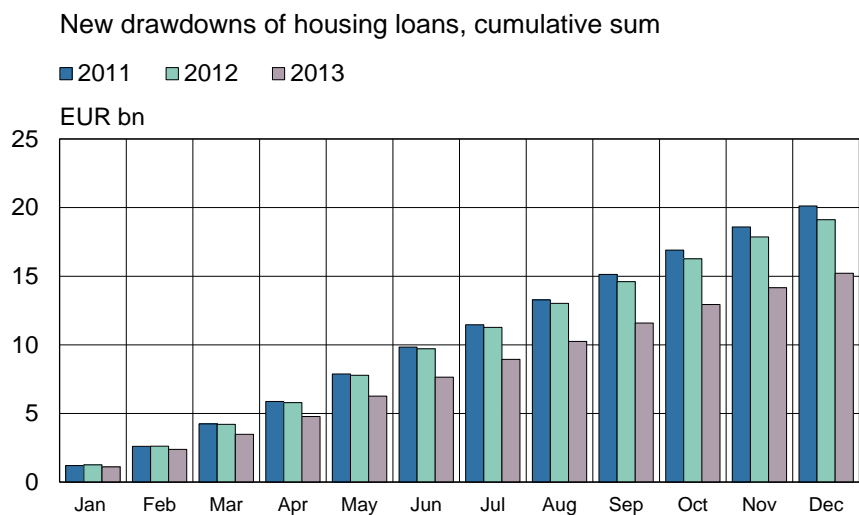


Monetary Financial Institutions

Annual Review • 2013



Source: Bank of Finland.



Bank of Finland
Financial Stability and Statistics
Statistics
27.2.2014

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Editor-in-Chief

Elisabeth Hintikka

Working group

Peter Halonen

Hanna Häkkinen

Katja Kelloniemi

Harri Kuussaari

Jyrki Lehtinen

Jaakko Suni

Essi Tamminen

ISSN-L

2342-0871

ISSN

2342-0871

For further information, please contact

Jaakko Suni

010 831 2454

rahoitustilastot@bof.fi

Essi Tamminen

010 831 2395

rahoitustilastot@bof.fi

Postal address
PO Box 160
FI-00101 HELSINKI, FINLAND

Street address Snellmanin aukio
Phone +358 10 8311
Fax +358 9 174 872

Email
firstname.surname@bof.fi
www.bof.fi

Swift SPFB FI HH
Business ID 0202248-1
Domicile Helsinki

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1 Summary

Due to weak economic developments and the low level of interest rates, banks were faced with a challenging operating environment in 2013. The market situation has become more stable since the passing of the worst phase of the crisis, however, which has been reflected in the aggregated balance sheet of Finnish MFIs. In the first half of 2013, the aggregated MFI balance sheet contracted further, continuing the trend that has remained unchanged since 2012. The balance sheet total has thereafter remained fairly stable. The contraction in the MFI balance sheet resulted from a reduction in credit institutions' deposits at the central bank and a decline in financial derivatives. The reduction in credit institutions' central bank deposits reflects moderation in the previously substantial liquidity inflows to the Bank of Finland via Nordic banking groups' units operating in Finland. The decline in derivatives, in turn, reflects increased use of central counterparty clearing and a decrease in market values of derivatives due to rising longer-term rates.

Growth in the stock of loans granted to Finnish non-MFIs picked up slightly in 2013. The growth continued to be fuelled by an increase in loans – mostly repo purchases – by other financial institutions. Growth of loans granted to households slowed in all loan-purpose categories to lowest levels recorded in the entire millennium. Even so, the volume of household loans continues to grow faster in Finland than in most euro area countries.

Annual growth in housing loans moderated further. The growth rate had last been as low in the latter part of the 1990s. In December, the housing loan stock contracted from November for the first time in over 15

years. New drawdowns of housing loans decreased by a fifth from the previous year. The volume of new drawdowns was at its lowest in ten years. The growth slow-down in the housing loan stock reflected a general weakening of the economic situation. The widening of interest rate margins on housing loans came to a halt in early autumn, after which the margins have remained unchanged. Despite widened margins, the interest rates on housing loans are still low by historical standards.

Annual growth in the stock of loans granted to non-financial corporations (excl. housing corporations) slowed until autumn, but picked up slightly towards the end of the year. Businesses continued to take out new loans mainly for working capital purposes and financing rearrangements. The demand for loans for investment purposes was modest. On the other hand, non-financial corporations also raised more bond funding from the markets than in the previous year. The interest rate margins on corporate loans also widened markedly, most notably for smaller euro-denominated loans. The stock of loans to housing corporations, in turn, continued to expand at a rapid pace. The total stock of loans to the corporate sector (incl. housing corporations) continued to grow faster in Finland than in the euro area.

Deposits are the most important funding item for credit institutions. Deposits from households account for roughly half of the non-MFI deposit stock. The annual growth rate of Finnish households' deposits remained around 0% throughout the year, declining even further from late spring onwards. The volume of deposits with an agreed maturity, in particular,

contracted markedly due to the low level of interest rates. Households have turned to other investment instruments in search for better yield. Households' new investment in investment funds turned positive in net terms during 2012, and the trend continued in 2013. In the early part of the year, households' investment in equities increased, too. By contrast, deposits placed by the other subsectors included in non-MFIs increased during the year, albeit modestly in the case of the non-financial corporate sector.

Issuance of debt securities is another important funding item for credit institutions. Finnish banks have not encountered any difficulties in obtaining market-based funding.

2 Aggregated balance sheet

The aggregated balance sheet of Finnish MFIs contracted further, particularly in the first half of 2013. This trend has remained unchanged since the latter part of 2012. The contraction was driven by a reduction in banks' deposits at the central bank and a decrease in the balance sheet value of derivatives.

At the end of 2014, the aggregated balance sheet of Finnish MFIs¹ totalled EUR 525 bn, which was EUR 75 bn – or just under 12% – less than a year earlier. In the first half of 2013, the balance sheet contracted further, continuing the trend that has remained unchanged since summer 2012. In the latter part of 2013, the balance sheet total remained fairly stable. The balance sheet contraction was mainly due to a decrease in the balance sheet value of derivatives and a reduction in inter-MFI deposits. The reduction in the volume of deposits in 2013 was particularly notable for deposits of Finnish credit institutions at the Bank of Finland and deposits of extra-euro area MFIs in Finnish – primarily intra-group – credit institutions. The fall in central bank deposits reflects a stabilisation

of financial market activity and a reduction in central bank liquidity in the markets.²

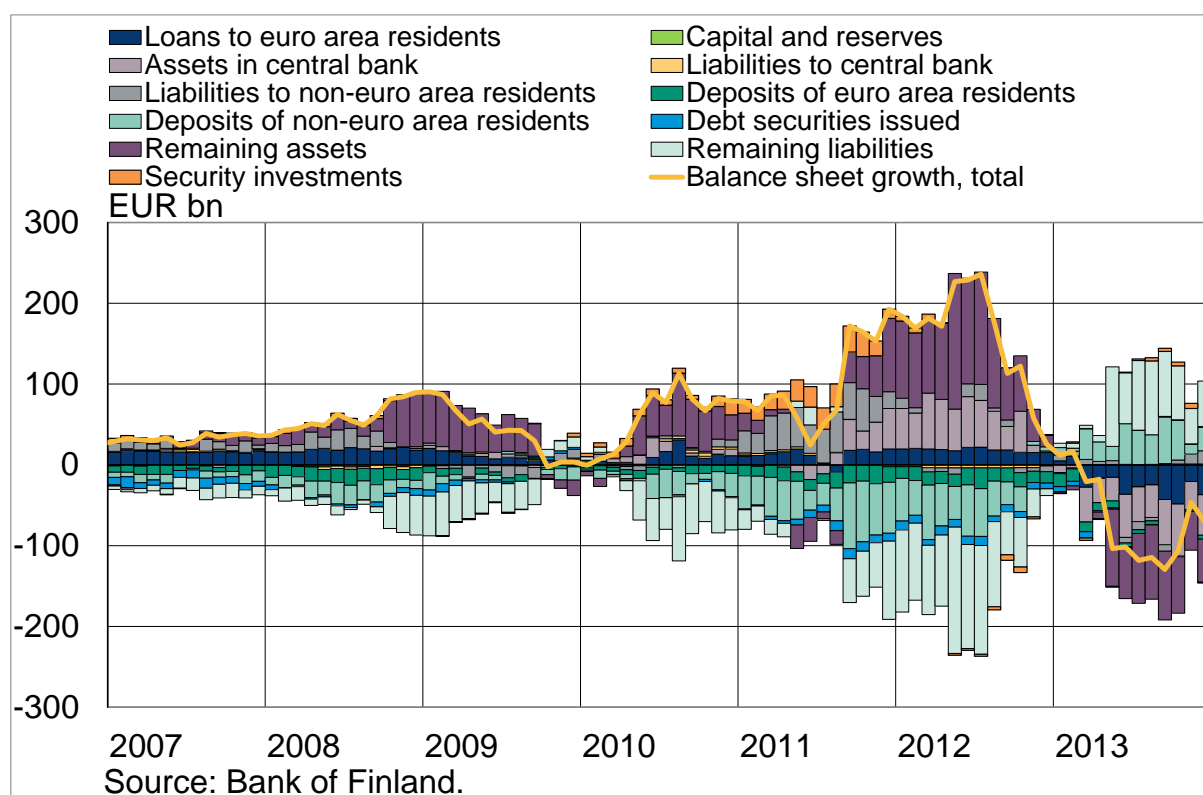
In Finland, derivatives are entered in the balance sheet on the basis of market value, either as assets or liabilities, depending on whether the value is positive (assets) or negative (liabilities). Since banks seek to hedge any derivatives agreements made with customers by reverse positions, the stock of MFI derivatives agreements is usually very close to zero on net, and changes in positions are reflected on both sides of the balance sheet, roughly as equally large. At the end of 2013, the volume of derivatives in the aggregated balance sheet of Finnish MFIs amounted to about EUR 75 billion, on both sides of the balance sheet. This was almost EUR 50 bn less than a year earlier. Derivatives are recorded in the aggregated balance sheet under other assets and liabilities. The contraction in derivatives stemmed from increased use of central counterparty clearing and smaller market values of derivatives due to rising longer-term rates.

The treatment of derivatives varies across countries due to national accounting practices, and in many countries derivatives are off-balance sheet items. Because of the differences in accounting practices, it is difficult to make country-specific comparisons of balance sheets.

¹ The MFI sector (excl. the Bank of Finland) comprises credit institutions and money market funds (MMFs) operating in Finland. The MMFs share is less than 1% of the aggregated MFI balance sheet. MMF developments are discussed in more detail in the Investment Funds Annual Review published on 25 February 2014.

² Pentti Hakkarainen (2013) Tase puolittunut vuodentakaisesta alle 50 miljardiin (*Balance sheet halved to below EUR 50 bn from the previous year*). Blog entry 12 August 2013. Bank of Finland.

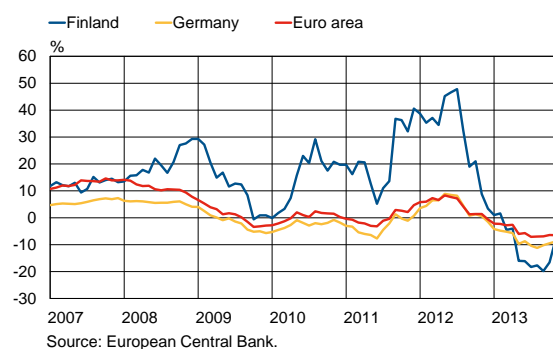
Chart 1. Annual growth of Finnish MFIs' aggregated balance sheet, monthly flow, 12-month moving sum



At the end of 2013, Finland's contribution to the aggregated balance sheet of euro area MFIs amounted to 1.7%. Germany and France accounted both for about a fourth of the balance sheet total. Italy's contribution stood at 13%, Spain's at 10% and other countries' at below 10%.

The aggregated MFI balance sheet declined in almost all euro area countries during 2013, most notably in Germany, at the latter part of the year. The aggregated balance sheet of euro area MFIs contracted by almost 8%.

Chart 2. Annual change in aggregated MFI balance sheet: Finland, Germany and euro area



Volume of corporate and housing loans growing faster in Finland than in the euro area

Despite the fall in central bank deposits, loans granted to residents in the euro area – primarily in Finland – continue to account for about half of the balance sheet of MFIs operating in Finland, making these loans the most significant item on the assets side of the balance sheet.³ Loans to euro area residents decreased during the year by over 12%, mostly due to a reduction in intra-MFI loans. Almost half of the loans were granted to households and little less than a third to non-financial corporations. Growth in the stock of loans to households moderated from about 5% to slightly over 2% in 2013. Growth in the stock of loans to non-financial corporations and housing corporations picked up slightly during the year, fuelled by growth in the stock of loans to housing corporations. The annual growth rate of the corporate loan stock (incl. loans to housing corporations) was highest in Finland of all euro area countries. The stock of loans to other financial institutions continued to expand strongly, boosted by increased volumes of repo agreements⁴ made with these institutions.

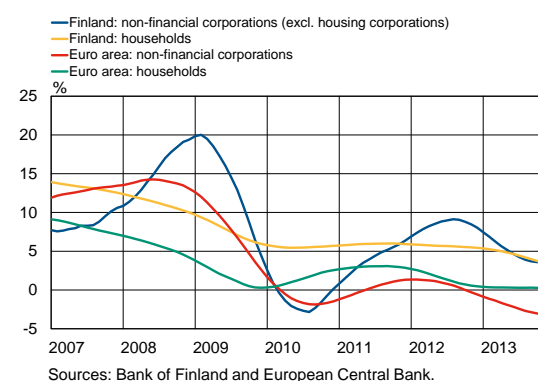
In the euro area, the contraction in the stock of loans granted to non-MFIs⁵ strengthened in 2013: in December the loan stock was 2% smaller than a year earlier. The annual growth rate of the household loan stock has remained around zero in the euro area already for a couple of years. Loans to households decreased further in the stressed countries and increased modestly in other euro area countries. The decline in corporate loans accelerated in the euro area

³ In the MFI balance sheet statistics, deposits placed by credit institutions are recorded in the balance sheet as loan receivables.

⁴ A repo agreement (repurchase agreement) is the sale of securities with a commitment for the seller to buy back the same securities at a specified price and time.

during 2013, and at year-end the loan stock was 3% smaller than a year earlier. The corporate loan stock contracted in 2013 or remained at the previous year's level in most euro area countries, with the exception of Finland, the Netherlands, Belgium and Estonia.

Chart 3. Annual change in corporate and household loans: Finland and euro area



Household and corporate deposits growing slower in Finland than in the euro area on average

Looking at the liabilities side of the balance sheet, deposits held by euro area residents with Finnish credit institutions account for a third of the aggregated balance sheet of Finnish MFIs. Deposits are the most important funding item for credit institutions. As only deposit banks are authorised to accept deposits from non-MFIs, deposits accepted by other credit institutions primarily comprise parent companies' internal funding. The annual growth rate of the stock of non-MFI deposits moderated by about 1 percentage point during the year, to 5.5% at end-2013. Deposits placed by other financial institutions, in particular, increased strongly. As on the assets side of the balance

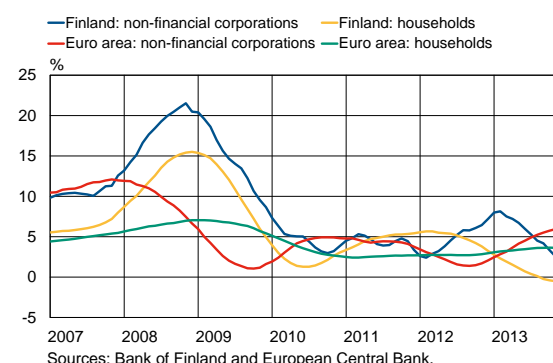
⁵ Non-MFIs comprise all other sectors than the MFI sector, ie households, non-financial corporations, the general government, insurance corporations and other financial institutions.

sheet, the growth reflected an increase in repo agreements.

Nearly half of deposits with Finnish MFIs consist of households' current accounts and deposits with an agreed maturity. Growth in the household deposit stock began to ease in 2012, and in the latter part of 2013 the growth rate turned negative. Corporate deposit growth was relatively brisk in the latter part of 2012, at 6–9%, but moderated markedly during 2013, and in October–November it was negative. In December, corporate deposits grew by about 7% from the previous year.

Household and corporate deposits are growing at a markedly slower pace in Finland than in the euro area on average. Household deposit growth declined in the euro area during the year, from just under 4% to stand at 2.4% in December 2013. Nevertheless, the volume of deposits increased at a slightly faster pace than in the previous year. This was particularly notable in Spain, Italy and Greece. The annual growth rate of corporate deposits picked up in 2013 in the euro area on average, standing at just under 7% at the end of the year.

Chart 4. Annual change in corporate and household deposits: Finland and euro area



Issuance of debt securities is another important funding item for credit institutions. Finnish MFIs did not encounter any difficulties in obtaining market-based funding, albeit the annual growth in the stock of debt securities issued eased from over 10% to below 7% during the year. The increase in the volume of bonds reflected banks' preparations for forthcoming regulatory changes. The total stock of bonds issued by euro area MFIs continued to contract: in December 2013 the stock of bonds was almost 9% smaller than at end-2012. The stock of bonds issued contracted in almost all euro area countries, except for in Finland. Many banks in stressed euro area countries continued to face market-based funding constraints in 2013, whereas access to funding eased for profitable and financially sound banks.⁶

⁶ Bank of Finland Bulletin 5/2013: Economic outlook. Financial Stability.

MONETARY FINANCIAL INSTITUTIONS

Table 1. Aggregated MFI balance sheet¹ (excl. Bank of Finland), EUR bn

	Credit institutions		Money market funds		Total	
	2012	2013	2012	2013	2012	2013
Assets						
Loans to euro area residents	302 927	263 502	355	331	303 282	263 832
Securities other than shares issued by euro area residents	20 484	24 769	1 809	1 977	22 293	26 746
Shares and other equity issued by euro area residents	6 994	8 115	0	0	6 994	8 115
External assets	122 976	135 090	1 035	1 128	124 011	136 218
Fixed assets	660	645	0	0	660	645
Remaining assets	143 021	89 757	43	0	143 064	89 757
Total assets	597 062	521 877	3 242	3 436	600 304	525 313
Liabilities						
Deposits of euro area residents	175 280	183 441	0	0	175 280	183 441
Debt securities issued held by euro area residents	70 428	73 361	0	0	70 428	73 361
Money market fund shares held by euro area residents	0	0	3 169	3 391	3 169	3 391
Capital and reserves	24 878	26 391	0	0	24 878	26 391
External liabilities	172 480	138 985	20	18	172 500	139 003
Remaining liabilities	153 996	99 698	53	27	154 049	99 726
Total liabilities	597 062	521 877	3 242	3 436	600 304	525 313

1) Derivatives are included in items 'Remaining assets' and 'Remaining liabilities'.

Source: Bank of Finland.

3 Loans and securities assets

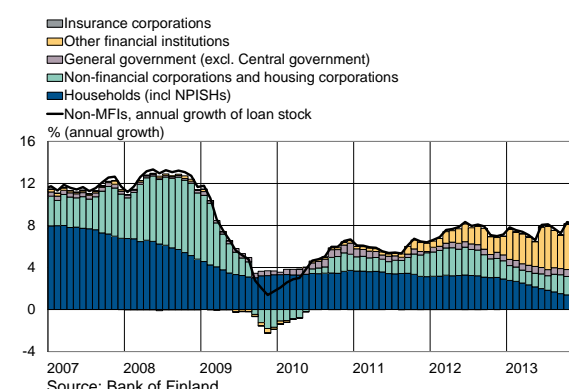
At the end of 2013, the annual rate of growth of loans granted by Finnish MFIs to euro area non-MFIs stood at 7.8%. Growth accelerated slightly from the previous year due to a pick-up in the growth of the other financial institutions' loan stock. Growth of the stock of loans to non-financial corporations slowed down in the early part of the year but accelerated slightly towards the year-end. Growth of the households' loan stock slowed down the most during the year.

The average annual growth of euro-denominated loans granted by Finnish MFIs to non-MFIs in the euro area accelerated somewhat in 2013 to a good 8%, compared with around 7% in the previous year. At the end of the year, the stock of loans granted to euro area non-MFIs stood at EUR 206 bn. The acceleration of the growth rate is explained by the growth of the stock of loans granted to other financial institutions. Similarly to the previous year, the main reason underlying the growth in non-MFI financial institutions was a rapid expansion of repo purchases⁷.

The non-MFI loan stock includes loans to households, non-financial corporations, general government, insurance corporations and non-monetary financial institutions. At the end of 2013, loans granted to households accounted for 56% and loans to non-financial corporation for 32% of the total stock of loans to non-MFIs.

⁷ A repo or repurchase agreement is an arrangement where, in connection with a sale of securities, the seller undertakes to repurchase the securities at an agreed price at an agreed date.

Chart 5. Annual growth of euro-denominated euro area non-MFI loan stock by sector



At the end of 2013, the total stock of loans granted by Finnish MFIs to non-MFIs, also including loans in foreign currencies and loans to non-euro area residents, amounted to EUR 243 bn. Out of this amount, loans granted to Finnish residents accounted for 82%, loans to residents of other euro area countries for 5% and loans to residents of non-euro area countries for 13%.

In recent years, the structure of the loan stock has changed as repo purchases, particularly with insurance institutions and central counterparties⁸, became more common. Before 2011, MFIs made repo agreements primarily directly with other MFIs.

At the end of 2013, 10% of the loan stock consisted of loans in other currencies than euro. The proportion of loans in other currencies has increased clearly from 2011 onwards at the same time as repo agreements have increased. Loans in Swedish and

⁸ Central counterparties belong to the sector "other financial institutions".

Danish krona accounted for 88% of the loans in foreign currencies.

3.1 Loans to households

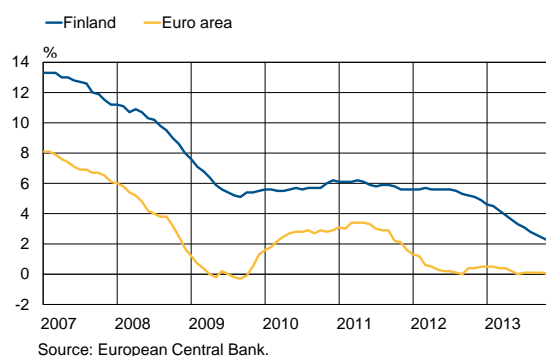
Growth of the households' loan stock in Finland slowed down clearly in 2013 but continued to be markedly faster than in the euro area on average. In 2013, drawdowns of new housing loans were lower than in previous years. In the first year-half, the average margin on housing loans⁹ increased, peaking in August 2013. In the autumn, the rise in the margins on housing loans came to a halt.

The stock of euro-denominated loans granted by Finnish MFIs to households in December 2013 was EUR 116.9 bn, EUR 1.8 bn more than a year earlier. The annual growth slowed down significantly in 2013 to 2.2% in December, as opposed to almost 5% in December 2012. In the peak years 2004–2008, annual growth exceeded 10%.

Growth of the household loan stock has been faster in Finland than in the euro area on average. Towards the end of 2009, uncertainty created by the financial crisis even led to negative annual growth rates in the euro area during a few months. In 2010 and 2011, growth of the loan stock picked up in the euro area but it slowed down again to around zero in mid-2012, remaining at the same level throughout 2013.

⁹ Imputed loan margin is the difference of the agreed annual interest rate and the reference rate on a new housing loan. Credit institutions

Chart 6. Annual growth of households' loan stock in Finland and euro area



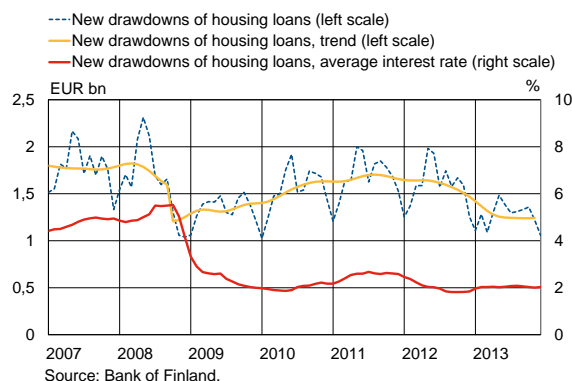
Loans to households are divided by the purpose of use to housing loans, consumer loans and other loans in Finland. Housing loans accounted for 76% of the households' loan stock, consumer credit for 11% and other loans for 13%.

3.1.1 Housing loans

Growth of the housing loan stock in Finland slowed down in 2013. At the end of December, the stock amounted to EUR 88.3 bn, and the annual rate of growth slowed down from 5.6% a year ago to 2.3%. The annual growth of the housing loan stock began to decelerate already in the second half of 2012, partly due to an increase in economic uncertainty. The annual growth has not been this slow at any time in the 21st century. In December, the stock of housing loans decreased compared to November, which means that during the month, more housing loans were amortised than new loans were drawn. This marked the first contraction in housing loan stock in 15 years.

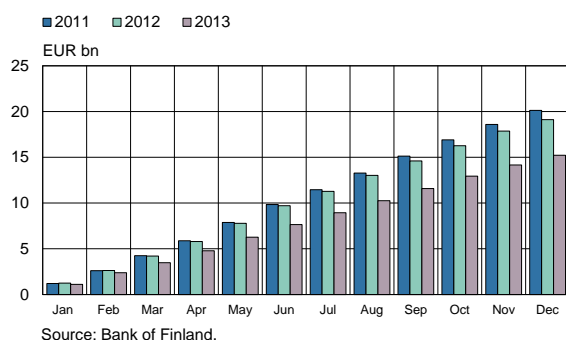
do not report figures on loan margins to the Bank of Finland, but the imputed margin is based on Bank of Finland calculations.

Chart 7. New drawdowns of housing loans



In 2013, Finns drew down EUR 15.2 bn in new housing loans¹⁰, EUR 4 bn less than in the previous year. New housing loan agreements were made in 2013 in the amount of a good EUR 17 bn, which is correspondingly EUR 4 bn less than a year earlier. Underlying the slowdown in the loan demand are among other things an increase in economic uncertainty and probably the rise in transfer tax which came into force in March.

Chart 8. New drawdowns of housing loans annually cumulated



¹⁰ New drawdowns include loans drawn down during the period. New business refers to new loan agreements and renegotiated agreements, regardless of whether there are drawdowns in the current period.

¹¹ Release of the Finnish Federation of Finnish Financial Services of 2 January 2014 "ASP-ensiasuntoja ostetaan kiihtyvällä tahdilla,

According the Finnish Federation of Finnish Financial Services¹¹, purchases of first homes with so-called ASP loans¹² picked up while other house sales slowed down. In October 2013, the number of first homes purchased with ASP loans reached the highest level in two years.

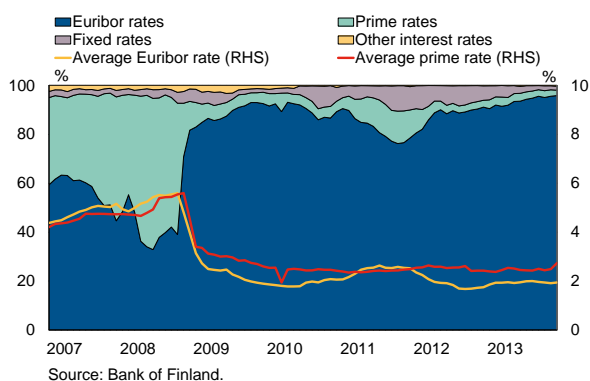
In Finland, housing loans are most often linked to Euribor interest rates. In December 2013, almost 96% of new housing loan agreements were linked to Euribor rates. In comparison with the previous year, the use of Euribor rates increased by 5 percentage points. The most frequently used reference rate was the 12-month Euribor. In December 2013, it accounted for 59% of all new housing loans linked to Euribor rates, compared to under 55% a year earlier. Out of the new housing loans linked to Euribor rates, slightly under 27% were linked to the 6-month Euribor, 12% to the 3-month Euribor and 2% to the 1-month Euribor. 1.6% of new housing loans were linked to a fixed interest rate, which is 4 percentage points less than in December 2012. The proportion of loans with a fixed rate has seen the largest relative decrease in 2013. The proportion of housing loans linked to banks' own reference rates was 2.5%.

Banks have tightened their loan terms, and not all banks grant housing loans linked to the 1-month or 3-month Euribor any longer. As the Euribor rates have remained low and their popularity has increased, also the average interest rates on new housing loans have stayed at the level of 2% throughout 2013. In December, the average interest rate on new housing loans stood at 2.03%.

vaikka muu kauppa seisoo" (ASP first-time house purchases picks up while the rest of the market is standing still).

¹² An ASP loan (an acronym for house saving reward) is a government-subsidised scheme to support first-time house purchases. In connection with an ASP loan, various subsidies and benefits are granted for the housing loan.

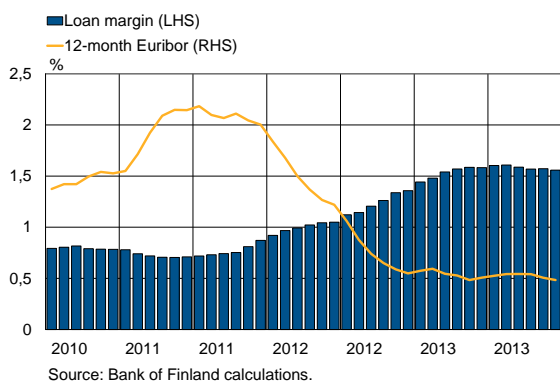
Chart 9. Interest rate linkages of new business on housing loans



In Finland, interest rates on housing loans are considerably lower than in the euro area on average. In December 2013, the average interest rate on new housing loans was 1.98%, as opposed to 3% for the euro area on average. Loan interest rates reflect the reference rates used, which vary across countries.

The imputed interest rate margin on new housing loans continued to increase in the first year-half to peak in August at 1.61 percentage points. Towards the end of the year, margin growth came to a halt, to stand at 1.56% in December.

Chart 10. Imputed margin on new business on housing loans



¹³ The Federation of Finnish Financial Services (spring 2013) *Säästäminen, luotonkäyttö ja maksutavat (Saving, use of credit and payment methods)*.

¹⁴ In the context of MFI statistics, annual change is calculated on the basis of flow data computed by deducting other changes affecting

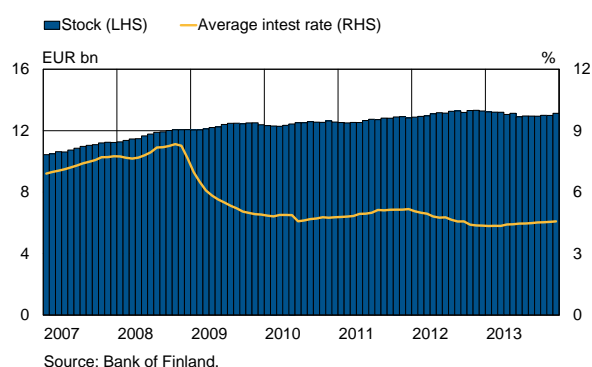
the stock data during the period, including impairments as well as classification changes, if any. Classification changes are made for example as a result of changes in sectoral or asset classifications, changes in the structure of the population of MFIs and accounting practices.

According to a report¹³ by the Federation of Finnish Financial Services, the average size of housing loan per person is EUR 89,500. Due to the more expensive price level, housing loans in the Helsinki metropolitan area are larger, EUR 109,500 on average, than in the rest of the country. The growth of the average size of housing loans has levelled off during the past two years, and the average size of new housing loans has been EUR 120,500.

3.1.2 Households' consumer credit and other loans

At the end of 2013, the stock of consumer credit granted by MFIs to households was EUR 13 bn. The stock contracted slightly, by about EUR 0.2 bn from the previous year. The annual change of the stock of consumer credit¹⁴ decreased slightly, to 3.7% from last year's 4%. The loan stock contracted, as loans were transferred outside the MFI sector. The average interest rate on the stock of consumer credit increased somewhat from a year ago to 4.6% in December.

Chart 11. Stock and average interest rate on consumer credit to households



Consumer credit granted by banks comprise almost 90% of all households' consumer credit. Also other financial institutions acting without an authorisation of a credit institution grant consumer credit to households, particularly for financing car purchases. According to Statistics Finland, the stock of consumer credit granted by other financial institutions than credit institutions stood at EUR 1.55 bn at the end of September 2013.

At the end of 2013, almost half (48%) of consumer credit belonged to the subcategory overdrafts and credit card credit. These loans are available up to a predetermined credit limit. About 12% of overdrafts and credit card credit were interest-free convenience credit card credits. The proportion of extended, usually interest-bearing, credit card credit was about 60%, and their interest rate was 9.2% in December. Overdrafts accounted for 28%. The average interest rate on the entire stock of overdrafts and credit card credit increased slightly in 2013; at year-end it stood at 6.8%, compared to 6.5% at the end of the previous year. Overdrafts and credit card credit were mostly unsecured.

According to a report¹⁵ by the Federation of Finnish Financial Services, the average interest rate on

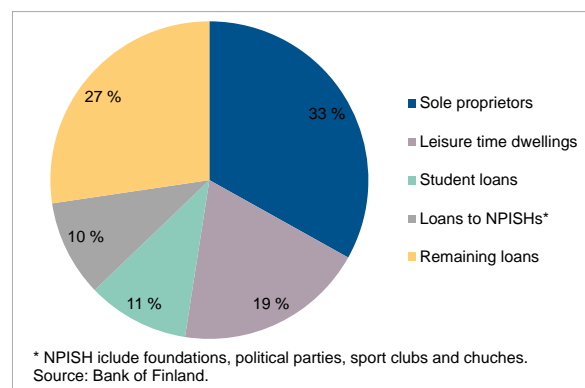
¹⁵ Saving, borrowing and payment methods (2013).

consumer credit has tended to decline during the past two years. The average size of collateralised consumer credit drawn from a bank has been EUR 9,500.

The stock of other lending by MFIs to households at the end of December 2013 stood at EUR 15 bn. The annual growth of other lending slowed down to the vicinity of 1%. The average interest rate on these other loans stood at 2% at the end of 2013.

Loans for other purposes of use cover student loans, loans for holiday residences and sole proprietors as well as other loans, including investment loans. The largest sub-item in other lending is loans for entrepreneurship. The loan stock for sole proprietors stood at about EUR 5 bn and the average interest rate at 2.5% in December. Over 80% of the sole proprietors' loans was granted to households pursuing farming and forestry.

Chart 12. Other lending to households by purpose of use



3.2 Loans to non-financial corporations

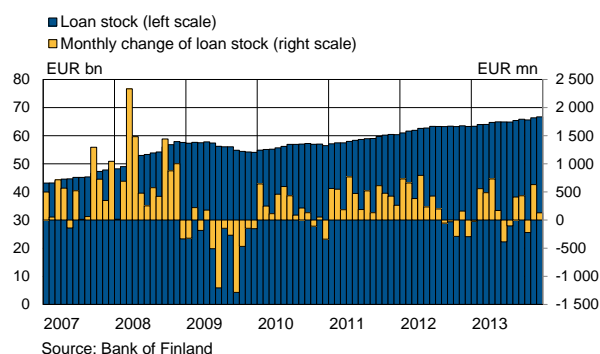
The stock of loans to non-financial corporations increased by about 6% in 2013. Almost 75% of the growth stemmed from the growth of housing corporations' loans. The sources of funding of non-financial corporations became more versatile, and bond funding in particular increased considerably in 2013. The margins on corporate loans widened.

At the end of 2013, the stock of loans granted by Finnish credit institutions to domestic non-financial corporations and housing corporations stood at a good EUR 68 bn. The stock grew by slightly less than EUR 3 bn from the previous year. In the early part of the year, the stock grew stably, but it contracted by about half a billion in May-July. This was mainly due to a shift of loans outside the financial sector. Towards the end of the year, growth picked up somewhat. In December 2013, the annual change of the stock of loans to non-financial corporations was about 6%. The weak development of loans to non-financial corporations reflected, among other things, a low level of investment.

A corporate lending survey¹⁶ was conducted at the end of 2013 to explore the funding, funding intentions, funding difficulties as well as the access to and price of finance of non-financial corporations operating in Finland. According to the survey, an increasing proportion of medium-sized and large corporations have obtained new funding in 2013, but at the same

time, the proportion of corporations failing in their funding intentions or giving up these intentions has increased.

Chart 13. Stock of loans to non-financial corporations and its monthly change



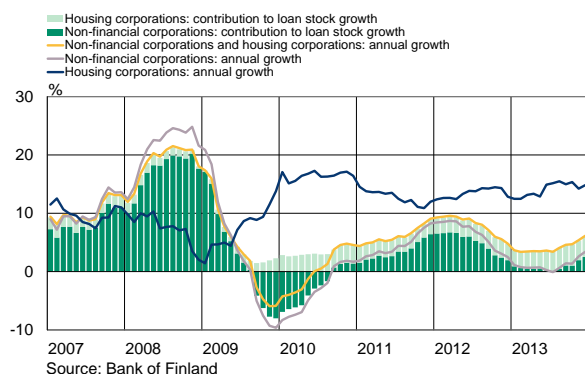
At the end of 2013, housing corporations accounted for a quarter, almost EUR 18 bn of the stock of loans to non-financial corporations. Growth from the previous year amounted to EUR 2 bn. The annual growth rate of loans to "traditional" (non-financial corporations excl. housing corporations) corporations in 2013 was only about 1% on average. On the other hand, the average annual growth rate of loans to housing corporations was 14%. Hence, about 75% of the growth in the stock of loans to non-financial corporations was due to increased loan funding of housing corporations.

¹⁶ Confederation of Finnish Industries, Federation of Finnish Financial Services, Finnvera, Bank of Finland, Federation of Finnish Enterprises, Ministry of Employment and the Economy. Corporate

lending survey 2013 (in Finnish).

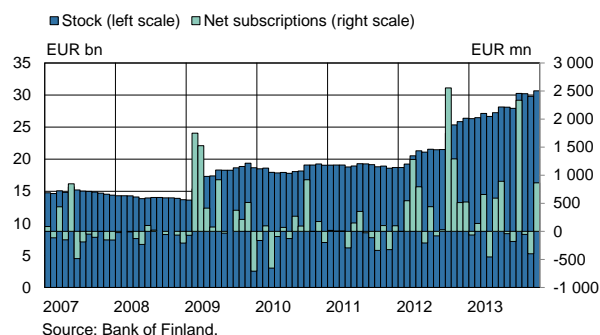
http://www.suomenpankki.fi/fi/julkaisut/selvitykset_ja_raportit/rahoituskyselyt/Pages/default.aspx

Chart 14. Annual growth of stock of loans to non-financial corporations in Finland



Based on the corporate lending survey, the funding structure of non-financial corporations is becoming increasingly diversified. A higher number of large (over 250 employees) corporations stated they obtain funding particularly by issuing commercial paper and bonds. This trend is also clearly visible in the securities statistics compiled by the Bank of Finland. The stock of bonds issued by non-financial corporations increased by almost EUR 4.3 bn, or 16%, in 2013 to a good EUR 30 bn at the end of 2013. Underlying the growth in bond funding is a better availability of market funding and on the other hand, a tightening of the conditions of funding by banks.

Chart 15. Stock and net subscriptions of bonds issued by non-financial corporations

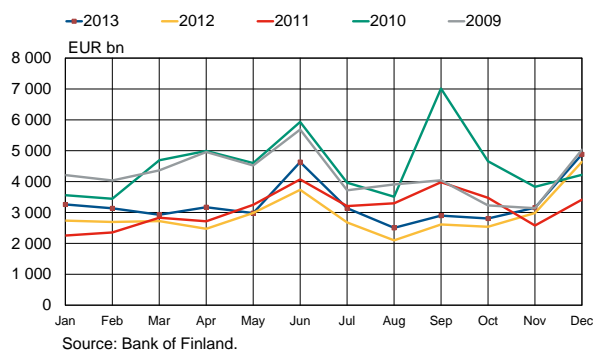


The largest sectors within the stock of loans to non-financial corporations (excl. housing corporations) are the real-estate sector (30%) and industrial corporations (17%). The development of the loan stock was modest in all major sectors. The highest number of new loan agreements was concluded with industrial corporations, as in the previous years.

New corporate loan agreements were concluded in 2013 in the amount of almost EUR 40 bn, which is EUR 4.5 bn more than in the previous year. The agreements made over the whole year amounted to EUR 15 bn less than in the peak years 2008 and 2010. The difference is explained almost entirely by a decrease in the drawdowns of large (over EUR 1 million) loans to non-financial corporations. New loans to non-financial corporations continue to be taken primarily for rearrangements of finance and operating capital purposes. In contrast, the borrowing for investments continues to be sluggish¹⁷.

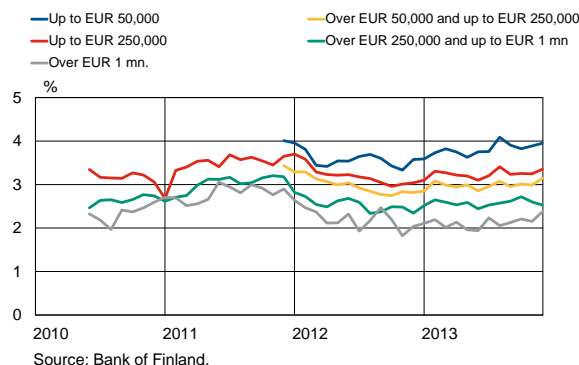
¹⁷ Federation of Finnish Financial Services (2013) Banking Barometer IV/2013.

Chart 16. New business on loans to non-financial corporations (incl. housing corporations), monthly



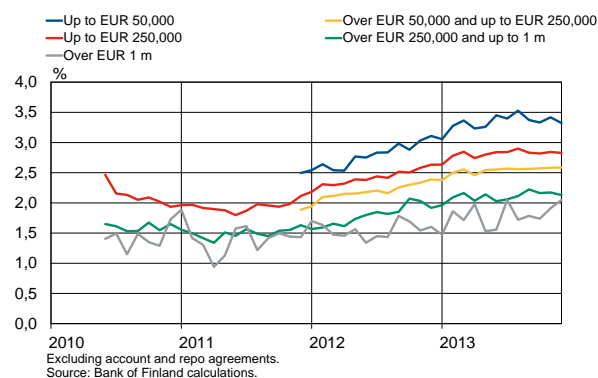
Interest rates on new small corporate loans of up to EUR 50,000 continued to increase almost throughout 2013. The increase over the level of end-2012 amounted to almost 0.4 percentage points, and the average interest rate stood at 3.95% at year-end. The interest rate on new large loans of over EUR 1 million rose by a good 0.3 percentage points to 2.38% in 2013. Over 70% of all new loans to non-financial corporations (excl. housing corporations) were linked to Euribor rates. Over half of new loans to non-financial corporations were linked to the 1-month and 3-month Euribor rates. The longest Euribor rates decreased further in 2013, while the shortest Euribor rates rose by a few hundredths of a percentage point during the year. The change in the reference rates does not explain the increase in the contract rates.

Chart 17. Interest rates on new business on loans to non-financial corporations (excl. housing corporations)



Loan margins widened in all size categories of loans to non-financial corporations. Signs of an increase in loan margins have been observed since 2011, but during 2013 margins widened the most, particularly in small loans of up to EUR 50,000. In large loans of over EUR 1 million, there may be large variation even on a monthly basis, since individual loans potentially have a larger impact on the average interest rate compared to smaller loans. The interest rate is usually the higher, the smaller the loan. Hence, SMEs generally pay higher interest rates on their loans than large corporations.

Chart 18. Imputed margin on new business on loans to non-financial corporations (excl. housing corporations) by loan size



3.3 Credit institutions' securities-based assets

At end-2013, the balance sheet value of domestic credit institutions' securities-based assets was EUR 72 bn, almost EUR 3 bn higher than a year earlier. The growth is almost entirely explained by securities purchases.

Credit institutions' securities-based assets increased in 2013 clearly slower than in the past few years. The growth only amounted to EUR 3 bn, or 5%, which is almost entirely explained by purchases of new securities. Almost 90% of credit institutions' security stock consisted of debt securities and the remaining good 10% of shares and other equity.

A majority of credit institutions' security portfolios consist of long-term debt securities. At the end of 2013, they amounted to a good EUR 61 bn. The amount of short-term debt securities has remained unchanged at slightly below EUR 3 bn already for quite some time. The future liquidity regulation requires banks to have sufficient liquidity buffers, which underscores the importance of high-quality liquidity assets. These comprise government bonds, covered bonds and commercial paper with high ratings.

A majority of bonds held by credit institutions are issued by MFIs. At end-2013, they accounted for about 65% (EUR 41 bn) of all bonds. This proportion has remained at the same level already for several years, although it decreased slightly from 2012. A quarter of bonds issued by MFIs consisted of covered bonds. The largest proportion of bonds issued by MFIs was issued in EU countries outside the monetary union. The most significant issuer country was Denmark, which accounted for over 40% of bonds

issued by MFIs. The second highest proportion consisted of bonds issued by Swedish MFIs, over 25%.

The growth of bonds held by MFIs reflected particularly purchases of bonds issued by other sectors than MFIs. Bonds issued by general government increased in 2013 by about EUR 2 bn. At the end of 2013, credit institutions held a total of almost EUR 15 bn in bonds issued by general government. EUR 11 bn of these were issued by governments, about EUR 0.5 more than a year earlier. The country breakdown remained quite similar to 2012, in that the biggest sovereign issuers in credit institutions' portfolios were Germany, Finland, the United States and Sweden.

In 2013, the same trend as in 2012 continued in credit institutions' balance sheets, that is, bonds issued by local governments (municipalities, states) gained popularity. Their amount grew by almost EUR 1.4 bn in 2013. In particular, bonds issued by the states of Germany almost doubled to EUR 2.5 bn. The amount of bonds issued by Finnish municipalities remained at last year's level.

About 65% of the bonds held by credit institutions were denominated in euro, which is 4 percentage points less than at the end of 2012. Out of the bonds denominated in foreign currencies, the largest group was bonds denominated in the Swedish krona. They increased in 2013 by about EUR 4 bn (EUR 9.8 bn). Bonds denominated in the Danish krone were popular, with a proportion of almost EUR 8.7 bn. The values of bonds in foreign currencies reflect foreign exchange fluctuations.

Box 1. Interest rate range

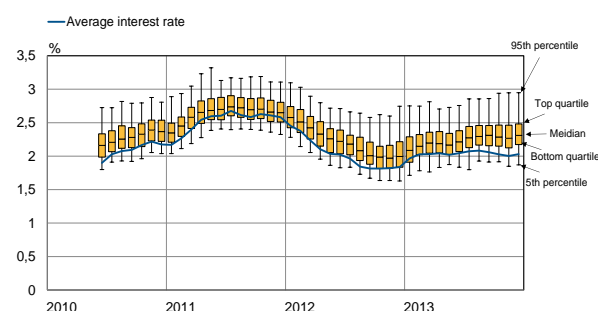
More comprehensive ECB balance sheet and interest rate statistics entered into force in summer 2010, and data collection from MFIs based on them began as of the end of June 2010. The detailed data collection enables better utilisation of the information than before.

The average interest rate on households' new drawdowns of housing loans has varied between 1.8–2.7% in 2011–2013. By observing the monthly range of average interest rates on new drawdowns of housing loans at the level of individual MFIs, more information can be derived on the interest rates.

The average interest rate is calculated by weighting the interest rate for each MFI with the amount of its new drawdowns of loans. The average interest rate for the review period from June 2010 has followed the lower quartile of bank-specific average rates closely, but in the latter half of 2013, the average interest rate sunk below the lower quartile. This means that a large proportion of housing loans are drawn from banks offering a lower loan interest rate than the lower quartile.

The range of the MFI-specific interest rates¹⁸ included in the review has varied on average between 0.8 and 1 percentage points. However, there is an upward trend in the range, meaning that the differential has recently been about one percentage point. This indicates that, as reference rates have remained rather constant, banks' loan margins have widened.

Chart 19. Average interest rate on new drawdowns of housing loans and range of MFI-specific average interest rates* (n=276–319)

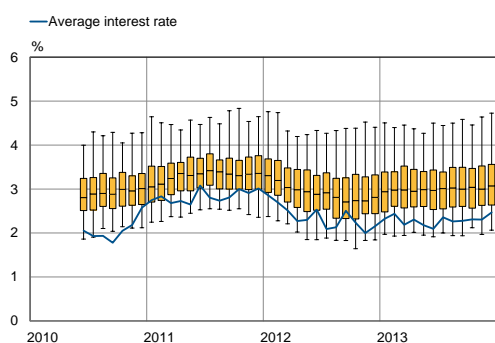


*For confidentiality reasons the chart does not include extreme values (minimum and maximum).
Source: Bank of Finland.

The range of interest rates is wider for new business on loans to non-financial corporations compared to housing loans (chart x). This is due to the fact that in corporate loans, the financial position, creditworthiness and loan size have a considerable impact on the interest rate. 90% of banks' interest rates are in the range of 2–4.75 percent throughout the review period. In 2011 and the first half of 2012, the average interest rate was higher than in 2013 and also followed the lower quartile. In 2013, the average interest rate remained more constant, as reference rates declined but margins increased. The average interest rate sunk somewhat below the lower quartile, which means that the lowest interest rates on large loans to non-financial corporations also declined below the average interest rate.

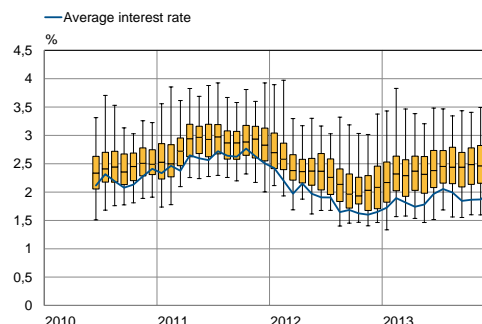
¹⁸ Covers 90% of MFIs between the 5th and 95th percentile.

Chart 20. Average interest rate on new business on loans to non-financial corporations (excl. housing corporations) and range of MFI-specific average interest rates (n=251–288)



*For confidentiality reasons the chart does not include extreme values (minimum and maximum)
Source: Bank of Finland.

Chart 21. Average interest rate on new business on loans to housing corporations and range of MFI-specific average interest rates (n=92–149)



*For confidentiality reasons the chart does not include extreme values (minimum and maximum)
Source: Bank of Finland.

The interest rate range for new drawdowns of loans to housing corporations is similar to that for households' housing loans, but the range of interest rates is wider (chart x). The differential between the median and the average interest rate has increased steadily throughout the review period. Similarly to housing and corporate loans, also the average interest rates on loans to housing corporations was relatively stable throughout 2013, and the range of interest rates remained at 1.5–3.5 percent. Housing corporations on average pay a slightly lower margin on their loans than households on their housing loans, which is why the average interest rate is also slightly lower.

Box 2. ECB's new indicators facilitate comparison of loan interest rates in the euro area

The cost-of-borrowing indicators derived from statistics on MFI balance sheets and interest rates facilitate the comparison of loan interest rates and the analysis of the transmission of monetary policy in the euro area.

The monetary policy decisions of the ECB's Governing Council are transmitted to the economy and prices in particular through several transmission channels. In normal times, the key channel is the so-called interest rate channel, through which changes in the ECB's policy rate is transmitted to banks' lending and deposit rates. Changes in lending and deposit rates in turn have an impact on households' and corporations' decisions on saving, consumption and investment.

Monetary policy in the euro area is based on a comprehensive economic analysis, where average interest rates on new loans granted to households and non-financial corporations in different countries in the euro area constitute key objects of monitoring. MFI interest rate statistics published on a monthly basis provide a solid foundation for analysis, since they contain comprehensive information on the interest rates granted by banks in different euro area countries to the household and non-financial corporation sector. In order that lending costs can be compared reliably, the analysis must account for country-specific differences in financial structures.

In ECB's statistics, the interest rates on new loans are divided into long-term and short-term interest rates

based on the *period of interest rate fixation*. The period of interest rate fixation refers to the pre-agreed period, during which the interest rate does not change. Interest rates with a fixation period of up to one year are deemed short-term and those fixed for a longer period than a year are long-term. Particularly in housing loans, the popularity of short-term and long-term interest rates varies greatly across euro area countries: for example, in Finland over 95% of interest rates on new housing loans are fixed for a period of up to one year, compared to only 16% in Germany. In the euro area as a whole, the proportion of short-term interest rates is clearly below a half.

In MFI interest rate statistics, interest rates on new loan business do not include rates on *overdrafts and credit card credit*. Overdrafts and credit card credit include interest-free convenience credit card credits, extended credit card credit, revolving loans and overdrafts. As regards these loans, particularly overdrafts vary greatly in significance across euro area countries, and in some countries overdrafts are a significant source of funding for non-financial corporations. In Finland, overdrafts account for less than 10% of the stock of loans granted by credit institutions, while for example in Italy they account for almost a third.¹⁹ It is important to take overdrafts into account especially when comparing their average interest rates to other loan interest rates: the interest rate on overdrafts granted to non-financial corporations in the euro area in 2013 was on average 1.5 percentage points higher than the average interest rate on other new loan agreements with non-financial

¹⁹ Banca d'Italia.

corporations. In household loans, the interest rate differential between so-called one-time loans and overdrafts as well as credit card credit, and the proportion of credit card credit in the loan stock are considerably smaller, particularly as the focus is usually on interest rates on new housing loans.

In order that the country-specific differences in the popularity of short-term and long-term interest rates and different types of corporate loans would be taken into account in a reliable manner, the ECB has derived cost-of-borrowing indicators for all euro area countries and the euro area on average from MFI balance sheet and interest rate statistics. These indicators provide a more comprehensive picture of the interest rates on new loans divided into household and corporate loans or broken down by the period of interest rate fixation.

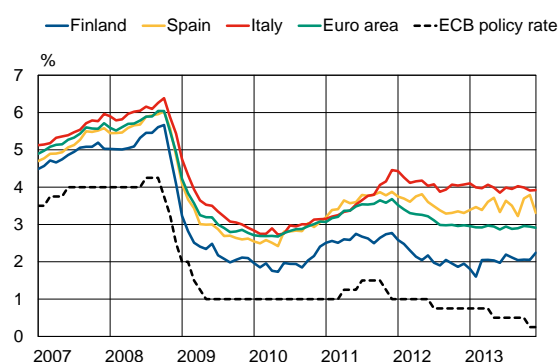
The indicator on household loans has been derived from the MFI interest rate statistics from a weighted average of housing loans with different periods of interest rate fixation.²⁰ In order to reduce monthly fluctuations, the weights used are the 24-month moving averages of the amount of new loan agreements.

The loan indicator for loans to non-financial corporations has been calculated in a similar manner as the indicator for the household sector, but overdrafts have been taken into account in the indicator for short-term interest rates by including their interest rate in the weighted average rate; the weight used is the proportion of overdrafts in the stock of loans with a maturity of up to one year. This information is taken from ECB's statistics on the MFI balance sheet. The balance sheet statistics also provides information on the amount of loans with a maturity of over one year

but a short-term interest rate, which has been included in the weight coefficient based on the proportion of these loans in all long-term corporate loans.²¹

In Finland, interest rates on new housing loans are clearly lower than the average euro area interest rates. The interest rates follow changes in the ECB policy rate, which is mainly due to the high popularity of the Euribor rates as a reference rate for housing loans. Also in the euro area on average, interest rates on housing loans have moved to the same direction as the policy rate up until the early years of the financial crisis 2008 and 2009. After 2011, among the large euro area countries, particularly in Spain and Italy, which has suffered from the financial crisis, interest rates have remained high although the policy rate has been cut.

Chart 22. Cost-of borrowing indicators for households



Source: European Central Bank.

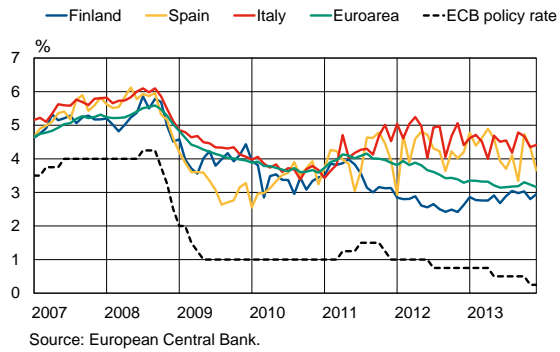
The cost-of-borrowing indicator for non-financial corporations is more volatile than the indicator for households, but it also reflects the same change as households' housing loans after 2011: interest rates on corporate loans have decreased on average, but they have remained high in Italy and Spain. In Finland,

²⁰ About three quarters of households' loan debts are housing loans, and therefore interest rates on other loans have not been taken into account.

²¹ More detailed information on the method in ECB's Monthly Bulletin (August 2013). See. <http://www.ecb.europa.eu/pub/pdf/mobu/mb201308en.pdf>.

interest rates have risen in 2013, which was at least partly due to an increase in interest rate margins.

Chart 23. Cost-of-borrowing indicators for non-financial corporations



Box 3. Housing loans in MFI statistical data collection

Housing loans are among the Bank of Finland's most popular statistics on MFIs. However, reporting of housing loans entails many details that are not commonly known.

The Bank of Finland's statistical data collection concerning MFIs was revised in summer 2010, when the Bank discontinued table-based reporting and introduced a detailed collection method based on records. Record-based reporting enables more effective analysis of the reported information. This box describes the range of information available on housing loans. The Bank of Finland disseminates the majority of housing loan-related data on its website.

In the context of MFI data collection, the Bank of Finland is reported on monthly volumes of new drawdowns of housing loans and new housing loan agreements. For both items, data on the annualised agreed rate (AAR) are also reported. In addition, the annual percentage rate of charge (APRC) – ie the actual interest rate paid by households – is reported. The APRC is calculated in accordance with consumer protection law (Directive 2008/48/EC). The APRC takes into account all charges relating to drawing down and servicing the loan.

In connection with balance sheet data, the reporting entities report data on the housing loan stock, the stock without non-performing loans and the AAR. The loan stock excludes interest payable which is reported separately. Similarly, individual and collective loan losses are also reported separately.

The loan stock, new agreements and new drawdowns of housing loans involve six common classifications. In the case of institutional sectors, data

on housing loans are collected from households and non-profit institutions serving households. The borrower's home country and the nominal currency of the loan are reported on a country-by-country and currency-by-currency basis.

The classification for housing loan collateral has six subcategories. Of these, the most important in Finland is mortgage or real estate collateral that covers the loan principal by 100% or over. Other collateral types are guarantee or mortgage or real estate collateral that does not cover the full loan principal and other collateral. The remaining subcategories are loans with collateral deficit and uncollateralised loans.

The original maturity of the loan is reported with an accuracy of one year, up to 40 years. Loans with an agreed maturity of 40–50 years and perpetual loans are also reported.

All five classifications presented above are in line with the ECB's balance sheet and interest rate regulations, but the detailed level of breakdowns is within national discretion. Interest rate linkage of a loan is a genuine Finnish classification not required by the ECB. In Finland, loans are typically tied to Euribor rates. Loans can also be linked to credit institutions' own reference rates, a fixed rate or some other interest rate.

In addition, the ECB regulations require three other classifications, of which one pertains to new housing loan agreements and two to the housing loan stock. In the case of new agreements, the initial period of fixation of the interest rate is reported separately. The initial period of interest rate fixation refers to the contract period during which the interest rate cannot be changed. The initial period of fixation of up to one year is broken down in four subcategories: up to one

month; 1–3 months; 3–6 months; and 6–12 months.

For loans with an initial fixation period of over 1 year, the alternative subcategories are: 1–3 years; 3–5 years; 5–10 years; and over 10 years.

The interest rate reset period and the remaining maturity are only reported for the stock of loans. In the case of interest rate reset period, the alternative subcategories are: in the next 12 months; in over 1 year and up to 2 years; and in over 2 years.

The alternative subcategories for the other housing loan stock-specific classification – the remaining maturity – are: up to 1 year; 1–2 years; and over 2 years. All loans with an initial maturity of over 2 years fall in each of these subcategories at some stage during the lifetime of the loan.

4 Deposits and other funding

4.1 Credit institutions' funding

At the end of 2013, the stock of non-MFI deposits amounted to EUR 142 bn. The stock of debt securities issued by credit institutions totalled EUR 89 bn. The non-MFI deposit stock grew moderately, and the average interest rate on the stock declined further throughout 2013, continuing the trend that began in 2012.

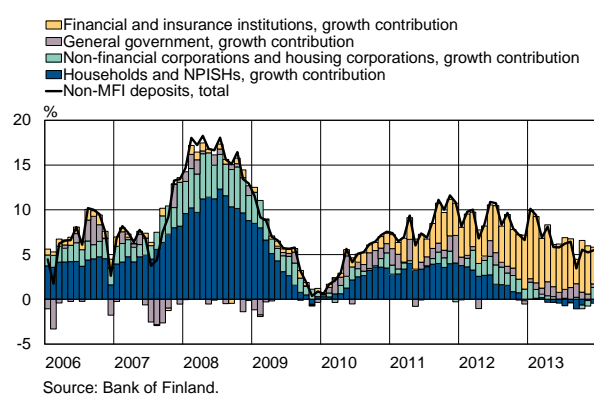
A significant proportion of funding raised by traditional deposit banks consists of deposits placed by non-MFIs. Deposits banks can also issue debt securities. The majority of credit institutions operating in Finland – whether deposit banks or credit organisations²² – are part of a larger banking group or conglomerate, which enables intra-group funding either from a Finnish or a foreign parent company, or other group companies.

Deposits are the largest funding item for Finnish credit institutions. At the end of 2013, credit institutions had EUR 522 bn of debt, which was EUR 75 bn less than at end-2012. About 27% of the debt consisted of non-MFI deposits. Interbank deposits (primarily intra-group deposits) accounted for almost 32%, certificates of deposit and other debt securities issued for 17% and equity for 5%. Other liabilities, which accounted for almost 19%, consisted almost entirely of a negative gross value of derivatives.

²² Credit organisations include mortgage banks, credit card organisations and financing companies authorised as credit institutions.

Deposits placed by households make about half of non-MFI deposits at deposit banks.

Chart 24. Annual growth in stock of non-MFI deposits by sector



Annual growth in the stock of non-MFI deposits slowed to 5.5% in December 2013, from 6.6% a year earlier. The largest positive contribution to growth came from deposits of other financial institutions and insurance corporations, which recorded an annual growth rate of 4.1% at end-December 2013. General government deposits also posted positive growth rates throughout the year. By contrast, non-financial corporations and particularly households contributed negatively to the annual growth rate of the non-MFI deposit stock. In previous years, households have provided a significant positive growth contribution.

At the end of 2013, the stock of non-MFI deposits²³ totalled EUR 146 bn, of which household

²³ Deposits by euro area non-MFIs (incl. other than euro-denominated deposits) with Finnish credit institutions. Currency deposits (other currencies than the euro) accounted for EUR 4.8 bn (3.3%) of the total deposit stock.

deposits accounted for EUR 82 bn (56%). Deposits by non-financial corporations accounted for EUR 31 bn (21%), general government deposits for EUR 11 bn (8%) and deposits by financial corporations and insurance institutions for EUR 22 bn (15%). The share of household deposits contracted by 4 percentage points, while the share of corporate deposits remained unchanged from the previous year. The share of general government deposits increased by 2 percentage points and that of deposits by other financial institutions and insurance corporations by 3 percentage points.

Growth in the stock of deposits placed by financial institutions and insurance corporations has in recent years been fuelled by a strong increase in repo agreements. At the end of December 2013, repo agreements already totalled EUR 13 bn, which was over half of the sector's deposits. In recent years, MFIs have increasingly made repo agreements with other non-MFI subsectors – mainly with central counterparties included in the other financial institutions sector, and insurance corporations – while previously repo agreements were made almost solely with counterparties in the MFI sector.

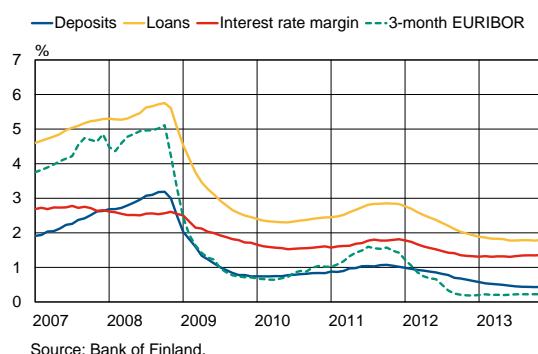
EUR 92 bn (63%) of non-MFI deposits were overnight deposits, in practice deposits on current accounts. The share of overnight deposits increased slightly in 2013. The share of deposits with an agreed maturity contracted 5 percentage points from the previous year, to 18% at end-December 2013. The share of other deposits increased 2 percentage points, to 18%. Deposits are a stable and comparatively economical source of funding for banks. Due to the low level of interest rates, they are also almost without exception a cheaper form of funding than that raised in the bond markets. At the end of 2013, the average

interest rate on the non-MFI deposit stock was historically low, at 0.44%.

The average interest rates on non-MFI loan and deposit stocks declined in 2013. Deposit rates, in particular, fell until the very end of the year. Loan interest rates also exhibited a small shift in autumn, turning slightly upwards. The fall in the interest rates has so far been fuelled by the low level of market rates. The average interest rate on the deposit stock has a major impact on the cost of funding by banks as well as the difference between the loan and deposit stocks, i.e. the overall margin. A decline in the interest rate level usually decreases the overall margin, which was the case also in Finland in 2012.

The overall margin between the loan and the deposit stock was 1.8 percentage point at end-2011 and 1.3 percentage point at end-2012. In 2013, market rates remained low, but due to the slight rise in the interest rate on the lending stock, the overall margin edged up to 1.4%.

Chart 25. Average interest rate on non-MFI loan and deposit stock and interest rate margin in Finland



4.1.1 Deposits by households

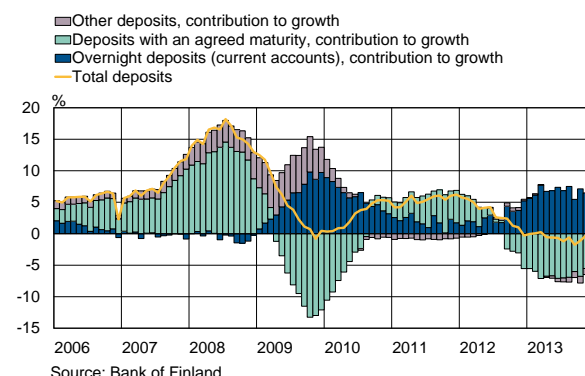
The stock of household deposits totalled EUR 82 bn at end-2013, down by 0.7% from the previous year. The stock of overnight deposits increased to EUR 52 bn, but the stock of deposits with an agreed maturity contracted markedly from the previous year, to EUR 16 bn. The average interest rate on this stock fell to 1.31%, from 1.82% in the previous year.

EUR 52 bn (63%) of the household deposit stock consisted of overnight deposits and EUR 16 bn (20%) of deposits with an agreed maturity. The rest were investment deposits²⁴. Annual growth in the deposit stock has moderated due to economic uncertainty and the low level of interest rates. Driven by the strong decline in market rates, particularly deposits with an agreed maturity have recorded outflows from 2012 onwards. Other investment instruments, such as funds²⁵, have gained more popularity among households.

The interest rate on the household deposit stock fell during the year, from 0.72% at end-2012 to 0.47% at end-2013. Interest rates on deposits with an agreed maturity declined the most.

At the end of 2013, households had 15,972,862 deposit accounts. This also includes accounts with zero balances. The average amount deposited was about EUR 5,000.

Chart 26. Annual growth of stock of household deposits



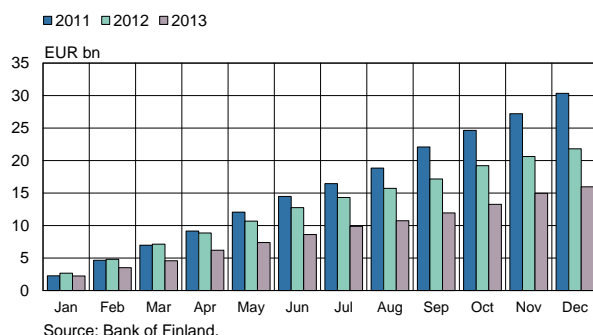
Starting from 2012, interest rates paid on households' new deposits with an agreed maturity (time deposits) have been significantly lower than before. In December 2013, the average interest rate on time deposits stood at 1.08%. The volume of new time deposit agreements has contracted steadily, from the peak of EUR 8.3 bn at end-2011 to EUR 4 bn in December 2013. During 2013, households concluded EUR 16 bn of new agreements on time deposits. The volume of new agreements concluded during the year equalled the stock of time deposits at year-end, which reflects the shortness of deposit periods. Previously, growth was fuelled by banks' favourable deposit rate offers and market rate increases. The average interest rate on new agreements peaked in 2011, standing at 2.21%.

²⁴ The maturity of an investment deposit is typically from one month to several years. The interest rate is usually fixed for the investment

period and is determined on the basis of the size of the invested amount and the duration of the deposit period.

²⁵ See <http://www.suomenpankki.fi/en/tilastot/sijoitusrahasot>.

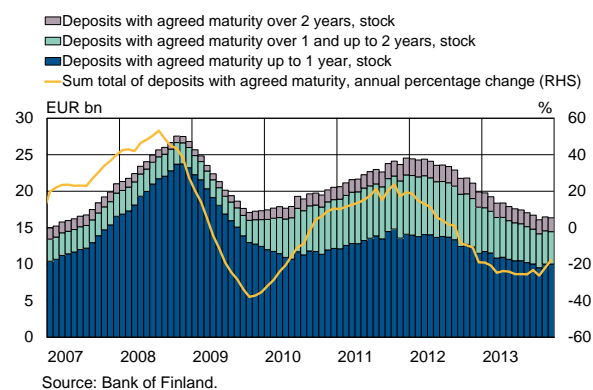
Chart 27. New drawdowns of housing loans, cumulative sum



The annual change in time deposits was negative throughout 2013. In December, the stock of time deposits was 18% smaller than a year earlier. The stock of deposits with an agreed maturity of up to 1 year accounted for 60% of the deposit stock.

Households have shifted funds from time deposits to overnight deposits.

Chart 28. Households deposits with an agreed maturity

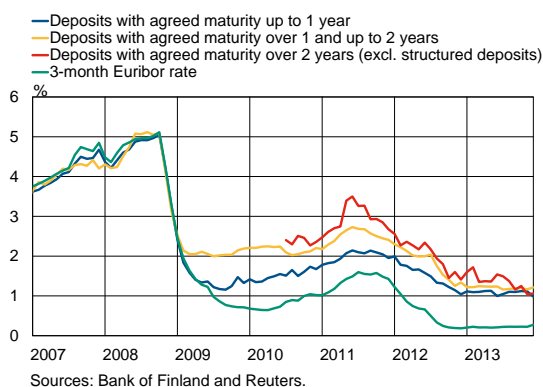


According to Statistics Finland's financial accounts data, households' net investment in funds were positive in all three quarters of 2013. Net investment in quoted shares grew markedly in the first quarter, but was negative in the second and third quarters.

The majority of household deposits have fixed interest rates, since the interest rates on time deposits are primarily fixed for the entire deposit period. 46% of overnight deposits are tied to fixed interest rates.

Deposits with a variable interest rate and agreed maturity consist primarily of so-called structured deposits, which are most often counted as long-term time deposits with a maturity of over 2 years. The return on structured deposits consists of a low-interest fixed return component and a bonus component tailored to generate a potential additional return. It is possible to achieve even a high return on such a deposit if the underlying index, equity basket or derivative performs favourably. At the end of 2013, the stock of structured deposits amounted to EUR 572 m, which is slightly less than a year earlier.

Chart 29. Average interest rates on households' new deposits with an agreed maturity



4.1.2 Debt securities

Compared with 2011 and 2012, the stock of debt securities issued by credit institutions grew moderately in 2013, by slightly over EUR 1 bn.

The total stock of debt securities issued by credit institutions was just under EUR 89 bn at end-2013. Of this, deposits banks accounted for slightly less than EUR 60 bn and other credit institutions for slightly over EUR 29 bn. Since other credit institutions than deposit banks are not authorised to accept deposits

from non-MFIs, they fund their activities via debt securities or intra-group loans.

At the end of 2013, over 300 credit institutions had reported their balance sheet data to the Bank of Finland, and 53 of these had debt security issuances recorded in their balance sheet. The issuances concentrated on the five largest institutions, which accounted for over 90% of the total stock of debt securities issued.

Certificates of deposit

Debt securities issued are broken down by original maturity in short- and long-term instruments. Short-term debt securities, ie certificates of deposit (CDs), have an original maturity of one year or less.

The stock of CDs issued by credit institutions contracted in 2013 by about EUR 1.5 bn, to EUR 20.5 bn. The markets for CDs are highly concentrated, as the four largest issuers account for almost 95% of all CDs.

The stock of euro-denominated CDs declined during 2013 by almost EUR 2 bn, whereas the stock of CDs denominated in other currencies remained unchanged. At end-2013, euro-denominated CDs accounted for 40% of the total stock.

The stock of CDs denominated in currencies other than the euro totaled EUR 12.5 bn at the end of 2013. Pound sterling was the most prominent of the individual currencies, with a share of over EUR 74% of the foreign currency-denominated CD stock. It was followed by the US dollar, which accounted for 22% of the stock. However, the share of pound sterling CDs contracted clearly from 2012, by 8 percentage points, whereas the share of US dollar CDs increased by over 8 percentage points. Since CDs have short maturities

of less than one year, the nominal currency breakdown may change rapidly.

At the end of 2013, the average original maturity²⁶ of the outstanding CD stock was 5.5 months. The average remaining maturity was 79 days, compared to 75 days a year earlier in end-2012.

Table 2. Stock of credit institutions' certificates of deposit by original and remaining maturity at end-2012 and end-2013. EUR bn

	Original maturity		Remaining maturity	
	2012/12	2013/12	2012/12	2013/12
Up to 3 months	5 369	6 117	15 467	15 055
3 months and up to 6 months	9 945	9 726	5 713	4 398
6 months and up to 9 months	3 833	1 441	722	1 043
9 months and up to 12 months	3 120	3 566	364	353
Total	22 266	20 849	22 266	20 849

Source: Bank of Finland.

Bonds

At the end of 2013, 51 credit institutions had long-term debt securities with a maturity of over 1 year, ie bonds, in their balance sheet. The combined balance sheet value of bonds was EUR 68 bn. The balance sheet value increased by EUR 2.6 bn from the previous year. Covered bonds accounted for almost EUR 28 bn of the stock at end-2013. New covered bond issuances amounted to EUR 3.5 bn in 2013. Covered bonds are issued almost entirely in the international markets.

Similar to CD markets, bond markets are also highly concentrated. The five largest issuers account for over 91% of all bonds.

Bonds vary significantly in terms of the interest paid on the investment. Various interest calculation models have been developed alongside the traditional fixed coupon model. Fixed coupon rate was the most common basis of interest determination, with a share of over 58% at end-2013. Floating interest rates were also popular, accounting for almost 25% of the stock. The proportion of index-linked bonds contracted

²⁶ Average maturity weighted by the volume of the stock.

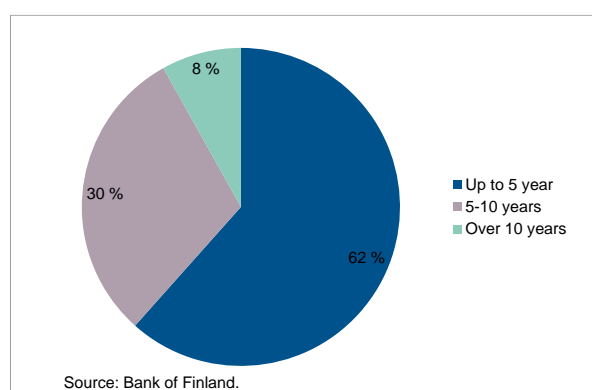
slightly, making them the third largest group with a share of over 7% in 2013. Other interest rate types accounted for less than 10% of the stock.

Credit institutions issued bonds in 20 different currencies. The majority of bonds, 64% (EUR 44 bn), were denominated in euro. 11% of bonds (almost EUR 8 bn) were issued in other EU currencies. Of these, the bulk consisted of bonds issued in Swedish krona and pound sterling. Non-EU currencies accounted for EUR 17 bn. Almost half of these were bonds issued in US dollar and over third consisted of bonds issued in Japanese yen and Swiss franc.

At the end of 2013, the average original maturity of outstanding bonds (calculated as the average maturity weighted by the volume of the stock) was slightly below 6 years and 6 months, compared to 6 years and 7 months a year earlier. The share of bonds with an original maturity of up to 5 years increased by over 3 percentage points from a year earlier, while the share of bonds with an original maturity of 5–10 years decreased by 2 percentage points. The proportion of bonds with over 10 years' maturity contracted by over one percentage point from the previous year.

EUR 10.5 bn worth of bonds issued by credit institutions will mature in 2014 and EUR 12 bn in 2015. The average remaining maturity of the bond stock was 4 years, compared to 4.5 years at end-2012.

Chart 30. Original maturity of bonds



5 Reporting entities

As in the previous years, the number of Finnish MFIs decreased further in 2013, particularly due to mergers among credit institutions.

At the end of 2013²⁷ there were 314 MFIs operating in Finland. Of these, 299 were credit institutions, 12 money market funds and two electronic money institutions. The MFI sector also includes the Bank of Finland. The MFI sector contracted by 12 credit institutions during the year, mainly due to mergers of cooperative banks. There was also a merger in the MFI sector which did not affect the number of credit institutions: a holding corporation outside the MFI sector (Aktia Plc) merged with its subsidiary (Aktia Bank Plc). Itella Bank Ltd was sold to the Savings Bank Group in spring 2013. The bank's name was changed to Central Bank of Savings Bank Finland Ltd (Säästöpankkien Keskuspankki Suomi Oy), and it operates as the Savings Bank Group's central credit institution.

Two new credit institutions commenced operations and one was closed down. Bonum Bank Ltd was granted a deposit bank authorisation at the end of the year. The bank operates as the central credit institution of POP Banks. In order to create the central credit institution, POP Bank Association acquired ACH Finland that operated as a payment institution before obtaining its bank authorisation. Two electronic money institutions were added to the list of MFIs in 2012. This was due to the revision of the ECB

²⁷ An up-to-date list of Finnish MFIs is available at the Bank of Finland's website at Finland's website at

definition of MFIs, as a result of which companies whose primary activity consists of the issuance of electronic money are to be classified as MFIs.

Electronic money institutions do not have a credit institution's authorisation.

At the end of 2013, there were 6,716 credit institutions in the euro area. Germany had the most MFIs among the euro area countries, as many as 1,842. It was followed by Austria, Italy and France. The euro area countries had 814 money market funds. The highest number of money market funds was registered in France, Luxembourg and Ireland.

Chart 31. Number of MFIs in euro area, end 2013

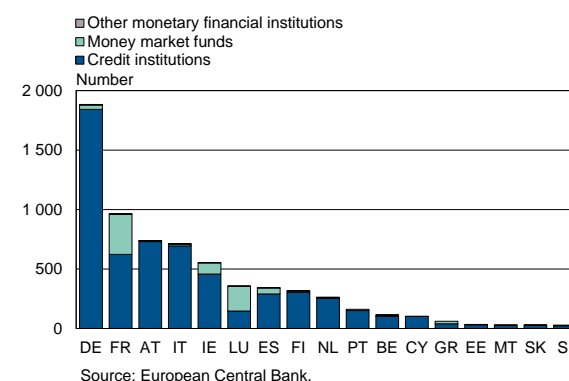


Table 3. . MFIs commencing operations in Finland in 2013

Name of MFI	Time
Avida Finans AB	October
Bonum Pankki Oy	November

Source: Bank of Finland.

(http://www.suomenpankki.fi/en/tilastot/tase_ja_korko/Pages/rahalai_toslista.aspx)

Table 4. Units exiting in Finnish MFI sector in 2013.

Name of MFI	Time
Nets Oy	April

Source: Bank of Finland.

Table 5. Credit institutions merged in 2013

	Name of MFI	Time
M	Längelmäen Säästöpankki	March
R	Säästöpankki Sinetti	
M	Parkanon Säästöpankki	April
R	Oma Säästöpankki	
M	Forssan Seudun Osuuspankki	August
M	Somerniemen Osuuspankki	
M	Someron Osuuspankki	
R	Lounaismaan Osuuspankki	August
M	Hellanmaan Osuuspankki	
R	Lapuan Osuuspankki	September
M	Keikyän Osuuspankki	
R	Satakunnan Osuuspankki	September
M	Ähtärin Osuuspankki	
R	Etelä-Pohjanmaan Osuuspankki	September
M	Uukuniemen Osuuspankki	
R	Kesälahden Osuuspankki	September
M	Sideby Andelsbank	
M	Övermark Andelsbank	
R	Körsnäs Andelsbank	November
M	Mutual Fund eQ Short-Term Money Market	
R	Mutual Fund eQ Money Market (UCITS)	December
M	Hauhon Osuuspankki	
M	Hämeenlinnan Osuuspankki	
M	Lopen Osuuspankki	
R	Etelä-Hämeen Osuuspankki	December
M	Ikaalisten Osuuspankki	
M	Karvian Osuuspankki	
R	Satapirkan Osuuspankki	

M = Merged MFI

R = Receiving MFI

Source: Bank of Finland.

Box 4. Bank of Finland's statistical data collection system relating to MFIs

The Bank of Finland changed over from a traditional table-based reporting to a record-based reporting in summer 2010. As a result, the Bank of Finland became responsible for part of the reporting obligations that previously fell on the reporting entities.

The Bank of Finland collects data from reporting entities (credit institutions and the Bank of Finland) on a monthly basis via a record-based data collection scheme (known as MFI data collection).²⁸ In a record structure-based reporting, the surveyed phenomenon is broken down into different dimensions, which are in turn broken down into independent classifications required by the statistics. The classifications are determined on the basis of separate code lists. Record-based reporting increases substantially the amount of data to be reported, but at the same time it enables flexible and appropriate combination of classifications. The MFI data collection is used to derive data for several different statistics: the ECB's balance sheet and interest rate statistics, BIS banking statistics, balance of payments and financial accounts. A record structure includes a separate record for loans and deposits, for securities and for other assets and liabilities.

Reporting entities submit their monthly reports with a maximum lag of 10 working days. The data collection service linking the Bank of Finland and the

reporting entities checks the correctness of the submitted data to verify that the data conform to the required classifications and validation rules. Reports that pass the validation check are transmitted further to the Bank of Finland.

At the Bank of Finland, the reports are processed on a statistical information system. The reported classification categories are aggregated, since the reporting entities can report certain classifications in a more detailed level than is required.

The MFI data collection system is based on a comparison of consecutive months' balance sheet data. Each reported data element is either new (not reported in the previous period) or recurrent (reported in the previous and the new period). Discontinued rows (reported in previous but not in the new period) are also specified. These data are used in the calculation of flows.

The contents of credit institutions' security portfolios are reported on a security-by-security basis. The Bank of Finland is responsible for classifying securities with an ISIN code. Security-related data are classified via enrichment, ie the necessary information is retrieved with a classification key (ISIN code or business ID). Data relating to a domestic business ID are enriched with information obtained from Statistics Finland's Business Register, while for ISIN code-related data the information is obtained from the ECB's Centralised Securities Database. In the case of securities without an ISIN code, the reporting entities

²⁸ This box describes processing (excluding quality control) of monthly data on the statistical information system. Excluded are also the processing of quarterly data of reporting entities with

derogations from reporting requirements, and money market funds for which the data are collected via the investment funds data collection scheme.

are responsible for the classification. Over 90% of the value of the aggregated security portfolio is classified at the Bank of Finland.

Registers are authorities' databases, and classification information – eg issuer sector – may differ among the various authorities. In enrichment, the Bank of Finland relies primarily on the Statistics Finland's Business Register and secondarily on the ECB's database. If the information is not available in either of these, the reporting entity's own information is used, if this has been provided. This practice ensures that securities are classified as uniformly as possible.

Once the data have been classified (in September 2013, the statistics comprised information in 652,003 rows), a three-phase calculation commences. At the calculation stage, volume data from the previous month and exchange rate data are used.

The first phase involves calculation of temporary variables for the calculation of valuation changes. Such variables are eg a security's balance sheet price at month-end and mid-month price and, for each row, the permanent and changing balance sheet amount.

The second phase involves calculation of valuation changes, which means exchange rate and price changes in the case of securities and exchange rate changes in the case of loans and deposits.

Prior to the final phase, ie the calculation of flow data, other changes, or reclassifications, are added to the information system, if needed. Other changes refer to changes in assets and liabilities which do not arise from actual transactions.²⁹ Other changes are obtained from the reporting entities or the Bank of Finland estimates them itself. In the case of securities, the system automatically calculates other changes if the

information enriched via registers has changed between months.

In the third calculation phase, flow data are calculated for each balance sheet item. This is obtained as a residual item by deducting, from the end-month stock, the stock at the end of the previous month, valuation changes and other changes. For securities, the Bank of Finland also calculates monthly dividends and interest paid

²⁹ Reclassifications or other changes arise for example from changes in sector and instrument classifications, the structure of MFI population and accounting practices.

Appendix 1. Charts

Chart 32. Aggregated balance sheet of Finnish MFIs (excl. Bank of Finland)

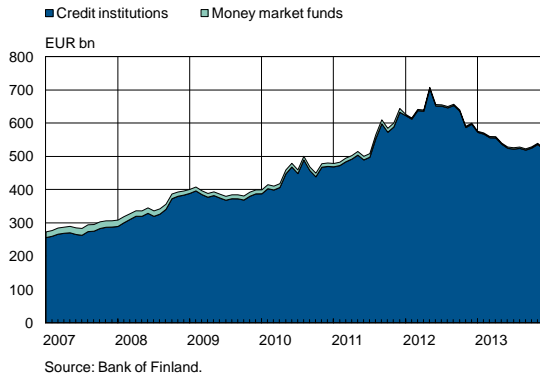


Chart 35. Stock of housing loans by reference rate

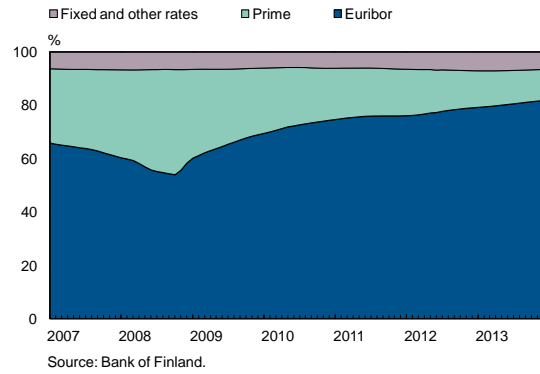


Chart 33. Loans to non-MFIs by sector

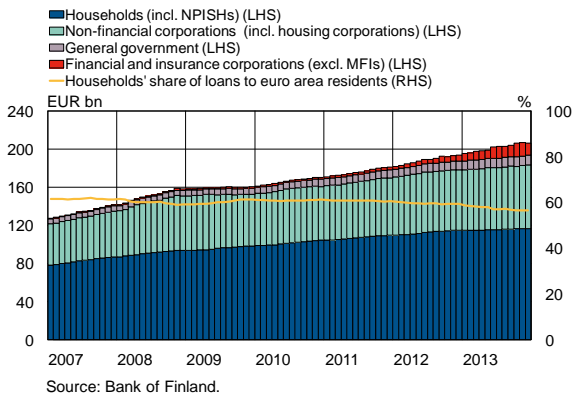


Chart 36. Average interest rate on housing loan stock by interest rate linkage

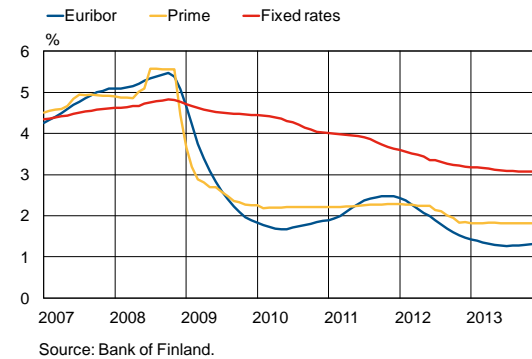


Chart 34. Stock and average interest rate on housing loans

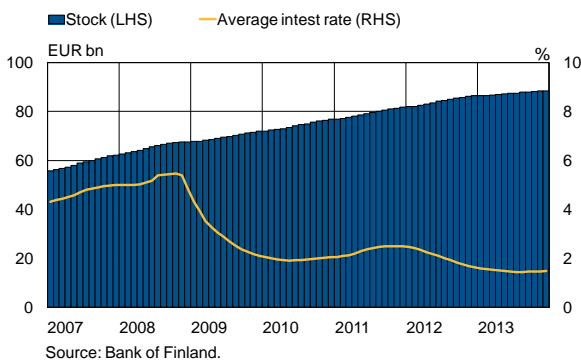


Chart 37. Volume and average interest rate on new drawdowns of housing loans

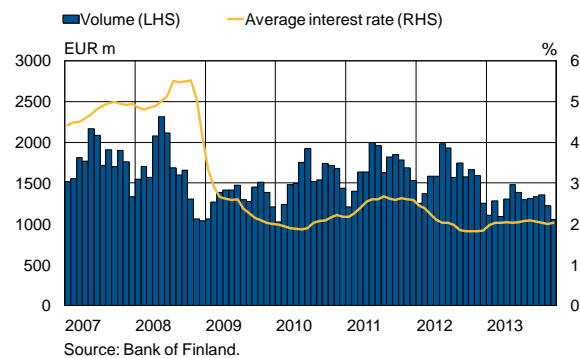


Chart 38. Stock and average interest rate on consumer credit to households

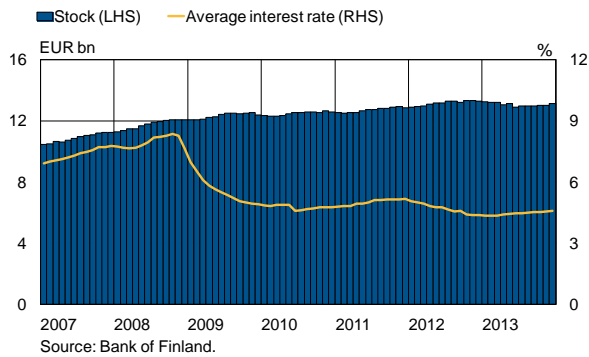


Chart 41. Average interest rate on new business on loans to non-financial corporations with initial rate fixation of up to 1 year, by loan size

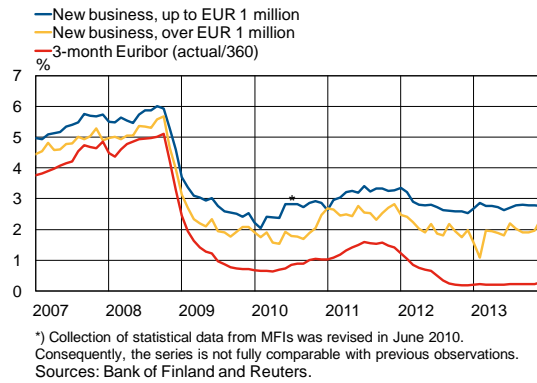


Chart 39. Stock and average interest rate on student loans

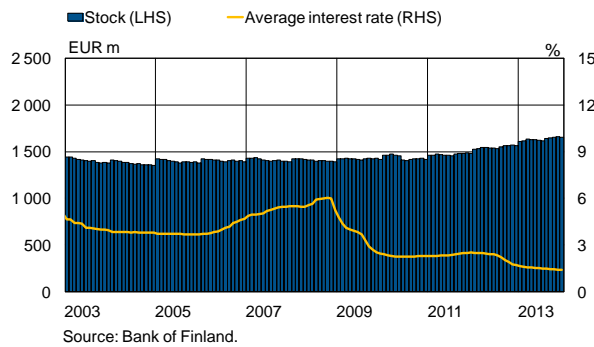


Chart 42. Stock of loans to housing corporations and its share in total corporate loan stock

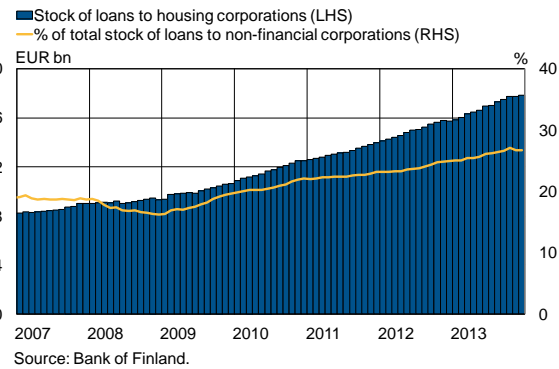


Chart 40. New business on loans to non-financial corporations of over EUR 1 million, 2009-2013

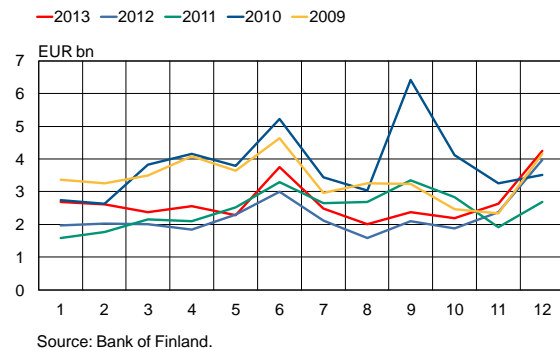


Chart 43. Non-MFI deposits by sector

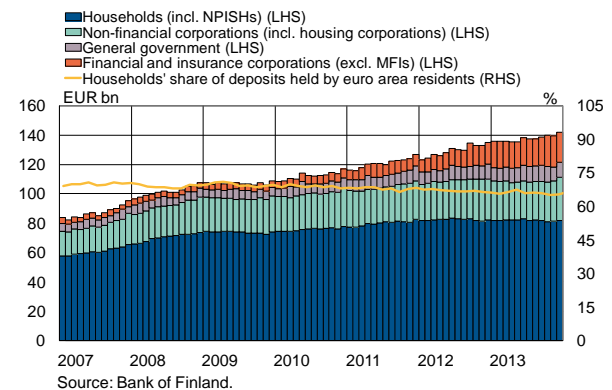


Chart 44. Stock of loans to sole proprietors by industry

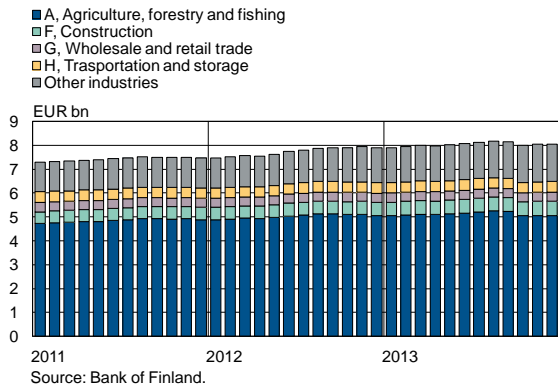


Chart 47. Average interest rate on non-MFI deposit stock by reference rate

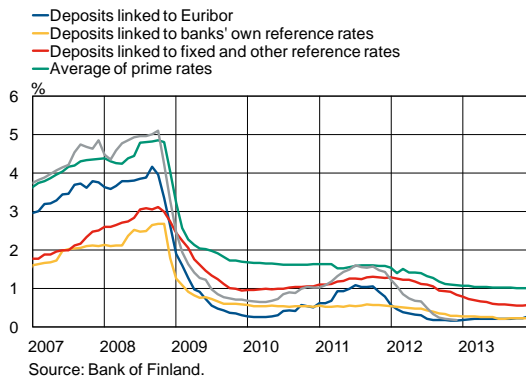


Chart 45. Annual growth and average interest rate on non-MFI deposits

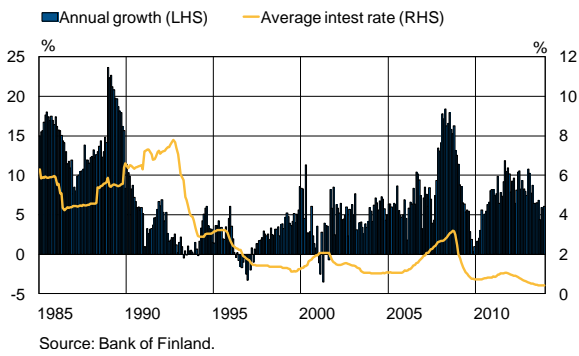


Chart 48. Average interest rates on household deposits in Finland and euro area

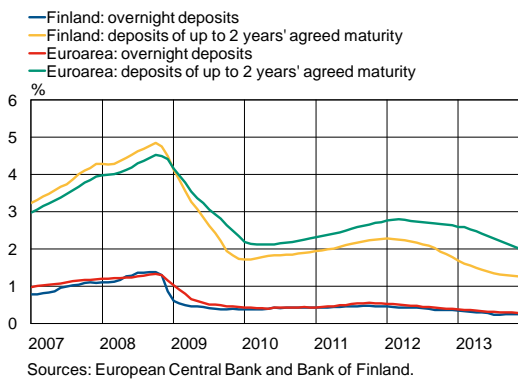


Chart 46. Deposits by euro area non-MFIs by interest rate linkage

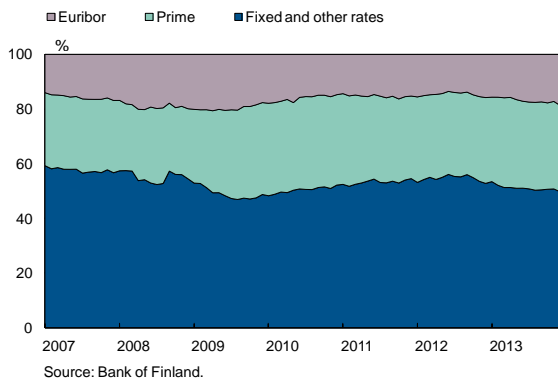


Chart 49. Annual growth of deposit stock of Finnish non-financial corporations by claim

