

Asset Management Company
Arsenal Ltd



Annual Report and Accounts 1994

Arsenal Today

- Arsenal manages the problem loan exposures and real estate assets of which assumed the responsibility from Savings Bank of Finland - SBF Ltd in October 1993.
- Arsenal is owned by the State, represented by the Government of Finland with 74 per cent and the Government Guarantee Fund with 26 per cent of the share capital.
- Arsenal currently employs 560 people in Group Administration and 9 regional offices.
- Arsenal's expertise encompasses three core activities:

Loan administration manages approximately 13 000 clients and over 24 000 credit engagements at the end of 1994, with total liabilities of FIM 11.4 billion.

Real Estate division manages Arsenal's primarily domestic property portfolio, valued at approximately FIM 8.5 billion in the end of 1994.

Client Support experts carried out over 290 corporate evaluations in 1994.

Financial Calendar

March-April

Publication of Annual Report

August-September

Announcement of Interim Results

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Highlights of First Fiscal Year

November 1993

The Council of State decides to establish Asset Management Company Arsenal Ltd to manage Savings Bank of Finland – SBF's problem loan exposures and real estate assets.

Arsenal is registered in the National Board of Patents and Registration's Trade register.

January 1994

Arsenal's independent operational activities commenced. Decision authority obtained from the Government Guarantee Fund.

February 1994

The process of assuming the responsibility of the assets from Savings Bank of Finland – SBF Ltd started.

March 1994

77 million KOP Bank shares transferred to Arsenal from Government Guarantee Fund as payment in kind.

May 1994

The Government undertook to guarantee repayment of principal on external debt finance up to FIM 28 billion.

Remaining FIM 900 million of share capital fully paid-up.

June 1994

First corporate divestiture closed when Alu Ltd was sold to Hackman Designor.

Property development contest launched.

August 1994

99.01 per cent of Savings Bank of Finland – SBF Ltd's shares acquired.

Savings Bank of Finland – SBF Ltd was incorporated as a subsidiary of Arsenal. SBF's assets, which were allocated to Arsenal, remained in its balance sheet.

September 1994

Government injected 6 billion of additional shareholders' equity.

November 1994

KOP bonus shares received and rights issue waived.

External refinance program commenced.

FIM 58 million received from the Group's largest property transaction of the fiscal year.

December 1994

Savings Bank of Finland – SBF Ltd's assets and obligations valued at FIM 727 million acquired. First debt issue launched and new corporate motif conceived.

Arsenal's Assignment:

Arsenal's assignment is to manage and liquidate, in an orderly manner and at a minimum cost to the Finnish society and its taxpayers, the assets and lending activities, of which the responsibility was assumed from the former Savings Bank of Finland – SBF Ltd.

Arsenal aims to fulfil its assignment by restructuring companies, enforcing collateral, divesting all its assets, and eliminating all problem exposures. This objective will be met when collections have been finalised, properties have been sold and Arsenal's clients have, where possible, been returned to the regular banking system.



Group Structure

The Arsenal group was restructured in August 1994 following the acquisition of Savings Bank of Finland – SBF Ltd. Besides its main subsidiary, the Savings Bank of Finland – SBF Ltd, the Group currently has numerous real estate companies, subsidiaries and associated companies.



Message from the President

The establishment of the asset management company

It was a tremendous task to establish and develop the Asset Management Company Arsenal Ltd in one year into a functional company operating on a national level. The personnel of Arsenal had to operate in a changing environment, by assuming management control over the assets of Savings Bank of Finland – SBF Ltd, and also under constant public scrutiny. Without the staff's professional expertise and the ability to recruit staff already acquainted with the problem assets, it would not have been possible to have got the operations underway in such a short time frame.

The focal and most urgent objective during the start-up period was to manage and take possession of Savings Bank of Finland – SBF Ltd's 13 000 corporate clients transferred to Arsenal.

The clients' financial and other problems were solved through the process which involved 24 000 individual credit decisions during the year. Besides client related activities, Arsenal took into its possession 14 000 properties during the first fiscal year. According to both size and value the real estate portfolio is one of the largest in Finland.

To the banks which purchased Savings Bank of Finland – SBF Ltd were transferred the loans and advances amounting to 6.8 billion FIM as at 31.12.1994.

During the first fiscal year supplemental agreements were reached which enhanced the prior agreements reached regarding the transfer of Savings Bank of Finland – SBF Ltd's assets to Arsenal on 22.10.1993. On 24.08.1994 Arsenal bought 99.01 per cent of Savings Bank of Finland – SBF Ltd's share capital and agreed to annul the prior agreements. These structural operations enabled the operations of Arsenal to commence in a more appropriate manner and assuming less risk. On 18.03.1995 Arsenal purchased 0.99 per cent of Savings Bank of Finland – SBF Ltd's share capital from the Savings Bank Foundations.



Result of the first fiscal year

The Savings Bank of Finland – SBF Ltd's loan receivables, real estate and other balance sheet items were taken over by Arsenal at the original book values. Financial liabilities covered recognisable potential losses and non-yielding and substandard property assets. The income from the assets failed to cover financing costs. The group loss from the first fiscal year was FIM 11.8 billion. Taking into account the financial background concerning the foundation of the company, the result was burdened by 4.5 billion credit and guarantee losses. From the real estate assets FIM 3.5 billion was written off and FIM 1.5 billion on the equities portfolio. The net interest expense from financing operations was FIM 1 billion.

Outlook for the current year

The group's clientele and the size of the balance sheet will be fixed during the fiscal year after the final client transfers. The client and guarantee receivables will diminish by the transfer of the clients to the normal banking system, the collection of receivables and write-downs of assets. Receivables due from clients are estimated to reduce during the current year. Loan receivables will be reduced by the collections made for clients taken over from Savings Bank of Finland – SBF Ltd by the Finnish banks. Loan receivables are estimated to decrease by about FIM four billion during the current year.

The property market is not expected to recover during the fiscal year to a level that would encourage investment. It is estimated that Arsenal will take possession of property given as collateral at a level that is similar to that which Arsenal can sell during the year.

The deposit taking license of Savings Bank of Finland – SBF Ltd is most likely to be revoked before June 30, 1995. At that time Savings Bank of Finland – SBF Ltd's related investment will reduce by a corresponding FIM 2.5 billion.

Arsenal's consolidated balance sheet is expected to reduce by one-fifth during the year. The expected loss for the year is estimated to be around FIM 5 billion. Included in this estimate are FIM 3 billion of write-downs on loan receivables.

The price level for real estate is expected to remain stable and write-downs on book values of real estate are not expected for this year.

The focal and most urgent objective during the start-up period was to manage and take possession of Savings Bank of Finland – SBF Ltd's 13 000 corporate clients transferred to Arsenal.

Outlook by the end of 1997

At the moment it is estimated that the total amount of assets that Arsenal will assume responsibility for during 1993 and 1996 will be FIM 40 billion. This estimate includes customer lending of FIM 17 billion, real estate assets of FIM 11.5 billion, FIM 7.5 billion of assets under management and FIM 4 billion of other assets. By the end of 1997 it is estimated that the size of the consolidated balance sheet will be around FIM 18 billion.

At the moment it is estimated that Arsenal Group's total operating loss will be FIM 19 billion during the period between 1993 and 1997. This estimate includes credit and guarantee losses of FIM 8 billion, write-downs on properties of FIM 3.5 billion, write-downs of FIM 2 billion on equities and additional financing expenses related to the Group's assets of FIM 5.5 billion.

Based on the financial loss estimates during 1993 and 1997 it is likely that an additional capital injection of FIM 4 billion will be required by Arsenal in 1996. At this time the total financial support Arsenal has received would be FIM 23 billion in the form of shareholders' equity of which it is estimated that the residual shareholders' equity will be FIM 4 billion by the end of 1997.

The consolidated balance sheet and the external guarantee liabilities are estimated to decrease by the end of 1996 consequently the Government guarantee to Arsenal may be reduced from FIM 28 billion to FIM 18 billion.

Arsenal's future outlook

Arsenal's assignment is of a temporary nature. Arsenal will carry out the divestment process in such a manner that ensures the financial burden to the Government is minimised. Arsenal's long-term objective will be met when its asset portfolio has been sold, its clients have been transferred to regular banking system and collections have been finalised.

When Arsenal was formed it was estimated that the activities would last between 5 to 7 years and Arsenal has made a plan to divest its assets by the end of year 2000. According to this plan it is estimated that the level of business activities will be reduced to one-third of the 1994 level. Also forecasts of Arsenal's results have been made to the year 2000. The losses are estimated to reduce substantially after 1994-1995 and it is therefore unlikely that there is need for additional capital injections after 1996. However, all the estimates are based on an assumption of positive and stable growth in the Finnish economy.

The divestment process will possibly continue after year 2000 if it will assist in reducing the financial burden levied on the Government.

Arsenal's activities will be discontinued when the cost of operations is higher than the actual benefits derived from the operations. Most probably this will be carried out in the form of a one-off sale of all the remaining assets and the subsequent winding down of Arsenal's organisation and other operations.

Helsinki, 31st of March 1995

Seppo Sipola
President and CEO

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Group Financial Highlights and 1994 Result

Group loss before tax and minority interest -11 815

Arsenal group income statements highlights 1994

Fin millions	Group	Arsenal Ltd.
Net income from		
financial operations	-1 039	-863
Other operating income		
Securities trading income	-1 444	-1 440
Other income	806	652
Total operating income	-1 677	-1 651
Operating expenses	-2 083	-1 408
Depreciation	-3 510	-3 299
Credit and Guarantee losses	-4 545	-4 580
Asset revaluations		-376
Operating result	-11 815	-11 314





Economic Environment

International Economy

A turn-around in the economic cycle took place internationally in 1994, led by growth in the U.S. which had a spill-over effect on the economies of Europe. This growth cycle is expected also to eventually develop in Japan.

While the prospects for growth internationally appear good, there are different views of the nature of the growth itself. Some experts are predicting a short period of fast growth, while others are predicting a long period of stable growth. The most obvious threat to growth is the already seen tendency to tighten monetary policy, which is caused by the constant fear of inflation.

Finnish economy

The Finnish economy today is more integrated into the world economy than ever before. The latest step of this integration process was full membership of the European Union at the beginning of 1995. The membership of the European Economic and Monetary Union will apply certain pressures on Finnish Monetary Policy in the areas of inflationary constraint and the growing public debt.

Finland has had to actively seek new export markets in the recent years as Finland's traditional export markets have been among those that have been most adversely affected during the last economic downturn. This has created structural change in Finland's economy which has led to high unemployment. The unemployment rate has since begun to fall in the beginning of 1994. Last year can be characterised as turbulent on the Finnish money market, particularly in long term interest rates. Interest rate levels were low at the beginning of the year, with the five year rate under six per cent and the three month rate under five per cent. At the lowest point during the year, the short term interest rates were below the short term rates in Germany. However, as rates began to tighten globally during the year, the Finnish long term interest rates began to rise and the five year rate reached the 11 per cent mark in August. The rise in the short term rates was more moderate, with the three month rate at six per cent in December. The outlook for the short term rates is a continuation of the upward trend.

Annual Report

The Board of Directors and the President and CEO of Asset Management Company ARSENAL Ltd submit their report on the operations of the Group for the fiscal year of 1994.



Board of Directors' Report

The crisis in the Banking sector all over the world has led to the formation of government-owned asset management companies. Following the developments in the U.S, the banking crisis in the Nordic countries began in Norway and expanded to Sweden, eventually occurring also in Finland.

The first proposals concerning the formation of asset management companies in Finland were put forward in the Government Bill in January 1993. The objective was to restructure and support the banks as quickly and effectively as possible. The law concerning the Government Guarantee Fund was passed in April 1992, making possible the formation of state-owned asset management companies.

During 1993 Savings Bank of Finland – SBF Ltd was taken over by the Government. Asset Management Company Arsenal was established in November 1993 to manage and liquidate the assets assumed from the SBF. In January 1994 the Government Guarantee Fund transferred to Arsenal the authorisation to make credit decisions independently.

1994 Results

The Group loss before extraordinary items, appropriations and taxes was FIM 11.8 billion.

Write-offs on credits totalled FIM 4.5 billion. Additionally the write-downs on properties and securities were substantial and equalled FIM 5.0 billion.

Capital Structure

Arsenal is wholly-owned by the Finnish Government. The Government of Finland owns 74 per cent of the share capital and the Government Guarantee Fund holds the remaining 26 per cent of the shares. Arsenal was initially capitalised by the Finnish State with shareholders' equity amounting to FIM 5 billion, of which share capital accounts for FIM 2.5 billion and additional reserves FIM 2.5 billion.

Shareholders' contribution was divided in equal parts and allocated to the share capital and to the equity reserves.

Shareholders' equity increased

In September 1994 Arsenal's shareholders' equity was increased by FIM 6 billion of which FIM 0.5 billion was allocated to share capital and FIM 5.5 billion to restricted reserves. The total number of shares outstanding rose to by 100 000 to total 600 000.

The second increase in shareholders' equity took place in March 1995, when an additional FIM 8 billion was injected into Arsenal, of which FIM 0.5 billion was allocated to share capital and FIM 7.5 billion to the reserves. By March 1995 the Government and the Government Guarantee Fund will have injected total capital amounting to FIM 19 billion into Arsenal.

Review of Operations

Credit administration

Arsenal's credit administration activities include granting of new loans and guarantees, collection of receivables, corporate restructuring and legal consulting. It also coordinates relationships between Arsenal and its regulators, namely the Government Guarantee Fund and the Financial Supervision.

Credit administration's aim is to minimise the State's further exposures to Arsenal through an active loan management and portfolio divestment program.

Credit administration employs 359 persons, of which 25 are located in the Helsinki headquarters and the remainder in 9 regional offices.

The main focus of the division's activities during 1994 was related to assuming the responsibility of assets from Savings Bank of Finland – SBF Ltd to Arsenal. A new data system was built to manage the growing number of clients and the asset portfolios. A total of 1 042 clients were transferred from the commercial banks which bought the assets and liabilities of Savings Bank of Finland – SBF Ltd during 1994, with liabilities over FIM 993 million.

In the end of 1994 Arsenal had 12 685 clients with total liabilities over FIM 11 391 million. The credit administration executed 24 000 new credit decisions in 1994.

Credit administration's clients are categorised as either viable or non-viable clients. A client is considered to be viable if it can, through its own activities and with temporary support, develop a profitable operation.

The credit administration co-ordinates, in its own area of responsibility, relationships with authorities, banks, financial institutions, the Government Guarantee Fund and Financial Supervision.

Credit losses during the first fiscal year amounted to FIM 4.5 billion.

Real estate

The real estate assets of Savings Bank of Finland – SBF Ltd were assumed by Arsenal in 31st of October, 1993 at a book value which was substantially higher than the market value at the time. To estimate the current market value, external surveyors were assigned to perform a complete real estate portfolio valuation during the Summer of 1994.

The main functions for the real estate division, which employs 123 persons, are to manage, rent and liquidate Arsenal's property portfolio.

The main focus of the division's activities was on integrating the properties assumed into the Group, developing the internal data system, and management of the properties, including letting and sales.

Write-downs on property values, based on estimates, amounted to FIM 3.5 billion during 1994. At the year-end, total capital employed by Arsenal's real estate portfolio was approximately FIM 8.5 billion, primarily attributable to properties in Finland.

The total number of individual properties and apartments was approximately 14 400.

Properties worth FIM 404 million were sold during the financial year.

To ensure the highest possible sales price, special attention has been paid to the letting of the vacant properties. The demand of prime office space and rental levels increased during the financial period.

Rental income earned during 1994 amounted to FIM 694 million and the management expenses totalled FIM 397 million for the same period.

Arsenal does not engage in construction management. However unfinished property development projects can be completed if it is probable that the overall result is better than through selling the unfinished project.

Customer support

The customer support division's main activities are related to corporate evaluations, acquisitions and corporate restructuring.

In performing corporate evaluations Arsenal engages external consultants. During 1994 a total of 290 corporate evaluations were completed by 25 different consulting firms.

Total liabilities owed by the companies analysed amounted to approximately FIM 3.4 billion.

Based on the evaluations qualified clients will start a corporate restructuring program. The objective of the temporary and goal oriented consultation is to increase client company's profitability in order to enable it to return to the ordinary banking system.

During the year 1995 the emphasis of the divisions activities will change from performing evaluations to corporate restructuring.

Treasury and capital markets

Arsenal has an active centralised treasury division which is responsible for the Group's refinancing and monitors the liquidity, maturity and interest rate management risks. Treasury division also manages Arsenal Group's equity portfolio with a book value of FIM 1.3 billion.

In May 1994 the Government of Finland decided that it will undertake to guarantee the repayment of bonds and other debt financing issued by Arsenal up to a maximum of FIM 28 billion.

Information Technology

During 1994 Arsenal has built an extensive new data system which links all its employees into one network.

The total investment to the system and training was FIM 37.7 million.

Personnel

At the end of the year Arsenal Group employed a total of 560 persons.

The majority of the employees were appointed from staff previously employed in the Savings Bank of Finland. More than half of Arsenal's employees are women.

Subsidiaries

The three main subsidiaries belonging to the Arsenal Group are Savings Bank of Finland – SBF Ltd, Mutual Insurance Company of the Savings Banks and Tukirahoitus Ltd. The total number of subsidiaries, where Arsenal owns over 50 per cent of the equity capital, was 52 at the end of 1994.

Outlook for 1995

The long term objective for the Group is to divest all the assets under its responsibility while maximising the value of the assets. The critical factors in Arsenal's success are the sale proceeds from the assets sold, the collections of the non-performing loans, the development of the interest rate environment, property occupancy rates and rental value.

The group will launch an active, market driven refinancing program. The Group's operating result is related to the cost of financing and the development of the asset values. The cost of financing is subsequently dependent on market interest rates and the relation of the balance between external capital and own capital.

It has been decided that the Government will inject an additional FIM 8 billion of shareholders' equity into Arsenal which will secure the capital structure and the solvency of the Group in 1995.



Income Statements

November 18, 1993 - December 31, 1994

Exchange rate USD 1 = FIM 4.3 as at April 25, 1995

FIM millions	Group		Company
Interest income			
Due from banks and financial institutions	15		9
Loans and advances	150		150
Loan claims	300		170
Debt securities	94		110
Other interest income	-57	502	24
Income from special finance operations		16	
Interest expenses			
Banks and financial institutions	1 247		1 321
Other interest expenses	310	1 557	5
Net income from financial operations	-1 039		-863
Other operating income			
Dividend and commission income		53	53
Securities trading income		-1 444	-1 440
Income from foreign exchange operations		1	
Income from real estate portfolio and other operations		752	599
Total operating income		-1 677	-1 651
Operating expenses			
Administrative expenses			
Personnel costs		150	132
Other administrative expenses		115	33
Depreciation		3 510	3 299
Other operating expenses			
Real estate management expenses	1 096		687
Miscellaneous operating expenses	722	1 818	556
Credit and guarantee losses		4 545	4 580
Asset revaluations			376
Operating result		-11 815	-11 314
Direct taxes		-1	
Loss for the financial period		-11 816	-11 314

Balance Sheets

December 31, 1994

Exchange rate USD 1 = FIM 4.3 as at April 25, 1995

FIM millions	Group		Company	
Assets				
Cash in hand		0		
Due from banks and financial institutions				
Due from banks	246			
Due from financial institutions	232		171	
Loans and advances	6 817	7 295	6 817	6 988
Due from customers		10 237		
Income from special finance operations		159		
Debt securities		2 498		
Shares and participations		1 930		1 352
Other		2		
Fixed assets				
Land and buildings	1 185			
Real estate shares and participations	4 346		16	
Machinery and equipment	22		11	27
Other fixed assets	9	5 562		
Other assets				
Payment receivables	152			
Other	210	362		
Accruals and deferred receivables		625		985
		28 670		9 352

Liabilities and Shareholders' Equity

Liabilities				
Due to banks and financial institutions		2 762		4 418
Due to customers		260		156
Debt instrument public issues		20 632		2 688
Other liabilities				
Payment liabilities	31			
Other	30	61		15
Accruals and deferred liabilities		1 863		1 113
Statutory reserves		1 666		1 276
Subordinated debt liabilities		2 156		
Participations		86		
Shareholders' equity				
Restricted equity				
Share capital	3 000		3 000	
Restricted reserves	8 000	11 000	8 000	11 000
Distributable equity				
Loss for the financial year		-11 816		-11 314
		-816		-314
		28 670		9 352

Contingent liabilities and guarantees

Accounting principles

General accounting principles

The financial statements of the holding company Asset Management Company Arsenal Ltd and its group companies, including Savings Bank of Finland -- SBF Ltd, are drawn up and presented in accordance with the special bookkeeping and accounting regulations as stated in the Bookkeeping Act (Financial Supervision's regulations (18-19 / 113 / 94). Some of the financial items in the balance sheet and income statement are adapted to correspond to the specific nature of Arsenal's activities.

The financial statements of 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 recognised as earned or as incurred and entered in the income statement on an accrual basis.

Extent 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, non-active company holdings and subsidiaries merged in to the SBF Group are not included in the consolidated financial statements.

Real estate companies are not included in the consolidated financial statements, but the major companies are listed under separate financial notes.

Consolidation

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

Foreign currency items

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

Interest income and expenses

The proceeds or losses from the sales of receivable are included in the interest income. Non-performing loans have been excluded from the consolidated financial statements.

Real estate and other operational income

Real estate and other operational income have been entered as earned or incurred. Rental income has been valued at the probable future value.

Pension arrangements

Pensions for employees of Arsenal Ltd are arranged through an insurance scheme.

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.

Credit and guarantee losses

Realised and allocated, evident credit losses are expensed under write-offs on credits and guarantees. In connection with write-offs, the asset constituting collateral for the claim is valued at the probable value at the time of transfer.

The net difference between outstanding receivables and the collateral values securing those receivables are stated as credit and guarantee losses.

Taxes

Direct taxes are recognised as incurred.

Transferable shares

Transferable shares held as investment assets are valued at the lower of cost or market value.

Other than transferable shares

Other than transferable shares are booked at market values.

Reserves

Reserves are made against future expenses in taxation and accounting. The aggregate amounts of reserves at the end of the financial year are shown as separate items in the balance sheet.

Derivative instruments

Derivatives are used as hedging instruments. Items entered in the balance sheet on the basis of derivative instruments are booked in accruals.

In evaluating hedging agreements, valuation policies applying to the item hedged have been taken into account.

Premiums received on options are booked under liabilities and premiums paid under receivables.

The results of forward contracts are recognised on closure of contract.

Interest rate swaps are accrued as per the respective agreement

Property asset revaluations

Actual 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 the market price and the book value is more than 20 per cent.

Notes to the Financial Statements

1. Interest bearing debt

Instruments by type	Group	Arsenal Ltd
Certificates of deposit	2 496	
Commercial Paper		
Government bond		
Local authority paper		
Subordinated debentures	4	
Convertible bonds		
Bond with warrants	1	
Other bonds and debentures	24	
Other		
Total	2498	
Liabilities:		
Certificates of deposit	15 923	
Bonds and debentures	2 778	
Other	2 688	2 688
Total	21 389	2 688

2. Foreign currency denominated assets and liabilities

	Group		Arsenal Ltd	
	FIM	Foreign currency	FIM	Foreign currency
Due from financial institutions and central banks		122		
Due from public		506	48	
Debentures				
Other assets				
Total		628	48	
Due to financial institutions		635	48	
Due to public and institutions				
Interest bearing debt				
Subordinated debt				
Other bonds and debentures				
Total		635	48	

3. Credits granted by business sector

	Group	Arsenal Ltd
Companies	6 264	
Financial institutions	144	
Government and State bodies	302	
Non-profit companies		
Public	941	
Total	7 651	

4. Subordinated debentures

	Group	Arsenal Ltd
Due from financial institutions		
Due from public	23	
Total	23	

5. Leased assets

	Group	Arsenal Ltd
Advance payments		
Machinery and equipment	158	
Fixed assets and buildings		
Other assets	1	
Total	159	

6. Non-performing and non-interest-bearing receivables

	Group	Arsenal Ltd
Non-performing receivables	4 676	
Guarantee receivables	2 587	
Other non-interest-bearing receivables	112	
Unallocated probable write-offs	38	
Total	7 337	
By business sector:		
Commercial enterprises	6 428	
Non-profit enterprises	199	
Public	710	
Total	7 337	
Loans and advances	6 817	6 817
- Unallocated probable write-offs on loans and advances	930	930
Total	5 887	5 887

7. Shares and participations

At December 31, 1994

Companies with book and market value over FIM 1 million

Total number of companies:	5
Total book value (FIM million):	986

Companies with book and market value less than FIM 1 million

Total number of companies:	119
Total book value (FIM million):	8

Domestic listed companies

Company	Share type	Shareholding %	Voting rights %	Book value FIM million	Market value FIM million
Owned by Arsenal					
Cultor	II	0.8	0.1	22.2	22.2
Huhtamäki	I			16.7	16.7
Huhtamäki	K	0.6	0.5	9.2	9.2
KOP		10.4	10.4	596.1	596.1
Kylpyläkasino	A	48.5	93.7	0.8	0.8
Kylpyläkasino	K	48.5	93.7	—	—
OP-Sijoitus		44.5	44.5	35.9	35.9
SKOP	K	35.9	29.3	201.3	201.3
Unitas	A	5.8	6.6	341.6	341.6
				1223.8	1223.8

Owned by Savings Bank of Finland – SBF Ltd

Castrum				0.001	0.001
Sampo	A			—	—
SKOP	A			39.4	39.4
SKOP	K			37.7	37.7
				77.1	77.1
Total				1 300.9	1 300.9

8. Real estate holdings

Domestic real estate holdings and shares in real estate companies

Type of properties	Group	Arsenal Ltd
Residential	790	
Office	2 273	16
Industrial	609	
Retail and wholesale		
Leisure		
Land	721	
Other	990	
Foreign real estate holdings		
Total	5 383	16
Properties in own use	148	
Total	5 531	

9. Convertible bonds and subordinated debt

	Issue amount FIM million	Coupon %	Maturity	December 31, 1994
Convertible bonds	<i>Arsenal has not issued convertible bonds during the financial period.</i>			
Total	<i>Arsenal has not issued convertible bonds during the financial period.</i>			
Subordinated debt	<i>Arsenal has not issued convertible bonds during the financial period.</i>			
Total	<i>Arsenal has not issued convertible bonds during the financial period.</i>			

10. Increases and decreases in shareholders' equity during the fiscal year

Group	Restricted equity			Distributable equity		Total
	Share capital	Ordinary reserve	Revaluation reserve	Preferred capital certificates	Loss/Profit	
Beginning of the fiscal year	2 500	2 500				5 000
+ Increases during the fiscal year	500	5 500				6 000
- Decreases during the fiscal year					11 816	11 816
End of the fiscal year	3 000	8 000			- 11 816	-816

11. Group write-offs in credits and guarantees

	Gross write-offs	Reclaimed amounts
Due from public	2 013	105
Loans and advances	930	2
Leased assets	4	
Guarantees and other off-balance sheet items	1 774	69
Total	4 721	176

12. Wages, salaries and fees

FIM million	Group	Arsenal Ltd
Board of Directors, President and Executive Vice President	2	1
Other personnel	93	90
Total	95	91
Performance related wages and fees:		
Board of Directors, President and Executive Vice President	<i>Performance related wages and fees were not paid during the financial period</i>	
Other personnel		
Total		

13. Off-balance sheet commitments

Commitments on behalf of customers in favour of third parties		Group	Arsenal Ltd
Bills of exchange			
Guarantees and pledges			
On behalf of Group companies			
On behalf of others		3 859	
Other irrevocable commitments issued to customers			
On behalf of Group companies			
On behalf of others			
Assets pledged as collateral for Group liabilities		338	
Total contingent liabilities		4 197	
Derivative contracts			
		Group	Arsenal Ltd
Interest rate options and forward contracts			
Currency options and forward foreign exchange contracts		2	
Share options and share-related forward contracts			
Total		2	

14. Subsidiaries and associated companies

December 31, 1994

Subsidiaries	Share holding %	Voting right %	Book value FIM million
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Refer to Finnish version of Arsenal's Annual Report.

Associated companies

Refer to Finnish version of Arsenal's Annual Report.

15. Personnel

	Group	Arsenal Ltd
Number of personnel		
Full-time	550	374
Part-time	185	185
Total	735	559

16. Shareholders

	Number of shares	% of share stock	% of votes
Government of Finland	444 230	74.04	74.04
Government Guarantee Fund	155 770	25.96	25.96
Total	600 000	100.00	100.00

Proposal of the Board of Directors

The result of the year and consequent from this

The consolidated loss for the financial year is FIM 11 314 248 163,15.

Because the result for the fiscal year was negative and there is no distributable shareholders' equity from the previous years, no dividends will be distributed.

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

Helsinki, March 31, 1995

Heikki Koivisto
Chairman

Veijo Kauppinen
Vice Chairman

Eero Aho

Aarne Heikinheimo

Erkki Virtanen

Jukka Wuolijoki

Seppo Sipola
President and CEO

Auditors' Report

We have audited the financial statements, the accounting records and the administration of Asset Management company Arsenal Ltd for the 1994 financial year. The financial statements prepared by the Board of Directors and the President of the company comprise, both for the group and the parent company, a report on operations an income statement, a balance sheet and notes to the accounts and the administration based on our audit.

We provide our opinion on the accounts, the disclosures and the presentation of information, including the accounting policies to the extent generally accepted Finnish auditing standards require. The audit of the administration has included obtaining assurance that the actions of the Board of Directors and the President of the company have been in conformity with the regulations of the Finnish Companies' Act. The Group was established to hold and manage unsecured and risk bearing assets and liabilities assumed from Savings Bank of Finland – SBF Ltd on October 22, 1993. During the first fiscal year, substantial changes have taken place in the management and ownership structure of these balance sheet items. The changes that occurred and the accounting effects of the transfer period are reported on the financial statements.

The Group operations have been considerably unprofitable. The financial statements give an account on the reasons for the losses. The loss for the financial year depleted shareholders' equity. After the increase of shareholders' equity of FIM 8 billion in March 31, 1993, the shareholders' equity is now at a sufficient level in accordance with the Finnish Companies' Act.

In our opinion the accounts, which state a loss of FIM 11 815 726 157,98 for the Group and a loss of FIM 11 314 248 163.15 for the parent company, have been prepared in accordance with the regulations of the Accounting Act and other legislation and regulations relevant to the preparation of the accounts, and give a true and fair view of the group's and the parent company's results from operations and financial position in accordance with such legislation and regulations. When assessing the financial position of the group account should be taken of the fact that the commitments of the company are associated with major financial risks.

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 year examined by us.

The proposal of the Board of directors concerning the disposition of the loss for the year and the distributable shareholders' equity according to the balance sheet is in compliance with Finnish legislation.

Helsinki, April 5, 1995

Salmi, Virkkunen & Helenius Oy
Authorised Public Accountants

Oy Tuokko, Deloitte & Touche Ltd
Authorised Public Accountants

Johan Kronberg
Authorised Public Accountant

Yrjö Tuokko
Authorised Public Accountant

Board of Directors

at December 31, 1994

Chairman

Heikki Koivisto

Director, Government Guarantee Fund

Vice Chairman

Veijo Kauppinen

Counsellor

Ministry of Trade and Industry

Members

Eero Aho

Executive Vice President & CFO

Huhtamäki Oy

Aarne Heikinheimo

Director

Finnish Guarantee Board

Erkki Virtanen

Deputy Head of Budget Department

Ministry of Finance

Jukka Wuolijoki

Director General

State Treasury



Auditors

Oy Tuokko, Deloitte & Touche Ltd
Authorised Public Accountants

Salmi, Virkkunen & Helenius Oy
Authorised Public Accountants

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This document, prepared for the international business community is an adaptation of Arsenal's 1994 annual report in Finnish. An economic review has been added in the English version.

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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