FINNISH BANKING IN 2012

15 August 2013

FFI | Federation of Finnish Financial Services

Contents

Finnish Banking in 2012

1 Financial environment

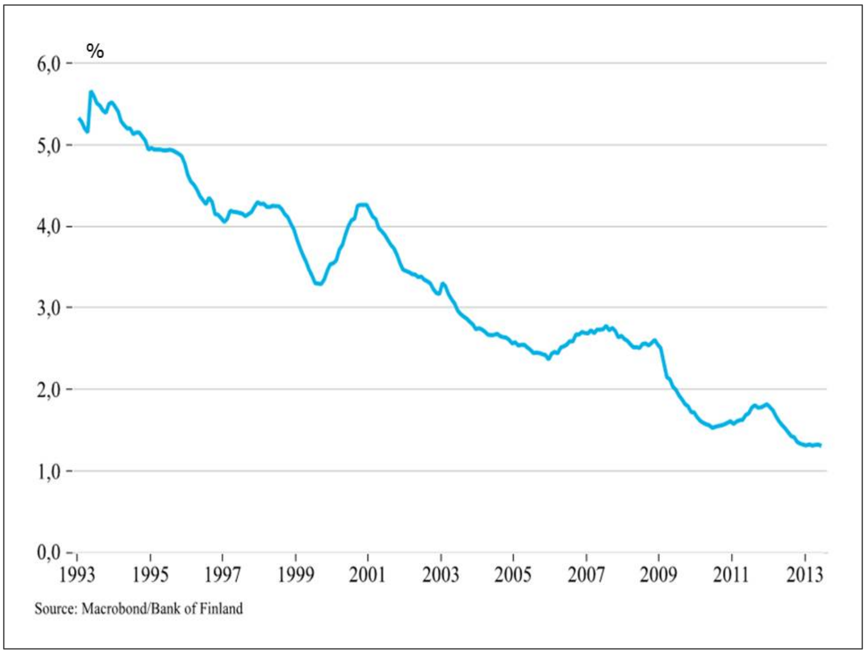
In 2012, banks in Finland faced a very challenging operating environment. The indirect effects of the European debt crisis resulted in a low interest rate level and economic recession.

The historically low interest rate level lowered banks' net interest income, which caused stress on their core profitability. At the same time the weakening Finnish economy caused unemployment to rise and decreased households' and companies' economic confidence, which reflected in the demand for credit especially towards the end of the year. Stress on profitability will continue as banks will also incur additional expenses from tightening regulation[1] and the national bank tax.

Despite the challenging environment, banking groups operating in Finland attained relatively good results in 2012. Net interest income shrank because of the low interest rate level, but on the other hand income from securities trading and investments grew due to favourable market development.

Banks' interest rate margin, which is the difference between loan and deposit portfolios and forms a bank's core operating income, has been in a downward trend for over a decade. This causes difficulties especially for smaller banks, whose business operations lean heavily on basic bank services.

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



[1] Basel III/CRDIV regulation.

2 Banks operating in Finland

There were 313 credit institutions[2] operating in Finland at the end of 2012. Credit institutions include deposit-taking banks and other credit institutions that do not take deposits, such as finance houses, credit card companies, mortgage credit banks, and Municipality Finance Plc. Credit institutions also include branches of foreign credit institutions resident in Finland.

There were 276 deposit-taking banks in Finland at year-end 2012. There were also 15 branches of foreign deposit-taking banks. The number of deposit-taking banks shrank by 18 over the course of the year, mostly due to mergers in the OP-Pohjola Group. One foreign branch (EFG Bank filial i Finland) ended its operations in Finland.

Finnish banking groups employed a total of 30,239 people. The number of employees was about a thousand people less than the year before. In these statistics a banking group's total number of employees also includes persons who work in insurance, if the parent group has units that provide insurance services. The statistics also include Finnish banking groups' branches abroad.

Branches of foreign banks resident in Finland employed a total of 1,237 persons at the end of 2012, which is nearly as much as in 2011.

Table 1. Number of credit institutions operating in Finland, 31 December 2012

Credit institutions, total	313
of which deposit-taking banks	291
1. domestic deposit-taking banks	276
1.1. commercial banks	14
1.2. OP-Pohjola Group co-operative banks	193
1.3. POP banks	36
1.4. Savings banks	33
2. Branches of foreign deposit-taking banks resident in Finland	15

[2] Source: Bank of Finland.

2.1 Market shares of credit institutions in Finland[3]

Figure 2. Credit institutions' public loans in Finland, market shares on 31 December 2012

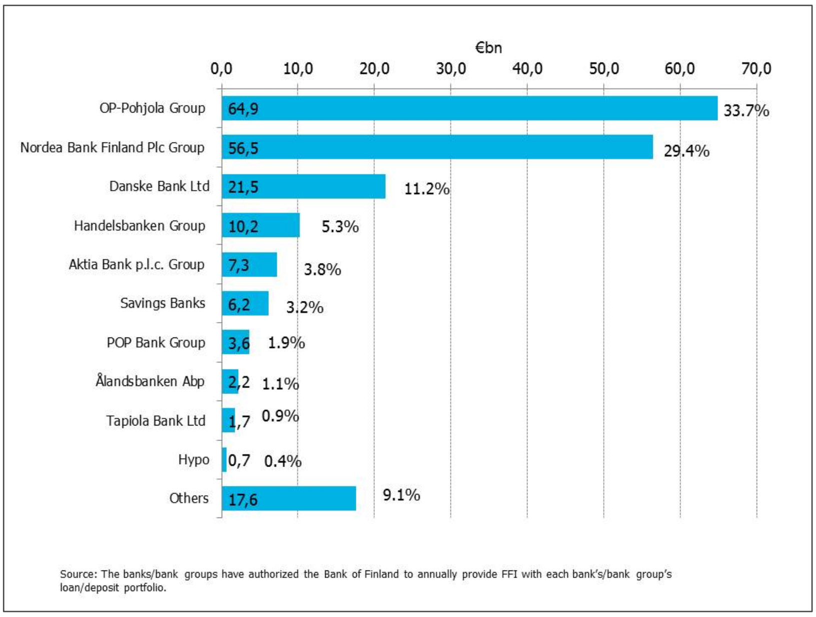
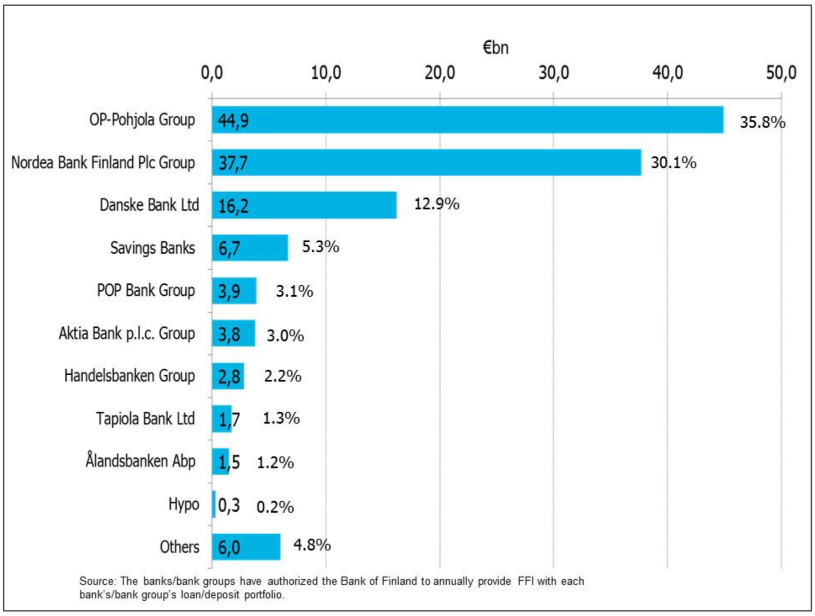


Figure 3. Credit institutions' public deposits in Finland, market shares on 31 December 2012



[3] **OP-Pohjola Group**: Pohjola Bank plc, Helsinki OP Bank, Op-Kotipankki Oyj, OP Mortgate Bank and member cooperative banks
Nordea Bank Finland: Nordea Bank Finland plc and Nordea Finance Finland Ltd
Danske Bank group: Danske Bank, Danske Bank A/S, Helsinki Branch
Handelsbanken group: Svenska Handelsbanken AB (publ), Branch Operation in Finland, Handelsbanken Finance plc and Handelsbanken Finans Aktiebolag (publ), Branch Operation in Finland
Aktia Group: Aktia Bank plc and Aktia Real Estate Mortgate Bank plc

2.2 Banking group employees and offices

	EMPLOYEES (groups) 1)		BRANCHES IN FINLAND	
	2012	2011	2012	2011
FINNISH BANKS				
OP-Pohjola Group	13 290	13 229	519	535
Nordea Bank Finland 2)	9 179	9 764	382	312
Danske Bank 3)	2 840	3 092	93	119
Aktia Group 4)	1 177	1 426	60	72
Savings Bank Group 5)	1 328	1 326	206	209
Bank of Åland Plc	682	768	17	40
POP Bank Group 6)	750	726	126	144
Evli Bank	243	276	1	2
S-Bank	286	239	1	1
FIM Bank	205	216	7	7
Tapiola Bank	179	171	63	63
Suomen Asuntohypopankki 7)	30	27	1	1
Itella Bank	27	22	-	-
Eufex Bank	23	20	1	1
Total Finnish banks	**30 239**	**31 302**	**1 477**	**1 506**
BRANCHES OF FOREIGN BANKS				
Svenska Handelsbanken AB (publ), Branch in Finland	636	621	45	45
Skandinaviska Enskilda Banken AB (publ) Helsinki Branch	249	245	1	1
Forex Bank Aktiebolag filial i Finland	120	117	13	12
Nordnet Bank AB Finnish Branch	45	49	1	1
Carnegie Investment Bank AB, Finland Branch	34	41	1	1
Swedbank AB (publ), Filial i Finland	33	39	1	1
The Royal Bank of Scotland public limited company, filial i Finland	7	13	1	1
DnB Bank ASA, filial Finland	13	17	1	1
Deutsche Bank Aktiengesellschaft, Helsinki branch	3	14	1	1
Citibank International plc, Branch in Finland	17	16	1	1
Crédit Agricole Corporate and Investment Bank Helsinki Branch	13	11	1	1
BIGBANK AS Finland Branch	46	48	1	1
EFG Bank AB, Finnish Branch	-	4	-	1
Resurs Bank, Finnish Branch	11	2	-	-
LHV Bank, Finnish Branch	10	12	1	1
Total foreign banks' branches	**1 237**	**1 249**	**69**	**69**
TOTAL	**31 476**	**32 551**	**1 546**	**1 575**

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

2) Nordea had total 382 consultation, customer service and corporate customer offices, some of which are located in the same address. The increase in the amount of branhes compared to 2011 is due to the change in office structure.

3) Danske Bank figures include emloyees of Danske Bank A/S Helsinki Branch. Danske Bank Finland and Danske Bank A/S Helsinki Branch operate in Finland as separate legal entities.

4) Aktia Vahinkovakuutus Oy was sold to swedish Folksam 1 March 2012.

5) The Savings Bank Group consists of 33 Savings Banks

6) POP Bank Group consists of 36 individual banks.

7) Employees of Suomen Asuntohypopankki Oy are included in the Mortgage Society of Finland.

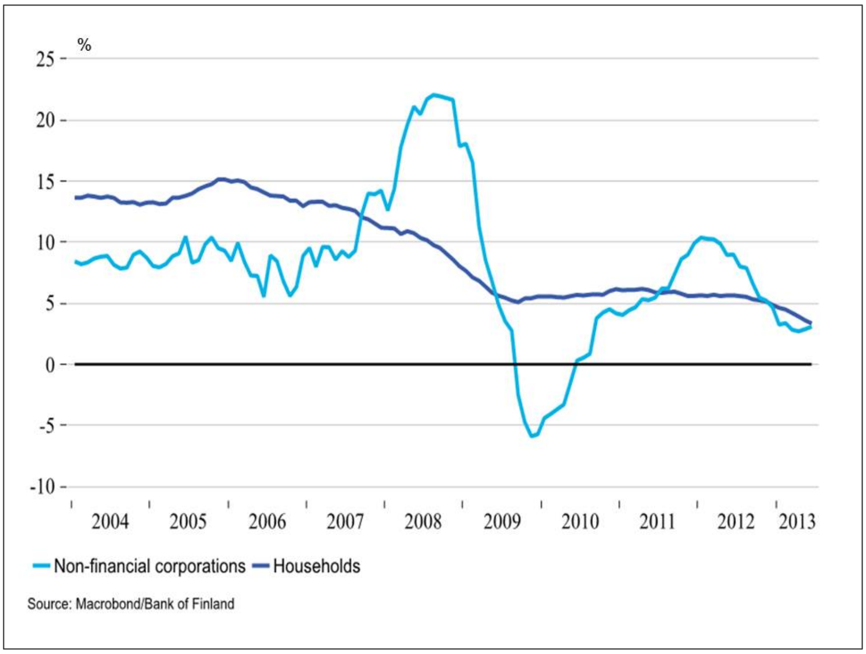
2.3 Lending stock growth slowed down toward year-end

The housing and corporate lending stocks grew rather swiftly in Finland in 2012, until they tapered off towards the end of the year. Growth of lending was nevertheless clearly above the euro area average. Finland's healthy banking sector has thus been able to support economic growth in difficult times by financing the private sector. Many euro countries' loan portfolios have been shrinking.

At the end of 2012, Finnish households held 5.6% more housing loans than at the corresponding time in 2011. Annual growth of consumer credits and other retail lending was modest all year. Annual growth of corporate and housing associations' loan portolios slowed down to 5.2% in December. The loan portfolio of housing associations has been growing swifter than the corporate loan portfolio for several years now.

Towards the end of 2012, the demand for lending decreased among companies and households alike. The demand for investment financing remained low in particular. Companies applied for credit mostly to acquire working capital and to restructure financing. In addition, large companies obtained a historically large volume of financing directly from the bond market, and therefore had less need for financing from banks. Not only has demand fallen, but the cost of financing has also increased as banks have raised their loan margins due to cost pressures. According to statistics compiled by the Bank of Finland, the margins of both housing and corporate loans rose during 2012. The Federation of Finnish Financial Services' analysis[4] predicts the demand for loans will also continue at a low level.

Figure 4. Annual growth of corporate and household loans in Finland.



[4] http://www.fkl.fi/materiaalipankki/julkaisut/Sivut/pankkibarometri.aspx

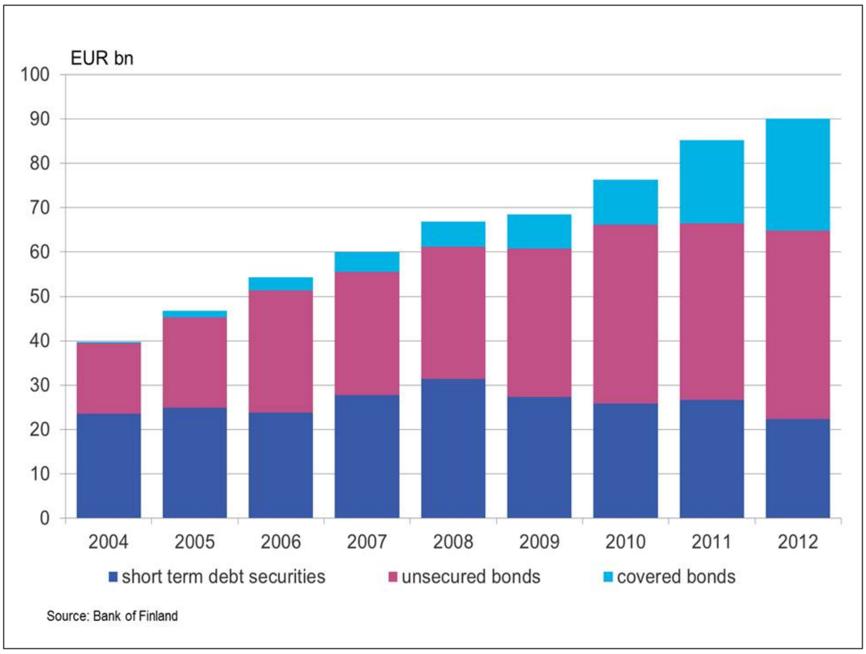
2.4 Good access to funding

Finnish banks' funding mostly forms of deposits from households and companies. Growth of the public deposit portfolio continued relatively swift in Finland compared to the rest of the euro area. It nevertheless slowed down slightly towards the end of the year. Especially households moved their funds from fixed term deposits to more risk-prone investment targets such as mutual funds and equities. Deposits are an inexpensive source of funding for banks: the average interest rate of the public deposit portfolio was 0.6% at the end of 2012.

Another significant source of funding for credit institutions are the debt securities they issue. Credit institutions operating in Finland have been more successful in acquiring funding under market conditions from the international market than most European banks. Finnish banks are financially sound and have good credit ratings. They also have healthy balance sheets, which means the proportion of problem loans is very small. Furthermore, Finnish banks have hardly any receivables in crisis countries.

Credit institutions' portfolio of debt securities grew notably during 2012. New debt securities emissions were recorded for a net amount of about €10bn, which is slightly more than in 2011. Most of the new emissions were mortgage-backed bonds. At the end of the year, the portfolio of mortgage-backed bonds totalled about €25bn, which is 37% of the credit institutions' total bond portfolio[5]. The portfolio of short-term (max 1 year) bonds has been shrinking for the past four years. Banks prepare for the upcoming regulatory reform by lengthening the structure of their funding acquisitions, because in the future they will be required a larger volume of long-term funding in proportion to the long-term loans they grant.

Figure 5. Credit institutions' debt securities based funding in Finland.



[5] If only deposit-taking banks are examined, mortgage-backed bonds comprise about 56% of all long-term debt securities.

2.5 Low interest rate level stressed profitability

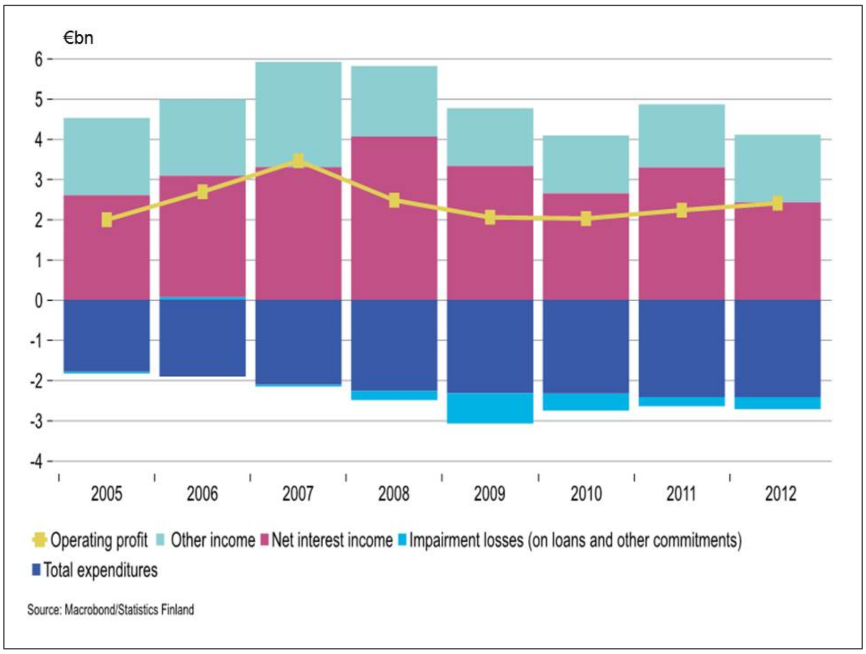
The banking sector made a total operating profit of about €2.6bn in 2012, which is 11% more than the previous year. Net interest income shrank as a result of the low interest rate level, but the income from securities trading and investment operations grew due to favourable market developments.

Banks' return on equity (ROE) and efficiency (expenses/income) improved slightly year-on-year: ROE improved to 8.5% (from 7.6% in 2011) and efficiency improved to 57.1% (from 59.7%). Banks have adapted their business operations to the changed regulatory environment for example by cutting back on expenses and improving their own efficiency.

The recorded net amount of impairment losses was about thirty percent larger than in 2011. Most impairment losses were incurred from corporate loans. Impairment losses from lending to households remained very small.

The amount of non-performing assets also remained at a low level in proportion to the lending stock: only about 0.5% of the stock of lending and guarantees was non-performing at the end of 2012[6]. Despite the weak economic situation, non-performing assets do not show any notable increase. However, companies' payment defaults have increased, and the prolonged economic recession may cause profitability difficulties to companies in the future.

Figure 6. Finnish deposit-taking banks' actual performance



[6] Source: Finnish Financial Supervisory Authority.

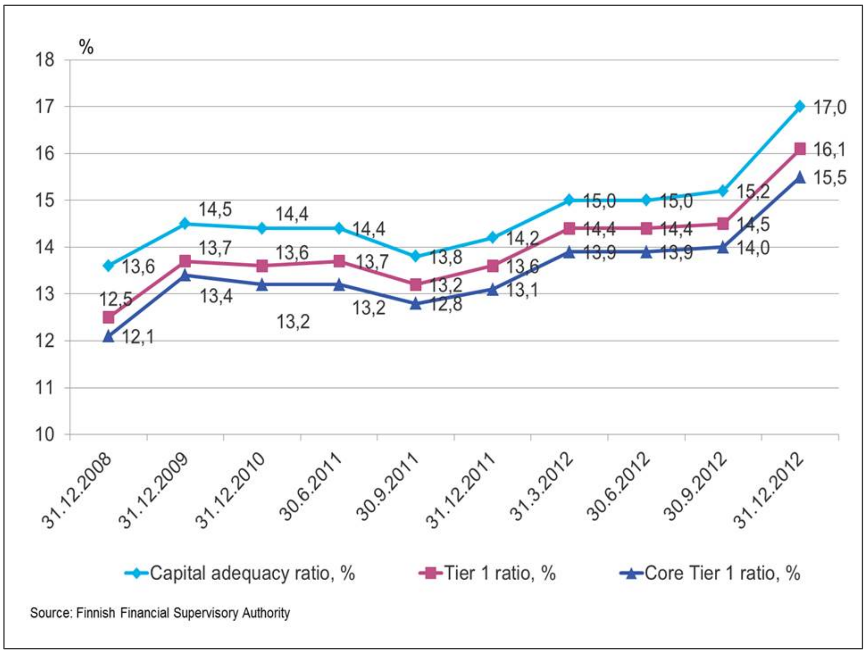
2.6 Capital adequacy improved even further

In spite of the challenging operating environment, the Finnish banking sector has maintained its capital adequacy clearly above the required minimum level. Moreover, majority of the capital base – about 95% – is of the highest quality, Core Tier 1 type.

During 2012 Finnish banks' capital adequacy improved even further, as banks adapted their operations to the new regulatory and markets environment. Banks' capital adequacy regime will be tightened with Basel III[7]. The aim of the new regulatory framework is to increase the volume and quality of banks' capital. Additional buffers may also be required for example from banks that are classified as systemically important. The new regulation will enter gradually into force between 2014 and 2019.

The Finnish banking sector's capital adequacy was 17.0% at the end of 2012, which is 2.8 percentage points higher than at the end of 2011. Capital adequacy ratio measured in terms of Core Tier 1 capital rose to 15.5%, which is extremely strong in European comparison.

Figure 7. Capital adequacy of banking sector in Finland



[7] In EU countries the regulation will be implemented through the Capital Requirement Directive and Regulation (CRD/CRRIV).

Financial statements for 2011-2012

€m

Domestic banking groups and branches of foreign banks	Net interest income			Net fee and commission income			Other operating income			Total operating income			Staff-related costs		
	2012	2011	Change	2012	2011	Change	2012	2011	Change	2012	2011	Change	2012	2011	Change
Nordea Bank Finland	1 258	1 355	-7,2 %	295	309	-4,5 %	1 271	980	29,7 %	2 824	2 644	6,8 %	-567	-592	-4,2 %
OP-Pohjola Group *)	1 003	1 030	-2,6 %	584	574	1,7 %	785	558	40,7 %	2 371	2 160	9,8 %	-749	-689	8,7 %
Danske Bank **)	358	346	3,6 %	196	202	-2,9 %	83	102	-18,6 %	638	650	-1,9 %	-169	-176	-3,8 %
Aktia	117	128	-9,1 %	60	54	10,4 %	7	-5		183	178	3,3 %	-53	-53	-0,4 %
Savings banks	144	147	-2,0 %	64	56	14,3 %	87	70	24,7 %	231	217	6,6 %	-69	-65	5,8 %
The Finnish Local Cooperative Bank Group	82	86	-4,4 %	27	24	12,2 %	12	9	26,1 %	124	123	1,2 %	-37	-36	3,3 %
Bank of Aland	41	43	-4,4 %	33	39	-15,5 %	37	17	109,8 %	110	99	11,3 %	-52	-60	-12,8 %
Tapiola Bank	19	18	5,6 %	28	29	-3,4 %	6	8	-25,0 %	53	54	-1,9 %	-13	-12	8,3 %
Hypo	3	2	78,8 %	2	2	9,5 %	6	6	-1,9 %	12	10	14,4 %			
Evli Bank	3	4	-22,5 %	43	52	-16,4 %	2	3	-42,4 %	48	59	-18,3 %	-21	-29	-26,3 %
FIM	2	2	-7,7 %	27	34	-19,4 %	2	-2		31	34	-8,7 %	-16	-15	0,6 %
Largest Nordic banking groups (ranked according to total assets)															
Nordea	5 752	5 456	5,4 %	2 504	2 395	4,6 %	1 980	1 650	20,0 %	10 236	9 501	7,7 %	-3 048	-3 113	-2,1 %
Danske Bank***)	3 330	3 159	5,4 %	1 180	1 114	5,9 %	1 896	1 549	22,4 %	6 406	5 822	10,0 %			
Handelsbanken	2 996	2 615	14,6 %	847	850	-0,4 %	185	169	9,8 %	4 028	3 633	10,9 %	-1 231	-1 101	11,8 %
SEB	2 026	1 872	8,2 %	1 565	1 570	-0,3 %	916	732	25,1 %	4 460	4 174	6,9 %	-1 677	-1 586	5,7 %
DnB Bank	3 687	3 238	13,9 %	638	613	4,1 %	947	1 275	-25,7 %	5 271	5 125	2,8 %			
Swedbank	2 425	2 107	15,1 %	1 107	1 063	4,2 %	666	602	10,7 %	4 207	3 770	11,6 %	-1 081	-1 098	-1,5 %

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 192m (176).

**) Sampo Bank changed it´s name to Danske Bank in 15.11.2012.

***) Capital adequacy ratios calculated according to Danish supervisory rules.

Source: Banks' financial statements

Other costs			Total operating expenses			Impairment losses on loans and other commitments		Operating profit/loss			Taxes		Net profit/loss for the year			Total assets			Return on equity (ROE), %	
2012	2011	Change	2012	2011	Change	2012	2011	2012	2011	Change	2012	2011	2012	2011	Change	2012	2011	Change	2012	2011
-497	-500	-0,6 %	-1 064	-1 092	-2,6 %	-144	-70	1 616	1 482	9,0 %	-430	-381	1 101,0	854,0	28,9 %	341 947	399 287	-14,4 %	11,4 %	9,6 %
-730	-703	3,8 %	-1 479	-1 392	6,3 %	-99	-101	601	525	14,5 %	-119	-89	431,0	440,0	-2,0 %	99 769	91 905	8,6 %	7,2 %	6,8 %
-248	-273	-9,4 %	-417	-449	-7,2 %	-64	-53	157	147	6,4 %	-42	-38	117,1	117,2	-0,1 %	31 813	27 406	16,1 %	5,0 %	5,0 %
-83	-77	8,5 %	-136	-130	4,9 %	-6	-11	39	37	3,7 %	-11	-8	36,5	58,0	-37,1 %	10 216	9 993	2,2 %	8,5 %	7,1 %
-88	-83	6,1 %	-158	-149	6,1 %	-6	-3	67	65	2,6 %						8 395	7 768	8,1 %	7,7 %	7,5 %
			-91	-86	5,7 %	-4	-9	29	28	5,0 %						4 679	4 478	4,5 %	4,9 %	4,5 %
-42	-43	-3,2 %	-94	-103	-8,8 %	-6	-2	10	-6		-2	0	-5,3	-2,2	140,9 %	3 637	3 400	7,0 %	6,4 %	-3,9 %
-34	-38	-3,2 %	-47	-50	-6,0 %	0	0	6	5	25,5 %			4,9	3,2	53,1 %	2 061	1 947	5,9 %	5,4 %	5,5 %
			-6	-6	2,3 %	0	0	5	4	30,0 %	-1	-1	3,1	1,6	90,7 %	912	818	11,5 %		
-23	-27	-12,5 %	-45	-55	-19,7 %	0	0	4	4	2,8 %	-1	0	3,8	3,4	11,8 %	596	582	2,4 %	4,7 %	7,0 %
-15	-16	-5,5 %	-31	-32	-3,5 %			0	2	-85,8 %	0	0	1,7	7,8	-78,4 %	230	319	-27,8 %	0,5 %	3,6 %
-2 138	-2 192	-2,5 %	-5 186	-5 219	-0,6 %	-933	-735	4 117	3 547	16,1 %	-991	-913	2 634,0	2 663,0	-1,1 %	677 420	716 204	-5,4 %	11,6 %	10,6 %
			-3 572	-3 488	2,4 %	-1 683	-1 770	1 151	564	103,9 %	-513	-333	231,3	492,0	-53,0 %	467 120	460 628	1,4 %	6,5 %	3,6 %
-636	-612	8,0 %	-1 866	-1 713	9,0 %	-144	-90	2 018	1 831	10,2 %	-349	-484	1 347,1	1 133,2	18,9 %	278 240	275 400	1,0 %	14,6 %	13,4 %
-1 040	-1 018	2,3 %	-2 717	-2 604	4,4 %	-108	86	1 635	1 656	-1,2 %	-240	-326	1 362,0	924,8	47,3 %	285 884	264 742	8,0 %	11,5 %	12,3 %
-2 590	-2 400	7,9 %	-2 590	-2 400	7,9 %	-425	-442	2 256	2 283	-1,2 %	-598	-681	1 603,7	1 459,8	9,9 %	273 996	243 094	12,7 %	11,3 %	13,5 %
-866	-939	-7,8 %	-1 947	-2 038	-4,4 %	-79	212	2 125	1 708	24,4 %	-160	-404	1 301,7	784,6	65,9 %	215 218	208 378	3,3 %	14,4 %	12,2 %

Income/cost ratio, %		Capital adequacy ratio, %		Tier 1 capital ratio, %		Core Tier 1 -ratio, %	
2012	2011	2012	2011	2012	2011	2012	2011
38 %	41 %	18,8 %	13,4 %	18,0 %	12,8 %	18,0 %	12,8 %
57 %	56 %	14,1 %	14,0 %	14,1 %	14,0 %	13,5 %	13,3 %
65 %	69 %	15,8 %	14,4 %	15,8 %	14,4 %	13,7 %	12,5 %
74 %	73 %	20,2 %	16,2 %	11,8 %	10,6 %	11,0 %	9,8 %
68 %	69 %	22,4 %	22,5 %	18,7 %	19,5 %	18,7 %	19,5 %
73 %	70 %	21,6 %	21,4 %	21,3 %	21,3 %	17,7 %	17,6 %
85 %	104 %	16,1 %	12,8 %	10,9 %	8,4 %		
80 %	90 %	13,9 %	15,3 %	10,9 %	10,5 %	10,9 %	10,5 %
55 %	62 %	17,0 %	16,7 %	15,9 %	15,4 %		
90 %	90 %	14,6 %	14,5 %				
99 %	94 %	20,1 %	22,0 %				
51 %	55 %	12,7 %	11,1 %	11,2 %	10,1 %	10,2 %	9,2 %
55,8 %	59,9 %	21,3 %	17,9 %	18,9 %	16,0 %	14,5 %	11,8 %
46 %	47 %	10,1 %	10,7 %	10,2 %	9,5 %		
61,0 %	62,0 %	11,5 %	12,5 %	11,7 %	13,0 %	10,1 %	11,3 %
49 %	46 %	12,4 %	11,5 %	10,5 %	9,3 %	10,8 %	9,9 %
46,0 %	54,0 %	11,9 %	12,3 %	11,3 %	11,2 %	10,5 %	10,2 %

Finanssialan Keskusliitto
Bulevardi 28
00120 Helsinki
www.fkl.fi

FK | Finanssialan Keskusliitto