

Transition to IFRS Reporting in OKO Bank Group

OKO Bank Group adopted the International Financial Reporting Standards (IFRS) as of the beginning of 2005. The interim reports in 2005 will be prepared in accordance with the new principles.

This bulletin provides information on the essential effects of the IFRS transition to OKO Bank Group's financial information for 2004. The bulletin provides preliminary calculations of the opening balance sheet on the date of IFRS transition, January 1, 2004, and the quarterly income statements and balance sheets for 2004 both under FAS (Finnish Accounting Standards) and IFRS. Furthermore, reconciliations are provided for shareholders' equity and net income on the ending dates of each quarter calculated on different principles. Furthermore, the bulletin includes key indicators, the formulas for calculating them, and the changes imposed by the IFRS transition on the accounting principles for the financial statements. A separate bulletin will be published in April on reconciliations for the divisions' income statements and on the effects of the IAS 39 standard on the opening balance sheet on January 1, 2005.

The financial information provided in the bulletin is based on the IAS/IFRS standards valid at the time of writing, which are assumed to be valid also on December 31, 2005.

OKO Bank Group has applied the following allowances by the IFRS 1 first-time adoption standard:

- the IFRS information for 2004 does not include the effects of IAS 39 (Financial Instruments), because the standard will be introduced in OKO Bank Group as of the beginning of 2005, and no comparison data is required,

- at the time of transition, funds in pension schemes were valued at fair value and obligations at present value based on the calculatory assumptions valid at the time of transition on January 1, 2004,

- with regard to Kiinteistö Oy Arkadiankatu 23, which is fully owned by OKO Bank, the deemed acquisition cost applicable to the part of the building in own use upon transition is the fair value, and

- the acquisition cost calculations of companies consolidated before the IFRS transition were not converted to IFRS but are still based on Finnish Accounting Standards.

The FAS figures in this bulletin are equal to the information presented in the interim reports and financial statements for 2004 with the difference that the FAS income statement and balance sheet information is grouped into OKO Group's IFRS income statement and balance sheet formats. Changes associated with the formats are described in this bulletin.

The transition to IFRS financial statements reduced Tier I capital adequacy by 0.06 percentage points to 7.08 per cent on December 31, 2004.

The individual financial statements of OKO Bank Group companies will continue to be prepared in accordance with Finnish Accounting Standards.

The figures presented in this bulletin are unaudited.

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OKO Bank Consolidated IFRS Comparison Figures

Income Statement Jan.–June 2004, € million	Ref.	FAS Figures in IFRS Format								IFRS 1-6 / 2004	FAS 4-6/2004	IFRS 4-6/2004	
		1-6 / 2004	IAS12	IAS17	IAS18	IAS19	IAS36	IAS40 16,31	Other				Total
Net interest income	2	66		5						5	72	33	36
Impairment losses		1								0	1	0	0
Net interest income after impairment losses		67									72	33	36
Net commissions and fees	3	41			0					0	41	20	20
Net income from trading		6								0	6	8	8
Net income from investments	6	16						0		0	16	8	8
Other operating income	2,6	41		-39				0		-39	2	21	1
Personnel costs	4,7	-30				0			0	0	-30	-15	-15
Other administrative expenses		-25								0	-25	-13	-13
Other operating expenses	2,5,6,7	-49		34			0	0	0	33	-15	-25	-8
Share in affiliate profits/losses	6	2							0	0	2	1	1
Earnings before tax		69									69	39	39
Income tax	1	-15	1							1	-13	-6	-5
Profit (loss) for the period		54									56	34	34
Share of minority interests	7	0							0	0	0	0	0
Earnings for the period		54	1	0	0	0	0	0	0	2	56	34	34

Balance Sheet on June 30, 2004, € million	FAS balance sheet in IFRS format	IFRS Adjustments								IFRS			
		IAS12	IAS17	IAS18	IAS19	IAS36	IAS40 16,31	Other	Total				
Assets													
Liquid assets		678								0	678		
Receivables from financial institutions		2 763								0	2 763		
Financial assets for trading		2 751								0	2 751		
Derivative contracts		125								0	125		
Receivables from customers	2,7	7 654		303					0	303	7 957		
Investment assets	6	366						1		1	367		
Investments in affiliates		21								0	21		
Intangible assets	5,7	12						-1	1	0	12		
Tangible assets	2,6	356		-304				7		-297	59		
Other assets	2,4,6	323		0		46		1		47	371		
Tax receivables	1	0	7							7	7		
Total assets		15 051	7	0	0	46	-1	8	1		15 113		
Liabilities													
Liabilities to financial institutions		4 418								0	4 418		
Financial liabilities for trading		0								0	0		
Derivative contracts		157								0	157		
Liabilities to customers	6	2 797						0		0	2 797		
Debt securities issued to the public		5 881								0	5 881		
Reserves and other liabilities	3,4,6	636			10	2		1		12	648		
Tax liabilities	1	53	13							13	66		
Subordinated liabilities		397								0	397		
Total liabilities		14 339	13	0	10	2	0	1	0	26	14 364		
Shareholders' equity (excl. minority interests)		711	-6	0	-10	44	-1	8	1	36	747		
Minority interests	7	1							0	0	1		
Total liabilities and shareholders' equity		15 051									15 113		

Calculation on Changes to OKO Bank's Consolidated Shareholders' Equity

€ million	Dec. 31, 2003	March 31, 2004	June 30, 2004	Sept. 30, 2004	Dec. 31, 2004
Shareholders' equity (FAS)	735	679	712	734	738
Effects from transition to IFRS					
IAS 19, Employee benefits	44	45	44	46	46
IAS 40, 16, 31 Valuation and consolidation of real estate	8	8	8	8	8
IAS 18, Revenue	-9	-9	-10	-10	-10
IAS 12, Income taxes	-8	-7	-6	-6	-6
IAS 36, Impairment of assets	-1	-1	-1	-1	-1
Other	1	1	1	1	1
IFRS adjustments, total	35	35	36	38	38
Shareholders' equity (IFRS)	770	714	749	771	776

Calculation on Changes to OKO Bank's Consolidated Earnings for the Financial Period

€ million	1Q2004	1-2Q2004	1-3Q2004	1-4Q2004
Operating profit (FAS)	20,3	53,9	74,5	101,5
Effects from transition to IFRS				
IAS 12, Income taxes	0,7	1,5	1,3	1,4
IAS 18, Revenue	-0,2	-0,5	-0,7	-0,7
IAS 19, Employee benefits	0,5	0,4	2,2	1,8
IAS 36, Impairment of assets	0,1	0,3	0,4	0,5
IAS 40, 16, 31, Valuation and consolidation of real estate	0,0	0,1	0,1	1,1
Other	0,0	0,0	0,0	0,0
IFRS adjustments, total	1,2	1,8	3,3	4,1
Earnings for the period (IFRS)	21,5	55,7	77,8	105,6
€ million		2Q2004	3Q2004	4Q2004
Operating profit (FAS)		33,6	20,6	27,0
Effects from transition to IFRS				
IAS 12, Income taxes		0,8	-0,2	0,2
IAS 18, Revenue		-0,2	-0,2	0,0
IAS 19, Employee benefits		-0,1	1,8	-0,4
IAS 36, Impairment of assets		0,1	0,1	0,1
IAS 40, 16, 31, Valuation and consolidation of real estate		0,1	0,1	1,0
Other		0,0	0,0	0,0
IFRS adjustments, total		0,6	1,5	0,8
Earnings for the period (IFRS)		34,2	22,2	27,8

IFRS Comparison Figures from OKO Bank's Consolidated Financial Ratios 2004

Tunnusluvut	FAS Q1	IFRS Q1	FAS Q1-2	IFRS Q1-2	FAS-1-3Q	IFRS 1-3Q	FAS Q1-4	IFRS Q1-4
Return on equity (annualised), %	11,7	11,7	15,0	14,8	13,6	13,6	13,9	13,8
Return on assets (annualised), %	0,55	0,58	0,73	0,75	0,65	0,68	0,66	0,68
Cost/income ratio, % *	58		54		55		56	
Cost/income ratio, %**	64	54	61	51	62	51	63	52
Capital adequacy ratio, %	11,0	10,9	10,9	10,8	10,58	10,5	10,8	10,7
Tier I ratio, %	7,0	7,0	7,6	7,6	7,5	7,4	7,1	7,1
Earnings per share, €	0,21	0,22	0,56	0,58	0,77	0,80	1,05	1,09
Earnings per share, diluted, €	0,20	0,22	0,53	0,56	0,74	0,78	1,02	1,06
Equity per share, €	7,00	7,37	7,35	7,72	7,56	7,95	7,51	7,90
Dividend per share, €							0,52	0,52
Dividend payout ratio, %							50	48
Effective dividend yield (OKO A), %							5,1	5,1

Calculation of Financial Ratios

Return on equity, %	$\frac{\text{Profit for the period}}{\text{Shareholders' equity (on average at the beginning and end of year)}} \times 100$
Return on assets, %	$\frac{\text{Profit for the period}}{\text{Balance sheet total on average (beginning and end of the year)}} \times 100$
Cost/income ratio, % *	$\frac{\text{Commission expenses + investment expenses + personnel costs + other administrative expenses + other operating expenses}}{\text{Net interest income + commissions and fees + net income from trading + income from investments + other operating income}} \times 100$
Cost/income ratio, %**	$\frac{\text{Personnel costs + other administrative expenses + other operating expenses}}{\text{Net interest income + net commissions and fees + net income from trading + net income from investments + other operating income}} \times 100$
Impact of IFRS adjustments on own funds when determining the capital adequacy ratio	According to Finnish Financial Supervision Authority's interpretation of own funds, the computational surplus balance of the pension liability is not included in own funds or risk-weighted receivables and commitments. Deferred tax receivables referred to in IAS 12 have not been included in own funds. The fair valuation of real estate in accordance with IAS 40 does not have an effect on the capital adequacy ratio.

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More information for reconciliation

Format Changes

The effects of the IFRS transition on the earnings and shareholders' equity for fiscal 2004 are itemised in the calculations in this bulletin at the level of income statement and balance sheet rows. In order to render this possible, the items in FAS income statements and balance sheets are grouped in accordance with the IFRS format.

The greatest changes due to the new grouping are the following:

Net interest income includes interest on interest rate swaps for trading. In the FAS format these were included in Net income from securities trading. With regard to finance lease receivables, net interest income only includes interest income. In the FAS income statement, net income from leasing receivables were included in the item Net leasing income.

Impairment losses on receivables correspond to the FAS item Credit and guarantee losses.

Net commissions and fees include commissions and fees from real estate agency operations. In the FAS income statement they were booked in Other operating income.

Net trading income includes income and expenses on trading operations, excluding interest that is included in interest income. In the FAS income statement all these items were included in Net income from securities trading or in Income from equity investments.

Net income from investments includes income and expenses on financial assets available for sale and held to maturity, as well as from investment properties, excluding interest. In the FAS income statement income and expenses on financial assets were included in Net income from securities trading or in Income from equity investments, while income from investment properties was included in Other operating income and expenses in Other operating expenses or in Write-downs on securities held as non-current financial assets.

Other operating income on the IFRS income statement does not include income from investment properties or commissions and fees from real estate agency. Other operating income under IFRS includes income and expenses on other lease contracts under IAS 17 and income from finance lease contracts other than interest income.

Other operating expenses on the IFRS income statement do not include expenses on investment properties. The FAS income statement item Depreciation and write-downs is included in this item. With regard to the FAS item Leasing income, depreciation on objects leased out on other lease contracts as referred to in IAS 17 has been transferred to this item.

Receivables from customers include the FAS item Receivables from the public and public sector entities, as well as the contracts classified as finance lease contracts included in the FAS item Leasing assets.

Financial assets held for trading include notes, bonds and equities valued at fair value; the changes in value are recognised on the income statement. In the FAS format they were included in Notes and bonds or in Shares and holdings.

Derivative contracts include positive (in assets) and negative (in liabilities) changes in the value of derivative contracts; these were included in Other assets and liabilities in the FAS format.

Investment assets include financial assets available for sale and held to maturity, as well as investment properties.

Intangible assets include not only the FAS Intangible assets but also development-phase expenses capitalised for substantial development projects.

Tangible assets include FAS Tangible assets deducted by investment properties, as well as the objects of other lease contracts as referred to in IAS 17 included in the FAS item Leasing assets.

Other assets includes the FAS item Other assets deducted by receivables from derivative contracts and increased by an asset item calculated for defined-benefit pension plans in accordance with IAS 19.

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Tax receivables are presented as a separate item on the IFRS balance sheet. On the FAS balance sheet tax receivables associated with income tax allocation were presented in Accrued expenses.

Financial liabilities held for trading include short selling of securities, which were included in Other liabilities in FAS.

Reserves and other liabilities include the FAS item Other liabilities deducted by liabilities on derivative contracts, Mandatory reserves and accrued expenses.

Tax liabilities are presented as a separate item on the IFRS balance sheet. The FAS balance sheet presented liabilities due to deferred taxes as a separate item, and liabilities due to income tax allocations were presented in Accrued expenses.

Subordinated liabilities include subordinated liabilities under FAS as well as capital loans, which used to be included in Shareholders' equity on the FAS balance sheet.

Effects of IFRS Transition on Income Statement and Balance Sheet

1. IAS 12, Income Taxes

On the consolidated FAS balance sheet accumulated appropriations were divided into Shareholders' equity and Deferred tax liability, and on the income statement into Profit for the period and Change in deferred tax liability. The IFRS financial statements represent all deferred tax receivables and liabilities associated with temporary differences between accounting and taxation, as well as any changes in these, if the tax attributable to the difference is expected to be realised in the future.

2. IAS 17, Leases

Income on finance lease contracts is divided into interest income and commission income. With regard to income on other lease contracts as referred to in IAS 17, commissions are entered in Commission income, other income in Other operating income, and depreciation in Other operating expenses.

According to FAS, net income on all leasing contracts was entered in the item Leasing income.

3. IAS 18, Revenue

In its FAS financial statements 1995–2003 OKO Bank's subsidiary Okopankki Oyj recognised non-recurring commissions paid on loan repayment insurance and associated with several years as income on the cash basis. These commissions include a risk of being returned. In the IFRS transition these income recognitions were retroactively cancelled and recognised as liabilities. According to the IFRS principle, only the share of commissions attributable to the financial period shall be recognised as income.

4. IAS 19, Employee Benefits

All of the Group's pension schemes are classified as defined-benefit plans. The Group used the option provided in IFRS 1, according to which funds in pension schemes were valued at fair value and the obligation at present value based on the calculatory assumptions valid at the time of transition on January 1, 2004. The difference between funds and obligations in pension schemes was entered in Other assets. The asset item in Other assets and the pension costs will be adjusted during the financial period on the basis of actuarial calculations.

5. IAS 36, Impairment of Assets

Upon IFRS transition the minor goodwill included on the FAS balance sheet was recognised as expense and the goodwill depreciations included in the FAS financial statements were cancelled. The goodwill originated in the establishment of Okopankki Oyj.

6. IAS 40, 16, 31, Investment Property, Property, Plant and Equipment, Interests in Joint Ventures

Investment properties were valued at fair value upon transition, and changes in fair value after the transition will be entered in Net income from investments. In FAS financial statements investment properties were valued at acquisition cost deducted by depreciation and write-downs.

The revaluation in the consolidated financial statements concerning Kiinteistö Oy Arkadiankatu 23, which is fully owned by OKO Bank and included in OKO Bank's consolidated financial statements, was cancelled at the time of transition January 1, 2004. The property is mostly classified as an investment property, but a part of it is in the company's own use. The fair value method in accordance with the IAS 40 standard was applied to the part in investment use. Fair value was used as the deemed acquisition cost for the part in own use

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within the scope of the allowance by the IFRS 1 first-time adoption standard. The value of the part in own use before revaluation was € 8.125 million, and the revaluated acquisition cost was € 6.161 million.

Mutual real estate companies in which OKO Bank or its subsidiaries have a substantial influence or control are consolidated like assets under joint control as referred to in the IAS 31 standard. Entries associated with consolidation by the acquisition cost method were cancelled upon transition.

7. Other Adjustments

IAS 38, Intangible Assets: In comparison with Finnish Accounting Standards, wage and salary costs capitalised in the acquisition cost of internally generated assets reduce personnel expenses and increase depreciation belonging to other operating expenses. Internally generated assets refer to computer software included in Intangible assets.

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CHANGES TO OKO BANK GROUP ACCOUNTING PRINCIPLES DUE TO IFRS TRANSITION

GENERAL

OKO Osuuspankkien Keskuspankki Oyj (hereafter OKO Bank) is a Finnish commercial bank whose business divisions are Corporate Banking, Investment Banking, Retail Banking, Central Banking and Treasury. The Bank focuses on Finnish customers, but also provides banking services for foreign customers to the extent required by their business related to Finland.

OKO Bank is domiciled in Helsinki and its registered address is Teollisuuskatu 1b, P.O. Box 308, 00101 Helsinki.

ACCOUNTING PRINCIPLES

OKO Bank Group's consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS). The preparation of financial statements is subject to the IAS and IFRS standards and supplementary SIC and IFRIC interpretations valid at the end of the financial period. In addition to the IFRS standards, the preparation of OKO Bank Group's financial statements is subject to Section 30(6) of the Credit Institutions Act.

OKO Bank Group adopted the International Financial Reporting Standards as of the beginning of 2005. The IFRS 1 standard – First-time Adoption of International Financial Reporting Standards – was applied in connection with the adoption. The comparison data for 2004 was converted to comply with IFRS, with the exception of the handling of financial instruments in accordance with IAS 32 and IAS 39, which is not required by virtue of IFRS 1. Finnish Accounting Standards have been applied to the valuation of financial instruments in the comparison year 2004, but the classification has been changed to comply with IFRS.

The preparation of financial statements in accordance with IFRS requires management to make estimates and exercise discretion in the application of accounting principles. The crucial accounting practices requiring estimates or discretion have been presented in the accounting principles or notes to the financial statements.

CONSOLIDATION PRINCIPLES

Mutual real estate companies consolidated with OKO Bank Group, in which OKO Bank or its subsidiaries have a substantial influence or control, are consolidated like assets under joint control as referred to in the IAS 31 standard.

As of the IFRS transition date, goodwill will be calculated by subtracting the fair value of the consolidated companies' assets deducted by liabilities from the acquisition cost. The share exceeding the fair value at time of acquisition is presented as consolidated goodwill. Any share of fair value at time of acquisition that exceeds the acquisition cost is recognised as income.

According to the practice allowed in the IFRS 1 standard, the acquisition cost calculations of companies consolidated before the IFRS transition date January 1, 2004 have not been converted to comply with IFRS, but they correspond to the Finnish Accounting Standards. The acquisition cost calculations of companies acquired before the IFRS transition date but only consolidated after the transition have been prepared as of the IFRS transition date.

Earnings and shareholders' equity are divided between the parent company's owners and the minority. The minority interest in shareholders' equity is presented as a separate item in Shareholders' equity. Minority interest in companies consolidated since the IFRS transition date is calculated using the fair values of the assets and liabilities of the consolidated company and presented as a separate balance sheet item.

SEGMENT REPORTING

OKO Bank Group provides segment-specific income statements and balance sheets for the following divisions: Corporate Banking, Investment Banking, Retail Banking, Central Banking, Treasury and Group Administration. The business divisions are defined so that the risks and composition of earnings in each division differ from the other divisions.

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OKO Bank Group does not have any geographical division into segments.

FINANCIAL INSTRUMENTS

Determination of Fair Value

The fair value of a financial instrument is determined using either price quotations from a functioning market or the company's own valuation methods. The valuation methods account for estimated credit risk, the applicable discount rates of interest, the possibility of premature repayment and other such factors that affect the reliable determination of the fair value of a financial instrument.

Derivative contracts are valued on the basis of publicly quoted interest rates or prices on the balance sheet date. If no public quotations are available, the contracts are valued using a pricing model.

Classification and Recognition

Financial Assets and Liabilities Held for Trading

All financial assets and liabilities from which yield originating in interest rates, prices and quotations is expected in the short term, or in which a linked derivative contract cannot be separated from the main contract, are classified as financial assets or liabilities held for trading. Financial assets and liabilities held for trading also include derivative instruments, which are presented separately.

Financial assets and liabilities classified as held for trading are recognised on the balance sheet at fair value, and changes in fair value are immediately recognised on the income statement.

Loans and Receivables

Financial assets classified as loans and receivables are financial assets created by handing over funds, goods or services directly to the debtor. The contracts are handled in accounting at amortised cost.

Impairment losses on loans and receivables are recognised by receivable items and group of receivables. Impairment losses are assessed and recognised by receivable item if the customer's total exposure is significant. In case of minor customer exposure, impairment losses are assessed and recognised by group of receivables. Impairment losses are booked as reductions in the balance sheet item for loans.

Impairment losses will only be booked when there is objective proof of the customer's impaired solvency. The value of a receivable item has decreased if the cash flows from it – including the fair value of the collateral – are less than the aggregate book value of the loan and the unpaid interest. Future cash flows are discounted at the loan's original effective interest rate. In case of a variable interest rate loan, the discount rate is the effective rate at the time of assessment. The difference between the book value of the loan and a lower recoverable value of cash flows is booked as a impairment loss.

A group-specific impairment loss is booked for a group of receivables if there is objective proof that uncertainty is associated with the repayment of receivables included in the group. The amount booked as a impairment loss is based on experience of the extent to which delayed payments lead to credit losses and of the amount to which realisation of collateral will cover the incurred loss.

A loan is removed from the balance sheet once all collection actions have been completed or a separate decision on removal is made. Any payments received after removal from the balance sheet are booked as adjustments to impairment losses on receivables.

If objective proof has been received that the solvency of a customer previously included in impairment testing has improved, the amount of impairment loss shall be reassessed and any change in the amount shall be adjusted.

Investments Held to Maturity

Investments held to maturity are financial assets that have been acquired with the intention of holding them until maturity. Financial assets have been handled in accounting at amortised cost. The difference between the nominal value and acquisition value of bonds is allocated over the remaining term to maturity.

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If the value of a receivable item held to maturity is found to have decreased, it is transferred to financial assets held for trading and valued as at fair value. The change in value is recognised under “Net trading income” on the income statement.

Financial Assets Available for Sale

Financial assets available for sale are financial assets not included in the categories of financial assets before. Financial assets available for sale are recognised on the balance sheet at acquisition cost at the time of acquisition and valued at fair value. Changes in value are recognised in the fair value reserve in shareholders’ equity and transferred to the income statement when the asset item is removed from the balance sheet.

Other Financial Liabilities

The category Other financial liabilities includes financial liabilities other than those held for trading. Other financial liabilities are handled in accounting at amortised cost.

Derivative Contracts

A derivative contract is a financial instrument whose value changes when the value of a specific interest rate, security or commodity price, foreign exchange rate or similar underlying asset changes. A derivative requires only minor net investment at the time of entering into the contract, and it will be settled on a specific date in the future.

According to the general IFRS principle, derivatives are always valued at fair value and derivative contracts are booked in accounting at the time of entering into the contract. The difference between interest received and paid on non-hedging interest rate swaps is recognised in interest, and the corresponding interest to be carried forward is recognised in other assets and other liabilities. Income, expenses and changes in the value of non-hedging interest rate, currency and equity derivatives are recognised under “Net trading income” on the income statement. Positive changes in the value of derivative contracts are recognised on the balance sheet under “Derivative contracts, assets”, while negative changes are recognised under “Derivative contracts, liabilities”.

So-called embedded derivatives associated with structured bond issues and housing loans with an interest rate ceiling are separated from the main contract. Changes in the value of the main contract and the hedging derivatives are booked in interest.

Hedge Accounting

Hedging calculation is used to verify that changes in the fair value of a hedging instrument fully or partially cancel any changes in the fair value of the hedged item or in cash flows.

OKO Bank Group’s hedging calculation includes the hedging of interest rate risk using the fair value method. Hedging of fair value is associated with long-term fixed-rate liabilities (own issues), individual bond and loan portfolios, as well as individual loans. Hedging is proven effective as pairs of contracts or partial portfolios using a VaR based method.

In fair value hedging calculations, changes in the value of the hedging and hedged instrument are recognised on the income statement under “Net income from investments”. The difference between interest received and paid on interest rate swaps used for hedging loans under “Loans and receivables”, notes and bonds under “Available for sale” and own issues is recognised as interest. Interest carried forward on interest rate swaps is recognised under accrued income and accrued expenses.

INVESTMENT PROPERTIES

Investment properties are owned in order to receive rental income or gain on the value of the assets. Investment properties also include properties of which a minor part is used by the owner company or its personnel. Investment properties also include shares in real estate companies that entitle the holder to possess leasable premises.

Shares in investment property companies, as well as land, forest and water areas held for investment purposes, are recognised on the balance sheet at fair value. The share of loans burdening the share is taken into account when determining the fair value of investment company shares. Changes in fair value are recognised under “Net income from investment properties” on the income statement.

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The fair value of investment properties is based on their market value. The basis for the fair value of significant items is an assessment by an independent expert; the values of other items are based either on an assessment by an independent expert, yield estimates calculated from market data or the management's own estimates of the market value of the item. The market value of commercial, office and industrial premises is primarily assessed by the yield value method. The market value of residential buildings and land areas is primarily assessed by the disposal value method.

TANGIBLE AND INTANGIBLE ASSETS

Tangible fixed assets are valued at original acquisition cost deducted by depreciation and write-downs.

Expenses arising from an asset item after the original acquisition are only capitalised in the book value of the asset if it is probable that it will produce greater economic benefit than originally estimated.

Expenses arising from the development of products or services are capitalised starting from the time when it was determined that the product or service will produce an economic benefit in the future. The asset will be depreciated starting from the time it is ready for use. Any assets not yet ready for use are tested for impairment annually.

Write-Downs on Tangible and Intangible Assets

In connection with each closing of the accounts, it shall be assessed whether there are any indications of impairment of asset values. If such indications exist, the amount recoverable from the asset item is estimated. The amount recoverable from unfinished intangible assets is estimated annually regardless of whether there are indications of impairment of value.

If the book value of an asset item exceeds the estimated amount recoverable in the future, the excess is recognised as an expense. The amount recoverable from an asset should primarily be determined through its net sales price. Alternatively, the recoverable amount can be determined through the utility value of the asset – that is, the cash flows accumulated from it. If no net sales price can be determined for an asset and it does not accumulate any cash flow independent from other items, the need for a write-down is

determined through the unit where the asset belongs. In this case, the book values of the assets included in the unit are compared with the amount recoverable from the entire cash generating unit.

LEASE CONTRACTS

Lease contracts are classified as finance lease contracts or other lease contracts in accordance with the actual substance of the transaction. A lease contract is a finance lease contract if an essential part of the risks and benefits characteristic of ownership are transferred to the leaseholder. Otherwise the contract is classified into other lease contracts. Lease contracts are classified when they are signed.

Assets leased out on finance lease contracts are represented as receivables from customers on the balance sheet. The amount recognised as a receivable equals the net investment of the lease contract. The finance income from the contract is recognised in interest income so that it provides equal return on capital on the lessor's remaining net investment in each financial period.

Substantial assets leased on finance lease contracts are presented in tangible assets, and the corresponding finance lease liability is presented in other liabilities. At the commencement of the contract, leased assets are recognised on the balance sheet as assets and liabilities to an amount equal to the fair value of the leased asset or a lower present value of minimum rents. Depreciation on assets booked in tangible assets is applied over the economic life or a shorter lease period. Financing costs are booked in interest expenses so that the interest rate on the remaining debt is equal in each financial period. Substantial sales gains in situations of sale and lease back are allocated over the period of lease.

Assets leased out on other lease contracts are presented in tangible assets, and rental income is recognised in equal amounts during the period of lease. Rents paid on leased assets are recognised as expenses on the income statement in equal amounts during the period of lease.

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EMPLOYEE BENEFITS

Pension Benefits

Statutory pension cover for the employees of OKO Bank Group companies is arranged through the OP Pension Fund. Additional pension cover arranged for employees by employers is mainly arranged through the OP Pension Foundation. The Pension Foundation has been closed to new employees as of July 1, 1991. Some of the Group companies have arranged additional pension cover through an insurance company.

All of the pension schemes used by the Group are considered defined-benefit plans.

Defined-benefit plans with insurance companies, the Pension Fund and the Pension Foundation are financed by payments based on actuarial calculations.

The expenses arising from pension schemes are recognised under personnel expenses on the income statement.

In defined-benefit plans, the present value of the obligations arising from the scheme on the balance sheet date deducted by the fair value of the funds included in the scheme is presented as an asset. Actuarial gains and losses, and expenses based on retroactive work performance, are also taken into account.

The obligations from defined-benefit pension plans are calculated separately for each scheme. The calculation is performed using the project unit credit method. Pension costs are recognised as expenses over the appropriate person's period of employment on the basis of calculations made by authorised actuaries. The discount interest rate used for the calculation of the present value of a pension obligation is the interest rate paid on bonds issued by the governments of Germany and France.

The financial statements have utilised the option provided in IFRS 1, according to which funds in pension schemes have been valued at fair value and the obligation at present value based on the calculatory assumptions valid at the time of transition on January 1, 2004. Actuarial gains and losses generated after this will be recognised on the income statement over the average remaining period of

employment to the extent that they exceed the greater of the following: 10 per cent of the pension obligation or 10 per cent of the fair value of the funds.

Equity-Based Employee Benefits

OKO Bank Group has had an option-based incentive scheme for the entire personnel since 1999, and it will expire in October 2006. According to the transitional provisions, an unmodified equity-based incentive system established before 2002 does not need to be treated in accordance with IFRS 2. Within the scope of the option scheme, only the social security expenses payable by the employer have been allocated.

Since the beginning of 2005 the Group has had a new management incentive scheme, on the basis of which the persons included in the scheme will receive a zero-cost reward partially settled in OKO Bank shares and partially in cash for services rendered during the so-called earning and commitment period. The fair value of the benefit is allocated during the earning and commitment period. The benefit is recognised as an increase in personnel expenses and a compensation of shareholders' equity.

INCOME TAXES

The income taxes on the income statement include taxes based on the taxable income of OKO Bank Group companies for the financial period, taxes for previous financial periods and the change in deferred taxes.

Deferred tax liabilities are calculated for all taxable temporary differences between accounting and taxation included in the Group's individual financial statements. Deferred tax receivables are calculated for all tax-deductible temporary differences between accounting and taxation included in the Group's individual financial statements, as well as all losses confirmed in taxation. If the accumulation of taxable income makes it probable that a receivable can be utilised, it will be recognised. The consolidated financial statements also include deferred tax liabilities and receivables arising from consolidation.

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Deferred tax liabilities and receivables are netted by company. Those arising from consolidation are not netted. Deferred tax liabilities and receivables are calculated in accordance with the valid tax rate. If a deferred tax item arises from balance sheet items whose changes have no income statement impact, the change in deferred tax is not recognised on the income statement but in shareholders' equity.

RECOGNITION PRINCIPLES

Commission income and expenses on services are recognised when the service is rendered. In case of non-recurring commissions related to several years that may possibly have to be returned later, only the share applicable to the financial period is recognised.

Interest income and expenses on interest-bearing asset and liability items are booked on the accrual basis. Interest on receivables with non-serviced due payments are also recognised as income. Such an interest receivable is included in impairment testing. The difference between the acquisition cost and nominal value of a receivable is allocated in interest income, and the difference between the amount received and nominal value of a liability is allocated in interest expenses.