



Financial Markets Report

2004 - No. 2

- 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_rahoytusmarkkinat/index.stm

Contents

1	Financial intermediation	3
1.1	Financial sectors in Baltic States still comparatively small relative to size of economy	3
2	Banks and insurance companies	7
2.1	Operating profits improved in response to increase in other income	7
2.2	First quarter performance data for Nordic and Baltic banks, 2004	8
2.3	Subdued increase in premiums written by insurance companies	9
3	Securities Markets	11
3.1	Share market liquidity has improved	11
3.2	Interest rate expectations reflected in bond markets	13
4	Infrastructure	15
4.1	Increased payment traffic in Finland	15
4.2	Towards more effective infrastructure solutions	17
5	Key initiatives for development of regulation and supervision	19
5.1	Securities clearing and settlement systems	19
5.2	Expert opinions on progress made in EU financial integration circulated for comment	21
	Box: Financial Stability Forum (FSF) and Financial Stability Institute (FSI) as contributors to global financial stability	22
6	Key corporate arrangements and events in the financial sector	23

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1 Financial intermediation

1.1 Financial sectors in Baltic States still comparatively small relative to size of economy

Hanna Putkuri

The financial systems of the Baltic States that joined the European Union in May are very bank-centred. In comparison to the old Member States, financial intermediation in these countries remains so far comparatively less developed, and despite strong growth in recent years, their banking sectors are still small relative to the size of the economy. Capital markets are at an early stage of development and their role in financial intermediation is still rather small.

At the beginning of May, the Baltic States, namely Estonia, Latvia and Lithuania, acceded to the European Union (EU) along with seven other countries¹. At the same time, the national central banks of the new Member States became part of the European System of Central Banks (ESCB) and the central bank governors became members of the ECB General Council. The central banks also became parties to the agreement on the exchange rate mechanism ERM II but the date, as of which the mechanism will be used in each country, is yet to be decided on.²

The new EU Member States may join the European Economic and Monetary Union (EMU) at the earliest on the completion of the two-year ERM membership requirement laid down in the Treaty establishing the European Community. According to some estimates, changeover to the euro could in practice take place at the beginning of 2007 at the earliest.³ Estonia and Lithuania are expected to join the EMU among the first group of entrants.

The financial systems of the Baltic States were created when these countries became independent in early 1990s. Despite strong growth in recent years, the financial sectors

are still relatively small and many forms of finance are in the early stages of development. According to a recent review by the IMF, financial intermediation continues to be somewhat underdeveloped particularly in Latvia and Lithuania, and especially the capital markets are still in the early phases of development in all three countries.⁴ In spite of a common history and similar developments in recent years, there are clear country-specific differences in addition to many common characteristics in the structures of financial markets in these countries.

Although the financial systems of the Baltic States are very bank-centred, their banking sectors are still fairly small relative to the size of the economy (Chart 1). At the end of 2003, the total assets of the banking sector in comparison to GDP amounted to 85% in Estonia, 96% in Latvia and only 40% in Lithuania. The ratio indicating the banks' capacity of financial intermediation – stock of loans granted to domestic households and non-financial corporations in relation to GDP – was 37% in Estonia, 44% in Latvia and 21% in Lithuania. Based on 2002 statistics, the total assets of euro area credit institutions amounted to 257% of GDP and total loans granted to non-MFIs amounted to 116% of GDP.⁵

¹ The other new EU Member States are Cyprus, Czech Republic, Hungary, Malta, Poland, Slovakia and Slovenia.

² ECB press release 3 May 2004.

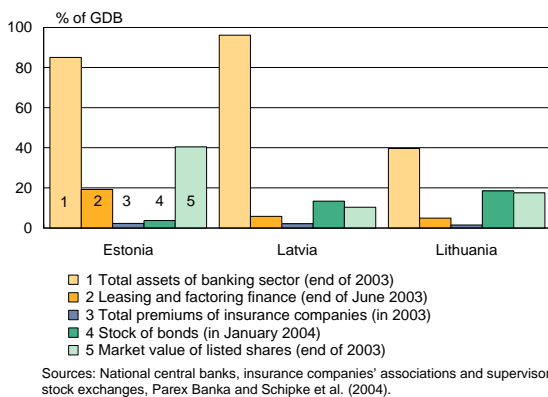
³ Eg Deutsche Bank published a report in April assessing the possibilities of the new members to join the EMU.

⁴ A. Schipke – C. Beddies – S. M. George – N. Sheridan (2004) Capital Markets and Financial Intermediation in the Baltics. *IMF Occasional Paper 228*.

⁵ ECB (2003) Structural analysis of the EU banking sector.

The role of the Baltic States as a gateway for trade between Russia and the west is reflected in the banking sectors of these countries so that a significant share of banks' balance sheets consists of items denominated in foreign currencies. The willingness of companies in Estonia and Lithuania, to take loans in foreign currencies has resulted in foreign currency denominated loans (mostly euro) clearly exceeding deposits in foreign currencies. In contrast, a large share of deposits in Latvia is in foreign currencies, which reflects the continuing high degree of dollarisation of the economy.⁶

Chart 1. Size of financial sector, % of GDP



In recent years, financing by banks has grown at a very rapid pace in the Baltic States. The stock of bank loans to the domestic private sector grew by 37% in Estonia, 43% in Latvia and 64% in Lithuania between March 2003 and March 2004.

The banking sectors of Estonia and Lithuania, in particular, are very concentrated (Table 1). The share of the five largest banks in the total assets of the banking sector amounts to almost 100% in Estonia and a little below 90% in Lithuania. In 2002, the corresponding share of credit institutions in both EU15 countries and the euro area was 54% on average, ranging between 83% in the Netherlands and 20% in Germany.

At present, there are 7 banks in Estonia and 13 banks in Lithuania. Latvia has sig-

nificantly more banks but a large proportion of the total of 23 banks specialise in financing transit trade. The number of banks has decreased significantly in all three countries since early 1990s. In addition to many bank mergers and bankruptcies, the structural change was the result of the banking and financial crises in the latter years of the last decade.

Table 1. Concentration and foreign ownership of the banking sector

	Number of banking groups	Largest banks' share in total assets of the banking sector		Share of banks' capital under foreign ownership
		3 largest	5 largest	
Estonia	7	90 %	99 %	87 %
Latvia	23	52 %	65 %	54 %
Lithuania	13	77 %	88 %	88 %

Sources: Central banks and Schipke et al. (2004).

The banking sectors of the Baltic States are owned by foreigners to a large degree (Table 1). Particularly the Swedish Skandinaviska Enskilda Banken (SEB) and FöreningsSparbanken (Swedbank) play a major role in the Baltic States.⁷ In Latvia foreign ownership is clearly lower and less concentrated than in Estonia and Lithuania.

At present, the condition of the banking sectors in the Baltic States is generally considered rather good. The international credit rating agency Fitch has assigned an A- rating to the Estonian banking system and BBB+ ratings to Latvia and Lithuania.

Leasing finance by finance companies belonging to banking groups has grown in all Baltic States. The importance of leasing finance as an alternative to bank loans has

⁶ This information is presented eg in Fitch's special report published in March *The Baltics: A Broad Comparison of the Three Banking Systems*.

⁷ Estonia's second-largest bank, Eesti Ühispank, Latvia's second-largest bank, Latvijas Unibanka, and Lithuania's largest bank, Vilniaus Bankas, are part of the SEB Group. Swedbank on the other hand, owns a majority share in the Estonian Hansapank, which is among the three largest banks in all three Baltic States.

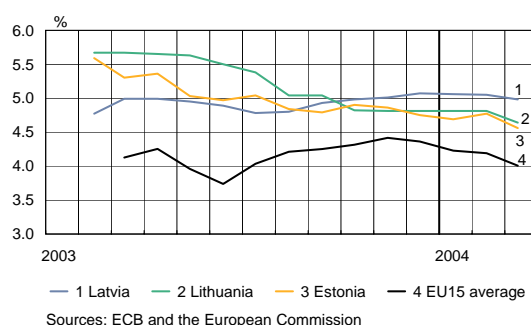
increased, especially as regards real estate and car purchases.⁸

Insurance sectors in the Baltic States remain very small and underdeveloped in comparison to the size of the economy. Total premiums of the 13 insurance companies operating in Estonia amounted to 2.3% of the GDP in 2003. Premiums of the 19 insurance companies operating in Latvia amounted to 2.1% of the GDP and premiums of the 28 in Lithuania amounted to 1.5% of the GDP.

The Baltic States' bond markets are only emerging so the debt stock is still small: 3.7% of the GDP in Estonia, 13.4% in Latvia and 18.5% in Lithuania. Most of the bonds in Latvia and Lithuania are issued by the central government. Some of these are eurobonds and some are denominated in the domestic currency. In Estonia, the stock of bonds issued by the government and municipalities is significantly smaller than elsewhere in the Baltics but the corporate bond market is more developed.

In April, the European Central Bank and the European Commission published the first harmonised statistics on long-term interest rates for the new EU Member States (Chart 2).

Chart 2. Long-term interest rates in the Baltic States



In May, yield on government bonds maturing in about ten years was 5.0% in Latvia

⁸ In addition to banks, there are 5 money market funds and 11 other monetary financial institutions in Estonia. In Latvia there are 28 other MFIs, mainly credit unions, and in Lithuania 58. Baltic MFIs are listed in the ECB's *List of monetary financial institutions in the accession countries*, published in February.

and 4.6% in Lithuania. In Estonia, the available indicator for long-term interest rates (over 5 years) stood at 4.6%. Convergence of long-term interest rates is used as one of the criteria for the assessment of the possibility of accession countries to join the EMU⁹. In March, the non-weighted average of long-term interest rates was 3.9% in the euro area and 4.0% in the EU15.

Share markets are still relatively small in particular in Latvia and Lithuania, and their role as a source of finance is minor. The markets are comparatively illiquid since trading revolves around the shares of just a few companies. Estonia has the most developed share markets (HEX Tallinn), where the aggregate market value of the 14 listed companies amounted to 40% of the GDP at the end of 2003. In Latvia (HEX Riga) there were 56 listed companies at the end of the year (20 of which delisted in January) and 46 in Lithuania. Aggregate market values were 10% and 18% of the GDP respectively.¹⁰ The aggregate market value of the euro area stock exchanges amounted to 54% of the euro area GDP at the end 2003.

Share prices in the Baltic States have been on a clear upswing (see Chart 12, Annex Charts). In the course of 2003, the general index (TALSE) rose 34% in the Tallinn Stock Exchange, 133% in Riga (RICI) and 70% in Vilnius (LITIN). By the end of April 2004, the TALSE had risen by a further 19%, the RICI by 18% and the LITIN by 30% from the close of 2003. Also trading volumes have been growing.

Venture capital investing in emerging SMEs is still relatively minor in the Baltics but the European Bank for Reconstruction and Development (EBRD), among others, has been involved in developing investment funds in the area.

Financial supervision in the Baltic States is organised in different ways. In Estonia,

⁹ According to the convergence criterion, long-term interest rates averaged over the previous 12 months should not exceed by more than 2 percentage points the average rates of the three member countries with the lowest inflation.

¹⁰ The stock exchanges of Tallinn and Riga are part of HEX Integrated Markets, a division of the OM-HEX group established in September 2003.

the banking, insurance and securities market supervision was combined in 2001 and vested with an independent agency, Financial Supervision Authority, in connection with the central bank. In Latvia, the supervision of banks, insurance companies, pension funds and securities markets is vested with an independent Financial and Capital Market Commission established in 2001. In contrast,

in Lithuania supervision is decentralised to three separate agencies: credit institutions are supervised by the Supervision Department of the central bank, while insurance companies and securities markets are supervised by the Insurance Supervisory Commission and Securities Commission under the Ministry of Finance.

2 Banks and insurance companies

2.1 Operating profits improved in response to increase in other income

Mervi Toivanen

Banks' operating profits increased in January – March 2004 quarter on quarter in response to an increase in other income, especially net income from securities and foreign exchange transactions. The improved results of the life insurance business, together with one-off capital gains, also contributed to group results. By contrast, net interest income declined further in response to lower interest rate margins and a fall in the general level of interest rates. Capital adequacy continues to be sound.

In January–March 2004 banks' operating profits generally improved from the year before, driven by the increase in other income, in particular. Banking groups' results were, in turn, boosted by the improved performance of the life insurance business, together with one-off capital gains.

Thus, growth in the volume of share market related products was the primary reason behind the increase in net fee income.

Banks' expenses continued to develop along the same lines as earlier. While the larger banking groups were successful in trimming costs through staff reductions and rationalisation measures, the expenses of smaller banks and banks in the OP Bank Group have, nevertheless, been growing in the context of larger staff sizes and the establishment of new branch offices.

The first quarter of 2004 was characterised by either very small loan losses or loan loss recoveries.

Recorded loan losses were highest for Nordea but they too remained lower than in January–March 2003.

As a rule, the cost-to-income ratio for Finnish banks has improved since the end of 2003. Capital adequacy ratios also remain high, whether calculated on Tier 1 assets or on total assets.

In the assessment of most of the banks, their operating profits in 2004 will either be the same or slightly higher than in 2003.

Table 2. Banks' financial results, January–March 2004

	Net income		Other income		Total expenses		Operating profit	
	EUR m	Change %	EUR m	Change %	EUR m	Change %	EUR m	Change %
Nordea Group	846	1.3 %	575	6.7 %	913	-4.7 %	584	53.7 %
*Nordea Group, banking	864	-6.0 %	623	27.9 %	904	-5.0 %	550	48.6 %
*Nordea retail banking in Finland	187	-5.6 %	91	19.7 %	159	3.9 %	117	-11.4 %
Sampo Group banking and investment services	97	-8.5 %	52	-27.8 %	100	-3.8 %	57	-21.9 %
OP Bank Group	194	-6.7 %	121	19.8 %	189	0.5 %	136	18.3 %
*OKO Bank Consolidated	41	2.5 %	23	-70.9 %	35	-7.9 %	30	-60.5 %
Savings banks (excl. Aktia) Total	27	-9.0 %	14	65.9 %	27	7.6 %	14	5.1 %
Aktia Savings Bank plc Group	18	-5.4 %	13	46.5 %	20	0.0 %	10	49.2 %
Local cooperative banks	18	-8.6 %	6	56.4 %	17	4.9 %	7	-6.8 %
Bank of Åland plc (Group)	7	0.0 %	5	55.9 %	8	1.3 %	5	42.9 %
Evli Group	0	122.5 %	18	81.4 %	12	9.7 %	6	-
eQ online Group	1	54.3 %	6	96.2 %	4	12.7 %	2	-
Grand Total	1 226	-6.3 %	858	23.1 %	1 282	-3.5 %	788	34.0 %
Other than Nordea, total	362	-7.2 %	235	11.8 %	378	0.4 %	238	9.1 %

Other income includes net fee income but excludes the income statement item 'profit/loss of companies consolidated by the equity method'.

Expenses 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 2003.

Net interest income declined for nearly all the banks as a consequence of lower average lending rates and narrower customer margins. The decline was, however, slowed by growth in lending and the balance sheet hedging measures undertaken by some of the banks. The increase in other income was attributable to the robust growth of net investment income as well as net income from securities and foreign exchange trading.

2.2 First quarter performance data for Nordic and Baltic banks, 2004

Sampo Alhonsuo

The performance and profitability of Nordic and Baltic banks has improved from the beginning of 2004 as compared with last year. The sluggish development in net interest income was offset by an increase in other income. The increase in expenses has been moderate, with no major or surprising loan losses recorded in terms of the result. Capital adequacy ratios are currently very high for the Nordic and Baltic banks.

The operating profits of the major financial groups in the region increased substantially in comparison with the beginning of 2003. The profitability level measured by return on equity (ROE%) can currently be described as good.

The income trend has been largely similar for all the Nordic countries, characterised by a moderate increase in net interest income or falling net interest income. The low level of interest rates has held back the growth in net interest income in Finland and the other Nordic countries alike.

The weak development in net interest income was offset by an increase in other income as banks' higher income has primarily been derived from the capital markets. During the first quarter of 2004, many banking groups recorded a very high increase in other income despite the weak share market developments witnessed in March.

Efficiency of operations and expenses continue to be in the centre of attention, which is reflected in an absolute reduction in expenses or in a slower rate of increase for expenses than for income. Low loan losses

have contributed to the upward trend in performance.

Consolidated balance sheets have primarily grown in response to an increase in business volumes. The rate of growth in lending has been very strong in the Baltic States. In the Nordic countries the stock of lending has grown at a slower pace, with annual growth rates differing largely across countries. The 12-month growth rates from the beginning of 2004 have been +11% for Finland, +8% for Norway, +6% for Denmark and +2% for Sweden. In the Nordic countries and the Baltic States alike, the stock of lending of the banking groups is much larger than the stock of deposits and banks have therefore come to rely more on international financial markets for their fund raising.

Capital adequacy ratios for the major Nordic and Baltic banking groups are currently very high. A good level of performance serves to boost capital adequacy and the accumulation of loss buffers that are adequate to meet the risks.

Table 3. Performance data for banking and financial groups, EUR m

	Net interest income			Operating Income			Return on Equity, % (ROE)		Capital adequacy ratio (Tier1+Tier2),%		Total assets		
	1-3 2004	1-3 2003	Change %	1-3 2004	1-3 2003	Change %	1-3 2004	1-3 2003	31.3. 2004	31.3. 2003	31.3. 2004	31.3. 2003	Change %
	Sampo Group, Finland	97	106	-8 %	252	75	236 %	19.1	2.8	15.1	17.7	25 668	23 721
AS Sampo Pank, Estonia	3	3	11 %	2	1	39 %	19.6	17.0	12.3	12.5	489	396	24 %
OP Bank Group, Finland	194	208	-7 %	136	115	18 %	10.8	8.7	15.2	15.1	35 485	32 273	10 %
Nordea Group, Nordic countries and Baltic states	846	835	1 %	584	380	54 %	13.9	8.4	9.1	9.7	257 592	261 938	-2 %
FöreningsSparbanken Group (Swedbank), Sweden	443	436	2 %	283	214	32 %	16.9	13.1	10.7	10.8	113 982	109 249	4 %
Hansabank Group, Estonia, Latvia, Lithuania	55	51	8 %	45	36	25 %	24.6	23.3	11.0	14.5	6 703	5 677	18 %
SEB Group, Sweden	372	365	2 %	266	237	12 %	14.0	10.9	10.8	10.3	158 025	137 000	15 %
Eesti Uhispank Group, Estonia	13.5	12.2	11 %	12.0	8.4	42 %	24.0	20.7	11.4	11.1	1 757	1 564	12 %
Vilniaus Bankas Group, Lithuania	17	15	14 %	9	8	17 %	10.8	15.2	11.0	11.0	2 544	2 210	15 %
Svenska Handelsbanken Group, Sweden	398	399	0 %	372	309	21 %	16.5	15.1	10.3	9.6	142 135	134 968	5 %
DnB Group, Norway	386	410	-6 %	243	164	49 %	14.1	10.2	10.2	9.8	84 491	82 625	2 %
Danske Bank Group, Denmark	498	540	-8 %	464	412	13 %	19.9	18.4	10.3	10.1	247 272	236 938	4 %
Jyske Bank Group, Denmark	88	95	-8 %	67	37	81 %	17.6	10.0	11.3	11.1	15 485	19 967	-22 %
Parex Bank Group, Latvia	43	35	21 %	24	18	34 %	14.9	14.7	13.0		1 614	1 552	4 %

Sources: Banking groups' interim reports, euro conversion made at end of March 2004 exchange rates.

Note: ROE percentages are not fully comparable as the ROE percentage for the Sampo Group was calculated at fair values.

The ROE percentage for Nordea includes goodwill, the ROE percentage excl. of goodwill is 18.2%.

For the Vilniaus Bankas Group, the capital adequacy ratio refers to the equity ratio, i.e. own funds as a percentage of the balance sheet.

Data for the Parex Bank Group refers to years 2003 and 2002.

2.3 Subdued increase in premiums written by insurance companies

Pertti Pylkkönen

The results of banks' life insurance companies have clearly improved despite the weak increase in premiums written. Only a good third of the assets of employee pension insurers is invested in Finland.

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The debate on the changes in the tax treatment of personal pension plans has been strongly reflected in the trend in premiums written by life insurers. The sales of new pension policies have been slow for a long time already. During the first quarter of this year the number of new pension policies was nearly 70% lower than in the equivalent period the year before. However, payments on old pension policies have increased considerably. In the first quarter 2004 total premiums written on pension insurance grew at a rate of nearly 15%.

In addition to the sales of new pension policies, the sales of life insurance savings policies have also faltered in the early part of the year, with total premiums written on life insurance taking a downturn. The increase in total premiums written by life insurers was negative in the early part of the year (- 6%).

Thanks to their extensive sales network, the bank-owned life insurance companies¹ have maintained a stable market position, accounting for approximately 63% of the market for life and pension insurance savings at the end of March.

The profitability of bank-owned life insurance companies clearly improved in the first quarter of 2004 as compared with the year before, despite the subdued development in premiums written. A major improvement was seen in net investment income. The capital adequacy of life insurers has also developed favourably.

The globalisation of the asset portfolio of employee pension providers still continues. At the end of March investments in Finland accounted for 36% of the total asset portfolio, whereas euro area investments accounted for 42% and non-euro area investments for 22% of the portfolio. Of the foreign holdings, the weight of the euro area is slightly higher for the employee pension companies than for other employee pension providers.

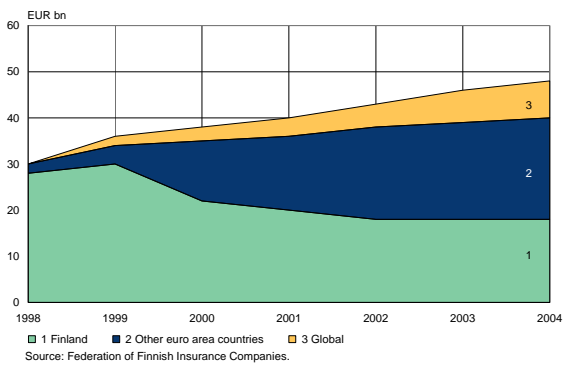
In March equities accounted for one-fourth of the asset portfolio of employee pension companies in the private sector. For the public-sector employee pension providers the proportion of equities was already as high as 42%. The large deviations in terms of asset allocations are above all attributable to the different rules applicable to investment activities.

Since the changeover to the euro, there has been a shift in focus in investments in bonds away from Finland and towards the other euro area countries. In March bonds issued in Finland accounted for as little as 13% of long-term fixed interest instruments. The corresponding figure for the other euro area countries was 73%. The structure of the portfolio of long-term fixed interest instruments has also changed in favour of corporate loans.

With the globalisation of equities and fixed interest investments, domestic holdings have come to be dominated by real estate investments. In March real estate investments and loans to the pension companies' own real estate companies accounted for one-third of all domestic holdings and a good 10% of total holdings. The slow decline in the volume of premium loans under the Finnish Employees' Pensions Act has continued. They currently account for less than 3% of total holdings.

¹ Sampo Life, Kaleva, Nordea Life and OP Life Assurance.

Chart 3. Investments of employee pension companies by region, EUR bn



3 Securities Markets

3.1 Share market liquidity has improved

Hanna Putkuri

Share market performance for early 2004 reflects uncertainty in future economic developments. In the first few months of 2004, share price performance on the Helsinki Exchanges has been the poorest in the euro area. On the international market, share trading has increased significantly from the first quarter of 2003. In Finland, share trading on the Helsinki Exchanges relative to market capitalisation reached its all-time high in April.

Share market performance has reflected uncertainty in future economic developments. The share price increase seen since spring 2003 made a downward turn in early 2004 (see Chart 4). In mid-May, overall share price indices for the USA, Japan and euro area were slightly below the level seen at the turn of the year.

In early 2004, share price performance on the Helsinki Exchanges has been the poorest of the euro area. In mid-May, the HEX All-Share Index was slightly more than 11% lower than at the beginning of the year. The performance of the All-Share Index mainly reflects movements in the Nokia share price.

Chart 4. Performance of share price indices from early 2003 (as of 17 May 2004)



Sources: Bloomberg and HEX Helsinki.

The first few months of 2004 have been characterised by marked differences in sectoral share price performances. By mid-May, indices for telecommunications and electronics as well as banking and finance had fallen by around 20% and 9%, respectively, from

the start of the year. In contrast, the forest industry index was slightly less than 5% lower and the metal industry index more or less the same as at the turn of the year.

Year on year, share market liquidity increased markedly in the first few months of 2004 (see Chart 18, Annex Charts). Of the main market areas, strongest growth has been registered in Japan, where first-quarter trading on the Tokyo stock exchange was 116% higher than a year earlier. Combined share trading on the euro area stock exchanges grew by 27% during January-March, while growth of NYSE and Nasdaq in the USA totalled 28%.

Share trading has increased rapidly also in Finland (see Chart 16, Annex Charts). In January-April, cumulative trading on the Helsinki Exchanges grew by 62%, year on year, corresponding to 56% in terms of trading by number of shares. In April, euro-denominated share trading was the highest since January 2001, with share trading relative to market value rising to a historically high peak level of 16%.

Several companies listed on the Helsinki Exchanges purchased their own shares last year and the trend has continued in 2004. Expectations have been raised that the government's proposed¹ return to partially double taxation of dividends could, if adopted, increase share repurchases by listed companies as it is an alternative method of sharing

¹ Statement by the government on the reform of corporate and capital-income taxation (13 November 2003) and the subsequent bill to parliament (19 May 2004).

profits to payment of dividends². According to the Companies Act, the total nominal value or voting rights of own shares held by a public limited company may not exceed 5% of the company's share capital or total of voting rights.

There are several reasons for a company to purchase its own shares. Cancellation of own shares held by the company reduces the number of shares, thereby improving per-share key figures. This increases shareholders' proportion of the company's future profits. Cancellation of shares can also be used to alleviate the dilution effect of option schemes. Own shares can also be used in management bonus schemes or as payment instruments in corporate acquisitions. In some cases share buybacks can be used as a signal to investors that management considers the share to be undervalued.

In April-November 2003, Nokia repurchased nearly 94.5 million shares, corresponding to around 2% of the company's share capital. At the Annual General Meeting held in March 2004, the Board of Directors was authorised to carry on with share repurchases so that a maximum of 230 million shares can be bought at a price not exceeding EUR 3 billion. According to Jorma Ollila, CEO³, share repurchase is an effective way of distributing profits as the company's strong balance sheet provides room for a fairly extensive share buyback programme. Following the reduction in share capital completed in April and the transactions made at the beginning of the year, the company held 61 million of its own shares, by 17 May 2004.

In March, Nordea Bank completed its own-share repurchase programme started in 2003. The 145 million own shares purchased by the bank account for some 5% of its share capital as at the end of October 2003. At the

Annual General Meeting held in March, Nordea decided to reduce its share capital through cancellation of its own share holdings and to continue purchasing its own shares. Nordea claims that through purchase of its own shares it is returning assets to its shareholders and enabling growth of earnings per share over the long term.

At the annual general meetings held at the beginning of the year, the Boards of Directors of many Finnish listed companies were authorised to start or continue the purchase of their own shares according to new share repurchase programmes. Of the companies with the highest market capitalisation, the authorisation was granted to at least Stora Enso, UPM-Kymmene, Sampo, Kone, SanomaWSOY, Outokumpu, Tietoenator, Orion and Metso. Of major companies, the Boards of Directors of Fortum, Kesko and Elisa do not, at the moment, have a valid or unused authorisation granted by the AGM for purchase of their own shares.

According to Sampo and Kone, for example, own shares can be purchased for use as payment in possible acquisitions or other arrangements and to enhance the company's capital structure. Some companies may prepare a plan for purchase of their own shares but choose not to implement it unless a specific need arises.

By mid-May, purchases of own shares by smaller Finnish companies had been conducted by Panostaja, Finnlines, Interavanti, Honkarakenne, Fiskars and Kesla.

² Under the current *avoir fiscal* tax credit system, dividends are, in terms of taxation, a more beneficial form of sharing profits among shareholders, as the tax on profit paid by the company is credited from the tax on dividend paid by the recipient of the dividend, whereas capital gains from the sale of shares are generally treated as capital income in taxation.

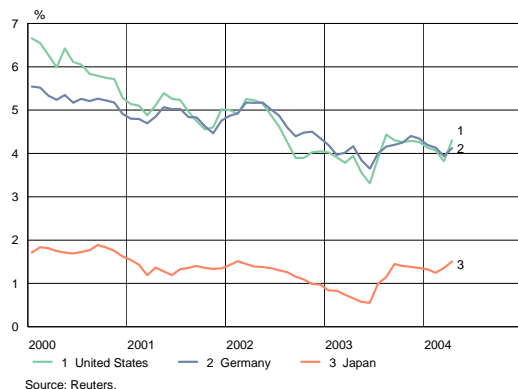
³ Speech at Nokia's Annual General Meeting on 25 March 2004.

3.2 Interest rate expectations reflected in bond markets

Katja Taipalus

Expectations of interest rate hikes continue to be felt in the bond market

Chart 5. 10-year government bond yield



Bond markets have increasingly paid attention to possible interest rate increases and their impact on markets, especially in the United States. Speculations have been made as to how the present conditions can be likened to the market situation of 1994 and whether similar reactions can be expected. In 1994, base rates rose very rapidly in the USA, with long-term market rates reacting exceptionally strongly to rate hikes and rate-hike expectations.

An extremely rapid increase in interest rates could be problematic for the bond markets for two reasons. First, a rapid increase in long-term market rates could result in losses in investments, as previously many investors extended the duration of their investments in the hope of additional profits. Second, a strong increase in long-term interest rates could intensify sale of such holdings, thereby causing additional pressure on the valuation of long-term bonds.

One example is the smouldering concern in the USA about banks' large mortgage bond holdings due to fears that interest rate hikes could expose these instruments to liquidity risk on the market. This would result in majority of banks wanting to get rid of their mortgage bond holdings simultaneously, the result being that supply would exceed demand manifold.

The rise in market rates would affect the corporate bond market by augmenting companies' financing costs. Improvement in the overall economic outlook should reduce the credit spreads inherent to corporate bonds, thereby working against an overall interest rate increase and reducing companies' financing costs¹. On the other hand, credit risk margins are already so low that there is probably cause to consider how low they really can go. Provided there are some contributing factors to low credit risk margins, such as mounting demand pressures², margins may even widen once these pressures subside and if demand is shifted to other investment assets.

In the face of potentially rising financing costs, attention should also be paid to the fact that in an environment of persistently low interest rates and margins, the share of issuing companies with poor credit rating (B or under) has grown, particularly in the USA but also in Europe to some extent³. According to S&P, experience has shown that strong growth in this group of issuers has translated into an increase in payment irregularities in the next two to three years⁴. Naturally this depends on developments in the overall economic conditions.

As regards new issuance, the volume of European corporate bond issues in the first quarter remained below that of the first quarter of 2003. Of Finnish companies, new bonds were issued by Perlos (manufacturer

¹ At a time of rapidly increasing interest rates, interest rate differences start to react to people's debt-servicing ability.

² For more information, see Financial Markets Report 1/2004.

³ It should be noted, however, that very recently interest rate expectations seem to have slowed down share issues by companies with a low credit rating.

⁴ The most recent case is from 2001: an increase in share issues by companies with a low credit rating during 1997–1999 led to an increase in insolvencies in 2001.

of mechanical plastic and metal parts for the telecommunications and pharmaceutical industries), which carried out a private placement to the value of EUR 30 million, and the financial services group Sampo, which issued bonds to the total value of EUR 900 million. The metallurgical group Outokumpu issued EUR 200 million in bonds, and the State Treasury issued a EUR 5 billion benchmark bond maturing in 2015 and targeted at various investment funds.

Turning to credit ratings, S&P lowered Metso's (global supplier of process industry machinery and systems) rating to BB+ in March and Sampo Bank's rating to A- at the end of April. In this connection, Sampo Bank's short-term rating was dropped to A-2.

On the Finnish credit ratings market, Suomen Asiakastieto Oy decided to incorporate its subsidiary Fennorating Oy by acquiring its entire share capital. However, Suomen Asiakastieto continues to offer Fennorating's services and maintain its rating strategy.

4 Infrastructure

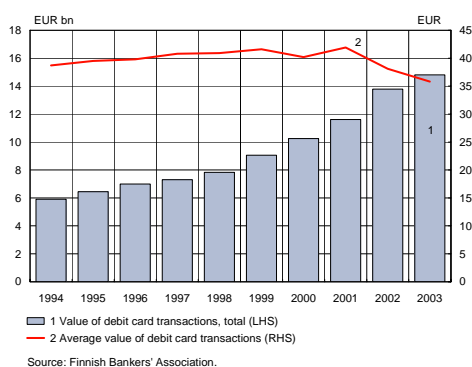
4.1 Increased payment traffic in Finland

Hanna Jyrkönen

There has been a rapid increase in payment card usage with developments seen in the infrastructure around their use: The number of EFTPOS terminals grew at a record rate in 2003. The Visa-Electron is replacing ATM cards and there have also been changes in the payment habits of the older members of the public.

Purchases are increasingly made using various forms of payment cards, but debit card remains the most common type. Over several years, the value of purchases made by debit card has been growing by some EUR 300 annually. The average value of purchases per card reached almost EUR 5,000 in 2003. However, the actual number of card transactions has increased still more noticeably than the value of the transactions. This means that payment cards are increasingly used for small-value purchases and that the average value has decreased over the last two years from almost EUR 42 to less than EUR 36 per transaction (Chart 6). One of the key reasons for this has been the removal of the lower value-limit on card payments.

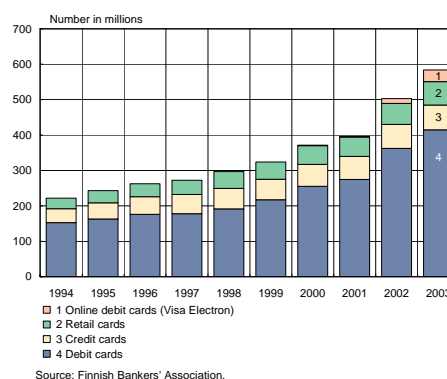
Chart 6. Debit card transactions by value



Of all the cards available, the Visa Electron online debit card has shown the strongest growth in popularity (Chart 7). The Visa Electron has been most aggressively marketed and the card, which has an online payment confirmation capacity, serves as both an international payment card as well as being an extensively-used cash dispenser

card. As the Visa-Electron can be used in an ever-increasing number of outlets – although admittedly not as broadly as the debit card – the number of payments made using this card have clearly increased.

Chart 7. Payment card transactions by volume



One of the reasons behind the increasing use of cards to pay for purchases is also in the selection of cards that is accepted by retailers these days. The number of EFTPOS terminals grew by an unprecedented 13,000 in 2003. The transfer to EMV-equipped cards may also serve to increase the number of EFTPOS terminals still further.

On top of which, there have been structural changes evident in the service channels provided by retail banks. Pricing policies have been used as a means of encouraging customers to move over to using more effective payment methods: paying bills via the Internet and paying for purchases with a payment card. Evidence of this trend is in the decline in the use of ATMs. The use of giro ATMs took a downturn in 2000 and the number of cash withdrawals began to reduce in 2002. Despite the fall in the number of cash withdrawals made from cash dispens-

ers, the actual euro value of the withdrawals made has increased to an average of EUR 75 per withdrawal in 2003.

There still continue to be heated discussions over the question of the charges levied for bank services, focusing customer attention on the various ways in which the credit transfers can be made. According to a survey¹ undertaken by the Finnish Bankers' Association, in the period between autumn 2003 and spring 2004, the proportion of bills paid over the counter has dropped from eight to five per cent. The proportion of bills paid over the counter by customers aged 65-74 dropped from 24% to 12% over the period surveyed.

Increased efficiencies in retail payment methods have also been observed in the other Nordic countries as well as the Baltic countries. Despite the fact that Estonia, Latvia and Lithuania have only begun to develop in recent years their rate of development has been rapid. It could even be argued that the Eastern European countries, and the Baltic countries in particular, have adopted the best of the European payment methods and adapted them rapidly to meet their needs, as can be seen for instance in their selection of Internet and payment card services. On top of which, Estonia has introduced several mobile phone payment services.

The number of retail payments handled via the interbank payment system PMJ has shown a steady rate of increase (Chart 61, Annex Charts). There has been a particularly strong growth in the number of debit transactions made can be explained by the increase in the use of payment cards. Although the number of transactions processed through the other domestic interbank payment system POPS (from the abbreviation of its Finnish name pankkien online-pikasirot ja sekit) has in fact decrease somewhat. In terms of value, there has been little change in the value of payments made through the POPS system.

Meanwhile, the overall traffic of payments handled via the pan-European payment system TARGET has increased to some extent. In fact the number of customer payments handled by it has grown particularly strongly (Chart 50, Annex Charts). The number of payments handled through the EURO1 payment system, established by the EBA (Euro Banking Association), has grow by about 5% over the last year, although the actual value of the individual transactions has decreased slightly. The volume of transactions processed through the EU-wide STEP2 payment system, which started operations in summer 2003, has been growing at a steady rate. Already by April 2004, the daily volume of payment transactions processed via STEP2 had reached as much as half of the volume handled by the EURO1. This indicates that banks, have taken to using STEP2 for payments within the European Union for payments subject to the recent price regulations set by the Commission. Although the international volume of STEP2 is still remains very low, even in comparison to the volume of payments handled via our domestic PMJ payment system.

Account holders of the Bank of Finland's gross settlement system (BoF-RTGS), which is part of the TARGET system, have experienced only a small number of disturbances in their own systems. This is indicated by the fact that the manual entries made by the Bank of Finland have already clearly reduced in numbers over the long term and are currently at very low levels (Chart 80, Annex Charts).

Particular attention has been paid recently to data security issues and the computer viral infection protection and prevention. Within the last year, two large banks have been amongst those who have been forced to close their offices due to computer virus contamination, although they were able to avoid any major damage to their systems.

¹ The Finnish Bankers' Association: Säästäminen ja luotonkäyttö, huhtikuu 2004 (Savings and loan use, April 2004)

4.2 Towards more effective infrastructure solutions

Kirsi Ripatti

A more effective range of solutions to infrastructure requirements is the mutual objective of the central banks' TARGET2 payment system project and the market participants' projects (SEPA, SWIFT and NCSD) alike.

The objective behind the development of the most recent infrastructure projects within the payment system sector, such as TARGET2 and the pan-European Single Euro Payments Area (SEPA) has been to bring about improved payment services within the European Union area.

The TARGET2 acquisition, which is the product of central bank cooperation, has been developing rapidly. TARGET2 aims at better meeting market needs along with providing a reliable and cost effective solution to the so-called shared platform and upon which the original TARGET system is designed. The SEPA initiative, developed by the European Payments Council (EPC) has also shown strong signs of development. The aim of SEPA is to achieve as high a degree as possible in the automatic handling of payment transfers in line with a framework of joint standards, to improve the efficiency of the processing of both domestic and inter-Member State payments as well as providing improvements in cost efficiency. On the other hand, common standards are also being discussed under the auspices of SWIFT as standardisation authority. Work on the harmonisation of business practices and communication standards has aimed at eliminating national deviations and ensuring that the entire chain of events involved in securities trading is also harmonised.

In the area of securities clearing and settlement, the various infrastructures of the European regulated markets have been centralised after the adoption of the euro into a few operators that not only work the regulated markets and securities settlement systems but which also provide the data processing systems in the sector. The deepening of the single market has the effect of creating continuous pressures on trading and settlement systems and on the harmonisation of the regulatory framework. The need to bring

about savings in the costs and improvements in efficiency has led to greater consolidation.

For example, it was the attempt to bring about a fusion of technological solutions that was behind the merger of the Swedish OM and Finnish HEX in September 2003. The operational core of OMHEX is as transaction technology provider and supplier of processing and maintenance services linked to systems developed by its IT arm.

Restructuring aimed at the ownership arrangements continue to take place, with OMHEX announcing in its press release of 22 April 2004 that it had signed a Letter of Intent (LoI) with the Swedish Central Securities Depository VPC AB (Värdepapperscentralen), thus creating a central joint securities depository within the Nordic area (NCSD) by merging the OMHEX-owned Finnish Central Securities Depository APK with VPC. The operation aims to acquire a licence to establish EXIGO – a depository, clearing and settlement system – which will be taken into use, on a staggered timetable in APK, VPC and the Baltic central security depositories. The latter will remain in HEXIM ownership¹ for the time being.² The APK will also continue to operate as a juridical Finnish unit in the form of a subsidiary of VPC. The company's ownership will be divided into equal (19.8%) parts to OM-

¹ HEX Integrated Markets (HEXIM) is a division of OMHEX in which the centralised exchange operations and central securities depositories whose ownership remains with OMHEX is concentrated.

² In March 2004, a press release was issued formally announcing the commencement of negotiations between the Lithuanian government and OMHEX concerning the privatisation of the National Stock Exchange of Lithuania (NSEL) and the Central Securities Depository of Lithuania (CSDL). Upon completion of the agreement, OMHEX was able to acquire 54.5% of the Lithuanian Stock Exchange and 32% of the central securities depository.

HEX and four Swedish custodian banks, small number of Finnish owners.
although provision has also been made for a

5 Key initiatives for development of regulation and supervision

5.1 Securities clearing and settlement systems

Kirsi Ripatti

In its Communication the European Commission outlines the measures it intends to implement for fostering the integration of securities clearing and settlement systems and organising their supervision and regulation.

The creation of integrated and effective capital markets in Europe is currently one of the most important and ambitious financial initiatives in the European Union. Substantial progress has been made in this area in terms of both legislative measures and market integration following the launch of the Financial Services Action Plan (FSAP) in 1999.

On 28 April 2004 the European Commission published a Communication ‘Clearing and Settlement in the European Union – The way forward’, requesting that interested parties submit their comments on the subject no later than 30 July 2004.¹ In this Communication the Commission provides an analysis of the measures it intends to undertake for the improvement of clearing and settlement systems.

The Commission's objective is to achieve effective and safe EU-wide securities clearing and settlement systems that would ensure a level playing-field for providers of clearing and settlement services on a national and a cross-border basis alike. The Commission proposes the following practical measures to attain the objectives:

prepare a proposal for a framework directive on clearing and settlement;

- set up an advisory and monitoring group to tackle barriers as listed in the Giovannini report²;

- set up expert groups to consider legal and tax-related issues;
- ensure the effective implementation of competition law.

Legal and tax-related issues, in particular, have so far proved very difficult to resolve, thereby considerably increasing the costs of, and uncertainty surrounding, cross-border clearing and settlement.

The Commission considers that the future directive should provide for a functional approach, initial and on-going prudential and investor protection requirements as well as supervisory cooperation. The adoption of a functional approach is in line with the principles and aspirations pursued by the CPSS³ and the IOSCO⁴, and also by the ESCB and the CESR⁵, in their respective work to ensure that integration of securities clearing and settlement systems may continue to progress without problems caused by diverse institutional structures across countries. Initial and on-going prudential and investor protection requirements will become increasingly important as the envisaged directive enables entities maintaining securities clearing and settlement systems to provide services freely in other Member States.

Despite its intention to apply the framework directive for regulation of securities clearing and settlement arrangements, the Commission shares the view contained in the Giovannini report that integration must be market-based; it is the markets — rather than the regulatory authorities — that are

¹ Communication from the Commission to the Council and the European Parliament: Clearing and Settlement in the European Union – The way forward, COM(2004)312.

² A group of financial experts advising the European Commission. The group published in April 2003 its second report on EU clearing and settlement arrangements – and especially on the barriers prevailing in these markets.

³ Committee on Payment and Settlement Systems.

⁴ International Organization of Securities Commissions.

⁵ Committee on European Securities Regulators.

able to best determine sector-specific structures and integration developments that best suit the market needs. This initiative indeed represents an extension of the preliminary work done last year in the area of payment systems.⁶

⁶ Communication from the Commission concerning a new legal framework for payments in the internal market, COM(2003) 718. For more information, see Financial Markets Report 1/2004: 4.1 EU: Swift introduction of comprehensive legislative framework for retail payments.

5.2 Expert opinions on progress made in EU financial integration circulated for comment

Esa Jokivuolle – Pertti Pylkkönen – Jukka Vauhkonen

The EU's Financial Services Action Plan is largely a reality; however, important initiatives continue to be pending. National implementation of the required measures has in part only started. The Commission will decide on further steps to be taken in respect of the Financial Services Action Plan in 2005.

The box attached to this article provides greater detail on the work of the Financial Stability Forum, an organisation of key importance to the global financial system.

The development of financial market regulation in the European Union in 1999-2004 has mainly been based on the implementation of the Financial Services Action Plan (FSAP). The FSAP contains a detailed programme of 42 legislative initiatives to speed up the integration of European financial markets and to eliminate the existing barriers to integration. By May 2004, 39 of the FSAP initiatives had been approved.

Within the European Union, the focus of regulatory development is shifting away from the preparation of EU legislation as required under the FSAP towards national legislative implementation and assessment of the implications of the FSAP. In early May 2004, the European Commission published an extensive overview of financial market integration (Financial Integration Monitor 2004) and reports by four independent expert groups on the success of the FSAP in promoting integration in four financial market segments: banking, insurance, securities markets, and asset and liquidity management activities. In addition, the expert groups were commissioned to consider how the European legislative and supervisory framework could be developed further to achieve the objectives set for integration and to assess the existing legal and political barriers to integration. The findings of the expert reports are available for comment until 10 September, after which the Commission will draw up a summary of the expert reports and the comments received.

Initiatives on International Accounting Standards (IAS) that have been under preparation for a long time already and global reform of banks' capital adequacy require-

ments ('Basel II') are also at the centre of the FSAP programme. While it has been necessary to address and finalise difficult questions in connection with both of these initiatives, the pre-announced time schedules are likely to be met. In May, the Basel Committee on Banking Supervision indicated that a new accord would be published in summer 2004, with most of the recommendations becoming effective at the end of 2006. By contrast, the entry into force of the most advanced measurement approaches for calculation of capital adequacy requirements will be postponed until 2007.

The new International Financial Reporting Standards / International Accounting Standards (IFRS/IAS) will become mandatory on listed EU companies in January 2005. IAS 39 concerning financial instruments, which is of key importance to banks, is still under preparation in respect of the 'fair value option'. The supervisory authorities responsible for the European financial system, and notably the European Central Bank, have been active in emphasising the problems related to the application of IAS 39 as regards the fair value option in particular. Partly following these opinions, the International Accounting Standards Board (IASB) has this spring issued, in respect of this particular standard, a draft that proposes to limit the application of the fair value option. For instance, only bank loans would be excluded from fair value accounting.

The European Commission is currently elaborating a proposal published in December 2003, for a new legislative framework concerning EU payment systems. This draft legislation includes a proposal for restricting

the provision of payment services to a limited set of certain players only. This means not permitting cross-sector operations and thereby creating more equitable competitive conditions.

The European Parliament adopted in spring a 'transparency directive' for harmonising and increasing the disclosure requirements of companies issuing securities on regulated markets. Such issuers will need to publish their annual reports within four months from the closing of the annual accounts. Unlisted companies issuing bonds will be required to publish half-yearly re-

ports in the future. In spring, the European Parliament also adopted an 'ISD2 directive' (Directive on Financial Instruments Markets). This directive is one of the key directives under the FSAP programme and among the first directives prepared in compliance with the 'Lamfalussy process'. The directive regulates investment firms according to the home country principle, ie an investment firm may provide investment services in the European Union as a whole on the basis of an authorisation granted by its home country authorities. The directive also aims to enhance investor protection.

Box: Financial Stability Forum (FSF) and Financial Stability Institute (FSI) as contributors to global financial stability

In order to promote the stability of international financial markets, the Bank of International Settlements (BIS) and the Basel Committee on Banking Supervision together set up the Financial Stability Institute (FSI) in 1999. The decision to establish this institute was prompted by problems affecting international financial stability, such as financial market crises in Asia, crisis conditions in Russia and the LTCM hedge fund crisis in the United States. One of the objectives of the FSI is to promote supervisory standards and practices for financial markets globally and to support the implementation of these standards and practices in all countries (www.bis.org/fsi).

The Financial Stability Forum (FSF) was established in 1999 at the same time as the FSI. The aim of the FSF is to promote international financial stability. It serves as a tool for extensive cooperation between the authorities responsible for large countries' financial stability. The FSF is attended by representatives of central banks, supervisory authorities and ministries of finance from Australia, Canada, France, Germany, Great Britain, Hong Kong, Italy, Japan, the Netherlands, Singapore and the United States. Further participants in the FSF work are the International Monetary Fund (IMF), the World Bank, the OECD, the European Central Bank and the BIS with some of its committees. The FSF is currently chaired by the vice chairman of the US Federal Reserve System, Roger Ferguson.

At the FSF's 11th meeting held in late March, the key issues on the agenda were international reinsurance activity, credit risk transfer markets, offshore finance, and corporate governance issues that once again surfaced because of the Parmalat case. (Further information is accessible from www.fsforum.org).

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%).