SUOMEN PANKKI • BANK OF FINLAND

Financial Markets Department

Financial Market Report

2004 - No. 3

- Banks' operating profit up in first quarter of the year, despite continuing decline in net interest income.
- Nokia's share price movements reflected in the Helsinki Exchanges' performance being one of the weakest in the euro area at the beginning of the year.
- Anticipated rise in market rates augmenting financing costs.
- Baltic States' financial systems remain very bank-centred.
- Payment card usage and number of EFTPOS terminals increased rapidly.

http://www.bof.fi/eng/3_rahoitusmarkkinat/index.stm

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1 Financial intermediation

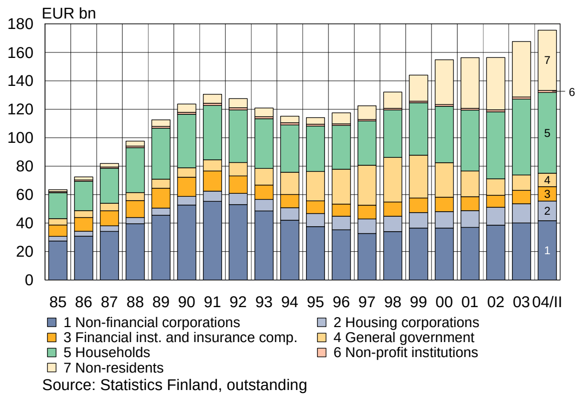
1.1 Households account for one third of domestic lending stock

Hanna Putkuri

The stock of lending by domestic credit institutions has grown continuously since 1996. More than half of the lending was by deposit banks. Households are the main borrowing sector and account for nearly one third of the domestic lending stock.
The stock of foreign lending to Finland has been increasing since the mid-1990s.

The stock of lending by domestic financial institutions and insurance companies, central government, and social security funds has grown continuously since 1996 (Chart 1). At the end of the second quarter of 2004, the lending stock totalled EUR 176 billion, up 7.3% from the previous year. Deposit banks account for the majority of lending; at the end of June, deposit banks accounted for over 54% of the total lending stock, and for 72% of lending to the domestic public (see Chart 1, Annex Charts), and for 91% of household loans.

Chart 1. Domestic lending stock by borrowing sector



Source: Statistics Finland, outstanding

The share of non-resident borrowers of the lending stock has increased since the introduction of the euro. This is mainly due to an increase in investments by domestic insurance companies and employee pension institutions in investment bonds issued in other euro area countries. The relative importance of loans taken by domestic non-financial corporations and general government has by contrast decreased clearly from the mid-1990s.

The stock of household lending has grown since 1997. At the same time, households have become the main borrowing sector, accounting for nearly one third of the domestic lending stock. At the end of June, households accounted for 61% of deposit banks' lending.

In household borrowing, the sharpest increase has been in housing loans: the stock of housing loans has doubled since the end of 1996. Between the beginning of 1999 and the end of the second quarter of 2004, the average annual rate of increase of housing loans to households was 12.1%. At the end of June 2004, the stock of housing loans totalled nearly EUR 40 billion, which is 15.4% higher than the previous year.

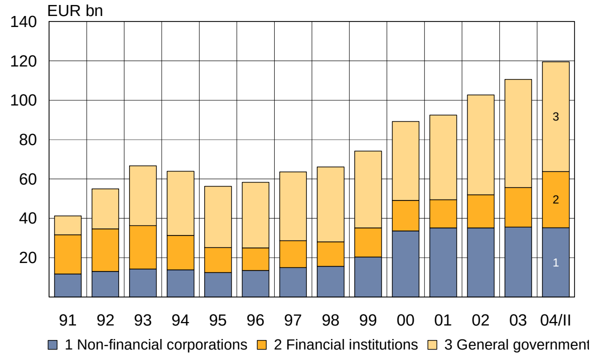
Before 1997, the stock of housing loans to households decreased for five consecutive years. Some of the rapid increase in recent years can thus be explained by the unravelling of demand that had accumulated during the recession. Historically low nominal interest rates, improving employment, an increase in households' real disposable income, and consumers' continuing strong confidence have also increased the demand for credit. An increase in nominal housing prices has resulted in higher average loans. Longer average repayment periods of housing loans[1] have also increased the lending stock.

The stock of foreign lending to Finland has been increasing since the mid-1990s

[1] Survey on saving and the use of credit by the Finnish Bankers' Association (May 2004).

(Chart 2). Nearly half of the lending stock, ie EUR 54 billion, is central government foreign debt, which consists mainly of investments in government bonds and money market papers. Foreign lending to the non-financial corporate sector increased strongly in 1999 and 2000, but in the last three years, the stock has remained at little over EUR 35 billion.

Chart 2. Stock of foreign lending to Finland by borrowing sector



Source: Bank of Finland, balance of payment statistics (in outstanding credit statistics).

2 Banks and insurance companies

2.1 Lower net interest income compensated for by higher fee income and share-related income

Mervi Toivanen

Banks performed better in the period January–June 2004 than in the corresponding period the year before. Operating profits increased for nearly all Finnish banking groups in response to higher net fee income and lower expenses, while group financial results were boosted by growing operating profits from life and non-life insurance as well as by non-recurring items.

Banking business remained profitable

In comparison with the first part of 2003, operating profits increased for the majority of Finnish banking groups in the period January-June 2004. The result of the banking business of the Nordea group also improved.

The low level of interest rates, together with narrow lending margins, has had a bigger effect on banks' net interest income than the strong growth of lending. In response, net interest income has declined over the past 12 months. Banks have, nevertheless, been able to offset the decline by an increase in other income[1], particularly in response to the revival of the stock market and the pick-up in payment activity.

Banks have also been successful in reducing their expenses: Nordea, Sampo and Ålandsbanken have cut staff expenses, while other banks have trimmed other expenses.

Banks' loan losses for the period January-June 2004 were very low. In the early part of the year, some banks still recorded recoveries in respect of previous loan losses. Similarly, non-performing assets have remained low.

Banks' cost-efficiency has improved, exhibited by the largely downward trend in the cost-to-income ratio witnessed since the end of 2003.

Group results also improved

The life and non-life insurance companies owned by banking groups recorded good results in the first half of 2004.

The operating profits of the life insurance business of the Nordea group[2] improved in step with growing sales of unit linked products and higher net premiums written.

The operating profits of the Sampo group were boosted by the good performance of If Insurance Company and by non-recurring items. As Sampo increased its holding in If in May 2004, If is consolidated in the Sampo group's results as a subsidiary from the second quarter of 2004. Sampo's share of the operating profits of If totalled EUR 212 million in the period January–June 2004. The

[1] Finnish banking groups' aggregate net interest income represented 60.4% and aggregate other income (incl. net fee income) 39.6% of total income in the period January–June 2004.

[2] Operating profits for the entire group were lower than combined operating profits for the banking and life insurance business of the Nordea group, as these two entities apply different accounting practices to capital gains on real estate sales and related unrealised gains. The consolidated income statement is prepared by business area, with net effects of real estate sales and related unrealised gains (EUR 300 million for 1–6/2004) entered on its own line below operating profits. In the income statement reflecting the Nordea group's banking and life insurance business and prepared in line with the regulations of the Financial Supervision Authority, real estate sales and related unrealised gains are, nevertheless, included in other income, which is entered before operating profits.

increase in the operating profits of If was attributable to low claims expenditure, premium rises and cost cutting measures. The capital gains on the shares of Skandia in the amount of EUR 95 million, together with imputed deferred taxes to the amount of EUR 140 million, contributed to the good performance of the Sampo group in the period January-June 2004.

The increase in the operating profits of the OP Bank Group was bolstered by the improvement in the financial results of OP Life Insurance brought about by higher net investment income.

Capital adequacy remained high

Banks' capital adequacy remained high despite the decline in capital adequacy ratios for most banks since June 2003. The slight decline in capital adequacy ratios is attributable to the higher rate of growth in banks' risk-weighted assets than in banks' own funds, which is a reflection of the strong growth in lending.

Table 1. Banks' financial results, January-June 2004

	Net income		Other income		Total expenses		Operating profit	
	EUR m	Change %	EUR m	Change %	EUR m	Change %	EUR m	Change %
Nordea Group	1,714	2.1 %	1,111	-4.1 %	1,803	-5.1 %	1,100	14.7 %
*Nordea Group, banking	1,723	-8.2 %	1,424	32.0 %	1,819	-3.8 %	1,314	44.9 %
*Nordea retail banking in Finland	375	-4.6 %	194	-3.5 %	322	2.9 %	242	-17.1 %
Sampo Group	-	-	-	-	-	-	547	154.4 %
*Sampo Group banking and investment services	196	-5.3 %	127	6.7 %	196	-8.0 %	138	24.3 %
OP Bank Group	386	-5.6 %	238	9.2 %	379	-0.5 %	265	1.5 %
*OKO Bank Consolidated	81	1.3 %	57	-43.6 %	72	0.0 %	69	-33.7 %
Savings banks (excl. Aktia) Total	54	-8.7 %	24	32.6 %	54	-0.6 %	24	4.4 %
Aktia Savings Bank plc Group	35	-5.6 %	23	21.5 %	40	-1.7 %	18	15.9 %
Local cooperative banks	36	-7.9 %	13	14.5 %	34	2.4 %	14	-15.7 %
Bank of Åland plc (Group)	15	-2.0 %	10	23.2 %	15	-4.5 %	9	14.3 %
Evli Group	1	187.3 %	31	29.5 %	24	6.7 %	8	284.8 %
eQ online Group	1	45.2 %	9	54.8 %	9	10.8 %	2	-
Total	2,446	-7.4 %	1,899	26.4 %	2,569	-3.4 %	1,791	33.4 %
Other than Nordea, total	723	-5.7 %	475	12.2 %	750	-2.3 %	477	9.6 %

Other income includes net fee income but excludes the income statement item "profit/loss of companies consolidated by the equity method".
Total expences include depreciations as well as unrealised losses on tangible and intangible assets.
Nordea's expenses include goodwill depreciation and write-downs.
The items of the table do not add up to the operating profit, as not all the banks' income statement items are included.
The change % was calculated on the corresponding figures for January - June, 2003.

Source: Banks' interim reports.

2.2 Banks' financial results 2003 generally good worldwide

Sampo Alhonsuo

Globally speaking, the performance of banking groups has been relatively good. The large banks in the United States, Japan, China and Europe reported improved results and good profits. This is attributable to lower loan losses, greater efficiency of operations and an increase in other income offsetting the decline in net interest income.

In the United States, the financial results of the large banking groups improved in the early part of the year in response to cost cutting measures and continued low loan loss provisions. Income development has been stable. Net interest income and interest rate margins for the large US banks have developed modestly because of the low level of interest rates. Lower net interest income has been compensated for by an increase in other income.

For the financial period ending in March 2004, the large **Japanese** banks reported results that were substantially better than in preceding financial periods, with some of the big Japanese banking groups recording their best result in a decade. The improvement in results is due to lower loan losses following the recovery of the general economic situation in Japan. Although the income trend has varied across banks, net interest income has declined overall, while other income has grown. The revival of stock and capital markets has helped the increase in other income. Non-performing loans have declined in volume, but still remain high compared with other industrial countries.

There is considerable variation in profitability across banks. For example, the fourth largest Japanese bank, UFJ Holdings, announced that it will record net losses in excess of EUR 5.8 billion for the half-yearly period ending in September because of higher loan loss provisions.

The overall economic situation in Japan will continue to be crucial for banks' results improvement in the future.

The large **Chinese** banks reported profits for 2003, although their results declined from 2002. The strong growth of lending continued in 2003 and early 2004. As in Japan, the biggest problem facing the Chinese banking system is the large proportion of non-performing loans in the lending portfolio. Estimates of their volume, however, vary considerably.

Slowing the rate of economic growth is currently the key economic policy objective in China. This may further increase the number of problem loans. Economic growth is, nevertheless, likely to be relatively strong, and banks' ability to address their problems is therefore likely to remain good. Securing a stronger capital base for and strengthening the loss buffers of the large Chinese banks constitutes a great challenge.

In **Europe**, the large financial groups recorded better results in the first half-year of 2004 than in the corresponding period a year before. The growth trend in operating profits has been sustained for approximately 18 months. The results improvement of the large European financial groups is attributable to expense cuts through reductions in capacity, outsourcing of operations and lower loan loss provisions compared with 2001–2002. Narrowing interest rate margins due to the low level of interest rates and tight pricing competition has put a strain on net interest income, while other income has developed favourably in the wake of the revival of capital markets.

The good performance is reflected in better cost-to-income ratios and returns on equity for the majority of the large financial groups. Financial groups' capital adequacy ratios and levels of own funds are satisfactory on average. Good performance serves to promote capital adequacy.

The profitability of European financial groups is currently good overall, with return on equity (ROE%) typically hovering around 10-25%.

Chart 3. Operating profits for large US banking groups (25) after tax, EUR m

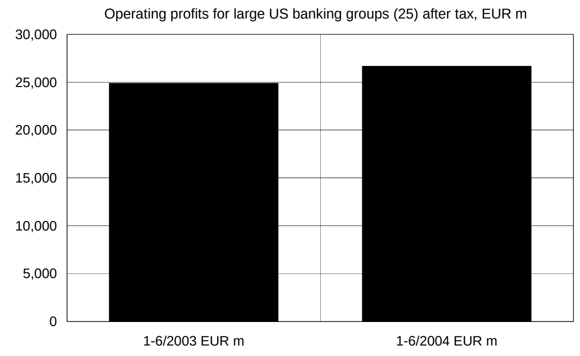


Chart 4. Operating profits for large Japanese banking groups (7) before tax, EUR m

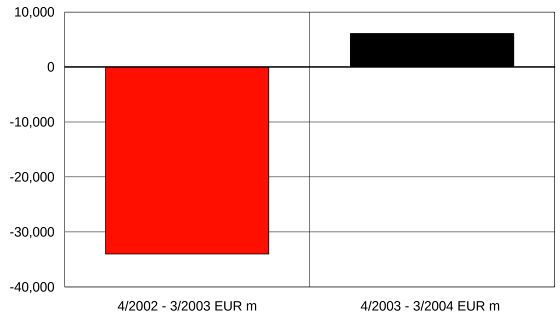


Chart 5. Operating profits for large European financial groups (36) before tax, EUR m

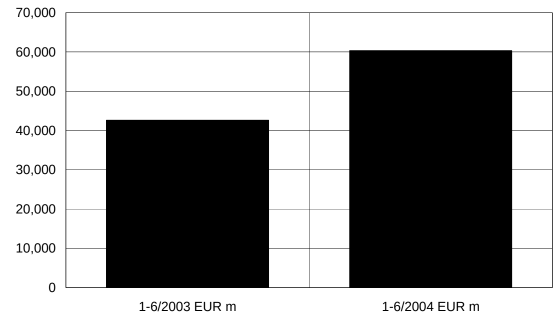


Chart 6. Balance sheet total for large European financial groups (EUR m) at 30 June 2004 and profitability (ROE%) at 1 Jan – 30 June 2004

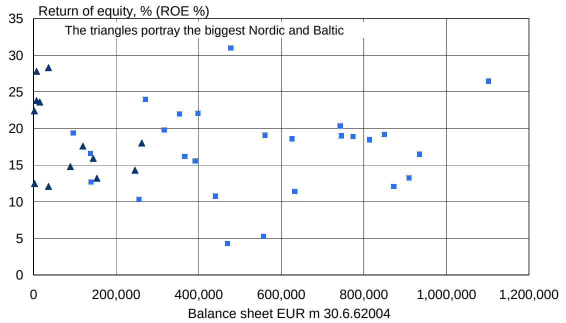
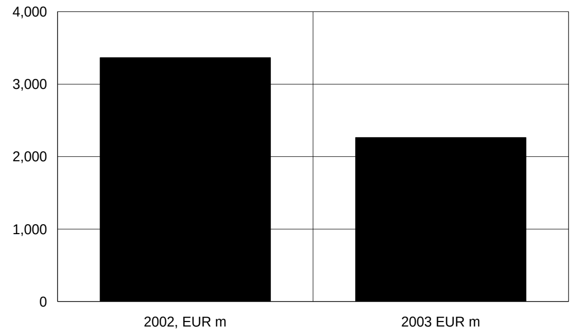


Chart 7. Operating profits for large Chinese banking groups (10) before tax, EUR m



This article is based on the most recent releases of interim reports and financial statements by the large banking and financial groups of the United States, Japan and Europe. Other currencies (USD, JPY, SEK, NOK, DKK, EEK, LTL, ISK, GBP and CHF) have been converted to euro at the exchange rate prevailing on 30 June 2004. Source data for Charts 5 and 6 stem from 13 financial groups in the Nordic countries and Baltic States, 18 financial groups in the other euro area countries except Finland and 8 financial groups in other European countries. The sample is weighted towards Northern Europe. In Chart 6, the balance sheet data for some banks reflect the situation on 31 December 2003. The source of Chart 7 is the July 2004 issue of The Banker.

2.3 The Russian banking sector – small but developing

Tuomas Komulainen – Vesa Korhonen

The Russian banking sector is large if measured by the number of banks but small if measured by the amount of banks' total assets. Notwithstanding the suspicions concerning money laundering that surfaced in late spring 2004, confidence in the Russian banking system has been restored since the financial crisis of 1998. The reform of banking supervision and banking legislation are the key challenges facing the Russian banking system.

The Russian financial system, and particularly the banking sector, is dominated by three distinctive characteristics. First of all, the Russian banking sector is relatively small. The total assets of Russian banks amount to EUR 170-180 billion, which is less than the assets of the Nordea group. The assets account for a little over 40% of GDP, whereas banks' assets account for more than 50% of GDP in many other emerging countries and for as much as 200-300% of GDP in industrial countries. Russian banks are not very efficient in transferring savings to investors. Correspondingly, banks' total claims on the private sector are as low as 25% of GDP. Russian companies largely finance investments out of profits, with the bigger companies raising loans abroad.

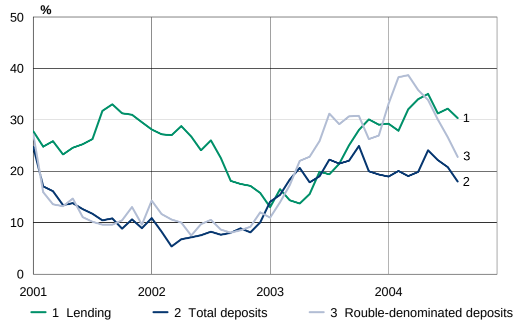
The large number of banks is another distinctive characteristic of the Russian banking sector. There are more than 1,300 banks in Russia, many of which actually operate as the cashier for a large company. Depositors find it hard to choose a bank, while banking supervisors have difficulties inspecting them.

Third, the former savings bank monopoly of Sberbank continues to dominate the market. More than 60% of household deposits and more than one-third of total banking sector assets are held by Sberbank in which the Russian Central Bank still holds the majority. Sberbank and other government banks have up until now been the only banks with access to an unrestricted and free government deposit guarantee. The government-owned Vneshtorgbank and Vnesheconombank are among the largest Russian banks[1].

These distinctive characteristics and weaknesses notwithstanding, confidence in the banks has gradually been restored since the Russian financial crisis of 1998. In recent years, both deposits and lending have risen strongly. The stock of deposits increased roughly at the rate of 20% in real terms last year as well as this year, with rouble-dominated deposits showing particularly strong growth (Chart 1). Lending to private companies and households has grown roughly at the rate of 30% in real terms last year as well as this year. Because of the rapid growth in lending, credit risks have increased as lending has, to a significant degree, been concentrated to a few commodity producing companies that are sensitive to fluctuations in world market prices, as well as to insiders.

The expansion of the banking sector and the growth of the economy are also reflected in banks' profitability. In 2003, return on equity (ROE%) stood at 15%, although falling back to 10% over the period January–June this year. Only 4-5% of the loans were problem loans, but their actual proportion may be higher as problem loans are typically renewed. The banks' liquidity situation is good. The interest rate marginal of deposits vis-à-vis lending continues to be wide (7-9 percentage points).

Chart 8. Deposits with banks operating in Russia and lending to the private sector, %-change year-on-year



Source: Russian Central Bank.

In the period May–July 2004, the fragility of the restored confidence in banks was reflected in a minor flight of deposits as Russian private banks were surrounded by rumour. In May, the Russian Central Bank revoked the authorisation of a minor bank that was suspected of money laundering. Rumours of the withdrawal of the authorisation of more banks prompted the closure of the credit limits on several banks in the interbank market and caused a run of deposit withdrawals. As a result, a few other banks, among them one major bank, closed their doors.

In order to prevent a more widespread deposit flight, the Russian Central Bank introduced an Act in the Russian Duma for speedy adoption. This Act provides for a temporary guarantee of household bank deposits by the Russian Central Bank retroactively from the end of 2003, covering deposits up to a ceiling of close to EUR 3,000 by depositor and bank. This Act offers the central bank some 'breathing space' in applying the new stricter criteria to the inspections of those roughly 1,140 banks that have expressed interest in being admitted to the new overall deposit guarantee scheme. The scheme is funded by the banks, relevant legislation has already been in place since last winter and the scheme will become operational from the beginning of 2005.

In addition to an effective deposit guarantee scheme, other key challenges of the reform of the Russian banking sector include the revision of the banks' Russian accounting

[1] There are only a few completely private banks among the largest banks and those few belong to financial and industrial conglomerates set up by natural resources companies. There are a few foreign banks (more than 40 banks in which foreigners' holdings amount to 50–100%) among the 20 or so largest banks.

practices in line with international financial reporting requirements approximately by 2007, improvements in banking supervision and clarified procedures for mergers and acquisitions as well as bankruptcies to facilitate consolidation of the banking sector. The future of Sberbank will be reviewed in 2007 at the very latest, when it is scheduled to enter the overall deposit guarantee scheme on the same terms as the other banks.

2.4 Subdued increase in premiums written by insurance companies

Pertti Pylkkönen

Growth in premiums written by domestic insurance companies remained moderate over the year. The proportion of premiums written on unit-linked life and pension insurance increased markedly.

The domestic insurance business showed relatively favourable performance during the first half of 2004, although for example investment income declined year on year.

The overall result of employee pension insurers, ie result at fair values before changes in provisions for bonuses and equalisation provisions, has, nevertheless, clearly fallen. Despite the decline, employee pension insurers exceeded investment return requirements.

Improvements in the balance on technical account boosted the performance of several insurance companies. Non-life insurers, for example, have not had any sizeable claims expenditure. The insurance sector has also focused on cost cutting measures and greater efficiency of operations, which has contributed to the good performance.

The rate of growth in premiums written by life insurers in the period January–June 2004 was subdued, amounting to less than 1% year on year[1]. The key item of premiums written by life insurers, endowment insurance, grew by 0.3%, whereas premiums written on personal pension plans rose to close to 12%. In the course of this year, the breakdown of premiums written on life and pension insurance has clearly changed in step with customers losing interest in guaranteed-return life and pension policies. The change has been particularly pronounced in premiums written on life insurance where the proportion of premiums written on guaranteed-return insurance declined to 60% over the period January–June, from 83% in the equivalent period last year. The change has not been equally prominent for personal pension plans, although unit-linked policies already account for as much as half of total premiums written.

By contrast, sales of new life and pension policies have dropped considerably from last year.

The capital adequacy of the insurance sector remained good. The drop in share prices prompted a slight fall in capital adequacy ratios in the second quarter of 2004 but the situation remained good overall (see life insurance companies, Chart 9).

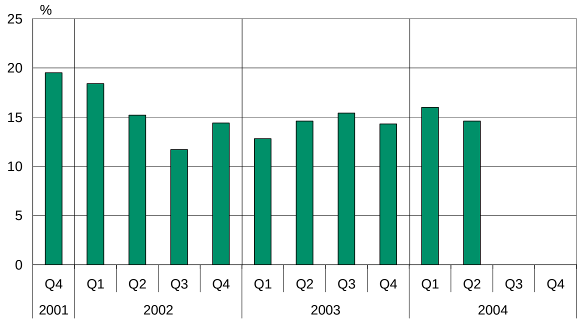
As a consequence of the amendments to the Finnish Insurance Companies Act introduced in June, the solvency standards applicable to insurance companies will be revised in line with the requirements set out in the directives of the European Parliament and of the Council. There will be changes in the items included in the solvency margin, for example in respect of capital loans.

The planned transfer of the insurance portfolio of EUR 1 billion from Suomi Mutual Life Assurance Company to Pohjola Insurance Company, which is to take effect at the beginning of next year, is the major restructuring project under way in the domestic insurance market. At the same time, Pohjola will take over the sales of new life insurance policies. In May 2004, If P&C Insurance Ltd became a subsidiary of Sampo plc as Sampo acquired the holdings of Skandia and its subsidiary Storebrand in If. Following this transaction, Sampo's holding in

[1] Federation of Finnish Insurance Companies.

If increased to nearly 90%, with the rest of the shares in If held by Pension Insurance Company Varma.

Chart 9. Life insurers' solvency capital as a percentage of technical provisions, %



Source: Insurance Supervisory Authority.

3 Securities markets

3.1 Share price increase turned downward, at least temporarily

Jukka Vauhkonen

Increasing oil prices and the uncertainty relating to US economic growth turned international share prices to a slight decline. In Finland, many sectors' good share price performance is not reflected in the HEX All-Share Index, which is dominated by Nokia.

The rise in international share prices seen since spring 2003 took a downward turn in the USA and Europe after the first quarter of 2004 and later in the spring in Japan. It remains to be seen whether this is only a short-term decline, driven by temporary factors, or a phenomenon with longer-term impacts.

In recent months, share prices have been sinking due to higher oil prices and the weaker-than-expected US employment data. Furthermore, the apparent passing of the most intense upward phase of the current global boom may also have been reflected in share price performance.

Looking at key global sectoral indices, decline has been particularly visible in the IT sector. In contrast, share price performance in the paper and forest industry and the banking sector has been stable.

The weak performance of the IT sector has also been reflected in the Finnish securities markets. The HEX All-Share Index fell by 10% from the beginning of the year until the end of August, mainly due to the fall in the Nokia share price. In contrast, the portfolio index rose by approximately 3% in the same period.

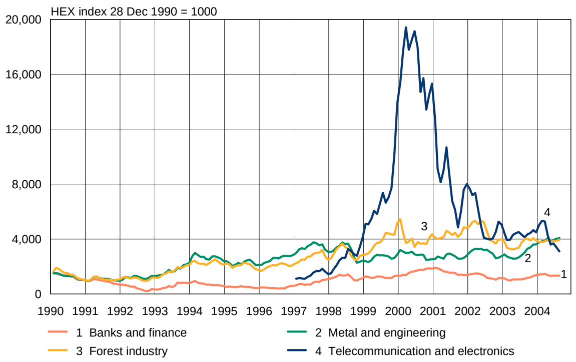
This divergent development in the HEX All-Share Index and the portfolio index reflects great differences in share price performances in different sectors. The index for the IT and electronics industry fell by 27% from January until the end of August, whereas the indices for the metal and forest industries have risen by 16% and 1%, respectively.

Share trading on the stock exchanges of all the major economic areas has improved from the previous year. Trading on Helsinki Exchanges is also considerably more active than before. In fact, trading in January-August 2004 exceeded trading in the same period last year by 30%.

When evaluating changes in share price indices and in total share trading on Helsinki Exchanges it must be noted that Nokia accounted for nearly 70% of total trading during January-August 2004 and that the share of ten most-traded shares was close to 95%. In fact, changes in the HEX All-Share Index and in total trading on Helsinki Exchanges mainly reflect investors' interest in the shares of Nokia and some other major Finnish listed companies.

Share issuance has been modest particularly in Europe. According to data compiled by the ECB, total monthly share issuance of euro area countries' listed shares has, since 2002, fluctuated between EUR 1 and 5 billion, apart from a few exceptions, while in the peak years of 1999 and 2000, monthly share issuance by non-financial corporations alone exceeded EUR 10 billion and rose to as much as EUR 35 billion.

Chart 10. Finnish share indices by sector



Source: Helsinki Stock Exchange.

3.2 Downward turn for bond yields after the rise of early summer

Jukka Vauhkonen

In early summer, modest US growth, interest rate and inflation expectations turned US bond yields to a decline, with European bond yields following suit. Interest rate differentials for corporate loans relative to government loans have been very low.

After the rise seen in spring, bond yields made a downward turn in early summer.

Underlying this decline are weaker-than-expected US employment figures for July and August, which lowered investors' growth and inflation expectations.

It is worth noting that US bond yields took a downward turn at the same time when the Federal Reserve started to tighten its monetary policy stance. After all, bond markets' reaction to the tighter monetary policy has generally been the opposite. This time, however, weaker economic data over the summer, coupled with lower long-term inflation expectations, lowered investors' expectations of future increases in key interest rates, which was reflected in the bond markets.

In Europe and Japan, bond yields followed suit developments in the US and fell, even though economic data for summer and early autumn has been broadly positive.

Overall, bond issuance remained brisk during the second quarter, despite a slight decline from the first quarter. Bond issuance by US issuers fell significantly, whereas issues by Japanese issuers in particular increased.

Interest rate differentials between BBB corporate loans and high-yield corporate loans relative to government loans fell drastically in 2003 and have since remained very stably on that low level. Yields for European BBB corporate loans have even continued to fall. Improvements in companies' creditworthiness has facilitated the narrowing of interest rate differentials.

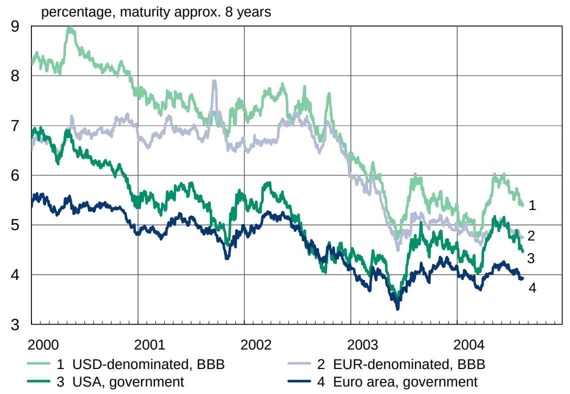
Despite the contraction of interest rate differentials between corporate loans, corporate bond issuance has been rather low. During the first half of 2004, issuance of corporate bonds in the USA and Europe fell by 40% and 15%, respectively, year on year.

Of companies, particularly high-yield companies with a low credit rating were more active than average in issuing bonds in the second quarter of 2004. In Europe in particular, issues by such companies increased.

Supply of floating-rate bonds has increased strongly in recent months. These instruments typically become more attractive when market interest rates are increasing. Global net issues of these instruments during the second quarter nearly equalled that of fixed-term instruments.

Domestic bond markets have been rather quiet in recent months. Financial institutions increased their issuance activity over 2004. In contrast, corporate bond issuance has been modest.

Chart 11. Long-term interest rates for government and corporate bonds (BBB rating) in the euro area and USA



Source: Merrill Lynch.

3.3 Mutual fund markets continue to grow strongly

Pertti Pylkkönen

Popularity of money market funds has remained high. Despite sluggish share price performance, Finnish equity funds have attracted new capital.

According to statistics on mutual funds issued by Statistics Finland, the total value of Finnish mutual funds amounted to EUR 23 billion at the end of 2003, of which EUR 8 billion was accounted for by money market funds. Shares were the key investment target, totalling EUR 10 billion, with bonds amounting to slightly less than EUR 9 billion and money market investment remaining at only EUR 3.5 billion. This means that approximately a half of money market investment has been channelled outside actual money market instruments.

The positive development of mutual funds has carried over into 2004. During January-August, new capital inflow to Finnish funds amounted to more than EUR 4.5 billion. Of new investment, money market funds attracted nearly a half, with their total capital amounting to EUR 10 billion at the end of August.

Despite the poor performance of share markets, new capital inflow to equity funds has reached approximately EUR 1 billion over the course of this year. Equity funds' total capital at the end of August amounted to EUR 9.5 billion, while very little new capital has been channelled to balanced funds. Over the course of this year, funds of funds have attracted new investment of approximately EUR 700 million, with their total assets amounting to EUR 2.7 billion.

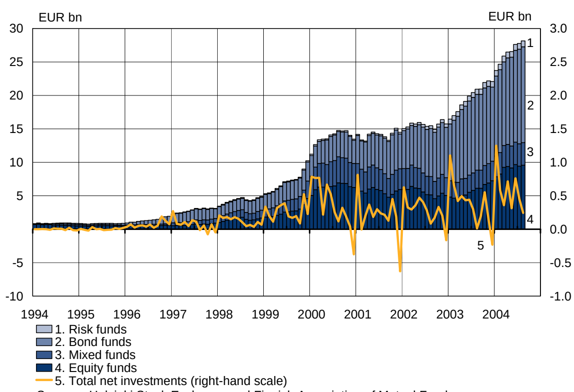
At the end of August, Finnish funds had capital amounting to EUR 28 billion. Part of Finnish funds' rapid growth over the course of this year can be attributed to a change in reporting practices. The reports now contain data concerning sale of Finnish fund units to foreign investors

Of Finnish funds' total fund assets slightly less than a third is held by households, while nearly a quarter is accounted for by employment pension and insurance institutions, with the remaining 15% being held by companies. Almost 12% of Finnish funds' fund capital is accounted for by foreign investors, with nearly all of the investment coming from outside the euro area.

Slightly less than a half of households' fund investment is accounted for by money market funds and a quarter by equity funds. Balanced funds and funds investing in other funds also account for approximately a quarter of households' total fund investment. Households' interest in long-term funds has remained modest, with investment in these funds remaining at only 5% of households total fund investment.

Nearly 70% of Finnish mutual funds' total investment amounting to EUR 28 billion is accounted for by foreign investment instruments. The proportion of foreign investment has grown at a steady pace: in 2000, for example, it was 60%. Finland's total investment in the euro area (excl. Finland) amounts to more than EUR 8 billion, while slightly more than EUR 10 billion is accounted for by other foreign outlets. Half of domestic investment has been channelled to corporate papers, while some EUR 1 billion has been invested in government bonds.

Chart 12. Mutual funds registered in Finland by fund type



Sources: Helsinki Stock Exchange and Finnish Association of Mutual Funds.

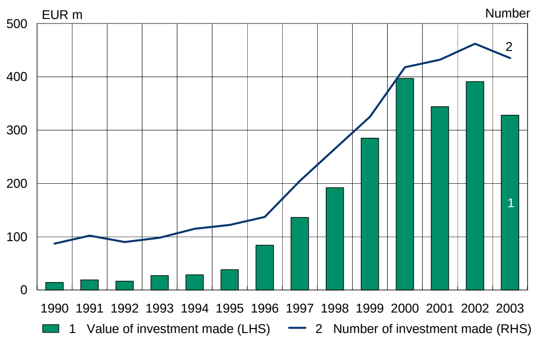
3.4 Venture capital investment in Finland continues to be among the highest in Europe

Pertti Pylkkönen

In 2003, venture capital investment in Finland amounted to EUR 328 million. In fact, relative to GDP, Finland's venture capital investment was the third highest in Europe, preceded only by the UK and Sweden.

During 2003, EUR 206 million of new capital was channelled to venture capital outlets. However, this was about a quarter less than in 2002. Because in many previous years, venture capital collection has by far exceeded investment, the low amount of new capital did not markedly reduce the amount of investment made in 2003 in comparison with the previous year. More than 400 individual investments were made, corresponding to EUR 328 million. Following previous years' trends, euro-denominated investment was dominated by primary investment and investment by number by secondary investment.

Chart 13. Venture capital investment in Finland 1990-2003



Source: Finnish Venture Capital Association.

In the first quarter of 2004, venture capital investment totalled EUR 64 million, ie the same as in the last two quarters of 2003. In comparison with the first quarter of 2003, however, the value of investment fell by approximately a third.

The breakdown by sector of investment made during 2002 and 2003 has been dominated by traditional production and service sectors more than in prior years. Last year, the ICT sector accounted for a slightly larger share of all investment than in the preceding year, but when comparing it to the years 1999-2001, its role was markedly small.

Disinvestments increased significantly in 2003. Their value at acquisition price was EUR 231 million compared to EUR 105 million in 2002. As a result of a persistent decline in share prices for a number of years, there have been no IPO exits on the Finnish market for years. In addition, Finland's share markets suffer from low investor interest in small companies, which is also reflected in the composition of trading on Helsinki Exchanges. During January-August this year, Nokia accounted for nearly 70% of total trading on Helsinki Exchanges and the share of ten most-traded shares was more than 90%. Together the I and NM lists accounted for only 0.2% of total trading on Helsinki Exchanges.

The amount of managed assets fell slightly in 2003, totalling EUR 3 144 million, of which 57% was invested in companies at year end. The remainder of managed assets is available for reinvestment in new targets or for secondary investment.

4 Infrastructure

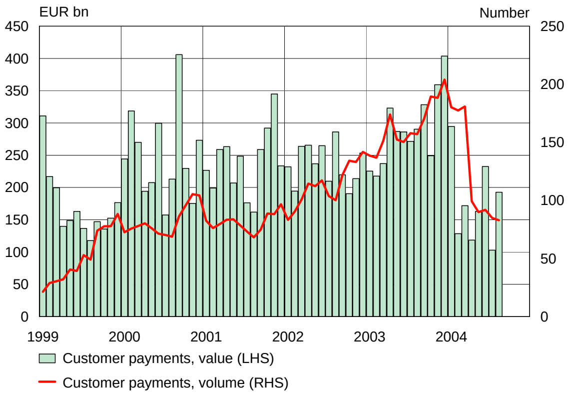
4.1 Number of outgoing TARGET customer payments fallen by half in Finland

Hanna Jyrkönen

The number of outgoing TARGET customer payments in Finland fell in spring 2004 to the level of 2001. Banks' all ATM services are transferred to the 'Otto.' ATM network at the end of the year.

The outgoing customer payments being transferred via the Bank of Finland's gross settlement system (BoF-RTGS), which is part of the TARGET system, has decreased considerably in spring 2004 (Chart 14). The value of payments decreased immediately at the turn of the year, whereas the number of payments plummeted in April. The number of outgoing TARGET customer payments peaked in December 2003. The number has since dropped by 59%.

Chart 14. Average daily number and value of outgoing TARGET customer payments in Finland



Source: Bank of Finland.

TARGET customer payments have increased for many years due to the lack of good alternative channels for payments of all sizes and because TARGET enables the transfer of payments of whatever size even though it is intended primarily for payments that are critical from the viewpoint of systemic risk, and for time-critical payments. There is now an alternative for correspondent banking systems and TARGET, in the STEP 2 system. The Finnish STEP 2 direct participants are Nordea, and OKOBank, which joined the system in March 2004.

Also some of the banks operating in the Baltic countries are either direct or indirect participants of STEP 2. The provisions on credit transfers included in the Regulation on cross-border payments in euro came into force in summer 2003, but the provisions do not yet apply to the Baltic countries. Nevertheless, several banks already offer euro payments, which are clearly less expensive than other cross-border payments[1].

Banks operating in Finland will transfer all their ATM services to the 'Otto.' ATM network at the end of the year. Consequently, all banks will become customers of Automatia, which will become then the only ATM network operator in Finland.

In card payments, the transfer to a safer EMV chip technology has already begun. The transfer schedule varies from bank to bank. Moreover, the transfer requires the updating of EFTPOS terminals.

PayPal Europe, a subsidiary of the American company PayPal which specialises in Internet payment, has started operations in continental Europe. PayPal has a total of 50 million users, some of which are Finnish. The number of PayPal customer accounts registered to Estonian customers totalled over 900,000 in spring 2004[2].

Several statistics development projects on payment systems are going on in Finland and in the Eurosystem.

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[1] For example in Estonia, the fee for a typical euro payment is EUR 2, and the fee for other cross-border payments is EUR 5 to 8. In Latvia, the corresponding fees are approx. EUR 4 and approx. EUR 15.

[2] Eesti Pank: Financial Stability Review, May 2004.

Future changes

Country-specific working groups of banks and the national central banks have been established to study the impact of the new TARGET 2 system on current national payment systems. TARGET 2 is based on a shared platform. Its joint service providers will be the central banks of Germany, France and Italy, and it should be introduced in January 2007.

The European Commission's objective is to adopt the New Legal Framework for Payments in the Internal Market in the course of 2005. The objective of the Directive is to establish a uniform legal framework for retail payment services in the EU. A draft of the New Legal Framework has already been prepared.

In addition, the EU will issue a regulation on including originator information in payment transactions in the near future. With the regulation, the special recommendation on combating terrorist financing will be implemented.

4.2 Integration in northern European marketplaces driven by trading

Jenni Koskinen

OMHEX has changed its name to OMX. The Finnish Central Securities Depository APK is to merge with the Swedish Central Securities Depository VPC. The process of creating a stand-alone APK has started. The integration of market infrastructure is progressing by stages.

Major European marketplaces mainly focus in the current market situation on developing derivatives trading and on gaining additional profit through the provision of technological solutions. In addition, OMHEX changed its name to OMX AB as a sign of a more uniform way of operating. The new name covers all the operations of the company.

Interest in the markets of new EU Member States has increased. Wiener Börse, together with Austrian banks, acquired a majority stake in the Budapest Stock Exchange. Both stock exchanges had already purchased a trading system from Deutsche Börse. Moreover, a joint company assuming the function of a central counterparty (CPP)[1] for cash transactions established by Wiener Börse and Oesterreichische Kontrollbank AG, which acts as a clearing house for derivatives, is also targeting customers outside the Austrian market. Meanwhile, OMX has recently announced its interest in the Warsaw Stock Exchange.

The transfer of derivatives trading and clearing from the Helsinki Exchanges to Stockholm is under way. The aim is to complete the transfer by the end of 2004. Another significant reform took place on 27 September 2004 when the Helsinki, Tallinn and Riga stock exchanges adopted the common cash trading platform located in Sweden. The technical solution is already being used in the other marketplaces which are members of the NOREX[2] Alliance.

The merger between the Finnish Central Securities Depository APK and the Swedish Central Securities Depository VPC which was announced in April took place at the end of September 2004, as planned. The creation of a stand-alone APK has already been started. Implementation of system changes on the level of the Nordic central securities depository group should, however, take some time mainly due to several legal and technical barriers.

In Finland and Sweden, new national clearing and settlement systems were introduced in 2003. Thus systems users are not that interested in investing in new system solutions. However, eg the APK's techni-

[1] A central counterparty assumes a position of buyer vis-à-vis seller and seller vis-à-vis buyer.

[2] The NOREX Alliance consists of all the exchanges in the Nordic countries, Tallinn and Riga.

cally modern system has already brought benefits by enabling the entry into the market of new clearing parties.

The European Commission's measures to further integration in securities clearing and settlement systems progress as planned. Work by the ESCB and the CESR[3] in this field has, however, encountered challenges[4].

The deadline for comments on the Commission's Communication "Clearing and Settlement in the European Union - The Way Forward" issued in April was 30 July 2004. The advisory and monitoring group, the so-called CESAME group mentioned in the Communication, has commenced its work. The group ensures transparency of its work, and its objective is to take also the comments by outside parties into consideration as the work progresses. Contributions on the Communication are published on the Commission's webpage[5] and they will be analysed thoroughly to assess the impact of adopting a framework Directive.

[3] Committee of European Securities Regulators.

[4] Http://www.ecb.int/ecb/cons/previous/html/escbcesr-standards.en.html.

[5] Http://europa.eu.int/comm/internal_market/financial-markets/clearing/contributions_en.htm.

4.3 Nordic custodian bank network – a game for two?

Kari Korhonen

The competition between global custodians and their local service providers and key European central securities depositories has become a hot topic in integration and regulation. In practice, two banking groups provide the required services to global custodian banks on the Nordic securities market.

Global custodians compete with international central securities depositories (the Belgian Euroclear Bank and Clearstream Banking Luxembourg) for the settlement and depository services of the most important securities markets. Their most important customers are fund management companies and pension funds investing actively in international capital markets, as well as smaller investment service companies.

Large custodian banks mainly acquire services concerning the Nordic countries and the Baltic countries from two banking groups, instead of being direct members of local central securities depositories. They use the Nordea Group in six countries out of the eight concerned, and the Skandinaviska Enskilda Bank in four countries (Table 2).

Table 2. Sub-custodians providing services to global custodian banks in the Nordic countries and the Baltic countries

Country	Sub-custodian	Number of customer
Iceland	Íslandsbanki-FBA	2
	Kaupthing	2
	Landsbanki Islands	3
Latvia	Hansapank (Förenings Sparbank)	7
	Nordea Bank	1
Lithuania	Bank Austria Creditanstalt	2
	Nordea Bank	1
	Vilniaus Bankas (SEB)	5
Norway	Den Norske Bank NOR	6
	Nordea Bank	4
Sweden	Skandinaviska Enskilda Banken	7
	Svenska Handelsbanken	2
Finland	Nordea Bank	6
	Skandinaviska Enskilda Banken	1
	Svenska Handelsbanken	2
Denmark	Den Danske Bank	4
	Nordea Bank	4
	Skandinaviska Enskilda Banken	2
Estonia	Bank Austria Creditanstalt	8
	Nordea Bank	1

Source: The Global Custody Yearbook 2004 and the Bank of Finland.

Eight of the global custodian banks and their network of sub-custodians offer investors entry to the markets of 94 countries. In the Nordic countries, concentration of sub-custodian services has continued in line with global development: in eg Norway, the number of local custodian banks has decreased from six to two since 2001.

The results of a survey on the largest custodian banks were reported in the recently published Global Custody Yearbook. The respondent banks' share of assets under custody corresponds to approximately over 80% of the global assets in custody.

The competition between international central securities depositories and large custodian banks is a key issue in the integration and regulation of European financial markets. In setting its standards, the joint working group of the ESCB and the Committee of European Securities Regulators (CESR) has endeavoured to take the competitive position and the operational risks of the parties into account, thereby defining the future supervisory and regulatory framework in this respect. The standards should be finalised during the autumn. The banking sector has, however, shown its discontent with the fact that technical standards have been drawn up before general principles for settlement and depository operations have been established in primary EU legislation[1].

The European Commission has expressed its view on the position of these market participants in its Communication published in April[2]. The preparation of legislation aimed at ensuring competition in the field is likely to be finalised by the end of 2005.

The Commission's Competition Directorate-General is also interested in the arrangements of this market sector. It has published an open consultation[3] on the competition between national market structures. The consultation focuses not only on settlement and depository operations but also on securities trading.

[1] see eg the European Banking Federation's (FBE) publication "State of Integration of Europe's Financial Markets - Comments of the FBE on the Reports of the Banking and Securities Groups", http://www.fbe.be/pdf/postFSAPfinal.pdf

[2] IB" Clearing and Settlement in the European Union - The Way Forward", see http://europa.eu.int/comm/internal_market/financial-markets/clearing/index_en.htm

[3] The consultation report "Overview of EU25 securities trading, clearing, central counterparties, and securities settlement - An overview of current arrangements" is available on the European Commission's webpage http://europa.eu.int/comm/competition/general_info/consultation.html#securities.

5 Key projects in the field of regulation and supervision

5.1 International regulation and supervision

Karlo Kauko

The revision of the capital adequacy requirements for credit institutions and investment firms and the introduction of International Financial Reporting Standards (IAS/IFRS) are the major reforms currently under way. Both reforms are to be implemented through EU legislation which will also apply to Finnish financial undertakings.

In July 2002, the European Parliament and Council issued Regulation No. 1606/2002 on the application of **international accounting standards**. Consistent with the Regulation, companies governed by the law of an EU member state are required to prepare their consolidated financial statements in conformity with these standards if their securities, for example shares, are admitted to trading on the stock exchange or another regulated market. Member states may adopt national regulations either permitting or requiring that the financial statements of parent companies are also prepared in conformity with these standards. The right or obligation to observe IAS/IFRS may be extended to all companies by national decision.

The Regulation, which will take effect in the near future, will apply to financial periods starting on or after 1 January 2005. However, those listed accounting entities which only issue bonds or other debt securities may, by decision of member states, be entitled to defer implementation of IAS/IFRS until 1 January 2007.

The Regulation is designed to promote the effectiveness of capital markets in the European Communities by enhancing the comparability and transparency of financial statements.

The Regulation also applies to banks and other financial undertakings. The introduction of fair value accounting for an increasing number of assets items will perhaps be the major change affecting banks' accounting practices.

The International Accounting Standards Board (IASB) is in the process of revising IAS 39, which is an important standard for financial undertakings as it addresses the accounting of financial instruments, for example securities. The aim is to increasingly base book values of securities on fair values. The IASB has discussed the consequences of the reform with the ECB and the national central banks, as well as with representatives of banks and banking supervisors. Over the past few months, the draft standard has been somewhat adjusted as regards implementing and transition provisions and the accounting of hedging instruments.

In June 2004, the Basel Committee on Banking Supervision released its final recommendation for a new capital adequacy framework for banks, ie **the Basel II Accord**. Its main objective is closer correspondence of capital requirements and risk exposures. The Commission proposal for a Directive based on the Basel II Accord was published in July. The proposal addresses the capital adequacy requirements of both credit institutions and investment firms. Consistent with the co-decision procedure, the Directive must be adopted both by the Council of the European Union and by the European Parliament. The Directive is expected to take effect on 31 December 2006, but adoption of some of the new methods for calculating capital adequacy are deferred until 31 December 2007. Credit institutions and investment firms may apply the old framework for calculating capital requirements until 31 December 2007.

In April, the Commission of the European Communities issued **Communication** KOM(2004) 312 to the Council and European Parliament **entitled Clearing and settlement in the European Union – The way forward**. The communication discusses problems especially in the clearing and settlement[1] of cross-border securities transactions within the EU and proposes measures to address them in cooperation with the private sector, legislators and regulatory authorities. The Commission finds it necessary to introduce a Framework Directive and to eliminate problems of taxation.

The Directive will be based on the ESCB-CESR[2] technical standards for securities clearing and settlement systems in the European Union. The finalisation of these standards has however been delayed. The Commission also proposes the establishment of a clearing and settlement advisory and monitoring group. This group has already been set up. Some legal and tax issues were deferred for further review. The release of the Communication was followed by broad consultations, and comments on the report are available on the Commission's website.

[1] Clearing and settlement refers to the execution of agreed transactions, ie transfer of the object of the transaction to the purchaser and delivery of the price to the seller.

[2] Committee on European Securities Regulators.

5.2 Domestic regulation and supervision

Karlo Kauko

The EU Directives are today a major influence in Finnish financial market legislation. For example, the provisions of the Directive on financial conglomerates took effect in Finland in August. The Market Abuse and Prospectus Directives are also being transposed into Finnish law. Finally, Finnish listed companies will be required to prepare financial statements in accordance with IAS as of 2005.

In April, the Finnish Government introduced a bill (HE 69/2004) to Parliament containing several proposals for new financial market legislation.

The key proposal concerns the supervision of financial conglomerates. It is proposed that the provisions of Directive 2002/87/EC will be transposed into Finnish law by an Act on the Supervision of Financial and Insurance Conglomerates, replacing the current Act of the same name. A somewhat broader definition of financial and insurance conglomerate is proposed. Consistent with the Government bill, capital adequacy requirements and restrictions on large exposures will be legislated for financial and insurance conglomerates. Provisions on the division of supervisory responsibility for multinational conglomerates were also written into law.

The new Act provides that supervision of financial and insurance conglomerates shall be exercised jointly by the Financial Supervision Authority and the Insurance Supervisory Authority. One of the supervisory authorities shall act as coordinator, depending on whether the conglomerate primarily engages in banking or insurance. The Government bill also includes provisions on the criteria for appointing the coordinator and on the coordinator's responsibilities.

The same bill contains provisions on lending by credit institutions to related parties. The terms of such lending must not differ from the general terms of lending applied to the general public, and shall be decided by the board of directors of the credit institution. The cash reserve requirement was abolished. A credit institution could be granted authorisation for a merger, regardless of a creditor's objection, if the Financial Supervision Authority finds that the creditor's position is not adversely affected by the merger and that the merger is necessary for securing the solidity of the credit institution.

The Finnish parliament adopted the bill subject to minor changes, with most of the proposals taking effect in August. However, the provisions on the supervision of the financial position of the conglomerate will not apply until 1 January 2005.

A working group was set up to review the need for national legislation in response to the Market Abuse Directive (2003/6/EC) and the provisions issued by the Commission. The working group published its proposal for a Government bill in May 2004. According to the proposal, provisions on market manipulation will be introduced in the Securities Markets Act and the Financial Supervision Authority will be granted broader supervisory powers to address market abuse. The Government bill is scheduled for introduction to Parliament in the near future.

In February the Ministry of Finance set up a working group to draft the legislation necessary for the implementation of the Prospectus Directive (2003/71/EC). The Directive addresses the publication of prospectuses in the context of public offerings or admission to trading of securities. The mandate of the working group also includes the drafting of national legislation necessary for the implementation of the Commission proposals issued in the Directive. The proposal must also address issuing companies' responsibility for the prospectus. The working group includes representatives of the authorities as well as the private sector. Its mandate expires on 31 January 2005. The Directive must be transposed into national law by July 2005.

The Financial Supervision Authority and the Ministry of Finance have drafted relevant provisions for the implementation of International Financial Reporting Standards (IAS/IFRS) by credit institutions and investment firms (see 5.1 above). The provisions are included in the Government bill (HE 126/2004) introduced to Parliament in June 2004. Companies whose securities are admitted to public trading must prepare consolidated financial statements in accordance with IAS/IFRS starting from financial periods commencing on or after 1 January 2005. However, companies that issue bonds only may defer implementation of the standards until 1 January 2007. The Regulation proposes that unlisted companies also be given the right to prepare consolidated or individual financial statements in accordance with IAS/IFRS, provided that the company's accounts are audited by an auditor approved by the Central Chamber of Commerce.

The Regulation of the European Parliament and of the Council on the application of international accounting standards (also referred to as the IAS Regulation) of July 2002 require that member states ensure national enforcement of the standards. The IAS Enforcement Group set up by the Ministry of Trade and Industry has recommended that the Financial Supervision Authority be appointed IAS enforcer in Finland.

The Insurance Companies Act, the Foreign Insurance Companies Act and the Local Mutual Insurance Associations Act were amended in line with the Directives of the European Parliament and of the Council governing life and non-life insurance companies. The Act on Employee Pension Insurance Companies was also amended in this connection. Legislation was introduced for example to change the definition of the solvency margin of insurance companies and the amount of the minimum solvency margin. The Insurance Supervisory Authority's right of intervention in situations where the interests of policyholders or those insured are in jeopardy were also clarified. The Acts took effect on 1 June 2004 and apply to financial periods starting on or after 1 January 2004.

6 Key corporate arrangements and events in the financial sector

Date	Event and description
Jan 2004	A banking licence was granted to Nordea AB, which changed its name to Nordea Bank AB. The process of simplifying the Nordea Group's structure will be continued by the merger of Nordea Bank Sweden and Nordea Bank AB in March.
	JP Morgan Chase acquired Bank One. The acquisition is carried out as a stock swap valued at USD 55 billion. This is the second-largest bank merger in the United States.
	OMHEX sold the share capital of Natural Gas Exchange Canada Inc. to a subsidiary owned by TSX Group (Toronto Stock Exchange) at a price of CAD 38 million.
	The Helsinki branch of EFG Fondkommission AB applied for a banking licence in Finland.
	The EC Merger Regulation (No 139/2004) was adopted.
	The merger between Den norske Bank and Gjensidige NOR Sparebank ASA entered into force.
Feb 2004	Sampo Plc acquired the shareholdings of Skandia, Skandia Liv and Storebrand in If Holding AB. Following the acquisition, Sampo holds almost 90% of the share capital of If. The remaining 10.06% is held by Varma pension insurance company. The purchase price totalled EUR 1.35 billion.
	Eurex commenced trading in the United States.
	OMHEX and China Securities Depository and Clearing Corporation Ltd agreed initially on cooperation by signing a MoU. The MoU serves as the basis for future cooperation between OMHEX and SD&C.
	A draft proposal to amend the Act on the Bank of Finland was withdrawn from the Finnish Parliament.
	Estonia, Latvia and Lithuania signed an agreement with the Nordic countries that will affect the membership of the Baltic countries in the Nordic Investment Bank as from the beginning of 2005.
	Moody's placed Metso Corporation's long-term loans under observation and later downgraded them from Baa3 to Ba1 (non-investment grade).
	S&P placed Metso Corporation's short-term loans (A-3) and long-term loans (BBB) on credit watch for possible downgrade.
	Moody's raised the rating of Fortum's long-term loans from Baa2 to Baa1.
	OMHEX submitted an offer for the shares of the National Stock Exchange of Lithuania and the Central Securities Depository of Lithuania. The shares are for sale in connection with the privatisation programme. Euronext also submitted an offer jointly with the Warsaw Stock Exchange.

Date	Event and description
	Citigroup announced it will acquire South Korea's sixth largest bank, Koram Bank, at a price of USD 2.7 billion. So far, the acquisition is the biggest individual foreign investment in South Korea.
	Commerzbank acquired the branch network of SchmidtBank AG.
	Sampo announced plans to merge Sampo Finance with Sampo Bank in September. At the same time, Sampo Credit plc will be merged with the parent company, Sampo plc.
	Pohjola insurance company, Suomi Mutual Life Assurance Company and Ilmarinen pension insurance company signed a preliminary agreement on reorganisation of life insurance business. Pohjola will re-establish Pohjola Life. Part of the insurance portfolio will be managed by Suomi Mutual and part will be transferred to Pohjola Life.
	OMHEX and Euronext submitted competitive bids for the majority stake (54.4%) in Lithuania Stock Exchange. OMHEX had earlier acquired a 34% stake.
Mar 2004	Nordea Bank Sverige merged with Nordea Bank AB.
	Yrityspankki SKOP Oyj was removed from the Main List of the Helsinki Exchanges at the beginning of March.
	BNP Paribas acquired the American retail bank Community First for USD 1.2 billion.
	Extraordinary General Meeting of Suomi Mutual Life Assurance Company approved the reorganisation of life insurance business with Pohjola Group plc.
	Helsinki Exchanges and Stockholmsbörsen to harmonise equity and derivative markets' trading hours. New trading hours in Finland are 10.00–18.30. The harmonised trading hours are scheduled to come into effect in the autumn, and they will also be applied to the Tallinn and Riga Stock Exchanges.
Apr 2004	HEX Integrated Markets (HEXIM), Copenhagen Stock Exchange, Oslo Børs and Iceland Stock Exchange agreed on a new NOREX cooperation agreement. HEXIM is to represent Helsinki Exchanges, Stockholmsbörsen, Tallinn Stock Exchange and Riga Stock Exchange in the NOREX stock exchange alliance. After signing the agreement, the Alliance comprises 7 stock exchanges and 4 clearinghouses.
	OMHEX-owned Finnish Central Securities Depository (APK) and VPC, the Swedish equivalent owned by 4 Swedish banks, signed a Letter of Intent concerning a possible merger.
May 2004	Royal Bank of Scotland acquired the US bank Charter One Financial, Inc.
	Standard & Poor's lowered Sampo ratings by one grade. The new rating for short-term loans is A-2 and for long-term loans A-. At the same time S&P removed the Credit Watch placement on Sampo. It had placed Sampo on Credit Watch, reflecting possible downgrade, in February.
	Property and Casualty Insurance Company If became a subsidiary of Sampo plc.

Date	Event and description
	Ministry of Social Affairs and Health granted a business licence to Pohjola Life Insurance Company Ltd. The new company is a subsidiary of the Pohjola Group plc.
	OMHEX and the State of Lithuania signed a Letter of Intent concerning the National Stock Exchange (NSEL) and the Central Securities Depository (CSDL) of Lithuania. According to the agreement, OMHEX will acquire 44.3% and 32% of the shares of NSEL and CSDL, respectively. Following the transaction OMHEX holds 85% of NSEL's share capital.
	Danish Jyske Bank acquired 60% of the share capital of the Dutch stockbroking firm Berben's Effectenkatoor B.V.
	Wiener Börse announced it had acquired a 14% stake in the Budapest Stock Exchange. At the same time, HVB Bank Hungary, owned by the Bank Austria Credianstalt, increased its stake in the Budapest Stock Exchange to 25.2%, and Erste Bank to 12.2%. The new owners included the Austrian banks OeKB (11%) and RZB (6.4%).
Jun 2004	Nordea announced the acquisition of the Lithuanian operations of Kredyt Bank SA (KBC) of Poland.
	Nordea sold 17% of its shares in BGC Holding (Bankgirocentralen). Nordea still holds a 10% stake in BGC.
	Commerzbank intends to acquire ING-BHK Bank from ING Groep NV
	Finnvera announced merger of Fide and Finnish Export Credit with their parent company at the end of the year.
	Trading of Finnish derivatives was transferred to Stockholm.
	Iceland's largest bank, Kaupthing Bank, announced its intention to acquire the Danish bank FIH from Föreningsbanken in Sweden for the total sum of DKK 7.1 billion.
	FED approved merger of J.P. Morgan Chase & Co (New York) and Bank One Corporation (Illinois).
	OM HEX sells XACT Fonder AB to Handelsbanken. XCAT manages Sweden's first listed mutual funds (EFTs) XCAT OM and XACT SBX.
	The government sold 60 million Sampo Oyj shares at EUR 7.97 per share. State holding in Sampo Oyj subsequently fell from 32.4% to 21.3%.
	The fourth largest US bank Wachovia Corp. announced its intention to acquire SouthTrust Corp for the sum of USD 14.3 billion.
	SEB announced its intention to acquire the Danish insurance company Codan Liv & Pension for the sum of DDD 2.7 billion. The seller was the British insurance concern Royal & Sun Alliance.
Jul 2004	Handelsbanken Liv announced its intention to acquire SPP Fondförsäkrings AB from SPP Liv AB.
	Mitsubishi Tokyo Financial Group and UFJ announced merger plans. Sumitomo Mitsui Financial Group announced its intention to submit a competing offer for UFJ.

Date	Event and description
	Santander Central Hispano SA and Abbey National Plc announced they are discussing a merger.
	Rabobank announced its intention to acquire Farm Credit Services of America (FCS America). FSC America is part of the US Farm Credit System.
	Citigroup intends to acquire First American Bank.
	All the Finnish banks operating automatic cash dispensers joined the Ottopiste ATM network.
Aug 2004	Nordea outsourced their Nordic corporate analysis services to Standard & Poor's.
	Fennograting's BBB rating for Myllykoski Oy came to an end.
Sep 2004	OM HEX changed it name, the new name is OMX.
	Soprano Oyj was the first company to be admitted to trading on the BL Market operated by Helsinki Exchanges.