



FINNISH BANKING IN 2013

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FINNISH BANKING IN 2013

1 FINANCIAL ENVIRONMENT

The Finnish banking sector attained relatively good results and maintained its capital adequacy despite the challenging operating environment. Banks adapted to changes by cutting back on personnel, closing offices, making corporate restructurings and renewing their business models. These changes stem from tightening regulation, weak macro-economic development, low overall interest rate level, and services moving increasingly online.

Low interest rates lowered banks' net interest income, threatening their core profitability. Net interest income fortunately ceased to weaken over the course of 2013 largely due to widening margins in new lending. The weak development of Finnish real economy manifested as decreased demand for lending and slight increase in

non-performing claims. Tightening regulation and a new banking tax also created new costs that will be present in the future as well.

Banks' tightening capital adequacy and liquidity requirements imposed by the CRR and CRD IV will enter gradually into force starting 2014. They will manifest as tightening lending conditions, and will encourage banks to be careful with risk-prone lending. Banks operating in Finland have good capital adequacy, however, enabling access to inexpensive funding, which supports their competitiveness. The strength of the banking sector has made it possible to continue lending in Finland, thereby supporting the real economy during the financial and debt crises.

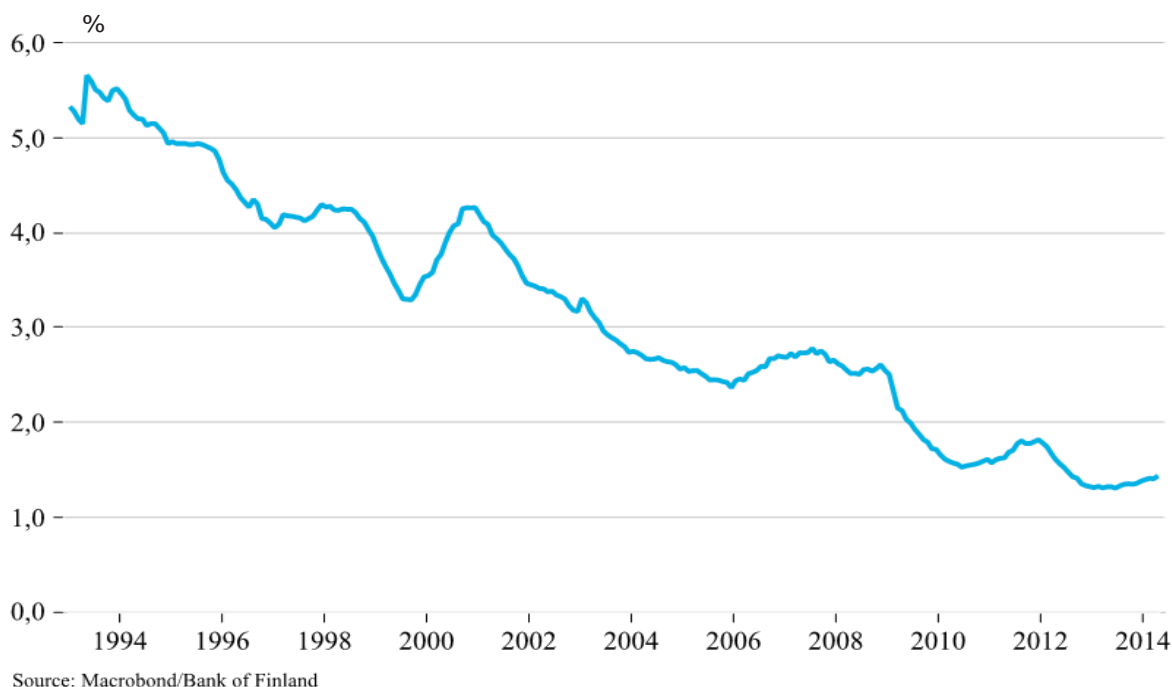


Figure 1. Credit institutions' interest rate margin (difference between lending and deposit interests)

2 BANKS OPERATING IN FINLAND

At the end of 2013, there were 291 credit institutions operating in Finland. This is 22 less than at the end of 2012. Credit institutions include deposit banks and other credit institutions that do not take deposits, such as finance houses, credit card companies, mortgage credit banks, and Municipality Finance Plc.

There were 256 deposit banks in Finland at year-end 2013. There were also 15 branches of foreign deposit banks. Finnish credit institutions totalled 7, and branches of foreign credit institutions 13.

During 2013, the Finnish banking sector went through significant structural changes.

S Bank and LocalTapiola Bank announced their merger in the spring. In August, S Bank stated its intention to purchase majority of the share stock of FIM Group. The new united S Bank is to begin its operations in the first half of 2014.

Aktia Bank announced it would be ceasing the provision of central credit institution services to local cooperative banks and savings banks. Holding company Aktia Plc merged with Aktia Bank Plc. The savings bank Saaristosäästöpankki merged with Aktia Bank at the end of 2013. The savings bank Vöyrin Säästöpankki also declared it would merge with Aktia Bank in the first half of 2014.

Itella Bank Ltd was sold to the Savings Bank Group in spring 2013. The bank's name changed to Central Bank of Savings Banks Finland Ltd, and it now acts as the central credit institution of the Savings Bank Group. In autumn 2013, the Savings Bank Group announced that it was forming an amalgamation that comprises the majority of savings banks.

POP Bank Group secured its central credit institution services by buying the payment services provider ACH Finland, which was then renamed Bonum Bank Ltd. Bonum Bank was authorised as a credit institution in late 2013.

Eufex Bank announced it was forgoing its banking licence and would merge with private bankers Elite Pankkiiriliike in spring 2014.

Internal fusions in the amalgamation of co-operative banks and the savings bank group also reduced the number of deposit banks in 2013.

Finnish banking groups employed a total of 28,172 people at the end of 2013. The number of employees was about two thousand less than it was the previous year. A banking group's number of employees also includes persons who work in insurance and asset management, if the parent group has parts that provide these services. The statistics also include the employees in Finnish banking groups' branches abroad.

Foreign deposit-taking banks' Finnish branches employed a total of 1,219 persons at the end of 2013, which is about 20 persons less than in 2012.

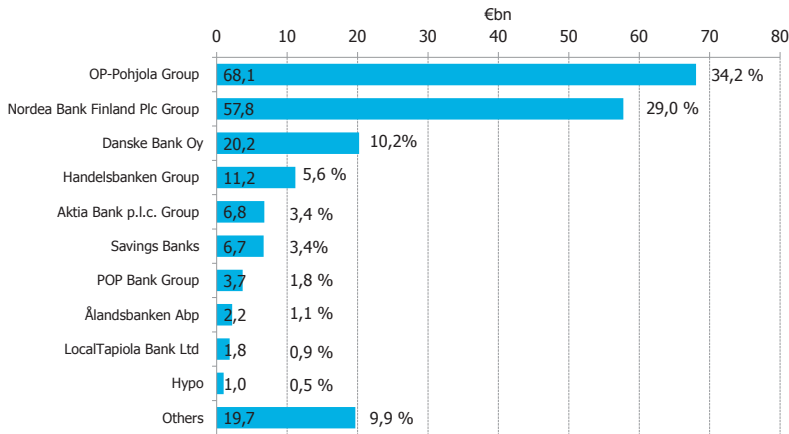
At the end of 2013, Finnish banking groups had 1,376 offices in Finland, which is nearly 100 offices less than the year before. In addition, branches of foreign deposit banks had 72 offices in Finland at the end of 2013.

Table 1. Number of credit institutions operating in Finland

	2013	2012
Credit institutions operating in Finland	291	313
domestic deposit banks	256	276
other domestic credit institutions	8	7
branches of foreign deposit banks	15	15
other branches of foreign credit institutions	11	13

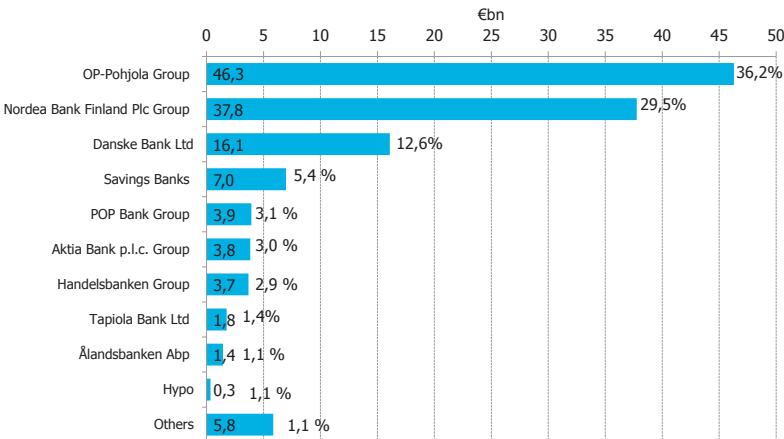
Source: Statistics Finland

2.1 Market shares of credit institutions¹ in Finland



Source: The banks/bank groups have authorized the Bank of Finland to annually provide FFI with each bank's/bank group's loan/deposit portfolio.

Figure 2. Credit institutions' public loans in Finland, market shares on 31 Dec 2013



Source: The banks/bank groups have authorized the Bank of Finland to annually provide FFI with each bank's/bank group's loan/deposit portfolio.

Figure 3. Credit institutions' public deposits in Finland, market shares on 31 Dec 2013

1 **OP-Pohjola group:** Pohjola Bank, OP Bank Helsinki, OP Card Company, OP Mortgage Bank and banks in the amalgamation of cooperative banks

Nordea Bank Finland: Nordea Bank Finland and Nordea Finance Finland

Danske Bank group: Danske Bank plc and Helsinki Branch of Danske Bank A/S

Handelsbanken group: Svenska Handelsbanken AB (publ), filialverksamheten i Finland, Handelsbanken Finans Abp ja Handelsbanken Finans Aktiebolag (publ), filialverksamheten i Finland

Aktia Bank group: Aktia Bank Abp and Aktia Hypoteksbank Abp. (The number includes €1,237m of loans intermediated by Savings Banks and €412m of loans intermediated by POP banks. Of these, €1,161m and €386m were housing loans.)

Others: include e.g. Municipality Finance

2.2 Banking group employees and offices

	EMPLOYEES (group ¹⁾)		BRANCHES IN FINLAND	
	2013	2012	2013	2012
FINNISH BANKS				
OP-Pohjola -group	11 983	13 290	485	519
Nordea Bank Finland ²⁾	8 876	9 179	378	382
Danske Bank ³⁾	2 391	2 840	62	93
Aktia	1 114	1 177	58	60
Savings Banks	1 365	1 328	195	206
Ålandsbanken	708	682	13	15
POP Bank -group	704	750	111	126
Evli Bank	245	243	2	1
S-Pankki ⁴⁾	341	286	1	1
FIM group ⁴⁾	169	205	7	7
LocalTapiola Bank	230	179	63	63
Hypo Group	46	30	1	1
Itella Bank	-	27	-	-
Eufex Bank	-	23	-	1
Total Finnish banks	28 172	30 239	1 376	1 475
BRANCHES OF FOREIGN BANKS				
Svenska Handelsbanken AB (publ), Branch in Finland	641	636	45	45
Skandinaviska Enskilda Banken AB (publ) Helsinki Branch	233	249	1	1
Forex Bank Aktiebolag filial i Finland	130	114	15	13
Nordnet Bank AB Finnish Branch	43	45	1	1
Carnegie Investment Bank AB, Finland Branch	19	34	1	1
Swedbank AB (publ), Filial i Finland	25	33	1	1
The Royal Bank of Scotland public limited company, filial i Finland	7	7	1	1
DnB Bank ASA, filial Finland	14	13	1	1
Deutsche Bank Aktiengesellschaft, Helsinki branch	2	3	1	1
Citibank International plc, Branch in Finland ⁵⁾	17	17	1	1
Crédit Agricole Corporate and Investment Bank Helsinki Branch	13	13	1	1
BIGBANK AS Finland Branch ⁵⁾	46	46	1	1
Resurs Bank, Finnish Branch	15	11	1	1
Avida Finans Ab,xFinnish Branch	6	-	-	-
LHV Bank, Finnish Branch	8	10	1	1
Total foreign banks' branches	1 219	1 231	72	70
TOTAL	29 391	31 470	1 448	1 545

1) Bank Groups include foreign branches. Insurance business is included in the figures where insurance is part of the group's business.

2) At the end of 2013, Nordea had a total of 378 consultation, customer service and corporate customer offices, some of which are located in the same address.

3) Danske Bank figures include employees of Danske Bank A/S Helsinki Branch. Danske Bank Finland and Danske Bank A/S Helsinki Branch

4) S-Bank acquired 51% of the FIM Group shares on 1st August 2013. The subsidiary's (FIM) figures are presented separately.

5) same figures as in 2012 since 2013 figures are not available

2.3 Fast growth in corporate lending

The corporate loan portfolio in Finland went up by 6% in 2013, growing much faster than the European average (figure 4). In Finland, loans to housing companies are included in corporate loans. They amount to €18bn of the total €68bn portfolio, and much of its recent growth; loans to housing companies grew by as much as 14% during the year while corporate loans grew by just 1%.

Demand for corporate loans was below average throughout the year. Corporate funding was taken mainly for working capital, and investments were sparse. Moreover, corporate funding became slightly more expensive as banks raised their margins in response to new regulation and other costs.

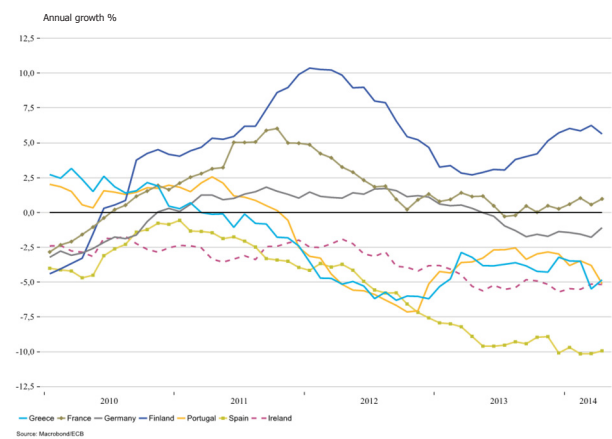


Figure 4. Loans to non-financial corporations in the euro area

The price of corporate funding is still low in Finland, however; the average interest rate for new corporate loans was 2.08% in Finland, and 2.96% in the euro area.

Corporate funding has become more diverse, and the trend continued in 2013. Large companies turned to bond markets even more often than before, and the bond portfolio grew by €4.3bn to €30.7bn. Gross bond issuances amounted to €7.4bn.

2.4 Slowing growth in housing loans

The annual growth in housing loans kept slowing down throughout 2013, more so towards the end of the year. In January 2013 the growth was still at 5.5%, but in December it was down to 2.3%. The volume of new housing loans was 20% smaller than in 2012.

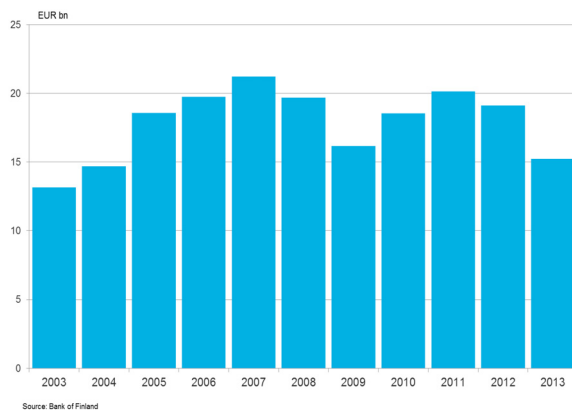


Figure 5. New housing loans in Finland

According to FFI survey, the demand for housing loans stayed below long-term average during the entire year. This was likely due to low consumer confidence and rising unemployment. In addition to slowing demand, tight loan conditions made interest margins climb. The rise slowed down towards the end of the year, however, and the margins stayed at 1.56% in December. Despite this, Finns pay the lowest interest rates for housing loans in the euro area. The average interest rate was 1.98% in Finland and 3.07% in the euro area.

A recent FFI survey showed that average housing loan amounts have shrunk in comparison with recent years. Average repayment period has also become shorter and is now slightly below 17 years. The most typical repayment period for a new loan is 20 years.

2.5 Good access to funding

Approximately 60% of Finnish banks' funding comes from public deposits, but the numbers vary greatly between banks. In 2013, public deposits grew by about 5.5% compared to the previous year, or by 2% if the €5.6bn worth of repurchase agreements are excluded. Companies' deposits grew fast at the annual rate of 7.1%, but households' deposits shrank, mainly because households transferred their assets from fixed-term deposits to other investment outlets such as mutual funds.

Bonds with a maturity period longer than one year account for roughly 30% of Finnish credit institutions' funding. Of these, about 42% are backed by residential mortgage. In contrast, short-term bonds (maturity less than one year) make up approximately 10% of the abovementioned funding. Their proportion has been decreasing for several years now. By favouring longer maturity periods, banks prepare for upcoming regulation that requires more long-term funding in proportion to granted loans.

Basel III requirements on net stable funding ratio enters into force in Europe in phases during 2016–2018. Its details are still partially open, but current estimates put Finnish banks' NSFR at 76%. The figure is based on banks that were included in the Basel III impact assessment in September 2013. This means that the banks will eventually need to take some further measures to adapt to the requirements.

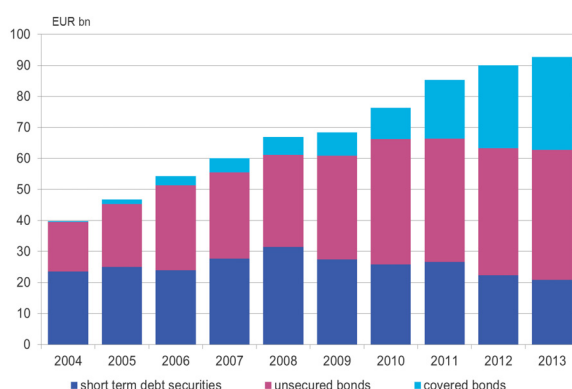


Figure 6. Finnish credit institutions' funding through bonds

2.6 Banking tax added to banks' costs in 2013

In 2013, the results of the Finnish banking sector were more diverse than before. On one hand the majority of banks managed to increase their operating profits, but on the other hand the aggregate profits of the sector diminished by 13%.

Low interest rates put a strain on banks' net interest income, which is the core of their business. It fell by 7%. The decrease slowed down towards the end of the year, however, even turning slightly positive at the end. This was notably helped by wider margins in new loans.

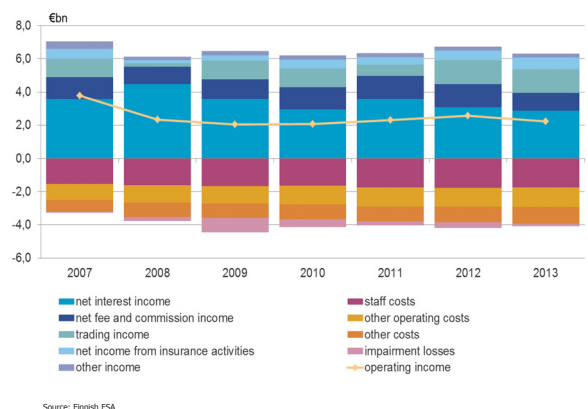


Figure 7. Results of the Finnish banking sector

As interest income dropped, Finnish banks have diversified their operations and given more focus for example to commission income. Almost all banks' commission income increased, although the aggregate commission income for the sector diminished. This was affected by Nordea Bank Finland paying guarantee fees to its parent bank. Some banking groups include insurance functions in addition to banking, and the investment income of insurance companies grew due to good developments in securities markets.

The importance of net interest income depends on the bank's business model, and can be anything from 1% to 64% of a bank's total profits (figure 8), averaging at 46%. The number is low in international comparison. This can be partially explained by the way Nordea Bank centralised its securities operations in Finland. It not only increased their trading and investing profits in Finland, but also gave a considerable boost to corporate tax paid in Finland.

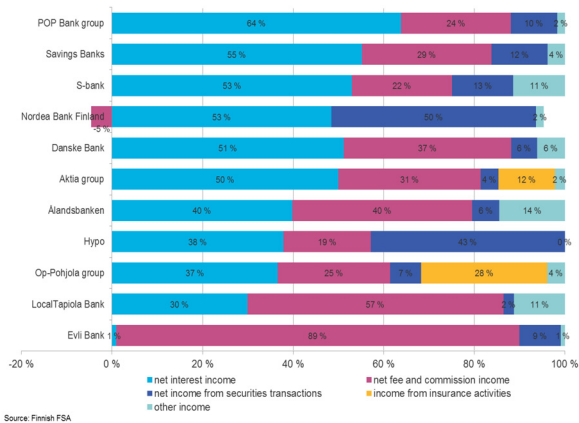


Figure 8. Breakdown of banks' profits in 2013

The year 2013 was the first in which banking tax was collected. It totalled 134 million euros. Banks' operating costs otherwise decreased due to measures taken to increase efficiency, but with the new tax, overall operating costs went up by 2%.

Comparing 2013 to 2013, banks' impairment losses were halved, which had a positive effect on overall performance. This was due to for example fewer losses on foreign receivables, and Nordea Bank's parent company guarantee on Finnish corporate exposure.

2.7 Banks maintained strong capital adequacy

Finnish banks moved to a new regulatory environment in a good shape. New regulation enters into force gradually in early 2014. This includes for example the Capital Requirements Regulation (CRR), based on international Basel III regulation. It not only requires larger capital base from banks, but also better quality capital.

The capital adequacy ratio of the Finnish banking sector was 16.0% at the end of 2013. Measured in Core Tier 1 Capital the ratio climbed to 14.8%, which is very high in European comparison.

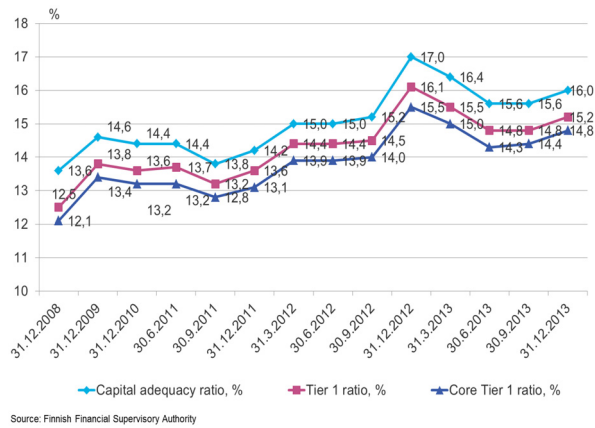


Figure 9. Capital adequacy ratio of the Finnish banking sector

Finnish banks' return on equity (ROE) and efficiency declined somewhat in 2013 when compared to the previous year; ROE fell from 8.5% to 8.1% and cost ratio (costs/profits) from 62% to 57%. The cost ratio has been falling for several years, but last year's noticeable drop was also a result of the new banking tax.



Figure 10. Finnish deposit banks' ROE and cost ratio

Non-performing assets grew by approximately 2% in 2013, but their proportion of the loan and guarantee portfolio still remains very low, at 0.5%. For now the amount of non-performing assets hasn't showed any prominent rise despite the overall economic situation.



Financial statements 2012-2013

mn EUR

Domestic banking groups	Net interest income			Net fee and commission income			Other operating income			Total operating income		
	2013	2012	Change	2013	2012	Change	2013	2012	Change	2013	2012	Change
Nordea Bank Finland	1 183	1 258	-6,0 %	-113	295	-138,3 %	1 154	1 271	-9,2 %	2 224	2 824	-21,2 %
OP-Pohjola Group *)	913	1 002	-8,9 %	625	584	7,0 %	974	785	24,1 %	2 512	2 371	5,9 %
Danske Bank	318	358	-11,1 %	230	196	17,1 %	73	83	-11,5 %	622	638	-2,5 %
Aktia	113	117	-3,3 %	71	65	8,3 %	41	35	15,6 %	224	218	2,9 %
Savings banks	137	144	-5,4 %	-	-	-	111	87	27,9 %	248	231	7,1 %
POP Bank Group	79	82	-3,9 %	30	27	12,4 %	15	12	28,4 %	124	121	2,5 %
Bank of Aland	42	41	2,9 %	42	33	29,7 %	22	37	-40,8 %	106	110	-3,6 %
S Bank	56	49	14,3 %	24	10	124,9 %	26	9	195,6 %	106	68	54,9 %
LocalTapiola Bank	19	19	-2,1 %	40	32	24,7 %	-	-	-	-	-	-
Hypo	5	3	53,6 %	3	2	22,7 %	6	6	-3,3 %	14	12	16,7 %
Evli bank	1	3	-83,9 %	50	43	15,5 %	6	2	189,5 %	56	48	14,9 %
Largest Nordic banking groups (ranked according to total assets) □												
Nordea	5 525	5 563	-0,7 %	2 642	2 468	7,1 %	1 724	1 967	-12,4 %	9 891	9 998	-1,1 %
Danske Bank	2 983	3 060	-2,5 %	1 277	1 191	7,2 %	1 104	1 883	-41,4 %	5 364	6 134	-12,6 %
DNB Bank	3 867	3 641	6,2 %	1 030	1 005	2,5 %	1 074	935	14,9 %	5 972	5 581	7,0 %
Handelsbanken	3 083	2 996	2,9 %	902	847	6,5 %	214	185	15,7 %	4 199	4 028	4,2 %
SEB	2 176	2 026	7,4 %	1 695	1 565	8,3 %	932	869	7,2 %	4 803	4 460	7,7 %
Swedbank	2 546	2 339	8,8 %	1 171	1 105	6,0 %	552	723	-23,6 %	4 270	4 167	2,5 %

Insurance business is included in the figures where insurance is part of the group's business, reflected under other operating income. Foreign branches are included in the figures.

The figures may not sum up to the total, because not all income statement items are included in this table.

*) Bonuses paid to owner members and OP bonus customers for EUR 193m (192).



Financial statements 2012-2013

mn EUR

Staff-related costs			Other costs			Total operating expenses			Impairment losses on loans and other commitments		Operating profit/loss			Taxes		Balance sheet total		
2013	2012	Change	2013	2012	Change	2013	2012	Change	2013	2012	2013	2012	Change	2013	2012	2013	2012	Change
-553	-574	-3,7 %	-506	-497	1,8 %	-1 059	-1 071	-1,1 %	-52	-144	1 113	1 616	-31,1 %	-285	-428	304 761	335 461	-9,2 %
-753	-764	-1,4 %	-777	-730	6,4 %	-1 530	-1 494	2,4 %	-84	-99	705	601	17,3 %	-32	-115	100 981	99 769	1,2 %
-150	-169	-11,5 %	-275	-248	11,0 %	-425	-417	1,9 %	3	-64	200	157	27,4 %	-54	-42	26 680	31 813	-16,1 %
-78	-75	3,1 %	-80	-79	0,9 %	-157	-154	1,9 %	-2	-8	65	66	-0,3 %	-13	-16	10 934	11 240	-2,7 %
-68	-69	-1,2 %	-97	-88	10,2 %	-165	-158	5,0 %	-9	-6	74	67	9,5 %	-	-	9 070	8 395	8,0 %
-37	-37	-0,8 %	57	54	5,4 %	-94	-91	2,9 %	-4	-4	30	29	2,4 %	-	-	4 788	4 679	2,3 %
-51	-52	-1,5 %	-40	-42	-2,9 %	-92	-94	-2,2 %	-4	-6	10	10	4,0 %	-3	2	3 887	3 633	7,0 %
-23	-14	58,8 %	-56	-47	19,3 %	-78	-61	28,5 %	0	-1	28	6	335,9 %	-7	-2	3 188	3 098	2,9 %
-	-	-	-	-	-	-	-	-	-	-	8	6	27,1 %	-	-	-	-	-
-4	-3	27,3 %	-3	-3	11,1 %	-7	-6	19,7 %	0	0	6	5	15,4 %	-1	-1	1 220	911	33,9 %
-26	-21	22,1 %	-23	-23	-1,7 %	-49	-45	8,9 %	0	0	7	4	86,1 %	-1	-1	576	596	-3,3 %
-2 978	-2 989	-0,4 %	-2 062	-2 075	-0,6 %	-5 040	-5 064	-0,5 %	-735	-895	4 116	4 039	1,9 %	-1 009	-970	630 434	668 178	-5,6 %
-1 756	-1 796	-2,2 %	-1 508	-1 514	-0,4 %	-3 264	-3 310	-1,4 %	-561	-1 032	1 349	1 147	17,6 %	-395	-512	432 622	467 089	-7,4 %
-	-	-	-2 586	-2 726	-5,1 %	-2 802	-2 777	0,9 %	-299	-425	2 909	2 378	22,3 %	-665	-546	285 715	315 752	-9,5 %
-1 318	-1 283	2,7 %	-654	-636	2,9 %	-1 972	-1 919	2,8 %	-136	-144	2 091	1 966	6,4 %	-453	-355	281 045	277 785	1,2 %
-1 622	-1 677	-3,3 %	-955	-1 040	-8,3 %	-2 576	-2 717	-5,2 %	-132	-108	2 095	1 635	28,1 %	-386	-240	280 484	285 884	-1,9 %
-1 116	-1 061	5,1 %	-809	-841	-3,9 %	-1 924	-1 903	1,1 %	-108	-28	2 237	2 236	0,0 %	-474	-478	205 530	215 202	-4,5 %



Financial statements 2012-2013

mn EUR

Return on equity (ROE), %		Income/cost ratio, %		Capital adequacy ratio, %		Tier 1 capital ratio, %		Core Tier 1 -ratio, %	
2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
8,8 %	11,3 %	0,48	0,38	15,8 %	18,8 %	15,0 %	18,0 %	15,0 %	18,0 %
9,1 %	7,0 %	0,61	0,63	14,3 %	14,1 %	14,3 %	14,1 %	14,3 %	14,1 %
6,1 %	5,0 %	0,68	0,65	17,2 %	15,8 %	17,2 %	15,8 %	-	13,7 %
8,1 %	8,5 %	0,72	0,74	19,3 %	20,2 %	12,3 %	11,8 %	-	11,0 %
-	-	0,67	0,68	21,6 %	22,1 %	17,6 %	18,2 %	-	-
2,0 %	2,5 %	0,73	0,73	21,3 %	21,2 %	-	21,3 %	-	17,7 %
3,8 %	6,6 %	0,86	0,85	15,2 %	15,7 %	-	-	10,8 %	10,9 %
9,1 %	2,7 %			18,2 %	19,4 %				
-	-	-	-	16,4 %	12,7 %	15,3 %	10,9 %	-	-
5,8 %	5,2 %	0,57	0,55	18,4 %	17,0 %	14,0 %	15,9 %	14,0 %	17,0 %
11,2 %	4,7 %	0,88	0,93	13,9 %	14,6 %	-	-	-	-
11,0 %	11,6 %	0,51	0,51	18,1 %	16,2 %	15,7 %	14,3 %	14,9 %	13,1 %
5,0 %	3,6 %	0,61	0,54	21,4 %	21,3 %	19,0 %	18,9 %	14,7 %	14,5 %
13,2 %	11,7 %	0,46	0,49	14,0 %	12,6 %	12,1 %	11,0 %	11,8 %	10,7 %
13,9 %	14,9 %	0,47	0,48	21,6 %	20,7 %	21,5 %	20,4 %	19,2 %	17,9 %
13,1 %	11,1 %	0,54	0,61	18,1 %	16,7 %	17,1 %	15,3 %	15,0 %	13,1 %
14,7 %	15,6 %	0,45	0,46	20,7 %	18,5 %	19,6 %	16,8 %	18,3 %	15,4 %



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