

January 23rd, 1933.

Mr. Henry Mann,
Vice President,
The National City Company,
Berlin N.W. 7.
Unter den Linden 50.

Dear Sir,

We have duly received your letter of the 17th inst. contents of which are noted with thanks and we regret that owing to the fact that our lady cashier and our assistant accountant have been suffering from influenza the closing of our books has been delayed this time. We trust, however, that it will be ready in a few days and we shall let you have the balance sheet as soon as possible together with the necessary commentation.

In the meantime we beg to reply to your different inquiries made in your above mentioned letter. All figures mentioned by us concern the position of December 31st, 1932, provided that it is not specially stated otherwise.

Mortgage loans to be amortized:- We have two bond loans, one 6 1/2 % loan issued 1927, originally amounting to 2 million pounds Sterling and one 6 % loan issued 1928 originally amounting to 10 million dollars. The first mentioned loan is to be amortized within 30 years and the last mentioned loan within 33 years. Of course our lending terms have been stipulated in accordance with the terms agreed upon in the loan agreements

and consequently we have granted the mortgage loans in two different series, i.e. those of 1927 and 1928.

For the series of 1927 which is pledged for the £ Sterling issue an annuity of 8 1/2 % has been fixed, of which in the first 15 years 7,7 % is interest and the remainder amortization. In the following 15 years the interest amounts to 6,86 %. The change of the interest is due to the fact that according to our regulations the discount of the bond loan must be amortized within the half loan period.

For the series of 1928 pledged for the Dollar issue an annuity of 8 % has been fixed, of which in the first 15 years the interest amounts to 7,3 % and in the following 18 years to 6,36 %. The remainder is amortization.

On the 31st December 1931 we had granted 403 mortgage loans of series 1927, the unamortized principal amount then being Fmk 343.069.497:66 and 366 mortgage loans of series 1928, the unamortized principal amount then being Fmk 355.032.763:35.

During the year 1932 we have reduced the Dollar loan by Additional Sinking Fund Payments of \$ 572.500:--. In the beginning of 1932 we agreed with your New York Office upon an interpretation of the Trust Indenture to that effect that we had the right to withdraw Mortgages pledged with Finlands Bank, as Co-Trustee, on payment of the unamortized principal amount of the Mortgages and that such amount would be repaid to us on delivery of corresponding principal amounts of our 6 % bonds due 1961. We have been able to make use of such right to allow repayment of amortization loans - which right all borrowers *in an association* without exception should be entitled to, i.e. also the borrowers

of the £ Sterling issue - with respect to the £ Sterling issue only after an arrangement to such effect that Mortgages of series 1928 could be applied as security for the £ Sterling issue, even if the terms of these Mortgages did not entirely correspond those of series 1927. The only difference of fact between the two series was that of the yield, i.e. 8 % for series 1928 instead of 8 1/2 % for series 1927. The difference is compensated in the way that, when a mortgage of series 1928 is pledged for the £ Sterling issue and an earlier mortgage of series 1927 is released, the yield of the new mortgage shall be the same as that of the earlier mortgage. This signifies that the principal amount of a mortgage of series 1928 which is moved over to the £ Sterling issue must be about 7 % larger, if it shall replace a mortgage of the issue of 1927.

Since in the way as described above we have been in a possibility of getting payment also for the £ Sterling loans which we replace by the release of the corresponding mortgage from the Dollar loan, we have been able to inform our borrowers that until further notice they are allowed to pay their mortgage loans in actual Finnish marks without any increase, but on the condition that the unamortized amount of the loan charges, which for series 1927 are 4 3/4 % and for series 1928 5 1/2 %, be paid by them at the same time. This proposal appears perhaps rather generous, but the scarcity of money is as great at present and the position of owners of real estate as difficult that up till now only a few borrowers have been in a position to bring about the necessary funds for the repayment of their loans and no rush is to be expected in this respect in a near future.

There are principally mortgage loans of series 1927 that have been repaid, in many cases in connection with sales by public auctions. If possible, we have required cash payment of our claim on occasion of such enforced sales. When a mortgage loan of series 1927 (granted in connection with the £ sterling issue) has been repaid we have always bought a corresponding amount of our 6 % dollar bonds, got a corresponding mortgage of the Dollar loan released and moved over this mortgage to the £ sterling issue. Owing to the fact that the principal amount of the £ sterling issue counted in present Finnish marks of paper value has not increased by more than 17 %, whereas the corresponding increase of the Dollar loan is 70 %, such proceeding has been, of course, very favorable for us and will be so also in future.

In order to avoid a decrease of the stock of foreign exchange of Finland's Bank we have purchased the dollar bonds principally in Finland, where Insurance Companies and other Money Institutions had a great lot of them. As we have been compelled to pay for greater lots of such bonds higher prices than those quoted in New York our direct profit has not been large, but the principal matter for ourselves has been to be able to reduce our loss in the exchange for the payment of annuities.

On December 31st, 1932, we had granted 724 mortgage loans of which the unamortized principal amount was Fmk 664.161.624:84. Of the loans concerned 374 the series 1927, Fmk 318.188.762:20, and 350 the series 1928, Fmk 345.972.862:64

In the way as described above 28 mortgage loans of series 1927 and 28 corresponding Fmk 16.174.391:56 have been moved over to the

£ Sterling issue. The remainder of the security for the Dollar loan consisted thus of 322 mortgages, of which the unamortized principal amount was Fmk 329.798.471:08.

During the month of January 1933 the repayment of mortgage loans has continued and we have effected hitherto further additional sinking fund payments of totally \$ 417.500:--. The security of the Dollar loan has hereby been reduced by Fmk 15.601.730:99 for 6 loans. At present, when this letter is being written, the amount of the mortgages pledged for the Dollar loan is Fmk 314.196.740:09 (316 mortgages). After deduction of all Additional Sinking Fund Payments the outstanding amount of the Dollar issue is \$ 8.562.000:--.

Loans in default:- As regards mortgage loans in default of annuities the figures given for £ Sterling and Dollar loans are not quite comparable. The last annuity for the Dollar issue was due on August 1st, 1932, but that of the £ Sterling issue on December 1st, 1932. As per the regulations of our Bank the borrowers have the right to pay their annuities with a delay of three months, with penalty interest, before the Bank is entitled to give notice of payment. Consequently at present no borrower who omitted to effect the annuity of the £ Sterling loan on December 1st, 1932, is in default formally.

The following statement shows the annuities in default on December 31st, 1932.

£ Sterling loan (75 borrowers)	Fmk 2.853.303:45
Dollar loan (26 ")	" 1.184.405:40
other loans (16 ")	" 859.732:25

unpaid annuities of real estate which the Bank has been compelled to take over

"	605.942:60
<u>Fmk</u>	<u>5.483.383:70</u>

Of the annuities in default of the £ Sterling loan an amount of Fmk 2.169.322:45 was due on December 1st, 1932, and the remainder of Fmk 683.981:- was due on earlier sinking fund dates.

Other Mortgage Loans:- These loans consist of 32 loans which can be recalled upon notice, and the greater part of them has been granted with funds which the Bank has received in 1930 by a short term Swedish loan, granted by the Skandinaviska Kreditaktiebolaget, Stockholm. Later on this loan was taken over by Stockholms Enskilda Bank, Stockholm, In the beginning this loan amounted to \$ 1.875.000:-, and by repayments it was reduced to \$ 1.350.000:-. To the same group of "other loans" belong some smaller loans which have been granted by funds taken from the Bank's Reserves. The interest on such loans has been 8 % with the same increase of 14 % owing to the fall of the Finnish mark which increase has been asked for in the way as described in the following as regards amortization loans.

Own bonds:- These bonds are exclusively those which have been applied to Additional Sinking Fund Payments and therefore are booked at par, i.e. Fmk 39,70 for the dollar. The profit on them has already been transferred to the agio account. These bonds have been stamped by the Trustee as "none negotiable" and will be applied to the Sinking Fund on ordinary Sinking Fund date, when consequently they will disappear on the credit side of the Bond Account.

Interest on bond loans:- Here are concerned such amounts which already have been paid to the Trustees, Hambros Bank Limited and The National City Bank of New York and for which the Trustees already accounted the respective coupons. At the end of the year

this figure is transferred to the Profit and Loss Account. In the account "Foreign correspondents" are entered such interest amounts for which the Trustees not yet were in a position to account the respective coupons.

Agio:- In this account is entered the difference on exchange. We keep our books on the basis of gold, because our borrowers are compelled, in principle, to pay their loans in gold. Consequently our foreign loans are booked at Fmk 39,70 for the dollar and Fmk 193,23 for the £ Sterling. When we are to pay our annuities or interest in foreign exchange, buying the foreign exchange for this purpose in Finnish marks, the part of the amount in Finnish marks that exceeds Fmk 39,70 per dollar or Fmk 193,23 per £ Sterling is booked as agio loss. When we buy our own bonds under the price at par, the profit is booked as agio profit. Also the augmentation which our borrowers pay for their annuities is booked as agio profit. The account "Agio" on December 31st, 1932, is not yet closed, but some new figures which will be added do not change the results considerably.

Agio losses in the year 1932.

Losses on the annuities of the Sterling loan	Fmk 3.546.567:01
Losses on the annuities of the Dollar loan	" 14.606.899:78
Loss on the short term credit in dollars granted by Stockholms Enskilda Bank (interest as well as repayments)	" 9.282.632:19
other agio losses	" 215.337:97
Aggregate amount of losses	<u>Fmk 27.651.436:95 .</u>

Agio profits in the year 1932.

Additional payments of the borrowers (increase of 14 %)	Fmk 9.225.489:27
Profit on purchased Sterling bonds	" 1.601.387:56
Profit on purchased Dollar bonds (for Ordinary as well as Additional Sinking Fund Payments)	" 6.146.964:39
Other agio profit (principally obtained by reason of a dollar credit with Fin- lands Bank which was entered in the balance sheet of December 31st, 1931, and which was repaid in 1932 at more favorable rate of exchange)	<u>" 660.615:53</u>
Aggregate amount of profits	<u>Fmk 17.634.456:75.</u>

Thus in the balance sheet December 31st, 1932, there will be entered an agio loss of about Fmk 10.000.000:--. The loss would be about 4 million marks larger than the above mentioned, if it would not have been reduced by the favorable purchase in the month of December for Additional Sinking Fund Payments of the Dollar loan.

In the account "Agio" there is a figure of 9.225.489:27, which the borrowers paid in addition to their ordinary annuities. When the Finnish mark declined in October 1931 by reason of the suspension of the gold standard it was the intention of our Bank, if possible, to claim the entire loss in the exchange from the borrowers owing to the fact that according to the loan terms they were compelled to pay their annuities in gold. Still in December 1931 the Finlands Bank quoted the £ Sterling at par. If this quotation would have remained unchanged and if the Bank's

losses in the exchange would have been divided equally on all borrowers, independent from their participation in the Sterling or Dollar loan, the loss in the exchange for the dollar, as per situation in November 1931, would not have signified more than an increase of 14 % on all annuities. This increase corresponded about 1,1 % annuities, i.e. 9,6 % instead of 8,5 % and 9,1% *instead* of 8 % annuity. In accordance herewith the increase was fixed in November 1931 for the annuities due in the beginning of December, January and February. However, before the annuity of the Sterling loan was paid to England, the quotation for £ Sterling had gone up from 193,23 to 235.

It evidenced that the borrowers had difficulties in paying even 14 % extra and that there was no possibility of increasing the extra payment to 35-40 % which would have been necessary according to the new rate level. As it was generally presumed that already in the following spring the Finnish mark would recover its par level in its relation to the £ Sterling, the Bank decided upon to pay by own funds the exceeding part of the loss in the exchange. For the annuities due May, June and July 1932 the Bank's Direction decided upon an increase of 20 %, but before such decision could be realized, the rents in dwelling houses decreased as violently that it was impossible to realize it, and consequently the extra payment was again reduced to 14 %. The fall of rents has hereafter continued regularly and the possibility of maintaining in future even an increase of 14 % appears to be problematic. The Bank decided however to collect this increase still in the month of February, when the annuity of the dollar loan shall be paid, and it depends

on the results how the matter will be arranged.

The average fall of rents in dwelling houses appears to be in Helsingfors 35-40 %. At the same time the prices of gas, electricity and water have been raised and also the price of coke has been raised by reason of the rate of exchange of £ sterling. By these reasons the net income of houses that are owned by private persons do not cover in the most cases even the original annuity of our loans. For the mortgage owners who have inferior right than we no interest can be paid. As long time as Dwelling house societies still succeed in collecting from their shareholders higher rents than the rents of common level, such societies are still in a position to pay even the increase required by us, but the the people's savings are not enough for ever, specially those of the working men and the lower middle class. With certain greater societies the shareholders of which principally are working men and other little people we have already, ~~nam, order~~ to avoid sale by public auction, been compelled to agree that they render us account each month for their income, because the latter has not been sufficient to cover the whole annuity due by them. In such cases we control every month that only the most necessary expenses be made by them, and that we get the remainder. If we should force these societies to enforced sales we should probably be compelled to buy the real estate ourselves, in which case the shareholders would remove and the income from the houses in question would be still more reduced for us than before.

10 % Additional Mortgages: These mortgages are not distinct mortgages, but in each mortgage is contained an engagement of the borrower to answer according to the Bank's regulations

jointly and severally with the other borrowers for the Bank's liabilities. As security for this engagement and additional mortgage amounting to 10 % of the original mortgage has been stipulated in the same document. This additional extra security is not included in the account of amortization loans and consequently it is not figuring twice in our books.

Liabilities.

Guaranty Fund:- The obligation of the Government to pay interest on the bonds placed as guaranty fund will begin only when the bonds will have been sold for covering the Bank's losses.

Additional Security Fund:- If the 10 % additional security would not appear both as asset and liability the books would show a profit that does not exist. Besides the Bank is obliged to release the additional mortgages of 10 % to the borrowers as soon as they repay a mortgage loan, provided that the additional mortgage has not been applied to cover the Bank's loss. Also by this reason it is necessary that the additional mortgages appear also as liability of the Bank.

Loan of Fmk 14.000.000:- :- In order to be able to effect the amortization of the short term dollar credit granted by the Stockholms Enskilda Bank we have borrowed from the Government in the years 1931-1933 an amount of Fmk 14.000.000:-. As security for such loan we have pledged the mortgages which were released by the Stockholms Enskilda Bank after repayment, and therefore these mortgages appear under the assets as "Other mortgage loans". The loan has been granted by the Government in Finnish marks of paper value, whereas the security has been

pledged to the Government for the whole amount in mortgages of gold marks at par, i.e. mortgages of principal amount of aggregating Fmk 14.000.000:--. We have however selected for the Government principally such mortgages for which the interest has not been paid punctually by the borrowers and which also otherwise appear to be inferior.

Annuities:- In this figure are included the annuities which our borrowers have paid during the year.

Sundry interest:- This figure includes the interest on "Other mortgage loans". Besides we have booked on this account the penalty interest paid by our borrowers as well as interest on our current accounts with Commercial Banks at Helsingfors.

Actions for debts and sales by public auction:- Generally speaking our borrowers have paid their annuities relatively well, and therefore rather few borrowers have been in default after the three months which as per our regulations are granted as respite. In the year 1930 eight houses have been sold by public auction at the request of the Bank, and in the year 1931 nine houses have been sold in this way. The situation, however, became worse every year, and in the year 1932 the number of houses sold by public auction increased to 34, although we tried by all means to avoid such sales by mediating between the borrower and the following owner of the mortgage with respect to the prolongation of the payment term etc. Under the present circumstances, when the average rent level has decreased by ^{about} 40 % (generally 25-50 %), we have the risk on occasion of each sale by public auction to be compelled for want of other buyers to take over the real estate for our own account. This must of course be avoided as much as possible and therefore we have

always taken back our request for sale by public auction, if the owner of the real estate succeeded in arranging the matter by paying the interest before the auction. On occasion of the sales we have been compelled in several cases to renounce a part of the interest due us, for not calling in the house at the auction for ourselves, and sometimes it even happened that we had to content ourselves with an offered price which only covered the capital due us. If in such case the loan has been repaid and the corresponding part of the issue has been covered by the purchase of bonds we have been in a position to cover the unpaid interest by the agio profit, by which reason we have not yet been compelled to book a direct loss for our lending. But in ten cases, at sales by public auction the calls did not cover even our claim of capital, and therefore we have been compelled to call in the real estate ourselves. One of these houses is pledged for the short term credit granted to us by the Stockholms Enskilda Bank, one house for credit granted by the Government, one house for the £ Sterling loan and seven houses for the Dollar loan. For these different groups the loans are divided as follows:-

Short term dollar credit of Stockholms	
Enskilda Bank	Fmk 4.950.000:-
Credit of the Government	" 1.925.000:-
£ Sterling issue	" 283.941:65
Dollar issue	" 10.539.276:70
aggregate amount	<u>Fmk 17.698.218:35 .</u>

We trust that by this real estate we shall gain in future such amounts as have been invested by us therein, but at present they do not yet yield as much as to pay by the net income the corresponding annuities entirely.

Our bookkeeping is not yet settled in such a way as to enable us without large work, which we cannot undertake just now, to state how punctually our borrowers have paid their annuities at each maturity date. We have only one account for our borrowers' annuities in which the annuities both for the series 1927 and series 1928 are included. In our Cash Book each payment is entered separately by which reason it should be possible to furnish you later on with the desired information to that effect. We trust, however, that until further you will content yourselves with information about the outstanding amounts at the end of each year as per the following statement:-

December 31st, 1927,	Fmk	38.611:35
" " 1928,	"	88.187:50
" " 1929,	"	657.775:-
" " 1930,	"	1.774.148:75
" " 1931,	"	2.165.724:55
" " 1932,	"	5.471.803:70.

By this statement it evidents how the situation of the market of real estate has become worse since the year 1929, when the crisis began, and year after year developed in this direction, and it evidents how much more difficult it has been for the owners of real estate in our country to collect their rent income.

Comparison of annuities:- In the calculation delivered by undersigned Linturi to you on occasion of his visit in Berlin an error slipped in, i.e. with respect to the annuities of the £ Sterling loan. An accountant had informed undersigned Linturi that the £ Sterling annuity after repayment of different loans of series 1927 now amounted to about Fmk 14.500.000:-. Here it was forgotten that the income from the mortgages of the Sterling loan really has not decreased at all, for instead of the

mortgages released those of the Dollar loan had been moved over to the Sterling issue, as described before. This substitution of mortgages was such a new proceeding that the error, for which we beg to apologize, is explicable.

Owing to the fact that also in the month of January this year repayments have been effected of the Dollar loan by which the outstanding amount of it as well as the income from the mortgages consequently have decreased furtherly, we herewith beg to furnish you with an entirely new and carefully examined statement of the annuities of our Sterling and Dollar issues.

£ Sterling issue.

Expenses.

Annuities payable to Hambros Bank Limited, semi-annually,	
£ 76.183:-:- at the rate of 226,75	Fmk 17.274.495:25
Part of the Bank's general expenses	
1/4 % of Fmk 1.200.000:-	" 300.000:-
	<u>Fmk 17.574.495:25</u>

Income.

The mortgages pledged for the £ Sterling loan yield, payable semi-annually, by interest and amortization	Fmk 14.956.245:35
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Since December 1931 the borrowers have paid by reason of the gold clause an increase of 14 %, corresponding about 1,1 percent unities, i.e. about 9,6 % instead of originally stipulated 8,5 %	" 2.093.874:35
	<u>Fmk 17.050.119:70</u>

Expenses for the Sterling loan	Fmk 17.574.495:25
Income " " " "	" 17.050.119:70
Loss for each half year.....	<u>Fmk 524.375:55.</u>

Dollar issue.

Expenses
as per rate of 6 %

Interest at the rate of 6 % on \$ 8.562.000:- for 6 months	\$ 256.860:- <i>at the rate of 6 7/8 %</i>	Fmk 17.363.736:-
Sinking Fund Payment due 15/7.1933 0,6873 % on \$ 8.562.000:-	\$ 59.000:- <i>at the rate of 6 7/8 %</i>	" 3.988.400:-
Part of the Bank's general expenses 1/4 % on Fmk 1.200.000:-		" 300.000:-
		<u>Fmk 21.652.136:-</u>

Expenses
as per rate of 4 %

Interest at the rate of 4 % on \$ 8.562.000:- for 6 months	\$ 171.240:- <i>at the rate of 6 7/8 %</i>	Fmk 11.575.824:-
Sinking Fund Payment as above		" 3.988.400:-
Part of the Bank's general expenses		" 300.000:-
		<u>Fmk 15.864.224:-</u>

Income.

The mortgages pledged for the Dollar issue
yield semi-annually by interest and
amortization at 8 %

Fmk 13.222.950:-

Increase of the annuity of 14 % on
the originally stipulated annuity
equally as for the £ Sterling loan

" 1.851.213:-
Fmk 15.074.163:-

Loss.

Expenses, if the interest is 6 % p.a.	Fmk 21.652.136:-
Income	" 15.074.163:-
Loss	<u>Fmk 6.577.973:-</u>

Expenses, of the interest is 4 % p.a.	Fmk 15.864.224:-
Income	" 15.074.163:-
Loss	<u>Fmk 790.061:-</u>

Owing to the fact that in the last days our Dollar rate
has somewhat gone down and that the Bank, after undersigned
Linturi's visit in Berlin, has been able to effect large
Additional Sinking Fund Payments, the situation has somewhat
as can be seen,

improved in comparison with the calculation made earlier. At the same time the £ Sterling loan is showing a smaller loss than calculated earlier owing to the fact that it had been forgotten to include the mortgages which had been moved over to the Sterling loan from the Dollar loan.

In consideration of the heavy situation which at present is prevailing in our country such theoretic calculations as given in the preceding are too optimistic. We consider that we can congratulate ourselves in the future, if three quarters of the annuities can be collected in due time and ^{a part of} the remainder cannot be drawn in at all. The rent level is going down continually and we fear that on the next moving day, the 1st June, the situation will have impaired in such degree that an extra payment of 14 % hereafter will have become impossible. This would signify that only hereby the loss on the Dollar issue would increase by Fmk 1.851.000:-. Here it is to be observed also that the owners of shares in Dwelling house societies already now are paying higher rents than those of the common rent level. The reduced wages and the great unemployment prevailing in our country annihilate by and by the people's savings, and this cannot be continued too long time. Usually the shareholders in such dwelling house societies have borrowed money on the shares on which they are to pay high interest, and this makes their rents still more expensive. There are dwelling house societies where already one third of the shareholders left their apartments and shares adrift and moved over to a common dwelling house. For such abandoned apartments the remaining shareholders are not able to get the same high rents as paid by themselves, by which reason the situation becomes

worse and worse for them. We have already been compelled to buy three of such large dwelling houses, the societies which owned them having failed by such reasons, and we fear that similar cases will occur also in the future.

As soon as our balance sheet will be ready - we trust that it will be it within a few days - we shall hasten to let you have a copy as well as for comparison the statements of our "Profit- and Loss Accounts" for all years of our operation.

We are, Dear Sir,

Yours very truly

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