The report is written by Tarja Kallonen and the diagrams are designed by Ritva Myllylä. The sources used are the banks’ annual reports and the statistics of the Bank of Finland, the Financial Supervision and the Statistics Finland.

The result summary is available at the web site of the Finnish Bankers’ Association: www.fba.fi, page Banking Industry.
At the end of 2003 the banks active in Finland included 11 commercial banks, 242 co-operative banks belonging to the OKO Bank Group, 42 local co-operatives, 40 savings banks and eight branch offices of foreign credit institutions that may receive deposits. This represents a total of 343 banks. The number of banks declined in 2003 by just one through the merger of two co-operative banks belonging to the OKO Bank Group.

The number of banks in Finland is high by international comparison. However, the three largest banking groups, Nordea Bank Finland, the OKO Bank Group and Sampo, represent more than 80 per cent of the deposit and credit markets. In addition to deposit banks, the banking groups include finance companies, mutual fund companies, life assurance companies and other companies engaged in the finance sector.

The commercial banks are, in alphabetical order: Bank of Åland Plc, eQ Bank, Evli Bank Plc, Gyllenberg Private Bank Ltd, Nordea Bank Finland Plc, OKO Bank, Okopankki Plc, OP-Kotipankki Oyj, Sampo Bank Plc, Suomen AsuntoHypoPankki Oy and Tapiola Bank Ltd.

**Number of bank staff decreased**

The number of personnel in the banking groups decreased by almost 7 per cent during 2003. Banking groups employed a total of 26,780 people at the end of the year. Deposit banks employed a total of 23,372 people, which is 1,107 less than the previous year.

The reduction in personnel has been affected by increased efficiency of banking operations.
operations and outsourcing of operations. In addition, customer use of Web banking services has continued to increase. The increased popularity of electronic banking is indicated by, among other things, the fact that the number of data connections between customers and banks increased to 2.9 million by the end of 2003.

Branch offices and other banking service points

The number of banks and their branches has remained fairly stable in recent years. At the end of 2003 the 343 banks operating in Finland had a total of 1,564 branches and 163 service points. The number of branches was just eight less than a year earlier. There were 2,001 cash dispensers and 1,954 giro transfer machines. Furthermore, there were a total of 1,220 self-service computer terminals at bank branches and service points.

The availability of banking services is also improved by the fact that the banks have signed an agreement with 3,500 retail outlets, allowing customers to withdraw cash at points of sale. In addition, bankcards are accepted as a means of payment in most shops, hotels and restaurants.

The Finnish banks have jointly developed fast and efficient payment systems. The amount of cash in circulation is low; giro transfers are the most common method of transferring money between accounts and cheques have all but disappeared from use. Finland remains a forerunner in the world when it comes to the per capita number of Internet clients, the frequency of service usage and the number of transactions of this kind.

Housing loans increased bank lending

Euro-denominated lending by financial institutions in Finland grew by 12 per cent in 2003. The growth in total loans mainly resulted from an increase in housing loans. The total amount of loans from financial institutions to the euro area was 92 billion euro at the end of the year, of which the share of euro loans granted by deposit banks amounted to 80 billion euro.

The strongest growth was seen in loans to households. A stable and low level of interest rates has supported the popularity of loans to households. In addition, consumer confidence in the persistence of their own income, as well as migration to Greater Helsinki and regional centres of growth, has increased the demand for housing loans. Extended loan periods are also reflected as an increase in total housing loans in particular.
The total housing loan portfolio at the end of 2003 was almost 16 per cent greater than the previous year. The demand for consumer credit increased during 2003 as well; in particular, the amount of consumer credit granted by banks clearly increased, only the amount of student loans continued to decline.

The banks have a substantial position in corporate financing, even though businesses also use other financing partners and sources of financing for their investments. Corporate loans granted by financial institutions increased by a total of 8 per cent in 2003. Loans granted to businesses by financial institutions amounted to a total of 34 billion euro, 28 billion of which were granted by deposit banks.

Most loans granted by deposit banks are tied to either the 12-month Euribor rate or to bank-specific reference rates. Euribor-linked loans in particular became more common during 2003, with their share of the entire credit portfolio increasing to 60 per cent. The number of fixed-rate loans increased towards the end of the year. Only 16 per cent of loans granted by deposit banks are tied to interest rates other than the Euribor rates or bank-specific reference rates. The mean interest rate of loans granted by financial institutions was 3.77% at the end of 2003, and the corresponding mean interest rate of loans granted by deposit banks was 3.59%.

The accompanying diagram illustrates new housing loans, the definition of which differs from the similar term used by the Bank of Finland. This diagram indicates new housing loans withdrawn, while Bank of Finland’s statistics indicate housing loans in accordance with new business. In addition to new loans, the definition of the latter includes renegotiations of old contracts, such as adjustments to the interest rate.

Both review methods indicate that monthly withdrawals of new housing loans in 2003 exceeded the corresponding figures for earlier years. Intensified competition between the banks with regard to housing loans has affected the renegotiations of the terms and conditions of housing loans; it is estimated that a lower interest rate was agreed for 30% of the housing loans.

**Deposits on the increase**

By the end of 2003 total deposits at banks stood at 72 billion euro. In addition to conventional deposits, the amount includes all other debts owed financial institutions except securities-based debts. The amount of deposits increased almost 6 per cent on the previous year. Households represented 70 per cent of the deposits, 20 per cent was coming from businesses and the remaining 10 per cent from public sector entities, as well as financial and insurance institutions.

Growth was strongest in deposits in savings accounts, whereas funds in fixed-term accounts decreased in 2003, mostly due to low interest rates on deposits. The average interest rate for deposits at the end of 2003 was 1.06 per cent.
Over 57 per cent of all deposits were fixed interest, with 27 per cent tied to bank-specific reference rates and 9 per cent to Euribor rates. A 29 per cent tax-at-source is collected on interest paid on deposits.

**Interest rate margin decreasing**

The most essential source of income for banks is net income from financial operations – that is, the difference between interest income and interest expenses. Net income from financial operations is affected, among other things, by the general level of interest rates and the pricing of the banks’ credit and deposit products.

The banks’ net income from financial operations declined during 2003. The decline was due to the reduced interest rate margin. Thus the favourable development in lending volumes was not enough to compensate for the reduced interest rate margin. The interest rate margin – that is, the difference between the banks’ credit interest and deposit interest rates – has been decreasing for several years and stood at 2.5 percentage points at the end of 2003.

A major part of banks’ lending is tied to market rates – that is, either Euribor rates or bank-specific reference rates – and, correspondingly, a major part of the deposits are fixed-interest deposits. Therefore, changes in market rates have a fairly quick impact on the banks’ interest margins and thereby also on net income from financial operations.

Increased efficiency of banking operations and competition between banks for housing loans, as well as the housing loan interest being tied to short-term market interest rates, have played their part in making Finnish housing loans among the most affordable in the euro area.

**Amount of problem credit is minor**

The amount of the banking groups’ non-performing receivables and credit losses was at a record-setting low level in 2003. Non-performing receivables refer to credits where the principal and/or interest have been unpaid for three months. According to the Financial Supervision Authority, the amount of non-performing receivables was 416 million euro, which is almost 20 per cent less than a year earlier. The share of non-performing receivables decreased to 0.4 per cent of the credit portfolio by the end of 2003.

Gross credit losses, excluding refunds or reversals of credit losses, amounted to 142 million euro. The amount of refunds and compensations of earlier credit losses, as well as reversals of credit loss provisions, was 30 million euro higher than credit losses and credit loss provisions booked. This means that, as an exception to the rule, credit losses had a positive effect on earnings in 2003.

**Banks’ life assurance companies increased their share**

Life insurance savings amounted to a total of 22 billion euro at the end of 2003, or 10 per cent more than a year earlier. On the other hand,
premium income in the insurance sector decreased in 2003. Life assurance premium income decreased by 11 per cent, mostly due to a decrease in premium income on savings life insurance. Premium income on individual pension insurance continued to increase.

The number of insurance policies sold increased until November, when the Government made a decision in principle that individual pension insurance shall be subject to capital income taxation as of the beginning of 2005.

The majority of life insurance savings consists of traditional guaranteed interest life insurance policies, which became even more popular during 2003. In the case of a guaranteed interest insurance policy, the life insurance company pays the guaranteed interest rate plus a customer bonus based on the company’s earnings.

Co-operation between banks and insurance companies has increased, and the consolidated financial groups include companies operating in both banking and insurance. The share of the banks’ life insurance companies compared to total insurance savings has grown and was approximately 70 per cent in 2003.

**Mutual fund savings are popular**

The downward trend in stock market prices, which lasted for approximately three years, turned in the summer of 2003. Increased market values of shares were reflected in the market value of equity funds in particular. Investments in short-term interest rate funds increased as well; 35 per cent of all mutual fund capital is invested in interest-bearing securities with a maturity period shorter than one year, and 33 per cent is in equity funds. The total market value of mutual funds registered in Finland was over 23 billion euro at the end of the year, or 40 per cent more than a year earlier.

Almost eight per cent of all domestic household wealth and non-profit institutional wealth is placed in mutual funds. In international comparison, investments in mutual funds are still fairly modest in Finland. At the end of 2003 there were 26 mutual fund companies operating in Finland. The number of mutual funds managed by these companies increased by 50 to a total of 362. The banks’ mutual fund companies account for more than 90 per cent of all fund capital managed by mutual fund companies.

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**Market shares of life insurance companies in insurance savings 31 Dec 2003**

Nordea 25.8%
Sampo Life 22.5%
Tapiola Mutual Life and Tapiola Corporate Life 9.0%
Suomi Group 21.9%
OP Life Assurance Co. 10.0%
Sampo 22.5%
Kaleva 4.0%
Others 6.7%

Source: Federation of Finnish Insurance Companies

**Market shares of mutual fund companies in accordance with amount of managed assets 31 Dec 2003**

Nordea Investment Fund Co. 26.7%
Sampo Fund Management 22.3%
Other banks’ fund companies 29.7%
OP Fund Management 14.2%
Others 7.1%

Source: Financial Supervision

**Car sales boosted lending by finance companies**

The credit portfolio of member companies in the Finnish Finance Houses Association grew by almost 9 per cent during the year and was 7.4 billion euro at the end of the year. Members of the Association in 2003 included Handelsbanken Finance Ltd, Nordea Finance Finland Ltd, OKO Osuuspankkien Keskuspankkiki Oyj/Finance Company Services, Sampo Finance Ltd and Sampo Card Ltd.

Finance companies focus on object-collateral financing (financing of hire purchase, leasing, factoring) and unsecured consumer credit (credit cards, account credit and one-time credit).
Finance companies finance the acquisition of a certain object, either based on an agreement with the vendor company or based on a direct agreement with the buyer. The products of finance companies complement the financing services of the banking group, channeling a major part of consumer and card credit to households.

New lending by finance companies increased in 2003, particularly with regard to hire purchase financing and consumer credit. Hire purchase financing increased by 25 per cent, mostly due to the fact that a reduction in car tax boosted the sales of new cars. In 2003 new lending only decreased in the field of leasing, due to businesses reducing investments in IT and other office equipment.

**Banks’ performance unchanged**

The 2003 earnings of finance and banking groups operating in Finland remained at the previous year’s level. A country-specific breakdown of the performance of multinational banking groups is not feasible, so the financial results of the banking groups have been presented in the following table, which covers all capital adequacy of the banking sector improved and stood at 18.9 per cent at the end of December.

<table>
<thead>
<tr>
<th>Financial income</th>
<th>Other income</th>
<th>Expenses</th>
<th>Credit losses</th>
<th>Operating profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nordea 1)</td>
<td>3 366</td>
<td>3 451</td>
<td>2 273</td>
<td>2 219</td>
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<tr>
<td>OP Group</td>
<td>796</td>
<td>857</td>
<td>458</td>
<td>412</td>
</tr>
<tr>
<td>Sampo 2) of which credit institution and investment services</td>
<td>404</td>
<td>448</td>
<td>239</td>
<td>235</td>
</tr>
<tr>
<td>Savings banks (excl. Aktia)</td>
<td>114</td>
<td>128</td>
<td>36</td>
<td>32</td>
</tr>
<tr>
<td>Aktia Savings Bank</td>
<td>74</td>
<td>75</td>
<td>41</td>
<td>37</td>
</tr>
<tr>
<td>Local co-operative banks</td>
<td>76</td>
<td>83</td>
<td>23</td>
<td>17</td>
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<tr>
<td>Bank of Aland</td>
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<td>32</td>
<td>19</td>
<td>15</td>
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<tr>
<td>Svenska Handelsbanken 3)</td>
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<td>SEB 3)</td>
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<td>1 497</td>
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<tr>
<td>Danske Bank 3)</td>
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<td>1 265</td>
<td>1 237</td>
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<tr>
<td>DnB NOR 3)</td>
<td>1 723</td>
<td>1 849</td>
<td>1 037</td>
<td>754</td>
</tr>
</tbody>
</table>

1) Income statement based on business areas
2) Internal dividends and sales gains between the sectors have been eliminated from consolidated operating profit. Profit/loss corresponding to the share of if Group added/deducted from operating profit.
3) Exchange rates: Sweden 2003 = 9,1250 ja 2002 = 9,1627
Denmark 2003 = 7,4305 ja 2002 = 7,4307
Norway 2003 = 8,0033 ja 2002 = 7,5086

In addition to reduced market rates, smaller customer margins also affected the net income from financial operations.

- Increased lending from financial institutions upheld profitability. The demand for housing loans in particular continued to be good. Deposits also increased.
- The mutual fund business, income from securities brokerage and commission income increased other income.
- Expenses decreased slightly during 2003. The efficiency of the banks, measured by the cost/income ratio, remained almost at the previous year’s level.
- The amount of credit losses remained low.
- The banks’ capital adequacy remained good. Capital adequacy ratios varied from 9.3 to 21 per cent. According to calculations by the Financial Supervision Authority, the overall capital adequacy of the banking sector improved and stood at 18.9 per cent at the end of December.