



BANK OF FINLAND ANNUAL REPORT 2014

- 1 Finnish economy continues to underperform
- 2 Monetary policy eased and its transmission stepped up
- 3 ECB assumes responsibility for supervising euro area banks





Bank of Finland Annual Report 2014

Bank of Finland

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Photo: Peter Mickelsson

Foreword

The difficulties in the Finnish economy continued in 2014, with the economy merely treading water. We have fallen clearly behind most euro area countries, and Finland's real GDP is still around 5% smaller than prior to the onset of the financial crisis in 2008. Long-term growth forecasts have also had to be adjusted downwards.

With simultaneous growth in the general government deficit, the long-term sustainability of the public finances is hanging in the balance. Economic policy must now be deployed to turn the trend around and bring improvements to growth, employment and the outlook for the public finances. Solutions should draw on the best research and international experiences. The Bank of Finland will offer its own input into this process.

The euro area economy grew, but more slowly than expected. One factor undermining growth was geopolitical uncertainty. The events in Ukraine and the problems in the Russian economy have had a considerable impact on the economies of Finland and many other countries in the euro area. Meanwhile, the Middle East is living through major changes, contributing to the general uncertainty.

The ECB increased its monetary policy stimulus during 2014 as inflation continued to slow. Once the room for manoeuvre in the policy rates had been used up in the summer, new, non-standard measures were introduced, such as securities purchases. Staff from the Bank of Finland have, in accordance with our vision, been active and constructive actors in the Eurosystem. ECB President Mario Draghi visited Finland (and the Bank of Finland) in November. His speeches and many meetings contributed to discussions of ECB monetary policy in our country.

The construction of banking union reached an important phase at the end of 2014, when responsibility for the supervision of large banks was assumed by the ECB. The practical work of supervision

is the responsibility of supervision groups with representatives from both the ECB and the Financial Supervisory Authority. The latter's role in these groups is important. Preparations for the change included a comprehensive assessment of euro area banks, in which the banks operating in Finland performed well.

Cooperation between the Bank of Finland and the Financial Supervisory Authority will deepen further in 2015, when practical cooperation begins in macroprudential supervision of the financial markets. The macroprudential policy now being launched, which has been a long time in preparation, provides the authorities with essential new tools and will increase their ability to exert an influence. At the same time it poses tougher demands on prudential analysis.

Dialogue between the Bank of Finland and Finnish society will be reinforced up by the Payments Council, which began operations in 2014. The Payments Council is a national organ of cooperation that will enable the views of payment services' users, providers and authorities to be taken into account in resolving payments-related problems and considering future payment solutions.

One area of focus in the past year has been more intensive communication. Active dialogue with members of the public and society as a whole provides a solid base for both more effective communication and developing the Bank's own activities. The initiative of our entire staff is an important resource that the Bank is seeking more effectively than before to activate, utilise and value.



Erkki Liikanen
Governor
23 February 2015

Bank of Finland

The Bank of Finland is Finland's national central bank. Established in 1811, it is the fourth oldest of the central banks currently operating in the world. It is a member of the Eurosystem, which comprises the European Central Bank (ECB) and the national central banks of the EU Member States that have adopted the euro as their common currency.

The Bank of Finland's status is defined in the Finnish constitution. In Finland, the central bank is an independent institution governed by public law that operates under the guarantee and care of Parliament. Supervision of the Bank's activities is undertaken by the nine-member Parliamentary Supervisory Council, appointed by Parliament.

The Bank of Finland's activities are regulated by the Act on the Bank of Finland and the Statute of the European System of Central Banks (ESCB). In handling the duties of a central bank as part of the ESCB, the Bank of Finland abides by the policies and guidelines of the ECB.

The core functions of the Bank of Finland include participation in the preparation of the euro area single monetary policy, operative central bank tasks, monitoring of financial market stability and maintenance of the currency supply.

The Governor of the Bank of Finland is a member of the ECB's Governing Council, which decides euro area monetary policy. Experts from the Bank support the Governor's work on the Governing Council and participate in preparation of the single monetary policy in the various committees of the ESCB.

Within the Eurosystem, national central banks are responsible for the conduct of monetary policy on a decentralised basis. The Bank of Finland implements Eurosystem monetary policy operations with banks operating in Finland. In addition, it offers various central bank services to banks for enabling interbank

payments, central bank deposits and overnight liquidity against eligible collateral assets. The Bank of Finland's tasks also include prudent and productive investment of its own financial assets, such as the foreign reserve portfolio.

During the course of 2014, responsibility for supervising euro area banks was centralised in the European Central Bank. The practical supervision is exercised by the euro area's common system of financial supervision, the Single Supervisory Mechanism, comprising, in addition to the ECB, the national financial supervisors of the participating countries – in Finland's case the Financial Supervisory Authority (FIN-FSA). FIN-FSA is an independent authority functioning in connection with the Bank of Finland.

The Bank of Finland is responsible for safeguarding the stability of the Finnish financial markets in cooperation with FIN-FSA and the Ministry of Finance. In this work, the Bank of Finland focuses on macroprudential analysis and oversight of payment and settlement systems.

As part of the currency supply function, the Bank of Finland is responsible for the issuance of cash in Finland and for its quality and availability. The Bank of Finland has two regional offices for the management of currency supply: one in Oulu and one in Vantaa.

In 2014, the Board of the Bank of Finland comprised Governor Erkki Liikanen, Deputy Governor Pentti Hakkarainen and Member of the Board Seppo Honkapohja. FIN-FSA has a Board of its own, in the year under review chaired by Pentti Hakkarainen, Deputy Governor of the Bank of Finland.

At the end of 2014, a total of 387 staff were employed in the Bank of Finland's head office in Helsinki and the regional offices in Oulu and Vantaa. The Bank of Finland and FIN-FSA employed 576 persons in all. FIN-FSA produces its own annual report.

Photo: Pekka Karhunen.



Photo: Pekka Karhunen.



Photo: Peter Mickelsson.



*The Bank of Finland Board
From the top, Governor
Erkki Liikanen, Deputy Governor
Pentti Hakkaraian and Member of the
Board Seppo Honkapohja.*



Bank of Finland activities 2014

Monetary Policy

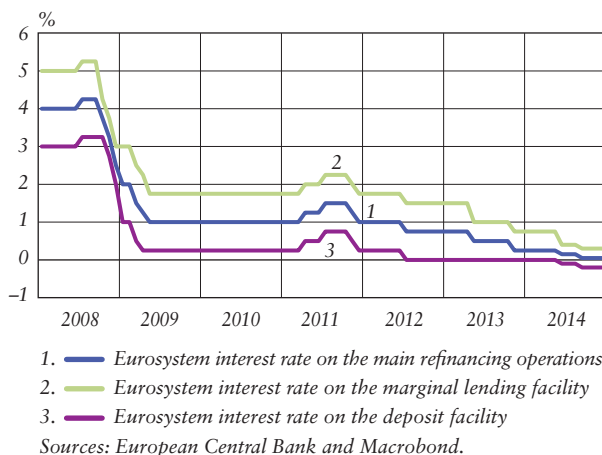
The ECB's monetary policy and its preparation

The main objective of the Eurosystem's monetary policy is to maintain price stability in the euro area. The Governing Council of the ECB has defined this objective as meaning, in practice, that the year-on-year increase in consumer prices should be below, but close to, 2% over the medium term. Monetary policy can also support other economic policy objectives of the EU, as long as the objective of price stability is not jeopardised.

As a member of the ECB Governing Council, the Governor of the Bank of Finland participates in monetary policy decision-making. Experts from the Bank contribute to the preparation of monetary policy decisions and carry out other background work. In particular, they contribute to the preparation of the Governing Council's meetings in the context of the Eurosystem's Monetary Policy Committee and the Market Operations Committee.

In 2014 a number of steps were taken to reinforce monetary policy transmission, while key interest rates were lowered to the lowest they have ever been in the history of the euro area. In fact, the policy rate reached the zero lower bound and the rate on the deposit facility was taken even lower, becoming negative. Monetary policy transmission was reinforced with targeted longer-term refinancing operations, purchases of asset-backed securities and the ECB's comprehensive assessment of banks. Although nominal interest rates in the euro area have reached the zero lower bound, monetary policy will remain active. The ECB Governing Council confirmed unanimously its intention to deploy non-standard measures to secure the objective of price stability.

Chart 1.
Eurosystem policy rates



ECB Governing Council relaxed monetary policy and reinforced its transmission to the real economy

Developments in the euro area economy in 2014 were dominated by fading growth and sluggish inflation throughout the year. The substantial fall in the price of oil towards the end of the year caused a further slowdown in the pace of inflation. In order to maintain price stability and support economic growth, the ECB Governing Council adopted a substantial combination of monetary policy measures.

At its June and September meetings, the Governing Council adopted a package of measures involving a further relaxation of monetary policy and reinforcement of its transmission to the real economy. Monetary policy was relaxed by lowering the key policy rate (i.e. the minimum bid rate on central bank refinancing operations) to 0.05%. At the same time the rate on the deposit facility entered negative territory (Chart 1). Monetary policy transmission to

the real economy was reinforced through targeted longer-term refinancing operations as well as purchase programmes for asset-backed securities and covered bonds. Completion of the comprehensive assessment of banks at the end of the year provided additional reinforcement of monetary policy transmission. Following these measures, the Governing Council indicated it was unanimously committed to applying non-standard measures within the limits of its mandate in order to continue the anchoring of medium and long-term inflation expectations.

The Governing Council emphasised throughout 2014 that other segments of economic policy are also required to support recovery in the euro area. Fiscal policy, in particular, should be supportive of growth – but within the limits of the Stability and Growth Pact. Tax policy should favour taxation with the least negative impact on growth. Meanwhile, structural reforms can be used to improve competitiveness, increase potential output, boost employment and make economies in the euro area more nimble and adaptable.

Latvia joined the euro area at the beginning of 2014, increasing the number of member countries to 18. In July, Lithuania was accepted as a euro area member from the start of 2015. At this point, the number of members will exceed 18, whereupon, in line with a decision of 2003 by the Council of the European Union, a voting rotation system will be introduced in the ECB Governing Council. In November, the Governing Council announced which of its members would be first to lack a vote.

Monetary policy supports euro area recovery amidst geopolitical risks

In early 2014, economic developments in the euro area continued in similar vein to the end of 2013. The euro area was recovering slowly from the recession of 2012–2013 and inflation remained slow, although inflation expectations remained anchored in line with the ECB’s price stability objective. Geopolit-

ical crises were, however, casting a shadow over economic developments in 2014. The euro area was particularly exposed to the effects of the crisis in Ukraine. As a result of the crisis, the EU imposed sanctions on Russia, in response to which Russia imposed counter-sanctions on the EU.

Euro area recovery was supported by an accommodative monetary policy, which the Governing Council implemented in accordance with the forward guidance it began in 2013. In its first five meetings – January to May – the Governing Council decided to keep its monetary policy stance unchanged. Interest continued to be 0.25% on the main refinancing operations, 0.75% on the marginal lending rate and 0.00% on the deposit facility. The monetary policy stance was further reinforced by the forward guidance: the Governing Council expected to hold interest rates at the current or lower levels for an extended period of time, until a permanent recovery in the euro area is clearly visible.

By summer it was clear that euro area growth had been weaker than forecast, and at the same time inflation had slowed from 0.8% at the beginning of the year to 0.5% in May (Chart 2). Inflation continued to be slow and GDP growth lacklustre through the summer, in addition to which growth in the stock of credit was still sluggish.

Chart 2.
Harmonised Index of Consumer Prices for the euro area
Change from year earlier, %



Sources: Eurostat and Macrobond.

Forecasts of future trends also weakened during the course of the summer. The weak economic developments and sluggish inflation led the Governing Council to decide between June and September to further relax monetary policy and reinforce its transmission. The decisions taken can be divided into two parts: a further reduction in the key policy rate and measures to reinforce monetary policy transmission.

Key policy rate hits zero lower bound nominally, while interest on the deposit facility is now negative

The Governing Council lowered its key policy rate close to the zero lower bound for nominal interest in two stages at its June and September meetings. In June, the interest on the main refinancing operations was lowered 10 basis points to 0.15%, the marginal lending rate by 35 basis points to 0.40% and interest on the deposit facility by 10 basis points to -0.10%. At its September meeting, the Governing Council decided on a further reduction in its policy rates: interest on the main refinancing operations was lowered to 0.05%, the marginal lending rate to 0.30% and interest on the deposit facility to -0.20%. With these decisions, two of the policy rates reached exceptional levels.

In the first place, the interest on the deposit facility became negative. This means that all Eurosystem counterparties that have central bank deposits in excess of the minimum reserve requirements have to pay the Eurosystem for their deposits. This encourages banks with a surplus to deposit their surplus with a commercial bank needing liquidity rather than with the central bank. In a situation where the interest on the main refinancing operations is close to zero, the interest on the deposit facility must be taken into negative territory in order to provide sufficient room for the interbank money market to operate in. Financial intermediation is then not unnecessarily dependent on the central bank.

Secondly, the interest on the main refinancing operations was lowered close to

the zero lower bound, meaning the policy rates were at the lowest level they have ever been since the establishment of the euro area. Lowering the interest on the main refinancing operations below zero would be awkward, as the Eurosystem already issues interest-free debt instruments – cash. Negative interest on the main refinancing operations would make it profitable for banks to hold cash. In practice, the Governing Council's decisions in June and September took interest rates down to the technical lower bound. In normal conditions, a central bank steers its interest rates in order to alter the real interest rates prevailing in the economy, i.e. the difference between the nominal rate and expected inflation, which affects decisions on investment and consumption. Reaching the lower bound of nominal interest rates means that a further relaxation of monetary policy will require the use of instruments other than the key policy rate.

Monetary policy transmission reinforced

At its meetings from June to September, the Governing Council also decided on a number of non-standard measures to reinforce monetary policy transmission to the real economy. These measures comprised three distinct groups:

1. targeted longer-term refinancing operations (TLTRO);
2. an asset-backed securities purchase programme (ABSPP) and a covered bond purchase programme (CBPP);
3. measures to increase money-market liquidity, including continuation of the policy of full allotment until at least December 2016, ending the neutralisation of the liquidity effects of purchases under the Securities Markets Programme (SMP), and use of longer-term refinancing operations with a maturity of three months.

TLTROs offer banks the possibility to get funding for approximately four years at the interest on the main refinancing operations

prevailing at the time the funding is taken out plus a margin of 10 basis points. In addition to the two operations conducted in 2014, the Governing Council has announced that six targeted refinancing operations of this type maturing in September 2018 will be conducted in 2015–2016. Funding received via these targeted operations is intended for lending to the household and non-financial corporate sectors and for the funding of housing purchases.

The problems in the euro area have been that the low interest rates have not been passed on to the interest rates on bank lending, and bank lending to the non-financial corporate sector has itself been sluggish. Through the targeted operations, the Governing Council seeks to lower banks' longer-term funding costs, thus facilitating a reduction in the interest rates on banks' lending to the corporate sector. For its part, the interest rate reduction is hoped to boost economic activity. The targeted operations combine long maturities and fixed-rate interest. These elements will reinforce the Governing Council's forward guidance, according to which the policy rates will remain low for a prolonged period, bearing in mind the prevailing inflation expectations.

The purchase programmes for covered bonds and asset-backed securities were launched in October and November 2014. Within these programmes, the Eurosystem will purchase simple and transparent asset-backed securities and covered bonds. The purpose of the programmes is to enhance the monetary policy transmission mechanism. One aim of the programmes is to ease access to funding for SMEs, as banks can transform illiquid loans on their balance sheets into liquid securities. Another, more long-term aim is to deepen the European capital markets by creating a broader range of funding options for the corporate sector.

Taken as a whole, the monetary policy operations decided by the Governing Council in June–September may be summarised in terms of three dimensions. In the first place, the interest rate cuts, targeted longer-term

refinancing operations and other measures to increase liquidity constituted a further relaxation of monetary policy and reinforced the forward guidance of the Governing Council. These measures led to a drop in market interest rates and depreciation of the euro, thereby stimulating the economy.

In the second place, the Governing Council wished to ensure that the more relaxed financing conditions would feed through to the real economy. The targeted longer-term refinancing operations lower banks' long-term funding costs primarily in regard to loans to the real economy. A considerable proportion of funding in the euro area flows through the banks, and it is therefore important to ensure that monetary policy feeds through to the interest charged on bank loans.

Finally, the Governing Council stressed its continued commitment to applying non-standard measures in the event there is a need for a further relaxation of monetary policy. The key policy rate's hitting the zero lower bound does not mean that monetary policy will be rendered passive. The measures implemented also reinforced the impression that euro area monetary policy and the monetary policy of other major economic regions are moving further apart.

Heightened transparency of bank balance sheets reinforces monetary policy transmission

Funding for euro area non-financial corporations and households is based primarily on bank funding. From the perspective of monetary policy transmission, it is essential that monetary policy is channelled via bank credit. This means that central bank monetary policy measures must be reflected in changes in lending rates for non-financial corporations and households. If lending rates do not reflect the changes in the monetary policy stance, the changes will not necessarily feed through to the real economy. The euro area's weak credit growth – despite an accommodative monetary policy – suggested that monetary policy was not feeding through into lending decisions in an optimal manner.

In order to enhance the functioning of the credit channel, the ECB conducted a comprehensive assessment of banks in the euro area. The assessment yielded a considerable amount of information on banks' balance sheets that can be put to use in banking supervision. The results of the assessment were ready in October and published in November, when the ECB also took up its role as European banking supervisor. The assessment revealed 25 banks with a capital deficit, which they must correct within 6–9 months of publication of the assessment results. Most banks came successfully through the comprehensive assessment, despite the demanding nature of the assessment criteria.

The comprehensive assessment provided banks with an opportunity to benefit from the results and strengthen their capitalisation, where necessary. A well-capitalised banking sector can ensure that potential obstacles to the availability of funding are not due to a weakness in the sector. A healthy banking system is essential if the measures taken by the General Council are to feed through to households and businesses in need of funding.

General Council stands ready for additional measures to maintain price stability

The end of 2014 was dominated by the substantial fall in the price of oil, which fell

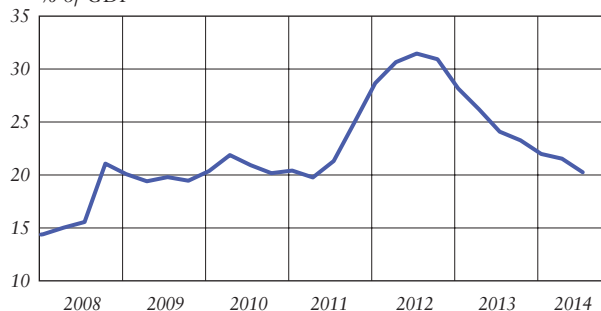
by half during the second half of the year. This is partly why inflation dipped into negative territory in December, to -0.2%, for the first time since October 2009 (Chart 2). The slow inflation caused by the plunge in the price of oil will become harmful to the economy if it leads to a fall in other prices, and possibly also in wages, as this could cause an economically harmful deflationary spiral. Simultaneous with the slowdown in inflation, the growth forecasts for 2014 and 2015 were also adjusted downwards. In the ECB's forecast published in December, euro area GDP was expected to grow around 1% in 2015, against the 1.6% forecast in September.

In November, the Governing Council launched within the Eurosystem committees and the ECB itself the necessary technical preparations to allow additional measures to be taken at the appropriate time, should they prove necessary. The Governing Council indicated it was unanimous in its commitment to using additional unconventional measures within its mandate, if the measures decided between June and September should prove insufficient to return inflation close to the ECB's target level. The measures already taken will have a substantial effect on the ECB's balance sheet, which is expected as a result to grow towards the level prevailing in the first half of 2012 (Chart 3).

At its December meeting, the Governing Council decided to reassess the need for possible additional measures in early 2015, when it will be possible to evaluate how the effects of the measures already decided and the fall in the price of oil have affected inflation. Should it prove necessary, the Governing Council remained unanimous in its commitment to using additional unconventional measures within its mandate. All monetary policy measures are geared to anchoring medium and long-term inflation expectations and returning inflation to a level consistent with the ECB's price stability objective, according to which inflation should be below but close to 2% over the medium term.

Chart 3.
Eurosystem balance sheet

% of GDP



Sources: European Central Bank and Macrobond.

Box 1.

ECB enhances transparency and will in future publish discussions held at interest rate meetings

After thorough preparations lasting a full year, the ECB announced in December 2014 it would commence regular publication of accounts of the discussions at the Governing Council's monetary policy meetings. The Bank of Finland considers this increased transparency of decision-making an important development.

The accounts are not the same as the minutes of the meetings. The latter are drawn up separately and are only made public after a gap of 30 years. In contrast, the accounts of the meetings will be published just four weeks after the meetings. They will provide a general overview of developments on the financial markets, in the economy and in monetary conditions. They will also give a summary of the meeting's economic and monetary analyses as well as the discussions on the monetary policy stance. The purpose of the accounts will be to give as accurate and balanced a picture as possible of the monetary policy discussions and provide more information than before on the reasoning behind the Governing Council's monetary policy decisions. This will give the public a more comprehensive picture of how the Governing Council views the prevailing situation in the economy and what lies ahead, better equipping them to understand the monetary policy decisions.

The account will always contain an introductory statement to the press conference by the President of the ECB. Overviews and summaries will be based on the presentations by members of the Executive Board that serve as the basis for discussion and decision-making in the Governing Council. All

members of the Governing Council will freely express their own views of the overviews and introductions both during the discussion and when decisions are taken, irrespective of the issue at hand.

The policy alternatives presented by members of the Executive Board may touch on both standard monetary policy, such as changes in interest rates, and non-standard monetary policy measures, such as securities purchases. The discussion on monetary policy will be reported thoroughly and comprehensively. The account will cover both arguments in favour of the decision and any reservations presented.

The account will also contain a list of Governing Council members and their voting rights. It will not otherwise distinguish between members currently holding voting rights and other members of the Governing Council. Votes are held on request of the President or other member of the Governing Council. Decisions are either unanimous or based on consensus, or else they are taken on the basis of a qualified or a simple majority. When necessary, decisions on standard monetary policy and non-standard monetary policy measures can be taken separately.

Operational issues and issues relating to monetary policy implementation but unrelated to the monetary policy stance will not be reported in the published accounts of the meetings. The first account of monetary policy discussions will be published in respect of the meeting held on 22 January 2015. After December 2014, monetary policy meetings will be held at six week intervals.

Implementation of monetary policy in the euro area and Finland

The Eurosystem implements the monetary policy decisions of the ECB's Governing Council with the help of an operational framework. The key aspects of this framework are open market operations, standing facilities and a minimum reserve system. Open market operations are conducted primarily as collateralised credit operations, whereby the collateral also plays an important role. The operational framework also includes outright transactions; in 2014, the Eurosystem conducted these on the covered bond and asset-backed securities markets.

The Bank of Finland is responsible for national implementation of the Eurosystem's single monetary policy. Credit institutions located in Finland hold current accounts with the Bank of Finland and participate in monetary policy operations through the Bank of Finland.

Monetary policy relaxed further: interest rates reach zero lower bound

The ECB Governing Council continued to relax its monetary policy stance during 2014 by lowering interest rates on two occasions. The key policy rate was lowered from 0.25% to 0.15% in June, and, again, to 0.05% in September (Chart 4). The Governing Council has indicated that the rates are at the lower bound.

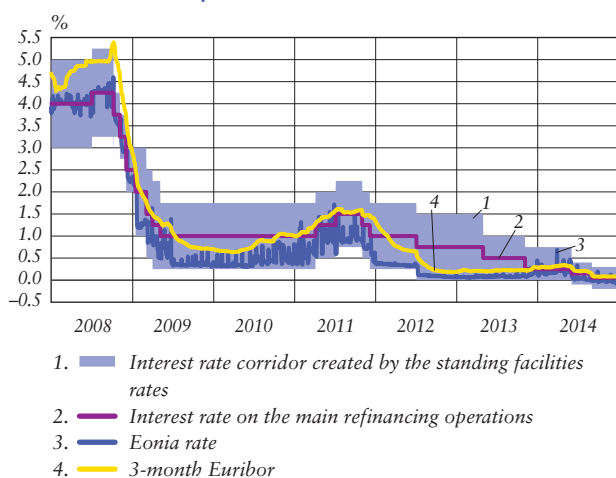
The decision of the Governing Council in June restored the symmetry of the interest rate corridor, when the interest on

the deposit facility was lowered to -0.10%, entering negative territory for the first time in the history of the Eurosystem, and the marginal lending rate was lowered to 0.40%. In September, the interest rate on the deposit facility was lowered further, to -0.20%, and the marginal lending rate was lowered to 0.30%. The negative rate on the deposit facility means banks have to pay the Eurosystem for their overnight deposits and current account deposits in excess of the minimum reserve requirements. A negative deposit rate is also commonly applied to deposits by customers not involved in monetary policy operations.

Throughout the crisis, the Eurosystem has applied non-standard monetary policy measures in addition to its accommodative interest rate policy. In 2014, the Eurosystem announced a series of targeted longer-term refinancing operations (TLTROs) and purchase programmes for covered bonds and asset-backed securities (ABSs). According to the Governing Council, the intention is to expand the balance sheet towards the level of early 2012, i.e. around EUR 3,000 billion.

Alongside its non-standard measures, the Eurosystem continued to conduct the main refinancing operations and regular three-month longer-term refinancing operations as fixed-rate tenders with full allotment. By decision of the Governing Council, the fixed-rate, full-allotment procedure will remain in force at least until the end of the minimum reserve

Chart 4.
Development of key Eurosystem interest rates and interbank money market rates



Sources: European Banking Federation and Bank of Finland.

maintenance period that ends in December 2016. In June, the Governing Council decided to discontinue refinancing operations with a maturity of one maintenance period following the operation that was allotted on 10 June. In the same connection, it was also decided to suspend the weekly fine-tuning operations implemented to neutralise the liquidity effects of the Securities Markets Programme (SMP), in which banks could make fixed-term deposits of one week with the central bank. In July, the Governing Council announced a reduction in the frequency of its meetings from the beginning of 2015. At the same time, the duration of reserve maintenance periods was extended from around 4 weeks to 6–7 weeks.

During 2014, banks continued their voluntary repayments of credit received through the three-year longer-term refinancing operations implemented in 2011 and 2012, leading to a reduction of the excess liquidity in the banking system. The repayments totalled EUR 330 billion, leaving around EUR 210 billion of the three-year refinancing still outstanding. At the same time, the excess liquidity declined from around EUR 150 billion at the beginning of the year to around EUR 70 billion at its lowest point, before returning to over EUR 200 billion after the targeted longer-term refinancing operations (Chart 5).

The amounts allocated through the main refinancing operations varied between around EUR 80 billion and EUR 170 billion, as the banks responded to the situation prevailing on the money markets at any given time. The amounts outstanding from three-month operations varied between EUR 25 billion and EUR 50 billion (Chart 6). The Governing Council decided to end three-month dollar-denominated operations in April 2014, but continued the one-week operations.

The suspension of the fine-tuning operations to reduce the liquidity effects of the SMP in June relaxed the tightened

Chart 5.
Excess liquidity in the euro area banking system

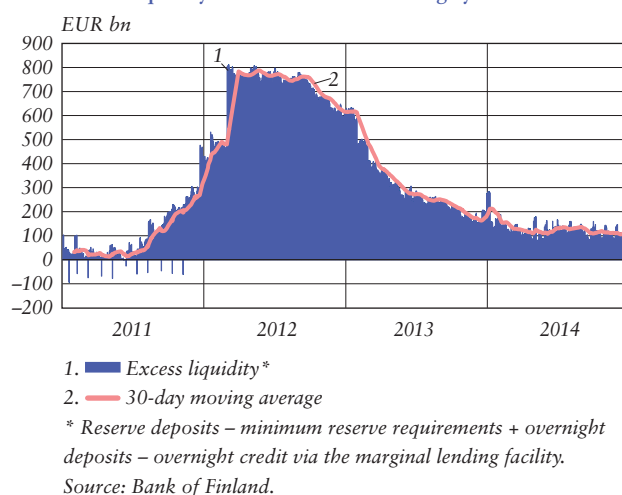
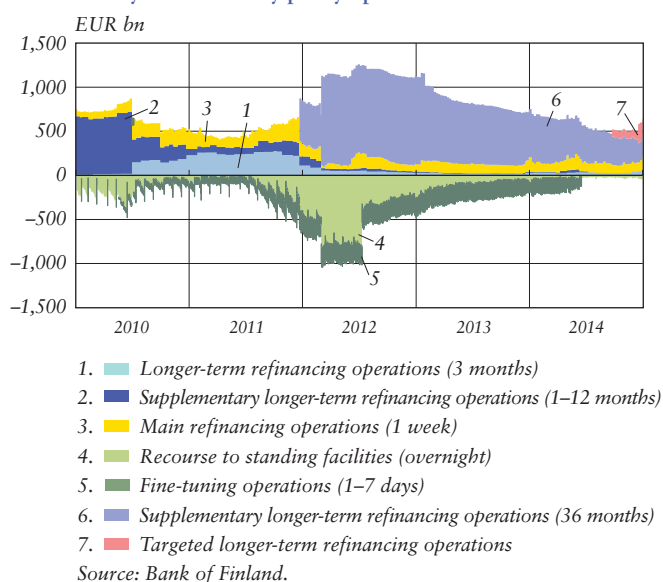


Chart 6.
Eurosystem monetary policy operations



financial market conditions and increased the liquidity in the banking system by a good EUR 100 billion during the early summer. The ECB's interest rate cuts and abundant liquidity took money market rates to a new low in 2014, e.g. the three-month Euribor, which fell below 0.10%.

Targeted longer-term refinancing operations support monetary policy

In June, the ECB Governing Council announced a series of eight targeted longer-term refinancing operations aimed at improving the transmission mechanism of monetary policy by supporting banks' lending to the real economy. The operations will be implemented on a quarterly basis for two years. As all the operations will reach maturity in September 2018, their maturities will vary from four years to just over two years. The interest on the operations will be the rate on the main refinancing operations prevailing at the moment of implementation plus 0.10 of a percentage point.

In the first two operations of the series – implemented in September and December 2014 – banks could apply for funding up to their initial loan allowance. This was defined as 7% of each bank's stock of loans to the private sector by the end of April 2014 excluding housing loans and loans to MFIs. The aggregate initial loan allowance of all the banks in the euro area was around EUR 400 billion, of which the final uptake was close to 53%, or a good EUR 210 billion. Of this total, around EUR 80 billion was used up in September's targeted longer-term refinancing operation, and around EUR 130 billion in December. The September operation attracted the participation of 255 banks or banking groups. The December operation attracted 306 participants. After the first targeted operation, banks accelerated repayment of the three-year credits, repaying close to EUR 100 billion in the final months of the year, whereby the net liquidity effect of the targeted operations was smaller than the

actual allotted amount in the operations.

As from March 2015, the maximum amounts allocated to banks in the TLTROs will be based on an additional loan allowance defined on the basis of developments in a bank's net lending. The more eligible loans a counterparty grants from May 2014 to April 2016, the more financing it can receive. The limit is larger in the case of a bank whose net lending was negative between May 2013 and April 2014 than for a bank whose net lending over the same period was positive.

As their central bank funding contracts, banks need less collateral

In order to receive central bank credit, counterparties need sufficient collateral that complies with the Eurosystem's eligibility criteria. The amount of collateral provided to the Eurosystem in 2014 contracted for the second year in a row. The total amount by the end of the year was approximately EUR 1,850 billion, against around EUR 2,200 billion a year earlier (Chart 7). This contraction was made possible particularly by advance repayments of funding from the longer-term refinancing operations, which reduced counterparties' level of monetary policy credit and their need for collateral.

Of all the collateral provided, the share of public sector issuers (central and regional government) grew most, to stand at 25% at the end of 2014. The amount of non-marketable collateral declined, as fixed-term deposits made under the liquidity-absorbing fine-tuning operations could no longer be used as collateral after June. Non-marketable credit claims (loans by counterparty banks to their corporate and public sector customers), covered bonds and asset-backed securities each comprised just under 20% of the collateral provided.

During the year, the Eurosystem made some specifications to the details of the eligibility criteria and risk control measures applied to the collateral. (Detailed information on collateral decisions taken in 2014 is provided in the appendices.) In

addition, the Governing Council decided in connection with the targeted longer-term refinancing operations that additional credit claims and other assets temporarily acceptable as collateral would retain their eligibility as collateral until at least September 2018.

Eurosystem launches purchase programmes for covered bonds and asset-backed securities

In September 2014 the Governing Council announced two new purchase programmes focussing on covered bonds and structurally simple and transparent asset-backed securities. The aim of these programmes is to complement other accommodative monetary policy measures and enhance monetary policy transmission, particularly via the credit channel. The programmes will have a duration of at least two years, and purchasable securities will be subject to the eligibility criteria applied to collateral used in refinancing operations. The Eurosystem has had two earlier purchase programmes for covered bonds, in 2009–2012, but has no previous experience with direct purchases of asset-backed securities. These are, however, used as collateral in credit operations.

The Eurosystem commenced purchases of covered bonds in October and of asset-backed securities in November. By the end of the year, covered bonds had been purchased to a value of EUR 25 billion, and asset-backed securities to a value of just under EUR 2 billion. Of covered bond purchases, around one quarter were conducted on the primary market and the remainder on the secondary market.

Notwithstanding the new programmes, the overall liquidity effect of the direct purchase programmes was negative in 2014, as the portfolios from earlier purchase programmes declined from EUR 235 billion to EUR 185 billion due to redemptions.

The covered bond purchases are conducted on a decentralised basis but internally within the Eurosystem, whereas

Chart 7.
Collateral put forward to the Eurosystem

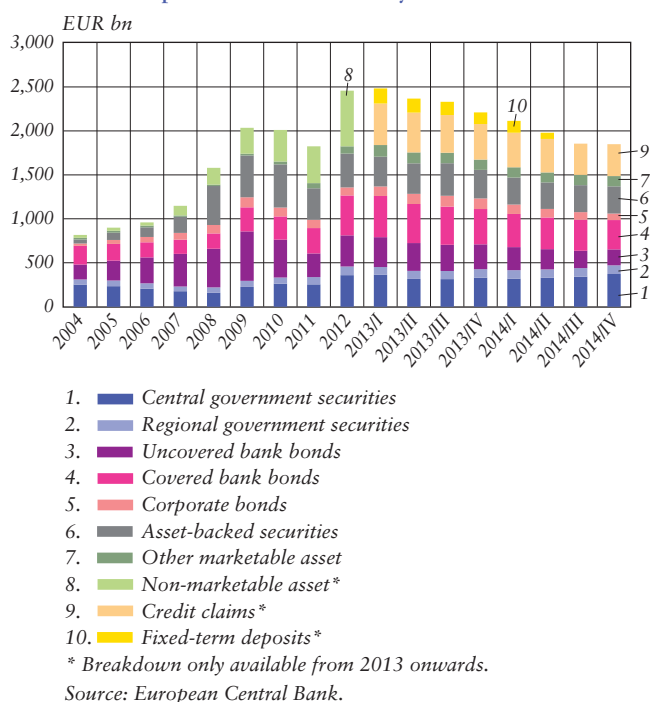
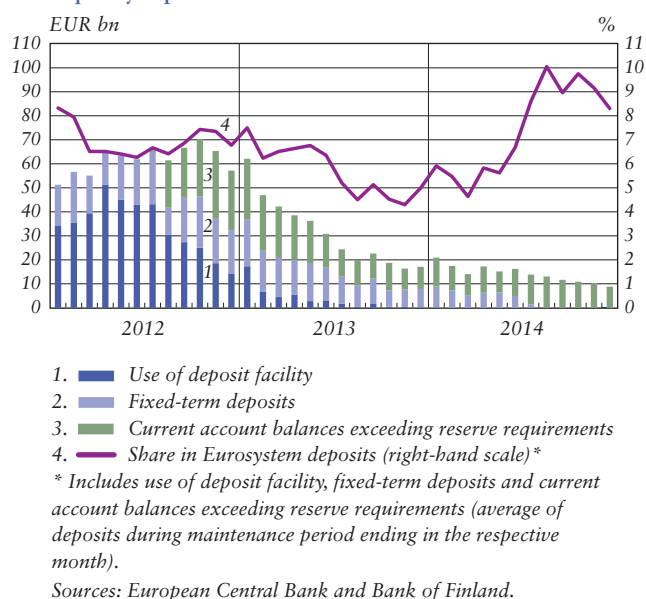


Chart 8.
Liquidity deposited with the Bank of Finland



four external asset managers have been employed for the asset-backed securities purchase programme. Even so, the Eurosystem is independently responsible for purchase decisions under both programmes. The Bank of Finland participates in purchases of covered bonds issued by Finnish banks. There were no issues of asset-backed securities in Finland.

Bank of Finland counterparties have little need of central bank funding

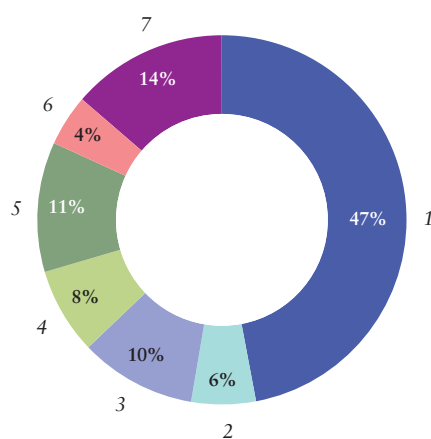
As in previous years, Bank of Finland counterparties had little need of central bank funding. The amount of outstanding credit declined during the course of the year from EUR 2.5 billion to around EUR 700 billion, largely on account of advance repayments of three-year refinancing operations.

Funding received via the targeted operations was negligible, at around EUR 0.5 billion.

As the excess liquidity in the banking system contracted across the whole euro area, so central bank deposits by counterparties in Finland declined as well. During the course of 2014, banks' deposits totalled an average of EUR 13.8 billion, half the figure for the previous year. Once the collection of fixed-term deposits was discontinued, banks' central bank deposits consisted solely of deposits in excess of the minimum reserve requirement, which are subject to a negative interest rate. The volume of deposits with the Bank of Finland remained large, and Finland's share of deposits in the euro area as a whole rose to around 10% (Chart 8). This indicates substantial flows of liquidity into reputable banks located in Finland.

The total amount of collateral provided to the Bank of Finland contracted in 2014 by a good EUR 1 billion to EUR 24.9 billion, but this was still a considerable amount. Of the total, only 3% was used to cover monetary policy operations. Slightly over 60% of the collateral was used to cover intraday credit limits under the TARGET2 system. Termination of the use as collateral of fixed-term deposits collected under the fine-tuning operations led to some changes in the distribution of the collateral provided. As in previous years, however, the most common form of collateral was covered bonds (47%) (Chart 9).

Chart 9.
Collateral put forward to the Bank of Finland
(averages in 2014)



- 1. Covered bank bonds
- 2. Uncovered bank bonds
- 3. Corporate and other similar bonds
- 4. Asset-backed securities
- 5. Credit claims
- 6. Fixed-term deposits
- 7. Central and local government securities

Source: Bank of Finland.

Box 2.

Challenges of a negative deposit rate and the zero lower bound in monetary policy

Central banks are said to have hit the zero lower bound in monetary policy if they would like to relax their monetary policy stance but a reduction in the key policy rate is not possible because the rate of interest is already very close to zero. This was the position the European Central Bank found itself in in 2014. At that time, inflation expectations in the euro area fell below the price stability objective of below but close to 2%. This increased the need to relax monetary policy, although following the interest rate decisions in September there was no longer any room for a further reduction. Notwithstanding the zero lower bound, the Eurosystem has been able to relax its monetary policy stance by adopting new, non-standard measures. During 2014, the Eurosystem lowered its overnight deposit rate into negative territory, arranged new types of central bank credit operations, launched two purchase programmes for private securities and beefed up its forward guidance.

Among the world's major central banks, the European Central Bank was the first to take the lower limit of its interest rate corridor into negative territory, in June 2014. The negative interest rate on the deposit facility is intended to encourage euro area banks in surplus to increase their lending to banks running a deficit. The euro area banking system currently has a large amount of surplus central bank money, but this is not distributed evenly between the banks. The lack of mutual confidence between banks that prevailed during the financial crisis is still smouldering to some degree: the volume of business on the short-term interbank money market has contracted substantially from the level prevailing prior to the crisis. Banks with a surplus have at the close of day deposited their surplus funds with the central bank instead of lending it to other banks on the

interbank market. Negative interest on the deposit facility reduces the attraction of central bank deposits, as the banks have to pay the Eurosystem interest on central bank deposits in excess of the minimum reserve requirement.

Sluggishness on the interbank market weakens the availability of funding for banks in deficit, as they are forced to turn to the Eurosystem to ensure adequate funding. Meanwhile, the price of funding banks offer to the public is defined on the basis of the banks' own funding costs. Moreover, disturbances in the functioning of the interbank market force all banks to draw up various contingency plans, which increase their need to retain surplus central bank liquidity.

The negative interest on the deposit facility does not directly reduce the Eurosystem's surplus central bank money. Even if a bank decides to lend to the private sector instead of depositing funds with the central bank, the money is transferred in electronic form from an account in one bank to an account in another. Banks can also avoid the negative deposit rate by converting their deposits into cash, but the storage of cash is considerably more expensive than the costs from negative interest.

With regard to real interest rates, calculated as the difference between nominal interest and inflation expectations, there were upward pressures in 2014, as inflation expectations eased back. Moreover, the extremely low policy rate did not fully feed through into money market rates and retail loan rates. For example, in the first quarter of 2014 money market rates rose despite the Governing Council holding its key policy rate unchanged. According to the Governing Council, the credit market has been one of the most significant bottlenecks in economic growth.

As banks intermediate the largest part of private sector funding in the euro area, the credit channel has a major role to play in the transmission of monetary policy to the real economy.

In order to accelerate the credit markets, the Eurosystem implemented a new targeted longer-term refinancing operation (TLTRO) specifically to increase the supply of credit. In this operation, the amount of funding a bank receives is linked to its lending to the private sector, thus providing an incentive to increase lending to the private sector. Moreover, banks' own funding costs are lowered by the TLTRO's extremely low interest and four-year maturity.

In October, the Eurosystem began to purchase covered bonds, and in November to purchase asset-backed securities (ABSs). The value of both items is rooted in the credits they are based on. By securitising the loans granted to their customers, banks reduce their own loan loss risks. ABSs also free up capital from bank balance sheets, which the banks can then use to grant more loans. Many covered bonds and ABSs are eligible as collateral, whereupon banks can offer them as collateral on their central bank credit – including for the targeted longer-term refinancing operations.

The Eurosystem's long-term credit operations and purchase programmes support the Governing Council's forward guidance, through which it indicates the monetary policy stance it expects to pursue in the future. The aim of forward guidance is to steer inflation and interest rate expectations in compatibility with the price stability objective. By reinforcing its forward guidance, the Eurosystem has calmed market expectations of tighter monetary policy and moderated the rise in expected real interest rates.

During 2014, the Eurosystem implemented monetary policy at – or even below – the zero lower bound. The aim of the non-standard monetary policy measures introduced to complement the Eurosystem's interest rate policy has been above all to bolster the euro area's sluggish inflation expectations, which have been dampened by the increased global uncertainty in 2014. Accelerating inflation expectations would boost credit demand by lowering expected real interest rates. Market reactions to the monetary policy pursued were for the most part positive in 2014. For example, both long and short market interest rates have come down and expectations of their future course have weakened across a broad front.

The Bank of Finland and economic policy in Finland

In 2014, the Bank of Finland analysed developments in both the domestic and the global economy and participated in a variety of ways in the economic debate in Finland. The members of the Bank of Finland Board and experts from the Bank were consulted on several occasions by Parliament and also presented their assessments in other domestic fora. The Bank published two forecasts for Finnish macroeconomic developments: one in June and one in December.

In a variety of contexts, the Bank assessed that the difficulties in the Finnish economy could be overcome by structural reforms to strengthen the potential for growth and fiscal sustainability and measures to improve cost-competitiveness and to halt further accumulation of government debt.

The Bank of Finland stressed that, in difficult times, the key factor is a country's capacity to take corrective action. Confidence in the long-term sustainability of economic policy is built slowly, but can be lost rapidly.

Finland's GDP was over 5% lower in 2014 than in 2008. This sluggish trend, which has persisted for several years, has been due to the weak global economy, industrial restructuring, diminishing cost-competitiveness and a decline in the size of the working-age population that began in 2010. Exports and industrial output contracted particularly strongly. Industrial restructuring has led to lower output, especially in electronics and the forest industries. Other sectors have not generated corresponding levels of high-productivity output.

The deterioration in cost-competitiveness has resulted from a faster rise in wages relative to most of Finland's trading partners. This has been the case particularly since 2007 outside the economy's open sector, the latter referring to production for

export and production competing with imports. This has led to an increase in domestic cost levels which, in turn, has eroded the prospects for production and employment in the open sector and deepened the current account deficit.

The Bank of Finland suggested that it would make sense to introduce a permanent procedure in wage formation in which the wage-paying capacity of the export sector would set the frame for increases in negotiated wages in other sectors of the economy as well. Cost-competitiveness could also be strengthened by e.g. working-hour arrangements to improve productivity and a wider use on the labour market of company-specific solutions that meet the objectives of both employers and employees.

The current threat of a deflationary spiral in the euro area can be combated with monetary policy tools, not by raising cost and price levels in Finland. The threat concerns the euro area as a whole, as monetary policy is common for the entire area. In the Finnish economy, the condition of the open sector requires slow cost developments relative to the euro area average. If, instead, prices and costs continue to rise relative to the euro area average, the Finnish economy will in future be faced with a more difficult adjustment in costs – irrespective of the average euro area price trend.

Finland's public finances have deteriorated on account of the general weak state of the economy. At the same time, population ageing is weighing on the long-term outlook for the public finances. Since the factors dampening general economic developments are largely long-term in nature and have not primarily resulted from a cyclical weakening in domestic demand, the economy can derive only limited support from fiscal policy.

In 2014, the Bank of Finland emphasised that important steps have been taken in economic policy, particularly

with the pension reform proposal, decisions on fiscal consolidation and a collective labour agreement that constrains wage growth. To overcome the difficulties in the Finnish economy, however, considerably more steps are required to foster structural reforms, halt growth in public debt and improve competitiveness. The difficulties were considered so extensive that they will necessitate determined decisions for several years ahead.

The Bank of Finland's assessments concerning the decisions on domestic economic policy issues were based on the effects indicated by macroeconomic research and international experience. At the same time, the Bank emphasised that these decisions involve a great deal of value-based decision-making, which is the responsibility of Parliament.

General economic developments remain weak

GDP developments in Finland remained sluggish in 2014. Export volumes were markedly subdued and domestic demand was down. There was a particularly strong contraction in private investment.

Output and the number of persons employed continued to contract in industry and construction, while no large changes were detected on average in the service sector.

Overall, the employment situation weakened, with continued growth in the unemployment rate. The number of persons employed in the economy as a whole contracted, but the employment rate remained largely unchanged from the previous year, as the size of the working-age also declined.

Inflation fell in 2014 on the back of decreases in the prices of energy products and slower growth in wages. This notwithstanding, inflation remained higher than the euro area average.

Despite consolidation measures, general government net lending remained negative in an environment of sluggish economic growth. General government gross debt increased to close to 60%.

Economic developments in 2014 proved to be weaker than forecast by the Bank of Finland in 2013. In particular, exports and private investment were lower than anticipated.

In 2014, the Bank of Finland revised downwards its forecasts for economic growth. These revisions pertained to both 2014 and 2015. Furthermore, in the long-term growth forecast published in December 2014, the Bank of Finland lowered its assessment for the pace of economic growth for the next 15 years relative to the previous long-term forecast published in 2012.

Financial system

The Bank of Finland contributes to the stability of the financial system by identifying and assessing systemic risks to financial stability and by promoting measures to prevent such risks. The Governor of the Bank of Finland is a decision-maker in the European Systemic Risk Board (ESRB), an EU body within the European System of Financial Supervisors (ESFS). The ESRB analyses risks to the EU financial system and issues warnings and recommendations to national authorities for stability-enhancing measures. With the establishment of the Single Supervisory Mechanism (SSM), the ECB assumed the role of decision-maker also in national macroprudential policy. The Governing Council of the ECB also deals with questions relating to financial stability. Bank of Finland experts participate in the preparation of these issues and in other background work performed within committees, both abroad and in Finland. This work is performed in close cooperation with the Financial Supervisory Authority.

The main emphasis in the development of EU financial regulation in 2014 was on the completion of preparations for banking union. The Bank of Finland took part in the preparations for introduction of the Single Supervisory Mechanism and in development of the Single Resolution Mechanism (SRM). The Single Supervisory Mechanism came into operation in November 2014. The European Parliament adopted a Regulation on the Single Resolution Mechanism in April 2014 and preparations for its operational launch were begun. At home, the Bank of Finland actively supported the implementation of EU financial regulations, participated in the preparations for the launch of a national macroprudential policy for the prevention of systemic risks, and together with FIN-FSA developed analysis tools and monitoring processes to support decision-making on the deployment of macroprudential tools.

Financial stability

The shoots of economic growth in the euro area started to wither towards the end of 2014, which, together with other factors, such as geopolitical uncertainties, was a source of occasional financial market unrest. In the domestic market, this was reflected in higher risk premia and stronger volatility, as well as moderation in the long sustained growth in share prices.

One of the key events involving the euro area banking sector in 2014 was the comprehensive assessment of banks carried out by the European Central Bank (see Box 3). In connection with the comprehensive assessment, the European Central Bank, the national authorities, the banks and the European Banking Authority (EBA) together conducted stress tests of banks to assess their resilience to exceptional market developments. The baseline and adverse

macroeconomic scenarios of the test were jointly designed by the European Systemic Risk Board, the European Banking Authority and the ECB.

After completion of the comprehensive assessment and the stress testing exercise, supervision of the participating banks was transferred to the Single Supervisory Mechanism of the European Central Bank, which began operations in November 2014.

The adjustment of the euro area banking sector to regulatory changes continued. Several banks have further contracted their balance sheets by selling off high-risk assets. Bank lending to non-financial corporations and households in the euro area continued to decline during the course of 2014, but in the latter part of the year some signs of revival in lending were discernible. The euro area banking and financial market remains divided into troubled economies and higher-rated

economies. In some troubled economies, the situation has eased, and the costs of debt financing for banks and non-financial corporations declined in 2014.

In step with the fragmentation of financial markets and regulatory reforms new, less strictly regulated financial participants have emerged to compete with banks. Their potential growth may create new and so far unidentified risks to the financial sector. In response to the present cautious approach and regulation in the banking sector, corporate finance in the euro area has increasingly shifted to the bond markets.

Finnish banking sector remains profitable and solid

Despite subdued economic growth and low interest rates, the average profitability and capital adequacy of Finnish banks remained very good: the average total capital adequacy ratio stood at 16.0% at the end of September, while Common Equity Tier 1 (CET1) was 14.3%. All the banks complied with the additional capital requirement of 2.5% to be introduced in 2015, which increases the CET1 requirement for banks to 7%, and the required total capital adequacy ratio to 10.5%.

The capital adequacy ratios of the Finnish banks covered by the European Central Bank's comprehensive assessment remained strong even in the adverse macro-economic scenario. The solid capital adequacy of the banks operating in Finland is the key reason why Finnish banks have been much better equipped to provide funding to Finnish households and non-financial corporations than euro area banks on average. The growth rate of banks' lending to the private sector amounted to a little over 5 percentage points throughout the year.

The restructuring of the Finnish banking sector continued. S-Bank merged with Tapiola Bank and formed a restructured S-Bank. Within the OP-Pohjola Group, the number of banks has fallen in

response to mergers of local cooperative banks into larger entities. The savings banks were amalgamated in late 2014, and the POP Bank group has also begun to prepare its own amalgamation of local cooperative banks.

Slower growth in stock of private sector lending

The weak performance of the Finnish economy has depressed growth in the interest-bearing debt of both households and non-financial corporations. The amount of interest-bearing debt held by non-financial corporations (excl. housing corporations) relative to GDP has remained stable at around 60%. The annual growth rate of corporate drawdowns reported by credit institutions was 2.2% in November, against 3.1% a year earlier. Despite some signs of deterioration in the availability of finance for Finnish SMEs in 2014, access to funding was much better in Finland than in the euro area on average. The overall economic situation and weak product demand have been the key risk factors underlying both corporate profitability and access to funding. In the low interest rate environment, the funding structure of the largest non-financial corporations has shifted more in favour of market funding.

The rate of growth in the stock of lending to households continued to slow in 2014, with annual growth standing at 2.0% in November 2014, against 2.3% a year earlier. This moderation reflects slower growth in the housing loan stock. In November the annual growth rate of housing loans was as low as 1.6%. Household confidence in the economy has declined and greater caution is evident in respect of new housing investment. The higher rate of increase for consumer credit than for housing loans points to a deterioration in the financial position of households in 2014. The annual growth rate of consumer credit picked up in 2014, climbing to 4.4% in November, against a mere 2.2% a year earlier.

The accumulation of household debt continued in 2014 – albeit at a slower pace – and the rate of household indebtedness is historically high. The ratio of household loans to disposable income has climbed close to 120%. The ratio of household debt to financial assets also began to grow somewhat during the course of the year.

Financial system policy

European Central Bank took over supervisory responsibility for banks

A historical reform of banking supervision was carried out in the EU when, in connection with the establishment of banking union, supervisory responsibility for the banks of the participating countries was transferred to the European Central Bank on 4 November 2014. The European Central Bank took over supervisory responsibility immediately after the publication in October 2014 of the results of the comprehensive assessment (Box 3) conducted to review the asset quality and capital adequacy of large European banks.

The ECB assumed direct responsibility for 120 systemically important banks in the countries participating in banking union. Of the banks and banking groups operating in Finland, Nordea Bank Finland, OP-Pohjola Group and Danske Bank were subjected to direct supervision by the ECB.

The direct supervision of the less significant banks in participating countries will remain the responsibility of the national banking supervisors (in Finland the Financial Supervisory Authority, FIN-FSA). However, the ECB will ensure the consistency of supervisory practices across the euro area. Where necessary, the ECB may also take over the direct supervision of any euro area bank.

The ECB will carry out its supervisory tasks separately from its monetary policy function. Responsibility for the planning and execution of single supervision is entrusted to the Supervisory Board set up within the ECB. In addition to the Chair and Vice Chair, the Supervisory Board is

composed of representatives specifically appointed by national banking supervisors and the ECB. The former governor of the Bank of Finland, Sirkka Hämäläinen, is one of the ECB-appointed representatives. The Supervisory Board also includes representatives of the central banks of countries (incl. Finland) where the central bank does not have responsibility for banking supervision.

The Regulation of the European Parliament and of the Council on the Single Resolution Mechanism (SRM), known as the second pillar of banking union, entered into force on 19 August 2014. The primary aim of the Single Resolution Mechanism is to facilitate an orderly, swift and efficient restructuring or resolution of failing international banks with minimal costs to taxpayers and the real economy. The Single Resolution Mechanism will, in the future, be responsible for the resolution of all banks in countries participating in banking union. The power of resolution will be entrusted to the EU's Single Resolution Board, which in its extended composition will include representatives from all banking union countries.

The Single Resolution Mechanism and the Bank Recovery and Resolution Directive (BRRD) introduced in 2013 are designed to ensure that the costs of bank resolution will, hereinafter, in principle be borne by the banks' shareholders and creditors. Where the assets of the banks' owners and creditors fall short of the costs, the resolution costs will be covered out of the Single Resolution Fund financed by the banking sector. The Single Resolution Mechanism will become fully operational at the beginning of 2016. The Single Resolution Fund will be built up to its target level over an eight-year transitional period starting in 2016.

Bank of Finland actively involved in designing the groundwork for a national macroprudential policy

The new Act on credit institutions took effect in August 2014. With this Act, the

new EU Capital Requirements Directive for credit institutions was transposed into Finnish law. Among other things, the Act makes available new discretionary instruments for the FIN-FSA Board – known as macroprudential tools – designed to lower the probability of financial crises and mitigate their adverse consequences.

A new key macroprudential tool for mitigation of cyclical systemic risks stemming from excessive lending growth is the countercyclical buffer requirement that the supervisor may, at its discretion, impose on banks. From the beginning of 2015, the FIN-FSA Board will, on a quarterly basis, take a decision whether to raise or lower the countercyclical buffer requirement, or to keep it unchanged.

With a view to supporting decision-making related to the countercyclical capital buffer and other macroprudential tools, the Bank of Finland and FIN-FSA have together designed methods for identification of systemic risks, assessment of risk magnitude and measurement of the effects of the deployment of macroprudential tools. In

addition, Bank of Finland experts participated in a Ministry of Finance working group set up to draft a Ministry of Finance decree on the bases for setting the countercyclical buffer requirement.

With the establishment of banking union, macroprudential policy tasks were also conferred upon the ECB. These include the right to influence the level of the countercyclical capital buffer and other macroprudential tools provided for in the EU Capital Requirements Regulation and Directive of each country participating in banking union. The ECB has the right to raise the countercyclical capital buffer rate proposed by FIN-FSA in Finland. The Bank of Finland and FIN-FSA have prepared together for macroprudential cooperation with the ECB.

Furthermore, the Bank of Finland participated in international cooperation on the formulation of macroprudential analysis and the macroprudential toolkit, especially within working groups of the European Systemic Risk Board, but also in the joint forum of Nordic and Baltic central banks and banking supervisors.

Box 3.

The European Central Bank conducted an in-depth assessment of the condition of euro area banks

In late October 2014, the European Central Bank published the results of the comprehensive assessment conducted by the ECB and national authorities to review in detail the asset quality and risk resilience of the 130 largest banks in the euro area. The assessment provides a comprehensive view of the condition of euro area banks, considering that the total assets of the covered banks account for roughly 82% of the balance sheet of the entire euro area banking sector. More than 6,000 experts mainly from national financial supervisory authorities and central banks were involved in the assessment, carried out under the ECB's guidance.

The comprehensive assessment comprised a harmonised asset quality review and a stress test reflecting the changes in banks' capital adequacy in a very adverse macroeconomic scenario. The purpose of the assessment was to obtain a reliable and commensurate view of the condition of euro area banks before the ECB takes over supervisory responsibility, to identify under-capitalised banks and require that they improve their capital adequacy and to strengthen confidence in the euro area banking sector.

The assessment identified a capital shortfall totalling EUR 25 million for 25 euro area banks. This is a rather low figure considering that the total assets of the covered banks amounted to EUR 22,000

billion. Many participating banks had time to strengthen their capital adequacy proactively ahead of the comprehensive assessment. Banks must cover any capital shortfalls identified in the baseline scenario of the stress test within six months, and any capital shortfalls identified in the adverse macroeconomic scenario within nine months, from publication of the results of the assessment.

The stress test analysed the effects on the capital adequacy of banks of three years of highly adverse economic developments. The present stress scenario was clearly more extreme than the previous scenarios employed in similar euro area-wide stress tests. According to the more adverse of the two tested scenarios, the banks' total Tier 1 capital would decline by EUR 216 billion and, by extension, the median Common Equity Tier 1 (CET 1) capital ratio for the participating banks fall back from 12.4% to 8.3%. This capital ratio would, still, be clearly higher than the minimum requirement of 5.5% defined in the test. The capital adequacy of the Finnish banks covered by the comprehensive assessment – Nordea Bank Finland Group, OP-Pohjola Group and Danske Bank Plc (Finland) – clearly exceeded the capital ratio thresholds defined in the assessment. In the adverse macroeconomic scenario, the CET1 for the Finnish banks remained higher than the average for the assessed banks.

Financial market infrastructure

The Bank of Finland's oversight aims to ensure the reliability and efficiency of payment and settlement systems key to the financial markets and important for society at large. As these financial market infrastructures provide the background for economic activity, their smooth functioning is of the utmost importance.

The financial market infrastructures employed in Finland are largely international systems. The Bank of Finland is actively involved in oversight cooperation concerning these international infrastructures, participating in a variety of committees and working groups both inside and outside the Eurosystem.

The Finnish Central Securities Depository, Euroclear Finland, is in the process of replacing its technical facility maintaining the book-entry and settlement system by a new system including, at the initial stage, safe-keeping and settlement functions for debt instruments. This change supports preparations by Euroclear Finland and the entire Finnish securities market for extensive, Europe-wide harmonisation of securities markets. As part of the harmonisation process, Finland will join the pan-European T2S securities platform in early 2017.

The Bank of Finland has already assessed Euroclear Finland's new system prior to its going live. The assessment was undertaken in accordance with the commonly agreed Eurosystem principles. The Board of the Bank of Finland approved the oversight assessment and the publication of a summary thereof in October 2014. In the same context, the Bank of Finland assessed that the Eurosystem criteria for systems used in monetary policy operations were also met.

Finland's migration to the Single Euro Payments Area (SEPA) took place as originally planned on 1 February 2014. In many other countries, the changeover was carried out within an extended transitional

period by the beginning of August. The transition was completed successfully and on schedule throughout the euro payments area. SEPA will make European payments both easier and more efficient. Consumers and businesses alike will benefit when they can manage all their euro-denominated payments throughout the euro area from the same account.

As part of this SEPA migration, the use of the domestic interbank retail payment system (PMJ) was terminated. Currently, all interbank credit transfers in Finland, including wages and pensions, are processed in the pan-European STEP2 payment system managed by EBA Clearing. The Bank of Finland participates in the oversight of this system by assessing, among other factors, how the functioning and reliability of the system could be improved.

The Bank of Finland set up a Payments Council to continue support, after SEPA migration, for development of reliable payment solutions that are efficient for society as a whole. The Payments Council acts as a discussion forum between payment service providers, users and authorities. In 2014, the Payments Council published two reports, of which the first addressed the current state of and trends in payments and the second looked at payments in an increasingly digital economy.

In May 2014, the Bank of Finland organised the eighth Payments Forum. This time, experts reflected on post-SEPA migration retail payments, payments in an increasingly digital economy and ongoing regulatory initiatives on payments. Going forward, the annually organised Payments Forum will also act as one Payments Council communications channel, as it is capable of reaching a wide range of different stakeholders in the field of payments.

The Bank of Finland is also maintaining and further developing its Payment and Settlement System Simulator and the T2 Simulator, the latter built on the basis of the former. The Payment and

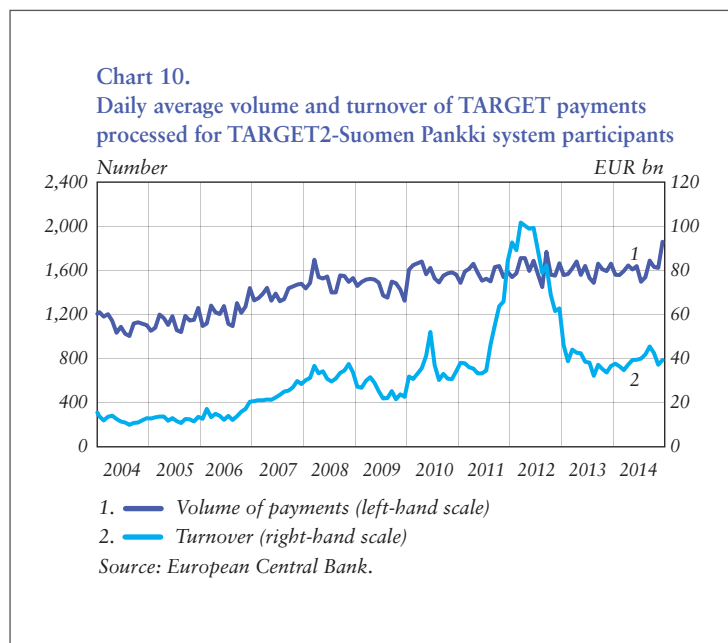
Settlement System Simulator has attracted considerable attention worldwide and the Bank of Finland has been invited to present the simulator to central banks in various countries. The Bank's simulator seminar for experts working on quantitative analyses of payment systems, organised for the twelfth time in August 2014, brought together participants from 25 countries and five continents.

Payment system services

The Bank of Finland provides payment system services via its TARGET2 component, TARGET2-Suomen Pankki. TARGET2 (Trans-European Automated Real-time Gross settlement Express Transfer system) is a system owned and operated by the Eurosystem for the processing of payments in real time and on a gross basis. TARGET2 is also used for executing the Eurosystem's monetary policy operations, and other key financial market infrastructures use TARGET2 for settlement purposes.

In 2014, TARGET2 again met the availability requirements set for it. During the course of the year, the system processed, on average, about 354,000 payments per day, with an aggregate value of approximately EUR 1,900 billion. Compared with the previous year, the volume of payments decreased slightly; however, their value remained roughly the same. In December 2014, TARGET2 had some 1,000 direct participants connected to the system through 24 central banks' components.

The volume and aggregate value of payments executed by TARGET2-Suomen Pankki remained unchanged, on average. The component processed an average of 1,600 payments per day. The aggregate value of these payments was approximately EUR 39 billion (Chart 10). At the end of 2014, TARGET2-Suomen Pankki had 24 participants, of which three were ancillary systems.



The Bank of Finland's new collateral management system, BoF-CMS-Cola, saw construction of its first stage completed as the system went live on 1 December 2014. The introduction was preceded by user testing in late spring and early autumn 2014 and internal acceptance testing rounds at the Bank of Finland. The next stage of the system will come into operation simultaneously with Euroclear Finland's new Infinity system on 2 February 2015.

The Bank of Finland's BoF-T2S project, keeping track of arrangements for the pan-European securities settlement platform (TARGET2-Securities, T2S), continued operative preparations for joining the system. During the year, the project focused on closely monitoring customer preparations for the introduction of the T2S platform, organising a competitive bidding event for network service providers and launching user testing in October 2014.



Photo: Peter Mickelsson.

Financial asset management

The Bank of Finland manages a total of approximately EUR 18,065 million of financial assets. These assets comprise the Bank's financial assets, the share of foreign reserve assets transferred to the European Central Bank and the Bank of Finland's pension fund assets. At the end of 2014, the value of the Bank's own financial assets, the foreign reserve assets transferred to the ECB and the Bank's pension fund assets, amounted to EUR 16,438 million, EUR 954 million and EUR 673 million, respectively.

Bank of Finland financial assets and financial asset management

The Bank of Finland's financial assets consist of foreign currency-denominated and euro-denominated fixed-income investment portfolios, gold and equity. The foreign reserves are made up of the foreign currency-denominated investment portfolio, the liquidity portfolio and items denominated in IMF Special Drawing Rights (SDRs) (Table 1). In spring 2014, the financial assets were expanded by EUR 1.5 billion by increasing euro-denominated assets in the investment portfolio (Table 2).

Objectives for the management of financial assets

The Bank of Finland invests its assets on international financial markets. The objective of financial asset management is to meet the liquidity, security and return requirements placed on the central bank in respect of assets managed. In managing its financial assets, the Bank of Finland secures the value of these assets and, when necessary, its ability to support the liquidity of the banking system and the economy.

In managing central bank assets, account must be taken of both risks and returns. Like many other central banks, the Bank of Finland has decided to embark upon

Table 1.

The Bank of Finland's financial assets

| | 31 Dec 2014 EUR m | 31 Dec 2013 EUR m |
|---|----------------------|----------------------|
| Gold | 1,557 | 1,373 |
| Foreign reserves | 5,644 | 5,226 |
| SDR | 524 | 625 |
| Liquidity portfolio | 1,316 | 1,151 |
| Foreign currency-denominated investment portfolio | 3,804 | 3,450 |
| Euro-denominated financial assets | 9,227 | 7,550 |
| Equity | 10 | – |
| Total | 16,438 | 14,149 |

The impact of SDR hedging transactions has been taken into account by reducing SDR component currencies in the foreign currency-denominated investment portfolio and by increasing euro-denominated financial assets.

Source: Bank of Finland.

Table 2.

Distribution of the Bank of Finland's financial assets by currency

| Currency | 31 Dec 2014 % | 31 Dec 2013 % |
|-------------------------------|------------------|------------------|
| Euro (EUR) | 56.2 | 53.4 |
| US dollar (USD) | 24.0 | 24.3 |
| Pound sterling (GBP) | 4.8 | 5.5 |
| Japanese yen (JPY) | 2.3 | 2.7 |
| Gold (XAU) | 9.5 | 9.7 |
| SDR | 3.2 | 4.4 |
| Total financial assets | 100 | 100 |

The impact of SDR hedging transactions has been taken into account by reducing SDR component currencies (USD, GBP, JPY) and by increasing the euro component. Equity investments are included within the euro entry.

Source: Bank of Finland.

Table 3.

Return* on the Bank of Finland's own financial assets in 2014 and 2013

| | 2014 % | 2014 EUR m | 2013 % | 2013 EUR m |
|----------------------|-------------|---------------|--------------|---------------|
| Interest rate return | 1.39 | 183.9 | 0.26 | 31.3 |
| Exchange rate return | 3.82 | 523.4 | –2.06 | –255.4 |
| Equity return | 0.00 | 0.1 | – | – |
| Total return | 5.26 | 707.2 | –1.81 | –224.1 |

* Excluding gold and SDR.

Source: Bank of Finland.

equity investments. These investments commenced in late 2014 within the limits permitted by the role of the central bank and in compliance with a prudent approach. The investments focused on the stock markets of advanced economies. Equity holdings as a component of financial assets improve the expected returns on assets and diversify the risks. Only a limited amount is invested in equities, with the investments being made gradually over a horizon of several years.

The liquidity of the financial assets is secured by maintaining a specific liquidity portfolio, the purpose of which is to ensure the Bank's ability to provide liquidity for acute policy needs under all circumstances. As regards management of financial assets other than the liquidity portfolio, the aim is to safeguard the value of the assets and the Bank of Finland's ability to meet its forthcoming central bank obligations. Strategic allocations for investments and strict limits for credit risk ensure that the Bank of Finland's financial assets are managed prudently.

In 2014, the return on the Bank's financial assets, excluding gold and Special Drawing Rights, totalled 5.26%, or approximately EUR 707.2 million. This return breaks down into interest rate return, exchange rate return and equity return (Table 3). In 2014, exchange rate return was positive, as the euro depreciated significantly against the US dollar and the pound sterling. The low level of central bank interest rates and central banks' non-standard monetary policy measures brought down interest rates in the euro area, in particular. Falling interest rates enabled the Bank to obtain relatively good interest rate returns.

The Bank's financial asset management adheres to strategic allocations (Table 4) around which portfolios based on risk limits are constructed. Portfolio returns are benchmarked against public indices that are customised for central bank needs. The evaluation is based on a relative return target, calculated in terms of a rolling average of the last three years' returns. In 2014, the investments generated positive returns in the amount of approximately EUR 11.7million above the benchmark indices (0.09%). The extra return according to the three-year rolling average was 0.20%.

Table 4.

Strategic and year-end allocation of Bank of Finland's liquidity and fixed-income investment portfolios in 2014

| <i>Liquidity portfolio</i> | <i>Strategic allocation (%)</i> | <i>Allocation at year-end (%)</i> |
|--|---------------------------------|-----------------------------------|
| <i>Central government debt instruments</i> | 100 | 100 |
| <i>Fixed-income investment portfolios</i> | <i>Strategic allocation (%)</i> | <i>Allocation at year-end (%)</i> |
| <i>Central government debt instruments</i> | 68 | 57 |
| <i>Government-related debt instruments</i> | 21 | 25 |
| <i>Covered bonds</i> | 4 | 5 |
| <i>Corporate bonds</i> | 7 | 10 |
| <i>Cash holdings</i> | 0 | 2 |
| Total | 100 | 100 |

Source: Bank of Finland.

Investments

The Bank of Finland's financial assets are invested in government and government-related securities, covered bonds, corporate bonds and equities (Table 4). A breakdown of the amount invested in equities is presented in Table 1. A small amount of euro-denominated government bond investments are in bonds of euro area countries that have ended up in financial difficulties.

The liquidity portfolio is exclusively invested in US government securities, with a view to ensuring the Bank of Finland's ability to provide emergency liquidity assistance in foreign currencies under all circumstances, if necessary. The strategic

duration for the financial assets is about 2 years, with the exception of investments in Japanese yen, for which the strategic duration was shortened from one and a half years to one year in 2014.

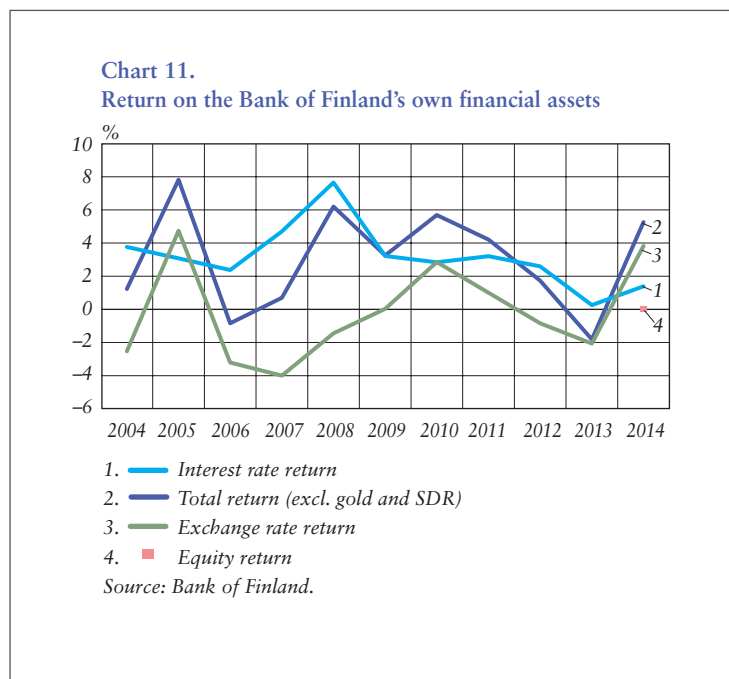
Share of the ECB's foreign reserves managed by the Bank of Finland

Management of the foreign reserves of the European Central Bank has been distributed among the Eurosystem national central banks according to their respective capital keys. The foreign reserves managed on behalf of the ECB comprise assets denominated in US dollars and Japanese yen as well as gold and items in IMF SDRs. In the management of the ECB's foreign reserves, the emphasis is on security and liquidity, as the key purpose of the reserves is to ensure the availability of sufficient resources for the Eurosystem's potential foreign exchange interventions.

The Bank of Finland manages part of the ECB's reserves together with the Estonian central bank. The value of Finland's and Estonia's pooled portfolio in US dollars of the ECB's foreign reserves was about EUR 954 million at the end of 2014. The ECB's Annual Report provides additional information on the management of its foreign reserves.

Bank of Finland Pension Fund assets

The objective of the Bank of Finland Pension Fund is to develop the management of assets held to cover the Bank's pension liabilities, in accordance with the generally accepted principles for the management of pension assets. These may deviate from the principles applied to the management of the central bank's financial assets. The value of the pension fund's assets was EUR 673 million on 31 December 2014, with the Bank's pension liabilities amounting to EUR 581 million. Total return on assets in 2014 amounted to 12.3%. More information on the pension fund's asset management is available from the fund's own annual report.



Investment risks and risk management

Measures and decisions taken in connection with the Bank of Finland's financial asset management also have an impact on investment risks and the management thereof. The most significant factors affecting such risks were growth in the Bank's financial assets and the covered bond purchase programme. Worthy of note are also indirect equity investments commenced in late 2014 and so far undertaken on a limited scale.

The amount of the financial assets was increased three times by EUR 500 million on each occasion in early 2014. This did not, however, add to the Bank of Finland's exposure to exchange rate risk, as there was no change in the amount of the foreign reserves, as the change was implemented by increasing the euro-denominated fixed-income investment portfolio. The targeted size and currency composition of the foreign reserve portfolio are assessed by the Bank of Finland at three-year intervals, and

no changes were made in 2014 to the decisions taken on the basis of the 2013 assessment. The Bank of Finland does not generally hedge foreign currency-denominated investments and claims against exchange rate risk. However, hedging against SDR exchange rate risk has been effected by selling other SDR component currencies (US dollar, pound sterling and Japanese yen) against the euro. Exchange rate risk is one of the most significant risks involved in the Bank of Finland's financial asset management.

In the second half of 2014, the European Central Bank announced the third covered bond purchase programme (CBPP3). Covered bonds have been one of the asset classes used for the Bank of Finland's own investments, in addition to government and government-related securities, private-sector bonds and cash. After the third covered bond purchase programme had begun, the Bank of Finland made a decision on refraining from investing its own assets in those covered

bond markets where purchases under the purchase programme are to be conducted. In this connection, changes were also made to the shares of asset classes in the investment portfolio and their permitted leeway, determined earlier in the year, by reducing the share of covered bonds in the strategic allocation, among other things. At the same time, new non-euro area jurisdictions and markets for covered bonds were approved for inclusion in the sphere of the Bank's own financial asset management.

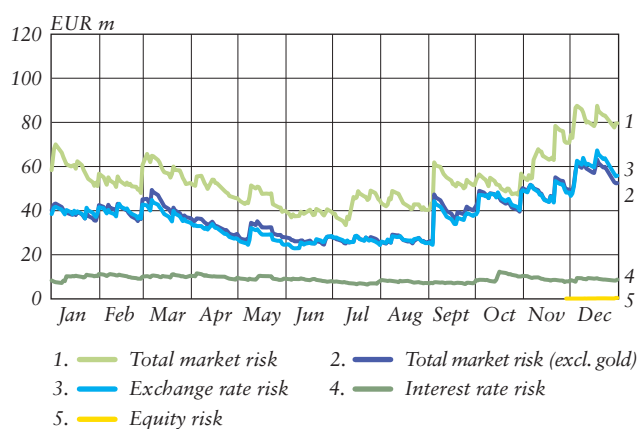
The Bank of Finland has invested its financial assets mainly in fixed-income instruments, which are subject to interest rate risk. Interest rate risk related to the Bank of Finland's financial assets is managed by spreading the investments among several debt instruments with differing maturities. In managing interest rate risks, the Bank of Finland primarily relies on 'modified duration' (see 'Notes on risk management', p. 107). The modified duration of the Bank of Finland's fixed-income investments at the end of the year was around 2.

In addition to foreign currency-denominated and euro-denominated fixed-income investments, the Bank of Finland's financial assets have been invested in gold and, since late 2014, on the stock market. Such equity investments are made as indirect investments via equity funds. Investments in gold and equity expose the Bank of Finland to risks caused by gold and stock price fluctuations, but also generate scope for diversification benefits.

The daily levels of total market risk, exchange rate risk, interest rate risk and equity risk are measured in terms of the VaR figure (see 'Notes on risk management' and Chart 12). Moreover, the VaR figure is used to limit the interest rate risk in the fixed-income investment portfolio relative to the benchmark index.

Bank of Finland's counterparties and issuers of securities serving as investments need to have sufficient credit ratings and fulfil certain pre-defined criteria. One of the

Chart 12.
VaR figures for market risk in Bank of Finland's financial assets in 2014*



* One-day horizon, 99% confidence level.

Source: Bank of Finland.

factors in assessing creditworthiness is the use of public credit ratings provided by rating agencies. Issuers and counterparties are also monitored by market-based indicators. Additionally, credit risk is managed by diversifying investments, within established limits, among several issuers and counterparties. Total credit risk arising from investments is gauged and monitored in terms of a separate credit risk VaR method.

Part of the Bank of Finland's financial assets is held in investment instruments that are saleable within a short period of time and at low cost. This applies, in particular, to investment instruments included in the liquidity portfolio. The Board of the Bank of Finland determines separately the size of the liquidity portfolio. The Bank has also restricted the size of its holdings of individual issues or of total issuer debt and

the length of maturities required for some instruments in order for them to qualify for the Bank's investments. There are also restrictions in place for securities lending and short selling. These measures relate to the management of liquidity risk.

Management of operational risks includes, while not being limited to, management of risks related to staff and information systems. These risks are managed by, for example, regularly tested and sufficient backup arrangements and reliable and well-documented workflows and instructions.

For more information on risk management tasks in connection with financial asset management, and breakdowns and risk measures concerning the Bank of Finland's investments, see 'Notes on risk management' (p. 107).



Photo: Peter Mickelsson.



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MILIA

Photo: Peter Mickelsson.

Banknotes and coins

As a member of the Eurosystem, the Bank of Finland issues euro banknotes and coins in Finland. The Bank is responsible for withdrawing damaged and unfit banknotes from circulation, destroying them and replacing them with new notes. In addition, the Bank of Finland participates in ensuring the security of euro banknotes and is in the process of introducing a new banknote series to prevent counterfeits. Furthermore, the Bank's tasks are to promote the efficiency of the domestic currency supply system by issuing related rules and guidelines and to implement decisions concerning euro area currency supply in Finland.

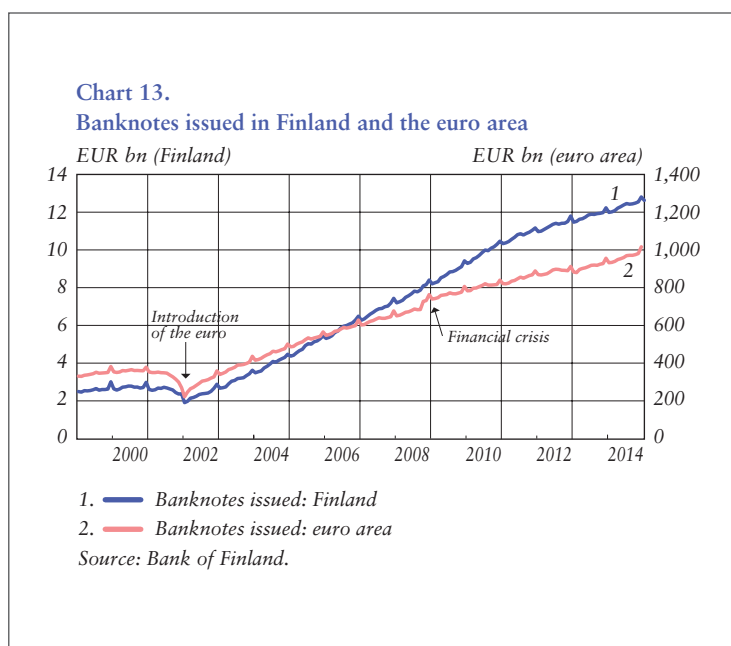
Electronic payments replacing cash

With the advances in electronic payments, card payments have already surpassed cash as the most common retail payment method in a few euro area countries. However, in southern and central Europe, cash is still the main means of payment in retail trade. In recurring payments, online banking and direct debits have increased their share of consumer payments over the past decade, which has been reflected in a strong growth in online shopping.

Cash continues to have its own advantages in certain payment situations due e.g. to the rapidness of this payment method. In the euro area, cash is still the only official payment method in the sense that parties to a payment must accept cash for settling a debt or payment unless they jointly agree on some other payment method. A judicial working group of the European Commission has recently updated a recommendation issued in 2010 according to which cash payments are basic payments which should not be refused or involve additional charges. On the other hand, several EU countries have also imposed restrictions on large cash payments to combat the grey economy. It is likely that in the next few years innovations in card and mobile payments will further reduce the use of cash as a method of payment.

Use of EUR 20 banknotes in Finland began to stabilise

The number of banknotes issued by the Bank of Finland has continued to grow at a slightly brisker pace than banknotes issued in the euro area as a whole (Chart 13). However, developments in banknotes ordered from the Bank of Finland shows that the use of cash has contracted further with the increase in card payments. Orders of EUR 20 banknotes – the most commonly used payment instrument in Finland – have been declining gradually for a number of years, but in 2014 demand for EUR 20



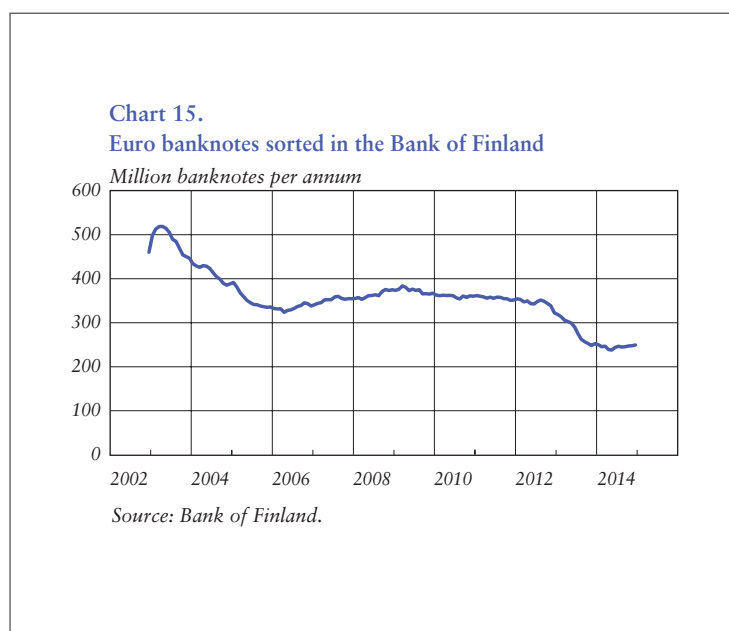
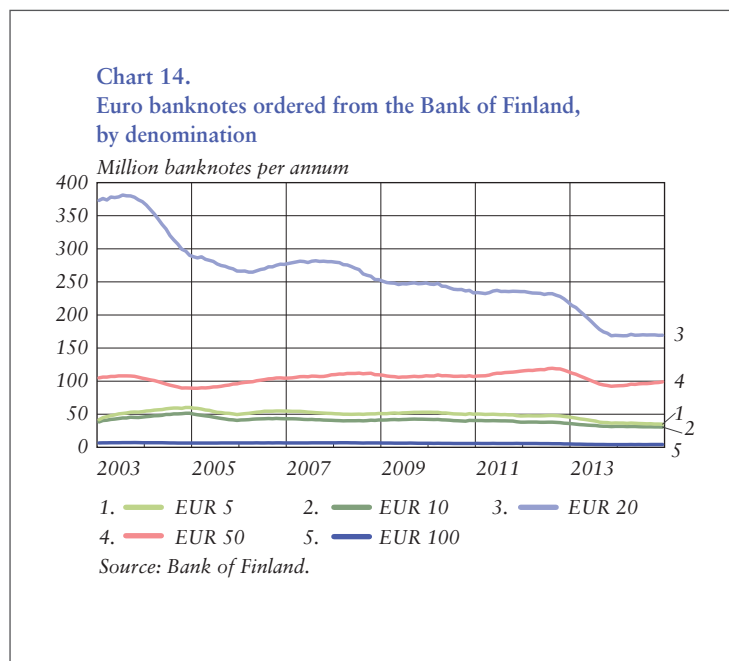
banknotes came to a halt, which may also be related to the weaker growth in private consumption (Chart 14). The use of cash usually increases during a period of economic slowdown. This is not only due to an increase in various liquidity constraints and payment defaults, but also because consumers shift to using cash to keep their personal budgets in better balance. The use of cash remained unchanged, as in the recession year of 2009, although household consumption declined by about 2%.

Following the closure of the Bank's regional offices in Kuopio and Tampere at the end of 2012, banknote sorting at the Bank of Finland contracted in 2014 to roughly 250 million banknotes (Chart 15). The issuance of the old EUR 5 banknote was discontinued in summer 2014. EUR 5 banknotes of the old series will be destroyed once they are returned to the Bank of Finland.

Availability of cash remained unchanged

In a press release issued in November 2012, the Bank of Finland considered it important that banks bear their social responsibility and provide for the sufficient availability of cash and banking services. At the same time, the Bank of Finland stressed that, in restricting the provision of cash or other banking services, banks must be able to explain and justify their measures, and so inform their customers in good time. On 23 July 2014, the European Parliament adopted a directive (2014/92/EU) ensuring the possibility to use a range of essential basic payment services in all EU Member States.

Availability of cash has remained relatively good and geographically extensive in Finland, despite the decline in the number of bank branches providing cash services. Banks' unified ATM network has thinned slightly, corresponding to the general contraction in the use of cash. Automatia Pankkiautomaatit, Finland's largest ATM network operator, stated in 2014 that the ATM network is sparsely



populated areas will not be cut in cases where the distance to the next ATM is over 20 kilometres. Automatia's ATM network contracted in 2014 by just three units, and at the end of the year the number of deposit and cash-recycling ATMs totalled 1,591. The number of Eurocash Finland's ATMs for cash withdrawal declined in 2014 from 58 to 46.

In Finland, over 90% of cash dispensing to the public occurs via ATMs. The volume of cash involved totalled EUR 14.4 billion in 2014. Cash orders via bank branches mainly involved large-value banknotes or smaller notes to be used by businesses in providing change in customer payments. The value of these orders totalled EUR 1.7 billion.

The possibility to withdraw cash in grocery stores and pay bills in kiosks has strongly increased in recent years. However, grocery stores and kiosks have not yet gained a notable role as a channel for distributing cash. The S Group has over 1,000 payment terminals from which member customers can withdraw cash. The

K Group has about 700 corresponding stores, and cash can also be withdrawn in e.g. R-kiosks. In 2014, cash withdrawals in stores amounted to over EUR 50 million.

New EUR 10 banknote

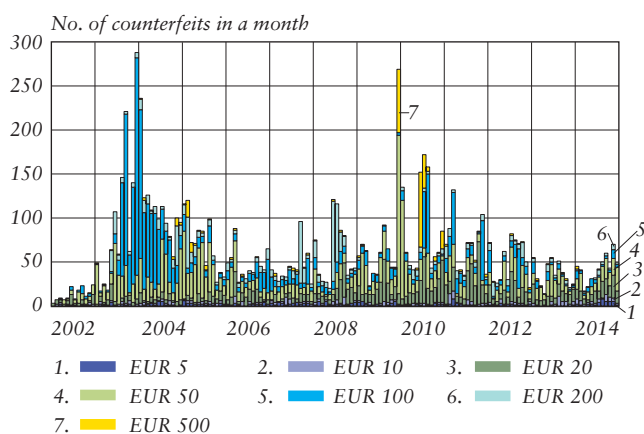
The second banknote in the new Europa series – the EUR 10 note – began circulating on 23 September 2014. The new EUR 10 banknote incorporates the same new security features as the EUR 5, the first banknote in the series that began circulating in 2013. The front of the EUR 10 note contains an emerald green value numeral that changes colour, a portrait watermark and a broad hologram stripe with intricate and hard-to-counterfeit patterns. These features give the banknote a visual form that makes it quicker and simpler to check for authenticity.

Banknote counterfeits in the euro area have been on the increase for a change, since new print batches have been made on certain general counterfeits. In August–October 2014, the number of EUR 20 counterfeits, in particular, circulating in the euro area was much higher than normal. In Finland, too, the number of counterfeit banknotes found in circulation rose towards the end of the year, after muted developments in the early part of the year (Chart 16). A total of 502 counterfeit euro banknotes were found in circulation in 2014. Even although the counterfeit situation as a whole does not give cause for concern, the security features of the new banknote series were introduced with the aim that cash users can quickly check the authenticity of their banknotes by sight and touch.

Since 2012, euro area countries have been permitted to issue two commemorative series of EUR 2 coins per year. In 2014, Finland issued two such coins, the first featuring Tove Jansson and the second featuring Ilmari Tapiovaara.

The number of counterfeits of euro coins in Finland declined further, with only 1,539 detected in circulation.

Chart 16.
Counterfeit euro banknotes in Finland by denomination, 2002–2014



Source: National bureau of Investigation.

Box 4.

Cash management companies taking a growing role in currency supply

Private cash supply companies have long been carrying out cash management tasks for deposit banks and the trade sector in the euro area. In Finland, banks already concentrated their cash supply tasks on cash-in-transit (CIT) companies before the launch of the single currency in 2001. CIT companies in Finland have not only transported cash but have, in their cash centres, also handled various cash processing tasks such as cash orders and returns, banknote counting and sorting and packaging of cash. At the end of 2014, there were 16 cash centres in Finland.

A task force of the Banknote Committee of the ECB has studied the increasing role of cash supply companies in national currency supply in the euro area. These companies are responsible for the majority of operative currency supply activities in many countries. The study involved interviews with over 170 currency supply companies in the euro area. In Finland, in summer 2014, in addition to the three largest currency suppliers (G4S, Loomis and Rekla), Automatia Pankkiautomaatit, responsible for managing banks' currency supply, was also interviewed.

Currency supply is concentrated within the euro area: the four largest international companies (G4S, Loomis, Prosecur and Brinks) dominate the sector in most euro area countries. Typically, at most two of these largest companies operate in any one country. France is the only country with three international companies in the sector. In Germany and Italy, there are exceptionally over 50 local currency suppliers active, but no CIT company covers the whole country in their cash operations.

CIT companies in several countries have been expanding their operations from

transporting to sorting of cash. They have also endeavoured to combine their services from the acceptance of cash to cash orders, including provision of authenticity and fitness sorting services. Currency handling involves economies of scale, which explains the tendency towards concentration in the sector. Competition has, however, generally led not to monopolies, but to duopolies. Tight price competition between currency suppliers has also been reflected in innovations, in which international companies have invested in similar vein to ATM companies. A variety of deposit ATMs enabling local recycling of cash have also become more common in the euro area in recent years. At the same time, services provided by cash management companies (CMCs) have become more diversified. Local recycling of cash has increased and made currency supply more efficient in most euro area countries. At the same time, the use of cash in payments has declined.

In Finland, the cash management companies G4S and Loomis offer cash services to banks and the trade sector in general, while Rekla concentrates solely on the S Bank and retail outlets in the S Group. Cash handling is labour-intensive processing work entailing calculating and sorting of cash with rapid sorting machines. In 2013, Finnish currency supply companies employed around 1,000 persons. Labour costs have accounted for about 60% of the companies' total costs. Physical cash handling also involves significant expenses in real estate and machinery. Declining use of cash will continue to place additional pressures on the activities of CMCs/CIT companies, since unit labour costs are rising and cash handling is not a growth sector.

Other operations

Research

Economic research at the Bank of Finland supports the Bank's policy preparation, operational development and external influence. The aim of the Research unit is to produce internationally top-ranking research in areas of key importance to the Bank's activities. This allows the Bank to make a strong contribution to the debate on monetary policy and financial market development, both in Finland and internationally. The input provided by the Research unit to the Bank's policy development remained substantial in 2014. Policy-related activities, including activities in Eurosystem working groups, supported the Bank's efforts to increase the profile of the Bank's research economists as public experts.

Monetary research

Important economic research themes and topics that kept the international research community busy in 2014 were economic growth after financial crises, the slow recovery in the aftermath of the global economic crisis, the long-term slowing of economic growth, and uncertainty shocks and related economic effects. Further research areas were non-standard monetary policy measures as well as forward guidance in a monetary policy context and macro-prudential oversight of financial markets, along with the macroeconomic implications of the last two.

However, one theme rose clearly above all others and stimulated discussion not only among the research community but also more generally among policy-makers and the general public. This theme was inequality, more precisely the wealth and income inequality that has increased markedly over the past 30 years or so. The fact that economic inequality became a hot topic for discussion was largely due to the

book *Capital in the Twenty-First Century* by the French economist Thomas Piketty. Not only did the book depoliticise the debate on economic inequality; it also brought the theme of economic inequality back to the centre of economic research after a long absence. The Bank of Finland organised a discussion on Piketty's book at the Bank of Finland Museum.

Scientific meetings

In the year under review, the Bank of Finland organised several international scientific meetings on themes touching on its research activities. In August, the Bank hosted a conference in Helsinki under the title 'Expectations in Dynamic Macroeconomic Models'. In addition to the invited speakers, President James Bullard (Federal Reserve Bank of St. Louis) gave a dinner speech at the conference on the analysis of income and wealth inequality with a life-cycle model.

Also in August, the Bank of Finland participated in the annual international seminar 'Risk, Financial Stability and Banking', hosted by Banco Central do Brasil and held for the fourth time in São Paulo. The best research inputs presented at the seminar will be published in the forthcoming special issue of the *Journal of Financial Stability*. In October, the Bank hosted its joint annual meeting in cooperation with the Centre for Economic Policy Research (CEPR). This year the theme was 'Entrepreneurial finance, innovation and growth'. A record number of research papers were sent for consideration, of which the programme committee selected 12 for presentation. The keynote speakers at the meeting were Professor Bronwyn Hall (University of California, Berkeley) and Professor Per Strömberg (Stockholm School of Economics). Professor Hall discussed financing of R&D and innovation, while Professor Strömberg examined private equity, leverage and incentives.

Box 5.

Research projects at the Bank of Finland

In 2014, a total of 33 studies were published in the Bank of Finland Discussion Paper series. The projects examined issues including the effects of corporate tax planning on bank lending costs, small banks' significance to the local economy and the impact of bank ownership structure on lending to small and medium-sized enterprises (SMEs) and on local credit markets. The findings show that active tax avoidance increases the costs of bank loans to companies, while small local banks are more effective in promoting local economic growth than large interregional banks. The findings also suggest that local cooperative banks provide more loans to SMEs than large domestic banks or foreign-owned banks.

Projects focusing on macroprudential analysis studied e.g. the importance of financial markets from the perspective of the 'Finnish great depression', volatility transfers between economic cycles and the optimal national fiscal policy of a member state in a monetary union. The collapse of the overheated financial markets in 1989 was the trigger for the economic crisis of the 1990s in Finland. Foreign shocks, especially the collapse of trade with the Soviet Union, account for no more than about half of the economic slump. Furthermore, these shocks occurred at a time when the Finnish economy was already in free fall. The stabilisation of economic growth during the period of 'great moderation' in the United States resulted, according to the study in question, specifi-

cally from the stabilisation of growth in short growth cycles. The study emphasises increased inflation aversion as one of the explanatory factors. If member states in a monetary union do not coordinate their fiscal policies, individual member states should pursue a countercyclical fiscal policy. Common monetary policy, in turn, focuses on union-wide aggregate fluctuations.

Other research projects at the Bank of Finland covered topics such as indicators of systemic banking crises, the ending of over-lending, drivers of loan losses in Europe and the informativeness of overnight loan rates in predicting prices of banks' credit default swaps (CDSs). The research results indicate that the growth rates of loans-to-deposits and house prices are the leading indicators of banking crises. Loan stock indicators signal banking crises best with a three-year lead horizon. The debt-to-cash-flow ratio, in turn, effectively indicates increases in risks and vulnerabilities. A contraction in output has an intensified impact on rising loan losses if the economy is already excessively indebted: the more excessive the indebtedness is, the higher is the amount of loan losses. On the other hand, the low level of real interest rates during financial crises is a factor that clearly mitigates loan losses. The average interbank overnight borrowing rate leads banks' CDS prices by at least one day. The lead is strongest for times of market stress and for banks that largely borrow from other banks with whom they have a long-term lending relationship.

Bank of Finland Institute for Economies in Transition

The research effort of the Bank of Finland Institute for Economies in Transition (BOFIT) concentrates mainly on applied research with a focus on monetary and exchange rate policy issues and the functioning of financial systems. The primary countries for research are Russia and China, although individual research topics often require the use of more extensive comparative data. Collaboration between research, monitoring and forecasting forms the foundation for the work of BOFIT's experts.

In 2014, BOFIT continued to publish (in both Finnish and English) its popular weekly digest of economic news items from Russia and China. These go out to around 2,000 subscribers all over the world. Another aspect of BOFIT's work was the presentation of topical information releases on the Russian and Chinese economies and the publication of reports based thereon. The research is published initially in BOFIT's own Discussion Papers series, of which 24 were published in 2014. In addition, 16 shorter reports were published in the BOFIT Policy Brief series.

The pace of work by BOFIT's experts in 2014 was mainly defined by the Ukraine crisis and the tightening geopolitical tensions, which have considerably increased demand for BOFIT's analyses. BOFIT has provided officials and decision-makers both at home and abroad with a range of reports and analyses. In addition, the significantly increased interest in e.g. the situation in Russia has been reflected in a notable increase in invitations to provide speakers and experts for interview.

In connection with the Bank of Finland's March and September forecasts for the international economy, BOFIT published forecasts on the economic outlook for Russia and China in the immediate years ahead. As well as the articles by in-house researchers, the

Discussion Papers series also includes articles by visiting scholars and studies presented at BOFIT's seminars and workshops. A total of 27 visiting scholars from 11 countries worked with BOFIT in 2014.

In September, BOFIT organised a conference on the liberalisation of the Chinese financial system. The conference was co-organised by City University of Hong Kong. The liberalisation of the Chinese financial system is progressing; the pace of progress does, however, differ between the different segments of the financial system. Market actors know how to take advantage of this divergent pace of progress, and a variety of unofficial forms of financial intermediation have increased significantly. The keynote speeches were delivered by Franklin Allen (Imperial College London) and Joshua Aizenman (University of Southern California).

In November, BOFIT organised a workshop in Moscow in cooperation with the National Research University – Higher School of Economics, Moscow. The workshop was entitled 'Banking in Emerging Markets: Challenges and Opportunities', and the focus was particularly on the challenges facing the Russian banking system.

Statistics

In 2014, the Bank of Finland was responsible for producing for the ECB the Finnish data for euro area financial statistics. Statutory ESCB statistics were produced as required and disseminated according to schedule.

At the beginning of 2014, the responsibility for balance of payments statistics was transferred from the Bank of Finland to Statistics Finland. During the three-year transitional period, Statistics Finland will use the Bank of Finland's data compilation system and migrate into a new balance of payments compilation methodology integrated with the national accounts

framework. Statistics Finland began to publish data in accordance with the new international standards on its website from July onwards. All significant aspects of the transfer of balance of payments statistics to Statistics Finland went smoothly. Bank personnel who transferred to Statistics Finland were warmly welcomed and the cooperation required by the new division of tasks has been seamless. Despite the transfer of national statistical responsibility, the Bank of Finland will continue to be responsible for data submission to the ECB and the quality of balance of payments statistics.

The Governing Council of the ECB decided in February 2014 to establish a granular credit database to be used by the Eurosystem. The database will contain information on all credit exposures of monetary financial institutions operating in the euro area vis-à-vis the borrowers and will be created in stages during 2016–2019. Since the financial crisis, information needs have increasingly focused on detailed data on credit. Micro-level information is needed not only for the preparation of monetary policy decisions, but also for the monitoring of monetary policy transmission, supervision of financial market stability and the purposes of banking supervision. The Bank of Finland commenced preparatory work for the creation of the database in the spring, and as part of these preparations the Bank is exploring, among other things, whether it would be possible to build the database in collaboration with other euro area central banks.

Compilation of statistics in line with the ECB Regulation concerning securities holdings was commenced at the beginning of 2014. Consequently, regular ESCB statistics on securities now contain comprehensive data on both securities issues and sector-specific holdings, both based on basic security-by-security data.

In the year under review, in response to the introduction of single banking supervision, the committee and working

group structures of the ESCB's statistical function were complemented with new work streams to support data needs and cooperation between statistical authorities and banking supervisors. Statistical staff were also actively involved in planning and collecting information needed for participating in the ECB's targeted longer-term refinancing operations. In addition, an ECB Regulation on large banks' daily money market statistics was adopted in 2014. These new statistics will support the ECB in planning monetary policy operations and monitoring their effects. In December 2014, the ECB Governing Council adopted a regulation concerning statistical reporting requirements for insurance corporations. Production of statistics in line with this regulation will commence at the beginning of 2016.

International activities

The Bank of Finland actively participates in the work and decision-making of the European System of Central Banks (ESCB). Moreover, the Bank has a statutory responsibility for Finland's contacts with the International Monetary Fund (IMF) and is a shareholder of the Bank for International Settlements (BIS). In addition, the Bank of Finland operates in a variety of ways in many Nordic, European and international fora.

The European System of Central Banks

The Eurosystem's supreme decision-making body is the Governing Council of the European Central Bank (ECB), which comprises the members of the Executive Board of the ECB and the governors of the national central banks of the euro area countries. Bank of Finland Governor Erkki Liikanen is a member of the Governing Council, and his personal alternate member is Deputy Governor Pentti Hakkarainen. Governor Liikanen is also a member of the ECB's General Council, which includes the President and Vice-President of the ECB and the governors of all the national central



Satu Kivinen and Kaija-Leena Rikonen look around the exhibits at the official opening in October of the Bank of Finland Museum's exhibition marking 70 years of the IMF.

banks of EU Member States. On 1 January 2014, Latvia adopted the euro, becoming the 18th member of the euro area.

The Governing Council of the ECB generally convenes twice a month in Frankfurt. At the first meeting of the month it conducts a thorough evaluation of developments in the monetary and real economies and takes monetary policy decisions. In the second meeting of the month, the focus of discussions is on other tasks and responsibilities of the ECB and the Eurosystem. In 2014, the Governing Council convened in May in Brussels and in October in Naples. In addition, it also held teleconferences and made decisions using a written decision-making procedure. ECB President Mario Draghi visited Finland in November, at the invitation of Governor Liikanen.

Board members and experts from the Bank of Finland participated in the work of the European System of Central Banks at all stages of preparation. The Bank of Finland also had at least one representative on each of the committees and was represented in most of the working groups operating under the various committees. In addition, Governor Liikanen is Chairman of the ECB's Audit Committee, whose task is to improve ECB and Eurosystem governance and control. In 2014, a total of 19 Bank of Finland employees were seconded to the ECB on fixed-term contracts of varying length.

The ECB assumed responsibility for euro area banking supervision in November 2014, when the Single Supervisory Mechanism (SSM) was launched. The Bank of Finland, together with the Financial

Supervisory Authority, participated closely in the preparations and activities of the supervisory mechanism on many levels. Deputy Governor Pentti Hakkarainen was the Bank of Finland representative on the Supervisory Board of the Single Supervisory Mechanism. The task of the Supervisory Board is to propose to the ECB's Governing Council draft supervisory decisions on euro area banks. Deputy Governor Hakkarainen was also member of the Comprehensive Assessment Steering Committee. The Governing Council and the Supervisory Board held their first joint meeting in November, where they discussed macroprudential issues. Several ESCB committees convened in SSM composition, together with national supervisors, to discuss banking supervision.

International Monetary Fund

Finland's representative on the highest governing body of the International Monetary Fund (IMF), the Board of Governors, was Bank of Finland Governor Erkki Liikanen, with Deputy Governor Pentti Hakkarainen as his alternate member. The Board of Governors held its Annual Meeting in Washington in October.

The IMF's advisory International Monetary and Financial Committee (IMFC) met twice, in April and October. Governor Liikanen attended the meeting in April. The day-to-day operations of the IMF are the responsibility of an Executive Board of 24 Directors and the Managing Director, who serves as Chairman of the Board.

Finland belongs to the Nordic-Baltic constituency within the IMF. In 2014, coordination of the constituency was led by Norway, with participation from the Bank of Finland and the Finnish Ministry of Finance. The purpose of coordination is to form the constituency's common position on matters to be determined by the IMF Board. Governor Erkki Liikanen delivered the Nordic-Baltic constituency's speech at the IMF's Annual Meetings in October. Finland was the constituency's representa-

tive on the International Monetary and Financial Committee (IMFC) in 2014.

The Nordic-Baltic Monetary and Financial Committee (NBMFC) met before the spring and autumn IMFC meetings in order to prepare the constituency's policy positions. The Bank of Finland was represented on the NBMFC by Deputy Governor Pentti Hakkarainen.

Due to the large volume of loans provided by the IMF to its members, the Fund was compelled to strengthen its base funding from the quotas with the help of its New Arrangements to Borrow (NAB) facility. Finland is a party to this arrangement, which was in use throughout 2014.

Bank for International Settlements

The Governor of the Bank of Finland took part in the regular Governors' Meetings of the Bank for International Settlements. Generally, the discussions covered topical issues relating to the global economy and the financial markets and, specifically, the challenges for central banks from slow inflation and the low level of interest rates, as well as weak economic growth and population ageing. The Bank of Finland was represented at the Annual General Meeting of the BIS in late June.

Nordic cooperation

The Nordic central banks cooperate closely on each level of organisation. In 2014, the central bank governors and experts met in Sweden to discuss structural changes and financial stability. The Nordic and Baltic central banks and supervisors also have a biannual cooperation forum (Nordic-Baltic Macprudential Forum), which deals with financial market issues. Bank of Finland experts usually have an annual meeting with experts from the other Nordic central banks.

Cooperation within the European Union

The European Systemic Risk Board (ESRB) is part of the European System of Financial Supervision (ESFS). The ESRB concentrates on macroprudential oversight of the

Box 6.

Bank of Finland representatives at the ECB, EU and other international bodies in 2014

| | | |
|--|--|---|
| Bank of Finland representatives on the Governing Council of the ECB | | |
| Erkki Liikanen, member Pentti Hakkarainen, alternate member | Jarmo Kontulainen, assistant (until 1.12.2014) Tuomas Välimäki, assistant (from 1.12.2014) | Mika Pösö, assistant |
| Bank of Finland representatives on ESCB committees, the Budget Committee, the Eurosystem IT Steering Committee and the Human Resources Conference | | |
| International Relations Committee Olli-Pekka Lehmussaari Kristiina Karjanlahti (until 24 Feb) Mervi Toivanen (from 24 Feb) | Monetary Policy Committee Tuomas Välimäki Jarmo Kontulainen Samu Kurri | Statistics Committee Laura Vajanne Harri Kuussaari |
| Accounting and Monetary Income Committee Tuula Colliander | Financial Stability Committee Kimmo Virolainen Jouni Timonen | Committee on Controlling Pentti Hakkarainen, chair Tuula Colliander Marko Ala-Pöntiö |
| Legal Committee Maritta Nieminen Eija Brusila | Risk Management Committee Antti Nurminen Kaarina Huumo | External Communications Committee Jenni Hellström Richard Brander (until 14 Apr) Iina Lario (from 14 Apr) |
| Payment and Settlement Systems Committee Kirsi Ripatti Päivi Heikkinen (until 1 Jun) Heli Snellman (from 1 Aug) | Banknote Committee Kari Takala Mauri Lehtinen (until 1 Jun) Päivi Heikkinen (from 1 Jun) | Budget Committee Pirkko Pohjoisaho-Aarti |
| Market Operations Committee Harri Lahdenperä Marjaana Hohti | Internal Auditors Committee Pertti Ukkonen Jarno Talvitie (until 1 Jul) Helena Rantanen (from 1 Jul) | Eurosystem IT Steering Committee Seppo Honkapohja |
| Organisational Development Committee Mika Pösö Kristina Rantalainen (until 1 Apr) Jarno Talvitie (from 1 Apr) | Information Technology Committee Petteri Vuolasto | Human Resources Conference Antti Vuorinen |
| Bank of Finland representatives on EU committees, the Supervisory Board of the Single Supervisory Mechanism and the Comprehensive Assessment Steering Committee | | |
| General Board of the European Systemic Risk Board (ESRB) Erkki Liikanen | Economic Policy Committee Lauri Kajanoja | Supervisory Board of the Single Supervisory Mechanism (SSM) Pentti Hakkarainen |
| Economic and Financial Committee Pentti Hakkarainen Olli-Pekka Lehmussaari, alternate member | European Banking Authority's Board of Supervisors Kimmo Virolainen | Comprehensive Assessment Steering (CASC) Pentti Hakkarainen |
| | Committee on Monetary, Financial and Balance of Payments Statistics Laura Vajanne | |
| Bank of Finland representatives at the Bank for International Settlements (BIS), the IMF and the OECD | | |
| BIS meetings of central bank governors Erkki Liikanen | IMF Board of Governors Erkki Liikanen Pentti Hakkarainen, deputy member | OECD Economic Policy Committee Tuomas Välimäki Samu Kurri |
| | | OECD Financial Markets Committee Jyrki Haajanen |

financial markets. The General Board of the ESRB meets an average of four times a year. Governor Liikanen is a member of the General Board with voting rights. The Bank of Finland also has a representative on the Advisory Technical Committee of the ESRB.

The key responsibility of the European Union's Economic and Financial Committee (EFC) is to prepare meetings of the ECOFIN Council of economic and finance ministers of the EU Member States. The Bank of Finland was represented on the EFC by Deputy Governor Pentti Hakkarainen. He participated in the meetings when the Committee convened in its extended composition and in the role of the Financial Stability Table.

The Bank of Finland also participates in cooperation via the EU's Economic Policy Committee (EPC), which prepares the EU's economic policy guidelines and structural policy issues. Statistical issues are discussed in the Committee on Monetary, Financial and Balance of Payments Statistics (CMFB) and the European Statistical Forum, which was launched in 2013. The Bank of Finland is also involved in the work of the Organisation for Economic Cooperation and Development (OECD) and is represented on the Board of Supervisors of the European Banking Authority (EBA).

Other international cooperation

In September, the Bank of Finland co-organised, with the Financial Supervisory Authority and the Toronto Centre, a seminar entitled *Risk Based Supervision – Concepts, Assessment Processes and Early Intervention*. Bank of Finland Governor Erkki Liikanen gave the opening remarks at the seminar. Governor Liikanen focused on the role of finance in supporting growth, while at the same time warning about the risks that an excessively large banking sector relative to the size of the economy can pose to long-term economic growth. Due to the international banking crisis, the seminar focused on risk-based financial market regulation and on ways to enhance supervision.

The Bank of Finland continued its training cooperation with the Bank of Russia in 2014, including two training sessions at the Bank of Finland and two at the Bank of Russia. The lecturers in these training sessions also included experts from the Financial Supervisory Authority.

Communications

Using effective and specially targeted communication, the Bank of Finland aims to keep the Finnish public well informed of the role and activities of the Bank as the national monetary authority and a member of the Eurosystem. The key areas of focus are monetary policy, financial stability and payment instruments. Board members and managers, as well as experts at the Bank, dealt with these themes in numerous speeches, writings and interviews during the course of the year.

The Bank's website provides topical information on the economy and the financial markets as well as the work of the Bank of Finland and the Eurosystem. The blogs written by experts at the Bank discuss topical issues in central banking.

In 2014, the Bank increased its presence on social media. The online blog was opened for comments from the general public, and the Bank started to distribute photographs in the Flickr photo management and sharing application. As before, the Bank also provided services to the general public by telephone and email.

The Bank of Finland's most important publication is the journal *Euro & talous* [also published in English as the *Bank of Finland Bulletin*, with occasional minor differences in content], which in 2014 was published for the last time in print. Of the five issues in 2014, two discussed the outlook for the Finnish economy and published a forecast for the domestic economy. Two of the issues focused on monetary policy and the global economy, and one looked at financial stability. Each edition of *Euro & talous* was launched with a press briefing.

The online publication series *BoF Online* saw 13 articles published during the course of the year under review. The publications are available on the Bank's website. Information on the main publications in 2014 is provided in the appendix on page 122.

Refurbished Bank of Finland Museum is Bank's visitor centre

The Bank of Finland Museum, located on Snellmaninkatu in Helsinki, is the Bank of Finland's visitor centre. The museum was closed in late 2013, and following refurbishment was re-opened in January 2014. In addition to the permanent exhibition, in 2014 it housed the following three seasonal exhibitions: 'Economic books that changed the world', 'Cash as art – banknote sketches' and 'IMF 70 years'.

Public events in the museum are a key part of the Bank's external communications. As a result of the refurbishment, the museum is now even more suitable for public events. In addition to the *Studia monetaria* lectures and *Talouskirja Nyt* discussion sessions, the museum hosted, among other events, a discussion session on the ECB's mandate. The Bank also launched the practice of using the museum to present its latest forecast for the economy to the general public. The museum was also used for a training session entitled *Talous tutuksi* ['Get to know the economy'] for teachers of economics.

In connection with the refurbishment, the museum's multimedia products were given a new look, and the products provide e.g. student groups an exciting way of learning about monetary policy. The Bank

of Finland also seeks to foster young people's knowledge of the economy by organising the *Generation Euro Students' Award* competition for teams of secondary school students and the *Economic Guru* competition for upper secondary students. The *Generation Euro Students' Award* in 2014 was won by a team of secondary students from *Helsingin Suomalainen Yhteiskoulu* (SYK), an independent coeducational school in Helsinki, and the *Economic Guru* competition by Heidi Häyrynen from the *Etelä-Tapiolan lukio* upper secondary school in Espoo.

Art exhibition attracts the public

The largest public event in 2014 was the art exhibition, which was held in the main building of the Bank and in the museum in May. The exhibition was open for four days and attracted a total of 4,600 visitors to explore the artworks and the Bank's main building, and to listen to brief presentations on the economy and central banking.

In July, the Bank arranged a panel discussion on housing at the *SuomiAreena* event in Pori. The Bank's experts also met members of the public for three days at the Pori market square. At the same time, members of the public were given an opportunity to familiarise themselves with the new EUR 10 banknote, which was launched into circulation in September.

In November, President of the ECB Mario Draghi visited Helsinki at the invitation of the Bank of Finland. In connection with the visit, the Bank arranged a lecture at the University of Helsinki, which was open to the general public.

Box 7.

Underpinnings of a stable and prosperous monetary union were discussed during ECB President's visit

In November 2014, the President of the ECB, Mario Draghi visited Finland for the first time during his presidency. The visit was part of the active and regular cooperation between the European Central Bank and the Bank of Finland. President Draghi's visit began with a meeting at the Bank of Finland, followed by discussions with the Finnish Prime Minister and Finance Minister. President Draghi also delivered a speech to the members of the Parliamentary Supervisory Council, the Finance Committee and the Grand Committee of the Finnish Parliament. The visit ended with a seminar held at the University of Helsinki.

2014 was a year of active monetary policy as the ECB initiated new monetary policy measures to support price stability. The visit provided Finnish decision-makers and the general public an opportunity to hear the ECB's assessment of the economy and the monetary policy that has been pursued. In his speeches, President Draghi examined the role of national central banks in the ECB's decision-making process and alternative paths for developing and strengthening cooperation in the euro area.

In an event at the Bank of Finland, President Draghi emphasised that national central banks play a key role in monetary policy preparation. With regard to Finns, he noted that he appreciates particularly their pragmatic approach. According to President Draghi, research conducted at the Bank of Finland and experiences in Finland in the period before the introduction of the euro helped the ECB to respond swiftly to the financial crisis in 2008 when the fixed-rate full allotment policy was introduced. The policy has since become one of the signature policies of the ECB. In addition to monetary policy research, Bank of Finland research on Russia and China has been utilised at the ECB over the years.

President Draghi mentioned that, in 2014, Finland had been a topical country in Frankfurt, where the Bundesbank and the Bank of Finland jointly published at the Frankfurt Book Fair the German version of the (Finnish) book 'Ensimmäiset eurot' [The First Euros]. The book is authored by the ECB's former Director Banknotes, Antti Heinonen. The ECB will publish it in English as 'The First Euros – the Creation, Issuance and First Decade of Euro Banknotes' in spring 2015.

In his speech to the Finnish Parliament, President Draghi discussed particularly the non-standard monetary policy measures introduced in autumn 2014. He underlined that the purpose of the new measures is to ease the ECB's monetary policy stance more broadly, enhance the transmission of monetary policy and facilitate credit provision to the real economy. President Draghi recounted that the ECB will increase the transparency of its decision-making by publishing regular accounts of Governing Council monetary policy discussions. He underlined that, in safeguarding price stability, the ECB is independent, which is reflected in its decision-making process. For example, the Governing Council has a collegial approach to its decision-making, the governors of the national central banks each bringing to the table their knowledge and the analysis and research of their national central banks. The ECB is accountable to the European Parliament for its actions, in the same way as the Bank of Finland is accountable to the Finnish Parliament.

The event organised by the Bank of Finland at the University of Helsinki was attended by an audience of some five hundred persons interested in the economy. The speech by President Draghi discussed the future of Economic and Monetary Union. He outlined the minimum requirements

needed to complete monetary union in a way that offers stability and prosperity for all participants. Mr Draghi emphasised that the ‘union has proved more resilient over the past years than many thought.’ Those who doubted EMU had underestimated the political underpinnings of the euro area and the efforts and commitment of its members to solving common problems. The resulting close cooperation has enabled the continued existence of monetary union.

President Draghi recalled that our monetary union is still incomplete. He argued the objective is to achieve a monetary union in which each country is permanently better off within the union than outside. ‘The success of monetary union anywhere depends on its success everywhere’, noted President Draghi.

Fiscal transfers are not the way to strengthen monetary union. For that purpose, it is of key importance that all euro area countries are able to thrive independently and that every economy is sufficiently flexible. In addition, euro area countries need

to invest more in other mechanisms to share the cost of shocks. In this respect, it is important to deepen private sector risk-sharing, and this requires addressing the barriers to capital market integration.

President Draghi emphasised that since the euro is a truly single currency, the economic performance of any single country is a common concern. Each economy’s capacity for adjustment and growth also affects other countries. Mr Draghi saw a case for increasing joint-decision making in certain areas of economic policy – for example structural reforms and the use of fiscal policy in counter-cyclical economic policy. ‘So over the longer-term, it would be natural to reflect further on whether we have done enough in the euro area to preserve at all times the ability to use fiscal policy counter-cyclically. But it is also clear that such a reflection would have to be part of a larger discussion on how to reinforce common decision-making over fiscal policies and strengthen accountability arrangements,’ President Draghi concluded.

Governor Erkki Liikanen and European Central Bank President Mario Draghi at a session with Bank of Finland staff in the staff restaurant in November.



Photo: Peter Mickelsson.

Management and personnel

Review of the strategy

The Bank of Finland's mission, values, vision and strategic guidelines were kept unchanged in 2014 (Box 8). According to the strategy, the Bank of Finland's influence is based on expertise, reliability and research.

Among recent key changes in the operating environment was the creation of a common stability policy and banking supervision for the euro area. Single banking supervision led by the ECB commenced on 4 November 2014. In Finland, preparations were made for reforms to macroprudential supervision to be introduced in 2015, and issues relating to the relevant processes and division of responsibilities were clarified. The year was also marked by discussion of the role of a central bank and the tools euro area central banks can use to support price stability, balanced economic growth and the stability of the financial system.

One outcome of the management strategy seminar held in May was the highlighting of the importance of forward-looking and interactive communication as well as enhanced cooperation between the

Bank of Finland and the Financial Supervisory Authority (FIN-FSA).

The review of strategic risks concentrated on the priorities of the Bank of Finland's competence in the rapidly changing operating environment, the implications of slow growth in the Finnish economy, the tools and focus of communication and the challenges relating to cyber security.

In relation to developing the Bank of Finland's expertise, the emphasis is on combining macroeconomic and financial market perspectives. The aim of the Bank of Finland is to further strengthen its position as an innovative centre of excellence, both in domestic economic policy dialogue and within the Eurosystem. In 2014, the Bank of Finland brought to domestic debate such themes as the Bank's assessment of long-term productivity development in the Finnish economy and general government sustainability, including economic analysis of the impact of the Crimean and broader Ukrainian crises. The Bank of Finland contributed to Eurosystem monetary policy decisions through work on the formulation of quantitative easing models and tools for strengthening the effectiveness of monetary policy via forward guidance.

Box 8.

Bank of Finland's mission, vision, strategy and values

Mission

The Bank of Finland works towards economic stability. Price stability, secure payment systems and reliable financial systems are prerequisites for sustainable growth, employment and the wellbeing of Finnish society.

Vision

The Bank of Finland is known as a forward-looking and effective central bank and as a constructive and influential member of the Eurosystem.

The vision underlines the Bank of Finland's objective of being a forward-looking authority, whose activities and statements are constructive in promoting the long-term robustness and stability of the Finnish economy. The Bank itself aims to operate in the spirit of its own statements fostering effectiveness.

A constructive role within the Eurosystem requires the Bank of Finland to be actively involved in developing solutions to common problems, while being influential imposes high expectations on the competence and communication skills of the Bank's personnel.

Summary of the strategy

- The Bank of Finland's influence is based on expertise, reliability and research.
- We ensure the availability of competitive central bank services in Finland.
- We participate in maintaining the service level of the financial markets and related infrastructure.
- We maintain such capital adequacy and liquidity as is required by our operations, and we honour our financial accountability to Finnish society.
- Our working processes are of high quality, technically advanced and environmentally sustainable.
- We build our expertise and professional competitiveness with an eye to the future, while simultaneously caring for the long-term wellbeing of our staff.

Values

Competence – Appreciation – Responsibility

The values reflect our attitude towards our own work, our colleagues and the rest of the society. Common values drive the staff's day-to-day activities and underpin the organisation's working culture. The entire organisation was involved in defining the Bank's values.

Competence

Our work builds on excellence and professional ethics. We keep our knowledge and skills at the forefront.

Appreciation

We strive towards common objectives with mutual respect. We encourage open discussion and fresh ideas.

Responsibility

We act responsibly and we are independent. We are a reliable and cooperative partner.

Management system

The Bank of Finland's mission, values, vision and strategy provide a guide for the Bank's activities. The division of responsibilities between Board members and the definitions of the areas of responsibility for each department and core process also constitute an important element of the management system. The objectives and results framework, action planning, staffing and budgetary ceilings and overall risk assessment are also key corporate governance tools. Achievement of the objectives set for the Bank and its departments and core processes is assessed biannually. Performance appraisal discussions with the employees are an essential element of the Bank's management system.

Division of responsibilities between Board members

A new division of responsibilities between Board members entered into force on 1 December 2014. Key posts within the Bank of Finland, and particularly those exercising management responsibilities, are filled on a fixed-term basis. The purpose of this is to ensure the accumulation of broad-based competence and the updating of staff practices and procedures. The Board's decision on the re-division of its own responsibilities supports the achievement of these objectives. With the new arrangement, Governor Erkki Liikanen is responsible for monetary policy preparation, domestic economic policy, financial market issues and external communications. He is a member of the Governing Council and General Council of the ECB, and of the European Systemic Risk Board.

Deputy Governor Pentti Hakkarainen bears responsibility for monetary policy implementation, investment activities, administration, legal and international affairs and macroprudential policy. He is Chairman of the Board of the Financial Supervisory Authority.

Member of the Board Seppo Honkapohja is responsible for scientific

research, currency supply, market operations and payments, personnel and risk control for investment activities and monetary policy.

Departments and core processes

The Bank of Finland's activities are organised among six departments and the Internal Audit unit, which is independent of the departments. The heads of department report to the Board member responsible for the respective area.

The organisational structure is supplemented by a process management model. Process management provides a means of bringing the strategy closer to operations. Process management enables the removal of barriers to cooperation between organisational units, laying emphasis on a working culture based on cooperation. Process management promotes a customer-oriented approach to operations, operational efficiency and effectiveness and maintains a motivating work environment.

The Bank of Finland's core processes are 1) monetary policy preparation, 2) monetary policy implementation, 3) influence on domestic economic policy and 4) stability policy.

Objectives and results framework

The objectives and results framework is a tool for implementing the strategic guidelines and steering the Bank's activities. It also provides stakeholders with information on how the Bank has set its objectives and evaluates its performance. In addition to Bank-level indicators, each department and core process are provided with indicators to guide their activities. Department-specific indicators are tailored on the basis of each department's tasks for implementation of the strategy (objectives and results framework for 2014–2016, see p. 60).

Action planning

Action planning at department and core process level is conducted with a three-year timeline. The objectives of the action plan

are further developed into agreements on objectives and outcomes, signed by all the heads of department each year. The agreements outline the objectives and relevant indicators with target values and describe major projects for the individual departments. The Bank of Finland's budget, and the personnel and training scheme as well as evaluation of operational risk management are drawn up as part of action planning.

Personnel and budget frameworks

Resource deployment in the departments is guided by personnel and operating costs frameworks, which are updated annually in connection with action planning. The framework system enables medium-term

resource planning at departmental level. The procedure is of help in achieving the Bank's strategic objective of being one of the most efficient EU central banks.

Risk management

Risk management is part of the Bank of Finland's governance framework and is also linked with action planning and the departments' objectives and results reporting. The Bank's risks are divided into strategic, financial and operational risks. Overall responsibility for the provision and governance of risk management and the definition of the level of risk exposure rests with the Bank's Board, but each member of staff is responsible for the management of risks falling within their own job remit.

Deputy Governor Pentti Hakkarainen takes his turn wielding the baton during the concluding session of the coaching programme for supervisory staff in September.



Photo: Peter Mickelsson.

Bank of Finland objectives and results framework 2014–2016

| | Strategic guideline | Indicator | Objective | Situation | | |
|--|---|---|--|-------------------|--------------------|-------------------|
| | | | | 12/2012 | 12/2013 | 12/2014 |
| I Influence and service capacity | 1. The Bank of Finland's influence is built on high-level expertise and research that combines both macroeconomic and financial market perspectives. | Quality-weighted publication index for research | > 32 | New indicator | 52 | 26 |
| | 2. The Bank of Finland participates in preserving the service level of the financial markets and related infrastructure and offers competitive central bank services to its customers | Quality of central bank services from service users' perspective | > 95% of respondents satisfied | New indicator | 95% | 98% |
| | | Consumer satisfaction survey on the quality and availability of cash | > 4 | 4.1 | 4.3 | 4.1 |
| | 3. Public confidence in the Bank of Finland and awareness of the Bank's and the Eurosystem's activities are promoted through effective, well-targeted communication. | Results of the VIP image survey carried out by the market research company Taloustutkimus | Upper quartile of the benchmark group | 4/33 | 7/32 | 3/32 |
| | | Results of the Omnibus survey carried out by the market research company Taloustutkimus | Upper quartile of the benchmark group | 3/12 | 3/12 | 3/12 |
| | Visits (clicks) on the Bank's website | Rising trend | EUR 1.7 million | EUR 1.7 million | EUR 1.8 million | |
| II Efficient use of resources and capital adequacy | 4. The Bank of Finland's financial assets are invested in a secure and productive manner in accordance with international commitments and crisis management requirements. | Proportion of highly safe and liquid investments of financial assets | High | High | High | High |
| | | Return on financial assets exceeding the central bank rate on investment currencies (5-year average) | > 0; 5-year moving average | 2.58% | 1.73% | 1.5% |
| | 5. The aim is to enable stable profit distribution to the State without jeopardising the Bank's capital adequacy. | Reserve fund + provisions relative to balance sheet risks | Provisions are increased with the aim of ensuring a sufficiently strong balance sheet under all circumstances. | EUR 3,120 million | EUR 4,924 million* | EUR 5,208 million |
| | | Distributed earnings | Stable profit distribution | EUR 227 million | EUR 180 million | EUR 137.5 million |
| 6. The Bank of Finland is one of the most efficient central banks in the EU. | Total annual full-time-equivalent jobs for permanent and fixed-term staff | 2013: 410 annual full-time equivalent 2014: 402 annual full-time equivalent 2015: 383 annual full-time equivalent | 413 | 394 | 384 | |
| | Total departmental operating expenses | Budget, 2013: EUR 55 million 2014: EUR 53 million | EUR 52.8 million | EUR 52.3 million | EUR 52.8 million | |

* Indicator revised; reserve fund also taken into account since 2013.

| | Strategic guideline | Indicator | Objective | Situation | | |
|--------------------------------------|--|---|---|---|---|--|
| | | | | 12/2012 | 12/2013 | 12/2014 |
| III Efficiency of internal processes | 7. The quality of the Bank of Finland's analytic and operational processes is actively enhanced. | Average of fulfilled criteria as set out in department-specific agreements on objectives and outcomes | 93% satisfied | New indicator | 93% | 75% |
| | 8. The Bank of Finland's ICT solutions enable top-quality, influential work by our experts. | Feedback on IT equipment and services | 93% satisfied | New indicator | 91% | 88% |
| | | Number of serious disruptions | Objective 0 | New indicator | 0 | 1 |
| | | IT innovations that have increased productivity from the departments' perspective, survey result | > 3 | 3.7 | 3.7 | 3.2 |
| | 9. The activities of the Bank of Finland are environmentally sustainable | Total emissions / operating expenses (energy use) | Falling trend | 82.80 kg CO ₂ emissions/energy use | 77.5 kg CO ₂ emissions/energy use | 71.5 kg CO ₂ emissions/energy use |
| Waste kg / operating expenses | | Falling trend | Volume of waste 2.06 kg / EUR 1,000 operating costs | Volume of waste 2.00 kg / EUR 1,000 operating costs | Volume of waste 2.03 kg / EUR 1,000 operating costs | |
| IV Building the future | 10. The Bank of Finland raises the expertise and professional competence of its staff. | Annual implementation of personal development plans | Over 80% of plans turn out well | New indicator | 86% | 89% |
| | | Education level index | > 5.8 | 5.9 | 6.0 | 6.0 |
| | 11. The Bank of Finland cares for the long-term wellbeing of its staff. | Proportion of the minority gender relative to the total number of supervisory staff | Rising trend | 30% | 31% | 33% |
| | | Sick leave absences | Below 3.5% | 3.0 | 2.6% | 2.9% |
| | | Employee satisfaction index exceeds external benchmark group result | > 3.5 | – | 3.6 | – |
| | Leadership index exceeds external benchmark group result | > 3.7 | 3.9 | 3.9 | 3.8 | |

Personnel

The Bank of Finland is a stable employer that offers jobs of importance to society. The Bank is active in supporting the wellbeing of its personnel and pursues an equal opportunities human resources policy. The Bank of Finland's values – competence, appreciation and responsibility – reflect its staff members' attitude towards their own work, their colleagues and the rest of society.

The Bank of Finland invests in continuous development of management and leadership skills. The quality of management is annually monitored using a leadership index survey. The 2014 leadership index survey result was 3.8 (on a scale of 1 to 5). The personnel have good opportunities to expand their diverse skills, e.g. via internal job rotation and/or participation in ESCB committees and working groups. Networking both domestically and globally constitutes an important part of many staff members' work. A total of 80 Bank employees participate regularly in ESCB committees and working groups.

The personnel are encouraged to use their initiative, come up with new ideas and actively develop working procedures. Among other approaches, working practices

were developed with the Smart Working and LEAN programmes aimed at fostering continuous improvement of processes, exploitation of modern working tools and adoption of new, intelligent working methods.

The Bank of Finland's objective is to be one of the most efficient EU central banks. The Bank has around 390 employees. Of this total, 75% hold expert positions. The headcount declined by four people from the year before. Since joining EMU, the Bank's headcount has been reduced by 48%.

The pay settlement agreed in civil service collective bargaining in spring 2014 is in line with Finland's general pact for employment and growth. The Bank's unemployment security was revised to correspond with the unemployment security generally applied in Finland, and the Bank's cooperation agreement was amended to be in line with the relevant act for the government sector.

The Bank of Finland is one of the public sector's most attractive employers and has been successful in employer image surveys. It participated in the nationwide Responsible Summer Job 2014 campaign, aimed at challenging employers to provide more and better summer jobs for young people. The Bank of Finland annually offers summer jobs to around 50 students.

Table 5.

Human resource management highlights¹

| | 2013 | 2014 |
|---|--------|--------|
| Staff size | | |
| Head count 31.12. | 391 | 387 |
| Man years | 422 | 410 |
| Turnover rate for those leaving the Bank's service | 10% | 10% |
| Turnover rate for those entering the Bank's service | 7% | 7% |
| Internal mobility | 9% | 13% |
| Number of newly retired employees | 20 | 16 |
| Average effective retirement age | 59.4 v | 61.6 v |
| Staff structure | | |
| Average staff age | 46.1 v | 46.2 v |
| Proportion of experts and superiors | 73% | 75% |
| Proportion of women | 47% | 47% |
| Salaries and bonuses | | |
| Salaries in relation to market salaries at the Bank of Finland ² | 100% | 100% |
| Negotiated increases | 1.9% | 20 e |
| Bonuses as a proportion of payroll | 0.25% | – |
| Average pay for women / average pay for men | 100% | 99% |
| Competence | | |
| Training costs / payroll | 3.3% | 3.4% |
| Training days / man-year | 4.6 | 4.8 |
| Education level index ³ | 6.0 | 6.0 |
| Wellness at work | | |
| Absence rate | 2.6 | 2.9 |
| Employee satisfaction index | 3.6 | – |

¹ Figures refer to the Bank of Finland, unless otherwise mentioned. Figures referring to the Financial Supervisory Authority are published in the FIN-FSA Annual Report.

² The reference group in the HAY market salary survey is made up of organisations representing the banking and financial sectors, public sector, and industrial and service sectors. The Bank of Finland's remuneration policy is targeted at the median level of the HAY market salary survey for all organisations (basic salary + benefits). The survey also includes FIN-FSA's staff salaries.

³ Education level index is calculated from the basic level of education of staff. The index varies between 1 and 8.

Budget and operative costs

The cost efficiency of the Bank of Finland's operations is promoted by developing budgeting processes and maintaining objectives-driven staffing levels, appropriate procurement procedures for goods and services and effective monitoring systems. In autumn 2014, the Bank's budgets for the period 2015–2017 were drawn up and, of these, the Board ratified the budget for 2015. The budgets for 2016–2017 will be ratified at a later date.

Operative costs and the related objectives included in the budgets are managed by organising tender procedures for procurement and entering into framework agreements. Senior management monitor their budgetary situation on a real-time basis through the Bank's reporting system. The Board evaluates budget outcomes every quarter. It also ratifies the budget drawn up for the Financial Supervisory Authority.

Bank of Finland budget

In 2014, the Bank of Finland's operating expenses totalled EUR 82.1 million (EUR 75.2 million in 2013). Budgeted operating income amounted to EUR 13.5 million. The Bank's net operating expenses totalled EUR 68.6 million (Table 6).

Investment expenses totalled EUR 8.7 million in 2014. Investment in IT systems and infrastructure amounted to EUR 6.3 million. Investment expenditure on renovations totalled EUR 1.8 million. Other long-term acquisitions totalled EUR 0.6 million.

Budgeted operating expenses for 2015 amount to EUR 84.2 million. Staff expenses are expected to remain at the previous year's level. As for other expenses, notable items are expenses on purchased services, IT systems and real estate. Banknote procurement carried out in the budgetary period is also a notable cost item.

Table 6.

Budget for the Bank of Finland

| | Outturn 2014 EUR m | Budgeted 2015 EUR m |
|--|--------------------------|---------------------------|
| 1. Operating expenses and income | | |
| <i>EXPENSES</i> | | |
| <i>Staff expenses</i> | 33.6 | 34.8 |
| <i>Staff-related expenses</i> | 2.9 | 4.0 |
| <i>Other expenses</i> | 22.8 | 24.5 |
| <i>DEPRECIATION</i> | 7.6 | 8.6 |
| Total | 66.9 | 71.8 |
| <i>Banknote acquisition costs</i> | 11.3 | 7.8 |
| <i>Banking service expenses</i> | 3.9 | 4.5 |
| Total operating expenses | 82.1 | 84.2 |
| <i>INCOME</i> | | |
| <i>Banking service income</i> | 3.0 | 3.1 |
| <i>Real estate</i> | 5.4 | 5.4 |
| <i>Other income</i> | 0.9 | 0.0 |
| <i>Services to FIN-FSA</i> | 4.2 | 4.6 |
| <i>Capital gains on disposal of fixed assets</i> | 0.1 | |
| Total income | 13.5 | 13.2 |
| Net | 68.6 | 71.0 |
| 2. Investment | | |
| <i>Real estate investment</i> | 1.8 | 6.2 |
| <i>Head office premises</i> | 0.5 | 1.3 |
| <i>Vantaa premises</i> | 1.0 | 4.6 |
| <i>Other premises</i> | 0.3 | 0.3 |
| <i>IT equipment and software</i> | 6.3 | 7.1 |
| <i>Cash handling machines</i> | 0.0 | 1.6 |
| <i>Security equipment</i> | 0.4 | 1.1 |
| <i>Other</i> | 0.2 | 0.1 |
| Total investment | 8.7 | 16.2 |

Due to rounding, totals/sub-totals may not add up.

Table 7.

Budget for the Bank of Finland pension fund

| | <i>Outturn 2014 EUR m</i> | <i>Budgeted 2015 EUR m</i> |
|--|-----------------------------------|------------------------------------|
| <i>1. Operating expenses and income</i> | | |
| <i>EXPENSES</i> | | |
| <i>Staff expenses</i> | 0.1 | 0.2 |
| <i>Pension fund activities expenses</i> | 0.6 | 0.6 |
| <i>Pension fund real estate expenses</i> | 0.5 | 0.5 |
| <i>DEPRECIATION</i> | 0.9 | 0.9 |
| <i>PENSIONS</i> | | |
| <i>Pensions paid</i> | 26.2 | 27.4 |
| <i>Total expenses</i> | 28.3 | 29.6 |
| <i>INCOME</i> | | |
| <i>Employment pension contributions</i> | 10.4 | 10.7 |
| <i>Internal rents</i> | 1.6 | 1.6 |
| <i>Total income</i> | 12.0 | 12.3 |
| <i>Net</i> | 16.3 | 17.3 |

Due to rounding, totals/sub-totals may not add up.

Investment expenditure in 2015 is estimated at EUR 16.2 million. Of this, EUR 7.1 million relates to the development of IT systems and infrastructure and EUR 6.2 million to premises.

Pension fund budget

The pension fund's operating expenses for 2014 totalled EUR 28.3 million. Pensions paid (EUR 26.2 million) constituted the largest cost item. Operating income amounted to EUR 12.0 million (Table 7).

Pension fund expenses are estimated to increase slightly in the three coming years, due largely to growth in pensions payable. Pension fund activities are presented in the fund's own annual report.

Financial Supervisory Authority budget

The Financial Supervisory Authority's operating expenses totalled EUR 26.2 million in 2014 (EUR 26.3 million in 2013). Total income amounted to EUR 28.7 million. Of this, supervision and processing fees accounted for EUR 26.1 million, while the Bank of Finland's contribution to funding was EUR 1.3 million. The surplus for the financial year was EUR 1.3 million. The surplus will be taken into account in the following accounting period when setting supervision and processing fees (Table 8). Investment in IT systems totalled EUR 0.8 million.

Operating expenses for 2015 are estimated at EUR 27.8 million. Total income is also estimated at EUR 27.8 million, of which the Bank of Finland's contribution to funding will account for EUR 1.4 million. Investment expenditure is estimated at EUR 1.5 million. The Financial Supervisory Authority's operations are presented in the authority's own annual report.

Table 8.

Budget for the Financial Supervisory Authority

| | <i>Outturn 2014 EUR m</i> | <i>Budgeted 2015 EUR m</i> |
|---|-----------------------------------|------------------------------------|
| 1. Operating expenses and income | | |
| <i>EXPENSES</i> | | |
| <i>Staff expenses</i> | 16.8 | 17.6 |
| <i>Staff-related expenses</i> | 0.8 | 1.1 |
| <i>Other expenses</i> | 4.0 | 3.8 |
| <i>DEPRECIATION</i> | 0.3 | 0.7 |
| <i>SERVICES FROM THE BANK OF FINLAND</i> | 4.2 | 4.6 |
| Total operating expenses | 26.2 | 27.8 |
| <i>FUNDING OF OPERATIONS</i> | | |
| <i>Supervision fees</i> | 24.3 | 24.5 |
| <i>Processing fees</i> | 1.8 | 1.0 |
| <i>Bank of Finland contribution to funding</i> | 1.3 | 1.4 |
| <i>Surplus/deficit transferred from previous year</i> | 1.3 | 0.9 |
| Total income | 28.7 | 27.8 |
| <i>Surplus transferred to next year</i> | 4.4 | 0.9 |

Due to rounding, totals/sub-totals may not add up.

Environment

The Bank of Finland ensured that it met its environmental responsibilities in 2014 by improving energy efficiency and other efficient use of materials. Since autumn 2014, waste generated at the head office has been delivered to an incineration plant in the Helsinki area, instead of a landfill site. European central banks shared information on environmentally friendly operating methods by comparing environmental indicators and practices.

The Bank monitors the environmental impact of its operations using two environmental performance indicators that are proportionate to operating expenses. In 2014, for every thousand euro of operating expenses, the Bank created 2.03 kg of waste and 71.5 kg of CO₂ emissions. The equivalent volumes in 2013 were 2.00 kg of waste and 77.5 kg of CO₂ emissions.

Banknote sorting at the Bank of Finland in 2014 remained steady at an annual volume of around 250 million banknotes. In the sorting process, 54 million poor-quality notes were destroyed,

leading to an average banknote replacement rate of about 22%. In addition, the launch of the EUR 5 banknote of the new Europa series in May 2013 also triggered the initiation of destruction of returned EUR 5 banknotes of the old series. Commencement of the exchange of the euro banknote series has already raised the banknote unfit rate to some extent, as an exchange within a reasonable period of time is preferred for logistical reasons (Chart 17).

Banknotes of the old series returned for exchange are destroyed by shredding and exploited for energy recovery. In the destruction process, the shredder units of the sorting machines destroy the EUR 5 notes of the old series identified as genuine, depositing the waste directly into refuse sacks, which are forwarded for burning. Burning at sufficiently high firing temperatures is the most effective way of disposing of hazardous gasses from cotton paper, which also includes small quantities of heavy metals originating from banknote holograms.

The Bank of Finland's own stocks of the EUR 5 banknote of the old series were used up in June 2014. Since then, the

Table 9.

Bank of Finland's environmental impact

| | Volume | | |
|--|--------|--------|-------|
| | 2012 | 2013 | 2014 |
| <i>Electrical energy consumption (MWh)</i> | 10,875 | 9,471 | 8,784 |
| <i>Heating energy consumption (MWh)</i> | 11,864 | 10,482 | 9,150 |
| <i>Waste (tonnes)</i> | 169 | 162 | 164 |
| <i>Consumption of office and publication paper (tonnes)</i> | 45 | 53 | 41 |
| <i>CO₂ emission from business travel (tonnes)</i> | 1,925 | 1,930 | 1,889 |
| <i>CO₂ emission balance (tonnes)</i> | 6,780 | 6,289 | 5,793 |

Source: Bank of Finland.

exchange of the old EUR 5 series for the new series has discernibly accelerated. Meanwhile, preliminary monitoring has taken place to ascertain whether the lowest-denomination banknotes of the new Europa series are more durable in circulation than those of the old series, as the new banknotes have a protective coating against soiling and creasing. During the first 20 months since the commencement of issuance of these two separate series, the average unfit rate for the old series in the Bank of Finland's sorting was 9.5%, while that for the new series was 8.5% (Chart 18). It would seem that the new coating of the Europa series banknotes has resulted in a slightly better durability and longer lifespan for the banknote.

The second new Europa series banknote, the EUR 10, started circulating at the end of September 2014. New banknotes of the old series will be issued at least once before their destruction. The stocks of the old series will thus be gradually depleted, and the new series will be distributed alongside the old series until exhaustion of the old stocks.

Chart 17.
Banknotes sorted and destroyed at the Bank of Finland

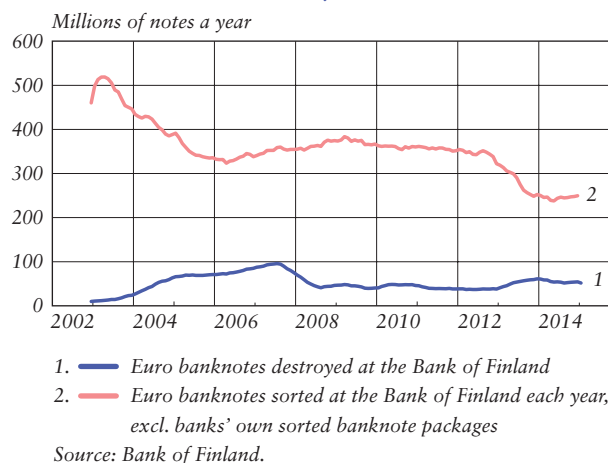
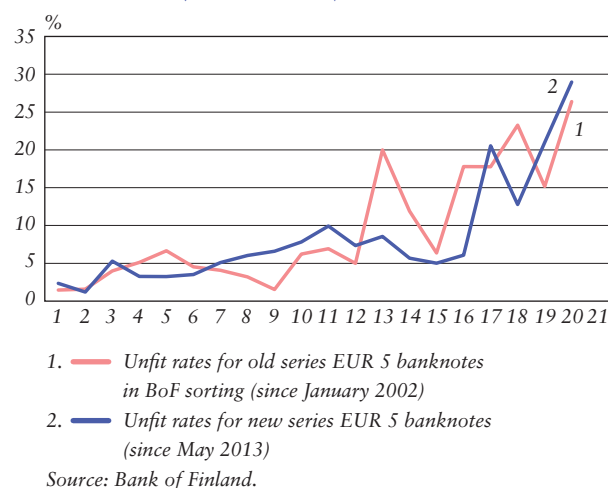


Chart 18.
Unfit rates for old and new series EUR 5 banknotes, since issuance (first 20 months)



Total risk exposure

Financial asset management, monetary policy operations and the Bank's operational activities expose the Bank of Finland to risks. The risks are prepared for and managed by accumulating risk buffers to ensure that the performance of central bank functions is not jeopardised under any circumstances. Operational risks are identified in connection with action planning and managed on a decentralised basis as a part of daily work at the Bank.

Financial assets

The size of the Bank of Finland's financial assets portfolio is about EUR 16 billion. It consists of gold reserves, foreign currency-denominated and euro-denominated fixed-income investments and, since 2014, also equity investments to a limited extent. The financial assets are subject to exchange rate, interest rate, credit and equity risks.

Exchange rate risk is the most significant risk related to the Bank of Finland's financial assets. The Bank diversifies its exchange rate risk by investing in the pound sterling and the Japanese yen as well as the US dollar. Gold price risk is assessed separately, as the revaluation account providing a buffer against gold price changes is very large. In the 'Notes on risk management' section in the Financial statements (p. 107), risks related to gold are included in the overall assessment.

The bulk of the Bank's financial assets comprise fixed-rate bonds with a low average interest rate sensitivity. Fixed-income investments among the financial assets were increased by approximately EUR 1.5 billion in 2014. Credit risk attached to the financial assets is managed by rating requirements and limits. The aim of investments made on international stock markets is to diversify the risks relating to the financial assets.

Monetary policy operations

The Eurosystem's monetary policy operations are implemented on a decentral-

ised basis. As a rule, the risks and returns of monetary policy operations are shared jointly, with each country's share of the risks and returns determined by its capital key. For this reason, the operations of the Eurosystem as a whole need to be examined in order to identify the impact of monetary policy operations on the Bank of Finland's balance sheet.

Refinancing operations are conducted with financially sound counterparties and against adequate collateral. The risks involved in these operations are managed by haircuts and daily valuations applied to collateral assets. In 2014, banks repaid their borrowings raised through longer-term refinancing operations, and the volume of liquidity provided to banks in all refinancing operations declined from EUR 752 billion to EUR 630 billion. The targeted longer-term refinancing operations (TLTROs) that commenced in autumn 2014 correspond, in terms of credit risk, to other refinancing operations, but the applicable interest rate is fixed.

Under the Securities Markets Programme (SMP), the Eurosystem purchased Spanish, Irish, Italian, Greek and Portuguese government bonds. Securities matured under this purchase programme, which was terminated in autumn 2012, have reduced its size. At the end of 2014, the Bank of Finland's SMP shares according to the capital key were, in terms of book value, the following, country by country: Spain EUR 473 million, Ireland EUR 154 million, Italy EUR 1,221 million, Greece EUR 299 million and Portugal 237 million.

Table 10.

Monetary policy operations at the end of 2014

| EUR m | Monetary policy refinancing operations | Covered Bond Purchase Programmes | Securities Markets Programme | Asset-Backed Securities Purchase Programme |
|--|--|----------------------------------|------------------------------|--|
| Eurosystem | 630,341 | 71,235 | 144,263 | 1,744 |
| Bank of Finland's calculated contribution (1.6–1.8%) | 11,317 | 1,177 | 2,383 | 29 |

Source: Bank of Finland.

(For the Eurosystem's monetary policy operations and the Bank of Finland's contribution, see Table 10.)

In 2014, the Eurosystem launched its third covered bond purchase programme (CBPP3) and an asset-backed securities purchase programme (ABSPP). Securities qualifying for purchase must fulfil the eligibility criteria announced in connection with the purchase programmes. Bonds purchased under the covered bond purchase programmes (CBPP1 and CBPP2) already terminated have short average maturities.

The total volume of Eurosystem monetary policy operations declined in 2014, as banks repaid their borrowings through longer-term refinancing operations and securities purchased under previous purchase programmes matured. The new monetary policy operations commenced towards the end of the year stopped the decline in volumes. The size of monetary policy operations diminished by a total of 14% during the year (Chart 19).

Total risk exposure on the balance sheet

The Bank of Finland's total risk exposure is assessed using well-established methods.

Chart 19. Developments in Eurosystem balance sheet items

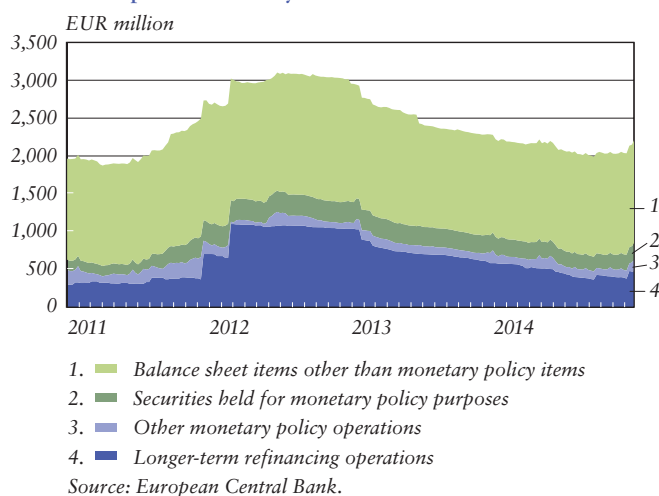
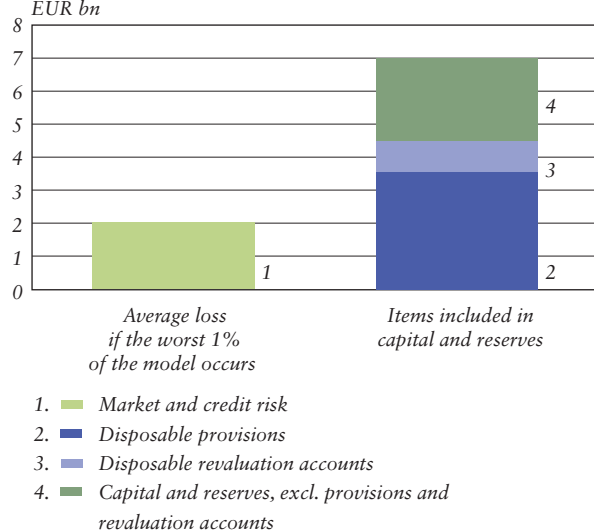


Chart 20.
Bank of Finland's total risk exposure, capital and reserves excl. gold price risk and gold revaluation accounts
EUR bn



Source: Bank of Finland.

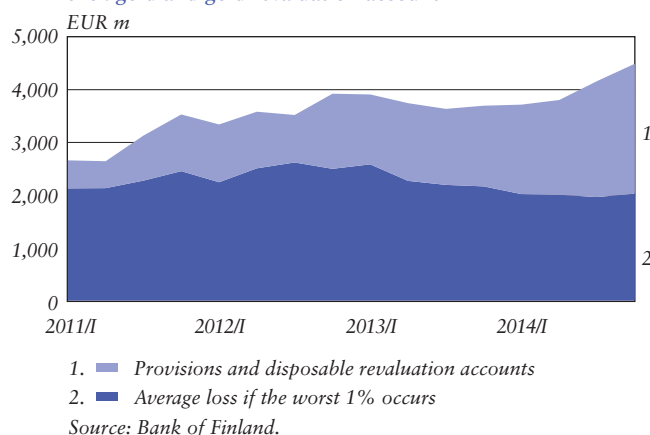
Market and credit risks to the balance sheet are measured by models based on the Value-at-Risk method, with particular emphasis on the worst percentage of the model outcomes. As statistical risk figures fail to provide a full picture of the risks involved, the risk assessment is supplemented with scenario analyses and stress tests to estimate the losses that could be incurred under possible, but improbable scenarios.

Total risks to the financial assets and monetary policy operations, calculated for a one-year horizon, amounted to EUR 2.0 billion (excl. gold price risk, Chart 20) at the end of the year. Compared with the previous year, risks affecting the Bank of Finland's balance sheet declined, due above all to the lower level of monetary policy risks. As the revaluation account for gold covered more than half the value of the gold, its risk is calculated separately. The gold price risk was EUR 0.7 billion, and the revaluation account for gold EUR 1.2 billion.

At the end of 2014, the Bank of Finland's capital and reserves totalled EUR 8.4 billion. Of this, the primary capital and reserve fund accounted for EUR 2.5 billion, provisions (excl. pension provision) accounted for EUR 3.5 billion and revaluation accounts for EUR 2.3 billion.

Implementation of monetary policy and safeguarding the stability and functioning of the financial system are core central bank tasks, which may entail losses. Preparation for risks means ensuring balance sheet strength by accumulating provisions and capital resources and by reducing risks to financial assets, whenever needed. Risk buffers on the Bank of Finland's balance sheet cover identified risks in the Bank's own financial assets and monetary policy operations. The Bank has increased its own capital resources and provisions.

Chart 21.
Development of risks and risk buffers since the start of 2011, excl. gold and gold revaluation account
EUR m



Source: Bank of Finland.



Photo: Peter Mickelsson.

Financial statements

Balance sheet

| <i>EUR million</i> | <i>31 Dec 2014</i> | <i>31 Dec 2013</i> |
|---|--------------------|--------------------|
| ASSETS | | |
| 1 <i>Gold and gold receivables</i> | 1,557 | 1,373 |
| 2 <i>Claims on non-euro area residents denominated in foreign currency</i> | 7,020 | 6,585 |
| <i>Receivables from the International Monetary Fund</i> | 1,913 | 1,955 |
| <i>Balances with banks and security investments, external loans and other external assets</i> | 5,106 | 4,630 |
| 3 <i>Claims on euro area residents denominated in foreign currency</i> | 360 | 297 |
| 4 <i>Claims on non-euro area residents denominated in euro</i> | 1,044 | 1,347 |
| 5 <i>Lending to euro area credit institutions related to monetary policy operations denominated in euro</i> | 722 | 2,475 |
| <i>Main refinancing operations</i> | 15 | – |
| <i>Longer-term refinancing operations</i> | 707 | 2,475 |
| 6 <i>Other claims on euro area credit institutions denominated in euro</i> | 36 | 0 |
| 7 <i>Securities of euro area residents denominated in euro</i> | 11,316 | 10,063 |
| <i>Securities held for monetary policy purposes</i> | 3,568 | 3,717 |
| <i>Other securities</i> | 7,748 | 6,346 |
| 8 <i>Intra-Eurosystem claims</i> | 24,584 | 26,539 |
| <i>Participating interest in ECB</i> | 144 | 141 |
| <i>Claims equivalent to the transfer of foreign reserves</i> | 728 | 722 |
| <i>Net claims related to the allocation of euro banknotes within the Eurosystem</i> | 3,962 | 3,522 |
| <i>Other claims within the Eurosystem (net)</i> | 19,749 | 22,154 |
| 9 <i>Other assets</i> | 1,082 | 1,052 |
| <i>Coins of euro area</i> | 29 | 23 |
| <i>Tangible and intangible fixed assets</i> | 143 | 149 |
| <i>Other current assets</i> | 698 | 641 |
| <i>Other</i> | 213 | 238 |
| Total assets | 47,722 | 49,731 |

Totals/sub-totals may not add up due to rounding.

| <i>EUR million</i> | <i>31 Dec 2014</i> | <i>31 Dec 2013</i> |
|---|--------------------|--------------------|
| LIABILITIES | | |
| 1 <i>Banknotes in circulation</i> | 16,793 | 15,753 |
| 2 <i>Liabilities to euro area credit institutions related to monetary policy operations denominated in euro</i> | 20,308 | 23,803 |
| <i>Current accounts (covering the minimum reserve system)</i> | 20,233 | 14,303 |
| <i>Deposit facility</i> | 75 | – |
| <i>Fixed-term deposits (liquidity-absorbing fine-tuning operations)</i> | – | 9,500 |
| 3 <i>Liabilities to other euro area residents denominated in euro</i> | 2 | 55 |
| 4 <i>Liabilities to non-euro area residents denominated in euro</i> | 2 | 527 |
| 5 <i>Liabilities to euro area residents denominated in foreign currency</i> | – | 0 |
| 6 <i>Liabilities to non-euro area residents denominated in foreign currency</i> | 58 | 66 |
| 7 <i>Counterpart of special drawing rights allocated by the IMF</i> | 1,418 | 1,330 |
| 8 <i>Intra-Eurosystem liabilities</i> | – | – |
| 9 <i>Other liabilities</i> | 22 | 21 |
| 10 <i>Revaluation accounts</i> | 2,304 | 1,556 |
| 11 <i>Provisions</i> | 4,163 | 3,939 |
| 12 <i>Capital and reserves</i> | 2,501 | 2,442 |
| <i>Primary capital</i> | 841 | 841 |
| <i>Reserve fund</i> | 1,660 | 1,601 |
| 13 <i>Profit for the financial year</i> | 150 | 239 |
| <i>Total liabilities</i> | <i>47,722</i> | <i>49,731</i> |

Profit and loss account

| EUR million | 1 Jan–31 Dec 2014 | 1 Jan–31 Dec 2013 |
|--|-------------------|-------------------|
| 1 Interest income | 319 | 565 |
| 2 Interest expenses | -2 | -23 |
| 3 NET INTEREST INCOME | 317 | 542 |
| 4 Foreign exchange rate differences | 16 | -6 |
| 5 Securities price differences | 38 | 56 |
| Valuation losses related to currencies and securities | -4 | -19 |
| 6 Change in foreign exchange rate and price difference provision | -50 | -31 |
| NET RESULT OF FINANCIAL OPERATIONS, WRITE-DOWNS AND RISK PROVISIONS | 317 | 542 |
| 7 Income and expenses on fees and commissions | -0 | -1 |
| 8 Net result of pooling of monetary income | 1 | -111 |
| 9 Share in ECB profit | 1 | 8 |
| 10 Provision in respect of counterparty risk in monetary policy operations | - | 6 |
| 11 Other central banking income | 18 | 28 |
| CENTRAL BANKING PROFIT | 337 | 472 |
| 12 Other income | 31 | 33 |
| Operating expenses | -43 | -94 |
| 13 Staff costs | -50 | -52 |
| 14 Pension fund contribution | 57 | - |
| 15 Administrative expenses | -30 | -29 |
| 16 Depreciation of fixed assets | -8 | -8 |
| 17 Banknote procurement costs | -11 | -5 |
| 18 Other expenses | -0 | -0 |
| OPERATING PROFIT | 325 | 411 |
| Profit for the pension fund | 0 | 34 |
| 19 Income of the pension fund | 87 | 64 |
| 20 Expenses of the pension fund | -87 | -29 |
| 21 Changes in provisions | -175 | -206 |
| 22 PROFIT FOR THE FINANCIAL YEAR | 150 | 239 |

The Board's proposal on the distribution of profit

The Board proposes to the Parliamentary Supervisory Council that EUR 12,663,972.17 of the profit of EUR 150,163,972.17 be transferred to the reserve fund in accordance with section 21, subsection 2 of the Act on the Bank of Finland and that the remaining EUR 137,500,000.00 be made available for the needs of the State.

Helsinki, 25 February 2015

THE BOARD OF THE BANK OF FINLAND

Erkki Liikanen, Chairman

Pentti Hakkarainen

Seppo Honkapohja

./ . Mika Pösö

Accounting conventions

1. General accounting conventions

The Bank of Finland observes the economic-based accounting principles and techniques adopted by the Governing Council of the ECB, and the Bank's annual accounts are drawn up in accordance with these harmonised principles. In accordance with section 11 of the Act on the Bank of Finland, the Parliamentary Supervisory Council confirms, on the proposal of the Board, the principles applied in drawing up the annual accounts.

The Bank of Finland's profit and loss account also comprises income and expenses of the Bank's pension fund and of the Financial Supervisory Authority. The pension fund's investment portfolio is valued monthly at the market price of the last day of the month.

2. Revaluation of items denominated in foreign currency and gold

Items denominated in foreign currency and gold are converted into euro at the exchange rate prevailing on the balance sheet date. Foreign currency-denominated items have been revaluated on a currency-by-currency basis. Revaluation differences related to foreign exchange rate movements and securities price movements are treated separately. Unrealised gains are recorded in revaluation accounts. Unrealised losses are taken to the profit and loss account if they exceed previous corresponding unrealised revaluation gains registered in the revaluation accounts. Unrealised losses taken to the profit and loss account are not reversed against any future unrealised gains in subsequent years. In the case of gold, no distinction is made between price and exchange rate differences; rather, a single revaluation is made. Realised gains and losses related to foreign exchange rate movements during the financial year are calculated on the basis of the daily net average cost method. Foreign exchange rates used in the financial statements are presented in the table below.

| <i>Currency</i> | <i>2014</i> | <i>2013</i> |
|-------------------------------------|-----------------|-----------------|
| <i>US dollar</i> | <i>1.2141</i> | <i>1.3791</i> |
| <i>Japanese yen</i> | <i>145.2300</i> | <i>144.7200</i> |
| <i>Australian dollar</i> | <i>1.4829</i> | <i>1.5423</i> |
| <i>Norwegian krone</i> | <i>9.0420</i> | <i>8.3630</i> |
| <i>Danish krone</i> | <i>7.4453</i> | <i>7.4593</i> |
| <i>Swedish krona</i> | <i>9.3930</i> | <i>8.8591</i> |
| <i>Swiss franc</i> | <i>1.2024</i> | <i>1.2276</i> |
| <i>Pound sterling</i> | <i>0.7789</i> | <i>0.8337</i> |
| <i>Canadian dollar</i> | <i>1.4063</i> | <i>1.4671</i> |
| <i>Special Drawing Rights (SDR)</i> | <i>0.8386</i> | <i>0.8942</i> |
| <i>Gold</i> | <i>987.7690</i> | <i>871.2200</i> |

3. Valuation and amortisation of securities

Income and expenses are recognised in the period in which they are earned or incurred. Realised income and expenses are entered in the profit and loss account. The difference between the acquisition price and nominal value of securities is entered as income or expense over the maturity of the security. Gains and losses related to securities price movements have been calculated using the average cost method.

Unrealised gains are recorded in revaluation accounts. Unrealised losses are taken to the profit and loss account if they exceed previous corresponding unrealised revaluation gains registered in the revaluation accounts. Unrealised losses taken to the profit and loss account are not reversed against any future unrealised gains in subsequent years. Both euro-denominated and foreign currency-denominated securities are valued on a security-by-security basis. If unrealised losses are entered in the profit and loss account in respect of a security or a currency, the average

price of the security or the net average rate of the currency is adjusted correspondingly before the beginning of the next financial year.

Reverse repurchase agreements, or reverse repos, are recorded as collateralised inward deposits on the assets side of the balance sheet. Repurchase agreements, or repos, are recorded as collateralised outward loans on the liabilities side of the balance sheet. Securities sold under repurchase agreements remain on the Bank's balance sheet.

The pension fund's investment portfolio is valued monthly at the market price of the last day of the month, reported by external portfolio managers.

Securities held for monetary policy purposes

In 2014 the Governing Council decided that securities currently held for monetary policy purposes will be accounted for at amortised cost subject to impairment regardless of the holding intention. This change to the accounting policy did not result in an adjustment of the comparable figures for 2013 as all such existing securities were already valued at amortised cost subject to impairment.

Securities other than those held for monetary policy purposes

Marketable securities (other than those classified as held-to-maturity) and similar assets are valued either at the mid-market prices or on the basis of the relevant yield curve prevailing on the balance sheet date, on a security-by-security basis. In 2014, mid-market prices on 31 December 2014 were used.

Marketable securities classified as held-to-maturity, non-marketable securities and illiquid equity shares are all valued at amortised cost subject to impairment.

4. Accounting conventions relating to intra-ESCB balances

Intra-Eurosystem balances result from cross-border payments in the EU that are settled in central bank money in euro. These transactions are for the most part initiated by private entities. They are primarily settled in TARGET2 – the Trans-European Automated Real-time Gross settlement Express Transfer system. These transactions give rise to bilateral balances in the TARGET2 accounts of EU central banks. These bilateral balances are then assigned to the ECB on a daily basis, leaving each national central bank (NCB) with a single net bilateral position vis-à-vis the ECB only. Intra-Eurosystem balances of the Bank of Finland vis-à-vis the ECB arising from TARGET2, as well as other intra-Eurosystem balances denominated in euro (eg interim profit distributions to NCBs, monetary income results), are presented on the balance sheet of the Bank of Finland as a single net asset or liability position and disclosed under 'Other claims within the Eurosystem (net)'. Intra-ESCB balances versus non-euro area NCBs not arising from TARGET2 are disclosed either under 'Claims on non-euro area residents denominated in euro' or 'Liabilities to non-euro area residents denominated in euro'.

Intra-Eurosystem balances arising from the Bank of Finland's participating interest in the ECB are reported under 'Participating interest in ECB'.

Intra-Eurosystem balances arising from the allocation of euro banknotes within the Eurosystem are included as a single net asset under 'Net claims related to the allocation of euro banknotes within the Eurosystem' (see 'Banknotes in circulation' in the notes on accounting conventions).

Intra-Eurosystem balances arising from the transfer of foreign reserve assets to the ECB by NCBs joining the Eurosystem are denominated in euro and reported under 'Claims equivalent to the transfer of foreign reserves'.

5. Valuation of fixed assets

As from the beginning of the financial year 1999, fixed assets have been valued at acquisition price less depreciation. Depreciation is calculated on a straight-line basis over the expected economic lifetime of an asset, starting from the second calendar month following acquisition.

The counteritem of buildings and land capitalised in the 1999 balance sheet at market prices is the revaluation account. Depreciation in respect of buildings and land has been entered by adjusting the revaluation account downwards so that depreciation does not affect the Bank's income or expense.

The economic lifetimes of assets are calculated as follows:

- computers, related hardware and software, and motor vehicles: 4 years
- machinery and equipment: 10 years
- buildings: 25 years.

Fixed assets with a value of less than EUR 10,000 are written off in the year of acquisition.

6. Banknotes in circulation

The ECB and the 18 euro area NCBs, which together comprise the Eurosystem, issue euro banknotes.¹ The total value of euro banknotes in circulation is allocated to the NCBs on the last banking day of each month in accordance with the banknote allocation key.² The ECB has been allocated a share of 8% of the total value of euro banknotes in circulation, whereas the remaining 92% has been allocated to NCBs according to the banknote allocation key. This is disclosed under the balance sheet liability item 'Banknotes in circulation'. The difference between the value of euro banknotes allocated to each NCB in accordance with the banknote allocation key and the value of euro banknotes that it actually puts into circulation also gives rise to remunerated intra-Eurosystem balances. These claims or liabilities, which incur interest,³ are disclosed under the sub-item 'Intra-Eurosystem claims/liabilities: Net claim/liability related to the allocation of euro banknotes within the Eurosystem'. In the Bank of Finland's balance sheet, the item is on the asset side.

The monetary income on euro banknotes is allocated in proportion to the NCBs' paid-up shares in the capital of the ECB. The interest income and expense on these balances is cleared through the accounts of the ECB and is disclosed under 'Net interest income'. The ECB's capital key is adjusted every five years and whenever a new Member State joins the European Union.

The income accruing to the ECB on the share of 8% of the total value of euro banknotes in circulation is generally distributed to the NCBs.⁴

7. Changes in accounting conventions

There were no changes in accounting conventions in the financial year 2014.

8. Monetary income

Monetary income accruing to NCBs in the performance of monetary policy functions in the ESCB is calculated and allocated to NCBs in accordance with the ESCB Statute and any decisions by the ECB's Governing Council.

¹ ECB decision of 13 December 2010 on the issue of euro banknotes (ECB/2010/29), OJ L 35, 9.2.2011, p. 26.

² 'Banknote allocation key' means the percentages that result from taking into account the ECB's share in the total euro banknote issue and applying the subscribed capital key to the NCBs' share in that total.

³ ECB decision on the allocation of monetary income of the national central banks of Member States whose currency is the euro (ECB/2010/23).

⁴ ECB decision of 6 November 2005 on the issue of euro banknotes (ECB/2005/11).

Interim profit distribution

The Governing Council of the ECB has decided that the seigniorage income of the ECB, which arises from the 8% share of euro banknotes allocated to the ECB, and the ECB's (net) income arising from securities purchased under the securities markets programme (SMP), the outright monetary transactions (OMTs), the asset-backed securities purchase programme (ABSPP), and the third covered bond purchase programme (CBPP3) shall be due in full to the NCBs in the same financial year it accrues. Unless otherwise decided by the Governing Council, the ECB distributes this income in January of the following year in the form of an interim distribution of profit.⁵ The amount of the ECB's income on euro banknotes in circulation may be reduced in accordance with any decision by the Governing Council in respect of expenses incurred by the ECB in connection with the issue and handling of euro banknotes. Before the end of the year the Governing Council decides whether all or part of the ECB's income arising from securities in the above mentioned programmes and, if necessary, all or part of the ECB's income on euro banknotes in circulation should be retained to the extent necessary to ensure that the amount of the distributed income does not exceed the ECB's net profit for that year.

The Governing Council may also decide to transfer all or part of the ECB's income arising from SMP and OMT securities and, if necessary, all or part of the ECB's income on euro banknotes in circulation to a provision for foreign exchange rate, interest rate, credit and gold price risks.

| | <i>Key for subscription of the ECB's capital from 1 January 2014</i> | |
|---|--|-----------------------------------|
| | <i>ESCB, capital key, %</i> | <i>Eurosystem, capital key, %</i> |
| <i>Nationale Bank van België/Banque Nationale de Belgique</i> | 2.4778 | 3.5408 |
| <i>Deutsche Bundesbank</i> | 17.9974 | 25.7184 |
| <i>Eesti Pank</i> | 0.1928 | 0.2755 |
| <i>Banc Ceannais na hÉireann/Central Bank of Ireland</i> | 1.1607 | 1.6587 |
| <i>Bank of Greece</i> | 2.0332 | 2.9055 |
| <i>Banco de España</i> | 8.8409 | 12.6338 |
| <i>Banque de France</i> | 14.1792 | 20.2623 |
| <i>Banca d'Italia</i> | 12.3108 | 17.5923 |
| <i>Central Bank of Cyprus</i> | 0.1513 | 0.2162 |
| <i>Latvijas Banka</i> | 0.2821 | 0.4031 |
| <i>Banque centrale du Luxembourg</i> | 0.2030 | 0.2901 |
| <i>Bank Ċentrali ta' Malta/ Central Bank of Malta</i> | 0.0648 | 0.0926 |
| <i>De Nederlandsche Bank</i> | 4.0035 | 5.7211 |
| <i>Oesterreichische Nationalbank</i> | 1.9631 | 2.8053 |
| <i>Banco de Portugal</i> | 1.7434 | 2.4913 |
| <i>Banka Slovenije</i> | 0.3455 | 0.4937 |
| <i>Národná banka Slovenska</i> | 0.7725 | 1.1039 |
| <i>Suomen Pankki – Finlands Bank</i> | 1.2564 | 1.7954 |
| <i>Subtotal Eurosystem</i> | 69.9783 | 100.0000 |
| <i>Българска народна банка (Bulgarian National Bank)</i> | 0.8590 | |
| <i>Česká národní banka</i> | 1.6075 | |
| <i>Danmarks Nationalbank</i> | 1.4873 | |
| <i>Hrvatska narodna banka</i> | 0.6023 | |
| <i>Lietuvos bankas</i> | 0.4132 | |
| <i>Magyar Nemzeti Bank</i> | 1.3798 | |
| <i>Narodowy Bank Polski</i> | 5.1230 | |
| <i>Banca Națională a României</i> | 2.6024 | |
| <i>Sveriges riksbank</i> | 2.2729 | |
| <i>Bank of England</i> | 13.6743 | |
| <i>Subtotal for non-euro area NCBs</i> | 30.0216 | |
| <i>Total</i> | 100.0000 | |

⁵ ECB decision of 25 November 2010 on the interim distribution of the income of the European Central Bank on euro banknotes in circulation and arising from securities purchased under the securities markets programme (ECB/2010/24), OJ L 6, 11.1.2011, p. 35.

9. Pension fund

In 2001 the decision was made to create a pension fund in the Bank of Finland's balance sheet for the management of the Bank's pension liability. The purpose of this measure, which came into force from the beginning of 2002, is to ensure that the funds related to the coverage of the pension liability are invested in a lucrative manner. A separate annual report will be prepared on the pension fund of the Bank of Finland. The assets of the pension fund are recorded in the Bank of Finland's balance sheet item 'Other assets'.

The ECB guideline on accounting and financial reporting does not regulate accounting for the pension fund. The pension fund's investments are valued at market price, and revaluations are recognised in profit or loss. The fund's financial statements are drafted using market prices prevailing in the last day of the year. The pension fund's real estate is recorded in the balance sheet at value prevailing on transfer date less annual depreciation. If the balance sheet value of real estate has been covered by revaluation, the corresponding depreciation is recorded by reversing the revaluation so that depreciation has no impact on the pension fund's income or expense.

10. Recording of provisions

Provisions can be made in the annual accounts, if they are necessary for safeguarding the real value of the Bank's funds or for smoothing out variations in profit and loss arising from changes in exchange rates or market value of securities.

Provisions can be made, as necessary, to cover the Bank's pension liabilities.

11. Off-balance sheet commitments

Gains and losses arising from off-balance sheet items are treated in the same manner as gains and losses arising from on-balance sheet items. Forward foreign exchange transactions are taken into account when the net average cost of a currency position is calculated.

Notes on the balance sheet

Assets

1. Gold and gold receivables

The Bank's holdings of gold total 1,576,487 troy ounces (1 troy ounce = 31.103 g). In the annual accounts, gold has been valued at market price. At the beginning of 1999 the Bank of Finland – along with the other national central banks (NCBs) participating in the Eurosystem – transferred about 20% of its gold holdings to the ECB.

Gold

| | 31 Dec 2014 | 31 Dec 2013 |
|---------------------------------|-------------|-------------|
| Holdings (troy ounces, million) | 1.6 | 1.6 |
| Price: EUR per troy ounce | 987.8 | 871.2 |
| Market price (EUR m) | 1,557.2 | 1,373.5 |
| Change in market value (EUR m) | 183.7 | -614.8 |

2. Claims on non-euro area residents denominated in foreign currency

The item consists of claims on non-euro area residents denominated in foreign currency and included in the Bank's foreign reserves, and holdings of special drawing rights (SDRs) allocated by the International Monetary Fund (IMF).

2.1 Receivables from the IMF

Breakdown of receivables from the IMF denominated in foreign currency

| | 31 Dec 2014 | | 31 Dec 2013 | |
|--------------------------------|----------------|----------------|----------------|----------------|
| | EUR m | SDR m | EUR m | SDR m |
| Reserve tranche in the IMF | 274.0 | 229.8 | 365.0 | 326.4 |
| SDRs | 1,342.8 | 1,126.1 | 1,258.8 | 1,125.7 |
| Other receivables from the IMF | 296.6 | 248.7 | 331.3 | 296.3 |
| Total | 1,913.4 | 1 604.7 | 1,955.1 | 1,748.3 |

EUR/SDR exchange rate in financial years 2013 and 2014

| | 2014 | 2013 |
|---------------|------|------|
| End-March | 0.89 | 0.85 |
| End-June | 0.88 | 0.87 |
| End-September | 0.85 | 0.88 |
| End-December | 0.84 | 0.89 |

Finland's quota in the IMF amounts to SDR 1,263.8 million. The reserve tranche is the part of the Bank's quota that has been paid to the IMF in foreign currency. Another part of the quota was formerly paid to the IMF in Finnish markka. The IMF has lent this part back to the Bank of Finland. The net effect of the Finnish markka quota on the Bank's balance sheet is zero, since the above-mentioned receivables and the liability are included in the same balance sheet item.

The Bank of Finland's SDR allocation amounts to EUR 1,342.8 million. The SDRs are reserve assets created and allocated by the IMF to its member countries. They are used in currency transactions as normal currency units. The value of 'Receivables from the IMF'

changes on the basis of foreign exchange transactions between the member countries. In addition, its value is affected by interests earned and paid as well as remuneration on the Bank's claims in the IMF.

The Bank of Finland's receivables from the IMF total EUR 1,913.4 million.

In summer 2010, the Accounting and Monetary Income Committee (AMICO) of the ESCB made a decision on the treatment of SDR hedging trades which differs from the general currency-specific valuation principle. Sales of SDR component currencies made for hedging against the SDR exchange rate risk are regarded as reductive items in calculating the amount and market valuation of SDR items. Hence, such sales do not decrease the amount of component currencies and do not have an effect on the market valuation of the respective currencies.

2.2 Other claims on non-euro area residents denominated in foreign currency

This item includes balances with banks and security investments, as well as external loans and other external assets, denominated in foreign currency.

Breakdown of claims on non-euro area residents denominated in foreign currency

| | 31 Dec 2014 EUR m | 31 Dec 2013 EUR m | Change EUR m |
|-----------------|----------------------|----------------------|-----------------|
| Deposits | 287.5 | 251.6 | 35.9 |
| Coupon papers | 4,682.8 | 4,189.4 | 493.4 |
| Discount papers | 111.7 | 183.9 | -72.2 |
| Other | 24.5 | 4.8 | 19.7 |
| Total | 5,106.5 | 4,629.7 | 476.8 |

Currency breakdown of securities of non-euro area residents denominated in foreign currency

| Currency | 31 Dec 2014 | | 31 Dec 2013 | |
|----------------|----------------|--------------|----------------|--------------|
| | EUR m | % | EUR m | % |
| Pound sterling | 607.7 | 12.7 | 713.5 | 16.3 |
| US dollar | 3,772.1 | 78.7 | 3,247.2 | 74.3 |
| Japanese yen | 414.7 | 8.6 | 412.7 | 9.4 |
| Total | 4,794.5 | 100.0 | 4,373.4 | 100.0 |

Remaining maturity of securities of non-euro area residents denominated in foreign currency

| Maturity | 31 Dec 2014 | | 31 Dec 2013 | |
|--------------|----------------|--------------|----------------|--------------|
| | EUR m | % | EUR m | % |
| Up to 1 year | 1,089.6 | 22.7 | 1,088.4 | 24.9 |
| Over 1 year | 3,704.9 | 77.3 | 3,285.0 | 75.1 |
| Total | 4,794.5 | 100.0 | 4,373.4 | 100.0 |

3. Claims on euro area residents denominated in foreign currency

This item consists of balances with banks, security investments and other claims on euro area residents denominated in foreign currency.

Breakdown of claims on euro area residents denominated in foreign currency

| | 31 Dec 2014 EUR m | 31 Dec 2013 EUR m | Change EUR m |
|-----------------|----------------------|----------------------|-----------------|
| Deposits | – | – | – |
| Coupon papers | 383.5 | 301.2 | 82.3 |
| Discount papers | – | – | – |
| Other | –23.4 | –3.8 | –19.6 |
| Total | 360.1 | 297.4 | 62.7 |

Currency breakdown of securities of euro area residents denominated in foreign currency

| Currency | 31 Dec 2014 | | 31 Dec 2013 | |
|----------------|--------------|--------------|--------------|--------------|
| | EUR m | % | EUR m | % |
| Pound sterling | 108.0 | 28.2 | 51.6 | 17.1 |
| US dollar | 275.5 | 71.8 | 249.6 | 82.9 |
| Japanese yen | – | – | – | – |
| Total | 383.5 | 100.0 | 301.2 | 100.0 |

Remaining maturity of securities of euro area residents denominated in foreign currency

| Maturity | 31 Dec 2014 | | 31 Dec 2013 | |
|--------------|--------------|--------------|--------------|--------------|
| | EUR m | % | EUR m | % |
| Up to 1 year | 106.7 | 27.8 | 28.2 | 9.4 |
| Over 1 year | 276.8 | 72.2 | 273.0 | 90.6 |
| Total | 383.5 | 100.0 | 301.2 | 100.0 |

4. Claims on non-euro area residents denominated in euro

This item includes balances with non-euro area banks, denominated in euro, coupon bonds and discount papers issued outside the euro area as well as euro-denominated receivables from the Bank for International Settlements (BIS).

Claims on non-euro area residents denominated in euro

| | 31 Dec 2014 EUR m | 31 Dec 2013 EUR m | Change EUR m |
|-----------------|----------------------|----------------------|-----------------|
| Deposits | 40.8 | 644.6 | –603.8 |
| Coupon papers | 1,003.4 | 677.4 | 326.0 |
| Discount papers | – | 25.0 | –25.0 |
| Other | 0.0 | 0.3 | –0.2 |
| Total | 1,044.2 | 1,347.3 | –303.0 |

Remaining maturity of securities of non-euro area residents denominated in euro

| <i>Maturity</i> | <i>31 Dec 2014</i> | | <i>31 Dec 2013</i> | |
|---------------------|--------------------|--------------|--------------------|--------------|
| | <i>EUR m</i> | <i>%</i> | <i>EUR m</i> | <i>%</i> |
| <i>Up to 1 year</i> | <i>119.3</i> | <i>11.9</i> | <i>290.8</i> | <i>41.4</i> |
| <i>Over 1 year</i> | <i>884.1</i> | <i>88.1</i> | <i>411.6</i> | <i>58.6</i> |
| <i>Total</i> | <i>1,003.4</i> | <i>100.0</i> | <i>702.4</i> | <i>100.0</i> |

5. Lending to euro area credit institutions related to monetary policy operations denominated in euro

This item includes monetary policy instruments used by the Bank of Finland to implement monetary policy as part of the Eurosystem. The item consists of credit (+ interest) to Finnish credit institutions, and the amount recorded is determined by the credit institutions' liquidity needs.

The Eurosystem's total claims on monetary policy operations amount to EUR 630,340.8 million, of which the Bank of Finland holds EUR 722.0 million on its balance sheet. In accordance with Article 32.4 of the ESCB Statute, any risks from monetary policy operations, if they were to materialise, should eventually be shared in full by the Eurosystem NCBs, in proportion to the prevailing ECB capital key shares. Losses can only materialise if both the counterparty fails and the recovery of funds received from the resolution of the collateral provided by the counterparty is not sufficient. It should be noted that for specific collateral which can be accepted by NCBs at their own discretion, risk sharing has been excluded by the Governing Council of the ECB.

5.1 Main refinancing operations

Main refinancing operations are liquidity providing reverse transactions which are executed with a weekly frequency and a maturity of one week. Main refinancing operations are normally carried out by means of standard tenders. Since October 2008, these operations have been conducted as fixed rate tender procedures. Main refinancing operations play a key role in achieving the aims of steering interest rate, managing market liquidity and signalling the monetary policy stance.

5.2 Longer-term refinancing operations

These operations aim to provide counterparties with additional longer-term refinancing. In 2014 operations were conducted with maturities equal to the reserve maintenance period and with maturities of three, six, twelve, 36 and 48 months. The operations were conducted at fixed rate with allotment of the total amount bid.

5.3 Fine-tuning reverse operations

Fine-tuning reverse operations aim to regulate the market liquidity situation and steer interest rates, particularly to smooth the effects on interest rates caused by unexpected market fluctuations. Owing to their nature, they are executed on an ad-hoc basis.

5.4 Structural reverse operations

The Eurosystem conducts structural reverse operations as standard tenders whenever it wishes to adjust its liquidity position vis-à-vis the financial sector.

5.5 Marginal lending facility

Counterparties may use the marginal lending facility to obtain overnight liquidity from NCBs against eligible assets.

5.6 Credits related to margin calls

This item refers to cash paid to counterparties in those instances where the market value of the collateral exceeds an established trigger point implying an excess of collateral with respect to outstanding monetary policy operations.

Lending to euro area credit institutions related to monetary policy operations denominated in euro

| | 31 Dec 2014 EUR m | 31 Dec 2013 EUR m | Change EUR m |
|------------------------------------|----------------------|----------------------|-----------------|
| Main refinancing operations | 15.0 | – | 15.0 |
| Longer-term refinancing operations | 707.0 | 2,475.0 | –1,768.0 |
| Fine-tuning reverse operations | – | – | – |
| Structural reverse operations | – | – | – |
| Marginal lending facility | – | – | – |
| Credits related to margin calls | – | – | – |
| Total | 722.0 | 2,475.0 | –1,753.0 |

6. Other claims on euro area credit institutions denominated in euro

This item consists of euro-denominated deposits and balances with euro area credit institutions. The balance sheet total for this item was EUR 36.7 million in the financial year 2014, compared with EUR 0.1 million in the previous year.

7. Securities of euro area residents denominated in euro

In order to report securities held for monetary policy purposes separately, the item ‘Securities of euro area residents denominated in euro’ has been divided into two sub-positions: ‘Securities held for monetary policy purposes’ and ‘Other securities’.

7.1 Securities held for monetary policy purposes

This item consists of securities acquired by the Bank of Finland within the scope of three covered bond purchase programmes (CBPP1–3) and the securities markets programme (SMP) as well as through outright transactions in secondary sovereign bond markets (known as outright monetary transactions, OMTs).

The market value of these securities is neither recorded in the balance sheet nor in the profit and loss account, but the values are shown below for comparison.

Securities held for monetary policy purposes

| | 31 Dec 2014 EUR m | | 31 Dec 2013 EUR m | | Change EUR m | |
|--|----------------------|-----------------|----------------------|-----------------|-----------------|-----------------|
| | Book value | Market value | Book value | Market value | Book value | Market value |
| First covered bond purchase programme | 253.9 | 259.0 | 623.7 | 637.9 | –369.7 | –378.9 |
| Second covered bond purchase programme | 264.1 | 278.1 | 285.3 | 294.7 | –21.1 | –16.6 |
| Third covered bond purchase programme | 685.0 | 692.2 | – | – | 685.0 | 692.2 |
| Securities markets programme | 2,365.4 | 2,621.5 | 2,808.1 | 2,977.8 | –442.7 | –356.3 |
| Outright monetary transactions | – | – | – | – | – | – |
| Asset-backed securities purchase programme | – | – | – | – | – | – |
| Total | 3,568.5 | 3,850.8 | 3,717.0 | 3,910.4 | –148.5 | –59.5 |

First covered bond purchase programme

The NCBs and the ECB purchased euro area covered bonds denominated in euro under the programme. The purchases were fully implemented by the end of June 2010.

Second covered bond purchase programme

The NCBs and the ECB purchased euro area covered bonds denominated in euro under the programme in order to facilitate funding of financial and non-financial corporations and encourage credit institutions to lend money. The programme was completed by the end of October 2012.

Third covered bond purchase programme

On 2 October 2014, the Governing Council announced the technical modalities of the third purchase programme for covered bonds. The NCBs and the ECB purchase euro area covered bonds denominated in euro under the programme in order to facilitate funding of credit institutions. The programme will run for at least two years.

Under the securities markets programme (SMP) established in May 2010 the NCBs and the ECB purchased euro area public and private debt securities in order to address the malfunctioning of certain segments of the euro area debt securities markets and to restore the proper functioning of the monetary policy transmission mechanism. The Governing Council decided to terminate the purchase programme in September 2012.

Under the purchase programme for asset-backed securities that was started in October 2014, the Eurosystem may purchase, in both the primary and secondary markets, senior and guaranteed mezzanine tranches of asset-backed securities. The ECB has already begun making purchases. The program will run for at least two years.

The Governing Council on a regular basis assesses the financial risks associated with securities held under the SMP and the covered bond purchase programmes.

The total Eurosystem NCBs' holdings of SMP securities amounts to EUR 134,162.4 million, of which the Bank of Finland holds EUR 2,365.4 million on its balance sheet.

The total Eurosystem NCBs' holdings of CBPP3 securities amounts to EUR 27,333.2 million, of which the Bank of Finland holds EUR 685.0 million on its balance sheet. In accordance with Article 32.4 of the ESCB Statute, any risks in holdings of SMP and CBPP3 securities, if they were to materialise, should eventually be shared in full by the Eurosystem NCBs, in proportion to the prevailing ECB capital key shares.

As a result of impairment tests of monetary policy securities conducted as at 31 December 2014, the Governing Council determined that all cash flows associated with the securities will be received as expected.

7.2 Other securities

This item includes coupon bonds and discount papers issued in the euro area.

Breakdown of other securities of euro area residents denominated in euro

| | 31 Dec 2014 EUR m | 31 Dec 2013 EUR m | Change EUR m |
|--------------------------------|----------------------|----------------------|-----------------|
| <i>Coupon papers</i> | 7,505.7 | 6,177.3 | 1,328.4 |
| <i>Discount papers</i> | 231.9 | 168.4 | 63.5 |
| <i>Equity securities funds</i> | 10.1 | – | 10.1 |
| Total | 7,747.7 | 6,345.7 | 1,402.0 |

Remaining maturity of other securities of euro area residents denominated in euro

| <i>Maturity</i> | <i>31 Dec 2014</i> | | <i>31 Dec 2013</i> | |
|---------------------|--------------------|----------|--------------------|----------|
| | <i>EUR m</i> | <i>%</i> | <i>EUR m</i> | <i>%</i> |
| <i>Up to 1 year</i> | 2,050.6 | 26.5 | 1,149.1 | 18.1 |
| <i>Over 1 year</i> | 5,686.9 | 73.5 | 5,196.6 | 81.9 |
| <i>Total</i> | 7,737.5 | 100.0 | 6,345.7 | 100.0 |

8. Intra-Eurosystem claims

8.1 Participating interest in ECB

Pursuant to Article 28 of the ESCB Statute, the NCBs are the sole subscribers to the capital of the ECB. Subscriptions depend on shares which are fixed in accordance with Article 29.3 of the ESCB Statute and which are subject to adjustment every five years.

The share in the ECB's capital of each NCB participating in the Eurosystem is determined on the basis of a so-called capital key. The capital key is calculated relative to the population and gross domestic product of each country. It is adjusted every five years and whenever new members join the EU. The Bank of Finland's percentage share in the ECB's capital has been 1.2564% since 1 January 2014.

8.2 Claims equivalent to the transfer of foreign reserves

Item 'Claims equivalent to the transfer of foreign reserves' includes the share of foreign reserve assets, EUR 728.1 million (EUR 721.8 million in 2013), transferred by the Bank of Finland to the ECB when Finland joined the Eurosystem. These claims are denominated in euro at a value fixed at the time of their transfer. The claims are remunerated at the latest available marginal rate for the Eurosystem's main refinancing operations, adjusted to reflect a zero return on the gold component.

8.3 Net claims related to the allocation of euro banknotes within the Eurosystem

The net claim related to the allocation of euro banknotes within the Eurosystem consists of a so-called CSM item (Capital Share Mechanism) relating to the subscription of ECB's capital, less the so-called ECB issue figure. The amount of euro banknotes in circulation under the CSM is adjusted in the balance sheet to correspond to the ECB's capital key. The figure for the ECB issue represents the ECB's share (8%) of euro banknotes in circulation. For both figures, the counter entry is recorded under the balance sheet liability item 'Banknotes in circulation'.⁶

The balance sheet item totalled EUR 3,962.3 million in 2014 (EUR 3,521.9 million in 2013). The increase in comparison to 2013 was due to the increase in banknotes put into circulation by the Bank of Finland (4.9%), as well as the increase in banknotes in circulation in the Eurosystem as a whole (6.6%). The remuneration of these claims is calculated at the latest available marginal rate for the Eurosystem's main refinancing operations.

⁶ According to the accounting regime chosen by the Eurosystem on the issuing of euro banknotes, a share of 8% of the total value of the euro banknotes in circulation is allocated to the ECB on a monthly basis. The remaining 92% of the value of the euro banknotes in circulation are allocated to the NCBs also on a monthly basis, whereby each NCB shows in its balance sheet a share of the euro banknotes issued corresponding to its paid-up share in the ECB's capital. The difference between the value of the euro banknotes allocated to the NCB according to the aforementioned accounting regime, and the value of euro banknotes put into circulation, is recorded as 'Net claims/liabilities related to the allocation of euro banknotes within the Eurosystem'.

Subscribed and paid-up capital of NCBs:

| | <i>Subscribed capital from 31 Dec 2014</i> | <i>Paid-up capital from 31 Dec 2014</i> |
|--|--|---|
| <i>Nationale Bank van België/ Banque Nationale de Belgique</i> | 268,222,025 | 268,222,025 |
| <i>Deutsche Bundesbank</i> | 1,948,208,997 | 1,948,208,997 |
| <i>Eesti Pank</i> | 20,870,614 | 20,870,614 |
| <i>Banc Ceannais na hÉireann/ Central Bank of Ireland</i> | 125,645,857 | 125,645,857 |
| <i>Bank of Greece</i> | 220,094,044 | 220,094,044 |
| <i>Banco de España</i> | 957,028,050 | 957,028,050 |
| <i>Banque de France</i> | 1,534,899,402 | 1,534,899,402 |
| <i>Banca d'Italia</i> | 1,332,644,970 | 1,332,644,970 |
| <i>Central Bank of Cyprus</i> | 16,378,236 | 16,378,236 |
| <i>Latvijas Banka</i> | 30,537,345 | 30,537,345 |
| <i>Banque centrale du Luxembourg</i> | 21,974,764 | 21,974,764 |
| <i>Bank Ċentrali ta' Malta/ Central Bank of Malta</i> | 7,014,605 | 7,014,605 |
| <i>De Nederlandsche Bank</i> | 433,379,158 | 433,379,158 |
| <i>Oesterreichische Nationalbank</i> | 212,505,714 | 212,505,714 |
| <i>Banco de Portugal</i> | 188,723,173 | 188,723,173 |
| <i>Banka Slovenije</i> | 37,400,399 | 37,400,399 |
| <i>Národná banka Slovenska</i> | 83,623,180 | 83,623,180 |
| <i>Suomen Pankki – Finlands Bank</i> | 136,005,389 | 136,005,389 |
| <i>Subtotal for euro area NCBs*</i> | 7,575,155,922 | 7,575,155 922 |
| <i>Българска народна банка (Bulgarian National Bank)</i> | 92,986,811 | 3,487,005 |
| <i>Česká národní banka</i> | 174,011,989 | 6,525,450 |
| <i>Danmarks Nationalbank</i> | 161,000,330 | 6,037,512 |
| <i>Hrvatska narodna banka</i> | 65,199,018 | 2,444,963 |
| <i>Lietuvos bankas</i> | 44,728,929 | 1,677,335 |
| <i>Magyar Nemzeti Bank</i> | 149,363,448 | 5,601,129 |
| <i>Narodowy Bank Polski</i> | 554,565,112 | 20,796,192 |
| <i>Banca Națională a României</i> | 281,709,984 | 10,564,124 |
| <i>Sveriges riksbank</i> | 246,041,586 | 9,226,559 |
| <i>Bank of England</i> | 1,480,243,942 | 55,509,148 |
| <i>Subtotal for non-euro area NCBs*</i> | 3,249,851,147 | 121,869,418 |
| <i>Total*</i> | 10,825,007,070 | 7,697,025,340 |

*Due to rounding, totals and subtotals may not correspond to the sum of all figures.

8.4 Other claims within the Eurosystem (net) or liability item Other liabilities within the Eurosystem (net)

Other claims/liabilities within the Eurosystem (net)

| | 31 Dec 2014 EUR m | 31 Dec 2013 EUR m | Change EUR m |
|---|----------------------|----------------------|-----------------|
| <i>Due to/from ECB in respect of TARGET2 (including balances held with Eurosystem banks through correspondent accounts)</i> | 19,732.5 | 22,240.2 | -2,507.7 |
| <i>Net result of pooling of monetary income</i> | 1.3 | -110.5 | 111.9 |
| <i>Due from ECB in respect of the ECB's interim profit distribution</i> | 15.1 | 24.5 | -9.4 |
| <i>Other claims/(liabilities) within the Eurosystem (net)</i> | - | - | - |
| Total | 19,748.9 | 22,154.2 | -2,405.3 |

The balance of EUR 19,748.9 million as at 31 December 2014 consisted of three components: 1) the position of the Bank of Finland vis-à-vis the ECB in respect of the transfers issued and received through TARGET2 by the ESCB national central banks, including the ECB, plus the balances held with Eurosystem central banks through correspondent accounts; 2) the position vis-à-vis the ECB in respect of the pooling and allocation of monetary income within the Eurosystem pending settlement; 3) the Bank of Finland's position vis-à-vis the ECB in respect of any amounts receivable or refundable, basically in respect of the seigniorage income relating to euro banknotes issued by the ECB and of the securities acquired by the ECB under the securities markets programme.

The year-end net transfers via TARGET2 had a credit balance of EUR 19,732.5 million. The remuneration of this position is calculated daily at the marginal interest rate of Eurosystem main refinancing operations.

The position vis-à-vis the ECB in respect of the annual pooling and allocation of monetary income within the Eurosystem national central banks had a credit balance of EUR 1.3 million at year-end (see 'Net result of pooling of monetary income' in the notes on the profit and loss account).

With respect to 2014, the Governing Council decided to distribute EUR 841 million from the ECB's income derived from banknotes in circulation and the ECB's income earned on securities purchased under the securities markets programme, on securities purchased under the asset-backed securities programme, and on securities purchased under the third covered bond programme (see 'Interim profit distribution' under accounting conventions). The Bank's share amounted to EUR 15.1 million.

9. Other assets

This item consists of the Bank of Finland's holdings of euro coins, fixed assets (buildings, machinery and equipment) and investment assets (shares and other equity). The item also includes pension fund asset and investment items, valuation results of off-balance sheet items, accruals and other assets.

Tangible fixed assets

| <i>Book value</i> | <i>31 Dec 2014 EUR m</i> | <i>31 Dec 2013 EUR m</i> | <i>Change EUR m</i> |
|--------------------------------------|------------------------------|------------------------------|-------------------------|
| <i>Land</i> | 8.5 | 8.5 | 0.0 |
| <i>Buildings</i> | 112.9 | 121.2 | -8.3 |
| <i>Machinery and equipment</i> | 8.0 | 8.2 | -0.2 |
| <i>Art and numismatic collection</i> | 0.5 | 0.4 | 0.0 |
| <i>Total</i> | 129.9 | 138.3 | -8.4 |

Intangible fixed assets

| <i>Book value</i> | <i>31 Dec 2014 EUR m</i> | <i>31 Dec 2013 EUR m</i> | <i>Change EUR m</i> |
|---------------------|------------------------------|------------------------------|-------------------------|
| <i>IT systems</i> | 13.2 | 10.8 | 2.4 |
| <i>Total</i> | 13.2 | 10.8 | 2.4 |

Other holdings and sundry assets

| | <i>31 Dec 2014 EUR m</i> | <i>31 Dec 2013 EUR m</i> | <i>Change EUR m</i> |
|-----------------------------------|------------------------------|------------------------------|-------------------------|
| <i>Coins of euro area</i> | 28.8 | 23.5 | 5.3 |
| <i>Shares and other equity</i> | 24.9 | 24.9 | - |
| <i>Pension fund's investments</i> | 673.0 | 616.2 | 56.8 |
| <i>Accruals</i> | 205.4 | 231.6 | -26.2 |
| <i>Other sundry assets</i> | 7.1 | 6.8 | 0.3 |
| <i>Total</i> | 939.2 | 903.0 | 36.2 |

Liabilities

1. Banknotes in circulation

This item consists of the Bank of Finland's share, in accordance with the ECB's capital key and adjusted for the share allocated to the ECB, of the total amount of euro banknotes in circulation.

In 2014 the total value of euro banknotes in circulation increased by 6.6%. According to the allocation key, the Bank of Finland had euro banknotes in circulation worth EUR 16,793.2 million at the end of the year, compared with EUR 15,753.1 million at the end of 2013. The value of the euro banknotes actually issued by the Bank of Finland in 2014 increased by 4.9% from EUR 12,231.3 million to EUR 12,830.9 million. As this was less than the allocated amount, the difference of EUR 3,962.3 million (EUR 3,521.9 million in 2013) is shown under asset sub-item 'Net claim related to the allocation of euro banknotes within the Eurosystem'.

| <i>Banknotes in circulation</i> | <i>31 Dec 2014</i> | <i>31 Dec 2013</i> |
|--|--------------------|--------------------|
| | <i>EUR m</i> | <i>EUR m</i> |
| <i>EUR 5</i> | 93.1 | 101.4 |
| <i>EUR 10</i> | -26.8 | -5.8 |
| <i>EUR 20</i> | 2,665.1 | 2,556.0 |
| <i>EUR 50</i> | 7,641.3 | 6,904.1 |
| <i>EUR 100</i> | -605.2 | -477.9 |
| <i>EUR 200</i> | 407.5 | 398.1 |
| <i>EUR 500</i> | 2,655.9 | 2,755.4 |
| <i>Total</i> | 12,830.9 | 12,231.3 |
| <i>ECB issue</i> | -1,460.1 | -1,369.8 |
| <i>CSM figure</i> | 5,422.3 | 4,891.7 |
| <i>Banknotes in circulation in accordance with the ECB's capital key</i> | 16,793.2 | 15,753.1 |

2. Liabilities to euro area credit institutions related to monetary policy operations denominated in euro

This item consists of interest bearing liabilities to credit institutions and includes credit institutions' minimum reserve account balances, the deposit facility and fixed-term deposits. The item results from the Bank of Finland's performance of monetary policy functions as part of the Eurosystem. The minimum reserve system aims at stabilising money market interest rates and increasing the structural liquidity needs of the banking system. The average of credit institutions' daily minimum reserve account balances must be at least as high as the reserve requirement during a maintenance period.

2.1 Current accounts (covering the minimum reserve system)

Current accounts contain the credit balances of the transaction accounts of credit institutions that are required to hold minimum reserves. Banks' minimum reserve balances have since 1 January 1999 been remunerated at the prevailing marginal interest rate for the Eurosystem's main refinancing operations. From June 2014, either a zero interest rate or the deposit facility rate, whichever is lower, has been applied to banks' excess reserve balances.

2.2 Deposit facility

The deposit facility refers to overnight deposits placed by banks that access the Eurosystem's liquidity absorbing standing facility at the pre-specified rate.

2.3 Fixed-term deposits

Fixed-term deposits are fine-tuning liquidity absorbing operations that take the form of deposits.

2.4 Fine-tuning reverse operations

Fine-tuning reverse operations are used to offset high liquidity imbalances.

2.5 Deposits related to margin calls

This item refers to deposits made by counterparties in those instances where the market value of the collateral pledged falls short of an established trigger point.

Liabilities to euro area credit institutions related to monetary policy operations denominated in euro

| | 31 Dec 2014 EUR m | 31 Dec 2013 EUR m | Change EUR m |
|---|----------------------|----------------------|-----------------|
| <i>Current accounts (covering the minimum reserve system)</i> | 20,232.6 | 14,302.7 | 5,929.9 |
| <i>Deposit facility</i> | 75.0 | – | 75.0 |
| <i>Fixed-term deposits</i> | – | 9,500.0 | –9,500.0 |
| <i>Fine-tuning reverse operations</i> | – | – | – |
| <i>Deposits related to margin calls</i> | – | – | – |
| Total | 20,307.6 | 23,802.7 | –3,495.1 |

3. Liabilities to other euro area residents denominated in euro

This item consists of euro-denominated liabilities to the public sector and credit institutions other than those subject to the reserve requirement.

4. Liabilities to non-euro area residents denominated in euro

This item consists of balances of international organisations and non-euro area banks with the Bank of Finland and repurchase agreements with non-euro area counterparties.

5. Liabilities to euro area residents denominated in foreign currency

The Bank of Finland had no liabilities to euro area residents denominated in foreign currency as of 31 December 2014.

In 2013 the item consisted of assets denominated in foreign currency deposited by the State Treasury for its own payments.

6. Liabilities to non-euro area residents denominated in foreign currency

This item includes foreign currency-denominated repurchase agreements entered into for the purpose of managing foreign reserves.

7. Counterpart of special drawing rights allocated by the IMF

This item is the counteritem of SDRs (item on the asset side). Originally the amount of SDRs and their counteritem were equal. As a result of transactions, the Bank of Finland's claims related to SDRs were smaller at the end of 2014 than their counteritem on the liabilities side of the balance sheet. On the liabilities side, the counteritem was SDR 1,189.5 million. In the balance sheet, the item is presented in euro, valued at the rate prevailing on the last day of the year (EUR 1,418.4 million).

8. Intra-Eurosystem liabilities

This item includes the net balances of other central banking accounts and the ECB account relating to TARGET2, if the Bank of Finland has a net liability against the Eurosystem in the period under review. Intra-Eurosystem liabilities and claims have been elaborated on in more detail in the notes on the balance sheet under assets item 'Intra-Eurosystem claims'. At the end of financial year 2014, the Bank of Finland had no intra-Eurosystem liabilities.

9. Other liabilities

| <i>Other liabilities</i> | <i>31 Dec 2014</i> <i>EUR m</i> | <i>31 Dec 2013</i> <i>EUR m</i> | <i>Change</i> <i>EUR m</i> |
|--------------------------|------------------------------------|------------------------------------|-------------------------------|
| <i>Accruals</i> | 14.7 | 14.5 | 0.2 |
| <i>Accounts payable</i> | 0.2 | 0.5 | -0.3 |
| <i>Other</i> | 7.0 | 5.8 | 1.2 |
| <i>Total</i> | 22.0 | 20.8 | 1.1 |

10. Revaluation accounts

The item includes unrealised valuation gains arising from the market valuation of foreign currency-denominated items and securities. The item also includes revaluations of land and buildings and other valuation differences arising from changes in accounting practice in 1999.

| <i>Revaluation accounts</i> | <i>31 Dec 2014</i> <i>EUR m</i> | <i>31 Dec 2013</i> <i>EUR m</i> | <i>Change</i> <i>EUR m</i> |
|-----------------------------|------------------------------------|------------------------------------|-------------------------------|
| <i>Gold</i> | 1,168.2 | 984.5 | 183.7 |
| <i>Foreign currencies:</i> | | | |
| <i>USD</i> | 622.3 | 130.6 | 491.7 |
| <i>GBP</i> | 137.0 | 87.4 | 49.5 |
| <i>JPY</i> | 38.2 | 39.7 | -1.5 |
| <i>SDR</i> | 2.8 | - | 2.8 |
| <i>Other currencies</i> | 0.2 | 0.2 | -0.0 |
| <i>Securities</i> | 145.0 | 115.7 | 29.2 |
| <i>Other revaluations</i> | 190.2 | 197.8 | -7.6 |
| <i>Total</i> | 2,303.9 | 1,556.1 | 747.9 |

11. Provisions

Under section 20 of the Act on the Bank of Finland, provisions can be made in the annual accounts, if they are necessary for safeguarding the real value of the Bank's funds or for smoothing out variations in profit and loss arising from changes in exchange rates or market values of securities. At the end of 2014 these provisions totalled EUR 4,163.5 million. Provisions consist of a general provision, provision against real value loss, pension liability provision as well as foreign exchange rate and price difference provision.

The pension liability provision is made to cover Bank of Finland's pension liabilities. The Bank of Finland's pension liabilities total EUR 581.2 million: 105.9% of this amount is covered by the pension provision, ie EUR 615.7 million. The change in pension provision consists of a reduction of EUR -0.4 million in the revaluation account in 2014.

In accordance with the decision of the Governing Council taken under Article 32.4 of the Statute, the provision against counterparty risks that was established in 2008 was allocated among the NCBs of participating Member States in proportion to their subscribed capital key shares in the ECB prevailing in the year when the defaults have occurred. This provision has

been reviewed annually. The Governing Council decided to dissolve the provision at the end of 2013.

| <i>Provisions (EUR m)</i> | <i>Provisions as at 1 Jan 2013</i> | <i>Changes in provisions 2013</i> | <i>Total provisions 31 Dec 2013</i> | <i>Changes in provisions 2014</i> | <i>Total provisions 31 Dec 2014</i> |
|--|------------------------------------|-----------------------------------|-------------------------------------|-----------------------------------|-------------------------------------|
| <i>Foreign exchange rate and price difference provision</i> | 647 | 31 | 678 | 50 | 728 |
| <i>General provision</i> | 1,495 | 50 | 1,545 | 50 | 1,595 |
| <i>Provision against real value loss</i> | 978 | 122 | 1,100 | 125 | 1,225 |
| <i>Pension provision</i> | 582 | 34 | 616 | 0 | 616 |
| <i>Provision in respect of counterparty risk in monetary policy operations</i> | 6 | -6 | - | - | - |
| Total | 3,708 | 231 | 3,939 | 224 | 4,163 |

12. Capital and reserves

This item consists of the Bank's primary capital and reserve fund. Under section 21 of the Act on the Bank of Finland, the loss shall be covered from the reserve fund, if the annual accounts of the Bank show a financial loss. Insofar as the reserve fund is insufficient to cover the loss, the uncovered part may be left temporarily uncovered. Any profits in subsequent years shall first be used to cover such uncovered losses.

| <i>Capital and reserves (EUR m)</i> | <i>31 Dec 2014</i> | <i>31 Dec 2013</i> |
|-------------------------------------|--------------------|--------------------|
| <i>Primary capital</i> | 840.9 | 840.9 |
| <i>Reserve fund</i> | 1,660.3 | 1,601.5 |
| Total | 2,501.2 | 2,442.4 |

13. Profit for the financial year

The profit for the financial year 2014 totalled EUR 150.2 million.

| <i>Profit for the financial year (EUR m)</i> | <i>2014</i> | <i>2013</i> |
|--|--------------|--------------|
| <i>Transferred for the needs of the State</i> | 137.5 | 180.0 |
| <i>Bank of Finland's share of profit (transferred to reserve fund)</i> | 12.7 | 58.8 |
| Total | 150.2 | 238.8 |

Notes on the profit and loss account

1. Interest income

Interest income from and outside the euro area totalled EUR 319.1 million. Of this, EUR 59.5 million consisted of foreign currency-denominated interest income and EUR 259.6 million of euro-denominated interest income.

Interest income on ESCB items totalled EUR 34.6 million. Of this, EUR 1.0 million consisted of claims on transfers of foreign reserves to the ECB. Interest income due to the claims and liabilities pertaining to the ECB's share of euro banknotes, the application of the ECB capital key and the adjustments, EUR 5.9 million, is entered on a net basis. Interest income on TARGET2 balances totalled EUR 27.8 million.

| | 2014 | | | 2013 | | |
|---|-------------------------|-------------------------------------|--------------|-------------------------|-------------------------------------|--------------|
| | <i>Euro-denominated</i> | <i>Foreign currency-denominated</i> | <i>Total</i> | <i>Euro-denominated</i> | <i>Foreign currency-denominated</i> | <i>Total</i> |
| <i>Interest income received outside the euro area (EUR m)</i> | | | | | | |
| <i>Gold investments</i> | – | 0.4 | 0.4 | – | 0.4 | 0.4 |
| <i>Non-euro area coupon bonds</i> | 13.4 | 43.4 | 56.7 | 18.7 | 34.7 | 53.5 |
| <i>Non-euro area discount papers</i> | 0.0 | 0.1 | 0.1 | 0.0 | 0.2 | 0.2 |
| <i>Non-euro area deposits</i> | 0.3 | 0.6 | 0.9 | –0.4 | 1.1 | 0.7 |
| <i>Other</i> | – | 1.4 | 1.4 | – | 1.2 | 1.2 |
| <i>Total</i> | 13.6 | 45.9 | 59.5 | 18.4 | 37.6 | 56.0 |

| | 2014 | | | 2013 | | |
|--|-------------------------|-------------------------------------|--------------|-------------------------|-------------------------------------|--------------|
| | <i>Euro-denominated</i> | <i>Foreign currency-denominated</i> | <i>Total</i> | <i>Euro-denominated</i> | <i>Foreign currency-denominated</i> | <i>Total</i> |
| <i>Interest income received from the euro area (EUR m)</i> | | | | | | |
| <i>Euro area coupon bonds</i> | 59.4 | 5.0 | 64.4 | 86.9 | 6.2 | 93.1 |
| <i>Euro area discount papers</i> | 1.4 | – | 1.4 | 1.2 | 0.0 | 1.2 |
| <i>Euro area deposits</i> | 0.0 | 0.2 | 0.2 | 0.0 | 0.0 | 0.0 |
| <i>ESCB items</i> | 34.6 | – | 34.6 | 198.5 | – | 198.5 |
| <i>Monetary policy items</i> | 158.9 | – | 158.9 | 216.4 | – | 216.4 |
| <i>Other</i> | 0.0 | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 |
| <i>Total</i> | 254.4 | 5.2 | 259.6 | 503.0 | 6.3 | 509.2 |

| | 2014 | | | 2013 | | |
|---|-------------------------|-------------------------------------|--------------|-------------------------|-------------------------------------|--------------|
| | <i>Euro-denominated</i> | <i>Foreign currency-denominated</i> | <i>Total</i> | <i>Euro-denominated</i> | <i>Foreign currency-denominated</i> | <i>Total</i> |
| <i>Total interest income (EUR m)</i> | | | | | | |
| <i>Interest income received outside the euro area</i> | 13.6 | 45.9 | 59.5 | 18.4 | 37.6 | 56.0 |
| <i>Interest income received from the euro area</i> | 254.4 | 5.2 | 259.6 | 503.0 | 6.3 | 509.2 |
| <i>Total</i> | 268.0 | 51.1 | 319.1 | 521.4 | 43.9 | 565.3 |

2. Interest expenses

| | 2014 | | | 2013 | | |
|---|------------------|------------------------------|-------------|------------------|------------------------------|-------------|
| | Euro-denominated | Foreign currency-denominated | Total | Euro-denominated | Foreign currency-denominated | Total |
| <i>Interest expenses paid outside the euro area (EUR m)</i> | | | | | | |
| Non-euro area deposits | -0.1 | -0.2 | -0.3 | 0.3 | -0.6 | -0.3 |
| Other | - | -1.2 | -1.2 | - | -1.1 | -1.1 |
| Total | -0.1 | -1.3 | -1.4 | 0.3 | -1.7 | -1.4 |

| | 2014 | | | 2013 | | |
|--|------------------|------------------------------|-------------|------------------|------------------------------|--------------|
| | Euro-denominated | Foreign currency-denominated | Total | Euro-denominated | Foreign currency-denominated | Total |
| <i>Interest expenses paid in the euro area (EUR m)</i> | | | | | | |
| ESCB items | 0.0 | - | 0.0 | - | - | - |
| Monetary policy items | -0.3 | - | -0.3 | -21.7 | - | -21.7 |
| Other | 0.1 | -0.2 | -0.2 | -0.1 | -0.2 | -0.3 |
| Total | -0.2 | -0.2 | -0.5 | -21.8 | -0.2 | -22.0 |

| | 2014 | | | 2013 | | |
|---|------------------|------------------------------|-------------|------------------|------------------------------|--------------|
| | Euro-denominated | Foreign currency-denominated | Total | Euro-denominated | Foreign currency-denominated | Total |
| <i>Total interest expenses (EUR m)</i> | | | | | | |
| Interest expense paid outside the euro area | -0.1 | -1.3 | -1.4 | 0.3 | -1.7 | -1.4 |
| Interest expense paid in the euro area | -0.2 | -0.2 | -0.5 | -21.8 | -0.2 | -22.0 |
| Total | -0.3 | -1.6 | -1.9 | -21.5 | -1.9 | -23.4 |

Interest expenses paid in and outside the euro area totalled EUR 1.9 million. Of this, EUR -6 million was interest on minimum reserve balances and excess reserve balances and EUR 6.2 million interest on fixed-term deposits. No interest has been paid on overnight deposits.

3. Net interest income

| | 31 Dec 2014 EUR m | 31 Dec 2013 EUR m |
|----------------------------|----------------------|----------------------|
| <i>Net interest income</i> | | |
| <i>Interest income</i> | | |
| Financial assets | 125.6 | 150.4 |
| Monetary policy items | 158.9 | 216.4 |
| ESCB claims | 34.6 | 198.5 |
| Total | 319.1 | 565.3 |
| <i>Interest expenses</i> | | |
| Financial assets | -1.6 | -1.7 |
| Monetary policy items | -0.3 | -21.7 |
| ESCB liabilities | 0.0 | - |
| Total | -1.9 | -23.4 |
| NET INTEREST INCOME | 317.2 | 541.9 |

4. Foreign exchange rate differences

This item includes realised exchange rate gains and losses as well as valuation losses arising from the sale of currency positions. In 2014 gains related to foreign exchange rate movements amounted to EUR 15.8 million.

5. Securities price differences

This item includes realised gains and losses as well as valuation losses arising from the sale of securities. In the accounts, securities are treated on a security-by-security basis. In 2014 the realised gains related to securities price movements totalled EUR 34.2 million.

6. Change in foreign exchange rate and price difference provision

Realised net gains arising from foreign exchange rate and price differences, EUR 50.0 million, were used to increase provisions in accordance with the financial reporting policy. All provisions have been specified in the notes on the balance sheet under liabilities.

7. Income and expenses on fees and commissions

The item includes fees and commissions related to investment activities.

8. Net result of pooling of monetary income

| <i>Monetary income</i> | <i>31 Dec 2014 EUR m</i> | <i>31 Dec 2013 EUR m</i> |
|--|------------------------------|------------------------------|
| <i>Net monetary income pooled by the Bank of Finland</i> | 189.3 | 409.6 |
| <i>Net monetary income allocated to the Bank of Finland</i> | 178.6 | 298.8 |
| <i>Net monetary income according to the capital allocation key</i> | -10.7 | -110.9 |
| <i>Corrections to monetary income reallocation of previous years</i> | 12.1 | 0.3 |

The amount of each Eurosystem NCB's monetary income is determined by measuring the actual annual income that derives from the earmarkable assets held against its liability base. The liability base consists mainly of the following items: banknotes in circulation; liabilities to euro area credit institutions related to monetary policy operations denominated in euro; intra-Eurosystem liabilities of the NCBs arising from the issuance of ECB debt certificates; net intra-Eurosystem liabilities resulting from TARGET2 transactions; net intra-Eurosystem liabilities related to the allocation of euro banknotes within the Eurosystem. Any interest paid on liabilities included within the liability base is to be deducted from the monetary income to be pooled.

The earmarkable assets consist mainly of the following items: lending to euro area credit institutions related to monetary policy operations denominated in euro; securities held for monetary policy purposes; intra-Eurosystem claims equivalent to the transfer of foreign reserve assets to the ECB; net intra-Eurosystem claims resulting from TARGET2 transactions; net intra-Eurosystem claims related to the allocation of euro banknotes within the Eurosystem; a limited amount of each NCB's gold holdings in proportion to each NCB's capital key share.

Gold is considered to generate no income. Securities held for monetary policy purposes under Decision ECB/2009/16 of 2 July 2009 on the implementation of the covered bond purchase programme and under Decision ECB/2011/17 of 3 November 2011 on the implementation

of the second covered bond purchase programme are considered to generate income at the latest available marginal rate for the Eurosystem's main refinancing operations. Where the value of an NCB's earmarkable assets exceeds or falls short of the value of its liability base, the difference shall be offset by applying to the value of the difference the latest available marginal rate for the Eurosystem's main refinancing operations.

The monetary income pooled by the Eurosystem is to be allocated among the NCBs according to ECB's subscribed capital key. The difference between the monetary income pooled by the Bank of Finland amounting to EUR 189 million and reallocated to the Bank of Finland amounting to EUR 179 million is the net result arising from the calculation of monetary income.

9. Share in ECB profit

The ECB distributed EUR 61 million profit for the financial year 2013, of which the Bank of Finland's share recorded for the financial year 2014 totalled EUR 1.1 million.

10. Provision in respect of counterparty risk in monetary policy operations

In accordance with the decision of the Governing Council taken under Article 32.4 of the Statute, the provision against counterparty risks that was established in 2008 was allocated between the NCBs of participating Member States in proportion to their subscribed capital key shares in the ECB prevailing in the year when the defaults have occurred. The Governing Council decided to dissolve the provision at the end of 2013.

11. Other central banking income

This item includes the Bank of Finland's share in income on euro banknotes distributed in 2014 by the ECB in the form of an interim distribution of profit and income on the security portfolio related to the securities market programme (the SMP portfolio), on the third covered bond purchase programme (CBPP3), and on the asset-backed securities purchase programme (ABSPP), EUR 15.1 million. The item also includes dividend income, EUR 2.6 million, consisting primarily of shares in the Bank for International Settlements.

12. Other income

This item consists of the Financial Supervisory Authority's supervision and processing fees, EUR 26.1 million, income from real estate, EUR 5.3 million, as well as commissions and fees.

13. Staff costs

| <i>Staff costs</i> | <i>31 Dec 2014 EUR m</i> | <i>31 Dec 2013 EUR m</i> |
|--|------------------------------|------------------------------|
| <i>Salaries and fees</i> | 40.0 | 40.8 |
| <i>Employer's payments to the pension fund</i> | 7.7 | 7.9 |
| <i>Other staff-related costs</i> | 2.7 | 2.9 |
| <i>Total</i> | 50.4 | 51.7 |

| <i>Average staff size</i> | <i>2014 Number of staff</i> | <i>2013 Number of staff</i> |
|--|-------------------------------------|-------------------------------------|
| <i>Bank of Finland</i> | 389 | 398 |
| <i>Financial Supervisory Authority</i> | 193 | 208 |
| <i>Total</i> | 582 | 606 |

| | 2014 EUR |
|--|----------------|
| <i>Basic salaries paid to the members of the Board</i> | |
| <i>Erkki Liikanen</i> | 259,996 |
| <i>Pentti Hakkarainen</i> | 234,664 |
| <i>Seppo Honkapohja</i> | 191,320 |
| Total | 685,980 |

Fringe benefits (meal benefit, company-paid telephone and company car) paid to the members of the Board totalled EUR 41,343.

As of 2005, pension benefits of the members of the Board are determined according to the Bank of Finland's Pension Rule, without special terms and under the same terms and conditions as confirmed in the Rule for other personnel. As applicable, the Bank of Finland's Pension Rule is in line with the State Employees' Pension Scheme. A former board member may be paid compensation for income loss if the person may not, because of qualifying period provisions, accept employment from elsewhere or if the pension from the Bank of Finland is less than the compensation for income loss. Full compensation for income loss amounts to 60% of salary and is paid for one year, adjusted with the pension paid by the Bank, so that the sum of full compensation and pension do not exceed 60% of salary.

14. Pension fund contribution repayment

In 2014 the Bank's pension fund refunded pension contributions of EUR 57.2 million to the Bank.

15. Administrative expenses

| | 2014 EUR m | 2013 EUR m |
|--------------------------------|---------------|---------------|
| <i>Administrative expenses</i> | | |
| <i>Supplies and purchases</i> | 0.6 | 0.6 |
| <i>Machinery and equipment</i> | 2.9 | 3.5 |
| <i>Real estate</i> | 9.3 | 10.5 |
| <i>Staff-related expenses</i> | 3.8 | 3.7 |
| <i>Purchase of services</i> | 11.8 | 9.2 |
| <i>Other</i> | 2.1 | 1.9 |
| Total | 30.5 | 29.4 |

This item includes rents, meetings and interest group-related costs, expenses arising from the purchase of services and cost of equipment. Expenses involved in training, travel and recruitment of staff are also recorded under this item.

16. Depreciation of fixed assets

| | 31 Dec 2014 EUR m | 31 Dec 2013 EUR m |
|--|----------------------|----------------------|
| <i>Depreciation of tangible fixed assets</i> | | |
| <i>Land</i> | – | – |
| <i>Buildings</i> | 2.5 | 2.4 |
| <i>Machinery and equipment</i> | 2.5 | 2.6 |
| <i>Art and numismatic collection</i> | – | – |
| Total | 5.0 | 5.0 |

| | 31 Dec 2014 | 31 Dec 2013 |
|--|-------------|-------------|
| | EUR m | EUR m |
| <i>Depreciation of intangible fixed assets</i> | | |
| <i>IT systems</i> | 2.9 | 2.7 |
| <i>Total</i> | 2.9 | 2.7 |

Depreciations do not include depreciations arising from the revaluation of land and buildings.

17. Banknote procurement costs

Purchases of banknotes amounted to EUR 11.3 million.

18. Other expenses

The bulk of other expenses are related to the use and maintenance of property.

19. Income of the pension fund

This item includes income from the Bank of Finland pension fund's investment activities, EUR 75.1 million. The item also includes the Bank of Finland's and Financial Supervisory Authority's employer contributions as well as employees' share of premium income, EUR 10.4 million.

20. Expenses of the pension fund

This item includes expenses due to the Bank of Finland pension fund's investment activities, EUR 0.1 million, pensions paid, EUR 26.6 million, management costs and depreciations of fixed assets managed by the pension fund.

21. Changes in provisions

This item includes the increase of the provision against real value loss, EUR 125 million, and the increase of the general provision, EUR 50 million. All provisions have been specified in the notes on the balance sheet under liabilities.

22. Profit for the financial year

The profit for the financial year 2014 totalled EUR 150.2 million. The Board proposes to the Parliamentary Supervisory Council that EUR 137.5 million of the profit be made available for the needs of the State.

Off-balance sheet commitments

This item contains the Bank of Finland's derivative contracts. The bulk of derivative contracts have been made for hedging against exchange rate risk.

| | 31 Dec 2014 | 31 Dec 2013 |
|--|-------------|-------------|
| | EUR m | EUR m |
| <i>Derivative contracts</i> | | |
| <i>Nominal value of FX futures contracts</i> | | |
| <i>Purchase agreements</i> | – | – |
| <i>Sales agreements</i> | – | – |
| <i>Market value of FX-swap contracts</i> | 7.9 | 3.7 |
| <i>Market value of GIRS contracts</i> | – | 0.0 |
| <i>Market value of IRS contracts</i> | – | – |
| <i>Market value of FX forward contracts</i> | – | – |
| <i>Total</i> | 7.9 | 3.7 |

Appendices to the financial statements

| <i>EUR million</i> | <i>31 Dec 2014</i> | <i>31 Dec 2013</i> |
|---|---------------------|---------------------|
| <i>Shares and other interests, nominal value</i> | | |
| <i>Bank for International Settlements (BIS)¹</i> | <i>22.4 (1.96%)</i> | <i>22.4 (1.96%)</i> |
| <i>Shares in housing companies</i> | <i>2.5</i> | <i>2.5</i> |
| <i>Other shares and interests</i> | <i>0.0</i> | <i>0.0</i> |
| <i>Total</i> | <i>24.9</i> | <i>24.9</i> |
| | | |
| <i>Bank of Finland's liability share in the APK fund</i> | <i>0.3</i> | <i>0.3</i> |
| <i>Liability arising from pension commitments</i> | | |
| <i>Bank of Finland's pension liability²</i> | <i>581.2</i> | <i>581.5</i> |
| <i>– of which covered by reserves</i> | <i>615.7</i> | <i>616.1</i> |
| <i>Customer service office</i> | | |
| <i>Deposits</i> | <i>24.9</i> | <i>25.4</i> |
| <i>Loans</i> | <i>3.8</i> | <i>3.7</i> |

¹ In parentheses, the Bank of Finland's relative holdings of the BIS shares in circulation.

² Pension liability for 2014 includes indexation of pensions and paid-up policies entering into force on 1 January 2015.

The Bank of Finland's real estate

| <i>Building</i> | <i>Address</i> | <i>Year of completion</i> | <i>Volume m³ (approx.)</i> |
|-----------------|-------------------------------------|---------------------------|---------------------------------------|
| <i>Helsinki</i> | <i>Rauhankatu 16</i> | <i>1883/1961/2006</i> | <i>52,100</i> |
| | <i>Rauhankatu 19</i> | <i>1954/1981</i> | <i>40,500</i> |
| | <i>Snellmaninkatu 6¹</i> | <i>1857/1892/2001</i> | <i>24,600</i> |
| | <i>Snellmaninkatu 2¹</i> | <i>1901/2003</i> | <i>3,400</i> |
| | <i>Ramsinniementie 34</i> | <i>1920/1983/1998</i> | <i>4,800</i> |
| <i>Oulu</i> | <i>Kajaaninkatu 8</i> | <i>1973</i> | <i>17,200</i> |
| <i>Vantaa</i> | <i>Turvalaaksontie 1</i> | <i>1979</i> | <i>324,500</i> |
| <i>Inari</i> | <i>Saariseläntie 9</i> | <i>1968/1976/1998</i> | <i>6,100</i> |

¹ Transferred to the ownership of the Bank of Finland's pension fund from the beginning of 2002.

Five-year review

The following table presents the Bank of Finland's balance sheets and profit and loss accounts for the past five financial years.

| BALANCE SHEET (EUR m) | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|---------------|---------------|----------------|---------------|---------------|
| Assets | | | | | |
| Gold and gold receivables | 1,557 | 1,373 | 1,988 | 1,918 | 1,664 |
| Claims on non-euro area residents denominated in foreign currency | 7,020 | 6,585 | 6,171 | 5,886 | 5,223 |
| Receivables from the International Monetary Fund | 1,913 | 1,955 | 2,097 | 1,967 | 1,815 |
| Balances with banks and security investments, external loans and other external assets | 5,106 | 4,630 | 4,074 | 3,919 | 3,408 |
| Claims on euro area residents denominated in foreign currency | 360 | 297 | 404 | 628 | 712 |
| Claims on non-euro area residents denominated in euro | 1,044 | 1,347 | 1,970 | 1,946 | 1,662 |
| Lending to euro area credit institutions related to monetary policy operations denominated in euro | 722 | 2,475 | 3,681 | 2,311 | 50 |
| Main refinancing operations | 15 | – | – | 10 | 0 |
| Longer-term refinancing operations | 707 | 2,475 | 3,681 | 2,301 | 50 |
| Other claims on euro area credit institutions denominated in euro | 37 | 0 | 0 | 40 | 1 |
| Securities of euro area residents denominated in euro | 11,316 | 10,063 | 11,471 | 13,889 | 11,668 |
| Securities held for monetary policy purposes | 3,568 | 3,717 | 4,555 | 4,637 | 2,203 |
| Other securities | 7,748 | 6,346 | 6,915 | 9,253 | 9,466 |
| Intra-Eurosystem claims | 24,584 | 26,539 | 74,382 | 70,271 | 23,888 |
| Participating interest in ECB | 144 | 141 | 141 | 120 | 99 |
| Claims equivalent to the transfer of foreign reserves | 728 | 722 | 722 | 722 | 722 |
| Net claims related to the allocation of euro banknotes within the Eurosystem | 3,962 | 3,522 | 3,248 | 3,485 | 3,414 |
| Other claims within the Eurosystem (net) | 19,749 | 22,154 | 70,270 | 65,944 | 19,653 |
| Other assets | 1,082 | 1,052 | 1,115 | 1,171 | 1,090 |
| Coins of euro area | 29 | 23 | 27 | 25 | 22 |
| Tangible and intangible fixed assets | 143 | 149 | 155 | 165 | 171 |
| Other current assets | 698 | 641 | 607 | 569 | 551 |
| Other | 213 | 238 | 326 | 413 | 346 |
| Total assets | 47,722 | 49,731 | 101,182 | 98,061 | 45,957 |

| BALANCE SHEET (EUR m) | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|--------|--------|---------|--------|--------|
| <i>Liabilities</i> | | | | | |
| <i>Banknotes in circulation</i> | 16,793 | 15,753 | 15,044 | 14,649 | 13,880 |
| <i>Liabilities to euro area credit institutions related to monetary policy operations denominated in euro</i> | 20,308 | 23,803 | 73,799 | 71,697 | 21,696 |
| <i>Current accounts (covering the minimum reserve system)</i> | 20,233 | 14,303 | 31,698 | 1,657 | 9,383 |
| <i>Deposit facility</i> | 75 | – | 37,101 | 52,540 | 9,113 |
| <i>Fixed-term deposits (liquidity-absorbing fine-tuning operations)</i> | – | 9,500 | 5,000 | 17,500 | 3,200 |
| <i>Liabilities to other euro area residents denominated in euro</i> | 2 | 55 | 801 | 836 | 262 |
| <i>Liabilities to non-euro area residents denominated in euro</i> | 2 | 527 | 1,004 | 782 | 1,021 |
| <i>Liabilities to euro area residents denominated in foreign currency</i> | – | 0 | 0 | 0 | 0 |
| <i>Liabilities to non-euro area residents denominated in foreign currency</i> | 58 | 66 | 139 | 153 | 23 |
| <i>Counterpart of special drawing rights allocated by the IMF</i> | 1,418 | 1,330 | 1,387 | 1,412 | 1,377 |
| <i>Intra-Eurosystem liabilities</i> | – | – | – | – | – |
| <i>Other liabilities</i> | 22 | 21 | 24 | 178 | 151 |
| <i>Revaluation accounts</i> | 2,304 | 1,556 | 2,609 | 2,806 | 2,274 |
| <i>Provisions</i> | 4,163 | 3,939 | 3,708 | 3,032 | 2,814 |
| <i>Capital and reserves</i> | 2,501 | 2,442 | 2,332 | 2,262 | 2,175 |
| <i>Primary capital</i> | 841 | 841 | 841 | 841 | 841 |
| <i>Reserve fund</i> | 1,660 | 1,601 | 1,491 | 1,421 | 1,334 |
| <i>Profit for the financial year</i> | 150 | 239 | 337 | 254 | 283 |
| <i>Total liabilities</i> | 47,722 | 49,731 | 101,182 | 98,061 | 45,957 |

| PROFIT AND LOSS ACCOUNT (EUR m) | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|-------------|-------------|-------------|-------------|-------------|
| <i>Interest income</i> | 319 | 565 | 1,110 | 763 | 597 |
| <i>Interest expenses</i> | -2 | -23 | -113 | -170 | -71 |
| Net interest income | 317 | 542 | 998 | 592 | 526 |
| <i>Foreign exchange rate differences</i> | 16 | -6 | 14 | 5 | 221 |
| <i>Securities price differences</i> | 34 | 37 | 218 | 4 | 69 |
| <i>Change in foreign exchange rate and price difference provision</i> | -50 | -31 | -232 | -9 | -290 |
| Net result of financial operations, write-downs and risk provisions | 317 | 542 | 998 | 592 | 526 |
| <i>Net result of pooling of monetary income</i> | 1 | -111 | -343 | -75 | -33 |
| <i>Share in ECB profit</i> | 1 | 8 | 1 | 3 | 26 |
| <i>Provisions in respect of counterparty risk in monetary policy operations</i> | - | 6 | 11 | 22 | 32 |
| <i>Other central banking income</i> | 18 | 27 | 133 | 15 | 9 |
| Central banking profit | 337 | 472 | 800 | 557 | 560 |
| Other income | 31 | 33 | 47 | 35 | 34 |
| Operating expenses | -43 | -94 | -92 | -125 | -102 |
| <i>Staff costs</i> | -50 | -52 | -52 | -51 | -51 |
| <i>Pension fund contribution</i> | 57 | - | - | -32 | -10 |
| <i>Administrative expenses</i> | -30 | -29 | -29 | -29 | -28 |
| <i>Depreciation of fixed assets</i> | -8 | -8 | -8 | -8 | -7 |
| <i>Banknote procurement costs</i> | -11 | -5 | -3 | -4 | -6 |
| <i>Other expenses</i> | -0 | -0 | -2 | -1 | 0 |
| Operating profit | 325 | 411 | 754 | 467 | 491 |
| Profit for the pension fund | 0 | 34 | 47 | 19 | 24 |
| Changes in provisions | -175 | -206 | -464 | -232 | -232 |
| Profit for the financial year | 150 | 239 | 337 | 254 | 283 |

Totals/sub-totals may not add up due to rounding.

Notes on risk management

Risk management and control of investment of financial assets

Investment activities are exposed to risks, which risk management seeks to identify, measure and limit. In managing these risks, the Bank of Finland uses widely employed risk management methods, market and credit risk models as well as sensitivity analyses.

Risk management of investment activities by the Bank of Finland has been entrusted jointly to the Administration Department's Risk Control unit (the name was changed into Risk Control and Financial Accounting with effect from 1 January 2015) and the Banking Operations Department. Risk control of investment activities is the responsibility of the former.

In addition to risk control of investment activities, the Risk Control unit is also responsible for the monitoring of risk positions, pricing of instruments, reporting on risks and returns as well as monitoring and reporting of the Bank's balance sheet risks. It also maintains an overall risk management framework and investment benchmark indices and develops risk management methods.

Risks to investment activities are reported daily to the persons involved in operational investment activities and monthly to the Bank of Finland Board. Reports on developments in investment returns are produced at monthly intervals. Returns are considered quarterly in the Markets Committee, chaired by the Board member responsible for investment activities. The Board considers the risks and returns more extensively twice a year. Cases of non-compliance with the limits imposed are reported immediately. An extensive report on total financial risks is submitted to the Board at quarterly intervals.

The Bank of Finland also has a Risk Committee whose mandate is to conduct independent assessments and control of investment risks and the related risk management. It does not make decisions on investment activities and risk management, but may submit matters to the Board for information or decision, as necessary. The Risk Committee is chaired by the Board member responsible for risk control and convenes in two compositions. One discusses financial risks and the other, operational risks.

Decision-making framework for investment of financial assets and risk management

Decisions on investment of financial assets and related risk management are taken by the Bank of Finland Board, the Markets Committee and, in the case of operational matters, also by the Investment Group and the Risk Group.

The Board is responsible for decisions on investment activities objectives, investment policy and risk management principles. Such decisions relate, among other things, to the size of the Bank's own financial assets and foreign reserves, currency distribution of foreign reserves, the size and composition of the liquidity portfolio, the strategic allocation of the investment portfolio by investment category, the leeway permitted in investment activities by investment category and the level of interest rate and credit risks. The Board also decides on maximum credit risk limits.

Within the limits imposed by the Board, the Markets Committee makes detailed decisions on the investment of the Bank's financial assets and risk management. Such decisions include the criteria for counterparties and issuers and more specific credit risk limits. The chair of the Markets Committee, who is also responsible for decision-making on the Committee, is the Board member responsible for the Bank of Finland's own investments.

The emphasis of work in the Investment Group and the Risk Group is on the preparation of matters to be considered by higher decision-making bodies. In addition, the Investment Group acts as an internal decision-maker within the Banking Operations Department and as coordinator of matters common to the investment and risk control functions. The Head of Banking Operations chairs the Investment Group and makes decisions therein. The Head of Risk Control in the Administration Department chairs the Risk Group and makes decisions therein.

The Bank of Finland's estimated total risk, including gold

The Bank of Finland's total risks are discussed in the section 'Total risk exposure' (p. 69-71). The figures presented there exclude gold, owing to its large revaluation account. When all risks – including gold – are added together, the Bank of Finland's total risk exposure is estimated at about EUR 2.4 billion annually.

Risk measures and breakdowns

Table 1.

Breakdown of debt securities and deposits in the Bank of Finland's financial assets and covered bond purchase programmes (CBPP1 and CBPP2), by credit rating¹

| <i>Credit rating</i> | <i>31 Dec 2014, %</i> | <i>31 Dec 2013, %</i> |
|----------------------|---------------------------|---------------------------|
| AAA | 35.2 | 43.4 |
| AA+ | 32.4 | 29.4 |
| AA | 19.4 | 13.8 |
| AA- | 4.3 | 5.3 |
| A+ | 2.7 | 1.9 |
| A | 2.2 | 1.5 |
| A- | 1.0 | 1.6 |
| BBB+ | 0.6 | 0.3 |
| BBB | 1.3 | 1.1 |
| BBB- | 0.2 | 0.8 |
| Below BBB- | 0.1 | 0.2 |
| No credit rating | 0.7 | 0.6 |

¹Covered bonds have been classified according to their own credit rating and not the credit rating of their issuer. The Bank of Japan and the Federal Reserve are dealt with according to the credit rating of the respective government.

Source: Bank of Finland.

Table 2.

Breakdown of debt securities in Bank of Finland's financial assets and covered bond purchase programmes (CBPP1 and CBPP2), by issuer's home country (according to debt security's market value)

| <i>Country or region</i> | <i>31 Dec 2014, %</i> | <i>31 Dec 2013, %</i> |
|--|---------------------------|---------------------------|
| <i>Euro area</i> | 55.3 | 55.2 |
| <i>France</i> | 16.3 | 13.8 |
| <i>Germany</i> | 14.6 | 22.2 |
| <i>Netherlands</i> | 9.6 | 7.9 |
| <i>Finland</i> | 7.0 | 6.8 |
| <i>Austria</i> | 3.2 | 1.5 |
| <i>Belgium</i> | 3.4 | 0.7 |
| <i>Spain</i> | 0.6 | 0.9 |
| <i>Ireland</i> | 0.3 | 0.3 |
| <i>Italy</i> | 0.2 | 0.6 |
| <i>Portugal</i> | 0.1 | 0.4 |
| <i>Luxembourg¹</i> | 0.0 | 0.0 |
| <i>Europe excl. euro area</i> | 11.7 | 11.2 |
| <i>United Kingdom</i> | 4.2 | 4.7 |
| <i>Sweden</i> | 4.2 | 4.5 |
| <i>Norway</i> | 2.0 | 1.3 |
| <i>Denmark</i> | 1.3 | 0.7 |
| <i>Switzerland¹</i> | 0.0 | 0.0 |
| <i>America</i> | 21.0 | 21.2 |
| <i>United States</i> | 19.2 | 20.4 |
| <i>Canada</i> | 1.8 | 0.8 |
| <i>Asia and Oceania</i> | 4.7 | 4.1 |
| <i>Japan</i> | 3.3 | 3.5 |
| <i>Australia</i> | 1.0 | 0.2 |
| <i>Singapore</i> | 0.4 | 0.2 |
| <i>New Zealand¹</i> | – | 0.1 |
| <i>International institutions</i> | 7.2 | 8.4 |

¹ 0.0 means less than 0.05, – means zero.

Source: Bank of Finland.

Table 3.

Sensitivity of the Bank of Finland's financial assets to exchange rate and interest rate changes

| EUR m | 2014 | 2013 |
|---|------|------|
| Change in the value of Bank of Finland's financial assets after appreciation of the euro exchange rate by 15% relative to foreign reserve currencies and gold as at 31 Dec | -941 | -863 |
| Change in the value of Bank of Finland's financial assets after an interest rate rise of 1%, with the amount, composition and modified duration for the financial assets as at 31 Dec | -279 | -235 |

Source: Bank of Finland.

Table 4.

VaR figures for the Bank of Finland's financial assets

VaR figures for market risk (one-day horizon, 99% confidence level)

| EUR m | Average | 2014 | | |
|--------------------------------|---------|---------|--------|--------|
| | | Highest | Lowest | 31 Dec |
| Interest rate risk | 9 | 12 | 6 | 9 |
| Exchange rate risk | 37 | 67 | 23 | 56 |
| Total market risk (excl. gold) | 38 | 63 | 25 | 52 |
| Total market risk (incl. gold) | 53 | 88 | 33 | 80 |
| Equity risk ¹ | 0 | 0 | 0 | 0 |

| EUR m | Average | 2013 | | |
|--------------------------------|---------|---------|--------|--------|
| | | Highest | Lowest | 31 Dec |
| Interest rate risk | 11 | 19 | 6 | 9 |
| Exchange rate risk | 45 | 68 | 31 | 37 |
| Total market risk (excl. gold) | 47 | 75 | 30 | 39 |
| Total market risk (incl. gold) | 73 | 118 | 49 | 55 |

VaR figures² for credit risk (one-year horizon, confidence levels of 95%, 99% and 99.9%)

| | 2014 | | |
|---------------------|------|----|------|
| Confidence level, % | 95 | 99 | 99,9 |
| Credit risk (EUR m) | 7 | 28 | 98 |

| | 2013 | | |
|---------------------|------|----|------|
| Confidence level, % | 95 | 99 | 99,9 |
| Credit risk (EUR m) | 4 | 17 | 69 |

¹ Equity investments began in November 2014.² The figures exclude debt securities issued by states in domestic currency.

Source: Bank of Finland.

Definitions and concepts

- **Market risk** means the risk that the net value of assets will decline due to changes in market prices. Market price changes refer to changes in, for example, interest rates, exchange rates, the price of gold or stock prices, which are referred to as interest rate risk, exchange rate risk, gold price risk or equity risk, respectively.
- **Credit risk** means the risk of financial losses arising from changes in the creditworthiness of a counterparty to a financial transaction or a securities issuer or from default by a counterparty or issuer.
- **Liquidity risk** means the risk that assets cannot be made available when the need arises, or their conversion into cash would cause additional costs.
- **Operational risk** refers to the risk of extra costs or losses resulting from inadequate or failed internal processes, personnel, systems or external events.
- **Liquidity portfolio** refers to that part of the Bank of Finland's assets used to ensure the Bank's ability to offer liquidity for unexpected policy needs under all circumstances. The liquidity portfolio is denominated in foreign currency.
- **Investment portfolio** refers to that part of the Bank of Finland's assets used to secure the value of financial assets and the Bank's ongoing ability to meet its central bank commitments. The Bank of Finland's investment portfolio includes both foreign currency-denominated and euro-denominated assets.
- **Foreign reserves** consist of unhedged foreign-currency investments and claims. These include the liquidity portfolio, the foreign-currency investment portfolio and net receivables from the IMF.
- **Cash** refers to covered and uncovered short-term bank deposits.
- **Modified duration** is a measure of interest rate risk, indicating how much the value of a fixed-income investment or investments changes in response to a small change in interest rates. For example, if the modified duration is 2 and interest rates rise by 1%, the value of the fixed-income investments falls by 2%.
- **VaR figure** at a certain confidence level means a loss in excess of which a loss occurs with a probability corresponding to the confidence level in question, over a target horizon. For example, if VaR 99% on a one-day horizon is EUR 3 million, this means there is a 1% probability the current day's result will be worse than a loss of EUR 3 million (and a 99% probability the result will be better).

Auditor's report

In our capacity as the auditors elected by Parliament, we have audited the accounting records, financial statements and administration of the Bank of Finland for the financial year 2014 in accordance with generally accepted auditing standards.

During the financial year the Bank's Internal Audit audited the Bank's accounting records and activities. We have examined the internal audit reports.

We have read the Bank's annual report and received representations from the Board concerning the Bank's activities.

The financial statements have been drawn up in accordance with the principles of financial statements approved by the Parliamentary Supervisory Council and current rules and regulations. The financial statements give a true and fair view of the Bank's financial position and results.

We propose that the profit and loss account and balance sheet for the financial year audited by us be approved. We recommend that the profit for the financial year be disposed of as proposed by the Board.

Helsinki, 13 March 2015

Esko Kiviranta

Jukka Kopra

Kauko Tuupainen

Osmo Immonen
Authorised Public Accountant

Eero Prepula
Authorised Public Accountant,
JHTT (Public Administration
Accountant)

./Markku Koskela
Authorised Public Accountant

Statement regarding the audit as defined in Article 27 of the Statute of the European System of Central Banks and the European Central Bank

We have audited the accounting records and the financial statements of the Bank of Finland for the year ended 31 December 2014 as defined in Article 27.1 of the Statute of the European System of Central Banks and the European Central Bank. The financial statements have been prepared in accordance with the Accounting Principles and Methods approved by the Governing Council of the European Central Bank as well as with the Act on the Bank of Finland. The financial statements comprise the balance sheet, the income statement and notes to the financial statements.

Responsibility of the Board

The Board is responsible for the preparation and fair presentation of the financial statements in accordance with the laws and regulations governing the preparation of the financial statements.

Auditor's Responsibility

Our responsibility is to perform an audit in accordance with the International Standards on Auditing and ethical guidance prepared by IFAC (International Federation of Accountants), good auditing practice in Finland as well as the Auditing Act, when applicable, and to express an opinion on these financial statements based on our audit. Good auditing practice requires that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial performance and financial position of the Bank of Finland in accordance with the Accounting Principles and Methods approved by the Governing Council of the European Central Bank.

Helsinki, 26 February 2015
PricewaterhouseCoopers Oy Ab
Authorised Public Accounting Firm

Juha Tuomala
Authorised Public Accountant

Appendices

Monetary policy measures of the Eurosystem in 2014

- January–December** In accordance with the decisions of the Governing Council of the ECB, main refinancing operations and longer-term regular and non-standard refinancing operations continued to be conducted as fixed rate tender procedures with full allotment. The interest rate on the longer-term refinancing operations was fixed at the average of the rates on the main refinancing operations over the life of the respective operation.
- January** On 24 January, the ECB announced that US dollar-denominated liquidity-providing operations with a maturity of three months would cease as of April 2014. One-week US dollar-denominated liquidity-providing operations would continue to be conducted until at least the end of July 2014.
- March** The Governing Council of the ECB issued two guidelines and one decision implementing several previous decisions on the eligibility of collateral in monetary policy operations and the related mobilisation procedures. These decisions concerned e.g. loan-level reporting requirements for securities backed by credit card receivables, credit rating requirements for asset-backed securities and the mapping of external credit assessment institutions' credit ratings to the harmonised rating scale used in the Eurosystem credit assessment framework. With regard to the mobilisation procedures for collateral, it was decided to abolish the repatriation requirement so that securities no longer need to be transferred to the respective issuer's central securities depository before use as collateral. Furthermore, it was decided that the triparty collateral management services could also be used in cross-border operations.
- June** On 5 June, the Governing Council of the ECB took several monetary policy decisions.
- The key interest rates were lowered with effect from 11 June: the rate on the main refinancing operations was lowered to 0.15%, the rate on the deposit facility to an unprecedented –0.10% and the rate on the marginal lending facility to 0.40%. The negative deposit rate will also apply to reserve holdings in excess of the minimum reserve requirements on counterparties' current accounts.
- Main and three-month refinancing operations will be conducted as fixed rate tender procedures with full allotment until at least the end of the reserve maintenance period ending in December 2016.
- Refinancing operations with a maturity of one maintenance period will be suspended after the operation conducted on 10 June. Similarly, the weekly fine-tuning operations sterilising the liquidity injected under the Securities Markets Programme (SMP) will also be suspended until further notice.
- In order to enhance the functioning of the monetary policy transmission mechanism it was decided to conduct targeted longer-term refinancing operations (TLTROs) aimed at improving bank lending to the euro area non-financial private sector. The operations will be conducted quarterly over a window of two years, starting from September 2014. The amount of refinancing to banks will be based on each bank's net lending. The interest rate on the amounts allotted will be fixed (at the rate on main refinancing operations at the time of take-up + 10 basis points). In addition, preparatory work related to outright purchases of asset-backed securities (ABS) will be intensified.
- In order to ensure sufficient availability of collateral, credit claims and other assets which have been temporarily accepted as collateral will continue to be eligible at least until September 2018.

| | |
|------------------|---|
| | <p>On 17 June, the Governing Council of the ECB announced that it will continue to conduct US dollar liquidity-providing operations until further notice. In the future, the need for such operations will be assessed on a regular basis.</p> |
| July | <p>On 3 July, the Governing Council of the ECB announced that the frequency of its monetary policy meetings will change to a six-week cycle. Reserve maintenance periods will be extended to six weeks to match the new schedule. Moreover, the ECB will begin to publish regular accounts of monetary policy meetings, starting with the January 2015 meeting. At the same time, further details of the targeted longer-term refinancing operations (LTROs) were announced.</p> <p>On 9 July, the Governing Council of the ECB accepted short-term debt instruments issued by non-financial corporations and complying with certain eligibility criteria as temporarily eligible credit claims.</p> |
| August | <p>On 7 August, the Governing Council of the ECB decided on the implementation, in the Eurosystem monetary policy operations, of restrictive measures related to Russia and approved by the Council of the European Union.</p> |
| September | <p>On 4 September, the Governing Council of the ECB decided to lower key interest rates with effect from 10 September: the rate on the main refinancing operations was lowered to 0.05%, the rate on the marginal lending facility to 0.30% and the rate on the deposit facility to -0.20%.</p> <p>It was also announced that the Eurosystem would commence outright purchases of asset-backed securities (ABS Purchase Programme, ABSPP) and covered bonds (Covered Bond Purchase Programme, CBPP3).</p> <p>Furthermore, the Governing Council of the ECB announced modifications to the loan-level reporting requirements for ABSs backed by auto loans, leasing receivables, consumer finance loans and credit card receivables used as eligible collateral.</p> |
| October | <p>On 2 October, the ECB announced further operational details of the ABSPP and CBPP3 programmes.</p> <p>The CBPP3 for purchases of covered bonds issued by banks was launched on 20 October.</p> |
| November | <p>On 7 November, the Governing Council of the ECB announced that repayments of the three-year refinancing operations would be suspended temporarily at the end of the year.</p> <p>On 19 November, the Governing Council of the ECB adopted a decision on implementation of the ABSPP. Purchases under the programme commenced on 21 November.</p> <p>On 19 November, the Governing Council of the ECB revised the valuation haircuts applicable to marketable debt instruments issued or guaranteed by the Greek government.</p> |
| December | <p>The decision approved in September (1 Sept) amending the rule applicable to public-sector issuers and defining the priority of ratings when determining the eligibility of marketable assets and their related haircuts entered into force on 15 December.</p> |

Key measures affecting the financial markets in 2014

Measures by the European System of Central Banks

- January**
- On 3 January, the Governing Council of the ECB approved the updated framework for the assessment of securities settlement systems and links to determine their eligibility for use in Eurosystem credit operations.
- On 7 January, at the request of the Council of the European Union and the European Parliament, the Governing Council of the ECB delivered an opinion on a proposal for a regulation on indices used as benchmarks in financial instruments and financial contracts.
- On 22 January, the Governing Council of the ECB adopted a decision amending the decision on the Rules of Procedure of the ECB, setting out in detail e.g. the relationship between the Governing Council and the Supervisory Board of the Single Supervisory Mechanism.
- On 23 January, the Governing Council of the ECB adopted a recommendation on the statistical reporting requirements of the ECB in the field of external statistics. The recommendation is addressed to the Finnish statistical authorities, among others.
- On 30 January, the Governing Council of the ECB approved the assessment guide for the security of internet payments.
- February**
- On 5 February, at the request of the Council of the European Union and the European Parliament, the Governing Council of the ECB delivered an opinion on a proposal for a Directive of the European Parliament and of the Council on payment services in the internal market, as well as an opinion on a proposal for a regulation on interchange fees for card-based payment transactions.
- On 13 February, the Governing Council of the ECB approved a report on the assessment of all securities settlement systems and links being used to collateralise Eurosystem credit operations.
- On 24 February, the Governing Council of the ECB adopted a decision and a recommendation on the organisation of preparatory measures for the collection of granular credit data by the European System of Central Banks.
- March**
- On 21 March, the Governing Council of the ECB adopted a recommendation to the Council of the European Union on the need to use statistical information for the performance of supervision functions by the ECB.
- On 27 March, the Governing Council of the ECB adopted a recommendation on the increased need to exchange confidential statistical information within the European System of Central Banks.
- April**
- On 16 April, the Governing Council of the ECB adopted a recommendation and a regulation concerning the powers of the ECB to impose sanctions. The ECB framework on sanctions is to be amended in view of the establishment of the Single Supervisory Mechanism. These measures are also intended to limit the ECB's powers to impose sanctions in the exercise of its supervisory tasks, since these sanctions are covered by the SSM Framework Regulation.
- On 16 April, the Governing Council of the ECB adopted a regulation establishing the framework for cooperation within the Single Supervisory Mechanism between the ECB and national competent authorities and with national designated authorities. The regulation lays down practical arrangements for cooperation within the SSM.

| | |
|------------------|--|
| May | <p>On 2 May, the Governing Council of the ECB approved the recommendations set out in the report on the measures adopted to safeguard the confidentiality of statistical information.</p> <p>On 2 May, at the request of the Finnish Ministry of Finance, the Governing Council of the ECB adopted an opinion on the resolution of crises on the financial markets in Finland.</p> <p>On 25 May, at the request of the Council of the European Union, the Governing Council of the ECB issued an opinion on a proposal for a regulation of the European Parliament and of the Council on money market funds.</p> |
| June | <p>On 2 June, the Governing Council of the ECB adopted a regulation concerning the establishment of a mediation panel and its rules of procedure. It is intended that the mediation panel will ensure separation between monetary policy and supervisory tasks.</p> |
| July | <p>On 2 July, the Governing Council of the ECB adopted a decision on the provision to the ECB of supervisory data reported to the national competent authorities by the supervised entities.</p> |
| August | <p>On 21 August, the Governing Council of the ECB released a list of payment systems which it has identified as systemically important. The four payment systems were TARGET2, EURO1, STEP2-T and CORE(FR). The related regulation was adopted by the ECB on 3 July and entered into force on 12 August.</p> |
| September | <p>On 17 September, the Governing Council of the ECB adopted a decision on the separation between the monetary policy and supervisory functions of the European Central Bank.</p> |
| October | <p>On 26 October, the ECB published the results of the comprehensive assessment, a one-year in-depth review of the resilience and capital adequacy of 130 banks as of 31 December 2013.</p> <p>On 30 October, the Governing Council of the ECB approved Euroclear Finland Infinity System as eligible for use in Eurosystem credit operations. The new system was to go live on 2 February 2015.</p> |
| November | <p>On 4 November, the ECB assumed responsibility for euro area banking supervision, following a year-long preparatory phase. The ECB will directly supervise the 120 largest banking groups. The remaining 3,500 less significant banks will be under the ECB's indirect supervision.</p> <p>On 6 November, the Governing Council of the ECB adopted a guideline on amendments relating to the compilation of statistics on the issuance of securities and to the reporting requirements for payment transactions involving non-monetary financial institutions.</p> <p>On 13 November, the Governing Council of the ECB approved two guides for the assessment against the relevant oversight standards of the SEPA credit transfer and direct debit schemes run by the European Payments Council.</p> <p>On 19 November, at the request of the European Parliament, the Governing Council of the ECB adopted an opinion on a proposal for a regulation of the European Parliament and of the Council on structural measures improving the resilience of EU credit institutions.</p> <p>On 26 November, the Governing Council of the ECB adopted a regulation concerning statistics on the money markets. The regulation will enter into force on 1 January 2015.</p> |

EU regulatory projects and their implementation in Finland

| | |
|-----------------|--|
| January | The European Commission adopted legislative proposals to limit the risky activity of proprietary trading by the largest banks. The proposal would also give supervisors the power to require banks to separate high-risk trading activities from their deposit-taking business and remove the former into a separate trading entity. The proposal takes into account the report by the High Level Group chaired by the Governor of the Bank of Finland, Erkki Liikanen. |
| May | The EU Bank Recovery and Resolution Directive (BRRD) entered into force. The BRRD provides national authorities with more effective tools to deal with failing banks and investment firms so that the related costs will primarily be borne by shareholders and creditors instead of taxpayers. |
| August | <p>In Finland, the Credit Institutions Act entered into force. The Act implements the EU Capital Requirements Directive (CRD) which is based on a global overhaul of prudential regulation of banking (Basel III). The Credit Institutions Act and the EU Capital Requirements Regulation (CRR) enforced earlier require banks to increase the level and quality of their own funds to cover for losses. The Act also provides the authority responsible for macroprudential supervision in Finland – the Financial Supervisory Authority – with new discretionary instruments (macroprudential tools) to prevent systemic risks endangering the financial system as a whole.</p> <p>The Regulation of the European Parliament and of the Council establishing a Single Resolution Mechanism (SRM) for the banking union entered into force. This lays down rules relating to e.g. the establishment of a common European resolution authority (Single Resolution Board) and a Single Resolution Fund, and to the contributions to be made by banks to the Fund.</p> |
| October | The European Commission adopted detailed legislation on the liquidity coverage ratio applicable to banks under the EU Capital Requirements Regulation. Consequently, a wider range of instruments such as covered bonds will be accepted as banks' liquid assets constituting capital buffers. |
| November | The ECB assumed responsibility for the supervision of banks in the banking union. The ECB will directly supervise 120 systemically important banks. In Finland, banks that will come under the ECB's direct supervision are Nordea Bank Finland Group, OP Group and Danske Bank Group. Other banks will stay under the direct supervision of national supervisory authorities. |
| December | In Finland, the Act on the Recovery and Resolution of Credit Institutions and Investment Firms was adopted. The Act transposes into national law the EU Bank Recovery and Resolution Directive (BRRD). The Act lays down rules on e.g. the new national resolution authority to be established in Finland – the Finnish Resolution Authority – which is mandated to decide on resolution action relating to credit institutions and investment firms and to apply resolution tools and powers. |

Other issues

- January** The Basel Committee on Banking Supervision issued its final proposal on the calculation of the leverage ratio included in the Basel III framework and binding globally on all banks. The leverage ratio determines the minimum level of Tier 1 capital banks are required to hold relative to their balance sheet total and certain off-balance sheet items. The leverage ratio is intended to be enforced from the beginning of 2018.
- June** The European Systemic Risk Board issued, to designated national macroprudential authorities, a recommendation on variables to be taken into account when setting the new uniform macroprudential tool, the countercyclical capital buffer.
- October** Securities settlement moved from the former $t + 3$ settlement cycle to a $t + 2$ cycle. According to the new model, securities are settled within two business days after the trade date. A large number of European markets decided to migrate to the new system simultaneously and before the deadline of 1 January 2015 legally required in Europe.
- The Basel Committee on Banking Supervision issued a final proposal on the net stable funding ratio (NSFR) to be imposed on banks. The NSFR will increase the proportion of long-term assets in banks' funding structure.

Main opinions issued by the Bank of Finland in 2014

Opinions concerning legislation on and development of the financial markets

| <i>Opinion</i> | <i>Subject</i> | <i>Date</i> |
|--|--|-------------|
| To the Commerce Committee of the Finnish Parliament | Agreement on the Single Resolution Fund (U 58/2013 vp) | 11 Feb |
| | U communication of the Government to Parliament concerning the proposal of the European Commission for a Regulation of the European Parliament and of the Council on reporting and transparency of securities financing transactions | 5 May |
| | Government Bill to Parliament for an Act on the recovery and resolution of credit institutions and investment firms and for certain related Acts, for the approval of the Agreement on the transfer and mutualisation of contributions to the Single Resolution Fund, and for an Act carrying into effect rules within the legislative scope of the Agreement (HE 175/2014 vp) | 9 Oct |
| To the Financial Supervisory Authority | Amendments to the Financial Supervisory Authority's regulations and guidelines based on the regulatory framework for alternative investment fund managers | 25 Apr |
| | The Financial Supervisory Authority's regulations and guidelines on the management of operational risk in supervised entities in the financial sector | 4 Jul |
| | The Financial Supervisory Authority's regulations and guidelines on outsourcing of activities in supervised entities in the financial sector | 7 Aug |
| | The Financial Supervisory Authority's regulations and guidelines on the organisation of investment service activities | 30 Oct |
| To the Ministry of Justice | Proposal amending the Act on terms of payment (30/2013), legislative proposal LA 64/2013 | 15 Sep |
| To the National Police Board | Electronic medium of exchange | 3 Mar |
| To the Ministry of Social Affairs and Health | Government Bill to Parliament for Acts amending the Insurance Companies Act and certain related Acts | 27 Jun |
| | Draft Decrees concerning insurance companies | 24 Oct |
| To the Ministry of the Employment and the Economy | Government Bill for amending the Act on monitoring corporate acquisitions by foreigners | 23 Apr |

| <i>Opinion</i> | <i>Subject</i> | <i>Date</i> |
|-----------------------------------|--|-----------------|
| To the Ministry of Finance | Memorandum of the working group on crisis resolution: Effective management of crises on the financial markets | 2 May |
| | Assessment of the expansion of securities custody models and measures relating to the integration of market structures, and preparations for the implementation of the Regulation on central securities depositories – memorandum of the working group | 13 Aug |
| | Government Bill for the approval of the Agreement on the implementation of FATCA legislation and for amending the Act on the taxation procedure | 22 Aug |
| | Assessment on the need for specific legislation concerning bondholder representatives | 22 Aug |
| | Application of the Investor’s Compensation Fund for the confirmation of contributions | 19 Sep |
| | Amendments to the rules of the central securities depository and a clearing corporation due to the introduction of the Infinity system, T+2 settlement and certain other factors | 26 Sep |
| | Rules of the securities settlement system maintained by the Central Bank of Savings Banks Finland | 3 Oct |
| | Draft Ministry of Finance Decree on the countercyclical capital buffer requirement for credit institutions and investment firms | 3 Nov |
| | Draft Government Bill to Parliament for an Act on the book-entry system and securities settlement and for certain related Acts Ministry of Finance Decrees implementing legislation relating to the recovery and resolution of credit institutions and investment firms | 27 Nov 3 Dec |

Bank of Finland publications in 2014

Periodical publications

| | |
|---------------------------------|--|
| <i>Euro & talous</i> | Five issues (in Finnish) |
| <i>Bank of Finland Bulletin</i> | Five issues |
| <i>Research Newsletter</i> | Two issues of the online research bulletin in Finland (in Finnish and English) |

Annual report

Published separately in Finnish, Swedish and English

Research publications

Discussion Papers 33 online studies and reports in the areas of macroeconomics and financial markets were published in English.

Studies and reports

13 online studies and reports were published in the *BoF Online series*.

Statistical publications

Monetary Financial Institutions – Annual Review, published online in February (in Finnish and English)

Investment funds – Annual Review, published online in February (in Finnish and English)

International Reserves and Foreign Currency Liquidity, a monthly publication (in English)

Studies published by the Institute for Economies in Transition

Research publications

24 online studies were published in the *BOFIT Discussion Papers series* (in English).

16 publications appeared in the *BOFIT Policy Brief series* (in Finnish or English).

Monitoring publications

BOFIT Viikkokatsaus, a weekly online publication (in Finnish)

BOFIT Weekly, a weekly online publication (in English)

BOFIT Venäjä-ennuste, a bi-annual online publication (in Finnish)

BOFIT Forecast for Russia, a bi-annual online publication (in English)

BOFIT Kiina-ennuste, a bi-annual online publication (in Finnish)

BOFIT Forecast for China, a bi-annual online publication (in English)

Orders and subscriptions A comprehensive list of publications is available on the Bank of Finland's website <http://www.suomenpankki.fi/en/julkaisut/Pages/default.aspx>.

The Bank of Finland website offers a service where these publications can be subscribed to free of charge.

The subscriber will be alerted by email of the release of the desired publication. Online subscriptions can be made at the Bank of Finland's website:
Bank of Finland > Publications > Order and subscribe to electronic publications and reports.

Supplementary tables

Totals/sub-totals may not add up because of rounding.

0 less than half the final digit shown

. logically impossible

.. data not available

– nil

_ change in contents of series

Table 1.

Monthly balance sheet of the Bank of Finland, EUR m

| ASSETS | | Jan | Feb | Mar |
|---------------------|--|---------------|---------------|---------------|
| 1 | Gold and gold receivables | 1 373 | 1 373 | 1 373 |
| 2 | Claims on non-euro area residents denominated in foreign currency | 6 552 | 6 496 | 6 593 |
| 2.1 | Receivables from the IMF | 1 940 | 1 945 | 1 929 |
| 2.2 | Balances with banks and security investments, external loans and other external assets | 4 612 | 4 551 | 4 663 |
| 3 | Claims on euro area residents denominated in foreign currency | 319 | 423 | 324 |
| 4 | Claims on non-euro area residents denominated in euro | 1 364 | 1 142 | 1 276 |
| 4.1 | Balances with bank, security investments and loans | 1 364 | 1 142 | 1 276 |
| 4.2 | Claims arising from the credit facility under ERM II | – | – | – |
| 5 | Lending to euro area credit institutions related to monetary policy operations denominated in euro | 1 600 | 525 | 495 |
| 5.1 | Main refinancing operations | – | – | – |
| 5.2 | Longer-term refinancing operations | 1 600 | 525 | 495 |
| 5.3 | Fine-tuning reverse operations | – | – | – |
| 5.4 | Structural reverse operations | – | – | – |
| 5.5 | Marginal lending facility | – | – | – |
| 5.6 | Credits related to margin calls | – | – | – |
| 6 | Other claims on euro area credit institutions denominated in euro | 87 | 68 | 0 |
| 7 | Securities of euro area residents denominated in euro | 9 950 | 10 002 | 10 026 |
| 7.1 | Securities held for monetary policy purposes | 3 607 | 3 585 | 3 559 |
| 7.2 | Other euro-denominated securities | 6 343 | 6 417 | 6 467 |
| 8 | General government debt denominated in euro | – | – | – |
| 9 | Intra-Eurosystem claims | 23 415 | 19 336 | 24 068 |
| 9.1 | Participating interest in ECB | 142 | 144 | 144 |
| 9.2 | Claims equivalent to the transfer of foreign reserves | 728 | 728 | 728 |
| 9.3 | Claims related to the issuance of ECB debt certificates | – | – | – |
| 9.4 | Claims related to TARGET and correspondent accounts (net) | 19 131 | 15 048 | 19 780 |
| 9.5 | Other intra-Eurosystem claims (net) | 3 414 | 3 415 | 3 415 |
| 10 | Other assets | 1 032 | 1 009 | 1 010 |
| Total assets | | 45 694 | 40 374 | 45 165 |

Totals/sub-totals may not add up due to rounding.
Source: Bank of Finland.

| <i>Apr</i> | <i>May</i> | <i>Jun</i> | <i>Jul</i> | <i>Aug</i> | <i>Sep</i> | <i>Oct</i> | <i>Nov</i> | <i>Dec</i> |
|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| 1 481 | 1 481 | 1 481 | 1 516 | 1 516 | 1 516 | 1 516 | 1 516 | 1 557 |
| 6 505 | 6 517 | 6 473 | 6 544 | 6 604 | 6 414 | 6 767 | 6 708 | 7 020 |
| 1 949 | 1 949 | 1 937 | 1 942 | 1 927 | 1 930 | 1 969 | 1 952 | 1 913 |
| 4 556 | 4 568 | 4 535 | 4 602 | 4 677 | 4 484 | 4 798 | 4 756 | 5 106 |
| 420 | 355 | 345 | 495 | 454 | 652 | 621 | 606 | 360 |
| 1 168 | 1 075 | 1 146 | 921 | 900 | 859 | 896 | 1 071 | 1 044 |
| 1 168 | 1 075 | 1 146 | 921 | 900 | 859 | 896 | 1 071 | 1 044 |
| - | - | - | - | - | - | - | - | - |
| 495 | 480 | 484 | 531 | 486 | 549 | 553 | 947 | 722 |
| - | - | - | - | - | - | 10 | 510 | 15 |
| 495 | 480 | 484 | 484 | 486 | 549 | 543 | 437 | 707 |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| - | - | - | 47 | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| 7 | 0 | 0 | 62 | 25 | 59 | 16 | 141 | 37 |
| 10 468 | 10 758 | 11 294 | 11 213 | 11 072 | 11 039 | 11 059 | 11 110 | 11 316 |
| 3 539 | 3 444 | 3 313 | 3 193 | 3 015 | 3 015 | 3 066 | 3 412 | 3 568 |
| 6 929 | 7 314 | 7 982 | 8 020 | 8 057 | 8 024 | 7 993 | 7 698 | 7 748 |
| - | - | - | - | - | - | - | - | - |
| 19 783 | 22 077 | 18 438 | 20 152 | 17 710 | 17 426 | 14 667 | 13 226 | 24 584 |
| 144 | 144 | 144 | 144 | 144 | 144 | 144 | 144 | 144 |
| 728 | 728 | 728 | 728 | 728 | 728 | 728 | 728 | 728 |
| - | - | - | - | - | - | - | - | - |
| 15 470 | 17 736 | 14 096 | 15 807 | 13 207 | 12 923 | 10 188 | 8 716 | 19 732 |
| 3 440 | 3 469 | 3 469 | 3 473 | 3 630 | 3 630 | 3 606 | 3 637 | 3 979 |
| 1 020 | 1 026 | 1 029 | 1 028 | 1 016 | 1 031 | 1 018 | 1 023 | 1 082 |
| 41 347 | 43 769 | 40 691 | 42 462 | 39 783 | 39 544 | 37 112 | 36 347 | 47 722 |

Table 1.
(cont.)

| LIABILITIES | | Jan | Feb | Mar |
|--------------------------|---|---------------|---------------|---------------|
| 1 | <i>Banknotes in circulation</i> | 15 401 | 15 424 | 15 478 |
| 2 | <i>Liabilities to euro area credit institutions related to monetary policy operations denominated in euro</i> | 19 990 | 14 782 | 19 369 |
| 2.1 | <i>Current accounts (covering the minimum reserve system)</i> | 11 365 | 10 419 | 12 194 |
| 2.2 | <i>Deposit facility</i> | – | – | – |
| 2.3 | <i>Fixed-term deposits</i> | 8 625 | 4 363 | 7 175 |
| 2.4 | <i>Fine-tuning reverse operations</i> | – | – | – |
| 2.5 | <i>Deposits related to margin calls</i> | – | – | – |
| 3 | <i>Other liabilities to euro area credit institutions denominated in euro</i> | – | – | – |
| 4 | <i>Liabilities to other euro area residents denominated in euro</i> | 80 | 75 | 73 |
| 4.1 | <i>General government</i> | – | – | – |
| 4.2 | <i>Other liabilities</i> | 80 | 75 | 73 |
| 5 | <i>Liabilities to non-euro area residents denominated in euro</i> | 603 | 418 | 538 |
| 6 | <i>Liabilities to euro area residents denominated in foreign currency</i> | 0 | 37 | 0 |
| 7 | <i>Liabilities to non-euro area residents denominated in foreign currency</i> | 66 | 66 | 106 |
| 7.1 | <i>Deposits, balances and other liabilities</i> | 66 | 66 | 106 |
| 7.2 | <i>Liabilities arising from the credit facility under ERM II</i> | – | – | – |
| 8 | <i>Counterpart of special drawing rights allocated by the IMF</i> | 1 330 | 1 330 | 1 330 |
| 9 | <i>Intra-Eurosystem liabilities</i> | – | – | – |
| 9.1 | <i>Liabilities related to promissory notes backing the issuance of ECB debt certificates</i> | – | – | – |
| 9.2 | <i>Liabilities related to TARGET and correspondent accounts (net)</i> | – | – | – |
| 9.3 | <i>Other intra-Eurosystem liabilities (net)</i> | – | – | – |
| 10 | <i>Other liabilities</i> | 524 | 540 | 570 |
| 11 | <i>Revaluation account</i> | 1 556 | 1 556 | 1 556 |
| 12 | <i>Capital and reserves</i> | 6 144 | 6 144 | 6 144 |
| 12.1 | <i>Primary capital</i> | 841 | 841 | 841 |
| 12.2 | <i>Reserve fund</i> | 1 601 | 1 601 | 1 601 |
| 12.3 | <i>Pension provisions</i> | 582 | 582 | 582 |
| 12.4 | <i>Other provisions</i> | 3 120 | 3 120 | 3 120 |
| Total liabilities | | 45 694 | 40 374 | 45 165 |

Totals/sub-totals may not add up due to rounding.
Source: Bank of Finland.

| <i>Apr</i> | <i>May</i> | <i>Jun</i> | <i>Jul</i> | <i>Aug</i> | <i>Sep</i> | <i>Oct</i> | <i>Nov</i> | <i>Dec</i> |
|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| 15 599 | 15 755 | 15 833 | 15 903 | 16 044 | 16 078 | 16 110 | 16 205 | 16 793 |
| 15 466 | 18 171 | 14 835 | 16 374 | 13 541 | 13 289 | 10 482 | 9 668 | 20 308 |
| 7 656 | 13 896 | 14 835 | 16 374 | 13 521 | 13 289 | 10 482 | 9 668 | 20 233 |
| - | 5 | - | - | 20 | - | - | - | 75 |
| 7 810 | 4 270 | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | 16 | - | - |
| 73 | 67 | 18 | 31 | 25 | 17 | 18 | 17 | 2 |
| - | - | - | - | - | - | - | - | - |
| 73 | 67 | 18 | 31 | 25 | 17 | 18 | 17 | 2 |
| 377 | 151 | 346 | 182 | 154 | 100 | 32 | 46 | 2 |
| 41 | 0 | 0 | 129 | 101 | 114 | 75 | 2 | - |
| 39 | 26 | 26 | 41 | 93 | 67 | 63 | 67 | 58 |
| 39 | 26 | 26 | 41 | 93 | 67 | 63 | 67 | 58 |
| - | - | - | - | - | - | - | - | - |
| 1 333 | 1 333 | 1 333 | 1 347 | 1 347 | 1 347 | 1 401 | 1 401 | 1 418 |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| 295 | 141 | 175 | 210 | 230 | 286 | 311 | 336 | 172 |
| 1 684 | 1 684 | 1 684 | 1 807 | 1 807 | 1 807 | 2 165 | 2 165 | 2 304 |
| 6 440 | 6 440 | 6 440 | 6 440 | 6 440 | 6 440 | 6 440 | 6 440 | 6 665 |
| 841 | 841 | 841 | 841 | 841 | 841 | 841 | 841 | 841 |
| 1 660 | 1 660 | 1 660 | 1 660 | 1 660 | 1 660 | 1 660 | 1 660 | 1 660 |
| 616 | 616 | 616 | 616 | 616 | 616 | 616 | 616 | 616 |
| 3 323 | 3 323 | 3 323 | 3 323 | 3 323 | 3 323 | 3 323 | 3 323 | 3 548 |
| 41 347 | 43 769 | 40 691 | 42 462 | 39 783 | 39 544 | 37 112 | 36 347 | 47 722 |

Table 2.

Key interest rates of the Eurosystem

| <i>Fixed rate tenders</i> <i>Interest rate on main refinancing operations</i> | | | <i>Variable rate tenders</i> <i>Minimum bid rate</i> | | |
|--|------------------|----------|---|------------------|----------|
| <i>Decision date</i> | <i>Effective</i> | <i>%</i> | <i>Decision date</i> | <i>Effective</i> | <i>%</i> |
| 22 Dec 1998 | 1 Jan 1999 | 3.00 | 8 Jun 2000 | 28 Jun 2000 | 4.25 |
| 8 Apr 1999 | 14 Apr 1999 | 2.50 | 31 Aug 2000 | 6 Sep 2000 | 4.50 |
| 4 Nov 1999 | 10 Nov 1999 | 3.00 | 5 Oct 2000 | 11 Oct 2000 | 4.75 |
| 3 Feb 2000 | 9 Feb 2000 | 3.25 | 10 May 2001 | 15 May 2001 | 4.50 |
| 16 Mar 2000 | 22 Mar 2000 | 3.50 | 30 Aug 2001 | 5 Sep 2001 | 4.25 |
| 27 Apr 2000 | 4 May 2000 | 3.75 | 17 Sep 2001 | 19 Sep 2001 | 3.75 |
| 8 Jun 2000 | 15 Jun 2000 | 4.25 | 8 Nov 2001 | 14 Nov 2001 | 3.25 |
| | | | 5 Dec 2002 | 11 Dec 2002 | 2.75 |
| 8 Oct 2008 | 15 Oct 2008 | 3.75 | 6 Mar 2003 | 7 Mar 2003 | 2.50 |
| 6 Nov 2008 | 12 Nov 2008 | 3.25 | 5 Jun 2003 | 6 Jun 2003 | 2.00 |
| 4 Dec 2008 | 10 Dec 2008 | 2.50 | 1 Dec 2005 | 6 Dec 2005 | 2.25 |
| 15 Jan 2009 | 21 Jan 2009 | 2.00 | 2 Mar 2006 | 8 Mar 2006 | 2.50 |
| 5 Mar 2009 | 11 Mar 2009 | 1.50 | 8 Jun 2006 | 15 Jun 2006 | 2.75 |
| 2 Apr 2009 | 8 Apr 2009 | 1.25 | 3 Aug 2006 | 9 Aug 2006 | 3.00 |
| 7 May 2009 | 13 May 2009 | 1.00 | 5 Oct 2006 | 11 Nov 2006 | 3.25 |
| 7 Apr 2011 | 13 Apr 2011 | 1.25 | 7 Dec 2006 | 13 Dec 2006 | 3.50 |
| 7 Jul 2011 | 13 Jul 2011 | 1.50 | 8 Mar 2007 | 14 Mar 2007 | 3.75 |
| 3 Nov 2011 | 9 Nov 2011 | 1.25 | 7 Jun 2007 | 13 Jun 2007 | 4.00 |
| 8 Dec 2011 | 14 Dec 2011 | 1.00 | 3 Jul 2008 | 9 Jul 2008 | 4.25 |
| 5 Jul 2012 | 11 Jul 2012 | 0.75 | | | |
| 2 May 2013 | 8 May 2013 | 0.50 | | | |
| 7 Nov 2013 | 13 Nov 2013 | 0.25 | | | |
| 5 Jun 2014 | 11 Jun 2014 | 0.15 | | | |
| 4 Sep 2014 | 10 Sep 2014 | 0.05 | | | |

Standing facilities

| | | <i>Interest rate deposit facility</i> | <i>Interest rate on marginal lending facility</i> |
|----------------------|------------------|---------------------------------------|---|
| <i>Decision date</i> | <i>Effective</i> | <i>%</i> | <i>%</i> |
| 22 Dec 1998 | 1 Jan 1999 | 2.00 | 4.50 |
| 22 Dec 1998 | 4 Jan 1999 | 2.75 | 3.25 |
| 21 Jan 1999 | 22 Jan 1999 | 2.00 | 4.50 |
| 8 Apr 1999 | 9 Apr 1999 | 1.50 | 3.50 |
| 4 Nov 1999 | 5 Nov 1999 | 2.00 | 4.00 |
| 3 Feb 2000 | 4 Feb 2000 | 2.25 | 4.25 |
| 16 Mar 2000 | 17 Mar 2000 | 2.50 | 4.50 |
| 27 Apr 2000 | 28 Apr 2000 | 2.75 | 4.75 |
| 8 Jun 2000 | 9 Jun 2000 | 3.25 | 5.25 |
| 31 Aug 2000 | 1 Sep 2000 | 3.50 | 5.50 |
| 5 Oct 2000 | 6 Oct 2000 | 3.75 | 5.75 |

Standing facilities

| | | Interest rate deposit facility | Interest rate on marginal lending facility |
|---------------|-------------|--------------------------------|--|
| Decision date | Effective | % | % |
| 10 May 2001 | 11 May 2001 | 3.50 | 5.50 |
| 30 Aug 2001 | 31 Aug 2001 | 3.25 | 5.25 |
| 17 Sep 2001 | 18 Sep 2001 | 2.75 | 4.75 |
| 8 Nov 2001 | 9 Nov 2001 | 2.25 | 4.25 |
| 5 Dec 2002 | 6 Dec 2002 | 1.75 | 3.75 |
| 6 Mar 2003 | 7 Mar 2003 | 1.50 | 3.50 |
| 5 Jun 2003 | 6 Jun 2003 | 1.00 | 3.00 |
| 1 Dec 2005 | 6 Dec 2005 | 1.25 | 3.25 |
| 2 Mar 2006 | 8 Mar 2006 | 1.50 | 3.50 |
| 8 Jun 2006 | 15 Jun 2006 | 1.75 | 3.75 |
| 3 Aug 2006 | 9 Aug 2006 | 2.00 | 4.00 |
| 5 Oct 2006 | 11 Oct 2006 | 2.25 | 4.25 |
| 7 Dec 2006 | 13 Dec 2006 | 2.50 | 4.50 |
| 8 Mar 2007 | 14 Mar 2007 | 2.75 | 4.75 |
| 7 Jun 2007 | 13 Jun 2007 | 3.00 | 5.00 |
| 3 Jul 2008 | 9 Jul 2008 | 3.25 | 5.25 |
| 8 Oct 2008 | 8 Oct 2008 | 2.75 | 4.75 |
| 8 Oct 2008 | 9 Oct 2008 | 3.25 | 4.25 |
| 6 Nov 2008 | 12 Nov 2008 | 2.75 | 3.75 |
| 4 Dec 2008 | 10 Dec 2008 | 2.00 | 3.00 |
| 15 Jan 2009 | 21 Jan 2009 | 1.00 | 3.00 |
| 5 Mar 2009 | 11 Mar 2009 | 0.50 | 2.50 |
| 2 Apr 2009 | 8 Apr 2009 | 0.25 | 2.25 |
| 7 May 2009 | 13 May 2009 | 0.25 | 1.75 |
| 7 Apr 2011 | 13 Apr 2011 | 0.50 | 2.00 |
| 7 Jul 2011 | 13 Jul 2011 | 0.75 | 2.25 |
| 3 Nov 2011 | 9 Nov 2011 | 0.50 | 2.00 |
| 8 Dec 2011 | 14 Dec 2011 | 0.25 | 1.75 |
| 5 Jul 2012 | 11 Jul 2012 | 0.00 | 1.50 |
| 2 May 2013 | 8 May 2013 | 0.00 | 1.00 |
| 7 Nov 2013 | 13 Nov 2013 | 0.00 | 0.75 |
| 5 Jun 2014 | 11 Jun 2014 | -0.10 | 0.40 |
| 4 Sep 2014 | 10 Sep 2014 | -0.20 | 0.30 |

* In times of a negative interest rate on the deposit facility, the deposit rate has also been applied to deposits in excess of the minimum reserves, and extensively to other deposits as well.
Source: European Central Bank.

Table 3.

Reserve base of euro area credit institutions subject to reserve requirements, EUR bn

| Reserve base as of: | Total | Liabilities to which a 1% reserve coefficient is applied | | Liabilities to which a 0% reserve coefficient is applied | | |
|---------------------|----------|--|--|--|---------|---|
| | | Deposits (overnight, up to 2 years' agreed maturity and notice period) | Debt securities up to 2 years' agreed maturity | Deposits (over 2 years' agreed maturity and notice period) | Repos | Debt securities over 2 years' agreed maturity |
| | 1 | 2 | 3 | 4 | 5 | 6 |
| 2013 | | | | | | |
| Dec | 17,847.1 | 9,811.6 | 518.8 | 2,447.1 | 1,152.6 | 3,917.1 |
| 2014 | | | | | | |
| Jan | 18,010.5 | 9,834.5 | 569.0 | 2,436.0 | 1,233.4 | 3,937.5 |
| Feb | 17,994.9 | 9,825.2 | 572.2 | 2,409.7 | 1,281.0 | 3,906.9 |
| Mar | 17,978.0 | 9,885.5 | 553.4 | 2,395.7 | 1,232.6 | 3,910.7 |
| Apr | 18,035.7 | 9,948.1 | 541.3 | 2,364.4 | 1,257.2 | 3,924.7 |
| May | 18,077.2 | 10,002.9 | 543.9 | 2,356.2 | 1,270.3 | 3,903.9 |
| Jun | 17,990.3 | 10,022.5 | 546.3 | 2,342.3 | 1,208.3 | 3,870.9 |
| Jul | 18,038.7 | 10,030.9 | 550.1 | 2,326.6 | 1,295.5 | 3,835.6 |
| Aug | 17,417.3 | 10,055.1 | 561.8 | 1,654.3 | 1,303.8 | 3,842.3 |
| Sep | 18,101.0 | 10,135.7 | 555.6 | 2,306.0 | 1,250.4 | 3,853.2 |
| Oct | 18,100.2 | 10,138.8 | 538.5 | 2,294.0 | 1,324.5 | 3,804.3 |
| Nov | 18,218.9 | 10,267.7 | 532.8 | 2,278.2 | 1,346.8 | 3,793.4 |

Source: European Central Bank.

Reserve base of Finnish credit institutions subject to reserve requirements, EUR m

| Reserve base as of: | Total | Liabilities to which a 1% reserve coefficient is applied | | Liabilities to which a 0% reserve coefficient is applied | | |
|---------------------|---------|--|--|--|--------|---|
| | | Deposits (overnight, up to 2 years' agreed maturity and notice period) | Debt securities up to 2 years' agreed maturity | Deposits (over 2 years' agreed maturity and notice period) | Repos | Debt securities over 2 years' agreed maturity |
| | 1 | 2 | 3 | 4 | 5 | 6 |
| 2013 | | | | | | |
| Dec | 349,122 | 208,733 | 16,362 | 14,634 | 43,992 | 65,401 |
| 2014 | | | | | | |
| Jan | 351,521 | 203,801 | 18,007 | 15,053 | 47,071 | 67,590 |
| Feb | 342,508 | 196,788 | 17,081 | 14,910 | 45,980 | 67,749 |
| Mar | 354,370 | 205,322 | 17,165 | 15,051 | 46,302 | 70,530 |
| Apr | 356,678 | 202,107 | 17,432 | 15,090 | 50,241 | 71,807 |
| May | 361,483 | 206,265 | 17,247 | 15,780 | 49,986 | 72,205 |
| Jun | 358,575 | 208,087 | 16,323 | 16,281 | 46,187 | 71,696 |
| Jul | 355,079 | 206,286 | 16,222 | 16,188 | 44,454 | 71,930 |
| Aug | 355,883 | 204,593 | 14,816 | 16,178 | 47,864 | 72,431 |
| Sep | 363,119 | 207,185 | 14,987 | 16,219 | 50,986 | 73,742 |
| Oct | 360,729 | 200,156 | 15,830 | 16,233 | 55,000 | 73,509 |
| Nov | 361,310 | 202,782 | 16,027 | 16,415 | 52,396 | 73,690 |

Source: Bank of Finland.

Table 4.

Reserve maintenance of euro area credit institutions subject to reserve requirements, EUR bn

| <i>Maintenance period ending in</i> | <i>Required reserves</i> | <i>Actual reserves</i> | <i>Excess reserves</i> | <i>Deficiencies</i> | <i>Interest rate on minimum reserves, %</i> |
|-------------------------------------|--------------------------|------------------------|------------------------|---------------------|---|
| | 1 | 2 | 3 | 4 | 5 |
| 2013 | | | | | |
| <i>Dec</i> | 103.3 | 220.2 | 116.9 | 0.0 | 0.25 |
| 2014 | | | | | |
| <i>Jan</i> | 103.4 | 248.1 | 144.8 | 0.0 | 0.25 |
| <i>Feb</i> | 103.6 | 216.0 | 112.4 | 0.0 | 0.25 |
| <i>Mar</i> | 102.8 | 201.1 | 98.3 | 0.0 | 0.25 |
| <i>Apr</i> | 103.6 | 195.2 | 91.6 | 0.0 | 0.25 |
| <i>May</i> | 103.5 | 191.2 | 87.7 | 0.0 | 0.25 |
| <i>Jun</i> | 103.9 | 192.3 | 88.3 | 0.0 | 0.25 |
| <i>Jul</i> | 104.4 | 214.3 | 109.8 | 0.0 | 0.15 |
| <i>Aug</i> | 105.0 | 210.2 | 105.2 | 0.0 | 0.15 |
| <i>Sep</i> | 105.2 | 210.1 | 104.9 | 0.0 | 0.15 |
| <i>Oct</i> | 105.3 | 192.6 | 87.3 | 0.0 | 0.05 |
| <i>Nov</i> | 105.7 | 188.3 | 82.8 | 0.0 | 0.05 |
| <i>Dec</i> | 106.5 | 185.4 | 79.0 | 0.0 | 0.05 |
| 2015 | | | | | |
| <i>Jan</i> | 106.3 | 236.3 | 130.1 | 0.0 | 0.05 |

Source: European Central Bank.

Reserve maintenance of Finnish credit institutions subject to reserve requirements, EUR m

| <i>Maintenance period ending in</i> | <i>Required reserves</i> | <i>Actual reserves</i> | <i>Excess reserves</i> | <i>Deficiencies</i> | <i>Interest rate on minimum reserves, %</i> |
|-------------------------------------|--------------------------|------------------------|------------------------|---------------------|---|
| | 1 | 2 | 3 | 4 | 5 |
| 2013 | | | | | |
| <i>Dec</i> | 2,137.6 | 14,210.0 | 12,072.4 | 0.0 | 0.25 |
| 2014 | | | | | |
| <i>Jan</i> | 2,199.3 | 12,430.7 | 10,231.4 | 0.0 | 0.25 |
| <i>Feb</i> | 2,223.1 | 11,084.8 | 8,861.7 | 0.0 | 0.25 |
| <i>Mar</i> | 2,190.6 | 13,141.7 | 10,951.1 | 0.0 | 0.25 |
| <i>Apr</i> | 2,111.4 | 10,888.6 | 8,777.2 | 0.0 | 0.25 |
| <i>May</i> | 2,197.7 | 13,477.6 | 11,279.9 | 0.0 | 0.25 |
| <i>Jun</i> | 2,168.2 | 14,616.9 | 12,448.7 | 0.0 | 0.15 |
| <i>Jul</i> | 2,208.0 | 15,254.2 | 13,046.2 | 0.0 | 0.15 |
| <i>Aug</i> | 2,217.0 | 13,873.2 | 11,656.2 | 0.0 | 0.15 |
| <i>Sep</i> | 2,197.9 | 13,080.6 | 10,882.7 | 0.0 | 0.05 |
| <i>Oct</i> | 2,166.9 | 12,573.5 | 10,406.6 | 0.0 | 0.05 |
| <i>Nov</i> | 2,194.6 | 11,010.4 | 8,815.9 | 0.0 | 0.05 |
| <i>Dec</i> | 2,132.7 | 17,461.9 | 15,329.3 | 0.0 | 0.05 |
| 2015 | | | | | |
| <i>Jan</i> | 2,160.9 | 12,805.1 | 10,644.2 | 0.0 | 0.05 |

Source: Bank of Finland.

Table 5.

Euro area monetary aggregate M3 and corresponding items of Finnish monetary financial institutions¹

| | Euro area monetary aggregate M3 | | | Liabilities of Finnish monetary financial institutions included in euro area M3 ² | | |
|------|---------------------------------|--|--|--|--|--|
| | Stock ⁴ , EUR bn | 12-month change ^{3,4} , % | 3-month mov avg of 12-month change ^{3,4} , % | Stock, EUR bn | 12-month change ³ , % | 3-month mov avg of 12-month change ³ , % |
| | 1 | 2 | 3 | 4 | 5 | 6 |
| 2010 | 9,292.0 | 1.1 | 1.3 | 137.3 | 5.2 | 4.3 |
| 2011 | 9,498.3 | 1.6 | 1.7 | 143.6 | 6.0 | 6.5 |
| 2012 | 9,780.9 | 3.5 | 3.6 | 140.3 | 0.5 | 1.1 |
| 2013 | 9,830.0 | 1.0 | 1.2 | 145.2 | 4.1 | 3.8 |
| 2014 | 10,330.2 | 3.8 | 3.6 | 148.2 | 1.3 | 0.9 |
| 2014 | | | | | | |
| Jan | 9,877.7 | 1.2 | 1.2 | 145.8 | 4.5 | 4.3 |
| Feb | 9,904.6 | 1.3 | 1.2 | 145.4 | 4.4 | 4.9 |
| Mar | 9,886.2 | 1.0 | 1.1 | 149.1 | 5.9 | 5.1 |
| Apr | 9,888.2 | 0.8 | 1.0 | 145.0 | 5.0 | 5.2 |
| May | 9,931.6 | 1.1 | 1.2 | 146.2 | 4.7 | 3.4 |
| Jun | 9,963.6 | 1.6 | 1.5 | 145.2 | 0.5 | 2.1 |
| Jul | 10,014.4 | 1.8 | 1.8 | 145.6 | 1.2 | 1.1 |
| Aug | 10,055.6 | 2.0 | 2.1 | 145.7 | 1.6 | 1.5 |
| Sep | 10,087.8 | 2.5 | 2.3 | 145.6 | 1.6 | 1.6 |
| Oct | 10,131.4 | 2.5 | 2.7 | 144.7 | 1.5 | 1.5 |
| Nov | 10,206.7 | 3.1 | 3.1 | 145.0 | 1.5 | 1.4 |
| Dec | 10,330.2 | 3.8 | 3.6 | 148.2 | 1.3 | 0.9 |

¹ Excl. negotiable instruments held by central governments and non-euro area residents.

² Excl. notes and coins held by the public.

³ Calculated from monthly differences in stocks adjusted for reclassifications, other revaluations, exchange rate variations and any other change which do not arise from transactions.

⁴ Seasonally and calendar effect adjusted.

Sources: European Central Bank and Bank of Finland.

Table 6.

Key market interest rates

| | Eonia rate | Euribor rates (actual /360) | | | | | | Yields on Finnish government bonds | |
|------|---------------|-----------------------------|---------|---------|---------|---------|----------|---------------------------------------|---------|
| | | 1-month | 2-month | 3-month | 6-month | 9-month | 12-month | 5-year | 10-year |
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
| 2010 | 0.44 | 0.570 | 0.663 | 0.813 | 1.083 | 1.223 | 1.352 | 1.781 | 3.003 |
| 2011 | 0.87 | 1.178 | 1.260 | 1.393 | 1.638 | 1.826 | 2.009 | 2.083 | 2.997 |
| 2012 | 0.23 | 0.325 | 0.431 | 0.571 | 0.824 | 0.973 | 1.108 | 0.875 | 1.886 |
| 2013 | 0.09 | 0.130 | 0.177 | 0.221 | 0.337 | 0.441 | 0.536 | 0.815 | 1.863 |
| 2014 | 0.10 | 0.131 | 0.170 | 0.209 | 0.308 | 0.391 | 0.475 | 0.506 | 1.436 |
| 2014 | | | | | | | | | |
| Jan | 0.21 | 0.224 | 0.258 | 0.292 | 0.396 | 0.486 | 0.562 | 0.962 | 1.993 |
| Feb | 0.16 | 0.224 | 0.252 | 0.288 | 0.387 | 0.469 | 0.549 | 0.764 | 1.921 |
| Mar | 0.19 | 0.232 | 0.268 | 0.305 | 0.407 | 0.493 | 0.577 | 0.733 | 1.905 |
| Apr | 0.25 | 0.253 | 0.291 | 0.330 | 0.430 | 0.513 | 0.604 | 0.694 | 1.840 |
| May | 0.25 | 0.259 | 0.291 | 0.325 | 0.417 | 0.503 | 0.592 | 0.622 | 1.690 |
| Jun | 0.08 | 0.153 | 0.198 | 0.241 | 0.333 | 0.421 | 0.513 | 0.575 | 1.569 |
| Jul | 0.04 | 0.096 | 0.155 | 0.205 | 0.305 | 0.395 | 0.488 | 0.458 | 1.356 |
| Aug | 0.02 | 0.085 | 0.142 | 0.192 | 0.292 | 0.380 | 0.469 | 0.368 | 1.183 |
| Sep | 0.01 | 0.018 | 0.058 | 0.097 | 0.200 | 0.275 | 0.362 | 0.287 | 1.129 |
| Oct | 0.00 | 0.008 | 0.045 | 0.083 | 0.184 | 0.256 | 0.338 | 0.243 | 1.014 |
| Nov | -0.01 | 0.010 | 0.044 | 0.081 | 0.182 | 0.257 | 0.335 | 0.175 | 0.899 |
| Dec | -0.03 | 0.023 | 0.047 | 0.081 | 0.176 | 0.253 | 0.329 | 0.273 | 0.888 |

Sources: European Central Bank, Reuters and Bloomberg.

Table 7.

Nominal competitiveness indicators for Finland and effective exchange rate of the euro calculated by the ECB

| | Narrow indicator ¹ | Narrow euro area indicator ¹ | Broad indicator ¹ | Effective exchange rate of the euro, narrow group of countries ¹ |
|----------------------------|-------------------------------|---|------------------------------|---|
| Tammi-maaliskuu 1999 = 100 | | | | |
| | 1 | 2 | 3 | 4 |
| 2010 | 107.5 | 103.0 | 106.0 | 111.5 |
| 2011 | 105.8 | 102.3 | 105.9 | 110.8 |
| 2012 | 100.3 | 99.9 | 103.0 | 104.9 |
| 2013 | 104.1 | 101.6 | 105.4 | 110.6 |
| 2014 | 105.9 | 102.4 | 107.8 | 109.7 |
| 2014 | | | | |
| Jan | 106.5 | 102.6 | 107.6 | 112.3 |
| Feb | 106.5 | 102.6 | 108.0 | 112.1 |
| Mar | 107.1 | 102.8 | 108.7 | 112.9 |
| Apr | 107.2 | 102.9 | 108.6 | 112.2 |
| May | 106.5 | 102.6 | 108.0 | 111.0 |
| Jun | 106.1 | 102.4 | 107.6 | 109.9 |
| Jul | 106.3 | 102.5 | 107.6 | 109.4 |
| Aug | 105.6 | 102.2 | 107.3 | 108.7 |
| Sep | 104.6 | 101.8 | 106.7 | 107.3 |
| Oct | 104.2 | 101.6 | 106.7 | 106.5 |
| Nov | 104.9 | 101.9 | 107.4 | 106.9 |
| Dec | 105.6 | 102.2 | 109.0 | 106.9 |

¹ An upward movement of the index represents an appreciation of the euro. The narrow indicator comprises 12 countries, 1999, the narrow plus euro area indicator 23 countries, and the broad indicator 37 countries.
Sources: European Central Bank and Bank of Finland.

Table 8.

Harmonised Index of Consumer Prices for euro area and Finland, annual change, %

| | Euro area | Finland |
|------|-----------|---------|
| | 1 | 2 |
| 2010 | 1.6 | 1.7 |
| 2011 | 2.7 | 3.3 |
| 2012 | 2.5 | 3.2 |
| 2013 | 1.4 | 2.2 |
| 2014 | 0.4 | 1.2 |
| 2014 | | |
| Jan | 0.8 | 1.9 |
| Feb | 0.7 | 1.6 |
| Mar | 0.5 | 1.3 |
| Apr | 0.7 | 1.3 |
| May | 0.5 | 1.0 |
| Jun | 0.5 | 1.1 |
| Jul | 0.4 | 1.0 |
| Aug | 0.4 | 1.2 |
| Sep | 0.3 | 1.5 |
| Oct | 0.4 | 1.2 |
| Nov | 0.3 | 1.1 |
| Dec | -0.2 | 0.6 |

Sources: Eurostat and Statistics Finland.

Table 9.

Key euro exchange rates, currency value of one euro

| | <i>US dollar</i> | | | <i>Japanese yen</i> | | |
|------|-----------------------|----------------|-------------|----------------------|----------------|-------------|
| | <i>Low</i> | <i>Average</i> | <i>High</i> | <i>Low</i> | <i>Average</i> | <i>High</i> |
| | 1 | 2 | 3 | 4 | 5 | 6 |
| 2010 | 1.1942 | 1.3257 | 1.4563 | 106.19 | 116.24 | 134.23 |
| 2011 | 1.2889 | 1.3920 | 1.4882 | 100.20 | 110.96 | 122.80 |
| 2012 | 1.2089 | 1.2848 | 1.3454 | 94.63 | 102.49 | 113.87 |
| 2013 | 1.2768 | 1.3281 | 1.3814 | 113.93 | 129.66 | 145.02 |
| 2014 | 1.2141 | 1.3285 | 1.3953 | 134.95 | 140.31 | 149.03 |
| 2014 | | | | | | |
| Jan | 1.3516 | 1.3610 | 1.3687 | 138.13 | 141.47 | 143.82 |
| Feb | 1.3495 | 1.3659 | 1.3813 | 136.78 | 139.35 | 140.77 |
| Mar | 1.3732 | 1.3823 | 1.3942 | 139.51 | 141.48 | 143.39 |
| Apr | 1.3700 | 1.3813 | 1.3872 | 140.62 | 141.62 | 143.12 |
| May | 1.3607 | 1.3732 | 1.3953 | 138.18 | 139.74 | 142.06 |
| Jun | 1.3528 | 1.3592 | 1.3658 | 137.81 | 138.72 | 139.78 |
| Jul | 1.3379 | 1.3539 | 1.3688 | 136.51 | 137.72 | 139.06 |
| Aug | 1.3177 | 1.3316 | 1.3422 | 136.45 | 137.11 | 137.92 |
| Sep | 1.2583 | 1.2901 | 1.3151 | 136.27 | 138.39 | 140.11 |
| Oct | 1.2524 | 1.2673 | 1.2823 | 134.95 | 136.85 | 140.18 |
| Nov | 1.2393 | 1.2472 | 1.2539 | 141.96 | 145.03 | 148.25 |
| Dec | 1.2141 | 1.2331 | 1.2537 | 145.23 | 147.06 | 149.03 |
| | | | | | | |
| | <i>Pound sterling</i> | | | <i>Swedish krona</i> | | |
| | <i>Low</i> | <i>Average</i> | <i>High</i> | <i>Low</i> | <i>Average</i> | <i>High</i> |
| | 7 | 8 | 9 | 10 | 11 | 12 |
| 2010 | 0.81040 | 0.85784 | 0.9114 | 8.9630 | 9.5373 | 10.2723 |
| 2011 | 0.83155 | 0.86788 | 0.9050 | 8.7090 | 9.0298 | 9.3127 |
| 2012 | 0.77835 | 0.81087 | 0.8482 | 8.2077 | 8.7041 | 9.1356 |
| 2013 | 0.81075 | 0.84926 | 0.8789 | 8.2931 | 8.6515 | 9.0604 |
| 2014 | 0.77730 | 0.80612 | 0.8383 | 8.7661 | 9.0985 | 9.6234 |
| 2014 | | | | | | |
| Jan | 0.81900 | 0.82674 | 0.83215 | 8.7661 | 8.8339 | 8.9260 |
| Feb | 0.81885 | 0.82510 | 0.83220 | 8.7718 | 8.8721 | 8.9953 |
| Mar | 0.82170 | 0.83170 | 0.83830 | 8.8226 | 8.8666 | 8.9483 |
| Apr | 0.82050 | 0.82520 | 0.82970 | 8.9002 | 9.0329 | 9.1091 |
| May | 0.80935 | 0.81535 | 0.82330 | 8.9740 | 9.0298 | 9.0844 |
| Jun | 0.79740 | 0.80409 | 0.81470 | 9.0005 | 9.0914 | 9.1962 |
| Jul | 0.79030 | 0.79310 | 0.79810 | 9.1523 | 9.2326 | 9.3286 |
| Aug | 0.79285 | 0.79730 | 0.80265 | 9.1489 | 9.1878 | 9.2563 |
| Sep | 0.77730 | 0.79113 | 0.80235 | 9.1465 | 9.1929 | 9.2634 |
| Oct | 0.77820 | 0.78861 | 0.79700 | 9.0668 | 9.1797 | 9.3630 |
| Nov | 0.78085 | 0.79054 | 0.79965 | 9.1908 | 9.2384 | 9.2790 |
| Dec | 0.77890 | 0.78830 | 0.79650 | 9.2562 | 9.4043 | 9.6234 |

Source: European Central Bank.

Table 10.

Other euro exchange rates, currency value of one euro, average

| | <i>Czech koruna</i> | <i>Danish krone</i> | <i>Hungarian forinti</i> | <i>Lithuanian litas</i> | <i>Latvian lats</i> | <i>Polish zloty</i> |
|------|-------------------------|----------------------------|------------------------------|-----------------------------|-------------------------|---------------------------|
| | 1 | 2 | 3 | 4 | 5 | 6 |
| 2009 | 25.284 | 7.447 | 275.480 | 3.453 | 0.709 | 3.995 |
| 2010 | 24.590 | 7.451 | 279.373 | 3.453 | 0.706 | 4.121 |
| 2011 | 25.149 | 7.444 | 289.249 | 3.453 | 0.697 | 4.185 |
| 2012 | 25.980 | 7.458 | 296.873 | 3.453 | 0.701 | 4.197 |
| 2013 | 27.536 | 7.455 | 308.706 | 3.453 | .. | 4.184 |
| 2013 | | | | | | |
| Jan | 27.485 | 7.461 | 302.475 | 3.453 | .. | 4.180 |
| Feb | 27.444 | 7.462 | 310.195 | 3.453 | .. | 4.174 |
| Mar | 27.395 | 7.464 | 311.493 | 3.453 | .. | 4.199 |
| Apr | 27.450 | 7.466 | 307.369 | 3.453 | .. | 4.185 |
| May | 27.437 | 7.464 | 304.576 | 3.453 | .. | 4.180 |
| Jun | 27.450 | 7.459 | 305.867 | 3.453 | .. | 4.135 |
| Jul | 27.458 | 7.456 | 309.808 | 3.453 | .. | 4.144 |
| Aug | 27.816 | 7.455 | 313.907 | 3.453 | .. | 4.192 |
| Sep | 27.599 | 7.445 | 313.197 | 3.453 | .. | 4.190 |
| Oct | 27.588 | 7.445 | 307.846 | 3.453 | .. | 4.207 |
| Nov | 27.667 | 7.442 | 306.888 | 3.453 | .. | 4.212 |
| Dec | 27.640 | 7.440 | 310.833 | 3.453 | .. | 4.215 |
| | | | | | | |
| | <i>Swiss franc</i> | <i>Norwegian krone</i> | <i>Bulgarian lev</i> | <i>Croatian kuna</i> | <i>Romanian leu</i> | <i>Russian rouble</i> |
| | 7 | 8 | 9 | 10 | 11 | 12 |
| 2010 | 1.380 | 8.004 | 1.956 | 7.289 | 4.212 | 40.263 |
| 2011 | 1.233 | 7.793 | 1.956 | 7.439 | 4.239 | 40.885 |
| 2012 | 1.205 | 7.475 | 1.956 | 7.522 | 4.459 | 39.926 |
| 2013 | 1.231 | 7.807 | 1.956 | 7.579 | 4.419 | 42.337 |
| 2014 | 1.215 | 8.354 | 1.956 | 7.634 | 4.444 | 50.952 |
| 2014 | | | | | | |
| Jan | 1.232 | 8.393 | 1.956 | 7.635 | 4.520 | 46.030 |
| Feb | 1.221 | 8.356 | 1.956 | 7.657 | 4.492 | 48.255 |
| Mar | 1.218 | 8.291 | 1.956 | 7.658 | 4.493 | 49.948 |
| Apr | 1.219 | 8.251 | 1.956 | 7.627 | 4.462 | 49.298 |
| May | 1.220 | 8.151 | 1.956 | 7.595 | 4.424 | 47.840 |
| Jun | 1.218 | 8.215 | 1.956 | 7.577 | 4.393 | 46.751 |
| Jul | 1.215 | 8.388 | 1.956 | 7.615 | 4.410 | 46.998 |
| Aug | 1.212 | 8.252 | 1.956 | 7.633 | 4.425 | 48.178 |
| Sep | 1.208 | 8.180 | 1.956 | 7.624 | 4.410 | 49.052 |
| Oct | 1.208 | 8.314 | 1.956 | 7.657 | 4.415 | 51.938 |
| Nov | 1.203 | 8.491 | 1.956 | 7.670 | 4.429 | 57.519 |
| Dec | 1.203 | 8.980 | 1.956 | 7.668 | 4.458 | 70.327 |

Sources: European Central Bank and Bank of Finland.

Table 10.
(cont.)

| | <i>Turkish lira</i> | <i>Australian dollar</i> | <i>Canadian dollar</i> | <i>Chinese yuan renminbi</i> | <i>Hong Kong dollar</i> | <i>Indonesian rupiah</i> | <i>South Korean won</i> |
|------|---------------------|--------------------------|------------------------|------------------------------|-------------------------|--------------------------|-------------------------|
| | 13 | 14 | 15 | 16 | 17 | 18 | 19 |
| 2010 | 1.997 | 1.442 | 1.365 | 8.971 | 10.299 | 12041.705 | 1531.821 |
| 2011 | 2.338 | 1.348 | 1.376 | 8.996 | 10.836 | 12206.510 | 1541.234 |
| 2012 | 2.314 | 1.241 | 1.284 | 8.105 | 9.966 | 12045.733 | 1447.691 |
| 2013 | 2.534 | 1.378 | 1.368 | 8.165 | 10.302 | 13856.597 | 1453.903 |
| 2014 | 2.906 | 1.472 | 1.466 | 8.186 | 10.302 | 15748.918 | 1398.142 |
| 2014 | | | | | | | |
| Jan | 3.030 | 1.538 | 1.488 | 8.237 | 10.559 | 16471.940 | 1453.935 |
| Feb | 3.018 | 1.522 | 1.509 | 8.306 | 10.601 | 16270.183 | 1462.511 |
| Mar | 3.063 | 1.522 | 1.535 | 8.533 | 10.728 | 15785.890 | 1479.990 |
| Apr | 2.939 | 1.483 | 1.518 | 8.598 | 10.711 | 15801.665 | 1441.277 |
| May | 2.874 | 1.476 | 1.495 | 8.566 | 10.646 | 15830.115 | 1407.129 |
| Jun | 2.881 | 1.452 | 1.473 | 8.470 | 10.537 | 16167.871 | 1385.448 |
| Jul | 2.870 | 1.442 | 1.452 | 8.394 | 10.493 | 15789.655 | 1382.290 |
| Aug | 2.878 | 1.431 | 1.455 | 8.197 | 10.321 | 15603.097 | 1364.171 |
| Sep | 2.854 | 1.425 | 1.420 | 7.921 | 10.002 | 15362.845 | 1336.017 |
| Oct | 2.858 | 1.444 | 1.421 | 7.763 | 9.831 | 15389.795 | 1345.249 |
| Nov | 2.788 | 1.443 | 1.414 | 7.641 | 9.672 | 15177.152 | 1370.365 |
| Dec | 2.830 | 1.493 | 1.422 | 7.633 | 9.563 | 15351.192 | 1359.974 |

| | <i>Malaysian ringgit</i> | <i>New Zealand dollar</i> | <i>Philippine peso</i> | <i>Singapore dollar</i> | <i>Thai bant</i> | <i>South African rand</i> | <i>IMF SDRs</i> |
|------|--------------------------|---------------------------|------------------------|-------------------------|------------------|---------------------------|-----------------|
| | 20 | 21 | 22 | 23 | 24 | 25 | 26 |
| 2010 | 4.267 | 1.838 | 59.739 | 1.806 | 42.014 | 9.698 | 0.869 |
| 2011 | 4.256 | 1.760 | 60.260 | 1.749 | 42.429 | 10.097 | 0.882 |
| 2012 | 3.967 | 1.587 | 54.246 | 1.605 | 39.928 | 10.551 | 0.839 |
| 2013 | 4.186 | 1.621 | 56.427 | 1.662 | 40.830 | 12.833 | 0.874 |
| 2014 | 4.345 | 1.600 | 58.979 | 1.682 | 43.147 | 14.404 | 0.874 |
| 2014 | | | | | | | |
| Jan | 4.501 | 1.645 | 61.263 | 1.733 | 44.822 | 14.824 | 0.887 |
| Feb | 4.519 | 1.647 | 61.238 | 1.730 | 44.568 | 14.982 | 0.887 |
| Mar | 4.536 | 1.620 | 61.901 | 1.751 | 44.765 | 14.861 | 0.893 |
| Apr | 4.499 | 1.605 | 61.646 | 1.735 | 44.657 | 14.582 | 0.892 |
| May | 4.434 | 1.596 | 60.258 | 1.719 | 44.686 | 14.300 | 0.888 |
| Jun | 4.376 | 1.577 | 59.543 | 1.701 | 44.195 | 14.509 | 0.882 |
| Jul | 4.310 | 1.558 | 58.844 | 1.682 | 43.470 | 14.437 | 0.878 |
| Aug | 4.231 | 1.578 | 58.320 | 1.662 | 42.644 | 14.205 | 0.872 |
| Sep | 4.152 | 1.584 | 57.033 | 1.630 | 41.536 | 14.158 | 0.860 |
| Oct | 4.144 | 1.609 | 56.807 | 1.615 | 41.139 | 14.027 | 0.853 |
| Nov | 4.175 | 1.593 | 56.101 | 1.617 | 40.908 | 13.836 | 0.850 |
| Dec | 4.290 | 1.587 | 55.092 | 1.621 | 40.564 | 14.158 | 0.846 |

Sources: European Central Bank and Bank of Finland.

Table 11.

Irrevocable euro conversion rates as from 1 Jan 1999

| Country | Currency | Units of currency per euro | Euro since | Country | Currency | Units of currency per euro | Euro since |
|------------|-----------|----------------------------|------------|-------------|----------|----------------------------|------------|
| Austria | schilling | 13.7603 | 1.1.1999 | Netherlands | guilder | 2.20371 | 1.1.1999 |
| Belgium | franc | 40.3399 | 1.1.1999 | Portugal | escudo | 200.482 | 1.1.1999 |
| Germany | mark | 1.95583 | 1.1.1999 | Creece | drakma | 340.750 | 1.1.2001 |
| Spain | peseta | 166.386 | 1.1.1999 | Slovenia | tolar | 239.640 | 1.1.2007 |
| Finland | markka | 5.94573 | 1.1.1999 | Kypros | pound | 0.585274 | 1.1.2008 |
| France | franc | 6.55957 | 1.1.1999 | Malta | lira | 0.429300 | 1.1.2008 |
| Ireland | pound | 0.787564 | 1.1.1999 | Slovakia | koruna | 30.1260 | 1.1.2009 |
| Italy | lira | 1936.27 | 1.1.1999 | Estonia | kroon | 15.6466 | 1.1.2011 |
| Luxembourg | franc | 40.3399 | 1.1.1999 | Latvian | lats | 0.702804 | 1.1.2014 |

Source: European Union.

Table 12.

Exchange rate mechanism ERM II

| Currency | Central rate EUR 1 = | Fluctuation band, % | Upper rate* | Lower rate* | Valid from |
|------------------|-------------------------|------------------------|-------------|-------------|------------|
| Danish krone | 7.46038 | ± 2,25 | 7.62824 | 7.29252 | 4.1.1999 |
| Lithuanian litas | 3.45280 | ± 15 | 3.97072 | 2.93488 | 28.6.2004 |
| Latvian lats | 0.702804 | ± 15 | 0.808225 | 0.597383 | 2.5.2005 |

* Intervention at the margin is, in principle, automatic and unlimited.
Source: European Central Bank.

Table 13.

Banknote denominations sorted at the Bank of Finland, number in millions

| Euro banknotes | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|----------------|--------------|--------------|--------------|--------------|--------------|--------------|
| 500 euro | 2.1 | 1.9 | 1.8 | 1.8 | 1.4 | 1.2 |
| 200 euro | 1.3 | 1.2 | 1.1 | 1.0 | 0.8 | 0.7 |
| 100 euro | 6.5 | 6.8 | 6.9 | 6.9 | 5.6 | 5.7 |
| 50 euro | 84.5 | 84.3 | 86.9 | 79.4 | 60.3 | 65.4 |
| 20 euro | 177.5 | 176.3 | 168.2 | 149.0 | 114.6 | 112.1 |
| 10 euro | 42.4 | 40.9 | 39.6 | 37.9 | 32.3 | 30.4 |
| 5 euro | 52.8 | 48.3 | 47.1 | 46.3 | 37.5 | 33.9 |
| Total | 366.9 | 359.6 | 351.6 | 322.3 | 252.5 | 249.4 |

Source: Bank of Finland.

Organisation of the Bank of Finland

1 January 2015

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