FORWARD-LOOKING FINANCIAL SECTOR 2017

The Finnish financial sector is a strong and responsible builder of wellbeing. A healthy, well-functioning and forward-looking financial sector is absolutely vital for maintaining economic growth and welfare.

Banks, life and non-life insurers, pension insurance companies, asset managers, finance houses and securities dealers conduct their business responsibly and boost Finland's prosperity. The services of the sector have essential importance for the growth opportunities and competitiveness of Finnish business and industry.

The financial sector wants to be a modern, constructive and valuable partner in the Finnish society.

financefinland.fi

MAIN POSITIONS

Digitalisation presents great opportunity for the financial sector — new digital innovations make customers' everyday lives easier.

New kinds of competitors and start-ups are important operators in the evolving financial sector. The new competition offers new forms of collaboration between different participants.

The financial sector wants to respond to customers' wishes for better service availability and more flexible service hours.

Flexible working hours are also in the interests of financial sector employees as work in the sector becomes increasingly virtual and networked. The aim is to secure competitiveness, increase productivity, and promote local agreement at workplaces.

Finland is a proactive participant in the European Union.

Finland can best further its national interests by being a strong participant in the EU and managing its own affairs with the same level of diligence as it expects other Member States to do. The stability and reliability of the European financial markets can be secured with a single set of rules for all, uniform supervision, and high-quality investor protection.

We must pursue regulatory fitness: less but better regulation both nationally and in the entire EU.

The Finnish Government has not stuck to its promise to avoid additional national regulation while implementing EU regulations. Finland must put a stop to the wave of additional national regulation to maintain the financial sector's ability to support economic growth with its services..

The Banking Union will increase stability of the euro area financial market.

Single supervision and the single rulebook will promote a level playing field. It is important to minimise risk sharing in the Banking Union. Owner and investor liability must be the primary source of funding in solving banking crises.

Economic, environmental and political changes create new risks and need for insurance.

Non-life insurance products can efficiently protect against current and future risks that may entail complicated liability issues.

Statutory earnings-related pension is part of Finnish social security.

The decision-making power regarding earnings-related pensions therefore must remain in Finland. It must be possible to invest earnings-related pension assets profitably, versatilely, and with a long-term perspective. A decentralised governance model will guarantee that the assets are used solely for the provision of earnings-related pension.

Insurance and investment products can supplement the amount of statutory old-age pension.

The need for supplementation arises, for example, when a person's functional ability declines with age and new care services are required. Voluntary financial preparedness can reduce the pressure on public finances as well.

RESPONSIBILITY

FINANCIAL SECTOR PROMOTES SUSTAINABLE DEVELOPMENT

- The Finnish financial sector operates responsibly. Consumer confidence in the sector is at a high level in European comparison. For the financial sector, responsibility means adhering to sustainable development principles and the good practices collectively established by the sector. In addition to legislative compliance, the financial sector also always considers the social, economic and environmental impact of its operations.
- The sector invests in loss prevention and promotes responsible investing and lending, electronic services, and the wellbeing of the sector's employees. Sector operators actively report their own corporate responsibility measures.
- The Finnish financial sector supports the internationally-agreed target of limiting global warming below two degrees Celsius. Climate change has detrimental effects also on financial stability. The financial sector has a leading role in developing environmentally friendly investments.
- Improving the younger generation's financial literacy is one of the sector's key goals of responsibility. All Finns should have good knowledge and skills in the management of personal finances, as well as an understanding of how the markets function.
- The Federation of Finnish Financial Services has made two commitments to sustainable development with the objective of improving the society's use of resources and reducing carbon footprints. The third commitment is currently being prepared. The financial sector's commitments are part of Commitment 2050, a nationwide project launched by the Finnish National Commission on Sustainable Development.

FINANCIAL SECTOR IS AN IMPORTANT BUILDER OF WELFARE

The sector and its customers together annually contribute about €4.5 billion in taxes.

€4.5bn would cover, for example

25 major children's hospitals

or

all child benefits for three years

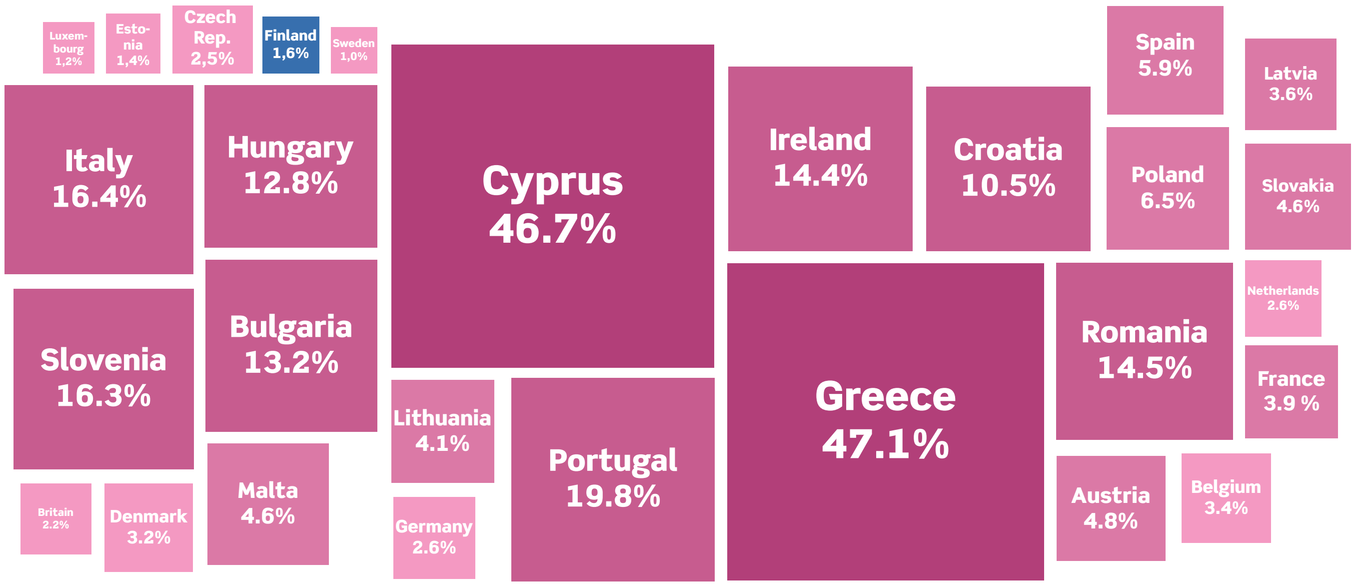
or

basic education for 56,000 pupils

KEEPING THE WHEELS TURNING

FINNS REPAY THEIR LOANS DUTIFULLY

Ratio of banks´non-performing loans* from banks in EU countries at the end of September 2016



< 4
4 - 9.9
10 - 25
> 25

* Non-performing loans are loans where payment of interest or principal is past due by 90 or more days

Source: European Banking Authority, Risk Dashboard Q3 2016

LENDING MUST NOT BE LIMITED

- The assessment of credit applicants' ability to repay is based on interest rates significantly higher than the current interest rate level. Finnish banks' credit losses from housing loans are very low. According to the stress testing conducted by the European Banking Authority (EBA) and the Finnish Financial Supervisory Authority (FIN-FSA), Finnish banks will maintain good capital adequacy even if economic development proves to be weaker than expected.
- Finnish authorities have a comprehensive toolkit to prevent the excessive indebtedness of households. A loan-to-value cap on mortgage loans was implemented on 1 July 2016. FIN-FSA has also decided to set a floor to the average risk weight of certain banks' home loan portfolios by July 2017.
- Income-linked dept and dept service limits, for example, would be difficult to apply in practice, because the circumstances of households change from one year to the next. The limits could easily lead to unreasonable situations. They are also not harmonised at EU level. This would be additional national regulation.

NO SIGNS OF OVERHEATING IN THE FINNISH HOUSING MARKET

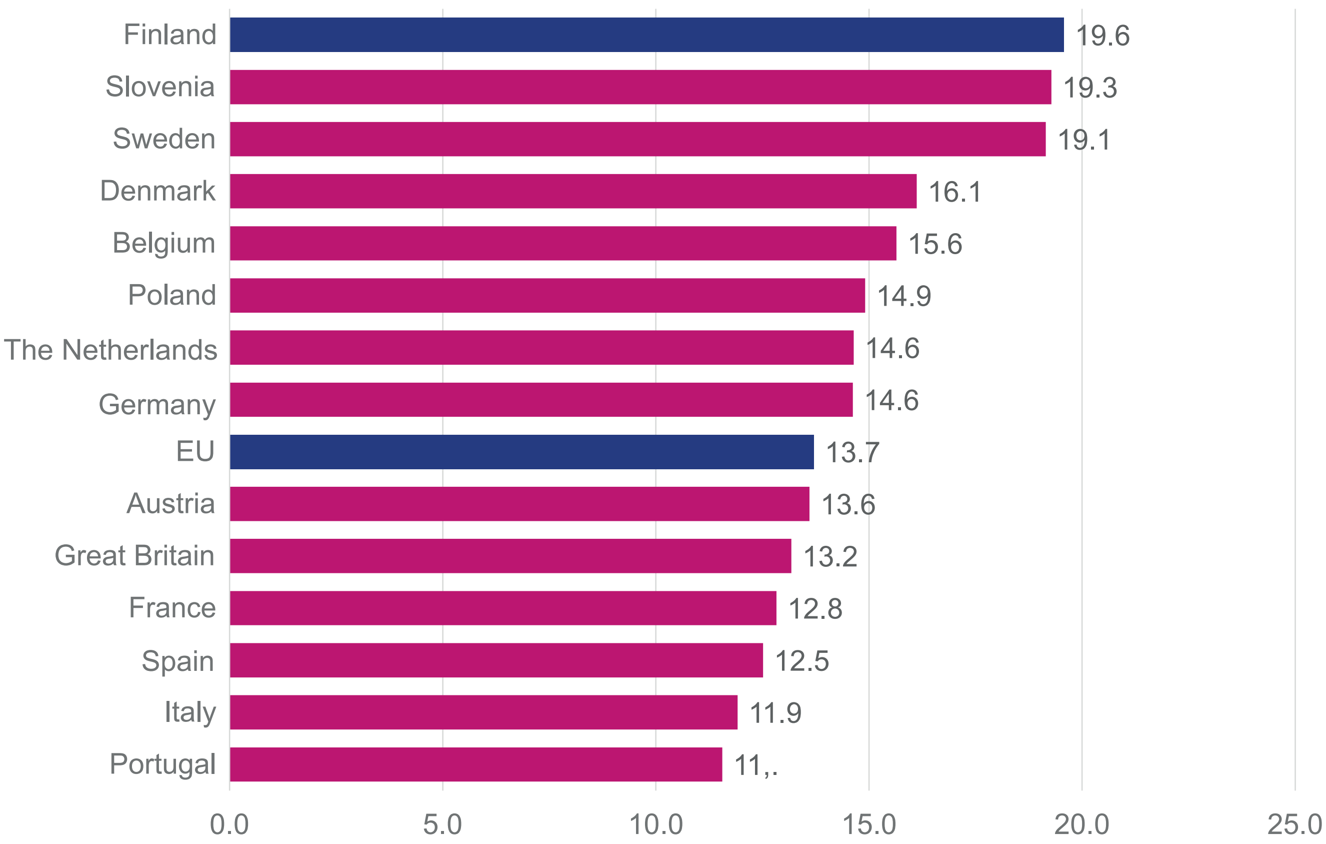
The Finnish housing market does not show signs of overheating. The calm is evident in housing prices and the growth of the home loan portfolio. Housing prices are on the average long-term level in relation to rents and income level.

The Finnish housing finance system is stable. Finns repay their loans dutifully, and banks keep careful colla-teral principles. There are no "eternal" mortgages like in some countries — on average, home loans are paid back in less than 20 years.

CORPORATE FINANCING IS VITAL

- Businesses have good access to financing. Banks are able and also willing to finance all profitable and sensible projects that companies approach them with. However, new banking regulation has resulted in stricter terms in lending. There is increased focus on risk assessment and correct risk pricing.
- New regulation has also resulted in dead spots: some companies are unable to acquire financing despite their attempts. The companies in question are usually too risk-exposed for banks, and too small to seek funding from the capital market. They lack collateral and equity.
- Banks' lending needs to be supplemented with new sources of financing, such as crowdfunding and a well-functioning bond market. Financial sector companies are actively involved in the development of new types of corporate financing.
- The EU Capital Markets Union also aims at diversifying the sources of corporate financing. The end goal should be to ensure an encouraging corporate environment and the efficient allocation of capital by market-based means.

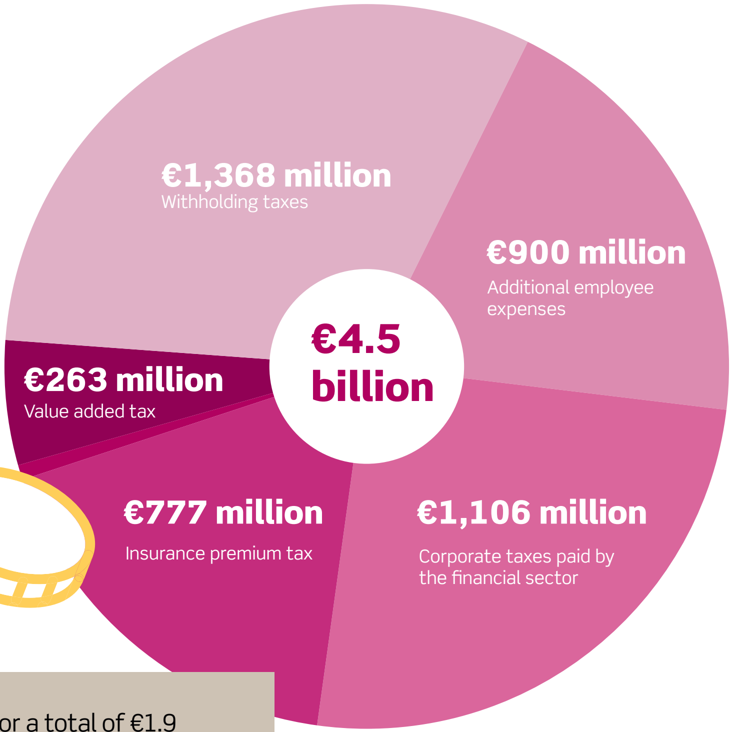
FINNISH BANKING SECTOR'S CAPITAL ADEQUACY STRONGEST IN EUROPE



Source: ECB, Banks' common equity Tier 1 (CET1) ratios in Europe, 30 June 2016.

LARGE TAX FOOTPRINT

YEAR 2015



Financial sector companies paid taxes for a total of €1.9 billion in 2015. When value added taxes and the taxes and statutory payments withheld from employee salaries are also included in the tax contribution, the total sum rises close to €4.5 billion.

BIGGEST CORPORATE TAX PAYERS

Op Financial Group	**249** (EUR million)
Nordea	**216**
Supercell	176
Bayer	104
Kesko	75
Metsä Fibre	68
UPM-Kymmene	61
Elisa	56
Danske Bank Group	**54**
ABB	53
LocalTapiola Group	**48**
Orion	45
Sampo Group	**38**
Fingrid	31
Planmeca	24

The financial sector paid €1.1 billion in corporate taxes, which is

25%

of Finland's total corporate tax income.

Banks and insurers have been among the biggest taxpayers in Finland for a long time. The fifteen largest corporate tax payers included five financial sector companies. The corporate taxes paid by the sector in 2015 amounted to €1.1 billion. This is roughly 25% of Finland's total corporate tax income.

POSITIONS ON TAXATION

- No new taxes should be introduced in the financial sector. The sector is already undergoing an upheaval as a result of major technological and regulatory changes. New taxes could weaken the sector's employment capacity. Finland would be wise to heed the cautionary example of Sweden, where a new 15% bank tax levied on payrolls has been proposed. Stockholm's Chamber of Commerce estimates the new tax would put as many as 17,500 jobs at risk.
- New taxes always impact financial sector customers. Different kinds of financial taxes will in the end be paid by the sector's customers.

VAT exemption is a burden to the financial sector.

- The proposed new taxes have been justified by the fact that the financial sector is exempt from value added tax and therefore "under-taxed". However, VAT exemption is in fact a hindrance to the sector, because companies do not have the right to deduct the VAT included in the prices of their own purchases. This adds to overall costs and increases the prices of financial services for both private and corporate customers. The financial sector's "hidden VAT burden" is approximately €300 million per year.
- It must also be kept in mind that Finland already has an insurance premium tax, which is levied on many insurance products. The tax raises the prices of insurance policies. It is complementary to the value added tax and has followed the standard rate of VAT over the years. In recent years, insurance premium tax income has been about €700—€800 million. Unlike value added tax, the insurance premium tax is not deductible at all.

Corporate taxation must encourage companies to operate in Finland.
We must avoid taxation that drives companies to move their functions, jobs and assets abroad. No new taxes that weaken the financial sector's competitiveness and increase costs to its customers should be implemented..

Tax on insurance premiums must be cut off from the standard rate of VAT.
Plans must be made for the gradual abolition of the tax.

Finland must stay away from the preparation of the Financial Transaction Tax (FTT) pushed by certain EU Member States.
We must also seek to influence other Member States so that they will not implement the tax either. The FTT would increase the costs of financial intermediation, weaken the liquidity of the market, and distort the functioning of the EU internal market. The tax would have a direct detrimental effect on the profits of Finnish earnings-related pension funds.

No new taxes that weaken the Finnish financial sector's competitiveness.

CAUTIONARY EXAMPLE:

Sweden's proposed new bank tax threatens more than 17,500 jobs.

In the end, financial taxes will be paid by the sector's customers.

FINNISH FINANCIAL SECTOR

BETTER FINANCES FOR EVERYONE

The Federation of Finnish Financial Services (FFI) represents the interests of

- banks
- insurance companies
- pension insurers
- finance houses
- securities dealers
- fund management companies
- financial sector employers

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