

**OKO BANK**  
FINANCIAL STATEMENTS 2004





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## Information for Shareholders

The Annual General Meeting of OKO Bank (OKO Osuuspankkien Keskuspankki Oyj) will be held at Finlandia Hall in Helsinki on March 31, 2005, at 1.30 pm. The Executive Board proposes that a dividend of € 0.53 be paid on Series A shares and € 0.50 on Series K shares. The dividend approved at the Annual General Meeting will be paid to shareholders who on the record date confirmed by the Executive Board for the dividend payout, April 5, 2005, have been entered in the Shareholders' Register maintained by Finnish Central Securities Depository Ltd. It will be proposed at the Annual General Meeting that the dividend be paid at the close of the record period, April 12, 2005.

# REPORT OF THE EXECUTIVE BOARD

## RESULT OF OPERATIONS AND FINANCIAL POSITION

### Financial Performance

OKO Bank recorded an operating profit of € 134 million (174.) The figure includes slightly over € 10 million of capital gains from OMX AB shares. Financial performance in the comparison period was fuelled by the sale of OP Life Assurance Company's shares, which improved the profit by € 53 million, and the sale of Kiinteistö Oy Aleks-Hermes shares, which improved the profit by € 11 million. This translates to a € 14 million increase in the comparable operating profit.

Performance			Change,
€ million	2004	2003	%
Total income			
(incl. commission expenses)	276	324	-15
Total expenses			
(excl. commission expenses)	147	139	6
Loan losses and write-downs	2	7	-77
Share of affiliate profits/losses	6	-3	
Operating profit	134	174	-23

Return on equity was 13.9 per cent (18.5) and earnings per share € 1.05 (1.33). The cost/income ratio was 56 per cent (45). In the comparison period, excluding the impact generated by the sale of OP Life Assurance shares, the ratio was 55 per cent, and return on equity was 13.0 per cent. OKO Bank's

<sup>1</sup> The brackets contain comparative figures from 2003. Figures from the income statement as well as other cumulative figures are compared with those recorded in 2003. Balance sheet figures and other benchmarks are compared to the previous balance sheet date (December 31, 2003).

long-term target level for the cost/income ratio is 55 per cent, and 14 per cent for return on equity.

The consolidated net profit for the fiscal year after appropriations, taxes and minority interest was € 101 million (126).

### Net Interest Income and Net Income from Securities Trading

Net interest income rose to € 164 million (161). Net losses from notes and bonds trading totalled € 16 million (-15).

Net interest income, excluding Treasury, amounted to € 124 million (120).

The Treasury earnings recorded as consolidated net interest income and net trading income from notes and bonds, included in net income from securities trading, amounted to € 25 million (26).

Net income from equity trading amounted to € 15 million (6). The € 10 million capital gain from the OMX shares sold by OKO Bank had a significant impact on net income. At the end of the year, OKO Bank held 1.6 million shares in OMX as a long-term investment. The figure for the comparison period included € 2 million of capital gain from OMX shares sold by Opstock (a subsidiary of OKO Bank).

Unrealised appreciation of listed shares amounted to € 17 million (26) at the year-end. OMX shares excluded, unrealised appreciation amounted to € 6 million (4).

### Other Income

Dividend income totalled € 7 million (9). Income in 2003 included slightly less than € 4 million in additional dividends from HEX Plc.

Net commissions and fees rose by more than a fifth to € 79 million (66). The increase was primarily generated from securities brokerage and issuance, lending and asset management.

Net Commissions & Fees € million			Change,
	2004	2003	%
From lending	18	14	27
From payment transfers	17	16	6
From securities brokerage	17	10	79
From securities issuance	5	5	7
From asset management	12	10	18
From guarantees	5	5	10
Other fee income	5	7	-24
Total	79	66	20

Other operating income amounted to € 20 million (90). The figure for 2003 included a capital gain of € 59 million from the sale of OP Life Assurance shares and a capital gain of € 11 million from the sale of Kiinteistö Oy Aleksi-Hermes shares.

Comparable total income increased by 5 per cent.

### Expenses

Expenses, excluding commission expenses, increased by 6 per cent to € 147 million (139). Most of this increase was attributable to Helsingin Seudun OP-Kiinteistökeskus Oy LKV, a real-estate agency, included in the consolidated accounts since the beginning of 2004. The expenses of OP-Kiinteistökeskus amounted to slightly more than € 6 million. The Group's comparable expenses were thus one per cent higher than a year earlier.

Administrative expenses rose by 9 per cent to € 112 million (103). Personnel costs represented approximately half of the total expenses and increased by 9 per cent, nearly two-thirds of which was due to the consolidation of OP-Kiinteistökeskus. The comparable increase in personnel expenses was 4 per cent. OKO Bank Group companies employed an average of 1,246 (1,138) people during the year. The number of personnel at the year-end was 1,242 (1,113).

### Loan Losses and Write-downs

A total of € 4.6 million (5.6) worth of new loan and guarantee losses and specific loan loss provisions were recorded. The total amount of loan loss recoveries and adjustments of specific loan loss provisions was € 3.4 million (3.2). The loan and guarantee losses weakened the net profit by € 1.2 million (2.4).

In the comparison year, OKO Bank lowered the value of its shares in Oy Realinvest Ab, a real estate

investment company, by € 4 million to better reflect its share of the company's asset value. OKO Bank holds a 19 per cent stake in Realinvest.

### Share of Affiliate Profits/Losses

The share of affiliate profits was € 6 million (-3). The share of OP-Kotipankki Oyj's profits was € 2 million (2), while the share of other affiliates' profits totalled € 4 million (1). In the comparison period, OKO Bank's losses in January from OP Life Assurance before the sale of its shares totalled € 6 million.

The share of Toimiraha Oy's profits increased to € 2.4 million (0.1). In December Toimiraha sold its business to Automatia Pankkiautomaatit Oy. As a result of the sale, Toimiraha's profit for the fiscal period increased to € 7.1 million (0.3). The company will be dissolved during 2005. OKO Bank holds one-third of Toimiraha.

The share of OP-Kotipankki Oyj's profits was € 1.8 million (1.9) while the share of other affiliates' profits totalled € 1.8 million (0.9).

### Taxes

The Group's deferred tax liabilities were adjusted in June to reflect the reduction in the corporate tax rate that will be effective as of the beginning of 2005. This one-time adjustment improved the consolidated net profit by more than € 6 million.

### Balance Sheet

The balance sheet total was € 16.4 billion (14.8) at the year-end.

Balance Sheet € million			Change,
	Dec. 31, 2004	Dec. 31, 2003	%
Loan portfolio	8 679	7 390	17
Receivables from			
financial institutions	3 548	2 679	23
Notes and bonds	3 249	2 910	12
Other assets	951	1 775	-46
Assets	16 428	14 754	11
Deposits from the public	2 409	2 038	18
Liabilities to financial institutions			
and central banks	4 310	4 831	-11
Notes and bonds			
issued to the public	6 103	4 779	28
Other liabilities	2 798	2 373	18
Shareholders' equity	807	733	10
Liabilities	16 428	14 754	11

### **Lending**

The loan portfolio, including leasing assets, grew by 17 per cent to € 8.7 billion. In Corporate Banking, the loan portfolio increased by 19 per cent and in Retail Banking by 14 per cent. The loan portfolio accounted for slightly more than half of the total assets.

At the year-end, non-performing and interest-free receivables totalled € 24 million (18). They represented 0.24 per cent of the total loan and guarantee portfolio (0.21). Specific loan loss provisions decreasing the receivables amounted to € 25 million (25).

Receivables from credit institutions – mainly from member cooperative banks of the OP Bank Group – grew to € 3.5 billion (2.7). The loan portfolio of the member banks increased more rapidly than their deposits, creating an increased funding requirement from OKO Bank. The amount of receivables from member banks increased to € 2.6 billion (1.9). Receivables from credit institutions represented one-fifth of total assets.

### **Other Investments**

The book value of real estate holdings increased to € 116 million (113) and invested capital to € 134 million (131). Most of the increase was attributable to new premises acquired for Retail Banking. Capital invested in real estate held for rental purposes was € 89 million (91) at the year-end. Capital invested in real estate holdings represented less than one per cent of total assets. In addition, holdings in real estate investment companies totalled € 24 million (27).

Shareholdings other than real-estate holdings remained at € 119 million, or at the year-end 2003 level.

### **Funding**

Deposits from the public increased by 18 per cent to € 2.4 billion (2.0) and made up 15 per cent of the balance sheet total. Most of the increase was in current deposits.

Liabilities to credit institutions and central banks decreased to € 4.3 billion (4.8). Most of these were member cooperative bank deposits with OKO Bank. The amount of liabilities to member banks decreased to € 3.1 billion (3.2). Liabilities to the Bank of Finland decreased to € 1.0 billion (1.2). Liabilities to credit institutions and central banks made up slightly more than one-fourth of the balance sheet total.

The funding requirement, arising from the Group's increased loan portfolio and an increase in credits granted to the member cooperative banks, was mainly funded by debt securities, the amount of which increased to € 6.1 billion (4.8). The amount of bonds increased by € 1.3 billion and short-term Euro Commercial Paper increased by € 0.2 billion. However, the number of certificates of deposit decreased by € 0.2 billion. Debt securities made up 37 per cent of the balance sheet total.

Subordinated liabilities remained at the 2003 year-end level, in other words at € 0.4 billion. In June, OKO Bank made a premature repayment of a € 50 million debenture bond considered Tier II funds and in July a \$ 5 million perpetual loan, also considered Tier II funds; both were approved by the Financial Supervision Authority. In November OKO Bank issued a € 70 million debenture bond considered Tier II funds.

### **Shareholders' Equity**

Shareholders' equity was € 807 million (733) at the year-end with distributable equity amounting to € 75 million (146).

In June OKO Bank issued a capital loan of 10 billion Japanese yen considered Tier I funds. The loan is a perpetual loan but can be called in for the first time in 2014. OKO Bank is using the loan to finance its growth and enhance capital usage. The loan was issued in June because the level of margins on capital loans issued by banks with a high credit rating was advantageous.

### **Off-balance Sheet Items**

The aggregate amount of guarantees and other off-balance sheet items grew to € 4.1 billion (3.6), mainly due to an increase in the number of unused standby credit facilities, which amounted to € 2.4 billion (2.1) at year-end. The amount of loan and other guarantees increased to € 1.3 billion (1.1).

The credit countervalue of derivative contracts stood at € 234 million (149) at the end of the year.

### **Capital Adequacy**

The capital adequacy ratio was 10.8 per cent. Tier I ratio to risk-weighted items was 7.1 per cent, which is slightly above the long-term target. Risk-weighted items increased by 13 per cent while the level of Tier I funds increased by € 91 million. Most of the increase

was attributable to the capital loan issued in June, € 74 million of which is considered Tier I funds. Tier I funds also include the profit for the fiscal period deducted by dividends in accordance with the Executive Board's dividend proposal. The amount of Tier II funds increased by € 17 million.

€ million	Dec. 31, 2004	Dec. 31, 2003
Own funds		
Tier I	711	620
Tier II	381	364
Mandatory adjustments <sup>*)</sup>	-15	-13
Total	1 076	971
Risk-weighted receivables, investments and off-balance sheet items	9 947	8 792
Capital adequacy ratio, %	10.8	11.0
Tier I ratio, %	7.1	7.0

<sup>\*)</sup> The following investments in venture capital funds, totalling € 6 million and managed by OKO Venture Capital Ltd have not been deducted according to the exception provided by the Financial Supervision Authority in line with the order in 75 §, clause 5 of the Credit Institution Act: Promotion Equity I Ky, Promotion Capital I Ky, Promotion Rahasto II Ky and Promotion Bridge I Ky.

The capital adequacy ratio at the end of 2002 was 11.1 per cent; at the end of 2001, 12.8 per cent and at the end of 2000, 11.4 per cent.

The OP Bank Group's capital adequacy ratio increased to 15.8 per cent from 15.4 per cent at the end of the previous year. The corresponding figure in 2002 was 15.2 per cent; in 2001, 15.1 per cent and in 2000, 13.7 per cent.

## RISK EXPOSURE

### Risk Bearing Ability

Risk bearing ability is measured by the ratio of consolidated Tier I funds to risk-weighted commitments.

Risk bearing ability at the end of the year stood at 7.1 per cent, which is slightly above the average target level of 7 per cent.

Principles of risk management are described in more detail on pages 24 to 32 in the financial statements.

### Credit Risk Exposure

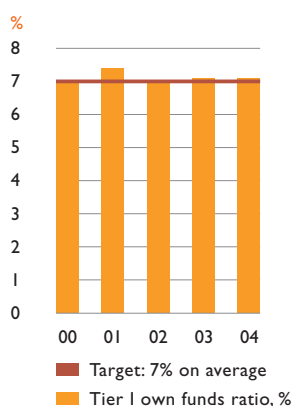
When reviewing credit risks, the focus is on the development of total exposure and the customers' creditworthiness. Total exposure means the total amount of off-balance sheet items and receivables vulnerable to credit risk. Total exposure includes both the interest and the principal adjusted with specific loan loss provisions.

Despite a 12 per cent increase in total exposure, the credit risk position has remained stable. The proportion of risk-weighted items in total exposure, used for the calculation of capital adequacy, was less than 50 per cent.

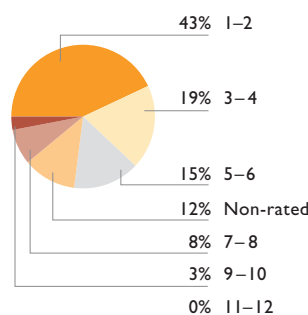
The rating distribution of total exposure is based on the creditworthiness of the primary debtor or counterparty; no collateral or guarantees have been taken into account.

The proportion of investment-grade exposure, referring to rating classes 1 to 4 (excluding private customers) in total exposure, was 62 per cent and the proportion of classes 5 to 10 was 25 per cent. Classes 11 and 12 represented less than one per cent and non-rated exposure 12 per cent.

Risk Bearing Ability: Realised and Target



Total Exposure by Rating <sup>\*)</sup>



<sup>\*)</sup> Excl. private customers

Problem loans, which refer to non-performing and interest-free receivables, increased by € 6 million to € 24 million, but their proportion of the loan and guarantee portfolio remained at the previous year's level of 0.2 per cent.

### Total Exposure

The Group's total exposure amounted to € 20.3 billion at the end of 2004. Receivables from the public and public sector entities accounted for more than 40 per cent of the total exposure.

#### Total Exposure

€ billion	Dec. 31,		Change, %
	2004	2003	
Claims on the public and public sector entities	8.8	7.6	16
Claims on credit institutions and central banks	3.8	3.6	6
Debt securities	3.3	2.9	12
Unused standby credit facilities	2.5	2.3	11
Guarantees and documentary credits	1.4	1.2	20
Derivative contracts	0.2	0.1	38
Other off-balance sheet items	0.4	0.4	-27
<b>Total</b>	<b>20.3</b>	<b>18.2</b>	<b>12</b>

#### Total Exposure by Counterparty

€ billion	Dec. 31,		Change, %
	2004	2003	
Corporates	7.9	6.6	19
Finance and insurance	4.3	4.7	-9
Cooperative banks and OP Bank Group Central Cooperative	3.2	2.5	26
Private customers	2.4	2.1	15
Non-profit institutions	1.8	1.6	17
Public entities	0.6	0.6	10
<b>Total</b>	<b>20.3</b>	<b>18.2</b>	<b>12</b>

In the review of counterparties, total exposure is divided into six customer groups. Corporate customers were the largest customer group, representing almost 40 per cent of the total exposure.

The year-on-year increase in corporate exposure was € 1.3 billion, or 19 per cent. Loans and guarantees amounted to slightly more than 50 per cent of corporate exposure, receivable and security-backed financing amounted to 20 per cent, and unused credit

facilities amounted to slightly more than 20 per cent. The rating and industry distribution of corporate exposure is analysed in more detail under Corporate Exposure.

Financial and insurance institutions were the second largest group of customers and made up 21 per cent of the total exposure. The exposure in financial and insurance institutions mostly comprised notes, bonds and deposits. Receivables from central banks are also included. Investment-grade exposure – that is, exposure with ratings 1 to 4 – made up 90 per cent of the € 4.3 billion total financial and insurance institution exposure.

The exposure of co-operative member banks and the OP Bank Group Central Co-operative grew by € 0.7 billion, or 26 per cent during the year. The exposure of the member banks and the OP Bank Group Central Co-operative is investment-grade.

Private customer exposure increased by 15 per cent to € 2.4 billion at year-end; 70 per cent of the exposure comprised housing loans, and the share of security-backed credits was slightly over 10 per cent. The credit risk associated with private customer exposure can be considered low because 90 per cent of the exposure is covered by collateral. Furthermore, the credit risk is diversified on the basis of the large number of customers. Less than 17 per cent of private customer exposure was such that the exposure exceeded two hundred thousand euro.

Non-profit organisations accounted for slightly less than 10 per cent of the total exposure. Within this group of customers, € 1.1 billion, or 64 per cent of the exposure, comprises exposure in non-profit building companies rated by the Rating Committee or housing corporations owned by municipalities. The credit risk associated with non-profit organisation exposure can be considered very low because 85 per cent of the exposure is covered by collateral.

Exposure in public sector entities increased by less than € 100 million during the year. Notes and bonds made up more than 60 per cent of the € 0.6 billion exposure in this customer group. The share of exposure in foreign public sector entities was 6 per cent, or € 40 million. More than 90 per cent of exposure in public sector entities has the highest rating.

#### Collateral

Receivables from financial and insurance institutions,

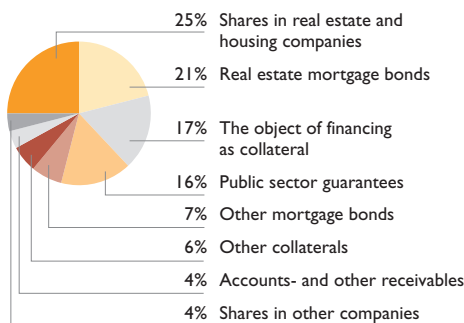
member co-operative banks, the OP Bank Group Central Co-operative and public sector entities are generally not associated with collateral.

However, a substantial share of the credit risks arising from exposure in private customers and non-profit organisations is covered by collateral.

Collateral is used to reduce the credit risk associated with corporate customers with a rating clearly below investment-grade.

When providing funding to companies with high ratings, covenants protecting the lender's position are actively used. Covenants are not collateral as such but can be used to secure the preconditions for loan repayment.

#### Collateral Value by Collateral



Collateral value refers to a percentage of the fair value of a collateral object, determined by type of collateral.

Housing and real estate collateral made up almost 80 per cent of all collateral pledged by private customers.

With regard to collateral associated with non-profit organisations, the share of guarantees granted by public sector entities was significant, almost 44 per cent. In addition, the share of housing and real estate collateral was 36 per cent.

#### Large-Customer Exposure

Large-customer exposure refers to corporate customer exposure exceeding 10 per cent of the Group's own funds. The Group's own funds increased by € 105 million to € 1,076 million during the year.

The amount of large-customer exposure at year-end was € 2.2 billion, which is € 0.6 billion more than a year earlier. Large-customer exposure consisted of exposure in 14 consolidated groups. The share of large-customer exposure was 207 per cent of own funds, compared with 163 per cent a year

earlier. The increase in corporate exposure is also evident as an increase of large-customer exposure. More than 60 per cent of large-customer exposure was investment-grade.

#### Corporate Exposure

Although corporate customers' credit ratings fell slightly, they remained good. The proportion of investment-grade exposure in total corporate exposure was 39 per cent, which is less than one percentage point lower than in the previous year.

The distribution of ratings is shown in accordance with counterparty ratings. Collateral or guarantees received have not been taken into account.

#### Total Corporate Exposure by Credit Rating

€ million

Rating	Dec. 31, 2004	Dec. 31, 2003	Change, %
1-2	144	178	-19
3-4	2 946	2 456	20
5-6	2 342	1 916	22
7-8	1 258	974	29
9-10	415	369	12
11-12	33	13	159
Non-rated	779	719	8
<b>Total</b>	<b>7 917</b>	<b>6 625</b>	<b>19</b>

The increase in corporate exposure was focused on ratings 3 to 7.

Decreasing credit ratings resulted in a € 20 million increase in exposure belonging to the two weakest ratings, which amounted to € 33 million or 0.4 per cent of corporate exposure.

The amount of unclassified corporate exposure was € 0.8 billion, or 10 per cent. More than 60 per cent of this consisted of credit granted to entrepreneurs, real estate companies or small and medium-sized businesses in the trade and services sector. Unclassified customers' average exposure was less than € 50,000.

The largest sector was the metal industry, the share of which decreased by 3 percentage points to 14 per cent of corporate exposure.

Three other industries where exposure exceeded 10 per cent of corporate exposure were the construction industry, trade and forest industry.

The largest increases in euro were seen in the construction industry, transport and communications, as well as real estate investment.

Corporate Exposure by Industry		Change,	
€ million	Dec. 31, 2004	Dec. 31, 2003	%
Metal industry	1095	1094	0
Construction	1049	737	42
Retailing and wholesaling	941	794	18
Forest industry	843	815	3
Transport and traffic	607	333	82
Management of real estate	557	428	30
Other industry	480	490	-2
Food industry	480	457	5
Energy	420	369	14
Services	415	315	31
Real-estate investment companies	301	113	165
Telecommunications and electronics	249	269	-8
Chemical industry	236	114	107
Communications and publishing	225	208	8
Other industries	18	88	-80
<b>Total</b>	<b>7917</b>	<b>6625</b>	<b>19</b>

The increase in corporate exposure has originated in several different industries, which has further improved the extensive diversification of corporate exposure by industry.

Corporate exposure is also well diversified in terms of amounts of exposure.

#### Total Corporate Exposure by Customer's Exposure

Customer's Exposure, € million	€ billion	%
0-1	1.3	17
1-10	1.4	18
10-50	2.0	26
50-100	2.0	26
100-	1.1	13
<b>Total</b>	<b>7.9</b>	<b>100</b>

#### Country Risk

Foreign receivables amounted for less than 10 per cent of total exposure. Secondary country risk, excluding Finland, remained at the same level as a year earlier, at € 1.6 billion as of the end of 2004. The majority of country risk consisted of deposits in foreign banks and investments in foreign notes and bonds. Viewed by region, the majority of country risk originates in the EU countries; countries outside the EU accounted for 24 per cent of country risk.

Country risk increased in country risk categories

2 and 4 during the year. The greatest country risk in category 2 was associated with Estonia, at € 35 million. Country risk in category 4 consisted of 11 countries. The greatest country risks in category 4 were associated with Turkey, Russia and Brazil.

#### Secondary Country Risk by Group

Country risk	Moody's-rating	Dec. 31, 2004	Dec. 31, 2003	Change, %
Group 1	Aaa	1394	1428	-2
Group 2	Aa1-A3	91	72	27
Group 3	Baa1-Baa3	7	6	6
Group 4	Ba1-B3	111	53	112
Group 5	Caa1-C	4	0	-
<b>Total</b>		<b>1607</b>	<b>1559</b>	<b>3</b>

#### Past Due Payments and non-performing loans

Past due payments grew by € 3 million to € 16 million but represented 0.2 per cent of the total loan and guarantee portfolio, as they did a year earlier.

Problem loans, which refer to non-performing and interest-free receivables, increased by € 6 million to € 24 million. Despite of the growth, their proportion of the loan and guarantee portfolio remained at the previous year's level of 0.2 per cent.

#### Non-performing Receivables

€ million	Private Customers	Corporate Customers	Other	Dec. 31, 2004, total
Non-performing and interest-free receivables	10	13	1	24
Non-performing and interest-free receivables, % of loans and quarantees	0.4	0.2	0.1	0.2
Specific loan loss provisions	2	20	4	26

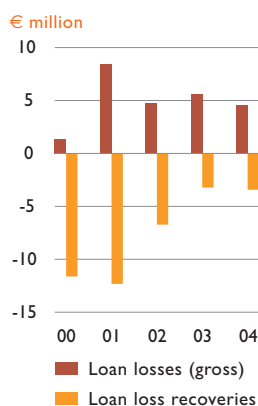
€ million	Private Customers	Corporate Customers	Other	Dec. 31, 2003, total
Non-performing and interest-free receivables	7	8	3	18
Non-performing and interest-free receivables, % of loans and quarantees	0.4	0.2	0.2	0.2
Specific loan loss provisions	3	18	4	25

Specific credit loss provisions that reduce the amount of receivables totalled € 26 million (25) at the year-

end. € 15 million (12) of these involved non-performing receivables.

Less than € 5 million (6) of new loan and guarantee losses and specific loan loss provisions were recorded. The total amount of loan loss recoveries and adjustments of specific loan loss provisions was slightly more than € 3 million (3). The net impact of loan and guarantee losses on earnings was € 1 million (2).

Development of Loan Losses



In terms of risk appetite for credit risks, the target is for the average net credit losses and credit loss provisions over the trend cycle not to exceed 10 per cent of the annual income, or 0.35 per cent of the loan and guarantee portfolio. In 2004, credit and guarantee losses represented 0.4 per cent of annual income and 0.01 per cent of the loan and guarantee portfolio compared to 0.7 per cent of annual income and 0.03 per cent of the loan and guarantee portfolio a year earlier.

### Credit Risk Position Outlook

In 2005 the amount of loan losses and write-downs is anticipated to remain small unless there are unexpected changes in the business environment or the customers' financial positions. This forecast is based on the small number of non-performing loans and the moderate credit risk level in terms of total exposure.

### Market Risk Position

Market risks accounted for 5 per cent (6) of the Group's risk-weighted items at the year-end.

Market risks remained on a moderate level the whole year. The benefit derived from diversifying the

risk over several risk classes, known as the portfolio effect, was significant.

Interest rate risk remained moderate during 2004 both in trading and treasury. At the year-end, 91 per cent of the Group's interest rate exposure was in euro and 8 per cent was in US dollars. Low interest rates had a negative impact on the Group's net interest income, particularly owing to the narrower spread between interest rates in retail borrowing and lending.

The market value of the equity portfolio stood at € 83.7 million (92.1) at the end of the year. The Bank sold more than one-third of its holdings in OMX shares.

The market value of equities booked in current assets amounted to € 32.6 million, compared with € 28.4 million a year earlier. The three proportionally largest industries in the equity portfolio were: chemical industry 15 per cent, forest industry 13 per cent and trade 12 per cent.

Investments in venture capital funds totalled € 20.2 million and binding unexecuted investment commitments € 15.8 million.

Thanks to the sale of OMX shares, increased share prices and increased dividend income, earnings from equities were good.

OKO Bank's overnight currency exposure remained low throughout the year. At the year-end, net currency exposure amounted to € 3.6 million. Foreign exchange trading focused mainly on intra-day trading.

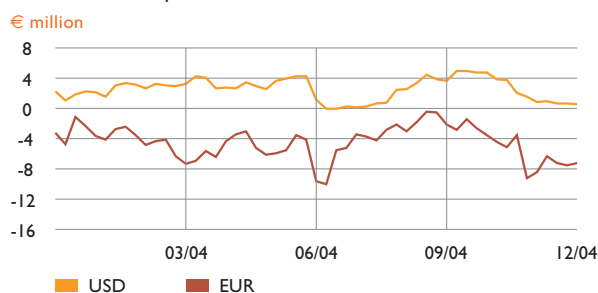
Market risks arising from the issuance of structured bonds were covered by derivatives contracts corresponding to the earnings structure of the bonds. The volumes of option business increased, particularly with regard to interest rate options, but open option positions were kept minor.

### Market Risks of OKO Bank and its subsidiaries

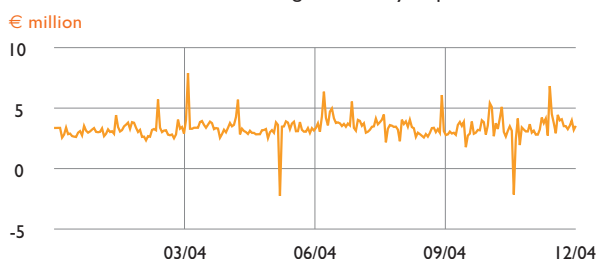
€ million	On average		Standard deviation	On average
	Dec. 31, 2004	2004		
Interest rate risk <sup>*)</sup>	7.8	7.1	2.1	8.9
of which OKO Bank's ALM	9.7	5.4	1.7	5.9
Market value of equity position	32.6	29.3	1.7	24.7
OMX shares	15.1	19.4	7.8	25.0
Venture Capital Funds	36.0	36.9	0.5	34.0
Net currency exposure	3.6	3.4	0.9	1.6

<sup>\*)</sup>The effect of 100 basis point interest rate movement on the present value of future cashflows (currencies added up in absolute values)

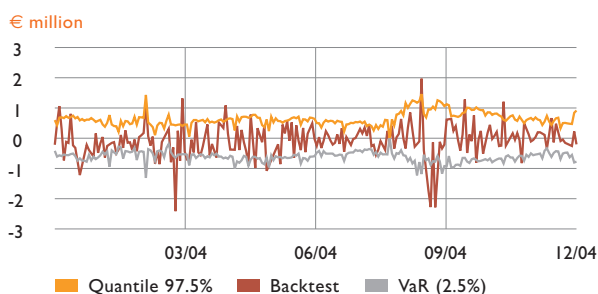
OKO Bank Group's EUR and USD -denominated Interest Rate Risk



OKO Bank's Overall Net Foreign Currency Exposure



OKO Bank's VaR on Interest Rate Risk 2004



OKO Bank's Market Risk VaR

Value at Risk	Dec. 31, 2004	On average 2004	VaR standard deviation 2004	On average 2003
Total	-0.78	-0.62	0.17	-0.67
Interest rate risk	-0.94	-0.53	0.17	-0.70
of which ALM	-0.43	-0.47	0.21	-0.51
Equity exposure	-0.22	-0.34	0.06	-0.46
Currency exposure	-0.02	-0.02	0.01	-0.01
Portfolio effect	0.40			

## Derivatives

The Group's derivatives have been itemised by application in Note 50 to the financial statements.

The amounts of interest rate swaps for hedging purposes, as well as interest rate and currency swaps, increased during 2004, particularly as a consequence of hedging the interest rate and exchange rate risks of bonds issued. The amounts of equity and credit derivatives used to hedge the additional earnings linked to structured bonds also increased following the issue of new bonds.

The amount of interest rate swaps in trading operations decreased, but the use of interest rate and bond futures, as well as forward exchange agreements, increased. The strengthening of the euro against the US dollar and the exceptionally low level of interest rates created more customer demand in currency and interest rate derivatives, which increased the volume of derivatives contracts in trading operations. Trading in credit derivatives was started during 2004.

The credit counter-values of derivatives contracts increased from € 149 million to € 234 million.

Credit Support Annex (CSA) agreements were

signed with the most important counterparties in order to reduce counterparty risk in OTC derivatives trading. The CSA agreement defines the contracting parties' obligations to supply collateral for covering open position risk.

The unrealised market capitalisation of the derivatives used to hedge the loan portfolio and liabilities against interest rate risk amounted to € -13.5 million (-0.4). Meanwhile the unrealised market capitalisation of derivatives used to hedge the investment portfolio against interest rate risk was € -4.3 million (-6.5). The balance sheet items hedged using derivatives include an equal un-booked positive value adjustment based on interest rate fluctuations.

## Funding Risk

The breakdown of the maturities of key balance sheet items is presented in Note 42 (the liquid reserves of member cooperative banks and current account deposits from the public in the shortest time class, and notes and bonds included in trading portfolios itemised by due date).

The increase in OKO Bank Group's balance sheet total by € 1.7 billion to € 16.4 billion was mostly

funded by debt securities. OKO Bank issued bonds to a total value of € 1.6 billion in 2004, most of these with five-year maturity. Increased long-term funding resulted in an increase in the share of debt securities from 32 per cent to 37 per cent of total funding.

The share of the member banks' market-rate deposits decreased from 22 per cent to 19 per cent of the Group's funding, while the share of deposits from the public increased from 14 per cent to 15 per cent.

OKO Bank Group's largest funding items were certificates of deposit and Euro Commercial Papers, which are itemised by buyer group in the next table.

OKO Bank's principal funding currency is euro. Long-term loans also include those denominated in US-dollars and to a lesser extent in Japanese yen and in other currencies. The currency risk involved in these is hedged using interest rate and currency swaps.

At the year-end, the short-term net capital gap was € -714 million, or at the same level as a year earlier. The average maturity of the largest receivable item, the loan portfolio (€ 8.7 billion), was slightly more than four years, and, correspondingly, the average maturity of the largest debt item, debt securities (€ 6.1 billion), was eighteen months.

Deposits not placed in any time class consisting of current accounts and the member bank liquid reserves amounted to € 3,547 million. The notes and bonds included in trading portfolios are placed in the shortest time class when calculating net capital cash flow.

The OKO Bank Group's liquid reserves and their minimum requirements are shown in the table. Liquid reserves comprise liquid, negotiable notes and bonds, and net interbank deposits of less than one month by counterparty.

OKO Bank's liquidity remained good during the whole year.

#### OKO Bank Group's Funding Structure

€ million	Dec. 31, 2004	Share, %	Dec. 31, 2003	Share, %
Liabilities to financial institutions and central banks	1 181	7	1 636	11
Liabilities to OP Bank Group	3 129	19	3 195	22
Liabilities to the public and public sector entities	4 072	25	3 307	22
Deposits	2 409	15	2 038	14
Other	1 663	10	1 269	9
Debt securities issued to the public	6 103	37	4 779	32
Bonds	2 838	17	1 499	10
CDs and Euro CPs	3 265	20	3 280	22
Liabilities/deferred expenses/deferred taxes	746	5	738	5
Subordinated liabilities	390	2	366	2
Equity	807	5	733	5
<b>Total</b>	<b>16 428</b>		<b>14 754</b>	

#### OKO Bank's CD and Euro CP's Issue Volume by Buyer Group and Investments in CD's of Other Banks

€ million	Dec. 31, 2004	Dec. 31, 2003	Change, € million	Change, %
CD's and ECP's issued	3 255	3 505	-250	-7
to banks	1 873	1 521	352	23
to corporates	1 239	1 801	-562	-31
to other customers	142	184	-42	-23
Investments in CD's of other banks	1 491	1 527	-36	-2

#### OKO Bank's Funding Risk According to the Maturity

##### Periodic principal gap

€ million	Dec. 31, 2004	Dec. 31, 2003	Change, € million	Change, %
0-1 year	-714	-743	29	-4
1-2 years	924	508	416	82
2-3 years	1 088	619	469	76
3-4 years	924	760	164	22
4-5 years	-376	602	-978	-162
5-10 years	940	1 103	-163	-15
>10 years	779	444	335	75
Deposits not allocated to time buckets	-3 547	-3 294	-253	8

#### OKO Bank Group's Liquidity Reserve and its Minimum Level

€ million	Dec. 31, 2004	Dec. 31, 2003	Change, € million	Change, %
Liquidity reserves	3 788	3 684	104	3
of which the liquidity reserve of OP Bank Group member banks	1 975	1 854	121	7
The minimum level of liquidity reserves	3 385	2 971	414	14

## Real Estate Exposure

OKO Bank Group's capital invested in real estate holdings amounted to € 134 million at the end of 2004, with properties in bank use representing € 45 million. In addition, holdings in real estate investment companies totalled € 24 million. A year earlier the respective figures were € 131 million, € 40 million and € 27 million.

Net yield from real-estate investments was 6.1 per cent (7.9) and the vacancy rate was 7 per cent (6). Third-party assessments of the fair value of each real estate investment were commissioned in 2004. According to the assessments, the total amount of the fair values is somewhat higher than the book value of the invested capital. Real estate risks are estimated to remain minor.

## Operational Risks

Operational risk management focused on reducing the essential risks identified in connection with the risk assessments. A comprehensive study of the Group's insurance coverage was prepared and the insurance policies were renewed on this basis.

The realisation of risks is monitored by loss data collection. The quality of risk assessments is evaluated in relation to operational loss data.

The negative impact of operational risks on earnings remained minor, at € 0.6 million (0.4).

## JOINT RESPONSIBILITY

OKO Bank is a subsidiary of the OP Bank Group Central Cooperative, which is based on the OP Bank Group's co-operation model. The Central Cooperative with its subsidiaries and 239 member cooperative banks form the amalgamation of the cooperative banks. Under the co-operation model, the resources of the OP Bank Group serve as a safety net for all the member banks because under the Cooperative Bank Act (Act on Cooperative Banks and Other Credit Institutions in the Form of a Cooperative), the Central Cooperative and its member credit institutions are jointly responsible for one another's liabilities and commitments which cannot be met from the funds of the Central Cooperative or one member credit institution. If a member credit institution's own funds are depleted by losses such that its operations cannot be sustained, the Central Institution of the amalgamation, the OP Bank Group Central Cooperative, has

the right to collect supplementary payments from the member credit institutions in proportion to their most recently confirmed balance sheets.

The Central Cooperative has an obligation to issue the member credit institutions instructions on safeguarding their activities, liquidity, capital adequacy and risk management, and it furthermore oversees their operations. The monitoring task is supported by continuous inspections carried out by the Internal Audit.

## DEPOSIT AND INVESTOR PROTECTION

According to the legislation concerning the Deposit Guarantee Fund the deposit banks must belong to the Deposit Guarantee Fund. In respect of deposit guarantee the deposit banks belonging to the OP Bank Group are considered as a single bank and depositors' claims on the member banks of the OP Bank Group are compensated from the Deposit Guarantee Fund up to a maximum amount of € 25,000. The deposit banks within the OP Bank Group are the member cooperative banks, OKO Bank, Okopankki Oyj and OP-Kotipankki Oyj.

OKO Bank and its subsidiaries Opstock Ltd and Okopankki Oyj belong to the Investor Compensation Fund. The Compensation Fund safeguards the payment of investors' uncontested and due receivables in the event that the investment service company or credit institution is not able, owing to a reason other than temporary insolvency, to pay the investors' receivables within a certain period. An investor is paid 90 per cent of his receivable, up to a maximum of € 20,000. The Compensation Fund does not compensate losses due to a fall in share prices or incorrect investment decisions. The Compensation Fund only compensates the receivables of non-professional investors.

## CHANGES IN GROUP STRUCTURE

The real-estate agency Helsingin Seudun OP-Kiinteistökeskus Oy LKV, a fully owned subsidiary of Okopankki Oyj, has been consolidated since the beginning of 2004 as a part of OKO Bank's IFRS preparations. Furthermore, the share of earnings from Okopankki's associated real estate company Kiinteistö Oy Kaisaniemenkatu 1 has been consolidated since June. A transaction concluded at the end

of May increased Okopankki's holding in the company to 22.3 per cent.

## **TRANSITION TO IFRS REPORTING AND TO NEW CAPITAL ADEQUACY REGULATIONS**

OKO Bank will migrate from Finnish Accounting Standards (FAS) to International Financial Reporting Standards (IFRS) in 2005. The interim reports in 2005 will be prepared in accordance with the new principles. The parent company OKO Bank and its subsidiaries will continue to prepare their financial statements in accordance with the provisions of the Credit Institutions Act.

This is a description of the essential effects of the IFRS transition with regard to OKO Bank's reporting and the presentation of financial statements, as well as shareholders' equity on the date of transition. The estimates do not include the effects of the IAS 39 standard (Financial Instruments), because the standard does not require the preparation of data for comparison and because OKO Bank will adopt the standard as of the beginning of 2005. The final transition calculations based on the balance sheets and income statements at the end of 2003 and the end of each quarter in 2004 will be published at the end of March 2005.

### ***Effects of the IFRS Transition on Reporting and the Presentation of Financial Statements***

The presentation of financial statements will change and, among other things, the income statement and balance sheet formats will differ from current practice. Net income in the income statement will be grouped to better reflect the nature of the business. The grouping of the balance sheet will correspond to the grouping of net income in the income statement. The grouping of shareholders' equity items also deviates from the current practice. The financial statements include a cash flow statement as a new item. The division of segments within the Group will remain in line with the previous divisions.

The number of subsidiaries consolidated in OKO Bank's financial statements will not increase due to IFRS.

Assets leased out on finance lease contracts will be represented as receivables from customers in the consolidated balance sheet. Assets leased out on other types of lease contracts will be represented

under tangible assets. On the opening IFRS balance sheet (January 1, 2004), finance lease contracts amounted to € 285 million, while the amount of other lease contracts was € 5 million.

### ***Effects on OKO Bank Group's Shareholders' Equity on the Date of Transition (Jan. 1, 2004) and on the Comparison Earnings of the Year 2004***

The IFRS standards specify the principles for the recognition of income in more detail compared to Finnish Accounting Standards. OKO Bank's subsidiary Okopankki has recognised some commissions and fees associated with loan repayment insurances as income on the cash basis in financial statements prepared in accordance with national accounting standards for the years 1995 to 2003. It is possible that some of these commissions and fees have to be reversed later. Commissions and fees recognised as income by the beginning of 2004 that are not deemed valid for recognition as income in accordance with the IFRS standards amounted to some € 9 million. This amount has been transferred to liabilities. After the effect of deferred taxes, the transfer decreases shareholders' equity by € 6 million.

On the 2004 IFRS income statement for comparison and on the annual income statements each year from the beginning of 2005 onwards, one-time commissions and fees that are associated with several years and that may need to be reversed later will only be recognised as income up to the amount applicable to the fiscal period. The new recognition practice will reduce the commissions and fees on the 2004 income statement by comparison by some € 1 million compared to the earlier practice.

The statutory pension cover of OKO Bank employees is handled by the OP Bank Group Pension Fund, while the Pension Foundation manages additional pension cover offered to employees. The Pension Foundation has been closed to new employees as of July 1, 1991.

All of the Group's pension arrangements are classified as defined-benefit schemes. The Group has used the option provided in IFRS 1, according to which pension arrangement funds have been valued at fair value and the obligation at current value based on the calculatory assumptions valid at the time of transition on January 1, 2004.

Based on calculations performed by authorised actuaries, the pension arrangement funds exceeded

their obligations, including deferred taxes, by € 31 million as of January 1, 2004. The asset was recorded under pension receivables and equity in the opening balance. However, the asset item does not have any positive effect on capital adequacy.

Real estate investments will be valued by the fair value principle in IFRS financial statements. The total effect of the changed valuation practice and the consolidation of mutual real estate companies on shareholders' equity, including deferred taxes, is fairly positive.

Development-phase expenses will be capitalised in essential development projects, and the equity effect of these, including deferred taxes, is positive but minor.

OKO Bank does not have any significant goodwill originating in corporate mergers. The only goodwill item was totally eliminated in the transition, and this has a slightly negative effect on shareholders' equity.

The transition to IFRS financial statements increases shareholders' equity as of January 1, 2004, but does not have any essential effect on capital adequacy.

### ***Capital Adequacy Regulations will Change***

In June 2004 the Basel Committee on Banking Supervision published the final version of the new recommendations on the calculation and monitoring of the capital adequacy of credit institutions. Some specific paragraphs may still change, but as a rule the recommendation is in its ultimate form. The European Commission has been preparing a new capital adequacy directive on the basis of the Basel recommendation. The intention is to approve the directive in the European Parliament and the Council of Ministers during 2005. The new capital adequacy regulations are planned to enter into force in the EU at the beginning of 2007.

The new capital adequacy framework is based on generally accepted risk management methods and is built on three pillars. Pillar I regulates the calculation of the banks' minimum capital and capital adequacy ratio. The objective of Pillar II provisions is to ensure that banks have sufficient capital in relation to their risk profile and their risk management systems, methods and internal control levels. Pillar III regulates the disclosure of information pertaining to banks' risk and capital adequacy

position.

The purpose of the reform is to increase stability in the financial market by improving the methods used to ensure banks' capital adequacy. The objective is also to encourage banks to develop better risk management systems and to promote appropriate risk pricing. In the development of the new capital adequacy regulations, the starting point was that despite changes in the grounds for determining minimum capital, the average minimum capital requirement in the international banking sector on the whole would not change.

Unlike the current regulations, the new capital adequacy regulations, which are currently being prepared, will allow several methods for minimum capital calculation. In future, the minimum capital requirement for credit risk may also be calculated on the basis of an external or the bank's own credit rating. The new regulations also stipulate a minimum requirement concerning own funds for operative risks.

### ***Preparing for the Capital Adequacy Reform***

OKO Bank's risk management methods and systems development are primarily based on the Bank's risk management needs and are secondarily geared to meeting the requirements of the capital adequacy framework. From this starting point, OKO Bank's Executive Board defined a policy for the targets of calculating the minimum capital requirement at the end of 2003. According to the policy, the minimum capital requirement will be calculated using the internal rating method for retail credit risk exposure, the basic internal rating method for corporate credit risk exposure and the standard method for operational risk exposure. The capital requirement for market risk will continue to be calculated using the basic method.

In February 2005 OKO Bank's Executive Board confirmed the policies defined earlier with regard to the methods to be used and decided that OKO Bank will utilise the transitional provisions associated with the capital adequacy reform. OKO Bank will gradually adopt internal rating methods for the calculation of capital requirement for credit risks so that the capital requirement for the first portfolios (including corporate exposure) will be calculated using the internal rating method starting from the beginning of 2008.

OKO Bank is involved in the OP Bank Group's capital adequacy project, the purpose of which is to ensure that the Group and its credit institution members satisfy the requirements of the new capital adequacy regulations within the transition period. The Bank continued its preparations for the new capital adequacy regulations in 2004, focusing on the specification and construction of information systems required by the new regulations and on the development of an internal classification system for private customers. OKO Bank also focused development resources on the capital management process and methods for evaluating operative risks.

### EVENTS AFTER THE FISCAL YEAR

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At the beginning of February OKO Bank sold its holdings in Automatia Pankkiautomaatit Oy, Suomen Asiakastieto Oy and some of other companies to the OP Bank Group Central Cooperative. Automatia Pankkiautomaatit Oy used to be an associated company included in the consolidated financial statements. OKO Bank held one-third of the company. The sold companies have had a minor effect on the Group's annual earnings. The aggregate capital gains amounted to € 4.7 million.

### OUTLOOK FOR 2005

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The business environment and competitive situation of banks are expected to remain similar to 2004.

Due to the growth in business, OKO Bank's consolidated earnings before taxes will probably be bigger than the corresponding amount in 2004 adjusted for non-recurring items, provided there are no unexpected changes in the business environment.

### THE PARENT BANK OKO BANK

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OKO Bank recorded an operating profit of € 117 million, showing a decrease of € 31 million from 2003. The operating profit included capital gains of € 10 million from the sale of OMX AB shares. In 2003, operating profit grew as a result of capital gains totalling € 53 million from the sale of OP Life Assurance Company and the sale of Aleks-Hermes real estate holdings.

Balance sheet total stood at € 14.4 billion,

showing an increase of € 1.5 billion from the previous year. Corporate and institutional loan portfolio including leasing assets grew by nearly 19 per cent or € 1 billion. Receivables from financial institutions increased by € 1 billion. OKO Bank's receivables from financial institutions within the OP Bank Group accounted for 80 per cent of the growth. This growth was financed primarily from the money and capital markets.

OKO Bank's shareholders' equity totalled € 577 million; an increase of € 7 million from the end of 2003. Distributable equity amounted to € 126 million. The consolidated distributable equity that restricts OKO Bank's profit distribution was € 75 million.

OKO Bank's capital adequacy ratio was 12.0 per cent compared to 12.3 per cent a year earlier. Own funds increased by € 102 million to € 1,019 million. In 2004, OKO Bank issued a capital loan of 10 billion Japanese yen, € 74 million of which is considered Tier 1 funds. Risk-weighted items totalled nearly € 8.5 billion, up by € 1 billion from the previous year. OKO Bank's capital adequacy ratio was 12.4 per cent at the end of 2002. The figures for 2001 and 2000 were 15.8 per cent and 13.8 per cent respectively.

### Share Capital and Share Series

OKO Bank's shares are divided into Series A and K. Series A shares are intended for the general public and are quoted on the Helsinki Stock Exchange, whereas the ownership of series K shares is restricted to companies and entities that are part of the OP Bank Group. The share series differ also in other respects: At shareholders' meetings, Series A shares entitle their holders to one vote while Series K shares carry five votes each. Furthermore, Series A shares entitle their holders to an annual dividend that is at least one percentage point higher than the dividend paid on Series K shares.

In accordance with the Executive Board's proposal, shareholders decided at the Annual General Meeting on March 31, 2004 to double the number of shares in the Bank. The increase in the number of shares was carried out without increasing the share capital so that each of the Bank's shares was split into two new shares (split 1:2). The change was entered in the Trade Register at the end of April. After the split, the counter book value of each share is € 2.10.

Member co-operative banks converted 66,660 Series K shares into Series A shares under the conversion clause in OKO Bank's Articles of Association.

The share split changed the subscription ratio of the 1999 option scheme. One option right entitles to the subscription of two new Series A shares instead of one. The B options belonging to the option scheme were listed on the Helsinki Stock Exchange at the beginning of October as an additional batch of A options. Before listing, the B options were combined with the A options and the name was changed to 1999 A/B option rights.

By the end of the year, 5.8 million Series A shares had been subscribed for using the option rights, and slightly less than 1.8 million of these were entered in the Trade Register during the reported year. The registrations raised OKO Bank's share capital by € 3.7 million to € 206.2 million. In addition, slightly over € 1.5 million was recorded in the share premium fund. The 1.2 million shares subscribed for in December were registered on January 13, 2005. All the shares referred to above entitle their holders to a full dividend for 2004. Taking the share split into account, the subscription price was € 3.585 until April 4, 2004 and € 2.785 thereafter. The payment of an additional dividend (December 10, 2004) decreased the subscription price to € 2.485.

At the end of the year, OKO Bank owned no own shares, nor has the Annual General Meeting given the Bank authorisation to acquire own shares.

The dividend that will be paid to each Series A share is taken into account when determining the subscription price of the shares subscribed for with OKO Bank's 1999 option rights. The present subscription price per share is € 2.485. It will be lowered on the record date for the dividend payout (April 5, 2005) by € 0.38 to € 2.105. In accordance with the terms and conditions of the option programme, that is the minimum subscription price per share.

The share series, share capital and increases in share capital registered in 2003 are described under Note 36 to the financial statements. The terms and conditions of the option-based personnel incentive programme, as well as the authorisations given to the Executive Board are explained in Note 38.

## Shareholders

OKO Bank had 25,940 registered shareholders at the end of the year. The majority of these or 24,723 were private citizens. The largest individual shareholder was the OKO Bank's parent company, the OP Bank Group Central Cooperative, which held 39.4 per cent of the shares and 56.3 per cent of the votes. Of the 75.9 million A shares, the Central Cooperative and its member banks owned 38.3 million shares or 50.4 per cent.

Information regarding the breakdown of shareholdings is presented in Note 39 and the management's shareholding in Note 53. The five-year time series for per-share key ratios are presented in Note 44. In addition, the breakdown of share ownership as well as the share turnover and price trend of OKO Bank's A share are discussed in the Annual Report

## Branch Offices and Representative Offices Abroad

OKO Bank has no branch offices abroad. The Bank has representative offices in St. Petersburg and in Tallinn.

## Administration

At the OKO Bank Annual General Meeting, held on March 31, 2004, the shareholders approved the Financial Statements of the year 2003 and released the members and deputy members of the Supervisory Board and the Executive Board, as well as the President from liability. In accordance with the proposal of the Executive Board, the shareholders approved the payment of a dividend totalling € 1.60 on each Series A share and € 1.55 on each Series K share.

In accordance with the Articles of Association, the shareholders elected new members to the Supervisory Board at the Annual General Meeting. At its meeting, held on the same day, the Supervisory Board re-elected Mr. Seppo Penttinen as its chairman and likewise re-elected Mr. Paavo Haapakoski as its vice-chairman. The members of the Supervisory Board are listed in the Annual Report. There is also a description of the Board's main duties.

The regular auditors elected were the firm of chartered public accountants KPMG Wideri Oy Ab

(KPMG Oy Ab as of January 24, 2005) and Mr. Raimo Saarikivi, Authorised Public Accountant.

OKO Bank's Extraordinary General Meeting approved the Executive Board's proposal that an additional dividend of € 0.30 be paid per each Series A and Series K share. The General Meeting decided to pay the dividend also to those shares subscribed for with OKO Bank 1999 Warrant A/B on November 5, 2004 at latest.

In September, the Executive Board of OKO Bank decided to prepare a memorandum on renewal of the Bank's corporate governance. The possibility of abolishing the Supervisory Board will be raised in the memorandum, as well as the replacement of the internal Board of Directors (Executive Board), based on the former Commercial Bank Act, by an external Board of Directors.

The abolishment of the Supervisory Board of OKO Bank requires an amendment to the Cooperative Bank Act (Act on Cooperative Banks and Other Credit Institutions in the Form of a Cooperative). On February 4, 2005, the Finnish Government submitted a bill to Parliament regarding an amendment to the Cooperative Bank Act. If the bill is passed, the Supervisory Board will no longer be a mandatory body within OKO Bank. In addition to that, changes to OKO Bank's corporate governance require decisions by General Meeting of Shareholders on amending the Articles of Association and other required measures.

## Executive Board

The tasks and composition of the Executive Board in accordance with the Articles of Association are discussed in the Annual Report, which also discloses the OKO Bank Series A shareholdings of the members and deputy members of the Executive Board as well as their subscriptions for share options.

## Short-term and Long-term Incentives

OKO Bank Group applies short-term and long-term incentive systems. Short-term incentives are based on the achievement of targets set for each year. The annual incentive systems are customised for each

Division. The total amounts of bonuses to be paid are based on the earnings of the Divisions.

The long-term incentive system includes the stock option scheme that has been valid for five years and expires at the end of October 2006. A personnel fund has been established to replace the stock option scheme, and a new management incentive system with OKO Bank's shares paid out as bonuses has been confirmed. The incentives in both systems are based on the Bank's strategic targets. The incentive period in the personnel fund is 5 years and in the management system 3 years.

The Group companies that joined the personnel fund in 2004 include OKO Bank, Okopankki Oyj and Helsingin Seudun OP-Kiinteistökeskus Oy. The members of the personnel fund comprise the entire staff of each company that has joined, excluding separately designated management representatives who belong to the scope of the management system.

In Opstock Ltd the personnel has the possibility of becoming a shareholder in the company.

The stock option scheme is described in Note 38 and the personnel fund as well as the new management incentive scheme in Note 71.

# ACCOUNTING POLICIES

The financial statements of OKO Bank and its subsidiaries have been prepared and presented in accordance with the provisions of the Credit Institution Act, the Ministry of Finance's decree concerning the parent company and consolidated annual accounts of credit institutions and investment service companies as well as the regulations issued by the Financial Supervision Authority.

## Scope of the Financial Statements

The financial statements include the information contained in the accounts of OKO Bank and its directly or indirectly owned subsidiaries and affiliates. Subsidiaries and affiliates with total assets below 10 million euros and whose omission would not detract from the provision of an adequate description of the financial performance of OKO Bank's operations and its financial position have been excluded from the financial statements on the basis of the current Finnish regulations.

The subsidiaries and affiliates covered by the financial statements are listed in Note 54, where information is also available on the omitted companies.

## Consolidation Principles

The financial statements of OKO Bank companies, which are credit or financial institutions, or service companies as prescribed by the Financial Supervision Authority, have been consolidated using the acquisition cost method. All the subsidiaries included in the accounts have been consolidated according to the acquisition cost method. New OKO Bank companies have been incorporated into the accounts from the

point of acquisition. Subsidiaries that have ceased to be Group companies during the fiscal year have been included in the income statement to the point of transfer. The accounts of affiliates have been consolidated using the equity method.

The acquisition costs of subsidiary shares have been eliminated against equity as per the balance sheet dates at the point of acquisition. The excess values of the subsidiary shares arising from the elimination have been included partially in the book values of the related assets. The items are amortised in accordance with an amortisation schedule for the asset. Where it has not been possible to carry out this allocation, these items are stated in the balance sheet under consolidated goodwill and are amortised on a straight-line basis over a maximum period of 10 years, but since 1995, over a maximum of five years.

The internal transactions, margins, distribution of profits, as well as receivables and liabilities in the separate accounts of consolidated companies have been eliminated. The minority interest share of earnings and equity has been separated and stated as an individual item in the income statement and the balance sheet.

## Items Denominated in Foreign Currency

Items denominated in foreign currency have been converted using the average exchange rates of the currencies on the balance sheet date. The exchange rate differences arising from the valuation are entered under the income statement item "net income from foreign exchange trading."

## Receivables and Payables

Receivables and payables have originally been recorded at the value that was paid for or received from them at the point of acquisition. The difference between the acquisition cost and the nominal value of a receivable is allocated to interest income and is an increase or decrease in the acquisition cost of the receivable. The difference between the amount received for a payable and the nominal value is allocated to an interest expense and is an increase or decrease in the acquisition cost of the payable.

Loan losses and loan loss reserves have been recorded as a reduction of the balance sheet value of the receivable.

## Securities Held in Current Assets

Debt securities, shares and holdings that are traded are treated as securities held in current assets. Actively traded securities are valued at the probable transaction price and all positive and negative changes in value resulting from the valuation are recorded. Other securities treated as current assets are recorded in the accounts at the acquisition cost or the probable value on the balance sheet date, whichever is lower. The probable transaction price of a debt security is taken to be the present value of the flow of principal and interest from it, discounted by the market interest rate. The probable transaction price of publicly listed shares is taken to be the closing price on the last trading day of the year.

Gains and losses on the disposal of securities treated as current assets, as well as write-downs, are recorded in net income from securities transactions. The difference between the acquisition cost and nominal value of debt securities other than those that are actively traded is allocated to interest income or as a reduction in it until maturity.

## Securities Held in Long term Financial Assets

Securities held in long term financial assets are debt securities intended to be held to maturity, shares and holdings in subsidiaries and affiliates, other shares purchased as long-term investments as well as shares and holdings which have been acquired in order to ensure the provision of services required by OKO Bank.

These securities are stated at their acquisition cost. If at the end of the fiscal year the probable

market value of such a security is permanently lower than the acquisition cost, the difference is recorded in the income statement under "write-downs on financial assets". Any reversals of write-downs have been recorded as an adjustment to the same income statement item. The difference between the acquisition cost and nominal value of debt securities has been allocated to interest income.

The purchase price of securities purchased on irrevocable resale terms has been recorded as a receivable in the balance sheet and figures in the item according to the counter party involved. The difference between the purchase price and resale price is allocated to interest income for the period of validity of the agreement.

The sale price of securities sold on irrevocable repurchase conditions has been recorded as a liability in the balance sheet item according to the counter party involved. The difference between the disposal price and the repurchasing price has been allocated as an interest expense for the lifetime of the agreement. Securities sold under repurchase obligations and the respective securities pledged as marginal collateral are included in the original balance sheet item irrespective of the agreement.

## Tangible and Intangible Assets

The balance sheet value of tangible and intangible assets is the acquisition cost less planned depreciation and any write-downs. Capitalised bond issuance expenses are recorded as expenses using a plan based on the repayment schedule, but nevertheless at least in the same proportion as the bond is repaid. In the separate accounts of subsidiaries, the accumulated excess depreciation is included in the balance sheet item "excess depreciation", which provides the accumulated appropriations. Should the probable market price of a property or shares in a real-estate management company be substantially and permanently lower than the book value, the difference has been booked as an expense in the income statement item "depreciation and write-downs on tangible and intangible assets". Any reversals of write-downs have been booked as an adjustment to the same income statement item.

The acquisition cost of buildings and other tangible and intangible assets subject to wear and tear is depreciated over the economic life of the asset on a straight-line basis according to a pre-

prepared depreciation schedule. In accordance with the depreciation schedule prepared by OKO Bank, the acquisition cost of buildings is depreciated over 30-40 years depending on their use and the construction material. Machinery and equipment, IT equipment, computer programs and vehicles are depreciated over 3-6 years and other tangible and intangible assets over 5-10 years. Leasing assets are depreciated using the annuity method. An individual depreciation period can be specified for tangible assets that are acquired in used condition. No depreciation is recorded for durable tangible assets and for revaluations.

### **Valuation Principles and Methods for Real Estate Properties and Real Estate Holdings**

The real estate holdings of OKO Bank are valued once a year. For specific reasons, the values can be reviewed more frequently. In determining the balance sheet value of real estate and real estate holdings that are in own use, the starting point taken is the value of the asset in relation to operational earnings expectations. Commercial, office and industrial properties other than those in own use and which have been acquired for investment purposes or as security for a receivable are valued as a rule according to the yield value method. Land, water and forest areas as well as dwellings and residential buildings are valued according to the disposal value method.

In defining the net yield percentage, account is taken of the location of the property, its use and special features, as well as any appreciation expectations. For each property, a plan of measures to be carried out has been prepared and this is reviewed annually. In addition to these main principles, valuation of real estate is carried out taking into account the special features of each property and use is made of published statistics and forecasts.

In recording reductions in value, the permanence of the write-downs and criteria pertaining to their material importance have been applied.

### **Derivative Contracts**

The difference between the interest received from and paid on receivables and interest rate swaps executed to hedge debt securities held in long term financial assets, as well as liabilities has been recorded under "interest income or expenses". In the accounts,

the accrued interest on these interest rate swaps has been recorded under "accrued income and prepayments" and "accrued expenses and prepaid income". The difference in the interest obtained from and paid on other interest rate swaps has been recorded under "net income from securities transactions" and the accrued interest corresponding to this income has been recorded under "other assets" and "other liabilities".

Value adjustments for hedging derivative contracts have been treated in the income statement in the same way as the close-out value adjustments of the balance sheet item subject to hedging; in other words, the value adjustments for derivatives hedging against interest rate risk are not recorded. Hedging has been proved effective either as individual contract pairs or as partial portfolios using the Value at Risk method.

The "linked derivatives" related to issued index loans and the derivatives hedging them have been separated from the main contract and valued at current value. Derivative contracts used to hedge loans have also been valued at current value. Value adjustments have been recorded in the income statement.

The income, expenses and changes in the value of interest rate, currency and equity derivatives acquired for purposes other than hedging have been recorded under the income statement item "net income from securities transactions and foreign exchange dealing". The items entered in the balance sheet for derivative contracts acquired for non-hedging purposes have been recorded under "other assets" or "other liabilities".

The premiums paid for share options have been valued at acquisition cost or at a lower probable transfer value. Income or expenses have been recorded under the net income from securities transactions. Change in the euro counter value of derivative contracts in foreign currencies has been recorded under net income from foreign exchange dealing.

### **Non-performing Loans**

The entire principal of a loan has been classified as non-performing when its interest, principal or a part thereof has fallen due and is unpaid for 90 days. Claims against companies declared bankrupt have been classified as non-performing on the date of dec-

laration of bankruptcy at the latest. A claim based on a guarantee given has been classified as non-performing when the payment based on the guarantee has been made. The allocated accrued interest on non-performing claims has been eliminated when the claim has been classified as non-performing.

### **Loan and Guarantee Losses**

Loan and guarantee losses comprise irredeemable losses and shortfalls on receivables and guarantee commitments as well as write-downs and losses on the disposal of assets obtained in lieu of a receivable for the financing of a customer. Write-downs are recorded as specific credit loss provisions when it has become apparent that a payment will not be received for the receivable or to the extent that a repayment is not expected from collateral.

In reporting loan losses, property serving as collateral for the receivable is valued at the estimated realisable market value of the property.

Recoveries of receivables written off in previous years, insurance compensation received, gains on the sale of assets obtained in lieu of a receivable for customer financing and reversals of specific loan loss provisions have been reported as a reduction in loan losses.

### **Pension Expenses**

The statutory pension cover of OKO Bank Group employees is handled by the OP Bank Group Pension Fund. The additional pension cover offered to employees (excl. Opstock Ltd) is managed by the Pension Foundation. After June 30, 1991 no new beneficiaries have been accepted to the Pension Foundation.

Group companies have no direct liabilities associated with pension arrangements.

The pension liabilities of OKO Bank Group companies are fully covered.

### **Capital Loans**

Capital loans granted in accordance with the Credit Institutions Act have been included in the equity item 'Capital loans'. In the calculation of capital adequacy, they are included in Tier I funds. Interest on capital loans will only be paid from distributable funds. The Bank has allocated the payable interest as cost and deferred expenses.

### **Compulsory Provisions**

Items recorded under compulsory provisions include provisions for such future expenses and losses as are probable or certain but whose amount and time of occurrence are still uncertain. Specific loan loss provisions or other similar items connected with the valuation of individual balance sheet items are not recorded under compulsory provisions but as a reduction in the balance sheet item under which the related loan or other asset item has been recorded.

### **Taxes**

In the separate accounts of individual companies, income taxes are calculated and recorded on the basis of a tax calculation based on taxable income. Deferred tax liabilities and tax claims are not stated in the balance sheet. Note 45 to the financial statements presents a breakdown of the parent bank's income taxes as well as the deferred tax liabilities and tax claims.

In the separate accounts of individual companies, excess depreciation and voluntary provisions are recorded under the balance sheet item "accumulated appropriations" and the related changes are recorded under the income statement item "appropriations". In the consolidated balance sheet, accumulated appropriations are divided between equity and deferred tax liabilities, whereas in the income statement they are divided between the net profit for the fiscal year and the change in deferred tax liabilities. OKO Bank's other deferred tax liabilities and tax claims are stated in Note 68.

# PRINCIPLES OF RISK MANAGEMENT

Risk management at OKO Bank relies on the Bank's values, strategic choices and long-term financial targets.

The purpose of risk management is to identify the threats and opportunities that affect the implementation of OKO Bank's strategy. The objective is to help OKO Bank achieve the targets set in its strategy by ensuring that risks are proportional to its risk bearing ability.

## **Organisation of Risk Management**

OKO Bank's Executive Board is the highest decision-making body in matters associated with risk management. The Executive Board's duties include deciding on the goals and the organisation of risk management, confirming the risk management strategy and risk policies, and supervising the implementation of risk management. The Executive Board also approves the decision-making system and decision-making authorisations.

The Risk Management Committee reports to the Executive Board and is in charge of co-ordinating and supervising overall risk management principles and operational policy guidelines. It also appoints the members of the Rating Committee. The Risk Management Committee is chaired by the OKO Bank Executive Board member responsible for Risk Management, Operations and Processes to whom the Risk Management Department reports.

The Rating Committee is responsible for determining credit ratings for corporate customers. The Senior Credit Committee, operating within the framework of the authorisations confirmed by the Executive Board, takes exposure limit and credit approval decisions concerning customer, bank and country risks. The Senior Credit Committee is chaired by OKO Bank's President. The Credit Committees, the Bank Credit Committee and the department and unit-level decision-making bodies take decisions concerning credit risk within the framework of the confirmed decision-making authorisations.

The business units have primary responsibility for customer relations and risk-taking. A business units are

entitled to take decisions concerning credit, market and funding risks within the framework of the approved authorisations and limits.

The Risk Management Department is responsible for developing and implementing an integrated risk management procedure within OKO Bank. The Risk Management Department supervises and reports on any developments in terms of risk bearing ability, risk position and the implementation of risk management policies. The department is also responsible for preparing and maintaining the decision-making authorisations and the operational guidelines associated with risk management. Furthermore, the business units are actively involved in risk monitoring. In the credit approval process, the Risk Management Department supports decision-making and controls quality.

## **Risk Management Strategy**

By submission of the Risk Management Committee, OKO Bank's Executive Board approves an annually revised risk management strategy for the OKO Bank Group, specifying the Group's risk bearing ability, risk appetite and principles of risk management. The risk management strategy also describes the principles of capital management and a plan for maintaining capital adequacy.

Furthermore, the risk management strategy includes a description of the Group's business risks and the organisation of risk management. It also describes the tasks and division of responsibilities between different decision-making levels and organisational units involved in risk management.

## **Risk Bearing Ability and Capital Management (ICAAP)**

Risk bearing ability refers to the amount of the Group's own funds in proportion to its risk-weighted commitments. The average capital adequacy target as calculated using Tier I capital is 7.0 per cent.

Business is steered and monitored according to business area. Business areas results are compared with

the Tier I capital bound to the operations in accordance with the 7 per cent target level calculated in accordance with Basel I. This is used to allocate capital to different business areas and calculate return on equity (ROE) specific to each business area.

The capital management process creates a capital adequacy forecast and associated sensitivity analysis on the basis of earnings and growth trends. Furthermore, different threat scenarios are described and their impacts on capital adequacy are estimated. The process also surveys the measures that would be used to maintain the level of capital adequacy should a threat scenario be realised.

### **Risk Appetite**

OKO Bank is a moderate risk taker. Operations are based on a calculated risk/ return approach that serves as a guideline for exploiting credit risk, market risk and funding risk. Business activities also involve a strategic risk as well as operational risks.

The risk appetite is determined by calculating risks in proportion to income. The target is that the average net credit losses and reserves over the trend cycle should not exceed 10 per cent of the annual income, or 0.35 per cent of the loan and guarantee portfolio. Another target is that any losses caused by market risks should not exceed 5 per cent of the estimated consolidated annual income.

### **Risk Policies**

Annually formulated risk policies provide the guidelines for risk-taking. In the overall risk policy, the risk appetite is apportioned to various types of risks, and equity is allocated to the divisions.

The overall risk policy is supplemented by specific risk type policies, namely credit, interest rate, foreign exchange, equity market, real-estate and funding risk policies, as well as the operational risk policy.

### **Credit Risk Management**

Credit risk means risk arising from the inability of the bank's contracting parties to meet their obligations in cases where the collateral does not protect the bank's receivables. In addition to that, credit risk comprises country risk and settlement risk. Country risk is a credit risk associated with foreign receivables on a country-by-country basis. Settlement risk has to do with the clearing and settlement process and involves the risk of losing a receivable being settled.

The objective of credit risk management is to restrict losses from credit risks arising from customer exposure to an acceptable level whilst seeking to optimise the risk/ return ratio. Credit approval and the quality of the credit approval process occupy a central position in the management of credit risks. The credit process is guided by confirmed credit risk policies, decision-making authorisations and operating guidelines.

In managing settlement risk, it is vital to ensure that the counterparties are reliable. To reduce settlement risk, standard-form agreements are used and settlements are processed by reliable clearing centres.

OKO Bank seeks to reduce credit risk by diversifying its loan portfolio, as well as by defining collateral and covenant policies on a customer-specific basis. To further limit credit risks, a maximum customer exposure limit has been defined on the basis of the Bank's risk bearing ability, and a limit system is in place. Credit derivatives have been used for credit risk management, but no asset securitisation.

#### ***Credit Risk Policy***

Credit risk policy defines principles concerning the composition, diversification and customer selection in respect of total exposure, as well as the use of collateral and covenants. The objective is to ensure that OKO Bank does not develop excessive risk concentrations by country, industry, customer group, corporation or time period.

For the portfolio review, customers are divided into six groups: corporate customers, financial and insurance institutions, private customers, OP Bank Group member cooperative banks and companies; public entities, and non-profit institutions. Separate credit risk policies have been prepared for three customer groups, namely corporate customers, financial and insurance institutions and private customers. Furthermore, a country risk policy has been drawn up.

The corporate customer credit risk policy involves determining a relative maximum exposure for industry and rating-specific risk.

Risks related to financial and insurance institutions have been diversified by credit rating, issuer and product. In addition, in order to ensure the liquidity of fixed income investments, minimum sizes have been defined for issues in which OKO Bank can invest.

The credit risk involved in private customers is naturally diversified owing to the large number of customers and the amount of exposure per customer.

The country risk policy allows risks to be diversified by setting maximum limits on exposure in individual groups of countries.

### **Credit Risk Limits**

A risk limit is the maximum exposure or uncovered exposure set for a customer or a country. A limit may also include restrictions in terms of time or product, for example a maximum amount for short-term or long-term liabilities. For most corporate and institutional customers, a customer-specific risk policy has also been set, comprising the minimum amount of collateral and the covenants to be used.

The exposure limit is a euro-denominated ceiling on customer-specific exposure. The exposure limit is annually confirmed for those corporate customers whose actual or planned exposure exceeds € 5 million.

The financial institution limit is specified for a specified time period and is a euro-denominated counterparty limit within which business is conducted with financial institutions. The limit is provided on condition that the financial institution is located in a country for which a country limit has been approved. The financial institution limit is reviewed annually.

The country limit is a euro-denominated ceiling for receivables from a given country. The amount of the country limit for each country and any related time limitation are defined in accordance with the country's credit rating and OKO Bank's risk bearing ability in such a way that it supports the approved business principles. Country limits are reviewed at least once a year.

### **Credit Process**

The day-to-day credit process plays a crucial role in credit risk management. From the risk management perspective, the key stages are credit standing evaluation, decision-making and execution, which are separate

processes. The Risk Management Department supervises the credit process flow and quality.

### **Credit Standing Evaluation**

The credit standing of corporate customers is evaluated using OKO Bank's own 12-step internal credit rating system. The company's financial position as presented in its financial statements, with the key features being capital adequacy, profitability and liquidity, will affect its rating. Other elements to be taken into account include the company's market position, competitive strength, product quality, growth potential, and the general business outlook in the industry. If the company has a public credit rating, that will be considered when assessing creditworthiness.

The collateral or guarantees received for the customer's exposure are not taken into account in the credit standing evaluation. Risk assessment for each exposure is performed at the decision-making stage on the basis of the customer's credit standing, the proposed exposure and the collateral and guarantees presented; at this stage, the pricing of the exposure is also confirmed.

The purpose of the rating is to place all corporate customers into credit rating categories in such a way as to meet the needs of risk management and to fulfil the criteria the new capital adequacy framework (Basel II) sets for internal rating models. The two weakest credit ratings are reserved for defaulted customers, customers subject to corporate restructuring or customers declared bankrupt.

The internal credit ratings are harmonised with the Standard & Poor's rating system on the basis of average one-year default probabilities calculated over a long period of time. The internal credit rating is used in the pricing of exposure, the credit approval process and the calculation of risk adjusted capital requirements.

### **Determination of Credit Standing by Customer Group**

<i>Customer Group</i>	<i>Determination of Credit Standing</i>
Corporate customers, liabilities exceeding € 5 million	Credit rating by the Rating Committee
Corporate customers, liabilities less than € 5 million	Credit rating based on financial statements and payment behaviour
Financial and insurance institutions	Credit rating by an external rating institution
Member banks and the Central Cooperative	Credit rating by the Rating Committee
Countries	Credit rating by an external rating institution
Private customers	Assessment of creditworthiness based on a financial analysis

Countries are divided into five country risk categories on the basis of their Moody's credit rating. The lowest Investment Grade rating is Baa3, or countries in country risk category 3.

#### Correlation between Country Risk Categories and Moody's Credit Ratings

<i>Country Risk</i>	<i>Moody's Equivalent</i>
Category 1	Aaa
Category 2	Aa1-A3
Category 3	Baa1-Baa3
Category 4	Ba1-B3
Category 5	Caa1-C and non-rated

#### Decision-making

Credit proposals are made on the basis of the credit standing evaluation. Account managers prepare and present the exposure limit proposals, credit limit and financing proposals to the decision-making bodies. The credit approval decision includes a report on the credit applicant, any credit previously granted to the customer and the related collateral and uncovered exposure. A credit proposal for a corporate customer also includes the collateral and covenant policy for short and long-term exposure, an analysis of the customer's creditworthiness, as well as a forecast of the development in the customer's financial position. For corporate customers, a financial statement analysis is always attached to the proposed exposure limit, and for new corporate customers, there is often also a business analysis. In most cases, credit proposals for corporate and institutional customers involve a position statement by the Risk Management Department concerning credit risk.

The decision-making bodies take decisions to accept risks within the framework of their authorisations and in compliance with the Bank's confirmed credit risk policies, limits and guidelines. The authorisations of each decision-making body have been scaled to the customer's credit rating, exposure and uncovered exposure.

#### Execution

The execution stage involves preparing the offer and contract documents based on the approved proposals. Before the customer is given access to any funds, the fulfilment of the drawing terms and conditions is verified. Furthermore, the fulfilment of contractual terms is monitored throughout the duration of the agreement.

## Measuring, Monitoring and Reporting Credit Risk

Credit risk is measured on a customer-specific basis in terms of total exposure and uncovered exposure. Exposure means the total number of balance sheet and off-balance sheet items that the bank holds for a specific customer. Uncovered exposure is calculated as the difference between the exposure and the collateral value. Credit risk is also measured using a weighted collateral shortfall figure calculated by multiplying the customer-specific uncovered exposure against the probability of default corresponding to the customer's credit rating. Other indicators of credit risk include the proportion of non-performing loans and past due loan repayments of the loan and guarantee portfolio, as well as the proportion of credit losses to income and the loan and guarantee portfolio.

Customer monitoring consists of an annual analysis of financial statements and interim reports, as well as continuous monitoring of the customer's credit record and the customer's business activities.

Customer credit record, past due payments and non-performing loans are monitored continuously on the basis of information obtained from both OKO Bank's internal monitoring service, as well as from external services.

Customers whose financial status development, credit risk and credit record OKO Bank wants to examine in more detail are placed under special observation. In this context the need to change the customer's credit rating, the probability of a credit loss, as well as the need to make a credit loss provision are also considered. This often means that the credit approval decision is made in a higher-level decision-making body.

The credit approval process involves monitoring the exposure limits of corporate customers and the total exposure limits of corporate customers and financial institutions. Furthermore, decision-making bodies supervise the credit approval decisions and always submit their minutes to the next decision-making level for consideration.

The Risk Management Department carries overall responsibility for reporting credit risks. It prepares a corporate risk analysis for the Executive Board. The analysis reviews the general compliance with the credit risk policy, and analyses the development of the amount, distribution and quality of total exposure, as well as the development of non-performing loans.

The use of limits, as well as any overdrafts, are reported regularly. In addition, the Risk Management Department prepares industry, loan and investment portfolio specific analyses.

### Market Risk Management

Market risks include the impact of market prices (interest rates, foreign exchange and share prices) and volatility on the bank's financial performance. Market liquidity risk is one element of market risk. A risk arises if markets lack sufficient depth or cease to function due to disturbances, causing the bank to lose its ability to liquidate or cover its risks at prevailing market prices.

The objective of market risk management is to confine risks arising from price fluctuations in balance sheet and off-balance sheet items to an acceptable level and to promote healthy financial performance by optimising the risk/return ratio.

Both trading and treasury activities involve market risks. Trading activities are based on active short-term trading and market risk management. The objective of trading activities is to safeguard the OP Bank Group's liquidity while pursuing maximum profitability. Trading activities amount to some 20 per cent of the balance sheet total.

Group Treasury is responsible for ensuring OKO Bank's domestic and foreign funding and for managing the equity, credit and interest rate risks involved in

investment activities, as well as the structural interest rate risk arising from the loan and deposit portfolio and other balance sheet items (such as shares, real estate holdings and shareholders' equity). The objective is to hedge the Group's net interest income against interest rate fluctuation. Group Treasury does not take foreign exchange risks.

OKO Bank's Executive Board approves the market risk management principles and risk policies. The Risk Management Committee coordinates and supervises overall risk management principles and supervises the use of limits. OKO Bank's market risks are centrally managed by the Divisions responsible for the risks in question. The Divisions are responsible for their own exposure, and the results within the framework of the set limits. The Risk Management Department monitors and reports market risks and their outcome to the Divisions and to the Executive Board. The principles and indicators used in managing the market risk involved in trading and treasury are largely the same.

Group-level risk policies have been prepared for interest rate, foreign exchange, equity and real estate risks where the principles and limits regarding the structure and diversification of exposure have been defined. The objective of these policies is to ensure that OKO Bank's market risks are proportional to its risk bearing ability. Group-level risk limits continue to be allocated between trading (interest rate, foreign

<i>Risk type</i>	<i>Risk indicator</i>	<i>P&amp;L indicator</i>	<i>Frequency</i>
Interest rate risk/ trading portfolios	The effect of a 100-point interest rate change on the current value of future cash flows VaR	Change in market value	Daily
Interest rate risk/ Group Treasury	The effect of a 100-point interest rate change on the current value of future cash flows VaR	Change of market value, net interest income	Daily
Foreign exchange risk	Total net position, currency pair positions, VaR	Change in market value	Daily
Equity risk	Market value VaR	Change in market value	Daily/ weekly
Volatility risk	Maximum loss in accordance with the spot/volatility matrix	Change in market value	Daily
Real estate risk	Capital tied to objects available for lease and the vacancy rate of real estate	Net income	Quarterly

exchange and volatility risk) and treasury (interest rate and equity risk).

Interest rate risk is diversified in terms of currency, product and maturity. Foreign currency risk is hedged by currency. Equity and capital investment risks are diversified by market area, sector and issuer. Risk involved in venture capital investments is diversified in accordance with the fund regulations. Specific limits have been set for options.

Continuous analysis of the structure of the risk position and the markets, as well as anticipating the impact of changes on the Bank's risk position and performance play a key role in market risk management. Effective market risk management requires current and accurate information on exposure and markets, and fast response to changes. Market risks are managed by adjusting the risk positions using both balance sheet and derivative instruments, in line with the current market views and within the risk limit framework. Market exposure or individual agreements can also be hedged with derivative instruments against changes in market value or to secure net financial income.

## Measuring, Monitoring and Reporting Market Risk

OKO Bank Group monitors market risks using the indicators specified in the table on page 28.

In addition, OKO Bank's interest rate, currency and equity risks are measured using Value at Risk (VaR) analysis.

The VaR model is based on the historical development of interest and foreign exchange rates and share prices. This model is used to analyse changes in the market value of exposures over a one-day holding period, which is the time needed to unwind the position or to cover the risk. The model provides a loss forecast suggesting that the probability of the loss being less than or equal to the forecast is 97.5 per cent.

The VaR analysis is based on historical price changes (volatility) and offers a loss estimate in "normal" market conditions. Stress testing can be used to evaluate the impact of the most significant market changes during the review period on an open risk exposure. The forecasting accuracy of the model is monitored using a daily back testing method: the result of the test may exceed the loss estimate by an average of 2.5 times during a 100-day period.

The benefits of historical simulation include empirical, realised scatter and correlations. Its problem-

atic features, however, include risk forecasting based on historical performance, the impact of the length of the selected time series on the risk indicator value, the discontinuity of extreme changes particularly in the loss tail, and autocorrelation associated with the time series.

The Risk Management Department monitors OKO Bank's interest rate, foreign exchange and equity risk limits daily, and the Group's financial institution subsidiaries' interest rate risk weekly, and reports these to the Divisions and Executive Board.

## Interest Rate Risk

Interest rate risks arise from differences between balance sheet or off-balance sheet item maturities, interest rate reset dates or the bases of interest rates. In trading, interest rate risks materialise when a market rate fluctuation shows up as a security market value change. In treasury, interest rate risk translates into a change in net interest income.

In the OKO Bank Group, only specifically named units and companies are allowed to interest rate risk within the set limits.

## Interest Rate Risk in Treasury

Interest rate risk in Treasury arises in connection with the repricing of balance sheet receivables and liabilities and is caused by changes in interest rates and the different resetting times of interest rate revisions. A rise in interest rates generates a loss for the bank, if investments are tied to rates for longer than funding.

The balance sheet also contains structural interest rate risks generated in retail borrowing and interest-free balance sheet items. Early repayment of customer agreements can also create interest rate risk.

Treasury handles interest rate risks incurring from operations other than trading and manages the position within the authorised limits.

Treasury's interest rate risks are included in OKO Bank's total interest rate risk and are measured and reported using the same benchmarks and limitation principles as a trading portfolio. These are expected to render the net interest income more sensitive to interest rate fluctuations.

## Foreign Exchange Risk

Foreign exchange risks arise when there is a gap between receivables and liabilities in the same currency. Since OKO Bank is the only entity within the OP Bank Group that is actively engaged in the foreign exchange market,

it is centrally responsible for all foreign exchange risks.

Management of foreign exchange risk is carried out in the context of trading. Limits set on the total net foreign currency exposure and the par exposure of key currencies (USD, GBP, SEK) are used to restrict exposure. In addition, an alarm limit has been set on the VaR figure for foreign exchange risk. The risk is also constrained with stop/loss limits.

### **Equity Market Risk**

At OKO Bank, equity market risks arise from equity and venture capital investment activities. Equity investments include shares purchased for trading purposes as well as for long-term holding.

The principles regulating the composition of the equity portfolio and the selection of investments are defined in the equity market risk policy. Treasury is responsible for the management of the equity portfolio recorded under current assets.

### **Volatility Risk**

OKO Bank is responsible for volatility risk management. Interest rate and foreign exchange options and the repurchase of issued index loans create small-scale volatility risks. These risks are measured using a simulated VaR-type maximum loss risk indicator for a position (spot/volatility matrix), the market price of the underlying instrument and the market price volatility of the derivative.

### **Real Estate Risk**

Real estate risk refers to risks associated with the change in the value or in the return on real estate holdings. The OKO Bank Group's objective is to reduce capital invested in real estate holdings and raising its yield.

The real estate risk policy sets out the principles providing guidelines for the composition of a real estate portfolio and the selection of investments. Individual assessments and action plans are prepared annually for real estate investments. Real estate risks are reported quarterly in the risk analysis.

### **Funding Risk Management**

Funding risk refers to the risk associated with the availability of refunding and the impact of the bank's credit rating development on the price of funding. A deviation between the maturities of receivables and liabilities generates risks. Similarly, funding risks arise if either liabilities or receivables or both are concentrated in respect

of counterparties, instruments or market segments. Changes in customer behaviour or in the business environment may also create funding risks.

Liquidity risk refers to the risk associated with the availability of funding when liabilities or other payments mature. Such a risk may materialise as a result of diminished market liquidity or the falling credit rating of a prospective borrower. Provisions for liquidity risks comprise a portfolio consisting of liquid notes and bonds.

Liquidity management is subject to the regulations of the European Central Bank's minimum reserve and liquidity credit systems.

Funding and liquidity risk management are critical to OKO Bank, as manifested by OKO Bank's Group Treasury duty to secure sufficient liquidity and reserves within the OP Bank Group. The liquidity reserve portfolio represents about one fifth of the Group's balance sheet.

The purpose of funding risk management is to ensure that the Group's capital structure is correctly proportioned to its risk bearing ability, and to limit the funding or liquidity risk arising from the balance sheet structure. Funding risk is managed by planning liquidity and the balance sheet structure, by maintaining a sufficient liquidity reserve, and by diversifying funding risk on the basis of maturity, counterparty and instrument.

OKO Bank's Executive Board approves the funding and liquidity risk management principles and risk policies. The Risk Management Committee coordinates and supervises these principles and the use of limits. Group Treasury has the central responsibility for OKO Bank's funding risk management and long-term funding. Meanwhile Trading is in charge of liquidity management and the maintenance of reserve portfolios. The Risk Management Department monitors and reports funding risks to the Divisions and the Executive Board.

OKO Bank is also responsible for arranging sufficient funding for its retail banking subsidiary Okopankki. Individual refunding risk limits have been set for the funding risks arising from subsidiary operations, and Okopankki handles its risk exposure in accordance with these limits.

OKO Bank's key sources of funding include issues of CDs and bonds, deposits from other banks and member co-operative banks, deposits from the public, and shareholders' equity. OKO Bank's credit rating affects the availability and price of funding in the international money and capital markets.

The principles and limits related to the Group's long-term funding structure and liquidity management are defined in its funding risk policy.

A funding plan, which is approved by the Executive Board, is prepared annually in line with the Group's financial position and capital adequacy targets.

### **Measuring, Monitoring and Reporting Funding Risk**

Funding risk is measured in terms of the magnitude of the net cash flow of each maturity class (the difference between receivables and liabilities). In addition, funding risk is analysed by source and investment.

The purpose of measuring funding risk is to describe how receivables and liabilities will mature in the future, bearing their liquidity in mind. Furthermore, the analysis shows how retail customer deposits, which were originally demand deposits but became permanent, and member co-operative bank liquidity reserve deposits have been invested. This analysis reveals any funding needs or investment potential in each time class. Liquid investments recorded under trading portfolios and other current assets are handled in the shortest time class owing to their high liquidity.

Funding risks have been limited by setting a euro-denominated limit on annual net principal inflow by maturity class up to five years. The limits are proportionate to the balance sheet. A separate limit has been set for OKO Bank Group's cash reserve funds which represent the OP Bank Group's liquidity reserve.

Daily liquidity is monitored using calculations and forecasts for a 30-day period. They include the impact of internal transactions as well as forecasts of cash flows in interbank payment transfer services. The Risk Management Department reports funding risks to the Divisions and the Executive Board monthly. Daily activities include the preparation of cash flow statements by currency and an estimate of the adequacy of reserve funds.

### **Derivative Activities**

OKO Bank Group uses interest rate and currency derivatives actively, as well as equity, equity index and credit derivatives to a lesser amount. The underlying values and credit countervalues of these are itemised in Note 50 to the financial statements. Derivatives are used for trading and hedging purposes as a part of overall position management. Derivative risks are monitored as a part of the overall exposure in trading and asset management using the same benchmarks as for balance sheet exposure.

The only exception is options, whose risk is measured as described above under section "Volatility Risk".

The counterparty risk involved in derivatives business is monitored using credit countervalues that are based on the repurchase cost of contracts (market value) and instrument-specific future credit risk factors.

The purpose of hedging credits and debt issues against interest rate risk is to lock the margin, or the interest rate difference between the hedged and hedging item. Hedge effectiveness is assessed by the ratio between the VaR figures and market values of the hedged and hedging items.

Additional earnings components linked to the issued index loans have been hedged using derivative structures. The hedging derivatives are equity, equity index, currency, interest rate and credit derivatives.

### **Managing Operational Risks**

Operational risk refers to the risk that the operations create: as risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk, which includes legal risk but excludes strategic risk, may also lead to loss of reputation.

The business units are responsible for operational risk management. The Risk Management Department monitors the implementation of operational risk management, the risk level and losses caused by realised risks, and provides reports on these issues.

A corporate risk policy for operational risks has been prepared, defining the principles that guide the identification, assessment, monitoring and reporting of an operational risks. It also defines the key objectives for operational risk management.

The objective is to establish a culture that helps prevent risks. The organisation's values as well as its management and business culture hold a crucial position in this effort. Risk management is founded on a systematic approach, caution and continuity, which are to be observed in all business sectors.

In managing operational risks, risk identification and assessment as well as the subsequent refining of operating procedures play a critical role.

To prevent risks, processes and personnel competence will be developed, and the decision-making, execution and supervision have to be separated. Before new products are released, they will be described, operating processes will be planned, guidelines will be prepared, and the product will be approved.

For legal risk management, it is crucial to ensure the legal and binding nature of any contracts.

The essential factors in information management include the management of risks related to the authenticity, availability and integrity of information; elements that are particularly important in electronic transactions. In development and implementation of information systems, particular attention is paid to the adequacy of specifications, expertise in terms of content and technology, testing, and pilot stages. The members of the OP Bank Group collaborate closely in the management of information and bank security and the prevention of money laundering and financing of terrorism.

For the purpose of information and banking security management, efficient and secure information processing and protection against external threats are critical. The members of the OP Bank Group collaborate closely in the management of information and bank security. Contingency plans and information technology recovery plans have been prepared in cases of emergency, which are developed and updated regularly. Studies carried out by the Internal Auditing Unit play an important role in the management of operational risks. Property, theft and liability insurance policies are also taken out to protect against losses due to operational risks.

### **Identifying, Monitoring and Reporting Operational Risks**

Operational risks inherent in current activities are ordinarily identified for each process, crossing the organisational boundaries. With regard to significant risks, the probability of the risk and the potential earnings impact of its realisation are assessed. Risks are re-assessed regularly and always in connection with significant changes.

Internal loss data collection covers the entire Group. The purpose of statistics is to understand the causes leading to the events and to develop operations on this basis.

Risk Management regularly reports to corporate management on risk assessment results and aggregated group wide information on loss data, and recommends development projects or new procedures on the basis of assessments.

In 2005 the focus within operational risk management will be on the assessments of operational risks and updating previous assessments on all signifi-

cant operations, products and systems. Operational risk management methods and reporting associated with risks will also be developed.

### **Strategic Risk**

Strategic risk refers to losses incurred as a result of an erroneous business strategy.

The strategic risks associated with the implementation of the OKO 2004 strategy and the achievement of goals was surveyed during the strategy process.

The threat and effect of strategic risks will be monitored and assessed annually in connection with updates to the risk management strategy. In the same context, any changes in the business environment and competitive conditions, as well as their effects on strategy implementation, will be assessed.

### **Development of Risk Management and Processes**

OKO Bank's business requirements are the key driving force behind the development of risk management. In addition, the capital adequacy framework (Basel II), which is currently being prepared, will have an extensive impact on the development of risk management.

The OP Bank Group has initiated a project to introduce the methods provided by the capital adequacy reform in accordance with the EU Directive based on the Basel II recommendation and to implement the reform. Furthermore, the Bank will analyse the potential effects of the reform on the its business operations and capital structure. The reform has already had impact on issues such as the pricing of credit and the competitive situation on the market.

The most important processes from a business viewpoint have been identified with regard to corporate and private customers, and partly with regard to joint investment customers. Uniform descriptions have been prepared for most of the processes. Descriptions and development of processes continue to require significant effort. The quality and performance of the processes will be developed, taking into account the clarity of tasks and interdependencies between the different roles in the process and creating a culture that prevents risks in advance.

The key priority areas in the development of risk management include improvements in the risk-based capital allocation procedure.

## CONSOLIDATED INCOME STATEMENT € million

	Jan. 1 to Dec. 31, 2004				Jan. 1 to Dec. 31, 2003			
Interest income	423				420			
Net leasing income	11				10			
Interest expenses	-269				-270			
<b>Net interest income</b>	<b>164</b>				<b>161</b>			
Income from equity investments	7				9			
Commissions and fees	93				78			
Commission expenses	-14				-12			
Net income from securities and foreign exchange trading								
Net income from securities trading	-1				-9			
Net income from foreign exchange trading	6	5			6	-2		
Other operating income	20				90			
Administrative expenses								
Personnel costs								
Salaries and compensation	51				46			
Indirect personnel costs								
Pension costs	8				8			
Other indirect personnel costs	4	11	63		4	12	58	
Other administrative expenses	49 -112				45 -103			
Depreciation and write-downs on tangible and intangible assets	-9				-10			
Other operating expenses	-26				-26			
Loan and guarantee losses	-1				-2			
Write-downs on securities held as non-current financial assets	0				-5			
Share of affiliate profits/losses	6				-3			
<b>Operating profit</b>	<b>134</b>				<b>174</b>			
<b>Profit before appropriations and taxes</b>	<b>134</b>				<b>174</b>			
Income taxes								
Taxes for the fiscal period	-16				-27			
Taxes for previous fiscal periods	-1				0			
Change in deferred taxes	-15	-31			-20	-47		
Share of minority interests	-1				-1			
<b>Profit for the period</b>	<b>102</b>				<b>126</b>			

## CONSOLIDATED BALANCE SHEET € million

ASSETS	December 31, 2004	December 31, 2003
Liquid assets	297	929
Notes and bonds eligible for refinancing with central banks		
Treasury bills	68	26
Other	1 997 2 065	1 824 1 850
Receivables from financial institutions		
Repayable on demand	53	26
Other	3 496 3 548	2 653 2 679
Receivables from the public and public sector entities	8 319	7 250
Leasing assets	360	291
Notes and bonds		
From public sector entities	112	54
From others	1 073 1 185	1 006 1 061
Shares and holdings	87	88
Shares and holdings in affiliates	25	21
Shares in subsidiaries	7	10
Intangible assets		
Consolidated goodwill	-	-
Other long-lived assets	10 10	13 13
Tangible assets		
Real estate and real-estate holdings	116	113
Other tangible assets	7 123	6 119
Other assets	303	358
Deferred income and advances paid	100	86
<b>16 428</b>	<b>14 754</b>	<b>14 754</b>

## CONSOLIDATED BALANCE SHEET € million

LIABILITIES	December 31, 2004			December 31, 2003		
<b>Liabilities</b>						
Liabilities to financial institutions and central banks						
Central banks		959			1 330	
Financial institutions						
Repayable on demand		309			409	
Other		3 041	3 351	4 310	3 091	3 501
4 310					4 831	
Liabilities to the public and public sector entities						
Deposits						
Repayable on demand		2 009			1 744	
Other		400	2 409		294	2 038
Other liabilities			1 663	4 072		1 269
3 307						3 307
Debt securities issued to the public						
Bonds		2 838			1 499	
Other		3 265	6 103		3 280	4 779
Other liabilities				579		592
Deferred expenses and advances received				87		83
Mandatory reserves				2		1
Subordinated liabilities				390		366
Deferred taxes				74		59
Minority interests				2		2
				<b>15 620</b>		<b>14 021</b>
<b>Equity</b>						
Share capital		206			202	
Share issue account		3			2	
Share premium account		7			5	
Revaluation reserve		25			25	
Other restricted reserves						
Reserve fund		203			203	
Other restricted items		1	204		1	204
Capital loans			72			-
Unrestricted reserves			23			23
Retained earnings			166			145
Profit for the period			102	807		126
						733
				<b>16 428</b>		<b>14 754</b>
<b>Off-balance sheet commitments</b>						
Commitments given to a third party on behalf of customers						
Guarantees and pledges			1 410			1 174
Other			-	1 410		-
1 410						1 174
Irrevocable commitments given on behalf of a customer						
Other			2 720	2 720		2 454
						2 454
				<b>4 130</b>		<b>3 628</b>

## CONSOLIDATED KEY FIGURES € million

INCOME STATEMENTS	2000	2001	2002	2003	2004
Net interest income	124	152	161	161	164
Other income	197	118	94	174	126
Other expenses	125	126	133	141	152
Depreciation and write-downs	11	11	11	10	9
Loan and guarantee losses	-10	-4	-2	2	1
Write-downs on securities held as non-current financial assets	33	29	0	-5	0
Share of affiliate profits/losses	5	2	-17	-3	6
Operating profit	167	111	96	174	134
Profit before appropriations and taxes	167	111	96	174	134
Taxes	-47	-31	-33	-47	-31
Minority interest	-1	-1	-1	-1	-1
<b>Profit for the period</b>	<b>118</b>	<b>79</b>	<b>62</b>	<b>126</b>	<b>102</b>
<b>BALANCE SHEETS</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
<b>Assets</b>					
Receivables from financial institutions	2 082	1 542	1 816	2 679	3 548
Receivables from the public and public sector entities	5 472	5 734	6 490	7 250	8 319
Notes and bonds	2 259	4 314	3 245	2 910	3 249
Shares and holdings	217	160	149	119	119
Tangible and intangible assets	194	185	179	132	133
Other items	777	715	830	1 664	1 060
<b>Total</b>	<b>11 000</b>	<b>12 650</b>	<b>12 709</b>	<b>14 754</b>	<b>16 428</b>
<b>Liabilities</b>					
Liabilities to financial institutions and central banks	3 833	4 897	4 152	4 831	4 310
Liabilities to the public and public sector entities	2 140	2 659	2 659	3 307	4 072
Debt securities issued to the public	3 380	3 365	4 145	4 779	6 103
Subordinated liabilities	417	473	379	366	390
Other items	606	609	700	677	668
Deferred taxes	23	27	39	59	74
Minority interest	2	2	2	2	2
Equity	599	618	633	733	807
<b>Total</b>	<b>11 000</b>	<b>12 650</b>	<b>12 709</b>	<b>14 754</b>	<b>16 428</b>

## OKO BANK INCOME STATEMENT € million

	Jan. 1 to Dec. 31, 2004			Jan. 1 to Dec. 31, 2003		
Interest income	355			350		
Net leasing income	11			11		
Interest expenses	-249			-248		
<b>Net interest income</b>	<b>117</b>			<b>113</b>		
Income from equity investments						
From subsidiaries	16			18		
From affiliates	2			1		
From other companies	7	25		8	28	
Commissions and fees	41			34		
Commission expenses	-7			-5		
Net income from securities and foreign exchange trading						
Net income from securities trading	0			-11		
Net income from foreign exchange trading	6	6		6	-4	
Other operating income	14			70		
Administrative expenses						
Personnel costs						
Salaries and compensation	25			23		
Indirect personnel costs						
Pension costs	4			4		
Other indirect personnel costs	2	6	31	3	7	30
Other administrative expenses	25			-56		
Other administrative expenses						
Depreciation and write-downs on tangible and intangible assets	-4			-4		
Other operating expenses	-19			-23		
Loan and guarantee losses	-1			-2		
Write-downs on securities held as non-current financial assets	0			-5		
<b>Operating profit</b>	<b>117</b>			<b>149</b>		
<b>Profit before appropriations and taxes</b>	<b>117</b>			<b>149</b>		
Appropriations	-65			-56		
Income taxes						
Taxes for the fiscal period	17			28		
Taxes from previous fiscal periods	0	-18		0	-28	
<b>Profit for the period</b>	<b>35</b>			<b>66</b>		

## OKO BANK BALANCE SHEET € million

ASSETS	December 31, 2004	December 31, 2003
Liquid assets	290	921
Notes and bonds eligible for refinancing with central banks	1 870	1 659
Receivables from financial institutions		
Repayable on demand	43	24
Other	4 308 4 351	3 302 3 327
Receivables from the public and public sector entities	5 662	4 925
Leasing assets	360	291
Notes and bonds		
From public sector entities	112	54
From others	1 145 1 256	1 071 1 125
Shares and holdings	87	90
Shares and holdings in affiliates	11	11
Shares in subsidiaries	95	99
Intangible assets	7	8
Tangible assets		
Real estate and real-estate holdings	71	71
Other tangible assets	2 73	2 73
Other assets	280	322
Deferred income and advances paid	91	79
<b>14 434</b>	<b>12 930</b>	<b>12 930</b>

## OKO BANK BALANCE SHEET € million

LIABILITIES	December 31, 2004			December 31, 2003		
<b>Liabilities</b>						
Liabilities to financial institutions and central banks						
Central banks	959			1 330		
Financial institutions						
Repayable on demand	344			441		
Other	3 090 3 434 4 394			3 194 3 635 4 965		
Liabilities to the public and public sector entities						
Deposits						
Repayable on demand	568			418		
Other	21 589			10 428		
Other liabilities	1 625 2 213			1 162 1 590		
Notes and bonds issued to the public						
Bonds	2 867			1 531		
Other	3 160 6 028			3 135 4 666		
Other liabilities	548			558		
Deferred expenses and advances received	67			64		
Mandatory reserves	2			1		
Subordinated liabilities	390			366		
	<b>13 642</b>			12 210		
<b>Accumulated appropriations</b>						
Excess depreciation	49			36		
Voluntary reserves	166 215			114 150		
<b>Equity</b>						
Share capital	206			202		
Share issue account	3			2		
Share premium account	7			5		
Reserve fund	164			164		
Capital loans	72			-		
Unrestricted reserves	23			23		
Retained earnings	68			108		
Profit for the period	35 577			66 570		
	<b>14 434</b>			12 930		
<b>Off-balance sheet commitments</b>						
Commitments given to a third party on behalf of customers						
Guarantees and pledges	1 400			1 164		
Other	- 1 400			- 1 164		
Irrevocable commitments given on behalf of a customer						
Other	2 389 2 389			2 184 2 184		
	<b>3 789</b>			3 348		

## NOTES TO THE FINANCIAL STATEMENTS € million

### Notes to the Income Statement

#### Note 1

Breakdown of Interest Income and Expenses by Balance Sheet Item	OKO Bank Group			OKO Bank
	2004	2003	2004	2003
<b>Interest income</b>				
Receivables from financial institutions	83.5	74.2	102.1	88.4
Receivables from the public and public sector entities	263.0	264.1	179.8	182.1
Notes and bonds	89.4	95.6	86.7	93.5
Other interest income	-13.3	-13.6	-13.5	-13.7
Net leasing income	10.5	10.3	-	-
<b>Total</b>	<b>433.2</b>	<b>430.5</b>	<b>355.1</b>	<b>350.3</b>
<b>Interest expenses</b>				
Liabilities to financial institutions and central banks	81.5	88.3	82.6	89.4
Liabilities to the public and public sector entities	40.3	38.2	21.1	18.2
Notes and bonds issued to the public	139.0	126.3	137.4	124.0
Subordinated liabilities	14.6	14.1	14.0	13.8
Other interest expenses	-6.3	2.6	-6.3	2.6
<b>Total</b>	<b>269.1</b>	<b>269.5</b>	<b>248.8</b>	<b>248.0</b>

#### Note 2

Breakdown of Net Leasing Income	OKO Bank	
	2004	2003
Rental income	87.0	77.5
Planned depreciation	-73.7	-65.6
Excess depreciation and loan losses	-	-
Capital gains and losses (net) from disposal of leasing assets	-0.8	-0.1
Commissions and fees	0.3	0.3
Other income	0.1	0.0
Other expenses	-1.8	-1.4
<b>Total</b>	<b>11.1</b>	<b>10.6</b>

In accordance with the regulations of the Financial Supervision Authority, the OKO Bank Group will not present this note to the financial statement.

#### Note 3

Breakdown of Net Income from Securities Trading	OKO Bank Group			OKO Bank
	2004	2003	2004	2003
Net income from notes and bonds trading	-15.6	-14.8	-14.6	-14.2
Net income from equity trading	15.1	6.2	15.0	3.6
<b>Total</b>	<b>-0.6</b>	<b>-8.6</b>	<b>0.4</b>	<b>-10.6</b>

Note 4

	OKO Bank Group		OKO Bank		Total Value of Securities Held as Current Assets Purchased and Sold during the Period
	2004	2003	2004	2003	
Notes and bonds					
Securities purchased	36 263.4	20 842.1	35 789.5	20 168.9	
Securities sold	29 315.4	16 091.0	29 303.6	15 729.2	
Shares					
Securities purchased	4 435.0	1 526.6	15.5	7.8	
Securities sold	4 443.0	1 531.5	29.9	9.4	

Note 5

	OKO Bank Group		OKO Bank		Breakdown of Other Operating Income and Expenses
	2004	2003	2004	2003	
Other operating income					
Rental and dividend income from real-estate holdings	9.5	13.4	10.0	13.9	
Capital gains on the sale of real-estate holdings	0.4	12.4	0.4	9.3	
Other income	10.5	63.8	4.0	47.2	
<b>Total</b>	<b>20.4</b>	<b>89.6</b>	<b>14.4</b>	<b>70.4</b>	
Other operating expenses					
Rental expenses	8.2	7.7	5.0	5.3	
Expenses from real-estate holdings	7.6	7.5	7.7	10.1	
Capital losses on the sale of real-estate holdings	0.1	0.3	0.1	0.3	
Other expenses	10.4	10.9	6.1	7.1	
<b>Total</b>	<b>26.3</b>	<b>26.4</b>	<b>18.9</b>	<b>22.8</b>	

Note 6

	OKO Bank Group		OKO Bank		Depreciation and Write-downs on Tangible and Intangible Assets
	2004	2003	2004	2003	
Planned depreciation	8.9	10.5	4.2	4.8	
Write-downs	-	-	-	-	
Recoveries on write-downs	-0.3	-0.7	-0.3	-0.7	
<b>Total</b>	<b>8.6</b>	<b>9.9</b>	<b>3.9</b>	<b>4.2</b>	

## Note 7

Loan and Guarantee Losses and Write- downs on Securities Held under Non-current Financial Assets	OKO Bank Group		OKO Bank	
	2004	2003	2004	2003
Receivables from financial institutions	-	-	-	-
Receivables from the public and public sector entities	6.5	10.8	5.2	9.6
Leasing assets	-	-	-	-
Guarantees and other off-balance sheet items	-	0.0	-	0.0
Other	-	-	-	-
Gross loan and guarantee losses	6.5	10.8	5.2	9.6
Adjustments to loan and guarantee losses	-5.3	-8.4	-4.2	-7.7
<b>Loan and guarantee losses recorded in the income statement</b>	<b>1.2</b>	<b>2.4</b>	<b>1.0</b>	<b>1.9</b>
Breakdown of total loan and guarantee losses				
Actual total loan losses during the period	2.7	5.9	1.8	5.5
Actual loan losses provisioned earlier	-1.9	-5.3	-1.1	-4.9
Recoveries of loan losses in previous years	-2.2	-1.5	-2.1	-1.3
Specific loan loss provisions during the period	3.8	4.9	3.4	4.2
Revaluations of specifically provisioned loan losses	-1.1	-1.6	-1.0	-1.5
<b>Loan and guarantee losses in the income statement</b>	<b>1.2</b>	<b>2.4</b>	<b>1.0</b>	<b>1.9</b>
Write-downs on securities held as non-current financial assets				
Gross write-downs	0.3	4.6	0.3	4.6
Revaluation of write-downs	-	0.0	-	0.0
<b>Total</b>	<b>0.3</b>	<b>4.5</b>	<b>0.3</b>	<b>4.5</b>

## Note 8

Extraordinary Income and Expenses during the Fiscal Period	OKO Bank Group		OKO Bank	
	2004	2003	2004	2003
Extraordinary income	-	-	-	-
Extraordinary expenses	-	-	-	-

## Note 9

Breakdown of Appropriations	OKO Bank	
	2004	2003
Change in excess depreciation	-13.0	-9.5
Change in other voluntary reserves	-52.0	-46.0
<b>Total</b>	<b>-65.0</b>	<b>-55.5</b>

Note 10

	OKO Bank Group	OKO Bank	Changes in Mandatory Reserves During the Fiscal Period
Pension reserves	-	-	
Tax reserves	-	-	
Other	0.9	0.9	
<b>Total</b>	<b>0.9</b>	<b>0.9</b>	

To cover the cleaning cost of polluted soil owned by a real estate company owned by OKO Bank, in its financial report the Bank allocated 1.0 million euro to a mandatory reserve, which has been recorded under other operating expenses.

Note 11

The items in the OKO Bank Group and OKO Bank income statements are presented in accordance with the formula approved for financial institutions by the Ministry of Finance.

Breakdown of  
Combined Items

Note 12

Income refers to the aggregate of the following income statement items: Net Interest Income, Income from Equity Investments, Commissions and Fees, Net Income from Securities and Foreign Exchange Trading, and Other Operating Income. The income is presented without eliminations.

Income by  
Division and  
Market Area

	Income by Division		Average Number of Personnel	
	2004	2003	2004	2003
Banking	240.3	282.7	868	859
Finance company operations	34.9	31.3	158	147
Investment services	29.6	25.8	132	125
Real-estate holding and management	1.7	3.2	-	-
Other	8.5	1.9	88	7
<b>Total</b>	<b>314.9</b>	<b>344.8</b>	<b>1 246</b>	<b>1 138</b>

	Income by Market Area		Average Number of Personnel	
	2004	2003	2004	2003
Finland	314.9	344.6	1 246	1 137
Sweden	-	0.2	-	1
<b>Total</b>	<b>314.9</b>	<b>344.8</b>	<b>1 246</b>	<b>1 138</b>

Notes to the Balance Sheet

Note 13

	OKO Bank Group	OKO Bank	Breakdown of Notes and Bonds Eligible for Refinancing with Central Banks
	2004	2003	2004
Treasury bills	67.7	26.0	63.1
Government bonds	230.1	147.8	229.4
Bank certificates of deposit	1 614.7	1 472.2	1 425.6
Other	152.1	203.6	152.1
<b>Total</b>	<b>2 064.7</b>	<b>1 849.6</b>	<b>1 870.1</b>

## Note 14

**Receivables from Central Banks** At the year-end, the balance sheet item Receivables from Financial Institutions did not include receivables from central banks.

## Note 15

Receivables from the Public and Public Sector Entities by Sector and the Specific Loan Loss Reserves		OKO Bank Group		OKO Bank	
		2004	2003	2004	2003
	Companies	5 317.2	4 474.0	4 737.7	3 975.8
	Financial and insurance institutions	17.0	21.5	17.2	21.5
	Public sector entities	209.5	331.5	209.5	329.8
	Non-profit organisations	152.5	130.4	124.0	101.9
	Households	2 544.4	2 209.0	496.5	413.3
	Foreign	78.2	83.2	77.5	82.3
	<b>Total</b>	<b>8 318.8</b>	<b>7 249.6</b>	<b>5 662.4</b>	<b>4 924.6</b>
	Specific loan loss reserves at the beginning of the period	24.9	26.9	22.3	24.5
	New provisions made during the year (+)	3.8	4.9	3.4	4.2
	Provisions revaluated during the year (-)	-1.1	-1.6	-1.0	-1.5
	Loan losses during the year for which specific loan loss provisions have been made (-)	-1.9	-5.3	-1.1	-4.9
	<b>Specific loan loss provisions at the end of the period</b>	<b>25.7</b>	<b>24.9</b>	<b>23.5</b>	<b>22.3</b>

## Note 16

Non-performing Loans and Other Interest-free Receivables		OKO Bank Group		OKO Bank	
		2004	2003	2004	2003
	Non-performing loans	23.1	17.9	12.4	11.3
	Other interest-free receivables	1.1	0.6	1.0	0.5
	<b>Total</b>	<b>24.2</b>	<b>18.5</b>	<b>13.4</b>	<b>11.8</b>

## Note 17

Book Value of Assets Pledged as Collateral for Non-performing Loans and Assets Purchased to Restructure Customer Businesses		OKO Bank Group		OKO Bank	
		2004	2003	2004	2003
	Assets pledged as collateral				
	Real estate and real-estate holdings	1.8	1.8	1.8	1.8
	Other shares and holdings	-	-	-	-
	Other assets	-	-	-	-
	<b>Total</b>	<b>1.8</b>	<b>1.8</b>	<b>1.8</b>	<b>1.8</b>

## Note 18

Subordinated Liabilities		OKO Bank Group		OKO Bank	
		2004	2003	2004	2003
	Receivables from financial institutions	143.8	143.8	143.8	143.8
	Receivables from the public and public sector entities	4.9	5.4	4.9	5.4
	Notes and bonds	104.6	99.4	127.8	112.6
	<b>Total</b>	<b>253.3</b>	<b>248.7</b>	<b>276.5</b>	<b>261.9</b>
	of which subsidiaries accounted for			23.4	13.4
	affiliates accounted for			-	-

Note 19

	OKO Bank Group		OKO Bank		Breakdown of Leasing Assets
	2004	2003	2004	2003	
Advance payments	32.3	16.3	32.3	16.3	
Machinery and equipment	299.7	249.9	299.7	249.9	
Real estate and buildings	27.7	24.1	27.7	24.1	
Other assets	0.3	0.4	0.3	0.4	
<b>Total</b>	<b>360.1</b>	<b>290.7</b>	<b>360.1</b>	<b>290.7</b>	

Note 20

Publicly quoted and private notes and bonds as well as notes and bonds eligible for refinancing with central banks at the year-end **Notes and Bonds**

	OKO Bank Group		OKO Bank	
	Quoted	Others	Quoted	Others
Held as current assets	1 346.1	1 736.6	1 375.0	1 542.8
Held as non-current assets	92.1	74.4	91.4	117.1
<b>Total</b>	<b>1 438.2</b>	<b>1 811.0</b>	<b>1 466.4</b>	<b>1 659.9</b>

There is no difference between the probable sale price and a lower book value of notes and bonds held as current assets since all notes and bonds held as current assets are valued at their market price.

The difference between the nominal value and book value of notes and bonds held as non-current assets, notes and bonds eligible for refinancing with central banks, and other receivables at the year-end.

The OKO Bank Group's figures are presented without eliminations.

	OKO Bank Group		OKO Bank	
	2004	2003	2004	2003
The difference between the nominal value and the lower book value				
Notes and bonds	0.3	0.5	0.3	0.5
The difference between the book value and the lower nominal value				
Notes and bonds	0.9	1.2	0.9	1.2

Notes and bonds by type at the year-end

	OKO Bank Group		OKO Bank	
	2004	2003	2004	2003
Book value				
Treasury bills	67.7	26.0	63.1	25.3
Municipal papers	0.2	5.9	0.2	5.9
Commercial papers	2.3	28.6	2.3	28.6
Certificates of deposit	1 632.5	1 475.5	1 443.3	1 286.5
Convertible bonds	0.0	0.6	0.0	0.6
Other bonds	1 469.6	1 214.7	1 537.2	1 274.9
Other notes and bonds	76.9	159.0	80.3	162.6
<b>Total</b>	<b>3 249.2</b>	<b>2 910.3</b>	<b>3 126.4</b>	<b>2 784.5</b>

## Note 21

### Shares and Holdings

The aggregate book value of securities recorded under the balance sheet item Shares and Holdings divided into quoted and private securities

	OKO Bank Group		Quoted	OKO Bank Others
	Quoted	Others		
Held as current assets	28.9	-	26.4	-
Held as non-current assets	3.8	54.1	3.8	56.8
<b>Total</b>	<b>32.7</b>	<b>54.1</b>	<b>30.2</b>	<b>56.8</b>

The aggregate difference between the probable sale price and the lower book value of the publicly quoted shares and holdings recorded under the balance sheet item Shares and Holdings by asset type.

	OKO Bank Group		2004	OKO Bank 2003
	2004	2003		
Held under current assets	6.4	4.3	6.1	4.0
Held under non-current assets	11.3	22.0	11.3	22.0
<b>Total</b>	<b>17.7</b>	<b>26.3</b>	<b>17.4</b>	<b>26.0</b>

OKO Bank Group was not involved in any securities lending at the end of 2004.

Breakdown of the balance sheet items Shares and Holdings in Affiliates and Shares and Holdings in Subsidiaries:

	OKO Bank Group		2004	OKO Bank 2003
	2004	2003		
Shares and holdings in affiliates				
In financial institutions	10.3	9.4	3.4	3.4
In others	15.1	11.3	7.2	7.2
<b>Total</b>	<b>25.4</b>	<b>20.7</b>	<b>10.5</b>	<b>10.5</b>
Shares and holdings in subsidiaries				
In financial institutions	-	-	84.1	84.1
In others	6.5	10.4	11.3	15.0
<b>Total</b>	<b>6.5</b>	<b>10.4</b>	<b>95.4</b>	<b>99.1</b>

Note 22

	OKO Bank Group	OKO Bank	OKO Bank Group	OKO Bank	OKO Bank Group	OKO Bank	Increases and Decreases in Shares and Tangible Assets Held as Non-current Assets during the Period
	Shares and Holdings except for Real-Estate Shares and Holdings	Land, Water, Buildings and Real-Estate Shares and Holdings	Land, Water, Buildings and Real-Estate Shares and Holdings	Real-Estate Shares and Holdings	Machinery and Equipment and Related Tangible Assets	Related Tangible Assets	
Acquisition cost at the beginning of the fiscal period	105.5	186.7	166.8	96.8	79.8	65.8	
Increases during the period	6.8	2.1	5.9	2.4	2.2	0.4	
Decreases during the period	-14.5	-14.2	-2.7	-2.6	-0.7	-0.6	
Transfers between items	-1.1	-1.1	3.1	-	0.0	-	
Planned depreciation during the fiscal period	-	-	-2.1	-0.1	-2.2	-0.6	
Write-downs and recoveries during the period	-0.3	-0.3	0.3	0.3	-	-	
Accumulated depreciation and write-downs on adjustments and transfers at the beginning of period	4.5	4.5	-1.2	-	0.5	0.5	
Accumulated depreciation at the beginning of period	-	-	-25.5	-1.0	-73.0	-63.9	
Accumulated write-downs at the beginning of period	-11.1	-11.1	-28.5	-24.6	-	-	
Accumulated revaluations at the beginning of period	-	-	-	-	-	-	
Revaluations and recoveries during the period	-	-	-	-	-	-	
<b>Book value at the end of period</b>	<b>89.9</b>	<b>166.6</b>	<b>116.2</b>	<b>71.2</b>	<b>6.6</b>	<b>1.6</b>	

Note 23

	OKO Bank Group		OKO Bank		Breakdown of Intangible Assets
	2004	2003	2004	2003	
Goodwill	-	-	-	-	
Other long-term expenditure	10.1	12.9	7.1	8.0	
<b>Total</b>	<b>10.1</b>	<b>12.9</b>	<b>7.1</b>	<b>8.0</b>	

Note 24

a) Breakdown of Land and Water as well Real-estate Holdings Recorded under the Balance Sheet item Tangible Assets at the Year-End

	OKO Bank Group		OKO Bank		Breakdown of Real-estate Holdings
	Book value	Capital Invested	Book value	Capital Invested	
Land, water and buildings					
In own use	2.3	2.3	0.3	0.3	
Other	39.1	46.7	0.2	0.2	
<b>Total</b>	<b>41.4</b>	<b>49.0</b>	<b>0.5</b>	<b>0.5</b>	
Real-estate holdings					
In own use	33.3	33.5	7.0	15.0	
Other	41.5	53.5	63.8	88.2	
<b>Total</b>	<b>74.8</b>	<b>87.0</b>	<b>70.8</b>	<b>103.2</b>	

b) Breakdown of Real Estate and Real-estate Holdings in Other than Own Use at Year-end

Information is presented in consolidated form, since OKO Bank has likewise prepared its financial statements.

Type of property	Area sq. m.	Capital Invested	Net Yield %	Vacancy Rate, %
Dwellings and residential properties	95	0.2	5.6	-
Offices and business premises	56 227	86.6	6.1	8.1
Industrial properties	20 067	10.4	6.1	13.2
Land, water and forest (undeveloped)	-	3.0	-0.2	-
Unfinished buildings	-	-	-	-
Financial leasing properties	41 527	22.6	2.9	1.4
Other domestic properties	-	0.0	-	-
Non-domestic real estate	-	-	-	-
<b>Total real estate</b>	<b>117 915</b>	<b>122.8</b>	<b>5.3</b>	<b>6.6</b>

Capital invested refers to the undepreciated acquisition cost plus the amount of company debt per share and/or the proportion of company debt based on its shareholding.

Net yield was calculated by subtracting from the total rental income the property maintenance cost or the service charges paid in housing corporations and mutual real-estate companies. The net yield percentage was calculated from the per annum difference in monthly income based on the occupancy rate on the balance sheet date and the year's average maintenance costs, expressed as a ratio of the capital invested at the year-end.

Vacancy rate refers to the ratio of unused space to total rentable space. Unused area means rentable premises that did not generate rental income under agreements on the closing day.

c) Breakdown of Capital Invested in Real Estate not in Own Use according to the Year-end Yield

Yield Rate	Capital Invested
Negative	11.8
0-3	11.3
3-5	14.3
5-7	54.6
Over 7	30.8
<b>Total</b>	<b>122.8</b>

## Note 25

### Own Shares

On December 31, 2004, the subsidiaries did not hold their own or the parent company's shares.

Note 26

	OKO Bank Group		OKO Bank		Breakdown of Other Assets
	2004	2003	2004	2003	
Receivables from payment transfers	3.9	7.1	3.5	6.6	
Guarantee receivables	2.4	0.1	2.3	0.0	
Derivative contracts	159.3	141.0	160.3	142.0	
Other	137.3	210.2	114.1	173.1	
<b>Total</b>	<b>302.9</b>	<b>358.4</b>	<b>280.2</b>	<b>321.7</b>	

Note 27

	OKO Bank Group		OKO Bank		Breakdown of Deferred Income and Advances Paid
	2004	2003	2004	2003	
Interest	90.4	80.2	89.0	78.4	
Other	9.3	5.5	1.6	1.1	
<b>Total</b>	<b>99.7</b>	<b>85.6</b>	<b>90.6</b>	<b>79.5</b>	

Note 28

The asset items in the consolidated and OKO Bank's balance sheet are presented in accordance with the formula approved by the Ministry of Finance.

Breakdown of the  
Corresponding  
Combined Balance  
Sheet Items

Note 29

The OKO Bank Group's figures are presented without eliminations.

Difference between  
the Nominal Value  
and Book Value of  
Liabilities

	OKO Bank Group		OKO Bank	
	2004	2003	2004	2003
Difference between the nominal and lower book value				
Liabilities to financial institutions and central banks	-	0.0	-	0.0
Debt securities issued to the public	24.8	24.0	24.6	23.7
Subordinated liabilities	0.7	0.3	0.7	0.3
<b>Total</b>	<b>25.5</b>	<b>24.4</b>	<b>25.4</b>	<b>24.1</b>
Difference between the lower book and nominal value				
Liabilities to financial institutions and central banks	-	-	-	-
Debt securities issued to the public	1.7	2.6	1.8	2.6
Subordinated liabilities	0.2	0.3	0.2	0.3
<b>Total</b>	<b>1.9</b>	<b>2.8</b>	<b>2.0</b>	<b>2.9</b>

Note 30

	OKO Bank Group		OKO Bank		Breakdown of Debt Securities Issued to the Public by Type
	2004	2003	2004	2003	
Certificates of deposit	2 775.4	2 974.6	2 670.4	2 829.7	
Bonds	2 837.7	1 499.3	2 867.4	1 531.0	
Other	489.9	305.3	489.9	305.3	
<b>Total</b>	<b>6 103.0</b>	<b>4 779.2</b>	<b>6 027.8</b>	<b>4 665.9</b>	

## Note 31

Breakdown of Other Liabilities	OKO Bank Group		OKO Bank	
	2004	2003	2004	2003
Payment transfer liabilities	255.9	259.9	253.1	257.3
Derivative contracts	215.7	176.0	216.2	176.5
Other	107.6	156.1	78.3	124.5
<b>Total</b>	<b>579.3</b>	<b>592.0</b>	<b>547.7</b>	<b>558.3</b>

## Note 32

Breakdown of Deferred Expenses and Advances Received	OKO Bank Group		OKO Bank	
	2004	2003	2004	2003
Interest	66.5	56.2	57.6	46.6
Other	20.9	27.2	9.7	17.4
<b>Total</b>	<b>87.3</b>	<b>83.5</b>	<b>67.3</b>	<b>64.0</b>

The social security commitment arising from unused options offered to OKO Bank personnel was recorded under deferred expenses.

## Note 33

Mandatory Reserves at the End of Period	OKO Bank Group		OKO Bank	
	2004	2003	2004	2003
Pension reserves	-	-	-	-
Tax reserves	-	-	-	-
Other	1.9	0.9	1.9	0.9
<b>Total</b>	<b>1.9</b>	<b>0.9</b>	<b>1.9</b>	<b>0.9</b>

The most significant mandatory reserves were the provision of 0.7 million euro due to the action for recovery filed by the liquidator of Benefon Oyj's corporate re-organisation in 2003, and the provision of 1 million euro for covering the cleaning cost of polluted soil owned by a real estate company owned by OKO Bank in 2004.

## Note 34

Breakdown of Subordinated Liabilities	Liabilities with a book value exceeding 10% of the total subordinated liabilities:
	<p>€ 50 million. The interest rate on December 31, 2004 was 2.778%. This loan will mature in March 2011. With the Financial Supervision Authority's permission, the loan may, provided that an advance notice has been given, be repaid in full on the interest payment date in March 2006 or on subsequent interest payment dates.</p>
	<p>€ 150 million. The interest rate on December 31, 2004 was 2.774%. This loan will mature in March 2011. With the Financial Supervision Authority's permission, the loan may, provided that an advance notice has been given, be repaid in full on the interest payment date in March 2006 or on subsequent interest payment dates.</p>
	<p>€ 50 million perpetual loan. The interest rate on December 31, 2004 was 6.000%. With the Financial Supervision Authority's permission, the loan may, provided that advance notice has been given, be repaid in full on the interest payment date in June 2007 or on subsequent interest payment dates.</p>

€ 70 million. The interest rate on December 31, 2004 was 3.500%. This loan will mature in November 2015. With the Financial Supervision Authority's permission, the loan may, provided that an advance notice has been given, be repaid in full on the interest payment date in November 2010 or on subsequent interest payment dates.

The loans referred to above are debentures, and as such are subordinated liabilities. These loans do not involve any terms and conditions concerning conversion into shares.

Subordinated liabilities other than those mentioned above:

On December 31, 2004, the total countervalue of the OKO Bank Group's and OKO Bank's debts in euros was € 70.2 million. Creditors are not entitled to demand premature repayment of these loans.

Loans to subsidiaries and affiliates:

Loans to Group companies total € 23.4 million.

	Book Value (beginning of period)	Increases	Decreases	Book Value (end of period)	Note 35 Increases and Decreases in Equity Items during the Fiscal Period
<b>OKO Bank Group</b>					
Share capital	202.4	3.7	-	206.2	
Share issue account	1.5	6.6	-5.3	2.9	
Share premium account	5.0	1.5	-	6.5	
Revaluation reserve	25.2	-	-	25.2	
Reserve fund	203.3	-	-	203.3	
Other restricted items	0.9	-	-	0.9	
Capital loans	-	71.6	-	71.6	
Retained earnings	295.0	-	-105.7	189.3	
Profit for the period	-	101.5	-	101.5	
<b>Total shareholders' equity</b>	<b>733.3</b>	<b>185.0</b>	<b>-110.9</b>	<b>807.5</b>	
<b>OKO Bank</b>					
Share capital	202.4	3.7	-	206.2	
Share issue account	1.5	6.6	-5.3	2.9	
Share premium account	5.0	1.5	-	6.5	
Reserve fund	163.6	-	-	163.6	
Capital loans	-	71.6	-	71.6	
Retained earnings	197.2	-	-106.2	91.0	
Profit for the period	-	34.8	-	34.8	
<b>Total shareholders' equity</b>	<b>569.7</b>	<b>118.3</b>	<b>-111.5</b>	<b>576.6</b>	

## Note 36

Different		Series A	Series K	Total
Shares at the	Share capital, €	159 707 453	46 445 288	206 152 741
Year-end	No. of shares	75 947 914	22 086 776	98 034 690
	Percentage of share capital	77.5	22.5	100.0
	Votes per share	1	5	
	Percentage of votes	40.7	59.3	100.0

The counter book value for OKO shares is € 2.10. The countervalue is not a precise figure. The number of issued shares was doubled without changing the share capital under a decision made at the shareholders' meeting of 31 March 2004.

### Restrictions on share purchases

- Series A shares are intended for the general public and are quoted on the Helsinki Stock Exchange.
- There are no purchase restrictions on series A shares.
- Ownership of series K shares is restricted to Finnish co-operative banks, co-operative bank companies, and the OP Bank Group Central Cooperative.
- A shareholder's or nominee registered Series K shares can be converted into series A shares at the written request of the asset manager shown in the book-entry securities system within the framework of the minimum and maximum number for each series of shares stipulated in the Articles of Association.

If a dividend is distributed, series A shares entitle holders to a dividend that is at least one (1) percentage point higher than the dividend paid on series K shares.

Increases in OKO Bank's share capital due to subscriptions of Series A shares in 2004 based on the 1999 stock option incentive programme

Date of registration	Amount of shares	Increase in share capital	Share premium fund
16.1.2004	431 640	0.9	0.6
14.4.2004	2 000	0.0	0.0
10.6.2004	62 500	0.1	0.0
10.9.2004	29 600	0.1	0.0
12.11.2004	1 236 100	2.6	0.8
<b>Total</b>	<b>1 761 840</b>	<b>3.7</b>	<b>1.5</b>

## Note 37

	OKO Bank Group	OKO Bank
<b>Total Non-Distributable</b>		
Amount transferred from voluntary reserves and excess depreciation to equity, € million	215.8	-
<b>Items Included in Unrestricted Equity at the Year-end</b>		

**Option-Based Incentive Scheme**

As proposed by the Executive Board, a decision was made at OKO Bank's extraordinary shareholders' meeting of 30 June 1999 to introduce an option-based incentive system that would include all personnel of OKO Bank and the OP Bank Group Central Cooperative. A bond with equity warrants was offered for subscription to the personnel of OKO Bank, the OP Bank Group Central Cooperative and their subsidiaries, the OP Bank Group Mutual Insurance Company, the OP Bank Group Pension Fund and the OP Bank Group Research Foundation, as well as OKO Bank's wholly-owned subsidiary OP-Sijoitus Oy.

The bond totalled € 460,000 and the subscription period was from 6 to 17 September 1999. The loan carried no interest and was repaid on October 15, 2002.

The equity warrants attached to the bond entitle their holders to subscribe a maximum of 8,323,200 OKO Bank's series A shares. The subscription price is € 10.99, which was the trading turnover-weighted average price of OKO Bank's series A share on the Helsinki Stock Exchange in May 1999 plus 27 per cent. The subscription price will be reduced by the amount of dividends to be paid after the subscription price setting period and before the subscription on the record date for each dividend distribution. The subscription price shall nevertheless always be at least the accounting countervalue of the share, which was € 2.10 at the end of the year 2004. The subscription period for A warrants started on October 1, 2002 and for B warrants on October 1, 2004. The subscription period for all warrants expires on October 30, 2006.

The A warrants issued under the option scheme have been listed on the Helsinki Stock Exchange since October 1, 2002. A total of 2,080,800 warrants were offered for public trading, each entitling the holder to subscribe for one OKO Bank series A share. The B warrants were listed to the Helsinki Stock Exchange on October 1, 2004 as an additional batch of A Warrants. A total of 2,080,800 warrants were offered for public trading, each entitling the holder to subscribe for two OKO Bank series A shares. Before listing, the B warrants were combined with the A warrants and the name was changed to 1999 A/B option rights.

The subscription price was € 7.17 from January 1 to April 4, 2004, and € 5.57 from April 5 to April 30, 2004. The share split (1:2) of OKO Bank shares was entered into Trade Register on April 30, 2004. As a consequence, the share subscription ratio of the share option programme changed. Since the beginning of May, one option right entitles to the subscription of two new Series

A shares instead of one, or the subscription price per share was € 2.785. Following the OKO Bank's additional dividend payout the subscription price was lowered to € 2.485 on December 10, 2004.

By the end of the year, 5.8 million Series A shares had been subscribed for using the option rights

**Authorisations Given to the Executive Board:**

The shareholders authorised OKO Bank's Executive Board for a period of one year from the Annual General Meeting on March 31, 2004 to decide on increasing the share capital through one or more new share issues, one or more issues of convertible bonds and/or the granting of stock options, such that the new shares to be subscribed for in the new share issues, exchanged for convertible bonds and subscribed on the basis of the stock options, must be Series A shares and their aggregate number can be a maximum total of 18 million shares. The Bank's share capital may be increased by a maximum total of € 37,851,390.54.

The authorisation further confers the right to waive shareholders' pre-emptive rights to subscribe new shares, convertible bonds and stock options. Pre-emption of shareholders' subscription rights can only be made in connection with merger and acquisition arrangements if the Bank has a sound financial reason for doing so. A decision pursuant to the above cannot, however, be taken on behalf of a party closely associated with the Bank.

The existing unexercised authorisations can, to the total amount of the increases and the total votes conferred by the shares, correspond to a maximum of one-fifth of the registered share capital and total votes conferred by the shares at the time of the shareholders' resolution to grant the authorisation and the Executive Board's decision to carry out the increase in share capital.

The Executive Board shall be authorised to decide the grounds on which the subscription price is determined, the subscription price itself and other terms and conditions of subscription, as well as on the terms and conditions of convertible bonds or stock options. The Executive Board shall also be authorised to decide if the shares offered in new share issues, convertible bonds or stock options can be subscribed against payment in kind by using offsetting methods and other specific terms and conditions.

The authorisation given to the Executive Board by the Annual General Meeting on April 3, 2003, shall be cancelled unused. The Executive Board did not use the given authorisation during the report year.

## Note 39

### Major Shareholders and Breakdown of Shareholding

Major shareholders in terms of voting rights  
(10 biggest shareholders according to the shareholder register on December 31, 2004)

		No. of Shares	Total	No. of Votes	% of Votes
OP Bank Group Central Cooperative	A	22 000 000			
	K	16 586 064	38 586 064	104 930 320	56.3
Nominee registered shares	A	16 472 282			
	K	0	16 472 282	16 472 282	8.8
Oulun Osuuspankki	A	700 000			
	K	1 012 000	1 712 000	5 760 000	3.1
Keski-Uudenmaan Osuuspankki	A	0			
	K	491 800	491 800	2 459 000	1.3
Keski-Suomen Osuuspankki	A	0			
	K	456 560	456 560	2 282 800	1.2
OP Bank Group Pension Foundation	A	1 800 000			
	K	0	1 800 000	1 800 000	1.0
Pohjolan Osuuspankki	A	195 220			
	K	255 220	450 440	1 471 320	0.8
Porin Seudun Osuuspankki	A	163 816			
	K	251 820	415 636	1 422 916	0.8
Kainuun Osuuspankki	A	283 820			
	K	203 820	487 640	1 302 920	0.7
Turun Seudun Osuuspankki	A	1 170 000			
	K	19 960	1 189 960	1 269 800	0.7
<b>Total</b>		<b>62 062 382</b>	<b>62 062 382</b>	<b>139 171 358</b>	<b>74.7</b>

Major shareholders in terms of share ownership

(10 biggest shareholders according to the shareholder register on December 31, 2004)

	No. of Shares	% of All Shares
OP Bank Group Central Cooperative	38 586 064	39.4
Nominee registered	16 472 282	16.8
OP Bank Group Pension Foundation	1 800 000	1.8
Oulun Osuuspankki	1 712 000	1.7
Turun Seudun Osuuspankki	1 189 960	1.2
Etelä-Karjalan Osuuspankki	850 284	0.9
Pohjola Finland Value Fund	700 000	0.7
Thominvest Oy	581 000	0.6
Savonlinnan Osuuspankki	566 284	0.6
Rauman Seudun Osuuspankki	535 308	0.5
<b>Total</b>	<b>62 993 182</b>	<b>64.3</b>

Breakdown of shareholding by number of shares  
(According to the shareholder register on December 31, 2004)

Number of shares owned (Series A and K)	No. of Shareholders	% of Shareholders	No. of Shares	% of Shares
1 – 100	5 494	21.2	367 788	0.4
101 – 1 000	17 815	68.7	4 385 217	4.5
1 001 – 10 000	2 255	8.7	6 207 667	6.3
10 001 – 50 000	233	0.9	5 306 644	5.4
50 001 – 100 000	55	0.2	3 880 882	4.0
100 001 –	88	0.3	77 886 492	79.4
<b>Total</b>	<b>25 940</b>	<b>100.0</b>	<b>98 034 690</b>	<b>100.0</b>

Breakdown of shareholding by sector  
(According to the shareholder register on December 31, 2004)

Shareholder type	No. of Share- holders	% of Share- holders	No. of Shares	% of Shares	No. of Votes	% of Votes
Companies	655	2.5	2 910 530	3.0	2 910 530	1.6
OP Bank Group Central Cooperative and member cooperative banks	234	0.9	60 348 892	61.6	148 695 996	79.8
Other financial and insurance institutions	33	0.1	1 551 395	1.6	1 551 395	0.8
Public sector entities	19	0.1	3 500 140	3.6	3 500 140	1.9
Non-profit organisations	243	0.9	1 715 602	1.7	1 715 602	0.9
Households	24 723	95.3	11 501 896	11.7	11 501 896	6.2
Foreign	27	0.1	33 953	0.0	33 953	0.0
Nominee registered shareholders	6	0.0	16 472 282	16.8	16 472 282	8.8
<b>Total</b>	<b>25 940</b>	<b>100.0</b>	<b>98 034 690</b>	<b>100.0</b>	<b>186 381 794</b>	<b>100.0</b>

#### Note 40

Capital loan 10 billion Japanese yen (euro equivalent 71.6 million)

Interest on the loan is fixed at 4.23% until June 18, 2034, and then variable 6-month Yen LIBOR + 1.58%. Interest will be payable on June 18 and December 18 annually. If interest cannot be paid for a given interest period, the obligation to pay interest for the period in question will lapse.

The loan can be called in at the earliest in 2014. After 2014, the loan can be repaid annually on the annual interest due dates June 18 or December 18. The entire amount of the loan must be repaid in one payment. The loan is a perpetual loan.

**Principal Terms  
regarding Capital  
Investments and  
Capital Loans**

#### Note 41

Liabilities in the consolidated balance sheet are presented in accordance with the formula approved for financial institutions by the Ministry of Finance.

**Combined  
Liabilities in the  
Consolidated  
Balance Sheet**

## Note 42

Breakdown of Maturities of Receivables and Liabilities by Balance Sheet Item at Year-end	By remaining term to maturity	Less than 3	3–12	1–5	More than 5
		Months	Months	Years	Years
<b>OKO Bank Group</b>					
	Notes and bonds eligible for refinancing with central banks	713.2	1 074.9	186.1	90.5
	Receivables from financial institutions	1 310.6	967.5	1 264.3	6.1
	Receivables from the public and public sector entities	838.0	1 192.3	3 361.9	2 926.5
	Notes and bonds	50.9	136.0	690.7	307.0
	Liabilities to financial institutions and central banks	4 155.7	49.2	76.5	28.9
	Liabilities to the public and public sector entities	3 570.2	104.3	74.5	323.1
	Debt securities issued to the public	2 352.1	1 727.5	1 862.9	160.5
<b>OKO Bank</b>					
	Notes and bonds eligible for refinancing with central banks	677.3	916.9	185.4	90.5
	Receivables from financial institutions	1 501.0	974.2	1 869.6	6.1
	Receivables from the public and public sector entities	751.3	991.9	2 456.9	1 462.3
	Notes and bonds	66.4	135.8	699.9	354.0
	Liabilities to financial institutions and central banks	4 239.1	49.2	76.5	28.9
	Liabilities to the public and public sector entities	1 904.3	15.5	0.5	292.8
	Debt securities issued to the public	2 262.8	1 727.6	1 872.6	164.8

Receivables from the public and public sector entities did not include any repayables on demand as of December 31, 2004. Deposits other than fixed-term deposits were included in the maturity class "less than 3 months".

## Note 43

Assets and Liabilities in Domestic and Foreign Currencies at the Year-end	OKO Bank Group		OKO Bank	
	Domestic Currency	Foreign Currency	Domestic Currency	Foreign Currency
	Notes and bonds eligible for refinancing with central banks			
	2 064.7	-	1 870.1	-
	Receivables from financial institutions			
	3 611.0	226.5	4 413.7	226.2
	Receivables from the public and public sector entities			
	8 193.6	125.2	5 537.2	125.2
	Notes and bonds			
	1 006.7	177.9	1 078.3	177.9
	Other assets			
	1 004.8	17.5	995.1	9.8
<b>Total</b>	<b>15 880.7</b>	<b>547.1</b>	<b>13 894.5</b>	<b>539.1</b>
	Liabilities to financial institutions and central banks			
	4 214.2	96.2	4 288.7	105.1
	Liabilities to the public and public sector entities			
	3 853.6	218.6	2 000.9	212.3
	Debt securities issued to the public			
	5 393.6	709.5	5 318.3	709.5
	Subordinated liabilities			
	390.2	-	390.2	-
	Other liabilities			
	722.9	21.5	602.8	14.0
<b>Total</b>	<b>14 574.5</b>	<b>1 045.8</b>	<b>12 600.9</b>	<b>1 040.9</b>

Note 44

Financial indicators for the OKO Bank Group						Financial Indicators and Share-specific Ratios
	2000	2001	2002	2003	2004	
Net sales, € million	756.8	755.9	660.9	670.5	633.4	
Operating profit/loss, € million	167.1	110.6	96.1	174.1	133.7	
% of net sales	22.1	14.6	14.5	26.0	21.1	
Profit or loss before appropriations and taxes, € million	167.1	110.6	96.1	174.1	133.7	
% of net sales	22.1	14.6	14.5	26.0	21.1	
Return on equity, %	21.5	13.0	10.0	18.5	13.9	
Return on assets, %	1.10	0.67	0.50	0.92	0.66	
Capital adequacy, %	5.5	4.9	5.0	5.0	4.5	
Average personnel	1 028	1 070	1 117	1 138	1 246	
Cost/income ratio, %	43	51	56	45	56	

Share-Specific ratios for OKO Bank Group

	2000	2001	2002	2003	2004
Earnings per share, €	1.27	0.84	0.67	1.33	1.05
Earnings per share, diluted, €					1.02
Equity per share, €	6.41	6.62	6.78	7.62	7.51
Dividend per share, €	0.63	0.55	0.37	1.09	0.52*
Dividend payout ratio, %	49.6	64.6	55.2	82.4	50.0*
Effective dividend yield, % (OKO A)	9.2	7.8	5.2	12.2	5.1*
Price/earnings ratio	5.4	8.4	10.8	6.8	9.9
Share price development (OKO A)					
Average, €	5.91	6.68	7.76	7.65	9.40
Low, €	4.97	5.68	6.20	6.38	7.98
High, €	7.00	8.00	8.60	9.25	10.78
Year-end, €	6.88	7.05	7.23	9.05	10.42
Market capitalisation (OKO A), € million	479.8	495.7	514.6	670.7	791.4
Trading volume (OKO A) in thousands					
of shares	13 092.4	10 514.0	19 056.6	17 535.6	43 026.5
as % of all shares	19.9	15.0	27.0	24.1	57.5
Total number of shares (all)					
Average during the fiscal period	93 410 000	93 410 000	93 410 000	94 931 432	96 901 243
At the end of fiscal period	93 410 000	93 410 000	93 410 000	96 272 850	98 034 690

The number of outstanding shares was doubled without changing the share capital pursuant to the decision made at shareholder's meeting of March 31, 2004. The amendment was entered into the Trade Register on April 30, 2004. Share-specific ratios have been adjusted retroactively.

\* Executive Board's proposal: € 0.53 for series A shares and € 0.50 for series K shares.

Calculation of key ratios is explained on page 68.

### Notes regarding Income Taxes

#### Note 45

##### Income Taxes

Distribution of income tax between ordinary operations and extraordinary items:  
The taxes of all OKO Bank Group companies were attributable to ordinary operations.

##### Deferred taxes and tax liabilities:

The consolidated balance sheet included € 74.3 million of deferred taxes that were based on appropriations. Other deferred taxes and tax liabilities were not recorded in the balance sheet for 2004 and 2003.

	OKO Bank Group		OKO Bank	
	2004	2003	2004	2003
Deferred tax liabilities likely to materialise				
Total amount, € million	2.9	1.7	2.3	1.3

##### Impact of revaluations on income taxes:

Revaluations have had no impact on the income taxes of OKO Bank or other Group companies.

After the approved 2003 taxes, OKO Bank had no unused confirmed losses.

### Notes concerning Collateral and Contingent Liabilities as well as Derivative Contracts

#### Note 46

Assets Given as Collateral on Own and Others' Behalf as well as Liabilities and Commitments for which They Were Pledged	OKO Bank Group		OKO Bank	
Assets pledged as collateral for own liabilities and commitments				
Pledges		1 286.9		1 286.9
Mortgages		-		-
Other		15.0		15.0
Collateralised liabilities				
Liabilities to financial institutions and central banks		960.7		960.7
Liabilities to the public and public sector entities		324.9		324.9
Debt securities issued to the public		-		-
Collateral pledged on behalf of a Group company				
Pledges		-		-
Mortgages		-		-
Other		-		-
Collateral pledged on behalf of others				
Pledges		0.7		-
Mortgages		-		-
Other		-		-

#### Note 47

##### Pension Liabilities

OKO Bank Group company personnel, except for Opstock Ltd, is covered by a statutory pension scheme arranged through the OP Bank Group Pension Fund. Supplementary pension has, with the exception of Opstock, been arranged through the OP Bank Group Pension Foundation. The Foundation has not accepted new beneficiaries since June 30, 1991. OKO Bank Group companies have no direct liabilities associated with pension liabilities. The pension liabilities of OKO Bank Group companies are fully covered.

Note 48

	OKO Bank Group		OKO Bank		Leasing Liabilities
Leasing payments in 2005		0.4		0.1	
Leasing payments after 2005		0.7		0.1	

Note 49

	OKO Bank Group		OKO Bank		Breakdown of Off-balance Sheet Commitments at the Year-end
	2004	2003	2004	2003	
Loan guarantees	293.5	328.3	263.3	299.3	
On behalf of subsidiaries	-	-	-	-	
On behalf of affiliates	-	-	-	-	
Other guarantees	1 019.0	764.1	1 042.5	787.2	
On behalf of subsidiaries	-	-	23.5	23.1	
On behalf of affiliates	1.8	2.0	1.8	2.0	
Mortgages	-	-	-	-	
Other commitments given to a third party on behalf of a customer	97.9	81.7	93.9	77.1	
Unused standby credit facilities	2 352.5	2 083.5	2 026.5	1 817.1	
To subsidiaries	-	-	20.0	20.0	
To affiliates	-	-	-	-	
Pledges given	-	-	-	-	
Other irrevocable commitments given on behalf of a customer	367.5	370.2	362.4	367.0	
To subsidiaries	-	-	-	-	
To affiliates	-	-	-	-	
<b>Total commitments</b>	<b>4 130.3</b>	<b>3 627.7</b>	<b>3 788.7</b>	<b>3 347.7</b>	
Total commitments given to subsidiaries or on their behalf	-	-	<b>43.5</b>	43.1	
Total commitments given to affiliates or on their behalf	<b>1.8</b>	2.0	<b>1.8</b>	2.0	

## Note 50

Derivative Contracts at the Year-end	Values of underlying instruments	OKO Bank Group		OKO Bank	
		2004	2003	2004	2003
	Contracts made for hedging purposes				
	Interest rate derivatives				
	Futures and forwards	-	-	-	-
	Options				
	Purchased	-	-	-	-
	Written	-	-	-	-
	Interest rate swaps	2 642.9	2 026.6	2 642.9	2 026.6
	Currency derivatives				
	Interest rate and currency swaps	678.6	99.7	678.6	99.7
	Equity derivatives				
	Futures and forwards	-	-	-	-
	Options				
	Purchased	70.8	45.4	70.8	45.4
	Written	-	-	-	-
	Other derivatives				
	Options				
	Purchased	38.7	-	38.7	-
	Written	-	-	-	-
	Credit derivatives	31.4	31.4	31.4	31.4
	<b>Total</b>	<b>3 462.4</b>	<b>2 203.0</b>	<b>3 462.4</b>	<b>2 203.0</b>

	OKO Bank Group		OKO Bank	
	2004	2003	2004	2003
<b>Contracts made for purposes other than hedging</b>				
Interest rate derivatives				
Futures and forwards	4 148.2	1 009.1	4 148.2	1 009.1
Options				
Purchased	895.6	49.7	895.6	49.7
Written	826.7	49.7	859.2	49.7
Interest rate swaps	7 786.8	8 268.1	7 883.8	8 368.5
Currency derivatives				
Futures and forwards	1 914.5	956.0	1 914.5	956.0
Options				
Purchased	0.7	26.3	0.7	26.3
Written	0.9	26.3	0.9	26.3
Interest rate and currency swaps	-	-	-	-
Equity derivatives				
Futures and forwards	-	0.5	-	-
Other derivatives				
Futures and forwards	-	-	-	-
Options				
Purchased	-	-	-	-
Written	-	-	-	-
Credit derivatives	35.0	-	35.0	-
Equity swaps	-	-	-	-
<b>Total</b>	<b>15 608.4</b>	<b>10 385.8</b>	<b>15 737.8</b>	<b>10 485.6</b>
Credit countervalues of contracts				
Interest rate derivative contracts	111.6	81.3	114.5	82.6
Currency derivative contracts	104.4	58.5	104.4	58.5
Other derivatives	18.0	9.1	18.0	8.5
<b>Total</b>	<b>234.0</b>	<b>148.9</b>	<b>236.9</b>	<b>149.6</b>

Note 51

	OKO Bank Group		OKO Bank		Accounts Receivable and Payable from Sale or Purchase of Assets on Behalf of Customers
	2004	2003	2004	2003	
Accounts receivable	51.8	-	-	-	
Accounts payable	56.8	-	-	-	

Note 52

	OKO Bank Group		OKO Bank		Other Contingent Liabilities and Commitments
At the year-end, OKO Bank's commitments to venture capital funds totalled € 15.8 million. These are included in the commitments referred to in note 49.					

*Notes concerning Personnel and Members of Executive and Supervisory Boards*

Note 53

Personnel and Members of Executive and Supervisory Boards	Average personnel in 2004			
	During the Fiscal Period	OKO Bank Group Change from Previous Year	During the Fiscal Period	OKO Bank Change from Previous Year
Full-time personnel	1 219	113	505	22
Part-time personnel	27	-5	6	-1
<b>Total personnel</b>	<b>1 246</b>	<b>108</b>	<b>511</b>	<b>21</b>

Salaries and compensation, including social expenses, paid to members of Executive and Supervisory Boards

	OKO Bank Group		OKO Bank	
	2004	2003	2004	2003
Members and deputy members of the Supervisory Board	0.1	0.1	0.1	0.1
Members and deputy members of the Executive Board and the President	3.6	3.0	2.5	2.3
<b>Total</b>	<b>3.8</b>	<b>3.1</b>	<b>2.7</b>	<b>2.4</b>

Salaries and compensation based on a financial institution's financial performance have not been paid.

Loans and guarantees granted to members of Executive and Supervisory Boards at year-end

	OKO Bank Group		OKO Bank	
Loans				
To members and deputy members of the Supervisory Board	0.1		-	
To members and deputy members of the Executive Board and the President	0.3		-	
To auditors and auditing companies	-		-	
<b>Total</b>	<b>0.4</b>		<b>-</b>	
	OKO Bank Group		OKO Bank	
Guarantees				
To members and deputy members of the Supervisory Board	0.0		-	
To members and deputy members of the Executive Board and the President	0.0		-	
To auditors and auditing companies	-		-	
<b>Total</b>	<b>0.0</b>		<b>-</b>	

The bank's standard terms and conditions for loans are applied to loans granted to members of the Executive and Supervisory Boards.

Loans are tied to generally used reference rates.

**Pension commitments**

There are no pension commitments for members of the Executive and Supervisory boards. Furthermore, no pension commitments have been made for previous members of these bodies.

**Management ownership**

As of December 31, 2004, members and deputy members of OKO Bank's Supervisory Board, members and deputy members of the Executive Board and the President held a total of 36,368 OKO Bank series A shares, or 0.037% of all shares outstanding and 0.020% of the total voting rights. Members and deputy members of the Executive Board and the President subscribed for a portion of the bond loan with warrants that entitles them to subscribe for a total of 212,000 shares. These shares represent 0.208% of all shares and 0.112% of voting rights.

## Holdings in Other Companies

Note 54

OKO Bank's Ownership in Shares and Holdings Held as Non-Current Assets	% of All Shares	Total Book Value	Company's Shareholders' Equity <sup>1)</sup>	Company's Profit or Loss for the Period <sup>1)</sup>	Shareholding at the Year-end
Company name, registered office and line of business					
Reinvest Oy, Helsinki, real estate investment	19.0	23.5	117.6	5.5	
OP Life Assurance Company Ltd	14.9	22.3	122.4	35.5	
Finnventure Rahasto V Ky, Helsinki, venture capital fund	5.9	4.5	135.1	-6.9	
OMX AB, Stockholm, securities and derivatives trading	1.4	3.8	389.1	-49.4	
Finnmezzanine Rahasto III B Ky, Helsinki, venture capital fund	49.5	4.2	7.4	0.3	
Luottokunta, Helsinki, financing operations	16.5	1.0	103.0	1.7	
Eurocard Oy, Helsinki, financing operations	11.2	0.8	8.0	1.1	

In addition, OKO Bank had holdings in 25 companies at the year-end that are included in fixed assets in which the book value of the shares and holdings was less than € 200,000. The total book value of these shares and holdings was € 0.5 million.

<sup>1)</sup> According to the latest approved financial statements.

### Group Company Affiliate Holdings Included in the Consolidated Financial Statements Using the Equity Method

Company name, registered office and line of business	Group's Shareholding %	Total Book Value	Shareholders' Equity at Year-End	Profit or Loss for the Fiscal Period
OP-Kotipankki Oyj, Helsinki, banking	20.8	4.1	40.8	7.3
Automatia Pankkiautomaatit Oy, Helsinki, financial services support	33.3	5.1	24.3	4.8
Toimiraha Oy, Helsinki, financial services support	33.3	2.1	11.4	7.2
Kiinteistö Oy Lahden Trio, real estate ownership and management	33.3	19.6	66.8	0.0
Oy Kaisaniemenkatu 1, Helsinki, real estate ownership and management	22.4	9.3	14.6	0.0

### Subsidiaries Included in the Consolidated Financial Statements

Company name, registered office and line of business	Group's Shareholding %	Total Book Value	Shareholders' Equity at Year-End <sup>1)</sup>	Profit or Loss for the Fiscal Period <sup>1)</sup>
Okopankki Oyj, Helsinki, banking	100.0	84.1	99.8	2.6
Opstock Ltd, Helsinki, investment services	85.3	3.8	11.9	5.3
OKO Venture Capital Ltd, Helsinki, venture capital operations	100.0	1.0	1.6	0.6
Helsingin Seudun OP-Kiinteistökeskus Oy LKV, Helsinki, real estate agency	100.0	0.2	0.4	0.2
Kiinteistö Oy Arkadiankatu 23, Helsinki, real estate ownership and management	100.0	5.6	4.9	-0.2
Kiinteistö Oy Dagmarinkatu 14, Helsinki, real estate ownership and management	100.0	8.1	2.0	0.0
Kiinteistö Oy Kanta-Sarvis II, Tampere, real estate ownership and management	100.0	11.7	8.4	-0.4

Under the Financial Supervision Authority's regulations, a total of 16 housing and real-estate companies with an aggregate balance sheet total of € 35.0 million, as well as 8 other companies whose aggregate balance sheet total was € 23.0 million were not included in the consolidated financial statements. During the fiscal period, OP-Kiinteistöt Oy was dissolved.

<sup>1)</sup> Parent company information in a separate financial statement

*Other Notes*

Note 55

<b>Trustee Services Provided by a Financial Institution</b>	OKO Bank offers the public investment and asset management services.
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Note 56

<b>Unpaid Membership Fees of a Cooperative Bank and Other Cooperative Financial Institution</b>	Owing to its company form, OKO Bank has no information to report under this section.
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*Notes concerning Financial Institutions within the Group*

Note 57

<b>Information Concerning a Financial Institution within the Group</b>	OKO Bank's parent company is the OP Bank Group Central Cooperative. OKO Bank's information is included in the Cooperative's consolidated financial statements. A copy of the OP Bank Group Central Cooperative's financial statements is available at Teollisuuskatu 1b, 00510 Helsinki.
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Financial income from and expenses to subsidiaries

	2004	2003
Interest income	20.6	17.1
Income from equity investments	16.0	18.5
Interest expenses	1.1	1.2

Receivables from and payables to subsidiaries

	2004	2003
Receivables from financial institutions	812.0	649.6
Receivables from the public and public sector entities	2.0	2.0
Notes and bonds eligible for refinancing with central banks	-	-
Notes and bonds	42.7	33.4
Other assets	1.3	1.2
Deferred income and advances paid	4.8	4.2
<b>Total</b>	<b>862.8</b>	<b>690.4</b>

Liabilities to financial institutions	85.7	135.9
Liabilities to the public and public sector entities	2.6	3.5
Debt securities issued to the public	1.7	1.3
Other liabilities	1.3	0.6
Deferred expenses and advances received	0.1	-
<b>Total</b>	<b>91.4</b>	<b>141.3</b>

*Notes concerning Subsidiaries and Affiliates*

**Subsidiaries Included in the Consolidated Financial Statements** Note 58

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Subsidiaries included in consolidated financial statements are listed in note 54.

**Subsidiaries Not Included in the Consolidated Financial Statements by Financial Supervision Authority Permission** Note 59

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Subsidiaries referred to here are not part of OKO Bank.

**Affiliates Included in the Consolidated Financial Statements** Note 60

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Affiliates included in consolidated financial statements are listed in note 54.

**Affiliates Not Included in the Consolidated Financial Statements by Financial Supervision Authority permission** Note 61

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Affiliates referred to here are not part of OKO Bank.

**Subsidiaries Included in the Consolidated Financial Statements Using the Pooling of Interests Method** Note 62

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All subsidiaries have been consolidated using the acquisition cost method.

**Joint Ventures Included in the Consolidated Financial Statements** Note 63

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All affiliates have been consolidated using the equity method.

**Subsidiaries whose Fiscal Period ended before the Parent Company's Included in the Consolidated Financial Statements** Note 64

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The fiscal period of all subsidiaries included in the consolidated financial statements ended on December 31, 2004.

**Companies Included in the Consolidated Financial Statements That are Not Credit or Financial Institutions or Service Enterprises.** Note 65

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The real-estate agency Helsingin Seudun OP-Kiinteistökeskus Oy, a subsidiary of Okopankki Oy, is included in the consolidated financial statements using the acquisition cost method since January 1, 2004. It is not a credit institution or financial institution or a service enterprise.

## Note 66

<b>Breakdown of the Depreciation of Consolidated Goodwill and Reserve if they Were Combined in the Income Statement</b>	The depreciation of consolidated goodwill and decrease in reserve were not combined in the consolidated income statement.
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## Note 67

<b>Breakdown of Consolidated Goodwill and Reserve, if They Have Been Deducted from Each Other in the Consolidated Balance Sheet</b>	Consolidated goodwill and reserves were not deducted from each other in the consolidated balance sheet.
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## Note 68

<b>Breakdown of Deferred Taxes and Changes in Them</b>	Deferred taxes in the consolidated balance sheet and changes in them recorded under the consolidated income statement are based exclusively on appropriations.
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A breakdown of taxes is also presented in note 45.

	2004	2003
Deferred taxes in the consolidated balance sheet		
Deferred taxes based on appropriations entered in the consolidated balance sheet	74.3	59.3
Deferred tax liabilities based on the consolidated balance sheet		
Based on consolidation	0.2	0.3
Based on Group companies' own balance sheets	2.9	1.7
Changes in deferred taxes		
Based on appropriations	15.0	20.1
Based on consolidation	-0.1	-0.1
Based on Group companies' own balance sheets	1.1	0.7

## Note 69

<b>Consolidated Goodwill and Reserve from Affiliates</b>	The balance sheet item Real Estate and Real-Estate Holdings includes € 12.7 million undepreciated consolidated goodwill from affiliates included in consolidated financial statements.
	There were no consolidated reserve that had not been booked as income.

## Note 70

<b>Average Number of Personnel in Joint Ventures Included in the Consolidated Financial Statements by Group Company Holding</b>	Affiliates have not been included in the consolidated financial statements by shareholding.
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## Note 71

**Long-term  
Incentive Schemes**

The 1999 share option programme has been described in Note 38.

**Personnel fund**

OKO Bank joined the personnel fund for the OP Bank Group on October 26, 2004, Okopankki on October 22, 2004 and Helsingin Seudun OP-Kiinteistökeskus on October 27, 2004. A total of 1,117 OKO Bank employees were members of the fund on December 31, 2004.

The amount of profit-sharing transfer into the personnel fund is based on the achievement of the following targets: ROE percentage (weight 50%), increase in OKO Bank's market share (weight 35%) and increase in the market share of OP Bank Group (weight 15%). The transfer will be made if the Bank meets at least 80 per cent of this target. If the Bank meets the set targets, the amount of the profit-sharing transfer to the personnel fund for 2005 will correspond to 2.5 per cent of the total salary of fund members in 2005 (44.7 million euro in 2004).

Profit-sharing transfers into the fund will be divided into personal fund units between the employees of the company in question who are members of the fund. The division will be based equally on earnings under the Employees' Pensions Act and completed working hours.

After a person has been a fund member for at least five years, 15 per cent of his/her fund unit will be transferred annually to the withdrawable portion. This portion or a part of it will be paid to the member no later than four months after the books of the fund have been closed, if the member has announced his/her intention to withdraw.

**Management Scheme**

Under a decision taken by OKO Bank's Supervisory Board, the management scheme includes members of OKO Bank's Executive Board, heads of departments and directors in comparable positions, as well as those managers who are members of the personnel fund and whose HAY rating is 9-11. The number of persons included in the scheme on January 1, 2005 was 43.

Those included in the scheme may receive OKO Bank shares as annual rewards for 2005-2007. The targets set for this three-year period correspond to the targets regulating the profit-sharing transfer into the personnel fund.

Within the framework of the set targets, each person included in the scheme is entitled to a reward corresponding to his/her regular salary subject to withholding tax for the following period: the President – four months, members of the Executive Board – three months, heads of departments and directors in corresponding positions – two months, and managers – two weeks. Managers are also entitled to a share in the profit-related payment paid into the personnel fund, the maximum amount of which corresponds to their salary for one month. The reward will be paid two years after the completion of the earning period.

## CALCULATION OF FINANCIAL RATIOS

Net sales	The sum total of interest income, income from leasing operations, income from equity investments, commissions and fees, net income from securities transactions and foreign exchange trading as well as other operating income.
Operating profit or loss	Operating profit or loss as shown on the Income Statement
Profit or loss before appropriations	Income Statement item Profit or Loss before Appropriations and Taxes and taxes
Return on equity (ROE), %	$\frac{\text{Operating profit or loss less taxes}}{\text{Shareholders' equity + minority interest + voluntary reserves and excess depreciation less deferred taxes (average at the beginning and end of year)}} \times 100$
Return on assets (ROA), %	$\frac{\text{Operating profit or loss less taxes}}{\text{Balance sheet total on average (beginning and end of the year)}} \times 100$
Equity/total assets ratio, %	$\frac{\text{Shareholders' equity + minority interest + voluntary reserves and excess depreciation less deferred taxes}}{\text{Balance sheet total}} \times 100$
Cost/income ratio, %	$\frac{\text{Commission expenses + administrative expenses + depreciation + other operating expenses}}{\text{Net interest income + income from equity investments + commissions and fees + net income from securities and foreign exchange trading + other operating income}} \times 100$
Earnings per share	$\frac{\text{Operating profit or loss + minority share of profit or loss less taxes}}{\text{Adjusted number of shares on average during the fiscal period}}$
Earnings per share (EPS), diluted	The denominator is the share-issue adjusted number of shares on average during the fiscal period plus the resulting number of shares if all options are converted into shares. From this sum, the resulting number of shares from full option conversion is deducted, then multiplied by the share subscription price and divided by the average share price during the fiscal period.
Equity per share	$\frac{\text{Shareholders' equity and voluntary reserves and excess depreciation less deferred taxes and minority interest at the end of the fiscal period}}{\text{Adjusted number of shares on closing day}}$
Dividend per share	$\frac{\text{Dividend distributed for the fiscal period}}{\text{Adjusted number of shares on closing day}}$
Dividend/earnings, %	$\frac{\text{Dividend per share}}{\text{Earnings per share}} \times 100$
Effective dividend yield, %	$\frac{\text{Dividend/earnings}}{\text{Adjusted last share price of the fiscal period}} \times 100$
Price to earnings ratio (P/E)	$\frac{\text{Adjusted latest share price of the fiscal period}}{\text{Earnings per share}}$
Average price	$\frac{\text{Total share turnover in euros}}{\text{Number of shares traded}}$
Market capitalisation	Number of shares x latest share price on closing day

# EXECUTIVE BOARD'S PROPOSAL FOR THE DISPOSAL OF DISTRIBUTABLE FUNDS

The equity of the parent bank OKO Bank on December 31, 2004 was € 576,587,247.57 of which the distributable equity was € 125,795,960.76.

The consolidated distributable equity on December 31, 2004 was € 74,967,034.54.

The consolidated distributable equity restricts the amount of funds available for dividend payout. At disposal of the Annual General Meeting is

	€
the distributable profit for the financial year	34 714 406.44
profit brought forward	16 803 155.78
and non-restricted reserves	23 449 472.32
or a total amount of	74 967 034.54

It is proposed that the distributable funds of the parent bank be distributed as follows:

€ 0.53 on 77,132,214 Series A shares	40 880 073.42	
€ 0.50 on 22,086,776 Series K shares	11 043 388.00	51 923 461.42

Leaving in consolidated distributable equity capital	23 043 573.12
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Helsinki, February 10, 2005

Antti Tanskanen

Reijo Karhinen

Mikael Silvennoinen  
President

Erkki Böös

Timo Ritakallio

Heikki Vitie

Helena Walldén

## AUDITORS' REPORT (Translation)

### TO THE SHAREHOLDERS OF OKO BANK

We have audited the accounting records and the financial statements, as well as the administration by the Supervisory Board, the Executive Board and the President of OKO Bank for the financial period 1 January – 31 December 2004. The financial statements, which include the report of the Executive Board, consolidated and parent company income statements, balance sheets and notes to the financial statements, have been prepared by the Executive Board and the President. Based on our audit we express an opinion on these financial statements and the Bank's administration.

We conducted our audit in accordance with Finnish Generally Accepted Auditing Standards. Those standards require that we plan and perform the audit in order to obtain reasonable assurance about whether 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, assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. The purpose of our audit of the administration was to examine that the Supervisory Board, the Executive Board and the President have complied with the rules of the Finnish Companies Act and the Finnish Act on Credit Institutions.

In our opinion, the financial statements have been prepared in accordance with the Finnish Accounting Act and other rules and the regulations governing the preparation of financial statements in Finland. The financial statements give a true and fair view, as defined in the Finnish Accounting Act, of the result of operations and financial position of both OKO Bank Group and the parent company. The financial statements can be adopted and the members of the Supervisory Board, as well as the Chief Executive Officer, the President and the other members of the Executive Board can be discharged from liability for the fiscal period audited by us. The Executive Board's proposal for the disposal of distributable funds is in compliance with the Finnish Companies Act.

Helsinki, February 10, 2005

KPMG OY AB

Hannu Niilekselä  
Authorised Public Accountant

Raimo Saarikivi  
Authorised Public Accountant

# STATEMENT OF THE SUPERVISORY BOARD

At its meeting held today the Supervisory Board has examined the Bank's annual accounts and the Auditors' Report. As its statement to the 2005 Annual General Meeting, the Supervisory Board observes that the Bank has been managed in accordance with the legislation and regulations in force and the Supervisory Board does not have any remarks in respect of OKO Bank's financial statements for 2004 and the Auditors' Report.

The Supervisory Board concurs with the Executive Board's proposal concerning the disposal of distributable funds.

The following members of the Supervisory Board are to resign in accordance with the Articles of Association of OKO Bank: Mr Heikki Eteläaho, Mr Jussi Hautamäki, Mr Harri Kainulainen, Mr Tapio Kurki, Mr Erkki Laatikainen, Mr Eero Lehti, Mr Ulf Nylund, Mr Jaakko Ojanperä, Mr Seppo Penttinen ja Mrs Valvatti Remes-Siik. In addition, Mr Heikki Teräväinen has tendered his resignation.

Helsinki, February 10, 2005

On Behalf of the Supervisory Board

Seppo Penttinen  
Chairman

Markku Koponen  
Secretary



OKO Bank

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