FINNISH BANKING 2023

Overview of the Finnish banking sector and the key changes in its operating environment in 2023

FINANCE FINLAND

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Contents

Introduction

The Finnish banking 2023 report is an overview of the Finnish banking sector and the key changes in its operating environment in 2023. Finance Finland publishes the banking report annually, with a focus on current topics affecting the sector that year.

The report covers two main themes: 1) developments in the operating environment and 2) developments in the banking sector.

The purpose of the report is to increase knowledge of the factors that affect the banking sector and to present a summary of the state of the banking sector. The report also includes an overview of economic developments, housing market developments, topical monetary policy measures, the regulatory and supervisory environments and developments in the banking sector.

The report was written by Finance Finland's adviser Jussi Kettunen.

1 General operating environment

In 2023, Russia pressed on with its war of aggression against Ukraine. The effects of the war continued to ripple across Europe, but people seemed to better tolerate the uncertainty. Partly because of the war, relations between China and other key economic areas remained tense. Early in the year, the general uncertainty caused energy prices to stay elevated and volatile. The repercussions of the war dampened the mood, slowing down the housing market in Finland. The rise in the price of energy, raw materials and foods caused consumer inflation to stay high both globally and in Finland.

The rise in general uncertainty reduced investment demand. In Europe, an energy crisis was still considered possible, although its likelihood was smaller than in the year before. At the same time, persistent high inflation and rising interest rate hikes eroded households' purchasing power.

The accelerating inflation reflected on interest rates and interest rate expectations globally. In the euro area, the consumer price inflation record of 10.7% reached in October 2022 remained intact, but inflation was nevertheless high throughout the year. The persistent inflation increased expectations for tighter monetary policy measures, causing market interest rates to rise. Central banks indeed hiked their key interest rates several times during the year.

In addition to Russia's war of aggression, other topics that featured heavily during the year included climate change and its effects and mitigation. From a climate perspective, 2023 was indeed one of the hottest years on record. The EU's aim to make Europe the world's first climate-neutral continent by 2050 and Finland's goal to become a carbon-neutral country by 2035 set certain expectations both for new regulation and the financial market's role in achieving this. The banking sector will play a significant role in climate transition as finance will be increasingly redirected towards green investments. Financing needs and the role of the financial sector in the green transition are discussed in more detail in the final report of the national working group on financing the green transition.[1]

[1] https://julkaisut.valtioneuvosto.fi/handle/10024/164654

1.1 Finnish economy

In the Finnish economy, 2023 started off from a cautious place. According to Statistics Finland, the volume of Finland's gross domestic product grew in January to March 2023 by 0.2% from the previous quarter, but gross domestic product adjusted for working days was 0.4% lower than one year ago.[2]

In investments, the year started off especially slow. In the first quarter, investments decreased in both private and public sectors. Investments in means of transport, machinery and equipment contracted sharply. Building construction and civil engineering also decreased clearly.

As demand remained muted in the global economy, new orders in manufacturing also remained moderate. At the same time, accelerating inflation and rising interest rates eroded households' purchasing power and undermined consumer confidence. Economic sanctions imposed on Russia and Belarus continued to reflect negatively on Finnish companies as well. The price of energy and raw materials remained high in the early part of the year, which drove up both producer and consumer price inflation. As a result, the growth forecast of the Finnish economy was revised downward.

One of the few positive sides to this upended geopolitical situation was that it helped accelerate the green transition. The transition away from Russian energy and the commitment to further reduce greenhouse gas emissions boosted investments in renewable energy. In 2023, Finland's wind power capacity increased by 25%, making it the second busiest wind power construction year in history.[3] The size of the investments was considerable, standing at about €1.7 billion.

In recent years, Finland has also made significant investments in solar electricity production. According to Finland's Energy Authority, solar electricity production capacity totalled about 0.6 terawatt-hours in 2023.[4]

Despite the sizeable investments in renewable energy, the year was challenging overall. According to Statistics Finland, the volume of Finland's GDP contracted by 1.0% in 2023.[5]

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2 https://stat.fi/en/publication/cl8irt24v0p930duk5k626vvl

3 https://tuulivoimayhdistys.fi/en/ajankohtaista/press-releases/finlands-wind-power-statistics-2023

4 https://energiavirasto.fi/-/uusiutuvan-energian-kaytto-vaheni-suomessa-vuonna-2023 (in Finnish)

5 https://www.stat.fi/en/publication/cln1g697svt680cutjae84g9e

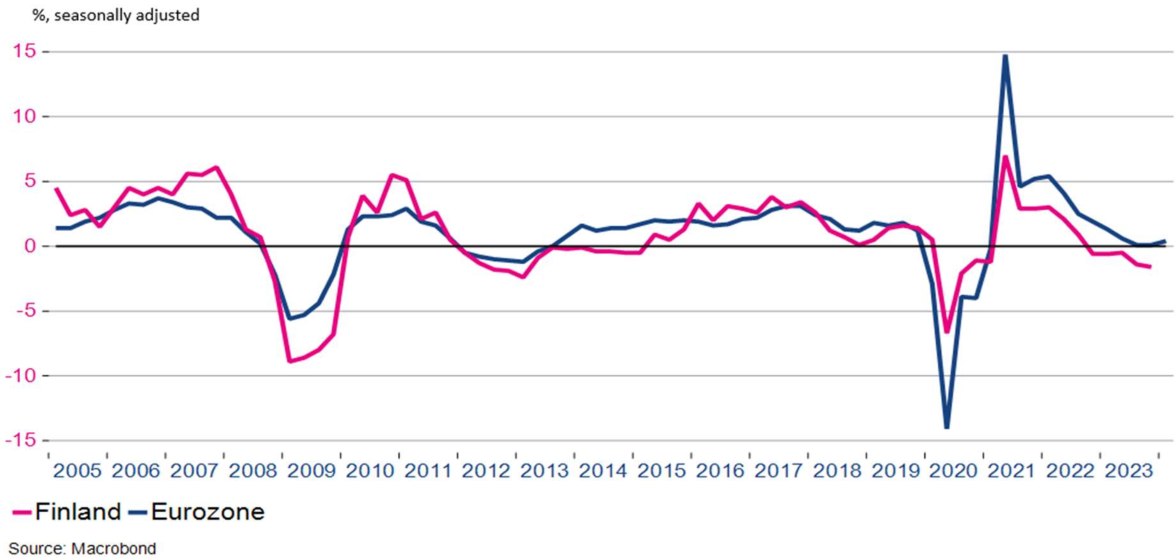

Figure 1: Annual change of GDP in Finland and the euro area (%)

According to Statistics Finland's Labour Force Survey, the number of both employed and unemployed persons grew in 2023. The employment rate for persons aged 20 to 64 was 77.9%. The unemployment rate of people aged 15 to 74 stood at 7.2%, which was 0.4 percentage points higher than in 2022. The average number of employed persons aged 15 to 74 was 2,628,000 and that of unemployed persons was 204,000 in 2023.[6]

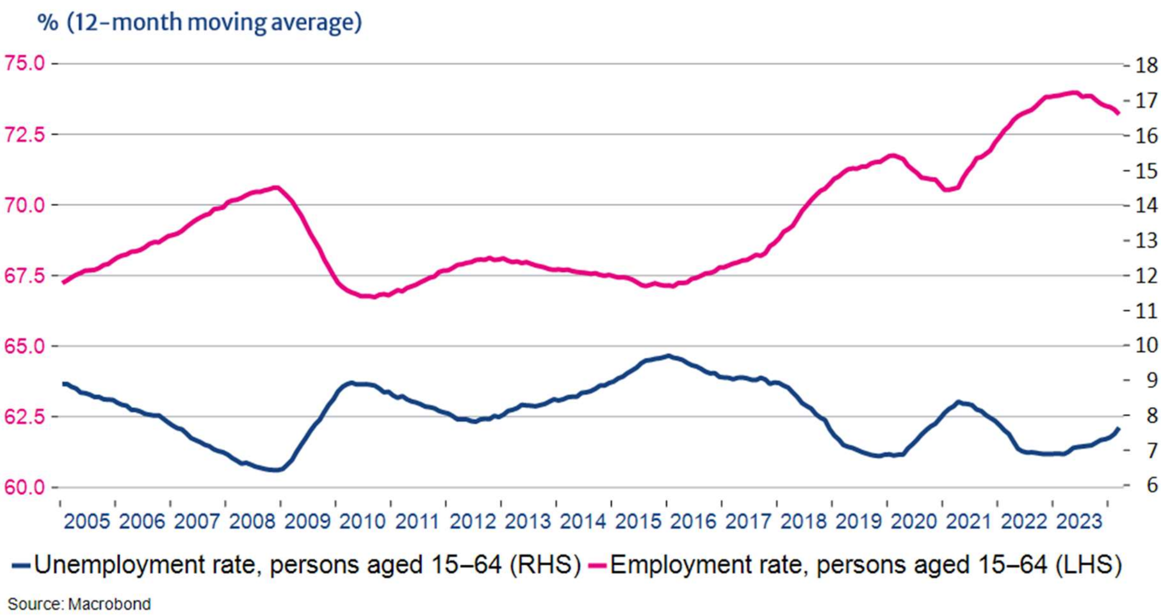

Figure 2: Employment in Finland

[6] https://stat.fi/en/publication/clmhm8nj1zqe00avvnfz3j11o

Finland’s employment rate has been showing a positive trend since 2016. Although real earnings decreased in 2023 due to the rise in inflation, the positive employment development was important for households’ financial situation.

1.1.1 Households

Household indebtedness and related legislative measures have been an active topic of conversation in Finland for years now. It has been estimated that in terms of financial stability, the stability concerns related to household indebtedness are more often caused indirectly through risks taking place in economic development rather than directly through the credit risks of residential mortgage loans. Rising interest rates may allow households less financial latitude and thus curb consumer demand if the level of debt is high. High interest rates have caused concern about households’ ability to cope with higher loan servicing costs.

According to Statistics Finland, households’ indebtedness ratio – the ratio of their loan debts to their total disposable income – has continued to fall since the spring of 2023. This is the result of both the growth of income and the scarcity of borrowing. Because of the rising interest rates, Finns have been less eager to take out new loans than before, focusing instead on repaying their existing loans. At the end of September, households’ indebtedness ratio stood at 123.4%.[7]

According to Finance Finland’s *Saving and borrowing* survey published in May, housing loan holders were concerned about interest rate increases. Two thirds of the respondents with a housing loan had prepared for interest rate increases. The most typical ways to prepare for interest rate increases were back-up funds, savings and buffers (33%), interest rate caps and hedging (22%) and general awareness of the possibility of rising interest rates, planning and budgeting (15%).[8]

At the same time as households’ indebtedness ratio has fallen, households have continued to increase their assets.[9] By the end of 2023, almost 350,000 people had opened an equity savings account, which were only recently introduced in Finland.[10] Saving in investment funds has also attracted increasing interest among Finns in recent years. At the end of 2023, about 1.51 million Finns had made fund investments. The combined assets of Finnish investment funds totalled about €149 billion at the end of 2023.[11]

The growth in households’ deposits from the pandemic years turned down in 2023, with deposits falling by more than €3 billion. At the end of 2023, the stock of Finnish households’ deposits totalled €108.7 billion. Overnight deposits accounted for €70.6 billion, deposits with an agreed maturity for €10.9 billion and investment deposits for €27.2 billion of the total deposit stock.

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[7] https://www.stat.fi/en/publication/cl8n4vh7g00uc0dw1je7svrvf

[8] https://www.finanssiala.fi/en/publications/saving-and-borrowing-2023/

[9] https://www.eurojatalous.fi/fi/2024/artikkelit/ekp-julkaisee-uutta-kokeellista-tilastotietoa-kotitalouksien-varallisuudesta/ (in Finnish)

[10] https://www.euroclear.com/finland/fi/statistics/equity-savings-accounts.html (in Finnish)

[11] https://www.finanssiala.fi/uutiset/sijoitusrahastoihin-32-miljardia-euroa-uutta-paaomaa-vuonna-2023-paaomien-yhteenlaskettu-maara-kasvoi-edellisvuodesta-yli-15-miljardilla/ (in Finnish)

As the level of market interest rates has risen, the interest rate differentials between different types of deposit accounts have widened. At the end of December 2023, the average interest on the stock of deposits with an agreed maturity was 2.70% and the average interest on the investment deposit stock 2.46%, whereas the average interest on the overnight deposit stock was 0.46%.[12]

1.2 Housing market

Towards the end of 2022, Finland's long-term trend of active construction took a downward turn. Of the roughly 39,000 building starts in 2022, privately funded totalled about 33,000, which was 15% less than in 2021.

In 2023, this downward trend only deepened. In addition to the number of privately funded dwellings in blocks of flats, the number of detached houses also fell. Privately funded housing production contracted by over 60% due to weak demand and rising costs. By contrast, state-subsidised housing production increased by over 50% from 2022. In 2023, state-subsidised housing production made up for more than 40% of all housing construction.[13]

The volume of new construction in 2023 stood at around 20,000 building starts.[14] According to the VTT Technical Research Centre of Finland, the average long-term housing production need is 35,000 dwellings per year.[15]

The construction sector is susceptible to economic fluctuations, and especially housing construction slows down quickly when demand is low. Over the course of 2023, there were several pleas to accelerate state-subsidised housing production[16], arguing that this would even out cyclical fluctuation and increase employment given the construction sector's role as a major employer.

The real estate sector's stability is important for banks, because at the end of 2023, 55% of all loans granted by banks were mortgage-backed loans.[17]

1.2.1 Housing loan market

The banking sector has continued to grant residential mortgages to households as usual during both the pandemic and the war, which has been extremely important in terms of labour mobility and the increasing popularity of remote work, for example.

In 2023, the housing market was on standby. The boost given by the pandemic faded, and the soaring heating energy prices, rising loan rates and increasing general uncertainty

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[12] https://www.suomenpankki.fi/en/statistics2/News/saving-and-investing/2023/popularity-of-fixed-income-investments-increased2/

[13] https://www.ara.fi/fi-FI/Ajankohtaista/Uutiset_ja_tiedotteet/Uutiset_2024/Aratuotannon_osuus_asuntorakentamisesta_(66413) (in Finnish)

[14] https://www.stat.fi/en/statistics/ras

[15] https://rt.fi/tietoa-alasta/tilastot-ja-suhdanteet/asuntotuotantotarve-2024-tutkimus/ (in Finnish)

[16] https://www.finanssiala.fi/kolumni/apua-rakennusalan-ahdinkoon-pankit-mukaan-kehittamaan-korkotukijarjestelmaa/ (in Finnish)

[17] https://publications.bof.fi/bitstream/handle/10024/53298/Pankkisektori-Q4-2023.pdf (in Finnish)

slowed the housing market down. This caused selling times to grow longer and prices to come down. As key interest rates climbed over the course of the year, so did expectations of future interest rate levels, which turned buyers even more cautious.

According to Finance Finland's banking barometer conducted in early 2023, the demand for household loans fell significantly in the first quarter compared to the previous year. The outlook for the demand was also significantly lowered. The widening gap between households' financial situations caused households to have an increasing need for grace periods and other flexible loan arrangements.[18]

In the first half of 2023, the housing market hit the 21st century's all-time low and the stock of housing loans took a downward turn.

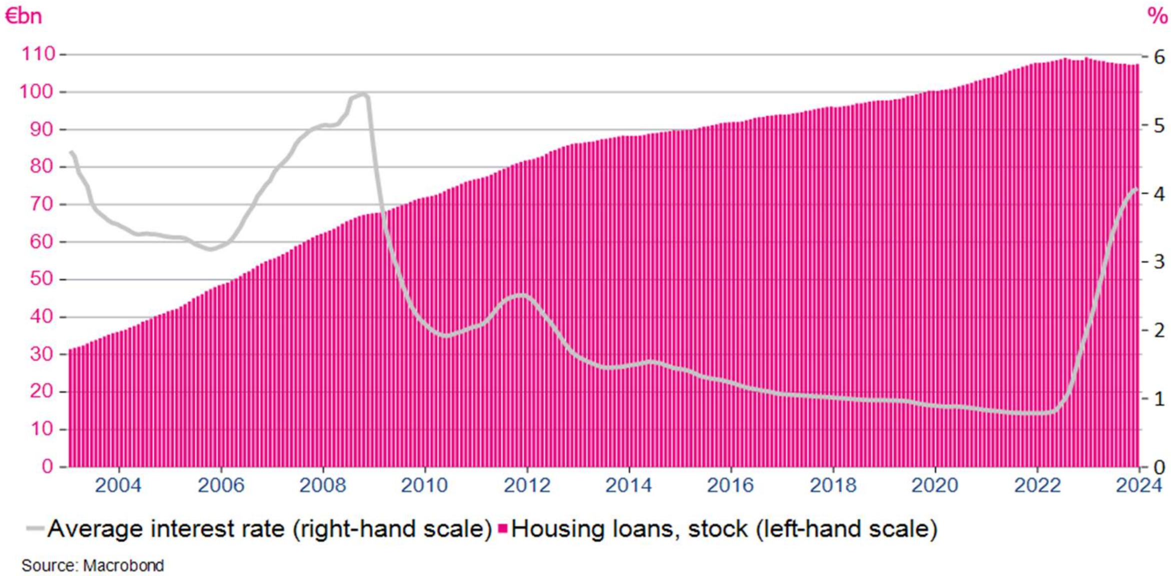

Figure 3: Households' housing loan stock and average interest rate

At the end of December, the stock of housing loans stood at €106.7 billion.[19] Investment property loans (e.g. buy-to-let) accounted for €8.6 billion of the housing loan stock. When granting housing loans, banks value the mortgage lending value clearly under the market value of the time of the credit granting. This protects them against credit losses in an environment of decreasing property prices.

Almost the entire housing loan stock is tied to Euribor rates with a maturity of 12 months or less, which means the loan interest rates of most loans are updated at least once a year.[20] Because of this, higher interest rates have carried over quickly to the housing loan stock.

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[18] https://www.finanssiala.fi/uutiset/pankkibarometri-kiristynyt-rahapolitiikka-heikentaa-seka-kotitalouksien-etta-yritysten-luotonkysyntaa/ (in Finnish)

[19] https://www.suomenpankki.fi/en/statistics2/News/mfi-balance-sheet/2023/amount-of-non-performing-loans-in-the-construction-sector-has-grown-further/

[20] https://www.bofbulletin.fi/en/2023/1/rise-in-interest-rates-is-testing-the-resilience-of-borrowers-investors-and-the-financial-system/

The rise of the average interest rate on the housing loan stock was somewhat slowed down by interest rate hedges taken out on the loans.[21]

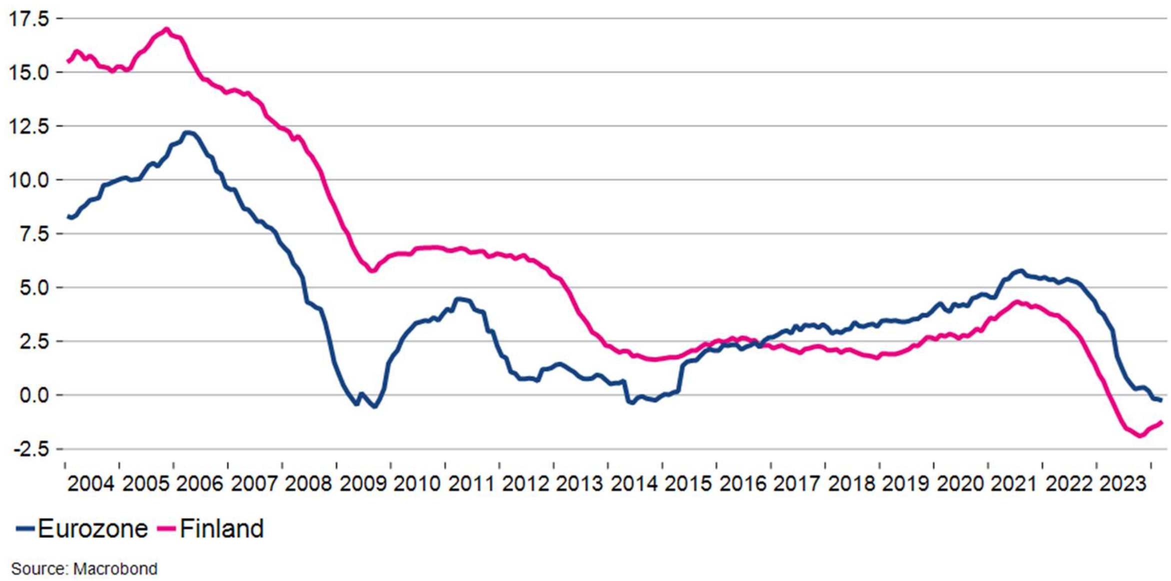

Figure 4: Annual growth rate of the housing loan stock in Finland and the euro area

At the end of 2023, the average interest rate was 4.08% in housing loans (1.97% in 2022) and 4.3% in investment property loans (2.1% in 2022).[22]

Finland's high proportion of variable rate housing loans means that the effects of the European Central Bank's tightening monetary policy have hit Finland harder than many other euro area countries. On the other hand, earlier when market rates were zero or even negative, Finland's housing loan interest rates were among the lowest in the euro area, with the gap to other countries reaching several percentage points at best.[23]

At the end of December 2023, the stock of loans to housing corporations stood at €43.8 billion. Some of the housing corporation loan volume is held by households, some by housing investment funds and other housing investors, and some by companies. In statistics, housing corporation loans are included in the corporate loan portfolio.

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[21] https://www.suomenpankki.fi/en/statistics2/News/mfi-balance-sheet/2023/housing-loan-stock-contracted-from-a-year-ago/

[22] https://www.suomenpankki.fi/en/statistics2/News/mfi-balance-sheet/2023/amount-of-non-performing-loans-in-the-construction-sector-has-grown-further/

[23] https://www.op-media.fi/puheenvuorot/pitaisiko-suomessa-siirtya-kiinteakorkoisiin-asuntolainoihin/ (in Finnish)

2 Supervisory measures

2.1 The ECB's monetary policy

The European Central Bank's (ECB) decisions were followed with keen interest throughout the year, and debate was sparked especially by the ECB's stance and reaction to the accelerated inflation.

The ECB started to tighten its monetary policy and hike its key interest rates in the summer of 2022. After a long period of exceptionally low rates, interest rates rose quickly and sharply.[24] In the euro area, Euribor shot up by about 4 percentage points in the course of one year.

In early 2023, the ECB's Governing Council estimated that the past rate increases were being transmitted forcefully to euro area financing and monetary conditions. Inflation was nevertheless projected to remain too high for too long, so the Governing Council decided to keep increasing the key interest rates. It made its last key interest rate hikes in September 2023, taking the deposit facility rate to 4%.[25]

In addition to interest rate increases, the ECB also took other monetary policy measures to restrict inflation. In June, the Governing Council announced that the asset purchase programme (APP) portfolio is declining at a measured and predictable pace, as the Eurosystem does not reinvest all of the principal payments from maturing securities. The Governing Council also announced that as concerns the pandemic emergency purchase programme (PEPP), it intends to reinvest the principal payments from maturing securities purchased under the programme until at least the end of 2024. The future roll-off of the PEPP portfolio will be managed to avoid interference with the appropriate monetary policy stance.[26]

2.1.1 Targeted longer-term refinancing operations (TLTROs)

The third series of targeted longer-term refinancing operations (TLTRO III) undertaken during the pandemic saw the most affordable financing conditions in the history of the Eurosystem – never before had the Eurosystem granted credit to banks at a rate lower than the ECB's deposit facility rate.[27] At the end of 2022, the Finnish banking sector had acquired some €30 billion through the programme. At the end of the 2023, the figure stood at only about €3.5 billion.[28] In October 2022, the Governing Council decided to recalibrate the conditions of the TLTRO III and to offer banks additional voluntary early repayment dates. The recalibration removed deterrents to early voluntary repayment of outstanding TLTRO III funds.[29]

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[24] https://www.suomenpankki.fi/en/Tilastot/korot/kuviot/korot_kuviot/euribor_ekpohj_kk_chrt_en/

[25] https://www.ecb.europa.eu/press/pr/date/2023/html/ecb.mp230914~aab39f8c21.en.html

[26] https://www.ecb.europa.eu/press/pr/date/2023/html/ecb.mp230615~d34cddb4c6.en.html

[27] https://www.eurojatalous.fi/fi/blogit/2021/pankit-nostaneet-ennatyksellisen-maaran-edullisia-kohdennettuja-luottoja/ (in Finnish)

[28] https://data.ecb.europa.eu/data/datasets/ILM/ILM.M.FI.N.A050200.U2.EUR

[29] https://www.suomenpankki.fi/en/media-and-publications/news/2022/ecb-monetary-policy-decisions7/

2.2 Regulatory environment

Finland's new government started its term in late June 2023. Prime Minister Petteri Orpo's government programme states that the government will draw up a growth strategy for the financial sector, which will include conducting a comprehensive assessment of financial market regulation.[30] The preparations dragged on until February 2024, when the Ministry of Finance appointed a working group to work on the growth strategy.[31] The working group's term ends on 31 May 2025.

The regulatory environment had another eventful year. In Finland, the assessment of the need to amend legislation on credit institutions was a hot topic in 2023. The Ministry of Finance's consultation on the topic included basic banking services and amendments to general legislation on credit institutions.[32] In March 2024, the Ministry published an assessment report on the matter.[33]

Interest rate risk measurement and related regulation was discussed throughout the year. It received particular attention after the banking turbulence that commenced in the United States in March. The European Banking Authority (EBA) published an amended Implementing Technical Standard (ITS) on supervisory reporting with respect to interest rate risk in the banking book (IRRBB) in July. The large decline of net interest income in a shock scenario (NII SOT) gave much rise to debate. The threshold for the NII SOT was initially proposed at the level of 2.5% of Tier 1 capital, but eventually set at the level of 5% of Tier 1 capital.[34][35]

Finnish banks are free of the characteristics that led to the series of bank failures in the US. They are subject to stricter regulation overall and have more diversified business models, assets and financing structures than the US crisis banks. After the global financial crisis, the EU has carried out massive supervisory and regulatory changes, including the establishment of new capital adequacy and liquidity requirements and regular stress tests. European banking sector regulation also applies to all banks, unlike in the United States, where such requirements only apply to large banks.[36]

In Finland, household indebtedness has been a steady topic of discussion in recent years. The Finnish government submitted a legislative proposal on new measures to curb household indebtedness in June 2022. The proposal was based on the recommendations of the Ministry of Finance working group published in October 2019. The Parliament passed the bills in early 2023, and the acts entered into force in July 2023. Under the new acts, the maximum maturity period of new housing loans is 30 years. In addition, housing companies are permitted to borrow at most 60% of the unencumbered price of the flats to be sold, the maximum maturity period of loans to housing companies is 30 years, and no interest-only

[30] https://valtioneuvosto.fi/en/governments/government-programme#/

[31] https://vm.fi/-/tyoryhma-laatii-finanssialan-kasvustrategian (in Finnish)

[32] https://www.finanssiala.fi/wp-content/uploads/2023/05/fa-muistio-08052023-hallitusneuvottelut-vaali-ja-kampanjatilit-.pdf (in Finnish)

[33] https://vm.fi/pankkipalvelut (in Finnish)

[34] https://www.finanssivalvonta.fi/en/publications-and-press-releases/supervision-releases/2023/eba-publishes-opinion-on-rts-concerning-sots-for-irrbb-supervision/

[35] https://www.finanssivalvonta.fi/en/publications-and-press-releases/Reporting-release/2023/reporting_release_34_2023/

[36] https://www.finanssiala.fi/aiheet/kysymyksia-ja-vastauksia-pankkisektorin-turbulenssista/#/ (in Finnish)

periods are permitted for five years from the completion of the dwelling, except during the first year. The registration and supervision of non-bank consumer creditors was also transferred entirely to the Finnish Financial Supervisory Authority (FIN-FSA).

Finance Finland considered some of the changes problematic, especially the one about the FIN-FSA being authorised to give credit institutions orders pertaining to the limits and distributions on the assessment of insolvency risk. In Finance Finland's view, this would practically constitute prudential supervision, which is fully harmonised in the EU.[37]

Regulation on housing finance was also amended. Changes to the Home Saver's Bonus scheme (ASP scheme) took force in January 2023. The aim of the changes to the ASP savings and subsidy scheme is to improve the possibilities for people in different life situations to purchase a home. Key changes included increasing the maximum age for concluding an ASP savings agreement from 39 to 44 years and allowing the use of two ASP accounts for the acquisition of a shared apartment to increase the maximum amount of the loan by 50%. The maximum amount of the free state guarantee included in the ASP loan was also increased from €50,000 to €60,000.[38] Finance Finland considered altering the scheme to better meet the needs of first-time home buyers a change for the better.[39] Development work on the scheme continued later in the year.[40]

On 18 April 2023, the European Commission adopted an extensive legislative proposal on bank recovery and resolution, with a focus on medium-sized and smaller banks. The proposal would facilitate the use of national deposit guarantee schemes as a source of funding. It was criticised by various parties, including Finance Finland, because it was considered to undermine investor bail-in and pave the way for a European Deposit Insurance Scheme (EDIS).[41] The EDIS has been a long-term goal especially for many Southern European member states and EU authorities.

Finance Finland has designed and also submitted to the Commission an alternative model to implement a common deposit guarantee scheme, should one become necessary.[42]

The widely discussed Basel III reform on banks' capital requirement regulations was active throughout the year. The European Commission published its proposal for the implementation of the final Basel III standards on 27 October 2021. The proposal entailed broad amendments to the EU Capital Requirements Regulation (CRR) and the Credit Requirements Directive (CRD). The proposed reforms are supposed to take effect at the beginning of 2025.[43]

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[37] https://www.finanssiala.fi/julkaisut/finanssiala-ryn-toimintakertomus-2022/ (in Finnish)

[38] https://www.valtiokonttori.fi/en/uutinen/changes-to-asp-scheme-enter-into-force-in-2023-bringing-new-tasks-for-state-treasury/

[39] https://www.finanssiala.fi/uutiset/uusi-vuosi-tuo-uudistuksia-asp-jarjestelmaan-on-hyva-etta-jarjestelma-paivittyy-vastaamaan-ensiasunnon-ostajan-tarpeita/ (in Finnish)

[40] https://www.finanssiala.fi/lausunnot/kysely-pankeille-asp-lainsaadannon-muutostarpeet/ (in Finnish)

[41] https://ec.europa.eu/commission/presscorner/detail/en/ip_23_2250

[42] https://www.finanssiala.fi/en/news/as-deposit-guarantee-and-bank-resolution-are-being-developed-bail-in-must-not-be-forgotten/

[43] https://finance.ec.europa.eu/news/latest-updates-banking-package-2023-12-14_en

The purpose of the Basel III reform is to improve risk calculation, increase comparability between banks and finalise the post-crisis regulation framework on banks' capital adequacy and liquidity. Finance Finland has criticised the reform for failing to take national specificities sufficiently into account in the regulatory proposals. Finance Finland has also highlighted the importance of keeping banks' capital requirement increases as low as possible to prevent the reform from hampering their lending capacity.

The Basel III reform entails temporary reliefs extending to 2032 on residential mortgages and unrated corporate loans. One purpose of the long transitional periods is to allow enough time to assess whether there is a need for more permanent legislation.[44]

2.3 Supervisory environment

Of Finnish credit institutions, Nordea, OP Financial Group and Municipality Finance are under the direct supervision of the European Central Bank (ECB). The ECB also supervises the Finnish branch of Danske Bank. Other banks are supervised by the Finnish Financial Supervisory Authority (FIN-FSA) as part of the Banking Union's joint banking supervision.

The FIN-FSA Board assesses on a quarterly basis the short- and long-term risks to the stability of Finland's financial system. If necessary, the Board may tighten or relax its macroprudential instruments to promote stability. The Board's decisions are invariably met with great interest.

In June 2022, the FIN-FSA Board decided to tighten its macroprudential policy stance as of 1 January 2023. It raised the additional capital requirements (O-SII buffers) for credit institutions significant for the Finnish financial system. O-SIIs, short for 'other systemically important institutions', refer to credit institutions that pose a systemic risk so great that their failure could have severe negative impact on the financial system and the real economy.

Nordea's O-SII buffer rate rose to 2.5% (from 2.0%) and OP Financial Group's to 1.5% (from 1.0%). The buffer requirement for Municipality Finance Plc remained unchanged at 0.5%. The decision took effect on 1 January 2023.[45]

In June 2022, the FIN-FSA Board also issued a recommendation on mortgage borrowers' maximum debt servicing burden, which entered into force on 1 January 2023. According to the recommendation, the 'stressed' debt-service-to-income (DSTI) ratio of a borrower should, as a rule, be no more than 60% of their net income. The stressed DSTI ratio should be calculated by taking extensively into account the applicant's housing loans, other loans and housing company-related charges for financial costs, and their stressed servicing costs. The stressed servicing costs should be calculated with a maturity of no more than 25 years and an interest rate of at least 6% (except for fixed-rate loans and loans with long-term interest rate hedges).[46]

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[44] https://www.finanssiala.fi/wp-content/uploads/2022/06/Raportti-pankkisaantelysta-22062022.pdf (in Finnish)

[45] https://www.finanssivalvonta.fi/en/financial-market-stability/macroprudential/macroprudential-decisions-and-appendices/macroprudential-decisions-2022/macroprudential-decision-27-june-2022/

[46] https://www.finanssivalvonta.fi/contentassets/9b1b4d24040649e1b3d3a1d167fd485e/mv_27062022/27062022_jk_paatos_makrovakausvalineet_en.pdf

Finance Finland considered the timing of this recommendation problematic and estimated that it may further strengthen the negative effects the economic situation has on the housing market and, as a result, on labour mobility.[47]

In its first macroprudential decision of 2023, the FIN-FSA Board decided to impose a requirement on credit institutions to maintain a systemic risk buffer (SyRB) amounting to 1.0%, as previously planned.[48] The decision on the SyRB entered into force on 1 April 2024. The justifications and timing of the decision gave rise to much debate.[49]

Finance Finland reminded the FIN-FSA of its responsibility to explain in detail the risks on which it bases the decision to impose the SyRB, to assess the magnitude of each of the identified risks and to derive the buffer requirement transparently from this so that the conditions for imposing the SyRB can be repeated to ensure consistent regulation, predictable decisions and fairness. Later in its statement, Finance Finland asked the Parliament's Commerce Committee to call for the FIN-FSA to further improve the justifications for its macroprudential decisions in order to meet the requirements the Commerce Committee has required in its statement on the interpretation of the law.

In its March decision, the FIN-FSA Board also decided to keep the loan cap, i.e. the maximum loan-to-collateral (LTC) ratio, unchanged. The countercyclical capital buffer (CCyB) requirement for banks was also kept at its standard level.

In its second macroprudential decision of 2023, the FIN-FSA Board decided to extend the period of validity of the decision on a lower maximum loan-to-collateral (LTC) ratio, taken on 28 June 2021. With that decision, the maximum LTC ratio for new residential mortgage loans other than first-home loans was lowered by 5 percentage points, to 85%.[50] The decision to keep the loan cap at 85% caused criticism. In Finance Finland's view, restoring the loan cap to its statutory baseline level would have been a necessary call considering the state of the housing market.[51]

The European Court of Auditors published its special report on EU supervision of banks' credit risk in May. Its overall conclusion is that the ECB has stepped up its efforts in supervising banks' credit risk, and in particular non-performing loans. However, the report also brings forward weaknesses and inconsistencies in supervision.[52]

The results of the European Banking Authority's EU-wide stress test exercise were also published in the summer. They showed that Finnish banks' resilience is good.[53] The

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[47] https://www.finanssiala.fi/lausunnot/finanssialan-nakemys-makrovakaustilanteesta-3/ (in Finnish)

[48] https://www.finanssivalvonta.fi/en/publications-and-press-releases/Press-release/2023/macroprudential-decision-systemic-risk-buffer-set-for-banks-loan-cap-remains-unchanged/

[49] https://www.finanssiala.fi/uutiset/fivan-asettama-lisapaaomavaatimus-pankeille-odotetun-kaltainen-perustelut-jattavat-toivomisen-varaa/ (in Finnish)

[50] https://www.finanssivalvonta.fi/contentassets/eb07156a2dee4d8b9087a01cb5af711d/mv_28062023/decision_of_the_board_28062023.pdf

[51] https://www.finanssiala.fi/uutiset/asuntolainakaton-nosto-olisi-ollut-tarpeen/ (in Finnish)

[52] https://www.eca.europa.eu/en/publications/sr-2023-12

[53] https://www.finanssivalvonta.fi/en/publications-and-press-releases/Press-release/2023/results-of-finnish-banks-stress-tests--banks-resilience-good-but-a-significant-weakening-of-the-operating-environment-would-erode-buffers/

publication of the results also drew attention to the methodology used by supervisors, which failed to account for Nordic specificities.[54]

The third macroprudential decision of 2023 was published at the end of September. The FIN-FSA Board decided to keep the countercyclical capital buffer (CCyB) requirement at 0.0% and extend the period of validity of the decision on a lower maximum loan-to-collateral (LTC) ratio for new residential mortgage loans other than first-home loans.[55]

Finance Finland was disappointed with this decision. The weakened economic and housing market situation would have stood in favour of restoring the loan cap to its statutory baseline level and pushing forward the entry into force of the systemic risk buffer (SyRB), which had been decided on in March.[56]

In its fourth and final macroprudential decision of the year, the FIN-FSA Board finally restored non-first home buyers' housing loan cap, i.e. the maximum loan-to-collateral ratio, to its baseline level of 90%. It also decided to keep the countercyclical capital requirement for banks at its baseline level.[57]

Finance Finland was pleased with this decision and considered that restoring the loan cap to its baseline level was justified because of the difficult situation in the housing market.[58]

In supervision, the FIN-FSA published a thematic review on the present state of the management of climate and environmental risks in credit institutions under the FIN-FSA's direct supervision.[59]

According to the FIN-FSA, the supervision of the increasingly digital financial sector and the integration of climate change considerations into supervision are matters that reflect both general social developments and focus areas in European supervision. In such supervision, it is important to treat different organisations equally and take into account their riskiness and the principle of proportionality.

2.4 The Financial Intelligence Unit and suspicious transaction reports

The Finnish Financial Intelligence Unit receives reports regarding suspicious transactions and suspected terrorist financing from parties subject to the reporting obligation under the Act on Preventing Money Laundering and Terrorist Financing. Some of the reports are transaction-based mass deliveries that are based on the automatic reporting practices of certain obliged entities. Mass reports are typically based on a certain maximum threshold,

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[54] https://www.finanssiala.fi/en/news/stress-test-results-testify-to-the-health-of-finnish-banks/

[55] https://www.finanssivalvonta.fi/contentassets/20706fe8b248400aa2132d8e15ca88f1/vm_27092023/decision_of_the_board_27092023.pdf

[56] https://www.finanssiala.fi/uutiset/finanssiala-pettynyt-heikentynyt-talous-ja-asuntomarkkinatilanne-olisi-puoltanut-lainakaton-nostoa-ja-lisapaaomavaatimusten-myohentamista/ (in Finnish)

[57] https://www.finanssivalvonta.fi/en/publications-and-press-releases/Press-release/2023/macroprudential-decision-housing-loan-cap-restored-to-baseline-level-of-90--banks-countercyclical-capital-buffer-requirement-remains-unchanged/

[58] https://www.finanssiala.fi/uutiset/fivalta-hyva-ja-perusteltu-paatos-palauttaa-asuntolainakatto-perustasolleen/ (in Finnish)

[59] https://www.finanssivalvonta.fi/en/publications-and-press-releases/supervision-releases/2023/thematic-review-plenty-of-room-for-development-in-climate-and-environmental-risk-management-by-credit-institutions-under-direct-fin-fsa-supervision/

meaning that all transactions that exceed the maximum threshold are reported to the Financial Intelligence Unit.
According to the Financial Intelligence Unit's annual report, the number of suspicious transactions reported by banks in 2023 increased by 49% from the year before, reaching a total of 19,847.[60] Only a fraction of the reports lead to preliminary investigation or charges.

Financial sector companies spend over €100 million every year to prevent money laundering. Money laundering is the attempt to mask the origins of illegal income by passing it through banks. In Finance Finland's view, the prevention of money laundering and terrorist financing would benefit from Europe-wide harmonised regulation. At the moment, the national laws of each member state attempt to prevent crime that is highly international by nature. The regulation should ensure sufficient flexibility to allow banks to make use of their own risk assessments.[61]

2.5 The Finnish Financial Stability Authority

The Finnish Financial Stability Authority serves as Finland's national resolution authority to ensure the stability of the financial market and restructure credit institutions and investment firms experiencing financial difficulties. The Financial Stability Authority also acts as Finland's national authority responsible for the deposit guarantee scheme.[62]

In 2023, the Financial Stability Authority collected a total of €151.4 million as deposit guarantee contributions and entry contributions for a new bank.[63] After the contributions for 2023 were collected, the Deposit Guarantee Fund amounted to approximately €1.1 billion. The purpose of the Deposit Guarantee Fund is to secure the claims of deposit banks' depositors. The target level of the Deposit Guarantee Fund is 0.8% of the total amount of the covered deposits held by deposit banks operating in Finland, and it must be reached by 3 July 2024.

In addition, the Financial Stability Authority collected a total of €252 million from Finnish institutions to the Single Resolution Fund (SRF) in 2023.[64] The contributions payable by Finnish institutions represent an average decline of 21% from the previous year. In accordance with the Single Resolution Mechanism regulation, the target level of the SRF at the end of 2023 is at least 1% of the amount of covered deposits of credit institutions authorised in all participating member states. The SRF reached its planned target level by the end of 2023.[65]

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[60] https://rahanpesu.fi/documents/25235045/67733116/vuosikertomus-saavutettava.pdf/da6396ec-eb64-814a-3006-89b38baca942/vuosikertomus-saavutettava.pdf?t=1709018951850 (in Finnish)

[61] https://www.finanssiala.fi/en/news/anti-money-laundering-needs-european-harmonisation-international-crime-cannot-be-curbed-with-national-legislation/

[62] https://rvv.fi/en/mission-and-objectives

[63] https://rvv.fi/-/rahoitusvakausvirasto-keraa-talletussuojarahastoon-151-4-miljoonaa-euroa-vuonna-2023?languageId=en_US

[64] https://rvv.fi/-/rahoitusvakausvirasto-keraa-luottolaitoksilta-vakausmaksuja-252-miljoonaa-euroa?languageId=en_US

[65] https://rvv.fi/-/yhteisen-kriisinratkaisurahaston-tavoitetaso-saavutettu?languageId=en_US

3 Banks operating in Finland

3.1 Overview of the Finnish banking sector and key figures in 2023

In the early part of the year, headlines were dominated by the US and Swiss banking crises. Finland's financial system remained stable despite the turbulence in the international financial markets.[66]

Finland's financial system has been well placed to withstand the elevated risks associated with the weakening economic situation and tightening financing conditions. The good profitability and capital position of Finnish banks are protecting them from an increase in the risks associated with funding, liquidity and customer creditworthiness.

The Finnish banking sector's non-performing loans and loan losses are among the lowest in Europe and the average quality of credits is good, which signals that customers are in a good place. Stress test results published in late July also confirm this.[67]

Overall, the Finnish financial system has remained stable and able to function despite the economic shocks of recent years. The good reputation of Finnish banks is based on solid capital positions and high-quality assets, which has ensured their access to international financial markets even in times of market disruptions.[68] The importance of this cannot be overstated.

The liquidity of Finnish banks improved in the past year. Finnish banks' short-term liquidity is also stronger than the European average. Banks' liquidity position is supported by the high quality of their liquid reserves. Over the year, banks' liquidity position was affected by the ECB's tighter monetary policy, which reduced the volume of central bank liquidity and diminished the deposit stock of monetary financial institutions in the euro area. The Finnish banking sector's deposits from the public have remained relatively stable, but in the past year, household and corporate deposits declined moderately. To compensate for the reduction in central bank liquidity and deposits, banks have increasingly resorted to raising funding from the markets. The financial markets have generally functioned well and banks have been able to refinance their funding and issue new bonds.[69]

Finnish banks are occasionally criticised for their dependency on short-term market funding. What is often ignored in this criticism is that short-term funding allows banks to react to changes in interest rates. Short-term funding also gives banks flexibility in their use of funds, allowing them to quickly adjust their balance sheets to reflect the changing market environment.[70]

Banks' lending capacity remained strong in 2023, but tighter financing conditions reduced the demand for loans. At the end of 2023, loans to households stood at €141.4 billion

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[66] https://www.finanssiala.fi/aiheet/kysymyksia-ja-vastauksia-pankkisektorin-turbulenssista/#/ (in Finnish)

[67] https://www.finanssivalvonta.fi/en/publications-and-press-releases/Press-release/2023/results-of-finnish-banks-stress-tests--banks-resilience-good-but-a-significant-weakening-of-the-operating-environment-would-erode-buffers/

[68] https://www.bofbulletin.fi/en/2023/1/rise-in-interest-rates-is-testing-the-resilience-of-borrowers-investors-and-the-financial-system/

[69] https://publications.bof.fi/handle/10024/53240?show=full (in Finnish)

[70] https://publications.bof.fi/bitstream/handle/10024/53240/Likviditeettiriskien_teema-analyysi.pdf (in Finnish)

(€143.6 billion in 2022) and loans to housing corporations at €44.0 billion (€42.3 billion in 2022). The stock of loans to non-financial corporations (excluding housing corporations) granted by banks operating in Finland totalled €61.8 billion (€62.6 billion in 2022).[71]

Despite the worsening general economic situation, the debt service capacity of both households and corporations remained good throughout the year, and the ratio of non-performing loans (NPL) remained relatively level. The challenging operating environment did not affect banks' credit granting capacity either.

The role of net interest income in banks' results increased in 2023. The rising interest rate level can be expected to boost the financial performance of banks also in 2024, as the interest rates of the loan stock stay higher than in the previous years. The growth of net interest income was also boosted by the low cost of funding.

The banking sector had a very good year in terms of business results. According to the FIN-FSA[72], the banking sector's profit increased by about 39% from the previous year, boosted especially by the growth in net interest income. The banking sector's profit in January–December amounted to about €9.2 billion (€6.6 billion in 2022). Net interest income made up 55% of the profit. At the same time, the ratio of net interest income to interest-bearing balance sheet items, i.e. the interest rate margin, rose to about 1.63% (1.15% in 2022). Most of the net interest income comes from household and corporate loans.[73] Banks' good profitability is crucial for the banking sector's crisis resilience and thereby to wider economic stability.

Commission income is another major source of income in the banking sector. According to the FIN-FSA, commission income decreased from the previous year and made up just under one fifth of the profits. The majority of commission income comes from asset management and other items linked to securities, such as fees from investment funds. Income from lending decreased, but it makes up less than 10% of all commission income in any case.

Banks' net income from trade and investments is a volatile source of income. In 2023, it accounted for about one sixth of banks' income. The changes in the net income from investments vary between banks depending on the valuation method and volume of financial instruments and on the use of derivatives. The weak trend in Nasdaq Helsinki decreased net income from trade and investments. For many banks, their net income from investments was in the negative in 2023.[74]

The Finnish banking sector's profitability remained above the European average and improved significantly from the previous year. The banking sector's return on equity (ROE) stood at 13.9% at the end of December (9.6% in 2022).

A comparison of the profitability of Finnish banks and other sectors reveals that the banking sector's profitability does not stand out as particularly great, even though it is fairly commonly said to be.

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[71] https://www.suomenpankki.fi/en/statistics2/News/mfi-balance-sheet/2024/drawdowns-of-student-loans-decreased-in-january-year-on-year/

[72] https://publications.bof.fi/handle/10024/53298 (in Finnish)

[73] https://publications.bof.fi/bitstream/handle/10024/53298/Pankkisektori-Q4-2023.pdf (in Finnish)

[74] https://publications.bof.fi/bitstream/handle/10024/53298/Pankkisektori-Q4-2023.pdf (in Finnish)

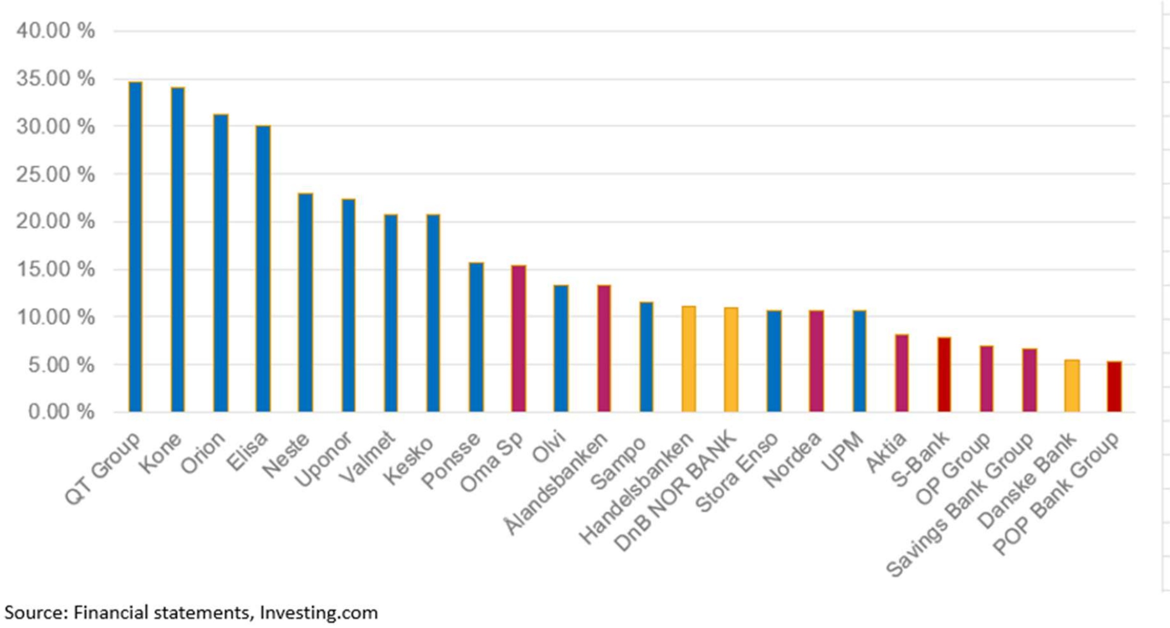

Figure 5: Return on equity, 5-year average (2019–2023)

The banking sector's cost/income ratio (CIR) improved considerably from the previous year-end, totalling 44.1% (52.7% in 2022). In general, large banks perform better in the CIR comparison.

The Finnish banking sector's capital adequacy has also remained strong and above the European average. The banking sector's common equity tier 1 (CET1) capital ratio was 18.3%, and its total capital ratio was 22.1% at the end of 2023. In the EU, banks' average CET1 capital ratio was 15.8% and total capital ratio 19.9% at the end of September 2023.[75]

Banks have prepared for potential credit losses by setting additional discretionary allowances for credit losses. Additional allowances made during the pandemic have been reallocated.

The Finnish banking sector's own funds exceeded the capital requirements by a wide margin. The sector's surplus of own funds exceeded the total capital requirement by €16.1 billion at year-end 2023 (€14.3 billion at year-end 2022). The surplus increased despite tighter macroprudential requirements and is about 6.8% of risk-weighted assets (6.0% in 2022).

The banking sector's leverage ratio rose to 6.1% (5.7% in 2022) as CET1 capital increased and balance sheets contracted. The leverage ratio of Finnish banks is now slightly above the European average, which stood at 5.7% at the end of September.

Thanks to their strong capital adequacy, Finnish banks have been able to offer their customers flexibility in loan servicing. Loan repayment reliefs enable customers

[75] https://www.eba.europa.eu/sites/default/files/2024-01/8039a4ea-6e61-45a9-a746-058fd070c34a/EBA%20Dashboard%20-%20Q3%202023.pdf

experiencing financial difficulties to tide over temporary payment difficulties. So far, the effects of weak economic growth, high inflation and elevated interest rates on the debt service capacity of both households and corporations have remained moderate. At the end of 2023, the share of corporate forbearance loans was 1.6% (1.3% in 2022) and household forbearance loans 2.0% (1.9% in 2022).

In household loans, the ratio of non-performing loans (NPL) has increased subtly over the course of the year and is higher than before the pandemic. In corporate loans, the NPL ratio continues to stay well below the pre-pandemic level despite recent growth. At the end of 2023, the NPL ratio of Finnish banks was 1.6% in household loans (1.4% in 2022) and 1.5% in corporate loans (1.3% in 2022). Finnish banks' NPL ratio remained among the lowest in Europe.

The liquidity and financial positions of banks have remained good both in Finland and elsewhere in Europe. Current accounts and other accounts with low rates of interest continue to hold a large amount of deposits, which reflects on banks' funding costs. At the end of December 2023, Finnish households' deposit stock totalled €108.7 billion. Overnight deposits made up for €70.6 billion, deposits with an agreed maturity for €10.9 billion and investment deposits for €27.2 billion of the deposit stock.[76]

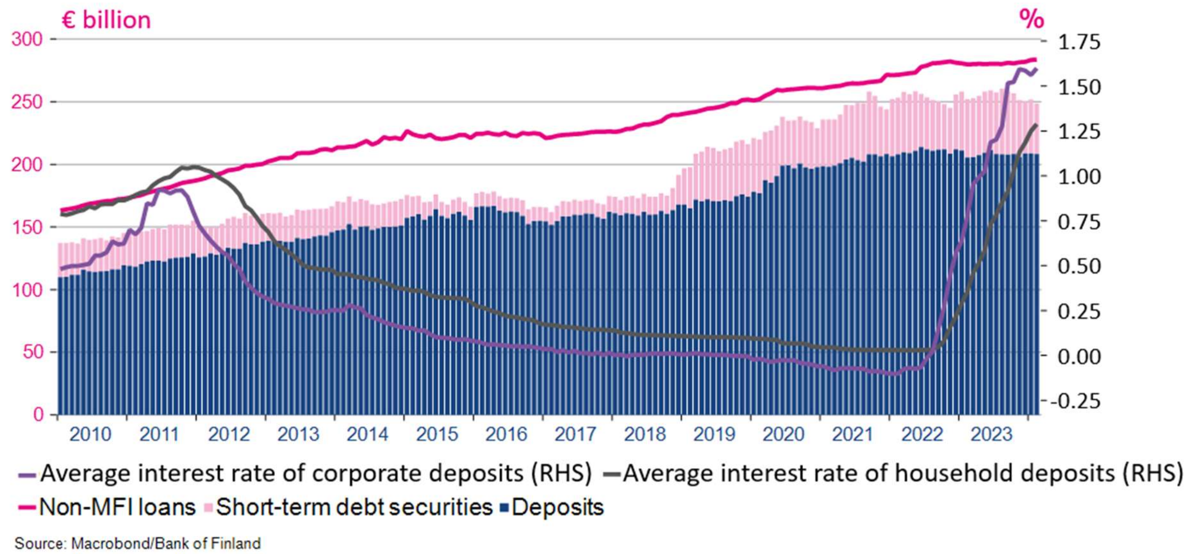

Figure 6: Credit institutions' funding and the average interest rates of corporate and household deposits

According to the FIN-FSA, Finnish banks are dependent on market funding, which exposes them to market disruptions and rising funding costs. On the other hand, market funding also creates predictability. As the first months of 2023 proved, deposits can often be withdrawn quickly, which makes them less predictable.

The Finnish banking sector's liquidity remained strong in 2023. The average liquidity coverage ratio (LCR) stood at 183% at the end of 2023 (176% in 2022). The LCR ratio was well above the 100% limit set in regulation and higher than the EU average (EBA 06/2022:

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[76] https://www.suomenpankki.fi/en/statistics2/News/mfi-balance-sheet/2023/amount-of-non-performing-loans-in-the-construction-sector-has-grown-further/

163%). The average LCR of Finnish banks directly supervised by the FIN-FSA improved markedly in 2023, reaching 240% at the end of the year (167% in 2022). The quality of Finnish banks' LCR reserves was good overall: 97% of the reserves consisted of the most liquid assets, i.e. level 1 assets.[77]

The binding net stable funding ratio (NSFR) requirement became applicable at the end of June 2021. Its purpose is to reduce banks' overreliance on short-term wholesale funding and to limit the degree of maturity mismatch between banks' assets and liabilities. The NSRF requires that banks' available stable funding over a one-year horizon is at least as large as the required stable funding over the same horizon in both normal and stressed conditions. The Finnish banking sector's average NSFR stood at 122% at the end of December 2023 (119% in 2022), which is well above the 100% minimum requirement and close to the EU average (EBA 06/2023: 121%).

The Finnish banking sector's asset encumbrance (AE) ratio rose slightly, standing at 29.5% at the end of 2023 (28.6% in 2022). This is higher than the EU/ETA average (9/2023: 25.7%). Of the encumbered assets, two thirds consisted of covered bonds and a little less than one fifth of derivatives.

In planning for their funding activities, Finnish banks have prepared for the release of the pandemic build-up of household and corporate deposits. Strong liquidity buffers, relatively diverse and decentralised funding channels as well as low market funding costs made possible by a solid capital position protect Finnish banks from risks related to a potential decline in deposit funding. A relatively small share of Finnish banks' funding consists of central bank funding, which also reduces the refinancing risk related to the maturity of central bank funding.

Russia's war of aggression has had only minor direct effects on Finnish banks' operations. The Finnish banking sector has not had significant direct exposures to Russia, and these were further decreased when the war broke out. According to the FIN-FSA, direct exposures to Russia amounted to roughly €25 million at the end of 2023. The effects of the war on banks' corporate credit risk position mainly arose from certain sectors, particularly as a result of the price hikes in energy and raw materials.

The war has highlighted the risk of cyber threats. Although cyber threats and information influencing were a hot topic in early 2023, the situation has remained stable. Individual denial-of-service attacks have taken place, but they have had little or no effect on the running of banks' payment systems.[78]

The financial sector is generally well-prepared especially for short-term disruptions, and the sector's preparedness for cyber threats and attacks is at a high level.[79][80] Generally speaking, the banking sector has proven its crisis resilience and handled its tasks extremely well and reliably during both the pandemic and the war.

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77 https://publications.bof.fi/bitstream/handle/10024/53298/Pankkisektori-Q4-2023.pdf (in Finnish)

78 https://www.finanssiala.fi/en/news/financial-sector-maintains-a-high-level-of-cybersecurity-maturity-because-it-is-an-attractive-target-for-attacks/

79 https://www.finanssivalvonta.fi/en/publications-and-press-releases/Press-release/2022/enhanced-monitoring-of-situation-in-financial-sector-sanctions-enforcement-and-cyber-risk-preparedness/

80 https://www.finanssiala.fi/en/news/financial-sector-maintains-a-high-level-of-cybersecurity-maturity-because-it-is-an-attractive-target-for-attacks/

3.2 Particular features of the Finnish banking sector

One of the particular features of the Finnish banking sector is its concentration. The three largest banks (OP Financial Group, Nordea and Danske Bank) granted 67.7% (68.5% in 2022) of all loans to non-financial institutions in Finland and held 76.7% (77.2% in 2022) of all deposits.

In addition to its concentrated nature, the Finnish banking sector is closely interconnected with the other Nordic countries through ownership and investments. It also relies significantly on market-based funding. Other typical features include the significant share that housing loans have of all lending, the small amount of non-performing assets and the good level of profitability by European comparison.

Overall, international credit rating agencies consider banks' operating environment to be stable, partially thanks to their good capital levels and profitability. Finnish banks' assets consist mainly of low-risk mortgage-backed claims and corporate loans. The sector has a strong loss-absorbing capacity, as is also proved by the supervisory stress tests.[81]

3.3 Green finance

The financial markets in Finland function well in general, and eligible projects receive funding on acceptable terms. For example, wind power projects carried out on project funding do not, as a rule, have problems accessing private funding.[82] In fact, the problem is partly the reverse – finance providers are finding it hard to find green transition projects to fund.

Banks can steer society in a more sustainable direction. The Finnish financial sector's role in this is discussed in more detail in the final report of the national working group on financing the green transition, published in December 2022. The final report highlights the role the financial markets play in promoting the green transition.[83]

The report brings forward that private investments in the green transition will be primarily financed from private sources. Public financial instruments will complement and leverage market financing, in particular to share the risks associated with developing and marketing new solutions.

The European Investment Fund's (EIF) loan guarantee scheme is an example of a guarantee scheme that seeks to boost clean technology and energy efficiency investments in small and medium-sized enterprises (SMEs), households and housing companies. Finland participates in this €700 million InvestEU guarantee scheme by investing €100 million in the EIF's Sustainability Guarantee product, which is a guarantee programme delivered through financial institutions. It is estimated that the leverage effect of Finland's

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[81] https://www.finanssivalvonta.fi/en/publications-and-press-releases/Press-release/2023/results-of-finnish-banks-stress-tests--banks-resilience-good-but-a-significant-weakening-of-the-operating-environment-would-erode-buffers/

[82] https://julkaisut.valtioneuvosto.fi/handle/10024/164654

[83] https://www.finanssiala.fi/en/news/banks-can-steer-society-in-a-more-sustainable-direction-final-report-on-financing-the-green-transition/

contribution is seven times higher. Finnish banks have been eager to take up on the EIF's offer.[84]
In addition, the demand for energy efficiency subsidies that promote the green transition have secured a stable footing. The government decree on energy subsidies for residential buildings in 2023 encouraged investments in improving a building's energy efficiency. Finance Finland considered this proposal to be mostly very supportable and supportive of the green transition. Finance Finland considers it important that energy efficiency subsidies are targeted towards as many different groups as possible.[85]

3.4 Banking group employees and offices

At the end of 2023, there were 185 credit institutions operating in Finland if group structures are ignored.[86] This is 11 fewer than at the end of 2022, mainly due to mergers within banking groups. 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.

Most Finnish credit institutions belong in a banking group or amalgamation. Calculated by group (foreign branches excluded), there were 12 Finnish banking groups or amalgamations at the end of 2023.

The Finnish banking sector continues to have an important role as an employer. Finnish banking groups and foreign deposit-taking banks' Finnish branches employed a total of 21,105 people at the end of 2023. This is 1,183 employees more than in the previous year.

The number of bank offices fell. At the end of 2023, Finnish banking groups had 753 offices in Finland, which is 19 fewer than the year before.

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[84] https://www.finanssiala.fi/en/news/finnish-banks-took-up-the-eifs-offer-investeu-loan-guarantee-scheme-makes-it-easier-to-finance-green-transition-investments/

[85] https://www.finanssiala.fi/lausunnot/valtioneuvoston-asetus-asuinrakennusten-energia-avustuksista-vuodelle-2023/ (in Finnish)

[86] https://www.suomenpankki.fi/en/statistics2/to-the-reporter/mfi-data-collection/list-of-mfis/

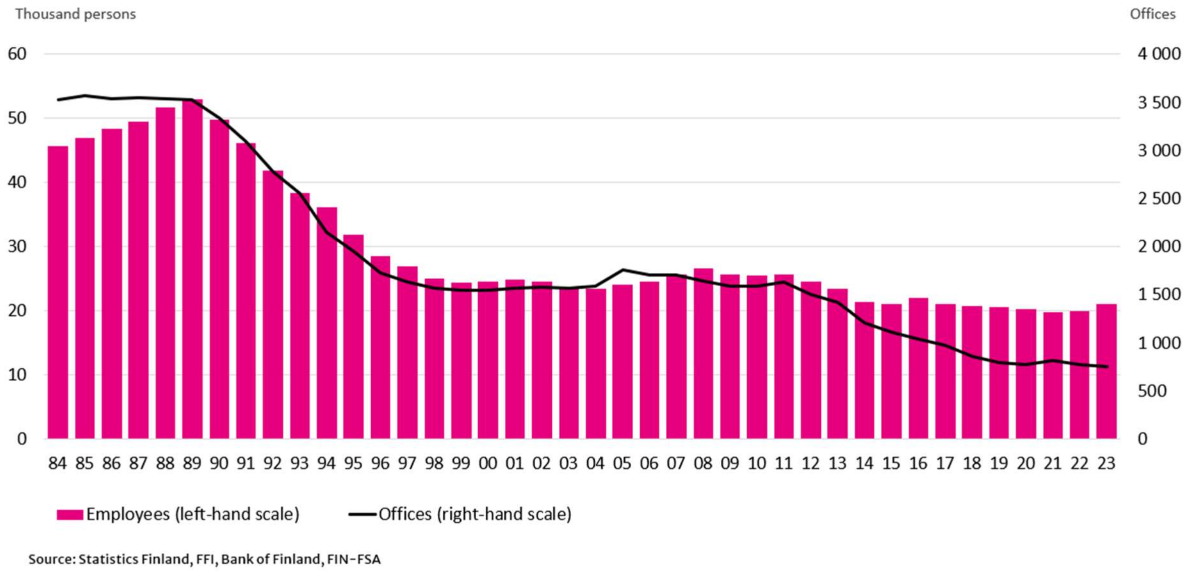
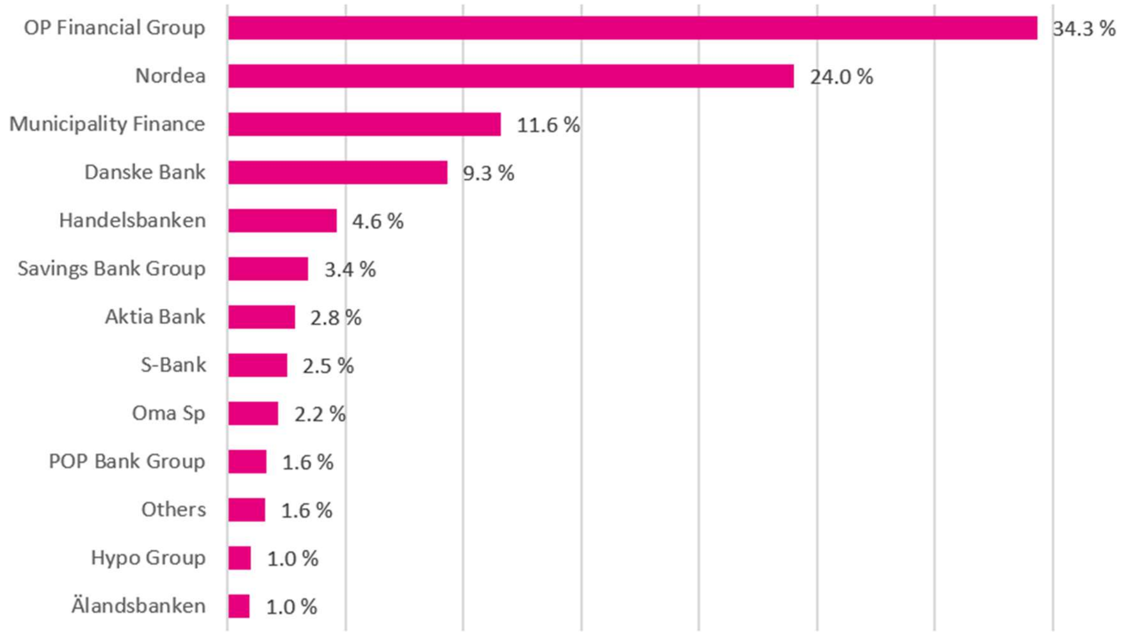


Figure 7. Bank employees and offices

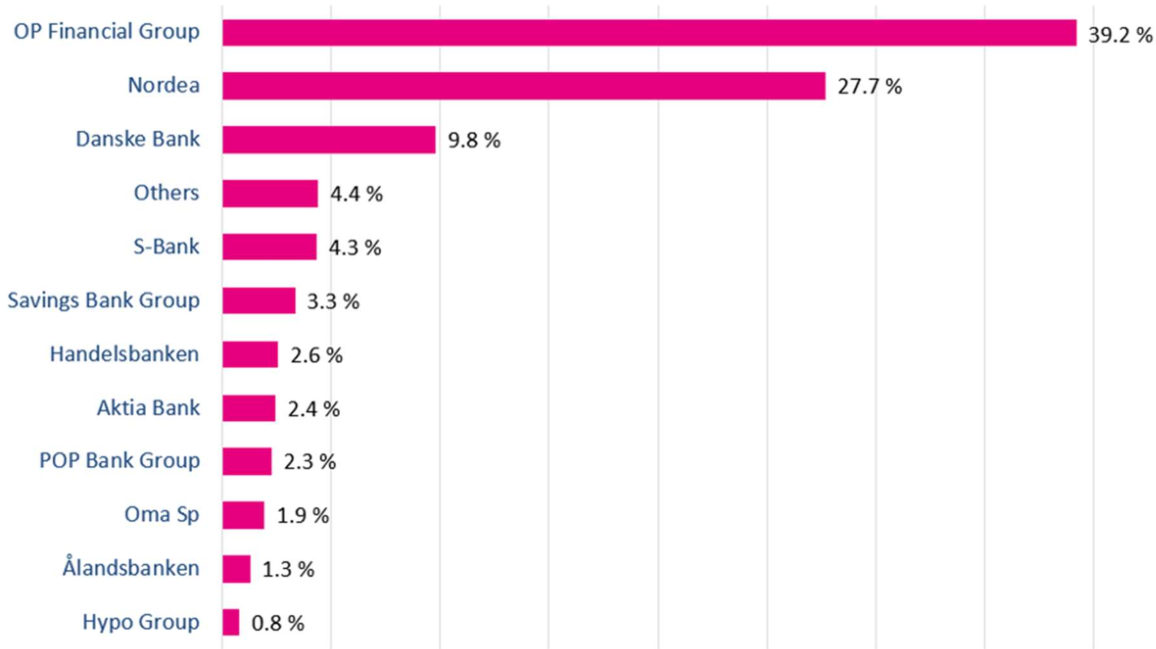
In 2023, the largest Finnish banking group in terms of market share was OP Financial Group, which commanded a market share of 34–39% (35–39% in 2022) in deposits, housing loans and corporate loans alike. The second largest banking group was Nordea Group with market shares of 24–30% (25–31% in 2022).

Credit institutions' market shares have not changed much in recent years. In granted loans, changes were very small, about one percentage point at most in 2023. In deposits, changes were very similar: OP Financial Group gained 0.8 percentage points in market shares while Danske Bank lost 0.9 percentage points.



Source: Bank of Finland

Figure 8: Credit institutions' non-MFI loans in Finland, market shares on 31 Dec 2023



Source: Bank of Finland

Figure 9: Credit institutions' non-MFI deposits in Finland, market shares on 31 Dec 2023

4 In conclusion

Banks have played a central role in economic development and stability during the coronavirus pandemic and Russia’s war of aggression. In terms of their capital position, Finnish banks have performed well. Retained earnings, additional capital buffers and a good liquidity position improve the risk position and risk tolerance of Finnish banks.

Thanks to its sound basis, the sector can offer customers flexibility in loan payments and provide other forms of support in the face of crises, thus directly benefiting the real economy. An efficient and flexible allocation of financing and a stable financial system promote economic growth and welfare. The importance of this cannot be overstated.

Banks’ ability to grant credits and offer companies and households flexibility in their loan servicing in the face of temporary difficulties must be ensured also in the future. This is especially important in Finland and elsewhere in Europe, where the financial system is very bank-centric.

The time of low interest rates is over for now. Although banks’ financial development and performance are strong, banks are not short of challenges. Their operating environments and business requirements are in constant change.

The Finnish banking sector’s profitability and return on equity is on a good level by European comparison. The cost/income ratio that measures cost-effectiveness is better than the European average. It is worth noting that banks have had a relatively low return on equity compared to many other sectors for several years.

In the future, it is particularly important that new fees, new regulation and other measures that put a strain on banks’ profitability are justified. It is vital to guarantee such conditions for banks that allow them to conduct profitable business and encourage them to develop new services and functions.

Banks and the rest of the financial sector are starting to see the effects of climate change and its mitigation. Transitioning to a low-carbon economy requires sizeable investments, which in turn require funding. Banks have a significant role in financing the transition. Banks are also integrating sustainability even more tightly into their investment and credit granting processes.

Well-functioning banks and financial markets that price risks correctly are a prerequisite for the cost-effective implementation of the green transition. Banks have a key role in offering companies sufficient funding for making energy efficient investments in low-carbon sectors and promoting green innovations in carbon-intensive industries.

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