

ASSET MANAGEMENT COMPANY ARSENAL LTD



ANNUAL REPORT

1996



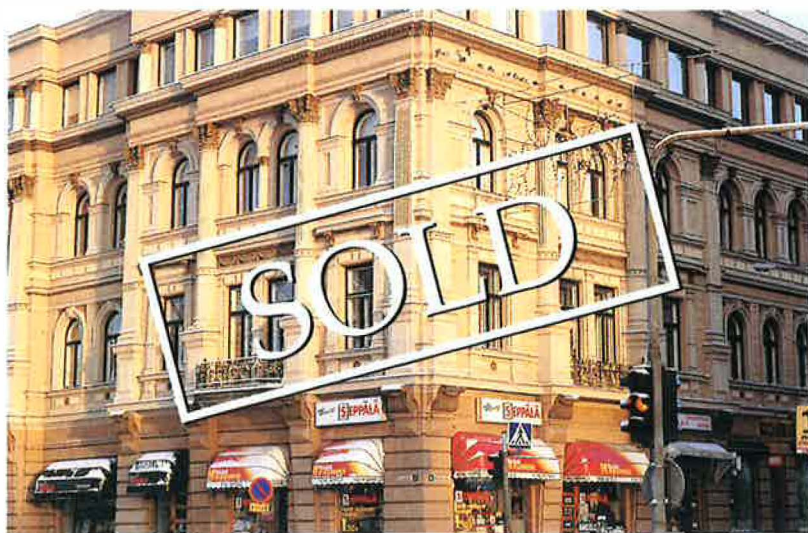
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Notes to the Financial Statements are excluded from
the English adaptation of Arsenal's annual report

Highlights of the *financial period*

- The Group's total assets and guarantees were reduced by FIM 4.4 billion.
- The loss for the financial period was FIM 1.4 billion.
- The Finnish Government strengthened Arsenal's shareholders' equity by injecting FIM 3.8 billion.
- Real estate assets, including real estate formerly held as collateral, worth FIM 1.5 billion were sold.
- Assets acquired as collateral for unpaid receivables totalled FIM 0.5 billion.
- Arsenal sold a portfolio of state subsidised apartments to VVO-Group for FIM 18 million.
- The Group's receivables from clients reduced by FIM 2.7 billion. Client loan amortisations representing FIM 1.6 billion and the reintegration of clients into the regular banking system reduced liabilities by FIM 0.5 billion.
- The sale of Tukirahoitus Ltd reduced Arsenal's total assets by over FIM 200 million.
- The most significant collections of receivables during the financial period were the sale of the Satakunnan Kirjateollisuus Ltd shares owned by SK-Investment Ltd (in receivership) and pledged as collateral to the main creditors. This transaction reduced Group's client receivables over FIM 80 million.
- The maturity of the Group's financial reserves were strengthened by the issuance of two bonds totalling FIM 3 billion. The bonds are listed on the Helsinki Stock Exchange and were converted into book-entry certificates in February 1997.
- The Finnish Government's unconditional guarantee, granted for Arsenal's funding, was reduced by FIM 10 billion.
- Arsenal's largest transaction involving shares in a golf course was completed when Ykköstie Golf Ltd's (Wiurila) shares were sold for FIM 6.9 million.
- Arsenal reduced its personnel by 73 persons during the financial period. The local offices in Kankaanpää and Pietarsaari were merged with the other regional offices.



- The sale of the property holding company Ruuska-nen, located in the City of Tam-pere, for FIM 40 million was deci-ded in November.

Group key figures

RESULTS AND BALANCE SHEET, MFIM	1996	1995	1994
Balance sheet total	20,254	23,435	28,670
Guarantees	1,259	2,439	4,197
Shareholders' equity	4,379	1,931	(816)
Capital injections from the Finnish Government	22,800	19,000	11,000
Net income (loss) from financial operations	(67)	(320)	(1,039)
Securities trading income	260	(518)	(1,444)
Other operating income	727	731	806
Total operating income	920	(107)	(1,677)
Operating expenses	1,093	1,205	2,083
Depreciation and asset revaluations	209	221	3,510
Credit and guarantee losses			
From client receivables	503	2,713	3,617
From loans and advances	484	1,019	928
Loss for the financial period	(1,352)	(5,253)	(11,816)

CLIENT OPERATIONS	1996	1995	1994
Total number of clients	10,215	12,209	12,685
Client receivables due, (MFIM)	4,610	7,385	11,391
Corporate clients			
Total number of viable clients	1,732	2,354	2,866
Total receivables due from viable clients, (MFIM)	2,788	4,072	5,900
Total number of non-viable clients	5,545	6,082	5,519
Total receivables due from non-viable clients, (MFIM)	1,494	2,855	5,500
Total number of private clients	2,938	3,773	4,300
Total receivables due from private clients, (MFIM)	328	458	617
Transfers to regular banking system			
Total number of clients	264	320	120
Total client receivables, (MFIM)	487	243	118
The average interest rate achieved, (%)	4.1	3.1	2.4
Loans and advances (MFIM)	5,210	6,182	6,817

REAL ESTATE OPERATIONS	1996	1995	1994
Total capital employed in real estate portfolio, (MFIM)	8,195	8,737	8,735
Total area, (Mm ²)	2.3	2.4	2.4
Real estate disposals, (MFIM)	1,508	1,312	1,004
From balance sheet, (MFIM)	772	614	404
From guarantees, (MFIM)	736	698	600
Real estate acquired as guarantees, (MFIM)	525	611	530
Rental margin (%)			
from capital employed, (%)	3.5	3.3	3.1

The president's message

YEAR 1996

The winding-down of the Group's operations during the third year of operations proceeded according to expectations.

The Group's total assets were reduced by FIM 3.2 billion and totalled FIM 20.3 billion. The off-balance sheet liabilities diminished by FIM 1.2 billion and totalled FIM 1.2 billion at December 31, 1996.

The Group's loss, FIM 1.4 billion, was in line with expectations. Actual credit and guarantee losses were higher than estimated. The increase of the value of the listed share portfolio had a positive impact on the results.

The maturity of the Group's funding base was extended through two bond issues with nominal value of FIM 3 billion. Both of the bonds are listed on the Helsinki Stock Exchange.

During the financial period the Group sold more real estate assets than targeted, for a consideration of FIM 1.5 billion. The Group's client receivables were reduced as expected by FIM 2.7 billion. Also the client transfers to the regular banking system amounted to FIM 0.5 billion, in line with expectations. Thanks to the efforts of all the personnel, the winding-down of operations has proceeded in an efficient manner.

During the financial period the Finnish Government made an additional capital injection of FIM 3.8 billion into Arsenal's shareholders' equity, which was according to plan. The Finnish Government's unconditional guarantee, granted for Arsenal's funding, was reduced from FIM 28 billion to FIM 18 billion.

THE WINDING-DOWN OF OPERATIONS DURING 1994 -1996

The total amount of the assets and liabilities, for which Arsenal assumed the responsibility from the Savings Bank of Finland - SBF Ltd in October 1993, was FIM 39.5 billion. The acquisition of Siltapankki Ltd in 1995 further increased the Group's assets by FIM



1.4 billion. Of the total assets, real estate assets represented FIM 12.2 billion and client receivables FIM 16.3 billion.

During the course of the first three years of operations Arsenal's client and real estate assets and corresponding liabilities have been reduced by FIM 15.6 billion.

Loan amortisations by clients and sales of assets pledged as collateral amounted to FIM 3.8 billion. A total of FIM 0.8 billion of client receivables have been transferred to the regular banking system. Credit and guarantee losses from client receivables totalled FIM 6.8 billion.

During the first three years of operations properties worth FIM 1.8 billion were sold and a further FIM 1.7 billion in properties were purchased to secure loan receivables. Write-downs on the property portfolio totalled FIM 3.9 billion.

THE OUTLOOK FOR THE CURRENT FINANCIAL PERIOD AND FOR THE END OF THE CENTURY

It is expected that during the 1997 financial period the Group's total assets and guaran-

tees will decline by FIM 3.5 billion and will total FIM 18 billion. The loss for the current financial period is expected to be significantly less than the loss of the previous financial period.

Since the beginning of Arsenal's operations, the Finnish Government and the Government Guarantee Fund have injected FIM 22.8 billion of shareholders' equity into Arsenal. It is estimated that the shareholders' equity remaining at the end of the century will be sufficient to restructure or close down Arsenal's operations.

The Group's operations are expected to continue in their present form until the end of the century. Total assets are expected to diminish to FIM 7 billion by that time. Arsenal's business, after the asset management period, will focus on the sale and active development of its property portfolio in order to enhance future selling prices and thus the value of the properties

Helsinki, March 5, 1997

Seppo Sipola

President and CEO

Group structure

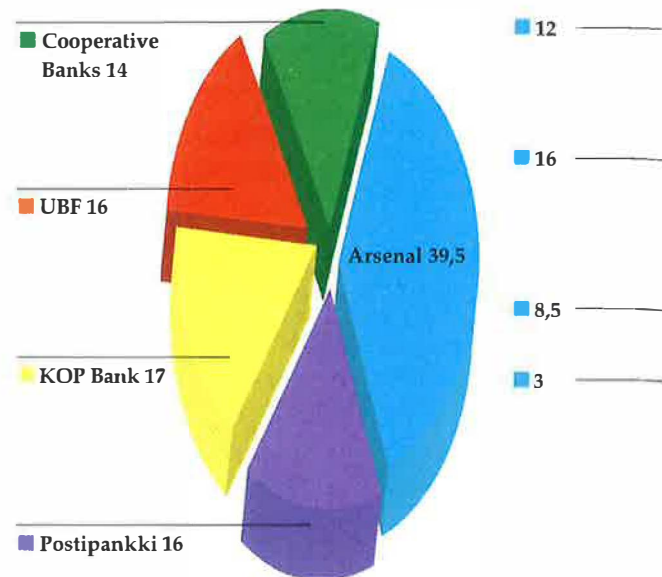
BUSINESS CONCEPT OF THE ASSET MANAGEMENT GROUP

The objective of the Arsenal Group is to manage, develop and liquidate assets for which it has assumed responsibility in order to ensure optimal financial results under prevailing circumstances, thus minimising any further Government investments in the Group and reducing the risk of loss on investments already made.

Arsenal's mission is of limited tenure and it is estimated that it will be completed by the end of the century.

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

■ Arsenal Process, since the split of the SBF assets in October 1993, MFIM



NOVEMBER 22 ACQUISITION

■ Arsenal's group structure and ownership as at December 31, 1996. The Group includes a total of 1,584 subsidiaries, participations and associated companies.



Arsenal

■ Real Estate	■ Development, sales, lease
■ Non-performing loans over FIM 1 million	■ Transfer to banks ■ Repayment of loans ■ Development of loan portfolio ■ Sales of properties pledged as collateral ■ Collection
■ Non-performing loans under FIM 1 million	■ Disposal of assets in 1999
■ Other assets	■ Sales

**Arsenal group
year 2000**

**Volume of
operations:
FIM 7 billion**

November 1995
FIM 1.4 billion

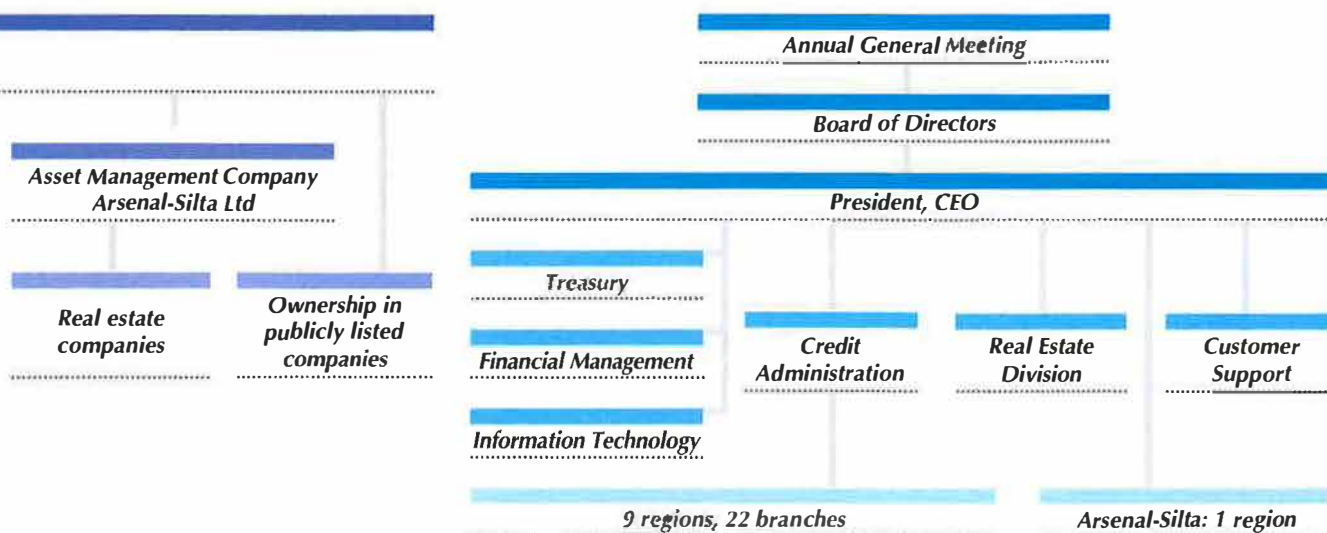
Siltapankki Ltd

DECEMBER 31, 1995

WINDING DOWN

2000

■ Arsenal organisation as at December 31, 1996.



Board of directors' report

1996 FINANCIAL PERIOD

The overall results for Arsenal's third year of operations were in line with expectations. The company has clearly entered into the winding-down phase of its lifespan. The winding-down of operations has proceeded as planned.

Arsenal's client-related businesses are almost entirely Finnish domestic operations. Also the majority of Arsenal's real estate and real estate pledged to Arsenal as guarantees are domestic. The positive developments in the domestic operational environment, particularly the decline in interest rates and the recovery of the property markets, have supported the winding-down process as anticipated.

The improvement in the economic climate in Finland resulted in higher prices in the residential property markets; an increase in demand led to increased prices for office space and rents. The number of vacant office spaces in major cities has diminished and the level of the rents in new leases were higher. There were already signs of a shortage of supply of office and commercial space in the Helsinki metropolitan area. By contrast the number of properties sold did not increase significantly during the year.

The process whereby the property market will be divided into growing and declining markets is expected to continue in the following years. Based on the current developments and the forecasts for the future, it is likely that the property markets will develop most favorably in university areas, where there is an ample supply of educated and skilled workers.

THE GROUP'S LOSS

FOR THE FINANCIAL PERIOD

The Group's net loss after tax and minority interest for the period ending December 31, 1996 decreased to FIM 1,352 million (-5,253 MFIM). The results for the financial period were affected by credit and guarantee losses amounting to FIM 987 million (3,732 MFIM). The Group's depreciation and write-downs on real estate assets totalled FIM 209 million (221 MFIM). Certain write-downs of the value of the portfolio of stock exchange listed shares taken during previous financial periods were able to be reversed, producing a profit on securities trading of FIM 260 million (-518 MFIM). The Group's financial expenses were reduced to FIM 716 million (1,260 MFIM).

THE GROUP'S BALANCE SHEET

The Group's balance sheet total was reduced to FIM 20,254 million (23,435 MFIM) for the year ended December 31, 1996. The Group's shareholders' equity totalled FIM 4,379 million (1,931 MFIM). Guarantees diminished during the financial year to FIM 1,259 million (2,439 MFIM).

GROUP RESULTS

GROUP'S ECONOMIC STARTING POINT

The Group's losses for the period of 1994 to 1996 were significantly impacted by the nature of the transfer of assets and liabilities and the transfer prices of the assets under management of the Group.

Savings Bank of Finland - SBF Ltd's holdings - loans, real estate and other assets - were transferred to Arsenal Group at the

Savings Bank of Finland - SBF Ltd book value on October 31, 1993. The book value of the assets exceeded their realisable market value at that time. Due to this, the 1994 to 1996 financial statements contained substantial credit losses and write-downs on loans, real estate holdings, securities and shares in subsidiary companies.

INCOME STATEMENT

Net income from financial operations

The Group's interest income was FIM 646 million (924 MFIM), of which FIM 260 million was received from clients (319 MFIM) and FIM 360 million from loans and advances of the parent company Arsenal (486 MFIM). The reason for the low level of interest income was due to the large number of problem loan exposures.

Lower market interest rates and the reduction in total assets reduced financing costs. The Group's interest expense fell to FIM 716 million (1,260 MFIM). Net leasing income reduced to FIM 3 million (16 MFIM) due to the sale of the leasing company, Tukirahoitus Ltd.

The Group's net income from financial operations was a negative FIM 67 million, but demonstrated a clear improvement as compared to the previous year (-320 MFIM).

Other operating income

The Group's other operating income totalled FIM 987 million (213 MFIM). Income from the real estate portfolio amounted to FIM 702 million (689 MFIM), of which capital gains from real estate sales were FIM 66 million (45 MFIM). Dividends and fee income

me totalled FIM 14 million (24 MFIM).

Income on securities trading was a positive FIM 260 million which includes FIM 12 million in capital gains on securities sold and FIM 248 million of revaluations on earlier write-downs on the value of listed shares.

Administrative expenses

The Group's administrative expenses were FIM 366 million (271 MFIM), out of which personnel costs amounted to FIM 167 million (195 MFIM) and other administrative expenses amounted to FIM 199 million (76 MFIM).

The result from the financial period was reduced by provisions of FIM 129 million, stemming from the transfer agreement with the banks that acquired the assets and liabilities of Savings Bank of Finland - SBF Ltd, and which were earlier the responsibility of the Government Guarantee Fund. These obligations were transferred to the Group's responsibility on April 1, 1996 and are connected to the Savings Bank of Finland - SBF Ltd's expenses for lawsuits in connection with taxes and public payments of the Savings Bank of Finland - SBF Ltd and its subsidiary companies, based on events that took place before the transfer agreement was signed on October 22, 1993. Such provisions, for a total of FIM 33 million, were charged during the financial period and a statutory reserve of FIM 96 million was set aside for other administrative expenses to cover future expenses of the same nature.

Before Arsenal assumed the responsibility of these liabilities the Government Guarantee Fund had previously covered,

between January 1st and March 31st, 1996, Arsenal-SSP Ltd's taxes and other reimbursements and professionals' fees for a total of FIM 8 million (85 MFIM).

Other operating expenses

The Group's other operating expenses totalled FIM 727 million (934 MFIM), of which real estate management expenses were FIM 598 million (664 MFIM) and miscellaneous operating expenses were FIM 129 million (270 MFIM). Of the real estate management expenses, FIM 98 million was ascribable to losses on disposals of real estate holdings.

The Group's miscellaneous operating expenses include management and collection fees of FIM 26 million (190 MFIM) in connection with loans and advances, as defined in the transfer agreement to the banks that acquired the Savings Bank of Finland - SBF Ltd, and FIM 85 million (57 MFIM) of losses on loan claims. The major portion, FIM 125 million, of the comparative period's management and collection fees relating to loans and advances were charged in anticipation of the payments of collection fees in 1999.

Depreciation and write-downs on real estate assets

The Group's depreciation amounted to FIM 209 million (221 MFIM). Depreciation includes FIM 205 million (136 MFIM) of write-downs on individual properties. Depreciation on machinery and equipment was FIM 4 million (8 MFIM).

Credit and guarantee losses

The Group's credit and guarantee losses, reduced by income received from collections and reversals of previous provisions, totalled FIM 987 million (3,732 MFIM). Client receivables of FIM 503 million and loans and advances represented FIM 484 million of the credit and guarantee losses. FIM 265 million of the credit and guarantee losses from loans and advances was final, i.e. there is no likelihood of any recovery. Credit and guarantee losses from loans and advances managed by the banks that acquired Savings bank of Finland - SBF Ltd's operations were anticipated by increasing statutory reserves by FIM 224 million. After this further provision, statutory reserves for credit and guarantee losses increased to FIM 2,224 million.

	Arsenal Group		Arsenal	
INCOME STATEMENT HIGHLIGHTS, MFIM	1996	1995	1996	1995
Net income from financial operations	-67	-320	140	133
Other operating income				
Securities trading income	260	-518	253	-453
Income from real estate portfolio	702	689	1	2
Other	25	42	252	250
Total operating income	920	-107	646	-68
Operating expenses				
Personnel costs	167	195	162	165
Real estate management expenses	598	664	16	13
Other	328	346	112	280
Depreciation	209	221	4	4
Credit and guarantee losses	987	3,732	484	1,019
Asset revaluations	3	11	1,163	4,215
Other items	20	23	23	1
Loss for the financial period	-1,352	-5,253	-1,272	-5,763

Extraordinary items

The Group's extraordinary income of FIM 14 million was due to capital gains booked from the sales of subsidiary company shares.

BALANCE SHEET**Due from financial institutions**

The Group's receipts from financial institutions totalled FIM 6,365 million (7,675 MFIM), of which loans and advances from the banks that acquired the assets and liabilities of the Savings Bank of Finland- SBF Ltd, amounted to FIM 5,210 million (6,182 MFIM). FIM 2,224 million (2,000 MFIM).

This have been provided for in the statutory reserves but has not been deducted from loans and advances.

Receivables and guarantees

Loans, guarantee and foreign currency denominated receivables after loan write-offs declined to FIM 5,119 million (6,958 MFIM). Guarantees halved to FIM 1,259 million (2,439 MFIM).

Non-performing assets amounted to FIM 2,437 million (4,159 MFIM). Non-performing assets comprise 48 percent of the Group's receivables from the public (60%).

Leasing assets

The amount of assets under lease was reduced by FIM 200 million from the previous year. This reduction was due to the sale of the leasing company Tukirahoitus Ltd in March, 1996.

Debt securities

Debt securities held totalled FIM 306 million (28 MFIM) at the end of the financial period. The increase in debt securities held is due to the capital injection made on December 30, 1996, of which a portion has been temporarily allocated to debt securities.

Shares and participations

The book value of the Group's shares and participations increased to FIM 1,234 million (757 MFIM). The value of the shares was increased by FIM 276 million due to receipt of shares from the Government Guarantee Fund as a payment of its debt. The book value of the share portfolio was increased by FIM 248 million due to the price increase of shares earlier written down.

Real estate holdings, shares and participations in real estate companies

The book value of the real estate holdings, shares and participations in real estate companies totalled FIM 6,841 million (6,971 MFIM).

Accrued liabilities and deferred payments

Accrued liabilities and deferred payments were reduced to FIM 169 million (559 MFIM). The previous year's accrued liabilities assumed from the Government Guarantees

	Arsenal Group		Arsenal	
ASSETS, MFIM	1996	1995	1996	1995
Due from financial institutions				
Loans and advances	5,210	6,182	5,210	6,182
Other	1,155	1,493	1,086	588
Due from clients	5,119	6,958	10,082	9,935
Leasing assets	0	200		
Debt securities	306	28	299	
Shares and participations	1,234	757	1,889	2,134
Intangible assets	0	3		
Tangible assets				
Land and buildings	1,696	1,827		
Real estate shares and participations	5,145	5,144		24
Machinery and equipment, other tangible assets	10	14	5	7
Other assets, accruals and deferred payments	379	829	140	949
Total	20,254	23,435	18,711	19,819

	Arsenal Group		Arsenal	
LIABILITIES, MFIM	1996	1995	1996	1995
Liabilities to credit institutions	128	702	124	552
Bonds and debentures	3,251	742	3,110	184
Subordinated debt	1,736	2,202		
Asset management company's debt securities	6,145	13,156	6,145	13,156
Other liabilities	601	971	2,205	1,510
Statutory reserves	2,966	2,682	2,676	2,494
Minority interest	1,048	1,049		
Shareholders' equity	4,379	1,931	4,451	1,923
Total	20,254	23,435	18,711	19,819

tee Fund of FIM 304 million were paid during the financial period.

Funding

The Group's total liabilities were FIM 11,861 million (17,773 MFIM). The majority of the funding, FIM 6,145 million (13,156 MFIM) was raised via short term debt securities issued by Arsenal.

The amount of bond- and debenture-based funding of the Group's total funding increased to FIM 4,987 million (2,944 MFIM). During 1996, Arsenal issued bonds worth a nominal value of FIM 2,980 million. The parent company's funding through bond issues increased to FIM 3,110 million (184 MFIM). Bonds and debentures issued earlier by Asset Management Company Arsenal-SSP Ltd account for FIM 1,813 million (2,412 MFIM) of the total funding liabilities.

Statutory reserves

The Group's statutory reserves were increased to FIM 2,966 million (2,682 MFIM). Of statutory reserves, FIM 2,224 million (2,000 MFIM) was set aside against anticipated credit losses on loans and advances, and FIM 425 million (451 MFIM) for management and collection fees on loans and advances.

Minority interests

Minority interests amounted to FIM 1,048 million (1,049 MFIM). Arsenal-Silta Ltd's restricted equity includes FIM 1,789 million (1,789 MFIM) worth of preferred share certificates held by the Government Guarantee Fund.

The Asset Management Company Arsenal-Silta Ltd's preferred share certificates continue to remain with the Government Guarantee Fund. Based on the agreement concerning the acquisition of Arsenal-Silta Ltd's shares, the preferred share certificates, Arsenal-Silta Ltd's results and other shareholders' equity, are booked in consolidated financial statements as minority interests for a total of FIM 973 million (968 MFIM).

SHAREHOLDERS' EQUITY

Shareholders' equity after the result for the 1996 financial year was FIM 4,379 million (1,931 MFIM). The restricted equity of Arsenal Group is FIM 22,800 million (19,000 MFIM) and distributable equity a negative FIM 18,421 million (-17,069 MFIM).

PARENT COMPANY RESULTS

The parent company of the Arsenal Group's loss for the financial period reduced to FIM 1,272 million (-5,763 MFIM).

The total assets of the Arsenal Group's parent company were FIM 18,711 million (19,819 MFIM).

PARENT COMPANY INCOME STATEMENT

Net income from financial operations

Arsenal's net income from financial operations totalled FIM 140 million (133 MFIM).

Interest income was FIM 753 million (1,138 MFIM) of which FIM 384 million stemmed from financing Arsenal-SSP Ltd and FIM 360 million from loans and advances.

The interest expense from funding through the money market declined to FIM 613 million (1,005 MFIM). Interest expenses from public securities issues were FIM 516 million (902 MFIM) and on debt to subsidiary companies FIM 67 million (141 MFIM), of which the interest expenses to Arsenal-SSP Ltd represented FIM 3 million (117 MFIM), Arsenal-Silta Ltd FIM 19 million (0 MFIM) and the Mutual Insurance Company of the Savings Banks FIM 32 million (3 MFIM).

Other operating income

Other operating income totalled FIM 506 million (-201 MFIM).

Income from securities trading increased to FIM 253 million (-453 MFIM) which includes FIM 5 million (3 MFIM) in capital gains on securities sold and a FIM 248 million (0 MFIM) recovery on previous write-downs of the value of certain listed shares.

Arsenal manages its subsidiary company Arsenal-SSP Ltd's administration and operations. Arsenal-SSP Ltd itself does not employ operating personnel. Other oper-

	Arsenal Group		Arsenal	
SHAREHOLDERS' EQUITY MFIM	1996	1995	1996	1995
Restricted equity				
Share capital	3,600	3,500	3,600	3,500
Share issue	100		100	
Restricted reserves	19,100	15,500	19,100	15,500
Total restricted equity	22,800	19,000	22,800	19,000
Distributable equity				
Loss from previous financial periods	-17,069	-11,816	-17,077	-11,314
Loss for the financial period	-1,352	-5,253	-1,272	-5,763
Total distributable equity	-18,421	-17,069	-18,349	-17,077
Total shareholders' equity	4,379	1,931	4,451	1,923

ating income of FIM 239 million (228 MFIM) includes a FIM 232 (221 MFIM) million income in management fees that Arsenal charges to Arsenal-SSP Ltd for managing its operations.

Administrative expenses

Arsenal's administrative expenses totalled FIM 216 million (212 MFIM), of which personnel costs amounted to FIM 162 million (165 MFIM) and other administrative expenses of FIM 54 million (47 MFIM). Administrative expenses includes operational expenses from data processing, which totalled FIM 36 million (30 MFIM).

Other operating expenses

Other operating expenses totalled FIM 74 million (246 MFIM). Operating expenses included management and collection fees in connection with loans and advances as defined in the transfer agreement with the banks that acquired the Savings Bank of Finland - SBF Ltd, totalling FIM 26 million (190 MFIM).

The majority of the comparative period's loans and advances-related management and collection fees of FIM 125 million were booked in anticipation of the payments of collection fees in 1999.

General auditing expenses and special auditing expenses related to loans and advances and professionals' fees were FIM 17 million (28 MFIM). Rents for EDP-equipment totalled FIM 8 million (6 MFIM).

Credit losses from loans and advances

Credit losses from loans and advances of FIM 484 million (1,019 MFIM) were lower

than in the previous financial period. FIM 265 million (76 MFIM) of these credit losses have been fully written off. Probable credit losses were provided for by increasing statutory reserves by FIM 224 million (1,070 MFIM). The FIM 2,224 million in statutory reserves already set aside has not been deducted from 1996 financial period's loans and advances.

Write-downs on subsidiary company shares

Shares in subsidiary companies, FIM 962 million (1,418 MFIM), are valued in the financial statements at the subsidiary's net asset value at the end of the financial period. The total amount of write-downs on Arsenal's shares in subsidiary companies was FIM 1,163 million (4,215 MFIM), of which the most significant single write-down was on Arsenal-SSP Ltd's shares, amounting to FIM 1,160 million (4,171 MFIM).

Extraordinary items

Extraordinary income for the financial period of FIM 23 million (4 MFIM), is from capital gains from sales of subsidiary company shares.

PARENT COMPANY BALANCE SHEET

Due from clients

Arsenal's receivables from clients of FIM 10,082 million (9,935 MFIM) are due entirely from Arsenal-SSP Ltd.

Shares and participations

Of shares and participations totalling FIM 962 million, (1,418 MFIM), shares in subsidiary companies and other shares amount-

ed to FIM 927 million (716 MFIM). The book value of other shares was increased by a FIM 248 million price increase on shares earlier written down.

During the financial period the Government Guarantee Fund transferred to Arsenal preferred capital certificates of Arsenal-SSP Ltd against an advance payment from Arsenal of FIM 724 million. In Arsenal's financial statements the payment of these preferred capital certificates is booked as a subsidiary company share acquisition expense. In the 1995 financial statements the same payment was entered under accrued and deferred payments.

Liabilities to clients

Arsenal's liabilities to clients of FIM 2,083 million (1,395 MFIM) were entirely due to its subsidiary companies. Liabilities to Arsenal-SSP Ltd were FIM 232 million (95 MFIM), to Arsenal-Silta Ltd FIM 673 million (0 MFIM), to the Mutual Insurance Company of the Savings Bank Ltd FIM 880 million (911 MFIM) and to SBF - Service Ltd FIM million (168 MFIM).

Statutory reserves

Arsenal's statutory reserves were increased to FIM 2,676 million (2,494 MFIM). Of Arsenal's statutory reserves, FIM 425 million (451 MFIM) is set aside against future collection fees on loans and advances, and FIM 2,224 million (2,000 MFIM) for anticipated credit losses on loans and advances.

Share capital and ownership

In accordance with previous plans the Government of Finland injected, in two tranches, FIM 3.8 billion of shareholders' equity into Arsenal during the 1996 financial period. Since the beginning of its operations Arsenal has received a total of FIM 22.8 billion of capital from the Finnish Government and the Government Guarantee Fund.

At Arsenal's Annual General Meeting held on June 14, 1996 it was decided to increase shareholders' equity by FIM 1,500 million, of which FIM 100 million was allo-

cated to increase the share capital and FIM 1,400 was entered in the restricted reserves. The Government of Finland subscribed to the entire capital increase and it was fully paid-up. The increase in share capital was entered in the Finnish Trade Register on August 19, 1996.

At an Extraordinary General Meeting held on December 19, 1996 it was decided to increase Arsenal's shareholders' equity by FIM 2,300 million, of which FIM 100 million was allocated to increase the share capital and FIM 2,200 was allocated to the

restricted reserves. The Government of Finland subscribed to the entire capital increase and it was paid-up on December 30, 1996. The capital increase was entered in the Finnish Trade Register on February 19, 1997.

After the capital increases made during the 1996 financial period the Government of Finland owns 78.95 percent (77.75%) of Arsenal's shares and voting rights and the Government Guarantee Fund owns 21.05 percent (22.25%). The total number of Arsenal's shares outstanding increased to 740,000 (700,000).

■ Changes in Arsenal's equity capital and its shareholders.

	Addition to shareholders' equity	To share- capital	To restricted reserves	Share (%) of all shares and votes	Total number of
DATE	MFIM	MFIM	MFIM	STATE	GGF *
Establishment					
18.11.1993	5,000	2,500	2,500	68,90	31,10
Increases:					
8.9.1994	6,000	500	5,500	74,04	25,96
23.3.1995	8,000	500	7,500	77,75	22,25
14.6.1996	1,500	100	1,400	78,37	21,63
19.12.1996	2,300	100	2,200	78,95	21,05
Total	22,800	3,700	19,100	78,95	21,05

*Government Guarantee Fund

Administration and management

Arsenal's Annual General Meeting, held on June 14, 1996 approved the financial statements from the previous period and decided that the Board of Directors and the President of the company were discharged from liability for the financial period.

The Annual General Meeting appointed Financial Counsellor Urpo Hautala from the Ministry of Finance as a new member of Arsenal's board. This appointment increased the total number of Arsenal's board members from six to seven.

Managing Director Riitta Aaltonen, Executive Vice President Eero Aho, Director Aarne Heikinheimo, Industrial Counsellor Veijo Kauppinen, Managing Director Gretel Sommar-Bogdanoff and Budget Chief Erkki Virtanen all continue as Board members. Mr. Aarne Heikinheimo continues as the Chairman of the Board and Mr. Veijo Kauppinen as the Vice Chairman.

Asset Management Company Arsenal Ltd's Board of Directors met 23 times during the financial period.

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

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

Arsenal's supervision and accountants

Arsenal's operations are supervised by the Government Guarantee Fund, State Audit Office and 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 Arsenal Ltd is under the supervision of the Financial Supervision.

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

Inspection committee

At Arsenal's extraordinary General Meeting, held on December 19, 1996, it was decided to establish an inspection committee. The committee will have five regular members representing the Finnish Parliament and their three alternate members. It will also have one member from the Ministry of Finance and one member from the both of Arsenal's auditing firms.

Lawsuits

In addition to the ordinary lawsuits related to the collections, the Group was both a plaintiff and defendant in approximately 200 other lawsuits. These lawsuits are principally in connection with the disagreed credit and guarantee liabilities related to the collections of receivables and to the special audit, based on the law concerning the Government Guarantee Fund, performed in 1993.

The economic consequences of the lawsuits have been provided for in the statutory reserves.

BOARD OF DIRECTORS 31.12.1996



Aarne HEIKINHEIMO
Chairman of the Board



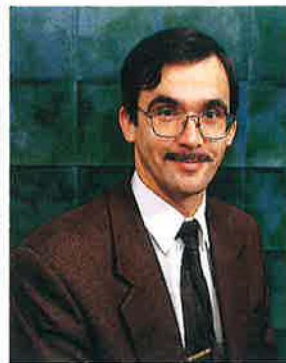
Veijo KAUPPINEN
Vice Chairman



Riitta AALTONEN



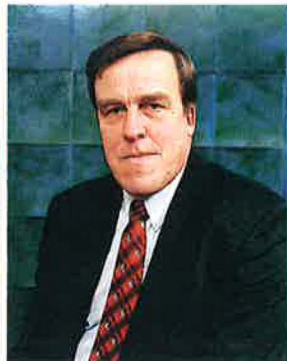
Eero AHO



Urpo HAUTALA



Gretel SOMMAR-BOGDANOFF



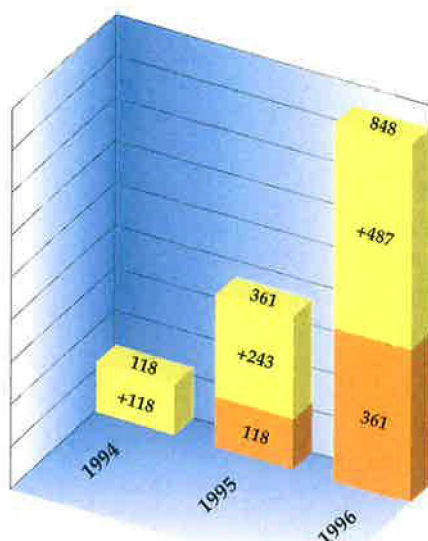
Erkki VIRTANEN



Sinikka LEINO
Chief Shop Steward,
personnel representative

Client related operations

■ Client transfers to the regular banking system during 1993-1996, in FIM millions.



■ Increase during the financial period, MFIM
 ■ Since the beginning of Arsenal's operations, MFIM

Number of clients transferred to the regular banking system

	1994	1995	1996
Transfers during the financial period	120	320	264
Transfers since the beginning of Arsenal's operations	440	704	

- 10,215 clients with total receivables due to Arsenal of FIM 4.6 billion
- Receivables due from corporate clients deemed viable: FIM 2.8 billion
- 264 clients with FIM 0.5 billion of liabilities due to the Arsenal Group transferred to the regular banking system

During 1996 a total of 37 client evaluations were completed (121). Total liabilities owed by the companies evaluated to the Arsenal Group amounted to FIM 119 million (612 MFIM).

As at December 31, 1996 a restructuring program was ongoing in 38 client entities (82). The total liabilities of these companies to the Group were FIM 457 million (931 MFIM).

To support credit decisions by the end of the 1996 financial period all the significant client entities have been evaluated. A total of 448 client entities have been evaluated since the beginning of Arsenal's operations, with receivables and guarantees due to the Group amounting to FIM 4,145 million.

In many cases the client's economic recovery enabled it to be transferred from

Arsenal to the regular banking and financial environment. The financial statement analysis of the viable clients shows that some of the clients have been able to further improve their profitability and lower their gearing. This development made it possible for them to pay larger amortisations and in some cases to pay back the loan capital. Despite the positive development, the overall ratio of clients' equity to total assets remained low.

During the 1996 financial period 264 clients (320 clients) and FIM 487 of receivables (243 MFIM) were transferred to the regular banking system. In addition 117 clients paid back their loans and ended their client relationship with Arsenal. The largest client transfer was the sale of Tukirahoitus Ltd to Merita Finance Ltd, which reduced Arsenal's liabilities by FIM 175 million.

A total of 13,400 (21,800) credit decisions were executed during the 1996 financial period.

Credit collection advances as anticipated

The amortisations of client receivables due for collection and sales of assets pledged

■ Arsenal Group's viable clients and client receivables according to business sector as at December 31, 1996 and as at December 31, 1995. Other companies -categories includes independent contractors and private clients.

BUSINESS SECTOR	Clients		Receivables, MFIM	
	1996	1995	1996	1995
Finance	1	3	1	9
Leisure	39	42	101	99
Hotel and restaurant	62	106	123	157
Transport	147	168	252	327
Agriculture and forestry	280	317	226	299
Corporate services	159	216	295	374
Construction	204	236	342	468
Industry	313	402	538	903
Real estate investment	117	281	255	566
Retail and commercial	323	367	576	713
Other companies	87	216	79	157
Total	1,732	2,354	2,788	4,072

ged as collateral totalled FIM 1,1 billion. The disposals of assets pledged as collateral have progressed as anticipated. The most significant collection result for the 1996 financial period was achieved when the principal creditors for SK-Invest Ltd bankrupt estate sold shares both owned by them and pledged to them in Satakunnan Kirjateollisuus Ltd (a total of 91.44 % of the share capital) to Alpress Ltd. As a result of the transaction Arsenal Group's client receivables diminished by over FIM 80 million.

Arsenal was, as at December 31, 1996, a creditor in 2,500 receiverships. The Group's outstandings from receiverships were FIM 1 billion.

Client receivables decreased by FIM 2.7 billion

The Arsenal Group had a total of 10,215 (12,209) clients on December 31, 1996. Of these, 2,938 (3,773) were private clients transferred to Arsenal amongst client entities with total liabilities of FIM 328 million (458 MFIM).

Client receivables and guarantees decre-

ased during the financial period by FIM 2,775 million (4,006) and amounted to FIM 4,610 million (7,385 MFIM). Client receivables were reduced during the financial period as a result of assisting clients return to the regular banking system, loan repayments and amortisations, the disposals of assets pledged as collateral and booking credit losses.

As at December 31, 1996, 24 percent (28%) of corporate clients were classified as viable. Total receivables for these viable clients were FIM 2,788 million (4,072 MFIM), while receivables due from clients to be collected totalled FIM 1,494 million (2,855 MFIM).

The average interest rate received by Arsenal during the financial period increased to 4.1 percent on (3.1%) all receivables and the average interest rate paid by corporate clients classified as viable was 6.8 percent.

The Group's credit and guarantee losses were FIM 987 million (3,732 MFIM). The ten largest credit losses amounted to FIM 108 million (221 MFIM). Broken down by sector, credit losses came from real estate: FIM 158

Arsenal Group's clients and client receivables, including contingent liabilities by number of clients, in FIM millions.

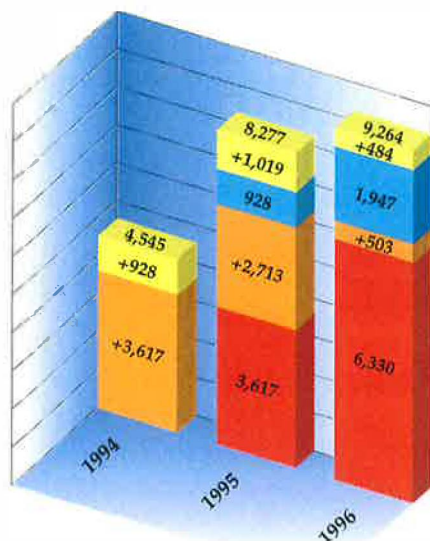
ARSENAL GROUP	1996	1995
Clients	10,215	12,209
Receivables due, MFIM	4,610 ¹⁾	7,385
Viable		
corporate clients	1,732	2,354
receivables due, MFIM	2,788	4,072
Non-viable		
corporate clients	5,545	6,082
receivables due, MFIM	1,494	2,855
Private clients		
total	2,938	3,773
receivables due, MFIM	328	458
Non-performing, MFIM	2,437	4,159

¹⁾ Allocated amount of FIM 96 million has been deducted from the receivables.

Arsenal Group's client entities according to size of receivables as at December 31, 1996 and December 31, 1995. Figures do not include credits or guarantees granted by Asset Management Company Arsenal-SSP Ltd to subsidiaries of Arsenal or Asset Management Company Arsenal-SSP Ltd.

RECEIVABLES OVER	Client entities		Receivables, MFIM	
	1996	1995	1996	1995
75 MFIM	0	0	0	0
50 MFIM	1	5	54	286
40 MFIM	1	2	44	91
30 MFIM	3	5	95	174
20 MFIM	16	25	376	591
10 MFIM	40	70	541	899
5 MFIM	100	179	689	1,158
under 5 MFIM	3,231	2,749	2,483	3,728
Total	3,392	3,035	4,282	6,927
Wage-earners and households	2,938	3,773	328	458
Total	6,330	6,808	4,610	7,385

■ Group credit and guarantee losses during 1994-1996, in FIM millions.



- From loans and advances during the financial period, MFIM
- From loan and advances since the beginning of Arsenal's operations, MFIM
- From client receivables during the financial period, MFIM
- From client receivables since the beginning of Arsenal's operations, MFIM

million (634 MFIM), industry: FIM 150 million (465 MFIM), commerce: FIM 102 million (518 MFIM), and construction: FIM 102 million (382 MFIM).

The loans and advances portfolio diminished by FIM 1.2 billion

Loans and advances due reduced to FIM 5,210 million (6,182 MFIM) and related contingent liabilities to FIM 295 million (473 MFIM) as at December 31, 1996.

Companies under management

The ownership structures of the companies under management taken over by the Group were reorganised during the 1996 financial period in order to secure receivables from these companies by purchasing shareholdings from minority shareholders. As at December 31, 1996 Arsenal Group had a total of 11 companies under management (excluding golf course holding companies) and three associated companies.

The combined turnover of companies under management was FIM 450 million during the last financial period and the total balance sheet was FIM 540 million. The liabilities of companies under management to the Arsenal Group totalled FIM 152 million and they employed a total of 456 persons. These companies are not included in

the consolidated financial statements.

During the financial period three new operational subsidiaries (9) acquired by the Group were Stevena Ltd, Turun Tankki Ltd, and RF-Technic Ltd. In order to secure the collection of receivables, RF-Technic Ltd was put into receivership.

In July, Uptime Group, a part of Arsenal Group, sold its wholly owned subsidiary AK-Tehdas Ltd, which specialises in the production, coating and servicing of paper machine rollers, to Vaahto Group Ltd.

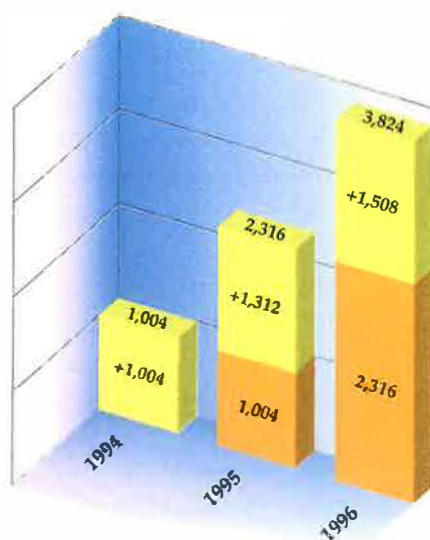
Focus for 1997

For the current accounting period, the client-related operations will focus on client transfers to the regular banking system, increasing the speed of collections and improving the effectiveness of the management of companies in receivership.

Through restructuring programs, the results of the companies under management will be improved in order to enhance their future resale value.

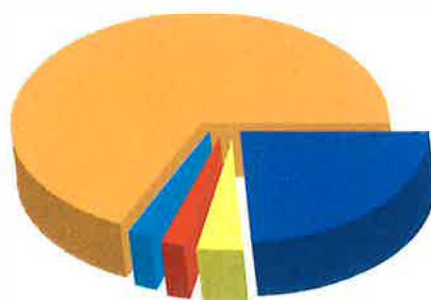
Real estate

■ Disposals of properties between 1994 and 1996, in FIM millions. A total of FIM 3,824 million of which on-balance sheet real estate asset sales were FIM 1,790 million and the sale of the assets pledged as collateral were FIM 2,034 million.



■ Total sales during the financial period.
 ■ Since the beginning of Arsenal's operations

■ Breakdown of the Group's property holdings according to capital employed as at December 31, 1996. The total number of properties for sale 15,861 (15,185).



■ Under 1 MFIM, 68 %
 ■ 1 - 5 MFIM, 24 %
 ■ 5 - 10 MFIM, 4 %
 ■ 10 - 20 MFIM, 2 %
 ■ Over 20 MFIM, 2 %

- FIM 1,5 billion in real property sold
- FIM 0,5 billion in real property bought
- Total capital employed in the real estate portfolio: FIM 8.2 billion
- Rental income FIM 0.6 billion, occupancy rate 69 %

According to Arsenal's business concept, all its real estate assets are to be actively promoted for sale. During the 1996 financial period, property assets worth FIM 1,508 million were sold (1,312 MFIM). Of the disposals the real estate asset sales represented FIM 772 million (614 MFIM) and assets pledged as collateral FIM 736 million (698 MFIM).

Collateralised properties worth FIM 525 million (611 MFIM) were acquired to secure currently outstanding loan receivables.

Of the total real estate asset sales, FIM 260 million was from the sale of commercial and office properties and FIM 338 from residential properties. The total number of properties which employed capital in excess of FIM 10 million was six. The total capital employed in these properties was FIM 83 million.

The shares of Ruuskanen, a property holding company located in the City of Tampere, were sold in November, 1996 for FIM 40 million. These shares represented 80.7

percent of the company's share capital. As part of the conditions of the transaction this sale is included in the 1997 sales figures. In December 1996 Arsenal sold to VVO-Group FIM 18 million in shares of 52 state subsidised apartments. FIM 12 million was paid during the 1996 financial period and the remaining part during 1997.

During the 1996 financial period Arsenal sold shares in golf course facilities worth FIM 7 million (2 MFIM), of which the largest was the sale of the Ykköstie-Golf Ltd's (Wiurila) shares for FIM 6.9 million.

Capital gains from the sale of property assets amounted to FIM 66 million (45 MFIM) and capital losses amounted to FIM 98 million (57 MFIM).

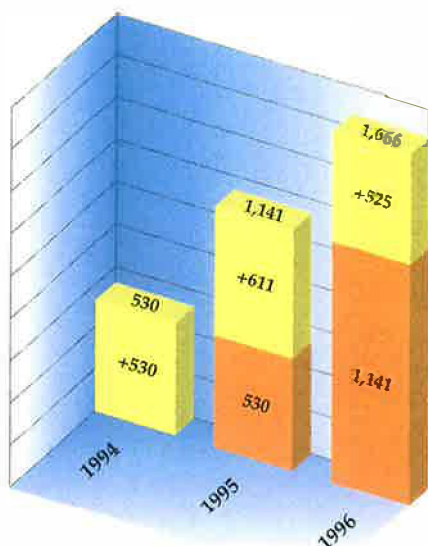
Total capital employed in the real estate portfolio: FIM 8.2 billion

As at December 31, 1996, the total capital employed in the Group's real estate portfolio was FIM 8,195 million (8,737 MFIM). Most of the capital was invested in commercial and office space, totalling FIM 6,121 million (6,154 MFIM). Capital employed in apartment and apartment buildings amounted to FIM 776 million (1,030 MFIM) and FIM 747 million (848 MFIM) in industrial and storage space.

Calculated on the basis of capital emplo-

CAPITAL EMPLOYED	Number of properties		% of the total	
	1996	1995	1996	1995
over 20 MFIM	68	70	2	2
10 - 20 MFIM	78	90	2	2
5 - 10 MFIM	168	180	4	4
1 - 5 MFIM	974	1,020	24	24
under 1 MFIM	2,754	2,920	68	68
Total number of properties	4,042	4,280	100	100

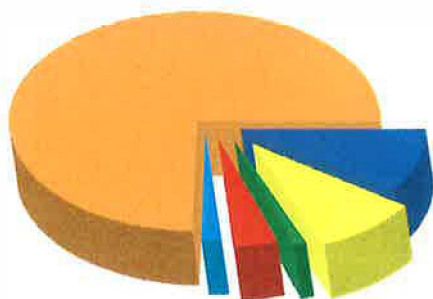
■ Properties bought as collateral on loan receivables between 1994 and 1996, in FIM millions.



■ Increase during the financial period, MFIM
 ■ Since the beginning of Arsenal's operations, MFIM

■ Breakdown of the Group's real estate portfolio according to use as at December 31, 1996. Total capital employed FIM 8,195 million (8,737 MFIM).

■ Office and commercial 6,121 MFIM
 ■ Apartments 776 MFIM
 ■ Industrial and storage 747 MFIM
 ■ Other 94 MFIM
 ■ Land 316 MFIM
 ■ Leisure 141 MFIM



yed, 51 percent (53%) of the real estate assets were located in the Helsinki, Tampere and Turku economic regions.

The real estate portfolio was valued to align with the current price levels during the fall of 1996. Write-downs on real estate assets totalled FIM 205 million (161 MFIM).

Rental demand increased

The majority of the new leases were made at a higher rent level. The Group's property income in 1996 amounted to FIM 632 million (638 MFIM). The rental margin (rental income less maintenance expenses) was 3.5 percent (3.3%) of the Group's capital employed in real estate assets.

As at December 31, 1996 Arsenal Group had a total of 8,544 lease agreements. The leased floor area amounted to 1.6 million square meters (1.5 million sq.m.) and vacant leasable area amounted to approximately 0.7 million square meters (0.8 million sq.m.). Of the total vacant leasable area 0.3 million square meters (0.3 sq.m.) was located in the Helsinki, Tampere and Turku economic areas. The occupancy rate of the Group's property portfolio was 69 percent (64%).

As part of the Group tax planning, Arsenal has actively sought to be liable for Value Added Tax for those rental properties

where a significant part of the property has been rented to businesses liable for Value Added Tax. By the end of the year 0.5 million sq.m. (0.2 million sq.m.) was deemed to be liable for Value Added Tax.

Property development

In order to improve the property portfolio's both rental income and income yield, work was carried on in individual properties in several locations.

The most significant of the projects was the development of the Hamsteri-block located in the city centre of Helsinki. The Hotel Helsinki-property, owned by Arsenal, was renovated to accommodate 200 rooms. Arsenal has entered into a long term lease agreement for the hotel with Helsinki Hotels Ltd, which belongs to the SOK Group.

Marketing

A marketing program called "The Real Estate Calendar" was launched in order to promote the sales and lettings of vacant properties. The main events of the program included two "Arsenal Open House" marketing and sales days in the branch offices, the establishing of two property barometers, participation in the property exhibition in Ylöjärvi, real estate auction and a property seminar.

■ On-balance sheet real estate asset sales according to use between January 1 and December 31, 1996, number of transactions, in FIM millions. During the 1996 financial period through 1,871 transactions a total of 2,661 properties were sold:

USE	NUMBER OF TRANSACTIONS	FIM
Office and commercial	395	260
Industrial and storage	88	73
Apartments	1,056	338
Land	109	24
Other	56	32
Leisure	167	45
Total	1,871	772

Together with the local authorities in several districts, Arsenal sought actively to find solutions for the municipal property needs. Arsenal organised local labour forum events in conjunction with the Ministry of Trade and Finance, the Ministry of Labour and KERA Ltd. The objective of these forums was to find new solutions for use of vacant commercial and industrial space. More of these events will be carried out in the future.

Environmental risk evaluation of the properties

All the property holdings were examined during the summer of 1996 to evaluate their environmental risks. The conclusion was that approximately 500 properties need further studies on the extent and seriousness of their potential environmental risks.

The studies, outsourced to consultants, began at the end of 1996 and will be concluded in early 1997.

Focus for 1997

The focal areas for the current financial year are the active sale of properties and increasing the value of the large property holdings through further renovations in order to improve the occupancy rates and rental levels.

■ The most significant renovation work was carried out in the Helsinki Hotel property in the Hamsteri-block, located in the city centre of Helsinki. The courtyard of the hotel was covered and the number of rooms was doubled. The property is rented to Helsinki Hotels under a long-term lease.



■ Total lettable area rented as at December 31, 1996, sq.m. percent of total lettable area.

USE	RENTED SQ.M.	% OF THE TOTAL LETTABLE AREA
Office and commercial	939,358	73
Industrial and storage	369,977	62
Apartments	137,443	64
Other	103,469	63
Leisure	355	22
Total	1,555,602	69

Treasury and *capital markets*

- The Group's funding base was strengthened by the issue of two bonds which lengthened the overall maturity.
- The Government guarantee was reduced by FIM 10 billion
- 52 MFIM in shares sold

During the 1996 financial period Arsenal extended the maturity of its financing previously raised as short-term debt securities by issuing two long-term bonds: I/1996 (nominal value FIM 2.5 billion) and II/1996 (nominal value FIM 0.5 billion), aimed at institutional investors. Both bonds carry the Government of Finland's unconditional guarantee and are listed on the Helsinki Stock Exchange. The bonds, which mature in 1999, were the first corporate bonds in Finland to be converted, on February 2, 1997, into book entry securities.

During 1996 Arsenal issued short-term debt securities worth a nominal value of FIM 9,438 million through public auctions. At the end of the 1996 accounting period,

Arsenal's debt portfolio had a nominal value of FIM 6,251 million (13,250 MFIM).

The Council of State reduced its unconditional guarantee by FIM 10 billion on December 19, 1996 at Arsenal's request. The unconditional guarantee was granted on November 24, 1994 for FIM 28 billion.

By the end of the 1996 financial period Arsenal's clients paid back to the Group all their foreign currency denominated loans (24 MFIM).

Shares and participations

The Group's shares and participations totalled FIM 1,234 million (757 MFIM) at the end of the financial period. Of these, stock exchange listed shares totalled FIM 1,197 million (705 MFIM).

The Government Guarantee Fund paid its debt to Arsenal in April, 1996 in listed shares, the value of which was FIM 276 million as at March 29, 1996. The market value of these shares at the end of the financial period was FIM 325 million.

A total of FIM 52 million (91 MFIM) in

shares were sold during the financial period, of which FIM 34 million worth of shares were received as payment in kind.

By the end of the financial period Arsenal had sold all the shares it received as payment in kind, except the shares of Merita Bank Ltd, for FIM 121 million.

The operating result from securities trading was FIM 260 million (-518 MFIM), which includes FIM 234 million from the increase of Merita Bank Ltd's shares value.

In June, 1996 the subsidiary company Arsenal-SSP Ltd sold its holding of 18,377,370 K-shares in Skopbank for the price of 1 markka to Solidium Ltd.

From the portfolio of listed shares Enso A-series shares for a value of FIM 24 million were sold after the end of the financial period. The value of the remaining share portfolio, measured at share prices on February 28, 1997, stood at FIM 1,511 million. The market value of the listed shares has increased by FIM 271 million since the closing of the 1996 accounts.

BOARD OF DIRECTORS REPORT

■ The Group's shares and participations totalled 1,234 MFIM (757 MFIM) as at December 31, 1996.

		Ownership stake (%):		Purchase price	Write downs	Book value
		Share capital	Voting rights			
COMPANY	NUMBER OF SHARES	%	%	MFIM	MFIM	MFIM ¹⁾
LISTED COMPANIES						
Owned by Arsenal		0%	0%			
Kylpyläkasino A	193,334			1	-1	0
Kylpyläkasino K	662,600	48,47	93,67	0	0	0
Merita A	63,933,333	7,73	8,31	1,446	-525	921
Skopbank	121,621,990	37,27 ²⁾	30,54 ²⁾	998	-998	0
				2,445	-1,524	921
Owned by Arsenal-SSP Ltd						
Enso Ltd A ³⁾	677,525			23	0	23
Enso Ltd R ³⁾	2,944,272	1,49	0,67	100	0	100
Kone Oy B ³⁾	90,023	1,49	0,58	43	0	43
Orion Corporation A ³⁾	799,999	1,60	2,89	110	0	110
Skopbank	19,271,010			56	-56	0
				332	-56	276
OTHER SHARES						37
GROUP'S SHARES AND PARTICIPATIONS, TOTAL				2,777	-1,580	1,234

¹⁾ Shares have been valued at closing prices on 30.12.1996.

²⁾ Total of A and K series owned by Arsenal Group. Skopbank shares are valued at 0 FIM in the 1995 and 1996 financial statements.

³⁾ Received during the 1996 financial period from the Government Guarantee Fund.

Subsidiaries

Arsenal's most important subsidiaries in terms of asset size are Arsenal-SSP Ltd and Arsenal-Silta Ltd. These companies act as asset management companies as stipulated in the law concerning the Government Guarantee Fund.

The Arsenal Group includes a total of 1,584 subsidiaries, participations and associated companies (1,478). The total number

of subsidiaries, as at December 31, 1996, was 1,120 (1,064), of which 1,075 (1,003) are commercial and residential property holding companies. Participations and associated companies totalled 464 (414), of which 459 (408) are real estate holding companies.

The losses incurred by the subsidiaries as shown in the consolidated financial

statements of Arsenal Group totalled FIM 1,181 million (3,689 MFIM) and their total assets were FIM 15,801 million (17,391 MFIM) at year end.

Companies taken over as a means of collateralising receivables have not been included in the consolidated financial statements.

■ The number of Arsenal Group's subsidiaries, participation and associated companies.

Arsenal Group	Subsidiaries		Associated companies		Total number of Subsidiaries and Associated companies
	Real estate holding companies	Other	Real estate holding companies	Other	
Arsenal		16		2	18
Arsenal-SSP Ltd	975	29	404	3	1,411
Subsidiaries of Arsenal and Arsenal-SSP Ltd	11		7		18
Arsenal-Silta Ltd	89		48		137
Total	1,075	45	459	5	1,584

Information technology

The development of the systems and information networks implemented during previous financial periods was continued in order to improve their reliability and efficiency. New applications designed to improve the Group's management and reporting systems were also introduced. A new systems network implemented to cover the whole collection process and the related training of personnel started before

the end of 1996. The full implementation of the system is scheduled for the early part of 1997.

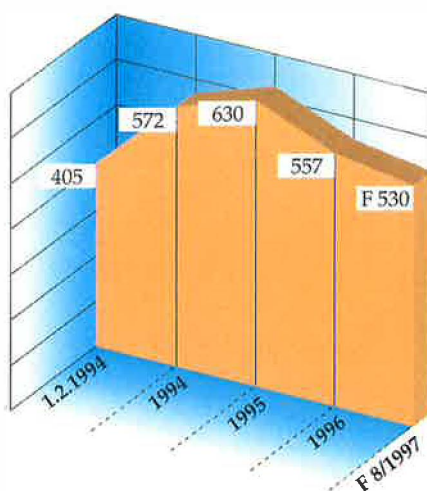
At the end of 1996 a study was made concerning the replacement of the old credit ledger by a new ready-made system in order to enhance the cost savings and to create a common EDP- architecture. The new credit ledger will begin operating in the first half of 1997.

Personnel

As at December 31, 1996 Arsenal Group employed a total of 590 persons (695) out of which 557 were employed by the parent company Arsenal Ltd (630), 15 by Arsenal-Silta Ltd (29), 14 by the Mutual Insurance Company of the Savings Banks (12) and 4 by Master-Rahoitus Ltd in the City of Turku (5).

Arsenal's combined days of personnel training for the 1996 financial period were 2,500 work days, which means an average of 4.2 training days per employee. Of the total, 1,900 training days were dedicated for IT and related systems.

■ The number of Arsenal's employees between 1994 and 1996 and the forecast for August, 1997.



■ Number of employees

Future outlook

General developments in the Finnish economy, particularly the strength of the real estate market and interest rate fluctuations, will have a significant effect on the value of the Group's assets and loan guarantees as well as the stock market's performance.

According to projections currently prepared for 1997 the Group's result is expected to improve significantly from the

year before, but will 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 0.5 billion. The total assets, as per the Group's balance sheet and contingent liabilities, are expected to decrease by some FIM 3.5 billion.

ARSENAL GROUP - CONSOLIDATED INCOME STATEMENT

Exchange rate USD 1= FIM 4,6439 as at December 31, 1996

FIM millions

	January 1 - December 31, 1996		January 1 - December 31, 1995	
Interest income				
From financial institutions and Bank of Finland	6		10	
From loans and advances	360		486	
From clients	260		319	
From debt securities	7		70	
Other interest income	13	646	39	924
Net leasing income		3		16
Interest expenses				
To financial institutions and Bank of Finland	40		73	
To clients	26		16	
On public debt instrument issues	530		1,003	
On subordinated debt	116		166	
Other interest expenses	4	716	2	1,260
NET INCOME FROM FINANCIAL OPERATIONS		-67		-320
OTHER OPERATING INCOME				
Dividend income		1		5
Fee income and expenses		13		19
Securities trading income		260		-518
Income from foreign exchange operations		0		1
Income from other operations				
Real estate portfolio	702		689	
Other	11	713	17	706
TOTAL OPERATING INCOME		920		-107
OPERATING EXPENSES				
Administrative expenses				
Personnel costs				
Salaries	124		139	
Pension payments	21		25	
Social expenses	10		16	
Other personnel costs	12	167	15	195
Other administrative expenses		199		76
		366		271
Depreciation		209		221
Other operating expenses				
Real estate management expenses	598		664	
Miscellaneous operating expenses	129	727	270	934
Credit and guarantee losses		987		3,732
Asset revaluations		3		11
OPERATING LOSS		-1,372		-5,276
Extraordinary income		14		14
LOSS BEFORE APPROPRIATIONS AND TAXES		-1,358		-5,262
Direct taxes				
Taxes for the current financial year and from previous financial years		3		0
Minority interest		3		9
LOSS FOR THE FINANCIAL PERIOD		-1,352		-5,253

INCOME STATEMENT AND BALANCE SHEET

ARSENAL GROUP - CONSOLIDATED BALANCE SHEET

Exchange rate USD 1= FIM 4,6439 as at December 31, 1996

FIM millions

ASSETS	December 31, 1996		December 31, 1995	
Cash in hand		0		0
Due from financial institutions and Bank of Finland				
From Bank of Finland		-		-
From financial institutions	1,155		1,493	
Loans and advances	5,210	6,365	6,182	7,675
Due from clients				
Loans	3,872		4,695	
From guarantees	807		1,372	
From foreign currency denominated loans	440	5,119	891	6,958
Leasing assets		0		200
Debt securities		306		28
Shares and participations				
Subsidiaries	17		18	
Associated companies	2		2	
Shares and participations	1,215	1,234	737	757
Intangible assets				
Other intangible assets		0		3
Tangible assets				
Land and buildings				
In own use	50		25	
Other	1,646		1,802	
Real estate shares and participations				
In own use	92		90	
Other	5,053		5,054	
Machinery and equipment	7		12	
Other tangible assets	3	6,851	2	6,985
Other assets		210		270
Accrued and deferred payments				
Accrued Interest	78		124	
Other	91	169	435	559
		<u>20,254</u>		<u>23,435</u>

ARSENAL GROUP - CONSOLIDATED BALANCE SHEET

Exchange rate USD 1= FIM 4,6439 as at December 31, 1996

FIM millions

LIABILITIES AND SHAREHOLDERS EQUITY	December 31, 1996		December 31, 1995	
Liabilities				
To banks and Bank of Finland				
Due on demand		*		*
Other	128	128	702	702
To clients		89		168
Debt instrument public issues				
Bonds and debentures	3,251		742	
Other	6,145	9,396	13,156	13,898
Other liabilities		134		161
Accrued and deferred liabilities				
Accruals due	148		174	
Other	230	378	468	642
		10,125		15,571
Statutory reserves		2,966		2,682
Subordinated debt liabilities		1,736		2,202
Minority interest		1,048		1,049
Shareholders' equity				
Restricted equity				
Share capital	3,600		3,500	
Share Issue	100		-	
Restricted reserves	19,100	22,800	15,500	19,000
Distributable equity				
Loss from previous financial year	-17,069		-11,816	
Loss for the financial year	-1,352	-18,421	-5,253	-17,069
		4,379		1,931
		20,254		23,435

Accounting principles

The following accounting principles apply to the financial statements of the parent company Arsenal Ltd, Arsenal-SSP Ltd, Arsenal-Silta Ltd and to the consolidated financial statements. The parent company Arsenal Ltd and its subsidiaries Arsenal-SSP Ltd and Arsenal-Silta Ltd are asset management companies in the sense as stated in the law concerning the Government Guarantee Fund.

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 Ltd 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. 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 financial statements of the subsidiaries are included in the consolidated financial statements in accordance with the accounting principles applied to the parent company. For items where the practice applied to the subsidiaries differ from the practice applied to the Group, the necessary adjustments in the consolidated statements are based on the principle of material significance. The income statement's income and expenses are recognised 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, companies in the process of liquidation or in receivership are not included in the 1996 consolidated financial statements.

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

The financial results of the merged subsidiaries are included in the consolidated financial statements, taken from the financial statements of the merged subsidiaries. The impact on the results of the previous financial period are reflected in the current financial period's results and net profit.

CONSOLIDATION

The financial statements of the Group companies are consolidated item by item. The subsidiary companies financial statements have been adjusted to apply the same accounting standards applied to the parent company.

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 and 1996 consolidated financial statements. However, 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 not all the subsidiary com-

panies' financial statements are 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

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

OTHER OPERATING INCOME

Real estate and other operating income is entered when earned or accrued. Rental income is valued at its estimated future value.

The positive or the negative difference between the sales price and the book value of the shares and participations is entered as securities trading income (income from the sale of shares and participations). The difference between the book value of the above mentioned securities and probable lower market value at the closing of the financial statements has been deducted from this income. If the market value of shares and participations is higher than the book value then it is included as income, but only up to the acquisition price of the shares and the participations.

PENSION ARRANGEMENTS

Pension schemes for employees of Arsenal

Ltd are arranged through a group insurance scheme. The Group's pension liabilities are fully covered.

EXPENSES FOR LAWSUITS

In the transfer agreement between the Government Guarantee Fund and Arsenal-SSP Ltd, it is stated that the expenses from lawsuits, earlier the responsibility of the Government Guarantee Fund, and the expenses from the special audits based on the law concerning the Government Guarantee Fund and other liabilities shall be borne by Arsenal-SSP Ltd as of April 1, 1996.

The anticipated expenses incurred as a result of these liabilities have been provided for in the statutory reserves. Based on agreements, the banks that acquired the Savings Bank of Finland - SBF Ltd operations, are responsible for 20 percent of the greater-than-anticipated special audit expenses.

DEPRECIATION

The depreciation schedules 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 of the assets of real estate companies is not entered according to the specific depreciation plan.

CREDIT AND GUARANTEE LOSSES

Realised and expected credit losses are applied against receivables. A probable credit loss is charged against receivables when it is evident that the principal will not be repaid and the item is classified by client. These credit losses are deducted from receivables.

Realised credit losses from loans and advances are entered and deducted from the corresponding item. The expected credit losses, based on the reports from the banks that acquired the activities of Savings Bank of Finland - SBF Ltd, are provided for in the

statutory reserves. Items provided for in the statutory reserves are not directly deducted from the loans and advances.

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

TAXES

Direct taxes are recognised 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. The Government Guarantee Fund and Arsenal-SSP Ltd have agreed to transfer the aforementioned liabilities to Arsenal-SSP Ltd as of April 1, 1996. These tax liabilities have been provided for in the statutory reserves.

TRANSFERABLE SHARES

Transferable shares held as investment assets 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 deducted as an expense.

Subsidiary company shares are valued in the Group's financial statements at the subsidiary's net asset value at the end of the financial period.

STATUTORY RESERVES

Statutory reserves cover future expenditure to which the group companies has committed

itself and which is not expected to yield corresponding income, and specific future losses that are considered evident. Statutory reserves are also provided against expected credit losses on 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 have been taken into account. The results of futures contracts are recognised 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 recorded as expenses under depreciations.

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

Proposal of the *board of directors*

Loss from previous financial years	FIM - 17,077,302,736.46
Loss for the financial year	FIM - 1,272,099,270.95
Distributable equity	<u>FIM - 18,349,402,007.41</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 5, 1997

Aarne Heikinheimo
Chairman

Veijo Kauppinen
Vice Chairman

Riitta Aaltonen

Eero Aho

Urpo Hautala

Gretel Sommar-Bogdanoff

Erkki Virtanen

Seppo Sipola
President and CEO

Auditors' report

TO THE SHAREHOLDERS OF ASSET MANAGEMENT COMPANY ARSENAL LTD

We have audited the accounting, the financial statements and the corporate governance of Asset Management Company Arsenal Ltd for the period January 1, 1996 - December 31, 1996. The financial statements, which include the report of the Board of Directors, consolidated and parent company income statements, balance sheets and notes to the financial statements, have been prepared by the Board of Directors and the Managing Director. Based on our audit we express an opinion on these financial statements and on corporate governance.

We have conducted the audit in accordance with Finnish Standards on Auditing. Those standards require that we perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the management as well as evaluating the overall financial statement presentation. The purpose of our audit of corporate governance is to examine that the members of the Board of Directors and the Managing Director have legally complied with the rules of the Companies Act. The Group's operations have continued to generate considerable losses. The financial statements give an account of the reasons for such losses.

In our opinion the financial statements, which state a loss of FIM 1,272,099,270.95 for the parent company and a loss of FIM 1,352,108,703.74 for the Group, have been prepared in accordance with the regulations of the Accounting Act and other rules and regulations governing the preparation of financial statements.

The financial statements give a true and fair view as defined in the Accounting Act, of both the consolidated and parent company's operating results as well as of the financial position. The receivables and the contingent liabilities in the consolidated financial statements contain a substantial level of uncertainty due to the clients' financial position as well as the deficit in the value of the collateral pledged as security in connection with the receivables.

The developments in general economic climate, the level of interest rates and the value of real estate, as well as the development of the financial position of the clients, are factors of substantial significance to the financial results of the company.

The financial statements with the consolidated financial statements can be adopted and the members of the Board of Directors and the Managing Director can be discharged from liability for the period audited by us.

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

Helsinki, March 7, 1997

Tuokko, Deloitte & Touche Ltd
Authorised Public Accountants

Yrjö Tuokko
Authorised Public Accountant

SVH Coopers & Lybrand Oy
Authorised Public Accountants

Johan Kronberg
Authorised Public Accountant

BOARD OF DIRECTORS AND AUDITORS

■ Board of directors

CHAIRMAN

Mr. Aarne Heikinheimo
Director
Finnish Guarantee Board

VICE CHAIRMAN

Mr. Veijo Kauppinen
Industrial Counsellor
Ministry of Trade
and Industry

MEMBERS

Mrs. Riitta Aaltonen
Managing Director
Suomen Spar Oy
Mr. Eero Aho
Executive Vice President
Huhtamäki Oy
Mr. Urpo Hautala
Financial Counsellor
Ministry of Finance
Mrs. Gretel Sommar-Bogdanoff
Managing Director
Tammet Tuotanto Oy
Mr. Erkki Virtanen
Budget Chief
Ministry of Finance

■ Auditors

SVH Coopers & Lybrand Oy
Authorised Public
Accountants
Tuokko, Deloitte & Touche Ltd
Authorised Public
Accountants

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■ Asset Management Company Arsenal Ltd

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- This document, prepared for the international business community, is an adaptation of Arsenal's 1996 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}

