Financial Market Report

1 • 2008

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- Banks' results weakened towards the end of 2007
- Bond insurers' credit ratings under watch – risk premia up
- Nervous fund investors moving money to deposits
- MiFID transformes markets – multilateral trading facilities now outnumber regulated markets
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- Unified Finnish financial supervision set for 2009

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Financial Markets and Statistics

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1 Financial intermediation

1.1 Continued turbulence in financial markets

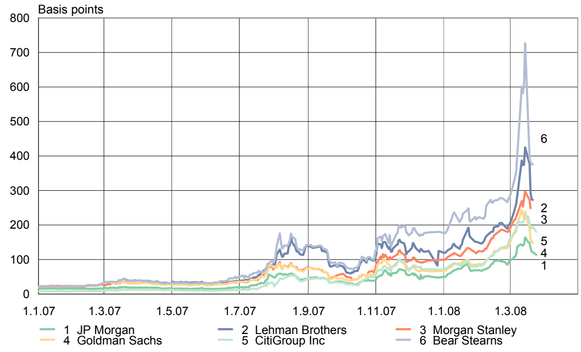
Katja Taipalus

The global financial markets are suffering from a lack of confidence which is significantly hampering the normal operation of the markets.

Total global losses recorded by banks in connection with the US subprime sector already exceed USD 270 billion. Despite the high amount of losses recorded, the final amount is hard to estimate. Assessment is hampered particularly by the fact that the interest rate on a large amount of the subprime mortgages and ARMs[1] will be adjusted in 2008. The adjustment of interest rates may make the loan servicing costs unbearable for the borrower[2], which increases the number of defaults. Credit losses are also increasing for mortgages with good ratings and in car, credit card and home equity loans. Banks' balance sheets also include loans with poor credit risk ratings. The loans had been granted for leveraged acquisitions, with the aim of re-packaging the credit and selling it in the form of bonds. The fall in the value of these credits has a negative impact on banks' results even though banks have succeeded in reducing at least some of the exposure.

Growing risks in all the above-mentioned forms of credit have increased suspicions about investments that include these securities. The suspicions are reflected eg in the prices of credit derivatives used to hedge the default risks associated with bonds issued by US investment banks (Credit Default Swaps) (Chart 1).

Chart 1. CDS prices of the largest US investment banks



Source: Bloomberg.

Lending costs have increased considerably. In the interbank market, the suspicion is reflected in the growing interest rate on unsecured debt. Banks have sought to secure their own liquidity position and tightened their credit criteria.

Liquidity has decreased also in the market for corporate bonds. This complicates particularly the position of companies with poor credit ratings whose

[1] Adjustable rate mortgage is a mortgage the interest rate on which is adjusted at intervals laid down in the agreement.

[2] Interest rate cuts by the central bank are not fully reflected in the lending. Moreover, the pricing of risks, together with the other lending criteria, has been tightened considerably.

funding will expire in the near future. If refinancing becomes increasingly difficult, the number of corporate bankruptcies will rise from its historically low level. According to estimates by credit rating agencies, the proportion of bankruptcies in the lowest credit category could increase to 5.3% in 2009, from the current level of less than 1%.

Investors can however hedge their investments linked to corporate debt by using credit default swaps. The market price of these credit derivatives has been used to calculate a company's probability of bankruptcy. The market prices of credit derivatives are now at such high levels that the bankruptcy probabilities point to a deep recession. The high level of derivatives prices can be explained by another factor: demand for exposure hedging exceeds supply in the derivatives market, which boosts prices. The rise in hedging prices is problematic because CDS spreads have for some time been used in the pricing of corporate loans. The extremely high spreads have somewhat hampered the issuing of corporate bonds.

The market for credit derivatives has grown robustly in recent years. Even though the majority of the trades are collateralised, the operation of these markets in a serious crisis has not been tested yet. Counterparty risk is a very important factor. Partly for this reason, also the investment bank Bear Stearns was rescued: it was a major counterparty and market maker in some sectors of the CDS market. In a rescue operation, the US Federal Reserve and JPMorgan first arranged on 14 March emergency secured funding for Bear Stearns, which was running out of liquid assets. On Monday 17 March, JPMorgan announced that it will acquire Bear Stearns' entire share capital for USD 236 million. At the end of March, the purchase price was raised considerably.

Besides banks, insurance corporations have also suffered from the financial market turbulence. The amount of loan losses recorded by the insurance sector in connection with the subprime turbulence is expected to be higher than the compensation claims related to hurricane Katrina. The losses recorded thus far amount to slightly less than USD 40 billion.

Write-downs of the holdings of structured securities and increasing compensation payments have also jeopardised the credit ratings of bond insurers (monolines)[3]. At least for the moment, the ratings of the two largest monoline insurance corporations remains in the best (AAA) category. Fears about downgrading of insurers' ratings[4] have however already hampered the functioning of the US municipal bond markets, which has still not returned to normal.

Hedge funds, which are important in terms of market trading liquidity and counterparty risks, seem to have been almost completely spared so far from the subprime turbulence. Their situation has however deteriorated over the past weeks. The value of some investments has decreased rapidly. As hedge funds' operations are highly leveraged, financiers have demanded that the funds sell assets with high levels of risk. Financiers have also tightened their collateral requirements. These measures are due to stricter pricing of risks by banks, and they hamper particularly the operations of the smaller hedge funds. In the past weeks, some 10 hedge funds have been forced to sell their holdings, and eg Citigroup has been forced to support six of its internal hedge funds. Nor have traditional mutual funds been able to avoid the negative market impacts. For example, the problems of Carlyle Capital's funds worsened the liquidity problems of Bear Stearns.

[3] See sub-section 2.4 for more information.

[4] Se eeg Financial Market Report 4/07.

Assessing risks in the current financial market situation is hard, which is reflected eg in credit rating agencies' highly differing views on some securities ratings. Uncertainty in the market makes market participants act cautiously in all business operations.

2 Banks and insurance corporations

2.1 Finnish banks' results deteriorated slightly towards the end of 2007

Hanna Putkuri

In Finland, the latter part of 2007 was characterised by uncertainties in the investment markets and exceptionally strong growth in fixed-term deposits. Results for all of 2007 remained good.

Year 2007 was extremely mixed for banking. Following favourable developments in the first half of the year, the operating environment deteriorated significantly as disturbances and uncertainty started to spread across the international financial markets, triggered by the US subprime crisis. The market disturbances have spread to Finnish banks mainly via funding costs and net income from trading and investment. The total impact of market disturbances on banks' profitability and capital adequacy has thus far remained limited (Table 1). Banks' liquidity position has also remained strong, and banks have not been forced to resort to long-term market funding.[5]

[5] See also the FSA Newsline web publication 2/2008.

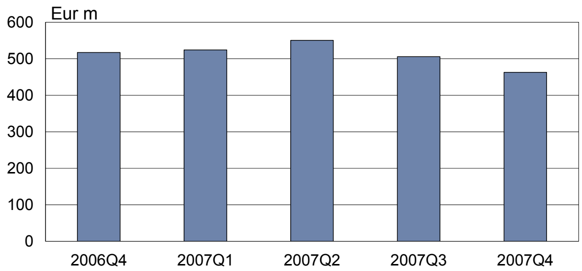
Table 1. Performance indicators of banks operating in Finland, 2006 and 2007

	Return on equity (ROE %)		Expence-to-income %		Capital adeguacy ratio, %		Tier 1 capital adequacy, %	
	2007	2006	2007	2006	2007	2006	2007	2006
Nordea Group	19.1	21.4	52	53	9.1	9.8	7.0	7.1
Nordea Bank Finland	11.2	10.0	35	36	15.3	16.0	13.7	13.8
Danske Bank	15.1	17.5	56	52	9.3	11.4	6.4	8.6
OP-Pohjola Group	13.7	12.1	49	52	13.8	14.3	12.6	12.7
OKO (now: Pohjola Bank)	9.3	9.5	46	42	12.2	12.9	7.5	8.2
Savings banks (excl. Aktia)	..	..	56	60	22.8	19.1	20.4	16.9
Aktia Savings Bank plc	17.6	16.8	67	62	15.4	13.8	10.9	9.2
Local cooperative banks	..	..	55	61	22.1	20.0	..	..
Bank of Åland plc	16.4	13.3	61	66	12.8	13.8	8.6	8.6
Evli Bank	18.5	9.7	77	91	..	..	15.3	22.6

.. = data not available.

Banking earnings weakened slightly towards the end of 2007 (Chart 2). Results nevertheless remained good, and overall year 2007 was better than the previous year. The pre-tax profits on Finnish banking operations grew by over 7%, to exceed EUR 2 billion (Table 2).

Chart 2. Quarterly pre-tax profits on Finnish banking operations*



* Nordea's Nordic Banking Finland, Danske Bank's banking operations in Finland, OP-Pohjola Group's banking and investment services, Aktia Savings Bank's retail banking, other savings banks, local cooperative banks, Bank of Åland and Evli Bank.
Sources: Banks' interim and financial statements.

Since the second part of 2007, Finnish banking has been characterised by exceptionally robust growth in the stock of deposits (13% in 2007), driven by an uncertain investment environment and heightened competition in deposit interest rates. Funds were transferred to deposit accounts particularly from mutual funds. The stock of fixed-term deposits grew actually by 18% in the fourth quarter, and by 43% year-on-year. The average interest rate on fixed-term deposits increased by 1.08 percentage points year-on year, to 4.22%. The aggregate margin (between average rates on total non-MFI lending and on deposits) narrowed slightly towards the end of the year, to 2.66 percentage points in December 2007, from 2.70 a year earlier.

In October 2007, two new deposit banks commenced operations in Finland. S-Bank, which is part of the SOK Corporation, posted an operating loss of EUR 8.6 million on its banking operations in 2007. The other newcomer, Glitnir Bank Ltd (former FIM Securities Ltd), is a subsidiary of the Finnish Glitnir Corporation, which in turn is a wholly-owned subsidiary of the Icelandic Glitnir banki h.f. At the end of 2007, S-Bank's stock of deposits totalled EUR 1,135 million and Glitnir Bank's EUR 361 million.

According to the Federation of Finnish Financial Services, domestic banking groups and foreign bank branches operating in Finland employed at end-2007 31,910 persons (just over 1% more than in 2006). The number of branches declined in 2007 by 62, to 1,684.

In their performance projections for 2008, banks cite their good profit-earning capacity but also the tight banking competition and uncertain developments in capital markets, as well as the fact that they are unlikely to achieve as good results in 2008 as in 2007

Table 2. Key items from banks' income statements in 2007 and change on 2006

	Net interest income		Other income, net		Total expenses		Loan losses, net		Pre-tax profit	
	EUR m	Change	EUR m	Change	EUR m	Change	EUR m	Change	EUR m	Change
Nordea Group	4 282	11 %	3 607	3 %	4 066	6 %	-60	.	3 883	2 %
Nordic Banking	3 666	10 %	2 417	0 %	3 002	4 %	-55	.	3 136	0 %
Nordic Banking Finland	1 065	15 %	631	7 %	749	4 %	-60	.	1 007	22 %
*Nordea Bank Finland Group	1 531	10 %	1 072	1 %	919	4 %	-20	.	1 704	4 %
Danske Bank Group	3 256	7 %	2 792	2 %	3 365	11 %	92	.	2 591	-8 %
Banking	2 915	10 %	1 536	4 %	2 669	8 %	92	.	1 691	1 %
Banking in Finland**	405	2 %	195	3 %	454	37 %	36	.	110	-58 %
OP-Pohjola Group	1 048	19 %	1 198	12 %	1 228	7 %	13	.	1 005	26 %
Banking and investment services	1 038	15 %	573	-4 %	891	6 %	13	.	706	10 %
*OKO Bank Group (now: Pohjola Bank)	115	20 %	614	14 %	440	8 %	1	.	288	29 %
Savings banks (excl Aktia)	159	18 %	57	14 %	120	9 %	2	.	94	29 %
Aktia Savings Bank plc (Group)	89	6 %	193	263 %	217	158 %	0	.	65	19 %
Retail banking	62	-1 %	33	18 %	72	11 %	0	.	23	-17 %
Local cooperative banks	109	17 %	28	10 %	73	4 %	4	.	59	26 %
Bank of Åland plc (Group)	39	20 %	36	24 %	46	12 %	1	.	29	36 %
Evli Bank Group	0	-50 %	79	42 %	63	25 %	0	.	16	212 %
1. Finnish banking	2 877	13 %	1 631	4 %	2 469	10 %	-4	.	2 043	7 %
2. Financial groups operating in Finland	8 982	11 %	7 989	6 %	9 178	10 %	52	.	7 741	2 %

Other income includes eg net fee income, capital gains/losses from sale of tangible and intangible assets, capital gains from sale of wound-up operations, and shares in profit/losses of associated companies. Expensis include depreciations and write-downs on tangible and intangible assets. Negative loan losses: recoveries exceed new write-offs.

** Includes the Group's branch office in Helsinki and Sampo Bank Groups banking business in Finland in February-December. The percentage changes were calculated on comparable (pro forma) figures for 2006.

1. Savings banks, Aktia Savings Bank Group's retail banking, local cooperative banks, Bank of Åland Group, Evli Bank Group, OP-Pohjola Group's banking and investment services, Danske Bank Group's banking operations in Finland and Nordea's Nordic Banking Finland.

2. Nordea Group, Danske Bank Group and Finnish banking groups (excl. Sampo Bank Group and Nordea Bank Finland Group).

Sources: Banks' financial statements.

2.2 Nordic financial groups' results generally good in 2007

Sampo Alhonsuo and Hanna Putkuri

Large Nordic financial groups' aggregate pre-tax profits for 2007 improved slightly on the previous year. The groups' financial performance however varied considerably, particularly in the second half of the year.

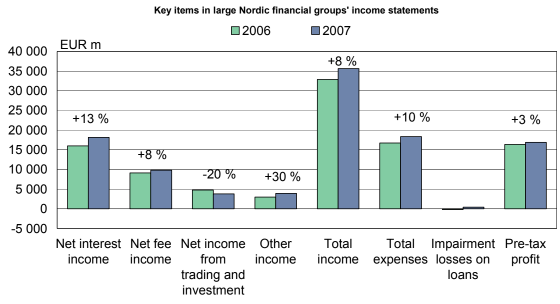
The aggregate pre-tax results (operating profit) of ten large Nordic financial groups[6] increased in 2007 by ca 3% on the previous year. The positive earnings performance was based mainly on robust growth of lending and deposits, which affected particularly the increase in net interest income. Developments in net fee income were also favourable (Chart 3).

In contrast, the turmoil in the international financial markets, which started in summer 2007, eroded net income from trading and investment, which declined markedly on the previous year. Net income from trading and investment however has only a limited impact on total income. Growth in other income was partly based on large non-recurring income, which had a considerable impact on some of the groups' results.

Expenses rose broadly in line with total income. The amount of net loan losses recorded grew slightly, but they nevertheless remained modest.

[6] The examination includes: OP-Pohjola Group (Finland), SEB, Svenska Handelsbanken, Nordea, and Swedbank (Sweden), DnB NOR (Norway), Danske Bank (incl. Sampo Bank) and Jyske Bank (Denmark), and Kaupthing Bank and Glitnir (Iceland).

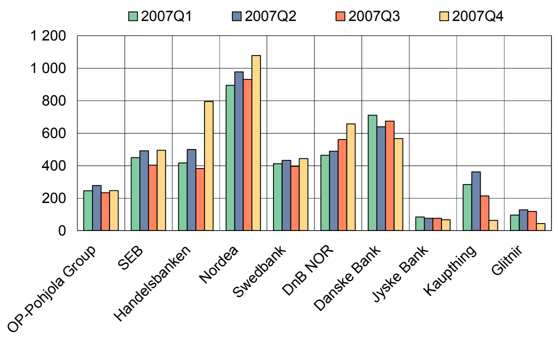
Chart 3. Key items in large Nordic financial groups' income statements



* OP-Pohjola-Group, SEB, Handelsbanken, Nordea, Swedbank, DnB NOR, Danske Bank, Jyske Bank, Kaupthing ja Glitnir.
Sources: Groups' financial statements and Bank of Finland.

For large financial groups in Finland, Sweden and Norway, the third quarter was clearly the weakest in 2007 (Chart 4), whereas in Denmark and Iceland, results continued to deteriorate in the fourth quarter. The market turbulence eroded Icelandic banks' results the most, particularly at the end of 2007. Danske Bank's performance was weakened slightly by the Sampo Bank merger costs.

Chart 4. Large Nordic financial groups' pre-tax profits, quarterly data, EUR m



Currencies converted to euro at average exchange rates for 2007.
Sources: Groups' interim reports and financial statements and Bank of Finland.

The groups' key ratios show a steady performance (Table 3). Annual profitability declined slightly on average. The groups' profitability nevertheless remains acceptable. Developments in income and expenses were mixed in 2007: in the large groups in Finland, Sweden and Norway, cost efficiency improved, whereas in the Danish and Icelandic groups profitability declined. The expense-to-income ratio remains good for all the groups.

The groups' capital adequacy ratios declined overall in 2007. Due to the introduction of Basel II regulations, comparable capital adequacy ratios for 2006 are not available for three Swedish groups.

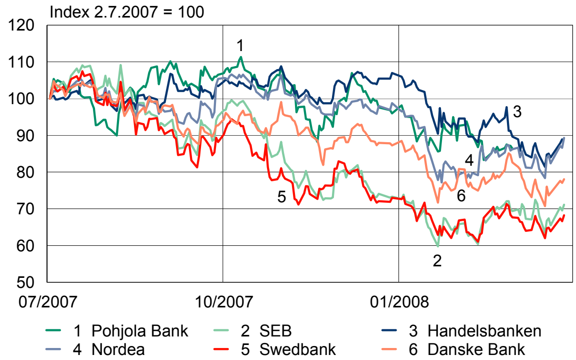
Table 3. Large Nordic financial groups' key ratios, 2006 and 2007

	Return on equity (ROE)		Expense-to-income		Capital adequacy % ratio		Tier 1 capital adequacy	
	2007	2006	2007	2006	2007	2006	2007	2006
OP-Pohjola Group	13.7	12.1	49	52	13.8	14.3	12.6	12.7
SEB	19.3	20.8	57	58	11.0	..	8.6	..
Handelsbanken	23.3	20.9	41	42	16.9	..	10.6	..
Nordea	19.1	21.4	52	53	9.1	9.8	7.0	7.1
Swedbank	18.9	19.3	51	52	12.7	..	8.5	..
DnB NOR	22.0	19.5	51	50	9.6	10.0	7.2	6.7
Danske Bank	15.1	17.5	56	52	9.3	11.4	6.4	8.6
Jyske Bank	23.5	29.4	59	56	9.5	11.3	6.9	8.2
Kaupthing	23.5	42.4	48	36	11.8	15.0	9.6	10.5
Glitnir	19.3	39.4	57	38	11.2	15.0	8.1	10.8
Average*	18.9	20.7	52	51	10.9	..	7.9	..

*** Weighted per 31.12.2007 balance sheet.**
.. = comparable data not available.

Uncertainty in the markets and a worsening outlook for banks is reflected in the groups' share prices since summer 2007 (Chart 5). Nordic financial groups describe their outlook for 2008 as increasingly challenging, due to uncertainty in the financial markets. Profit-earning capacity is described as good overall. Growth prospects for Nordic economies are still considered to be relatively good, despite the potential slowing of growth.

Chart 5. Share prices of large Nordic financial groups



Source: Bloomberg.

2.3 Banks' results weakened especially in the United States – mixed results in Europe

Sampo Alhonsuo

Banking sector results for the fourth quarter of 2007 weakened in the United States and Europe, due mainly to losses linked to the subprime crisis and, particularly in the United States, banks' deteriorated operating environment. In 2008, the importance of cost control as a means of maintaining profitability will be underlined.

In the United States[7] the overall condition of the banking sector weakened in the fourth quarter of 2007, due to the subprime crisis and the deteriorating financial condition of the corporate and household sectors. Fourth-quarter results for the banking sector were the weakest in 16 years.

In the United States, the amount of loan losses recorded by the banking sector has increased: in annual terms, the latest recorded loan losses amount to 0.8% of the lending stock. Nonperforming assets have also increased: for example, at the end of 2007, nonperforming assets amounted to 0.9% of the lending stock of the 31 largest US banks (0.4% at the end of 2006).

The US authority responsible for deposit protection, the Federal Deposit Insurance Corporation (FDIC), issues a list of problem banks, which currently includes 76 banks (albeit small)[8]. The FDIC supervises ca 5,200 banks and its deposit insurance covers ca 8,500 banks.

Particularly the largest commercial banks and investment banks have recorded write-downs, loan losses and negative operating results as a consequence of the subprime crisis. Bear Stearns, which had to resort to emergency central bank funding and which was sold to the investment bank JP Morgan Chase, recorded a large negative result in the fourth quarter of 2007. Investment banks have already published results for the first quarter of 2008[9]. These were significantly worse than in the year-earlier period but still positive and better than the stock market had expected.

Table 4. Three US investment banks

Pre-tax profit, USD million

	Q108	Q407	Q107
Morgan Stanley	2 214	-5 804	3 456
Goldman Sachs	2 143	5 055	4 859
Lehman Brothers	663	1 230	1 699

Equity, USD billion

	Q108	Q107
Morgan Stanley	43.9	42.8
Goldman Sachs	34.5	34.3
Lehman Brothers	21.8	18.9

For the near-term outlook, the size of losses in 2008 resulting from the subprime crisis is important. The sufficiency of capital buffers against losses and the ability to acquire equity capital are key issues.

In Europe, banks' results have been good in recent years. In the second half of 2007, this positive development came to a halt, as a result of weakening situation in the capital markets and the impact of the subprime crisis on results in the European banking

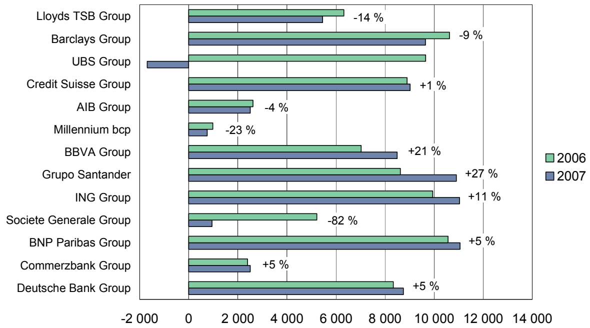
[7] The data is based on publications by various authorities and rating agencies, and banks' results.

[8] Federal Deposit Insurance Corporation, Banking Quarterly Report December 2007.

[9] Investment banks' financial year ends in November. The first-quarter 2008 results thus include 2007M12–2008M2.

sector (excl. Nordic countries, see sub-section 2.2). Earnings dropped significantly in the last quarter of 2007. Results for 2007 were nevertheless higher than in 2006 for a number of large groups. Large write-downs have been recorded only by a small number of banks; of the large financial groups, only the Swiss UBS Group recorded a loss for 2007.

Table 5. 13 large European financial groups: pre-tax profits, 2006 and 2007



Currencies converted to euro at average exchange rates for 2006 and 2007.
Sources: Banks' financial statements and Bank of Finland.

In recent years, large banks with international operations in Europe have expanded their income base, in the face of rapid growth in business volumes. Income from capital markets and trading has declined significantly in the most recent results. Even for the large financial groups, net interest income and fee income are the largest income items. Developments in these items were more favourable also in the last quarter of 2007.

Weak developments in the second half of 2007 are however reflected in the key ratios. Banks' cost-efficiency is still good as growth in expenses has generally not outpaced growth in income. The increasing amount of write-downs and loan losses have weakened the relative profitability of operations and slowed down the growth of solvency capital. For a number of large groups, capital adequacy ratios have declined slightly, reflecting the rapid lending growth in 2007.

Table 6. Profitability, cost efficiency and capital adequacy of 13 European financial groups

	Return on equity (ROE), %		Expense-to-income		Capital adequancy (Tier 1), %	
	2007	2006	2007	2006	2007	2006
Deutsche Bank Group	24.3	28.0	70	70	8.6	8.5
Commerzbank Group	15.4	14.2	64	60	6.9	6.7
BNP Paribas Group	19.6	21.2	61	61	7.3	7.4
Societe Generale Group	3.6	25.8	65	61	6.6	7.8
ING Group	24.2	23.5	68	64	7.4	7.6
Grupo Santander	21.9	21.4	44	49	7.7	7.4
BBVA Group	34.2	37.6	38	40	6.8	7.8
Millennium bcp	13.7	20.6	60	61	4.3	5.5
AIB Group	21.8	29.0	52	54	7.5	8.2
Credit Suisse Group	19.8	27.5	71	70	11.4	13.9
UBS Group	-10.2	26.4	110	70	8.8	11.9
Barclays Group	20.3	24.7	57	59	7.8	7.7
Lloyds TSB Group	25.2	25.1	49	51	8.1	8.2
Average	18.0	25.0	62	59	7.6	8.4

Various estimates suggest[10] that in 2008 banks' operating environment both in the United States and Europe will be much more difficult than before. This will underline the importance of cost control for maintaining profitability. Estimates made around the world of total losses due to the subprime crisis have grown recently. At the end of March 2008, global write-downs and losses recorded in 2007–2008 totalled ca USD 200 billion, divided quite evenly between US and European banks, with Asian banks accounting for only a small proportion of the losses. Estimates of the **Japanese** banking sector's future losses linked to the subprime crises have been raised recently[11].

[10] Eg reports by several rating agencies.
[11] Fitch Ratings, 20 February 2008.

2.4 Bond insurers face trouble

Pertti Pylkkönen

Bond guarantors' credit ratings are on watch and risk premia have risen. The price of default protection provided by these bond insurers has also risen considerably.

Bond guarantors, ie so-called bond insurers (monolines), provide guarantees or credit insurance to bond issuers. Such a guarantee covers the payment of principal and interest in the event of bankruptcy. In addition to bond insurers, some insurance corporations offer reinsurance to insurers. Reinsurance is also obtained from traditional reinsurance corporations.

The bond insurance market is dominated by US companies but also includes one large French-owned player, CIFG Financial Guaranty. The ownership structures of US bond insurers are heterogeneous. Some of the companies are listed, some have a bank or insurance corporation as the only or main shareholder, and some are owned by capital investment companies.

The Association of Financial Guaranty Insurers, the interest promoter of US bond insurers, has eleven member companies; eight out of these had the best possible risk rating (AAA) at the end of 2007. Two companies were rated AA and one A.

Bond insurers are part of the insurance industry, and in the United States they are subject to a state-based regulatory system.

Only minor problems before 2007

Bond insurance was introduced in 1971, when Ambac Financial Group Inc. (currently the second largest bond insurer) commenced operations. A couple of years later, Municipal Bond Insurance Association (MBIA Inc – the current No 1), entered the market. New companies entered the market only in the 1980s when traditional insurance corporations were prohibited from acting as bond insurers in the United States.

For a long time, bond insurers guaranteed only bonds issued by local authorities, or by companies owned by local authorities, as well as bonds issued at the state level. Operations were virtually risk-free. Despite a couple of guarantee losses (eg New York in the 1970s), bond insurers continued to post profits until 2006. Last year, the results of the majority of bond insurers turned negative for the first time.

Of the bonds issued by US local authorities and municipalities ca 50% are guaranteed by a bond insurer. The guarantee reduces the issuers' interest expenses and facilitates the selling of insured loans to investors. Another factor that reduces municipalities' borrowing costs is that, for investors, the bond yields are exempt from federal and state taxation.

Guaranteeing bonds issued by local authorities is still the primary business of bond insurers. Some insurers operate only in this area.

As a result of market entry of new bond insurers in the mid-1980s, most bond insurers expanded their business and started guaranteeing also asset-backed securities, and later also structured securities. In the 1990s, bond insurers expanded their operations further to guaranteeing of bonds issued in the international markets.

Bond insurers' situation worsens

At the turn of the year, bond insurers' liabilities totalled ca USD 2,400 billion, 60% of which was accounted for by guarantees on bonds issued by local authorities or municipalities; structured products accounted for one-fourth and guarantees on international bonds for the remaining 15%.

The expansion of business operations to areas of higher risk seemed to work well for some time. The improved results however masked the fact that the capital of companies offering guarantees grew at a considerably slower pace than their new, increasingly higher-risk liabilities.

The first time bond insurers posted a loss was in the third quarter of 2007, when losses reached USD 3 billion. Results for the fourth quarter of 2007 have not yet been published. Several bond insurers have been forced or will be forced to acquire new capital to support their operations and maintain their ratings.

The French-owned CIFG was the first bond insurer to receive capital support to maintain its credit rating in the highest category (AAA). As a result of the transaction, the ownership structure of CIFG changed[12].

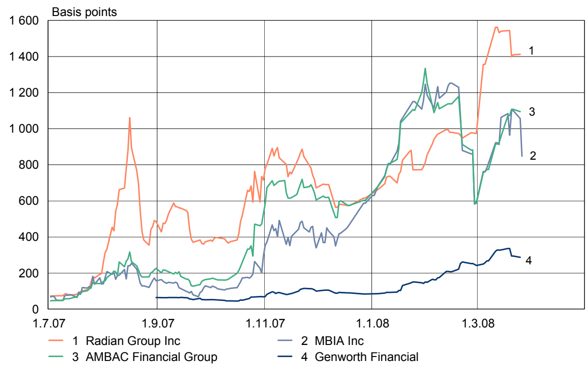
Some bond insurers' ratings have been lowered, and the AAA ratings of some bond insurers have been put on watch. The lowering of a bond insurer's rating results in downgradings of the guaranteed bonds.

Bond insurers' problems were quickly reflected in prices of bonds issued by them. These companies' risk premia have risen considerably. The prices of debt insurers' credit derivatives, ie the prices of the default protection for bonds issued by them (Credit Default Swap, CDS) [13], started to rise rapidly in the summer, after the first downgrades of Collateralized Debt Obligations (CDO). While the prices of credit derivatives have continued to rise in 2008, they vary considerably, depending on the liabilities of the insurer (Chart 6).

[12] CIFG press release, 21 December 2007.

[13] See also sub-section 1.1 Continued turbulence in financial markets, by Katja Taipalus.

Chart 6. CDS prices of selected US bond insurers



Source: Bloomberg.

The recent decline in CDS prices of MBIA and Ambac reflects eg the fact that both companies succeeded in raising over USD 1 billion of additional equity capital[14].

To rescue bond insurers, it has been suggested that the bond insurers be split into two parts. One part would focus on guaranteeing bonds issued by local authorities and the other part would focus on other forms of guarantee. But this could mean more trouble for investors in structured securities.

[14] Ambac press release, 7 March, 2008, and MBIA press release, 13 February 2008.

3 Securities markets

3.1 Fund investors nervous

Pertti Pylkkönen

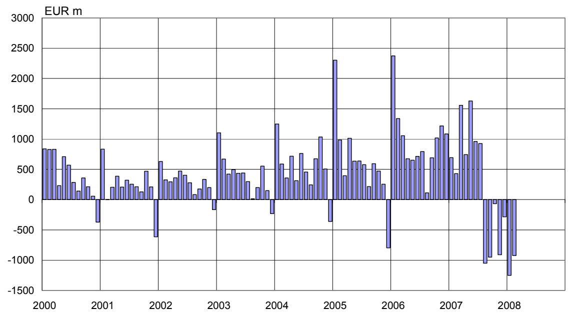
Fund investors have withdrawn EUR 5.5 billion from domestic funds since July 2007 – fund assets have declined by nearly EUR 10 billion since the peak in summer 2007.

Mutual funds' market value down by EUR 4 bn

The turbulence in the international financial market and uncertainty about the condition of the market and risks, triggered by the US subprime crisis, has impacted the Finnish mutual fund market.

In July 2007, assets of mutual funds registered in Finland totalled EUR 71 billion, EUR 16 billion of which was held by households. When the crisis erupted in August, fund investors became nervous and began to withdraw their investments. In August, more than EUR 1 billion in fund units was redeemed. The redemption of fund units has continued uninterrupted since August.

Chart 7. Mutual funds registered in Finland, net subscriptions



Sources: OMX Nordic Exchange Helsinki Oy and the Finnish Association of Mutual Funds.

Since July 2007, withdrawals from domestic funds have totalled nearly 5.5 billion. Moreover, the market value of funds has declined by ca EUR 4 billion since July, and fund assets declined to EUR 61.7 billion at the end of February[15]. In February, redemptions were fuelled by the ongoing financial market crisis and irregularities in the valuation of a small domestic management company with a market share of less than 1%.

The flow of fund investments from both non-financial corporations and households has been re-channelled to other investment assets. Other financial institutions have also substantially reduced their fund investments. Households have shifted their investments inter alia into deposits. Households' deposits totalled EUR 62.4 billion at the end of 2007,

[15] The Mutual Fund Report. The Finnish Association of Mutual Funds and Investment Research Finland.

up by almost 12%. The growth rate of deposits rose further in January, to 14%[16].

Countering to above-mentioned investments, employment pension funds' and other insurance corporations' total fund investments increased in 2007 by over EUR 3 billion. In early 2007 employment pension funds' investments surged, but in the second half of the year some of their money was shifted into other investment assets.

The relative holdings of foreign investors in Finnish funds grew slightly in 2007 and accounted for slightly less than 14%[17] of fund investments at year-end.

European funds

At the end of 2007, Finnish mutual funds' assets were up by 8% on the previous year. European management companies' total assets grew over 4% in 2007. The focus of growth was in the European centres of international fund markets, ie in Ireland and Luxembourg, where growth was more rapid than in Finland. In Norway, the annual growth rate for fund assets was the highest in Western Europe in 2007, nearly 30%. Of the euro area countries other than Finland, mutual funds' net subscriptions in 2007 were positive only in Ireland and Luxembourg.

In several new EU member states, the mutual fund market grew rapidly, despite disturbances in the financial markets. In these countries, the fund market is still in its early stages, which explains the high growth rates. In Slovenia and Poland, fund assets grew by over 40% in 2007 and in Romania, Slovakia and Hungary by ca 25%[18].

[16] Financial Markets – Statistical Review 3-2007, Bank of Finland.
[17] Statistics Finland, Mutual funds 4th quarter 2007.
[18] European Fund and Asset Management Association. Quarterly Statictical Release, March 2008, No. 32.

3.2 MiFID transforms the markets – more multilateral trading facilities than regulated markets

Emilia Koivuniemi

Establishing a multilateral trading facility (MTF)[19] has been possible since November 2007. At the end of February 2008, their number already exceeded the number of regulated markets. The majority of MTFs are registered in the United Kingdom, as revealed by the Internet database of the Committee of European Securities Regulators (CESR).

According to the database of the Committee of European Securities Regulators (CESR), the number of MTFs registered in the European Economic Area is 102, whereas the number of regulated markets is 93.[20]

Establishing a MTF became possible in November 2007, when the Directive on Markets in Financial Instruments (MiFID) entered into force. The purpose of the directive is to promote competition between trading places and forms of trading. Therefore the directive provides for maintaining an MTF. The changes are due to tightened regulation of listed companies and a high threshold for applying for share listing.

[19] A Multilateral Trading Facility complying with the directive is a trading facility where products already listed in another trading venue are traded.
[20] CESR, 2006, (29 February 2008), see http://mifiddatabase.cesr.eu/

One purpose of MTFs is to provide a faster and easier access to capital markets than via the main lists.[21] The regulation and requirements of multilateral trading are less severe than those of public trading on a securities exchange, which was previously the only way for a company to obtain a market quotation.

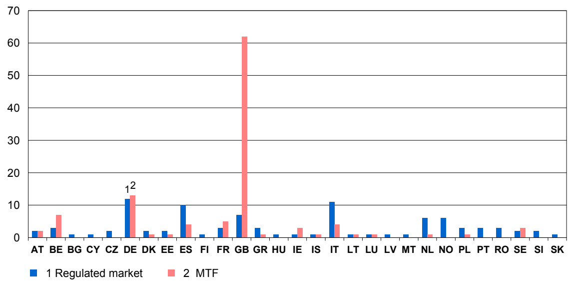
The hope is that multilateral trading will facilitate particularly the growth and operational development of small and medium-sized companies. New operators provide alternatives for the acquisition of capital and enhance the transparency of pricing, which is a desired development also in Finland.[22]

The disclosure requirements for companies subject to multilateral trading are less severe than those for companies subject to public trading. Nor are the companies subject to regular reporting requirements, unless laid down in the rules of the MTF. Moreover, the commencement of trading is subject mainly to the discretion of the organiser of the trade.[23]

The number of MTFs currently exceeds a hundred in Europe.[24] The clear majority of MTFs are located in the United Kingdom, followed by Germany and Belgium (Chart 8). There are fewer regulated markets, and they are distributed more evenly across Europe.

MTFs have increased their share in the volume of trading, particularly in the bond market. Similar developments have thus far not been witnessed in equities trading, despite eg the high-profile launch of the Chi-X and Turquoise projects. Nasdaq OMX announced in March that it will establish its own European trading platform for equities trading.[25]

Chart 8. Number of regulated markets and MTFs in Europe



Source: CESR.

MTFs do not yet operate in Finland, even though OMX's FirstNorth Finland calls itself a MTF. It is however established in Sweden and its regulation is based on rules laid down by the Stockholm Stock Exchange. Moreover, the Financial Supervision Authority (FIN-FSA) does not supervise operations of companies whose shares are subject to public trading, or operations of the Stockholm Stock Exchange.

The Finnish Securities Markets Act was amended to implement the provisions of MiFID. MTFs can be established by stock exchanges, investment firms or credit institutions. Various types of securities are admitted to trading, such as derivatives, and eg unlisted securities issued by private limited companies. The key change is that issuer approval is no longer required if a security admitted to public trading is admitted also to multilateral trading.

The directive's entry into force also affected post-trading operations. Clearing houses must accept all brokers as clearing parties in the European Economic Area, if they fulfil the requirements of the law and the rules of a clearing house. Moreover, MTFs may choose the clearing house or central counterparty for

[21] Ministry of Finance, 25 October 2007, New EU investment service provisions enter into force on 1 November 2007: New investment services subject to authorization.

[22] HE 43/2007. Government bill to Parliament on the Investment Firms Act, on amending the Securities Markets Act and on certain related acts.

[23] HE 43/2007. Government bill to Parliament on the Investment Firms Act, on amending the Securities Markets Act and on certain related acts.

[24] CESR, 2006, (29 February 2008), see http://mifiddatabase.cesr.eu/

[25] Nasdaq OMX, press release, 19 March 2008.

settling the trades. Investment firms must also be given the opportunity to choose the clearing house for settling trades.

The dispersion of trading and liquidity may hamper equities trading and result in unfair competitive conditions. Therefore the directive also includes provisions on the transparency of equities trading and the disclosure of trading information.

4 Infrastructure

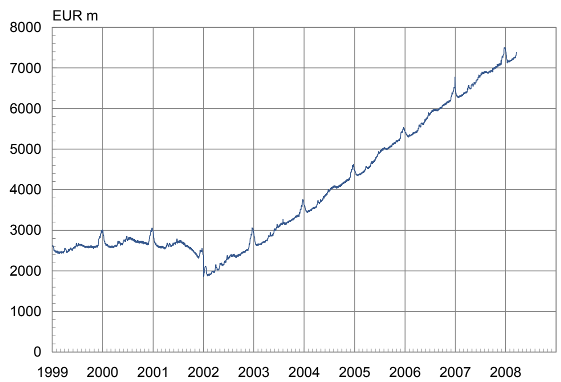
4.1 Use of payment instruments changing in euro area countries

Kari Takala

The single euro cash area has markedly changed retail payment habits. Card payment is gaining rapidly in popularity, but cash still plays a major role in several euro area countries. Changes in cash usage have been surprisingly big.

The amount of euro banknotes issued in Finland has increased rapidly. In the six years since introduction of the euro, the value of banknotes has almost tripled. The value of cash issued in the entire euro area has increased almost correspondingly.

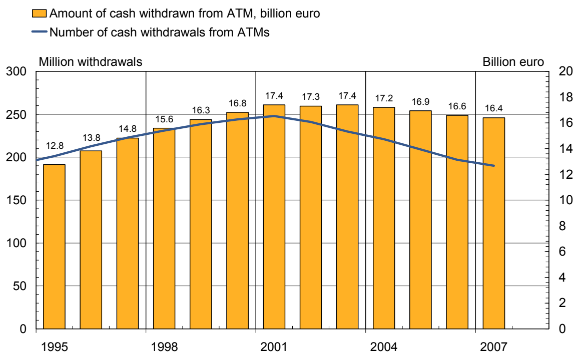
Chart 9. Banknote issuance in Finland



Source: Bank of Finland.

On the other hand, the share of cash in domestic retail payments has been decreasing while the share of card payments has been increasing. This is also evidenced by the fact that the euro value of banknotes withdrawn from ATMs has continued to decline slightly in the past four years. In 2006 the value of domestic card payments totalled EUR 31.1 billion[26], and the value of EUR 20 and EUR 50 banknotes issued to the public via ATMs totalled EUR 16.6 billion.

Chart 10. ATM cash withdrawals in Finland, 1995–2007



Source: Automatia Ltd.

Based on calculations, the euro value of domestic cash payments is estimated at ca EUR 25 bn. Nearly 80% of banknote issuance is distributed to the public via ATMs, and the rest of the banknotes (the higher denominations) are distributed via bank branches.

The supply of cash via ATMs reflects quite well the everyday use of cash as a means of payment. The use of cash supplied to the public via bank branches is

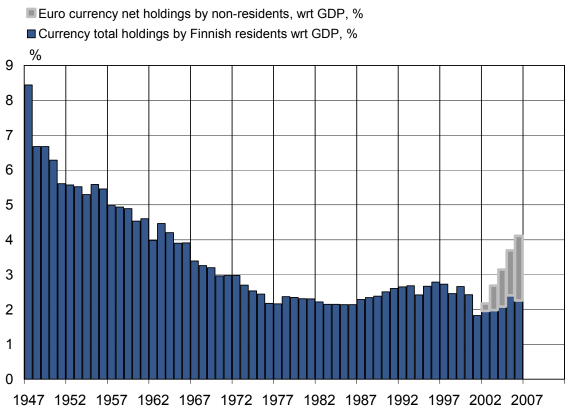
[26] See press releases by the Federation of Finnish Financial Services.

more random – cash is used mainly on holidays in Finland or abroad or to pay for purchases. Cash is withdrawn at bank branches because the amount of an ATM withdrawal is limited to EUR 400 per withdrawal, and because of the limited selection of banknotes.

The majority of the rapidly growing amount of euro cash issued in Finland has ended up outside Finland via tourism and other shopping-related travel.[27] Large amounts of cash are used in the importation of used cars, real estate acquisitions and other large purchases. The largest cash withdrawals at bank branches are usually made by private citizens.

Despite the continuous strong increase in card payments, the ratio of banknotes issued to economic activity (GDP or private consumption) has remained virtually unchanged in the past three decades, ie since credit transfers became electronic.

Chart 11. Currency in circulation in Finland, % of GDP, 1947–2006



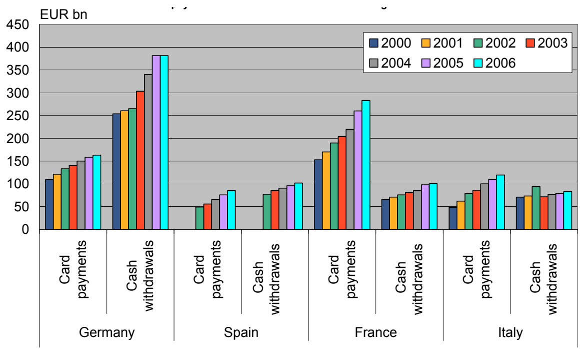
Source: Bank of Finland and Statistics Finland.

The cash-to-GDP ratio in Finland has been among the lowest in the world, primarily due to the sophisticated electronic means of payment, banks' investments in electronic payment systems, and pricing policies aimed at payment habits.

Major differences in euro area payment cultures

Finland, along with France and the Benelux countries, is one of the few euro area countries where the majority of everyday payments are card payments. In Italy, payments are divided quite evenly among cash and card payments (considering that the amount of cash supplied via bank branches is excluded from the amount of euro cash withdrawals). By contrast, Germany, Austria and Spain are countries where cash payments dominate. A recent study shows that in Austria, cash payments account for 86% of households' retail payments, and for nearly 70% of the value of retail trade.[28] In countries where cash payments are favoured large denominations are generally available from ATMs.

Chart 12. Card payments and ATM cash withdrawals in large euro area countries



[27] A survey conducted by the Bank of Finland at bank branches shows that cash is used for a variety of purposes. See http://www.bof.fi/en/rahoitusmarkkinat/kehityshankkeet/payment_habits_2010/index.htm

[28] Mosenlechner, P., Stix, H. and Wagner, H. (2006), How are payments made in Austria?, Monetary Policy & the Economy No. 2, pp. 111–134, Austrian Central Bank.

Chart 13. Card payments and ATM cash withdrawals in small euro area countries

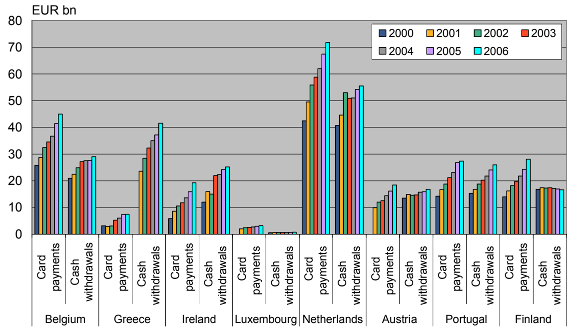
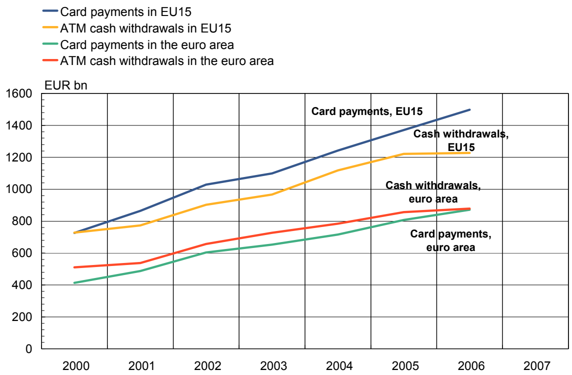


Chart 14. Card payments and ATM cash withdrawals in euro area and EU15



Source: ECB's Blue Book.

The growth rate of card payments has nevertheless exceeded that of cash payments. Card payment is therefore likely to become the main payment method in more and more countries over time. Technical innovations eg in mobile payment will likely in future clearly reduce the number of cash payments.

Cash has its advantages

Cash has however characteristics that cannot easily be replaced by electronic payment methods. Cash is considered a more practical and speedier way of making smaller payments. Most consumers feel that expenses can be better controlled by using cash than with card payments. Moreover, the use of cash does not require a payment terminal, which enables eg income transfers between private citizens. The possibilities to use cash during holidays, when travelling on business and in cross-border shopping-related travel increased with the creation of the single cash area, and the possibilities have been effectively utilised. Credit transfer fees and card fees levied by banks and delays in payment transfers also induce people to change over to the use of cash.

Use of cash involves handling, sorting and distribution costs that are usually not itemised in the pricing. More transparent pricing of payment methods would however induce consumers to use the most suitable payment instruments for each payment situation.

4.2 Finland connected to TARGET2 since February 2008

Kirsi Ripatti

TARGET2 was launched successfully in November 2007. The second user group (incl. Finland) changed over to the new system in February 2008. The last countries are expected to migrate to TARGET2 in May.

The TARGET2 system, which is used for the settlement in real time of predominantly high-value euro payments in central bank money, was successfully launched on 19 November 2007[29] when the first group of countries migrated to the new system.[30] Already on the first day, over 171,000 payments, with a total value of EUR 833 billion, were transferred via the single shared platform of TARGET2.

The new system will successively replace the old TARGET system in 2008. The Bank of Finland and its domestic and Nordic customers joined the system on 18 February 2008, in the second user group, along with the Netherlands, Belgium, Spain, Ireland, Portugal, and France. The last group will change over in May.[31]

Three Eurosystem central banks – of Italy, France and Germany – provide TARGET2 services to the other central banks participating in the system, who in turn provide payment system services to their own customers. Approximately a thousand direct participants and ca 60 ancillary systems are estimated to join TARGET2.[32] Currently, the Bank of Finland has 19 direct TARGET2 participants.

The launch of TARGET2 significantly promotes the integration of financial markets in the EU by providing harmonised services and pricing in connection with payments in central bank money. The system facilitates particularly multinational banks' euro-denominated payments and liquidity management.[33]

Even though migration to the new system is still in progress, TARGET2 is undergoing further development. The planning of the next version has already begun in cooperation with the participants

[29] Trans-European Automated Real-time Gross Settlement Express Transfer system.

[30] Austria, Cyprus, Germany, Latvia, Lithuania, Luxembourg, Malta, Slovenia.

[31] Denmark, Estonia, Greece, Italy, Poland, and the ECB.

[32] Ancillary system refers to a system which is operated by an entity established in the European Economic Area and supervised by a competent authority and in which payments or securities are exchanged and/or cleared while the ensuing monetary obligations are settled in TARGET2.

[33] For more information on the TARGET2 project, see eg http://www.ecb.europa.eu/paym/target/html/index.en.html, and in the article 'TARGET2', Euro ja talous 4/2007, (in Finnish only).

4.3 Payment infrastructure changes with SEPA

Kirsi Ripatti

What does the arrival of pan-European automated clearing houses mean? Will payments be processed via Brussels? Does the Single Euro Payments Area (SEPA) also serve national needs?

European banks have decided that they need one or several Pan-European Automated Clearing Houses (PE-ACH). The purpose of establishing a pan-European automated clearing house is to achieve the objective of SEPA: banks and customers are able to use the same systems for processing both domestic and cross-border payments within SEPA countries. The Euro Banking Association's (EBA) STEP2 system is such an automated clearing house for settling domestic and cross-border retail payments in euro. Finnish banks can connect to the system to ensure the execution of payments.

Large banks' payment transfers via continental Europe

Banks have studied new methods for interbank clearing and settlement to enable efficient payment transfers at current execution times. In the SEEBACH project[34] banks, together with EBA, have studied clearing and settlement services for credit transfers. According to the development plan, the new service provided by EBA Clearing to Finnish banks will be based on overnight settlement, and on the European System of Central Banks' TARGET2 system. The new service would be an ancillary system[35] of TARGET2. The plan is to introduce the service in November 2008.[36]

Small banks to establish their own payment centre

In Finland, the Association of Local Cooperative Banks and its 42 members, and the Finnish Savings Banks' Association and its 39 members, together with Aktia Savings Bank Ltd, are developing interbank cooperation and preparing the establishment of a joint payment centre, with the aim of providing payment and settlement services. The payment centre, ACH Finland, should commence operations at the end of 2008.[37]

After a transitional period, the new pan-European payment transaction settlement and fund transfer solutions will replace the current solutions of banks operating in Finland. The length of the transitional period will be defined once operability of the new solutions is ensured. Finland has long been the forerunner in payment services, and it is to be hoped that the level of services provided to customers will be secured also in the future.

[34] SEEBACH is the project for banks operating in Finland and EBA to resolve interbank settlement and fund transfer issues in connection with SEPA.

[35] Ancillary system: see sub-section 4.2, footnote 33.

[36] See SEPA Implementation and Migration Plan in Finland, Federation of Finnish Financial Services (www.fkl.fi).

[37] Aktia press release, 25 October 2007 (www.aktia.com).

4.4 Finnish Central Securities Depository lowers prices

Jenni Koskinen

Several European clearing houses have lowered the prices of securities settlement. In Finland, prices were reduced by 10 to 50%.

The Finnish Central Securities Depository (NCSD Finland) followed the lead of several European securities clearing houses and major central counterparties and decided to give its customers part of the increase in income resulting from the increasing volumes in securities trading. Monthly data for the early months of 2008 indicate that in Finland the number of equities settlement transactions increased by 38–65% on the corresponding period of 2007.[38] The Finnish Central Securities Depository's new prices took effect on 1 April 2008. The prices were reduced to enhance the operation and cost efficiency of the Finnish capital markets.

According to a press release by the Finnish Central Securities Depository in March, the prices of equities settlement are reduced by 10 to 50%. The biggest reductions are in the maintenance fees of book-entry accounts, which were reduced by 50%. This will benefit account operators that manage the accounts of customers such as foreign brokers or private customers. The other reductions were more moderate. Transaction fees were cut by 25%, so that the settlement fee for a clearing party is now EUR 0.25. The maintenance fees of book-entry accounts, which are based on market value, were cut by 10%.

The price reductions were preceded by lively discussions between market participants and the Finnish Central Securities Depository. It remains to be seen whether the reductions will placate the customers. Customers have previously considered the prices high in comparison to the other central securities depositories and demanded that the prices be halved.[39]

The wave of price reductions among European clearing houses and central counterparties is due to the principles of self-regulation laid down in late 2006.[40] According to the principles, market participants seek to actively increase pricing transparency and cost efficiency. The growing volume of exchange trades has contributed to the price reductions, but the need to maintain competitiveness is also a key motivator. Measures to increase transparency and competition in the market are also been actively monitored by the European Commission.

[38] Source: Statistics by the Finnish Central Securities Depository.

[39] Kauppalehti,12 February 2008.

[40] Code of Conduct, http://ec.europa.eu/internal_market/financial-markets/docs/code/code_en.pdf

5 Key regulatory and supervisory initiatives

5.1 Financial and Insurance Supervisory Authority commences operations in 2009

Jukka Vauhkonen

Finland is following the lead of many other countries by merging financial supervision to create a single organisation. The merger is a response to the convergence of the banking and insurance sectors and the increasingly similar risks.

The working group chaired by Minister Antti Tanskanen, which prepared the merger of financial and insurance supervision, submitted its proposal to the respective ministries in February 2008. The working group proposes that a new supervisory authority, the Financial and Insurance Supervisory Authority, be established in Finland. The new authority is expected to commence operations at the beginning of 2009. The duties of the Financial and Insurance Supervisory Authority would be largely the same as those of the current Financial Supervision Authority and the Insurance Supervisory Authority. The new body would be part of the administrative structure of the Bank of Finland. A Government proposal on the act on the Financial and Insurance Supervisory Authority and related acts is scheduled to be introduced in Parliament in spring 2008 with approval set for autumn 2008.

The organisation of financial supervision differs between countries. Financial supervision in Finland is presently based on a sector-specific model where banking and insurance are supervised by separate organisations. The same type of sector-specific model is employed eg in the United States, Russia, Spain, and Italy. With the establishment of the Financial and Insurance Supervisory Authority, Finland adopts a model of one supervisor, in which financial supervision is unified under one organisation. The one-supervisor model has in recent years become increasingly popular. It is used eg in 12 EU countries, such as the Nordic countries, United Kingdom, Germany, Austria, Ireland, and Estonia.

According to the working group, several factors argue for the unification of financial and insurance supervision. The financial and insurance sectors have in recent years increasingly included financial groups that operate in both the sectors. Such a group is more naturally supervised as a single economic entity. As the business and risks of the financial and insurance industries have become increasingly similar and complex, the scope of their regulation has expanded and become increasingly complex. For these reasons, the supervision of both industries requires increasing competency, and the synergy gains from supervisory resources have increased. A merger of the supervisory authorities also yields administrative synergy gains.

The merger of supervision is also supported by crisis management issues. In a financial crisis, the efficient flow of information between authorities responsible for financial stability is of utmost importance. Centralisation of supervision in one authority facilitates the efficient flow of information between the supervisor and other authorities involved in crisis management.

The working group recommends that the new organisation be structured by functions, instead of sectors, so that financial risks of a similar nature can be supervised as uniformly as possible. Moreover, the Financial and Insurance Supervisory Authority should emphasise principles-based supervision. In this approach, the supervisory authority and supervised entities work together to promote best practices and procedures.

The working group proposes that financial supervision costs be covered mainly by supervision fees collected from the supervised entities. They would cover roughly 90% of all supervision costs, and the rest of would be incurred by public authorities. The financial base of the proposed supervisory authority would be more stable than the current one because it is divided more evenly among supervised entities.

6 Key corporate arrangements and events in the financial sector

Date	***Event and description***
August 2007	*Lansbanki Islands opens branch in Helsinki.*
September 2007	*Northern Rock forced to apply for emergency funding from the Bank of England due to liquidity problems.*
	Norwegian financial services company Storebrand ASA announces it will acquire Handelsbanken's insurance subsidiary SPP, for EUR 1.9 bn.
	Aktia Corporate Finance Ltd starts operations.
	Kaupthing Finans opens a branch in Finland.
	Moody's lowers M-Real Corporation's long-term credit rating from B2 to B3.
	Metso Corporation delists from the New York Stock Exchange.
October 2007	*S-Bank commences operations.*
	Glitnir Bank (former FIM Securities Ltd) starts operations.
	Nasdaq announces it will acquire the Boston Stock Exchange.
	Nordea purchases ca 70 branches from Svensk Kassaservice, and will turn them into Nordea offices in 2008.
	The Financial Services Authority (FSA) of the United Kingdom increases the limit of Financial Service Compensation Scheme cover for deposits to 100% of the first GBP 35,000 of each depositor's claim. The previous cover for deposits was 100% of the first GBP 2,000 and 90% of the next GBP 33,000 of depositors' claim.

Date	*Event and description*
October 2007	*ABN Amro completes sale of LaSalle Bank to Bank of America at the beginning of October.*
	NetBank Inc. (established in 1996), the first US online bank, goes into liquidation. Ing Direct acquires NetBank's deposits of USD 1.4 bn for USD 14 million, and EverBank purchases NetBank's mortgages for USD 700 million.
	The Association of Local Cooperative Banks and its 42 members, and the Finnish Savings Banks' Association and its 39 members, together with Aktia Savings Bank, announce they will establish a new payment centre in Finland.
	Kaupthing Bank Luxembourg S.A announces it will acquire Robeco Bank Belgium.
	NYSE Euronext, BNP Paribas and HSBC announce they will launch a multilateral trading facility, SmartPool, for block trading of European listed shares, in line with provisions of the Markets in Financial Instruments Directive (MiFID).
	Moody's upgrades Metso Corporation's long-term credit rating by one grade, from Baa3 to Baa2.
	S&P lowers Fingrid Oyj's credit ratings by one grade, from A-1+ to A-1, and from AA- to A+.
	S&P lowers UPM-Kymmene Corporation's short-term rating from A-2 to A-3. Long-term rating remains unchanged, at BBB; but the outlook is negative.
	S&P lowers Stora Enso's long-term rating from BBB to BBB-; outlook negative. Short-term rating remains unchanged, at A-3.
	S&P lowers M-Real Corporation's long-term rating from B to B-; outlook stable.
November 2007	*Nasqad to acquire the Philadelphia stock and derivatives exchange.*
	OMX signs an agreement on acquisition of the Armenian Stock Exchange and the Central Depository of Armenia.
	Authorities approve merger between Oslo Stock Exchange and Norwegian Central Securities Depository.
December 2007	*UPM-Kymmene delists from the New York Stock Exchange.*
	The Deposit Guarantee Fund of Finland approves Kaupthing Bank Oyj as a member of the deposit guarantee fund. Kaupthing Bank Oyj will merge with its parent company Kaupthing Bank hf.

Date	*Event and description*
December 2007	*Eirikuva Digital Image Oyj Abp is the first Finnish company listed on the First North marketplace.*
	Fitch confirms Finland's long-term rating at AAA.
January 2008	*OKO Bank plc acquires K-Finance Ltd share capital from Kesko.*
	NYSE Euronext announces it will acquire the American Stock Exchange (AMEX).
February 2008	*Kaupthing cancels agreement to acquire Dutch merchant bank NIBC.*
	Moody's lowers UPM-Kymmene Corporation's long-term debt rating from Baa2 to Baa3. Outlook stable.
	Fitch changes rating outlook on Stora-Enso's and UPM-Kymmene's long-term debt from stable to negative. The companies are now rated BBB-.
	In the United Kingdom, Northern Rock is nationalised.
	NASDAQ Stock Market Inc. and OMX AB merge. The name of the new company is The NASDAQ OMX Group Inc.
March 2008	*If P&C HoldingLtd announces it will acquire the Russian insurance company SOAO Region (located in St. Petersburg).*
	S&P gives Sampo Life Insurance Company Ltd a long-term rating of BBB+.
	Barclays Bank plc announces it will acquire the Russian bank Expobank, for USD 745 million.
	CME Group announces it will acquire energy-exchange operator NYMEX.
	The NASDAQ OMX Group Inc announces it will establish a new pan-European marketplace, the NASDAQ OMX Pan European Market.
	JP Morgan Chase acquires investment bank Bear Stearns, which had run into funding problems.
	Rautakirja Group announces it will equip each of over 500 R-Kiosks with an ATM.

Date	*Event and description*
March 2008	*General Electric sells its commercial card business to American Express. General Electric also sells to Santander, the largest bank in Spain, its finance companies operating in Finland, Germany and Austria. In return, GE Commercial Finance will acquire, inter alia, the Italian bank Interbanca from Santander.*
	Nordea announces it will sell its institutional global custody portfolio to JP Morgan Worldwide Securities Service.
April 2008	*Aktia Savings Bank plc and Veritas Mutual Non-Life Insurance Company announce plans to merge.*
	Standards & Poor's places Iceland's long-term credit rating (A+) on watch for possible downgrading.
	Fitch places Iceland's short- and long-term credit rating on watch for possible downgrading. Short-term rating now stands at F1 and long-term at A+.
	Fitch places the rating of the Icelandic banks Glitnir Bank, Kaupthing Bank and Landsbanki Islands on watch for possible downgrading. The banks have the same ratings: short-term FI and long-term A.