FINNISH BANKING 2014

17 June 2015

FK | Finanssialan Keskusliitto

Contents

FINNISH BANKING IN 2014

1 Financial environment

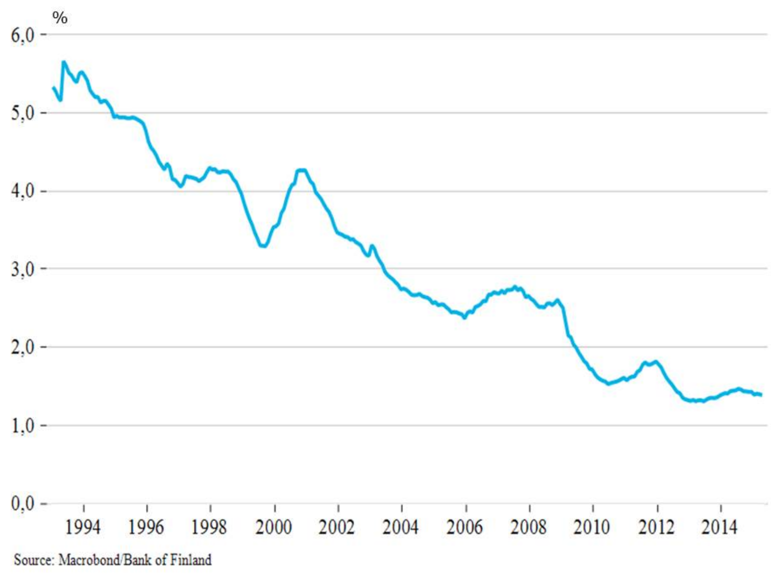
Despite the weak economic situation, the Finnish banking sector maintained good results and strengthened its capital adequacy in 2014. Banks have continued their adaptive measures of cutting back on personnel, closing offices, making restructurings and renewing their business models. These changes stem from tightened regulation, weak macro-economic development, low overall interest rate level, and services moving increasingly online.

The tighter capital adequacy and liquidity requirements imposed by the CRR and CRD IV entered partially into force in 2014. They have encouraged banks to be careful with risk-prone lending and have thus manifested as tightening lending conditions. Banks operating in Finland have good capital adequacy, enabling access to inexpensive funding, which has supported their competitiveness. The strength of the banking sector has made it possible to continue lending in Finland, thereby supporting the real economy under these challenging conditions.

In October 2014, the European Commission adopted a delegated act on banks' liquidity coverage requirement, set to enter gradually into force as of October 2015. Assets such as extremely high-quality covered bonds are now accepted in the liquidity coverage buffer in addition to government bonds.

In early November, 2014, the three largest banks operating in Finland (OP Group, Nordea Bank Finland and Danske Bank Finland) were moved under the direct supervision of the European Central Bank as a result of the new euro area Banking Union. The direct supervision of smaller banks stayed under the Finnish Financial Supervisory Authority.

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



2 Banks operating in Finland

At the end of 2014, there were 291 credit institutions operating in Finland.[1] This is 7 less than at the end of 2013. Credit institutions include deposit banks as well as non-deposit-taking institutions such as finance houses, credit card companies, mortgage credit banks, and Municipality Finance Plc.

The Finnish banking sector went through significant structural changes during 2014. S-Bank and LocalTapiola Bank concluded their merger, as agreed in 2013, and the new S-Bank launched its operations in May 2014. Eufex Bank and the private bankers Elite Pankkiiriliike merged in April 2014 as planned, becoming Elite Asset Management Ltd.

The majority of banks in the Savings Bank Group formed a group structure at the end of 2014. Savings banks left outside of the group founded a new bank called Oma Säästöpankki. Vöyri and Saaristo Savings Banks merged to Aktia Bank. POP Banks also announced that they were beginning the preparations for an amalgamation. Among local co-operative banks, some mergers also crossed group borders, as a small number of POP Bank Group members merged with OP Group.

Three branches of foreign credit institutions began their operations in Finland in 2014: TF Bank Ab, Svea Ekonomi AB, and BNP Paribas Fortis SA/NV.

Finnish banking groups employed a total of 26,956 people at the end of 2014. The number of employees dropped by more than two thousand from 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.

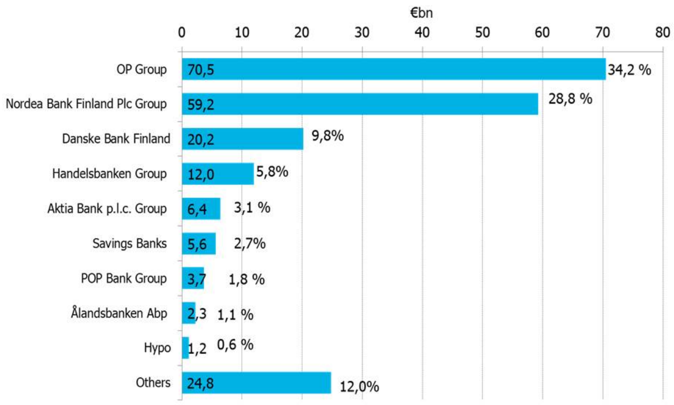
Finnish branches of foreign deposit-taking banks employed a total of 1,231 persons at the end of 2014, which is about 50 persons more than in 2013.

At the end of 2014, Finnish banking groups had 1,128 offices in Finland, which is 72 offices less than the year before. In addition, branches of foreign deposit banks had 76 Finnish offices.

[1] Source: Bank of Finland

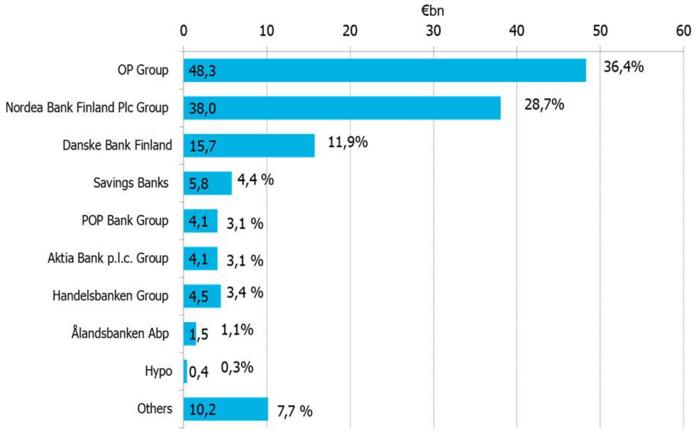
2.1 Market shares of credit institutions in Finland[2]

Figure 2. Credit institutions' loans (non-MFI) in Finland, market shares on 31 December 2014



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' deposits (non-MFI) in Finland, market shares on 31 December 2014



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.

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[2] **OP Group:** Pohjola Bank, OP Bank Helsinki, OP Card Company, OP Mortgage Bank, OP Process Services, and banks in the amalgamation of cooperative banks
Nordea Bank Finland: Nordea Bank Finland and Nordea Finance Finland
Danske Bank: Danske Bank plc and Helsinki Branch of Danske Bank A/S
Handelsbanken group: Svenska Handelsbanken AB (publ), filialverksamheten i Finland, Handelsbanken Finans Abp, Handelsbanken Finans Aktiebolag (publ), filialverksamheten i Finland ja Stadshypotek AB(publ), filialverksamheten i Finland
Aktia Bank Group: Aktia Bank Abp and Aktia Hypoteksbank Abp (Vöyri Savings Bank and Saaristo Savings Bank merged to Aktia in summer 2014 and are included in the figures of Aktia)
Savings Bank Group: Savings banks and Central Bank of Savings Banks Finland Ltd (excl. Oma Säästöpankki, which is included in category "others")
POP Banks: POP Banks and Bonum Bank
Others: other credit institutions operating in Finland, e.g. S-Bank and Municipality Finance

2.2 Banking group employees and offices

	EMPLOYEES (group [1])		BRANCHES IN FINLAND	
	2014	2013	2014	2013
FINNISH BANKS				
OP Group	12 356	12 856	459	487
Nordea Bank Finland [2]	7 434	8 876	190	200
Danske Bank [3]	2 343	2 391	62	62
Aktia	1 068	1 114	52	58
Savings Banks	1 161	1 365	151	195
Ålandsbanken	667	708	11	13
POP Bank -group	717	719	107	111
Evli Bank	242	245	2	2
S-Pankki [4]	715	341	55	1
LocalTapiola Bank	-	230	-	63
FIM group	-	169	-	7
Hypo Group	55	46	1	1
Oma Säästöpankki	198	-	38	-
Total Finnish banks	**26 956**	**29 060**	**1 128**	**1 200**
BRANCHES OF FOREIGN BANKS OPERATING IN FINLAND				
Svenska Handelsbanken AB (publ), Branch in Finland	642	641	46	45
Skandinaviska Enskilda Banken AB (publ) Helsinki Branch	241	228	1	1
Forex Bank Aktiebolag filial i Finland	130	130	15	15
Nordnet Bank AB Finnish Branch	49	43	1	1
Carnegie Investment Bank AB, Finland Branch	19	19	1	1
Swedbank AB (publ), Filial i Finland	31	25	1	1
The Royal Bank of Scotland public limited company, filial i Finland	4	4	1	1
DnB Bank ASA, filial Finland	14	14	1	1
Deutsche Bank Aktiengesellschaft, Helsinki branch	4	2	1	1
Citibank International plc, Branch in Finland	16	16	1	1
Crédit Agricole Corporate and Investment Bank Helsinki Branch	12	13	1	1
BIGBANK AS Finland Branch	20	20	1	1
Resurs Bank, Finnish Branch	21	15	2	1
Avida Finans Ab, Finnish Branch	9	6	1	1
LHV Bank, Finnish Branch	8	8	1	1
TF Bank AB	11	-	1	-
Total foreign banks' branches	**1 231**	**1 184**	**76**	**73**
TOTAL	**28 187**	**30 244**	**1 204**	**1 273**

1) Bank Groups include foreign branches. Insurance business and asset management are included in the figures where part of the group.

2) Includes branches in Baltics.

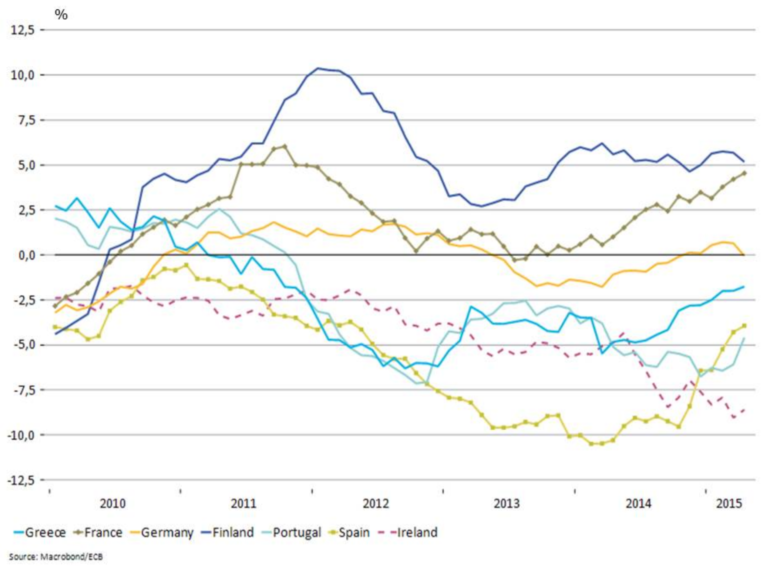
3) Danske Bank figures include emloyees of Danske Bank A/S Helsinki Branch. Danske Bank Finland and Danske Bank A/S Helsinki Branch

4) Includes branches of LocalTapiola Bank and FIM group.

2.3 Fast growth in corporate lending

The corporate loan portfolio in Finland went up by 5% in 2014, growing much faster than the European average (figure 4). In Finland, loans to housing companies are included in corporate loans. They amounted to €18bn of the total €67bn portfolio.

Figure 4. Annual growth of loans to non-financial corporations in the euro area, %



Demand for corporate loans picked up slightly in 2014[3], but still remained on a weak level. Corporate funding was taken mainly as working capital and for financial restructurings, and investments stayed sparse.

Moreover, corporate funding became slightly more expensive as banks raised their margins in response to new regulation and other costs. The price of corporate funding is still low in Finland; the average interest rate for new corporate loans was 2.0% in Finland, and 2.2% in the euro area.[4]

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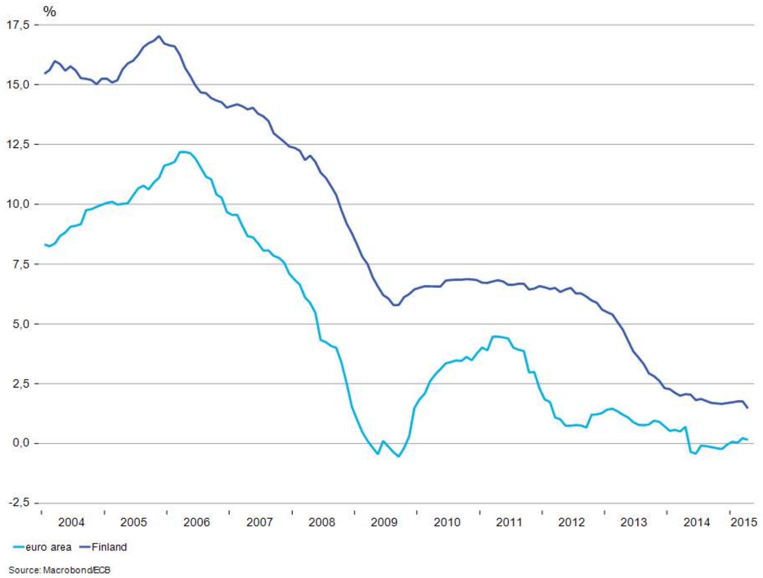
3 https://www.fkl.fi/materiaalipankki/julkaisut/Julkaisut/Pankkibarometri_IV_2014.pdf
4 Source: Bank of Finland

2.4 Muted demand for housing loans

Annual growth in housing loans was about 1.7%, tapering off toward the end of the year. The demand for new housing loans was nevertheless faster in Finland than on average in the euro area.[5]

Figure 5. Annual growth of housing loans in Finland and in the euro area.



New housing loans were taken out for about €15bn in 2014, which is nearly the same amount as in 2013.

According to an FFI survey, the demand for housing loans stayed clearly below long-term average for most of the year, until it made a very slight increase toward the end of the year. Consumer confidence was low and unemployment increased.

The interest margins of new housing loans shrank slightly and reached 1.4% in December 2014. The margins have more or less doubled since 2011.[6] Despite this, Finns pay extremely low interest rates for housing loans compared to the euro area average. The average interest rate was 1.6% in Finland and 2.8% in the euro area.[7]

An FFI survey showed that average housing loan amounts have shrunk in comparison with recent years.[8] Average repayment periods have also become shorter and are now slightly less than 17 years. The most typical repayment period for a new loan is 20 years.

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[5] France carried out a securitisation undertaking in 2014, transferring housing loans from bank balance sheets to outside of the euro area, which had an overall negative effect in this respect in the euro area. Source: Bank of Finland.

[6] Source: Bank of Finland

[7] Source: Bank of Finland

[8] *Saving, borrowing and paying in Finland*; spring 2014

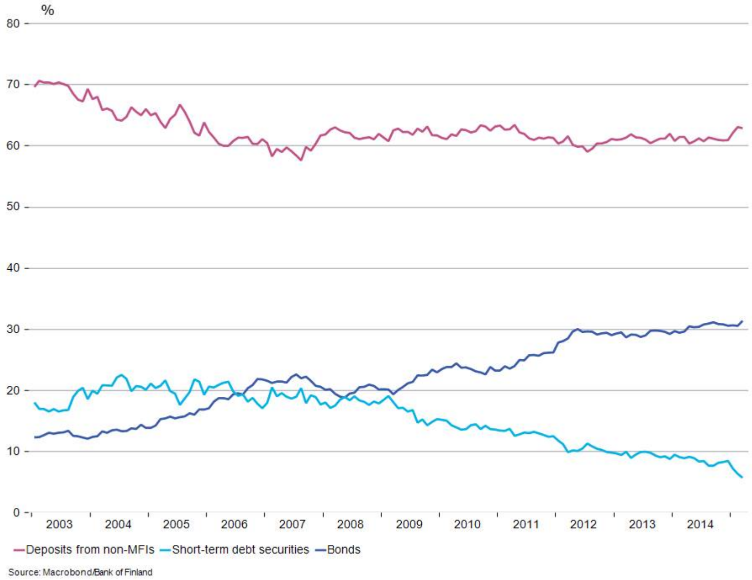
2.5 Proportion of long-term funding grew

Approximately 61% of Finnish banks' funding comes from non-MFI deposits, but there is much variation between credit institutions: some fund their operations entirely with deposits, while others do not take any deposits. In 2014, non-MFI deposits grew by about 3.7% compared to the previous year and totalled €151bn in December. More than half of these were households' deposits, which totalled about €81bn. Proportionally the amount of deposits shrank slightly as a source of funding while long-term bonds grew compared to 2013.

The portfolio of bonds issued by credit institutions grew by 8% during 2014, reaching €97bn. Covered bonds comprised €29bn of the portfolio.

Bonds with a maturity period longer than one year were the fastest growing source of funding. Short-term bonds (maturity less than one year) only made up less than 10%. Their proportion has been decreasing for several years now. By favouring longer average maturities in funding, banks prepare for upcoming regulation that requires more long-term funding in proportion to granted loans. Basel III net stable funding ratio (NSFR) requirements potentially enter into force in Europe in 2018.

Figure 6. Credit institutions funding in Finland; proportions from total funding (%)



2.6 Banking sector's profitability improved

Aggregate operating profits of the banking sector increased by 12% from 2013. While most credit institutions managed to raise their operating profits, there was some divergence in their results.

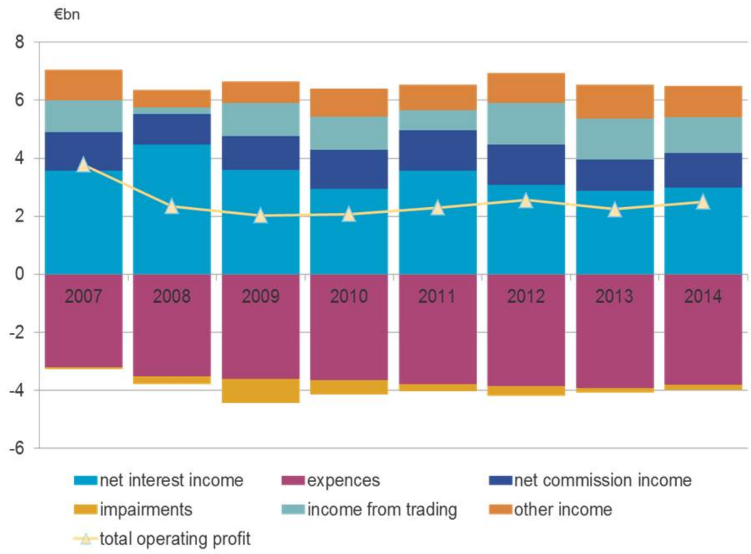
Net interest income strengthened from the previous year with about 4%. This was aided especially by funding becoming less expensive. The dip in market interest rates has weighed down the average interest rates of deposits: the average interest rate of public deposits shrank 0.12 percentage points to 0.33% in 2014.[9]

As the challenging market conditions continued, Finnish banks diversified their operations and gave more focus for example to commission income and re-pricing. Banks' commission income grew about 8% from the previous year.

Banks' aggregate operating costs grew by 2%. Banking tax was collected for a total of €138m.

In 2014, impairment losses began to grow once more, which had a negative effect on overall performance. Impairment losses from loans and other undertakings grew 22% to a total of €184m. In relation to the entire loan portfolio, the level of impairment losses was nevertheless moderate.

Figure 7. Results of the Finnish banking sector



Source: Finnish FSA

The importance of net interest income depends on each bank's business model, and can be anything from 3% to 62% of a bank's total profits (figure 8), averaging at 46%. The number is low in international comparison. This is, however, explained by the fact that a relatively large part of the total returns of OP Group and Aktia comes from the insurance companies that belong in the same groups. In addition, Nordea Bank Finland has centralised its securities operations into Finland. It has not only increased their proportion of trading and investing profits in Finland, but has also given a considerable boost to corporate tax paid in Finland.

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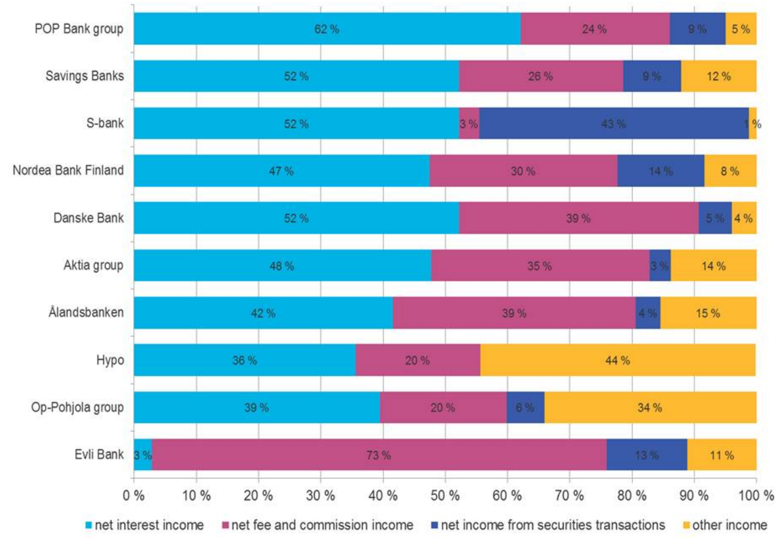
[9] Source: Bank of Finland.

Figure 8. Breakdown of banks' profits in 2014



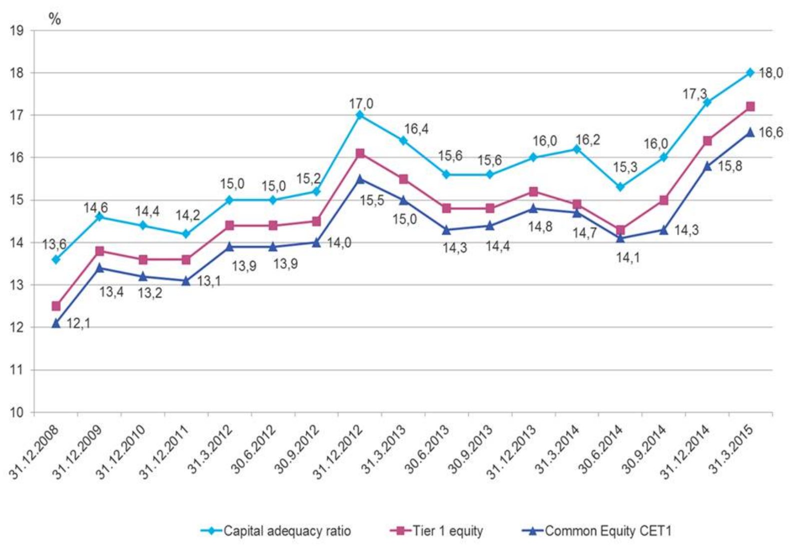
Source: Finnish FSA

2.7 Banks strengthened their capital adequacy

In 2014, the Capital Requirements Regulation (CRR) and Capital Requirements Directive (CRD IV) based on international Basel III framework entered into force. The new regulation not only requires larger capital bases from banks, but also better quality capital.

Obtained capital and accumulated profit strengthened the Finnish banking sector's capital adequacy during 2014. At the end of the year, the capital adequacy ratio of the Finnish banking sector was a healthy 17.3%. Measured in Core Tier 1 Capital, the ratio was 15.8%.

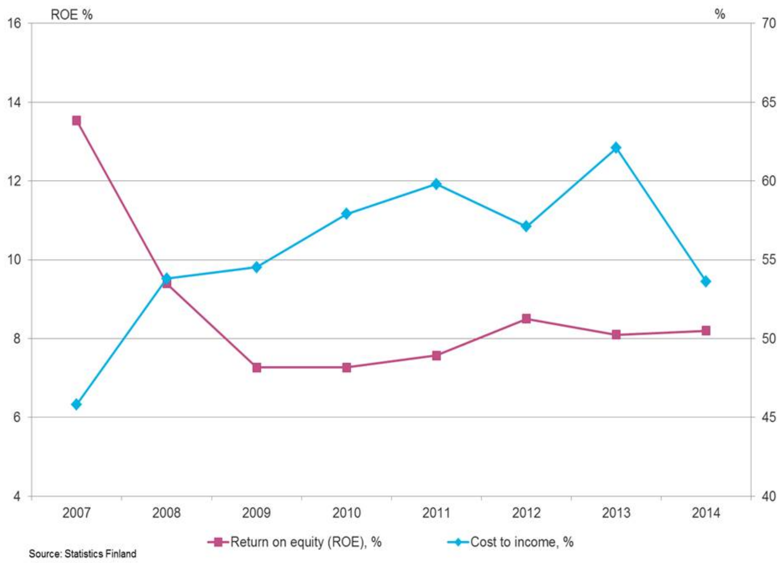
Figure 9. Capital adequacy of the banking sector in Finland



Source: Finnish FSA

The Finnish banking sector's return on equity (ROE) improved slightly to 8.2% (8.0% in 2013). Its cost ratio (costs divided by profits) also notably improved after a long period of negative development, reaching 54% in 2014.

Figure 10. Finnish deposit banks' ROE and cost ratio



Financial statements for 2013-2014

€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		
	2014	**2013**	Change	**2014**	**2013**	Change	**2014**	**2013**	Change	**2014**	**2013**	Change	**2014**	**2013**	Change
Nordea Bank Finland	1 189	1 183	1 %	75	-113	166 %	1 014	1 154	-12 %	2 278	2 224	2 %	-559	-553	-1 %
OP Group	1 043	915	14 %	727	694	5 %	928	884	5 %	2 786	2 577	8 %	-741	-791	6 %
Danske Bank	315	318	-1 %	233	230	1 %	56	74	-24 %	604	622	-3 %	-141	-164	14 %
Aktia	103	113	-9 %	75	71	6 %	35	41	-15 %	212	224	-5 %	-70	-78	11 %
Savings banks	122	111	10 %	63	59	8 %	38	55	-31 %	224	225	0 %	-68	-65	-4 %
POP Banks	82	79	4 %	32	30	6 %	15	15	-1 %	129	124	4 %	-37	-37	0 %
Bank of Aland	49	42	17 %	46	42	9 %	25	23	8 %	121	108	12 %	-53	-52	-3 %
S-Bank	70	56	25 %	45	24	90 %	33	26	25 %	148	106	39 %	-43	-23	-91 %
Hypo	6	5	22 %	4	3	32 %	7	6	18 %	17	14	22 %	-10	-8	-21 %
Evli Bank	1	1	105 %	55	51	7 %	4	4	5 %	60	56	8 %	-27	-26	-2 %
Largest Nordic banking groups (ranked according to total assets)															
Nordea	5 482	5 525	-1 %	2 842	2 642	8 %	1 900	1 724	10 %	10 224	9 891	3 %	-3 149	-2 978	6 %
Danske Bank	3 100	2 960	5 %	1 407	1 270	11 %	1 377	1 099	25 %	5 884	5 329	10 %	-1 769	-1 795	-1 %
DnB Bank	3 889	3 867	1 %	1 073	1 094	-2 %	947	1 011	-6 %	5 909	5 972	-1 %	-1 301	-1 448	-10 %
Handelsbanken	2 994	3 083	-3 %	940	902	4 %	276	214	29 %	4 211	4 199	0 %	-1 293	-1 318	-2 %
SEB	2 192	2 176	1 %	1 792	1 695	6 %	1 175	932	26 %	5 159	4 803	7 %	-1 512	-1 622	-7 %
Swedbank	2 489	2 546	-2 %	1 231	1 171	5 %	600	552	9 %	4 320	4 270	1 %	-1 039	-1 006	3 %

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

Source: Banks' financial statements

Other costs, depreciations and amortisations			Total operating expenses			Impairment losses on loans and other commitments			Operating profit/loss			Taxes			Total profit (loss)			Total assets		
2014	2013	Change	2014	2013	Change	2014	2013	Change	2014	2013	Change	2014	2013	Change	2014	2013	Change	2014	2013	Change
-525	-506	4 %	-1 084	-1 059	2 %	-60	-53	13 %	1 134	1 113	2 %	-232	-285	-19 %	902	828	9 %	346 198	304 761	14 %
-851	-806	6 %	-1 592	-1 598	0 %	-88	-84	5 %	915	701	31 %	-308	-36	756 %	608	665	-9 %	110 427	100 991	9 %
-232	-261	-11 %	-373	-425	-12 %	-17	3	-719 %	214	200	7 %	-44	-54	-18 %	169	145	16 %	29 692	26 680	11 %
-75	-80	-6 %	-145	-157	-8 %	-2	-3	-37 %	68	65	5 %	-13	-13	2 %	55	52	5 %	10 707	10 934	-2 %
-85	-84	1 %	-153	-149	2 %	-11	-6	80 %	63	71	-11 %	-17	-5	226 %	47	66	-29 %	8 401	7 717	9 %
-55	-53	5 %	-92	-90	3 %	-5	-4	29 %	32	30	5 %	-	-	0 %	-	-	-	4 974	4 788	4 %
-43	-42	3 %	-96	-94	3 %	-2	-4	-56 %	22	10	115 %	-5	-3	78 %	18	8	129 %	4 292	3 887	10 %
-87	-56	56 %	-130	-78	66 %	-3	0	0 %	15	28	-47 %	-1	-7	-84 %	13	20	-33 %	4 762	3 188	49 %
0	0	0 %	-10	-8	21 %	0	0	0 %	7	6	24 %	-1	-1	0 %	6	5	29 %	1 500	1 220	23 %
-23	-22	4 %	-50	-48	3 %	0	0	0 %	10	7	36 %	-2	-1	92 %	8	6	33 %	490	576	-15 %
-2 217	-2 062	8 %	-5 366	-5 040	6 %	-534	-735	-27 %	4 324	4 116	5 %	-992	-1 000	-1 %	3332	3116	7 %	669 342	630 434	6 %
-1 268	-1 396	-9 %	-3 037	-3 190	-5 %	-1 595	-551	189 %	1 051	1 349	-22 %	-535	-395	36 %	516	954	-46 %	463 785	432 622	7 %
-1 173	-1 354	-13 %	-2 475	-2 802	-12 %	-190	-261	-27 %	3 244	2 909	12 %	-776	-666	17 %	2468	2243	10 %	293 004	287 637	2 %
-611	-654	-7 %	-1 904	-1 972	-3 %	-195	-136	43 %	2 112	2 091	1 %	-447	-453	-1 %	1664	1638	2 %	299 870	280 471	7 %
-921	-955	-3 %	-2 434	-2 576	-6 %	-159	-132	21 %	2 566	2 095	22 %	-454	-387	17 %	2112	1708	24 %	281 193	280 484	0 %
-896	-918	-2 %	-1 935	-1 924	1 %	-74	-108	-31 %	2 311	2 237	3 %	-473	-474	0 %	1838	1763	4 %	225 838	205 902	10 %

Return on equity (ROE), %		Cost/income ratio, %		Capital adequacy ratio, %		Tier 1 capital ratio, %		Core Tier 1 -ratio, %	
2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
34,5 %	8,8 %	48 %	48 %	15,2 %	15,8 %	14,2 %	15,0 %	15,1 %	15,0 %
8,1 %	8,9 %	57 %	62 %	17,3 %	19,8 %	15,5 %	17,5 %	15,1 %	17,1 %
6,9 %	6,1 %	62 %	68 %	14,5 %	16,7 %	14,5 %	16,7 %	13,9 %	15,3 %
8,3 %	8,1 %	71 %	72 %	19,1 %	19,3 %	14,6 %	-	14,6 %	12,3 %
5,8 %	8,9 %	64 %	63 %	18,6 %	19,6 %	16,9 %	15,8 %	16,9 %	15,8 %
-	-	72 %	73 %	22,0 %	21,3 %	-	-	21,0 %	-
8,7 %	3,8 %	80 %	87 %	12,1 %	13,5 %	10,9 %	10,8 %	10,9 %	10,8 %
4,2 %	9,1 %	87 %	74 %	16,1 %	14,7 %	14,3 %	11,3 %	14,3 %	11,3 %
6,7 %	5,8 %	56 %	57 %	15,2 %	14,7 %	-	-	15,1 %	14,7 %
15,2 %	11,5 %	80 %	90 %	15,2 %	13,9 %	-	-	-	-
11,6 %	11,0 %	53 %	56 %	20,7 %	18,1 %	17,6 %	15,7 %	15,7 %	14,9 %
2,6 %	5,0 %	72 %	60 %	19,3 %	21,4 %	16,7 %	19,0 %	15,1 %	14,7 %
13,8 %	13,1 %	42 %	40 %	15,2 %	14,0 %	13,0 %	12,1 %	12,7 %	11,8 %
13,4 %	13,9 %	50 %	50 %	25,6 %	21,6 %	22,1 %	21,5 %	20,4 %	19,2 %
15,3 %	13,1 %	47 %	54 %	22,2 %	18,1 %	19,5 %	17,1 %	16,3 %	15,0 %
15,0 %	12,5 %	45 %	45 %	25,5 %	20,7 %	22,4 %	19,6 %	21,2 %	18,3 %

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