,102</b>	<b>3,072</b>
<b>Change in liquid funds</b>	<b>238</b>	<b>1</b>

# 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 <sup>1)</sup>
Fixed assets					
MeritaNordbanken Plc <sup>2)</sup>					
Common shares	560,000,000	5,600	13,242	-	50(40)
Preferred shares	280,000,000	2,800	-	-	0 (20)

<sup>1)</sup> Difference in percentage of capital is shown in parenthesis.

<sup>2)</sup> 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
<b>Long-term financial assets</b>		
Long-term receivables from Nordbanken AB	–	1,981
<b>Current assets</b>		
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	–
<b>Total</b>	<b>1,807</b>	<b>3,894</b>

**Note 5. Change in shareholders' equity <sup>1)</sup>**

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

<sup>1)</sup> 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
<b>Total</b>	<b>262</b>	<b>51</b>

# 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
<b>Total</b>	<b>3,063</b>

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
<b>Total</b>	<b>3,063</b>

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 above. 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.

## 2.3. Auditors' Reports for the years 1998 and 1997

# 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

# Auditors' Report

To the Annual General Meeting of Nordbanken Holding AB (publ),  
corporate registration no. 556547-0977.

We have audited the Annual Report, the accounts and the administration of the Board of Directors and the President of Nordbanken Holding AB (publ) for the period October 8, 1997 to December 31, 1997. The Annual Report, the accounts and the administration are the responsibility of the Board of Directors and the President. 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 President 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 President or whether they have in some other way acted in contravention of the Swedish Companies Act, the Swedish Annual Accounts Act or Articles of Incorporation. We believe that our audit provides a reasonable basis for our opinion set out below.

The Annual Report has been prepared in accordance with the Swedish Annual Accounts Act.

We recommend

- that the income statement and balance sheet be adopted
- that the profit be dealt with in accordance with the proposal in the Report of the Directors.

In our opinion, the Board members and the President have not committed any act or been guilty of any omission, which could give rise to any liability to the Company and we, therefore, recommend

- that the members of the Board of Directors and the President be discharged from liability for the financial year.

Stockholm, February 26, 1998

Caj Nackstad  
Authorized Public Accountant

Per-Olof Akteus  
Authorized Public Accountant

### 3. MERITA

#### 3.1. Interim Report 1 January–30 September 1999

##### Merita Plc and its associated company

##### Interim report for January-September 1999

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

The holding companies Merita Plc (Merita) and Nordbanken Holding AB (publ) (Nordbanken Holding) 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.

The interim report of the MeritaNordbanken Group, including the income statements and the balance sheets, is an integral part of the interim report of Merita Plc. In order to illustrate the financial performance and position of Merita Plc, the attached material comprises the income statements and balance sheets of Merita Plc both including and excluding its associated company MeritaNordbanken.

Merita shares are quoted on the Helsinki Stock Exchange in euros.

As stated in the interim report of the MeritaNordbanken Group, Merita and Nordbanken Holding entered into a new merger agreement on September 20, 1999 for the purpose of simplifying the legal structure of the MeritaNordbanken Group. In accordance with this merger agreement, the Board of Directors of Nordbanken Holding decided to make an exchange offer to shareholders and holders of convertible bonds in Merita, respectively. The offering documents are expected to be available to Merita shareholders and holders of Merita convertible bonds in late November 1999.

As long as the outcome of the aforesaid exchange offers is not known, the following stipulations continue to apply. Pursuant to the current Cooperation Agreement, Merita Plc, Nordbanken Holding AB (publ) and the MeritaNordbanken Plc Group are managed as one single entity. For this purpose its 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, where necessary, Merita Plc and Nordbanken Holding shall ensure the transfer of adequate funds from the MeritaNordbanken Plc Group to the holding companies.

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

Pursuant to the current Cooperation Agreement, the preference shares in MeritaNordbanken held by Nordbanken Holding shall in certain situations be converted into ordinary shares on a one-for-one basis. Such conversion shall take place if a third party enters as a shareholder in MeritaNordbanken, provided, however, that no shareholder, after conversion, shall own shares representing more than 50 per cent of the votes in MeritaNordbanken; or if the general meeting of MeritaNordbanken unanimously decides that conversion shall take place. Furthermore, the general meeting may unanimously decide on the redemption of the preference shares. All ordinary and preference shares of MeritaNordbanken carry equal rights to dividends. However, if conversion or redemption has not taken place by January 1, 2001, the preference shares shall carry a right to dividends that exceed the dividends payable on ordinary shares by 20 per cent. This would mean that the 60/40 division of dividends would change to approximately 61.5/38.5. If conversion of the preference shares takes place in 2001 or later, the higher dividend as set out in the foregoing shall cease to be distributed as from the financial year during which the conversion takes place. The completion of the proposed Exchange Offer (see above) would mean that the preference shares would be converted into ordinary shares subject to the decision of MeritaNordbanken's General Meeting.

The profit of Merita Plc for the period under review, excluding the associated company, was EUR 123 million. It consisted primarily of the confirmed dividend from MeritaNordbanken Plc, EUR 154 million, including a tax credit of EUR 43 million. In the previous year, the sale of a holding in the Sampo Insurance Company had a major impact on the result. 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 pursuant to the Cooperation Agreement. The profit thus represents 40 per cent of the profit of the entire MeritaNordbanken Group and amounts to EUR 310 million, or EUR 0.36 per share. 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, was EUR 2,153 million, or EUR 2.58 per share.

Assuming the continuation of favourable economic developments in Finland and Sweden during the last quarter, the business and results of the MeritaNordbanken Group, excluding items of a non-recurring nature, can be expected to sustain a stable trend.

## Income statements

EUR million	Merita Plc incl. the associated company			Merita Plc		
	Jan-Sep 1999	Jan-Sep 1998	Jan-Dec 1998	Jan-Sep 1999	Jan-Sep 1998	Jan-Dec 1998
Interest income	11	10	25	11	10	25
Interest expenses	-6	-16	-18	-6	-16	-18
Net interest income	5	-6	7	5	-6	7
Income from equity investments						
Participating interests	0	0	-	154	0	1
Commission expenses	-0	-0	-0	-0	-0	-0
Net result from financial operations	-	133	133	-	133	133
Other operating income	0	1	7	9	1	7
	5	128	147	168	128	148
Administrative expenses						
Personnel expenses	-1	-1	-4	-1	-1	-4
Other administrative expenses	-1	-10	-11	-1	-10	-11
Depreciation and write-downs and other operating expenses	-0	-1	-1	-0	-1	-1
	-2	-12	-16	-2	-12	-16
Profit from the company accounted for under the equity method	313	278	404			
Adjustment in accordance with the Cooperation Agreement	-6	-68	-80			
<b>Operating profit</b>	<b>310</b>	<b>326</b>	<b>455</b>	<b>166</b>	<b>116</b>	<b>132</b>
Refund from the Pension Foundation/Fund <sup>1)</sup>	-	-	61	-	-	4
Write-downs on real estate holdings <sup>1)</sup>	-	-	-247	-	-	-11
<b>Profit before taxes</b>	<b>310</b>	<b>326</b>	<b>269</b>	<b>166</b>	<b>116</b>	<b>125</b>
Income taxes <sup>2)</sup>	0	0	12	-43	0	12
<b>Profit for the financial period</b>	<b>310</b>	<b>326</b>	<b>281</b>	<b>123</b>	<b>116</b>	<b>137</b>

<sup>1)</sup> 40 per cent of the refund from the Pension Foundation/Fund of the MeritaNordbanken Group and 40 per cent of the Group's write-downs on real-estate holdings have been included in the income statement.

<sup>2)</sup> Income taxes include only Merita Plc's taxes. The carry-over effect of confirmed losses from previous years is taken into account as a deduction. The amount shown is, however, at least equal to the corresponding tax credit entered in the income statement. Merita Plc's share of other MeritaNordbanken Group taxes is reported under "Profit from the company accounted for under the equity method".

## Balance sheets

EUR million	Merita Plc incl. the associated company			Merita Plc		
	Sep 30 1999	Sep 30 1998	Dec 31 1998	Sep 30 1999	Sep 30 1998	Dec 31 1998
<b>Assets</b>						
Debt securities eligible for refinancing with central banks	162	151	158	162	151	158
Loans to credit institutions repayable on demand	17	9	36	17	9	36
Other debt securities	152	152	152	152	152	152
Shares and participations	0	0	0	0	0	0
Participating interests	1,995	1,833	1,727	1,650	1,650	1,650
Other assets	0	5	1	0	5	1
Prepaid expenses and accrued income	3	5	13	3	5	13
<b>Total</b>	<b>2,329</b>	<b>2,155</b>	<b>2,087</b>	<b>1,984</b>	<b>1,972</b>	<b>2,010</b>
<b>Liabilities and shareholders' equity</b>						
<i>Liabilities</i>						
Other liabilities	12	5	12	12	5	12
Accrued expenses and prepaid income	11	1	14	11	1	14
Provisions						
Pension provisions	1	1	1	1	1	1
Other provisions	-	3	-	-	3	-
Subordinated liabilities	152	152	152	152	152	152
Liabilities	176	162	179	176	162	179
<i>Shareholders' equity</i>						
Share capital	1,399	1,399	1,399	1,399	1,399	1,399
Share issue	0	-	-	0	-	-
Share premium reserve	5	5	5	5	5	5
Ordinary reserve	36	36	36	36	36	36
Retained earnings	403	227	187	245	254	254
Profit for the financial period	310	326	281	123	116	137
Shareholders' equity	2,153	1,993	1,908	1,808	1,810	1,831
<b>Total</b>	<b>2,329</b>	<b>2,155</b>	<b>2,087</b>	<b>1,984</b>	<b>1,972</b>	<b>2,010</b>
<b>Off-balance-sheet commitments</b>						
Commitments on behalf of customers in favour of third parties						
Guarantees and pledges	1	1	1	1	1	1

## Shareholders' equity

EUR million	Sep 30 1999	Sep 30 1998	Dec 31 1998
Equity capital excluding the associated company	1,808	1,810	1,831
Share of equity capital in the associated company	385	201	111
Adjustment in accordance with the Cooperation Agreement	-40	-18	-34
<b>Equity capital including the associated company</b>	<b>2,153</b>	<b>1,993</b>	<b>1,908</b>

### 3.2. Financial Statements 1998

# Merita Plc 1998

## Board of Directors' Report

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, Rautatieäisenkatu 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](http://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

## 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

## 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	
<b>Total</b>	<b>294,609</b>	<b>100.0</b>	<b>832,020,744</b>	<b>100.0</b>	<b>2,824</b>

Source: Finnish Central Securities Depository Ltd.

entered in the shareholders' register maintained for the 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.

#### Merita Plc shares / Per-share data<sup>1)</sup>

	1998	1997	1996	1995	1994
<b>Combined share series</b>					
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
<b>Series A shares</b>					
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	-
<b>Series B shares<sup>2)</sup></b>					
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	-

<sup>1)</sup> Issue adjusted, calculated in accordance with regulations set forth by the Finnish Financial Supervision Authority.

<sup>2)</sup> Series B shares were combined with Series A shares on November 5, 1998.

Hereafter, all shares carry the same voting rights and 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%,

### 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.

primarily due to the sharp rise in Nokia shares. The 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 Pro forma		Merita Plc	
		1998	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
		<b>874</b>	<b>10</b>	<b>880</b>	<b>690</b>
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
		<b>-95</b>	<b>-56</b>	<b>-95</b>	<b>-56</b>
Profit from companies accounted for under the equity method		2,403	2,419	–	–
Adjustment in accordance with the cooperation agreement		-478		–	–
<b>Operating profit</b>		<b>2,704</b>	<b>2,373</b>	<b>785</b>	<b>634</b>
Refund from the Pension Fund/Foundation <sup>1)</sup>	10	360	618	25	631
Group contribution received		–	–	–	457
Real estate write-downs <sup>1)</sup>		-1,468	-392	-64	–
<b>Profit before taxes</b>		<b>1,596</b>	<b>2,599</b>	<b>747</b>	<b>1,722</b>
Income taxes <sup>2)</sup>	9	75	-61	69	-252
<b>Net profit for the year</b>		<b>1,671</b>	<b>2,538</b>	<b>816</b>	<b>1,470</b>

<sup>1)</sup> 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.

<sup>2)</sup> 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 Pro forma		Merita Plc	
		1998	1997	1998	1997
<b>Assets</b>					
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
		<b>12,408</b>	<b>14,747</b>	<b>11,952</b>	<b>14,455</b>
<b>Liabilities and shareholders' equity</b>					
<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
		<b>12,408</b>	<b>14,747</b>	<b>11,952</b>	<b>14,455</b>
<b>Off-balance-sheet commitments</b>					
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
<b>Total</b>	<b>0</b>	<b>1</b>	<b>829</b>	<b>58</b>

**Difference between the market value and a lower book value for publicly listed shares <sup>1)</sup>**

- current assets	–	–	845	–
<b>Total</b>	<b>0</b>	<b>–</b>	<b>845</b>	<b>–</b>

There were no borrowed or lent securities at the close of the period.

<sup>1)</sup> 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
<b>Subsidiaries <sup>1)</sup></b>				
- credit institutions	–	–	–	8,863
- other	–	–	–	2,673
<b>Total</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>11,536</b>
<b>Associated companies</b>				
- other than credit institutions	10,268	11,828	9,811	–
<b>Total</b>	<b>10,268</b>	<b>11,828</b>	<b>9,811</b>	<b>11,536</b>

<sup>1)</sup> 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
<b>Total</b>	<b>8</b>	<b>23</b>

**Note 4: Subordinated liabilities**

FIM million	1998	1997
Subordinated liabilities with a book value exceeding 10% of total subordinated debt <sup>1)</sup>	903	906
- of which, perpetual bonds	903	906

<sup>1)</sup> 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
<b>December 31, 1998</b>	<b>8,320</b>	<b>241</b>	<b>2,785</b>	<b>11,346</b>
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	
<b>Shareholders' equity incl. the associated company</b>	<b>11,346</b>	<b>11,144</b>

**Note 6: Shares in Merita Plc**

See Board of Director's Report.

**Note 7: Shareholders**

The largest shareholders according to the share register, see Board of Director's Report.

**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 <sup>1)</sup>	251
Tax on extraordinary items	–	–
<b>Total</b>	<b>-70</b>	<b>251</b>

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
<b>Average number of employees during the year</b>	<b>6</b>	<b>11</b>
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
<b>Receivables</b>		
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
<b>Total</b>	<b>–</b>	<b>2,076</b>
<b>Liabilities</b>		
Other liabilities	–	64
Accrued expenses and prepaid income	–	0
<b>Total</b>	<b>–</b>	<b>64</b>

# 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 above.

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.

## 3.3. Auditors' Reports for the years 1998 and 1997

# 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 Execu-

tive 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

Eric Haglund  
Authorized Public Accountant

Mauri Palvi  
Authorized Public Accountant

# Auditors' Report

to the shareholders 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 1997. The financial statements, which include the report of the Board of Directors, consolidated 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. 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 give a true and fair view, as defined in the Accounting Act, of both the consolidated and the parent company result of operations for the financial period under audit as well as of the Group's and the parent company's financial position at the year-end. The financial statements may be adopted and the Chairman and 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 financial statements published by the company during the year. It is our understanding that the interim financial statements have been prepared in accordance with the rules and regulations governing the preparation of such statements in Finland.

Helsinki, 26 February 1998

Eric Haglund  
Authorized Public Accountant

Mauri Palvi  
Authorized Public Accountant

Eero Suomela  
Authorized Public Accountant

## 4. MERITANORDBANKEN GROUP

### 4.1. Interim Report 1 January–30 September 1999

# Interim report

## Third-quarter result 1999 \*

The Group's operating profit for July-September amounted to EUR 282 million (EUR 280m).

### Income

The Group's total income for the third quarter was EUR 682 million (EUR 686m).

Net interest income was EUR 439 million (EUR 454m). The decline resulted largely from a reduction in the Group's interest-rate risk exposure and an increase in liquidity reserves in preparation for the turn of the year.

Net commission income was EUR 190 million (EUR 194m). The figure for the preceding quarter was the best ever, stemming, among other things, from strong earnings from custodial services. Commission income from fund management and card products continued to rise at a vigorous pace.

The net result from financial operations showed a loss of EUR 7 million (-EUR 53m). It continued to be depressed by the rise in interest rates, although this impact was significantly

moderated by steps taken by the Group during the second quarter to reduce its interest-rate exposure. Realized and unrealized losses on interest-rate-related securities totalled EUR 40 million (EUR 95m). Earnings from currency-related transactions were unchanged at EUR 19 million, and earnings from equity-related transactions amounted to EUR 14 million (EUR 23m).

Other income totalled EUR 60 million (EUR 91m). The lower level is explained principally by larger capital gains and dividend income posted in the second quarter.

### Interest-rate risks

At the end of September, the price risk involved in the Group's trading positions calculated as a parallel shift assuming a change in market interest rates of one percentage point was EUR 47 million (EUR 114m). The average duration of financial current assets was 1.7 years (1.9 years). Based on the situation at the end of September, a rise of one percentage point in interest rates would reduce net interest income by EUR 18 million (EUR 30m)

\* The figures in brackets refer to the second quarter of 1999.

over the next 12 months assuming no change in the balance sheet structure.

#### **Expenses continued to decline**

Total expenses decreased by 5 per cent to EUR 405 million (EUR 425m). This reduction reflected continued cost restraint, higher productivity and efficiency resulting mainly from investments in information technology, and lower data and marketing expenses during the summer months.

Personnel expenses amounted to EUR 195 million (EUR 196m). The number of employees continued to decrease. The gross reduction in the workforce in the third quarter was 105 persons. The number of employees in the Group's banking operations at the end of September was 18,058.

Other expenses declined to EUR 210 million (EUR 229m).

The third-quarter cost/income ratio before loan losses was 59 per cent (62 per cent). The year's cumulative cost/income ratio was 55 per cent.

#### **Synergy benefits**

Income and expenses continue to be favourably impacted by the synergy benefits arising from the merger and the creation of the MeritaNordbanken Group. The estimated synergy benefits of EUR 115 million within three years are materializing according to plan. Further value is being created through cost and income synergies as the integration of businesses proceeds.

#### **Loan losses remain low**

No net loan losses were posted for July-September, the second consecutive quarter of zero loan loss levels.

The net volume of problem loans, including EUR 19 million of loans with interest deferrals, increased somewhat to EUR 949 million (EUR 873m). The increase stemmed from a few major exposures with a relatively low provisioning requirement. The volume of problem loans represented 1.4 per cent of total lending. The level of provisions against problem loans was 61 per cent (67 per cent).

#### **Unrealized gains and equity capital**

At the close of the third quarter, holdings of

interest-bearing securities classified as financial fixed assets amounted to EUR 5.1 billion, which corresponded to the market value.

Equity holdings classified as financial current assets but carried at the lower of cost or market amounted to EUR 0.2 billion, with unrealized gains at the end of the period totalling EUR 0.1 billion. The fair value of the assets of the Group's pension foundations and pension fund at the end of the period exceeded the pension commitments by EUR 0.3 billion.

The Group's equity capital at the end of the period under review was EUR 5.4 billion (EUR 5.2 billion).

The Tier 1 ratio was 7.8 per cent and the capital ratio 10.8 per cent. The capital base for the calculation of the interim capital ratio includes only the profit for the first half-year, after deduction of a standard dividend.

#### **Third-quarter market developments**

In Finland and Sweden, the third quarter of the year was a period of uninterrupted economic growth. Market interest rates continued to rise. The approximate rise in medium-term interest rates in Sweden was 0.8 percentage point and in Finland 0.6 percentage point.

#### **Lending**

The Group's lending to the public at the end of September totalled EUR 67.1 billion, a third-quarter increase of EUR 0.9 billion. During the nine months under review, Group lending to the public increased by EUR 7.3 billion, i.e. 12.2 per cent. The Group's market share of lending to companies in Finland was 49.6 per cent and that in Sweden 16.8 per cent. In Sweden, the Group's mortgage market share rose to 15.0 per cent, while the market share of total lending to households was 14.5 per cent. In Finland, the Group's lending to households increased, while the market share contracted marginally to 33.9 per cent.

#### **Further growth in household savings**

At the end of September, total household savings with the MeritaNordbanken Group amounted to EUR 66.2 billion, an increase of EUR 0.7 billion during the third quarter. This comprised all types of savings products, including bank deposits,

mutual funds, insurance products, retail bonds, share-index-linked bonds, etc.

### Deposits

The Group's total deposits from the public decreased by 1.6 per cent to EUR 39.3 billion, with market shares broadly unchanged. The market share of total deposits from households in Finland in August was 36.6 per cent and that of corporate deposits in Finnish marks up at 48.6 per cent. In Sweden, the Group's deposit market share in the household sector was 21.9 per cent and that in the corporate sector 16.6 per cent.

### Mutual funds gain momentum

The net inflow of savings into the Group's mutual funds in Sweden in the third quarter was EUR 303 million, which represented 28.5 per cent of net fund savings in Sweden during this period. During September, the Group accounted for as much as 45 per cent of the total net inflow of savings into Swedish mutual funds, and its market share of total fund assets in Sweden at the end of September exceeded 18 per cent. In Finland, the net inflow of capital into the Group's mutual funds during the third quarter was EUR 152 million, corresponding to 31.0 per cent of total net savings in Finnish mutual funds during this period. This brought the Group's market share of total mutual fund assets in Finland to 31.3 per cent. The aggregate assets managed by the Group's mutual funds at the end of September stood at EUR 14.2 billion in Sweden and EUR 2.7 billion in Finland, totalling EUR 16.9 billion.

A new mutual fund, MeritaNordbanken IT, designed for investors in both Sweden and Finland, was launched during the third quarter. This was the fifth cross-border fund introduced by the Group. Net savings in the Group's cross-border funds at the end of September totalled EUR 66 million.

### Sharp rise in insurance savings

With sustained strong sales of life assurance policies, the Group's combined third-quarter premium income from insurance business in Finland and Sweden was EUR 278 million (EUR 307m). Premium income from unit-linked insurance products continued to rise rapidly, notably in Sweden, where third-quarter premiums amounted to EUR 75 million. Sales of non-unit-linked life assurance products also continued to make vigorous progress in Finland, with total premium income of EUR 128 million.

### Vigorous growth in Internet banking, launch of the Solo Mall e-commerce facility in Sweden, introduction of WAP banking services

To date, 850,000 MeritaNordbanken customers have signed up as users of the Group's Internet banking services, and the number is expected to rise to somewhere near one million by the end of 1999. Monthly log-ons are fast approaching 2.5 million. An increasing number of customers are using the Group's Internet services for various banking transactions, notably bill payments, and the range of services is being constantly expanded. In October, the Solo Mall electronic commerce facility was launched in Sweden, and new banking services based on full-scale utilization of the WAP technology were unveiled in Finland. Internet services enhance accessibility to customers and help reduce costs. The MeritaNordbanken Group continues to be one of the world leaders in the sphere of rapidly advancing Internet banking services.

### Results by business area

Group operations are organized into five major business areas. The results of Treasury operations and Other operations are shown separately.

#### Results by business area

EUR million	Retail	Corporate	Markets	Asset Management	Real Estate	Treasury	Other	Total
1999								
Q3	224	62	-2	48	-11	10	-49	282
Q2	198	85	-3	60	-12	-17	-31	280
Q1	198	53	29	47	-11	71	102	489

*Retail*

The Regional Banks reported a combined third-quarter operating profit of EUR 224 million. The third quarter was characterized by continued favourable development in lending volumes in both Sweden and Finland and by strong sales of mutual funds and insurance policies. With loan losses at low levels and costs on a downward trend, the return on allotted equity capital exceeded 25 per cent.

*Corporate*

The operating profit of the Corporate business area was EUR 62 million. The growth in business volumes noticeable in the first half-year levelled off during the last three months under review. The second-quarter result was boosted by capital gains, while the third-quarter result was strained by increasing provisions for problem loans.

*Markets*

Markets reported a third-quarter loss of EUR 2 million. The profitability of interest-rate-related trading remained low, while earnings from foreign exchange trading sustained an unchanged level and earnings from equity trading decreased somewhat compared with the second quarter.

*Asset Management*

Thanks to continuing sales momentum in the third quarter, assets under management rose by EUR 0.7 billion to EUR 26.2 billion. Third-quarter product earnings, comprising total management income less administrative, sales and distribution expenses, amounted to EUR 34 million (EUR 48m). The lower level compared with the preceding quarter resulted from the rise in interest rates, which lowered asset values in the insurance business.

*Real Estate*

Group Real Estate operations showed a third-quarter loss of EUR 11 million. The capital allocated to Real Estate corresponds to an equity/assets ratio of approximately 35 per cent. The decision to launch the Group's real estate company Aleksia on the stock market will be implemented as described below.

*Treasury operations*

Steps taken during the second quarter to reduce

Group exposure to interest-rate risks moderated the negative impact of rising interest rates on the result of Treasury operations. The result for the third quarter was EUR 10 million (-EUR 17m).

*Other operations*

The items under the heading "Other" consist in part of income and expenses not directly attributable to any business unit and in part of intra-Group adjustments. The lower result compared to the preceding quarter was due to developments in dividends received.

**NOK 24.3 billion cash offer to shareholders of Christiania Bank og Kreditkasse**

MeritaNordbanken was created as the first step to build a leading financial group in the Nordic and Baltic region and as a regional initiative in the global restructuring of the financial services industry. Against this background, the Board of Directors of MeritaNordbanken Plc made the following offer to the shareholders of Christiania Bank og Kreditkasse ("Christiania Bank") on September 20, 1999:

Christiania Bank's shareholders are offered NOK 44 per share in cash, a price which represents a premium of 29.0 per cent to the closing market price of NOK 34.10 on September 17, 1999. The offer values Christiania Bank at NOK 24.3 billion.

The offer is made subject to certain conditions of which the most important are that the offer is accepted by shareholders in Christiania Bank representing more than 90 per cent of the share capital and that the approval of the Norwegian Ministry of Finance is obtained.

MeritaNordbanken has already acquired 9.9 per cent of the shares in Christiania Bank.

The offering document concerning the offer to shareholders of Christiania Bank was published on September 24, 1999. The acceptance period commenced on September 28, 1999 and will end on October 29, 1999 at 5.00 p.m. Oslo time unless extended. The reasons for the offer and information on the proposed integration process, synergy benefits and other details are set out in the offering document.

On two occasions - October 6 and October 20, 1999 - the Board of Directors of Christiania

Bank has recommended that the bank's shareholders accept MeritaNordbanken's offer.

The Norwegian state owns a good third of the shares in Christiania Bank. The policy concerning this holding will be determined by the Norwegian Parliament, Stortinget.

### **Simplification of legal structure**

In line with the objectives stated in their merger agreement of 1997, Merita Plc and Nordbanken Holding AB (publ), entered into a new merger agreement on September 20, 1999 for the purpose of simplifying the legal structure of the MeritaNordbanken Group. The aim is to create a Nordic one share - one bank structure to improve efficiency and to reduce legal risks. The proposed modification is designed to create a growth-oriented and balanced pan-Nordic group. The possibilities for the market to fairly evaluate the share will be enhanced.

In accordance with the new merger agreement, the Board of Directors of Nordbanken Holding decided to make the following offer to shareholders and holders of convertible bonds in Merita:

Each shareholder in Merita is entitled to receive 1.02 newly issued shares in Nordbanken Holding for each share in Merita. The exchange ratio reflects the earlier agreed 40-60 economic relationship within MeritaNordbanken. Each holder of convertible bonds in Merita is entitled to exchange these bonds against new convertible bonds in Nordbanken Holding.

The exchange offers are made subject to certain conditions of which the most important are that the General Meetings of Merita and Nordbanken Holding, respectively, give the relevant approvals and that the exchange offer for shares is accepted by shareholders representing more than 90 per cent of the outstanding shares and votes in Merita, and that relevant permits are obtained. The shareholders of Merita and Nordbanken Holding have been convened to General Meetings on November 23 and November 19, respectively.

The planned acceptance period for the exchange offers is to start on November 24, 1999 and end on November 15, 1999, unless extended. The offering documents are expected to be available to shareholders and holders of con-

vertible bonds in late November 1999.

The legal structure adopted for the MeritaNordbanken Group in 1997 was a provisional solution, and it was agreed at the time that a more simple structure would be aimed for. The present structure creates a number of practical difficulties, and a single share and a simplified legal structure are necessary steps to create a pan-Nordic financial group.

The proposed new group structure will comprise a Nordic holding company and a Nordic banking group. The holding company, Nordbanken Holding, will be legally domiciled in Sweden, and the parent company of the banking group, MeritaNordbanken Plc, will be legally domiciled in Finland. The shares of the Nordic holding company will be listed in Helsinki and Stockholm and, if Christiania Bank joins the Group, also in Oslo. It is proposed that the group holding company adopt an interim name, Nordic Baltic Holding AB (NBH) (publ). If the acquisition of Christiania Bank materializes, Group Board of Directors and Executive Management will include members also from Norway.

The Board of Directors of Merita notes that under the current Finnish tax legislation, ownership of shares in companies domiciled outside Finland does not qualify for tax credit (avoir fiscal) under the Finnish imputation system. However, dividend flows and capital structuring will be significantly simplified as cash will pass through the new structure more directly. Furthermore, the pricing difference between the two shares in the dual holding company structure will be removed, and the new company will be able to issue new shares more easily. A single share will be more transparent for the financial markets, and the concentration of trading in a single share should improve liquidity. A single share may also lead to inclusion of the share in additional indices. Finally, a single share better matches the group's stated aim of creating an integrated Nordic financial group. Merita's Board of Directors recommends that shareholders accept the exchange offer.

### **Rating**

Upon the launch of the cash offer to Christiania Bank shareholders and the exchange offer to

shareholders in Merita, the international rating agencies Moody's Investors Service, Standard & Poor's and Fitch IBCA all affirmed their respective credit ratings for the MeritaNordbanken Group.

#### **Termination of agreement with Sweden Post**

In September, Sweden Post gave notice of termination of the agreement under which Nordbanken's private customers have been able to transact banking business at post offices. The agreement will expire on April 1, 2001. The termination of this cooperation means that Sweden Post will transfer its share of the business concept Postbanken, embracing over 400,000 customers, to Nordbanken. As a financial consequence, the annual compensation to Sweden Post, currently in the order of SEK 700 million, will cease to be payable. It is expected that in the long term only part of this amount will be needed to sustain an equal service level to the customers affected, as new technology and new distribution channels will enable Nordbanken to ensure smooth customer service even without Sweden Post. Furthermore, Nordbanken has offered to employ, as of April 1, 2001, approximately 250 private advisors currently providing advanced advisory services for private customers with Sweden Post.

#### **Strengthening of investment banking operations**

In October, the MeritaNordbanken Group acquired the shares of Maizels, Westerberg & Co to create a new investment bank with operations in Stockholm, Helsinki and London. The new unit, named Maizels, MeritaNordbanken, Investment Banking, will initially have approximately 80 employees. Its creation further enhances MeritaNordbanken's capabilities in corporate finance advisory services, M&A and equity finance.

#### **Real estate disposals**

The Group continued to implement the divestment programme launched in December 1998, which involves the disposal of real estate holdings and preparations for the sale of shares in real estate companies.

The Group has decided to apply for the listing of its real estate company Aleksia on the Helsinki Exchanges. The listing will require the implementation of a proposed offering of Aleksia

shares to Finnish, Swedish and international investors. The intention is to dispose of all Aleksia shares. The initial public offering and listing are scheduled to take place in early 2000, a timing expected to provide sufficiently favourable market conditions.

#### **Year 2000**

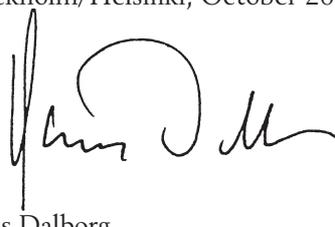
The testing of the integration status of the MeritaNordbanken Group's data systems and the exchange of information with external counterparties was completed in September. No problems of critical nature or material importance for the Group's operations were discovered. The system modifications and tests necessitated by the deviating banking day in Finland on December 31, 1999 will also be completed in time.

The inspection reports of the financial supervision authorities in Finland and Sweden and the local supervisory authorities in the countries in which the Group operates have contained no critical observations concerning the Group's Year 2000 compliance.

#### **Shares**

During the third quarter, the Merita share price ranged between EUR 4.88 and EUR 5.88 and that of Nordbanken Holding between SEK 45.00 and SEK 54.50. On September 20, the day of the launch of the exchange offer, the price of the Merita share rose to the same level as that of Nordbanken Holding. On October 4, the Stockholm Stock Exchange started quoting the share of Nordbanken Holding also in euros. The combined market capitalization of the MeritaNordbanken Group at the end of September was somewhat over EUR 11 billion.

Stockholm/Helsinki, October 26, 1999



Hans Dalborg  
President and Group Chief Executive Officer

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

## Income statements

EUR million	January-September		Change %
	1999	1998	
Net interest income, note 1	1,341	1,363	-2
Net commission income, note 2	565	533	6
Net result from financial operations, note 3	88	290	-70
Other income, note 4	243	288	-16
<b>Total income</b>	<b>2,237</b>	<b>2,474</b>	<b>-10</b>
Personnel expenses	-587	-629	-7
Other expenses, note 5	-646	-724	-11
<b>Total expenses</b>	<b>-1,233</b>	<b>-1,353</b>	<b>-9</b>
<b>Profit before loan losses</b>	<b>1,004</b>	<b>1,121</b>	<b>-10</b>
Loan losses, net	-20	-101	-80
Profit from companies accounted for under the equity method	67	26	
<b>Operating profit</b>	<b>1,051</b>	<b>1,046</b>	<b>0</b>
Taxes	-276	-228	21
Minority interest	-1	-4	-75
<b>Net profit for the period</b>	<b>774</b>	<b>814</b>	<b>-5</b>

## Note 1: Net interest income

EUR million	January-September		Change %
	1999	1998	
Interest income	3,569	3,836	-7
Interest expenses	-2,228	-2,473	-10
<b>Net interest income</b>	<b>1,341</b>	<b>1,363</b>	<b>-2</b>

## Note 2: Net commission income

EUR million	January-September		Change %
	1999	1998	
<b>Commission income</b>			
Securities	265	230	15
Payment transmission	158	145	9
Lending	130	132	-2
Guarantees	23	31	-26
Deposits	19	22	-14
Other commission income	41	41	0
<b>Total commission income</b>	<b>636</b>	<b>601</b>	<b>6</b>
<b>Commission expenses</b>			
Payment transmission	52	56	-7
Securities	10	9	11
Other commission expenses	9	3	
<b>Total commission expenses</b>	<b>71</b>	<b>68</b>	<b>4</b>
<b>Net commission income</b>	<b>565</b>	<b>533</b>	<b>6</b>

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

EUR million	January-September		Change %
	1999	1998	
<b>Equity-related items</b>			
Realized gains/losses	160	208	-23
Unrealized gains/losses	-9	-1	
	<b>151</b>	<b>207</b>	-27
<b>Interest-rate-related items</b>			
Debt redemption	-	-	
Other realized gains/losses	70	121	-42
Unrealized gains/losses	-188	-89	
	<b>-118</b>	<b>32</b>	
<b>Foreign exchange gains/losses</b>	<b>55</b>	<b>51</b>	8
<b>Net result from financial operations</b>	<b>88</b>	<b>290</b>	-70

**Note 4: Other income**

EUR million	January-September		Change %
	1999	1998	
Dividends	25	82	-70
Real estate income	129	130	-1
Sale of real estate	4	3	33
Sale of equity investments	32	15	
Other	53	58	-9
<b>Total other income</b>	<b>243</b>	<b>288</b>	-16

**Note 5: Other expenses**

EUR million	January-September		Change %
	1999	1998	
Administrative expenses	379	392	-3
Real estate expenses	67	70	-4
Depreciation according to plan	110	133	-17
Other	90	129	-30
<b>Total other expenses</b>	<b>646</b>	<b>724</b>	-11

**Exchange rates applied:**

EUR 1 = FIM 5.94573 (fixed rate)

	January-September		January-December
EUR 1 = SEK	1999	1998	1998
Income statement (average)	8.8822	8.6723	8.8202
Balance sheet (at the end of period)	8.7235	9.1445	9.4874

## Balance sheets

EUR million	Sep 30 1999	Sep 30 1998	Dec 31 1998
<b>Assets</b>			
Loans to credit institutions	8,465	10,926	11,822
Loans to the public	67,131	58,338	59,828
Interest-bearing securities			
Current assets	7,164	10,110	9,997
Financial fixed assets	5,067	4,195	3,698
Shares and participations	625	569	517
Shares and participations in Group and associated companies	705	656	620
Real estate holdings	2,772	3,614	2,991
Other assets	5,804	6,417	6,561
<b>Total assets</b>	<b>97,733</b>	<b>94,825</b>	<b>96,034</b>
<b>Liabilities and shareholders' equity</b>			
Due to credit institutions and central banks	14,109	17,537	17,433
Deposits from the public	39,341	39,751	38,472
Other borrowing from the public	2,444	1,539	2,052
Debt instruments outstanding	24,486	20,389	22,687
Other liabilities	8,722	7,928	8,073
Subordinated debt	3,250	2,700	2,546
Shareholders' equity	5,381	4,981	4,771
<b>Total liabilities and shareholders' equity</b>	<b>97,733</b>	<b>94,825</b>	<b>96,034</b>
<b>Capital adequacy</b>			
Capital base	7,273	6,499	6,290
Risk-weighted amount	67,317	62,493	63,732
Total capital ratio, %	10.8	10.4	9.9
Tier I ratio, %	7.8	7.7	7.3
<b>Off-balance-sheet commitments</b>			
Guarantees	4,650	4,996	4,946
Stand-by facilities	6,795	5,068	4,683
Credit lines	6,051	5,452	5,200
Other commitments	2,021	1,259	880
<b>Total</b>	<b>19,517</b>	<b>16,775</b>	<b>15,709</b>
of which on behalf of associated companies	28	0	15
<b>Derivative instruments (nominal amounts)</b>			
<i>Contracts made for hedging purposes</i>			
Interest-rate-related derivatives	4,053	3,549	3,494
Currency-related derivatives	13,761	33,206	31,620
Equity-related derivatives	515	418	404
Other derivatives	–	–	–
<i>Contracts made for other than hedging purposes</i>			
Interest-rate-related derivatives	274,162	373,779	289,297
Currency-related derivatives	63,496	45,704	46,380
Equity-related derivatives	125	443	180
Other derivatives	100	100	32
<i>Total</i>			
Interest-rate-related derivatives, credit equivalents	2,207	2,833	2,695
Currency-related derivatives, credit equivalents	2,407	2,428	2,318

<b>Financial ratios</b>			
	<b>1999 Jan-Sep</b>	<b>1998 Jan-Sep</b>	<b>1998 Jan-Dec</b>
Return on equity, %	20.0	21.0	14.3
- excluding items affecting comparability	18.0	19.2	18.7
Cost/income ratio, %			
- before loan losses	55	55	55
- after loan losses	56	59	59
Loan losses/lending at the beginning of the year, %	0.0	0.2	0.2
<b>Share-related indicators</b>			
	<b>1999 Jan-Sep</b>	<b>1998 Jan-Sep</b>	<b>1998 Jan-Dec</b>
<i>Shares outstanding at end of period, mill.</i>			
Merita Plc	832.0	832.0	832.0
- after full conversion	859.1	859.1	859.1
Nordbanken Holding AB	1,275.3	1,275.3	1,275.3
<i>Earnings per share (EPS)</i>			
Merita Plc after full conversion	EUR 0.36	EUR 0.38	EUR 0.33
- excluding items affecting comparability	EUR 0.32	EUR 0.33	EUR 0.42
Nordbanken Holding AB	SEK 3.23	SEK 3.32	SEK 2.92
- excluding items affecting comparability	SEK 2.89	SEK 2.86	SEK 3.74
<i>Shareholders' equity per share at end of period</i>			
Merita Plc after full conversion	EUR 2.58	EUR 2.39	EUR 2.29
Nordbanken Holding AB	SEK 22.08	SEK 21.43	SEK 21.30
<i>Share price at end of period</i>			
Merita Plc	EUR 5.28	EUR 4.36	EUR 5.42
Nordbanken Holding AB	SEK 46.00	SEK 45.50	SEK 52.00

**Quarterly income statements, excluding items affecting comparability \***

EUR million	Q 3 1999	Q 2 1999	Q 1 1999	Q 4 1998	Q 3 1998	Q 2 1998
Net interest income	439	454	448	459	448	473
Net commission income	190	194	181	189	174	190
Net result from financial operations	-7	-53	34	18	10	50
Other income	60	91	92	78	57	93
<b>Total income</b>	<b>682</b>	<b>686</b>	<b>755</b>	<b>744</b>	<b>689</b>	<b>806</b>
Personnel expenses	-195	-196	-196	-212	-205	-207
Other expenses	-210	-229	-207	-249	-209	-232
<b>Total expenses</b>	<b>-405</b>	<b>-425</b>	<b>-403</b>	<b>-461</b>	<b>-414</b>	<b>-439</b>
<b>Profit before loan losses</b>	<b>277</b>	<b>261</b>	<b>352</b>	<b>283</b>	<b>275</b>	<b>367</b>
Loan losses, net	0	0	-20	-38	-33	-29
Profit from companies accounted for under the equity method	5	19	43	10	9	11
<b>Operating profit</b>	<b>282</b>	<b>280</b>	<b>375</b>	<b>255</b>	<b>251</b>	<b>349</b>
Taxes	-78	-73	-93	-56	-55	-76
Minority interest	0	-1	0	0	-1	-1
<b>Net profit / loss for the period</b>	<b>204</b>	<b>206</b>	<b>282</b>	<b>199</b>	<b>195</b>	<b>272</b>
<b>* Items affecting comparability</b>						
Net interest income	-	-	-	-4	-4	-9
Net result from financial operations	-	-	114	137	-7	-17
Other income	-	-	-	-	-	6
Personnel expenses	-	-	-	-40	-8	-7
Other expenses	-	-	-	1	-11	-24
Profit/loss from companies accounted for under the equity method	-	-	-	-25	-	-
Operating profit/loss	-	-	114	69	-30	-51
Write-downs on real estate holdings	-	-	-	-617	-	-
Refund from Pension Foundation/Fund	-	-	-	152	-	-
Taxes	-	-	-32	86	7	11
<b>Net profit/loss for the period</b>	<b>-</b>	<b>-</b>	<b>82</b>	<b>-310</b>	<b>-23</b>	<b>-40</b>

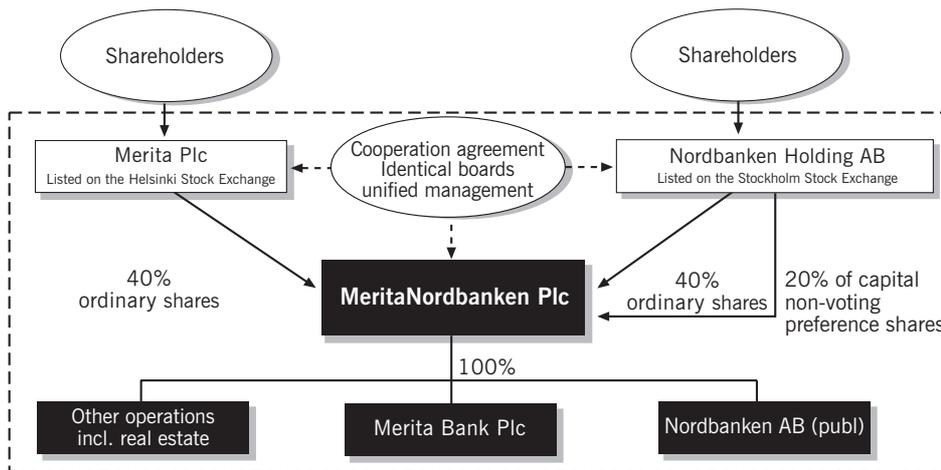
Problem loans					
EUR million	Sep 30 1999	June 30 1999	Mar 31 1999	Dec 31 1998	Sep 30 1998
Non-performing loans, gross	2,407	2,574	3,061	3,185	3,303
Loan loss provisions	-1,477	-1,717	-2,126	-2,181	-2,220
Non-performing loans, net	930	857	935	1,004	1,083
Loans with interest deferments	19	16	17	17	24
<b>Problem loans, total</b>	<b>949</b>	<b>873</b>	<b>952</b>	<b>1,021</b>	<b>1,107</b>
Loan loss provision/non-performing loans, gross	61.4 %	66.7 %	69.5 %	68.5 %	67.2 %
Non-performing loans, net, percent of lending	1.4 %	1.3 %	1.5 %	1.7 %	1.9 %

Results by business area, January-September 1999								
EUR million	Retail	Corporate	Markets	Asset mana- gement	Real estate	Treasury	Other	Total
<b>Operating profit/loss</b>								
Income	1,465	318	99	189	83	77	6	2,237
Expenses	-839	-111	-75	-34	-120	-13	-41	-1,233
Loan losses	-6	-7	-	-	-	-	-7	-20
Profit from companies accounted for under the equity method	-	-	-	-	3	-	64	67
<b>Operating profit/loss of which reallocated</b>	<b>620</b>	<b>200</b>	<b>24</b>	<b>155</b>	<b>-34</b>	<b>64</b>	<b>22</b>	<b>1,051</b>
<i>Operating profit/loss</i>								
Q 3, 1999	224	62	-2	48	-11	10	-49	282
Q 2, 1999	198	85	-3	60	-12	-17	-31	280
Q 1, 1999	198	53	29	47	-11	71	102	489
12 months 1998	818	57	36	160	-114	296	117	1,370
<b>Product earnings</b>								
Income				189				
Administrative expenses				-34				
Sales and distribution expenses				-39				
<b>Product earnings</b>				<b>116</b>				
<i>Product earnings</i>								
Q 3, 1999				34				
Q 2, 1999				48				
Q 1, 1999				34				
12 months 1998				110				

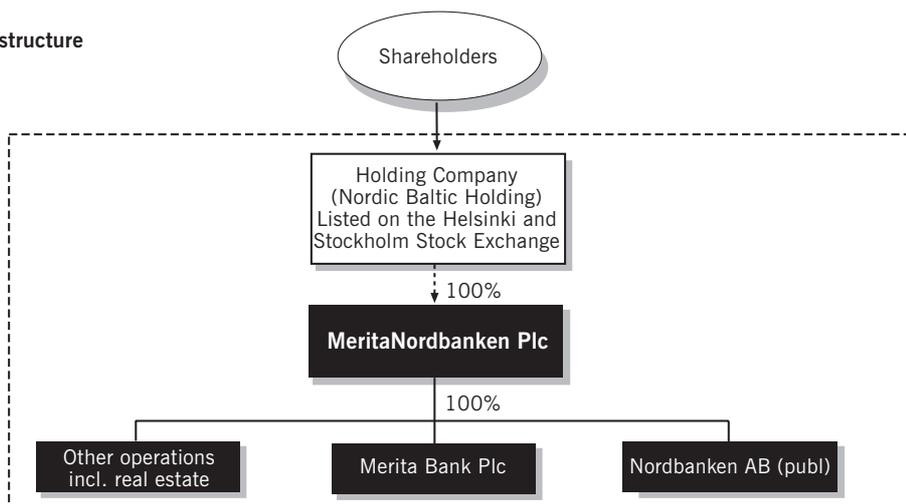
**MeritaNordbanken Group structure**

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

**Present structure**



**Proposed new structure**



## Results for the nine months from January to September 1999

(The figures in brackets refer to the corresponding period in 1998)

The Group's operating profit for the first nine months of the year was EUR 1,051 million (EUR 1,046m). Income totalled EUR 2,237 million (EUR 2,474m), while expenses fell to EUR 1,233 million (EUR 1,353m). Loan losses remained low at EUR 20 million (EUR 101m).

The return on equity for the nine months under review was 20.0 per cent (21.0 per cent).

Earnings per share amounted to EUR 0.36 (EUR 0.38) in Merita Plc and SEK 3.23 (SEK 3.32) in Nordbanken Holding AB.

### Income statements, excluding items affecting comparability \*

The coordination and streamlining of operations in the initial years has a significant impact on the results for individual periods. For that reason Group operating profit is being presented below without items affecting comparability. Quarterly income statements are shown on table above.

	mEUR		Change %	mSEK
	Jan-Sep 1999	Jan-Sep 1998		Jan-Sep 1999
Net interest income	1,341	1,376	-3	11,915
Net commission income	565	533	6	5,017
Net result from financial operations	-26	120		-228
Other income	243	213	14	2,160
<b>Total income</b>	<b>2,123</b>	<b>2,242</b>	<b>-5</b>	<b>18,864</b>
Personnel expenses	-587	-606	-3	-5,208
Other expenses	-646	-657	-2	-5,742
<b>Total expenses</b>	<b>-1,233</b>	<b>-1,263</b>	<b>-2</b>	<b>-10,950</b>
<b>Profit before loan losses</b>	<b>890</b>	<b>979</b>	<b>-9</b>	<b>7,914</b>
Loan losses, net	-20	-101	-80	-174
Profit from companies accounted for under the equity method	67	26		589
<b>Operating profit</b>	<b>937</b>	<b>904</b>	<b>4</b>	<b>8,329</b>
<b>* Items affecting comparability mEUR</b>	<b>Jan-Sep 1999</b>	<b>Jan-Sep 1998</b>		
Net result from financial operations	114	170		
Other income	-	62		
Personnel expenses	-	-23		
Other expenses	-	-67		
<b>Total</b>	<b>114</b>	<b>142</b>		
<b>Operating profit including items affecting comparability</b>	<b>1,051</b>	<b>1,046</b>		<b>9,337</b>

## 4.2. Financial Statements 1998 and Pro Forma Financial Information 1997

MeritaNordbanken Group

# 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
<b>Total operating income</b>		<b>19,922</b>	<b>18,879</b>
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
<b>Total operating expenses</b>		<b>-11,016</b>	<b>-10,293</b>
<b>Profit before loan losses</b>		<b>8,906</b>	<b>8,586</b>
Loan losses, net	8	-824	-1,447
Profit from companies accounted for under the equity method		63	96
<b>Operating profit</b>		<b>8,145</b>	<b>7,235</b>
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
<b>Net profit for the year</b>		<b>4,178</b>	<b>6,345</b>

# Balance Sheets

FIM million	Note	1998	1997 Pro forma
<b>Assets</b>			
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
<b>Total assets</b>		<b>571,000</b>	<b>582,884</b>
<b>Liabilities and shareholders' equity</b>			
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
<b>Total liabilities</b>		<b>542,634</b>	<b>555,025</b>
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
<b>Total shareholders' equity</b>		<b>28,366</b>	<b>27,859</b>
<b>Total liabilities and shareholders' equity</b>		<b>571,000</b>	<b>582,884</b>
<b>Off-balance-sheet commitments</b>			
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
		<b>93,402</b>	<b>98,933</b>
<b>Other notes</b>			
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		Derivative instruments	41
Capital adequacy	28	Average number of personnel	42
	35	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 deferrals 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
<b>Interest income</b>		
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
<b>Total interest income</b>	<b>30,318</b>	<b>29,168</b>
of which: net income on leasing operations	285	293
<b>Interest expenses</b>		
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
<b>Total interest expenses</b>	<b>19,512</b>	<b>18,166</b>
<b>Net interest income</b>	<b>10,806</b>	<b>11,002</b>

## Note 2: Net commission income

FIM million	1998	1997
<b>Commission income</b>		
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
<b>Total commission income</b>	<b>4,843</b>	<b>4,493</b>
<b>Commission expenses</b>		
Payment transmission	417	293
Securities	89	73
Other commission expenses	43	35
<b>Total commission expenses</b>	<b>549</b>	<b>401</b>
<b>Net commission income</b>	<b>4,294</b>	<b>4,092</b>

## Note 3: Net result from financial operations

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

**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
<b>Total other operating income</b>	<b>1,683</b>	<b>1,515</b>

**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
<b>Total personnel expenses</b>	<b>5,236</b>	<b>4,594</b>
<i>Salaries and fees</i>		
To Boards of Directors and senior executives	24	
To other employees	3,712	
	<b>3,736</b>	

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
<b>Total other expenses</b>	<b>4,772</b>	<b>4,753</b>

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

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

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

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
<b>Total loan losses</b>	<b>824</b>	<b>1,447</b>
Of which, country risks	175	-37

	1998		1997	
	Loan losses, gross <sup>1)</sup>	Reversal <sup>2)</sup>	Loan losses, gross <sup>1)</sup>	Reversal <sup>2)</sup>
<b>Breakdown by balance sheet item</b>				
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	–
<b>Total loan losses</b>	<b>2,485</b>	<b>1,661</b>	<b>2,908</b>	<b>1,461</b>

<sup>1)</sup> Actual loan losses, net, and new provisions.

<sup>2)</sup> Incl. items recovered.

**Note 9: Taxes**

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

\*) 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
<b>Total</b>	<b>46,231</b>	<b>52,303</b>

**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
<b>Total</b>	<b>66,364</b>	<b>79,662</b>

**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
<b>Total</b>	<b>355,722</b>	<b>339,867</b>

**Note 14: Nonperforming loans**

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

**Note 15: Property taken over for protection of claims**

FIM million	1998	1997
<b>Book value of property taken over for protection of claims</b>		
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
<b>Total</b>	<b>590</b>	<b>845</b>

**Note 16: Subordinated receivables**

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

**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
<b>Total</b>	<b>35,197</b>	<b>38,478</b>

**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
<b>Total</b>	<b>77,869</b>	<b>3,559</b>	<b>85,065</b>	<b>5,716</b>

Difference between the market value and the book value, financial fixed assets	717	–	303	–
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FIM million	1998	1997
<b>Difference between nominal value and book value, financial fixed assets</b>		
– higher nominal value	780	516
– lower nominal value	168	627
<b>Interest-bearing securities by issuer</b>		
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
<b>Total book value</b>	<b>81,428</b>	<b>90,781</b>

**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
<b>Total</b>	<b>2,500</b>	<b>575</b>	<b>3,216</b>	<b>1,314</b>
<b>Difference between the market value and a lower book value, publicly listed shares</b>				
– current assets	1,105	–	1,731	–
– financial fixed assets	–	–	73	–
<b>Total</b>	<b>1,105</b>	<b>–</b>	<b>1,804</b>	<b>–</b>

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
<b>Shares and participations in subsidiaries</b>		
Other than credit institutions	2,113	2,264
<b>Total</b>	<b>2,113</b>	<b>2,264</b>
<b>Shares and participations in associated companies</b>		
Credit institutions	145	133
Other	1,429	1,124
<b>Total</b>	<b>1,574</b>	<b>1,257</b>

**Note 21: Intangible assets**

FIM million	1998	1997
Goodwill*)	569	659
Other	48	137
<b>Total</b>	<b>617</b>	<b>796</b>

\*) 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
<b>Total</b>	<b>17,785</b>	<b>22,560</b>

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

FIM million	1998
<b>Shares, excluding real estate companies</b>	
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
<b>Book value at the end of the year</b>	<b>4,032</b>
<b>Buildings, land and real estate companies</b>	
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
<b>Book value at the end of the year</b>	<b>17,785</b>
<b>Other tangible assets</b>	
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
<b>Book value at the end of the year</b>	<b>1,643</b>

**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
<b>Total</b>	<b>25,532</b>	<b>23,966</b>

**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
<b>Total</b>	<b>9,221</b>	<b>10,506</b>

**Note 26: Due to credit institutions and central banks**

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

**Note 27: Deposits from the public**

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

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

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

**Note 29: Debt instruments outstanding**

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

**Note 30: Other liabilities**

<b>FIM million</b>	<b>1998</b>	<b>1997</b>
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
<b>Total</b>	<b>37,530</b>	<b>33,220</b>

**Note 31: Accrued expenses and prepaid income**

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

**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
<b>Total</b>	<b>1,106</b>	<b>1,146</b>

**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	–
<b>Total</b>	<b>13,357</b>	<b>19,901</b>

**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
<b>Shareholders' equity at the end of the year</b>	<b>13,915</b>	<b>4,723</b>	<b>9,728</b>	<b>28,366</b>

**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
<b>Receivables</b>				
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
<b>Liabilities</b>				
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
<b>Total</b>	<b>38,256</b>	<b>29,625</b>
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
<b>Total</b>	<b>25,710</b>	<b>29,830</b>
Other pledged assets	301	312

**Note 38: Assets and liabilities in foreign currencies**

	EURO currencies	SEK	USD	Other
<b>Assets</b>				
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 <sup>1)</sup>				67,486
<b>Total assets</b>	<b>197,511</b>	<b>233,974</b>	<b>52,729</b>	<b>86,786</b>
<b>Liabilities</b>				
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 <sup>1)</sup>				48,006
<b>Total liabilities</b>	<b>210,465</b>	<b>188,115</b>	<b>72,271</b>	<b>71,783</b>

<sup>1)</sup> 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
<b>Total</b>	<b>93,402</b>	<b>98,933</b>

**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
<b>Total</b>	<b>–</b>	<b>92</b>	<b>–</b>	<b>154</b>

**Note 41: Derivative instruments**

FIM million	1998		1997	
	Contracts made for hedging purposes	Other	Contracts made for hedging purposes	Other
<b>Nominal value</b>				
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
<b>Credit equivalents</b>				
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
<b>Subsidiaries included in the consolidated financial statements</b>			
<i>Finnish</i>			
MeritaNordbanken Plc	Helsinki	100	19,124
<b>Subsidiaries of MeritaNordbanken Plc</b>			
<i>Finnish</i>			
Contant Oy <sup>1)</sup>	Turku	100	34
Huoneistokeskus Oy <sup>2)</sup>	Helsinki	100	108
Merita Bank Plc	Helsinki	100	8,863
Merita Corporate Finance Ltd	Helsinki	100	23
Merita Real Estate Ltd <sup>3)</sup>	Helsinki	100	2,875
Merita Kiinteistöomistus Oy	Helsinki	100	23
Merita Life Assurance Ltd <sup>2)</sup>	Espoo	100	542
Nordica Invest Oy	Helsinki	100	575
Partita Ltd	Helsinki	100	690
Unitas Congress Center Ltd <sup>2)</sup>	Helsinki	100	1
<i>Swedish</i>			
Nordbanken AB	Stockholm	100	8,400
<b>Subsidiaries of Nordbanken AB</b>			
<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
<b>Subsidiaries of Merita Bank Plc</b>			
<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
Multithermia 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 <sup>2)</sup>	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 <sup>2)</sup>	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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<sup>1)</sup> Portion of share capital in Merita Bank Group is 77% and the book value FIM 24 million.

<sup>2)</sup> Consolidated under the equity method.

<sup>3)</sup> 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*

# MeritaNordbanken Group

## Pro forma information 1997

MeritaNordbanken is created through a merger of equals with neither of the parties acquiring the other. The transaction is accounted for as a pooling of interests under Finnish GAAP. Under this method, the assets and liabilities, income and expenses of the merging companies are combined at their book value.

The pro forma accounts for 1997 have been, in all material respects, adjusted to the accounting principles adopted by MeritaNordbanken. These differ in certain respects from the partners' earlier accounting policies. The changes focus in part on valuation principles, which have a direct impact on results and equity capital and in part on classification principles, i.e. the presentation of individual items in the Profit and Loss Account and the Balance Sheet. The principal changes are listed below.

- Interest-rate-related and equity-linked securities and derivative instruments classified as financial current assets and subject to active trading are valued at market. Other securities under this heading are carried at the lower of cost or market, except where accounted for as hedges.
- All items related to pension expenses are included in personnel expenses except the actuarial surplus refunded by the Merita Pension Fund, which is of a non-recurring nature.

- A new depreciation plan will be introduced for real estate in 1998. This is not yet taken into account in the 1997 pro forma accounts.

As a result of the above changes in accounting principles, and with deferred tax liability taken into account, pro forma equity capital at the beginning of 1997 increased by FIM 310 million / SEK 459 million.

The main purpose of pro forma accounting is to provide a basis for comparison with a view to future development. In order to improve comparability, the reporting of certain items of a non-recurring nature for 1997 therefore differs from the principles separately applied by Merita and Nordbanken. This concerns notably the surplus refunded by the Merita Pension Fund, FIM 1,545 million / SEK 2,279 million. Likewise, capital losses arising from the reversal of revaluation items in respect of properties sold, which in Merita have been charged against the revaluation reserve in accordance with Finnish GAAP, have in the combined pro forma accounts been charged against the year's profit.

As a result, the pro forma operating profit is FIM 1,907 million / SEK 2,813 million lower than the separate operating profits of Merita and Nordbanken taken together. The corresponding negative impact on the net profit for the year is FIM 418 million / SEK 617 million and the positive impact on equity capital FIM 183 million / SEK 271 million.

	MeritaNordbanken pro forma <sup>1)</sup>	Merita	Nordbanken
Operating profit, FIM M / SEK M	6,255 / 9,223	4,073 / 6,006	4,089 / 6,029
Net profit for the year, FIM M / SEK M	6,345 / 9,355	3,465 / 5,110	3,298 / 4,862
Return on Equity, %	18.9	15.7	26.0

<sup>1)</sup> The difference between the pro forma operating profit of MeritaNordbanken and the separate operating profits of the two banks taken together arises mainly from the fact that the actuarial surplus refunded by the Merita Pension Fund, FIM 1,545 million / SEK 2,279 million, has been classified as a non-recurring item in MeritaNordbanken's accounts. It is therefore not taken into account in calculating the return on equity. Including the said refund, return on equity was 24,8 percent.

## 4.3. Auditors' Statement

# Auditors' Statement

We have reviewed the pro forma income statement and pro forma balance sheet of MeritaNordbanken Group for the year 1997, which were compiled as a summary of the financial statements of the Merita Group and Nordbanken Group for the year 1997 taking into account the changes in the principles of valuation and presentation presented on page 150 of this Document. In our review nothing has come to our attention which would cause us to believe that the pro forma income statement and balance sheet would not have been compiled in accordance with the principles presented.

We have reviewed the pro forma income statement and pro forma balance sheet of MeritaNordbanken Group for the year 1998, which were compiled as a summary of the audited financial statements for the year 1998 of Merita Plc, Nordbanken Holding AB (publ) and the mutually held MeritaNordbanken Plc. The pro forma income statement and pro forma balance sheet have been compiled correctly on the basis of the financial statements for the year 1998 of the companies included in the Group.

Stockholm/Helsinki 14 November, 1999

Caj Nackstad  
Authorized Public  
Accountant

Eric Haglund  
Authorized Public  
Accountant

Mauri Palvi  
Authorized Public  
Accountant

## APPENDICES

### A. AUDITORS STATEMENTS

#### **Auditors' statement**

In our capacity as auditors of Nordbanken Holding AB (publ) we have examined the information on Nordbanken Holding AB (publ) contained in this Document. The examination has been carried out in accordance with the recommendation issued by Föreningen Auktoriserade Revisorer FAR.

The pro forma financial statements of MeritaNordbanken Group for the years 1997 and 1998 included in this Document have been compiled in accordance with the presuppositions presented on pages 133–135. We refer to the separate auditors' statement on the pro forma financial statements on page 151 in this Document. The pro forma balance sheet and share-related indicators of Nordbanken Holding AB (publ) as per September 30, 1999 on pages 47–48 have been compiled in accordance with the principles presented in this Document. The financial statements have been presented correctly. The interim report as per September 30, 1999 has not been examined by us.

The financial statements of Nordbanken Holding AB (publ) for the years 1997 and 1998 have been audited without qualifications by Per-Olof Akteus and Caj Nackstad, Authorized Public Accountants. The annual report information has been correctly presented in the Offer Document/Listing Particulars.

Stockholm, 14 November, 1999

KPMG BOHLINS AB

Caj Nackstad  
Authorized Public Accountant

**Auditors' statement**

We have audited the accounting records and the financial statements as well as the administration by the Board of Directors of Merita Plc for the years 1997 and 1998. Based on our audit, we have issued our auditors' reports dated February 25, 1998 and February 23, 1999. The financial statements included in the Offer Document/Listing Particulars have been presented correctly.

We have examined the information on Merita Plc and MeritaNordbanken Plc in this Document in accordance with the recommendation issued by Föreningen Auktoriserade Revisorer FAR.

The pro forma financial statements of MeritaNordbanken Group for the years 1997 and 1998 are presented on pages 131–149 of this Document. We refer to the separate auditors' statement on the pro forma financial statements on page 151 of this Document. The interim report as per September 30, 1999 has not been examined by us.

Helsinki 14 November, 1999

Eric Haglund  
Authorized Public Accountant

Mauri Palvi  
Authorized Public Accountant

## B. NEW MERGER AGREEMENT 20 SEPTEMBER 1999 (EXCLUDING APPENDICES)

(Translation of the Swedish original. In case of inconsistencies between the Swedish original and the English translation, the Swedish original shall prevail)

Merita Abp ("Merita"), registration no 40,495, and Nordbanken Holding AB (publ) ("Nordbanken Holding"), registration no 556547-0977, (jointly the "Parties", individually "Party") have on this day entered into the following

### MERGER AGREEMENT

#### 1 Background

- 1.1 Through a merger agreement of October 13, 1997 (the "Merger Agreement"), the Parties agreed to together actively devote themselves to the creation of a leading, transnational financial group in the Nordic and Baltic region. As a first step towards this mutual aim, the merger as governed in the Merger Agreement was implemented.
- 1.2 Between the Parties there exist (i) a cooperation agreement, also of October 13, 1997 with certain amendments in accordance with minutes of November 27, 1997 (the "Cooperation Agreement"), (ii) a supplementary agreement of October 22, 1997, and (iii) a supplementary agreement of April 20, 1998.
- 1.3 The aim of the Cooperation Agreement and the supplementary agreements is that (i) the Parties, (ii) MeritaNordbanken Abp, which is jointly owned by the Parties, and (iii) MeritaNordbanken Abp's subsidiaries, including Merita Bank Abp and Nordbanken AB (publ), shall be administrated as one single entity.
- 1.4 The Cooperation Agreement states that the Parties shall actively devote themselves to the inclusion of other Nordic parties. According to the agreement, the initial legal structure shall be regarded as a provisional solution and a more simple structure be aimed for, where the group is owned as directly as possible.
- 1.5 The Parties have now decided to approve that MeritaNordbanken Abp makes a public offer to the shareholders of Christiania Bank og Kreditkasse ASA ("Kreditkassen") to acquire all of the shares in Kreditkassen. The principal terms and conditions of the offer are set forth in the attached press release (*appendix 1*).  
  
In connection therewith, and for the purpose of attaining the structure for the implementation of the Nordic group that is aimed for, the Parties have now agreed to simplify the ownership structure whereby ownership of MeritaNordbanken Abp shall be unified into one company, which in its turn shall be owned by one single shareholder group.
- 1.6 The Parties are thereby in agreement to merge by transforming Nordbanken Holding into a Nordic holding company, which will constitute the parent company of a Nordic financial group.
- 1.7 It shall be aimed at that the Nordic holding company's board of directors, seen as a whole, for its operations possesses the requisite knowledge and experience of the civic, business and cultural conditions prevailing in the regions and market areas in which the group's principal operations are conducted.
- 1.8 It shall thereby be aimed at that the board of directors consists of an equal number of members from each of the Nordic countries concerned. The Chief Executive Officer should also be a board member. Further, it should be possible to appoint one or more additional board members, with or without any particular links as referred to above.
- 1.9 When appointing employees in leading positions in the group it shall likewise be aimed at that they, seen as a whole, possess such requisite knowledge and such experience as referred to in 1.7.
- 1.10 In communications with shareholders in the Nordic holding company, all essential information shall be available in Finnish, Norwegian, Swedish and English.

The Parties have now agreed on the following:

## **2 Public offer**

- 2.1 Nordbanken Holding shall make a public offer to acquire (i) all of the shares in, and (ii) all of the convertible bonds issued by, Merita, for consideration of newly issued shares in, and newly issued convertible bonds by, Nordbanken Holding (the "Exchange Offer").
- 2.2 The Nordbanken Holding shares shall be listed on the Helsinki stock exchange, not later than in connection with the newly issued shares in Nordbanken Holding being listed on the Stockholm stock exchange. The shares in Merita will be delisted as soon as possible according to the rules of the Helsinki stock exchange.
- 2.3 On this day the Parties shall inform the Helsinki stock exchange and the Stockholm stock exchange that the Exchange Offer will be made and of what is said in 2.2.
- 2.4 The principal terms and conditions for the Exchange Offer are set forth in *appendix 2*.
- 2.5 The Exchange Offer shall be announced on this day, whereby it from the press release (appendix 1) appears that the Merita board of directors recommends the shareholders in Merita to accept the offer.
- 2.6 The Parties shall jointly prepare requisite prospectus due to the Exchange Offer and in consultation draft, and the Party concerned submit, requisite notifications and applications to the authorities and stock exchanges concerned.
- 2.7 The board of directors of Nordbanken Holding shall convene an extraordinary general meeting of shareholders in the company to be held not later than November 30, 1999 and thereby propose to the general meeting of shareholders (i) to approve this agreement, (ii) to decide to, for consideration of shares in, and convertible bonds issued by, Merita, issue the maximum number of shares and convertible bonds in Nordbanken Holding required in order to acquire all of the shares in, and all of the convertible bonds issued by, Merita, and (iii) to decide on the amendments of the company's articles of association which are brought about by the Exchange Offer and this agreement.
- 2.8 The board of directors of Merita shall convene an extraordinary general meeting of shareholders in the company, which likewise shall be held not later than November 30, 1999 and thereby propose to the general meeting of shareholders (i) to approve this agreement and (ii) to decide on the amendments of the company's articles of association which are brought about by the Exchange Offer and this agreement.

## **3 Redemption of shares in Merita**

If the Exchange Offer is completed, Nordbanken Holding shall initiate redemption proceedings in accordance with the Finnish Securities Market Act and redemption proceedings in accordance with the Finnish Companies Act as soon as the prerequisites for redemption according to these Acts have been fulfilled.

## **4 Conditions for this Agreement; termination of the Cooperation Agreement**

- 4.1 This agreement is conditional upon (i) that the general meeting of shareholders in Nordbanken Holding at the general meeting of shareholders mentioned in section 2.7 approves the agreement, (ii) that the general meeting of shareholders in Merita at the general meeting of shareholders mentioned in section 2.8 approves the agreement, and (iii) that Nordbanken Holding completes the Exchange Offer.

If the conditions in (i) or (ii) are not fulfilled, this agreement will simultaneously cease to be in force, and if the condition in (iii) is not fulfilled, this agreement will cease to be in force on the day on which it becomes clear that the Exchange Offer will not be completed.

- 4.2 On the day on which Nordbanken Holding completes the Exchange Offer, the Cooperation Agreement and the supplementary agreements mentioned in section 1.2 shall cease to apply.
- 4.3 If the conditions in section 4.1 are fulfilled, this agreement will cease to apply when all measures mentioned herein have been taken.

**5 Amendments and additions**

Amendments or additions to this agreement shall be made in writing and shall be signed by the Parties.

**6 Applicable law**

This agreement shall be subject to Swedish law.

**7 Arbitration clause**

Any dispute in connection with this agreement shall be finally settled by arbitration in accordance with the Rules of the Arbitration Institute of the Stockholm Chamber of Commerce. The chairman of the arbitration tribunal shall be an ordinary judge or a retired ordinary judge.

This agreement has been made in two copies, of which each Party has received one copy.

20 September 1999

Merita Abp

Nordbanken Holding AB (publ)

Vesa Vainio

Jacob Palmstierna

## C. PROPOSED AMENDMENTS TO ARTICLES OF ASSOCIATION

### C.1. Nordbanken Holding

(Translation of the Swedish original. In case of inconsistencies between the Swedish original and the English translation, the Swedish original shall prevail)

Articles of Association  
for Nordbanken Holding AB (publ)  
registration no 556547-0977

#### § 1

**Current wording**

The name of the company is Nordbanken Holding AB. The company is a public company (publ).

**Proposed new wording**

The name of the company is *Nordic Baltic Holding (NBH)* AB. The company is a public company (publ).

#### § 2

The registered office of the company shall be in Stockholm.

#### § 3

**Current wording**

The object of the company is to

- a) directly or indirectly own and administer the shares in Nordbanken AB (publ), registration no 502010-5523,
- b) together with Merita Abp, register no 40.495, own and administer the shares of MeritaNordbanken Abp, register no 725.985.

**Proposed new wording**

The object of the company is to *directly or indirectly own and administer banks and other credit institutions, and other companies linked to such financial operations.*

#### § 4

The share capital of the company shall be not less than SEK 4,000,000,000 and not more than SEK 16,000,000,000.

#### § 5

**Current wording**

Each share shall have a nominal value of SEK seven (7).

**Proposed new wording**

Each share shall have a nominal value of 4 SEK 50 öre.

#### § 6

**Current wording**

The board of directors shall consist of ten members. The board members are elected yearly at the annual general meeting of Shareholders for the period until the end of the next annual general meeting.

**Proposed new wording**

The board of directors shall consist of *at least six and not more than fifteen members. The board members are elected at the annual general meeting of shareholders for the period extending to the end of the general meeting of shareholders occurring during the second fiscal year after the year in which election took place. At the annual general meeting of shareholders*

*in the year 2000, half the number of the members – rounded off upwards in the case of an uneven number – will be elected for a period of one year, and the remaining members for a period of two years.*

*When electing the board of directors, it shall be aimed at that the board of directors, as a whole, for its operations, possesses the requisite knowledge and experience of the civic, business and cultural conditions prevailing in the regions and market areas in which the group's principal operations are conducted.*

*Each year, after the annual general meeting of shareholders, the board of directors shall adopt special rules of procedures for its operations.*

## § 7

One or two auditors shall be elected by the general meeting of shareholders for examination of the company's annual report and accounts and the administration of the board of directors and the managing director. The assignment as auditor will continue until the end of the annual general meeting of shareholders that is held during the fourth fiscal year after the election of auditors.

## § 8

The annual general meeting of shareholders shall be held in Stockholm before the end of June.

## § 9

### **Proposed new wording**

*Shareholders are entitled to participate in general meetings of shareholders, in addition to in the premises for the meeting in Stockholm, also, via telecom links, in premises in Helsinki and, if the board of directors so decides, in other locations.*

*The languages employed at the general meeting of shareholders are to be Finnish and Swedish and, if the board of directors so decides, also other languages.*

## § 9

### **Current wording**

Notice of a general meeting of shareholders and other notices to shareholders shall be made through announcement in the Swedish Official Gazette and Dagens Nyheter, Svenska Dagbladet or other daily newspaper with national coverage.

## § 10

### **Proposed new wording**

*Notice of a general meeting of shareholders shall be made through announcement:*

- in Sweden in Swedish in the Swedish Official Gazette and Dagens Nyheter, Svenska Dagbladet or other Swedish daily newspaper with national coverage,*
- in Finland in Finnish in Helsingin Sanomat and in Swedish in Hufvudstadsbladet or, in Finnish or Swedish respectively, in other Finnish daily newspapers*

Notice of an annual general meeting of shareholders and notice of an extraordinary general meeting of shareholders where issue of amendment of the articles of association will be dealt with shall be made not earlier than six weeks prior to, and not later than four weeks prior to the general meeting. Notice of other extraordinary general meeting of shareholders shall be made not earlier than six weeks prior to, and not later than two weeks prior to the general meeting.

In order to participate in a general meeting of shareholders, shareholders must, be recorded in the share register in regard to the position ten days prior to the general meeting and, give notification to the company not later than 1:00 p.m. on the day specified in the notice. This day may not be a Sunday, other public holiday, Saturday, Midsummer Eve, Christmas Eve or New Year's Eve and may not occur earlier than the fifth weekday prior to the general meeting.

Shareholders, or proxies for shareholders, may bring a maximum of two advisors to a general meeting of shareholders. Advisors may be brought to a general meeting of shareholders only if the shareholder in advance has notified the company as to the number of advisors. Such notification shall be made at the latest when notification of shareholder's participation in the general meeting shall be made.

## § 10

### **Current wording**

The general meeting of shareholders will be called to order by the chairman of the board of directors or by the person appointed by the board of directors.

At the general meeting of shareholders matters are decided through open vote, unless the general meeting of shareholders decides on a closed ballot. At a general meeting, each shareholder is entitled to vote on the full number of shares that he owns or represents.

– *and, if the board of directors so decides, also in other foreign newspaper.*

Notice of an annual general meeting of shareholders and notice of an extraordinary general meeting of shareholders where issue of amendment of the articles of association will be dealt with shall be made not earlier than six weeks prior to, and not later than four weeks prior to the general meeting. Notice of other extraordinary general meeting of shareholders shall be made not earlier than six weeks prior to, and not later than two weeks prior to the general meeting.

In order to participate in a general meeting of shareholders, shareholders must, be recorded in the share register in regard to the position ten days prior to the general meeting and, give notification to the company not later than 1:00 p.m. on the day specified in the notice. This day may not be a Sunday, other public holiday, Saturday, Midsummer Eve, Christmas Eve or New Year's Eve and may not occur earlier than the fifth weekday prior to the general meeting.

Shareholders, or proxies for shareholders, may bring a maximum of two advisors to a general meeting of shareholders. Advisors may be brought to a general meeting of shareholders only if the shareholder in advance has notified the company as to the number of advisors. Such notification shall be made at the latest when notification of shareholder's participation in the general meeting shall be made.

## § 11

### **Proposed new wording**

At the general meeting of shareholders matters are decided through open vote, unless the general meeting of shareholders decides on a closed ballot. At a general meeting, each shareholder is entitled to vote on the full number of shares that he owns or represents.

**§ 11****Current wording**

The following matters shall be addressed at the annual general meeting of shareholders:

1. Election of chairman for the general meeting.
2. Preparation and approval of voting list.
3. Approval of agenda.
4. Election of one or two minutes checkers.
5. Determination whether the general meeting has been duly convened.
6. Submission of the annual report and consolidated accounts and presentation of the Report of the audit report and the group audit report.
7. Adoption of the income statement and the consolidated income statement and the balance sheet and the consolidated balance sheet.
8. Decision in connection with the disposition of the company's profit or loss according to the adopted balance sheet.
9. Decision regarding discharge from liability for the board of directors and the managing director.

10. Determination of fees for board members and auditors.
11. Election of board members.
12. Where appropriate, election of auditors.
13. Other matters to be addressed by the general meeting in accordance with the Swedish Companies Act or the articles of association.

**§ 12**

The financial year of the company shall be the calendar year.

**§ 13**

The person who on a fixed record date is recorded in the share register or in the special register pursuant to chapter 3 section 12 of the Swedish Companies Act shall be deemed authorized to receive dividends and, in connection with a bonus issue, new shares to which a shareholder is entitled, and to exercise the shareholder's preferential right to participate in an issue.

**§ 12****Proposed new wording**

10. *Determination of the number of board members.*
11. *Where appropriate, determination of the number of auditors.*
12. Determination of fees for board members and auditors.
13. Election of board members.
14. Where appropriate, election of auditors.
15. Other matters to be addressed by the general meeting in accordance with the Swedish Companies Act or the articles of association.

**§ 13****§ 14**

**C.2. Merita****§ 1 Name and domicile****Unaltered**

The name of the company is Finnish Merita Oyj, in Swedish Merita Abp and in English Merita Plc.

The company is domiciled in Helsinki.

**§ 2 Line of business****Unaltered**

The company's line of business is jointly with Nordbanken Holding AB (publ), registration number 556547-0977, to own and manage shares of MeritaNordbanken Plc and to attend to funding and investor relations. The company may also own and manage other securities directly related to aforesaid business.

**§ 3 MINIMUM AND MAXIMUM SHARE CAPITAL AND SHARES****Unaltered****Minimum and maximum share capital and shares**

The minimum share capital of the company shall be six hundred and seventy-two million seven hundred and fifty-one thousand seven hundred and five and 85/100 (672,751,705.85) euros and the maximum share capital two billion six hundred and ninety-one million six thousand eight hundred and twenty-three and 38/100 (2,691,006,823.38) euros, within which limits the share capital may be raised or lowered without amending these Articles of Association.

The minimum number of shares shall be 400,000,000 and the maximum number 1,600,000,000. The shares shall have no nominal value. Each share shall carry one vote.

**§ 4 BOOK-ENTRY SYSTEM****Unaltered****Incorporation in the Book-Entry System**

The shares of the company are incorporated in the Book-Entry System.

**§ 5 Record date procedure****Unaltered**

Entitlement to funds distributed by the company and the right of subscription in connection with an increase in the share capital shall be held only by:

- 1) a shareholder registered in the shareholder register on the record date;
- 2) a holder whose right to receive funds is registered in the book-entry account of a registered shareholder and in the shareholder register on the record date; or
- 3) where a share is nominee-registered, a shareholder in whose book-entry account the share is registered on the record date and whose custodian is registered as the administrator of the shares in the shareholder register on the record date.

**§ 6 GENERAL MEETING****Unaltered****Annual General Meeting**

At the Annual General Meeting of Shareholders to be held no later than the end of April, the following shall be presented:

1. the financial statements comprising the profit and loss account, the balance sheet, the notes to the accounts and the annual report;
2. the auditors' report;

the following shall be resolved:

3. approval of the profit and loss account and the balance sheet;
4. measures prompted by the profit or loss shown by the approved balance sheet and consolidated balance sheet;
5. discharge from liability of the Chairman and Deputy Chairman of the Board of Directors, the other members of the Board of Directors and the President;
6. the remuneration of members of the Board of Directors, the auditors and the deputy auditors;
7. the number of members of the Board of Directors;

the following shall be elected:

8. the members of the Board of Directors;
9. the auditors and deputy auditors; and

the following shall be deliberated:

10. any other business stated in the notice of meeting.

**§ 7 Extraordinary General Meeting****Unaltered**

An Extraordinary General Meeting of Shareholders shall be held where the Board of Directors so deems necessary.

An Extraordinary General Meeting of Shareholders shall also be held where an auditor or shareholders who together own at least one tenth (1/10) of all shares so request in writing for the consideration of a specific issue. The notice convening the meeting shall be issued within fourteen (14) days of the date of such request being made.

**§ 8 Convocation****Unaltered**

Shareholders shall be summoned to a General Meeting no earlier than two months prior to the meeting and no later than one week prior to the date specified in the Companies Act, chapter 3 (a), section 11, by notice published in at least two national newspapers determined by the Board of Directors.

**§ 9 Right to vote**

In order to be entitled to attend a General Meeting a shareholder shall give notice of attendance to the company no later than the registration date stated in the notice of meeting, which shall not be earlier than five days prior to the Meeting.

**Unaltered**

No one may exercise more than one twentieth (1/20) of the total votes represented at the meeting. When counting the votes any shares represented by proxy shall be added to the proxy-holder's own shares.

**Proposed to be deleted****§ 10 Opening of the meeting and keeping of minutes****Unaltered**

The General Meeting shall be opened by the Chairman or Deputy Chairman of the Board of Directors or, failing them, by another member of the Board of Directors present. A Chairman shall then be elected to preside over the meeting.

The Chairman shall designate a secretary and scrutinise and sign the minutes together with the secretary and two other persons elected at the meeting for this purpose.

The voting list shall be included in or appended to the minutes.

**§ 11 Voting****Unaltered**

Unless otherwise stipulated by law or these Articles of Association, resolutions at General Meetings shall be carried by a simple majority of votes cast. In the case of parity of votes the Chairman shall have the casting vote. In elections, the person who has received the largest number of votes shall be considered elected. The General Meeting may, however, decide before an election that the person who receives more than half of the votes cast shall be elected. In the case of parity of votes, the election shall be decided by drawing lots.

The Chairman of the meeting shall decide the voting procedure.

**§ 12 Amendments to the Articles of Association and dissolution of the company****Unaltered**

A General Meeting resolution to amend these Articles of Association or to dissolve the company shall be valid only if carried by shareholders representing at least two thirds (2/3) of the votes cast and of the shares represented at the meeting.

**§ 13 Board of Directors****Unaltered**

A Board of Directors appointed by the General Meeting and consisting of a Chairman, a Deputy Chairman and no fewer than three and no more than eight other members shall be responsible for the administration of the company and the proper organization of its operations.

The term of office of a member of the Board of Directors shall expire at the end of the next Annual General Meeting subsequent to election.

The retirement age of a member of the Board of Directors shall be 70 years.

At its first meeting following election the Board of Directors shall elect from among its members a Chairman and a Deputy Chairman, who shall remain in office until the close of the subsequent Annual General Meeting. In the absence of the Chairman and Deputy Chairman, the members present shall elect someone from among themselves to preside over the meeting. Should the duties of the Chairman or Deputy Chairman be terminated during their term of office, a new Chairman or Deputy Chairman may be elected for the remaining period of office.

#### **§ 14 President**

**Unaltered**

The company shall have a President, who shall be appointed by the Board of Directors.

#### **§ 15 FINANCIAL STATEMENTS, AUDIT AND RESERVES** **Financial period**

**Unaltered**

The financial period of the company shall be the calendar year.

#### **§ 16 Financial statements**

**Unaltered**

The Board of Directors shall attend to the preparation of the financial statements and submit the respective documentation to the auditors no later than one month prior to the Annual General Meeting. The auditors shall present their report to the Board of Directors no later than two weeks prior to the Annual General Meeting.

#### **§ 17 Auditors**

**Unaltered**

The company shall have two auditors and two deputy auditors. The term of office of the auditors and deputy auditors shall be the financial year during which they are elected, and their task shall end at the close of the next Annual General Meeting subsequent to the expiry of their term of office.

The auditors and deputy auditors shall be auditors or auditing companies approved by the Central Chamber of Commerce.

#### **§ 18 Ordinary reserve and distribution of profit**

**Unaltered**

The company shall have an ordinary reserve which may be used exclusively to cover losses incurred by the company to the extent that the profit shown by the approved Balance Sheet and other non-restricted equity capital are not sufficient for this purpose.

The above provisions notwithstanding, the ordinary reserve may be used for increasing the share capital.

The distribution of profit shall be decided by the General Meeting. The General Meeting may decide to distribute an amount higher than that proposed or approved by the Board of Directors only if it is required to do so by law or these Articles of Association.

**§ 19 OTHER PROVISIONS**

Unaltered

**Signing for the company**

Members of the Board of Directors and the President shall sign for the company, any two of them jointly. Also authorised to sign for the company shall be persons so empowered by the Board of Directors. These shall sign either any two jointly or any one jointly with the President or a member of the Board of Directors.

**§ 20 Liability to redeem shares**

Proposed to be deleted

A shareholder whose holding – either alone or jointly with other shareholders as defined hereinafter – reaches or exceeds 33 1/3 per cent or 50 per cent of the total number of shares or votes in the company (shareholder subject to redemption liability) shall be liable, if so requested by other shareholders (shareholders entitled to redemption), to redeem, in the manner prescribed in this section, their holdings of shares and any securities which pursuant to the Companies Act carry entitlement to shares.

In calculating the percentage of shares in the company held by a shareholder and the votes carried by such shares, the following shall also be taken into account:

- shares held by a corporation which, pursuant to the Companies Act, constitutes part of the same group of companies as the shareholder;
- shares held by a company which, for the purpose of drawing up the annual consolidated accounts in accordance with the Accounting Act, is considered to constitute part of the same group of companies as the shareholder;
- shares held by a pension foundation or pension fund of a corporation or company referred to in the foregoing; and
- shares held by a non-Finnish corporation or company which – were it Finnish – would, as prescribed in the foregoing, constitute part of the same group of companies as the shareholder.

Where redemption liability is based on an aggregate shareholding or number of votes, the shareholders subject to redemption liability shall be jointly responsible for redemption *vis-à-vis* shareholders entitled to redemption. In such a situation a redemption claim shall be considered to apply to all shareholders subject to redemption liability without a separate claim.

Where two shareholders attain or exceed the ownership or vote ceiling triggering redemption liability so that they become simultaneously liable for redemption, shareholders entitled to redemption may claim redemption from each shareholder separately.

Redemption liability shall not apply to any such shares or securities carrying entitlement to shares which the shareholder claiming redemption has acquired after the redemption liability has arisen.

### Redemption price

The redemption price of the shares shall be the higher of the following:

- a) the weighted average trading price of the share on the Helsinki Stock Exchange during the ten (10) business days prior to the day on which the company was notified by the shareholder subject to redemption liability that such shareholder's holding had reached or exceeded the ownership or vote ceiling referred to in the foregoing or, in the absence of such notification or its failure to arrive within the specified period, the day on which the company's Board of Directors was otherwise informed thereof;
- b) the average price, weighted by the number of shares, which the shareholder subject to redemption liability has paid for the shares acquired or otherwise received over the last twelve (12) months preceding the date referred to in subsection a) above.

If an acquisition affecting the average price is denominated in foreign currency, its Finnish markka countervalue shall be calculated according to the Bank of Finland's official exchange rate for the currency in question seven (7) days prior to the date of the Board notification to shareholders concerning their right to claim redemption.

The above provisions on the determination of the redemption price of shares shall also apply to any other securities to be redeemed.

### Redemption procedure

A shareholder subject to redemption liability shall, within seven (7) days of the date on which the redemption liability has arisen, send written notification thereof to the company's Board of Directors at the company's address. The notification shall state the number of shares owned by the shareholder subject to redemption liability and the number and price of the shares acquired or otherwise received during the twelve (12) months preceding notification. The notification shall also indicate the address at which the shareholder subject to redemption liability may be contacted.

The Board shall notify shareholders of the redemption liability within 30 days of receipt of notification as referred to in the foregoing or, in the absence of such notification or where such notification fails to arrive within the specified period, of the date on which it was otherwise informed of the redemption liability. The notification shall state the date on which the redemption liability has arisen, the basis for the determination of the redemption price insofar as this is known to the Board and the date by which redemption claims shall be submitted. Such notification to shareholders shall be given in accordance with the provisions governing notices of meetings as prescribed in §8 of the Articles of Association.

A shareholder entitled to redemption shall present a written claim for redemption within 30 days of the publication of the Board notification of redemption liability. The redemption claim, which shall be sent to the company, shall state the number of shares and other securities covered by the claim. A shareholder claiming redemption shall at the same time furnish the company with possible share certificates or other documents carrying entitlement to shares, for delivery to the shareholder subject to redemption liability against the redemption price.

Where no claim is presented within the stipulated period in the manner described in the foregoing, the shareholder shall forfeit the right to claim redemption in the redemption situation in question. As long as redemption has not taken place, shareholders entitled to redemption shall have the right to withdraw any claims presented by them.

Upon the expiry of the period reserved for the presentation of claims by shareholders entitled to redemption, the Board of Directors shall notify the shareholder subject to redemption liability of the claims presented. The shareholder subject to redemption liability shall, within 14 days of receipt of notice of such redemption claims, in the manner prescribed by the company, pay the redemption price against delivery of respective shares and securities carrying entitlement to shares or, where the shares to be redeemed are carried in the book-entry accounts of the shareholders in question, against a receipt issued by the company. In this case the company shall ensure that the redeeming shareholder will be promptly registered in a book-entry account as the owner of the shares thus redeemed.

Where the redemption price is not paid within the stipulated period, penalty interest at a rate of 16 per cent per annum shall be payable from the final date on which redemption should have taken place. Where a shareholder subject to redemption liability has also failed to observe the notification requirement set out in the foregoing, penalty interest shall be calculated from the final date of the prescribed period of notification.

Where a shareholder subject to redemption liability fails to observe the provisions of this section, the maximum voting rights carried at the company's General Meetings by the shares held by such shareholder and any shares which in the manner prescribed earlier in this section are to be taken into account in calculating the holding on which the redemption liability is based shall be limited to less than one third (1/3) or 50 per cent, respectively, of the aggregate number of votes carried by all the shares of the company.

#### **Other provisions**

The redemption liability referred to in this section shall not apply to a shareholder who proves that the ownership or voting right ceiling triggering redemption liability was attained or exceeded prior to the entry in the Trade Register of the respective provision of the Articles of Association.

Any disputes arising from the redemption liability referred to in the foregoing, the related right to claim redemption and the amount of the redemption price shall be resolved by arbitration in accordance with the provisions of the Arbitration Act (967/92). Arbitration shall be governed by the laws of Finland.

## D. TERMS AND CONDITIONS OF NORDBANKEN HOLDING'S CONVERTIBLE BONDS OF 1999/2042 AT AN AMOUNT NOT EXCEEDING EUR 151,920,857

(Translation of the Swedish original. In case of inconsistencies between the Swedish original and the English translation, the Swedish original shall prevail.)

### § 1 Definitions

All references to the following designations in these terms shall have the meaning set out below:

“banking day”	day, other than a Sunday or other public holiday, or which, with respect to payments under debt obligations, is not the equivalent of a public holiday in Sweden;
“the company”	Nordbanken Holding AB (publ);
“the Stock Exchange”	OM Stockholmsbörsen AB;
“EURIBOR”	the interest rate which (1) at 11.00 a.m. the relevant day is published on Telerate's page 248 (or through another such system or on another such page replacing the aforementioned system or page, respectively) or – if such publication does not exist – (2) is equivalent to, at the mentioned time according to information from the company, (a) the average of the European Reference Banks' quotation rates to leading commercial banks on the interbank market in Europe for deposits of EUR 10,000,000 for the relevant period or – if only one or no such quotation is given – (b) the company's judgement of the interest rate offered by leading commercial banks in Europe in respect of loans of EUR 10,000,000 for the relevant period on the interbank market in Europe;
“European Reference Banks”	four major commercial banks which, at the relevant point of time, quote EURIBOR and which are appointed by the company;
“creditor”	a person who is holder of a convertible claim;
“the Helsinki Stock Exchange”	Helsinki Securities and Derivatives Exchange, Clearing House Ltd;
“conversion”	the exchange of a convertible claim for new shares in the company;
“conversion price”	the price at which conversion may be made;
“convertible claim”	such claim with conversion rights as is referred to in Chapter 5 of the Swedish Companies Act (1975:1385); and
“VPC”	VPC AB (Swedish Securities Register Center).

### § 2 Loan Amount, Promissory Note, Interest Rate, etc.

The loan amount shall not exceed EUR 151,920,857.

The nominal value of the promissory notes shall amount to EUR 1,681.88 or multiples thereof, which means that not more than 90,328 promissory notes can be issued.

The promissory notes shall be payable to bearer.

The loan carries annual interest as from 1 September 1999. The interest matures every six months in arrears on 1 March and 1 September and on the maturity date of the loan. As stated in § 6 below, rights to interest cease on conversion, effective from the interest payment date immediately prior to conversion.

The interest rate shall be fixed separately for each interest period and shall be EURIBOR 6 months plus 1,75 percentage units for the time up to and including 1 September 2002. Thereafter the interest rate shall be EURIBOR 6 months plus 3,75 percentage units.

The interest rate shall be fixed for each coming interest period two banking days in advance.

Interest shall be paid according to actual days, inclusive of the first but exclusive of the last day of each interest period. The interest year shall have 365 days.

### **§ 3 Payment of Interest, Date of Maturity and Repayment of the loan amount**

The interest shall be paid against a payment inscription to be made on the promissory notes.

The loan falls due for repayment on 17 August 2042, except to the extent prior conversions pursuant to § 5 or repayment pursuant to this § 3 have occurred.

The company shall have the right as from 17 August 2002 and at any time there-after to repay the loan amount, in full or in part, together with accrued interest, with 30 days' notice. In order to obtain the principal amount and the interest, the promissory notes shall be surrendered to the company.

Payment of interest and principal amount and reception of promissory notes shall, on behalf of the company, be carried out by any of Merita Bank's asset management branches (Sw: förmögenhetsförvaltningskontor) in Finland.

### **§ 4 Subordinated Promissory Notes**

In the event of liquidation or bankruptcy of the company, the promissory notes shall rank as to payments from the company's assets after the company's non-subordinated obligations and *pari passu* with other subordinated obligations, which are not expressly subordinated to this loan.

The company undertakes, as long as any promissory note under this loan is outstanding, not to issue any subordinated obligations which, in the event of the company's liquidation or bankruptcy, shall rank as to payment from the company's assets before the promissory notes.

### **§ 5 Conversion**

Conversion to shares takes place at Merita Bank's asset management branches in Finland.

Creditors shall have the right, as from the date of registration of the loan with the Swedish Patent and Registration Office up to the day of the maturity date of the loan pursuant to § 3 above or, whichever is the earlier, up to and including the day, following § 7 subsections F and G below, to request the conversion of their claims under the loan to new shares in the company. The conversion rate is EUR 5.60. This means that one new share will be received for each full amount of the conversion price of the total nominal value of the relevant convertible claim, which one and the same creditor wishes to convert at the same time. Thus, one promissory note of a nominal value of EUR 1,681.88 can be converted to 300 shares. The conversion price may be adjusted in those cases described in § 7 below. If the nominal value of promissory notes is not evenly divisible by the conversion price, the surplus amount will not be paid out, unless adjustment of the conversion price has taken place pursuant to § 7.

If the conversion price is less than the nominal value of the share, the conversion price shall instead be equal to the nominal value of the share.

Conversion is effected by the new shares being registered in the company's share register on an interim basis. Any surplus cash amount as specified above shall subsequently be paid out. When registration of the new shares with the Swedish Patent and Registration Office has taken place, the registration on control accounts (Sw: avstämningskonton) will be final. As indicated in § 7 below, the date of such final registration may be deferred in certain cases.

## § 6 Interest and dividends in connection with conversion

Rights to interest cease on conversion, effective from the interest payment date immediately prior to conversion.

Shares issued upon conversion carry rights to dividends commencing the financial year the conversion is requested.

## § 7 Adjustment of conversion price, etc.

The following shall apply with respect to the rights of creditors in the situations described in Chapter 5, § 4, first paragraph, item 8 of the Swedish Companies Act and in certain other situations:

- A If the company effects a bonus issue of shares, conversion requested on a date that does not permit it to be effected prior to or on the tenth calendar day preceding the General Meeting of Shareholders to approve the issue will not be carried out until after the Meeting has approved the bonus issue. Shares arising from conversions effected following approval of the bonus issue are not entitled to participate in the issue. Such shares shall be entered in the control account on an interim basis. Final registration in the control account takes place after the record date for the issue.

In connection with conversions effected following approval of the bonus issue, an adjusted conversion price is applied. The adjustment shall be made in accordance with the following formula:

$$\text{Adjusted conversion price} = \frac{\text{Preceding conversion price} \times \text{number of shares prior to bonus issue}}{\text{Number of shares following bonus issue}}$$

The adjusted conversion price shall be set as soon as possible after the General Meeting of Shareholders has approved the bonus issue, but shall be applied only after the record date of the issue.

- B If the company executes a consolidation or a split of its shares, subsection A shall be correspondingly applicable. The record date shall be considered to be the date upon which the consolidation or the split is executed at VPC at the request of the company.
- C If the company issues new shares – with preferential rights to its shareholders to subscribe for new shares for cash – the following shall apply with respect to the rights to participate in the issue that accrue to shares arising from the conversion:

1) If the new issue is resolved by the Board of Directors subject to the approval of the General Meeting of Shareholders or as authorised by the Meeting, the Board's resolution and the announcement of the new issue shall specify the latest date when conversion shall have been effected in order that shares arising from conversion shall carry rights to participate in the new issue. Such date may not be earlier than the tenth calendar day following the date of the announcement.

2) If the new issue is to be approved by the General Meeting of Shareholders, conversion – requested on a date such that conversion cannot be effected at the latest on the tenth calendar day prior to the date of the General Meeting of Shareholders that will consider the matter of issue – will not be effected until the Meeting has approved the new issue and the company has adjusted the conversion price on account of the issue. Shares arising from conversions effected following approval of the new issue are not entitled to participate in the new issue. Such shares are entered in the control account on an interim basis. Final registration in the control account takes place after the record date for the new issue.

In connection with conversion, effected on a date such that rights to participate in the new issue do not accrue, an adjusted conversion price applies. The adjustment shall be carried out in accordance with the following formula:

$$\text{Adjusted conversion price} = \frac{\text{Preceding conversion price} \times \text{average market price of the shares during the subscription period specified in the resolution on the issue (average share price)}}{\text{Average share price increased by the theoretical value of the subscription right based on this price}}$$

The average share price shall be considered to correspond to the share's, during the subscription period, weighted average price on the stock exchanges, on which the share is quoted. Weighted average price means the turnover value of the total turn of shares divided by the total number of shares subject of such turnover.

The theoretical value of subscription rights is calculated in accordance with the following formula:

$$\text{Value of subscription right} = \frac{\text{Maximum number of new shares that can be issued in accordance with the resolution on the new issue} \times (\text{average share price minus the price at which the new shares are being issued})}{\text{Number of shares outstanding prior to the resolution on the new issue}}$$

If a negative value arises in connection with this calculation, the theoretical value of the subscription rights shall be fixed at zero.

The adjusted conversion price calculated and described above is set two banking days following expiration of the subscription period and shall be applied in any conversion effected thereafter.

During the period until the adjusted conversion price is set, only a preliminary conversion is effected. This implicates that the full number of shares according to the as yet unadjusted conversion price shall be entered in the control account on an interim basis. In addition, a special note is made to the effect that the convertible claim according to the adjusted conversion price can carry the right to further shares or a cash sum pursuant to § 5 above. Final registration on the control account takes place after the adjusted conversion price has been established.

- D If the company effects – in return for cash payment and with preferential rights for the shareholders – an issue as referred to in Chapter 5 of the Swedish Companies Act, the provision in subsection C, first paragraph, items 1 and 2, above shall apply correspondingly to the right of shares issued in connection with conversion to participate in the issue.

In connection with conversion, effected on a date such that rights to participate in the issue do not accrue, an adjusted conversion price shall apply. The adjustment shall be carried out in accordance with the following formula:

$$\text{Adjusted conversion price} = \frac{\text{Previous conversion price} \times \text{average market price of the shares during the subscription period specified in the resolution on the issue (average share price)}}{\text{Average share price increased by the value of subscription rights}}$$

The average share price is calculated as stated in subsection C.

The value of subscription rights shall be considered to correspond to the weighted average price during the subscription period of transactions with subscription rights on the stock exchanges, on which the share is quoted. Weighted average price means the turnover value of the total turn over of subscription rights divided by the total number of subscription rights subject of such turn over.

The adjusted conversion price, as described above, is set two banking days following expiration of the subscription period and shall be applied in any conversion effected thereafter.

In any conversion effected during the period until the adjusted conversion price is set, the rules stated in subsection C, in the last paragraph, shall apply correspondingly.

- E If the company's share capital should be reduced by repayments to its shareholders, the conversion price shall be adjusted. The adjustment is carried out in accordance with the following formula:

$$\text{Adjusted conversion price} = \frac{\begin{array}{l} \text{Preceding conversion price} \times \\ \text{average market price of the shares} \\ \text{during a period of 25 trading days} \\ \text{beginning on the date where the shares} \\ \text{were quoted without repayment rights} \\ \text{(average share price)} \end{array}}{\begin{array}{l} \text{Average share price increased by the} \\ \text{amount being repaid per share} \end{array}}$$

The average share price is calculated as stated in subsection C.

The conversion price, adjusted as stated above, is set two banking days following the expiration of the stated period of 25 trading days and shall be applied in any conversion effected thereafter.

No conversion will be effected during the period from the date of the decision to reduce the share capital up to and including the date when the adjusted conversion price is set as stated above.

- F If it is decided that the company is to enter into liquidation pursuant to Chapter 13 of the Swedish Companies Act, conversion may not be carried out thereafter. This applies regardless of the grounds for liquidation. The right to request conversion ceases simultaneously with the decision to liquidate, notwithstanding the fact that the decision may not have come into legal force.

Creditors have, when a decision to liquidate the company has been made, the right to demand immediate payment of the nominal amount of the promissory note plus accrued interest to the date of payment. If the decision to liquidate is made at a General Meeting of Shareholders this right becomes effective on the day following the Meeting and otherwise on the day following the date on which the court order or the decision by the Swedish Patent and Registration Office to liquidate has come into legal force. Within a week thereafter, the company, as provided for in § 9, shall notify the creditors advising them of their right to demand immediate payment.

Not later than two months before the General Meeting of Shareholders determines whether the company should enter into voluntary liquidation, as provided for in Chapter 13, § 1 of the Swedish Companies Act, the creditors shall be informed, as provided for in § 9, of the planned liquidation. The notice shall include a reminder that conversion may not be requested after the Meeting has resolved to liquidate.

If the company gives notice of a planned liquidation as stated above, creditors are entitled to request conversion as from the day on which the notice is given. This applies, however, only provided that conversion can be effected not later than the tenth calendar day prior to the General Meeting of Shareholders at which the question of the company's liquidation is to be considered.

- G If the General Meeting of Shareholders, in accordance with Chapter 14, § 1 of the Swedish Companies Act should approve a merger scheme whereby the company will be dissolved, or should the Board of Directors, in accordance with Chapter 14, § 22 of the same Act, draw up a merger scheme whereby the company will be dissolved, conversion may not thereafter be requested. However, the creditors have

the right, during a period of two months calculated from the date of such approval or completion of a merger scheme, to demand immediate payment of the nominal amount of the promissory note, plus interest accrued to date of payment. The company shall, not later than one week following the beginning of the period, notify the creditors, advising them of this right as specified in § 9. The above does not impair rights that may legally accrue to the creditors in the capacity of creditors in conjunction with a merger.

Not later than two months before the company takes a final decision on the matter of a merger as described above, the creditors shall be informed of the planned merger by notice as provided in § 9. The notice shall present a report on the principle pursuant to Chapter 14 § 1 of the Swedish Companies Act shall be considered, or not later than the banking day immediately prior to the date when the Board of Directors, in accordance with the notice, plans to complete the merger scheme, as provided in Chapter 14, § 22 of the same Act.

- H Notwithstanding the statements under subsections F and G that conversion may not be requested after a decision is made to liquidate or merge, the right to request conversion shall be reinstated if the liquidation is not carried out or if the question of merger lapses.
- I In the event the company goes into bankruptcy, conversion may not be effected thereafter. If, however, the bankruptcy decision is revoked by a higher court of law, conversion may again be requested.

#### **§ 8 Statutory limitation**

Rights to payment of the loan amount shall cease five years after the date of maturity. The right to receive interest payments shall cease five years after the respective interest payment due date. Funds allocated for payments for which rights cease to exist accrue to the company.

#### **§ 9 Notification**

Notice concerning the loan shall be sent to each creditor under the address, which is most recent known to the company and be inserted in at least one forthcoming daily newspaper in Finland. If the loan is registered with the Stock Exchange and the Helsinki Stock Exchange notices shall also be given to the Stock Exchange and the Helsinki Stock Exchange.

#### **§ 10 Force Majeure**

With respect to the actions incumbent on the company or VPC the company cannot be deemed liable for damage due to legal decrees, Swedish or foreign action by public authorities, acts of war, strikes, blockades, boycotts and lockouts or other similar causes. The reservation with respect to strikes, blockades, boycotts and lockouts apply even if the company itself undertakes, or is subject of, such actions.

The company shall compensate damage, which may arise in other situations, only to the extent that the damage is caused by negligence on the part of the company.

If the company is hindered from taking action by circumstances such as those described in the first paragraph, the action may be deferred until the hindrance has ceased to exist.

#### **§ 11 Governing law**

This convertible subordinated debenture loan and any legal matters relating thereto shall be governed by Swedish law.

## **E.1. GENERAL TERMS AND CONDITIONS OF NORDBANKEN HOLDING AB (PUBL) SHARE DEPOSITORY RECEIPT**

### **1. General**

Nordbanken Holding AB (publ) (hereinafter the “Company”) has appointed Merita Bank Plc issuer (hereinafter the “Issuer”) of the Company’s share depository receipt (hereinafter “Depository Receipt” or “FDR”) and custodian for the Company’s shares corresponding to the Depository Receipts for the account of holders of the Depository Receipts (hereinafter the “FDR holders”) in accordance with the present terms and conditions. The purpose of the arrangement is to enable listing of the Company’s shares on the main list of the Helsinki Exchanges.

### **2. Description of the Depository Receipt**

One Depository Receipt entitles its holder to one share of the Company, and it may be converted to one share of the Company pursuant to the terms set forth below in Section 9.

A number of the Company’s shares corresponding to the number of the outstanding Depository Receipts (hereinafter the “Underlying Shares”) are held in custody by Nordbanken AB (publ) (hereinafter the “Custodian Bank”) in the name of the Issuer and for the account of the FDR holders.

A Depository Receipt is a form of right that will be issued as a book-entry in accordance with Section 26 b, subsection 3 of the Act on Book-Entry System (826/1991, as amended) and incorporated into the Finnish book-entry system. A Depository Receipt is a security as defined in Chapter 1, Section 2, subsection 1, point 2 of the Securities Market Act (495/1989, as amended).

The rules and regulations of the Finnish Central Securities Depository (hereinafter “FCSD”) includes general provisions regarding share depository receipts.

### **3. Description of the Company and the Shares of the Company**

The name of the Company is Nordbanken Holding AB (publ), register number 556547-0977, with legal domicile Stockholm, address Hamngatan 10, SE-105 71, Sweden.

The Company’s share capital as at 31 October 1999, consists of 1,275,267,441 shares amounting to a total of SEK 8,926,872,087. The nominal value of each of the Company’s shares is SEK 7 which is proposed to be decreased to SEK 4.5 in the General Meeting on 19 November, 1989. The Company has only one class of shares. Each share entitles its holder to one (1) vote at the Company’s General Meeting of Shareholders.

The Company’s shares are traded on the main list of the Stockholm Stock Exchange.

### **4. Issuer**

Merita Bank Plc, register number 513,752, address Aleksanterinkatu 30, Helsinki, FI-00020 MERITA.

### **5. Custodian Bank and Book-entry System**

5.1 The Underlying Shares are registered in the Swedish book-entry system by the Custodian Bank, which is an account-operator (“Kontoförande Institut”) in Sweden. The Underlying Shares are kept in custody in the name the Issuer as nominee registered shares for the account of the FDR holders and deposited on a separate book-entry account. The Underlying Shares are kept separate from the assets of the Custodian Bank and of the Issuer.

5.2 Depository Receipts are registered as book-entries in the Finnish book-entry system on book-entry accounts of the FDR holders, held by Finnish book-entry registrars.

### **6. Trading on the Main List of the Helsinki Exchanges**

6.1 Trading in the Company’s shares will be carried out through Depository Receipts on the main list of the Helsinki Exchanges.

- 6.2 Trading and settlement in Depository Receipts will take place in the book-entry system. No physical certificate will be issued for a Depository Receipt.

### 7. FDR Holder

- 7.1 The owner of a Depository Receipt *vis-à-vis* the Issuer is considered to be the person or entity who is entered into the register of FDR holders held by the FCSD, pursuant to Section 4 of the Act on the Book-Entry System (826/1991, as amended).
- 7.2 A custodian who is entered into the register of FDR holders shall be subject to the provisions concerning nominee registration pursuant to Section 28 of the Act on the Book-Entry System and the provisions concerning custodial nominee accounts pursuant to Section 5a of the Finnish Act on Book-Entry Accounts (827/1991, as amended).

### 8. The Issuer's Right to Obtain and Furnish Information as an Issuer

- 8.1 Without prejudice to the secrecy provisions which apply to securities pursuant to Chapter 1, Section 2 of the Finnish Securities Market Act, the Issuer shall have the right to obtain information on the FDR holders according to the same principles applicable to an issuer of shares in a Finnish company whose shares have been entered into the book-entry system.
- 8.2 The Issuer may request and obtain the information referred to above in Section 7.1. from a book-entry registrar or the FCSD.
- 8.3 Each FDR holder is responsible for furnishing the book-entry register with information on his, her or it's identity and country of taxation in accordance with applicable legislation.
- 8.4 A book-entry registrar shall have the right, upon the Issuer's request, to furnish the Issuer or the Securities Depository with information concerning the FDR holder's personal information and country of taxation, in accordance with the provisions of statutes or decisions of the FCSD.
- 8.5 The Issuer and the Custodian Bank shall have the right to provide authorities in Finland and abroad, including, but not limited to, regulatory and tax authorities, with information on the FDR holders, if and to the extent that applicable regulations so require. In addition, the Issuer may at any time, upon the Company's request provide the Company and Custodian Bank with information on the FDR holders to the extent defined in Section 8.1 above.
- 8.6 The Issuer is free from liability *vis-à-vis* of public authorities and other parties to the extent that it has not received correct and sufficient information on the FDR holder from the book-entry registrars or the FCSD, in order for the Issuer to be able to fulfil its obligations.

### 9. Depositing Shares in Custody and Withdrawing them from Custody (Conversion)

- 9.1 A person or entity owning the Company's shares may convert the Company's shares into Depository Receipts by giving both the Swedish account-operator with whom the Shares are registered and the Finnish book-entry registrar with whom the person wishes to deposit the Depository Receipts an order to this effect. The Swedish account-operator and the Finnish book-entry registrar will provide the Issuer with information concerning the conversion.
- 9.2 An FDR holder may convert his Depository Receipts into the Company's shares by giving both the Finnish book-entry registrar with whom the Depository Receipts are registered and the Swedish book-entry account operator with whom the person wishes to deposit the shares an order to this effect. The Finnish book-entry registrar and the Swedish account-operator will provide the Issuer with information concerning the conversion.
- 9.3 Conversion pursuant to Sections 9.1 and 9.2 is conditional upon the fact that all obligations of the Company's shareholder/FDR holder towards the Company / the Issuer in respect of the Shares/Depository Receipts have been fulfilled and settlement has been realised. Conversion of the Company's shares into Depository Receipts or vice versa is conditional upon the fact that the Company's shares/Depository Receipts to be converted are free of encumbrances and other legal obstacles.

- 9.4 The Issuer shall have the right to charge the Company's shareholder/FDR holder for the expenses arising in connection with conversion of the Depository Receipts/Shares in accordance with its price list from time to time in force, including costs arising from the conversion and charged from the Issuer by foreign banks.
- 9.5 The Issuer can temporarily decline to carry out a requested conversion, or postpone it, in the event that the Depository Receipts cannot be operated in the book-entry system, for instance, if a party participating in the conversion process in Finland or Sweden is closed or if the Issuer for other reasons, for example, in a situation involving a disturbance in the execution of trades, considers the postponement necessary.
- 9.6 The Issuer will not register a fraction of a share in its custody for the holders of the Depository Receipts.

#### **10. Transfer and Assignment Measures Relating to the Underlying Shares**

No pledges, transfer restrictions or other encumbrances may be registered on the Underlying Shares. Any encumbrances shall be registered on the Depository Receipts in accordance with the Act on Book-Entry Accounts.

#### **11. Record Date**

The Issuer will decide a record date determining the right of the FDR holders to participate in a General Meeting and to receive dividends and other funds distributed by the Company as well as pre-emptive subscription rights pertaining to an increase of the Company's share capital and other similar asset-related rights. The aim is to determine the record date concerning the FDR:s to be the same as the record date concerning the Company's shares in Sweden. The Issuer will publish the record date in accordance with Section 16.

#### **12. Distribution of Dividend and Other Distribution of Profit**

- 12.1 The dividend related to the Underlying Shares shall be paid by the Company to the Issuer through the Custodian Bank in accordance with the respective decision of the Company's General Meeting and applicable legislation.
- 12.2 The Issuer shall take care of distribution of any dividends related to the Underlying Shares received from the Company to the FDR holders in proportion to their holding on the record date determined and announced by the Issuer.
- 12.3 The Issuer will pay dividends to the FDR holders in Euro or in Finnish markka.
- 12.4 The Issuer will decide the record date of the dividend distribution on the Depository Receipts, as well as the date of payment, always separately for each dividend distribution. It is the intention to determine the distribution date to be as close as possible to the equivalent date in Sweden, always taking into account applicable statutes and decisions of the FCSD and other applicable legislation.
- 12.5 Prior to the pay date, the Issuer will convert the dividend payable on the Depository Receipts in Swedish krona into Euro or Finnish markka. The conversion will take place not earlier than eight (8) and not later than three (3) banking days before the payment date. The conversion will take place by covering the sum by a forward exchange contract or by a foreign exchange transaction, the value date being the payment day or the day when the Issuer makes the dividend distribution to the book-entry registers for further distribution to the FDR holders. The final foreign exchange/conversion rate will be determined according to the market forward exchange rate used by the Issuer or according to the foreign exchange rate.
- 12.6 Dividends on Depository Receipts will be paid on the basis of ownership on the record date to the money account designated for the book-entry account of the FDR holder on the basis of the information in the book-entry account, either in Euro or in Finnish markka rounded down, if necessary, to the nearest cent or penni.
- 12.7 The dividend related to the Underlying Shares shall be paid, pursuant to Section 29 of the Act on Book-entry Accounts, to the persons or entities who, according to the register maintained at the FCSD, are entitled to receive the payment on the record date.

- 12.8 The Swedish Central Securities Depository will withhold the withholding tax and other possible taxes related to the Underlying Shares in accordance with the relevant tax treaty between Sweden and the domicile of the FDR holder or with the highest tax rate applied to non-resident taxpayers in Sweden.
- 12.9 Before the payment of the dividend the Issuer shall have the right to deduct any other taxes and charges in accordance with Finnish or Swedish legislation and any expenses relating to foreign exchange conversion and repatriation of currency, which are to be paid by the FDR holders.
- 12.10 Should the distribution of profit by the Company be in any other form than money and it is not lawful or technically feasible to implement the distribution of such a profit to the FDR holders, as if they were the Company's shareholders, the Issuer shall have the right to compensate the FDR holders in cash.
- 12.11 The Issuer will inform the FDR holders of the procedure relating to the proposed profit distribution in accordance with Section 16 below.

### **13. General Meetings of the Company**

- 13.1 The Company shall publish notice of a General Meeting of the Company forthwith simultaneously as it is published in Sweden in at least one major daily newspaper in Finland. According to the present Articles of Association the notice of the General Meeting and notice of an Extraordinary General Meeting where an amendment of the Articles of Association will be dealt with shall be published not earlier than 6 weeks and at the latest 4 weeks before the Meeting. The notice of other General Meetings shall be published not earlier than 6 weeks and at the latest 2 weeks before the meeting.
- 13.2 In connection with the notice, the Issuer shall publish to the FDR holders at least the following information:
- the record date determining the right to participate in the General Meeting
  - procedural instructions concerning the final deadline for and means by which an FDR holder shall make a notification to the Issuer, in order to be able to participate in the General Meeting and to exercise his or her voting rights
  - the place where the documents referred to in the notice, if any, may be reviewed and from where copies of them can be ordered.

### **14. The Company's Decisions and Other Material**

The Issuer will arrange that any information or documents supplied by the Company or given by the Issuer, which affect the position of the FDR holders, is available for public examination at the Issuer's premises during the Issuer's opening hours. The relevant documents shall be available for public examination for one year after the Issuer has received or published them.

### **15. Corporate Actions and Changes affecting the Company's shares and Depository Receipts**

It is the intention to give the Depository Receipts similar rights as the Underlying Shares have in connection with corporate actions.

- 15.1 The Issuer will implement any corporate actions taken or to be taken by the Company, affecting the Depository Receipts or the FDR holders, to the Depository Receipts, in accordance with the relevant decision of the Company, provided that:
- such actions are possible in accordance with Finnish legislation,
  - the Finnish book-entry system enables such actions to be carried out in accordance with the Company's decision.
- 15.2 The Issuer shall decide the record date for the Depository Receipts with regard to each corporate action case by case, always taking into account compelling provisions and regulations included in applicable legislation. The right to receive a payment in each corporate action belongs to the FDR holders who have been registered in the register of the FDR holders at the FCSD on the record date.
- 15.3 In case any corporate action taken or to be taken by the Company would result in FDR holders being entitled to a fraction of a share, the Issuer is entitled to dispose of the fractions and pay the proceeds to the FDR holders after deducting possible tax and costs.

15.4 The Issuer shall have the right to carry out the Company's corporate actions and other measures related to the Underlying Shares or the Depository Receipts or the FDR holders by choosing the most technically appropriate way of accomplishing this.

15.5 Bonus issue, stock split and combination of shares

In a bonus issue, the Issuer will attend to that Depository Receipts corresponding to the new shares related to the Underlying Shares will be recorded on the book-entry accounts of the FDR holders. The Issuer will furthermore handle any measures required for carrying out a stock split and combination of shares according to the schedule decided by the Issuer.

15.6 Rights issue (shares, capital loans, share options, bonds with warrants, convertible bonds)

15.6.1 In the event that the Underlying Shares are entitled to a subscription right in a rights issue, or if the Company's offer or other type of action affects the FDR holders, the Issuer will publish information concerning such actions to the FDR holders in accordance with Section 16.

15.6.2 If it is, for substantial practical or technical reasons, not possible to enable the FDR holders to participate in a corporate action referred to above in Section 15.6.1, the Issuer has the right to sell the rights attached to the Underlying Shares and pay the proceeds to the FDR holders after deducting possible taxes (and costs) in accordance with rules concerning the distribution of dividends, as set out above.

15.7 Other capital operations

The Issuer and the Company will separately agree on carrying out other capital operations in respect of the Depository Receipts.

15.8 The Issuer shall publish information on the realisation of any corporate actions pursuant to Section 16.

## 16. Information

The Issuer shall inform the FDR holders of all matters relating to the Depository Receipts or these terms and conditions by either publishing a notification at least once in one major daily newspaper in Finland designated by the Issuer or in a manner specified in the rules of the book-entry registers at any time in force. As long as the Depository Receipts are subject to public trading on the Helsinki Exchanges, the Issuer shall also provide the Helsinki Exchanges with the same information.

The Issuer is not obliged to publish notices under this section if the Company, a book-entry register or some other party publicises the notice.

## 17. Amendments to the Terms and Conditions

The Issuer shall have the right to amend these terms and conditions if so required by applicable legislation, decisions or regulations of the authorities or by the statutes or decisions of the FCSD, or, if the amendment is in the Issuer's opinion otherwise necessary and the rights of FDR holders are not materially impaired.

## 18. Delisting of the Company's Shares

18.1 If the Company decides to delist the Company's shares from the Helsinki Exchanges or Stockholm Stock Exchange, or if quotation ends for some other substantial reason, the Issuer shall have the right to terminate custody of the Underlying Shares. The termination will be accomplished by sending a notification by mail to the FDR holders, as well as by giving a notice in accordance with Section 16 above.

18.2 These present terms and conditions will remain valid for 12 months from the date when the termination has taken place.

18.3 After the time mentioned in the above subsection, the Issuer will keep the Underlying Shares in custody for 2 years but will no longer handle share-related custody measures in accordance with these terms and conditions.

- 18.4 After the two-year-period referred to above, the Issuer shall have the right to sell the Underlying Shares and to deduct the costs of disposal from the proceeds of the sale prior to distributing the proceeds to the FDR holders.
- 18.5 The FDR holders shall have the right to withdraw the funds for a period of 5 years from the sale of the shares. The proceeds, which have not been withdrawn within the above period shall be credited to the Company.

### **19. Change of Issuer**

In the event that the Company decides to change the Issuer or if the Issuer for substantial reasons terminates the agreement between the Company and the Issuer, concerning the issuance of Depository Receipts, the Issuer will transfer the Underlying Shares which are kept in its name in the Custodian Bank, together with all the duties according to the present terms and conditions to the new Finnish issuer designated by the Company, according to a schedule to be agreed separately between the Issuer and the Company. The Issuer shall be responsible for the fulfilment of any and all obligations incurred under these Terms and Conditions prior to the transfer and shall notify the FDR holders of the change in accordance with Section 16 above.

### **20. Limitation of liability**

- 20.1 The Issuer is not liable for any damages provided that it has observed normal care and prudence in carrying out its duties.
- 20.2 The Issuer is not responsible for any damage or loss arising due to force majeure or to an unreasonable impairment of the Issuer's operations due to a similar cause. The Issuer shall notify the FDR holders of a circumstance of force majeure affecting either the Issuer or the Company, of which it is aware. The announcement may be made in accordance with Section 16 above and if it is not possible, in the best practicable manner as deemed by the Issuer.

### **21. Governing law**

The Depository Receipts and these terms and conditions will be governed by and construed in accordance with Finnish law.

Any disputes relating to the Depository Receipts or these terms and conditions will be settled in the Helsinki District Court. However, individual clients residing in Finland may apply for a hearing in their regional District Court.

Upon the request of the Issuer any dispute may be settled by an arbitrator in accordance with the Finnish Arbitration Act. This requires that a consumer has agreed in accordance with the Consumer Protection Act (78/1978, as amended) Section 12 subsection 1d to the arbitration procedure after the dispute has arisen. In such instances the Issuer is responsible for the fees of the arbitrators, unless the client has made an unreasonable claim or unreasonably resisted one.

## **E.2. GENERAL TERMS AND CONDITIONS OF THE NORDBANKEN HOLDING AB (PUBL) SUBSCRIPTION RECEIPT**

### **1. General**

Nordbanken Holding AB (publ) (hereinafter the “Company”) has appointed Merita Bank Plc issuer (hereinafter “Issuer”) of the Company’s subscription receipt (hereinafter “Subscription Receipt”) and custodian for the Company’s shares corresponding to the Subscription Receipts for the account of holders of the Subscription Receipts (hereinafter the “subscription receipt holders”) in accordance with the present terms and conditions. The purpose of the arrangement is to enable listing of the Subscription Receipts on the pre-list of the Helsinki Stock Exchange. The Subscription Receipt is recognised as depository receipt, in the Finnish book-entry system as defined below under paragraph 2.

The Subscription Receipt is issued according to the Terms and Conditions of the public tender offer by Nordbanken Holding AB (publ) to the shareholders of Merita Plc (hereinafter the “Exchange Offer”) on November 24 through December 15, 1999. The Subscription Receipt is a temporary instrument that will represent the right to receive Nordbanken Holding Shares through the delivery of the Nordbanken Holding Share-Depository Receipts to book-entry accounts of the holders of the Subscription Receipts.

### **2. Description of the Subscription Receipt**

One Subscription Receipt entitles its holder to 1,02 shares of the Company (including eventual proceeds of the sale of fractional entitlements), and will be automatically converted to one Nordbanken Holding FDR according to the Terms and Conditions of the Exchange Offer.

The number of the Company’s shares corresponding to the number of the outstanding Subscription Receipts (hereinafter the “Underlying Shares”) are held in custody by Nordbanken AB (publ) (hereinafter the “Custodian Bank”) in the name of the Issuer and for the account of the Subscription Receipt holders.

A Subscription Receipt is a form of right that will be issued as a book-entry in accordance with Section 26 b, subsection 2 of the Finnish Act on Book-Entry System (826/1991, as amended) and incorporated into the Finnish book-entry system. A Subscription Receipt is a security as defined in Chapter 1, Section 2, subsection 1, point 2 of the Finnish Securities Market Act (495/1989, as amended).

The rules and regulations of the Finnish Central Securities Depository Ltd (hereinafter “FCSD”) includes general provisions regarding the subscription receipts.

### **3. Description of the Company and the Shares of the Company**

The name of the Company is Nordbanken Holding AB (publ), register number 556547-0977, legally domiciled in Stockholm, address Hamngatan 10, SE-105 71, Sweden.

The Company’s share capital as of 31 Octobr 1999, consists of 1.275.267.441 shares amounting to a total of SEK 8.926.872.087. The nominal value of each of the Company’s shares is SEK 7 which is proposed to be decreased to SEK 4.5 in the general Meeting on 19 November, 1999. The Company has only one class of shares. Each share entitles its holder to one (1) vote at the Company’s General Meeting of Shareholders.

The Company’s shares are traded on the main list of the Stockholm Stock Exchange.

### **4. Issuer**

Merita Bank Plc, register number 513.752, address Aleksanterinkatu 30, Helsinki 00020 MERITA.

### **5. Custodian Bank and Book-entry System**

5.1 The Underlying Shares are registered in the Swedish book-entry system by the Custodian Bank, which is an account-operator (“Kontoförande Institut”) in Sweden. The Underlying Shares are kept in custody in the name of the Issuer as nominee registered Shares for the account of the Subscription Receipt holders and deposited on a separate book-entry account. The Underlying Shares are kept separate from the assets of the Custodian Bank and of the Issuer.

- 5.2 Subscription Receipts are registered as book-entries in the Finnish book-entry system on book-entry accounts of the Subscription Receipt holders, held by Finnish book-entry registrars.

#### **6. Trading in Subscription Receipts on the Pre-list of the Helsinki Stock Exchange**

- 6.1 Trading in the Company's shares will be carried out through Subscription Receipts on the pre-list of the Helsinki Exchanges.
- 6.2 Trading and settlement in Subscription Receipts will take place in the book-entry system. No physical certificate will be issued for a Subscription Receipt.

#### **7. Subscription Receipt Holder**

- 7.1 The owner of a Subscription Receipt *vis-à-vis* the Issuer is considered to be the person or the entity who is entered into the register of Subscription Receipt holders held by the FCSD, pursuant to Section 4 of the Act on the Book-Entry System (826/1991, as amended).
- 7.2 A custodian who is entered into the register of Subscription Receipt holders shall be subject to the provisions concerning nominee registration pursuant to Section 28 of the Finnish Act on the Book-Entry System and the provisions concerning custodial nominee accounts pursuant to Section 5a of the Act on Book-Entry Accounts (827/1991, as amended).

#### **8. The Issuer's Right to Obtain and Furnish Information**

- 8.1 Without prejudice to the secrecy provisions which apply to securities pursuant to Chapter 1, Section 2 of the Finnish Securities Market Act, the Issuer shall have the right to obtain information on the Subscription Receipt holders according to the same principles applicable to an issuer of shares in a Finnish company whose shares have been entered into the book-entry system.
- 8.2 The Issuer may request and obtain the information referred to above in Section 8.1. from a book-entry registrar or the FCSD.
- 8.3 Each Subscription Receipt holder is responsible for furnishing the book-entry register with information on his, her or its identity and country of taxation in accordance with applicable legislation.
- 8.4 A book-entry registrar shall have the right, upon the Issuer's request, to furnish the Issuer or the FCSD with information concerning the Subscription Receipt holder's personal information and country of taxation, in accordance with the provisions of statutes or decisions of the FCSD.
- 8.5 The Issuer and the Custodian Bank shall have the right to provide authorities in Finland and abroad, including, but not limited to, regulatory and tax authorities, with information on the Subscription Receipt holders, if and to the extent that applicable regulations so require. In addition, the Issuer may at any time, upon the Company's request provide the Company and Custodian Bank with information on the Subscription Receipt holders to the extent defined in Section 8.1. above.
- 8.6 The Issuer is free from liability *vis-à-vis* public authorities and other parties to the extent that it has not received correct and sufficient information on the Subscription Receipt holder from the book-entry registrars or the FCSD, in order for the Issuer to be able to fulfil its obligations.

#### **9. Depositing Shares in Custody and Withdrawing them from Custody (Conversion)**

Conversion of the Company's shares into Subscription Receipts or conversion of the Subscription Receipts into the Company's shares is not possible until the Subscription Receipts have been converted into Nordbanken Holding FDR:s, which is expected to take place on 17 January, 2000.

#### **10. Transfer and Assignment Measures Relating to the Underlying Shares**

No pledges, transfer restrictions or other encumbrances may be registered on the Underlying Shares. Any encumbrances shall be registered on the Subscription Receipts in accordance with the Act on Book-Entry Accounts.

## 11. Record date

The Issuer will decide a record date determining the right of the Subscription Receipt holders to participate in a General Meeting and to receive dividends and other funds distributed by the Company as well as pre-emptive subscription rights pertaining to an increase of the Company's share capital and other similar asset-related rights. The aim is to determine the record date concerning the Subscription Receipts to be the same as the record date concerning the Company's shares in Sweden. The Issuer will publish the record date in accordance with Section 16.

## 12. Distribution of Dividend and other Distribution of Profit

- 12.1 The dividend related to the Underlying Shares shall be paid by the Company to the Issuer through the Custodian Bank in accordance with the respective decision of the Company's General Meeting and applicable legislation.
- 12.2 The Issuer shall take care of distribution of any dividends related to the Underlying Shares received from the Company to the Subscription Receipt holders in proportion to their holding on the record date determined and announced by the Issuer.
- 12.3 The Issuer will pay dividends to the Subscription Receipt holders in Euro or in Finnish markka.
- 12.4 The Issuer will decide the record date of the dividend distribution on the Subscription Receipts, as well as the date of payment, always separately for each dividend distribution. It is the intention to determine the distribution date to be as close as possible to the equivalent date in Sweden, always taking into account applicable statutes and decisions of the FCSD and other applicable legislation.
- 12.5 Prior to the pay date, the Issuer will convert the dividend payable on the Subscription Receipts in Swedish krona into Euro or Finnish markka. The conversion will take place not earlier than eight (8) and not later than three (3) banking days before the payment date. The conversion will take place by covering the sum by a forward exchange contract or by a foreign exchange transaction, the value date being the payment day or the day when the Issuer makes the dividend distribution to the book-entry registers for further distribution to the Subscription Receipt holders. The final foreign exchange/conversion rate will be determined according to the market forward exchange rate used by the Issuer or according to the foreign exchange rate.
- 12.6 Dividends on Subscription Receipts will be paid on the basis of ownership on the record date to the money account designated for the book-entry account of the Subscription Receipt holder on the basis of the information in the book-entry account, either in Euro or in Finnish markka rounded down, if necessary, to the nearest cent or penni.
- 12.7 The dividend related to the Underlying Shares shall be paid, pursuant to Section 29 of the Act on Book-entry Accounts, to the persons who, according to the register maintained at the FCSD, are entitled to receive the payment on the record date.
- 12.8 The Swedish Central Securities Depository will withhold the withholding tax and other possible taxes related to the Underlying Shares in accordance with the relevant tax treaty between Sweden and the domicile of the holder of the Subscription Receipt or with the highest tax rate applied to non-resident taxpayers in Sweden.
- 12.9 Before the payment of the dividend the Issuer shall have the right to deduct any other taxes and charges in accordance with Finnish or Swedish legislation, and any expenses relating to foreign exchange conversion and repatriation of currency, which are to be paid by the Subscription Receipt holders.
- 12.10 Should the distribution of profit by the Company be in any other form than money and it is not lawful or technically feasible to implement the distribution of such a profit to the Subscription Receipt holders, as if they were the Company's shareholders, the Issuer shall have the right to compensate the Subscription Receipt holders in cash.
- 12.11 The Issuer will inform the Subscription Receipt holders of the procedure relating to the proposed profit distribution in accordance with Section 16 below.

### 13. General Meetings of the Company

- 13.1. The Company shall forthwith publish a notice of a General Meeting of the Company simultaneously as it is published in Sweden publish the notice in at least one major daily newspaper in Finland. According to the present Articles of Association, the notice of an Annual General Meeting and notice of an Extraordinary General Meeting where issue of amendment of the Articles of Association will be dealt with shall be published not earlier than six weeks and at the latest four weeks before the meeting. Notice of other Extraordinary General Meeting shall be published not earlier than six weeks and at the latest two weeks prior to the General Meetings.
- 13.2. In connection with the notice, the Issuer shall publish to the Subscription Receipt holders at least the following information:
- the record date determining the right to participate in the General Meeting
  - procedural instructions concerning the final deadline for and means by which an Subscription Receipt holder shall make a notification to the Issuer, in order to be able to participate in the general meeting and to exercise his or her voting rights
  - the place where the documents referred to in the notice, if any, may be reviewed and where copies of them can be ordered.

### 14. The Company's Decisions and Other Material

The Issuer will arrange that any information or documents supplied by the Company or given by the Issuer, which affect the position of the Subscription Receipt holders, is available for public examination at the Issuer's premises during the Issuer's opening hours. The relevant documents shall be available for public examination for one year after the Issuer has received or published them.

### 15. Corporate Actions and Changes Affecting the Company's Shares and Subscription Receipts

It is the intention to give the Subscription Receipts similar rights as the Underlying Shares have in connection with corporate actions.

- 15.1 The Issuer will implement any corporate actions taken or to be taken by the Company, affecting the Subscription Receipts or the Subscription Receipt holders, to the Subscription Receipts, in accordance with the relevant decision of the Company, provided that:
- such actions are possible in accordance with Finnish legislation,
  - the Finnish book-entry system enables such actions to be carried out in accordance with the Company's decision.
- 15.2 The Issuer shall decide the record date for the Subscription Receipts with regard to each corporate action case by case, always taking into account compelling provisions and regulations included in applicable legislation. The right to receive a payment in each corporate action belongs to the Subscription Receipt holders who have been registered in the register of the Subscription Receipt holders at the FCSD on the record date.
- 15.3 In case any corporate action taken or to be taken by the Company would result in Subscription Receipt holders being entitled to a fraction of a share, the Issuer is entitled to dispose of the fractions and pay the proceeds to the Subscription Receipt holders after deducting possible tax and costs.
- 15.4 The Issuer shall have the right to carry out the Company's corporate actions and other measures related to the Underlying Shares or the Subscription Receipts or the Subscription Receipt holders by choosing the most technically appropriate way of accomplishing this.
- 15.5 Bonus issue, stock split and combination of shares
- In a bonus issue, the Issuer will attend to that Subscription Receipts corresponding to the new shares related to the Underlying Shares will be recorded on the book-entry accounts of the Subscription Receipt holders. The Issuer will furthermore handle any measures required for carrying out a stock split and combination of shares according to the schedule decided by the Issuer.

## 15.6 Rights issue (shares, capital loans, share options, bonds with warrants, convertible bonds)

15.6.1 In the event that the Underlying Shares are entitled to a subscription right in a rights issue, or if the Company's offer or other type of action affects the Subscription Receipt holders, the Issuer will publish information concerning such actions to the Subscription Receipt holders in accordance with Section 16.

15.6.2 If it is, for substantial practical or technical reasons, not possible to enable the Subscription Receipt holders to participate in a corporate action referred to above in Section 15.6.1, the Issuer has the right to sell the rights attached to the Underlying Shares and pay the proceeds to the Subscription Receipt holders after deducting possible taxes and costs in accordance with rules concerning the distribution of dividends, as set out above.

## 15.7 Other capital operations

The Issuer and the Company will separately agree on carrying out other capital operations in respect of the Subscription Receipts.

15.8 The Issuer shall publish information on the realisation of any corporate actions pursuant to Section 16.

## 16. Information

The Issuer shall inform the Subscription Receipt holders of matters relating to the Subscription Receipts or these terms and conditions by either publishing a notification at least once in one major daily newspaper in Finland designated by the Issuer or in a manner specified in the rules of the book-entry registers at any time in force. As long as the Subscription Receipts are subject to public trading on the Helsinki Exchanges, the Issuer shall also provide the Helsinki Exchanges with the same information.

The Issuer is not obliged to publish notices under this section if the Company, a book-entry register or some other party publicises the notice.

## 17. Amendments to the Terms and Conditions

The Issuer shall have the right to amend these terms and conditions if so required by applicable legislation, decisions or regulations of the authorities or by the statutes or decisions of the FCSD, or, if the amendment is in the Issuer's opinion otherwise necessary and the rights of Subscription Receipt holders are not materially impaired.

## 18. Delisting of the Company's Shares

18.1 If the Company decides to delist the Company's shares from the Helsinki Exchanges or Stockholm Stock Exchange, or if quotation ends for some other substantial reason, the Issuer shall have the right to terminate custody of the Underlying Shares. The termination will be accomplished by sending a notification by mail to the Subscription Receipt holders, as well as by giving a notice in accordance with Section 16 above.

18.2 These present terms and conditions will remain valid for 12 months from the date when the termination has taken place.

18.3 After the time mentioned in the above subsection, the Issuer will keep the Underlying Shares in custody for 2 years but will no longer handle share-related custody measures in accordance with these terms and conditions.

18.4 After the two-year-period referred to above, the Issuer shall have the right to sell the Underlying Shares and to deduct the costs of disposal from the proceeds of the sale prior to distributing the proceeds to the Subscription Receipt holders.

18.5 The Subscription Receipt holders shall have the right to withdraw the funds for a period of 5 years from the sale of the shares. The proceeds, which have not been withdrawn within the above period shall be credited to the Company.

## 19. Change of the Issuer

In the event that the Company decides to change the Issuer or if the Issuer for substantial reasons terminates the agreement between the Company and the Issuer, concerning the issuance of Subscription Receipts, the Issuer will transfer the Underlying Shares which are kept in its name in the Custodian Bank, together with all the duties according to the present terms and conditions to the new Finnish Issuer designated by the Company, according to a schedule to be agreed separately between the Issuer and the Company. The Issuer shall be responsible for the fulfilment of any and all obligations incurred under these Terms and Conditions prior to the transfer and shall notify the holders of Subscription Receipts of the change in accordance with Section 16 above.

## 20. Limitation of Liability

- 20.1 The Issuer is not liable for any damages provided that it has observed normal care and prudence in carrying out its duties.
- 20.2 The Issuer is not responsible for any damage or loss arising due to force majeure or to an unreasonable impairment of the Issuer's operations due to a similar cause. The Issuer shall notify the Subscription Receipt holders of a circumstance of force majeure affecting either the Issuer or the Company, of which it is aware. The announcement may be made in accordance with Section 16 above and if it is not possible, in the best practicable manner as deemed by the Issuer.

## 21. Governing Law

The Subscription Receipts and these terms and conditions will be governed by and construed in accordance with Finnish law.

Any disputes relating to the Subscription Receipts or these terms and conditions will be settled in the Helsinki District Court. However, individual clients residing in Finland may apply for a hearing in their regional District Court.

Upon the request of the Issuer any dispute may be settled by an arbitrator in accordance with the Finnish Arbitration Act. This requires that a consumer has agreed in accordance with the Consumer Protection Act (78/1978, as amended) Section 12 subsection 1d to the arbitration procedure after the dispute has arisen. In such instances the Issuer is responsible for the fees of the arbitrators, unless the client has made an unreasonable claim or unreasonably resisted one.

## F. SWEDISH LEGISLATION AFFECTING A SHAREHOLDER IN NORDBANKEN HOLDING

### I. Swedish Company Law Considerations

Set forth below is a summary of material provisions concerning the Nordbanken Holding Shares, including brief descriptions of certain provisions contained in the proposed new Articles of Association of Nordbanken Holding (the “Articles”) see Appendix C.1., the Swedish Companies Act (the “Companies Act”) and the Swedish Banking Business Act (the “Banking Business Act”). This description is a summary and does not purport to be complete.

#### Directors

According to the Articles directors and deputy directors appointed by shareholders are elected at a general shareholders’ meeting for the period until the end of the annual general meeting that is held during the second financial year after the appointment. A director or deputy director may retire or be removed prematurely by the shareholders in a general meeting at any time. There is no upper age limit or shareholding qualification for directors or deputy directors. In companies or groups of companies with more than 25 employees, the labour organisations may appoint up to two employee representative directors and up to two deputy employee representative directors under the Swedish Private Employee Board Representation Act of 1987. If the number of employees exceeds 1,000 and where the company operates within several different industries, three employee representative directors with three deputy employee representative directors may be appointed.

Deputy directors and deputy employee representatives may only vote in substitution for directors that are not present. Deputy employee representatives are entitled to be present and express their opinions at meetings of the board of directors and at general meetings even when the employee representative is present.

The fees of the directors approved by shareholders are decided at each annual general meeting.

Under the Companies Act, neither a director nor managing director may deal with matters relating to agreements between himself/herself and the company, nor may he/she deal with matters relating to agreements between the company and a third party if he/she has a material interest in the matter which conflicts with that of the company and, nor may he/she deal with matters relating to agreements between the company and a legal entity if he/she alone or together with someone else may represent that legal entity. In addition, the board of directors or other representatives of the company may not enter into legal transactions or undertake other measures which are likely to give an undue advantage to a shareholder or to a third party to the detriment of the company or other shareholders.

#### Auditors

In accordance with the Articles one or two auditors are appointed at the annual general meeting for the period until the end of the annual general meeting that is held during the fourth financial year after the appointment. Alternatively, an authorised public accounting firm may be appointed as auditor.

#### General Meeting of Shareholders

Pursuant to the Companies Act, a shareholder’s right to take part in decisions related to a company’s affairs is normally exercised at the general meetings of shareholders.

An annual general meeting must be held within six months of the end of each financial year to consider, *i.a.*, statutory accounts and reports, disposition of profit or loss and discharging the directors from liability.

The Articles stipulate that notices convening the annual general meeting are to be announced in Sweden in the Swedish Official Gazette and Dagens Nyheter, Svenska Dagbladet or any other Swedish daily newspaper that has nationwide coverage, in Finland in the Finnish language in Helsingin Sanomat and in the Swedish language in Hufvudstadsbladet or in Finnish or Swedish respectively, in other Finnish daily newspapers, and in any other foreign newspaper if so decided by the board of directors. According to the Companies Act such announcement has to be made not earlier than six weeks and not later than four weeks prior to the date of such meeting. In addition, the Companies Act stipulates that a written notice must be sent to each shareholder whose address is known to the company when a general meeting is convened to deal with alterations to the Articles as described under (c) and (d) of “Voting” below or the commencement or discontinuance of the liquidation of the company, as well as when an annual general meeting is to be held at a time different to that prescribed in the Articles.

Extraordinary general meetings are held when the board of directors considers such meeting appropriate or when either the auditor or shareholders representing at least one-tenth of all issued shares request it in writing for a specified purpose. Notices of extraordinary general meetings shall be given to the shareholders and announced in the same manner as notices of the annual general meeting (see above) within 14 days from receipt by the board of directors of the request of an extraordinary general meeting. According to the Companies Act the announcement has to be made not earlier than six weeks and not later than four weeks prior to the date of the extraordinary general meeting if the general meeting will decide on a proposed change of the articles of association. To any other extraordinary general meeting the notice convening the meeting has to be announced not earlier than six weeks and not later than two weeks prior to the date of such meeting.

Under Swedish law, a general meeting may not adopt any resolution which is likely to give undue advantage to a shareholder or a third party to the detriment of the company or other shareholders of the company.

Pursuant to the Articles, the general meetings of Nordbanken Holding will be held in Stockholm and in addition thereto via telecom links also accessible from location in Helsinki and, if the Board of Directors so decides, from other locations. Through these arrangements the shareholders which are not present in Stockholm are able to exercise their shareholders' rights from Helsinki and such other places decided by the Board of Directors. The general meetings shall be conducted in the Finnish and Swedish languages and, if the Board of Directors so decides, in other languages.

### Voting

Each share entitles the holder to a single vote. Each person is entitled to vote in respect of the entire amount of shares owned and represented by him/her without limitation as to the number of votes. A shareholder may attend and vote at a general meeting in person or by a representative in possession of a written and dated proxy. A proxy is valid for one year from the date of issue. According to the Companies Act a company may not send proxy forms to its shareholders at the expense of the company.

To attend and vote at a general meeting, a shareholder must be registered in his or her own name in the register of shareholders, which is kept by VPC, on the 10th day prior to the date of the meeting and must, as stipulated in the Articles, have given notice to the Company of his or her intention to attend by not later than 1.00 p.m. on the day indicated in the notice of the meeting. Such day may not be a Sunday, a public holiday, Saturday, Midsummer Eve, Christmas Eve or New Year's Eve and must not be earlier than the fifth business day before such meeting.

A person designated on the register of shareholders as a nominee is not entitled to attend and vote at a general meeting. To be entitled to attend and vote, a beneficial owner whose shares are registered in the name of a nominee must arrange to have the shares registered in his or her own name on the register of shareholders not later than the 10th day prior to the date of such meeting and also notify the Company of his or her intention to attend.

At general meetings, resolutions that do not involve an election are passed by a simple majority of the votes cast, except in certain circumstances including:

- (a) a resolution to disapply the shareholders' preferential rights in connection with an issue (except for an issue in kind) of new shares, to reduce the share capital or to approve a merger will require a majority of at least two thirds of the votes cast as well as at least two thirds of the shares represented at the general meeting;
- (b) a resolution to amend the Articles requires a majority of at least two-thirds of the votes cast as well as at least two-thirds of the shares represented at the general meeting;
- (c) a resolution to amend the Articles for the purpose of limiting the number of shares in respect of which a shareholder may vote at a general meeting, or requiring the Company to retain a larger amount of the net profit than required by the Companies Act, or amending shareholders' rights in a winding-up of the Company, requires the approval of shareholders representing at least two-thirds of the votes cast and at least nine-tenths of the shares represented at the general meeting;
- (d) a resolution to amend the Articles which reduces any existing shareholder's right to profits or other assets, restricts the transferability of issued shares or alters the legal relationship between issued shares, normally requires the unanimous approval of the shareholders present at the meeting and representing at least nine-tenths of all shares issued; and

- (e) a resolution to convert from a public company to a private company requires the unanimous approval of the shareholders present at the meeting and representing at least nine-tenths of all shares issued.

When a resolution involves an election the candidate receiving the largest number of votes shall be considered elected. In case of parity of votes drawing of lots shall effect the election unless the meeting before the election took place has resolved that a new election will be made in case of parity.

### **Dividends**

The Companies Act stipulates that all shares carry equal rights unless otherwise stated in the articles of association. The Articles do not state otherwise, i.e., all shares carry equal rights.

Payment of dividends must be authorised by a resolution passed at an annual general meeting adopting the consolidated profit and loss account and the consolidated balance sheet. VPC administers dividend payments on behalf of the Company.

The amount of any dividend is limited by, *i.a.*, reference to profits and distributable reserves of both the company and the group available at the end of the preceding financial year and may not exceed the amount proposed or approved by the board of directors (except to a limited extent where the holders of 10 per cent or more of the total shares have otherwise requested at the annual general meeting) or be of such amount as, having regard to the company's or the group's consolidation needs or liquidity or financial position in other respects, would be contrary to generally accepted business practice.

In accordance with the Companies Act, at least 10 per cent of the net profit for the year, after deducting any losses carried forward, has to be allocated to a restricted reserve unless and until the amount of such reserve equals 20 per cent of the share capital. Any premium on an issue of shares must be allocated to a separate restricted reserve (Sw: överkursfond).

### **Preferential right to subscribe for shares**

Under the Companies Act, the existing shareholders have preferential rights to subscribe for new shares issued for cash in proportion to their existing holdings unless the articles of association provide otherwise or the general meeting deciding on the issue stipulates that the shareholders shall not have such preferential rights. The Articles do not limit the shareholders' preferential rights to subscribe for new shares.

### **Borrowing Powers**

The Articles contain no restrictions or limits in relation to borrowings by the Company.

### **Ownership Examination**

The Banking Business Act stipulates that a direct or indirect acquisition of shares in a banking company, which results in the acquiring party's total holding of shares coming to constitute a qualified holding may only take place pursuant to the approval of the Swedish FSA. "Qualified holding" means a direct or indirect ownership in an undertaking where the holding represents 10 per cent or more of the shares or votes or where the holding otherwise renders it possible for the holder to exercise a significant influence over the management of the undertaking in question. The aforementioned also applies to acquisitions which result in a qualified holding being increased such that it amounts to, or exceeds, 20, 33 or 50 per cent of the shares or votes or which result in the securities company becoming a subsidiary of the holders. The Swedish FSA approval must be sought and granted prior to the completion of the acquisition.

## **2. The Swedish Securities Market**

### **General**

The securities market in Sweden is supervised by the Swedish FSA. The principal statutes governing the securities market are the Swedish Financial Instruments Trading Act of 1991 and the Swedish Securities Exchange and Clearing House Act of 1992. The Financial Instruments Trading Act contains, *i.a.*, regulations with respect to disclosure of shareholdings and market manipulation and the Securities Exchange and Clearing House Act contains,

*i.a.*, regulations with respect to securities exchange operations and the registration of listed securities (see further below under “The Stockholm Stock Exchange Trading System”).

A shareholder is required to notify a Swedish listed company and the Stockholm Stock Exchange when its holding in such listed company reaches, exceeds or falls below ten, 20, 33 1/2, 50 or 66 1/2 per cent of the voting capital of all shares in the company. Further, according to the Recommendations concerning the Disclosure of Acquisitions and Transfers of Shares, etc. from 1994, issued by the Swedish Industry and Commerce Stock Exchange Committee, a shareholder is required to disclose transactions that cause the holding to reach, exceed or fall below five per cent of the shares or votes in a listed company and any subsequent percentage which is a multiple of five, up to and including 90 per cent of the total number of the shares or votes in the company. Such disclosure shall be made by means of a statement to an established news agency and at least one Swedish daily newspaper with national coverage. This statement shall be simultaneously communicated to the Stockholm Stock Exchange and to the company.

Pursuant to the Recommendations concerning Public Offers for the Acquisition of Shares from 1999 issued by the Swedish Industry and Commerce Stock Exchange Committee, a shareholder who acquires 40 per cent or more of the votes of all shares in a Swedish listed company must make a mandatory bid regarding the remaining shares and other securities issued by the company if the market price of these securities would be significantly affected if the listing of the shares in the company should cease. Under the Companies Act, a shareholder holding more than 90 per cent of the shares and voting rights in a company has the right to purchase the remaining shares of such company. In addition, any shareholder that possesses shares that may be so purchased by a majority shareholder under the Companies Act is entitled to require such majority shareholder to purchase its shares.

#### **Insider Dealing and Market Manipulation**

Insider dealing is criminalised in Sweden and the rules are set forth in the Swedish Insider Dealing Act of 1990 (the “Insider Act”). The Swedish FSA monitors compliance with the Insider Act. The Insider Act’s regulatory scheme can be divided into three parts. First, there is a prohibition against trading, *i.e.* a prohibition for anyone to purchase or sell financial instruments on his or her own account or in behalf of a third party on the basis of non-public information. Second, there is a notification obligation for the management of a stock market company and some of its civil servants, *i.e.* these persons are obligated to notify changes in their shareholdings. Third, there is a prohibition against short-term trading for persons in certain positions in a stock market company.

Further, undue price influence, *i.e.* market manipulation, is criminalised in Sweden and the rules are set forth in the Swedish Financial Instruments Trading Act of 1991. The criminalisation covers for example fictitious agreements with repurchase provisions, or terms and conditions prohibiting further sales, in which the intent is to unduly influence the price in conjunction with public trading of financial instruments on the securities market or to mislead the market.

#### **The Stockholm Stock Exchange Trading System**

Stock market trading in Sweden is primarily conducted on the Stockholm Stock Exchange. There are no market makers or specialist systems on the Stockholm Stock Exchange and trading is conducted on behalf of clients by banks and brokers that are members of the exchange. While banks and brokers are permitted to act as principals in trading both on and off the exchange, they generally engage in transactions as agents.

The Stockholm Stock Exchange operates through a fully electronic trading system, the Stockholm Automated Exchange (“SAX”), which covers all stocks listed on the exchange.

Trading on the Stockholm Stock Exchange begins each morning at 09.30 a.m. (Stockholm time) at an opening price determined by the SAX system and based on orders entered by Stockholm Stock Exchange members, and continues at prices based on market demand until 5.30 p.m. Buy and sell orders are registered on the system in round lots (trading lots), typically of 100 shares, and odd lots are matched separately at the last price for round lots.

All standard transactions on the Stockholm Stock Exchange through banks or brokers are made through SAX’s order book. Larger trades can be made outside SAX and reported to SAX provided that the price is within the SAX’s spread in its order book. Very large transactions may be executed at a price which is outside the spread.

In addition to official trading on the Stockholm Stock Exchange, there is also trading off the exchange during and after official trading hours, through intermediaries or directly.

Trades in excess of 20 round lots can be effected off the Stockholm Stock Exchange if the transaction price lies within the spread then appearing on SAX, and trades in excess of 500 round lots (for shares on the "Most Traded Shares" list of the exchange) or 250 round lots (for all other shares) may be effected off the Stockholm Stock Exchange without regard to such spread. Trades after official trading hours must normally be effected at a transaction price that lies within the spread appearing on SAX at the time of the closing. If there are no orders in SAX at such time, the trade may be effected at a price that otherwise reflects the market situation at such time. If the market situation changes after the closing of SAX, trades may be effected outside the spread, provided that it can be shown that the transaction price reflected the market situation prevailing at the time of the trade. Trading on the Stockholm Stock Exchange tends to involve a higher percentage of retail clients, while trading off the exchange – whether through intermediaries or directly – often involves larger Swedish institutions, banks arbitraging between the Swedish market and foreign markets and foreign buyers and sellers purchasing shares from or selling shares to Swedish institutions.

The Stockholm Stock Exchange is an authorised stock exchange in accordance with the Swedish Stock Exchange and Clearing House Act and is subject to regulation by the Swedish FSA. The Swedish Stock Exchange and Clearing House Act provides for the regulation and supervision of the Swedish securities market and market participants and the Swedish FSA implements such regulation and conducts supervision.

The regulatory system governing trading on and off the Stockholm Stock Exchange is intended to achieve transparency and equality of treatment. All trades on the exchange are made through SAX to the Stockholm Stock Exchange, which records information as to the banks and brokers involved, the issuer, the number of shares and the price and the time of the transaction. Each bank or broker is required to maintain records indicating trades carried out as agent or, in the case of banks, as principal. All trades off the exchange by or through members of the Stockholm Stock Exchange must also be reported to the Stockholm Stock Exchange within five minutes, although trades after 5.30 p.m. are to be reported no later than fifteen minutes prior to the opening on the next trading day. All trading information reported to the Stockholm Stock Exchange is publicly available.

#### **Registration Procedure – the Book Entry System**

Nordbanken Holding's share register is kept by VPC, which keeps a computerised paperless share registration system. Nordbanken Holding's shares are registered as book-entries on the shareholders' book-entry accounts at VPC. The legal right of ownership of a share is established upon registration in a VP-account. Accordingly, no physical share certificates are issued by Nordbanken Holding.

The VP-account holder's name, address and nationality are recorded. Each account is kept up to date and the holder is immediately notified of any change. An annual statement shows the year-end balance.

In accordance with Swedish law and the practice and regulations of VPC.

- (i) only one person is normally registered as the holder of a share. Joint holders are not usually recorded on the VPC register. Shareholdings may be entered on the register in the name of the owner or in the name of the person designated as nominee (Sw: förvaltare) for the beneficial owner. There is also a separate register maintained by VPC for the recording of persons who have other interests in respect of the share, such as the interest of a pledgee;
- (ii) where the registered holder is a nominee, the nominee receives, for the account of the beneficial owner, dividends and, on capital increases, shares. Dividends are remitted in one single payment to the nominee who is responsible for the distribution of such dividends to the beneficial owners. A similar procedure is adopted for share issues. Specific authority to act as a nominee must be given by VPC. Such authority can be given to a Swedish nominee as well as a non-Swedish nominee,
- (iii) authorised nominees are required to file a report with VPC with regard to their holdings on behalf of a beneficial owner of shares in any company. A list, which may not be more than six months old, containing information with respect to persons who own more than 500 shares in any one company must be open to public inspection. Such a list must reveal the name of the beneficial owner but need not reveal the name of the nominee in whose name the shares have been registered; and

- (iv) the rights attaching to shares which rank for dividends, rights issues or bonus issues accrue to those persons whose names are recorded in the share register on a particular day, the record date, and the dividends are sent to the address of such persons registered with VPC or, at the direction of that person, to a specified account.

### Transfer of Shares

Shares in Nordbanken Holding are transferable to and by non-Swedish citizens without any restrictions in addition to those that would be applicable to domestic shareholders. Transfer of ownership is made effective by book-entry in the VPC system from the transferor's account to the account of the transferee through an authorised account operating entity or, if the shares are registered in the name of the nominee, by notice to such nominee.

### Exchange Control

There are no Swedish exchange control restrictions on investments in shares listed or quoted on the Stockholm Stock Exchange.

### 3. Swedish Taxation for Non-Residents

Generally, non-residents of Sweden are subject to Swedish withholding tax on dividends paid by a Swedish company. This is normally withheld by VPC or, if shares are registered in the name of a nominee, by the nominee. In the absence of any applicable tax treaty, the rate of the withholding tax is 30 per cent. Sweden has tax treaties with many countries under which the rate of withholding tax is reduced for the purposes of portfolio investments and, in the case of the treaties with the following countries, the maximum reduced rate applicable is at present as follows: Austria 10 per cent, Denmark 15 per cent, Finland 15 per cent, France 15 per cent, Germany 15 per cent, Italy 15 per cent, Japan 15 per cent, the Netherlands 15 per cent, Spain 15 per cent, Switzerland 15 per cent, the United Kingdom 5 per cent, and the US 15 per cent. Non-Swedish shareholders should consult their own advisers for further information regarding the procedure for receiving the benefit of such reduced rates in light of their own circumstances.

Except as provided in the next paragraph, individuals who are non-residents of Sweden and who thus are not subject to Swedish income tax on their worldwide income are not liable to Swedish income tax on gains derived from the sale of shares in the Company.

Individuals who are non-residents of Sweden are liable to tax on gains derived from the sale of Swedish securities, including the shares, if they have been residents of Sweden at any time in a ten-year period immediately preceding the year of the sale. Double taxation agreements with several countries limit the application of this rule. Under the multilateral Nordic tax treaty, for instance, which covers Denmark, Finland, the Faroe Islands, Norway and Sweden, the time limit of ten years provided for under domestic tax law is reduced to five years, counted from the date when the individual ceased to be resident in Sweden under the treaty.

A transfer of a share by gift or by reason of the death of the owner may be subject to Swedish gift or inheritance tax, respectively, with the applicable progressive rates varying from 10 per cent to 30 per cent of the taxable amount (determined after certain deductions), depending on the relationship of the donee or beneficiary to the donor or deceased. Transfers of shares are subject to Swedish inheritance tax if the deceased was a Swedish citizen or domiciled in Sweden or was married to a Swedish citizen and had emigrated from Sweden less than 10 years before the death. Transfers by gift of shares would be subject to gift tax if the donor or donee was a Swedish citizen or the donor was domiciled in Sweden or was married to a Swedish citizen and had emigrated from Sweden less than 10 years before the gift. Gifts made by legal entities are also subject to gift tax. Swedish estate and gift taxation is, however, also dependent on applicable tax treaties.

Currently, there is no transfer tax on trading in securities in Sweden.

*Investors who are fiscally resident outside Sweden should consult with their own tax advisers for information on the tax consequences that may arise outside Sweden by virtue of the acquisition of any of the Nordbanken Holding Shares.*

## **G. REPORTS BY THE BOARD OF DIRECTORS AND AUDITORS OF NORDBANKEN HOLDING**

Translation of the Swedish originals. In case of any inconsistencies between the Swedish originals and the English translations, the Swedish originals shall prevail.

### **Report of the board of directors of Nordbanken Holding AB (publ) on events of material importance**

Due to the board of directors' of Nordbanken Holding AB (publ) (the "company") proposals for resolutions on reduction of the share capital, new issue, authorization of the board of directors to decide on a new issue, issue of convertible debt instruments and authorization of the board of directors to decide on an issue of convertible debt instruments, that are to be submitted at the extraordinary general meeting of shareholders on November 19, 1999, the board of directors hereby submits the following report in accordance with (i) chapter 6 section 2 compared to chapter 4 section 4, (ii) chapter 4 section 4, (iii) chapter 4 section 15 compared to chapter 4 section 4, (iv) chapter 5 section 3 compared to chapter 4 section 4 and (v) chapter 5 section 9 compared to chapter 4 section 4 of the Companies Act.

After the submission of the annual report no events of material importance for the financial position of the company have occurred. Other events are set forth in the enclosed interim reports, *Appendix 13*.

Stockholm November 10, 1999

The board of directors of Nordbanken Holding AB (publ)

### **Statement by the auditors on the board of directors' of Nordbanken Holding AB (publ) report on events of material importance**

In our capacity as auditors of Nordbanken Holding AB (publ) we have studied the above mentioned report by the board of directors, to which we have nothing to object.

Stockholm November 12, 1999

KPMG BOHLINS AB

Caj Nackstad  
Authorised Public Accountant

### **Report of the board of directors of Nordbanken Holding AB (publ) in accordance with chapter 4 section 6 of the Companies Act (1975:1385)**

Due to the proposal by the board of directors of Nordbanken Holding AB (publ) ("Nordbanken Holding") for a resolution on a new issue, that is to be submitted at the extraordinary general meeting of shareholders on November 19, 1999, the board of directors hereby submits the following report in accordance with chapter 4 section 6 of the Companies Act.

In the merger and cooperation agreements between Merita Abp ("Merita") and Nordbanken Holding entered into 1997, it was stated that the initial legal structure should be regarded as a provisional solution, and that a more simple structure should be aimed for, where the group is owned as direct as possible.

It was stated that the future group of companies, consisting of Merita, Nordbanken Holding and the group company that would be formed, the present MeritaNordbanken Abp ("MeritaNordbanken"), and subsidiaries, shall be administered as one single entity, in the common and best interest of the shareholders of Merita and Nordbanken Holding. Differences in capital structure as well as assets and liabilities, including liquid funds, in Merita and Nordbanken Holding, shall not economically affect the respective shareholder communities.

In order to attain the goal that the MeritaNordbanken group shall be administered as one single entity, Merita and Nordbanken Holding shall, according to the cooperation agreement, see to that (i) adequate funds, when necessary, are transferred from the MeritaNordbanken group to either of Merita or Nordbanken Holding, and that (ii) the general meeting of shareholders in Merita and Nordbanken Holding, respectively, redistributes all dividends obtained from MeritaNordbanken, except what may be necessary to cover all costs incurred by Merita and Nordbanken Holding, respectively.

The merger and cooperation agreements entitle Merita and Nordbanken Holding to 40 and 60 percent, respectively, of MeritaNordbanken's capital and dividend, due to the allocation of the shares in MeritaNordbanken. Under certain conditions, Nordbanken Holding obtains certain higher dividend.

The new merger agreement that Merita and Nordbanken Holding entered into on September 20, 1999, means that the simplification of the legal structure of the group, which has been aimed for, now is carried through by the transferring of the ownership of MeritaNordbanken to one company, Nordbanken Holding, by means of the offer to the shareholders of Merita to exchange their shares in Merita for new shares in Nordbanken Holding, where the exchange ratio reflects the present 40–60 economic relationship between Merita and Nordbanken Holding within the MeritaNordbanken group.

In addition to the simplification of the legal structure being a necessity for the creation of a financial pan-Nordic group, the unification of the two shares also means that dividend flows and capital structuring will be significantly simplified and cash will pass through more directly. A more efficient and simpler handling of capital and cash-flow will have a positive effect on the group's result. By means of the unification of the two shares the pricing difference will disappear. Further, a joint venture will essentially increase the flexibility of flows between shareholders and the group, for example regarding questions related to dividends and the possibilities to issue new shares. A single share will be more transparent for the financial markets, and the trading in a single share should improve its liquidity.

The unification of the shares in Merita and Nordbanken Holding, and intended restructuring measures create a growth-oriented and balanced pan-Nordic group, in favour of the group's future business development and financial position, and thereby also of its shareholders, both in Merita and Nordbanken Holding.

The exchange offer means that shareholders in Merita, for one share in Merita, receive 1.02 newly issued shares in Nordbanken Holding. The capital contributed in kind consisting of Merita shares conveyed to Nordbanken Holding in consideration of newly issued shares, has, in the case of full acceptance, an estimated value of approximately SEK 40.8 billions based on the closing price at the Helsinki Stock Exchange on November 9, 1999, and will, in the case of full acceptance, be stated in the Nordbanken Holding's balance sheet in the amount of approximately SEK 12.6 billions.

Stockholm November 10, 1999

The board of directors of Nordbanken Holding AB (publ)

**Statement by the auditors on the board of directors' of Nordbanken Holding AB (publ) report in accordance with chapter 4 section 6 of the Companies Act (1975:1385)**

In our capacity as auditors of Nordbanken Holding AB (publ) ("Nordbanken Holding") we certify that the value of the property, which according to the above mentioned report by the board of directors is to be transferred to Nordbanken Holding, has not, in the report by the board of directors that we have reviewed, been set higher than the real value to Nordbanken Holding and that the property is of such kind as can be expected to be beneficial to the operations of Nordbanken Holding.

Stockholm November 12, 1999

KPMG BOHLINS AB

Caj Nackstad  
Authorised Public Accountant

**Report of the board of directors of Nordbanken Holding AB (publ) in accordance with chapter 5 section 5 compared to chapter 4 section 6 of the Companies Act (1975:1385)**

Due to the proposal by the board of directors of Nordbanken Holding AB (publ) (the “company”) for a resolution on an issue of convertible debt instruments, that is to be submitted at the extraordinary general meeting of shareholders on November 19, 1999, the board of directors hereby submits the following report in accordance with chapter 5 section 5 compared to chapter 4 section 6 of the Companies Act.

The board of directors considers that the value of the capital contributed in kind to be transferred to the company pursuant to the offer mentioned below, namely not more than 90,328 convertible debt instruments in Merita Abp (“Merita”) at a total loan amount of not more than FIM 903,280,000, corresponds to the consideration that is to be paid, namely not more than 90,328 convertible debt instruments in the company at a total loan amount of not more than EUR 151,920,857. The offer means that holders of convertible debt instrument in Merita, for convertible debt instruments in Merita with a nominal value of FIM 10,000 or multiples thereof, obtain convertible debt instrument in the company at a nominal value of EUR 1,681.88 or corresponding multiples thereof.

The total capital contributed in kind has an estimated value of not more than EUR 151,920,857 and will be stated in the company’s balance sheet at not more than the corresponding amount.

Stockholm November 10, 1999

The board of directors of Nordbanken Holding AB (publ)

**Statement by the auditors on the board of directors’ of Nordbanken Holding AB (publ) report in accordance with chapter 5 section 5 compared to chapter 4 section 6 of the Companies Act (1975:1385)**

In our capacity as auditors of Nordbanken Holding AB (publ) (the “company”) we certify that the value of the property, which according to the above mentioned report by the board of directors is to be transferred to the company, has not, in the report by the board of directors that we have reviewed, been set higher than the real value to the company and that the property is of such kind as can be expected to be beneficial to the operations of the company.

Stockholm November 12, 1999

KPMG BOHLINS AB

Caj Nackstad  
Authorised Public Accountant

## H. AUDITORS AND ADVISORS

### 1. Auditors

In accordance with the Co-operation Agreement, individuals representing one and the same international auditing firm shall be auditors of the parties and all the companies within the MeritaNordbanken Group. For the parties and the group holding company the auditors elected by the general meeting shall be the same individuals, if possible with regard to applicable regulations. The Annual General Meetings of Shareholders of Nordbanken Holding and Merita have appointed authorised public accountants to examine each of the companies' financial statements and administrations in accordance with Swedish and Finnish law respectively.

In order to facilitate full co-ordination of the external audits throughout the MeritaNordbanken Group, the Annual General Meetings of Shareholders of Nordbanken Holding and Merita have also decided that the auditors appointed in each company have the right to participate in the auditing of the other company. This is to ensure that the operations of the MeritaNordbanken Group are audited in a co-ordinated manner.

#### Auditors of Nordbanken Holding:

KPMG Bohlins AB, Authorised Public Accountants,  
Tegelgatan 4,  
SE-103 23 Stockholm,  
Sweden  
Caj Nackstad, Authorised Public Accountant,  
principally responsible auditor, address same as KPMG  
Bohlins AB.

KPMG Wideri Oy Ab has the right to participate in the  
auditing of Nordbanken Holding.  
KPMG Wideri Oy Ab, Authorised Public Accountants,  
Mannerheimintie 20 B,  
FI-00100 Helsinki,  
Finland.

#### Auditors of Merita and MeritaNordbanken:

##### Auditors of Merita:

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

Deputy auditors:  
KPMG Wideri Oy Ab, Authorised Public Accountants  
Eero Suomela, Authorised Public Accountant.

##### Auditors of MeritaNordbanken Plc:

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

Caj Nackstad, Authorised Public Accountant, from  
KPMG Bohlins AB, has the right to participate in the  
auditing of Merita and MeritaNordbanken Plc.

### 2. Legal and Financial Advisors

#### Legal Advisors

*As to Finnish law*  
Merilampi Marttila Laitasalo Law Offices,  
Eteläesplanadi 22 A,  
FI-00130 Helsinki,  
Finland

*As to Swedish law*  
Gernandt & Danielsson Advokatbyrå AB,  
P.O.Box 5747, Nybrogatan 11,  
SE-114 87 Stockholm,  
Sweden

#### Financial Advisors

Lazard Brothers & Co., Limited,  
21 Moorfields,  
London EC2P 2HT,  
England

Lazard AB,  
P.O.Box 5783, Sturegatan 24,  
SE-114 87 Stockholm,  
Sweden

*In Finland*  
Merita Corporate Finance Ltd,  
Pohjoisesplanadi 33 A,  
FI-00100 Helsinki,  
Finland

*In Sweden*  
Nordbanken AB (publ),  
Structured & Corporate Finance, S 22,  
SE-105 71 Stockholm,  
Sweden

