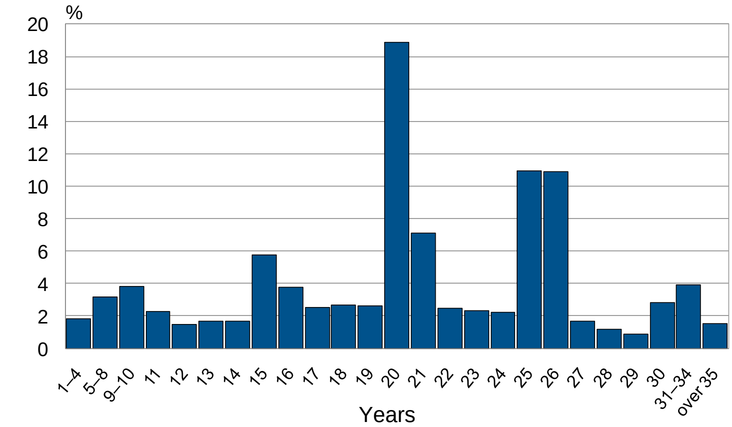
Financial Statistics

Annual Review • 2010

Stock of housing loans by original maturity, 31 Dec 2010



Source: Bank of Finland.

Bank of Finland
Financial Stability and Statistics
Statistics

28.2.2011

Contents

Editor-in-Chief

Elisabeth Hintikka

Working group

Olli Alanko

Nina Björklund

Hanna Häkkinen

Terhi Koivula

Kimmo Koskinen

Jyrki Lehtinen

Johanna Pöyry-Renholm

Elina Salminen

Hermanni Teräväinen

ISSN-L

1798-8039

ISSN

1798-8039

For further information, please contact

MFIs

Elina Salminen

+358 10 831 2343

rahoitustilastot@bof.fi

Investment funds

Hermanni Teräväinen

+358 10 831 2172

sijoitusrahastot@bof.fi

List of charts

List of tables

Postal address
PO Box 160
FI-00101 HELSINKI, FINLAND

Street address Snellmaninaukio
Phone +358 10 8311
Fax +358 9 174 872

Email
firstname.surname@bof.fi
www.bof.fi

Swift SPFB FI HH
Business ID 0202248-1
Domicile Helsinki

Summary

The international financial crisis and its escalation to a government debt crisis had a relatively minor impact in 2010 on the activities of monetary financial institutions (MFIs) and investment funds operating in Finland. During the year, growth of the loan stock picked up and the popularity of deposits with agreed maturity increased, but the net amount of new capital invested in investment funds was minor.

In 2010, the number of Finnish MFIs decreased somewhat, primarily due to mergers within cooperative banks. A few new agents commenced operation and some existing ones closed down. In the investment fund sector, there were more changes. The number of investment funds increased substantially during the year as new investment funds were established. Investment funds discontinuing their operation were mainly merged into other investment funds, which is typical of the industry.

Annual growth of loans granted by MFIs to non-MFIs accelerated in 2010. However, annual growth remained clearly slower than before the financial crisis. The growth was boosted mainly by a recovery in the growth of loans to non-financial corporations in the early part of the year, brisk borrowing by housing corporations and steady growth of household loans. The stock of loans to housing corporations increased on account of loans for both renovations and new construction.

Household loans still constitute the bulk of the credit institutions loan stock, accounting for over 60% of the stock of loans to non-MFIs. Despite the recession, the household housing loan stock has continued its steady growth. However, growth has been clearly slower than in the peak year, 2005.

In Finland, the average interest rate on the stock of housing loans at the end of 2010 was lower than in the other euro area countries. Of the total housing loan stock, 75% is linked to Euribor rates, which have fallen to exceptionally low levels. In most other euro area countries, housing loans have fixed interest rates or are linked to longer-term interest rates, which have declined less. In Finland, the proportion of fixed interest rates among new business on housing loans grew towards the end of the year as expectations increased for a rise in short-term market rates.

Nowadays, the amount of new business on short-term loans to non-financial corporations is large. At present, non-financial corporations are primarily borrowing for liquidity management and restructuring of existing loans. The interest rates on loans to non-financial corporations are also lower in Finland than in the euro area on average.

Deposits of non-MFIs are still the most important form of funding for credit institutions. Growth of the deposit stock increased in 2010, from last year's very subdued rate. Households account for almost three quarters of the non-MFI deposit stock.

Deposits on households' transaction accounts are a consistently stable item. They are an economical source of funding for banks compared to other deposits and funding from the bond markets. Deposit accounts make up about a half of total household deposits.

Households' deposits with agreed maturity are the item showing the clearest impact of the financial crisis.

Deposits with agreed maturity expanded strongly in 2008 as households withdrew assets from investment funds and moved them into bank deposits, which they perceived as safer. In 2009, as markets calmed down and interest rates declined, deposits with agreed maturity contracted sharply. In 2010, however, the popularity of deposits with agreed maturity increased again as banks began to pay higher rates on deposits with agreed maturity relative to short-term deposits and short-term market rates. At the end of the year, deposits with agreed maturity already accounted for about a quarter of household deposits. At the same time, the maturities of deposits with agreed maturity lengthened. Structured deposits, in which part of the return is linked for example to a share index or basket, increased during 2010, but their proportion of the deposit stock is still small.

Bonds are another important source of funding for credit institutions, although bonds are only issued by about a fifth of credit institutions. Funding raised in the bond markets is often channelled to different units within the group or financial conglomerate.

Bond issues by credit institutions have gradually increased since 2009, as the financial crisis has wound down. In 2010, annual growth of the stock of long-term bonds accelerated and the stock of short-term certificates of deposit continued to contract. Due to an amendment to the Act on mortgage loan banks, deposit banks were granted the right in 2010 to issue covered bonds. The first issue by a deposit bank was completed in the second half of the year.

The Act on bound long-term saving entered into force at the beginning of April 2010. Long-term saving got off to a fairly modest start but gained in popularity somewhat towards the end of the year. A majority of long-term savings has been invested in investment fund shares.

Investment fund assets continued to grow in 2010. The growth was mainly due to investment returns. In net terms, investors invested only a modest amount of new capital in investment funds. Money market funds had more redemptions than subscriptions. In contrast, equity and bond funds had more subscriptions than redemptions. Investment funds registered in Finland receive most of their investment capital from Finland, but the proportion of Swedish investments has increased over the past couple of years.

Investments by investment funds are primarily concentrated in Europe and particularly in the euro area. The proportion of Europe in total investments decreased slightly from last year. The largest item in investment fund portfolios continues to be bonds, but the proportion of shares has increased over the past couple of years due to their strong price appreciation.

In comparison across funds, the highest returns in 2010 were achieved by equity funds investing in Russia. However, the proportion of such funds by balance sheet value is still low, albeit growing. Among bond funds, the weakest returns were posted by those investing primarily in euro-denominated euro area government bonds.

1 Aggregated MFI balance sheet

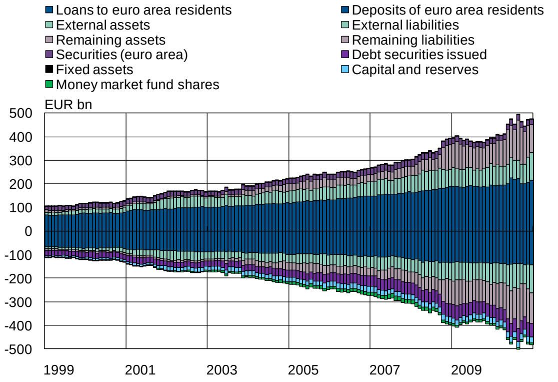
The aggregated balance sheet of Finnish MFIs increased by about 20% in 2010. The growth was driven largely by an increase in the market value of derivatives and growth in inter-MFI items. At the end of 2010, Finnish credit institutions had a total of 1,555 offices and 24,818 employees.

The aggregated balance sheet of Finnish MFIs[1] at the end of 2010 totalled EUR 480 bn. The balance sheet total increased EUR 81 bn or about 20% from the previous year. The growth was due to expansion in credit institutions balance sheets, while the balance sheets of money market funds contracted sharply: at the end of 2010, the aggregated balance sheet of money market funds was almost 13% smaller than a year earlier.

The aggregated MFI balance sheet has already more than quadrupled since 1999 (Chart 1). About a third of the growth is explained by growth in the non-MFI loan stock, a third by growth in assets and liabilities outside the euro area and a third by growth in derivatives. Derivatives are recorded at market value as other assets and liabilities, of which they account for over 90%. The growth of assets and liabilities outside the euro area is largely explained by items between MFI groups. A large proportion of Finnish credit institutions are now in foreign groups with the parent domiciled outside the euro area. Therefore the proportion of assets outside the euro area in the MFI balance sheet is much larger in Finland than generally in the euro area. At the end of December, the proportion was 25% of the balance sheet total, whereas the corresponding proportion for the euro area was 13%.

In describing the size of the banking sector, the MFI balance sheet total is often compared to the annual gross domestic product. However, in the case of Finland, it makes more sense to compare the non-MFI loan stock to the GDP, since the balance sheet is inflated to a relatively high degree by derivatives and inter-bank group items. Derivatives recorded on the assets and liabilities sides of the balance sheet are mutually netted almost to zero. The stock of loans granted by Finnish MFIs to non-MFIs at the end of 2009 was EUR 156 bn, or about 91% of GDP. At the beginning of 1999, the corresponding ratio was 48%, so the non-MFI loan stock relative to GDP has roughly doubled in just over a decade.

Chart 1. Aggregated balance sheet of Finnish MFIs (excl. Bank of Finland)



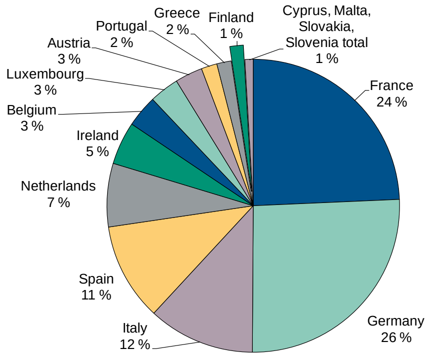
Source: Bank of Finland.

The aggregated balance sheet of all euro area MFIs at the end of 2010 was EUR 32,211 bn, with France, Germany, Italy and Spain accounting for 73% (Chart 2). Finland' share was approximately 1%, as in

[1]Monetary financial institutions (MFIs) (excl. Bank of Finland) include credit institutions and money market funds.

previous years. In 2010, the euro area MFI balance sheet grew about 3%, clearly slower than in Finland. Looking at individual countries, balance sheet growth showed very different patterns: in Germany, the aggregated balance sheet grew over 10%, while in Ireland, it contracted 7%[2]. In Finland, growth was fastest in the euro area. However, derivatives are not recorded in MFI balance sheets in all euro area countries, which partly explains Finland's extraordinary growth in relation to other countries. In other countries, the relative proportion of derivatives in the balance sheet is also considerably lower than in Finland. In Finland, the stock of loans to non-MFIs has grown quite rapidly compared to the euro area average.

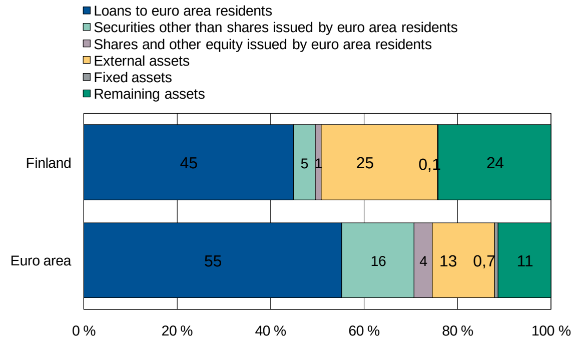
Chart 2. Contributions by country to aggregated euro area balance sheet, end-2010



Sources: European Central Bank and Bank of Finland.

In Finland – as in other euro area countries – the most significant item on the asset side of the aggregated MFI balance sheet is loans granted to the euro area (Chart 3). The proportion of these loans in the aggregated balance sheet of Finnish MFIs at the end of 2010 was about 45%, compared with the euro area average of 55%. The proportion of securities held by MFIs in Finland is much lower (6%) than in the euro area on average (20%). Finland's relative figures clearly reflect the fact that the proportion of other assets (derivatives) in the balance sheet is higher than for the euro area as a whole.

Chart 3. Breakdown of MFI assets by balance sheet item in Finland and euro area



Sources: European Central Bank and Bank of Finland.

The most important liability item in the aggregate MFI balance sheet is deposits. The broad definition of deposits used in the ECB statistics includes, in addition to traditional deposits, debts to the central bank, money market debt incl. repos, intra-group debts and borrowed loans. Following deposits by domestic non-MFIs, the most significant deposit item is intra-group liabilities.

Finnish MFIs have issued bonds amounting to about EUR 69 bn. It is estimated that about 85% of this is held by euro area banks and non-MFIs. The equity of Finnish MFIs amounts to about EUR 25 bn. The liabilities side of MFIs' balance sheet also includes shares in money market funds. All in all, these amounted to about EUR 10 bn in the MFI balance sheet. A majority of the fund-share liabilities was to Finland and Sweden.

[2] In the case of Ireland, contraction of the balance sheet was driven by securitisation and transfer of loans out of MFI balance sheets.

Table 1. Aggregated balance sheet[3] of Finnish MFIs (excl. Bank of Finland), EUR m

	Credit institutions		Money market funds		Total	
Assets	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**
Loans to euro area residents	196 515	215 124	293	292	196 808	215 416
Securities other than shares issued by euro area residents	15 698	17 397	5 716	5 249	21 415	22 646
Shares and other equity issued by euro area residents	5 352	6 250	0	0	5 352	6 250
External assets	84 428	114 589	5 743	4 730	90 172	119 319
Fixed assets	746	718	0	0	746	718
Remaining assets	84 890	116 038	15	30	84 905	116 068
Total assets	**387 629**	**470 117**	**11 768**	**10 301**	**399 397**	**480 417**
Liabilities						
Deposits of euro area residents	136 329	143 883	0	0	136 329	143 883
Debt securities issued held by euro area residents	51 246	57 628	0	0	51 246	57 628
Money market fund shares held by euro area residents	0	0	9 222	8 039	9 222	8 039
Capital and reserves	24 043	24 973	0	0	24 043	24 973
External liabilities	86 959	114 756	2 500	2 184	89 460	116 940
Remaining liabilities	89 051	128 877	45	78	89 096	128 955
Total liabilities	**387 629**	**470 117**	**11 768**	**10 301**	**399 397**	**480 417**

Source: Bank of Finland.

[3] Derivatives are included in items 'Remaining assets' and 'Remaining liabilities'.

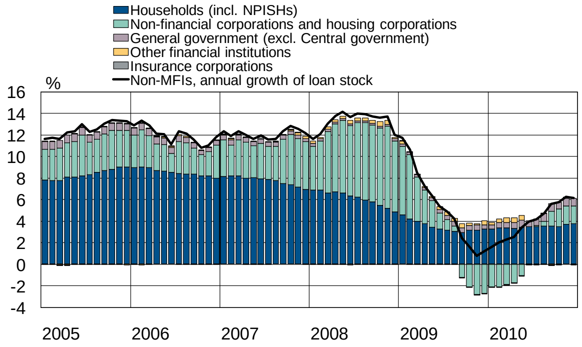
2 Loans to non-MFIs and securities-based assets

Growth of the non-MFI loan stock accelerated throughout 2010, mainly reflecting developments in the stock of loans to non-financial corporations[4]. However, in comparison with the years before the financial crisis, growth was clearly more subdued.

The annual rate of growth in the stock of loans granted by Finnish MFIs to non-MFIs recovered in 2010 following a considerable slow-down in the previous year. The growth pick-up was mainly due to the fact that the stock of loans to non-financial corporations had begun to increase after 2009, when it had contracted (see sections 2.2 and 2.3). Although the growth in the stock of loans to non-MFIs accelerated clearly towards the end of the year, the average annual growth rate was lower than in 2009: in 2010, the stock of euro-denominated loans to non-MFIs in the euro area grew on average 4.5%, totalling EUR 170.4 bn at the end of the year. A year earlier, the annual growth rate was 5.7% and the loan stock at the end of the year EUR 160.3 bn. In the years before the financial crisis, 2005–2008, the non-MFI loan stock grew an average of 12% annually (Chart 4).

The non-MFI loan stock includes loans to households[5], non-financial corporations[6], general government[7], insurance corporations and non-monetary financial institutions. Loans granted to households and non-financial corporations account for about 95% of the entire non-MFI loan stock.

Chart 4. Annual growth of Finnish non-MFI loan stock by sector



Source: Bank of Finland.

At the end of December 2010, the stock of loans by Finnish MFIs to non-MFIs totalled EUR 178.9 bn, including foreign-currency loans. The proportion of loans granted to Finnish residents was 96%. Loans to residents of other euro area countries accounted for 1% and loans to residents of non-euro area countries for 3%. Most loans to foreign residents were granted to other Nordic countries and other euro area countries, mainly to non-financial corporations and other financial institutions. However, it must be noted that

[4] Including housing corporations.

[5] Including non-profit institutions serving households (NPISHs). They account for a very small percentage of the household loan stock, about 2%.

[6] The proportion of housing corporations in the stock of loans to non-financial corporations is about 20%.

[7] Central and local government, joint municipal authorities and social security funds (employment pension schemes and other social security funds).

for example loans to units of Finnish non-financial corporations located abroad are shown in the statistics as loans to residents of other countries. At the end of December 2010, 97% of the loans to non-MFIs were denominated in euro.

In Finland, the annual growth of the non-MFI loan stock has been faster in recent years than in the euro area on average. In 2010, the euro area non-MFI[8] loan stock grew 0.7% on average. At the end of December, the stock of loans to euro area non-MFIs totalled EUR 11,034 bn, with Finland accounting for 1.5%.

The slow growth of the non-MFI loan stock in the euro area in recent years has reflected loans being securitised and transferred off MFI balance sheets. However, this impact has been reduced considerably: in 2010, securitisation and loan transfers reduced the average annual growth of the euro area non-MFI loan stock by only 0.1 percentage point.

2.1 Loans to households

The household loan stock grew steadily in Finland in 2010. Growth was faster in Finland than in the euro area on average. The average interest rate on new business on housing loans rose slightly. At the same time, fixed loan interest rates gained in popularity.

The stock of euro-denominated loans granted by Finnish MFIs to households at the end of December 2010 was EUR 104.3 bn, EUR 5.9 bn more than a year earlier. The loan stock grew rather steadily throughout the year; the average annual growth rate in 2010 was 5.7%. However, in comparison with the years before the financial crisis, growth of the loan stock was slower.

Growth of the household loan stock has already for years been faster in Finland than in the euro area on average. Towards the end of 2009, uncertainty created by the financial crisis caused even negative annual growth rates in the euro area on average in a few months, but in 2010 loan demand began to pick up again. On average, the household loan stock in the euro area grew 2.6% in 2010. Consumer confidence in economic development improved from the previous year in both Finland and the euro area as a whole.

Loans to households are divided into housing loans, consumer credit and other loans, including for example student loans and loans related to holiday residences. In Finland, about 74% of household loans are housing loans. The proportion of consumer credit granted by MFIs is about 12%, and the remainder is other loans.

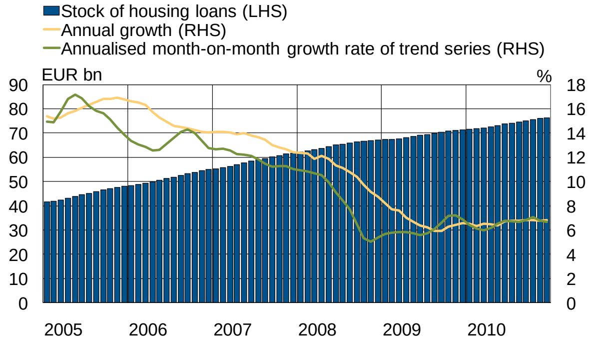
2.1.1 Housing loans

Growth in stock of housing loans in Finland was stable in 2010. At the end of December, the stock was EUR 76.7 bn and annual growth 6.8%. The annualised month-on-month growth rate of the trend series was 6.7% at the end of December 2010 (Chart 5).[9]

[8] Excl. general government.

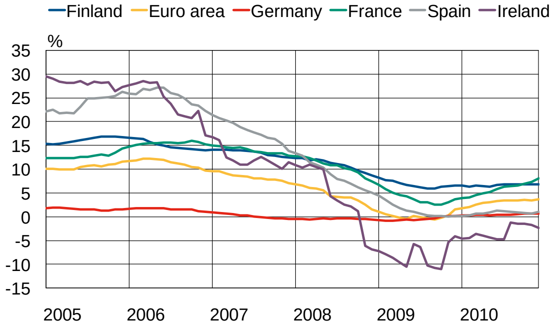
[9] Annual growth of the housing loan stock has usually tracked the annualised month-on-month growth with a lag of about six months.

Chart 5. Stock and annual growth of housing loans



Source: Bank of Finland.

Chart 6. Annual growth of housing loan stock in Finland and selected euro area countries



Sources: European Central Bank and Bank of Finland.

The growth rate of the housing loan stock was throughout the year faster than in the euro area on average: in Finland the average growth rate was 6.7% while in the euro area as a whole, the housing loan stock grew in 2010 by 3.1% on average. Both in Finland and in the euro area, growth was clearly slower compared to the years before the financial crisis; in the large euro area countries, for example Germany and Spain, the annual growth of the loan stock was negligible throughout the year. In Spain – as in Ireland – the collapse of the housing bubble is still reflected in housing loan demand, although in Ireland, the securitisation of loans and their transfer off MFI balance sheets also reduced the annual growth of the loan stock. In the euro area as a whole, however, growth accelerated towards the end of the year. In December, the annual rate of growth of the housing loan stock in the euro area was 3.7%, whereas a year earlier it was 1.5% (Chart 6).

In December 2010, Finnish households drew down EUR 1,433 million in housing loans. New business on housing loans amounted to EUR 1,430 mn.[10] The average monthly drawdowns of housing loans in 2010 amounted to EUR 1,543 mn. In 2009, housing loans were drawn down on average in the amount of EUR 1,346 million a month. According to the volume index of newbuilding of Statistics Finland, there was also less residential construction in 2009. In 2010, new building reached the levels of 2006 and 2007 again.

In 2010, the most typical repayment period for a new housing loan was 20 years. According to the Federation of Finnish Financial Services, in May 2009, the most typical loan period for a new loan was 20 or 25 years and in May 2008 over 25 years.[11]

In Finland, the interest rate on housing loans is most often linked to Euribor rates, the 12-month rate being the most popular. About 90% of new housing loan contracts made in 2010 were linked to a Euribor rate. The interest rate was linked to banks' own

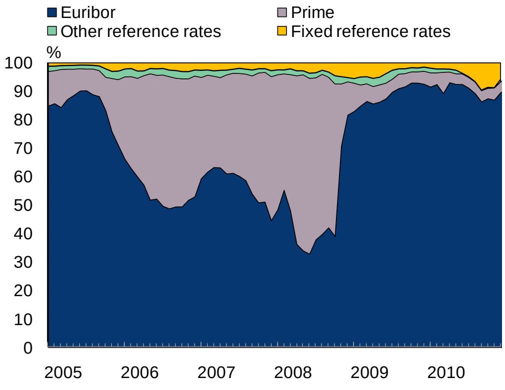
[10] New drawdowns are loans (new or old) drawn down during the period. New business refers to new loan agreements and renegotiated agreements, regardless of whether there are drawdowns in the current period.

[11] The Federation of Finnish Financial Services: Saving, borrowing and payment methods, May 2010.

reference rates in 4% of the new contracts.

Expectations of an increase in the short-term reference rates have increased the popularity of fixed interest rates: in December, 5.7% of the new business on housing loans had a fixed interest rate, whereas a year earlier the figure was 1.4% (Chart 7).

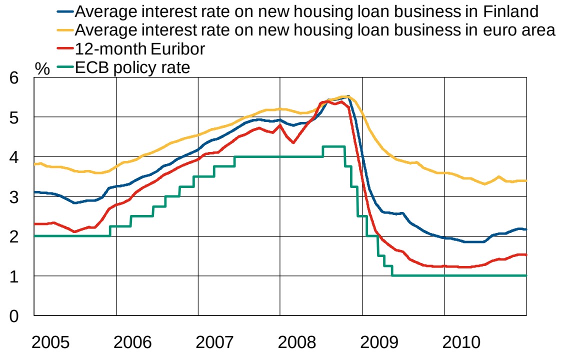
Chart 7. Breakdown of new housing loan business by interest rate applied



Source: Bank of Finland.

Due to the great popularity of the Euribors and their low level, interest rates on housing loans in Finland are lower than in the euro area. In December 2010, the average interest rate on new housing loans in Finland was 2.16%, whereas it was 3.40% for the euro area (Chart 8). In Finland, average loan rates increased somewhat in the second year half in the wake of rising market rates.

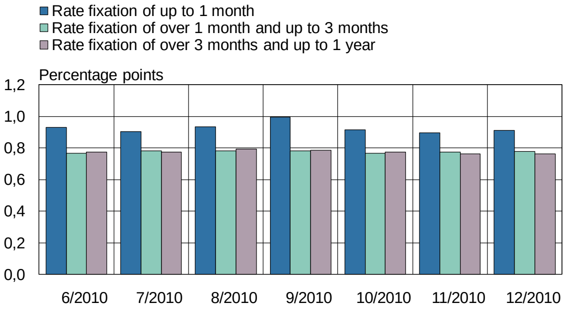
Chart 8. Interest rates on new housing loan business in Finland and euro area



Sources: European Central Bank, Bank of Finland and Reuters.

Average margins on Euribor-linked housing loans decreased in 2010.[12] The margin on new loans calculated on the basis of average rates is the highest for loans linked to the 1-month Euribor: in December, the margin on such loans was 0.91 percentage point on average. For loans with period of fixation of three months, the average margin in December was 0.78 percentage point. For loans linked to the 6- or 12-month Euribor, the average margin in December was 0.76 percentage point (Chart 9).

Chart 9. Average margins on new drawdowns of Euribor-linked housing loans



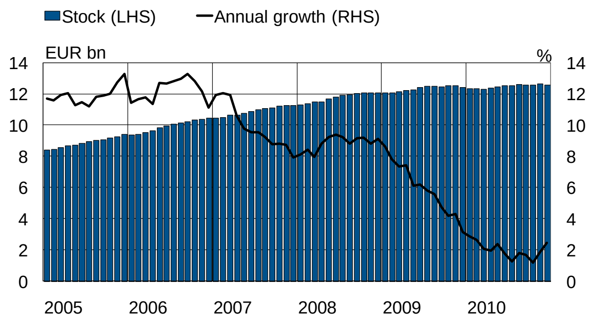
Source: Bank of Finland.

[12] Banks do not report their margins to the Bank of Finland, so the figure is an imputed margin.

2.1.2 Households' consumer credit and other loans

At the end of December 2010, the stock of consumer credit granted by Finnish MFIs to households stood at EUR 12.6 bn, that is, 2.4% more than a year earlier.[13] The annual growth of the stock slowed somewhat from the previous year (Chart 10). The proportion of consumer credit in the household loan stock however remained stable in 2010; at the end of December 2010 it was 12.0%. At the end of 2010, the average interest rate on the stock of households' consumer credit was 4.77%.

Chart 10. Stock and annual growth of consumer credit to households



Source: Bank of Finland.

Of the stock of households' consumer credit 56% were uncollateralised loans. In December 2010, the average interest rate on uncollateralised loans was 6.01%. Almost all collateralised loans were quaranteed by residential or other real estate, with the collateral guaranteeing the entire loan amount. In December 2010, the interest rate on collateralised loans was 3.20% on average.

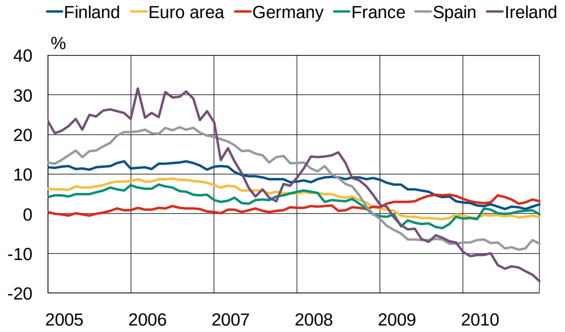
Of total consumer credit granted by Finnish MFIs to households, 33% belong to the subcategory 'overdrafts and credit card credit'. These loans are available up to a predetermined credit limit. About 14% of overdrafts and credit card credit are interest-free convenience credit card credits. The proportion of extended, usually interest-bearing, credit card credit is about 56%.[14] In December 2010, the average interest rate on extended credit card credit was 9.61%. The remaining overdrafts and credit card credits are overdrafts, where funds may be withdrawn from the account up to the agreed credit limit. In December, the average interest rate on overdrafts was 5.46%. The average rate on consumer credit other than overdrafts and credit card credit was 3.67% at the end of 2010.

The annual growth of the consumer credit stock in Finland has slowed down but has remained positive, unlike in the euro area on average: for the euro area, annual growth of the stock was negative in every month in 2010. The average annual growth was −0.6%. Of the large euro area countries, Spain and France in particular have experienced sluggish or even negative growth in households' consumer credit (Chart 11).

[13] Households also obtain consumer credit from other financial institutions, which are not MFIs. According to the outstanding credit statistics of Statistics Finland, households had EUR 1.1 bn of consumer credit from other financial institutions at the end of September 2010.

[14] Extended credit card credit is a loan granted after the payment dates of the previous billing period or periods have passed and the debits have not been made to the card account.

Chart 11. Annual growth of consumer credit stock in Finland and selected euro area countries



Sources: European Central Bank and Bank of Finland.

The stock of other loans granted by MFIs to households at the end of December 2010 stood at EUR 15.0 bn. The loan stock grew by 6.1% from the previous year. Of other loans, the stock of loans related to holiday residences amounted to EUR 2.6 bn and student loans to EUR 1.4 bn. Other loans to households also include loans to sole proprietors, 77% of which have been granted to agricultural sole proprietors. The stock of loans to sole proprietors at the end of 2010 stood at EUR 4.9 bn, and the agreed annual interest rate was on average 2.91%. The average interest rate on other loans to employees was 2.39% in December 2010.

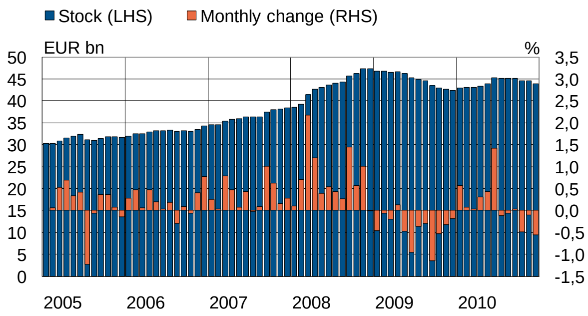
2.2 Loans to non-financial corporations

The stock of loans to non-financial corporations grew in the first half of the year but contracted again in the second half. Interest rates on new business on loans to non-financial corporations began to rise in line with market rates towards the end of the year, from the record low levels below 2%, but stayed below the euro area average. Most new loan contracts were made by industrial companies.

The stock of loans granted by Finnish MFIs to non-financial corporations grew briskly throughout the first half of 2010, but in the second half of the year, the stock began to decrease. At the end of the year, the stock amounted to EUR 44.0 bn, which was EUR 1.6 bn more than a year earlier. According to a survey[15] of banks made by the Finnish Federation of Finnish Financial Services, also the expectations of non-financial corporations of their willingness to borrow decreased in the last quarter of the year. According to the Federation's assessment, the reason was that the debt crisis of the euro area had increased the uncertainty in the financial markets.

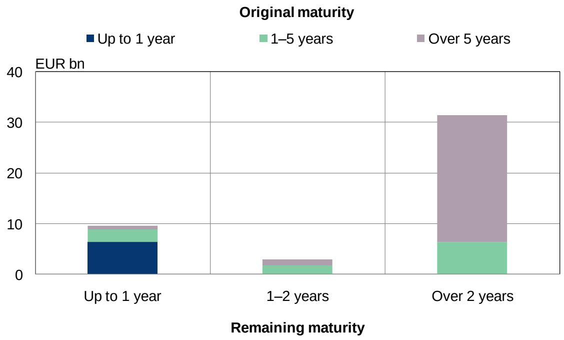
[15] The Banking barometer, conducted as a survey, is based on the views of 350 bank managers on the development of borrowing and deposits by households and non-financial corporations.

Chart 12. Stock and monthly change of loans to non-financial corporations[16] in Finland



Source: Bank of Finland.

Chart 13. Stock of loans to non-financial corporations by original maturity, end-2010



Source: Bank of Finland.

In the latter half of the year, the corporate loan stock contracted across all maturities[17]. With the revised data collection, the maturing of the stock of loans to non-financial corporations can be assessed using the data on the remaining maturity of the loans (Chart 13). At the end of the year, for example, of loans with original maturity over 5 years - accounting for the majority of the stock of loans to non-financial corporations - only a small proportion (3%) matures in the following 2 years. As regards loans with original maturity of 1–5 years, 60% have remaining maturity exceeding 2 years.

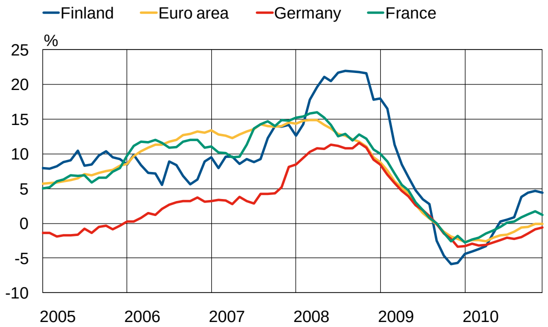
Looking at different industries, in euro terms the majority (EUR 12.6 bn) of the corporate loan stock has been granted to companies in the real estate industry. The stock of loans to industrial companies was the second largest (EUR 8.0 bn) and wholesale and retail trade the third largest (EUR 5.6 bn). In June-December the stock of loans to industrial companies contracted the most (EUR 1.3 bn).

In Finland, the annual growth of the corporate loan stock was faster at the end of 2010 than in the euro area on average (Chart 14). In international comparisons, the Finnish corporate sector is also considered to include housing corporations, where the loan stock increased exceptionally rapidly in 2009–2010.

[16] Stock of loans to non-financial corporations (excl. housing corporations).

[17] The stock of loans to non-financial corporations is broken down into different maturities: up to 1 year (12%), over 1 and up to 5 years (19%) and over 5 years (69%).

Chart 14. Annual growth rates on stock of loans to non-financial corporations



Sources: European Central Bank and Bank of Finland.

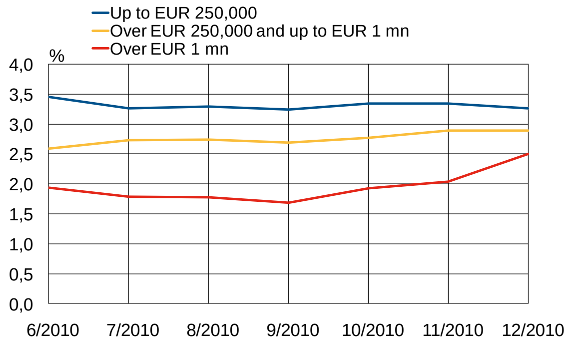
With respect to new loan business and loan interest rates, the breakdown into non-financial corporations and housing corporations has not been possible before June 2010. New business is divided into one-time loans, which non-financial corporations signed in June-December on average in the amount of EUR 4.3 bn monthly, as well as overdrafts and credit card credit[18]. About 40% of new loan business is overdrafts and credit card credit, including revolving loans as of June 2010. One-time loans also include limit-type loan agreements, which however do not meet the definition of a revolving loan in all respects. Credit-line type one-time loans may have maturities as short as a few days.

The proportion of industrial companies in new corporate loan business is the largest. Their contracts usually have short maturities, and therefore their impact on the loan stock is more short-term than for example loan contracts for real estate companies, whose maturity is usually over 5 years. Industrial companies make active use of both one-time loans and revolving loans, since their proportion of the new business on one-time loans is about 50% and with respect to new business on revolving loans, about a third.

Interest rates on loans to non-financial corporations began to rise in the last quarter of 2010, from the record low level of about 2%. The primary reason for that was a rise in Euribor rates, since the majority of new business on corporate loans is linked to Euribors (in June-December 52% on average). The most popular period of fixation in new business on loans to non-financial corporations was up to 1 month.

Thanks to the new data collection, new business on one-time loans to non-financial corporations can be split into more detailed size categories than before: up to EUR 250,000, over EUR 250,000 – 1 mn and over EUR 1 mn. The average interest rates on loans of over EUR 1 mn are considerably lower than on smaller loans (Chart 15). In practice, only medium-sized and large non-financial corporations sign loan agreements of over EUR 1 mn. According to the Federation of Finnish Enterprises, 93.4% of Finnish non-financial corporations are micro corporations employing less than 10 people, and loan interest paid by them is probably considerably higher than the average interest rate on new business on loans to non-financial corporations.

Chart 15. Interest rates on new business on loans to non-financial corporations, by loan size

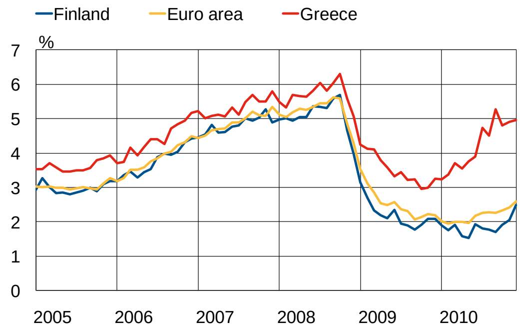


Source: Bank of Finland.

[18] Overdrafts and credit card credit are continuous credit, so the month-end stock is reported as new business.

In 2010, interest rates on new business on loans to non-financial corporations in Finland were below the euro area average as in the previous year. In the euro area, interest rate developments concerning new business on corporate loans varied considerably across countries. For example, in Greece the average interest rate on new business on loans to non-financial corporations[19] of over EUR 1 mn was 4.95% at the end of 2010, while the euro area average in this category was 2.59% and in Finland 2.48%. Greece's spread on the euro area average widened in 2010 considerably on account of concerns related to the the country's debt servicing ability (Chart 16).

Chart 16. Interest rates on new business on loans of up to EUR 1 million to non-financial corporations with period of initial rate fixation up to 1 year

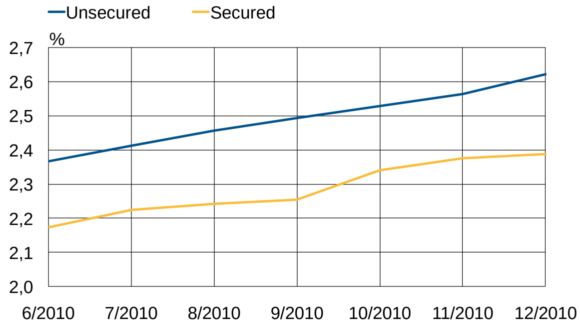


Sources: European Central Bank and Bank of Finland.

Thanks to the new data collection, loans to non-financial corporations can also be broken down by collateral type. The interest rate spread between collateralised and uncollateralised corporate loans was on average 20 basis points in June-December (Chart 17).

[19] Period of fixation of up to 1 year.

Chart 17. Interest rates on stock of unsecured and secured loans to non-financial corporations

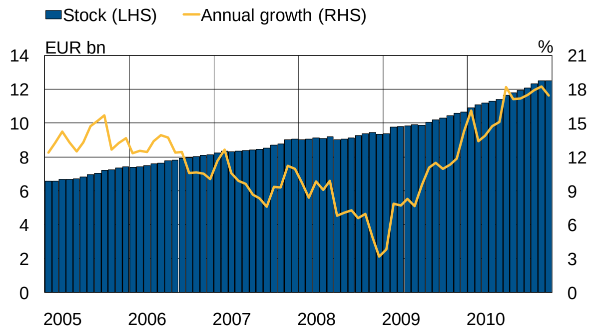


Source: Bank of Finland.

2.3 Loans to housing corporations

At the end of 2010, the stock of loans to housing corporations amounted to about EUR 12.5 bn. As in recent years, the stock of loans to housing corporations grew rapidly in 2010: at the end of the year, annual growth was 17.4%. Almost the entire stock of loans to housing corporations had original maturity of over 5 years and remaining maturity of over 2 years. The average interest rate on the stock was 2.31% in December 2010.

Chart 18. Stock and annual growth of loans to housing corporations



Source: Bank of Finland.

Growth in the stock of loans to housing corporations is explained by growth in government-subsidised residential construction in 2009–2010. For example, in 2010 construction was started on more than 12,000 government-subsidised ARA apartments, and in 2009 on more than 14,000. In 2008, the volume of initiated ARA building was only 4,000 apartments. According to the Ministry of the Environment, prospects for the construction industry were weak in January 2010, necessitating ample government subsidies to housing construction.

In June-December, housing corporations signed new loan contracts on average in the amount of EUR 0.5 bn a month. The average interest rate on new business increased towards the end of the year, to 2.42% in December. The rise was due to an increase in Euribor rates, since in June-December about 90% of the new business on loans to housing corporations was linked to Euribors. Housing corporations make relatively active use of overdrafts and credit card credit: for example in December, the proportion of these types of credit was 44% of the new loan business.

2.4 Loans to other sectors

Loans granted by Finnish MFIs to general government increased in 2010. At the end of the year, the stock was EUR 8.0 bn, or 26% more than at the end of the previous year. The share of general government in the non-MFI loan stock was 4%. The stock of loans to general government consists almost entirely of loans to the Finnish municipal sector.

Other financial institutions and insurance corporations accounted for 1% of the stock of loans to non-MFIs. Other financial institutions include for example financial intermediaries, financial holding companies, pawnbrokers and small loan companies.

2.5 Credit institutions' securities-based assets

The securities-based assets of Finnish credit institutions[20] consist primarily of short- and long-term debt securities issued by other credit institutions. The proportion of domestic issuers was about a quarter of the securities portfolio.

Credit institutions held securities-based assets worth EUR 55.1 bn on their balance sheets at the end of 2010. The bulk was in long- and short-term debt securities. Credit institutions secure their liquidity by advance funding. The funds raised are invested in high-quality debt securities mainly issued by other credit institutions, which gives the banks a so-called liquidity reserve. Through advance funding, a credit institution can ensure that lending will continue even when the availability of market finance is compromised.

Credit institutions can also obtain funding from the central bank, against collateral. This funding may be intraday credit, to secure the smooth conduct of payment transfers, or longer-term credit related to monetary policy operations. Central bank finance is always collateralised. The collateral has defined eligibility criteria, which are harmonised across the euro area countries[21].

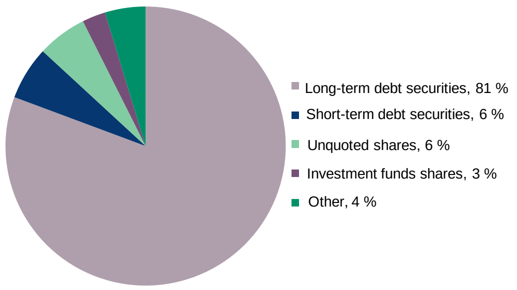
Short- and long-term debt securities together comprise 87% of credit institutions' total securities-

[20] Monetary financial institutions excl. the Bank of Finland and money market funds.

[21] The European Central Bank publishes the list of eligible assets on its website.

based assets. The remaining securities-based assets comprise unquoted shares, investment fund shares, other equity and quoted shares (Chart 19).

Chart 19. Securities-based assets of credit institutions operating in Finland by instrument, end 2010



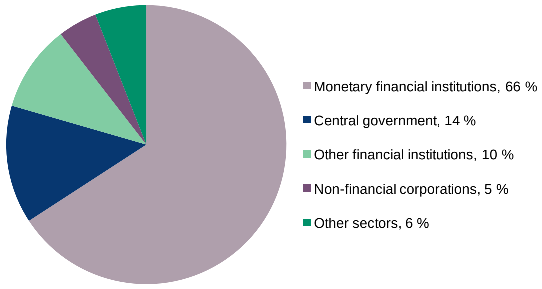
Source: Bank of Finland.

The share of domestic issuers was EUR 12.6 bn, or 23% of total securities. All in all, there were securities-based assets from 36 countries. The securities-based assets of Finnish MFIs from so-called GIIPS countries[22] at the end of the year totalled EUR 2.6 bn. Finnish MFIs do not hold a significant amount of government bonds from GIIPS countries; at the end of the year, they amounted to EUR 0.1 bn.

In terms of different assets, particularly debt securities, the proportion of foreign issuers is high (about 86%). Also in investment fund shares, foreign issuers account for a high proportion (about 70%). In contrast, the share of domestic issuers is high in shares and other equity.

Considering total securities holdings, the largest issuer sector was MFIs, accounting for 66%. Following the MFI sector, the second largest group was government issued securities, at 14%. These consist entirely of short- and long- term debt securities, since a government by definition cannot issue shares or equity. The most government bond assets were from Finland (EUR 2.2 bn), Germany (EUR 1.8 bn) and Sweden (EUR 1.6 bn). There were government bond assets from a total of 18 countries, including one from outside of Europe.

Chart 20. Securities-based assets of credit institutions operating in Finland by issuing sector, end 2010



Source: Bank of Finland.

Other financial institutions were the third largest sector with a 10% share of credit institutions' securities-based assets. This includes investment fund shares held by credit institutions.[23] Non-financial corporations were the fourth-largest sector, with a 5% share of all assets. Securities issued by them are 48% debt securities and 37% quoted shares. Other sectors account for 6% of total securities-based assets.

[22] Greece, Ireland, Italy, Portugal and Spain.

[23] Excluding money market funds, which are included in the MFI sector.

3 Deposits and other funding

Growth of the stock of deposits by non-MFIs[24] picked up towards the end of the year. Interest rates on households' deposits with agreed maturity increased as competition intensified among banks. A majority of household deposits are in current accounts earning very low interest. The number of bond issues increased towards the end of the year. Due to an amendment of the Act on Mortgage Credit Banks, deposits bank were able to issue covered bonds. Growth continued in structured products.

At the end of 2010, Finnish credit institutions had liabilities totalling EUR 470 bn. The breakdown was as follows: deposits by non-MFIs 25%, intra-group liabilities 22%, debt securities issued 15%, money market liabilities[25] 6% and other liabilities[26] 32%. The funding structures of individual credit institutions operating in Finland are very different depending on the nature of operations and group structure of the credit institution. The most significant form of funding is non-MFI deposits. Only credit institutions that have been authorised as a deposit bank can receive deposits from non-MFIs. Hence, other credit institutions than deposit banks obtain their funding through other channels. Credit institutions other than deposit banks comprise a very heterogeneous group; hence their funding structure cannot be given an all-encompassing definition. Other credit institutions include mortgage banks, credit card companies and financing companies authorised as credit institutions.

A majority of credit institutions operating in Finland are part of a larger banking group, which enables intra-group funding from Finnish or foreign parent companies and other group companies. The funding structure of credit institutions depends very often from the other group companies and their roles within the group. Since the Finnish banking sector as measured by the balance sheet total is largely foreign-owned, the funding of credit institutions operating in Finland cannot be assessed comprehensively by looking only at the figures for Finnish entities.

The funding of Finnish-based branches of foreign credit institutions is often received from the foreign parent company through intra-group funding. In contrast, the funding of small domestic deposit banks is almost entirely based on deposits by non-MFIs. Small operators do not seek funding from the money or bond markets to any significant extent.

To put it very simply, credit institutions fund their lending by taking deposits from non-MFIs, issuing certificates of deposit or bonds and raising equity funding[27]. Since funding has exceeded lending[28], the excess funding has in practice been invested in securities. Other liability items, such as derivatives, money market and group liabilities as well as other liabilities roughly even out at the level of the whole balance sheet. That is, the counterparts of the items

[24] Monetary financial institutions (MFIs).

[25] Incl. liabilities to the central bank and repos.

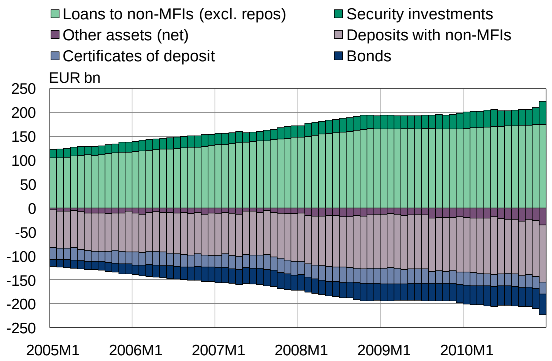
[26] Incl. derivatives and equity.

[27] At the end of 2010, the equity of Finnish credit institutions amounted to about EUR 25 bn.

[28] At the end of 2010, deposits and bonds amounted to 107% of the loan stock.

above are roughly equal in size[29]. These items are not scrutinised in detail in the following.

Chart 21. Credit institutions' funding and investments

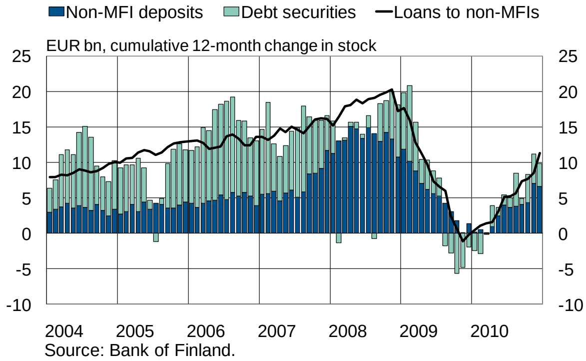


Source: Bank of Finland.

Banks' funding needs are essentially driven, in addition to their funding structure, by the growth rate of the loan stock. In Finland, the stock of loans to non-MFIs grew at a rate of about 11–14% pa in 2003–2008. As a consequence of the financial market crisis, growth of the non-MFI loan stock began to slow down dramatically in 2008 and almost stopped towards the end of 2009. At the start of 2010, the growth rate of the non-MFI loan stock began to gather momentum again and it reached 6.7% at year-end.

Growth of the non-MFI deposit stock was much slower than that of the loan stock before 2008, when the deposit stock began to surge. Hence, deposit growth has not fully covered banks' funding needs, and other forms of funding have grown faster than deposits in relative terms. As a rule, the difference between loan and deposit stocks has been covered by debt issues. Since the financial crisis, the stock of non-MFI loans and deposits have developed closely in line with each other (Chart 22).

Chart 22. Annual change in stocks of non-MFI loans, deposits and debt securities in Finland



Source: Bank of Finland.

Also in many other euro area countries, in the years of solid growth before the financial crisis, the deposit stock grew considerably more slowly than the loan stock. For example in Spain and Ireland, the stock of loans to non-financial corporations and households grew considerably faster than their deposit stocks, and banks had to resort increasingly to other means of funding. In contrast, in Greece and Germany the deposit stock relative to loans has traditionally been very large and has covered over 100% of the stock of loans to non-MFIs. However, in cross-country comparisons it is worth bearing in mind that the credit institution sectors in different countries differ greatly, and this directly affects the ratios of loan to deposit stock.

During the boom of the 2000s, banks in many euro area countries increased their lending capabilities by securitising[30] for example their household and corporate loans. Hence banks were able to increase their borrowing and meet the increased loan demand. However, due to the financial crisis, investors' confidence in securitised financial instruments

[29] For example, at the end of 2010, derivatives assets were EUR 100.7 bn and derivatives liabilities EUR 98.6 bn.

[30] In this context, securitisation means that loans are packaged and transferred into a special purpose vehicle, which issues bonds that are secured by the packaged loan pool. Such products are generally known as Asset Backed Securities (ABS).

collapsed, and these markets have not recovered fully even today. The role of covered bonds[31] has become increasingly important as securitisation through special purpose vehicles has dried up. Covered bonds usually have a high rating due to the underlying collateral pool. Following the coming Basel III regulation, banks' liquidity buffers will include covered bonds with a minimum rating of AA. This may also increase the significance of covered bonds as a form of funding for credit institutions in the future.

3.1 Funding has become more expensive due to the crisis

During the financial crisis, funding became less available and more expensive for banks. Interest rate competition has increased the cost of deposit funding, and investors' yield requirements for bank bonds have risen. In autumn 2008, when the financial crisis escalated, trading in the interbank market, or lending between banks, stopped almost completely. In addition, there were fears of inter-bank contagion, and the creditworthiness of certain banks was called into question, which increased the price of non-collateralised short-term finance relative to collateralised finance.

The average interest rate on the deposit stock has a large impact on the total cost of bank funding and the interest spread between banks' loan and deposit stock. Hence, developments in the interest rate level of the loan stock are also important in terms of banks' net interest income. Interest rates on the loan stock have sunk to historic lows: in June 2010 the average interest rate on the non-MFI loan stock dropped to 2.30%. Since a majority of the loan stock is linked to variable Euribor rates, the interest rates on the loan stock have decreased rapidly, in line with market rates. In contrast, there has been less room for lower deposit interest rates, since a majority of the deposit stock was in current accounts earning very low interest rates to begin with. Banks have benefitted from these low-interest deposits when market rates have been higher than at present.

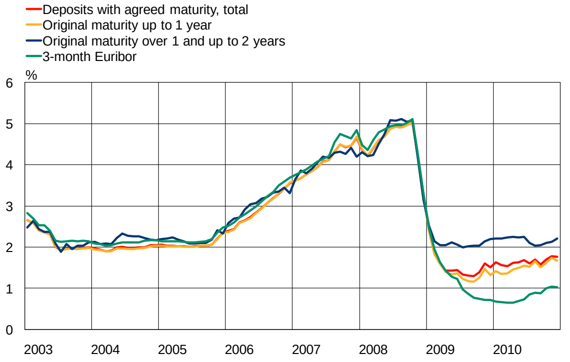
The interest spread between non-MFI loan and deposit stocks shows a declining trend since the start of the 21st century. The spread was at its highest at 4.3 percentage points in January 2001, and in June 2010 it bottomed at 1.5 percentage points. After the summer, the interest rate spread began to widen slightly, standing at 1.6 percentage points at the end of 2010.

The level of market interest rates also has a direct impact on banks' deposit costs, since the differential between interest payable and market interest rate narrows as interest rates decline. Market rates declined to exceptionally low levels in the wake of the financial crisis, as the European Central Bank cut its policy rate to 1%. In addition, the eurosystem has lent liquidity to banks in an amount matching the demand at a fixed interest rate. This has lead to surplus liquidity in banks' current accounts. Hence, the shortest-term Euribor rates declined in early 2010, to levels below the policy rate. Towards the end of the year, the 3-month Euribor reached the level of the policy rate, which has already improved bank's deposit margins somewhat.

[31] Covered bonds differ from ABS instruments for example in that the investor can make claims against the issuer of the bond, that is, the bank. Neither are the bonds transferred into a special purpose vehicle nor separated into classes with different seniority, so-called tranches. The collateral pool of covered bonds can only consist of loans.

Since 2003 and up to the beginning of 2009[32], households' new deposits with agreed maturity paid a slightly lower interest rate than the three-month Euribor. However, since the beginning of 2009, interest rates on new deposits with agreed maturity have diverged widely from market rates (Chart 23). New term deposits pay almost a percentage point higher interest than the 3-month Euribor.

Chart 23. Average interest rates on new business on household deposits with agreed maturity and 3-month Euribor

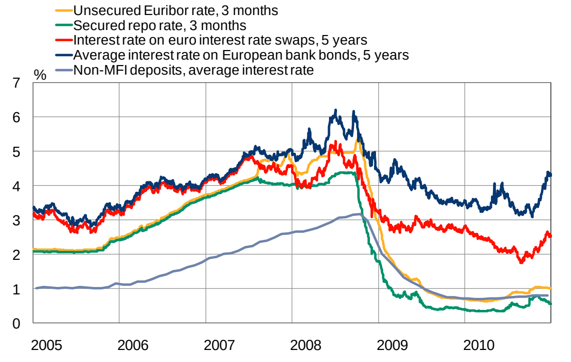


Source: Bank of Finland.

The development of deposit rates partly reflects competition for deposits among banks, which reflects preparation by banks for regulatory changes. The key figure on funding, "net stable funding ratio" under Basel III, encourages banks to obtain longer-term funding than before on the liabilities side of the balance sheet. Therefore, long-term deposits will be increasingly important for banks. Non-MFI deposits are a very stable form of funding for banks, since they have historically shown very small cyclical fluctuations. Deposits already show signs of increasing maturities. Regulatory changes are also expected to lengthen the maturities of bonds issued by banks.

The financial crisis also affected the availability of market funding for credit institutions operating in Finland. Although Finnish credit institutions are well capitalized and have solid credit ratings, the number of new issues decreased when the crisis began. The stock of bonds issued by deposit banks actually contracted in 2007–2009. In the course of 2010, bond issues increased, and their stock grew by about EUR 5 bn. Finance is now available at a lower cost than in recent years.

Chart 24. Cost of financing



Sources: Bank of Finland, Bloomberg and Bank of Finland calculations.

A majority of the growth in the stock of bonds issued by Finnish credit institutions in 2010 is based on covered bonds. Covered bonds secured by mortgages on residential property have sold well throughout the crisis. Finnish credit institutions have been able to issue covered bonds bearing low interest rates. The coupons have been 2–2.5%. In a European comparison, they have been low. In Finland, covered bonds have traditionally been issued by mortgage banks. However, the legislation on mortgage banking was reformed in Finland at the start of August 2010. The new Act on mortgage banking also enables other credit institutions to issue covered bonds. The first issue by a deposit bank was witnessed in November, when Nordea Bank Finland Plc issued a covered bond.

[32] Compilation of the statistics on new business on deposits with agreed maturity began in 2003.

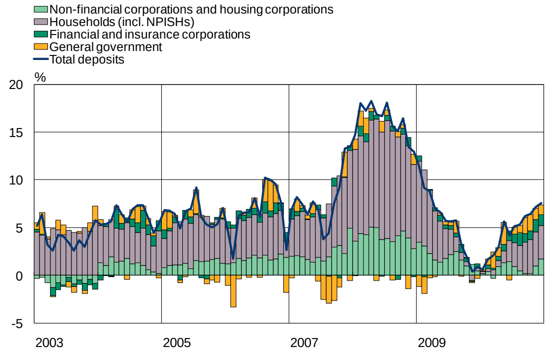
3.2 Role of deposits in credit institutions' funding

Deposits of non-MFIs are still by far the most important source of funding for deposit banks operating in Finland. Non-MFI deposits cover about 80% of lending by deposit banks to non-MFIs. The bulk of deposits is held by households. At the end of December, the non-MFI deposit stock amounted to EUR 117 bn, of which households[33] accounted for 67%, non-financial corporations for 22%, general government for 6% and insurance and financial institutions other than MFIs 5%. The proportion of households decreased during the year by 4 percentage points and the proportion of non-financial corporations increased by the same amount. Over 70% of deposits by non-financial corporations was in short-term current accounts, while the corresponding proportion for households was 54%. As fixed-term depositors, households were indeed much more important than non-financial corporations, as measured by deposit volumes.

Deposits by non-MFIs are a very stable and comparatively economical source of funding for banks. Deposits are, due to the interest rates paid on them, almost without exception a cheaper form of funding than that raised in the bond markets. At the end of December, the average interest paid on non-MFI deposit stock was 0.78%. The low interest rate is due to the fact that a large part of non-MFI deposits is in current accounts paying low rates. Although such deposits have historically proven a relatively stable form of funding for banks, they are nevertheless fully liquid, that is, withdrawable without limitation.

[33] Including non-profit institutions serving households (NPISHs), which accounted for about 3% of household deposits.

Chart 25. Annual growth in stock of non-MFI deposits by sector



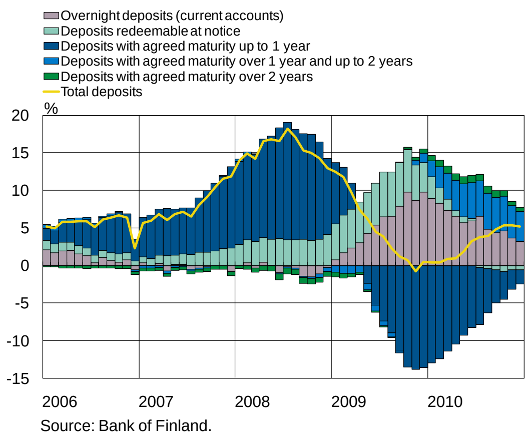
Source: Bank of Finland.

A special feature in the transmission of finance by banks is the funding of long-term lending by short-term funding. Therefore, the assets and liabilities sides of banks' balance sheets have very different maturity structures, which may cause liquidity difficulties for banks, particularly in periods of crisis. The financial market crisis further highlighted the significance of deposits for banks. Deposits have proven a stable and safe form of funding for banks, even during crises. This is partly accountable to the deposit guarantee fund, which secures depositors' assets up to a certain limit. At the start of the year, this limit was raised to EUR 100,000.

During the financial crisis, banks actually experienced an inflow of deposits. Households transferred their assets from higher-risk investments, such as equity shares and investment funds, into bank deposits, which were perceived as safer. Investment funds registered in Finland experienced a record amount of redemptions in 2008, over EUR 11 bn in net terms. Money market funds had the largest redemptions, almost EUR 6 bn, which were partly transferred to deposit accounts. In addition, market rates rose steeply during 2008, and deposit interest offers were exceptionally good, which added to the attractiveness of deposits as investments.

In 2009, the acute financial market crisis subsided, and money again started flowing into investment funds and other investment products. Total net subscriptions for investment funds registered in Finland in 2009 totalled over EUR 4 bn. The deposit stock continued to expand, but the growth rate slowed considerably towards the end of 2009. Interest rates on deposits declined sharply in line with tumbling market rates, which reduced in particular the attractiveness of deposits with agreed maturity as investments. Especially the popularity of households' deposits with agreed maturity weakened drastically; during 2009 almost EUR 10 bn was withdrawn from deposits with agreed maturity, that is, almost 35% of the stock of deposits with agreed maturity. The funds were mainly transferred to liquid short-term current accounts[34], the stock of which grew by 20% or almost EUR 7 bn over the same period. The low level of interest rates reduced the opportunity cost of current accounts, ie the differential between returns on deposits with agreed maturity and current accounts.

Chart 26. Annual growth of household deposit claims



Source: Bank of Finland.

At the start of 2010, the stock of deposits by non-MFIs began to grow again, and the growth rate rose to 7.5% pa at the end of December. The popularity of deposits with agreed maturity has also begun to increase, as competition has boosted the interest rates paid on deposits.

3.2.1 Households' long-term deposits increasing

Since the start of last year, particularly new long term deposits have paid considerably higher interest rates than previously relative to short-term deposits and market rates. Growth in the stock of long-term deposits with agreed maturity of over 1 year and up to 2 years accelerated considerably during 2010. The stock almost doubled, to EUR 6.7 bn, which accounted for 9% of the entire household deposit stock. Growth was boosted by good interest rates on deposit accounts offered by banks to households; at the end of December, the average rate on new business was 2.21%. The average interest rate on households' new deposits with agreed maturity of over 2 years was lower, 1.76%, at the end of December. This was because about a third of the total (EUR 520 mn) was in structured deposits, whose average initial interest was relatively low. The average interest rate on new business in structured loans of over 2 years concluded in December stood at just 0.19%. At the end of 2009, there was about EUR 300 mn in structured deposits[35], so their stock almost doubled in 2010. Structured deposits refer to deposits consisting of a low-return deposit component and a bonus component aimed at a higher return. It may be possible to achieve even a high return on this kind of a deposit if eg the underlying index, equity basket or derivative performs favourably. However, such interest rates possibly payable in the future are not reported in the statistics,

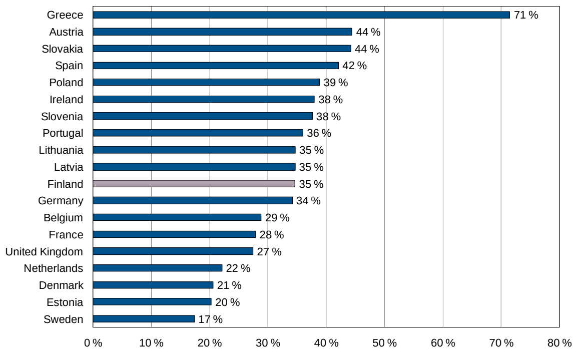
[34] Overnight deposits.

[35] Source: The Finnish Structured Products Association.

since payment is uncertain at the time of conclusion of the contract. Excluding structured products, the average interest rate on new business on households' deposits with agreed maturity of over 2 years was 2.19% pa at the end of December.

Bank deposits are Finnish households' largest single asset item. At the end of 2009, 35% of the financial assets of Finnish households consisted of bank deposits (Chart 27). For example, in Sweden only 17% of households' financial assets are in deposits. In contrast, in Greece as much as 71% of households' financial assets are in bank deposits. The differences are explained by special characteristics of the countries, such as legislation, taxation and the supply of investment products.

Chart 27. Proportion of bank deposits in household's financial assets

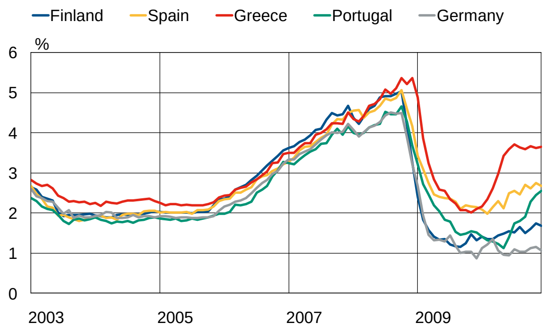


Source: Eurostat.

3.2.2 Deposit rates rising also in other euro area countries

The rise of interest rates on new business on deposits with agreed maturity does not concern Finland alone. Interest rates on new household deposits with agreed maturity have also began to rise notably in other euro area countries. In the euro area, the rise has been much faster on average than in Finland. Particularly in certain frontier countries in the euro area, interest rates on new business on deposits with agreed maturity have risen steeply as banks have wooed depositors to get funding. In Greece, Spain and Portugal, the interest rate on new business on households' deposits with agreed maturity has increased the most; in Greece, households' new deposits with agreed maturity of up to 1 year paid 3.66% and in Spain 2.68% at the end of December.

Chart 28. Interest rates on new household deposits of up to 1 year in selected euro area countries



Sources: European Central Bank and Bank of Finland.

The funding from deposits is, despite the rising deposit rates, considerably cheaper than market funding. Furthermore, for instance in Greece and Ireland many banks have had difficulties in raising funding from the markets. In spite of attractive interest rate offers, deposit growth has remained sluggish, which has increased banks' dependency central bank funding.

3.3 Role of debt securities in credit institutions' funding

Bonds issuance is the second most important source of funding for credit institutions after deposits of non-MFIs. The proportion of debt securities issued by credit institutions in the non-MFI loan stock is 39%[36],

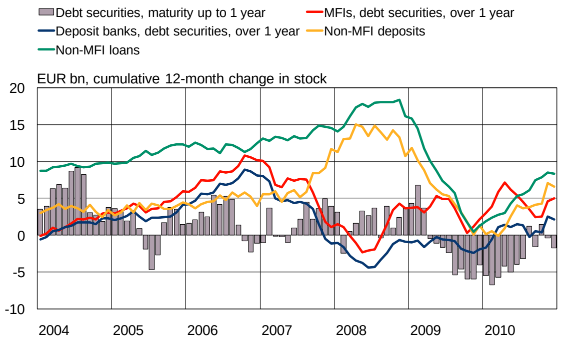
[36] The non-MFI loan stock amounted to about EUR 179 bn at the end of 2010.

of which short-term certificates of deposit account for about 15 percentage points and long-term bonds for about 25 percentage points. Looking not at credit institutions but separately at deposit banks and credit organisations, the ratios change materially.

For deposit banks, the most important funding item is deposits by non-MFIs. These account for 81% of loans granted. Bonds issued cover 31% of deposit banks' non-MFI loan stock. Since the funding obtained exceeds the stock of loans granted, the excess funding is either invested or transferred to group companies.

The role of debt finance is highlighted in the funding of credit organisations, since credit organisations are not allowed to receive deposits from the public. On average, bonds issued by credit organisations cover 79% of the loans granted by them to non-MFIs. Often the remainder is covered by intra-group finance.

Chart 29. Stock of debt securities relative to stock of loans and deposits

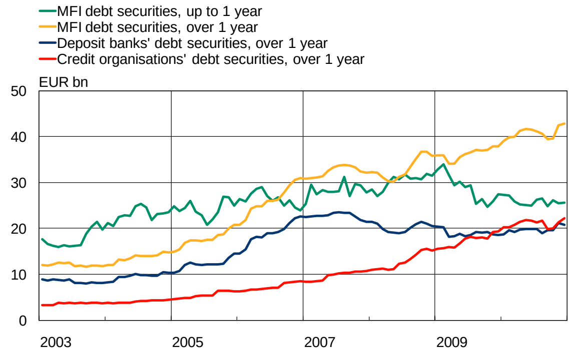


Source: Bank of Finland.

Nearly not all Finnish credit institutions issue debt securities. Generally only the largest banking groups need to actively raise funding through international bond issues. At the end of 2010, there were 333 credit institutions in Finland, only 56 of which had issued bonds. There were 17 issuers of certificates of deposit and other[37] short-term money market paper. In volume terms, debt security issues are concentrated in the five largest agents, whose share of the stock outstanding at the end of the year was 87%. Accounting for group relationships, the market was even more concentrated.

At the end of 2010, the stock of bonds issued by credit institutions was EUR 68 bn, of which EUR 25 bn was in certificates of deposit and EUR 42 bn in bonds. In practice, the certificates of deposits were issued by deposit banks. Only a few credit organisations had an issue programme for short-term debt securities. In contrast, the stock of long-term debt securities is split almost evenly among deposit banks and credit organisations.

Chart 30. Stock of debt securities by maturity and issuing sector



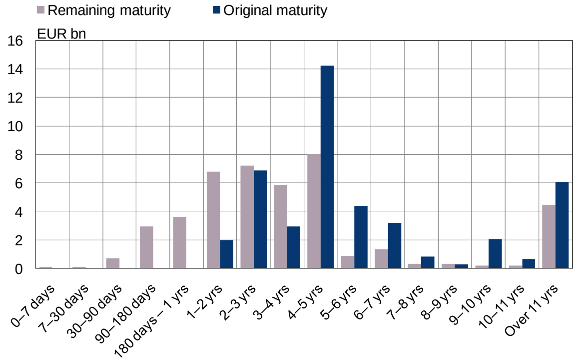
Source: Bank of Finland.

[37] The short-term debt security issued by Municipality Finance is also known as a KVS bond (Kuntarahoituksen velkasitoumus).

3.3.1 Bonds

The stock of bonds issued by deposit banks peaked in summer 2007 at about EUR 23 bn, and it shrank to about EUR 18–20 bn after the financial crisis began. The stock remained at this level until the latter half of 2010. However, the number of new issues began to increase gradually in 2009. During the crisis, long-term bond funding has been replaced particularly by an increase in deposits. In addition, banking groups have raised market funding via bonds through mortgage banks under their ownership. Credit organisations such as mortgage banks have been able to issue bonds throughout the financial crisis. In addition, they have been able to raise funding from the markets at a lower cost than deposit banks, which explains the growth in their importance. The low cost is possible due to covered bonds backed by residential real estate, which have the highest possible, AAA, ratings.

Chart 31. Original and remaining maturity of bonds, end-2010



Sources: Bank of Finland and Bloomberg.

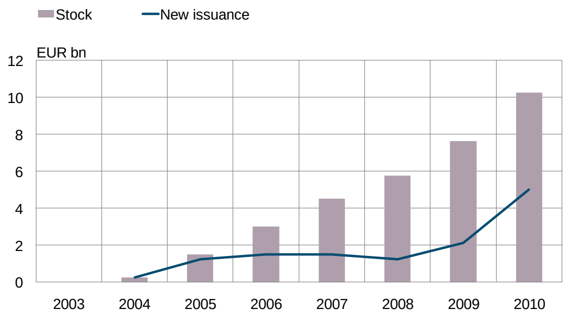
The use of mortgage banks in funding has indeed increased steadily ever since 2004, when the first emissions of covered bonds were carried out in Finland. At the moment, the stock of covered bonds totals EUR 10.2 bn, almost a quarter of the entire stock of bonds outstanding. In 2010, new covered bonds were issued in the amount of EUR 5.0 bn. Covered bonds are issued almost entirely in the international markets.

The weighted average initial maturity of bonds issued by Finnish credit institutions is 7.7 years, and the median maturity of bonds is exactly 5 years. Finnish credit institutions have issued long-term bonds with maturity over 10 years in the amount of about EUR 6 bn, corresponding to about 15% of the entire bond stock. However, the most weight has been in bonds with maturity of 3–5 years.

Bonds are issued mainly with fixed interest rates or as zero coupon bonds. All in all, these two types account for about 64% of all bonds. The proportion of floating-rate bonds is about 30%. The remainder consists of index-linked bonds. Like deposits, a majority of bonds have a fixed interest rate. In contrast, lending by credit institutions is mainly based on floating rates.

During 2011, about EUR 8 bn in bonds issued by Finnish credit institutions will mature, about a billion of that amount in the first quarter. The amount maturing in the following year corresponds to about 20% of the current bond stock and 5% of the non-MFI loan stock.

Chart 32. Covered bonds with housing loan collateral in Finland



Sources: Bank of Finland, European Covered Bonds Council and Bloomberg.

According to financial accounts, bonds are held mostly by foreign investors. At the end of the third quarter of

2010, foreign ownership accounted for about 77% of all bonds outstanding. Of domestic sectors, households held the largest bond investments (8%). Of the other domestic sectors, other credit institutions hold 4%, employment pension institutions 3% and insurance companies 2% of the stock of bonds outstanding.

In addition to large issues targeted at the international markets and institutional investors, Finnish deposit banks have also sold index-linked bonds[38] aimed at households. Large capital is not usually needed to buy such bonds, since the minimum subscription is typically EUR 1,000. Index-linked bonds are structured bonds whose return is linked to the performance of an underlying, such as an equity share, equity index, a currency or commodity. Index-linked bonds partly explain Finnish households' relatively large bond holdings.

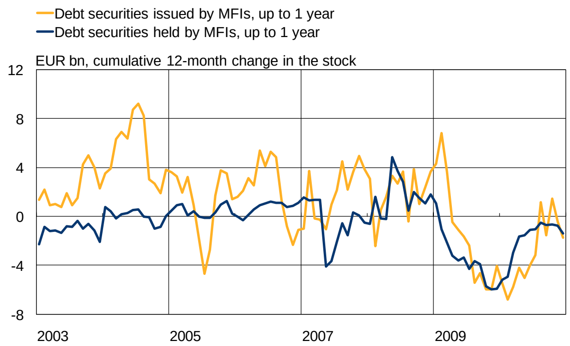
In 2010, Finnish deposit banks issued 111 index-linked bonds, with a total nominal value of EUR 756 million. All in all, there are 407 index-linked bonds issued by Finnish deposit banks outstanding, with a nominal value totalling EUR 2.9 bn. The majority of index-linked bonds are capital guaranteed up to the nominal value. Capital guarantee means that the nominal amount will be paid back on the maturity date. In many cases, the investor may seek additional returns by subscribing for the investment at a premium, that is, investing more than the nominal value. However, the premium may be lost if the underlying index of the bond performs unfavourably, ie the capital guarantee does not apply to the premium.

[38] The market for structured investment products is a fairly new phenomenon in Finland, and the rapid growth of the market only began at the start of the millennium. The first structured bond was issued in Finland in 1994. Source: The Finnish Structured Products Association.

3.3.2 Certificates of deposit

The stock of outstanding short-term certificates of deposit (CDs) contracted in 2009, from about EUR 34 bn to EUR 25 bn. Year-on-year, the change was the largest in February 2010, when the stock contracted by EUR 6.8 bn. A majority of these certificates of deposit have been held by other Finnish credit institutions, since at the same time, holding were unwound in the amount of about EUR 5 bn. At the end of 2010, Finnish credit institutions only held about 4% of the certificates of deposit. A similar contraction of volume was seen in certificates of deposit issued by non-financial corporations. The stock of certificates of deposit was reduced particularly by the steep decline in euro-denominated certificates of deposit, which continued up to the first half of 2010.

Chart 33. Certificates of deposit

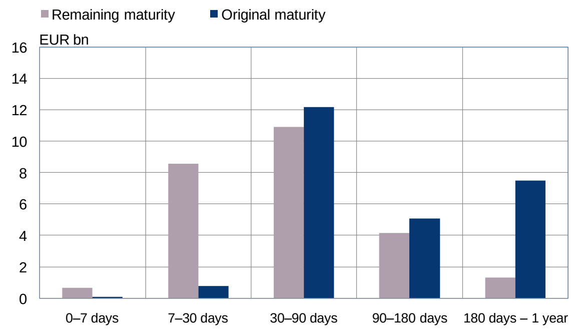


Source: Bank of Finland.

In contrast, issues of certificates of deposit not denominated in euro have increased in previous years. At the end of 2010, the proportion of certificates of deposit denominated in other currencies was about 48% of the entire stock. Certificates of deposit have been issued for example in UK pound sterling, US dollar, Japanese yen and Swiss franc. The amount of certificates of deposit issued in foreign currencies will probably continue to increase, as reduced domestic demand is replaced by foreign buyers. The certificates of deposit held by domestic credit institutions have been almost 100% euro-denominated. According to financial accounts data, 58% of certificates of deposit has been held by foreign investors.

The average maturity of certificates of deposit is 4.4 months and the median maturity about 3 months. Since a certificate of deposit is a short-term money market instrument, there is a considerable amount maturing every month. In recent months, certificates of deposit have matured at a rate of about EUR 6–9 bn a month. Almost the entire stock of certificates of deposit is turned over every three months.

Chart 34. CD maturities



Sources: Bloomberg and Bank of Finland.

Box 1. Popularity of long-term saving increased towards year end

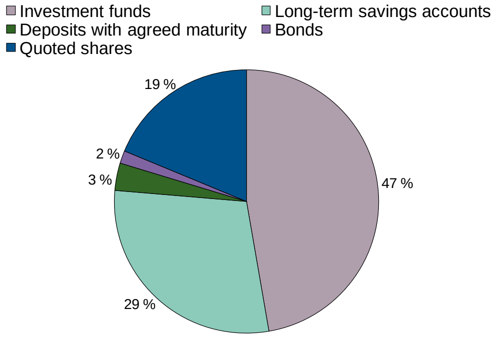
The popularity of long-term saving (PS) increased towards the end of the year. There were also new service providers entering the market. At year end, there were 9,811 long-term savings accounts totalling about EUR 10 mn. A majority of long-term savings is in investment fund shares.

Long-term saving in accordance with the Act on long-term saving is allowed from start of April 2010. A PS account is a voluntary and bound savings account supported by tax concessions for pension saving. Such long-term savings are first deposited in a long-term savings account, where they can be invested again at the saver's discretion in equity shares, investment funds, bonds or deposits. Returns on such accounts are tax-free for the duration of the savings period, but when assets are withdrawn from the account, taxes are paid in accordance with the current capital gains tax rate.

Funds in a PS savings account are eligible for the same tax deduction as for voluntary pension insurance. The maximum deduction, EUR 1,400, goes with annual savings of EUR 5,000 based on the present capital gains tax of 28%. Sales of investments in the scope of the agreement on PS savings are not subject to capital gains tax (neither are losses on sales tax deductible). In addition, dividends within the agreement on long-term savings are tax free. In practice, the tax advantage related to the scheme is postponement of tax payment: one does not have to pay taxes over the saving period; taxes are paid when the assets accrued are withdrawn after retirement.

The Bank of Finland has collected statistical data on PS savings service providers on a quarterly basis since the start of April 2010. By the end of 2010, a total of 9,811 PS agreements had been concluded. In total, the amount of assets in PS accounts was about EUR 10 mn, 47% of which in investment funds (Chart). Direct equity investments were also popular: they accounted for 19% of the investments. In the scope of the Act on PS saving, assets can only be invested in quoted shares; 98% of the equity investments were in Finnish listed companies. A minor share of equity investments have been in shares of companies registered in other Nordic countries, but so far no investments have been made in companies outside Europe. Since the assets are always first deposited in a PS account and only thereafter invested in other investments, 29% of the savings were in the accounts waiting to be invested. Deposits with agreed maturity accounted for 3% of the total savings.

Chart 35. Long-term savings at end-December



Source: Bank of Finland.

The average saving into PS accounts has been about EUR 120 a month. However, not all savers are monthly savers, since some deposit a larger sum at a time. Particularly towards the end of the year, some customers may have made larger single deposits in order to get the tax benefit.

4 Investment funds

4.1 Investment funds' balance sheet

The aggregated balance sheet of investment funds registered in Finland totalled EUR 63.8 bn at the end of 2010. Investment funds provide a nexus between domestic capital and international markets. Finnish investors held EUR 49.0 bn in shares of domestic investment funds, and investment funds had assets of EUR 17.2 bn in Finland.

The Bank of Finland collects monthly balance sheet data from investment funds (incl. money market funds)[39] registered in Finland. Management companies managing investment funds provide the central bank with security-by-security data on the balance sheets of their funds and subscriptions and redemptions of fund shares.

At end-2008, the aggregated balance sheet of domestic investment funds totalled EUR 42.1 bn, at end-2009 EUR 55.0 bn and at end-2010 EUR 63.8 bn. The balance sheet total has increased significantly in a short period of time. Over the two past years, all fund categories except money market and hedge funds have had more subscriptions than redemptions. However, the bulk of the balance sheet growth in investment funds is explained by appreciation of shareholdings in their portfolios.

The net assets of domestic investment funds are largely held by Finnish and Swedish unit holders; at end-2010, their aggregated holdings amounted to 96%. The proportion of Swedish holdings grew over the two past years from 13.2% to 17.3%. Over the same period, domestic holdings decreased from 84.0% to 78.7%.

The number of domestic investment funds operating at end-2010 was 510, 344 of which had Swedish shareholders. Of a total of 27 investment funds, Swedish shareholders accounted for over EUR 100 mn. These 27 investment funds accounted for 84% of the total Swedish holdings of EUR 10.7 bn.

Investment funds had fund-share liabilities to Nordic countries other than Finland and Sweden amounting to EUR 0.4 bn, where Norway accounted for 90%. This capital consisted primarily of equity fund liabilities (EUR 0.3 bn). Fund capital outside the Nordic countries (EUR 2.1 bn) came from the rest of Europe, as investments from non-European countries in domestic investment funds amounted to only EUR 54 bn.

Investment funds tend to integrate domestic capital into the international markets. This becomes evident when comparing the regional breakdown of investment fund assets with the regional breakdown of the capital raised (Table 2). The market value of capital raised in Finland amounted to EUR 49.0 bn, and the market value of domestic investment was EUR 17.2 bn. The value of all investments in Sweden (EUR 7.8 bn) covers 72.8% of the value of Swedish holdings of investment fund units, at EUR 10.7 bn. The proportion of capital raised in Finland and Sweden that returned to these countries as investment fund investments was slightly less than 40% (EUR 25.0 bn). Two years ago,

[39] Hereinafter "domestic investment funds".

the proportion stood at 45%. The value of investments in Norway and Denmark was almost EUR 2.0 bn higher than the corresponding fund-share liability. Investments in Iceland were negligible.

The proportion of other countries than the Nordic countries in the market value of the assets of all investment funds was 59% (EUR 36.4 bn). As the fund-share liability in this region was EUR 2.1 bn, the value of corresponding investments was a full EUR 34.3 bn higher.

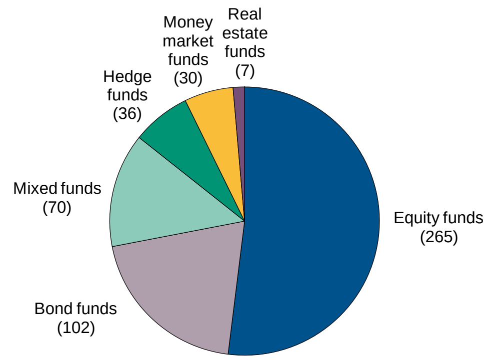
Table 2. Breakdown of balance sheet of domestic investment funds into assets and liabilities by region, end-2010, EUR mn

2010M12	Finland	Sweden	Denmark	Norway	Iceland	Rest of Europe	Other countries	Total
Equity funds	19 536	4 282	37	337	1	1 165	25	25 384
Bond funds	17 338	2 513	1	33	1	424	11	20 321
Mixed funds	3 338	1 331	0	5	0	155	7	4 836
Money market funds	7 915	2 074	1	11	0	211	11	10 223
Hedge funds	695	547	1	0		65	1	1 308
Real estate funds	155	0				1	0	156
Other liabilities:								1 591
Investment funds, total	**48 977**	**10 748**	**40**	**386**	**2**	**2 020**	**54**	**63 818**
INVESTMENT FUNDS' SHARE LIABILITIES BY FUND TYPE AND REGION								
INVESTMENT FUNDS' ASSETS BY FUND TYPE AND REGION								
Equity funds	6 719	1 697	286	458		9 170	7 306	25 636
Bond funds	4 996	1 702	401	159		11 206	2 687	21 151
Mixed funds	2 020	987	59	54		1 304	498	4 921
Money market funds	2 867	2 841	556	352		3 204	480	10 301
Hedge funds	575	580	9	37	0	314	138	1 653
Real estate funds	6	12		1		95	42	156
Investment funds, total	**17 183**	**7 820**	**1 311**	**1 060**	**0**	**25 294**	**11 150**	**63 818**
ASSETS LESS FUND-SHARE LIABILITY BY FUND TYPE AND REGION								
Equity funds	-12 817	-2 584	248	120	-1	8 005	7 281	252
Bond funds	-12 341	-812	400	126	-1	10 782	2 677	830
Mixed funds	-1 318	-344	59	49	0	1 149	491	85
Money market funds	-5 048	767	556	341	0	2 993	469	78
Hedge funds	-120	33	8	37	0	250	137	345
Real estate funds	-149	12	0	1		94	42	1
Other liabilities:								-1 591
Investment funds, total	**-31 794**	**-2 927**	**1 271**	**674**	**-2**	**23 273**	**11 097**	**0**

Source: Bank of Finland.

Investment funds are broken down in accord with an ECB Guideline[40] into the following categories: equity funds, bond funds, mixed funds, hedge funds, real estate funds and other funds. Money market funds are classified in accord with an ECB Regulation[41]. The classification criteria are harmonised for the entire euro area. Classification of investment funds is mainly based on the primary type of investment asset. For example, a fund investing primarily (> 50%) in equities is classified as an equity fund. The fund-share liabilities and assets of investment funds are described in more detail in the following chapters.

Chart 36. Domestic investment funds (510 funds) by fund type, end-2010



Source: Bank of Finland.

[40] ECB/2007/9.

[41] ECB/2008/32.

4.2 Investment funds' liabilities

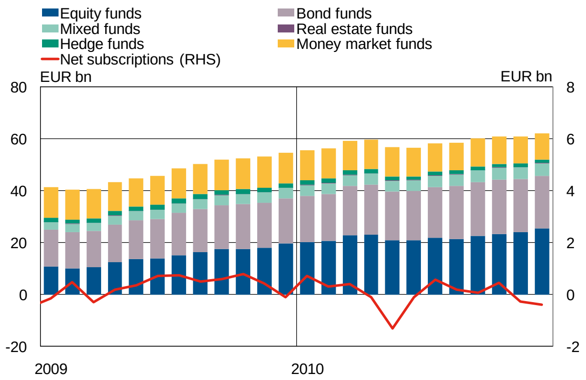
At the end of 2010, the net assets of domestic investment funds, or the fund-share liability to investors, was EUR 62,2 bn. During the year, net assets increased by EUR 7.6 bn. The growth was almost entirely due to investment returns.

The aggregated net assets of domestic investment funds peaked at EUR 70.2 bn at the end of the second quarter of 2007. In the wake of the financial crisis, however, the assets contracted to EUR 41.0 bn in February 2009, after which they accumulated steadily up to the end of April 2010 (Chart 37). In May, problems with Greece's public finances exacerbated the situation in the markets. Investors withdrew from investment funds, in addition to which the values of securities held by investment funds decreased. In the second half of the year, however, the situation calmed down.

At the end of 2010, the total net assets of domestic investment funds stood at EUR 62.2 bn. The total net assets, or fund-share liability to investors amounted to about 98% of the total liabilities of investment funds. Other liabilities consisted of timing differences in securities transactions and fund-share subscriptions, derivatives and liabilities resulting from the custody and management of securities.

The growth in net assets moderated from the previous year but was still robust. Net assets increased by EUR 7.6 bn, or 14.0%, over the year. The change in net assets depends on the price performance of fund assets as well as subscriptions and redemptions of fund shares. In 2010, the bulk (EUR 7.2 bn) of the growth resulted from the appreciation of securities held by investment funds. Investment funds also took in a total of some EUR 0.5 bn in new capital from investors.

Chart 37. Domestic investment funds' fund-share liability by fund type and total net subscriptions

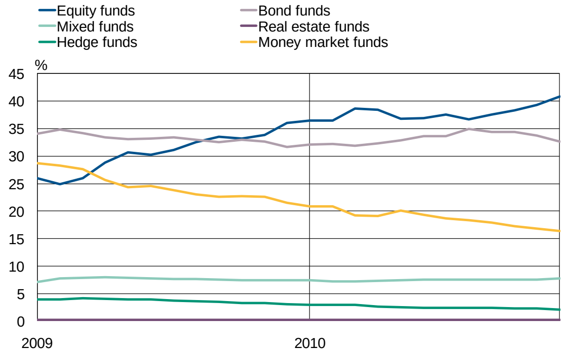


Source: Bank of Finland.

With respect to fund types, developments continued in line with 2009. In 2010, money market funds had EUR 2.1 bn more redemptions than subscriptions. Positive price adjustments constrained the decrease somewhat – the net assets of money market funds contracted by EUR 1.5 bn, to EUR 10.2 bn at the end of the year. The redemptions were due partly to the reduced confidence in money market funds as safe investments due to the financial crisis, low returns and more attractive alternative investments, such as deposits with agreed maturity. Of the other fund types, hedge funds also had negative net subscriptions, amounting to EUR 0.5 bn.

In contrast, the net assets in equity and bond funds continued to grow. The aggregate net assets of equity funds increased by EUR 5.7 bn to EUR 25.4 bn at the end of 2010. The growth comprised EUR 1.1 of inflow of new capital and EUR 4.6 of appreciation of investments, mainly equity shares. Bond funds also attracted investors' assets – totalling EUR 1.7 bn. The price appreciation of bond funds' investments (EUR 1.3 bn) including bond fund assets totalled EUR 20.3 bn. The proportion of equity and bond funds in aggregate investment fund net assets has changed significantly over the two past years (Chart 38).

Chart 38. Domestic fund types by proportion of fund-share liability



Source: Bank of Finland.

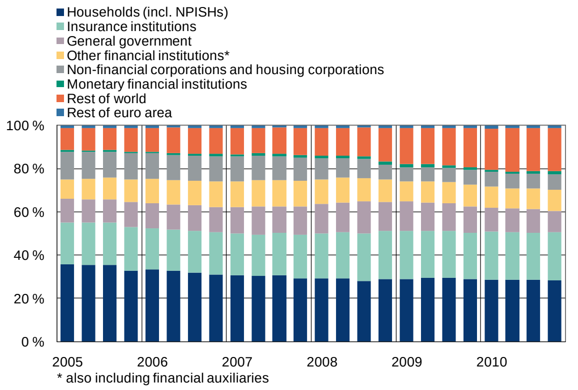
The proportion of net assets of domestic investment funds belonging to Finnish households decreased from last year's 22.4% to 21.8% (EUR 13.5 bn), although the value of the capital invested increased by EUR 1.3 bn. The decrease in relative proportion was almost entirely due to the fact that households hardly invested any new capital, on net, in domestic investment funds.

Investments by insurance institutions increased by EUR 2.7 bn to 14.2 bn, and their proportion at end-2010 stood at 22.9%. Insurance institutions channelled new capital inflows of about EUR 1.3 bn into investment funds. It should be noted that assets invested via domestic insurance institutions primarily consist of assets invested by households through unit-linked insurance policies.

The only sector for which redemptions of domestic fund shares exceeded subscriptions was general government: net redemptions totalled ca EUR 1.4 bn. The proportion of general government (mainly employment pension institutions) in investment fund net assets decreased from 12.4% to 9.7% (to EUR 6.0 bn).

The primary reason for the reduction in relative proportion of domestic holdings was a strong increase in the proportion of foreign investors, to EUR 12.5 bn or 20.1% of the net assets of domestic investment funds. Not more than two years ago, the proportion stood at 15.2%. New capital has moved into investment funds that are popular with foreign investors; their appreciation has been faster than average. Investment funds' fund-share liabilities to foreign countries increased in 2010 by a total of EUR 2.6 bn, about 0.6 bn of which consisted of new investments from outside the euro area. The net flow of investments from the euro area was slightly negative. In 2010, there were several investment funds operating in Finland that were primarily marketed in Sweden and that mainly invested in Sweden.

Chart 39. Domestic investment funds' fund-share liabilities by sector



* also including financial auxiliaries
Sources: Bank of Finland and Statistics Finland.

A third (33%) of the fund-share liabilities of mixed funds consisted of liabilities to Finnish households. Particularly households seem to favour investment funds were shares and bonds have roughly equal weight or their weighting is adjusted depending on the market conditions (Table 4). For example employment pension institutions' investments in domestic investment funds were more clearly weighted towards either equity or bond funds. Almost half (46%) of the net assets of real estate funds consisted of investments by employment pension institutions. Almost half

(42%) of the net assets of hedge funds were from Sweden.

Holdings of domestic investment funds are largely concentrated in Finland and Sweden, as 96% of the investments came from these countries (Table 3). The remainder of the fund-share liability (4%) was divided among as many as 106 countries.

Table 3. Domestic investment funds' fund-share liabilities by country

	2010	%	2009	%	2008	%
Finland	**48 977**	**78,7**	43 979	80,6	34 676	83,3
Sweden	**10 748**	**17,3**	8 510	15,6	5 496	13,2
United Kingdom	**859**	**1,4**	671	1,2	463	1,1
Norway	**386**	**0,6**	287	0,5	137	0,3
Ireland	**373**	**0,6**	335	0,6	297	0,7
Luxembourg	**285**	**0,5**	283	0,5	214	0,5
Estonia	**155**	**0,2**	103	0,2	40	0,1
Lithuania	**111**	**0,2**	69	0,1	35	0,1
Switzerland	**75**	**0,1**	57	0,1	44	0,1
Denmark	**40**	**0,1**	96	0,2	13	0,0
Other	**219**	**0,4**	206	0,4	191	0,5
Total	**62 227**	**100,0**	54 595	100,0	41 606	100,0

Source: Bank of Finland.

Table 4. Sectoral breakdown of domestic investment funds' fund-share liabilities by fund type at end-2010 (%) and net subscriptions in 2010

	Equity funds	Bond funds	Mixed funds	Real estate funds	Hedge funds	Money market funds	Total
Monetary financial institutions	1 %	1 %	1 %	0 %	1 %	1 %	1 %
Central government	0 %	1 %	0 %	3 %	0 %	1 %	1 %
Local government	1 %	2 %	0 %	1 %	0 %	2 %	1 %
Employment pension institutions	9 %	8 %	1 %	**46 %**	3 %	2 %	7 %
Other social security funds	0 %	1 %	0 %	1 %	0 %	1 %	1 %
Other financial institutions*	10 %	12 %	0 %	2 %	3 %	11 %	10 %
Insurance institutions	21 %	**29 %**	26 %	23 %	9 %	12 %	**22 %**
Non-financial corporations and housing corporations	6 %	6 %	4 %	2 %	11 %	12 %	7 %
Households	**22 %**	17 %	**33 %**	11 %	23 %	**26 %**	22 %
NPISHs**	6 %	7 %	3 %	10 %	4 %	9 %	6 %
Finland – total	77 %	85 %	69 %	100 %	53 %	77 %	79 %
Rest of euro area	1 %	1 %	1 %	0 %	2 %	1 %	1 %
Rest of world	22 %	14 %	30 %	0 %	**45 %**	21 %	20 %
Total (%)	100 %	100 %	100 %	100 %	100 %	100 %	100 %
Total (EUR mn)	**25 383**	**20 321**	**4 836**	**156**	**1 308**	**10 223**	**62 226**
Net subscriptions (EUR mn)	**1 108**	**1 687**	**194**	**6**	**-461**	**-2 058**	**477**

* including financial auxiliaries

** Non-profit institutions serving households

Source: Bank of Finland.

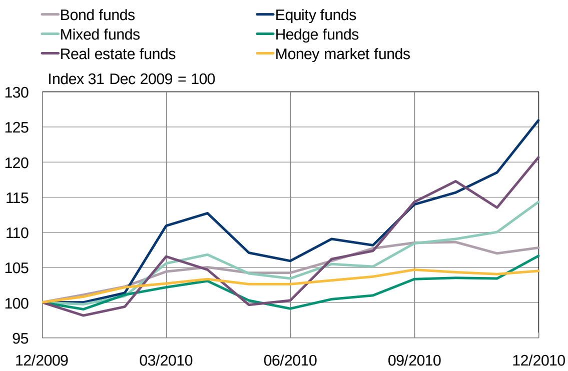
4.3 Investment funds' returns

Year 2010 was a period of high returns for domestic investment funds. The 12-month weighted average return of investment funds was 15.5%. The best performers were equity funds investing in Russia.

The returns of investment funds registered in Finland are calculated from the security-by-security data provided by management companies in the context of monthly balance sheet reporting. Returns were calculated for every growth unit in a mutual fund active for the whole 2010. The weighted average 12-month return was 15.5%.[42]

As expected, differences in the returns of different fund categories were large. The year was mainly very positive for the equity markets, which was directly reflected in the weighted average return of 25.9% for equity funds, the highest among the different fund categories. However, the best indicator of average performance of an equity fund is the median value of returns, which was 22.2%. However, it was not insignificant for an investor in which equity fund he invested, since differences between funds were large. Among funds classified as equity funds, the best return was 73.4% and the worst –17.0%. Of the twenty-five (25) best performing investment funds almost all were equity funds investing primarily in quoted Russian shares. The worst-performing equity funds were mainly funds whose investments were concentrated on the shares of companies developing environmental technologies.

Chart 40. Domestic investment funds' weighted average 12-month return (%) by fund type, indexed performance (31 Dec 2009 = 100)



Source: Bank of Finland.

The weighted average return of bond funds was 7.8% and the median return 5.1%. Of bond funds, the best performers were funds investing in SEK-denominated fixed return assets as well as emerging market debt securities. On the other hand, 2010 was a weak year for bond funds investing in euro-denominated bonds issued by euro area governments and monetary financial institutions.

The median return for mixed funds (14.1%) was between the returns generated by equity and bond funds, as expected. The return for a fund classified as a mixed fund depends largely on the proportion of its assets in equity shares. Returns were also excellent in general for investment funds investing in the real estate markets: the median return was 18.9%. The median return for investment funds classified as hedge funds was only 6.2%. However, there was large variation among individual funds.

The returns for money market funds making euro-denominated fixed income investments were modest. The calculated median return was 1.3%. Appreciation

[42] The calculation included 541 ISIN codes of 457 investment funds (incl. money market funds). The average return was calculated by weighting the value of each fund share relative to the aggregated balance sheet value and multiplying this by the return on the fund share. Finally, the values thus calculated were summed. The returns of different fund categories were calculated by weighting the values of fund shares assessed relative to the balance sheet value of that category.

of the Swedish krona relative to the euro boosted the returns of some large money market funds holding SEK-denominated investments to exceptionally high levels. Thanks to these funds, the weighted average return was 4.5%. Only two money market funds achieved a higher return.

Table 5. Domestic investment funds' 12-month return (%) by fund type, end-2010

	Equity funds	Bond funds	Mixed funds	Real estate funds	Hedge funds	Money market funds	Total
Weighted average	25,9	7,8	14,3	20,7	6,6	4,5	**15,5**
Median	22,2	5,1	14,1	18,9	6,2	1,3	**15,2**
Highest	73,4	30,4	29,1	27,3	30,6	15,0	**73,4**
Lowest	-17,0	-3,5	-9,8	16,3	-12,3	-0,5	**-17,0**

Source: Bank of Finland.

4.4 Investment funds' assets by region

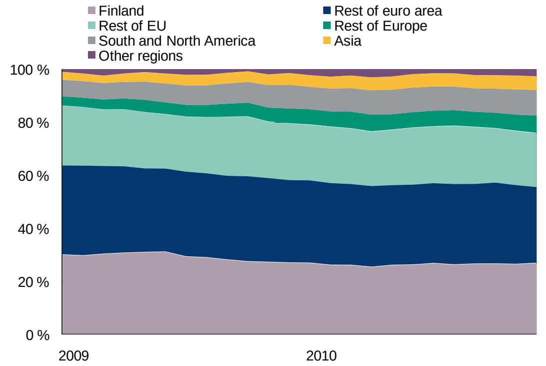
The proportion of investments in the euro area in total investment fund investments decreased to 55.7% as the public finance problems in some euro area countries were reflected in the market values of those investments. The euro area proportion was also reduced by the rapid growth of emerging market investments and revaluation adjustments resulting from foreign exchange rate changes.

At the end of 2010, the total assets of domestic investment funds stood at EUR 63.8 bn. Regionally, the investments continued to be largely channelled into Europe (EUR 52.7 bn; 82.5%), particularly into the euro area (EUR 35.5 bn; 55.7%), although their proportion of total assets continued to contract during the year. A year ago, the proportion of investments in Europe was 85.2% and in the euro area 58.3%. Domestic investment funds held EUR 17.2 bn of assets in Finland (26.9%), the same relative level as in the previous year. Investments in Finland were mainly successful, which was reflected in positive revaluation adjustments of EUR 1.5 bn. In addition, new net investments of EUR 0.8 bn point to the attractiveness of domestic investments. Among the assets, EUR 6.1 bn was cross-holdings between domestic investment funds (described in more detail in Box 3).

The weight of regions outside Europe continued to increase in 2010. For example, the proportion of assets in America[43] grew particularly on the back of solid returns on securities, to 9,7% (EUR 6.2 bn). However, the growth of assets was fastest in Europe (non-EU), Asia and Africa.

[43] South and North America.

Chart 41. Assets of domestic investment funds by region (%)

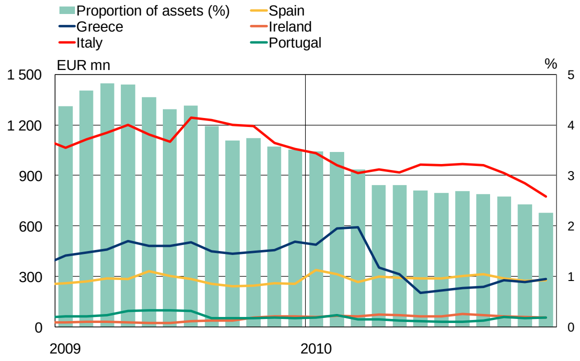


Source: Bank of Finland.

As regards investments in the euro area, EUR 4.2 bn (22.9%) were in Luxembourg. Its relative proportion among euro area assets grew by as much as 9.0 percentage points, which was due to new fund investments in Luxembourg (EUR 0.9 bn) and their appreciation (EUR 0.5 bn).[44] The amount of investments in the Netherlands also increased during the year, by EUR 0.4 bn.

The combined proportion of the GIIPS countries[45] and Belgium in euro area investments declined by a 7.9 percentage points. The change resulted mainly from the sale of bonds. Due to negative flows, the stock decreased by EUR 0.8 bn. In addition, due to securities price declines, the value of investments in the countries above decreased by about EUR 0.2 bn. Domestic investment funds' claims in bonds issued by general government in the GIIPS countries amounted to 2.3% of total assets of the investment funds (Chart 42).

Chart 42. Domestic investment funds' claims in bonds issued by general government in GIIPS countries (EUR mn) and proportion (%) of total fund assets



Source: Bank of Finland.

However, there were significant differences between GIIPS countries in the breakdown of investments (Table 6). For example, the proportion of investment fund shares in all Irish investments was significant (59%) and these also performed well in 2010. Investment funds registered in Ireland invest their funds around the world, and so this figure should not be used as an indicator of Ireland risk. The Irish investment fund sector is the fifth-largest in the euro area, due partly to tax treatment.

[44] Luxembourg has the largest investment fund sector in Europe.

[45] Greece, Ireland, Italy, Portugal and Spain.

Table 6. Domestic investment funds' assets in GIIPS countries at end-2010, EUR mn

	Greece	Ireland	Italy	Portugal	Spain	Total
Shares	17	77	160	10	204	**469**
Investment fund shares		866				**866**
Debt securities	287	522	1 262	146	982	**3 199**
Total	**304**	**1 466**	**1 422**	**156**	**1 186**	**4 534**

Source: Bank of Finland.

Assets in France amounted to EUR 3.5 bn at end-2010. Investment funds transferred investments abroad in the amount of about EUR 0.3 bn. Investment funds made some new investments in Germany, and the performance of the assets was generally favourable. At the end of 2010, the amount of German assets stood at EUR 2.5 bn. Investments in the above countries were weighted towards general government and MFI bonds as well as shares in non-financial corporations. In France, there were also bond assets vis-à-vis non-financial corporations and as well as investment fund assets.

Assets in Europe (non-EU), amounting to EUR 13.0 bn at the end of the year (20.3%) were concentrated almost entirely in Sweden (60.3%), Great Britain (26.3%) and Denmark (10.1%). Assets in Sweden consisted mostly of MFI bonds (37.3%) and central government bonds (15.1%) as well as quoted shares of non-financial corporations (19.0%).

The assets of domestic investment funds in Europe (non-EU) (EUR 4.2 bn; 6.6%) were mainly in Russia (52.9%), Norway (25.3%) and Switzerland (16.8%). Of the Russian assets, 97.3% were equity shares, primarily in non-financial corporations. The amount of assets in Russia increased by EUR 0.8 bn to EUR 2.2 bn at the end of the year. EUR 0.6 bn of the growth was due to equity revaluation adjustments. Investment funds investing in Russia were indeed among the best performing investment funds in 2010. Two years ago, the stock of Russian assets only amounted to EUR 0.4 bn.

The value of investments in other emerging markets also rose vigorously in 2010. Within Asia (EUR 3.3 bn, 5.1%), growth was particularly brisk for Turkey, South Korea, Thailand, Indonesia and the Philippines. The proportion of these countries in Asian investments was EUR 1.0 bn, or 30%, whereas a year ago it was 22.5%. The growth of Indian and Chinese assets was not as fast, but they still comprised 36.4% of assets in Asia. Investment funds sold off their investments in Japan, which resulted in a slight reduction in the stock. However, the relative proportion decreased as much as 4.2 percentage points, to 9.4%.

Of the EUR 6.2 bn assets in the Americas, 67.5% were in the United States, 12.5% in Brazil and 7.4% in the Cayman Islands. Slightly over half of the US investments were in shares in non-financial corporations, which performed well in 2010. The stock of investments in Brazil was mainly boosted by new investments made during the year.

Australia, South Africa and Egypt were the most important countries in Oceania and Africa, as measured by the assets of domestic investment funds. However, their total amount was only EUR 0.5 bn, or 0.7% of the EUR 63.8 bn of total assets of domestic investment funds.

Table 7. Domestic investment funds' assets by country (EUR mn) and proportion of total assets (%)

	2010	%	2009	%	2008	%
1 Finland	17 183	26,9	14 893	27,1	12 849	30,5
2 Sweden	7 820	12,3	7 371	13,4	6 345	15,1
3 Luxembourg	4 198	6,6	2 379	4,3	1 527	3,6
4 United States of America	4 190	6,6	3 343	6,1	1 733	4,1
5 France	3 465	5,4	3 687	6,7	3 115	7,4
6 United Kingdom	3 411	5,3	2 842	5,2	1 777	4,2
7 Germany	2 507	3,9	2 330	4,2	2 424	5,7
8 Netherlands	2 492	3,9	2 119	3,9	1 468	3,5
9 Russia	2 218	3,5	1 424	2,6	380	0,9
10 Ireland	1 472	2,3	1 716	3,1	1 162	2,8
11 Italy	1 422	2,2	1 734	3,2	1 699	4,0
12 Denmark	1 311	2,1	1 207	2,2	1 018	2,4
13 Spain	1 186	1,9	1 324	2,4	1 248	3,0
14 Norway	1 060	1,7	976	1,8	619	1,5
15 India	833	1,3	613	1,1	221	0,5
16 Brazil	738	1,2	620	1,1	149	0,4
17 Switzerland	592	0,9	520	0,9	367	0,9
18 Austria	476	0,7	506	0,9	564	1,3
19 Cayman islands	467	0,7	367	0,7	322	0,8
20 Belgium	441	0,7	540	1,0	456	1,1
Other	6 337	9,9	4 531	8,2	2 710	6,4
Total	63 818	100,0	55 039	100,0	42 154	100,0

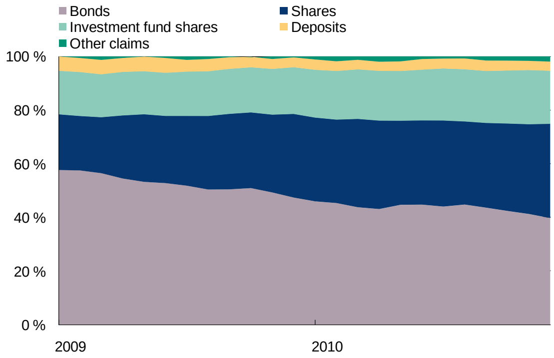
Source: Bank of Finland.

4.5 Investment funds' assets by instrument and sector

The structure of portfolios of investment funds has become more highly weighted in equities, but a majority of the assets (39.6%) remained in bonds.

The positive momentum of the equity markets has made the structure of investments held by domestic investment funds clearly more equity-weighted. On the back of these developments, the proportion of non-financial corporations as primary issuers of underlying shares has also increased. In 2010, developments were similar to the previous year. In addition to equity shares, the relative proportion of fund shares also increased somewhat at the expense of bond investments. At the end of 2010, of the EUR 63.8 bn of assets in domestic investment funds, bonds constituted 39.6%, shares 35.3% and investment fund shares19.8%. The remaining assets (5.3%) consisted of deposits and other assets.

Chart 43. Assets of domestic investment funds by instrument (%)



Source: Bank of Finland.

The main asset categories consisted of non-financial corporations' shares, investment fund shares and bonds issued by MFIs (Table 8). In comparison with the previous year, domestic investment funds' bond assets vis-à-vis general government decreased by EUR 1.0 bn to EUR 6.3 bn and vis-à-vis MFIs by EUR 0.2 bn to EUR 10.6 bn. Meanwhile, holdings of shares in non-financial corporations grew by EUR 4.6 bn to EUR 18.9 bn and the stock of investment fund investments (excl. money market funds) by EUR 3.1 bn to EUR 11.5 bn.

Table 8. Domestic investment funds' security assets by issuing sector relative to total assets (EUR 63 818 mn) at end-2010, EUR mn

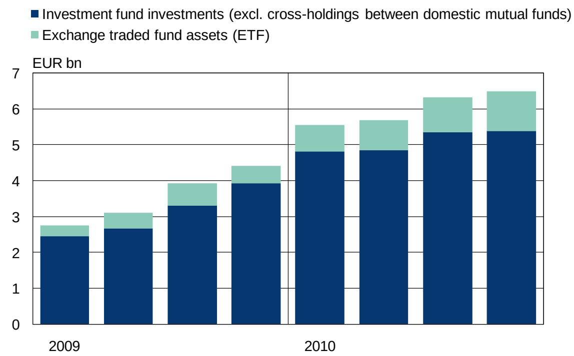
	Bonds		Shares and other equity		Investment fund shares		Total	
Non-financial corporations and housing corporations	4 414	6,9 %	18 914	**29,6 %**			**23 329**	**36,6 %**
MFIs incl. money market funds	10 582	**16,6 %**	1 838	2,9 %	1 072	1,7 %	**13 491**	**21,1 %**
Other financial institutions	3 794	5,9 %	1 486	2,3 %	11 549	**18,1 %**	**16 829**	**26,4 %**
Insurance institutions	198	0,3 %	284	0,4 %			**481**	**0,8 %**
General government	6 293	9,9 %					**6 293**	**9,9 %**
Total	**25 280**	**39,6 %**	**22 522**	**35,3 %**	**12 621**	**19,8 %**	**60 423**	**94,7 %**

Source: Bank of Finland.

EUR 12.6 bn, or 19.8% of investment fund assets consisted of investments in other investment funds. About half of that amount (EUR 6.1 bn) consisted of cross-holdings between domestic investment funds. Of the remaining half, a growing proportion is invested in exchange-traded funds (ETFs), which are traded similarly to quoted shares. At the end of 2010, domestic investment funds held a total of EUR 1.1 bn of ETF investments whereas two years earlier they only amounted to EUR 0.1 bn. The proportion of ETF investments in all investment fund assets has already risen to 8.7%. Excluding cross-holdings between domestic investment funds (EUR 6.1 bn), the proportion of ETF investments in investment fund investments was 17%. As lately as two years ago, the corresponding proportions were 1.7% of total assets and 4.5% of investment fund investments adjusted for cross-holdings.

The popularity of ETFs reflects their considerably lower expenses than conventional investment funds, and better liquidity. ETFs can be used in intraday trading. Traditionally ETFs are passive index funds whose portfolios replicate a given general index as closely as possible, but the group of individual ETFs is very heterogeneous indeed.

Chart 44. Domestic investment funds' ETF assets and other investment fund assets (excl. cross-holdings between domestic mutual funds), EUR bn



Sources: Bank of Finland and Bloomberg.

Box 2. Investment funds' largest individual holdings

Investment funds invest their assets in liquid marketable securities. In international trade, securities are identified by ISIN code.[46] At end-2010, of the investment funds' aggregated balance sheet of EUR 63.8 bn, securities with ISIN code amounted to EUR 58.8 bn (92.2%). Investment funds held a total of 7,991 different securities with ISIN code.

The market value of the 50 most significant ISIN codes by balance sheet value in the investment funds' aggregate balance sheet totalled EUR 9.9 bn. The countries of issuers of these securities were Finland (27), Sweden (10), Luxembourg (8), Russia (2), UK (1), Ireland (1) and Greece (1).

Four of the most popular securities by balance sheet value were added to the investment funds' balance sheet in 2010. The balance sheet value of the other 46 securities at end-2009 totalled EUR 5.6 bn. All in all, net purchases of the 50 securities in the list amounted to EUR 3.1 bn and their market value increased through revaluation adjustments (price or exchange rate changes) by EUR 1.2 bn. It is noteworthy that, of these 50 securities, only 4 posted a negative revaluation adjustment in 2010.

Nokia Corporation shares were held by 89 domestic investment funds at the end of the year. There were seven domestic companies but only one foreign company (TeliaSonera AB, 53 investment funds) whose shares were held by over 50 investment funds.

The number of different ISIN codes held by equity funds was 4,213, with a market value of EUR 24.7 bn. The market value of the 50 most significant securities by balance sheet value was EUR 6.3 bn (25.4%). The group included 24 domestic, 7 Russian and 15 entities from rest of Europe and 4 from outside Europe (Table 8).

Bond fund portfolios included 2,882 different ISIN codes, whose market value totalled EUR 19.6 bn. All of the issuers in the list of the 50 most significant holdings were European. The list was topped by Finland (22), Luxembourg (9) and Germany (7). The balance sheet value of the 50 most significant ISIN codes totalled EUR 6.6 bn (28.1%). A peculiar feature of the list of the 50 largest holdings was the high proportion of funds of funds categorised as bond funds (83.7%).

[46] International Securities Identification Number.

Table 9. Domestic equity funds' largest investments by ISIN code: listed shares with ISIN codes held by at least 3 equity funds

	ISIN	Number of investment funds holding the instrument	Issuer	Domicile	EUR mn
1	FI0009000681	64	Nokia Corporation	Finland	399
2	FI0009007132	48	Fortum Corporation	Finland	377
3	FI0009003305	43	Sampo Plc	Finland	340
4	FI0009005987	47	UPM-Kymmene Corporation	Finland	279
5	FI0009007835	29	Metso Corporation	Finland	221
6	FI0009005961	34	Stora Enso Plc	Finland	174
7	FI0009800643	41	YIT Corporation	Finland	170
8	FI0009013403	29	Kone Corporation	Finland	168
9	SE0000667925	36	TeliaSonera AB	Sweden	158
10	FI0009014575	41	Outotec Plc	Finland	157
11	FI0009002422	45	Outokumpu Plc	Finland	151
12	US3682872078	17	Gazprom	Russia	146
13	FI0009005318	33	Nokia Tyres Plc	Finland	143
14	FI0009003552	39	Rautaruukki Corporation	Finland	124
15	FI0009000285	32	Amer Sports Corporation	Finland	119
16	RU0009029540	13	Sberbank Rossii OAO	Russia	113
17	US5838401033	15	Mechel OAO	Russia	110
18	FI0009000459	32	Huhtamäki Plc	Finland	109
19	FI0009007694	28	Sanoma Corporation	Finland	108
20	FI0009013429	30	Cargotec Plc	Finland	103
21	FI0009902530	25	Nordea Bank AB	Sweden	103
22	US46626D1081	12	Norilsk Nickel OAO	Russia	102
23	FI0009013296	28	Neste Oil Corporation	Finland	97
24	US30050A2024	16	Evraz Group SA	Luxembourg	94
25	FI0009000202	29	Kesko Corporation	Finland	92
26	FI0009005870	27	Konecranes Finance Corporation	Finland	88
27	FI0009007884	31	Elisa Plc	Finland	85
28	FI0009003222	26	Pohjola Bank Plc	Finland	81
29	US91688E2063	11	Uralkali JSC	Russia	79
30	US6778621044	9	Lukoil Oil Company JSC	Russia	78
31	CH0012005267	22	Novartis AG	Switzerland	75
33	US67812M2070	10	Neftyanaya Kompaniya Rosneft NK Rosneft	Russia	74
34	FR0000120271	23	Total SA	France	72
35	FI0009003727	20	Wärtsilä Corporation	Finland	71
36	CH0038863350	22	Nestle SA	Switzerland	71
37	FI0009004824	33	Kemira Plc	Finland	70
38	INE009A01021	3	Infosys Technologies Ltd	India	69
39	DK0060102614	27	Novozymes A/S	Denmark	69
40	GB0009252882	25	Glaxosmithkline Plc	Great Britain	67
41	GB00B16GWD56	20	Vodafone Group Plc	Great Britain	65
42	FI0009000277	33	Tieto Corporation	Finland	65
43	US71654V1017	5	Petroleo Brasiliero SA	Brazil	62
44	US4592001014	15	International Business Machines Corp.	USA	61
45	INE002A01018	4	Reliance Industries Ltd	India	60
	Total				5 519

Source: Bank of Finland.

Box 3. Funds of funds in the statistics

At the end of 2010, the reporting group for investment fund statistics comprised 510 domestic investment funds. The statistical specifications of the European Central Bank do not include a separate category for funds of funds, but they are classified according to the ultimate investment. Funds of funds investing their assets primarily (> 50%) in equity funds are counted as equity funds.

This box, however, looks at the structure of balance sheets of funds of funds. For this purpose, funds of funds were defined as investment funds that had invested over 50% of their assets at end-2010 in investment fund shares. The number of such funds was 148 (29%).

Investment funds were divided according to the above definition into funds of funds and other investment funds. Assets on the balance sheet and fund-share liability were divided into assets/liabilities vis-à-vis other investment funds and other sectors. The balance sheets of funds of funds totalled EUR 13.2 bn and the balance sheets of other investment funds totalled EUR 50.6 bn.

Of the funds of funds' balance sheet assets, EUR 4.6 bn were from investment funds registered in the euro area and EUR 1.6 bn from investment funds registered in other countries. The capital invested cannot be monitored in further detail using the investment fund statistics of the Bank of Finland. This is not the case in monitoring the assets invested in domestic investment funds. Since the data collection covers all domestic investment funds, the entire investment of EUR 5.9 bn must be viewed in the statistics through the fund-share liability of some investment funds.

The liabilities of funds of funds include hardly any liabilities to other funds of funds; their operating capital comes primarily from other domestic sectors. The liabilities of other investment funds to domestic investment funds totalled EUR 6.1 bn, covering funds of funds' domestic investment fund assets of EUR 5.9 bn.

The investments of funds of funds are channelled through other investment funds into other claims than fund shares, since the proportion of fund shares in the assets of other investment funds' assets only amounts to 1% of their total assets. The chain of domestic investment funds between funds of funds and other investment funds is reflected in the statistics in the length of a single link.

Table 10. Funds of funds in statistics at end-2010, EUR mn

	FUNDS OF FUNDS*			OTHER INVESTMENT FUNDS		
	TOTAL	INVESTMENT FUNDS	OTHER SECTORS	OTHER SECTORS	INVESTMENT FUNDS	TOTAL
FINLAND	6 371	5 886	485	10 562	250	10 812
REST OF EURO AREA	4 750	4 568	182	13 337	155	13 492
OTHER COUNTRIES	2 016	1 580	436	26 192	95	26 287
TOTAL	13 227	12 124	1 103	50 091	500	50 591
BALANCE SHEET ASSETS			63 818			
INVESTMENT FUNDS REGISTERED IN FINLAND (510 FUNDS)						
FUND-SHARE LIABILITY**			62 226			
FINLAND	10 694	27	10 667	32 158	6 125	38 283
REST OF EURO AREA	74	1	73	668	19	687
OTHER COUNTRIES	2 397	0	2 397	10 030	61	10 091
TOTAL	13 165	28	13 137	42 856	6 205	49 061
	TOTAL	INVESTMENT FUNDS	OTHER SECTORS	OTHER SECTORS	INVESTMENT FUNDS	TOTAL

* investment fund assets over 50% of total assets

** other liabilities (1,591) not taken into account

Source: Bank of Finland.

5 Reporting entities

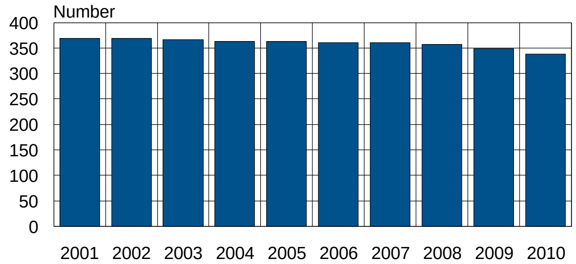
5.1 Monetary financial institutions

The number of monetary financial institutions operating in Finland decreased in 2010. The changes were primarily due to changes in the credit institution sector.

At the end of 2010 there were 365 MFIs in Finland. Of these, 333 were credit institutions and 31 money market funds[47]. The Bank of Finland is also included in the MFI sector. The MFI sector contracted somewhat during the year, mainly due to changes within cooperative banks. In addition, a few new credit institutions commenced operations and a few existing ones discontinued operations.[48]

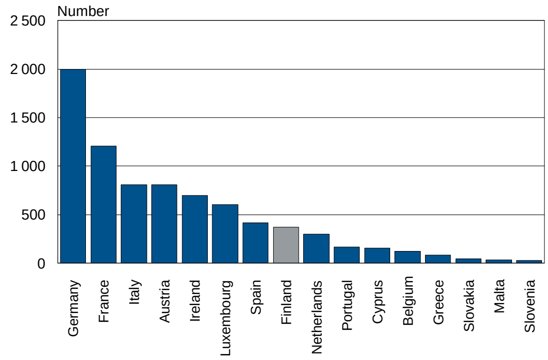
The following tables provide more details on changes in the MFI sector in 2010. Changes related to money market funds are covered in the investment fund section.

Chart 45. Number of Finnish credit institutions



Source: Bank of Finland.

Chart 46. Number of MFIs in euro area, end-2010



Source: European Central Bank.

[47] One of the money market funds had not commenced operations.

[48] The number of MFIs here is lower than the number of MFIs in the ECBs list of MFIs (370). This is due to the fact that the Bank of Finland updates the ECBs list of MFIs only after a merger has been completed, or a credit institution has commenced or discontinued operations. Therefore, changes at the turn of the year are not shown on the ECB list until the early part of the following year.

Table 11. MFIs commencing operations in Finland in 2010

Name of MFI	Date
Nordnet Bank AB Finnish branch	May
Diners Club Finland, Branch of Diners Club Nordic AB	October
Folkia AS branch in Finland	August
Koillis-Savon Osuuspankki	October
Pohjois-Savon Osuuspankki	December

Source: Bank of Finland.

Table 12. Units exiting in Finnish MFI sector in 2010

Name of MFI	Date
Sofia Bank Plc	March
ACH Finland Plc	May
Diners Club Finland Oy	September
BMW Financial Services Scandinavia AB - Suomen sivuliike	December

Source: Bank of Finland.

Table 13. MFIs merged in 2010 (excl. money market funds) (merged MFI = M, receiving MFI = R)

	Name of MFI	Date
M	Luopioisten Säästöpankki	March
R	Aito Säästöpankki Oy	
M	Kiukaisten Osuuspankki	May
M	Hinnerjoen Osuuspankki	
R	Euran Osuuspankki	
M	Nilsiän Osuuspankki	October
M	Koillis-Savon Osuuspankki	
R	Koillis-Savon Osuuspankki	
M	Kovelahden Osuuspankki	November
R	Jämijärven Osuuspankki	
M	Alahärmän Osuuspankki	November
M	Kortesjärven Osuuspankki	
M	Ylihärmän Osuuspankki	
R	Pohjanmaan Osuuspankki	
M	Kuhmalahden Osuuspankki	December
M	Pälkäneen Osuuspankki	
R	Kangasalan Seudun Osuuspankki	
M	Iisalmen Osuuspankki	December
M	Kuopion Osuuspankki	
M	Varkauden Osuuspankki	
R	Pohjois-Savon Osuuspankki	

Source: Bank of Finland.

5.2 Investment funds

The total number of investment funds (incl. money market funds) registered in Finland increased significantly in 2010. The number of investment funds active at the end of the year was 510, or 22 more than a year earlier.

The total number of investment funds continued to rise after the decrease in 2009. As many as 47 new investment funds commenced operations, clearly more than a year earlier (28). Of the new investment funds, 23 were equity funds, which continued to account for a majority of the domestic investment funds. In addition, management companies launched bond funds (11), mixed funds (6) and hedge funds (7). Launches of investment funds were spread evenly over the year.

The number of discontinued investment funds totalled 25, which was less than in 2009 (37). Almost all (23) of the funds that closed down were merged into other existing investment funds. Only two mixed funds closed down without merging into another unit. Of the investment funds discontinued by way of merger, 10 had been classified as equity funds and 7 as hedge funds.

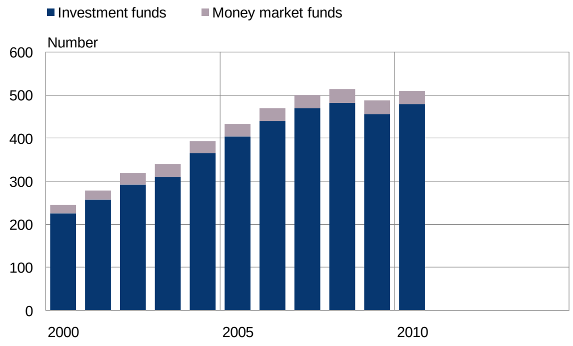
The number of separate merger arrangements, where one or more investment funds were merged into another investment funds, totalled 22 in 2010. In addition to mergers, the control of three investment funds was transferred in connection with a merger of management companies. The control of one hedge fund was transferred from one management company to another by a surrender of control.

Growth of the total number of investment funds has been driven by an expansion of the fund selection provided by new management companies and particularly by the favourable performance of equity funds, which bolstered the demand for their shares.

In addition, the number of management companies increased, from 33 to 35, as Alexandria Fund Management Company Ltd, Dividend House Oy, Finlandia Fund Management Company Ltd and Titanium Rahastoyhtiö Oy received authorisations. However, the first mentioned management company had not established a single mutual fund by the end of 2010. Evli II Fund Management Company Ltd (former Carnegie Fund Management Ltd) was merged into Evli Fund Management Company Ltd. On the other hand, Navigo Brahe Fund Management Company Ltd cancelled its authorisation before establishing a single investment fund.

The most investment funds (510) were still under the management of Sampo Fund Management Ltd (69). However, its lead over OP Fund Management Company Ltd (61) and Nordea Investment Fund Company Finland Ltd (60) narrowed from last year.

Chart 47. Number of investment funds (incl. money market funds)



Sources: Bank of Finland and Statistics Finland.

Table 14. Investment funds commencing operations in 2010

Name of investment fund	Type of fund	Management company	Date
UCITS Fund Aktia Emerging Market Equity	Equity fund	Aktia Fund Management Company Ltd	March
Alfred Berg Global Macro Allocation Fund	Hedge fund	Alfred Berg Funds Ltd	March
Mutual Fund Dividend House Nordic Large Cap	Equity fund	Dividend House Oy	August
Mutual Fund Dividend House Nordic Small Cap	Equity fund	Dividend House Oy	August
Mutual Fund eQ Asian Opportunities (UCITS)	Equity fund	eQ Fund Management Company Ltd	May
Estlander & Partners Freedom Fund	Hedge fund	Estlander & Partners Fund Management Company Ltd	July
Head Top Picks non-UCITS Fund	Hedge fund	Eufex Fund Administration Ltd	March
Eufex Commodity non-UCITS Fund	Hedge fund	Eufex Fund Administration Ltd	November
Bon Emerging Markets UCITS Fund	Equity fund	Eufex Fund Administration Ltd	December
WIP Hakkapeliitat UCITS Fund	Equity fund	Eufex Fund Administration Ltd	September
Bon 75 UCITS Fund	Equity fund	Eufex Fund Administration Ltd	May
Front Highway non-UCITS Fund	Mixed fund	Eufex Fund Administration Ltd	September
Front Crosswalk non-UCITS Fund	Mixed fund	Eufex Fund Administration Ltd	September
Mutual Fund Evli Emerging Markets Equity	Equity fund	Evli Fund Management Company Ltd	April
Premier Selection Fund	Mixed fund	FIM Asset management Ltd	December
FIM Asset Management 100 Fund	Mixed fund	FIM Asset management Ltd	May
Finlandia Brazil Fund (UCITS)	Equity fund	Finlandia Fund Management Company Ltd	July
Finlandia Europe Fund (UCITS)	Equity fund	Finlandia Fund Management Company Ltd	July
Finlandia China Fund (UCITS)	Equity fund	Finlandia Fund Management Company Ltd	July
Finlandia Equity Non-UCITS Fund	Equity fund	Finlandia Fund Management Company Ltd	July
Finlandia North America Fund (UCITS)	Equity fund	Finlandia Fund Management Company Ltd	July
Finlandia Finland Fund (UCITS)	Equity fund	Finlandia Fund Management Company Ltd	July
Finlandia Balanced Non-UCITS Fund	Equity fund	Finlandia Fund Management Company Ltd	July
Finlandia Russia Fund (UCITS)	Equity fund	Finlandia Fund Management Company Ltd	July
Finlandia Bric+ Non-UCITS Fund	Equity fund	Finlandia Fund Management Company Ltd	September
Finlandia High Yield+ Non-UCITS Fund	Bond fund	Finlandia Fund Management Company Ltd	December
Finlandia Likvidi Non-UCITS Fund	Bond fund	Finlandia Fund Management Company Ltd	December
Handelsbanken Corporate Bond Fund (SEK)	Bond fund	Handelsbanken Mutual Fund Company Ltd	January
Nordea AAA Government Bond Fund	Bond fund	Nordea Investment Fund Company Finland Ltd	November
Nordea Savings Fixed Income Fund	Bond fund	Nordea Investment Fund Company Finland Ltd	January
Non-UCITS Nordea Stratega Fixed Income Fund	Bond fund	Nordea Investment Fund Company Finland Ltd	May
Nordea Finnish Small Cap Fund	Equity fund	Nordea Investment Fund Company Finland Ltd	November
Nordea Savings 10 Fund*	Bond fund	Nordea Investment Fund Company Finland Ltd	December
OP-Emerging Europe Fund	Equity fund	OP Fund Management Company Ltd	November
OP-Bond Yield Fund	Bond fund	OP Fund Management Company Ltd	December
OP-EMD Local Currency Fund (Non-UCITS)	Bond fund	OP Fund Management Company Ltd	January
OP-EMD Portfolio Fund (Non-UCITS)	Bond fund	OP Fund Management Company Ltd	January
OP-Horizon Fund 2045	Mixed fund	OP Fund Management Company Ltd	April
OP-Capital Guaranteed 2015 (95) Fund (non-UCITS)	Mixed fund	OP Fund Management Company Ltd	January
Seligson & Co Emerging Markets Special Fund	Equity fund	Seligson & Co Rahastoyhtiö Oyj	September
Säästöpankki Amerikka -erikoissijoitusrahasto	Equity fund	SP-Fund Management Company Ltd	September
Taaleritehdas Arvo Markka Osake Fund	Equity fund	Thaler Factory's Fund Company	May
Special Mutual Fund Titanium Trend (non-UCITS)	Hedge fund	Titanium Rahastoyhtiö Oy	May
VISIO Allocator Fund (non-UCITS)	Hedge fund	UB Fund Management Company Ltd	April
VISIO Finland 140/40 Fund (non-UCITS)	Hedge fund	UB Fund Management Company Ltd	April
UB Bond Portfolio Fund (non-UCITS)	Bond fund	UB Fund Management Company Ltd	November
Bank of Åland Eco Performance Fund	Equity fund	Bank of Åland Fund Management Ltd	October

* established in the connection with a merger arrangement

Source: Bank of Finland.

Table 15. Investment funds discontinuing operations in 2010

Name of investment fund	Type of fund	Management company	Date
Mutual Fund Evli Smart Beta	Mixed fund	Evli Fund Management Company Ltd	December
Non-UCITS Fund Handelsbanken Click Norway 90	Mixed fund	Handelsbanken Mutual Fund Company Ltd	March

Source: Bank of Finland.

Table 16. Investment funds merged in 2010 (incl. money market funds) (merged fund = M, receiving fund = R)

	Name of investment fund	Type of fund	Management company	Date
M	non-UCITS Fund Aktia Structura	Bond fund	Aktia Fund Management Company Ltd	November
R	UCITS Fund Aktia Solida	Mixed fund		November
M	Contango Commodity Fund (non-UCITS)	Hedge fund	CFM Contango Fund Management Company Ltd	July
R	Contango Commodity Beta (non-UCITS)	Hedge fund		July
M	non-UCITS Fund Carnegie Multifund	Equity fund	Evli II Fund Management Company Ltd	February
R	Mutual Fund Evli Global	Equity fund	Evli Fund Management Company Ltd	February
M	Carnegie Optimum+ Fund	Mixed fund	Evli II Fund Management Company Ltd	February
R	Mutual Fund Evli Global Multi Manager 75	Equity fund	Evli Fund Management Company Ltd	February
M	Carnegie Euro Bond Fund	Bond fund	Evli II Fund Management Company Ltd	February
R	Mutual Fund Evli Euro Government Bond	Bond fund	Evli Fund Management Company Ltd	February
M	Mutual Fund eQ Spender (UCITS)	Equity fund	eQ Fund Management Company Ltd	December
R	Mutual Fund eQ Consumer (UCITS)	Equity fund		December
M	Erikoissijoitusrahasto eQ Turun yliopiston juhlavuoden rahasto	Equity fund	eQ Fund Management Company Ltd	December
R	Special Mutual Fund eQ Portfolio (non-UCITS)	Equity fund		December
M	Mutual Fund ICECAPITAL International Equity IV-1 (Non-UCITS)	Equity fund	ICECAPITAL Fund management Compay Ltd	August
R	Mutual Fund ICECAPITAL European Stock Index (Non-UCITS)	Equity fund		August
M	Non-UCITS Nordea Fixed Income Hedge	Hedge fund	Nordea Investment Fund Company Finland Ltd	July
R	Non-UCITS Nordea Fixed Income Portfolio Plus	Bond fund		July
M	Non-UCITS Nordea Absolute Return Portfolio	Hedge fund	Nordea Investment Fund Company Finland Ltd	December
M	Non-UCITS Nordea European Equity Hedge	Hedge fund		December
R (new)	Nordea Savings 10 Fund	Bond fund		December
M	OKO-Alpha Fund (Non-UCITS)	Hedge fund	OP Fund Management Company Ltd	January
R	OP-Absolute Portfolio Fund (Non-UCITS)	Hedge fund		January
M	OP-Equity Hedge Fund (Non-UCITS)	Hedge fund	OP Fund Management Company Ltd	October
R	OP-Macro Fund (Non-UCITS)	Hedge fund		October
M	OP-Nordic Small Firm	Equity fund	OP Fund Management Company Ltd	March
R	OP-Finland Small Cap Fund	Equity fund		March
M	Danske Invest Omega Fund	Hedge fund	Sampo Fund Management Ltd	February
R	Danske Invest Neutral Fund	Hedge fund		February
M	Danske Invest Baltic Fund	Equity fund	Sampo Fund Management Ltd	February
R	Danske Invest Baltic Equity Fund	Equity fund		February
M	Danske Invest BioTech+ Fund	Equity fund	Sampo Fund Management Ltd	February
R	Danske Invest MediLife Fund	Equity fund		February
M	Danske Invest Global Equity Fund	Equity fund	Sampo Fund Management Ltd	February
R	Sampo Compass Equity Fund	Equity fund		February
M	Danske Invest Ukraine Fund	Equity fund	Sampo Fund Management Ltd	February
R	Danske Invest Russia Fund	Equity fund		February
M	Danske Invest Global Selection Fund	Equity fund	Sampo Fund Management Ltd	February
R	Danske Invest Global Performers Fund	Mixed fund		February
M	Sampo 2010 Fund	Mixed fund	Sampo Fund Management Ltd	February
R	Sampo Compass Liquidity Fund	Bond fund		February
M	Sampo Short Term Liquidity Fund	Money market fund	Sampo Fund Management Ltd	February
R	Danske Invest Euro Interest Fund	Money market fund		February
M	Mutual Fund Evli Money Manager+	Money market fund	Evli Fund Management Company Ltd	October
R	Mutual Fund Evli Euro Liquidity	Money market fund		October

Source: Bank of Finland.

Table 17. Other transfers of investment fund management in 2010

Name of investment fund	Type of fund	Merging management company	Receiving management company	Date
Mutual Fund Evli Euro Liquidity*	Money market fund	Evli II Fund Management Company Ltd	Evli Fund Management Company Ltd	March
Mutual Fund Evli Inflantion-Linked Bond*	Bond fund	Evli II Fund Management Company Ltd	Evli Fund Management Company Ltd	March
Mutual Fund Evli Finnish Equity*	Equity fund	Evli II Fund Management Company Ltd	Evli Fund Management Company Ltd	March

Name of investment fund	Type of fund	Merging management company	Receiving management company	Date
Eufex Hedge non-UCITS Fund**	Hedge fund	Sampo Fund Management Ltd	Eufex Fund Administration Ltd	January

* Evli II Fund Management Company Ltd merged into Evli Fund Management Compan Ltd and management of investment funds was transferred
** transfer of management of former Eufex Hedge Fund (non-UCITS)

Source: Bank of Finland.

Box 4. Collection of statistical data from MFIs revised in 2010

The collection of statistical data from MFIs was revised in 2010, when the ECB's statistical requirements were expanded. The new detailed data collection enables better utilisation of statistical data in both economic analysis and monitoring of financial market stability.

The Bank of Finland collects from MFIs statistical data needed in the performance of the ESCB's tasks, for fulfilling the statistical requirements of international organisations and for national purposes. The collection of statistical data is guided by ECB regulations on balance sheet and interest rate statistics and its guidelines for statistics on MFIs, financial market statistics as well as balance-of-payments. In addition, guidelines of the Bank for International Settlements (BIS) for their part determine the statistical requirements imposed on MFIs.

The ECB's expanded balance sheet and interest rate statistics regulations entered into force in summer 2010, and compliant statistics have been collected from MFIs as of the situation prevailing at the end of June 2010.

Previously, the Bank of Finland had separate data collection for each statistical area: balance sheets, interest rates, balance of payments and BIS banking statistics. The ECB's expanded statistical requirements necessitated changes in the collection of MFI balance sheet and interest rate data. In connection with the regulation amendments, all data collections were combined into the same framework in order to reduce overlapping work in both MFIs and the Bank of Finland. The requirements of different statistical areas are largely overlapping, but the classifications and definitions diverge in some respects.

Combining the statistical requirements into a single framework required a shift in data collection from aggregate data to a very detailed level in order to get the required data for each statistical area. Detailed data collection is also flexible in connection with changes in statistical requirements, since minor changes do not necessarily require any changes in the collection of data from the reporting entities. In addition, one-time surveys by international organizations can now be answered more often than previously, based on data already collected without asking banks to provide the data separately.

The basic idea behind the new data collection is that a piece of data is only collected once, and all summing is conducted at the Bank of Finland. For example, as regards loans and deposits, this means that there are over ten classifying factors, and for instance complete country and currency breakdowns are often needed. A country breakdown is needed as such for both the balance of payments and the BIS, but for the ECB's balance sheet statistics, countries are only classified into three categories: Finland, rest of the euro area and rest of the world. The data collection was also supplemented by the data required from MFIs by Statistics Finland's loan stock data, which diverges slightly from the data above. This was also found to reduce the reporting burden on MFIs.

Data on debt securities issued by MFIs and MFIs' securities-based assets are collected on a security-by-security basis primarily due to balance-of-payments requirements. The data can be utilised also, for example, in compiling the ECB's securities statistics. With respect to securities, the reporting entities are only asked to provide the compulsory data, which are then supplemented by data from the ECB's centralised securities register and Statistics Finland's company register.

Detailed data collection enables improved utilisation of data both in terms of economic analysis and prudential supervision. In 2011, the Bank of Finland will further extend the content of MFI statistics published in its website.

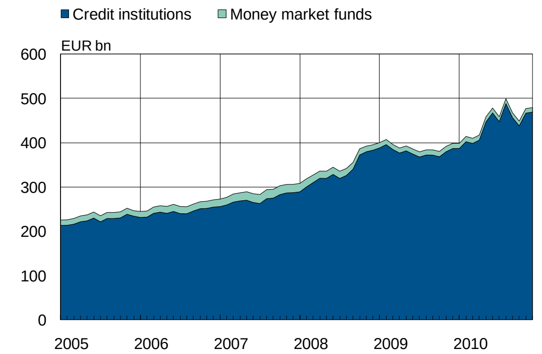
Due to the ECB's extended statistical requirements, the instructions concerning certain instruments have changed, and therefore there are some changes in the figures.

The change has no major impact on the volumes of loans, deposits and other main items on the balance sheet, but the change is more noticeable in terms of new business in the interest rate statistics. For example, in non-financial corporations' overdrafts and credit card credit, whose month-end stock is also defined as new business, volumes have clearly grown. This is because the definition of these credits was specified to cover also revolving loans.

In connection with the revision, interest rates on deposits and loans are now collected from all MFIs, whereas the interest rate data were previously estimated for credit institutions in the scope of reduced reporting. The methodological change has improved the accuracy of the published interest rate statistics.

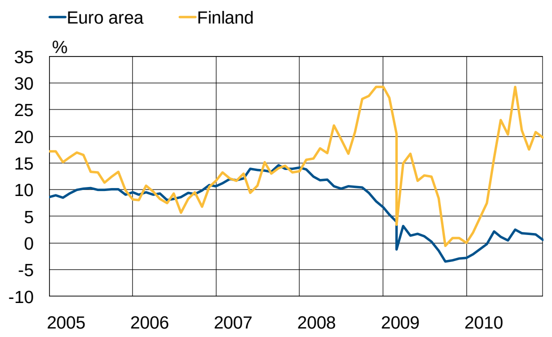
Appendix 1. Charts

Chart 48. Aggregated balance sheet of Finnish MFIs (excl. Bank of Finland)



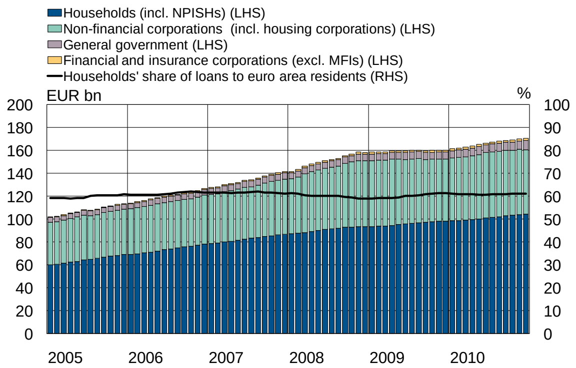
Source: Bank of Finland.

Chart 49. Annual growth of aggregated MFI (excl. Eurosystem) balance sheet in euro area and Finland



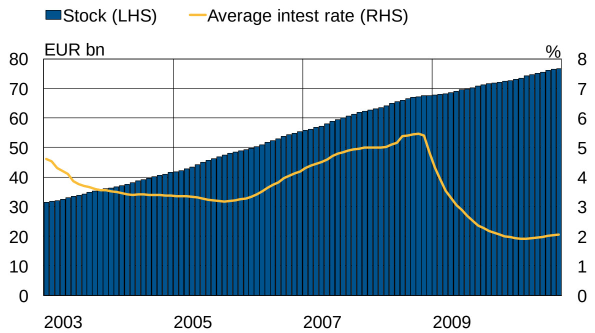
Sources: European Central Bank and Bank of Finland.

Chart 50. Loans to non-MFIs by sector



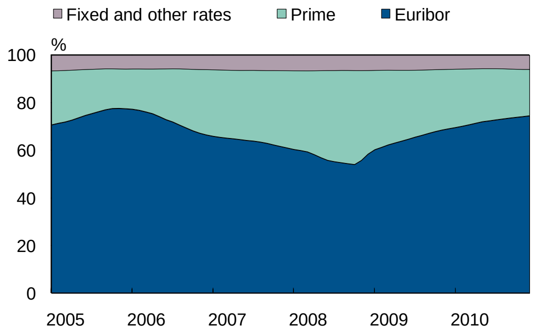
Source: Bank of Finland.

Chart 51. Stock and average interest rate on housing loans



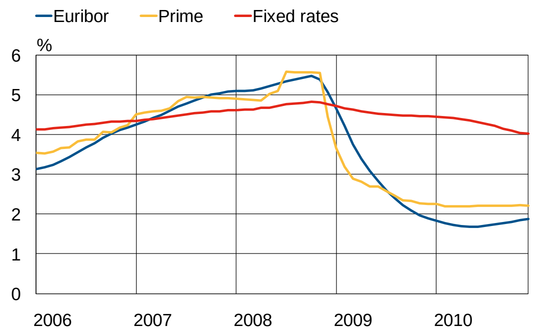
Source: Bank of Finland.

Chart 52. Stock of housing loans by reference rate



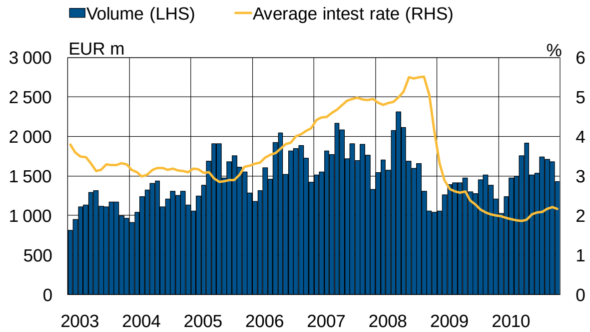
Source: Bank of Finland.

Chart 53. Average interest rate on housing loan stock by interest rate linkage



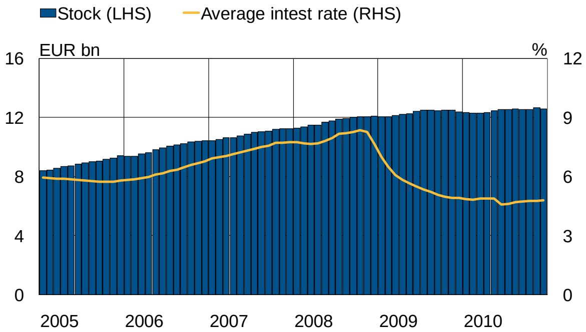
Source: Bank of Finland.

Chart 54. Volume and average interest rate on new drawdowns of housing loans



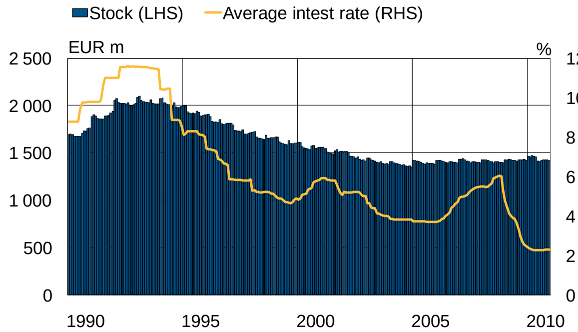
Source: Bank of Finland.

Chart 55. Stock and average interest rate on consumer credit to households



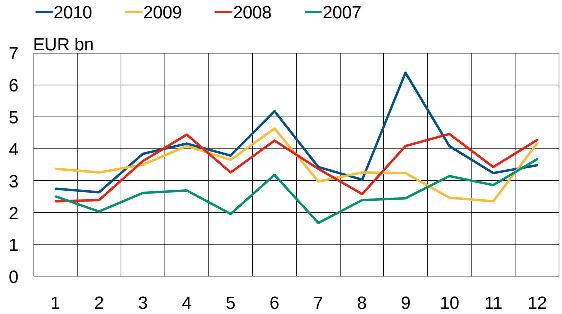
Source: Bank of Finland.

Chart 56. Stock and average interest rate on student loans



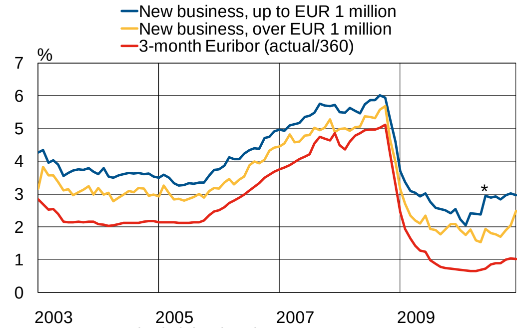
Source: Bank of Finland.

Chart 57. New business on loans to non-financial corporations of over EUR 1 million, 2007–2010



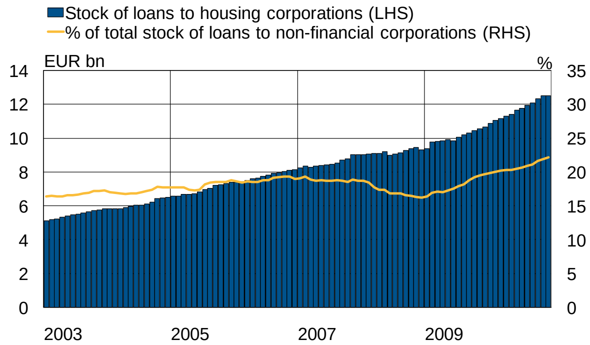
Source: Bank of Finland.

Chart 58. Average interest rate on new business on loans to non-financial corporations with initial rate fixation of up to 1 year, by loan size



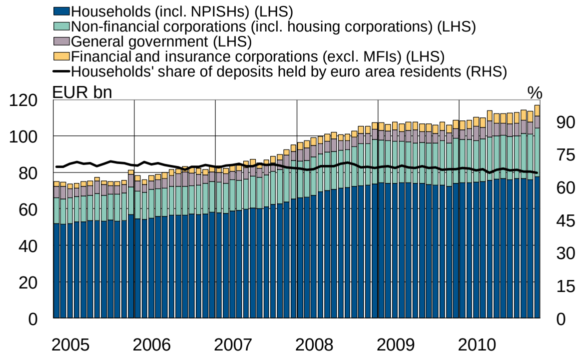
Sources: Bank of Finland and Reuters.
*) Collection of statistical data from MFIs was revised in June 2010. Consequently, the series is not fully comparable with previous observations.

Chart 59. Stock of loans to housing corporations and its share in total corporate loan stock



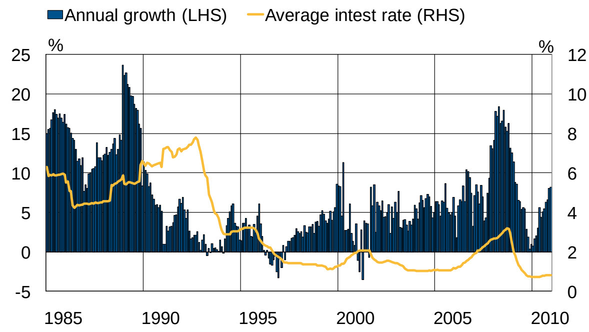
Source: Bank of Finland.

Chart 60. Non-MFI deposits by sector



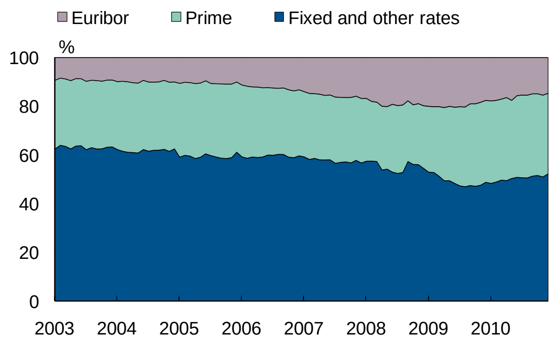
Source: Bank of Finland.

Chart 61. Annual growth and average interest rate on non-MFI deposits



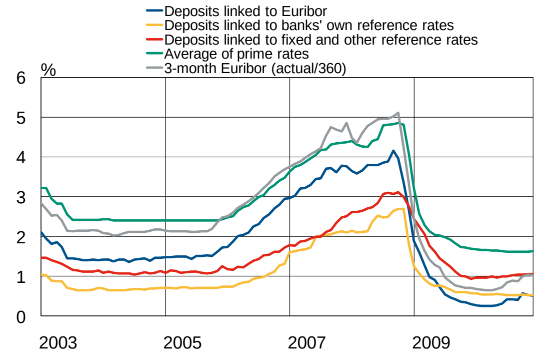
Source: Bank of Finland.

Chart 62. Deposits by euro area non-MFIs by interest rate linkage



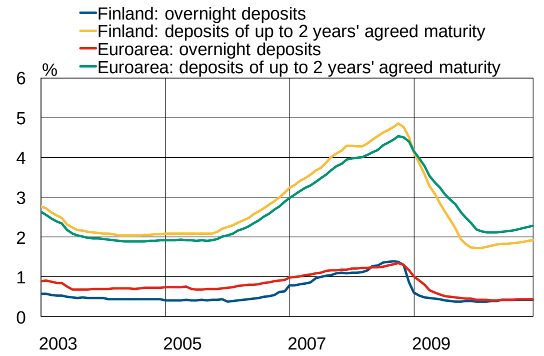
Source: Bank of Finland.

Chart 63. Average interest rate on non-MFI deposit stock by reference rate



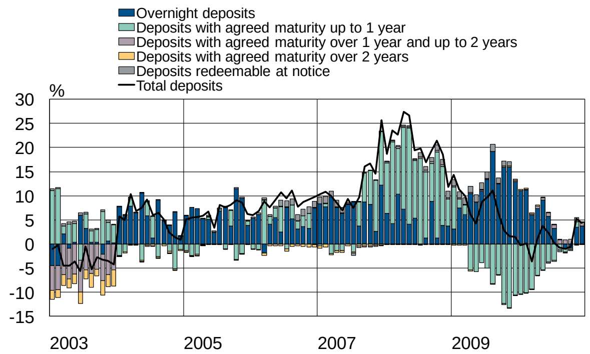
Source: Bank of Finland.

Chart 64. Average interest rates on household deposits in Finland and euro area



Sources: European Central Bank and Bank of Finland.

Chart 65. Annual growth of deposit stock of Finnish non-financial corporations by claim



Source: Bank of Finland.