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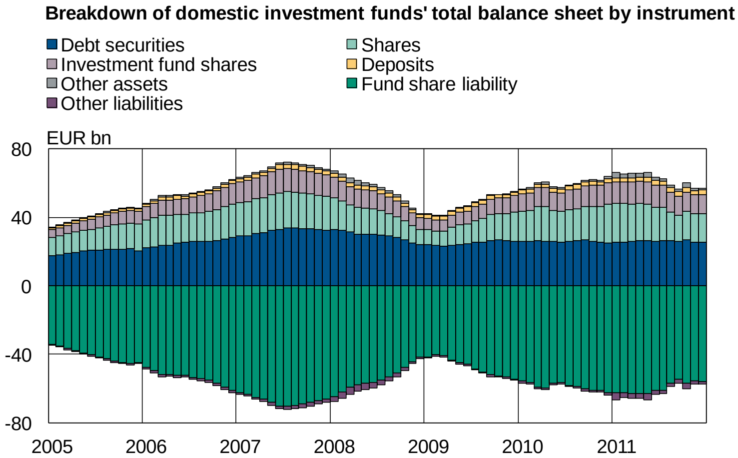
Annual Review • 2011



Sources: Statistics Finland and Bank of Finland.

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Financial Stability and Statistics

Statistics

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Summary

Deepening of the government debt crisis and slow-down in the Finnish economy in 2011 had only a minor impact on the development of loans granted by monetary financial institutions (MFIs) to non-MFIs and developments in non-MFI's deposits and securities holdings. In contrast, the increased general uncertainty had a major impact on the development of inter-MFI loans and deposits, the stock of derivatives held by MFIs, and investment funds. Investment funds' capital contracted substantially in 2011, mainly on the back of decreased equity market values.

Loans granted by MFIs to non-MFIs outside Finland exhibited strong growth in 2011. This was largely due to a significant increase in repo agreements made with extra-euro area non-financial corporations, insurance corporations and central counterparties. As a result of the growth in loans granted outside Finland, derivatives and inter-MFI items, the aggregated balance sheet of MFIs expanded in 2011 faster in Finland than in any other euro area country.

Growth of the domestic non-MFI loan stock continued steadily in 2011. The growth was supported by the non-financial corporation and household sectors. However, the loan stock grew more slowly than in the pre-financial crisis years.

The stable growth of the households' loan stock slowed down somewhat towards the end of the year. However, growth was faster in Finland than in the euro area on average. The growth of the loan stock was sustained by housing loans. The increase in economic uncertainty and downturn in house prices towards the end of the year were not reflected in the growth of housing loans.

Drawdowns of housing loans reached the highest level since the record year 2007. The level of interest on new housing loans was lower in Finland than in the euro area on average. This was primarily due to the fact that a majority of new housing loans are linked to Euribor rates in contrast to many other euro area countries where housing loans are typically linked to longer reference rates. In 2011, new housing loans were also linked to other reference rates more than in previous years. Towards the end of the year, margins[1] on new housing loans increased somewhat. The stock of loans to non-financial corporations began to expand in 2011, and the growth continued steadily throughout the year. In contrast, in many other euro area countries, the stock of corporate loans contracted or grew modestly. Loans with an original maturity of over a year increased, while the stock of short-term loans with a maturity of less than a year remained unchanged. Loans were drawn primarily for operating capital needs and for financial restructuring arrangements.

In 2011, loans to housing corporations continued to increase faster than loans granted to other non-financial corporations. However, growth had clearly dampened from the previous years. The strong growth of loans to housing corporations was supported by government-subsidised housing construction.

Key funding sources for MFIs comprise deposits and debt securities issued. Households are the most important depositor sector. Household deposits cover two thirds of all deposits by non-MFIs. The deposit

[1] Imputed margin = weighted average interest rate reported by MFIs – weighted average of the reference rates.

stock began to grow in the first half of 2010 faster than the non-MFI loan stock. In 2011, the expansion of the deposit stock continued to accelerate, while the growth of the loan stock remained constant.

Household deposits are mainly in current accounts paying very low rates. Towards the end of the year, interest rates on deposits with an agreed maturity increased and they received more assets while households redeemed their assets from investment funds. At the end of the year, the growth accelerated and deposits with an agreed maturity covered almost a third of all household deposits. The stock of structured deposits began to contract in 2011. The interest on structured deposits consists of a fixed rate, which is typically very low, and a potential bonus interest, which is linked to an index or basket.

Another important source of funding for banks is debt securities issued by them. MFIs in many countries experienced difficulties in 2011 in raising funding from the markets. Despite the difficult situation, in Finland banks were able to raise market-based funding particularly during the early part of the year. Bond emissions were largely covered by mortgage collateral. In Finland, the stock of bonds expanded materially in 2011.

The aggregated balance sheet of investment funds (incl. money market funds) contracted in 2011 by about a tenth, which was largely driven by a decline in the value of shares held by the funds. Redemptions of fund shares also exceeded subscriptions in 2011.

In the midst of the market turbulence, investment funds liquidated their share holdings in order to fulfil investors' redemption orders. Increased propensity to invest in lower risk assets was shown as positive net subscriptions in money market funds, which lead to an increase in net investments in debt securities and deposits.

In 2011, domestic investor sectors redeemed more investment fund shares than they subscribed. In contrast, foreign investors' net investments were positive and mostly from Sweden. The proportion of Swedish ownership amounts to almost a fifth in Finnish investment funds.

From the returns perspective, 2011 was an unfavourable year for investment funds. Only slightly fewer than a quarter of domestic investment funds achieved a positive annual return. As a fund type, money market funds and bond funds reached positive average returns.

1 Aggregated MFI balance sheet

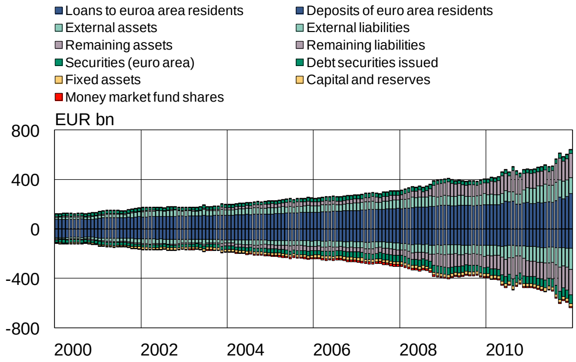
The aggregated balance sheet of Finnish monetary financial institutions (MFIs) at the end of 2011 amounted to a third more than a year earlier. The growth was driven particularly by a rise in the market value of derivatives and increased inter-MFI items.

At the end of 2011, the aggregated balance sheet of Finnish monetary financial institutions (MFIs)[2] stood at EUR 643 bn. The balance sheet total increased by EUR 162 bn, or 33% from a year ago. Growth of the MFI balance sheet in Finland was the fastest in the euro area. Credit institutions account for 98% of the aggregated MFI balance sheet. Annual growth of the aggregated balance sheet of money market funds turned positive in 2011 after three consecutive negative years, at 11%, primarily as a result of positive net subscriptions by investors.[3]

In Finland, the MFI balance sheet was boosted particularly by loans granted to the euro area, liabilities to outside the euro area and derivatives, which are included in other assets and liabilities. A large proportion of the extra-euro area assets and liabilities consisted of internal items within Nordic banking groups. At the end of 2011, about half of the extra-euro area assets and 70% of extra-euro area liabilities were intra-group items. Groups' internal extra-euro area liabilities are mainly channelled as deposits to other MFIs in Finland, particularly the Bank of Finland. Also a considerable proportion of loans and deposits between domestic MFIs consist of intra-group loans and deposits.

Recognised derivatives are entered in the aggregated balance sheet under other assets and liabilities. The proportion of derivatives is over 90% of the other assets and liabilities in Finland. Most of the derivatives are interest rate and currency derivatives whose balance sheet values change rapidly reflecting market volatility. The amount of derivatives on the assets and liabilities sides of the aggregated balance sheet are almost equal, hence they practically net to zero.

Chart 1. Aggregated balance sheet of Finnish MFIs (excl. Bank of Finland) by claim



Source: Bank of Finland.

The aggregated balance sheet of euro area MFIs contracted in January-August 2011 from a year earlier. The annual growth turned positive in September and accelerated to 4.7% in December. At the end of the year, the aggregated balance sheet stood at EUR 33,553 bn. Germany and France comprise half of the euro area total. Their proportion has remained stable although the German aggregated balance sheet has contracted since 2009 and only started growing in

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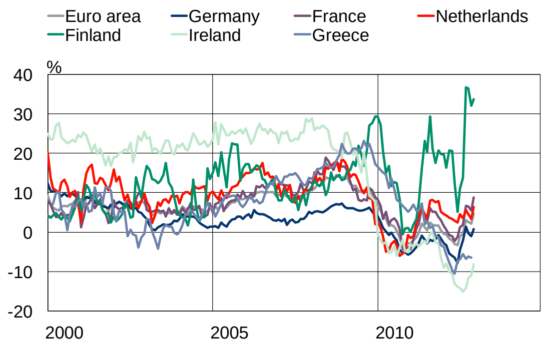
[2]Monetary financial institutions (excl. the Bank of Finland) include credit institutions and money market funds.

[3] Money market funds are discussed in more detail in chapter 4 in connection with other investment funds.

the latter half of 2011. Growth was very modest in France, too, but it accelerated towards the end of the year. Towards the end of the year, the annual growth of inter-MFI loans and/or deposits accelerated in addition to Finland in certain other countries (for example Germany, France, Italy, Belgium, Netherlands). In December, the annual growth of the aggregated balance sheet was boosted in most countries by faster growth in other assets and liabilities.

In contrast to most other euro area countries, derivatives are generally recorded in Finland in credit institutions' balance sheet. In recent years, the MFI balance sheet has been reduced in several euro area countries by the securitisation of loans and arrangements made in the banking sector during the financial crisis.

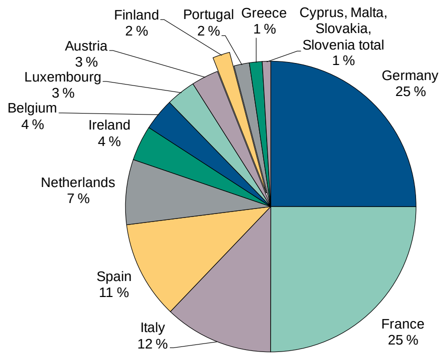
Chart 2. Annual growth of aggregated MFI balance sheet in certain euro area countries



Sources: European Central Bank and Bank of Finland.

Finland's proportion of the aggregated euro area balance sheet grew in 2011 from 1.5% to 1.9%. Portugal's and Greece's proportions fell below Finland's having stood at a slightly higher level only at end-2010. Other countries' relative proportions have remained unchanged.

Chart 3. Countries' proportions in aggregated euro area MFI balance sheet at end-2011

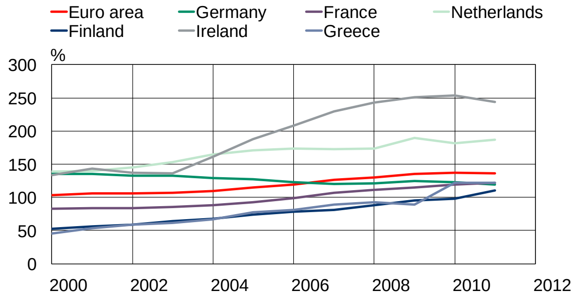


Sources: European Central Bank and Bank of Finland.

Size of the banking sector can also be described by comparing the non-MFI loan stock[4] to the gross domestic product. At end-2011, the Finnish non-MFI loan stock stood at EUR 213 bn and 111% relative to GDP. In 2011, the loan stock was boosted by repo agreements. These were made particularly with other financial institutions outside the euro area. The large volume of repo agreements expanded the loan stock relative to GDP by 10 percentage points. However, the non-MFI loan stock relative to GDP continues to be lower in Finland than in the euro area on average. Only in Belgium, Estonia, Slovakia and Slovenia, the MFI sector is smaller in this respect than in Finland. In Belgium, the loan stock has been reduced in recent years due to the securitisation of loans, which has also reduced the ratio of the loan stock to the GDP. In Finland, this ratio has risen since the beginning of the millennium faster than in most other euro area countries. In Greece, the loan stock grew in 2010 as banks were forced to enter securitised loans back into their balance sheets.

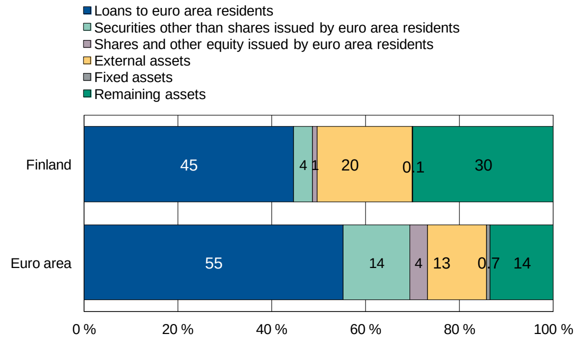
[4] The non-MFI loan stock includes all loans granted by MFIs to non-MFIs (general government, other financial institutions, non-financial corporations and households).

Chart 4. Non MFI-loans relative to GDP in certain euro area countries



For other countries than Finland, loan stock as at end-September 2011.
Sources: European Central Bank, Eurostat and Bank of Finland.

Chart 5. Breakdown of MFI assets by balance sheet item in Finland and euro area



Sources: European Central Bank and Bank of Finland.

The most significant item on the assets side of the MFI balance sheet was loans to the euro area, similarly to last year. In Finland, the item accounted for 45% of the aggregated balance sheet and in the euro area on average for 55% at the end of 2011. However, there are considerable differences across countries. In small euro countries where foreign ownership of the MFI sector is high, loans to the euro area are relatively a smaller item compared to countries with lower foreign ownership.

Finnish MFIs hold relatively less securities (11%) than euro area MFIs on average (14%). The relative proportion of securities in the balance sheet contracted by a few percentage points from the previous year both in Finland and in the euro area.

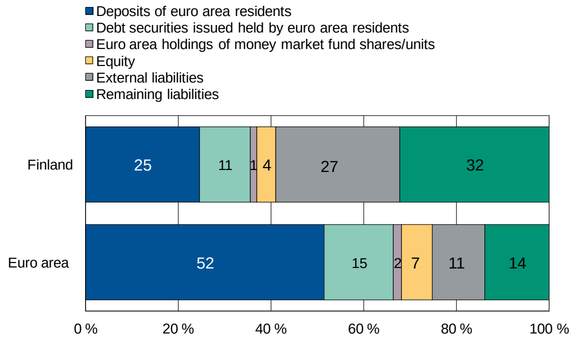
The largest changes in the relative proportions of the balance sheet items were seen in extra-euro area assets and other assets. The proportion of other assets increased by 6 percentage points to 30% as a result of growth in derivatives. The proportion of extra-euro area assets decreased by slightly less than 5 percentage points to 20%. These two items constitute much higher relative proportions in the balance sheet in Finland than in the euro area on average. The large proportion of the foreign items is explained by the high foreign ownership of MFIs and the inclusion of derivatives in the other assets item.

In Finland, breakdown of the liabilities side of the MFI balance sheet changed more materially than the assets side in 2011. Deposits from the euro area – covering on average half of the aggregated balance sheet in the euro area – were the third-largest liabilities item in Finland (25%), whereas a year earlier they were the largest item. In addition to traditional deposits, the item includes liabilities to the central bank, money market liabilities incl. repo sales, intra-group liabilities and borrowed loans. The second most significant deposit item after deposits by domestic non-MFIs is intra-group liabilities. Compared with other euro area countries, Finland had the lowest the proportion of deposits in the balance sheet.

At the end of 2011, the largest balance sheet item in the liabilities side were other liabilities, accounting for about a third of the aggregated balance sheet. This is due to an increase in the amount of derivatives, which is primarily explained by changes in market values, but growth of the contract stock has also contributed to the growth. In the euro area, other liabilities only covered an average of 15% of the aggregated balance sheet. Liabilities to outside the euro area also grew in relative terms in the aggregated balance sheet, and they were the second-largest balance sheet item (27%). This reflected particularly the growth in intra-group items. Foreign liabilities account for a good 10% of the balance sheet in the euro area on average.

Issued debt securities are another important means of funding along deposits for MFIs. In Finland, they accounted for a good 10% of the balance sheet, while the average proportion in the euro area was 15%. In Austria, Italy and Netherlands, debt securities comprise a fifth or more than a fifth of the aggregated balance sheet.

Chart 6. Breakdown of MFI liabilities by balance sheet item in Finland and euro area



Sources: European Central Bank and Bank of Finland.

Table 1. Aggregated MFI balance sheet[1] (excl. Bank of Finland), EUR m

	Credit institutions		Money market funds		Total	
	2010	2011	2010	2011	2010	2011
Assets						
Loans to euro area residents	215 130	286 215	292	527	215 423	286 742
Securities other than shares issued by euro area residents	17 460	20 247	5 249	5 827	22 709	26 075
Shares and other equity issued by euro area residents	6 250	6 296	0	0	6 250	6 296
External assets	114 579	124 796	4 730	5 057	119 309	129 853
Fixed assets	718	707	0	0	718	707
Remaining assets	115 990	192 671	30	12	116 020	192 683
Total assets	**470 128**	**630 932**	**10 301**	**11 423**	**480 429**	**642 355**
Liabilities						
Deposits of euro area residents	143 880	157 868	0	0	143 880	157 868
Debt securities issued held by euro area residents	59 855	70 277	0	0	59 855	70 277
Money market fund shares held by euro area residents	0	0	8 039	8 898	8 039	8 898
Capital and reserves	24 984	25 891	0	0	24 984	25 891
External liabilities	112 560	170 224	2 184	2 454	114 744	172 678
Remaining liabilities	128 849	206 672	78	71	128 926	206 743
Total liabilities	**470 128**	**630 932**	**10 301**	**11 423**	**480 428**	**642 355**

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

Source: Bank of Finland.

At the end of 2011, MFIs had 1,527 branches, 28 fewer than a year earlier. The number of personnel had also been reduced. At the end of 2011, MFIs had 24,607 employees, 361 fewer than at the end of the previous year.

2 Loans to non-MFIs and securities-based assets

2.1 Non-MFI loan stock

Annual growth of the non-MFI loan stock continued steadily in 2011. The annual growth rate of 6% was particularly driven by the household and non-financial corporation sectors.

The stock of loans granted by Finnish MFIs to non-MFIs[5] at the end of December 2011 totalled EUR 213 bn. Loans to households[6] constitute a majority of the non-MFI loan stock. At the end of 2011, 52% or EUR 110 bn of the non-MFI loan stock consisted of household loans. The relative importance of household loans was reduced in 2011: for a long period of time, 60% of non-MFI loans granted by Finnish MFIs were household loans. Finnish MFIs grant loans primarily to Finland: in December 2011, 86% of the non-MFI loan stock was granted to Finland, 2% to other euro area countries and 12% to extra-euro area countries. The relative proportion of foreign loans increased considerably in 2011, since loans granted to Finland accounted for 96% of the stock in late 2010. As regards foreign countries, loans have been granted primarily to other Nordic countries and euro area countries. EUR 3.6 bn or 2% of the loans were granted outside Europe. Foreign borrowers from Finnish MFIs consist primarily of other financial institutions than MFIs, insurance corporations and non-financial corporations. At the end of the year, 89% of the non-MFI loans were in euro, whereas a year earlier euro-denominated loans accounted for 97%.

The main reason underlying the change in the structure of the non-MFI loan stock in 2011 was rapid growth in repo agreements.[7] Previously, repo agreements had been made primarily by MFIs amongst themselves. Lately, counterparties have included insurance corporations and separate central counterparties acting as brokers towards the ultimate counterparties, included in non-MFIs. A significant proportion of repos included in the non-MFI loan stock are in foreign currencies and concluded with extra-euro area counterparties. Therefore, the rapid expansion of repo agreements have an impact on the currency and country breakdown of Finnish MFIs stock of loans to non-MFIs, which tends to be concentrated on Finland and euro-denominated loans. Annual growth of the non-MFI loan stock decelerated almost throughout the year. The annual growth in euro-denominated loans granted by Finnish MFIs to euro area non-MFIs that has accelerated from the latter half of 2009 reached its peak since the financial crisis of 2008 in December 2010 at 6.8%. In August 2011, the annual growth rate had slowed down to 5.5% but it accelerated again to

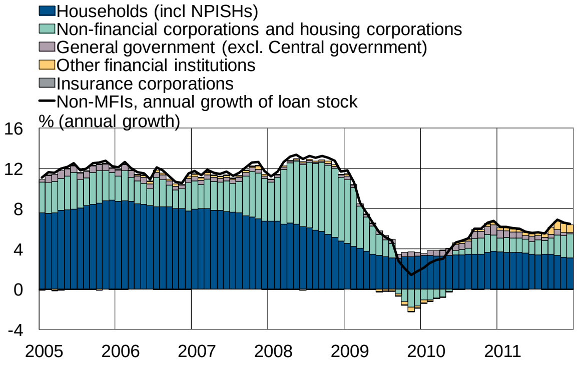
[5] Non-MFIs comprise other entities than MFIs: households, non-financial corporations, general government, insurance corporations and other financial institutions.

[6] The sector also includes non-profit institutions serving households (NPISHs). These however account for a very small proportion of the household sector, about 2%.

[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.

6.5 during the rest of the year. Growth was clearly below the average annual rate of 12% seen in 2005–2008. In 2011, the stock of euro-denominated loans to non-MFIs in the euro area grew on average 6.1%, totalling EUR 181 bn at the end of the year (Chart 7).

Chart 7. Annual growth of euro-denominated euro area non-MFI loan stock by sector



Source: Bank of Finland.

Growth of the loan stock was sustained by the household and non-financial corporation sectors. Furthermore, the acceleration of the growth of the loan stock towards the end of the year was driven particularly by repo agreements made primarily with the non-financial corporation and other financial institutions sectors.

In recent years, the non-MFI loan stock has grown faster in Finland than in the euro area on average. In 2011, the stock of euro-denominated loans to non-MFIs in the euro area[8] granted by euro area MFIs grew on average 2.3%, totalling EUR 10,702 bn at the end of the year. Finland accounted for slightly less than 2% of this loan stock.

[8] Excluding general government.

2.2 Loans to households

Rapid growth of the household loan stock continued in 2011. Housing loans were drawn down actively. In December, 45% of new housing loans were linked to the 12-month Euribor rate. Growth of the consumer credit stock accelerated for the first time in five years.

Loans granted by Finnish MFIs to households[9] are divided into housing loans, consumer credit and other loans, including for example student loans and loans for holiday residences. At the end of 2011, the stock of euro-denominated household loans stood at EUR 110 bn, EUR 5.3 bn higher than at the end of 2010. Housing loans accounted for EUR 82 bn, or 75% of the household loan stock, consumer credit to EUR 13 bn, or 12%, and the remaining EUR 15 bn consisted of other loans.

The household loan stock continued its steady growth at an annual rate of 5.9% in 2011. However, the growth slowed down slightly towards the end of the year. A year earlier, the annual growth rate was 5.7%. However, recent years' growth was modest compared with the years of rapid growth in the 2000s: in 2004–2008, the household loan stock grew at an annual rate of 13% on average.

Growth of the household loan stock continued to be faster in Finland than in the euro area on average. In the euro area, the loan stock grew by 2.9% on average in 2011. In the euro area, the annual growth of the loan stock decelerated towards the end of the year similarly to Finland. In the second half of 2011, consumer

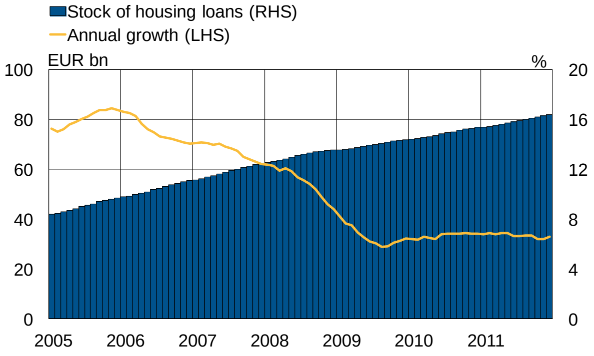
[9] Including non-profit institutions serving households (NPISHs).

confidence began to deteriorate both in Finland and the euro area.[10]

2.2.1 Housing loans

At the end of 2011, the stock of housing loans granted by Finnish MFIs stood at EUR 82 bn, and the annual growth rate in 2011 averaged 6.7%. Growth of the housing loan stock was stable already for the second consecutive year (Chart 8).

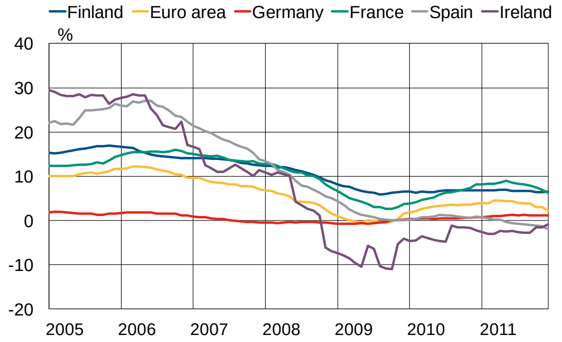
Chart 8. Stock and annual growth of housing loans in Finland



Source: Bank of Finland.

The annual growth of the housing loan stock in Finland remained faster than in the euro area on average. In 2011, the average growth rate of the housing loan stock stood at 3.8%. However, the average growth rate in the euro area in 2011 accelerated more from a year ago than in Finland. The average growth rate for the euro area was dampened by modest growth rates in large countries, such as Germany and Spain. In Spain, the housing loan stock as measured by annual growth in fact contracted in 2011. Consequences of a protracted financial crisis and bursting of a housing bubble due to unsustainable valuation levels are still reflected in the development of the Irish housing loan stock.[11] The demand for housing loans in the country remains muted and annual growth has stayed negative (Chart 9).

Chart 9. Annual growth of housing loan stock in Finland and euro area countries



Sources: European Central Bank and Bank of Finland.

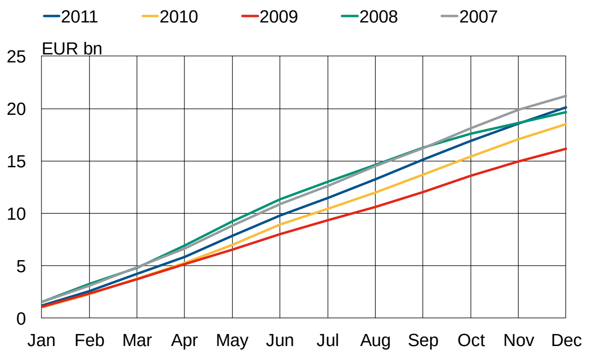
In 2011, Finnish households drew down new housing loans in the amount of EUR 20 bn, that is, on average EUR 1.7 bn a month, and new business on housing loans amounted to EUR 22 bn.[12] In 2010 new drawdowns of housing loans amounted to slightly less than EUR 19 bn, that is, EUR 130 m a month less on average than in 2011. In Finland, more housing loans have been drawn during the five last years only in 2007, when the drawdowns reached a record high (Chart 10).

[10] European Commission (December 2011) Consumer Confidence Indicator.

[11] In Ireland, the housing loan stock has also been reduced as housing loans have been securitised and transferred out of MFI balance sheets into special purpose vehicles.

[12] New drawdowns include loans (new or old) 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.

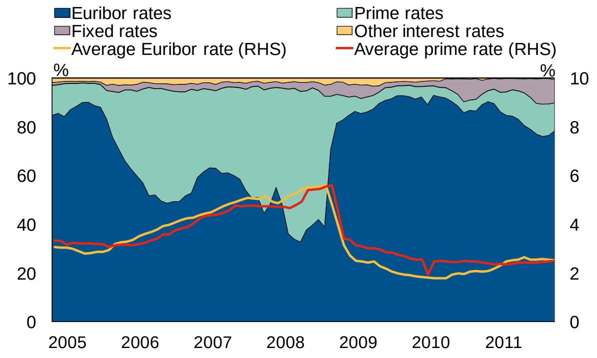
Chart 10. New drawdowns of housing loans annually cumulated



Source: Bank of Finland.

Households in Finland link their housing loans primarily to Euribor rates. In 2011, 82% of new business on housing loans were linked to one of the Euribor rates. In new business on Euribor-linked housing loans, the most popular interest rate linking period continues to be 12 months. In December, in 45% of Euribor-linked housing loans the interest rate was fixed for 12 months. The next most popular (37%) interest linking period in Euribor rates is 3 months. Euribor rates lost some of their popularity as a reference rate for housing loans from the previous year: in 2010, 90% of housing loans were linked to Euribor rates. In 2011, banks' own reference rates and fixed rates increased in popularity. During the year, 11% of housing loans were linked to prime rates and 7% to fixed rates (Chart 11).

Chart 11. Interest rate linkages of new business on housing loans



Source: Bank of Finland.

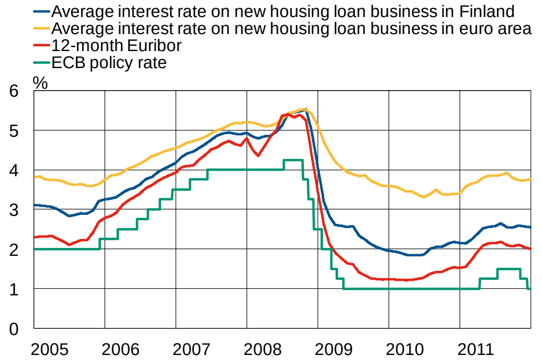
The intense expansionary monetary policy launched in 2008 pushed short-term market rates and therefore also average interest rates on new business on Finnish housing loans into a steep decline. The cheap Euribor rates relative to prime rates and expectations of continued decline of market rates lead to a collapse in the popularity of housing loans linked to prime rates in 2009. The rebound in market rates in summer 2010 contained the growth of the popularity of Euribor-linked housing loans. In 2011, new business on housing loans linked to prime rates became cheaper than Euribor-linked loans, and their popularity increased as a result.

In Finland, the average interest rate on new business on housing loans remained lower than in the euro area on average in 2011. In Finland, the average interest rate on new business on housing loans in December 2011 stood at 2.55%, compared to the euro area average of 3.76%. Both in Finland and in the euro area, interest rates on housing loans increased on average in the first half of 2011 driven by an increase in market rates (Chart 12).[13] In Finland, interest rates on new business on housing loans are more susceptible to swings in short-term market interest rates in

[13] For more information on housing lending in the euro area, see Bank of Finland Financial Market Report 1/2012.

comparison with many euro area countries, since in Finland a relatively higher proportion of housing loans is linked to floating interest rates with short interest linkage periods. In many euro area countries, housing loans are linked to fixed rates where the interest rate is agreed for several years at a time.

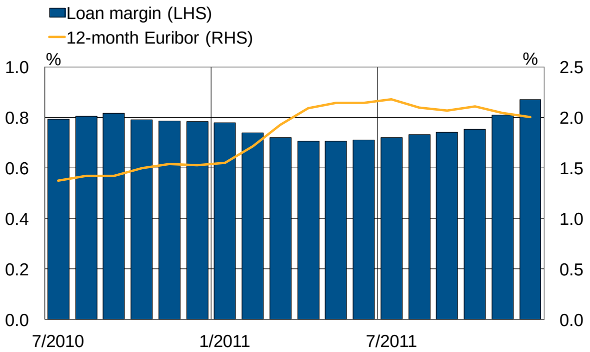
Chart 12. Interest rates on new housing loan business in Finland and euro area



Sources: European Central Bank, Bank of Finland and

In 2011, the average imputed margin[14] on Finnish credit institutions' new drawdowns on housing loans was 0.75%. In the early part of the year, the margin narrowed slightly as short-term market rates increased more than interest rates on new drawdowns on housing loans. At its narrowest, the average margin was 0.71% in the spring. After the increase of short-term market rates came to a halt, the margin remained unchanged until it widened as market rates began to decline. In December, the imputed loan margin was 0.87% (Chart 13).

Chart 13. Imputed margin on new drawdowns of housing loans



Source: Bank of Finland calculations.

At the end of 2011, Finnish credit institutions had a total of 1,421,804 household customers with a housing loan. The average amount of housing loan was EUR 57,000 per customer. According to a study by the Federation of Finnish Financial Services, the average amount of housing loan drawn down during the two last years was about EUR 110,000.[15]

2.2.2 Household consumer credit

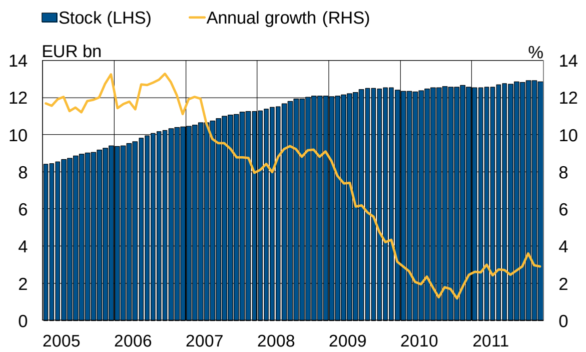
The stock of consumer credit granted by Finnish credit institutions to households stood at slightly below EUR 13 bn in December 2011, EUR 0.3 bn more than a year earlier. The average annual growth of the consumer credit stock in 2011 was 2.8%, meaning that it accelerated for the first time in five years. However, the annual growth of the stock was still clearly slower than in 2004–2008, when it grew at an average annual rate of 11% (Chart 14). Consumer credit is granted to households also by others than MFIs. In September 2011, households held EUR 1.0 bn of consumer credit from others than MFIs.[16]

[14] Imputed loan margin is the difference of the agreed annual interest rate and the reference rate on drawdown of housing loan. Credit institutions do not report data on loan margins to the Bank of Finland, but the imputed margin is based on Bank of Finland calculations.

[15] The Federation of Finnish Financial Services (September 2011): Housing loan market review.

[16] Statistics Finland (December 2011) outstanding credit statistics.

Chart 14. Stock and annual growth of households' consumer credit



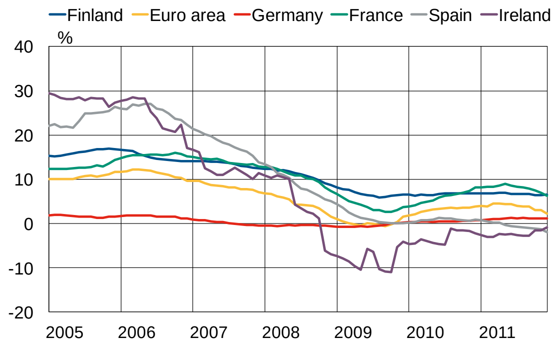
Source: Bank of Finland.

At the end of 2011, the average interest rate on households' consumer credit stock stood at 5.17%, which is 0.40 percentage points higher than at the end of the previous year. The average interest rate differential between the stock of collateralised and non-collateralised consumer credit was 2.8 percentage points in 2011. At the end of the year, the average interest rate on the non-collateralised stock stood at 6.44% and on collateralised stock at 3.58%. At the end of 2011, EUR 7 bn, or 56%, of the consumer credit stock consisted of non-collateralised loans and the remaining EUR 6 bn of collateralised loans. Out of the collateralised consumer credit, 91% had housing or real estate collateral covering the entire loan.

One third of the consumer credit consists of overdrafts and credit card credit, the majority being non-collateralised credit. Overdrafts and credit card credit include interest-free convenience credit card credits, extended credit card credit and overdrafts. In December 2011, the average interest rate on the stock of overdrafts and credit card credit stood at 7.56% compared to 7.01% at the end of the previous year. At the end of December, the stock of other consumer credit than overdrafts and credit card credit stood at EUR 8.7 bn, the average interest rate was 4.02% and the proportion of collateralised credit 61%.

Although the annual growth of the Finnish consumer credit stock has slowed down for years, the stock grows faster than in the euro area on average since the stock of euro area consumer credit has contracted already for two years as measured by annual growth. In 2011, the annual growth in the euro area stood at –1,5%. In certain euro area countries, such as Ireland and Spain, the stock of consumer credit contracted even by 15% in 2011 (Chart 15).

Chart 15. Annual growth of consumer credit stock in Finland and euro area



Sources: European Central Bank and Bank of Finland.

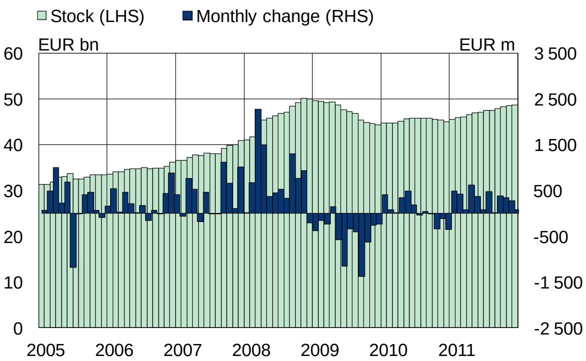
2.3 Loans to non-financial corporations

Growth of the stock of loans to non-financial corporations accelerated throughout 2011. In Finland, growth of new business on loans to non-financial corporations is on average lower than in the euro area.

At the end of 2011, the stock of loans granted by Finnish credit institutions to non-financial corporations stood at EUR 49 bn. The stock expanded by almost EUR 4 bn during the year. The stock that had contracted during the latter half of the 2010s expanded steadily throughout the year (Chart 16). According to a survey of bank managers made by the Finnish

Federation of Finnish Financial Services[17], demand for credit by non-financial corporations is however expected to dampen in the first quarter of 2012. The survey found that corporates' borrowing would focus on raising operating capital and financial restructuring. In contrast, financing would not be needed for new investments.

Chart 16. Finnish stock of loans to non-financial corporations and its monthly change



Source: Bank of Finland.

At the end of 2011, 61% of the loans belonging to the stock of loans to non-financial corporations had an original maturity of over 5 years, 29% over 1 year and up to 5 years and 10% had a maturity of 1 year or less. Loans with a maturity of over 1 year increased relatively in the stock during the year.

The stock of loans to non-financial corporations primarily consists of one-off loans amounting to EUR 45 bn in at the end of 2011. In addition to one-off loans, banks grant overdrafts and credit card credit, which have also covered revolving loans as of June 2010 in the statistics. Overdrafts and credit card credit amounted to slightly less than EUR 3.5 bn at the end of the year.

EUR 8.6 bn or 17% of the stock of one-off loans to Finnish non-financial corporations matures during 2012. Out of the loans maturing within a year, 58% has an original maturity of 1 year or less. EUR 11 bn or 24% of the loan stock matures during the two following years (Table 2). There are no major changes in sight compared to the maturity breakdown as at end 2010.

Table 2. Maturing of stock of loans to non-financial corporations by original maturity, end-2011, EUR m

		Original maturity			
		Up to 1 year	1–5 years	Over 5 years	Total
Remaining maturity	Up to 1 year	3 871	2 468	898	**7 237**
	1–2 years		2 126	1 314	**3 440**
	Over 2 years		8 490	25 945	**34 435**
	Total	**3 871**	**13 084**	**28 157**	**45 112**

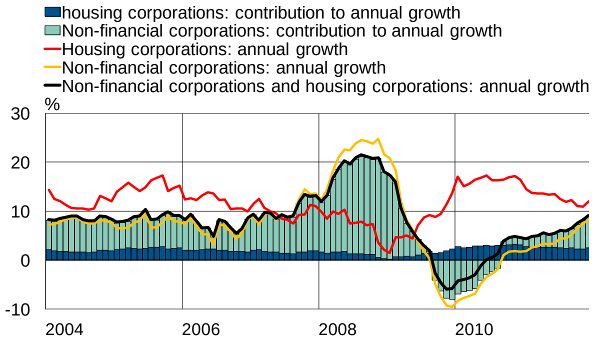
Source: Bank of Finland.

Out of the one-off loans to non-financial corporations, syndicated loans accounted for EUR 6 bn or 13% of the stock. The stock of syndicated loans to non-financial corporations increased by EUR 1 bn during the year. The average interest rate on the stock of syndicated loans was 3.09%, which is 0.3 percentage points higher than the interest rate on the non-syndicated loan stock.

The annual growth of loans granted by Finnish credit institutions to Finnish non-financial corporations and housing corporations accelerated in 2011. Having bottomed out in -10% in the wake of the financial crisis, the annual growth began to speed up in early 2010. The average annual growth rate in 2011 stood at 6.5%, compared to 0.3% in the previous year. In December 2011, the growth of the stock of loans to non-financial corporations accelerated to 8.5%. In 2004–2008, the stock of loans to non-financial corporations grew on average at an annual rate of 11% (Chart 17).

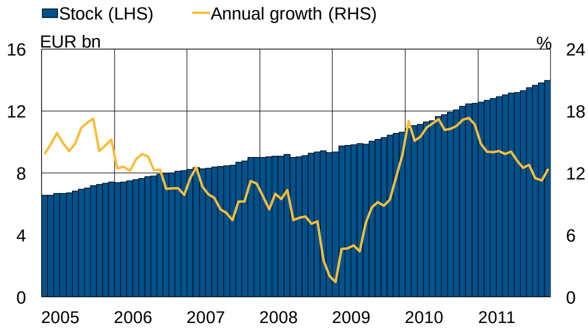
[17] The Federation of Finnish Financial Services (December 2011): Banking barometer.

Chart 17. Annual growth of stock of loans to non-financial corporations in Finland



*Includes also currency loans.
Source: Bank of Finland.

Chart 18. Stock and annual growth of loans to housing corporations



Source: Bank of Finland.

The stock of loans to housing corporations began to expand rapidly in 2009 on the back of government-supported housing construction. In 2010, the average annual growth rate of the stock of loans to housing corporations was 16.5% and even in 2011 it stood at 13.2%. In 2010–2011, the solid annual growth of loans to housing corporations had on average a positive contribution of almost 3 percentage points on the annual growth of loans to non-financial corporations and housing corporations. The contribution of loans to non-financial corporations on the annual growth of the stock of loans to non-financial corporations and housing corporations increased throughout 2011.

At the end of 2011, the stock of loans to housing corporations amounted to EUR 14 bn. The stock grew by EUR 1.5 bn during the year, and the growth rate stood at 12.3% in December, although it was slowing down (Chart 18). Over 90% of the loans have an original maturity of over 5 years and over 80% have collateral. The average interest rate on the stock was 2.70% in December 2011. During the year, housing corporations concluded new loan agreement on average in the amount of EUR 0.8 bn per month, and the average interest rate on new business was 2.52%.

In 2011, non-financial corporations and housing corporations concluded new one-off loan agreements in the amount of EUR 37 bn, of which slightly less than EUR 30 bn, or 80%, consisted of corporate loans of over EUR 1 million. The volume of loans to non-financial corporations has not been as low since 2006, when corporate loans amounted to EUR 34.4 bn.

In 2011, the most one-off loans to non-financial corporations were made in the service sector[18], for a total of EUR 12 bn at an average interest rate of 2.96%. It was followed by refining with EUR 11 bn of new corporate loans at an average interest rate of 2.96% and housing construction and real estate with EUR 7 bn at an average interest rate of 2.73%.

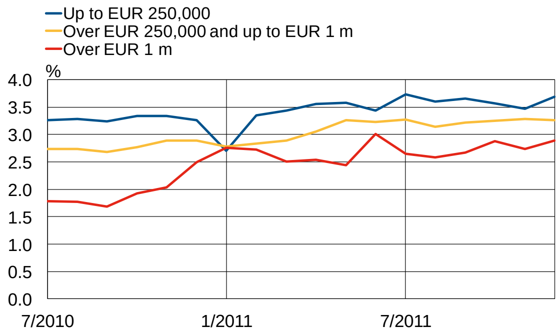
As a result of the renewed data collection, non-financial corporations' new one-off loan agreements can be broken down into more detailed volume-based categories: loan sizes of up to EUR 250,000, over EUR 250,000 – 1 m and over EUR 1 m. Furthermore, as of December 2011, the smallest category has been broken down into two micro loan categories: up to EUR 50,000 and EUR 50,000 – 250,000. In December 2011, 80% of new corporate loans were over

[18] Industries are broken down into four groups in accordance with the TOL 2008 classification with the exception that housing construction including real estate activities has been separated as a group of its own.

EUR 1 m, 9% were EUR 250,000 – 1 m, 7% were EUR 50,000 – 250,000 and 4% were micro loans of up to EUR 50,000.

The average interest rate on new euro-denominated loans granted to non-financial corporations depends materially on the size of the loan. In 2011, the interest rate differential between a loan of over EUR 1 m and less than EUR 250 000 was on average 0.78% (Chart 19). In December 2011, the average interest rate on a new business on a corporate loan of over EUR 1 m was 2.89%. Average interest rates on new business on loans to non-financial corporations rose only slightly in 2011, on average 0.26%. The interest rates that had been at record lows a year earlier rose steeply in the wake of rising reference rates.

Chart 19. Interest rates on new business on loans to non-financial corporations, by loan size

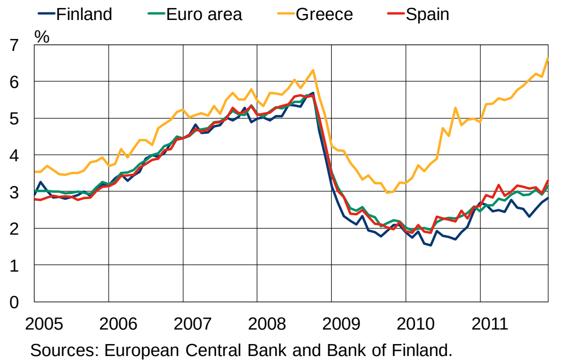


Source: Bank of Finland.

In Finland, interest rates on new business on loans to non-financial corporations continued to be lower than in the euro area on average. In December 2011, the average agreed interest rate on a new business on a corporate loan[19] of over EUR 1 m was 3.14% in the euro area and 2.82% in Finland. The corresponding interest rate in Greece was 6.64%, and it is noteworthy that after 2008, developments in the interest rates on loans to non-financial corporations in different euro area countries have diverged further (Chart 20).

[19] Loans with an interest rate linkage of up to 1 year.

Chart 20. Development of interest rates on loans to non-financial corporations in the euro area: interest rates on new business on loans of up to EUR 1 million with period of initial rate fixation up to 1 year



Sources: European Central Bank and Bank of Finland.

2.4 Securities-based assets

At end-2011, the balance sheet value of domestic credit institutions' securities-based assets amounted to EUR 63 bn. At the same time, domestic investment funds' (incl. money market funds) securities-based assets amounted to EUR 54 bn. The value of credit institutions' securities portfolio increased during the year by almost 20% while investment funds' portfolio decreased by 11%.

Out of credit institutions' EUR 63 bn portfolio of securities-based assets[20] , 11% consisted of shares and other equity. Traditionally, the proportion of quoted

[20] Credit institutions report the content of their securities portfolios monthly to the Bank of Finland on a security-by-security basis. Over consequent months, security items may have been entirely omitted from or introduced to a credit institution's balance sheet, or the number of holdings in a security item included in both monthly balance sheets may have decreased, increased or kept unchanged. The Bank of Finland calculates the complete accounts under financial accounts each month for each security in the balance sheet. The stock at the end of the period is derived by adding the flow data, revaluation adjustments and other changes to the stock at the beginning of the period.

shares in the securities portfolio has been low. In 2011, the balance sheet value decreased by EUR 0.3 bn. The drop is partly explained by sales, but the primary reason is the general decline in share prices. Unquoted shares consisted primarily of ownership arrangements within different groups, and no changes were made in the balance sheet values of these shares during the year. A growing securities item are investment fund shares, whose stock increased during the year by 19% to EUR 1.8 bn.

Table 3. Credit institutions' securities-based assets in 2011, EUR bn

	2010/12	2011			2011/12
	Stock	Flows	Exchange rate valuation adjustment	Price change adjustment	Stock
Short term securities	3 426	–98	4	–1	3 331
Long term securities	44 090	9 672	59	722	54 543
Quoted shares	1 381	294	0	–658	1 018
Unquoted shares	4 351	389	0	–18	4 722
Investment fund shares	1 488	369	5	–100	1 763
Securities total	54 737	10 724	68	–55	65 376

Source: Bank of Finland.

A major proportion of credit institutions' security portfolio consists of debt securities with various original maturities. Short-term debt papers with less than a year's maturity totalled EUR 3.3 bn. Long-term debt securities with a longer maturity than a year totalled EUR 55 bn, which is more than the aggregated value of all domestic investment funds, EUR 54 bn.

The stock of long-term debt securities increased from EUR 44 bn at end-2010 by 24% to almost EUR 55 bn. The growth consisted of net purchases of EUR 10 bn and positive revaluation adjustments of about EUR 1 bn.

In net terms, short and long-term debt securities were purchased for EUR 10 bn, but the net figure alone is not indicative of credit institutions' securities trading volume.

By summing up cross-sections of the balance sheet over the year, it is possible to establish a perception about the securities trading volumes. While securities are traded on each banking day, statistics only enable one to study trading volumes only at the end of each month.

Gross new purchases were selected as the indicator of transaction volume, and this figure was compared with the stock at the beginning of the year. At the beginning of the year, the stock stood at EUR 48 bn and gross purchases during the year were EUR 84 bn, meaning that the original stock turned over 1.8 times during the year.

When the issuer's country of origin is added as a new dimension for securities, a high stock turnover ratio indicates the countries whose securities were traded most frequently. Out of the significant countries represented in credit institutions' balance sheet, the domestic country received the highest index value. The stock of domestic debt securities at the beginning of 2011 was EUR 6.6 bn, and domestic debt securities were purchased during the year for EUR 17 bn in gross terms. Hence, the index point figure was 2.5.

Above average values were also recorded for Danish, French, German and Dutch debt securities. Out of the significant countries, the lowest point figure was identified for Spanish securities at 0.1.

Domestic credit institutions have invested primarily in debt securities of issuers in the EU, since extra-EU debt-security assets only amounted to 5% of the total stock. The most significant countries in terms of debt security trading volume were Denmark and Sweden with a total of EUR 32 m.

Table 4. Debt securities in credit institutions' securities portfolio by issuer's country of origin, EUR m

	2010/12	2011/12
Finland	6 601	8 089
Other euro area	10 762	12 011
Other EU countries	28 038	34 757
Extra-EU countries	2 115	3 016
Total	47 517	57 873

Source: Bank of Finland.

While other EU countries constituted the most important issuers, the primary currency by far was euro. The stock of long-term euro denominated bonds was EUR 38 bn, or 70% of the total stock. Debt securities denominated in other EU countries' currencies accounted for 29% of the total stock, and the balance sheet value in euro terms was EUR 16 bn. The stock of debt securities in other than EU countries' currencies only amounted to about 1%. Hence, 30% of long-term debt security-based assets are subject to currency risk. As regards other than euro-denominated debt securities, those in the Danish krone and Swedish krona were by far the most significant. Together they account for 96% of all non-euro denominated debt securities.

The largest issuer sector of long-term bonds held by credit institutions is credit institutions. The proportion of long term bond issued by credit institutions remained at a good 70%. At the end of 2011, value of debt securities issued by other credit institutions held by domestic credit institutions stood at EUR 41 bn.

During the year, the relative proportion of long-term debt securities issued by general government increased. It increased from EUR 7.0 at end-2010 to EUR 9.8 bn. The remainder of the issuers were non-financial corporations (EUR 1.2 bn) and other financial institutions (EUR 3.0 bn).

Credit institutions' investments in debt securities issued by extra-EU countries' general government amounted to 5% of the stock of general government debt securities (EUR 0.5 bn). Within the EU, investments were almost evenly distributed between Finland (EUR 3.1 bn), other euro area countries (EUR 3.0 bn) and other EU countries (EUR 3.3 bn). Within the euro area, investments in the so-called GIIPS countries' general government debt securities amounted to only slightly less than EUR 12 m, whereas at end-2010, they amounted to EUR 126 m.

At the end of 2011, credit institutions held debt securities issued by general government in 17 different EU countries. During the year, the balance sheet value of securities issued by nine different countries' general government decreased as a result of net sales and revaluation adjustments. Within this group, the combined balance sheet value of the three largest (Germany, Sweden and Belgium) decreased by a total of EUR 1.4 bn. The balance sheet value of debt securities issued by eight EU countries' general government increased as a result of net purchases and revaluation adjustments. Within this group, the combined balance sheet value of the three largest (Denmark, Finland and France) increased by a total of EUR 3.3 bn.

3 Deposits and other funding

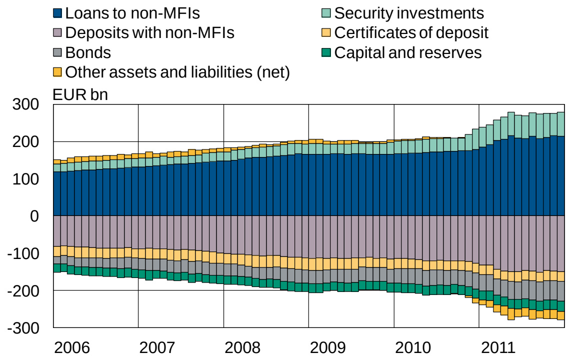
3.1 Role of non-MFI deposits in credit institutions' funding

Growth of the non-MFI deposit stock accelerated in 2011. It was clearly faster in Finland than in the euro area on average. The average interest rate on the deposit stock increased slightly.

Credit institutions fund their lending by taking deposits as well as issuing certificates of deposit and bonds. In addition, lending can be funded by raising equity finance for example through share issues. At the end of 2011, credit institutions operating in Finland had a total of EUR 631 bn of debt. 24% of the debt consisted of deposits by non-MFIs.[21] Certificates of deposits and bonds issued accounted for 13% and equity for 4%. The largest liability item in the balance sheet were other liabilities, which amounted to 60% of aggregated credit institutions' liabilities (Chart 21). Other liabilities consist mainly of inter-MFI deposits and derivatives, whose balance sheet value fluctuations tend to reflect on credit institutions' balance sheets – both the assets and liabilities side. Derivatives assets and liabilities generally net to almost zero.

The financial structures of individual credit institutions differ based on the nature of the activities and group structure. Only credit institutions that have been authorised as a deposit bank can receive deposits from non-MFIs. Other credit institutions[22] raise their funding through other channels (see chapter 3.3). In terms of number, a majority of credit institutions operating in Finland are part of a larger banking group, which enables intra-group funding from Finnish or foreign parent companies and other group companies. At the end of 2011, intra-group items accounted for 24% for credit institutions total liabilities.

Chart 21. Credit institutions' funding and investment of assets



Source: Bank of Finland.

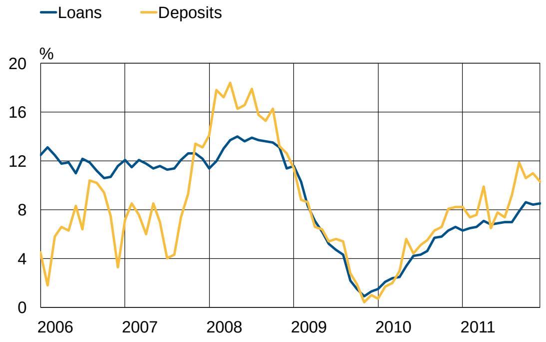
Credit institutions' funding needs are essentially driven by the growth rate of the loan stock. In Finland, the stock of loans to non-MFIs grew at a rate of about 11–14% pa in 2003–2008. As a consequence of the financial crisis that emanated from the problems in the US housing and financial markets, the growth began to slow down towards the end of 2008 and almost stopped towards the end of 2009. After the acute crisis phase, growth accelerated in 2010 and further in 2011. At the end of December, the stock of loans granted by Finnish credit institutions to euro area non-MFIs (incl. currency loans) stood at EUR 187 bn (see chapter 2.1).

[21] Non-MFI deposits include deposits by households, non-financial corporations, general government and other financial institutions than MFIs.

[22] Other credit institutions include for example mortgage banks, Municipality Finance, credit card companies and financing companies authorised as credit institutions.

Annual growth of the non-MFI deposit stock was much slower than that of the loan stock before 2008, when the deposit stock began to surge. The financial market turbulence drove households in particular to shift their assets from investments perceived as risky to safer bank deposits whose interest rates had also been rising already for a couple of years. In 2009 and 2010, the annual growth rates of non-MFI loans and deposits stayed very close in line, until the deposit stock began to growth faster than the loan stock in the second half of 2010. Similar developments continued in 2011 (Chart 22). At the end of the year, non-MFI deposits covered 84% of deposit banks' lending to non-MFIs.

Chart 22. Annual growth of non-MFI loan and deposit stock



Source: Bank of Finland.

At the end of December 2011, the non-MFI deposit stock amounted to EUR 129 bn[23], of which households[24] accounted for 65% Non-financial corporations[25] accounted for 21%, general government for 8% and financial and insurance corporations for 6% of the non-MFI deposit stock. Deposits are the most important asset item for households, while deposits only constitute less than a tenth of the financial assets of other sectors.[26]

About 60% of non-MFI deposits are overnight deposits, in practice mainly current accounts. Deposits with an agreed maturity account for about 28% and other deposits[27] for about 12% of the stock. 74% of non-MFI deposits (excl. overnight deposits) had an original maturity of one year or less.

The proportion of deposits made in Finnish MFIs relative to deposits taken by the entire euro area MFI sector from the euro area stood at 1.2% at the end of 2011. However, the annual growth of the non-MFI deposit stock was faster in Finland in 2010 and 2011 than the average growth of the deposit stock in the euro area on average. In 2011, the non-MFI deposit stock grew in Finland by 9.0% on average; in the euro area, the average annual growth amounted to 3.4%. In Finland, financial and insurance corporations' deposits and towards the end of the year also general government's deposits grew the most in relative terms. The deposit stock of these sectors is particularly driven by repo agreements made with counterparties belonging to the MFI sector. However, since the second half of 2010, repos have been made increasingly with non-MFI sectors.

In Finland, the growth of the deposit stock accelerated in the second half of 2011 while in the euro area, growth on average slowed down towards the end of the year. Annual growth of the non-MFI deposit stock has been very modest in certain large euro area countries, particularly Germany, Italy and Spain – in Italy and Spain it was actually negatie in the last quarter of 2011 (Chart 23).

[23] Deposits by euro area non-MFIs (incl. other than euro-denominated deposits) in Finnish credit institutions.

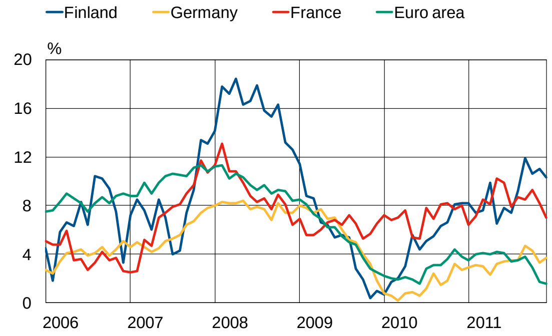
[24] Including non-profit institutions serving households (NPISHs), which accounted for about 4% of the deposits of the household sector.

[25] Non-financial corporations also include housing corporations, which account for about 5% of the deposit stock of non-financial corporations.

[26] Statistics Finland, Financial Accounts.

[27] Other deposits are primarily deposits redeemable at notice involving limits to single withdrawals or other costs. In this context, repos are also linked to other deposits.

Chart 23. Annual growth of non-MFI loan stock in Finland and selected euro area countries

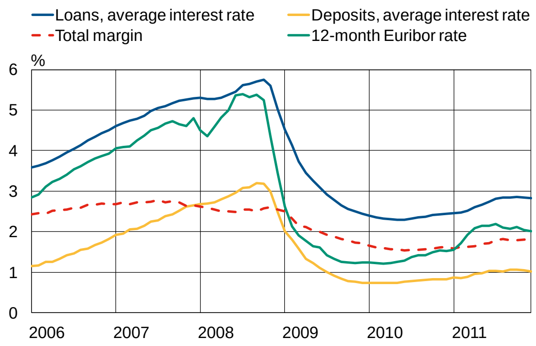


Sources: Bank of Finland and ECB.

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, the overall margin. As a result of the financial crisis, interest rates on the non-MFI loan stock plunged in line with market rates in 2009 and remained low in 2010 (see chapter 2.1). Since a majority of non-MFI deposits consist of low-interest current accounts, their interest rates have less room for decrease than loan interest rates. This lead to a reduction in the overall margin.

At its lowest, the margin stood at about 1.5 percentage points in June 2010. In 2011, however, the average interest rates on non-MFI loans and deposits began to increase somewhat. Interest rates on the loan stock rose faster than the average interest rate on the deposit stock, which also turned the overall margin into increase. At the end of 2011, the average interest rate on the deposit stock was 1.01% and the overall margin between the loan and deposit stock was 1.8 percentage points (Chart 24).

Chart 24. Average interest rates on loan and deposit stock and overall margin



Sources: Bank of Finland and Reuters.

3.2 Households' deposits

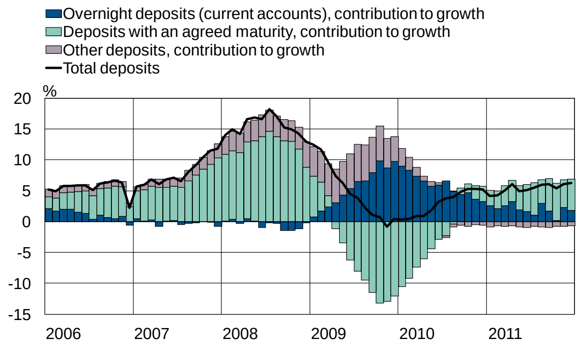
Growth of the household deposit stock was stable in 2011. Growth of overnight deposits slowed down slightly from the previous year. In contrast, annual growth of deposits with agreed maturity accelerated. Interest rates on deposits increased at the beginning of the year but they declined towards the end of the year in line with market rates.

Deposits are households' largest financial asset item. According to the financial accounts compiled by Statistics Finland, a good third of Finnish households' financial assets consist of deposits. At the end of 2011, the stock of Finnish households' deposits stood at EUR 79 bn. About half of the deposits were overnight deposits, or so-called current accounts. Deposits with an agreed maturity accounted for about 30% and the remainder consisted of other deposits redeemable with notice.

The household deposit stock grew in 2003–2006 at an annual rate of about 5–6%. The growth rate accelerated towards the end of 2007 on the back of the financial crisis: in 2008, households deposited

EUR 8.5 bn in net terms in Finnish MFIs. At the same time, almost EUR 6 bn were withdrawn from investment funds and equity investments.[28] The attractiveness of deposits – in particular those with agreed maturity – as investments was also supported by an increase in market rates and good interest offers. In 2008, the household deposit stock grew at an average annual rate of over 15%. However, market conditions began to calm down, and the growth of the deposit stock slowed down towards the end of 2009. Due to the rapid decrease in market rates, money flowed out of deposits with an agreed maturity in particular. At the end of 2010, the growth rate of the deposit stock began to accelerate again due to the increased uncertainty related to the European debt crisis. In December 2011, the annual growth stood at 6.2%.

Chart 25. Annual growth of stock of household deposits

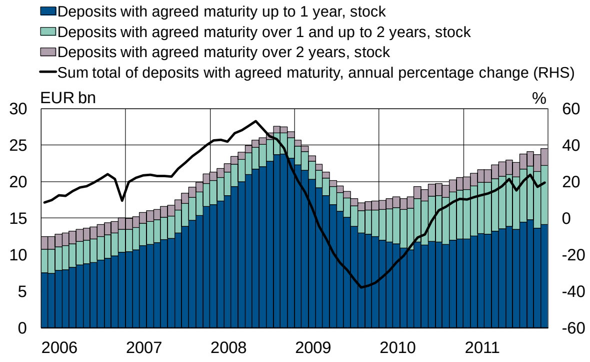


Source: Bank of Finland.

The annual growth of the household deposit stock in 2011 was affected primarily by the annual growth of deposits with an agreed maturity (Chart 25). Particularly the annual growth of deposits with an agreed maturity of over two years accelerated towards the end of the year. About 40% of households' deposits have an original maturity longer than a year (Chart 26).

[28] Statistics Finland. Financial Accounts.

Chart 26. Households' deposits with agreed maturity



Source: Bank of Finland.

In December 2011, 76% of the bank managers responding to the banking barometer survey of the Federation of Finnish Financial Services expected the popularity of deposits to increase. In contrast, riskier investments, such as shares and investment funds had lost some of their attractiveness according to the survey. Also the attractiveness of real estate and apartments as investments for households is decreasing. The popularity of savings and pension insurance policies as well as PS accounts has remained almost unchanged.[29]

A majority of household deposits have a fixed interest rate. At the end of 2011, the proportion of deposits with a fixed interest rate stood at 56%. As many as 93% of deposits with an agreed maturity had a fixed interest rate. About a fifth of the deposits with an agreed maturity were so-called structured deposits consisting of a low-return deposit component and a bonus component tailored to generate potential bonus return. It is possible to achieve even a high return on such a deposit if the underlying index, equity basket or derivative performs favourably. In 2011, the proportion of structured deposits decreased; in

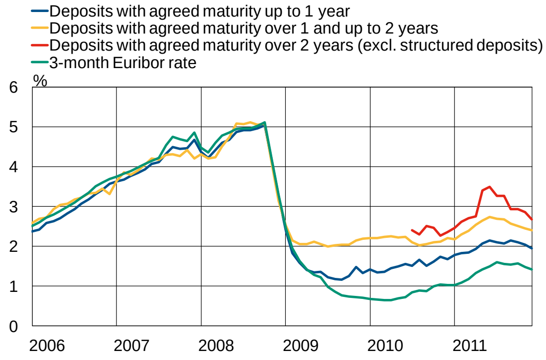
[29] The Federation of Finnish Financial Services: Banking barometer IV/2011.

December they still comprised 31% of deposits with an agreed maturity of over two years.

At the end of 2011, 36% of household deposits were linked to banks' own reference rates. The proportion decreased slightly during the year. The proportion of deposit interest rates linked to Euribor rates was 6%, and the rest was linked to other interest rates.

The average interest rate on the household deposit stock increased somewhat in 2011: at the end of the year, it was 1.05%. Interest rates on deposits with an agreed maturity have risen the most. In recent years, the interest rates on new deposits with an agreed maturity have diverged from the market rates; particularly the rates on longer term deposits have risen clearly above the Euribor rates. However, in the last quarter of 2011, the interest rates on deposits with an agreed maturity declined somewhat as a consequence of a decline in market rates. The average rate on deposits with an agreed maturity of one year or less stood at 1.95% in December. The average interest rate on deposits with an agreed maturity of over a year and up to two years was 2.41% and the average interest rate on deposits with a maturity of over two years was 2.67% (Chart 27).[30]

Chart 27. Average interest rates on households' new deposits with an agreed maturity



Sources: Bank of Finland and Reuters.

At the end of 2011, households (excluding non-profit institutions serving households) had a total of 16,037,008 deposit accounts in Finnish credit institutions. The amount also includes accounts with a zero balance at the end of the year.

[30] Structured deposits have been omitted from the deposits with an agreed maturity of over 2 years, since only the low-return deposit component is known at inception. This piece of information is available from June 2010 onwards.

3.3 Role of debt securities in credit institutions' funding

Credit institutions' stock of long-term debt securities by original maturity increased steeply in 2011. At end-2010, the stock of bonds stood at EUR 43 bn and at end-2011 at EUR 54 bn.

All credit institutions grant loans, but there may be material differences in their funding. A major proportion of traditional deposit banks' funding is raised by taking deposits from non-MFIs (see chapter 3.1). In addition, deposit banks may issue debt securities.

In contrast, institutional units categorised as credit organisations are not allowed to take deposits, but their funding is covered by issuing debt securities. A credit organisation may also be a special unit within a group structure whose funding is covered by intra-group financing. Out of the twenty credit organisations operating in Finland, five had debt securities issued by themselves in their balance sheet.

Whereas the total stock of short and long-term debt securities issued by credit institutions at end-2011 stood at EUR 80 bn, credit organisations made of EUR 31 bn and deposit banks EUR 49 bn of the total. The balance sheet value of debt securities issued by credit organisations increased by EUR 5.4 bn and securities issued by deposit banks by EUR 6.3 bn.

At the end of 2011, 327 credit institutions reported their balance sheets to the Bank of Finland. Within that group, 49 had debt securities issued by themselves in their balance sheet. The eight largest issuers account for 97% of the EUR 80 bn stock of debt securities. The same eight largest issuers accounted for the same percentage in the EUR 69 bn stock of debt securities at the end of 2010.

Debt securities issued are divided according to the original maturity into short and long-term debt securities. The original maturity of short-term debt securities is one year or less and of long-term debt securities more than a year. In this chapter, short-term debt securities are called certificates of deposits (CDs) and long-term debt securities are called bonds.

3.3.1 Certificates of deposit

Certificates of deposit do not normally pay coupon interest and they are discounted in connection with issuance. At the end of 2011, fifteen credit institutions had CDs in their balance sheet, and their combined balance sheet value was EUR 26 bn.

The markets are heavily concentrated, since the four largest issuers accounted for over 90% of all certificates of deposit. Compared with the end of 2010, there had been no significant changes in the volume of CDs or the concentration of the market.

55% of the CDs were denominated in euro, almost 40% in other EU currencies and the remaining 5% in non-EU currencies. Due to the short original maturity, the nominal currency breakdown of CDs may change rapidly. Whereas at end-2010, 9% of the whole stock was USD-denominated, at the end-2011, the proportion was only 3%. The proportion of euro and Sterling-denominated CDs increased during the year from 88% to 94%.

In accordance with the definition of the instrument, the entire stock of end-2010 matured during the year. At the end of 2011, the weighted average original maturity of the CD stock was 5.5 months. A year earlier, the average stood at slightly below 4.5 months.

The weighted remaining maturity at end-2011 stood at 79 days compared with 68 days a year earlier.

During the first quarter of 2012, EUR 20 bn worth of CDs will mature, similarly to last year.

Table 5. Stock of credit institutions' certificates of deposit by original and remaining maturity at end-2010 and end-2010, EUR m

	Orginal maturity		Remaining maturity	
	2010/12	2011/12	2010/12	2011/12
Up to 3 months	6 396	4 817	20 205	19 768
3 months and up to 6 months	15 384	13 322	4 314	3 924
6 months and up to 9 months	1 266	3 350	631	1 530
9 months and up to 12 months	2 653	4 777	550	1 043
Total	25 701	26 266	25 701	26 266

Source: Bank of Finland.

The original maturity of CDs lengthened from last year. Whereas at the end of 2010, the stock included EUR 3.9 bn of papers with original maturies over half a year, at end-2011, the corresponding stock was double (EUR 8.1 bn).

Credit institutions report their month-end security-based liabilities to the bank of Finland on a security-by-security basis. The volume of CD issuance can be estimated based on these reports. The report data only omits papers issued and matured within the same month. While the stock of credit institutions' CDs at end-2010 stood at EUR 28 bn and new CDs were issued in the amount of EUR 98 bn during the year, the stock was renewed 3.8 times relative to the original stock.

3.3.2 Bonds

At the end of 2011, 46 credit institutions had bonds in their balance sheet, and their combined balance sheet value was EUR 54 bn. The balance sheet value increased by EUR 11 bn, since at end-2010, the balance sheet value of 54 credit institutions' bonds amounted to EUR 43 bn. At the end of the year, covered bonds accounted for 35% of the total stock of bonds, or EUR 19 bn. This is EUR 8 bn more than a year earlier.

Bonds refer to debt securities with over a year's original maturity. Bonds issued by domestic credit institutions are 95% capital protected, meaning that the subscriber gets back the principal invested.

In contrast, long term debt securities differ materially in terms of the interest paid on the investment. Various interest calculation models have been developed in addition to the traditional fixed coupon model.

Table 6. Bonds by interest rate type

	2010/12 EUR m	2011/12 EUR m	2010/12 %	2011/12 %
Fixed interest rate	20 259	31 504	47	58
Floating interest rate	16 002	10 982	37	20
Index-linked	3 297	6 676	8	12
Zero coupon	1 923	1 622	4	3
Staggered interest	160	608	0	1
Unknown / other interest rate	1 206	2 546	3	5
All interest rate types	42 847	53 938	100	100

Source: Bank of Finland.

At the end of 2011, fixed coupon rate was the most common basis of interest determination, and its popularity as interest calculation method strengthened. Floating rates have also been replaced by index-linked rates. The proportion of other calculation methods and unknown remain under 10% of the stock.

Domestic credit institutions issue their bonds primarily in other than the domestic market. The Bank of Finland assesses the issuing country on the basis of the ISIN code reported. Out of the bond issues recorded in 2011 balance sheets, 72% took place in other euro area (primarily Euroclear, Belgium), 12% domestically and 16% outside the euro area.

Bonds in credit institutions' balance sheet have been issued in 19 different currencies. Most of the securities are in euro (61%, EUR 33 bn). 9% (EUR 4.7 bn) was issued in other EU countries' currencies. Out of this amount, EUR 4.1 bn were bonds in Swedish krona or Danish krone. Bonds in non-EU currencies amounted to 30% (EUR 16 bn). Out of this, EUR 14 bn were in yen, dollar or Swiss franc.

The average original maturity of the bonds outstanding at end-2011 weighted by the stock was 7 years. A year earlier, the average stood at 7.5 years.

Out of the total EUR 54 bn bond stock at end-2011, EUR 34 bn had an original maturity of less than 5 years, EUR 14 bn 5-10 years and the remaining EUR 6 bn more than 10 years.

Table 7. Remaining maturity of credit institutions' outstanding bonds, EUR m

	2010/12	2011/12
0–3 months	904	1 012
3–6 months	2 935	2 493
6–9 months	2 006	2 625
9–12 months	1 620	1 669
1–2 years	6 799	7 529
2–3 years	7 191	10 592
3–4 years	5 887	7 791
4–5 years	8 045	9 013
Over 5 years	7 460	11 216
	42 847	53 939

Source: Bank of Finland.

In 2012, bonds will mature according to the loan programme in the amount of EUR 7.8 bn. Maturities in 2013 are of similar volume.

The weighted average remaining maturity of the bond stock at end-2011 was 4.8 years, compared with 5.1 at the end of the previous year.

In 2011, a total of 773 bonds matured according to the programme, and credit institutions repaid EUR 7.4 bn to investors. In addition, credit institutions purchased from the markets their own bonds maturing at a later date for a total of EUR 3.5 bn.

Credit institutions issued considerably more bonds than what matured. Over the entire year, issues amounted to a total of EUR 21 bn. In the first half of the year, the issues amounted to EUR 13 bn and in the second half to EUR 7.9 bn. Covered bonds were issued in the amount of EUR 9.7 bn.

Out of the bonds issued, 65% were in denominated in euro, 8% were linked to another EU currency and 27% to another than an EU currency. The most important currencies were the dollar, yen and Swiss franc, but other issuing currencies included also for example the Turkish lira, Brazilian real and South African rand.

The volume-weighted average original maturity of the bonds issued during the year was slightly below 6 years. 5% of the bonds had over 10 year's original maturity and 71% less than 5 years.

Almost 70% of the bonds issued in 2011 had a fixed interest rate. 15% had a floating interest rate and 8% an index-linked rate.

Box 1. EUR 22 m invested in long-term savings accounts

Finnish households have invested roughly EUR 22 m in long-term savings (PS) accounts. A majority of the savings has been invested in investment fund shares.

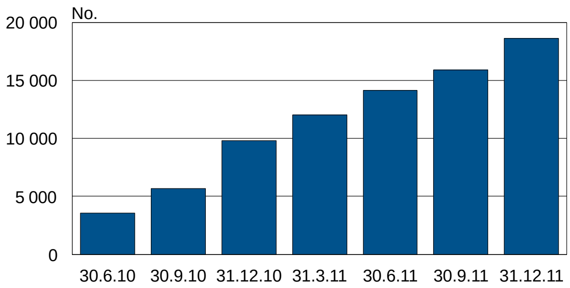
Long-term saving (PS) is a tax-subsidised form of pension saving and an alternative to voluntary (unit-linked) pension insurance. A long-term saver makes money deposits in a so-called PS account, where the assets can be invested in instruments selected by the saver. In comparison with voluntary pension insurance, long-term saving allows for more diverse investment of the assets saved in a PS account: investments can be made in investment funds, shares and debt securities. Investing in deposits with an agreed maturity is also possible. The investments can also be switched during the saving period within the limits allowed by the PS agreement.

Long-term saving – similarly to pension insurance saving – is bound saving, which entails that the assets can be withdrawn before the retirement age only in exceptional circumstances. However, the PS service provider can be changed, or the assets can be transferred under a voluntary pension insurance policy. A long-term saving agreement can be made with a deposit bank, investment service provider or fund management company – although at end-2011, all service providers were deposit banks.

PS savers receive the same tax benefits as savers under a voluntary pension insurance; under the present capital gains tax rate, one gets the annual maximum tax deduction of EUR 1,600 if he has saved a total of EUR 5,000 in the PS account during the year and has taxable capital gains that year in excess of EUR 50,000.[31] Repayment of the savings may begin from the lowest pension age under the Pensions Act. Both the savings and any return accrued on them are subject to the capital gains tax prevailing at the time.

The Act on bound long-term saving (PS)[32] entered into force at the beginning of 2010, and provision of the service began in April that year. In April–December 2010, Finnish households concluded a total of 9,869 PS agreements; in 2011 a total of 9,014 new agreements were made. At the end of December 2011, the number of valid PS agreements stood at 18,644.[33]

Chart 28. Number of long-term saving contracts



Source: Bank of Finland.

Finns have invested a total of about EUR 22 m in PS accounts. The propensity to save tends to peak in the last quarter of each year as savers top up their savings to get the maximum annual tax deduction. The value of the savings assets accrues due to the interest paid on the deposits and bonds as well as changes in the market value of the securities. Of course, the changes in market value may also be negative, in which case they reduce the value of the savings. At the end of

[31] The tax rate on capital gains is 30%. For capital gains in excess of EUR 50,000, the tax rate is 32%.

[32] 1183/2009

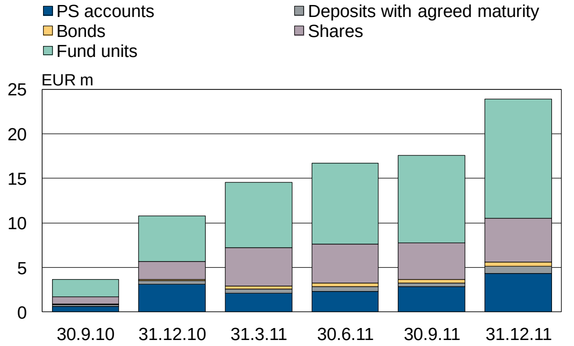
[33] The number of valid agreements is lower than the total number new agreements, as the latter also include subsequently expired, terminated and cancelled agreements.

2011, the value of the savings stood at about EUR 24 m. [34]

A majority of long-term savings has been invested in investment fund shares. At end-2011, the proportion of investment fund shares stood at 56% of PS savings. Investment fund shares also received the bulk of the net inflows of PS savings in 2011. The proportion of shares decreased slightly, partly due to a decline in share prices: about a third of the value of savings invested in shares during 2011 evaporated over the year. At end-2011, shares accounted for 21% of total PS savings. The proportion of deposits with an agreed maturity and bonds stood at about 5%. 18% of the savings stood in PS accounts – possibly awaiting to be allocated in other investments.

[34] In this context, it must be noted that assets transferred from another PS service provider or voluntary pension insurance increase the value of the savings, but transfer of assets without liquidation is not shown as new savings.

Chart 29. Long-term savings



Source: Bank of Finland.

A majority (98%) of PS savings was invested in Finland. A minor proportion of the share investments has been made in companies domiciled in other countries – mainly other EU countries. There have also been some subscriptions of shares in investment funds domiciled in other EU countries.

4 Investment funds

4.1 Investment funds' balance sheet

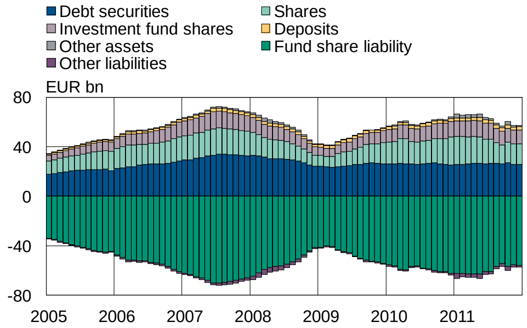
At the end of 2011, the total balance sheet of investment funds registered in Finland amounted to EUR 57 bn. The balance sheet decreased by EUR 6.7 bn on account of both decline in the value of assets and redemptions of fund units by investors.

As global growth prospects weakened, year 2011 was a challenging one for securities investors. Inflation concerns in India and unrest in Middle-Eastern countries reduced the value of investments in emerging markets in the first year-half. The steep decline of the Japanese economy in the wake of a natural disaster and expectations of a slow-down in the strong Chinese growth over the following years weakened the prospects for Asian markets. In the euro area, difficulties in public finances and the resulting uncertainty had a major impact on asset values particularly in the third quarter of the year. Although economic developments were better in the United States than in Europe, political uncertainty resulted in an increased lack of confidence in the financial markets there as well.

The decline in security values was reflected directly in the balance sheet of domestic investment funds (incl. money-market funds)[35], which contracted in 2011 by EUR 6.7 bn to EUR 57 bn. A majority of the negative revaluation adjustment was related to the equity assets held by investment funds. The shift was material, since the aggregated balance sheet had grown in 2009 and 2010 from EUR 42 bn to EUR 64 bn mostly on the back of positive securities price developments (Chart 30). The balance sheet size had also been supported by investors' positive net subscriptions in domestic investment funds. In 2011, net subscriptions also declined into negative territory at EUR -1.5 bn.

[35] The Bank of Finland collects monthly security-by-security balance sheet data from investment funds (incl. money market funds) registered in Finland. Hereinafter "domestic investment funds".

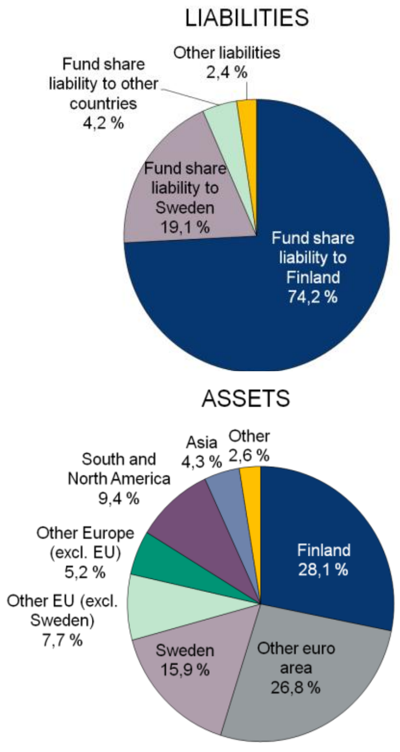
Chart 30. Breakdown of domestic investment funds' total balance sheet by instrument



Sources: Statistics Finland and Bank of Finland.

Investment funds'liabilities consist almost entirely of the fund-share liability investment funds have towards each investor in the fund. At end-2011, about three quarters of the fund shares of domestic investment funds were held by Finnish investors. The proportion of Swedish investors in the fund-share liability has increased over recent years into a fifth (Chart 31). Among the 519 domestic investment funds operating at the end of 2011, 41 were such where Swedish ownership exceeded 50%. The orientation of certain domestic investment funds into the Swedish investment fund market is also reflected by the fact that 19 investment funds have the Swedish krona as the base currency.

Chart 31. Breakdown of domestic investment funds' total balance sheet by region at end-2011



Source: Bank of Finland.

Out of the assets accumulated in investment funds, 44% were reinvested in Finland or Sweden, whose relative proportions strengthened during the year. The balance sheet assets were also generally focused on Europe, accounting for 84% of the assets at the end of 2011. The remaining 9% of the assets were in the Americas[36] and 4% in Asia.

At end-2011, the assets were broken down by financial instruments so that short and long-term debt securities constituted 45%, equity shares 29% and shares in other investment funds 20%. During the year, equity assets in particular decreased as equity prices declined and portfolio managers liquidated their equity holdings. In turn, the flight to safety was shown as positive net investments in deposits and debt securities. The proportions of equity and debt securities in the total portfolio changed indeed significantly during the year (Table 8).

Table 8. Development of domestic investment funds' balance sheet by instrument

	31.12.2011		2011		30.12.2010	
	Stock	%	Valuation change	Flows	Stock	%
Total liabilities	**57 101**	**100,0**	**–4 914**	**–1 802**	**63 818**	**100,0**
Fund share liability	55 716	97,6	–4 994	–1 517	62 227	97,5
Other liabilities	1 385	2,4	79	–285	1 591	2,5
Total assets	**57 101**	**100,0**	**–4 914**	**–1 802**	**63 818**	**100,0**
Debt securities	25 685	45,0	–456	862	25 280	39,6
Shares	16 529	28,9	–4 345	–1 649	22 522	35,3
Investment fund shares	11 269	19,7	–838	–516	12 624	19,8
Deposits	2 576	4,5	7	414	2 155	3,4
Other assets	1 043	1,8	718	–913	1 237	1,9

Source: Bank of Finland.

About half of the fund share holdings consisted of cross-holdings between domestic investment funds. Excluding these, the balance sheet of domestic investment funds would be EUR 5.6 bn smaller.[37] The proportion of cross-holdings in the total investment fund capital has remained relatively stable in recent years.

Out of the aggregated investment balance sheet for the euro area, Finnish investment funds accounted for 0.9% compared with 0.7% three years earlier. In terms of medians, the typical domestic investment fund had a balance sheet of EUR 44 m and 1,137 unitholders.

[36] South and North America.

[37] Cross-holdings between domestic investment funds are discussed in more detail in the Financial Statistics - Annual Review 2010, p. 47 (Box 3).

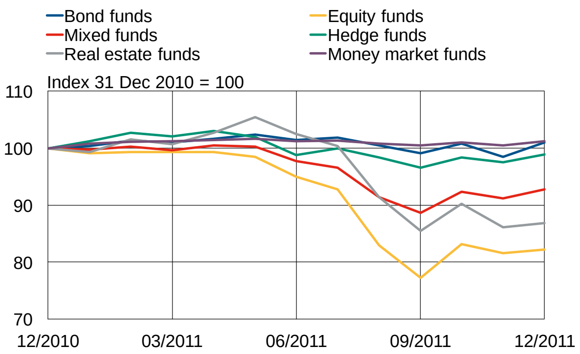
4.2 Investment funds' returns

The returns of domestic investment funds collapsed in the third quarter of 2011. The values of investment fund shares rose in October but not enough to even out the decrease in returns. The weighted average return of investment funds over 12 months[38] was -5.9% in contrast to 15.5% in 2010.

The market reactions with the largest impact on the performance of investment funds occurred in August, September and October. In August, concerns about the state of the global economy amid the intensification of the European debt crisis and downgrading of the US credit rating pushed the equity markets into a steep decline. The weakness of the equity markets continued also in September. During those two months, domestic investment funds lost a total of EUR 4.8 bn in negative revaluation adjustments, and the returns of investment funds deteriorated in almost the entire sector. In October, the equity markets saw a correction in the opposite direction: positive revaluation adjustments amounted to EUR 2.1 bn. Towards the end of the year, fluctuation in the values of investment funds levelled off, but many investment fund shares ended the year at a significantly lower value level (Chart 32).

Out of the 483 investment funds operating for the entire 2011, only 118, or 24%, achieved a positive annual return.[39] The best return among investment funds was 17.2% and the weakest -45.4%. The group of best performing funds included equity funds investing in the pharmaceuticals sector and bond funds. The worst performers were particularly equity funds concentrating their investments in the emerging markets and Finland.

Chart 32. Domestic investment funds' weighted average 12-month return (%) by fund type



Source: Bank of Finland.

Differences in returns among fund types were large, similarly to the previous year. The lowest weighted average return of -17.8% was recorded for equity funds (Table 9). In 2010, due to the positive market performance, equity funds achieved an annual return of 25.9%. The high dispersion of returns reflects the higher risk of equity funds for example relative to lower-risk bond funds. On the other hand, also almost a half of bond funds concentrating their investments in bonds lost fund share value, and the aggregated weighted 12-month return stood at no more than 1.0%. As a fund type, even money market funds achieved a better return. Their annual return was recorded at 1.2%.

[38] The return of domestic investment funds has been calculated for 584 growth units in the 483 investment funds operating for the whole year 2011. The average return was calculated by weighting the value of each fund share relative to the aggregated balance sheet fund capital value and multiplying this by the return of the fund share. Finally, the values thus calculated were summed. The returns of different fund types were calculated by weighting the values of relevant fund shares relative to the total balance sheet value of that fund type.

[39] The group would be reduced considerably, if only the real return received from the fund was taken into account.

Table 9. Domestic investment funds' 12-month return (%) by fund type, end-2011

	Equity funds	Bond funds	Mixed funds	Real estate funds	Hedge funds	Money market funds	Total
Weighted average	–17,8	1,0	–7,2	–13,1	–1,1	1,2	**–5,9**
Median	–16,8	1,7	–8,5	–13,7	–8,7	1,1	**–9,5**
Highest	17,2	12,8	3,6	–7,4	16,4	3,2	**17,2**
Lowest	–45,4	–16,0	–26,4	–17,6	–31,2	–2,1	**–45,4**

Source: Bank of Finland.

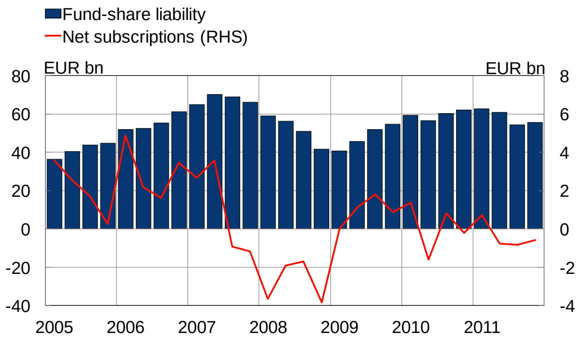
4.3 Investment funds' liabilities

The growth of investment fund capital came to a halt after two years in 2011. At the end of 2011, the fund capital of domestic investment funds stood at almost EUR 56 bn. The fund capital decreased 11% from a year earlier.

The fund capital increased in the favourable remainder of 2010 until April 2011, when it peaked at EUR 63 bn (Chart 33). Investment fund capital began to contract in the second quarter of the year when uncertainty in the financial markets increased. A steep decline was witnessed in August, when the fund capital shrunk by EUR 4.2 bn in a month. This contraction was the steepest after the financial crisis that began in 2008. The second-largest decline in fund capital during the last three years was seen after the escalation of the Greek public debt crisis in May 2010, when fund capital decreased by EUR 2.9 bn in a month.

In 2011, the aggregated fund-share liability of domestic investment funds contracted by EUR 6.5 bn to stand at about EUR 56 bn at the end of the year. The change in fund capital is affected by both the performance of the securities held by the funds and the subscriptions and redemptions by the investors in the funds. There was no substantial capital flight in 2011, since the funds had redemptions of EUR 1.5 bn in net terms, explaining 23% of the total change in the capital stock during the year. The reported subscriptions amounted to slightly less than EUR 36 bn in gross terms and redemptions to slightly over EUR 37 bn.[40] Hence, most of the decrease in the fund capital (78%) was explained by a decrease in the values of the securities held by the investment funds.

Chart 33. Domestic investment funds' fund-share liability and total net subscriptions



Sources: Statistics Finland and Bank of Finland.

The aggregated investment fund capital covered 98% of aggregated investment fund liabilities. The remainder consisted of investment funds' other

[40] Investment funds report their gross subscriptions and redemptions on a monthly basis, and net subscriptions are calculated as the difference of these values. In addition, the Bank of Finland calculates the net investments with a detailed sector and country breakdown based on the balance sheet stock data. In 2011, the difference between the reported and imputed net investments amounted to less than EUR 50 m.

liabilities, including timing differences of securities transactions and fund share subscriptions, derivatives liabilities as well as debts resulting from the custody of securities and administration.

The fund capital decreased more steeply in domestic investment funds than in euro area funds in general. The aggregated fund capital of investment funds registered in the euro area stood at EUR 6,484 bn at the end of September 2011, at almost 6% less than the fund capital stock at the end of 2010 (EUR 6,878 bn). Meanwhile, the capital of investment funds registered in Finland contracted by 13%.

The uncertain market conditions in 2011 drove investors to move their assets from other types of funds into money-market funds with the lowest perceived risk, whose assets expanded by EUR 1.1 bn to EUR 11 bn. A majority of the new capital (87%) came through positive net subscriptions by investors. The net assets of hedge funds also grew during the year despite negative revaluation adjustments. In contrast, the capital of other fund types contracted.

The weak market developments took their toll particularly on equity funds. Fund capital contracted by a quarter (EUR 6.4 bn) to EUR 19 bn mainly due to negative revaluation adjustments of fund shares. Equity funds also saw the most redemptions, EUR 1.7 bn, compared to other fund types.

Investors concerns about increasing government credit risk premia in 2011 reflected particularly on bond funds. The aggregated capital in bond funds contracted by EUR 1.0 bn to stand at slightly above EUR 19 bn at the end of 2011. The contraction was explained almost entirely by redemptions made by investors exceeding subscriptions by EUR 1.0 bn over the year. A majority of the redemptions took place in the latter half of the year.

During the last three years, the country breakdown of investment funds' fund share liability has remained relatively unchanged (Table 10). A majority of investment funds' fund share liability, 76% at end-2011, was held by Finnish investors. However, the proportion of domestic investors has decreased consistently over the last three years: it was 79% in 2010 and 81% in 2009. At the same time, the proportion of foreign investors has increased correspondingly. In 2011, 24% of fund capital (EUR 13 bn) was in foreign ownership. Out of that amount, Sweden accounted for almost 82% (EUR 11 bn).

Table 10. Domestic investment funds' fund-share liabilities by country

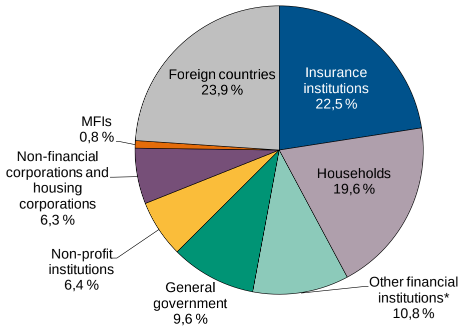
	2011		2010		2009	
	EUR m	%	EUR m	%	EUR m	%
Finland	42 375	76,1	48 976	78,7	43 979	80,6
Sweden	10 925	19,6	10 748	17,3	8 510	15,6
United Kingdom	981	1,8	859	1,4	671	1,2
Ireland	370	0,7	373	0,6	335	0,6
Norway	343	0,6	386	0,6	287	0,5
Luxembourg	286	0,5	285	0,5	283	0,5
Estonia	78	0,1	155	0,2	103	0,2
Lithuania	72	0,1	111	0,2	69	0,1
Switzerland	64	0,1	75	0,1	57	0,1
Denmark	38	0,1	40	0,1	96	0,2
Other	186	0,3	219	0,4	206	0,4
Total	55 716	100,0	62 227	100,0	54 595	100,0

Source: Bank of Finland.

The largest domestic holder sectors of investment fund shares were households (EUR 11 bn) and insurance institutions (EUR 13 bn) (Chart 34). The proportion of households in holding domestic investment fund capital continued previous years' trend and contracted to 19.6%. In euro terms, liabilities to households decreased by EUR 2.6 bn during the year. Out of households' aggregated financial assets of EUR 212 bn, 5% was invested in domestic investment funds, whereas the proportion had peaked at about 10% in 2007.[41]

[41] Source: Statistics Finland, Financial Accounts.

Chart 34. Breakdown of domestic investment funds' fund-share liabilities by investor sector at end-2011

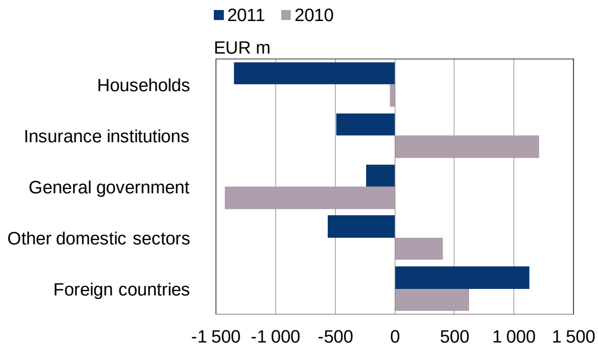


*Also includes financial auxiliaries.
Source: Bank of Finland.

Households redeemed their assets from investment fund throughout the year; the only exception being April when there were inflows of EUR 13 m of new capital from households into investment funds. A majority of the assets redeemed by households did not return into domestic investment funds during the year, since redemptions were almost EUR 1.4 bn negative in net terms. At the same time, households deposits with agreed maturity increased, which probably explains part of the reallocation of the assets redeemed from investment funds. The fund-share liability to insurance institutions also contracted by EUR 1.7 bn to slightly below EUR 13 bn at the end of the year. Over half of this amount consisted of household wealth invested through unit-linked insurance policies.

Taking a closer look at capital flows into domestic investment funds by investor sector, year 2011 was the opposite of 2010 (Chart 35). Whereas in 2010 domestic general government was the only main sector with significant net redemptions from investment funds, in 2011 the only sector with positive net investments in Finnish investment funds was foreign countries with a total of EUR 1.1 bn net investments.

Chart 35. Net investments in domestic investment funds by investor sector in 2010 and 2011



Source: Bank of Finland.

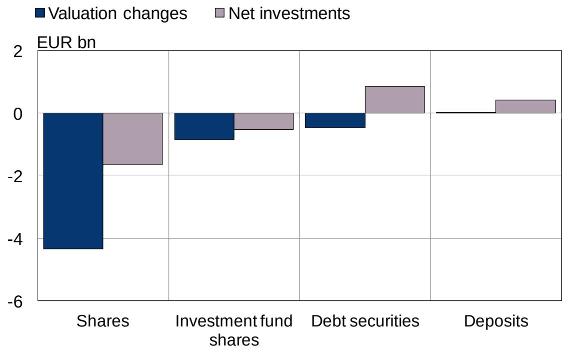
4.4 Investment funds' assets by instrument and sector

The proportion of shares in total investment fund assets decreased from 35% to 29% as a result of share price declines and liquidations. In contrast, investments in deposits and debt securities issued by non-financial corporations increased. The proportion of debt securities increased from 40% to 45%.

The stock of debt securities held by domestic investment funds grew during the year by EUR 0.4 bn to EUR 26 bn. The increase consisted of negative revaluation adjustments of EUR 0.5 bn and positive net investments of EUR 0.9 bn into debt securities (Chart 36). 41% of the debt securities in the stock were issued by MFIs, 24% by general government and 20 % by non-financial corporations. Over a half of the investments were allocated to the euro area and a quarter in Sweden. During the year, there was particular demand for debt securities issued by Finnish and Swedish non-financial corporations, which received net investments of almost EUR 0.9 bn. Debt securities issued by Swedish banks also received net investments of EUR 0.4 bn.

Out of the debt securities held by investment funds, 85% had original maturity of over one year. However, 34% of all debt securities matures already during 2012. The maturity breakdown of domestic debt security assets differed from the total stock in that most of the domestic papers had original maturity of less than a year, and as much as 76% of them matures during 2012. A major proportion of the domestic debt securities was issued by non-financial corporations and deposit banks, which probably explains part of the difference in the maturity structure of the domestic and foreign assets.

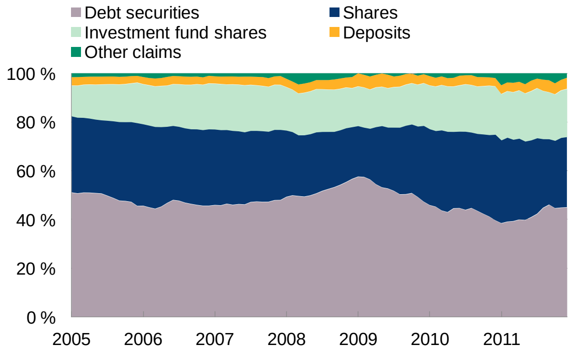
Chart 36. Domestic investment funds' net investments and revaluation adjustments by instrument in 2011



Source: Bank of Finland.

The stock of share investments contracted by as much as EUR 6.0 bn, comprising negative revaluation adjustments of EUR 4.3 bn and net sales of EUR 1.6 bn. Part of the shares had to be liquidated to execute investors' redemption orders from equity funds. Some of these assets shifted, through subscriptions in bond funds and money market funds, into deposits and debt securities issued by non-financial corporations. The most significant revaluation adjustments in equity funds were caused by Finnish, Russian, Swedish and Indian shares (EUR 2.7 bn). Out of the stock of equity assets of almost EUR 17 bn at end-2011, 86% were securities of non-financial corporations, 7% of MFIs and 6% of other financial institutions. The investment funds received dividends of slightly under EUR 0.6 bn on the equity shares.

Chart 37. Assets of domestic investment funds by instrument (%)



Sources: Statistics Finland and Bank of Finland.

The proportion of fund share assets in the balance sheet of domestic investment fund stood at a fifth, or EUR 11 bn. Half of this consisted of assets in other domestic investment funds. EUR 1.0 bn of the fund share assets consisted of ETFs (Exchange Traded Funds) whose popularity has increased rapidly on a global scale. About half of the fund share assets consisted of bond funds and a third of equity-weighted funds, also in line with the allocation of the investment funds' aggregated portfolio.

As many as 128 domestic investment funds had invested over 85% of their assets either in a single or several other investment funds. Out of this group, 30 funds can be called feeder funds investing all of their assets into a single target fund, so-called master fund.

At the end of the year, investment funds had deposits of EUR 2.6 bn, or slightly under 5% of their balance sheet. The deposits were 78% in domestic, 11% in Swedish and 4% in UK banks. Investment funds need deposit accounts particularly to ensure their daily liquidity.

Out of the EUR 0.7 bn of derivatives assets at the end of the year, standardised derivatives accounted for 96%. The remainder consisted of non-standardised OTC derivatives whose terms and conditions are agreed directly with the counterparty. At end-2011, derivatives assets outweighed derivatives liabilities by almost EUR 0.2 bn.

Table 11. Domestic investment funds' security assets by issuing sector relative to total assets (EUR 57,101 m) at end-2011, EUR m

	Debt securities		Shares and other equity		Investment fund shares		Total	
	EUR m	%	EUR m	%	EUR m	%	EUR m	%
Non-financial corporations and housing corporations	5 175	9,1	14 131	**24,7**			19 306	**33,8**
MFIs, incl. money market funds	10 446	**18,3**	1 231	2,2	1 311	2,3	12 989	**22,7**
Other financial institutions	3 623	6,3	942	1,7	9 957	**17,4**	14 522	**25,4**
Insurance institutions	173	0,3	224	0,4			398	**0,7**
General government	6 268	11,0					6 268	**11,0**
Total	**25 685**	**45,0**	**16 529**	**28,9**	**11 269**	**19,7**	**53 483**	**93,7**

Source: Bank of Finland.

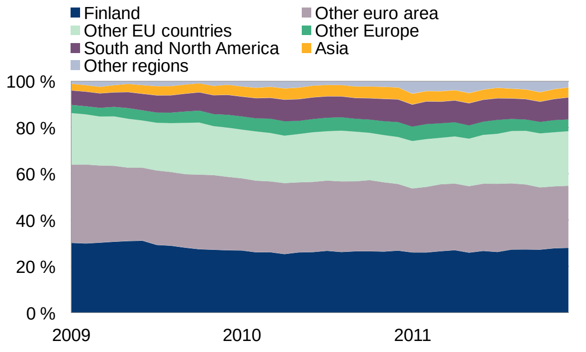
4.5 Investment funds' assets by region and currency

Domestic investment funds assets of EUR 57 bn continued to be invested heavily in Europe. An increasing proportion of the assets are held in other currencies than euro.

4.5.1 Assets by region

The assets of domestic investment funds were distributed at the end of 2011 in a total of 109 different countries. However they were primarily concentrated in Europe (Chart 38). Their relative proportion increased during the year to 84% although the market value of the investments decreased by EUR 4.9 bn to EUR 48 bn. The proportion of the euro area decreased to 55%, or EUR 31 bn, accounting for EUR 4.2 bn of the reduction in the market value of investment funds' total assets. Extra-euro area assets were mainly invested in North America and Asia.

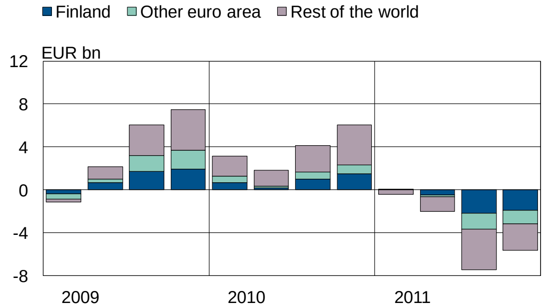
Chart 38. Assets of domestic investment funds by region (%)



Source: Bank of Finland.

Out of entire contraction of EUR 6.7 bn in the assets in the balance sheet, revaluation adjustments accounted for EUR 5.6 bn.[42] Revaluation adjustments were distributed between the euro area and rest of the world almost in the same proportions as the relative investments in these regions (Chart 39). 99% of the revaluation adjustments were related to changes in the market prices of the securities and the remainder to foreign exchange rate changes. In 2010, euro area accounted to a slightly smaller proportion of the positive revaluation adjustment in securities investments than the rest of the world.

Chart 39. Cumulative revaluation adjustment of domestic investment funds' securities assets by region



Source: Bank of Finland.

Investment funds held Finnish assets at end-2011 amounting to EUR 16 bn, about a third of which, or EUR 5.6 bn consisted of cross-holdings of investment fund shares between domestic investment funds. During the year, the flow of net investments into Finland was EUR 0.8 bn positive. Assets flowed into short-term debt securities of domestic non-financial corporations and bank deposits. However, revaluation adjustments of equity and fund investments pushed the stock of domestic assets EUR 1.1 bn into negative territory. Despite the contraction in the stock, the

[42] The figure does not include revaluation adjustments of other assets, an item used to match the revaluation adjustments of investment funds' aggregated assets with the revaluation adjustments of liabilities. This adjustment item consists mainly of securities transactions made within a month where the related data is not included in the statistics and not allocated to claims, regions or sectors. This adjustment item in 2011 amounted to EUR 0.8 bn.

relative proportion of domestic assets increased to 28% (Table 12).

As regards investments in other euro area, France (EUR 3.1 bn, 20%) surpassed Luxembourg, whose stock contracted by EUR 1.2 bn to EUR 3.0 bn mainly due to decrease in the value of Luxembourgish fund assets. In terms of largest investee countries in the euro area, the next were Germany (EUR 2.5 bn, 16% and Netherlands (EUR 2.1 bn, 14%). Investment funds’ holdings in other euro area continued to be heavily tilted towards debt securities.

Only the proportion of other EU grew during the year. Its relative proportion in investment funds' total assets increased by 3 percentage points to 24%. The growth of EUR 0.5 bn boosted the assets to over EUR 13 bn. This reflected the growth in Swedish assets by EUR 1.3 bn largely due to positive net investments. Sweden's proportion in the investments made in other euro area was about two thirds, or EUR 9.1 bn. Other important investee countries were the United Kingdom (EUR 3.0 bn; 22%) and Denmark (EUR 1.2 bn; 9%).

Table 12. Domestic investment funds' assets by country

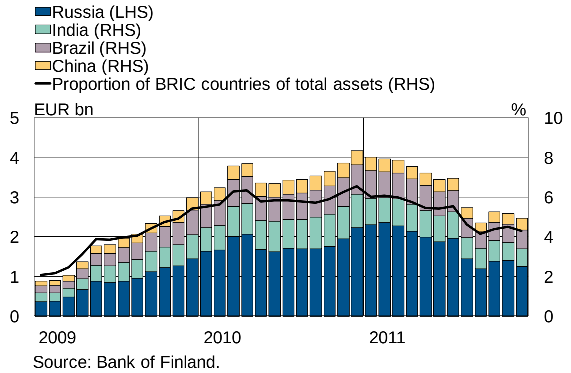
	31.12.2011		2011		31.12.2010	
	Stock	%	Valuation change	Net investments	Stock	%
Finland	16 058	28,1	–1 904	778	17 183	26,9
Sweden	9 074	15,9	–289	1 543	7 820	12,3
United States of America	3 993	7,0	–76	–121	4 191	6,6
France	3 095	5,4	–204	–166	3 465	5,4
Luxembourg	3 026	5,3	–353	–820	4 199	6,6
United Kingdom	2 970	5,2	–126	–300	3 411	5,3
Germany	2 455	4,3	–109	56	2 507	3,9
Netherlands	2 139	3,7	–129	–226	2 491	3,9
Ireland	1 271	2,2	–76	–134	1 472	2,3
Russia	1 244	2,2	–539	–433	2 218	3,5
Italy	1 219	2,1	–134	–69	1 422	2,2
Denmark	1 205	2,1	–50	–52	1 311	2,1
Spain	1 012	1,8	–21	–152	1 186	1,9
Norway	959	1,7	–104	4	1 060	1,7
Switzerland	514	0,9	–38	–44	592	0,9
Brazil	470	0,8	–134	–143	747	1,2
Austria	454	0,8	–59	36	476	0,7
India	442	0,8	–300	–91	833	1,3
Japan	370	0,6	–35	100	306	0,5
China	285	0,5	–82	12	356	0,6
Other	4 845	8,5	–149	–1 577	6 573	10,3
Total	57 101	100,0	–4 914	–1 802	63 818	100,0

Source: Bank of Finland.

The most important investment area in other Europe (EUR 3.0 bn; 5%) continued to be Russia with EUR 1.2 bn of assets. During the year, however, the stock of Russian investments decreased by EUR 1.0 due to decrease in the value of and sale of equity. The revaluation adjustments were in sharp contrast to the previous year, when the highest returns were achieved by equity funds investing in Russia. The proportion of the Russia in the assets of the region decreased indeed by 11 percentage points to 42%. The proportions of Norwegian (EUR 1.0 bn; 32%) and Swiss (EUR 0.5 bn; 17%) assets in the regional assets increased, although their stock contracted as well.

In addition to Russia, investment funds’ investments in other emerging markets also lost value (Chart 40). The stock of Asian assets (EUR 2.5 bn; 4%) contracted by EUR 0.8 bn, where 0.7 bn was the consequence of equity price decline. A majority of the decline was explained by equity investments targeted at India. The total stock of investments in India (EUR 0.4 bn; 18%) halved as a result of negative equity price developments (EUR 0.3 bn) and net investments (EUR 0.1 bn). Domestic investment funds increased their investments in Japan by EUR 0.1 bn, increasing the assets to EUR 0.4 bn (15%).

Chart 40. Domestic investments funds´ assets in BRIC countries



Source: Bank of Finland.

The amount of assets in South and North America (EUR 5.4 bn, 9%) decreased by the same amount as Asian assets (EUR 0.8 bn). US assets (EUR 4.0 bn; 74%) decreased as a result of liquidation of securities and revaluation adjustments by only EUR 0.2 bn. The amount of net sales were contained partly by new investments by investment funds into American ETFs (EUR 0.1 bn).

Australia and South Africa were the main markets in the Oceania (EUR 0.2 bn; 0.3%) and Africa (EUR 0.2 bn; 0.3%) in terms of the value of holdings by domestic investment funds, yet the total value of these assets only amounted to EUR 0.3 bn.

4.5.2 Assets by currency

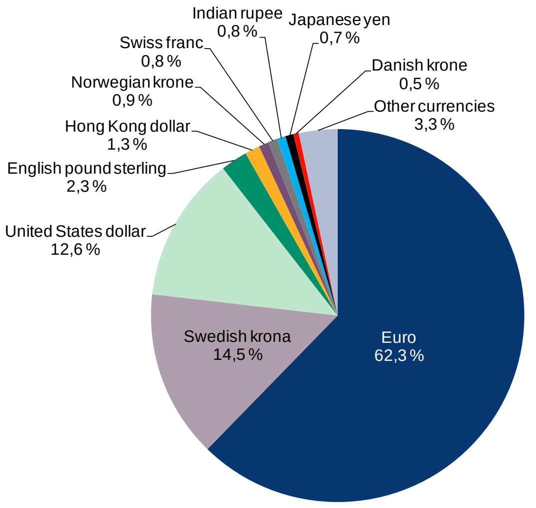
As regards the currency of assets in domestic investment funds (excl. derivatives) 62% were denominated in euro (Chart 41). Three years earlier, euro assets had accounted for 76%. The increase in other than euro assets is explained by investments in the Swedish krona and US dollar. The domestic currency of the issuer is not necessarily the value of denomination of a security, since securities are traded increasingly in different exchanges around the world. On the other hand, the trading currency cannot be directly deduced on the basis of the country of location of the exchange.

At the end of 2011, the EUR 17 bn equity assets in domestic investment funds were purchased as follows: 35% in euro, 25% in US dollar and 9% in Swedish krona. Three years earlier, euro-denominated equities had accounted for a considerably higher proportion (47%). Investment funds held shares denominated in as many as 47 different currencies in their balance sheet.

Out of the debt securities (EUR 26 bn) three quarters were denominated in euro and 19% in Swedish krona. The deposits, amounting to EUR 2.6 bn at end-2011, were 86% in euro and 7% in Swedish krona.

Other investment fund shares of EUR 11 bn were 67% in euro. As regards the currencies of fund assets, the next currencies were the US dollar (17%) and Swedish krona (15%). Fund shares had been purchased in nine different currencies.

Chart 41. Domestic investment funds' assets' currency breakdown at end-2011



Source: Bank of Finland.

Box 2. Investment funds’ assets in the GIIPS countries

The so-called GIIPS[43] countries have attracted particular attention over the past three years due to the in-creased risk premia on investments in these countries. In particular, the increased risk premia have been associated with these countries’ growing debt problems. Domestic investment funds have relatively minor investments in these countries as a proportion of their total assets. All in all, investment funds’ securities assets in the GIIPS countries at end-2011 totalled EUR 3.7 bn, that is a good 6% of their aggregate balance sheet (Table 13). Two years earlier, assets in the GIIPS countries amounted to 10% (EUR 5.5 bn) of the aggregate balance sheet; hence, their relative proportion has almost halved in two years.

Table 13. Domestic investment funds’ assets in GIIPS countries, EUR m

		31.12.2011	2011		31.12.2010
		Stock	Valuation change	Net investments	Stock
Greece	**Total**	**84**	**–98**	**–121**	**304**
	Shares and investment fund shares	3	–5	–9	17
	Debt securities	81	–93	–112	287
Ireland	**Total**	**1 271**	**–76**	**–134**	**1 472**
	Shares and investment fund shares	994	–61	106	950
	Debt securities	277	–15	–240	522
Italy	**Total**	**1 219**	**–134**	**–69**	**1 422**
	Shares and investment fund shares	87	–31	–42	160
	Debt securities	1 132	–103	–27	1 262
Portugal	**Total**	**108**	**–18**	**–30**	**156**
	Shares and investment fund shares	11	0	1	10
	Debt securities	97	–17	–31	146
Spain	**Total**	**1 012**	**–21**	**–152**	**1 186**
	Shares and investment fund shares	121	–17	–65	204
	Debt securities	891	–5	–87	982
	Total	**3 694**	**–347**	**–507**	**4 540**
	Shares and investment fund shares	1 217	–114	–10	1 341
	Debt securities	2 477	–233	–497	3 199

Source: Bank of Finland.

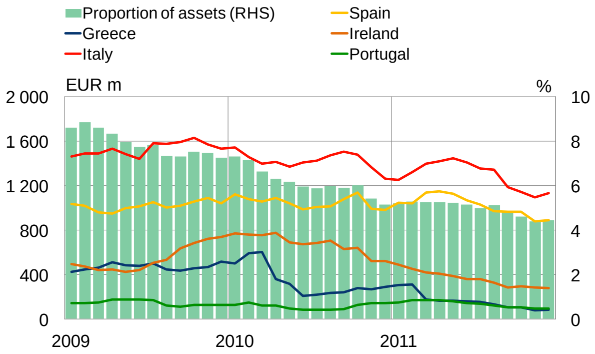
Investment funds’ GIIPS assets decreased in 2011 by EUR 0.8 bn primarily due to sales of debt security investments and a decline in value. In net terms, GIIPS investments decreased by EUR 0.5 bn during the year. Contraction of the stock was somewhat offset by net investments of EUR 0.1 bn in Irish investment fund shares.

[43] Greece, Italy, Ireland, Portugal and Spain.

Investment funds’ assets in Ireland mainly consist of investment fund shares. The risk related to investment funds however depends on the investment policy of the funds rather than their country of origin.44 The proportion of Greece and Portugal of total GIIPS as-sets has been minor over the entire three-year review period.

The majority of investment funds’ GIIPS assets consist of debt securities (67%), the majority being issued by Italian and Spanish issuers (Chart 42).

Chart 42. Domestic investment funds' debt securities in GIIPS countries and proportion (%) of total assets



Source: Bank of Finland.

At the end of 2011, investment funds held EUR 0.2 bn in debt securities issued by Spanish credit institutions and EUR 0.2 bn in debt securities issued by the Spanish government. The amount of debt securities issued by the Spanish government held by investment funds has decreased by almost 40% in a year, since in 2010 they amounted to EUR 0.3 bn.

Investment funds’ investments in the Italian debt security markets were primarily targeted to

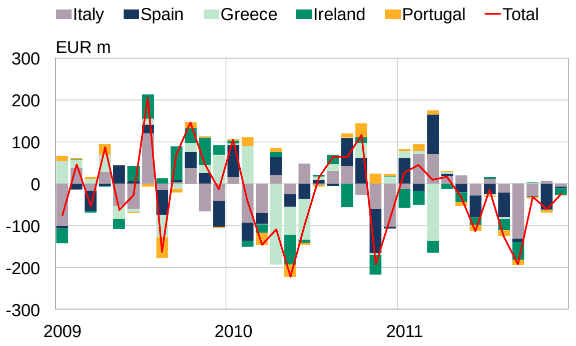
[44] Domestic investment funds’ investment fund assets of EUR 11 bn belong to funds not investing in the GIIPS countries in any significant degree.

Sources: Bank of Finland and Bloomberg.

government debt securities (EUR 0.7 bn). Investments in debt securities issued by credit institutions amounted to EUR 0.4 bn. Investment funds' assets in debt securi-ties issued by the Italian and Spanish government have been reduced materially in recent years. For example, investments in Italian government debt securities have decreased from EUR 1.1 bn to EUR 0.7 bn in three years.

Investment funds monthly net investments in the GIIPS countries varied materially in 2009–2010 (Chart 43). However, year 2010 pointed to a reduced appetite for investing in these countries as net investments were EUR 0.5 bn negative. In 2011, the monthly fluctuation evened out, and after April investment funds mainly reduced their holdings in the GIIPS countries. In 2011, net investments were also EUR 0.5 bn negative.

Chart 43. Domestic investment funds' net investments in GIIPS countries' debt securities



Source: Bank of Finland.

5 Reporting entities

5.1 Monetary financial institutions

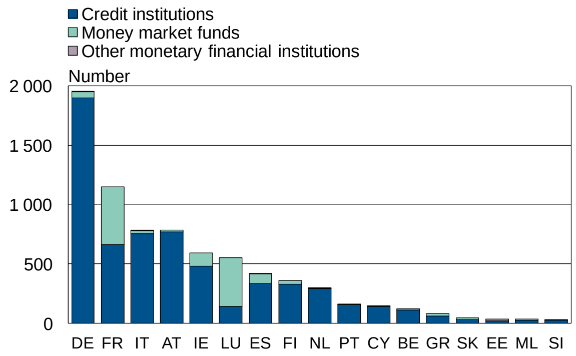
The number of Finnish monetary financial institutions decreased in 2011. This was mainly due to mergers among MFIs.

At the end of 2011[45] there were 354 MFIs in Finland. Of these, 324 were credit institutions and 29 money market funds[46] In addition, the MFI sector includes the Bank of Finland. The sector was reduced during the year by 11 MFIs, mostly on account of mergers among cooperative bank groups. In addition, a few new domestic credit institutions and one foreign branch began operation.

At end-2011, Germany had the most MFIs among the euro area countries, as many as 1,956. It was followed by France, Italy and Austria. The highest number of money market funds was registered in France, Luxembourg and Ireland (Chart 44).

The adjacent tables present an overview of the changes occurring in the MFI sector in 2011. Changes related to money market funds are covered in chapter 5.2.

Chart 44. Number of MFIs in euro area, end 2011



Source: European Central Bank.

Table 14. MFIs commencing operations in Finland in 2011

Name of MFI	Date
AS LHV Pank, Branch in Finland	February
Siikalatvan Osuuspankki	March
Stadshypotek AB (publ), filialverksamheten i Finland	May
Suur-Savon Osuuspankki	May
Eufex Bank Ltd	June
Itella Bank Ltd	September
Resurs Bank AB Finnish Branch	October

Source: Bank of Finland.

Table 15. Units exiting in Finnish MFI sector in 2011

Name of MFI	Date
eQ Bank Ltd	July
The Royal Bank of Scotland public limited company, Finnish Branch	December

Source: Bank of Finland.

[45] An up-to-date list of Finnish MFIs is available on the Bank of Finland's website at http://www.suomenpankki.fi/en/tilastot/tase_ja_korko/Pages/rahalaitoslista.aspx.

[46] In January 2012, a significant proportion of money market funds were reclassified as bond funds as the classification criteria for money market funds under the ECB's regulation on MFI balance sheet statistics were revised. This has been discussed in more detail in the Bank of Finland's Financial Market Report 2/2011.

Table 16. MFIs merged in 2011 (excl. money market funds)

	Name of MFI	Date
M	Tuuloksen Säästöpankki	February
R	Lammin Säästöpankki	
M	Kestilän Osuuspankki	March
M	Rantsilan Osuuspankki	
R	Siikalatvan Osuuspankki	
M	SEB Gyllenberg Private Bank Ltd	May
R	Skandinaviska Enskilda Banken AB (publ)	
M	Etelä-Savon Osuuspankki	May
M	Juvan Osuuspankki	
M	Pieksämäen Osuuspankki	
M	Savonlinnan Osuuspankki	
R	Suur-Savon Osuuspankki	
M	Varpaisjärven Osuuspankki	August
R	Koillis-Savon Seudun Osuuspankki	
M	Lapinlahden Osuuspankki	October
M	Vieremän Osuuspankki	
R	Osuuspankki Poppia	
M	Haapajärven Osuuspankki	December
R	Suomenselän Osuuspankki	
M	Kokemäen Osuuspankki	December
M	Harjavallan Osuuspankki	
R	Satakunnan Osuuspankki	
M	Sampo Housing Loan Bank plc	December
R	Sampo Bank plc	

M = merged MFI
R = receiving MFI

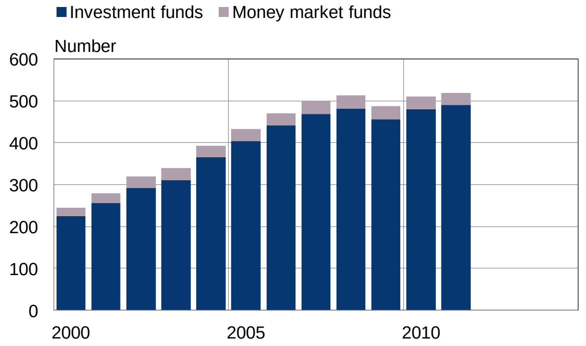
Source: Bank of Finland.

5.2 Investment funds

The total number of investment funds (incl. money market funds) registered in Finland at end-2011 stood at 519. The reporting group grew by nine investment funds during the year.

In 2011, the total number of investment funds continued to increase (Chart 45). At the end of 2011, there were 519 investment funds operating in Finland. There were no large shifts in the fund type breakdown of investment funds during the year: equity funds increased by 12 units while hedge funds decreased by 6 units and money market funds by 1 units (Chart 46).

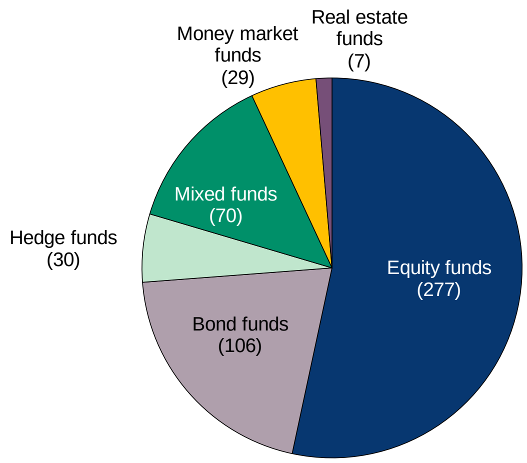
Chart 45. Number of domestic investment funds (incl. money market funds)



Sources: Statistics Finland and Bank of Finland.

During 2011, a total of 35 new investment funds were established, comprising 23 equity funds, 7 bond funds, 2 mixed funds, 2 hedge funds and a money market fund. New investment funds were established particularly in the first year-half – a total of 24 new funds began operation by the end of June.

Chart 46. Domestic investment funds (519 funds) by fund type, end-2011



Source: Bank of Finland.

The number of investment funds closed down during the year totalled 26. In contrast to last year, only 14 of those merged with another existing fund. Among the investment funds (25) closed down in 2010, almost all (23) discontinued their operation in connection with a merger arrangement.

The number of management companies was unchanged from the previous year – at end-2011 there were 35 management companies in operation. The largest number of investment funds at end-2011 were under the management of Nordea Investment Fund Company Finland Ltd (63). In the previous two years, Danske Invest Fund Management Ltd (formerly Sampo Fund Management Ltd) had the most investment funds under its management. The number of funds under its management was reduced by eight to 61 at end-2011. OP Fund Management Company Ltd had 59 funds under its management.

Table 17. Domestic investment funds commencing operations in 2011

Name of investment fund	Type of fund	Management company	Date
Erikoissijoitusrahasto Aalto Capital Thematic World	Hedge fund	Aalto Capital Asset Management Ltd	June
UCITS Fund Aktia Nordic Small Cap	Equity fund	Aktia Fund Management Company Ltd	September
UCITS Fund Aktia Emerging Market Local Currency T-Bill+	Bond fund	Aktia Fund Management Company Ltd	June
Alexandria Aggressive Manager Fund (UCITS)	Equity fund	Alexandria Fund Management Company Ltd	March
Alexandria Growth Manager Fund (UCITS)	Equity fund	Alexandria Fund Management Company Ltd	March
Alexandria Balanced Manager Fund (UCITS)	Equity fund	Alexandria Fund Management Company Ltd	March
Alexandria Emerging Markets Manager Fund	Equity fund	Alexandria Fund Management Company Ltd	June
Alexandria Cautious Manager Fund (UCITS)	Bond fund	Alexandria Fund Management Company Ltd	March
Mutual Fund eQ Emerging Dividend (UCITS)	Equity fund	eQ Fund Management Company Ltd	February
Eufex Aegis non-UCITS Fund	Hedge fund	Eufex Fund Administration Ltd	December
EPL Equity Optimum non-UCITS Fund	Equity fund	Eufex Fund Administration Ltd	January
Elina All Asset Classes UCITS Fund	Equity fund	Eufex Fund Administration Ltd	August
EPL 100 non-UCITS Fund	Equity fund	Eufex Fund Administration Ltd	December
EPL Rational Plus non-UCITS Fund	Bond fund	Eufex Fund Administration Ltd	January
Elina Cautious UCITS Fund	Bond fund	Eufex Fund Administration Ltd	August
Eufex Pension Capital Management non-UCITS Fund	Mixed fund	Eufex Fund Administration Ltd	April
FIM BRIC+ Small Cap Fund	Equity fund	FIM Asset Management Ltd	March
Finlandia India Fund (UCITS)	Equity fund	Finlandia Fund Management Company Ltd	April
Fondita European Top Picks Investment Fund	Equity fund	Fondita Fund Management Company Ltd	May
Mutual Fund ICECAPITAL Frontier Markets (Non-UCITS)	Equity fund	ICECAPITAL Fund Management Company Ltd	December
Mutual Fund ICECAPITAL Global Multi Asset	Mixed fund	ICECAPITAL Fund Management Company Ltd	January
Non-UCITS Nordea Private Banking Focus Finland	Equity fund	Nordea Investment Fund Company Finland Ltd	April
Non-UCITS Nordea Private Banking Focus Nordic	Equity fund	Nordea Investment Fund Company Finland Ltd	April
Non-UCITS Nordea Private Banking Focus Europe	Equity fund	Nordea Investment Fund Company Finland Ltd	April
Nordea Private Banking Focus Fixed Income Fund	Bond fund	Nordea Investment Fund Company Finland Ltd	April
OP-Nordic Countries Index Fund	Equity fund	OP Fund Management Company Ltd	September
OP-Asia Index Fund	Equity fund	OP Fund Management Company Ltd	September
Säästöpankki Pienyhtiöt -sijoitusrahasto	Equity fund	SP-Fund Management Company Ltd	March
Säästöpankki Kassa -sijoitusrahasto	Money market fund	SP-Fund Management Company Ltd	April
Taaleritehdas Dinaari Equity Fund	Equity fund	Taaleritehdas Fund Management Ltd	May
Taaleritehdas Arvo Rhein Equity Fund	Equity fund	Taaleritehdas Fund Management Ltd	September
Mutual Fund Tapiola Dividend	Equity fund	Tapiola Asset Management Ltd	January
Special Mutual Fund Tapiola ETF Fixed Income (non-UCITS)	Bond fund	Tapiola Asset Management Ltd	September
Special Mutual Fund Tapiola Emerging Market Debt (non-UCIT	Bond fund	Tapiola Asset Management Ltd	May
Special Mutual Fund Tapiola ETF Equity (non-UCITS)	Equity fund	Tapiola Asset Management Ltd	September

*Established in the connection with a merger arrangement.
Source: Bank of Finland.

Table 18. Domestic investment funds discontinuing operations in 2011

Name of investment fund	Type of fund	Management company	Date
Erikoissijoitusrahasto Aalto Capital Thematic Word	Hedge fund	Aalto Capital Asset Management Ltd	December
Alfred Berg Global Macro Allocation Fund	Hedge fund	Alfred Berg Funds Ltd	February
Special Mutual Fund Avenir (non-UCITS)	Hedge fund	Avenir Rahastoyhtiö Oy	July
Mutual Fund Evli Global Infrastructure (non-UCITS)	Equity fund	Evli Fund Management Company Ltd	June
Mutual Fund ICECAPITAL Eurozone Inflation-Linked Bond Index (Non-UCITS)	Bond fund	ICECAPITAL Fund Management Company Ltd	March
Non-UCITS Nordea SWE Capital Guaranteed	Mixed fund	Nordea Investment Fund Company Finland Ltd	December
OP-Macro Fund (Non-UCITS)	Hedge fund	OP Fund Management Company Ltd	May
OP-Long Bond Index Fund	Bond fund	OP Fund Management Company Ltd	September
Abacus Fund of Hedge Funds (non-UCITS)	Hedge fund	Danske Invest Fund Management Ltd	April
Taaleritehdas Zloty Equity Fund	Equity fund	Taaleritehdas Fund Management Ltd	October
UB Navigator Fund	Hedge fund	UB Fund Management Company Ltd	April
Front Capital Treasury Bill Fund	Money market fund	UB Fund Management Company Ltd	February

Source: Bank of Finland.

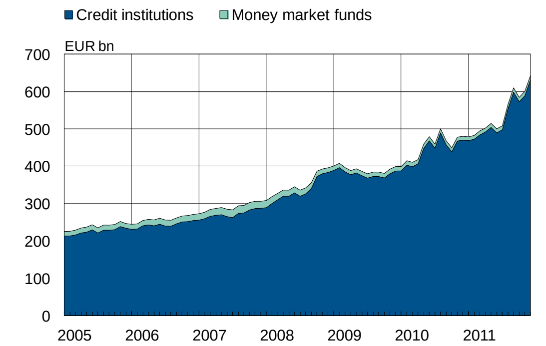
Table 19. Domestic investment funds merged in 2011 (incl. money market funds) (merged fund = M, receiving fund = R)

	Name of investment fund	Type of fund	Management company	Date
M	Erikoissijoitusrahasto Altos Advantage	Hedge fund	Aalto Capital Asset Management Ltd	July
R	Erikoissijoitusrahasto Aalto Capital Thematic World	Hedge fund	Aalto Capital Asset Management Ltd	July
M	UCITS Fund Aktia Growth	Equity fund	Aktia Fund Management Company Ltd	April
R	UCITS Fund Aktia Global	Equity fund	Aktia Fund Management Company Ltd	April
M	Mutual Fund eQ Global Focus (UCITS)	Equity fund	eQ Fund Management Company Ltd	November
R	Mutual Fund eQ Europe Dividend (UCITS)	Equity fund	eQ Fund Management Company Ltd	November
M	Mutual Fund Evli Europe Quant Index (non-UCITS)	Equity fund	Evli Fund Management Company Ltd	September
R	Mutual Fund Evli Europe	Equity fund	Evli Fund Management Company Ltd	September
M	Mutual Fund ICECAPITAL Global Infrastructure	Mixed fund	ICECAPITAL Fund Management Company Ltd	November
R	Mutual Fund ICECAPITAL Global Utilities & Energy	Equity fund	ICECAPITAL Fund Management Company Ltd	November
M	OP-Asia Fund (Non-UCITS)	Equity fund	OP Fund Management Company Ltd	September
M	OP-Japan Index Fund	Equity fund	OP Fund Management Company Ltd	September
R (new)	OP-Asia Index Fund	Equity fund	OP Fund Management Company Ltd	September
M	Danske Invest Risk Fund	Hedge fund	Danske Invest Fund Management Ltd	February
R	Danske Invest European Equity Fund	Equity fund	Danske Invest Fund Management Ltd	February
M	Danske Invest European Opportunities Fund	Equity fund	Danske Invest Fund Management Ltd	February
R	Danske Invest European Small Cap Fund	Equity fund	Danske Invest Fund Management Ltd	February
M	Danske Invest Financials & Investment Fund	Equity fund	Danske Invest Fund Management Ltd	February
M	Danske Invest Eastern Europe Fund	Equity fund	Danske Invest Fund Management Ltd	February
M	Danske Invest Poland Fund	Equity fund	Danske Invest Fund Management Ltd	February
R	Danske Invest Eastern Europe Convergence Fund	Equity fund	Danske Invest Fund Management Ltd	February
M	Danske Invest US Bond Fund	Bond fund	Danske Invest Fund Management Ltd	February
R	Sampo Government Bond Fund	Bond fund	Danske Invest Fund Management Ltd	February
M	Sampo Government Liquidity Fund	Money market fund	Danske Invest Fund Management Ltd	February
R	Danske Invest Euro Interest Fund	Money market fund	Danske Invest Fund Management Ltd	February

Source: Bank of Finland.

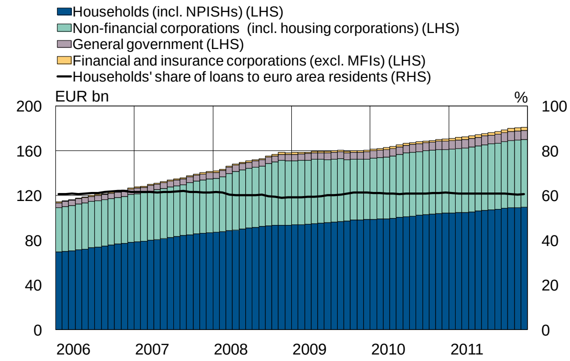
Appendix 1. Charts

Chart 47. Aggregated balance sheet of Finnish MFIs (excl. Bank of Finland)



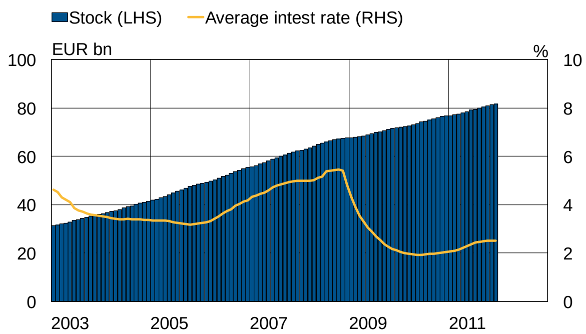
Source: Bank of Finland.

Chart 48. Loans to non-MFIs by sector



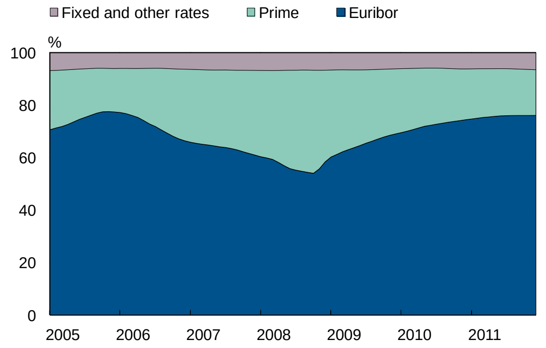
Source: Bank of Finland.

Chart 49. Stock and average interest rate on housing loans



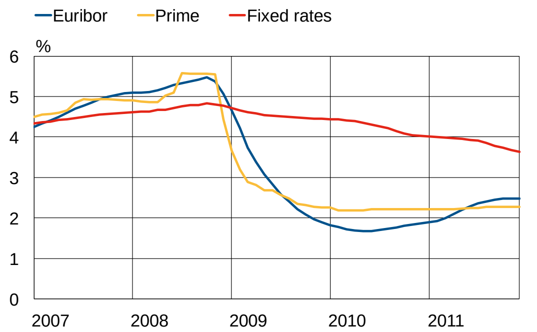
Source: Bank of Finland.

Chart 50. Stock of housing loans by reference rate



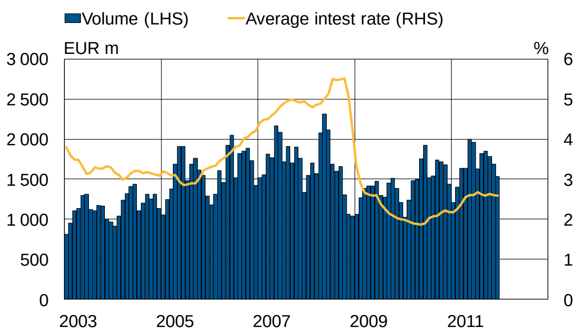
Source: Bank of Finland.

Chart 51. Average interest rate on housing loan stock by interest rate linkage



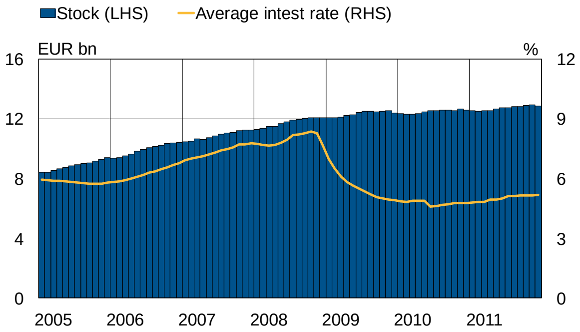
Source: Bank of Finland.

Chart 52. Volume and average interest rate on new drawdowns of housing loans



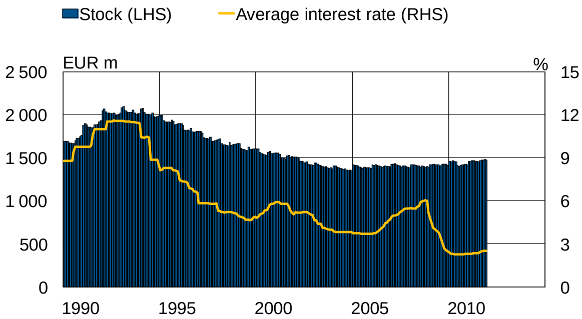
Source: Bank of Finland.

Chart 53. Stock and average interest rate on consumer credit to households



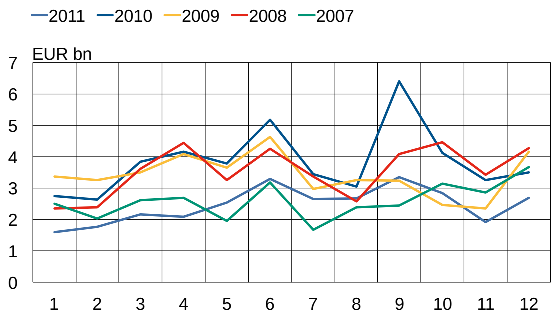
Source: Bank of Finland.

Chart 54. Stock and average interest rate on student loans



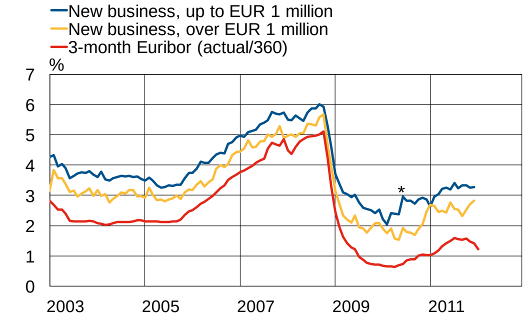
Source: bank of Finland

Chart 55. New business on loans to non-financial corporations of over EUR 1 million, 2007–2011



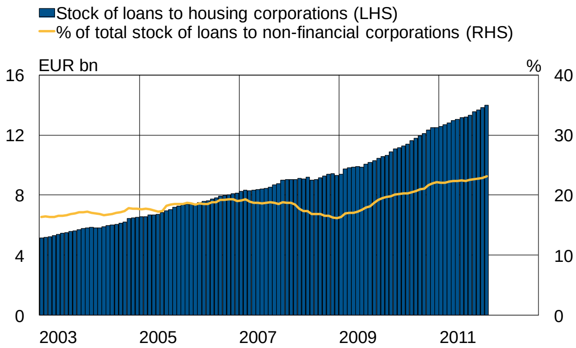
Source: Bank of Finland.

Chart 56. Average interest rate on new business on loans to non-financial corporations with initial rate fixation of up to 1 year, by loan size



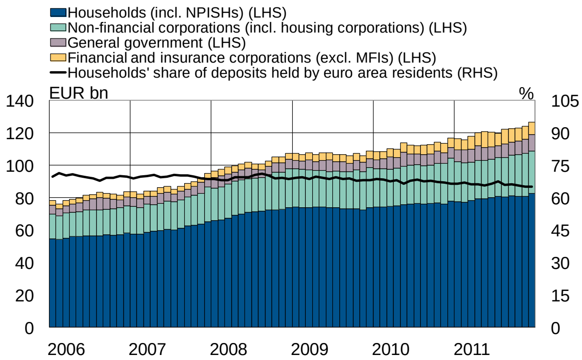
*) Collection of statistical data from MFIs was revised in June 2010. Consequently, the series is not fully comparable with previous observations.
Sources: Bank of Finland and Reuters.

Chart 57. Stock of loans to housing corporations and its share in total corporate loan stock



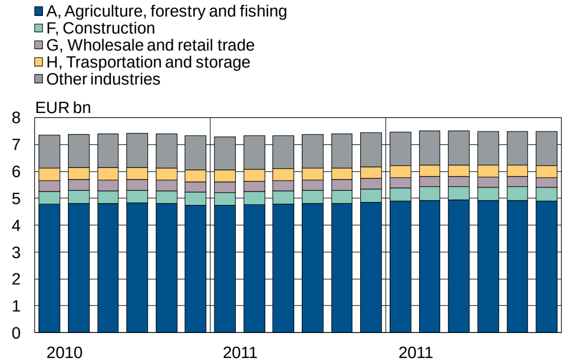
Source: Bank of Finland.

Chart 58. Non-MFI deposits by sector



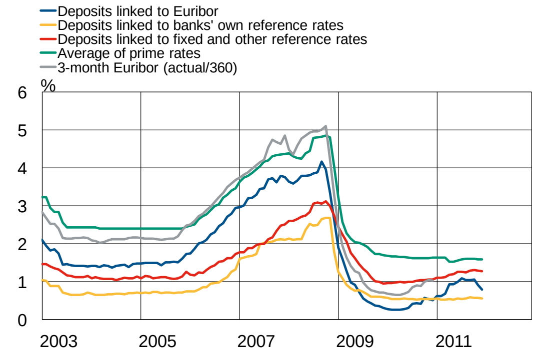
Source: Bank of Finland.

Chart 59. Stock of loans to sole proprietors by industry



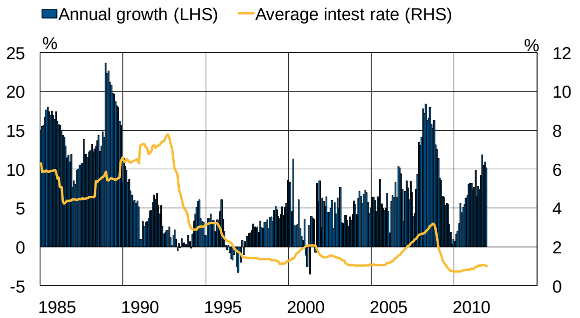
Source: Bank of Finland.

Chart 62. Average interest rate on non-MFI deposit stock by reference rate



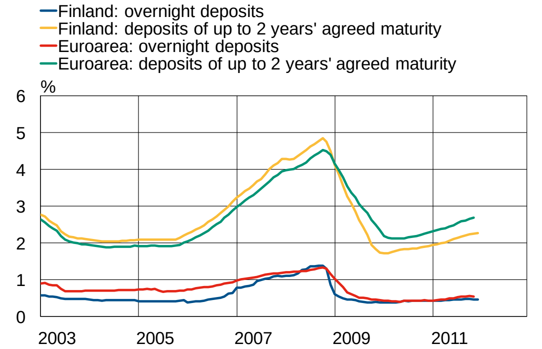
Source: Bank of Finland.

Chart 60. Annual growth and average interest rate on non-MFI deposits



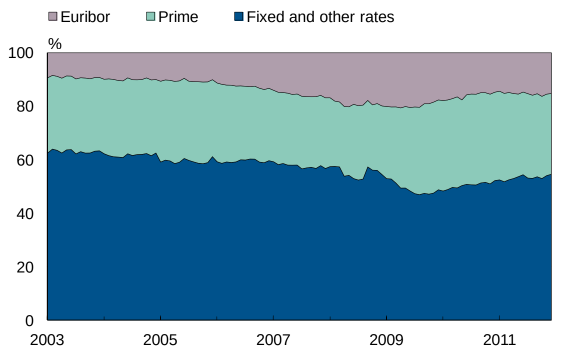
Source: Bank of Finland.

Chart 63. Average interest rates on household deposits in Finland and euro area



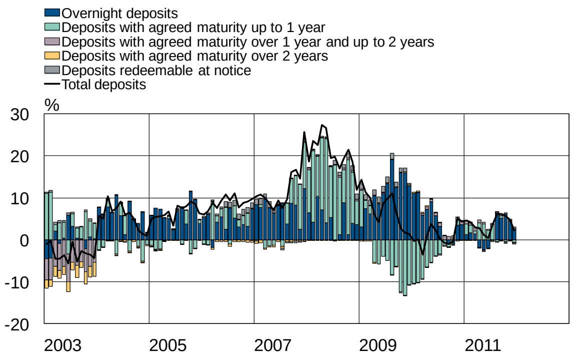
Sources: European Central Bank and Bank of Finland.

Chart 61. Deposits by euro area non-MFIs by interest rate linkage



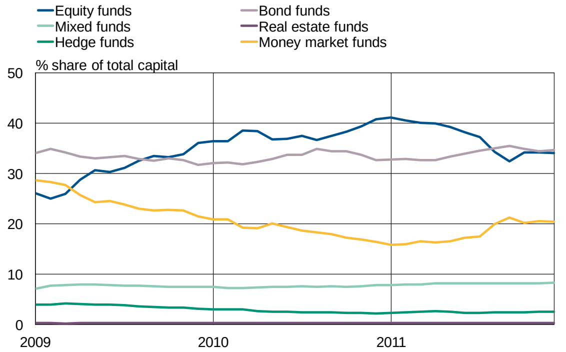
Source: Bank of Finland.

Chart 64. Annual growth of deposit stock of Finnish non-financial corporations by claim



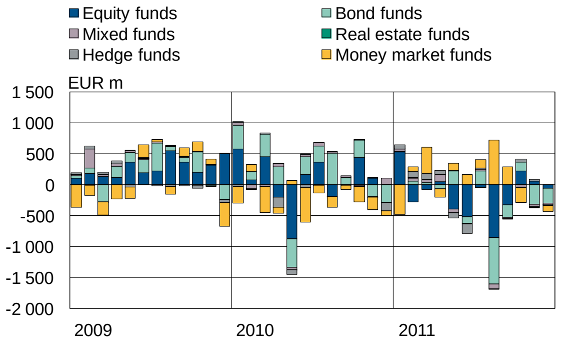
Source: Bank of Finland.

Chart 65. Domestic investment funds' total fund-share liability broken down by fund type



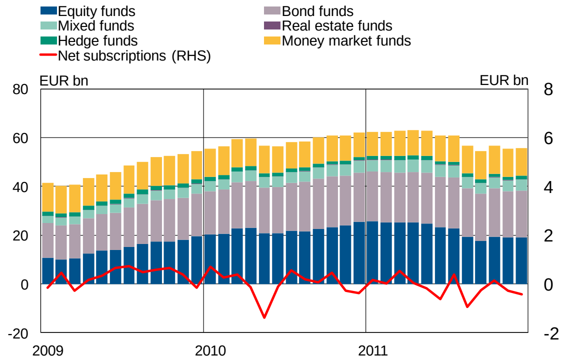
Source: Bank of Finland.

Chart 68. Net subscriptions in domestic investment funds by fund type



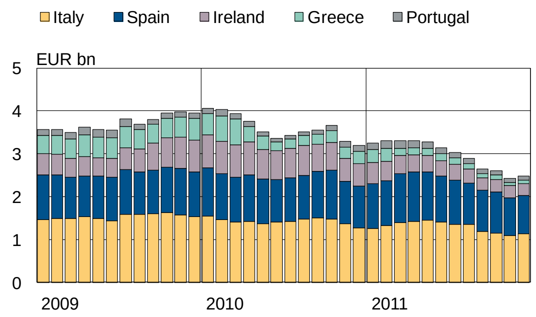
Source: Bank of Finland.

Chart 66. Domestic investment funds' fund-share liability and total net subscriptions



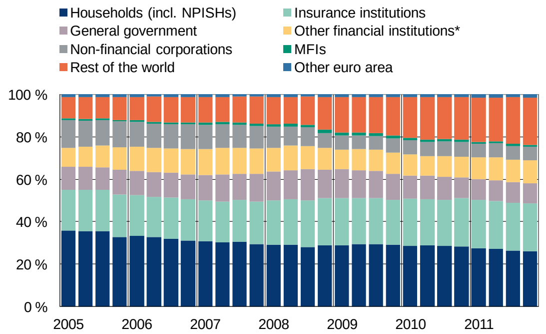
Source: Bank of Finland.

Chart 69. Domestic investment funds' debt security assets in the GIIPS countries



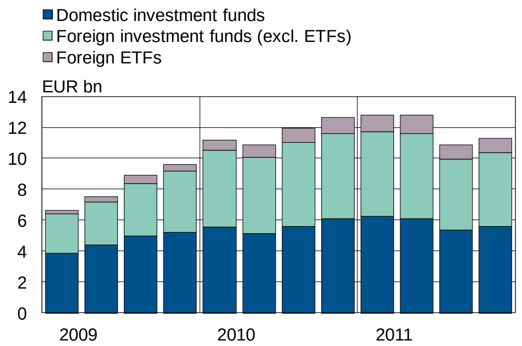
Source: Bank of Finland.

Chart 67. Domestic investment funds' fund-share liabilities by sector



* Also includes financial auxiliaries.
Sources: Statistics Finland and Bank of Finland.

Chart 70. Domestic investment funds' investment fund assets



Sources: Bank of Finland and Bloomberg.