Financial Market Report

3 • 2009

- Employment pension institutions resume lending to non-financial corporations
- Notably slower growth in household borrowing
- Banks’ loan losses on the rise
- Mutual funds again attracting investors’ interest
- Credit card crime increasing
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1 Financial intermediation

1.1 Employee pension insurers resume financing of non-financial corporations

Pertti Pylkkönen

Banks’ stock of corporate loans has decreased slightly, whereas borrowing from employee pension insurers has increased rapidly. Large non-financial corporations have also been able to acquire financing from the international bond markets.

As a result of the financial turbulence, Finnish non-financial corporations’ sources of finance have changed, and the importance of employee pension institutions and Finnvera in financing has increased. Reduced availability and tighter terms of bank financing has forced non-financial corporations to increasingly seek alternative sources of financing.

MFI’s – in practice, banks’ – stock of corporate loans decreased slightly at the start of 2009. Despite the decrease in the loan stock in recent months, the amount of loans had increased in July by over 4% on the year-earlier period (Chart 1).

Banks’ stock of corporate loans grew in autumn 2008 at an exceptionally rapid pace (more than 20%), as non-financial corporations sought to secure future financing amidst the financial crisis. The overwhelming majority of bank loans withdrawn by non-financial corporations was on short-term loans with maturity of less than 1 year. The maturing of these loans has been one of the reasons for the slight decrease in banks’ stock of corporate loans. The amount of longer-term loans continues to increase, albeit at a considerably slower pace. Growth of the loan stock is partly constrained by the low level of corporate investments. For example, the SME sector currently needs mainly financing for working capital.

Chart 1. MFIs’ stock of corporate loans (excl. housing corporations) and monthly changes

The Finnish financial market differs from the international financial markets eg in that Finnish non-financial corporations have access to employee pension insurers’ extensive loanable funds – against collateral. Employee pension insurers’ lending (incl. bonds) to non-financial corporations has increased from EUR 5.4 billion in June 2008 to EUR 11.2 billion in June 2009.

Growth has been most notable in relending by employee pension insurers, which totalled just under EUR 0.7 billion in 2008. In June 2009, it exceeded

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1 Business tendency survey of small and medium-sized companies. August 2009.
2 Eg real estate security, bank guarantee or credit insurance.
3 Statistics on outstanding credit, 2nd quarter 2009.
EUR 4.6 billion (Chart 2). In the same period, investment loans by employee pension insurers to nonfinancial corporations increased by over EUR 1 billion. Public employee pension insurers also grant loans to non-financial corporations. For example, the Local Government Pensions Institution grants credit to non-financial corporations in the municipal sector.

Chart 2. Relending by employee pension insurers

Private employee pension insurers have also increased their investments in bonds issued by Finnish non-financial corporations. In the first half of 2009, these investments increased by over 40%, to EUR 1.1 billion.

Since the deepening of the financial crisis, another important source of financing, particularly for SMEs, has been Finnvera. Non-financial corporations have tapped Finnvera eg for working capital finance, as banks’ lending criteria have tightened. Moreover, Finnvera guarantees improve the availability of bank loans.

In January–June 2009, Finnvera granted loans and guarantees worth nearly EUR 700 million, ie 36% more than in the corresponding period of 2008. Finnvera started granting counter-cyclical loans and guarantees in March. Demand for these products has been brisk.

Counter-cyclical loans and guarantees accounted for ca one-fifth of Finnvera’s total financing in the first part of the year. The sharp decline in exports is reflected in the weaker demand for export financing and guarantees.

A growing appetite for risk has in recent months considerably improved the functioning of the global capital markets, which has facilitated the largest non-financial corporations’ long-term financing from the bond and syndicated loan market. Funding raised by Finnish non-financial corporations from the global bond markets declined slightly in the second half of 2008. In the first half of 2009, it has however increased considerably, ie from EUR 12 billion at the turn of the year to ca EUR 16 billion⁴.

The stock of domestic corporate bonds has remained fairly stable, at ca EUR 3.5 billion, for quite some time. In the first half of the year, only a small number of new emissions occurred, but in August–September the market for corporate bond issues picked up slightly. The market for domestic commercial paper shrank rapidly in autumn 2008, which for quite some time hampered companies’ short-term finance operations. Although the market for commercial paper has improved in recent months, the amount of outstanding commercial paper has remained at ca EUR 5 billion for quite some time.

Finnish non-financial corporations have in 2009 launched several public offerings. The amount of new risk capital that has been or will be raised via these offerings totals ca EUR 0.7 billion.

⁴ Statistics on outstanding credit, 2nd quarter 2009.
1.2 Household credit

Elina Salminen

Drawdowns of new housing loans have decreased significantly in 2009 compared to recent years. The annual growth rate of the stock of housing loans has slowed to ca 6%. Interest rates on housing loans are historically low. Annual growth of consumer credit has also eased.

The average interest rate on the stock of housing loans was at a record low of 2.68% at the end of July. The rate peaked in October 2008 at 5.46%. The average interest rate on housing loans has fallen to a historic low in 2009, despite the growth in loan margins.

Chart 3. Stock of housing loans; annual growth and average interest rate

At the end of July 2009, MFIs’ stock of domestic housing loans totalled EUR 69.4 billion, a 6.2% increase on the year-earlier period (Chart 3). Growth in the stock of housing loans has slowed in 2009, compared to the growth rates of 10 to 15% in recent years.

Chart 4. Annual drawdowns of new housing loans

Drawdowns of new housing loans have decreased significantly in 2009 compared to recent years (Chart 4). In July 2009, they totalled EUR 1.3 billion, ie EUR 390 million (23.1%) less than in July 2008.

The majority of drawdowns of housing loans typically take place in spring. This spring however, the amount of drawdowns remained subdued compared to previous years. Drawdowns of housing loans decreased in May 2009 by 38.9% on the year-earlier period. In July 2009, the average interest rate on new housing loans was 2.38%, compared to 5.49% a year earlier.

Chart 5. New business on housing loans and average interest rate

The interest rate on new business on housing loans fell in July to 2.27% (Chart 5). New business also includes contracts signed as a result of renegotiations on existing loans. In July, new
contracts were signed for EUR 1.5 billion, which is EUR 800 million less than in July 2008.

Chart 6. New business on housing loans by reference rate

The proportion of Euribor-linked new business on housing loans rose in July to 89.8%. In October–November 2008, there was a clear shift from banks’ Prime rates to Euribor rates, as customers changed their housing loans to shorter-term reference rates (Chart 6). Only a minor proportion of new business on Finnish housing loans is tied to fixed rates or other rates.

Finnish households’ consumer credit totalled EUR 12.5 billion at the end of July (Chart 7). Annual growth of households’ consumer credit slowed in July to 5.7%. In 2008, their average annual growth rate was 8 to 9%. The average interest rate on the stock of consumer credit fell to 5.34% at the end of July.

The amount of new business on consumer credit totalled EUR 295 million in July, 10.0% less than a year earlier. The average rate on new business on consumer credit decreased to 3.74%, compared to 6.25% in July 2008.
2 Banks and insurance corporations

2.1 International banks’ loan losses increasing

Mervi Toivanen

The sharp rise in loan losses weakens banks’ results in the United States, Europe and the Nordic countries. Results have improved only for banks with major investment banking operations.

Financial groups’ results before taxes have mainly decreased in the United States, Europe and the Nordic countries (Table 1). Results of the four largest US banks however improved on January–June 2008. This was due mainly to high income from securities trading. The results of retail banking were also improved by mergers which increased the customer base and lending stock. Impairment losses decreased as a result of changes in the valuation practices for securities, because changes in market values had a smaller impact on results than in January–June 2008. The situation of small and medium-sized US banks is much gloomier: they posted an aggregate loss in the second quarter of 2009.5 Of the European banks, the January–June 2009 results of Deutsche Bank and Lloyds improved considerably on the year-earlier period, due to mergers.

Weaker results were mainly due to increased impairment losses and loan loss provisions. In the United States, the majority of loan losses were recorded in corporate lending, credit cards, loans for real estate construction and development, and loans for house purchase. The ratio of loan losses to lending stock was 2.55% for small and medium-sized banks. In Europe, the relative growth in loan losses was in some cases greater than in the United States. In the case of European banks, impairment losses arise via two channels. Firstly, investment banks record impairment losses on securities due to the downgrading of credit ratings and changes in market value. Secondly, the overall weakening of the economy boosts loan losses. Losses are recorded particularly in lending to the retail sector and commercial property markets. Losses recorded on credit cards have also grown. The weaker macroeconomic situation has also forced banks to record more general loan loss provisions. Nordic banks record increasingly more loan losses on the domestic market, ie on lending to the Nordic corporate and household sectors. Banks also recorded losses on their Baltic and East European lending stock, real estate lending in Ireland and Denmark, and loans granted to cargo shipping companies and the corporate sector.

The groups’ expenses also grew, mainly due to the increase in staff expenses and costs related to mergers and business expansions. Nordic banks’ expenses were boosted by writedowns on the goodwill on Baltic and East European businesses.

Net interest income increased for the majority of banks, although there is considerable variability.

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5 Data on ca 8,200 commercial and savings banks supervised by the US supervisor, the Federal Deposit Insurance Corporation. See FDIC’s Quarterly Banking Profile, June 2009.
among banks. In the United States, banks’ net interest income increased as banks lending stock grew as a result of mergers and a widening of interest rate margins. In Europe, net interest income decreased mainly for banks that had to pay higher interest rate expenses due to mergers or problems caused by the financial crisis. Other banks managed to boost their net interest income as a result of the wider interest rate margins and growth of lending stock. Nordic banks’ net interest income grew, albeit at a slower pace than before. Banks’ lending stock continues to grow, while interest rate margins expand, and thus net interest income still exceeds interest expenses on financing and deposits.

Other income increased mainly because of highly profitable investment banking activities. Income from investment banking was boosted by increased bond issuance and an improvement of

Table 1. Large US, European and Nordic financial groups’ results in January–June 2009, EUR m

<table>
<thead>
<tr>
<th>Pre-tax results</th>
<th>Net interest income</th>
<th>Other income</th>
<th>Expenses</th>
<th>Imputed losses</th>
<th>Change, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank of America</td>
<td>5,139</td>
<td>-4,090</td>
<td>35</td>
<td>19,109</td>
<td>13,466</td>
</tr>
<tr>
<td>Citigroup</td>
<td>5,139</td>
<td>-3,644</td>
<td>9</td>
<td>19,324</td>
<td>17,819</td>
</tr>
<tr>
<td>JP Morgan</td>
<td>5,348</td>
<td>4,118</td>
<td>30</td>
<td>19,526</td>
<td>16,424</td>
</tr>
<tr>
<td>Wells Fargo</td>
<td>7,027</td>
<td>3,702</td>
<td>89</td>
<td>17,362</td>
<td>7,966</td>
</tr>
<tr>
<td>FOS-credit*</td>
<td>4,665</td>
<td>15,036</td>
<td>71</td>
<td>194,322</td>
<td>124,931</td>
</tr>
<tr>
<td>ABN</td>
<td>-872</td>
<td>1,079</td>
<td>1,651</td>
<td>1,985</td>
<td>-9</td>
</tr>
<tr>
<td>BNZ</td>
<td>3,331</td>
<td>3,152</td>
<td>6</td>
<td>6,401</td>
<td>6,650</td>
</tr>
<tr>
<td>BBVA</td>
<td>4,020</td>
<td>4,490</td>
<td>-11</td>
<td>6,858</td>
<td>5,555</td>
</tr>
<tr>
<td>BNP Paribas</td>
<td>4,489</td>
<td>4,756</td>
<td>-6</td>
<td>9,092</td>
<td>5,633</td>
</tr>
<tr>
<td>Credit Agricole</td>
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<td>7,127</td>
<td>-12</td>
<td>10,917</td>
<td>14,115</td>
</tr>
<tr>
<td>Credit Suisse</td>
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<td>6,023</td>
<td>-22</td>
<td>9,238</td>
<td>4,212</td>
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<tr>
<td>Commerzbank</td>
<td>1,367</td>
<td>804</td>
<td>-54</td>
<td>3,536</td>
<td>2,129</td>
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<tr>
<td>Deutsche Bank</td>
<td>3,131</td>
<td>386</td>
<td>707</td>
<td>6,697</td>
<td>5,627</td>
</tr>
<tr>
<td>Danske</td>
<td>802</td>
<td>269</td>
<td>260</td>
<td>2,694</td>
<td>2,734</td>
</tr>
<tr>
<td>HSBC</td>
<td>3,766</td>
<td>6,696</td>
<td>-44</td>
<td>15,410</td>
<td>13,838</td>
</tr>
<tr>
<td>ING</td>
<td>2,337</td>
<td>4,256</td>
<td>-12</td>
<td>6,798</td>
<td>5,301</td>
</tr>
<tr>
<td>ABN Derko</td>
<td>6,636</td>
<td>705</td>
<td>776</td>
<td>5,053</td>
<td>4,700</td>
</tr>
<tr>
<td>Royal Bank</td>
<td>273</td>
<td>508</td>
<td>244</td>
<td>24,403</td>
<td>17,850</td>
</tr>
<tr>
<td>Societe Geniale</td>
<td>316</td>
<td>2,410</td>
<td>-87</td>
<td>10,620</td>
<td>11,283</td>
</tr>
<tr>
<td>JBS</td>
<td>-1,932</td>
<td>-9,692</td>
<td>2,039</td>
<td>1,817</td>
<td>1,11</td>
</tr>
<tr>
<td>UBS</td>
<td>1,292</td>
<td>4,520</td>
<td>-57</td>
<td>9,365</td>
<td>8,852</td>
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<td>Swiss Bank</td>
<td>3,235</td>
<td>1,946</td>
<td>-70</td>
<td>7,382</td>
<td>7,905</td>
</tr>
<tr>
<td>DNB NOK</td>
<td>636</td>
<td>711</td>
<td>-11</td>
<td>1,269</td>
<td>1,263</td>
</tr>
<tr>
<td>Danske Bank</td>
<td>37</td>
<td>141</td>
<td>-74</td>
<td>297</td>
<td>236</td>
</tr>
<tr>
<td>Nordea</td>
<td>1,651</td>
<td>1,700</td>
<td>-7</td>
<td>2,661</td>
<td>2,417</td>
</tr>
<tr>
<td>Pohjola</td>
<td>281</td>
<td>293</td>
<td>-1</td>
<td>576</td>
<td>568</td>
</tr>
<tr>
<td>Swedbank</td>
<td>238</td>
<td>314</td>
<td>-56</td>
<td>1,038</td>
<td>1,136</td>
</tr>
<tr>
<td>Swedbank</td>
<td>654</td>
<td>619</td>
<td>1,016</td>
<td>3,948</td>
<td>3,502</td>
</tr>
<tr>
<td>Swedbank</td>
<td>410</td>
<td>685</td>
<td>-275</td>
<td>7,070</td>
<td>7,805</td>
</tr>
<tr>
<td>Swedbank</td>
<td>410</td>
<td>885</td>
<td>-675</td>
<td>7,070</td>
<td>7,805</td>
</tr>
</tbody>
</table>
| Sources: Bloomberg and banks’ interim reports.
2.2 Nordic banks’ Baltic risks

Mervi Toivanen

The notable weakening of the Baltic countries’ economic growth has increased concerns over the health of Nordic banks operating in the countries. Growing loan losses have rendered many banks’ Baltic business unprofitable. The largest lending stocks, and hence financial risks, are held by Swedbank and SEB.

In the early 1990s, the Baltic economies grew robustly. Economic development and the opening of the markets induced many Nordic banks to expand operations into the Baltic countries. New markets supported Nordic banks’ growth and boosted financial results for many years. But the growing lending stock also increased the banks’ Baltic risks. The financial crisis and economic recession have underlined these risks.

The largest Baltic loan portfolios are held by the Swedish financial groups Swedbank and Skandinaviska Enskilda Banken (SEB) (Table 2). Of Swedbank’s total loan stock, 15% (ca EUR 18.1 billion) is loans granted to the Baltic countries. The majority of these are granted to Estonia, with Latvia and Lithuania together accounting for roughly the same amount. Swedbank also does significant business in Russia and Ukraine. Of SEB’s loan stock, 14% (ca EUR 16.7 billion) is granted in the Baltic countries. Nearly half of this is loans to Lithuania, ca 30% to Estonia and the remainder to Latvia.

Of the Nordic banks, Nordea, DnB NOR and Danske Bank also do business in the Baltic countries. Ca 3% of Nordea’s lending stock; 2.5% of DnB NOR’s total lending stock, and ca 2% of Danske Bank’s total lending stock is in loans to the Baltic countries. The majority of Nordea’s loans are to Latvia. Nordea also has business operations in Poland. DnB NORD⁶, a subsidiary of DnB NOR, has granted the majority of its loans to Lithuania. Handelsbanken has some operations in Estonia and Latvia but is not active in Lithuania. The other Nordic financial groups do not have significant banking operations in the Baltic countries.

Table 2. Nordic financial groups’ lending stock, loan losses and nonperforming assets on Baltic operations, end-June 2009, EUR m

<table>
<thead>
<tr>
<th>Financial Group</th>
<th>Baltic lending stock, 6/09 (EUR m)</th>
<th>Loan losses, 1-6/2009 (EUR m)</th>
<th>Nonperforming assets, 6/09 (EUR m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Swedbank</td>
<td>18,138</td>
<td>761</td>
<td>2,022</td>
</tr>
<tr>
<td>SEB</td>
<td>16,738</td>
<td>399</td>
<td>2,069</td>
</tr>
<tr>
<td>Nordea</td>
<td>7,611</td>
<td>64</td>
<td>450</td>
</tr>
<tr>
<td>DnB NORD</td>
<td>6,146</td>
<td>151</td>
<td>645</td>
</tr>
<tr>
<td>Danske Bank</td>
<td>3,850</td>
<td>188</td>
<td>471</td>
</tr>
</tbody>
</table>

Sources: Banks’ interim reports and fact books.

In 2008, Nordic financial groups’ Baltic business was still profitable, but as the economy weakened the results of Baltic business turned negative. The losses were mainly due to the growth in loan losses. The groups also had to make writedowns on goodwill for Baltic businesses. Net interest income and other income have also weakened. Only Nordea posted a positive result on Baltic business in January–June 2009, albeit less than in the year-earlier period.

Loan losses on Baltic operations are significant, as they constitute the majority of the groups’ loan losses. In January–June 2009, Baltic business accounted for 55% of Swedbank’s losses. The

⁶ DnB NOR owns 51% of DnB NORD, which has major operations in the Baltic countries.
corresponding figure for SEB was 73% and for DnB NORD 84%. Of Nordea’s total loan losses, 8% is related to lending in the Baltic countries.

The proportion of loan losses recorded by the financial groups on Baltic lending stock is higher than that recorded on the other lending stock. Baltic loan losses amounted to 7.4% of Swedbank’s Baltic lending stock, 4.9% of SEB’s and 2.1% of Nordea’s Baltic lending stock.

At the end of June 2009, nonperforming Baltic-related assets amounted to ca 12% of the lending stock of both SEB and Danske Bank. The corresponding figure for Swedbank is 11%, for DnB NORD 10%, and for Nordea 5%. The proportion of nonperforming assets of the total lending stock has risen, which would portend future growth in impairment losses. The majority of nonperforming assets were recorded in the corporate sector. Real estate management, retail trade, construction and manufacturing account for the majority of nonperforming assets. In contrast, nonperforming assets related to housing loans have remained low.
2.3 Loan losses erode results of domestic banking

Eero Savolainen

Profitability of domestic banking weakened further in January–June 2009. Banks are operating in a difficult environment: net interest income declined due to low market interest rates, and the economic recession reduced the demand for credit and boosted loan losses. In this context, banks results can be considered reasonable. Results in the second half of the year are clouded by uncertainty related mainly to the future trend in loan losses.

In the first half of the year, the pre-tax profits of Finnish banking decreased significantly on the year-earlier period (Table 3). Second quarter results also weakened considerably on the previous quarter (Chart 8). Without the notable growth in loan losses, the results of Finnish banking would have remained broadly unchanged on the year-earlier period, as income and expenses remained virtually unchanged.

The structure of income from banking changed notably in the first half of the year, compared to the first half of 2008, due to the decline in net interest income and growth in other income.

The interest rate spread between loans and deposits remained low, due to extremely low market rates. The sharp downturn in short-term market rates in autumn 2008 is passed to lending and deposit rates when interest rates are renegotiated in connection with the signing of new contracts or at the end of an interest rate period. Changes in market rates are reflected more rapidly in lending rates than in deposit rates because the proportion of variable-rate contracts is significantly higher in loans than in deposits. Moreover, particularly the interest rate on current accounts is so close to zero that banks cannot lower deposit rates in parallel with market rates.

Chart 8. Income and profits of Finnish banking, quarterly data*

* Nordea's banking operations in Finland, Danske Bank's banking operations in Finland, OP-Pohjola Group's banking and investment services, Aktia's banking business, savings banks, local cooperative banks, Bank of Åland, Evli Bank, and eQ.

Sources: Banks' interim reports and financial statements, and Bank of Finland.
Net fee income decreased slightly on the year-earlier period, whereas other income grew overall, boosted particularly by improved net income from trading and investment activities. Banks’ recorded a high level of net income due to the fair-value measurement of debt securities. Results of trading on foreign currencies also improved. Other income was also boosted by the growing demand for risk management products.

Banking groups’ nonperforming assets have increased gradually in 2009: at the end of July, they totalled EUR 1,342 million, which is ca 0.8% of MFIs’ euro-denominated loans to residents. But the amount of these assets is still small compared to the early 1990s.

Table 3. Key items from income statements of banks operating in Finland, January–June 2009, and changes on year-earlier period

<table>
<thead>
<tr>
<th>Net interest income</th>
<th>Other income, net</th>
<th>Total expenses</th>
<th>Loan losses, net</th>
<th>Profit before tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>EUR m</td>
<td>Change</td>
<td>EUR m</td>
<td>Change</td>
<td>EUR m</td>
</tr>
<tr>
<td>Nordea Group</td>
<td>2 661</td>
<td>10 %</td>
<td>1 977</td>
<td>28 %</td>
</tr>
<tr>
<td>Nordic banking</td>
<td>1 983</td>
<td>-2 %</td>
<td>1 038</td>
<td>-9 %</td>
</tr>
<tr>
<td>Banking in Finland</td>
<td>411</td>
<td>-26 %</td>
<td>305</td>
<td>-2 %</td>
</tr>
<tr>
<td>*Nordea Bank Finland Group</td>
<td>630</td>
<td>-26 %</td>
<td>390</td>
<td>65 %</td>
</tr>
<tr>
<td>Danske Bank Group</td>
<td>1 897</td>
<td>10 %</td>
<td>2 436</td>
<td>104 %</td>
</tr>
<tr>
<td>Banking</td>
<td>1 869</td>
<td>9 %</td>
<td>696</td>
<td>-6 %</td>
</tr>
<tr>
<td>Banking in Finland</td>
<td>229</td>
<td>7 %</td>
<td>101</td>
<td>16 %</td>
</tr>
<tr>
<td>*Sampo Bank Group</td>
<td>268</td>
<td>5 %</td>
<td>110</td>
<td>-23 %</td>
</tr>
<tr>
<td>OP-Pohjola Group</td>
<td>568</td>
<td>0 %</td>
<td>510</td>
<td>19 %</td>
</tr>
<tr>
<td>Banking and investment services</td>
<td>531</td>
<td>-3 %</td>
<td>354</td>
<td>23 %</td>
</tr>
<tr>
<td>*Pohjola Bank</td>
<td>119</td>
<td>59 %</td>
<td>304</td>
<td>34 %</td>
</tr>
<tr>
<td>Savings banks</td>
<td>76.8</td>
<td>-4 %</td>
<td>30.0</td>
<td>27 %</td>
</tr>
<tr>
<td>Aktia Group</td>
<td>71.9</td>
<td>46 %</td>
<td>43.6</td>
<td>1 %</td>
</tr>
<tr>
<td>Bank</td>
<td>68.9</td>
<td>49 %</td>
<td>24.8</td>
<td>-15 %</td>
</tr>
<tr>
<td>Local cooperative banks</td>
<td>45.6</td>
<td>-16 %</td>
<td>16.0</td>
<td>30 %</td>
</tr>
<tr>
<td>Bank of Åland Group</td>
<td>19.2</td>
<td>-8 %</td>
<td>45.9</td>
<td>180 %</td>
</tr>
<tr>
<td>Evli Bank Group</td>
<td>2.2</td>
<td>..</td>
<td>23.6</td>
<td>-24 %</td>
</tr>
<tr>
<td>eQ Group</td>
<td>1.8</td>
<td>-42 %</td>
<td>13.7</td>
<td>4 %</td>
</tr>
<tr>
<td>1. Finnish banking</td>
<td>1 386</td>
<td>-9 %</td>
<td>914</td>
<td>13 %</td>
</tr>
<tr>
<td>2. Finnish financial groups</td>
<td>1 684</td>
<td>-11 %</td>
<td>1 683</td>
<td>35 %</td>
</tr>
<tr>
<td>3. Financial groups operating in Finland</td>
<td>5 344</td>
<td>9 %</td>
<td>5 096</td>
<td>54 %</td>
</tr>
</tbody>
</table>

Other income includes eg net fee income, capital gains/losses from sales of tangible and intangible assets, capital gains from sales of w round-up operations, and shares in profits/losses of associated companies. Expenses include depreciations and write-downs on tangible and intangible assets, refunds to shareholders and profit distributions to staff.

.. = change not meaningful.

1. Savings banks, Aktia Group’s banking, local cooperative banks, Bank of Åland Group, Evli Bank Group, eQ Group, OP-Pohjola Group’s banking and investment services, Nordea Group’s banking, and Danske Bank Group’s banking operations in Finland.

2. Savings banks, Aktia Group, local cooperative banks, Bank of Åland Group, Evli Bank Group, eQ Group, OP-Pohjola Group’s banking and investment services, Nordea Bank Finland Group, and Sampo Bank.


Sources: Banks’ interim reports and Bank of Finland.
3 Securities market

3.1 Fund investments attractive again

Pertti Pylkkönen

The outflow of capital from Finnish mutual funds, triggered by the financial market crisis, ended in the spring. So far this year, they have attracted EUR 2.7 billion of new capital.

The assets of mutual funds registered in Finland reached a peak in July 2007, at nearly EUR 71 billion. The crisis which started in the international financial market quickly impacted the Finnish mutual fund market, as fund investors began withdrawing assets from mutual funds in August 2007.

The outflow continued for 18 consecutive months, until spring 2009, when net subscriptions turned positive. In the 18-month period, Finnish mutual funds’ assets declined by ca EUR 30 billion. Roughly half of the decline was due to the decrease in market value and half was due to negative net subscriptions.

Finnish mutual funds are typically fairly small. At the end of July 2009, the average size of a fund was slightly over EUR 100 million. Many Finnish funds have less than 100 fund share holders. The financial market crisis has been reflected in the mutual fund market as an outflow of capital and a decrease in the number of funds.

Funds have been terminated or merged with other funds offered by fund management companies, due to the outflow of capital and the small number of investors. In July 2009, the number of funds registered in Finland was 481. At its peak, the number of funds was 10% higher than currently. The majority of terminated funds are equity funds, but the number of bond funds has also decreased. The number of short-term funds has declined only marginally, even though many short-term funds have been unsuccessful due to failed investment policies.

The financial market turbulence dampened mainly households’ interest in fund investments. The share of households in direct fund-share holdings has decreased to slightly over one-fifth, and the insurance sector is now the largest holder of fund shares.

Markets 2009

In 2009, Finnish mutual funds’ assets have increased by EUR 8.6 billion. A substantial proportion of the increase results from the rise in equity prices and – due to the shrinking of risk premia on bond investments – capital gains on bonds. In January–August, net subscriptions were EUR 2.7 billion positive and favourable price developments have boosted fund assets by nearly EUR 6 billion. The recovery of the mutual fund market has been supported by the rapid rise in equity prices and the sharp fall in deposit rates, particularly on fixed-term deposits.
The majority of new fund investments have been in equity funds and bond funds. The inflow of new capital to equity funds was EUR 2 billion, and the inflow to bond funds – mainly funds investing in the corporate bond market – was over EUR 1 billion. In 2009, EUR 0.8 billion in capital has been withdrawn from short-term funds.

The Bank of Finland has started, as of 1 January 2009, compiling statistics on mutual funds registered in Finland. In this compilation, mutual funds are classified by type of investment, in accordance with the ECB Guideline: equity funds, mixed funds, bond funds, hedge funds, real estate funds and other funds. The Bank of Finland also publishes data on money market funds, even though they are classified as monetary financial institutions in Eurosystem statistical reporting. The statistics to be published are based on balance sheet data. The figures are slightly higher than those published in eg the Mutual Fund Report because in the Mutual Fund Report data, the fund’s liabilities are deducted from investment capital and reported as net asset value. The number of fund management companies reporting for Bank of Finland statistics is also slightly higher than that included in the Mutual Fund Report.

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8 See http://www.sijoitustutkimus.fi/eng/index_eng.shtml
4 Infrastructure

4.1 Payment card crime increasing in Finland

Maija Salmela

Payment card crime has been increasing in Finland, particularly in spring and summer 2009. The number of new chip cards, based on the EMV standard and designed to promote payment security, and chip card payment terminals is however increasing.

Statistics from the National Bureau of Investigations\(^9\) show that payment instrument crime has increased significantly in recent months, and an increasing number of Finnish card holders have felt the impact of international payment card crime (Chart 1).

Chart 11. Payment instrument crime reported to police in 2007–2009, monthly data

The rise in payment instrument crime is due to the fact that several foreign groups of criminals specialised in payment cards have been operating in Finland in 2009. They have succeeded in copying cards and misusing cards previously copied in Finland for criminal purpose.

Formerly, the majority of cards used in Finland were domestic debit or ATM cards that were accepted only in the domestic market. Finnish consumers were thus protected from payment card crime because criminals were unable to misuse elsewhere debit cards copied in Finland. Nowadays many Finns have an international payment card equipped with a magnetic stripe. The cards are internationally accepted, which has made Finland increasingly attractive for card criminals.

Chart 12. EFTPOS terminals and chip cards in Finland

A payment card equipped only with a chip would be more secure than a magnetic stripe card because the data on a chip cannot be copied as easily. Chip cards and EMV terminals based on the EMV standard developed by international credit card companies (Europay, MasterCard and Visa) have indeed become

increasingly widespread in Finland in recent years (Chart 12). Despite the increasing proportion of chip cards, all combination, credit and charge cards are still also equipped with a magnetic stripe. Without a magnetic stripe, a payment card cannot be used in magnetic stripe terminals. Such payment terminals are still used in Finland and particularly in many other countries. Not all countries have decided to migrate to the chip standard.

According to the Federation of Finnish Financial Services\(^{10}\), EMV terminals accounted for slightly under 50\% of the total number of EFTPOS terminals in 2008, whereas in 2007 the proportion of EMV terminals was less than 30\%. Chip cards accounted for 80\% of cards distributed by banks in 2008. All Finnish ATMs comply with the EMV standard.

The aim of the EU is to complete the migration to EMV chip cards by the end of 2010. In the third quarter of 2008, 62\% of payment cards, 68\% of POS terminals, and 83\% of ATMs were EMV-compliant\(^{11}\).

\(^{10}\) Statistical data on the banks’ payment systems in Finland 1999–2008.

4.2 Payment system participants’ behaviour and the distribution of risks attract interest

Peter Halén and Matti Hellqvist

Since the financial crisis, it has become clear that more understanding is needed regarding banks’ behaviour and incentives. This would promote system development and crisis management.

The Bank of Finland’s annual simulator seminar is an international forum for overseers of payment and settlement systems and researchers. In the 7th simulator seminar, held in August, results of the latest analysis and research projects on payment and settlement systems were presented. The presentations and discussions dealt with what central banks consider important and topical in terms of the risk management, efficiency and development of payment and settlement systems. These seminars are based on the payment and settlement system simulator developed by the Bank of Finland, ie the BoF-PSS2.

This year, the seminar was characterised by the global financial crisis and developments in the financial markets. Several of the presentations focused on financial market participants’ behaviour vis-à-vis payment and settlement systems. In a crisis situation, it is crucial to understand such behavioural patterns because of their key importance for reliable functioning of the systems. Moreover, in an operational disruption, the participants’ liquid assets and liquidity buffers may be smaller than normal and their behaviour may change. Operational disruptions may thus lead to unexpected outcomes.

The presentations examined the modelling of reasons for the participants’ behaviour, the identification of behavioural changes and behavioural impacts on the functioning of the systems. New experimental approaches were also discussed, in addition to established methods of data-based simulation.

The seminar also discussed scenario analysis, a traditional application of simulation modelling. Scenario analysis was used to study the reliability of systems in the event of technical or operational disruptions and to identify the impacts of money market disruptions on payment systems.

The general theme of the presentations was examining and understanding how risks are created and distributed between the participants of payment and settlement systems. This is important for both financial market stability and system development.

Another important topic of the seminar was promoting the efficiency of the systems. Improving the efficiency of payment systems by introducing new rules, egg changing or adjusting current credit limit practices, or by updating the systems, affects the system participants’ behaviour. Therefore, the effects of changes on system usage and risks should always be assessed, in addition to the benefits of improved efficiency. In this respect, simulation modelling has proven to be extremely useful in supporting decision making and policy work.

The seminar material is available on the BoF-PSS2 simulator website (http://www.bof.fi/sc/bof-pss).
5 Key regulatory and supervisory initiatives

5.1 What’s the aim of macroprudential supervision?

Jukka Topi

The global financial crisis has underlined the need to deter and prevent systemic risks that threaten the stability of the financial system. Systemic risks may arise from liabilities between financial institutions or their exposure to similar risks. To develop macroprudential supervision for preventing systemic risks, the EU leaders have agreed in principle on establishing a European Systemic Risk Board.

The global financial crisis has revealed the need to more extensively deter and prevent risks threatening the functioning of the entire financial system, ie systemic risks. As we have witnessed, systemic risks may, if they materialize, trigger broad financial crises and thereby cause huge problems also in the real economy.

The assessment and prevention of systemic risks is generally referred to as macroprudential supervision or macroprudential oversight.

The causes of systemic risk may differ significantly. What they have in common is the common behaviour of banks and other financial institutions. Even though individual banks may behave reasonably and cautiously assessed from their own perspective, the choices of several banks may together have a disadvantageous effect on the entire system, ie lead to the materialisation of systemic risk.

Chart 13. Systemic risk due to linkages between banks

Firstly, eg banks may have heavy mutual exposures, through which the problems of an individual bank may become problems affecting several banks and the entire system (Chart 1). An example of this contagion risk is the paralysing impact of the bankruptcy of Lehman Brothers bankruptcy on the functioning of the key money markets.

Secondly, several banks may be exposed to the same risks if eg they have granted credit to companies in the same industry or if they hold the same types of financial instruments (Chart 2). In such a case, there may be a threat of banks collapsing simultaneously. During the financial crisis, we have also witnessed situations in which problems of an individual bank raised doubts about the ability of other similar banks to function, thereby also exacerbating their problems.
Systemic risks to the financial system may be aggravated by linkages within the financial system or linkages between the real economy and the financial system that reinforce the procyclical movements of asset prices, lending and risk taking. A decline in asset prices may eg force financial institutions to sell assets to ensure capital adequacy, which may lead to a further decline in prices and in the worst case to a spate of asset fire sales. Negative interaction between the financial sector and the real economy occurs if in economic upswings banks loosen their credit standards and in downswings correspondingly tighten their credit standards too much (for a detailed analysis on the procyclicality of the financial system, see subsection 5.3).

Macroprudential supervision focuses on deterrence of systemic risk and prevention of procyclical effects. It thus differs distinctly from traditional microprudential supervision, ie the supervision of banks and other financial institutions, where the focus is on individual institutions and the various risks they are exposed to.

Despite the different approaches of microprudential and macroprudential supervision, their coordination is of key importance. Macroprudential supervision is largely based on data acquired in connection with microprudential supervision. Moreover, the main tools of macroprudential supervision are risk warnings and recommendations issued to financial system participants and authorities on measures to prevent systemic risks. Microprudential supervision is thus one of the key channels of influence for macroprudential supervision.

It is therefore essential that financial supervisors are continually involved in macroprudential supervision – both nationally and internationally.

Central banks in the EU have acted in the field of macroprudential supervision for a number of years already. International EU-level cooperation has taken place within the framework of the European System of Central Banks. To further develop macroprudential supervision, the EU leaders have endorsed the establishment of a European Systemic Risk Board (ESRB) under the auspices of the European Central Bank. The ESRB is responsible for EU-wide macroprudential supervision. The European Commission issued a legislative proposal for establishing the ESRB in September.
5.2 State support of bank assets during the financial crisis has been modest in many countries

Jarmo Pesola

State support of bank assets started slowly even in countries most adversely affected by the financial crisis. Other public support measures, such as government guarantees on banks’ market funding and the strengthening of banks’ capital base, and the improved market situation, have reduced the need for support. Such public support has not been used in Finland.

Governments have been forced to provide abundant support to the banking sector in the current global financial market crisis. The troubled banks have been forced to resort to public support in cases where a private sector solution has not been found. Public support to banks can be aimed at assets or liabilities. Support measures for liability items include government guarantees of banks’ funding from the financial markets and the recapitalisation of banks.

In principle, governments can support bank assets in two ways: by guarantees or purchases. In the current crisis, the marked reduction of activity in the capital markets has however hampered asset support due to the difficulties of defining the market price. This may be one of the reasons why these support measures have not yet been widely used.

A guarantee of an asset item enables the definition of a minimum value for it and increases confidence in the bank’s capital adequacy. At the same time, there remains the incentive for the bank to manage its assets as efficiently as possible.

Government purchase of banks’ impaired assets entails a pricing problem in the current market situation. If the price is set too high, the bank is favoured at the expense of the taxpayers, and if the price is set too low, the support operation may have to be cancelled due to the bank’s reluctance to sell.

In an extreme situation, a bank may have to be temporarily nationalised. A bank may thus be sold after restructuring, or a bank’s operations may be wound up gradually. In this solution, the problem is how to define the compensation to be paid to the owners.

Mostly however, a partial solution is reached in which all the above-mentioned elements are included, in various proportions: a part of the bank is sold to a private investor and the part consisting of the legacy assets is taken over by government. The part taken over by government can be divided into a part that will be restructured and a part that will be liquidated. The part to be restructured may continue to operate as a bridge bank while the part to be liquidated is managed by an asset management company established for this purpose.

In layman terms, such companies are referred to as ‘bad banks’. In a partial solution, complex legal issues usually have to be resolved to ensure fair and

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12 Also in the United States, most of the major bank mergers in autumn 2008 were completed partly as a result of federal aid.
14 Banks can also be supported indirectly via support for the debtors. This form of support is not discussed in this article.
equitable treatment of the bank’s shareholders and the other claim holders.

**Examples of support measures**

An example of **guarantee programmes on asset items** is the Asset Protection Scheme established in the United Kingdom. The credit risks of the institutions taking part in the programme are guaranteed by HM Treasury. First, the proportion of losses to be carried by the institution is calculated (first loss). Treasury protection will cover 90% of the remaining losses. The Scheme is intended for banks with more than GBP 25 billion of assets eligible for the Scheme, ie commercial and residential property loans, structured credit assets and certain other corporate and leveraged loans. The Protection Scheme is subject to a fee based on international practice. The Treasury has provided protection to two banks against losses on asset items worth a total of GBP 585 billion under the Scheme.\(^{15}\) In addition to the Asset Protection Scheme, two fairly large banks have been nationalized in the United Kingdom.\(^{16}\)

Examples of **bad banks** include the entities established in Ireland and Germany. The National Asset Management Agency (NAMA), to be established under a Bill issued by the Irish government in July, will buy the banks’ riskiest loans, particularly land and development loans. To compensate for the risk taken by government, the NAMA will purchase the loans of banks participating voluntarily in the arrangements at a significant discount. NAMA will be allocated EUR 90 billion for this purpose. In September, it was announced that NAMA will take over certain toxic assets amounting to EUR 54 billion. This is estimated to be some 70% of their original value on the banks’ books.

Germany has established two bad bank programmes, which are based on voluntary participation. In the first programme, banks are allowed to transfer structured investment assets to separate investment companies at book value. A third party will define a fair value on the investment. From this fair value, the potential risks will be discounted to arrive at the intrinsic value of the investment. After this, the Financial Market Stabilization Fund of Germany (Sonderfonds Finanzmarktstabilisierung, SoFFin) will issue a guarantee on loans issued by the investment companies. The guarantee will cover the intrinsic value of the loans, which means that holders of securities transferred to the investment company will bear the majority of the risk of impairment losses. The banks will have to pay a fixed fee on the guarantee, defined as the difference between book value and intrinsic value. Moreover, if the value of the investment does not correspond to the intrinsic value at maturity, the bank will have to pay the difference. The size of the programme is ca EUR 200 billion.

The second German model covers particularly state-owned regional banks and savings banks. A bank may establish a liquidation firm to which it can transfer its risk positions for liquidation and, if necessary, even entire business areas at book value. The risk of impairment losses on the liquidation firm will be borne by the banks.

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\(^{15}\) Royal Bank of Scotland: GBP 325 bn (including first loss amounting to GBP 19.5 bn to be borne by shareholders) and Lloyds Bank: GBP 260 bn.

\(^{16}\) In February 2008, Northern Rock was nationalised and in September 2008 Bradford & Bingley’s (its deposit stock and branch network were however quickly sold to Abbey National).
In the United States, the aim is to remove banks’ legacy assets by **public and private sector cooperation**. The US Treasury issued a Public-Private Investment Program (PPIP) in spring 2009. The aim of the US government is to purchase legacy assets from banks’ balance sheets. The price of the assets will be set in cooperation with private sector investors. The Public-Private Investment Program is divided into two parts, ‘Legacy Loans’ and ‘Legacy Securities’.

In July, the US Treasury selected nine private fund management companies for the Legacy Securities program. Each of the companies has 12 weeks to raise at least USD 500 million of capital from private investors. The Treasury will match the equity capital raised from private investors and invest it in a business partnership Public-Private Investment Fund (PPIF) established between PPIP fund managers and businesses. The Treasury is also committed to providing debt financing up to 100% of the total equity of the PPIF. In early October, the commitments of private investors amounted to almost USD 3.1 billion, and the total commitments to nearly USD 12.3 billion, including treasury financing (equity almost USD 3.1 bn and debt over USD 6.1 bn).

The Federal Deposit Insurance Corporation (FDIC) at the end of July launched an auction of banks’ pooled receivership assets consisting mainly of residential mortgages, to test the funding mechanism of the Legacy Loans Program. In September, the FDIC announced that it had sold in auction the first asset item – balance sheet value EUR1.3 billion – at nearly 71% value, to a business partnership established with a private investment company. Both parties have invested USD 64 million in the business partnership; the remainder of the funding is credit guaranteed by the FDIC.
5.3 Procyclicality of the financial system

Karlo Kauko

Financial market regulations are often said to exacerbate cyclical fluctuations. For example, accounting and capital adequacy regulations may promote lending in an upswing and reduce the availability of finance in a downswing. It has been suggested that financial market regulations need to be revamped in order to reduce such procyclicality. For example, dynamic loan loss provisions have been discussed.

The measurement of financial assets at market value is a key concern in terms of procyclicality.

The problem of procyclicality in connection with capital adequacy requirements

Banks’ minimum capital requirements are based on specific calculation rules. The minimum capital requirement depends on, e.g., the amount of a bank’s credit and other risks in lending and investments. Banks should have sufficient capital relative to the risks to ensure that their misfortunes do not endanger the claims of depositors and other creditors.

The EU and several other countries in 2007 adopted the Basel II Framework recommended by the Basel Committee on Banking Supervision. The reform was aimed at strengthening the link between banks’ capital adequacy requirements and risks. In the previous system, the capital requirements hardly related to the reliability of debtors in servicing debts.

It was feared that the reform would intensify cyclical fluctuations. Many banks define for themselves the risk of credit loss related to individual debtors. These internal ratings are presumed to decline in downswings. This increases banks’ imputed risks and so raises capital requirements. Capital adequacy can be improved rapidly by reducing lending. Growth of credit risk thus weakens banks’ ability to lend. The problem could be alleviated if banks could eliminate from their internal credit ratings the impact of business conditions on the estimated risk of loan loss.

The problem was acknowledged already when the current system was introduced. The Capital Requirements Directive includes an Article in which the Commission, in cooperation with Member States and taking into account the contribution of the European Central Bank, was obliged to periodically monitor the pro-cyclical effects of the Capital Requirements Directive, and to draw up a biennial report for the European Parliament and the Council.\(^\text{17}\)

Dynamic loan loss provisions

Banks suffer much heavier loan losses in a recession than in a boom. In a downturn, credit

\(^{17}\) Directive 2006/48/EC, Article 156.
losses weaken banks’ capital and reduce their ability to offer credit. The problem could be partly solved if banks would record loan losses already before a downswing and before customers’ problems intensify.

Spain in 2000 introduced a completely new loan loss provisioning regime. The regime is based on the idea that credit loss risks on loans burden a bank’s results and capital adequacy even when its customers are not yet having repayment problems, but because of the size and composition of the loan portfolio, loan losses can be expected in future. In the new regime, the amount of these dynamic or statistical loan loss provisions relative to the loan stock must be highest when loans are increasing but banks are not yet incurring significant losses. The provisions are charged to the income statement and (in the initial scheme) also to equity capital. If a large amount of loans is not repaid, previous loan loss provisions are used as cover, in which case the realised loan losses have a smaller impact on the notional results than in traditional bank accounting. The scheme reduces the dependency of a bank’s profits on the business cycle and thus smooths the impacts of profit fluctuations on capital and capital adequacy. As the fluctuations in capital diminish, banks’ credit granting remains more stable.

According to several commentators, experiences with the Spanish regime have been mostly positive. Previously booked provisions have helped Spanish banks to cope well in the financial crisis, considering the circumstances. A somewhat similar regime may be introduced in the EU. The European Commission issued a draft proposal on loan loss provisions at the end of July. The proposal for a directive should be issued later this year.

**Measurement at market price**

One of the key features of the International Financial Reporting Standards (IFRS) is that the majority of securities on banks’ balance sheet and income statement are to be measured at market price, to make the financial statements as informative as possible for eg investors. This practice is however said to reinforce the procyclicality of lending and the fluctuations in securities prices. If, eg share prices decline, banks and insurance corporations holding these securities must deduct the resulting losses from capital on their balance sheet. This weakens capital adequacy and may force banks’ to reduce receivables and investments. Selling the securities is often the quickest way of solving the problem. If several banks and insurance corporations incur difficulties simultaneously, due to a decline in share prices, a large amount of securities will be sold on the market, which further depresses market prices. This would only increase banks’ capital adequacy problems.

The problem culminates if there is a simultaneous decrease in market turnover. Market prices become more sensitive to even the smallest changes in demand and supply.

In the United States, the Financial Accounting Standards Board (FASB) in April revised its standards on the use of market value. The FASB emphasised that the price of an asset which has plummeted in a virtually inactive market, as a result of distressed sales, does not represent a fair value and should not be used in accounting. The revision applies eg to determining the value of several mortgage-backed bonds.

The International Accounting Standards Board (IASB) is in the process of revising IAS 39. ISAB
has proposed revisions on the items that should be measured at market price in accounting. The proposal has been criticised based on the fact that it may in some cases increase the use of market value, which entails the aforementioned problems.
# Key corporate arrangements and events in the financial sector

<table>
<thead>
<tr>
<th>Date</th>
<th>Event and description</th>
</tr>
</thead>
<tbody>
<tr>
<td>March 2009</td>
<td><strong>Straumur-Burdaras Investment Bank</strong>, the last major Icelandic bank, is taken over by the authorities.</td>
</tr>
<tr>
<td></td>
<td>Reykjavik Savings Bank (SPRON) and Sparisjodabanki (former Icebank) are taken over by Icelandic authorities.</td>
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<tr>
<td></td>
<td>NASDAQ OMX Europe announces that it will launch Neuro Dark, a new trading platform for institutional investors, in April.</td>
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<tr>
<td></td>
<td>Moody's announces it will keep the Swedish banking sector’s rating outlook negative. It still considers the Swedish banking sector stable, due to the strength of domestic retail banking and a good capital base.</td>
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<tr>
<td></td>
<td>Bank of Åland acquires Kaupthing Sverige AB for SEK 388 million.</td>
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<td>Nationwide Building Society acquires the key business operations of the Scottish building society Dunfermline Building Society.</td>
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<td>April 2009</td>
<td>Moody's confirms Nokia’s ratings P-1 and A1, changes the rating outlook on long-term senior debt from stable to negative.</td>
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<td></td>
<td>Moody's confirms Metso Corporation’s ratings A-3 and BBB, outlook negative.</td>
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<td>Paikallisosuuspankkiliitto becomes a cooperative society, Paikallisosuuspankkiliitto osk.</td>
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<tr>
<td></td>
<td>Moody's confirms Aktia Bank plc’s ratings P-1, A1 and C, outlook stable.</td>
</tr>
<tr>
<td></td>
<td>S&amp;P lowers UPM Kymmene’s ratings: short-term from A-3 to B and long-term from BBB- to BB+.</td>
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<td></td>
<td>Moody's confirms Stora Enso’s long-term rating Ba2, outlook negative.</td>
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<tr>
<td></td>
<td>S&amp;P confirms Stora Enso’s ratings B and BB+, outlook negative.</td>
</tr>
<tr>
<td></td>
<td>Fitch confirms Fingrid Oyj’s ratings F1+ and AA-, changes outlook from stable to negative. Fingrid’s long-term senior unsecured debt rating is AA.</td>
</tr>
<tr>
<td>Date</td>
<td>Event and description</td>
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| April 2009 | Moody's changes the outlook on Pohjola Bank’s long-term rating (Aa1) from stable to negative. The outlook on short-term rating (P-1) remains stable.  
Aktia Bank announces it will sell Aktia Life Insurance Ltd to Aktia plc.  
Cooperative banks Lieksan Osuuspankki, Nurmeksen Osuuspankki and Valtimon Osuuspankki merge via combination merger. The name of the new bank is Pielisen Osuuspankki.  
Cooperative banks Kiikalan Rekijoen Osuuspankki, Kiskon Osuuspankki, Kuusjoen Osuuspankki, Perniön Osuuspankki and Salon Seudun Osuuspankki merge. The name of the new bank is Salon Osuuspankki.                                                                                                                                                                                                                      |
| May 2009 | Talviaara Mining Company Plc’s shares listed on the Helsinki Stock Exchange.  
Dresdner Bank merged into Commerzbank.  
Nordnet Bank AB announces it will purchase eQ Bank from Straumur Burdaras Investment Bank for ca EUR 37 million. The deal was completed on 1 July 2009.  
Moody's downgrades Aktia Real Estate Mortgage Bank plc’s long-term covered bonds from Aaa to Aa1.  
S&P lowers Stora Enso’s long-term rating from BB+ to BB-. Short-term rating (B) remains unchanged.  
Moody’s affirms the AAA credit rating of the United States.  
Trading in shares of six Finnish companies commences at the Swedish multilateral trading facility Burgundy, launched in April.  
The Japan Securities Clearing Corporation plans to establish a clearing house for interest rate swaps and credit default swaps.                                                                                                                                                                                                                                                   |
| June 2009 | Fitch affirms the AAA debt rating of the United States and the United Kingdom.  
Department of Finance of the Irish government announces reform of the institutional structures for regulation of financial services in Ireland.  
Savings banks Hauhon Säästöpankki and Rengon Säästöpankki merge to form Kantasäästöpankki Oy.                                                                                                                                                                                                                                                                     |
<p>| July 2009 | eQ Bank, a subsidiary of Nordnet Bank, sells the Advium corporate finance operations to its senior management.                                                                                                                                                                                                                                                                                                                                                                                                                        |</p>
<table>
<thead>
<tr>
<th>Date</th>
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<tbody>
<tr>
<td>August 2009</td>
<td><strong>Fitch lowers UPM Kymmene’s long-term rating from BB+ to BB-. Rating outlook negative.</strong></td>
</tr>
<tr>
<td>August 2009</td>
<td><strong>Fitch changes the outlook on Pohjola Bank’s rating from stable to negative. The ratings are short-term: F1+ and long-term AA-.</strong></td>
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<td>August 2009</td>
<td><strong>Moody's confirms Stora Enso’s long-term rating (Ba2), following restructuring announcement.</strong></td>
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<td>August 2009</td>
<td><strong>Moody's places Metso’s long-term rating (Baa2) on watch for possible downgrading.</strong></td>
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<td>August 2009</td>
<td><strong>Sampo plc announces it will submit an application to the Swedish Financial Supervisory Authority for a license to increase the holding in Nordea Bank AB above 20%.</strong></td>
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<td>August 2009</td>
<td><strong>Nordea announces it will acquire the Danish bank Fionia Bank.</strong></td>
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<td>September 2009</td>
<td><strong>Moody's downgrades Pohjola Bank’s long-term rating from Aa1 to Aa2. Nordea’s long-term rating was downgraded from Aa1 to Aa2.</strong></td>
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<td>September 2009</td>
<td><strong>S&amp;P upgrades Fortum’s long-term rating from A- to A. Rating outlook stable.</strong></td>
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<td><strong>The Finnish Association of Mutual Funds was merged with the Federation of Finnish Financial Services.</strong></td>
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<td><strong>Savings banks Kuortaneen Säästöpankki and Töysän Säästöpankki merge to form Oma Säästöpankki Oy.</strong></td>
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<td>September 2009</td>
<td><strong>Remote broker Van Der Moolen Effecten B.V’s operations at the Helsinki stock exchange cease as its parent company in the Netherlands is declared bankrupt.</strong></td>
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