

ANNUAL REPORT

1995



ASSET MANAGEMENT COMPANY ARSENAL LTD

Contents

Highlights of the Financial Period	2
Group Key Figures	3
The President's Message	4
Group Structure	7
Annual Report	10
Board of Directors' Report	10
Consolidated Income Statement	28
Consolidated Balance Sheet	29
Accounting Principles	31
Board's Proposal to the Annual General Meeting	33
Auditors' Report	34
Board of Directors and Auditors	35
Addresses	35

Notes to the Financial Statements are not included in the English adaption of Arsenal's annual report.

Highlights of the Financial Period



Arsenal promoted its organisation, operations and property assets for sale by participating in trade fairs in the cities of Helsinki, Oulu (picture), Tampere and Turku. People became more familiar with Arsenal's operations in March, 1995, when it held open house in its offices.

■ ■ Real estate assets sold: FIM 1.3 billion. Total number of independent properties sold: 3,144.

■ ■ Assets acquired as collateral for unpaid receivables totalled FIM 611 million.

■ ■ Arsenal's largest property transaction was finalised when a property located in Hämeenkatu 12 in the City of Tampere sold for FIM 61 Million.

■ ■ 21,800 new credit decisions were executed.

■ ■ Client transfers completed, from banks that acquired the assets of Savings Bank of Finland - SBF Ltd. During the financial period Arsenal assumed the responsibility of 537 new clients and FIM 765 million in liabilities.

■ ■ 308 clients and FIM 220 million in liabilities were reintegrated into the regular banking system.

■ ■ Arsenal participated in the largest corporate restructuring since beginning operations, securing the future development of Ylläs holiday resort.

■ ■ To improve Group's cash management, a consolidated accounts system was set up to cover over 600 subsidiaries.

■ ■ FIM 67 million in shares, received as payment in kind, were sold.

■ ■ Virtually all the Group's foreign exchange operations were closed.

■ ■ The Finnish Government strengthened Arsenal's shareholders' equity by injecting an additional FIM 8 billion.

■ ■ Arsenal acquired the Savings Bank of Finland - SBF Ltd as a fully-owned subsidiary.

■ ■ Arsenal was enabled to hold majority stakes in other asset management companies pursuant to an amendment of the law concerning the Government Guarantee Fund's operations.

■ ■ Arsenal acquired Siltapankki Ltd as its subsidiary. Arsenal put in a bid to acquire the remaining Siltapankki Ltd shares (0.74% of the share capital).

■ ■ Deposit taking licenses were revoked for the Savings Bank of Finland - SBF Ltd and Siltapankki Ltd, and both banks continue their operations as asset management companies, under new names: Asset Management Company Arsenal-SSP Ltd and Asset Management Company Arsenal-Silta Ltd.

■ ■ The Government underwrote the guarantees of the Savings Bank of Finland - SBF Ltd after its deposit taking license was revoked.

Group Key Figures

ARSENAL GROUP	1995	1994
Total number of clients	12 209	12 685
Client liabilities, MFIM	7 385	11 391
Total number of viable clients	2 354	2 866
Total liabilities of viable clients, MFIM	4 072	5 900
Total number of non-viable clients	6 082	5 519
Total liabilities of non-viable clients, MFIM	2 855	5 500
Total number of private clients	3 773	4 300
Total liabilities of private clients, MFIM	458	617
 Loans and advances, MFIM	 6 182	 6 817
 Total capital employed in real estate portfolio, MFIM	 8 737	 8 735
Total number of properties	15 185	14 452
 Total assets, MFIM	 23 435	 28 670
Shareholders' equity, MFIM	1 931	-816
 Net income from financial operations, MFIM	 -320	 -1 039
Other operating income, MFIM	213	-638
Total operating income, MFIM	-107	-1 677
Operating expenses, MFIM	1 205	2 083
Depreciation and property asset revaluations, MFIM	221	-3 510
Credit and guarantee losses, MFIM	3 732	4 545
Loss for the financial period, MFIM	-5 253	-11 816

The President's Message

ASSET TAKEOVER PERIOD COMPLETED -

FIM 39.5 BILLION IN ASSETS TRANSFERRED TO ARSENAL

The transfer of clients to Arsenal - in compliance with the transfer agreement concerning the Savings Bank of Finland - SBF Ltd - from the banks that acquired the assets of that bank, is now completed. Arsenal has assumed the responsibility for assets totalling FIM 39.5 billion, of which client liabilities represent FIM 16 billion, real estate assets FIM 12 billion, loans and advances FIM 8.5 billion and other assets FIM 3 billion, in line with our original estimate.

During the possession-taking period we performed detailed evaluations of some 14,000 client companies' financial positions and updated all relevant client information. Over 45,000 credit decisions were executed during Arsenal's first two years of operations.

In addition to those clients, Arsenal took possession of over 15,000 properties. All material information on these properties has been updated and completed. Over 4,000 single properties have been sold. At the same time, the data processing systems for the credit administration, real estate and client support divisions were improved to meet Arsenal's requirements.

I would like to thank all of Arsenal's highly professional staff for their excellent performance throughout the challenging possession-taking period.

The banks that acquired the Savings Bank of Finland - SBF Ltd assets, manage in their assets the loans and advances valued at under FIM one million under the transfer agreement. Arsenal has assumed responsibility for these liabilities, representing FIM 6.2 billion in loans and advances and FIM 0.5 billion in other liabilities. The financial consequences to Arsenal of these many clients will be made clear as the process of securing the receivables continues. The final value of these receivables is not yet fully known.

In March 1995, Siltapankki Ltd, which manages and disposes of the former STS-Bank Ltd's non-performing assets, was transferred from the Government Guarantee Fund to become Arsenal's subsidiary. Siltapankki continues its activities as a part of Arsenal Group.



WINDING-DOWN OF OPERATIONS CONTINUES AS PLANNED

During the possession-taking period Arsenal divested FIM 5 billion in assets transferred from the Savings Bank of Finland - SBF Ltd. From its own balance sheet, Arsenal has sold real estate assets totalling FIM 1 billion. Client liabilities and loans and advances have diminished by FIM 4 billion as a result of collection procedures and sales of pledged assets. FIM 12 billion in credit and guarantee losses and property write-downs have been entered, along with FIM 2 billion in write-downs on securities.

As at the end of the financial period the assets transferred from the Savings Bank of Finland - SBF Ltd totalled FIM 23 billion, including 2,300 viable and 5,800 non-viable corporate clients, 3,800 individual clients and 15,000 single properties. The winding-down of operations has been carried out as planned.

Arsenal's assignment and the winding-down objectives are presented in simplified form in the table on page 5. For Arsenal, the keys to successful completion of its task are its professional staff and efficient data processing.

FIM 1.3 BILLION IN PROPERTY ASSETS SOLD IN 1995

During the financial period, FIM 1.3 billion in real estate assets were sold. The number of single properties sold totalled 3,144.

Arsenal sold FIM 0.6 billion in real estate booked on its own balance sheet and FIM 0.7 billion of its clients' collateralized assets. Arsenal was obliged to buy FIM 0.6 billion in property assets to secure its loan receivables. The capital employed in Arsenal's real estate portfolio totalled FIM 8.7 billion at the end of the financial period.

CLIENTS OPERATING IN THE DOMESTIC MARKET SHOW SIGNS OF RECOVERY - THE NUMBER OF CLIENTS RETURNED TO THE REGULAR BANKING SYSTEM IS STILL LOW

Arsenal's corporate clients operate predominantly in the domestic Finnish market, where the impact of the export up-trend has not yet been felt. The financial situations of Arsenal's viable clients have been positive despite the slow recovery of the Finnish economy.

A total of 308 clients, with liabilities of FIM 220 million,

were reintegrated into the regular banking system over the financial period. This process was slowed in many cases, despite clients' improved profitability, by their high gearing ratio. However, Arsenal already has a significant number of clients ready to be returned to the regular banking system. The improving ability and interest of the Finnish commercial banks for further lending in 1996 and 1997 will enable a larger number of clients to return to the regular banking system.

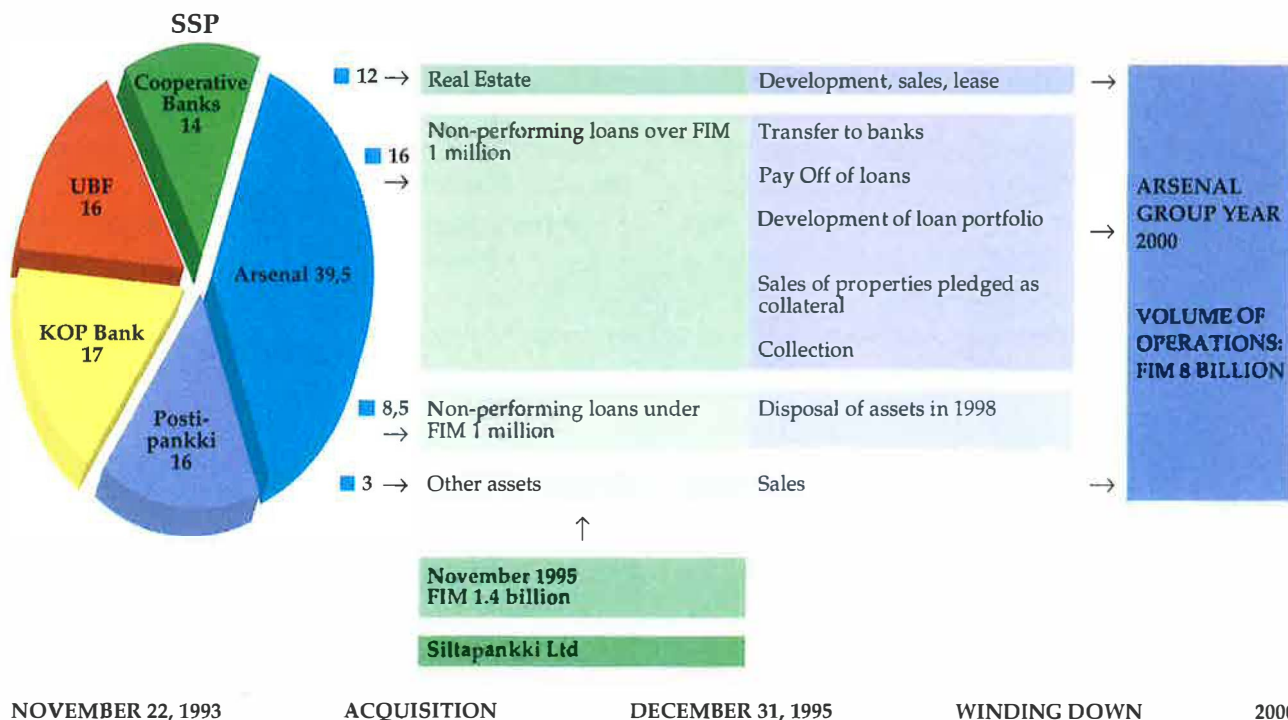
OPEN HOUSE AT ARSENAL

According to Arsenal's operating principles, the company's operations and financial reporting are transparent. Arsenal has actively promoted its operations and the properties it has for sale through trade fairs and other marketing activities. In March 1995, Arsenal organized a highly successful open house to promote its activities and properties for sale.

ASSET MANAGEMENT GROUP

In June 1995, the law on the Government Guarantee Fund was amended to enable Arsenal to hold majority stakes in ot-

The Arsenal Process, FIM billion.



her asset management companies. Arsenal's Articles of Association were altered to meet the legislative changes.

The deposit taking licenses of the Savings Bank of Finland - SBF Ltd and Siltapankki Ltd were revoked in March of 1995, from which date they continued operations as asset management companies - Asset Management Company Arsenal-SSP Ltd and Asset Management Company Arsenal-Silta Ltd. The initial asset management company mission is carried out by the Arsenal Group comprising asset management companies Arsenal, Arsenal-SSP and Arsenal-Silta.

The Arsenal Group includes a total of 1,478 subsidiaries and associated companies, of which real estate holding companies represent 1,411. Arsenal has continued to streamline its Group structure and to wind down the operations of unnecessary subsidiaries. At the end of the financial period, 80 subsidiaries had been dissolved.

The implementation of consolidated accounts in the beginning of the accounting period improved the Group's cash management system. Almost 600 subsidiaries' accounts are included in the consolidated accounts.

GROUP RESULTS IN LINE WITH EXPECTATIONS

The Group's loss for the financial period, FIM 5.3 billion, was as expected. The Group's total assets came to FIM 23 billion at the end of the financial period, as planned. Credit and guarantee losses were recorded for a total of FIM 3.7 billion. The Group's operating results were better than projected. The interest expenses on funding were lower than anticipated, and interest income from client receivables and loans and advances was higher than expected. By contrast, credit losses based on client classification were higher than expected, as were write-downs on Arsenal's securities portfolio.

Arsenal's shareholders' equity was increased during the 1995 financial period by FIM 8 billion.

OUTLOOK FOR 1996

During the current financial period the winding-down of Arsenal's asset base is continuing via the sale of property holdings, collection of client receivables and client transfers to commercial banks for a total of FIM 2.5 billion. Allocated credit losses and asset revaluations will further decrease Arsenal's total assets by approximately FIM 1 billion.

The Government undertook to guarantee Arsenal's FIM 28 billion in public funding and outstanding guarantees. It is anticipated that the Government guarantee will decrease remarkably during the current financial period. As planned, Arsenal will seek at the most FIM 4 billion in capital from the Government.

ARSENAL'S FUTURE

Arsenal's mission is temporary in nature. Arsenal has revised its winding-down objectives for the next few years. The Group's total assets and off-balance sheet liabilities are expected to diminish by the end of the century to approximately one-third, which is in line with earlier plans.

The Group's annual losses will diminish significantly after 1995. Including the allocated capital injection for 1996, Arsenal will have received a total of FIM 23 billion from the Government and the Government Guarantee Fund. Arsenal's shareholders' equity is estimated to be sufficient for the entire winding-down process.

The future development of the Finnish economy has an important impact on Arsenal's winding-down process and financial results; its short-term financial goals are based on an assumed stable growth in the domestic economy.

Developments in the Finnish property market will have a crucial impact on future opportunities for selling Arsenal's property and other assets, on the net results from these divestments and on the magnitude of credit losses. Fluctuations in interest rates will be reflected directly in Arsenal's market-rate funding of interest expenses.

Arsenal's operations will be wound down in such a manner as to minimize the burden to the Government. The Group's operations are expected to continue in the present form until the end of the century. The decisions pertaining to remaining assets will be taken on the basis of securing the highest possible financial benefit for the Government.

Helsinki, March 14, 1996

Seppo Sipilä
President and CEO

Group Structure

ESTABLISHMENT OF THE ASSET MANAGEMENT COMPANY

The worldwide crisis in the banking sector in the 1980s has resulted in the creation of asset management companies.

In December 1992, the majority of the share capital of the Savings Bank of Finland - SBF Ltd was taken over by the Government Guarantee Fund. In August 1993 the Finnish Government also became a shareholder in Savings Bank of Finland - SBF Ltd. On October 22, 1993 the sound operations and the majority of the shares in the Savings Bank of Finland - SBF Ltd were sold by transfer agreement to Kansallis-Osake-Pankki, the Cooperative Banks, Postipankki Ltd and Union Bank of Finland (the "Acquiring Banks"). Following the financial transaction, the sound operations of the Savings Bank of Finland - SBF Ltd were gradually transferred over to the Acquiring Banks during the spring of 1994.

The Asset Management Company Arsenal Ltd was established on November 18, 1993 to administer the problem loans and other loans of the Savings Bank of Finland - SBF Ltd, and to liquidate its real estate assets and other holdings.

The loans and real estate holdings of the Savings Bank of Finland - SBF Ltd were not transferred to Arsenal as originally stipulated in the terms of the transfer agreement. After Arsenal's acquisition of the Savings Bank of Finland - SBF Ltd, the

loans and real estate holdings that had been intended for transfer remained with the Savings Bank of Finland - SBF Ltd.

Siltapankki Ltd became a subsidiary of Arsenal on November 16, 1995. The deposit taking licences for the Savings Bank of Finland - SBF Ltd and Siltapankki Ltd were revoked, and the companies were turned into asset management companies on November 30, 1995. The Savings Bank of Finland - SBF Ltd became Asset Management Company Arsenal-SSP Ltd and Siltapankki Ltd became Asset Management Company Arsenal-Silta Ltd.

BUSINESS CONCEPT OF THE ASSET MANAGEMENT GROUP

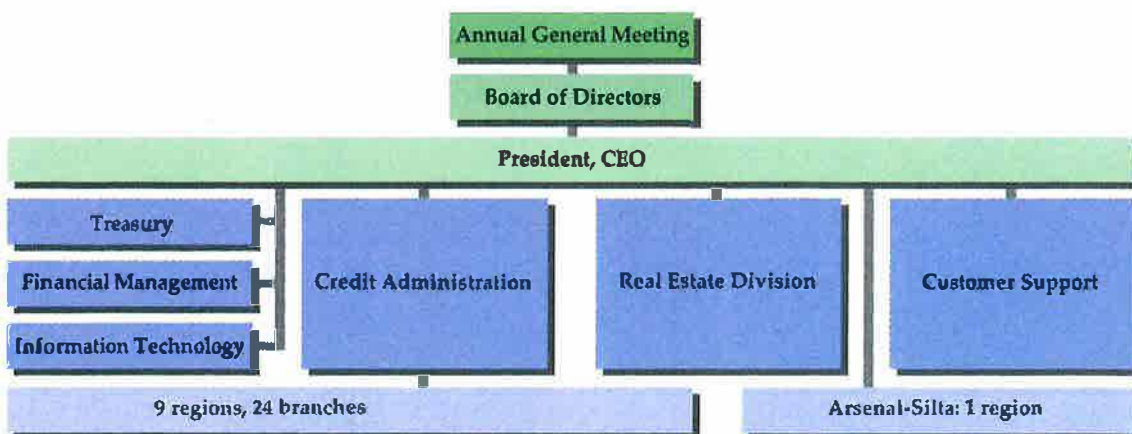
The Arsenal Group manages, develops and liquidates assets for which it has assumed responsibility, in order to ensure optimal financial results under prevailing circumstances. Its objective is to minimize any further Government investments in the Group and to reduce the risk of loss on investments already made.

Arsenal's mission is of limited tenure. It will be completed when clients have either been reintegrated into the regular banking system, or when collection procedures are closed and real estate and other holdings have been liquidated.

This task is carried out by Asset Management Company Arsenal Ltd and its subsidiaries, Asset Management Company Arsenal-SSP Ltd and Asset Management Company Arsenal-Silta Ltd.

The parent company Arsenal carries loans and advances

Arsenal organization as at December 31, 1995.



and securities on its balance sheet. The parent company also handles all funding for the Group.

The balance sheet of Asset Management Company Arsenal-SSP Ltd contains those loans and real estate holdings specified in the Savings Bank of Finland - SBF Ltd's transfer agreement.

Asset Management Company Arsenal-Silta Ltd continues to administer and liquidate the problem loans, as well as the assets and real estate holdings of the former STS-Bank Ltd.

AREAS OF ACTIVITY OF THE ASSET MANAGEMENT COMPANIES

Arsenal, Asset Management Company Arsenal-SSP Ltd ("Arsenal-SSP") and Asset Management Company Arsenal-Silta Ltd ("Arsenal-Silta") carry and manage assets belonging to, or transferred from, banks that receive financial support from the Finnish Government or the Government Guarantee Fund. Such assets include real estate assets and other pledgeable property, securities of commercial and residential property holding companies, other securities, non-performing loans or other loans and their corresponding collateral.

The Companies may grant further loans and guarantees in order to ensure efficient administration and collection of the problem loans and other loans under their management. The Companies also engage in securities trading.

PRINCIPLES OF OPERATION

The operations and financial reporting of the Asset Manage-

ment Companies are transparent. The Companies adhere to the same secrecy and client protection obligations as other commercial banks. The Companies operate on the principles of equality and fair business practices.

The regional organization is responsible for client relationships, collection of receivables, and the sale, rental, development and administration of the property of the Asset Management Companies. An account manager is assigned to each client.

The Asset Management Companies make certain that any possible ambiguities in client relationships are sorted out. The Companies do not, as a principle, sell property held in security back to a client who has caused credit losses, or to any entity with close ties with that client.

The Asset Management Companies cooperate with competent authorities, observe strict business ethics and answer directly to their owners.

The Asset Management Companies do not sell real estate owned or held in security to their staff members.

LEGAL FRAMEWORK

Arsenal, Arsenal-SSP and Arsenal-Silta are limited joint stock companies and, hence, governed by the Finnish Companies Act. In addition, the activities of Arsenal are subject to the Law on the Government Guarantee Fund (857/93).

In June 1995, the Law on the Government Guarantee Fund was amended to provide that an asset management

Arsenal's group structure and ownership as at December 31, 1995.



company may hold a controlling interest in another asset management company (896/95).

The provisions laid down on customer protection and confidentiality in the Finnish Credit Institutions Act also apply to Arsenal, Arsenal-SSP and Arsenal-Silta.

Since the beginning of 1995, an asset management company's partial exemption from stamp duties was laid down in the Law on the temporary amendments to the Law on stamp duties (1229/94). This Law expires at end-1999. Such legislation exempts Arsenal from stamp duty in its borrowing and lending activities with its subsidiary Arsenal-SSP.

SUPERVISION AND AUDITING OF THE ASSET MANAGEMENT COMPANIES

The operations of the Asset Management Companies are supervised by the Government Guarantee Fund, State Audit Office and Parliamentary State Auditors. In questions relating to banking secrecy and client protection, the Asset Management Companies fall under the jurisdiction of the Financial Supervision.

The auditors for the parent company Arsenal are the auditing firms of SVH Coopers & Lybrand Ltd (formerly Salmi, Virkkunen & Helenius Ltd) and Tuokko Deloitte & Touche Ltd. They also act as auditors for Arsenal-SSP and Arsenal-Silta and, as a general rule, for other companies within the Arsenal Group. In addition, they audit the management of the Group.

GROUP STRUCTURE, ORGANISATION AND DECISION-MAKING AUTHORITY

Arsenal's structure comprises a regional organization and a centralized Group Administration located in Helsinki.

Group Administration is responsible for managing the overall operations and setting guidelines, and it lends its support to regional operations. The regional organization is responsible for its own clients and for the sale, rental, development and administration of real estate holdings.

Arsenal's operations are divided into three business divisions: credit administration, real estate management and client support.

Arsenal's regional organization consists of nine regions and of Arsenal-Silta. Arsenal has 24 offices all together. Organizationally and functionally, Arsenal-Silta operates as one of Arsenal's regional offices.

Board of Directors' report

SECOND YEAR OF OPERATIONS

The overall results for Arsenal's second year of operations turned out as anticipated. The strategy implemented by the Board of Directors to wind down operations has been realized as planned.

Economic developments will significantly affect the pace of winding down the Group's operations as well as the financial burden thereof. The continued decline in market interest rates during the accounting period has had a positive effect on the Group's market-price funding operations and on clients' interest expenses. Therefore, the operating results of the Arsenal Group were better than anticipated. By contrast, credit losses and asset write-downs exceeded the projected amounts.

STRUCTURAL REORGANIZATION

LEGAL FRAMEWORK

The Law on the Government Guarantee Fund was amended in June to allow an asset management company to hold a controlling interest in another asset management company (896/95). Arsenal's Articles of Association were revised accordingly.

SILTAPANKKI LTD BECOMES A SUBSIDIARY

On November 16, 1995, the Asset Management Company Arsenal Ltd bought from Merita Bank Ltd the majority interest in Siltapankki Ltd bank, representing 99.26% of the share capital and 99.95% of the voting rights, for the price of one Markka. Siltapankki Ltd's shareholders' equity includes preferred share certificates held by the Government Guarantee Fund. Under the terms of the acquisition of the Siltapankki Ltd shares, those rights conferred by the preferred share certificates remain with the Government Guarantee Fund. Siltapankki Ltd is considered as a separate entity. Pursuant to the share purchase agreement, the acquisition entails no financial consequences for Arsenal.

As a subsidiary of Arsenal, Siltapankki Ltd (currently Asset Management Company Arsenal-Silta Ltd) continues to administer and liquidate the problem loans, assets and real estate holdings of the former STS-Bank Ltd. The transfer of Siltapankki Ltd to Arsenal generates savings and

helps to streamline the Group's operations.

On December 18, 1995 Arsenal made a buyout bid - as defined in the Companies Act - for the remaining shares in Siltapankki Ltd. The bid price was one penny per share, however, with a minimum compensation of ten pennies per shareholder. The offer closed on January 18, 1996, and Arsenal purchased a total of 554 shares. The bid price and the right to compensation will be validated in arbitration proceedings.

Mr. Seppo Sippola, President of Arsenal, was elected Chairman of the Board of Directors as from December 1, 1995, and Mr. Jukka Räihä, Senior Executive Vice President of Arsenal, was elected Vice Chairman. Messrs. Timo Hietanen, Senior Vice President, Treasury and Capital Markets, Seppo Lehto, Senior Vice President of the Real Estate Division, and Esko Mäkinen, Senior Vice President of Financial Management, all from Arsenal Ltd, were appointed as Directors on the Board.

SAVINGS BANK OF FINLAND - SBF LTD BECOMES FULLY-OWNED SUBSIDIARY

The Savings Bank of Finland-SBF Ltd became Arsenal's subsidiary on August 24, 1994 when Arsenal purchased the controlling interest in the Savings Bank of Finland-SBF Ltd, representing 99.01% of Savings Bank of Finland-SBF Ltd's share capital, from Kansallis-Osake-Pankki, the Cooperative Banks, Postipankki Ltd and Union Bank of Finland Ltd. The Savings Banks' Foundations retained 0.99% of the Savings Bank of Finland-SBF Ltd's share capital (329,991 shares) until March 18, 1995, when Arsenal bought those shares as well. The purchase price was two Markkas per share.

SAVINGS BANK OF FINLAND - SBF LTD AND SILTAPANKKI LTD BECOME ASSET MANAGEMENT COMPANIES

The deposit taking licences of the Savings Bank of Finland-SBF Ltd and Siltapankki Ltd were revoked on November 30, 1995. Both companies were then turned into asset management companies as defined by the Law on the Government Guarantee Fund. The Savings Bank of Finland-SBF Ltd continues to operate under the new registered trade name Asset Management Company Arsenal-SSP Ltd, and Siltapankki Ltd under the new registered trade name Asset Management Company Arsenal-Silta Ltd.

The Savings Bank of Finland-SBF Ltd's activities as a deposit bank ended on November 30, 1995. In order to protect the guarantees given by the Savings Bank of Finland-SBF Ltd, and beneficiaries of guarantees, it was necessary to reorganize the status of all guarantees given by the Savings Bank of Finland-SBF Ltd at that time. For this reason, the Finnish State pledged

to underwrite all bank guarantees given by the Savings Bank of Finland-SBF Ltd which were transferred to Arsenal by the transfer agreement, and all future guarantee undertakings made by Arsenal-SSP.

After the deposit taking licence of Asset Management Company Arsenal-SSP Ltd was revoked, the guarantee decision for FIM 28 billion made in November 1994 by the Council of the State was altered in such a way that the guarantee commitment to the parent company is FIM 26 billion, while a guarantee of FIM 2 billion covers Asset Management Company Arsenal-SSP Ltd.

Merita Bank Ltd, OKOBANK Ltd and Postipankki Ltd undertook to guarantee repayment, on a joint and several basis, of principal and interest (as stipulated in the terms of the loan agreement) for the bonds and debentures of the Savings Bank of Finland-SBF Ltd, and those savings banks merged with it. The terms of the bonds remained unchanged.

After the revocation of Siltapankki Ltd's deposit taking licence, Merita Bank Ltd is still liable for the debentures issued and undertakings to foreign banks given by STS Bank Ltd, for a total value of FIM 398 million.

GROUP AND PARENT COMPANY RESULTS

GROUP'S ECONOMIC STARTING POINT

The Group's losses for 1995 and 1994 were significantly impacted by the nature and transfer prices of the assets the Group undertook to manage.

Savings Bank of Finland-SBF Ltd's holdings - loans, real estate and other assets - were transferred to Arsenal Group at Savings Bank of Finland-SBF Ltd's book value on October 31, 1993. The book value of the assets exceeded their market value at that time. Due to this, the 1995 and 1994 financial statements contain substantial credit losses and write-downs on loans, real estate holdings, securities and shares in subsidiaries.

SCOPE AND COMPARABILITY OF THE GROUP'S FINANCIAL STATEMENTS

■ Arsenal, a group of companies

Arsenal Group includes a total of 1,478 subsidiaries, participations and associated companies. Subsidiaries total 1,064, of which 1,003 are commercial and residential property holding companies. The remaining 414 are participations and associated companies, of which 408 are real estate holding companies.

■ Scope of the consolidated financial statement

The consolidated financial statement of Arsenal Group inclu-

des the financial statements of the Asset Management Company Arsenal Ltd, and of the 31 directly or indirectly owned subsidiaries. Asset Management Company Arsenal-SSP Ltd and Asset Management Company Arsenal-Silta Ltd draw up separate sub-group financial statements.

Pursuant to regulations laid down by the Accounting Board the commercial and residential property holding companies owned by Arsenal, Asset Management Company Arsenal-SSP Ltd and Asset Management Company Arsenal-Silta Ltd have not been included in the consolidated financial statements. Companies acquired for securing receivables have not been consolidated. The scope of the consolidated financial statements has been described in more detail in the section on accounting principles. The companies excluded from the consolidated financial statement have no significant impact on Arsenal Group's results and financial position.

■ Comparability of income statement and balance sheet items

During Arsenal's first financial period, beginning November 18, 1993 and ending December 31, 1994, the original transfer agreement of Savings Bank of Finland-SBF Ltd's business operations, which defined the assets to be transferred to Asset Management Company Arsenal Ltd, was completed, and the parties subsequently drew up a new agreement clarifying the original transfer agreement. Based on this new agreement the Savings Bank of Finland-SBF Ltd became a subsidiary of Arsenal, whose income statement and balance sheet include the loan and property income, as well as the expenses and balance sheet items originally intended for transfer to Arsenal, and entered until August 31, 1994 on Arsenal's income statement and balance sheet. After structural changes, Arsenal and Savings Bank of Finland-SBF Ltd started operations as a consolidated group on September 1, 1994.

Due to major changes in the Group structure, the length of the 1994 accounting period and the group funding arrangement between Arsenal and Asset Management Company Arsenal-SSP Ltd, the 1994 and 1995 income statement and balance sheet items are not fully comparable. The structural changes of the Asset Management Company during its first fiscal year, along with the treatment of Arsenal's income statement and balance sheet items, are described in detail in Arsenal's 1994 annual report in Finnish.

Siltapankki Ltd became Arsenal's subsidiary on November 16, 1995 (Asset Management Company Arsenal-Silta Ltd as of November 30, 1995). Asset Management Company Arsenal-Silta Ltd's balance sheet items have been included in Arsenal's

The impact of Asset Management Company Arsenal-Silta Ltd's consolidation on the balance sheet of the Arsenal Group.

	Arsenal Group without Arsenal-Silta	Arsenal-Silta Group	Arsenal Group
MFIM	1995	1995	1995
ASSETS			
Due from financial institutions			
Loans and advances	6 182		6 182
Other	600	893	1 493
Due from clients			
Loans	4 489	206	4 695
Loans from guarantees	1 284	88	1 372
Loans from foreign currency denominated loans	891		891
Leasing assets	200		200
Debt securities	20	8	28
Shares and participations	757	0	757
Intangible assets	1	2	3
Tangible assets			
Land and buildings	1 812	15	1 827
Real estate Co. shares and participations	5 008	136	5 144
Machinery and equipment	11	1	12
Other tangible assets	2	0	2
Other assets, accruals and deferred payments	789	40	829
Total	22 046	1 389	23 435
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
To financial institutions	626	76	702
Other liabilities	14 148	80	14 228
Accruals and deferred liabilities	626	16	642
Statutory reserves	2 682	1	2 682
Subordinated debt liabilities	1 953	249	2 202
Minority interest	82	967	1 049
Shareholders' equity			
Restricted equity			
Share capital	3 500		3 500
Restricted reserves	15 500		15 500
Distributable equity			
Loss from the previous financial periods	- 11 816		- 11 816
Loss for the financial period	- 5 253		- 5 253
Total	22 046	1 389	23 435
CONTINGENT LIABILITIES AND GUARANTEES	2 433	6	2 439

1995 consolidated financial statements. Asset Management Company Arsenal-Silta Ltd's income statement has not been consolidated. The effect of the inclusion of Asset Management Company Arsenal-Silta Ltd in Arsenal's consolidated financial statements has been described in the table on page 12. The Mutual Insurance Company of the Savings Banks has been included in the 1995 consolidated financial statements.

■ Comparative figures featured in financial statements

The income and expenditure figures in parentheses (...) immediately following the financial statement figures refer to Arsenal's activities for the accounting period beginning November 18, 1993 and ending December 31, 1994 and to Asset Management Company Arsenal-SSP Ltd's and Asset Management Company Arsenal-Silta Ltd's activities for the accounting period beginning January 1 and ending December 31, 1994. Balance sheet and volume figures for Arsenal, Asset Management Company Arsenal-SSP Ltd and Asset Management Company Arsenal-Silta Ltd are from the December 31, 1994 financial statement.

LOSS FOR THE ACCOUNTING PERIOD

The Group's loss for the accounting period decreased to FIM 5,253 million (-11,816 MFIM). The results for that accounting period were penalized by credit and guarantee losses amounting to FIM 3,732 million (4,545 MFIM). The Group's depreciation and write-downs on real estate assets were reduced to FIM 221 million (3,510 MFIM). Write-downs on securities produced a loss on securities trading of FIM 518 million (-1,444 MFIM). The Group's financial expenses were reduced to 1,260 MFIM (1,557 MFIM).

Parent company Arsenal's loss for the financial period was FIM 5,763 million (-11,314 MFIM). Credit and guarantee losses were FIM 1,019 million (4,580 MFIM). Securities trading lost FIM 453 million due to write-downs (-1,440 MFIM).

BALANCE SHEET

The Group's balance sheet was reduced to FIM 23,435 million (28,670 MFIM) of which the share of Asset Management Company Arsenal-Silta Ltd, which is included in the consolidated financial statements for the first time, was FIM 1,389 million. The Group's contingent liabilities and guarantees dropped to FIM 2,439 million (4,197 MFIM). The Group's shareholders' equity was FIM 1,931 million (-816 MFIM).

Parent company Arsenal's total assets grew to FIM 19,819 million (9,352 MFIM). This resulted from a division of duties between Arsenal and Asset Management Company Arsenal-SSP Ltd whereby the parent company Arsenal is responsible for the Group's funding.

INCOME STATEMENT

■ Net income from financial operations

The Group's interest income was FIM 924 million (502 MFIM), of which FIM 319 million came from the clients (300 MFIM) and FIM 486 million from loans and advances of the parent company Arsenal (150 MFIM).

Lower market interest rates and winding down the total assets on the balance sheet reduced financing costs. The Group's interest expenses fell to FIM 1,260 million (1,557 MFIM). Net leasing income was FIM 16 million.

The large problem loan exposure continued to depress interest income from loan receivables. The Group's net income from financial operations was a negative FIM 320 million (-1,039 MFIM).

Parent company Arsenal's interest income was FIM 1,138 million (463 MFIM) of which FIM 602 million stemmed from financing Asset Management Company Arsenal-SSP Ltd (117 MFIM). The interest charges incurred in funding at market prices were FIM 1,005 million. Interest expenses to Asset Management Company Arsenal-SSP Ltd were FIM 117 million. Net income from financial operations totalled FIM 133 million.

■ Other operating income

The Group's other operating income totalled FIM 213 million (-638 MFIM). Income from the real estate portfolio amounted to FIM 689 million (739 MFIM). Dividends and fee income totalled FIM 24 million (53 MFIM).

Other operating income was weakened by the decline in earnings on securities trading, which after write-downs showed a loss of FIM 518 million (-1,444 MFIM). The shares received by Arsenal as payment in kind for capital contributions represented FIM 255 million of the loss (520 MFIM), and write-downs on shares of Skopbank totalled FIM 279 million (925 MFIM).

The parent company Arsenal's income from other operations, FIM 228 million, includes a FIM 221 million charge from Asset Management Company Arsenal-SSP Ltd for managing its operations.

■ Administrative expenses and other operating expenses

The Group's administrative expenses were FIM 271 million (265 MFIM), out of which personnel costs amounted to FIM 195 million. Parent company Arsenal's personnel costs totalled FIM 165 million.

The Group's other operating expenses were FIM 934 million. Real estate management expenses were FIM 664 million (1,096 MFIM) and miscellaneous operating

expenses were FIM 270 million (722 MFIM).

The Group's miscellaneous operating expenses include FIM 190 million (397 MFIM) in loans and advances in connection with management and collection fees as defined in the transfer agreement to the banks that acquired the Savings Bank of Finland-SBF Ltd, and FIM 57 million of losses on loan claims.

Pursuant to the agreement for taking over the Savings Bank of Finland-SBF Ltd's operations, the Government Guarantee Fund covered Savings Bank of Finland-SSP Ltd's taxes and other reimbursements and professionals' fees for a total of FIM 94 million (169 MFIM) during the accounting period.

■ Depreciations

The permanent and substantial write-downs from real estate assets were entered as depreciations in the 1994 financial statement, for which reason the total amount of depreciation in the previous consolidated financial statement increased to FIM 3,510 million. The Group's depreciation for 1995 was reduced to FIM 221 million. Results for the fiscal year were burdened by write-downs on Asset Management Company Arsenal-SSP Ltd's individual properties, in the form of a FIM 136 million depreciation entry. Write-downs on real estate company shares amounting to FIM 25 million for the fiscal year were covered from statutory reserves booked in Savings Bank of Finland-SBF Ltd's 1994 financial statement.

■ Credit and guarantee losses

The Group's credit and guarantee losses totalled FIM 3,732 million (4,545 MFIM). The parent company Arsenal prepared for credit and guarantee losses from loans and advances managed by the banks that acquired Savings bank of Finland-SBF Ltd's operations, based on their reports, by booking FIM 1,070 million (930 MFIM) into statutory reserves. After this entry, the statutory reserves against loans and advances increased to FIM 2,000 million. Realized credit losses from loans and advances were booked for FIM 76 million (0 MFIM). The FIM 1,146 million credit loss on loans and advances was reduced by FIM 120 million due to a credit guarantee payment from Asset Management Company Arsenal-SSP Ltd's loan insurance, and by FIM 7 million in loan reimbursements.

Asset Management Company Arsenal-SSP Ltd's credit losses totalled FIM 2,644 million. Both realized and allocated, evident credit losses are booked as credit and guarantee losses. The definition of evident credit losses is based on client classification. The net difference between a client's outstanding receivables and the collateral securing those receivables is stated as a credit and guarantee loss. Assets pledged as collateral are marked to market.

■ Write-downs on subsidiary company shares

Subsidiary company shares (excluding shares in real estate companies) are valued in the financial statement at the subsidiary's net asset value at the end of the fiscal year. The total amount of write-downs on Arsenal's subsidiary company shares was FIM 4,215 million, of which the most significant single write-down was on Asset Management Company Arsenal-SSP Ltd shares, amounting to FIM 4,171 million (0 MFIM).

■ Extraordinary items

Extraordinary income, FIM 14 million, includes adjustments in Asset Management Company Arsenal-SSP Ltd's social expenses for 1993 and 1994.

BALANCE SHEET

■ Due from financial institutions and Bank of Finland

The Group's receivables from financial institutions and the central bank totalled FIM 7,675 million (7,295 MFIM), of which Arsenal's loans and advances from the banks that acquired the Savings Bank of Finland-SBF Ltd, amounted to FIM 6,182 million (6,817 MFIM) and Asset Management Company Arsenal-Silta Ltd's receivables from financial institutions of FIM 893 million.

The revoking of Asset Management Company Arsenal-SSPLtd's deposit taking licence freed FIM 216 million (246 MFIM) in capital held as the Bank of Finland's minimum reserve requirement.

■ Credits and guarantees

The Group's loan, guarantee and foreign currency denominated receivables after loan write-offs were FIM 6,958 million (10,237 MFIM), of which Asset Management Company Arsenal-Silta Ltd's share, consolidated for the first time, was FIM 294 million. Guarantees and other liabilities were reduced to FIM 2,439 million (4,197 MFIM). The reduction in guarantees was partly due to the transfer of FIM 710 million in loans of the property holding company and subsidiary company (owned by Arsenal and Asset Management Company Arsenal-SSP Ltd) from the Finnish Real Estate Bank and Industrial Fund to Arsenal. These loans were guaranteed by Asset Management Company Arsenal-SSP Ltd.

The Group's non-performing loans amounted to FIM 4,159 million (7,337 MFIM). These include FIM 248 million of Asset Management Company Arsenal-Silta Ltd's non-performing loan receivables. Non-performing receivables make up 60 % of the Group's receivables from the public (72 %).

All of the parent company's receivables from the public - FIM 9,935 million - are from Asset Management Company Arsenal-SSP Ltd.

	Arsenal Group		Arsenal	
Income Statement Highlights, MFIM	1995	1994	1995	1994
Net income from financial operations	- 320	- 1 039	133	- 863
Other operating income				
Securities trading income	- 518	- 1 444	- 453	- 1 440
Income from real estate portfolio	689	739	2	503
Other	42	67	250	149
Total operating income	- 107	- 1 677	- 68	- 1 651
Operating expenses				
Personnel costs	195	150	165	132
Real estate management expenses	664	1 096	13	687
Other	346	837	280	589
Depreciation	221	3 510	4	3 299
Credit and guarantee losses	3 732	4 545	1 019	4 580
Asset revaluations	11		4 215	376
Other items	23	- 1	1	
Loss for the financial period	- 5 253	- 11 816	- 5 763	- 11 314

■ Leasing assets

Assets under lease amounted to FIM 200 million (159 MFIM), of which the share of Arsenal's subsidiary, Tukirahoitus Oy, was FIM 199 million (157 MFIM).

■ Debt securities

The Group's debt securities totalled FIM 28 million (2,498 MFIM) at the end of the fiscal year. Of last year's debt securities FIM 2,467 million were linked to mandatory cash reserves required for Asset Management Company Arsenal-SSP Ltd's deposit taking licence.

■ Shares and participations

The book value after write-downs of the Group's shares and participations amounted to FIM 757 million, of which the portion of bank shares received by Arsenal as capital contributions was FIM 686 million.

■ Real estate holdings, shares and participations in real estate companies

Book value of the Group's real estate holdings, shares and participations in real estate companies totalled FIM 6,971 million (5,531 MFIM), of which Asset Management Company Arsenal-SSP Ltd's share was FIM 6,433 million (5,312 MFIM), SBF Service Ltd's share FIM 59 million (100 MFIM) and Asset Management Company Arsenal-Siltä Ltd's share FIM 151 million (0 MFIM).

■ Accrued liabilities and deferred payments

Accrued liabilities and deferred payments amounted to FIM

559 million. Accrued liabilities from Government Guarantee Fund increased to FIM 304 million (174 MFIM).

Arsenal's accrued liabilities and deferred payments, FIM 941 million, continue to include an advance payment of FIM 724 million to the Government Guarantee Fund in the form of Arsenal-SSP's preferred share certificates. After the end of the fiscal year the Government Guarantee Fund handed over to Arsenal preferred share certificates against an advance payment made.

■ Funding

The Group's total funding liabilities were FIM 17,773 million. The majority of the Group's funding, FIM 13,156 million (2,688 MFIM) has been raised through short term debt certificates issued by Arsenal. The sharp increase in the debt issued by the parent company Arsenal is due to a division of duties within the Group, whereby the parent company is responsible for the Group's funding. All of Asset Management Company Arsenal-SSP Ltd's outstanding certificates of deposit were retired during the accounting period. Bonds and debentures issued earlier by Asset Management Company Arsenal-SSP Ltd account for FIM 2,413 million (4,100 MFIM) of the total funding liabilities.

■ Statutory reserves

The Group's statutory reserves stood at FIM 2,682 million (1,666 MFIM). At Arsenal, statutory reserves were increased by FIM 1,218 million to a total of FIM 2,494 million. Of Arsenal's statutory reserves, FIM 2,000 million (930 MFIM) is set

aside against evident credit losses on loans and advances, and FIM 452 million (326 MFIM) for management and collection fees on loans and advances defined in the transfer agreement for banks that acquired the operations of Asset Management Company Arsenal-SSP Ltd.

The cost of winding down Savings Bank of Finland-SBF Ltd's operations was prepared for in the 1994 financial statement with a statutory reserve of FIM 355 million. The statutory reserve at the end of the year stood at FIM 168 million. The reserves covered write-downs on real estate holdings for FIM 25 million, legal expenses and auditing fees for FIM 23 million, interest expenses on bonds and debentures for which rates were above market levels, for FIM 51 million, pension liabilities for FIM 8 million and FIM 61 million in other winding-down expenses.

■ ■ Minority interests

Minority interests amounted to FIM 1,049 million. Asset Management Company Arsenal-Silta Ltd's restricted equity includes FIM 1,789 million worth of preferred share certificates held by the Government Guarantee Fund. Asset Management Company Arsenal-Silta Ltd's preferred share certificates continue to remain with the Government Guarantee Fund.

According to agreements on the acquisition of Asset Management Company Arsenal-Silta Ltd's preferred share certificates, the net results and other distributable equity, totalling FIM 968 million, have been treated in Arsenal's consolidated financial statements as a participation.

Outside companies' participations in SBF Service Ltd's net results and other distributable equity amounted to FIM 78 million.

	Arsenal Group		Arsenal	
Assets, MFIM	1995	1994	1995	1994
Due from financial institutions				
Loans and advances	6 182	6 817	6 182	6 817
Others	1 493	478	588	171
Due from clients	6 958	10 237	9 935	
Leasing assets	200	159		
Debt securities	28	2 498		
Shares and participations	757	1 930	2 134	1 352
Intangible assets	3	2		
Tangible assets				
Land and buildings	1 827	1 185		
Real estate Co. shares and participations	5 144	4 346	24	16
Machinery and equipment	12	22	7	11
Other assets, accruals and deferred payments	831	996	949	985
Total	23 435	28 670	19 819	9 352

	Arsenal Group		Arsenal	
Liabilities MFIM	1995	1994	1995	1994
Liabilities to credit institutions	702	2 762	552	4 418
Bonds	742	2 022		
Debentures	2 202	2 156		
Certificates of deposit		15 923		
Asset management company's debt securities	13 156	2 688	13 340	2 688
Other liabilities	971	2 183	1 510	1 284
Statutory reserves	2 682	1 666	2 494	1 276
Minority interest	1 049	86		
Shareholders' equity	1 931	- 816	1 923	- 314
Total	23 435	28 670	19 819	9 352

Shareholders' equity MFIM	Arsenal Group		Arsenal	
	1995	1994	1995	1994
Restricted equity				
Share capital	3 500	3 000	3 500	3 000
Restricted reserves	15 500	8 000	15 500	8 000
Total restricted equity	19 000	11 000	19 000	11 000
Distributable equity				
Loss from previous financial periods	- 11 816		- 11 314	
Loss for the financial period	- 5 253	- 11 816	- 5 763	- 11 314
Total distributable equity	- 17 069	- 11 816	- 17 077	- 11 314
Total shareholders' equity	1 931	- 816	1 923	- 314

Derivatives contracts

Derivatives contracts are only used for hedging purposes. Only interest rate and currency futures were used during the accounting period. Their credit equivalent value as at December 31, 1995 was FIM 1 million, and their nominal value FIM 26 million.

SHAREHOLDERS' EQUITY

Shareholders' equity after the loss for the financial year closed at FIM 1,931 million (-816 MFIM). The restricted equity of Arsenal Group is FIM 19,000 million and distributable equity a negative FIM 17,069 million.

SHARE CAPITAL AND OWNERSHIP

The Government of Finland owns 77.75 percent of Arsenal's FIM

3,500 million share capital directly, and holds a further 22.25 percent stake indirectly through the Government Guarantee Fund.

Arsenal's General Meeting to incorporate, held on November 18, 1993, decided upon a share capital of FIM 5,000 million. According to the Articles of Association, the minimum share capital is FIM 2,000 million and the maximum is FIM 8,000 million. Within these limits the share capital can be changed without amending the Articles of Association.

Upon incorporation the Government of Finland subscribed to 68.9 per cent and the Government Guarantee Fund to 31.1 per cent of the share capital. The total number of shares with a par value of FIM 5,000 was 500,000, the total value of shares being FIM 2,500 million.

CHANGES IN THE SHARE CAPITAL

Parent company Arsenal's shareholders' equity was increased by FIM 6,000 million during fiscal 1994.

The Annual General Meeting of March 23, 1995 decided to strengthen parent company Arsenal's shareholders' equity by FIM 8,000 million. FIM 500 million of the injected capital was allocated to share capital and the remaining FIM 7,500 million was entered in restricted capital reserves. The Government of Finland subscribed to the capital increase, and it is fully paid up. After the injection of additional capital the Government of Finland's ownership of Arsenal's shares and voting rights increased to 77.75 per cent (from 74.04%) and the Government Guarantee Fund's ownership decreased to 22.25 per cent (from 25.96%).

In accordance with previous plans Arsenal will seek no more than FIM 4 billion in additional capital from the Government. After a further capital injection received from the Government of Finland and the Government Guarantee Fund, the share capital will increase to a maximum of FIM 23 billion.

Changes in Arsenal's equity capital and its shareholders

Date	Addition to shareholders' equity MFIM	To share capital MFIM	To reserves MFIM	Share (%) of all shares and votes		Total number of shares
	MFIM	MFIM	MFIM	State	GGF*	
Establishment						
18.11.1993	5 000	2 500	2 500	68.90	31.10	500 000
Increases						
8.9.1994	6 000	500	5 500	74.04	25.96	600 000
23.3.1995	8 000	500	7 500	77.75	22.25	700 000
Total	19 000	3 500	15 500	77.75	22.25	700 000

* Government Guarantee Fund

ADMINISTRATION AND MANAGEMENT

Arsenal's Annual General Meeting was held on May 31, 1995. The Meeting approved the financial statements from the previous period. New Board members were appointed as of May 31, 1995: Senior Vice President Riitta Aaltonen and Managing Director Gretel Sommar-Bogdanoff. Executive Vice President Eero Aho, Director Aarne Heikinheimo, Councillor Veijo Kauppinen and Budget Chief Erkki Virtanen all continue as Board members. In its first Meeting on June 6, 1995, Arsenal's Board elected Mr. Aarne Heikinheimo as the Chairman of the Board and Mr. Veijo Kauppinen as the Vice Chairman.

Asset Management Company Arsenal Ltd's Board of Directors met 24 times during the financial period.

Chief Shop Steward Sinikka Leino represents personnel in Arsenal's Board meetings. She has a right to attend and speak in those meetings.

Asset Management Company Arsenal Ltd's Managing Director is Mr. Seppo Sipola, (Masters of Science of Economics) and as his deputy, Mr. Jukka Räihä, (Masters at Law).

ARSENAL'S SUPERVISION AND ACCOUNTANTS

Arsenal's operations are supervised by the Government Guarantee Fund, State Audit Office and Parliamentary State Auditors. The same secrecy and customer protection rules and regulations apply to Arsenal, Arsenal-SSP and Arsenal-Silta as to banks. In questions relating to banking secrecy and client protection, the Asset Management Company is overseen by the Financial Supervision.

Parent company Arsenal's auditors are the authorized audit firms SVH Coopers & Lybrand Ltd (formerly Salmi, Virkkunen & Helenius) and Tuokko Deloitte Touche Ltd. These firms also function as auditors for Arsenal-SSP and Arsenal-Silta and ordinarily for all other Arsenal Group companies. They also handle the Group's management auditing.

Arsenal Board of Directors: In the first row (from the left) Riitta Aaltonen, Chairman of the Board Aarne Heikinheimo, Gretel Sommar-Bogdanoff and the personnel representative, Chief Shop Steward Sinikka Leino. In the second row (from the left) Eero Aho, Vice Chairman Veijo Kauppinen and Erkki Virtanen.



Credit administration

- 12,200 clients with total liabilities of FIM 7.4 billion
- 28% of corporate clients deemed viable
- Client transfers as per transfer agreement now completed

A total of 21,800 (24,000) credit decisions were made during the accounting period, of which regionally 19,100 (21,000) and in Group administration 2,700 (3,000).

Client transfers from the banks that acquired SBF's assets ended on October 31, 1995. The computerized client management system was completed in the fall. All customer files and classifications were updated during this accounting period, and a collection system was put into operation in 1995.

Impact of the Arsenal-Silta consolidation on the volume of client business.

	Arsenal-SSP	Arsenal-Silta	Group
	1995	1995	1995
Clients	11 813	396 *	12 209
Liabilities, MFIM	7 085	300	7 385

Viable

corporate clients	2 287	67 *	2 354
liabilities, MFIM	3 971	101	4 072

Non-viable

corporate clients	5 753	329 *	6 082
liabilities, MFIM	2 656	199	2 855

Private clients

total	3 773		3 773
liabilities, MFIM	458		458

Non-performing,

MFIM	4 064	248	4 159
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* Client entities

12,209 CLIENTS AT THE END OF THE YEAR

The Asset Management Group had a total of 12,209 (12,685) clients on December 31, 1995. Of these, 3,773 were private clients transferred to Arsenal amongst client entities, and their liabilities to Asset Management Company Arsenal-SSP Ltd totalled 458 MFIM.

Client liabilities decreased during the accounting period by FIM 4,006 million and amounted to FIM 7,385 million (11,391 MFIM) at the end of the period. Client liabilities were reduced during the accounting period as a result of booking credit losses and loan payments, liquidating assets pledged as collateral and returning corporate clients to the banking system. Integrating Asset Management Company Arsenal-Silta Ltd into the Group increased client liabilities by FIM 300 million. Asset Management Company Arsenal-Silta Ltd had 67 viable client entities and 329 entities filed for collection.

Of the corporate clients, 28% (33%) were classified at the end of the year as viable. Total liabilities for these viable clients were FIM 4,072 million (5,900 MFIM), while liabilities of clients to be collected on totalled FIM 2,855 million (5,500 MFIM). Asset Management Company Arsenal-Silta Ltd's share of viable clients was FIM 101 million, and of the ones to be collected on, FIM 199 million. The average interest rate received from liabilities was 3.1% (2.4%).

The credit and guarantee losses for the Group were FIM 3,732 million (4,545 MFIM), of which the share of the parent company Arsenal was FIM 1,019 million and that of Asset Management Company Arsenal-SSP Ltd FIM 2,644 million. The ten largest credit losses amounted to FIM 221 million (360 MFIM). Broken down by sector, credit losses came from real estate FIM 634 million, commerce FIM 518 million, industry FIM 465 million, and construction FIM 382 million. The consolidation of Asset Management Company Arsenal-Silta Ltd within the Group did not affect the Group's credit losses.

Realized credit losses from loans and advances were entered for FIM 76 million (0 MFIM). Arsenal prepared for credit losses from loans and advances by adding FIM 1,070 million to statutory reserves. Loans and advances totalled FIM 6,182 million as at December 30, 1995. This amount did not include the deduction of FIM 2,000 million from the restricted reserves booked in 1994-1995.

Transfers of loans and advances have been completed. According to specifications of the Government Guarantee Fund, the auditing companies SVH Coopers & Lybrand Ltd and Tuokko Deloitte & Touche Ltd have verified that transfer criteria as set forth in the transfer agreement have been met concerning receivables transferred to loans and advances.

CLIENT TRANSFERS HAVE BEEN COMPLETED AS STIPULATED IN THE TRANSFER AGREEMENT

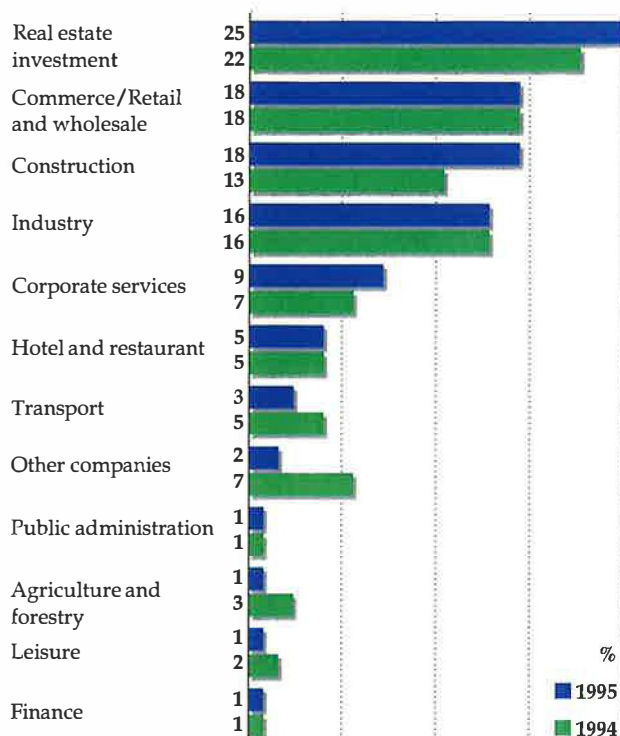
The conditions stating that former clients of Savings Bank of Finland - SBF Ltd could be transferred after sale of its business activities by the acquiring banks (KOP, UBF, Cooperative banks, PSP) to the Asset Management Company, were met. Client transfers ended on October 31, 1995.

There were a total of 537 clients and FIM 765 million of total liabilities transferred to the Asset Management Company from January 1 to December 31, 1995. During the same period, a total of 308 clients and FIM 220 million of total liabilities were transferred from the Asset Management Company to the banking sector.

FOCUS FOR 1996

The main objective in credit administration this year is to actively transfer clients to the banking system and to render collection more efficient, among other ways by launching a new computerized collection system.

The breakdown of credit losses (excl. loans and advances) according to business sector, as a percentage of credit losses for the period, totalling FIM 2,644 million (3,617 MFIM). Other companies -category includes independent contractors and private clients. Asset Management Company Arsenal-Silta Ltd has had no effect on the Group's credit losses for 1994 and 1995.



Asset management companies' clients according to amount of liabilities as at December 31, 1995 and December 31, 1994. Numbers do not include credits or guarantees granted by Asset Management Company Arsenal-SSP Ltd to subsidiaries of Arsenal or Arsenal-SSP.

	Client entities		Liabilities, MFIM	
	1995	1994	1995	1994
Liabilities over				
200 MFIM	0	0	0	0
100 MFIM	0	2	0	227
50 MFIM	5	8	286	503
40 MFIM	2	4	91	180
30 MFIM	5	18	174	618
20 MFIM	24	41	566	1 007
10 MFIM	68	125	868	1 723
5 MFIM	175	283	1 132	1 995
under 5 MFIM	2 360	2 910	3 510	4 696
Total	2 639	3 391	6 627	10 909

Wage-earners and households				
	3 773	4 331	458	482
Total	6 412	7 722	7 085	11 391

	Client entities		Liabilities, MFIM	
	1995		1995	
over 20 MFIM	1		25	
over 10 MFIM	2		31	
over 5 MFIM	4		26	
under 5 MFIM	389		218	
Total	396		300	

BOARD OF DIRECTORS' REPORT

Asset Management Company Arsenal-SSP Ltd's clients and client liabilities according to business sector as at December 31, 1995, December 31, 1994 and change from December 31, 1994 to December 31, 1995. Other companies-category includes independent contractors and private clients.

Arsenal-SSP	Clients			Liabilities, MFIM		
	1995	1994	change	1995	1994	change
Public administration	1	10	- 9	0	2	- 2
Finance	79	67	+ 12	73	75	- 2
Leisure	107	142	- 35	108	220	- 112
Hotel and restaurant	410	435	- 25	275	470	- 195
Transport	374	456	- 82	385	562	- 177
Agriculture and forestry	639	696	- 57	410	519	- 109
Corporate services	705	808	- 103	530	893	- 363
Construction	1 230	1 218	+ 12	969	1 600	- 631
Industry	1 142	1 257	- 115	1 235	1 912	- 677
Real estate investment	1 251	1 437	- 186	1 341	2 665	- 1 324
Retail and commercial	1 628	1 802	- 174	1 143	1 844	- 701
Other companies	4 247	4 357	- 110	616	629	- 13
Total	11 813	12 685	- 872	7 085	11 391	- 4 306
Arsenal-Silta	396*	420	- 24	300	436	- 136
Total	12 209			7 385		

* Client entities

Client support

- 75 client restructuring programs carried out
- Focus on subsidiaries with ongoing business activities

A client support project using outside consultants was started in the beginning of 1994. The project has now progressed from the study phase to the actual implementation phase of restructuring programs. Concurrently, nine companies with ongoing business activities have been taken over by Arsenal to secure the Group's claims. A bankruptcy petition was filed against one of these companies.

The objective of the client support division is to secure the Asset Management Company's claims in companies through an active ownership role. The client support division continues to coordinate recruitment of outside consultants needed for analyses, restructuring programs and to work as supervising Board members in client companies.

ARSENAL'S INVOLVEMENT IN THE DEVELOPMENT OF THE YLLÄS AREA

Arsenal's most significant restructuring operation thus far was carried out on December 14, 1995, when Arsenal-SSP, together with Matkailunkehitys Nordia Oy and Hotelli Hippocrene Oy founded a company named Ylläs-Ski Oy, Finland. The new company took over the assets of the bankrupt estates of Ylläs-Ski Oy and Äkäs Hotelli Oy and, in a separate transaction, the business of Hotelli Ylläskaltio. The Hotelli Ylläskaltio property was transferred concurrently to Arsenal-SSP's ownership. The new entity is the largest hotel, restaurant and ski lift operator in the Yllästunturi area.

The first year turnover objective for Ylläs-Ski Oy, Finland is approximately FIM 30 million. It employs approximately 20 regular and 80 seasonal employees. By taking an active role in the development of the new company and the entire area, the Asset Management Company also protects and enhances the value and future development potential of its other holdings in the area. According to the company's business plan, Arsenal-SSP's 33.6 percent ownership stake in the company will be sold at a later stage.

A TOTAL OF 411 CLIENT EVALUATIONS SINCE INCEPTION

By the end of 1995 all key client entities had been analysed to facilitate the credit decision process. During 1995 a total of

121 client evaluations were completed (290). Total liabilities to Arsenal-SSP owed by the companies analysed amounted to FIM 612 million (3,414 million). Of the client entities analysed during the accounting period 101 were found viable. The total liabilities of these companies to Arsenal-SSP were FIM 478 million.

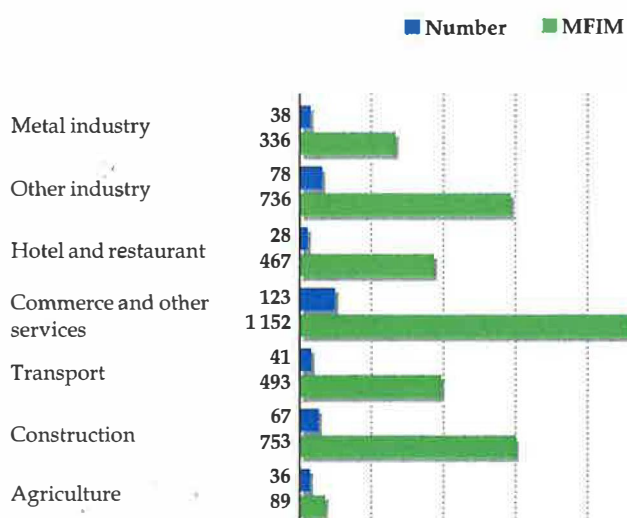
Since its inception, Arsenal has initiated 157 restructuring programs, of which 115 during the 1994 financial period. Of the client entities qualifying as viable, 4 have been taken into Arsenal's possession (representing total liabilities of FIM 47 million). As of December 31, 1995, 82 companies were undergoing a restructuring program, with liabilities totalling FIM 931 million.

FOCUS FOR 1996

For the current accounting period, the Client Support division plans to direct its focus on Arsenal's subsidiaries and associated companies with ongoing business activities. The objective is to find new owners for these companies through development of their business activities.

The fully-owned companies with ongoing businesses are Dowell Oy, Kirjapaino Koliprint Oy, Kylpyläkasino Oy (Ikaalisten Kylpylä Oy), Mäkelän Auto/Mäkelän Kone Oy, Sairaala Lasaretti Oy, Tauno Valo Oy, Uptime Group Oy and Wallas Marin Oy. In addition, the Client Support division is responsible for associated companies, such as Ylläs-Ski Oy, Finland.

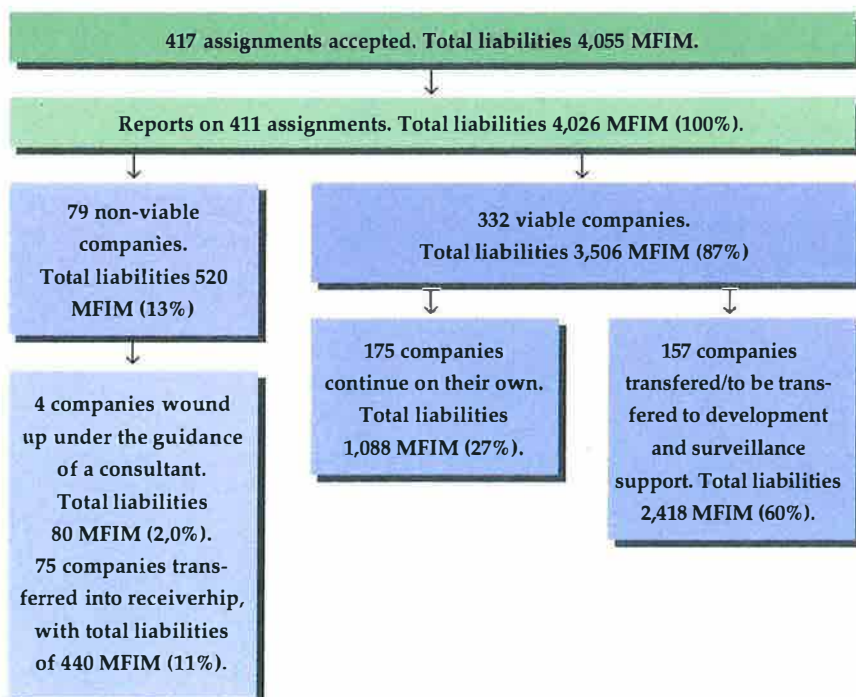
The breakdown of assignments undertaken by the Client Support division from November 18, 1993 to December 31, 1995 according to business, number and liabilities in MFIM. The liabilities to Arsenal-SSP of the 411 client entities evaluated by the end of 1995 totalled FIM 4,026 million.





Undertaking the largest corporate restructuring in its history, Arsenal is involved in ensuring the further development of the Ylläs travel resort.

The progress of corporate evaluations in the Client Support division from November 18, 1993, to December 31, 1995.



Real estate

- FIM 1.3 billion in real property sold
- FIM 0.6 billion in real property bought
- Total capital employed in the real estate portfolio: FIM 8.7 billion
- Total number of individual properties and apartments carried: 15,200

During the fiscal year, property assets worth FIM 614 million were sold (404 MFIM). The total number of individual properties sold was 1,342.

The largest real estate transaction in Arsenal's history was completed when a property located in Hämeenkatu 12 in the City of Tampere was sold at the end of June to the Regional Cooperative Bank of Tampere and to the Cooperative Banks' Pension Fund for FIM 61.5 million.

During fiscal 1995, previously collateralized properties were sold in market transactions for a total of FIM 698 million. The total number of properties sold was 1,802. Collateralized properties worth FIM 611 million (530 MFIM) were acquired to secure currently outstanding loan receivables. By purchasing previously collateralized property, Arsenal aims to curtail the enforced sale of those properties below market prices, hence avoiding additional credit losses and resulting charges.

THE GROUP'S REAL ESTATE HOLDINGS

As at December 31, 1995, the total capital employed in Arsenal Group's real estate portfolio was FIM 8,737 million

The results of the changes in the Group's structure on the volume of real estate operations.

	Capital employed,		Number	
	MFIM		of properties	
	1995	1994	1995	1994
Arsenal, Arsenal-SSP,				
other subsidiaries	8 357	8 504	14 939	14 400
SBF-Service	163	206	26	27
Mutual Insurance				
Company of the				
Savings Banks	25	25	21	25
Total	8 545	8 735	14 986	14 452
Arsenal-Silta Group	192	161	199	254
Group	8 737	8 896	15 185	14 706

(8,735 MFIM). The total capital also included the real estate assets of Arsenal's subsidiaries SBF-Service Ltd and Savings Banks' Mutual Insurance Company which amounted FIM 188 million. This portfolio comprised 15,185 individual properties and apartments (14,452). The integration of Arsenal-Silta into the Group increased the number of properties by 199 and the capital employed by FIM 192 million.

As at December 31, 1995, most of the capital was invested in commercial and office space, totalling approximately FIM 6,154 million (5,735 MFIM). Capital employed in apartments amounted to FIM 1,030 (1,146 MFIM) and FIM 848 (1,016 MFIM) in industrial and storage space. Ten largest properties according to capital employed (book value + share of debts) as at December 31, 1995 was FIM 1.2 billion.

Calculated on the basis of capital employed 53, per cent of the real estate assets are located in the Helsinki, Tampere and Turku economic regions.

Based on evaluations, substantial and permanent write-downs totalling FIM 3,5 billion were booked in the Group's 1994 accounts. In assessing the permanence of the write-downs, considerations included classification of property assets as salable, income-producing or development properties, and the estimated carrying period. In 1995 write-downs of FIM 161 million were made for individual properties. These write-downs were owed primarily to changes in local market conditions.

RENTAL MARGIN AND OCCUPANCY RATES

The Group's property income in 1995 amounted to FIM 689 million, with expenses of FIM 664 million. The rental margin (rental income less maintenance expenses) was 3.3 % of the Group's capital employed in real estate assets. Capital gains from sale of property assets amounted to FIM 46 million and capital losses to FIM 57 million.

At the end of the financial period, leased floor area amounted to 1.5 million square meters (1.4 Mm²) and vacant leasable area to approximately 0.8 million square meters (0.7 Mm²). The Group's occupancy rate was 64%.

PROPERTY DEVELOPMENT

In the fall of 1993, after the acquisition of SBF's operations, 653 former SBF bank offices were transferred to the Asset Management Company. The Acquiring Banks bought 24 offices and continued their banking activities in a further 424 offices either for the time being or on a 2-5 year lease agreement.

Structural changes and reductions in the service network in the banking industry will continue to add to the commercial and office space for sale and for rent. A nationwide campaign from June through August was carried out to pro-

mote the sale or rental of 118 vacant properties previously used as Savings Bank of Finland-SBF Ltd's branch offices.

In the spring of 1995 a new computer system for property management was set up. Specification of property details and data expansion continued through the accounting period.

The Group administers 4,041 golf shares and 3,899 time shares located in Finland. The real estate division is responsible for the sale and rental of the shares and of the sale and development of the 5 golf courses under the Group's control. During the 1995 accounting period, golf shares worth FIM 2 million and FIM 1 million of time shares were sold.

An open house organized in November attracted widespread interest. During this day the Group's operations and its available properties were presented to the public.

A sales development project was carried out in cooperation with Mercuri International. Each person in the real estate division participated in two separate phases and some followed training courses lasting 3 or 4 days.

In February of 1996, Arsenal and the State Real Properties Authority signed a contract, according to which the State Real Properties Authority purchased from Arsenal two real estate companies located in Rovaniemi for FIM 40 million. The transaction is the third largest in Arsenal's history. The property formerly housed the headquarters of the Rovaniemi Savings Bank. Arsenal is renovating the premises, which are due to be ready in the fall of 1997.

FOCUS FOR 1996

This year, the Division is concentrating mainly on developing and increasing the efficiency of its sales activities, improving the rental margin and planning developments for major property holdings.

Arsenal's largest single property transaction thus far was the sale of a property located in Hämeenkatu 12 in the City of Tampere at the end of June for FIM 61 million.



Breakdown of the real estate portfolio according to use and capital employed, as at December 31, 1995 and December 31, 1994.

Type	Capital employed, MFIM*		Percentage of total capital employed	
	1995	1994	1995	1994
Leisure	209	147	2	2
Land	357	398	4	4
Other	139	393	5	5
Industrial and storage	848	1 016	11	11
Apartments	1 030	1 164	13	13
Office and commercial	6 154	5 778	65	65
Total	8 737	8 896	100	100

* Includes Arsenal-SSP, SBF-Service Ltd, Arsenal-Silta and Mutual Insurance Company of the Savings Banks

The Asset Management Company manages a total of 15,185 individual properties and apartments which are located in 4,280 separate properties. The distribution of properties according to capital employed as at December 31, 1995.

Capital employed*	Number of properties	Percentage of total number of properties
over 20 MFIM	70	2
10-20 MFIM	90	2
5-10 MFIM	180	4
1 - 5 MFIM	1 020	24
under 1 MFIM	2 920	68
Total number of properties	4 280	100

*Includes Arsenal-SSP, SBF-Service Ltd, Arsenal-Silta and Mutual Insurance Company of the Savings Banks

Treasury and capital markets

- Foreign currency denominated items nearly wound down
- Consolidated accounts system set up to cover over 600 subsidiaries
- 91 MFIM in shares sold

Arsenal Group's cash management was greatly improved by the introduction of a consolidated accounts system in the beginning of the accounting period. The system incorporates all sub-accounts for Arsenal, Arsenal-SSP, Arsenal-Silta and nearly 600 subsidiaries. In addition, new fun-

ding and securities management systems were introduced in 1995.

DEBT PORTFOLIO FIM 13 BILLION

As its funding instrument, Arsenal uses a negotiable debenture issued by the Asset Management Company. It is a negotiable, State-guaranteed zero coupon bond in the form of a book-entry security and technically comparable to certificates of deposit issued by commercial banks and governments.

At the end of the 1995 financial period, Arsenal's debt portfolio had a nominal value of FIM 13,250 million (2,700 MFIM). Transaction volume of Arsenal's debt securities at the Helsinki Money Market Center amounted to over 6% of the total money market volume in 1995.

FIM 710 million in outside long-term loans assumed by

The Group's shares and participations totalled 757 MFIM as at December 31, 1995.

ownership stake (%):						
		share-	voting	purchase	write	31.12.95
		capital	rights	price	downs	book value
Company	number of shares	%	%	(MFIM)	(MFIM)	(MFIM) ¹
LISTED COMPANIES						
Owned by Arsenal						
Huhtamäki I	106 543			21	- 10	11
Huhtamäki K	58 819	0.60	0.50	12	- 5	7
Kesko	1 000			0	0	0
Kylpyläkasino A	193 334			1	0	1
Kylpyläkasino K	662 600	48.50	93.70	0	0	0
Merita A	63 933 333	7.70	8.30	1 446	- 760	686
Skop K	121 621 990	42.14 ²	34.92 ²	998	- 998	0
Total				2 478	- 1 773	705
Owned by subsidiaries						
Polar-Yhtymä Oy	3 169			0	0	0
Sampo A	7			0	0	0
Skop A	19 271 010			56	- 56	0
Skop K	18 377 370			184	- 184	0
Total				240	- 240	0
				2 718	2 013	705
OTHER SHARES						52
Group's shares and participations, total						757

¹ Shares have been valued at prices on 28.12.1995. Skop A series valued at 0 FIM. Merita A series' price derived from Kansallis-Yhtymä and Unitas A quotes.

² A and K series owned by Arsenal Group.

Arsenal-SSP's subsidiaries and real estate holding companies were transferred to Arsenal in 1995. At the end of 1995 this loan portfolio totalled FIM 673 million.

The program begun at the end of 1993 to reduce Arsenal-SSP's foreign currency denominated balance sheet items was continued in co-operation with clients and financial institutions. At the end of the accounting period the Arsenal-SSP's balance sheet did not contain any external foreign currency denominated refinancing (632 MFIM). The parent company's foreign currency denominated funding stood at FIM 50 million (0 MFIM) at the end of 1995.

SHARES AND PARTICIPATIONS

The Group's shares and participations totalled FIM 757 million (1,930 MFIM) at the end of the financial period. Of these, listed shares totalled FIM 705 million. Due to write-downs, the operating result from securities trading was a negative FIM 518 million (-1 444 MFIM).

In June, Arsenal bought a total of 23,422,530 Skop K shares from 40 independent savings banks for 0.2 MFIM. As a result of the transaction, Arsenal Group's ownership in Skopbank was increased to 42.14 % (35.93 %) of the share capital and 34.92 % (29.33 %) of the voting rights.

A total of FIM 91 million in shares were sold. In June, Arsenal sold 1,995,000 shares in OP-Invest Ltd - received as capital contributions - for a price of FIM 39.7 million. The shares represent 44.53% of OP-Invest Ltd's share capital and voting rights. During the accounting period, Arsenal sold 173,200 shares in Cultor Ltd - also received as payment in kind - for a total price of FIM 26.8 million.

The value of the shares (Merita, Huhtamäki) received by Arsenal as capital contributions has risen by M 44 FIM after the end of the fiscal year - measured at share prices on February 29, 1996 - and stood at FIM 747 million at the end of February.

FOCUS FOR 1996

Arsenal Group seeks funding for operations at market prices. The focus for funding in the current accounting period is to stabilize Arsenal's debt securities as negotiable financing instruments and to extend the maturity of its funding with long-term financing.

Personnel

At the end of the year Arsenal Group employed a total of 695 persons (773) out of which 630 were employed by Asset Management Company Arsenal Ltd (559), 29 by Arsenal-Silta, 1 by Arsenal-SSP (144), 12 by the Mutual Insurance Company of the Savings Banks (17), 18 by Tukirahoitus Ltd in the City of Oulu (17) and 5 by Master-Rahoitus Ltd in the City of Turku. Arsenal-SSP has no longer employed any personnel as from January 1, 1996.

Among parent company Arsenal's personnel, 371 (387) were permanently employed and 209 (172) persons were employed on time contracts.

For updating the client and real estate holdings systems, some 70 employees were hired during the latter part of the year on a project basis. These contracts ended for the most part in January and February of 1996.

In the employment conditions negotiations between Arsenal and the Finnish Bank Employees Union, it was agreed to join the collective bargaining agreement, valid until December 31, 1998.

Arsenal's combined practical and educational training expenses for the accounting period were FIM 4 million. The average training time per person was 4.2 days.

Future outlook

General developments in the Finnish economy, particularly the state of the real estate market and changes in interest rates, will have a significant effect on the value of the Group's assets and loan guarantees.

According to projections currently borne out for 1996 the Group's results are expected to improve significantly from the year before, but shall remain negative. Credit losses and write-downs will decrease substantially from the previous year. The business plan incorporates write-downs and credit losses for approximately FIM 1 billion. The total assets on the Group's balance sheet are expected to decrease by some FIM 3 billion.

Arsenal is to seek at most FIM 4 billion in additional government capital injections in the 1996 financial period. Reinforcing Arsenal's capital structure will ensure the Group's operations in 1996.

INCOME STATEMENT AND BALANCE SHEET

ARSENAL GROUP - CONSOLIDATED INCOME STATEMENT

FIM MILLIONS

	January 1-December 31, 1995		Nov. 18, 1993-Dec. 31, 1994	
Interest income				
From financial institutions and Bank of Finland	10		15	
From loans and advances	486		150	
From clients	319		300	
From debt securities	70		94	
Other interest income	39	924	- 57	502
Net leasing income		16		16
Interest expenses				
To financial institutions and Bank of Finland	73		1 247	
To clients	16		5	
On public debt instrument issues	1 003		49	
On subordinated debt	166		239	
Other interest expenses	2	1 260	17	1 557
NET INCOME FROM FINANCIAL OPERATIONS		- 320		- 1 039
OTHER OPERATING INCOME				
Dividend income		5		1
Fee income and expenses		19		52
Securities trading income		- 518		- 1 444
Income from foreign exchange operations		1		1
Income from other operations				
Real estate portfolio	689		739	
Other	17	706	13	752
TOTAL OPERATING INCOME		- 107		- 1 677
OPERATING EXPENSES				
Administrative expenses				
Personnel costs				
Salaries	139		95	
Pension payments	25		15	
Social expenses	16		10	
Other personnel costs	15	195	30	150
Other administrative expenses		76		115
		271		265
Depreciation		221		3 510
Other operating expenses				
Real estate management expenses	664		1 096	
Miscellaneous operating expenses	270	934	722	1 818
Credit and guarantee losses		3 732		4 545
Asset revaluations		11		-
OPERATING LOSS		- 5 276		- 11 815
Extraordinary income		14		-
LOSS BEFORE APPROPRIATIONS AND TAXES		- 5 262		- 11 815
Direct taxes				
Taxes for the current financial year and from previous financial years		0		- 1
Minority interest		9		-
LOSS FOR THE FINANCIAL PERIOD		- 5 253		- 11 816

Exchange rate USD 1= FIM 4.3586 as at December 29, 1995

INCOME STATEMENT AND BALANCE SHEET

ARSENAL GROUP - CONSOLIDATED BALANCE SHEET

FIM MILLIONS

ASSETS	December 31, 1995		December 31, 1994	
Cash in hand		0		0
Due from financial institutions and Bank of Finland				
From Bank of Finland		-		246
From financial institutions	1 493		232	
Loans and advances	6 182	7 675	6 817	7 295
Due from clients				
Loans	4 695		6 078	
From guarantees	1 372		2 586	
From foreign currency denominated loans	891	6 958	1 573	10 237
Leasing assets		200		159
Debt securities		28		2 498
Shares and participations				
Subsidiaries	18		352	
Associated companies	2		-	
Shares and participations	737	757	1 578	1 930
Intangible assets				
Other intangible assets		3		2
Tangible assets				
Land and buildings				
In own use	25		25	
Other	1 802		1 160	
Real estate shares and participations				
In own use	90		123	
Other	5 054		4 223	
Machinery and equipment	12		22	
Other tangible assets	2	6 985	9	5 562
Other assets		270		362
Accrued and deferred payments				
Accrued interest	124		145	
Other	435	559	480	625
		23 435		28 670

Exchange rate USD 1 = FIM 4.3586 as at December 29, 1995

INCOME STATEMENT AND BALANCE SHEET

ARSENAL GROUP - CONSOLIDATED BALANCE SHEET

FIM MILLIONS

LIABILITIES AND SHAREHOLDERS' EQUITY	December 31, 1995		December 31, 1994	
Liabilities				
To banks and Bank of Finland				
Due on demand	-		1 862	
Other	702	702	900	2 762
To clients		168		260
Debt instrument public issues				
Bonds and debentures	742		2 022	
Other	13 156	13 898	18 610	20 632
Other liabilities		161		61
Accrued and deferred liabilities				
Accruals due	174		278	
Other	468	642	1 585	1 863
		15 571		25 578
Statutory reserves		2 682		1 666
Subordinated debt liabilities		2 202		2 156
Minority interest		1 049		86
Shareholders' equity				
Restricted equity				
Share capital	3 500		3 000	
Restricted reserves	15 500	19 000	8 000	11 000
Distributable equity				
Loss from previous financial year	- 11 816			- 11 816
Loss for the financial year	- 5 253	- 17 069		- 816
		1 931		
		23 435		28 670

Exchange rate USD 1= FIM 4.3586 as at December 29, 1995

Accounting principles

GENERAL ACCOUNTING PRINCIPLES

According to the exemption granted by the Accounting Board the financial statements of the Asset Management Company Arsenal Ltd and its subsidiaries Asset Management Company Arsenal-SSP and Asset Management Company Arsenal-Silta Ltd, are drawn up and presented in accordance with bookkeeping and accounting regulations regularly concerning financial institutions and as stated in the Financial Supervision Regulations (18-19/113/94). Some of the financial items in the balance sheet and income statements have been adapted to correspond to the specific nature of Arsenal's activities. The corresponding figures from the previous years in Arsenal-Silta's 1995 financial statements are adjusted to match the changes in calculation practices used in the present income statement and balance sheet.

The financial statements of the subsidiaries are included in the consolidated financial statements in accordance with the accounting principles applied to the parent company. The income statement's income and expenses are recognized as earned or as incurred and entered on the income statement on an accrual basis.

SCOPE OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements of Arsenal Group include the financial statements of the parent company Arsenal Ltd and of those subsidiaries and associated companies owned directly or indirectly by it.

Companies acquired as collateral for lending and companies in the process of liquidation or in receivership are not included in the 1995 consolidated financial statements.

Real estate companies are not included in the consolidated financial statements. However, the major companies are listed under separate financial notes in Arsenal's 1995 annual report in Finnish.

The financial results of the merged subsidiaries are inclu-

ded in the consolidated financial statements via financial statements from the mergers. The impact on the results of the previous financial period are reflected in the current financial period's results and net profit.

CONSOLIDATION

Consolidated financial statements have been prepared according to the acquisition method of accounting.

The income statement of Asset Management Company Arsenal-Silta Ltd, which was incorporated as Arsenal's subsidiary as from November 16, 1995 is not included in the 1995 consolidated financial statements, but the balance sheet items of Asset Management Company Arsenal-Silta Ltd are included in the consolidated financial statements. According to agreements on the acquisition of Asset Management Company Arsenal-Silta Ltd, its preferred share certificates, net results and other distributable equity have been treated as minority interests.

The fact that all the subsidiary companies' financial statements are not included in the consolidated financial statements has no major impact on the Group's operating results nor on its financial position.

FOREIGN CURRENCY ITEMS

Foreign currency receivables, liabilities and contingent liabilities have been translated into Finnish markka using the Bank of Finland's average exchange rates on the last day of the year.

INTEREST INCOME AND EXPENSES

The receivable is considered to be non-performing when its interest or principal is overdue by 90 days. The receivable based on a guarantee is considered non-performing upon a payment made under such guarantee. The interest accrued and unpaid on non-performing loans is cancelled when the receivable has been classified as non-performing.

REAL ESTATE AND OTHER OPERATING INCOME

Real estate and other operating income has been entered as earned or accrued. Rental income has been valued at its estimated future value.

PENSION ARRANGEMENTS

Pension schemes for employees of Arsenal are arranged through an insurance package. The Group's pension liabilities are fully covered.

DEPRECIATION

The depreciation plans of Arsenal Group companies have been made in accordance with depreciation policies based on the estimated useful life of the assets. Real estate companies are not consolidated. Depreciation in those companies is not entered according to a specific depreciation plan.

CREDIT AND GUARANTEE LOSSES

Realized and allocated, evident credit losses are entered as write-offs of loans and guarantees. The probable credit loss has been booked when it is evident that the principal will not be repaid and its definition is based on client classification. These credit losses are allocated in Asset Management Company Arsenal-SSP by client and by loan and deducted from receivables.

The realized credit losses from loans and advances are entered and deducted from the corresponding item. The evident credit losses, based on the reports made by the banks that acquired the activities of Savings Bank of Finland - SBF Ltd, are entered as statutory reserves. Those reserves are not deducted from the loans and advances.

The net difference between outstanding receivables and the collateral values securing those receivables are stated as credit and guarantee losses. The collateral assets are valued at the expected selling price.

TAXES

Direct taxes are treated as incurred. The Government Guarantee Fund has, pursuant to the Savings Bank of Finland - SBF Ltd's transfer agreement, assumed the responsibility for the Savings Bank of Finland - SBF Ltd's taxes and the taxes of its subsidiary companies that were incurred before the signing of the transfer agreement on October 22, 1993.

TRANSFERABLE SHARES

Transferable shares are valued at the lower of cost or market value.

SHARES OTHER THAN TRANSFERABLE SHARES

Shares other than transferable shares are valued at cost. Where the expected selling price is permanently lower than cost, the difference is treated as an expense.

Subsidiary company shares are valued in the financial statement at the subsidiary's net asset value at the end of the fiscal year.

STATUTORY RESERVES

Statutory reserves cover such future expenditure to which the Group's companies have committed themselves and which is not expected to yield corresponding income, and such future losses which are considered evident, as well as evident credit losses from loans and advances.

DERIVATIVE INSTRUMENTS

Derivatives are used as hedging instruments. Items entered in the balance sheet on the basis of derivative instruments are booked as accruals. In evaluating hedging agreements, valuation policies applying to the item hedged have been taken into account. The results of futures contracts are recognized on closure of contract. The income and expenses from interest rate and foreign exchange swaps are booked as accrued as per the respective agreement.

PROPERTY ASSET REVALUATIONS

Permanent and substantial write-downs on properties and property holding companies are booked as expenses under depreciations.

Write-downs are considered substantial if the difference between market price and book value is more than 20 per cent. When evaluating the permanence of the write-downs, the property classification method and the estimated carrying time of each individual property asset is taken into consideration.

Proposal of the Board of Directors

Loss from previous financial years	FIM -11,314,248,163.15
Loss for the financial year	<u>FIM -5,763,054,573.31</u>
Distributable equity	<u>FIM -17,077,302,736.46</u>

Given the year's negative results and the level of distributable equity from previous years, no dividends will be distributed.

We propose that the loss for the year be covered out of distributable shareholders' equity.

Helsinki, March 14, 1996

Aarne Heikinheimo
Chairman

Veijo Kauppinen
Vice Chairman

Riitta Aaltonen

Eero Aho

Gretel Sommar-Bogdanoff

Erkki Virtanen

Seppo Sipola
President and CEO

Auditors' Report

TO THE SHAREHOLDERS OF ASSET MANAGEMENT COMPANY ARSENAL

We have audited the financial statements, the accounting records and the administration of Asset Management Company Arsenal Ltd for the accounting period started January 1, 1995 and ended December 12, 1995. The financial statements prepared by the Board of Directors and the President of the company comprise, both for the Group and the parent company, income statements, balance sheets and notes to the financial statements. Based on our audit we express our opinion here below on these financial statements and the company's administration.

We have audited the accounting records, the accounts, the disclosures and the presentation of information, including the accounting policies to the extent generally accepted by Finnish auditing standards. The management audit has confirmed that the actions of the Board of Directors and the President of the company have been in compliance with the regulations of the Finnish Companies' Act.

The Group's operations have generated considerable losses. The financial statements give an account on the reasons for such losses.

The accounts state a loss of FIM 5,763,054,573.31 for the parent company and a loss of FIM 5,252,920.83 for the Group. They have been prepared in accordance with the regulations of the Accounting Act and other legislation and regulations pertaining to the preparation of accounts.

The financial statements give a true and fair view, as defined in the Accounting Act, of the company's operating results as well as of its financial position. When evaluating the financial position of the parent company and the Group it is evident that the assets and liabilities, both of the parent company and the Group, contain substantial financial risks.

The Group's shareholders's equity amounted to FIM 1.9 billion as at December 31, 1995. The Group's financial position requires an increase in the shareholder's equity in light of the risks related to the evaluations on the balance sheet and the forecasted 1996 results. The general economic climate, the level of interest rates and developments in real estate, as well as the financial developments of the clients of the group are factors of substantial significance in assessing whether the increase of FIM 4 billion to be applied for, will be sufficient.

The accounts, including the Group accounts, may be approved, and the members of the Board of Directors and the President of the company may be discharged from liability for the financial period examined by us.

The proposal of the Board of Directors concerning the appropriation of the loss for the financial period is in compliance with the Companies' Act.

Helsinki, March 18, 1996

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Authorized Public Accountants

SVH Coopers & Lybrand Oy
Authorized Public Accountants

Yrjö Tuokko
Authorized Public Accountant

Johan Kronberg
Authorized Public Accountant

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Director
Finnish Guarantee Board

VICE CHAIRMAN

Mr. Veijo Kauppinen
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Mr. Eero Aho
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Mr. Erkki Virtanen
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Ministry of Finance

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This document, prepared for the international business community,
is an adaptation of Arsenal's 1995 annual report in Finnish.

In the event of conflict in interpretation, reference should be made
to the Finnish version of this report, which is the official text.

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ASSET MANAGEMENT COMPANY

ARSENAL^{ltd}