



COUNTRY PROFILE, FINLAND

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Introduction and Country Background

Finland has the low population densities in the European Union

Key Facts

Capital - Major Cities	Helsinki - Espoo, Tampere, Vantaa, Turku
Area	338,145 km ² (69% of which is forest)
Population	5.326 million (12-2008 estimate)
Languages	Finnish, Swedish (small minority)
Currency	EUR (Euro)
Telephone Code	+358
National/ Bank Holidays	2009 ↓ 1, 6 Jan; 10-13 Apr; 1, 21, 31 May; 19-20 Jun; 31 Oct; 6, 25-26 Dec
Business Hours	9.00 - 16.15 / 16.30 (Mon-Fri)
Stock Exchange	Helsinki Stock Exchange (NASDAQ OMX Group)
Leading Share Index	OMXH25 (formerly HEX 25)
Overall Share Index	OMXH All-Share (HEXTech and HEX Portfolio)

Finland has a highly industrialised, free-market economy

Economic Performance

	2005	2006	2007	2008
Exchange Rate - EUR/USD ¹	0.803	0.797	0.7296	0.6799
Money Market Rate (%) ¹	2.18	2.94	4.08	2.603
Consumer Inflation (%) ²	0.8	1.3	1.6	3.9
Unemployment Rate (%) ³	8.4	7.7	6.8	6.2
GDP (EUR billions) ⁴	149.8	157.1	164.2	168.3
GDP (USD billions) ⁵	186.6	197.1	225.1	247.5
GDP Volume Growth (%) ²	2.9	4.9	4.5	2.5
GDP Per Capita (USD)	37,504	39,332	41,542	46,476
Current Account (% of GDP)	3.6	4.6	4.6	3.4

Sources: International Monetary Fund, IMF, Statistics Finland, Bank of Finland, Eurostat

¹ Period average

² Year on year

³ Per annum (seasons adjusted)

⁴ Constant prices: index, 2000=100

⁵ Per average exchange rate

After recovering from a deep economic depression in 1991, Finland joined the EU in 1995

Government

Legislature Regime

Finland has a semi-presidential system with parliamentarism. The parliament is unicameral with 200 members. The members are elected for a four-year term by direct popular vote under a system of proportional representation. The last parliamentary election was held on 18 March 2007. The next election is due by March 2011.

Head of State

The head of state is the President of the Republic. The President is elected for a six-year term by direct popular vote. President Mrs. Tarja Halonen, was elected in 2000 and was recently re-elected on 29 January, 2006. This will be her last 6-year term because no president may be elected for more than two consecutive terms since 1991.

Political Leader

Prime Minister Matti Vanhanen of the Centre Party, in office since June 2003 and recently re-elected April 2007, heads a centre-right coalition government with his Centre Party, the National Coalition Party, the Green League and the Swedish People's Party.

European Union

Finland has been a full member of the European Union since 1995.

Banking Environment

More than half of all banking services are provided by foreign owned banks

Overview

Introduction

The structure of the Finnish banking sector has changed substantially, partly as a result of the banking crisis of the early 1990s and subsequent Nordic integration (e.g. due to the cross-border merger that created Nordea, Danske Bank's purchase of Sampo Bank) and technological advancement. The changes have been significant also in the insurance sector, and Finland has experienced the creation of 'financial conglomerates' that produce and sell a wide variety of financial services.

The financial infrastructure, i.e. payment and settlement systems and exchanges, has also been in a continual process of change since the mid-1990s. Finland's membership in the European System of Central Banks and introduction of the euro has accelerated the restructuring as well as technological progress.

Finland hasn't had to rescue any banks during the credit crisis in 2008. Still, the government has proposed guaranteeing new bank debt to a maximum of 50 billion euros, in line with measures decided by EU leaders in October.

Sector Figures

The number of banks operating in Finland has been relatively stable for several years.

At 1.1.2009 there were 340 banks operating in Finland, divided as follows: 15 commercial banks, 23 foreign branches, 33 savings banks, OP-Pohjola Group (which has approximately 227 member co-operative banks) and 42 other local co-operative banks. In addition, there are some 1,603 branch offices throughout the country, of which over 600 belong to the OP group.

The combined market share of the three largest bank groups, Nordea, Sampo, and the OP group, is approximately 85 per cent of both deposits and credits. With the sale of Sampo Bank, foreign banks' share of banking in Finland expanded to account for more than half of the market for many banking products and services.

Sector Wide Agreements

The directive on capital-adequacy rules, known as Basel II, is implemented.

Central Bank

Background

The Bank of Finland is Finland's central bank and a member of the European System of Central Banks (ESCB). Under the Finnish constitution, the Bank of Finland operates under the guarantee and supervision of Parliament. Parliament appoints the nine-member Parliamentary Supervisory Council to supervise the Bank's admini-

The Bank of Finland is the only central bank in the euro-area that has an Institute for Economies in Transition

stration and activities. The Board is responsible for the administration of the Bank of Finland. The Board consists of the Chairman (Governor Erkki Liikanen since July 2004) and a maximum of five other members, appointed by the President of the Republic in response to a presentation by the Council of State, which is based on a proposal by the Parliamentary Supervisory Council of the Bank of Finland. The Chairman of the Board is appointed for a seven-year term while the other members of the Board each serve for five-year terms.

Responsibilities

In accordance with the Treaty establishing the European Community, the primary objective of the Bank of Finland is to maintain price stability in the euro area and Finland. The Bank of Finland also supports the achievement of other economic policy objectives, without prejudice to the primary objective of price stability.

The Bank of Finland's scope activities covers four, clearly-defined core tasks:

- monetary policy and research,
- financial markets and statistics,
- banking operations, and
- maintenance of the currency supply.

The Bank of Finland is the only central bank in the euro-area that has an Institute for Economies in Transition.

Financial Authorities

Supervision is exercised by a new single entity

FIN-FSA is the new joint regulator for both banks and insurance companies

Finnish financial sector trade bodies merged in 2007 forming a new federation

Introduction

From 2005, a new Act provides that supervision of financial and insurance conglomerates shall be exercised jointly by the Financial Supervision Authority and the Insurance Supervisory Authority. One of the supervisory authorities shall act as coordinator, depending on whether the conglomerate primarily engages in banking or insurance. The new Act also includes provisions on the criteria for appointing the coordinator and on the coordinator's responsibilities.

The FIN-FSA and the Insurance Supervisory Authority (ISA) merged on 1 January 2009 forming one single supervisory authority.

Furthermore, the Finnish Bankers' Association and the Federation of Finnish Insurance Companies have merged on 1 January 2007, thereby establishing a new body called Federation of Finnish Financial Services.

Financial Supervisory Authority

Finanssivalvonta (Fiva), or the Financial Supervisory Authority (FIN-FSA), is from 1 January 2009 the new authority for supervision of Finland's financial and insurance sectors and is responsible for most of the supervisory functions previously undertaken by the Financial Supervision Authority and the Insurance Supervisory Authority. Administratively FIN-FSA operate in connection with the Bank of Finland, but make independent decisions in its supervisory work. The supervisory authority has about 210 employees.

The entities supervised by the new authority include banks, insurance and pension companies as well as other companies operating in the insurance sector, investment firms, fund management companies and the Helsinki Stock Exchange.

The objective of its activities is to enable balanced operations of credit institutions, insurance and pension companies and other supervised entities in stable financial markets. Its objective is also to protect the rights of the insured and foster public confidence in financial market operations. In addition, it is responsible for promoting compliance with good practice in financial markets and disseminating general knowledge about the markets. These objectives and duties have been included in the Act on the Financial Supervisory Authority.

Federation of Finnish Financial Services

The Federation of Finnish Financial Services is a trade body that represents its member companies who engage in the financial services industry in Finland. The Federation was formed at the start of 2007 when The Finnish Bankers' Association, the Federation of Finnish Insurance Companies, the Finnish Finance Houses Association and the Employers' Association of Finnish Financial Institutions joined

forces. At the start of 2009, the Federation was joined by the Finnish Association of Securities Dealers.

The new Federation's members employ a total of 40,000 persons and provide services to practically all Finnish companies and consumers. The size of the Finnish financial market, made up of deposits, insurance products, fund investments, lending products and employee pension assets, adds up to €370bn. Moreover, authorised pension insurers and workers compensation insurers, also members of the Federation, play a major role as providers of insurance cover that accounts for much of Finnish social security.

The new Federation continues the lobbying work of the merged organisations in the former scope. The objective is not only to secure the industry a benign operating environment, well-functioning financial markets and effective payment systems but also to support new opportunities offered to member companies in the future.

As of April 2009, there were 461 members.

Legal & Regulatory Issues

The market for financial transactions is deregulated and heavily influenced by EU directives

Introduction

The Finnish financial market legislation is heavily influenced by EU Directives. For example, the provisions of EU Directives on Financial conglomerates were implemented in August 2004, and as of January 2005 (companies with fiscal year starting January 2005 or later) all companies are required to prepare financial statements according to the International Accounting Standards (IAS).

As such the market for financial transactions is deregulated. However, due to the still existing Central Bank reporting requirements for transactions between residents and non-residents Finland is not the ideal place for maintaining master accounts, e.g. for larger Euro cash pooling schemes.

In practice, all entities registered in Finland are regarded as resident entities

Resident and Non-Resident Status

'Residents' denote economic entities that engage in economic activities in Finland on a permanent basis and have fixed premises in Finland, e.g., offices or production plants, from where they carry on their activities. Economic activities are regarded as permanent if they continue for at least a year. Otherwise, activities are regarded as being conducted by non-resident economic entities.

In practice, all entities registered in Finland are regarded as resident entities. By way of exception, however, foreign branches of entities registered in Finland are regarded as non-resident entities. Correspondingly, resident branches of entities registered abroad are regarded as resident entities. Hence, a non-resident branch of a domestic financial institution is considered as a non-resident entity and a resident branch of a foreign bank as a resident entity.

Account ownership rules are liberal

Account Ownership

Any type of account can be owned by a resident as well as a non-resident company.

Cash pooling regulations are liberal, though not all services are widely offered

Cash Pooling Regulations

Cash concentration and notional pooling are allowed domestically as well as cross-border. Cash pooling across legal entities within the same group, is allowed when obeying certain lending rule. Resident and non-resident companies can participate in the same cash pool, but Central Bank reporting requirements must be adhered as well as withholding tax regulations must be observed. The Finnish legislation allows for multicurrency cash pooling, although it is not widely offered by the banks.

Most account types are available and cross border pay-

Account Types and Charges

Current accounts can be held in all exchangeable currencies and are offered with

ment fees are regulated at the EU level

or without overdraft limits. Euro accounts are convertible into foreign currency. Interest rates are to a larger extent than many other European countries based on fixed rates using a basic rate of the bank but market rates, less a spread, are increasingly used. Account maintenance fees will normally apply but are negotiable. IBAN was implemented in October 2001.

Payment Fees

A flat fee will be charged for domestic payments – a per mille charge could be charged for some types of foreign payments. Following the EU regulations on cross-border transfers in EUR, from 1 July 2003 the charge for a cross-border transfer of up to 12,500 EUR must be equivalent to the charge for a domestic payment in EUR. The increase to a maximum of €50,000 took effect on 1 January 2006. The payer must provide the receiver's International Bank Account number (IBAN) and the receiving bank's Bank Identifier Code (BIC, the SWIFT code). If such information is not provided – or the information is wrong – an additional charge will be levied.

No FX controls exist

FX Controls

The Euro flows freely but the European Central Bank can intervene or coordinate an intervention with the other Central Banks in the euro area in order to stabilise the exchange rate. There are no exchange controls.

Central bank reporting for statistical purposes exists

Central Bank Reporting Requirements

The Central Bank of Finland collects monthly statistics on balance of payments, divided in domestic and cross-border transactions. Questionnaires are issued to approximately 500 resident companies, which are required to provide information on foreign assets and liabilities on a monthly basis, with the remaining resident companies in Finland providing information annually. A few companies submit information on a quarterly basis. Single transaction reporting does not apply.

Laws are in place to prevent money laundering according to international standards

Money Laundering

The Ministry of the Interior is the responsible authority for developing Anti Money Laundering legislation. The basis for preventing Money Laundering in Finland is the Act on Preventing and Clearing Money Laundering, which entered into force on 1 March 1998, and which among other things established a central unit - the Money Laundering Clearing House (MLCH) which receives all reports of suspicious transactions. The FIN-FSA is responsible for supervision of whether operating procedures, risk management and internal control procedures are in line with existing Anti Money Laundering legislation. The Finnish Laws on Money Laundering involves financial institutions, credit institutions, investment services companies, pawnshops, real estate agents and betting services companies (e.g. casinos).

Further, the EC Money Laundering Directive (Council Directive 91/308/EEC of 10 June 1991 as amended by directive 2001/97/EC of 4 December 2001) has been implemented in Finland. Following the vote by the European Parliament on 26 May 2005, the Council reached an agreement on a text for a third directive on the prevention of the use of the financial system for the purpose of money laundering and

terrorist financing (the “Third Directive”). It builds on existing EU legislation and incorporates into EU law the June 2003 revision of the Forty Recommendations of the Financial Action Task Force (FATF), the international standard setter in the fight against money laundering and terrorist financing. The Directive is applicable to the financial sector as well as lawyers, notaries, accountants, real estate agents, casinos, trust and company service providers. Its scope also encompasses all providers of goods, when payments are made in cash in excess of 15.000 EUR. Those subject to the Directive need to:

- Identify and verify the identity of their customer and of its beneficial owner, and to monitor their business relationship with the customer;
- Report suspicions of money laundering or terrorist financing to the public authorities -usually, the national financial intelligence unit; and
- Take supporting measures, such as ensuring a proper training of the personnel and the establishment of appropriate internal preventive policies and procedures.

The Directive introduces additional requirements and safeguards for situations of higher risk (e.g. trading with correspondent banks situated outside the EU). For the sake of clarity, the existing 1991 Directive, as amended in 2001, will be repealed and replaced by this Directive, upon its effective entry into force. It entered into force in Finnish law on 1 August 2008.

Finland is member of the Financial Action Task Force (FATF), and has incorporated most of the forty recommendations under Finnish Law.

Electronic signature and transaction legislation is in place

Regulations Applicable for Electronic Transactions

The Act on Electronic Signatures (14/2003) entered into force in Finland on February 1, 2003 enacting on a member state level the Directive 1999/93/EC of the European Parliament and of the Council of 13 December 1999 on a Community framework for electronic signatures. Under the Act on Electronic Signatures, an electronic signature equals a handwritten signature providing the electronic signature is created by a “secure signature creation device” and confirmed with a “qualified certificate”.

Furthermore, electronic invoicing is allowed under Finnish law.

Market Dominant Banks

More than four-fifths of the financial market is dominated by 3 players: Nordea, Sampo and the OP group

Introduction

The combined market share of the three largest bank groups, Nordea, Sampo, and the OP Bank Group, is approximately 85 per cent of both deposits and credits in Finland. The Nordea group is the largest in terms of balance sheet total in Finland. The OP Bank Group is a nationwide banking group with 229 independent cooperative banks and a central organisation. The banking arm of the Sampo Group (which also includes insurance) became part of the Danske Bank Group in November 2006 (acquired for approximately EUR 4 bn.) and is the third largest in Finland. Swedish owned Handelsbanken has the largest number of foreign branches at 45.

Market Dominant Banks per 31 Dec. 2008

Bank	Assets (USDm)
Nordea Bank Group	697,290
Pohjola ¹	111,339
Sampo Bank ²	695,033
Aktia Savings Bank	14,031

¹ Part of the OP-Pohjola Group

²Part of the Danske Bank Group

Note: Figures are total group consolidated assets in millions USD.

Source: Banks' annual reports.

The Nordic largest commercial banking group

Nordea Bank

Nordea is the biggest Nordic banking group, primarily present in Denmark, Finland, Norway and Sweden. It is the result of the successive mergers and acquisitions of the Swedish, Finnish, Danish and Norwegian banks of Nordbanken, Merita Bank, Unibank and Kreditkassen (Christiania Bank), respectively, that took place between 1999 and 2000. The bank's vision is "to be the leading Nordic bank, acknowledge for its people, creating superior value for customers and shareholders" and its mission is "making it possible". Nordea has approximately 10 million retail and 700,000 thousand corporate customers, and more than 1,400 branch offices. Over half of Nordea's customer base are electronic customers and actively use the bank's electronic tools and services.

In Finland, Nordea has an estimated 30-43% market share, depending on the product and business area. Nordea announced the acquisition of the larger part of Roskilde Bank (which was taken over by the Danish state) on 29 September 2008, acquiring 9 of the former bank's branches, including 42,000 private customers and 6,000 corporate customers. In the summer of 2008 Nordea acquired 68 branches in a bolt-on acquisition of Svensk Kassaservice.

Nordea is also present in Russia, the Baltic Sea countries (Estonia, Latvia, Lithuania) and Poland with a combined number of 260 branches. The bank expanded into

the former in 1989 and then divested its minority stake in June 2006 in order to acquire a majority stake in Orgresbank in November of the same year. Nordea expanded into Poland in August 2005 through its purchase of Sampo's Polish life and pension companies, which was merged into Nordea's Polish life company. Besides banking it provides insurance, mortgage banking and real estate agency services to its customers.

The bank's largest shareholder, the Swedish state is expected to sell its 20% stake in 2008 putting the bank in play for either a Nordic or European acquisition. Furthermore, the Sampo Group, following its sale of its banking operations to Danske Bank in 2006, acquired 10% of Nordea in open-market operations. Sampo has continued to increase its stake in Nordea and owns some 15%. To date the stake is purely financial (e.g. eventual gain from future M&A activity) in purpose.

Finland largest domestically owned commercial bank

Pohjola

From 1 March 2008, OKO Bank plc changed its corporate name to Pohjola Bank plc. Pohjola Bank plc and Pohjola Insurance Ltd market their services under the name of Pohjola. They are both part of the OP-Pohjola group.

OKO Bank (Osuuspankkien Keskuspankki Oyj), founded in 1902, is a universal commercial bank and the central bank of the OP-Pohjola Group. It is divided into three business divisions: banking, asset management, and non-life insurance.

The Group has an around one-third market share of loans and deposits and more than a one-quarter market share of non-life insurance. OP Bank Group comprises 229 independent member cooperative banks and the Group's statutory central institution, OP Bank Group Central Cooperative. The Group has a network of nearly 604 branches throughout Finland. Pohjola Bank is one of the subsidiaries of the Central Cooperative. The member cooperative banks are independent, operate locally and are wholly owned by their individual members.

Part of Denmark's Danske Bank Group, Sampo Bank is a large player in Finland and increasingly so in the Baltic region

Sampo Bank

In November 2006, the Danske Bank Group acquired Sampo Bank for approximately USD 5 billion in cash. Sampo Bank is Finland's third-largest bank with a market share of 16% and 121 branches; subsidiaries in Estonia, Latvia and Lithuania; and a recently acquired bank in Russia. The transaction also comprised various investment services companies, the most significant of which are Mandatum Asset Management Ltd, Sampo Fund Management Ltd, Mandatum & Co Ltd and Mandatum Stockbrokers Ltd.

Sampo Bank specialises in investment and savings and provides banking services for retail, corporate and institutional customers. Sampo Bank's branches and other service channels also play a central role in offering the investment and savings services of other companies in the Sampo Group. Supplementing Sampo Bank's national branch network are the offices of Mandatum Private Bank, which offer private wealth management services in the largest cities. Sampo also has more than 50 outlets focusing on corporate customer service.

Sampo Bank has more than 1.1 million personal customers and more than 100,000 corporate and institutional customers in Finland. Sampo Bank continues to operate as a local banking brand with its own management but adopted the corporate visual identity of the Danske Bank Group around Easter 2008. Danske Bank integrated Sampo Bank's Finnish activities onto its IT platform during Easter 2008.

Measured by total assets, the Danske Bank Group is the largest financial enterprise in Denmark and one of the largest in the Nordic region offering services in banking, mortgage finance, insurance, leasing, real-estate brokerage and asset management. The vision of the Group is "One platform - exceptional brands" and its mission is to be "the best local financial partner". In total, the Group serves 5 million retail customers and a large number of public sector and institutional organisations. Some 2 million customers use the Bank's online services.

In the mid 1990s it expanded its operations into the rest of Scandinavia, and in 2005 via acquisition in the Republic of Ireland and Northern Ireland, marking its first move out of Scandinavia.

Finland's largest savings bank

Aktia Savings Bank

Aktia was created in its current form at the beginning of the 1990s when the Helsinki Savings Bank merged with a number of savings banks. Aktia's roots date back to 1825, when Finland's first deposit bank was created.

Aktia focuses on private individuals, local companies, municipalities, and non-profit organisations. Aktia serves its 300,000 customers through 90 branch offices are mainly situated on the coast and in growth areas like Tampere. With its partners, savings banks and local co-operative banks, Aktia operates a network of about 430 branch offices and has an ATM network of 1,700 throughout the country.

Aktia serves as the central financial institute for savings and local co-operative banks, and is engaged in deposit banking, and operates as an authorised securities broker with a comprehensive network of global correspondent banks. Aktia is approved by the Bank of Finland as counterparty for open market operations and is a party to the Bank of Finland's payments, liquidity and cheque account facilities.

The Aktia Group includes Aktia Asset Management Oy Ab, Aktia Fund Management Ltd and Aktia Real Estate Mortgage Bank plc. Aktia is owned by Finnish savings bank foundations, institutions, savings banks, Swedbank of Sweden, and private individuals.

Clearing Systems

All bank-to-bank transactions are cleared on a bilateral basis

Overview

There are no multilateral clearing centres operating in Finland. Consequently all bank-to-bank transactions are cleared on a bilateral basis and settled via the banks' accounts with the Central Bank of Finland.

There are three main interbank payment systems used in Finland – TARGET2, POPS and PMJ, the first two being high value clearing systems and the later a low value clearing system. The pan-European RTGS system, TARGET2, and the inter-bank large-value net settlement system, POPS, are operated by a number of banks directly participating in the clearing. Retail payments are cleared via the mass transaction clearing system (PMJ) operated by the banks directly participating.

Finland acceded to the EU RTGS system, TARGET2, on 18 February 2007

TARGET2

The current pan-European RTGS system, TARGET, migrated to a single shared platform (SSP) called TARGET2 making the 16 decentralised RTGS systems of individual Eurosystem countries and the ECB's payment mechanism (EPM) obsolete. The changeover took place in three migration waves, starting 19 November 2007 and ending 19 May 2008 (15 September 2008 is reserved for contingency needs).

Finland acceded to TARGET2 in the second wave on 18 February 2007 with Belgium, France, Ireland, Netherlands, Portugal and Spain. The Swedish Central Bank and the Bank of England will not migrate to TARGET2.

- Participation: options include direct and indirect participation, "addressable BICs" and "multi-addressee access" to the system, also known as "technical BIC access". Direct participation criteria for TARGET2 is the same as for the current TARGET system. Only supervised credit institutions established within the EEA can become indirect participants.
- Transaction types: focus on large-value payments related to inter-bank operations
- Price indication: between €0.125 and €0.80 depending on type of participation.
- Operating hours: the operational day in TARGET2 will be longer than that of the current TARGET system. TARGET2 will start the new business day on the evening of the previous day. The night-time window will be available from 19:30 to 6:45 the next day, with a technical maintenance period of three hours between 22:00-01:00. Daytime hours for customer payments 07:00-17:00 CET with the day ending at 18:00 + 30 minutes for the use of standing facilities on the last day of a minimum reserve period.
- Transaction details: Direct participation: For the exchange of payments information, TARGET2 will use the SWIFTNet FIN service, while the SWIFTNet services "InterAct", "Browse" and "FileAct" will be used for information and control services.

POPS is a real-time decentralised funds transfer system

POPS

The POPS system is a real-time, decentralised, funds transfer system, based on bilateral exchange of data. The system was developed jointly by the member banks and the Finnish Bankers' Association. The banks are also involved in the maintenance of the POPS system.

- Participants: 9 direct participants (of which 3 are branches of foreign banks)
- Transaction types: Customer initiated express transfers, bank drafts and cheques
- Pricing indication: Participants bear their own cost with regard to their internal payment processing systems and data transmission.
- Operating hours: Monday to Friday 8.00 - 16.30 CET
- Clearing cycle details: The member banks of the POPS system send payment instructions directly to each other. Interbank transfers can be executed on a gross or net basis, depending on the amount sum to be transferred. Should the transfer exceed the mutually agreed gross limit, settlement is made as a gross payment via Target2. Smaller payments are bilaterally netted, i.e., the banks' bilateral debit/credit positions are continuously updated during the day, on the basis of intermediated transactions. Once the bilaterally agreed net debit limit is reached, a transfer is made via Target2. At the end of the day a settlement is made, thereby zeroing the rest of the bilateral obligations.

PMJ is a domestic interbank payment system based on batch processing

Low Value Clearing — PMJ

PMJ is a payment system developed jointly by Finnish banks and the Finnish Bankers' Association.

- Participants: 9 direct participants
- Indirect participants: Cooperative banks and Savings banks participate via Aktia Savings Bank
- Transaction types: Mass transactions such as credit transfers, direct debits and payment card transactions
- Pricing indication: PMJ has an entrance fee, but no other fees. All banks bear their own costs; thus, PMJ works on a reciprocal basis.
- Operating hours: Monday to Friday 24 hours a day
- Clearing cycle details: PMJ is a domestic interbank payment system based on batch processing. Payment orders are transmitted bilaterally between banks, and settlement based on clearing calculations takes place in the BOF-RTGS system twice a day. Each bank must ensure that there are sufficient funds on account for settlement. The Bank of Finland informs each bank as to settlements in the Target2 system, and the banks debit or credit their customers' bank accounts after settlement.

A new system called E-settlement has been developed, used for incoming and outgoing

Developments

E-settlement is a new development based on TCP/IP from the Bank of Finland, which

settlement transaction traffic

could be applied for correspondent banking, ACH and RTGS processing.

The banks use this E-settlement for incoming and outgoing settlement transaction traffic. All payment traffic happens via normal interbank payment network. The E-settlement module creates a digital settlement stamp for each outgoing payment transaction and validates the digital settlement stamps of all the incoming payment transactions.

The concept is:

- Central Banks issue liquidity to Bank E-Settlement modules at the beginning of day against bank's deposits in Central Bank
- Settlement of payments is performed directly between two banks' E-Settlement modules using the issued liquidity
- Payer's bank requests an E-Settlement stamp from its E-Settlement module
- The settlement stamp is transferred to beneficiary's bank together with the payment information
- Settlement is final when beneficiary's bank's E-Settlement module has validated the stamp

Payments & Collections Methods & Instruments

Electronic means of payment are widely used by both corporates and retail consumers

Introduction

The table clearly illustrates the continuing shift towards electronic transfers, card transactions and direct debits. Credit transfers account for the vast majority of the payments, although this payment method has matured and even declined in 2007 in value terms. Cheque volume and value appear to have stabilised while cards, particularly debit cards, continue to grow as a means of payment. Nonetheless, on the basis of rough calculations in 2006 regarding the use of cash in domestic face-to-face retail payments, the Bank of Finland estimates that cash is used in almost half of payments in terms of value, while the share of cash in terms of volume may still be somewhat higher.

Banks in Finland have been implementing SEPA (Single Euro Payments Area) standards for EUR-denominated payments. The country's banks now only issue SEPA-compliant debit cards (since 1 January 2008) and also now offer pan-European SEPA credit transfers (since 28 January 2008). SEPA direct debits however will not be available until the harmonising EU Payment Services Directive is implemented in each member state. It is not yet known how long the transition period will last for national payment products to be fully replaced by SEPA payments. However it is hoped SEPA will be fully operative by around 2013. It will consist of all EEA member states plus Switzerland. Final transition dates and a completion date are expected to be decided in late 2009.

Volume of Transactions (millions)

	2005	2006	2007	% change
Debit cards	598	727	827	13.8
Credit cards	76	91	90	-1.1
Credit transfers	623	657	701	6.7
Direct debits	72	79	76	-3.8
Cheques	0.7	0.6	0.6	0.0
Total	1,370	1,554	1,694	9.0

Value of Transactions (EUR billions)

	2005	2006	2007	% change
Debit cards	19.8	22.5	26.5	17.8
Credit cards	4.5	5.6	5.7	1.8
Credit transfers	4,063	4,377	3,982	-9.0
Direct debits	39.9	40.9	44.0	7.6
Cheques	30.0	28.0	30	7.1
Total	4,157	4,474	4,088	-8.6

Note: Percentage change calculated from 2006-2007

Sources: ECB Statistical Data Warehouse

Debit cards are by far the most popular payment card

Card Payments

Since the late 1980s payment cards – especially debit cards – have been used in daily retail payments, partly replacing cash and almost completely replacing cheques. In 2007 there were 917 million payment card transactions, i.e. approximately 172 payment card transactions per inhabitant. The total value of such transactions was €32.2 billion, i.e. an average value of €29 per transaction. Physical debit cards are typically valid only in Finland, while Visa Electron cards are also accepted in other countries, perhaps one of the reasons for its increasing popularity. The most popular delayed debit and credit cards in Finland are the international Visa and Eurocard/MasterCard brands. Diners Club and American Express cards are also used to some extent. In 2007 there were 6.43 million cards issues, or 1.2 cards per person. The Finnish banking sector has decided to replace the current national debit card scheme with international debit card brands. To be SEPA-compliant from 2008, banks will only issue cards that can be used for payments in all EU Member States.

The largest e-money scheme, Avant, closed in 2005.

There is one ATM network in Finland, called “Otto.” It is operated by Automatia Pankkiautomaatit Oy, which has a total of 1,700 terminals and is jointly owned by the Nordea and Sampo banks, together with the OP Bank Group. All in all there are some 3,218 ATMs located throughout Finland. The number of EFTPOS amounted to 135,000 as at year-end 2007,, continuing the upward trend of previous year. The EFTPOS system has been changed so that it is possible to withdraw cash from POS terminals if the shop has made an agreement with the bank concerning the service in question.

Credit transfers are the dominant payment instrument in Finland

Credit Transfers

Credit transfers are the dominant payment instrument in Finland in terms of both volume and value. Business to business transactions are almost exclusively executed as credit transfers, as many companies initiate payments via their own ERP-system, and send the payment requests directly to the bank in batches.

Normal value dates are +1, however, it is to some extent possible to negotiate for larger corporates that payments received from other accounts with the same bank are valued the same day. Further, an express transfer is available, with funds transferred to the recipient within the hour.

Transfer forms, which to a large extent are processed automatically, are available as both bank giro and postal giro which are compatible solutions using the same giro form. Companies’ billing and payment systems are linked via “reference giro”, containing reference number identifying the payer, payee and the invoice.

Direct debit are increasingly popular

Direct Debits

Successively high growth from 1994 to 2007 in the volume, and especially value in

recent years, of direct debit transactions illustrates the increasing popularity in the Finnish marketplace. Direct debits are cleared with same day value in case of both parties having accounts with the same bank. If payer and payee use different banks, the transaction is valued day 1. Direct debits are cleared through the PMJ clearing system (see the above section "Clearing systems"). All direct debits are cleared automatically.

Cheque usage is relatively low

Cheques

The usage of cheques is as in most other European countries very low and still decreasing, strongly supported by the removal of the cheque guarantee in 2001. Consequently cheques drawn by customers and banks account for less of the total volume of cashless payment instruments in Finland.

Mobile cash services are available

Mobile Cash

It is possible to make payments via mobile phones or other mobile cash terminals in Finland. Payments are transferred directly from the phone to the account of a service provider. Mobile cash is available with the mobile subscriptions of the major operators. The maximum balance of the mobile purse is EUR 400. The minimum amount for transferring into the purse is EUR 5.

Electronic Banking

Electronic banking is widespread in Finland

Introduction

Finland has a long tradition within electronic banking and the market is heavily dominated by a few vendors providing multibanking software solutions (Analyste, OpusCapita and Solo Multibank) due to the fact that the Finnish Bankers' Association has agreed with the banks on technical standards for electronic banking in Finland. Banks do, however, offer their own proprietary systems to some extent.

The banks have offered electronic banking services to private customers for more than 20 years. The number of internet banking agreements has increased rapidly over the last few years and as at year-end 2007 there were 4.2 million internet banking agreements between banks and customers, vastly exceeding the number of households in Finland. Nearly all payment transactions from individuals and corporates arrive at the bank electronically. In 2007 the number of payments made via the internet and telebanking was 317 million, continuing the steady upward trend of the last few years. Mobile phone based banking services (e.g. bill payment and balance checking) have also been available since 1996.

Most bank platforms and services are available via the web

General Functionality of EBS Offerings

Many banks have shifted the focus from PC based electronic banking systems to web-based platforms. The services offered through the World Wide Web include services related to the payment of invoices, account information, securities trading, loan applications and loan information. In addition to these, the service pages contain information about banking affairs and provide an opportunity for electronic communication with the bank.

Further, in general the banks have extended their services to include payment for purchases via websites using bank identifiers, as well as authentication services required for electronic transactions. The use of the TUPAS identification service standardised by the Finnish Bankers' Association has significantly expanded in just a few years. In the TUPAS service, the bank is only responsible for identifying the customer who uses bank identifiers.

Payment processing services are available

EDIFACT / Host-to-Host Solutions

Corporations growing effort of streamlining payment processing is supported by a number of Finnish banks. Host-to-host solutions are provided for purely domestic as well as international payments.

Finvoice is Finland's electronic invoice service

E-payments and E-voice / EBPP

Finvoice is the electronic invoice service offered by the banks to corporate customers using the XML format. Finvoice electronic invoice is associated with a payment

section jointly developed by the European banking associations and suitable for international payment transactions, ePI (electronic Payment Initiator).

It is estimated that every year, 200 million invoices between businesses and 150 million invoices from businesses to individual customers are sent in Finland from the SMEs alone.

Governmental units receive and processes some 80% of purchase invoices electronically but only sends 20% electronically (most of the purchase invoices are still converted from paper format to electronic by a service provider). The target by the end of 2007 is that 50% of all invoices (purchase invoices and others) will be sent (by suppliers) electronically and that all governmental units are able to receive and process them electronically. The government promotes the usage of electronic invoicing among its suppliers. The banks have modified the Finvoice implementation guidelines jointly with the public administration to comply with the public administration electronic invoice recommendation and VAT legislation, among other things.

Cash Pooling Solutions

Cash management solutions are available at the drawback of Central Bank reporting requirements

Notional pooling services exist

Various cash concentration schemes are available

Services for multicurrency and cross border pooling depend vary by complexity

Introduction

The leading Finnish banks provide a wide variety of cash pooling solutions. Hence, in terms of products and services the environment for a smoothly running cash pool solution is in place. A drawback, however, is the Central Bank's reporting requirements for payments between residents and non-residents.

Notional Pooling

Notional pooling on a domestic basis is offered by the major cash management banks. The solutions offered to avoid co-mingling of funds include interest enhancement / interest apportionment schemes and more rarely, pure interest netting. As the bank cannot set-off the account balances in its own books due to Capital Adequacy Regulations a spread between the debit interest rate and the credit interest rate will normally be charged.

Cash Concentration

Domestic cash concentration in the form of zero, or more rarely target balancing, is offered and used by larger corporations in Finland.

Further, another instrument where funds physically are co-mingled is the Single Legal Account Pooling. This solution is based on a single, external bank account where all physical payments take place. Each participant (could be separate legal entities) will then have a virtual reference account, where the payments of that participant are mirrored. Hence, each legal entity will perceive the solution as if they have had their own physical bank account. The advantage for the bank compared to notional pooling schemes is that balances can be off-set for the purpose of calculating capital adequacy ratios.

Multicurrency and Cross Border Pooling

On a cross-border basis notional as well as cash concentrating pooling schemes are offered on a single currency basis. However, the primary tool for pooling is zero-balancing.

A few banks offer multi-currency zero-balance solutions on a cross-border basis (i.e. transfer services but no internal interest calculations and/or documentation). Multi-currency notional pooling schemes are provided. These highly sophisticated products will normally target the larger Nordic multi-nationals or subsidiaries to international corporations with a significant Nordic presence.

Other means of optimising liquidity is via inter-company netting, leading and lagging of supplier payments and money market funds.

Tax Issues

Tax information is general and individual advice should be sought

Introduction

The following tax information, last updated by PricewaterhouseCoopers in April 2009, should be considered general and individual advice should always be sought.

Resident companies are subject to tax on their worldwide income

Tax Liability

A company is considered resident and thus liable to tax in Finland if it is registered in Finland under the laws of Finland. Resident companies are subject to tax on their worldwide income whereas foreign companies are limited liable to tax in Finland, i.e. foreign companies are liable to tax on their Finnish source income only.

Limited partnerships are treated as transparent entities for tax purposes.

The corporate tax rate is 26%

Tax Base

In general, taxable profits are determined on the basis of a profit and loss account prepared in accordance with Finnish accounting principles, which generally follow international standard accounting principles, taking into consideration differences between accounting and taxation principles. Companies and permanent establishments are generally subject to the same tax rules.

The corporate tax rate is 26%.

A company may be generally taxed in a business income basket or a so-called other income basket. As a main rule, the income of a corporate entity is taxed in the business income basket, but certain income of a passive nature is taxed in the other income basket. The losses in the business basket cannot be offset against the income in the other income basket, and vice versa. The income of both baskets is taxed at the same rate.

Annual depreciations on assets are generally made under the declining balance method, but the straight-line method is used for e.g. certain intangible assets and capitalized expenditures.

Restructuring, i.e. mergers, divisions, transfers of assets and share-for-share exchanges may be carried out tax free with succession, provided certain conditions are met.

Under certain conditions tax losses can be carried forward for 10 years, but there is no possibility for carry back.

Companies are required to prepay a part of the income tax during a tax year in question based on their estimated income for the said tax year.

Group tax consolidation is not possible in Finland

Tax Consolidation

Finnish tax law does not provide for group tax consolidation. However, under certain conditions group contributions between affiliated Finnish companies are deductible for income tax purposes and taxable income for the recipient.

Dividend income received by a corporate is exempt from taxation

Inbound and Outbound Taxation of Dividends

Dividend income received by a corporate entity is exempt. However, 75% of the dividend is taxable (while 25% is tax exempt), if:

- the dividend is distributed on shares that are regarded as so-called investment assets of the company, and the distributing company is not a company referred to in the EU Parent-Subsidiary Directive, in which at least 10% of the share capital is directly held by the receiving company (the investment assets refer to certain assets of credit institutions, pension institutions and insurance companies);
- the dividend is distributed by a foreign entity that is not an EU resident entity referred to in the EU Parent-Subsidiary Directive,
- the dividend is distributed by a publicly quoted company and the dividend is received by a non-publicly quoted company that does not own at least 10% of the share capital of the distributor.

Further, dividend from a company that is a resident in a non-EU state with which Finland does not have a double tax treaty is fully taxable. If there is a tax treaty between Finland and the state of residence of the dividend distributor, then the tax treaty may have an impact on the taxation of dividends.

In principle, dividend payments to foreign companies are subject to a 28% withholding tax, unless the EU Parent-Subsidiary Directive is applicable. Dividends may also be subject to a reduced withholding tax rate according to a double tax treaty.

With effect from 1 January 2009, an EU and EEA resident corporate entity receiving dividend from Finland should not suffer withholding tax in Finland if the same dividend distributed to a comparable Finnish resident corporate entity would be tax exempt under specific Finnish tax provisions. In order for a non-resident EU and EEA dividend recipient to benefit from the withholding tax exemption, Finland must have agreed on mutual assistance and information exchange in direct taxation matters with the resident country. The dividend recipient must also demonstrate that the Finnish withholding tax would not be effectively fully credited in its state of residence. A partial withholding tax exemption applies to those dividends that would in an intra-Finnish situation be only partially tax exempt (75% taxable at a rate of 26%). Thus, in equivalent cross-border circumstances a non-resident dividend recipient corporate entity is not exempt from withholding tax, but a withholding tax is levied at a rate of 19.5% (unless a tax treaty provides a lower withholding rate).

The disposal of shares generally results in capital gains taxes

Taxation of Capital Gains and Losses

Capital gains arising from a disposal of shares by a Finnish company are generally taxable. Losses from a disposal of shares in the business income basket are deducted from the business income basket. Losses from a disposal of shares in the other income basket are deducted from capital gains in the other income basket during the tax year or the 3 following years.

Capital gains on disposals of shares that are regarded as fixed assets are tax exempt for a company provided that the company has owned at least 10% of the share capital for at least one year. It should be noted that there are several other specifications to this general rule. Under the same conditions, the capital losses are non-tax deductible.

Capital gains or losses on bonds, other securities and financial instruments are taxed either in the business income basket or in the other income basket at a rate of 26%.

New CFC legislation is pending and unknown at this time

CFC Taxation

A Finnish shareholder resident for tax purposes in Finland can be taxed on income of a foreign corporation (e.g., company, trust), even though profits have not been distributed from the foreign corporation to the Finnish shareholder.

A foreign corporation may be regarded as a CFC in case it is controlled by Finnish tax residents and its effective corporate tax rate in its resident state is less than three-fifths of the corporate income tax rate in Finland.

However, the corporation may not be regarded as a CFC in case it is carrying out certain exempted activities in the foreign country including industrial production or other production activities similar thereto, shipping business, or selling or marketing activities directly serving the above-mentioned industrial or production activities or shipping business.

Furthermore, a corporation may not be regarded as a CFC in case it is resident in a country with which Finland has a double tax treaty and in which the general effective corporate income tax rate does not significantly differ from the Finnish general corporate income tax rate provided also that the corporation has not benefited from special tax incentives in the said country (the definition of a corporation "resident in a state in which Finland has a double tax treaty but in which the general income tax rate significantly differs from the Finnish tax rate" is described in the Finnish CFC legislation in more detail).

A corporation is not regarded as a CFC in case the said corporation is resident in the EEA or in a state that has a double tax treaty with Finland and the corporation is regarded as truly established there and carrying out genuine economic activities as defined in the CFC legislation in detail. In order for the CFC provisions not to be applicable, it is also required that Finland exchanges tax information with the resident state of the corporation.

A corporation is controlled by Finnish residents in case Finnish residents directly or indirectly own a total of at least 50% of the share capital or at least 50% of the voting power in the foreign corporation or they are entitled to at least 50% of the income of the said corporation. The taxable income of the foreign corporation can be allocated only to a Finnish shareholder that directly or indirectly owns at least 25% of the share capital of the foreign corporation or whose proportion of the total return of said corporation is at least 25%.

CFC income is taxed at the tax rate of the shareholder with relief for foreign taxes.

Withholding taxes generally do not apply

Withholding Tax

Generally, outbound interest payments are not subject to withholding tax. However, if the debt is recategorized as equity, the interest payment can be subject to a withholding tax.

Outbound royalty payments are subject to a 28% withholding tax. However, royalty payments to associated companies are exempt from withholding tax if the EU Interest and Royalties Directive is applicable. Further, royalty payments can be subject to a reduced withholding tax rate according to a double tax treaty.

Transactions between associated companies must be made at arm's length prices

Transfer Pricing and Thin Capitalisation

Finland has introduced transfer pricing rules as of 1 January 2007. Transactions between associated companies must be made at arm's length prices. If the arm's length prices have not been used and thus the taxable income of a company is lower or the loss is bigger than it would have been if arm's length prices had been used, the difference between the arm's length price and the price used can be added to the income of that company. This rule is applicable to transactions between both Finnish and foreign companies.

Finland has also introduced rules on transfer pricing documentation. The documentation rules are corresponding with the principles established in OECD Transfer Pricing Guidelines as well as the draft Code of Conduct for Transfer Pricing Documentation in the EU. A failure to comply with the documentation requirements could result in a tax penalty. Transfer pricing documentation shall be submitted to the tax authorities upon request.

There are currently no specific thin capitalisation rules in Finland, but anti-avoidance rules apply. Thus, if the debt/equity ratio is considerably high, the interest payments could be regarded as non-tax deductible based on the anti-avoidance rules. However, in practise, the tax authorities have not normally applied the anti-avoidance provisions in such circumstances. It should be noted that the Ministry of Finance is currently investigating whether thin capitalisation rules should be introduced in Finland.

No capital or stamp duties when establishing a Finnish

Capital or Stamp Duties

company

There is no capital duty or stamp duty when establishing a Finnish company. However, under certain conditions, a transfer tax is levied on the transfer of shares (1.6%) in a Finnish company and on the transfer of Finnish real estate (4%).

VAT levels vary depending on the good and service

VAT

VAT is levied on the supply of goods and services at a rate of 22%, 17%, 8% or 0%. The VAT rate of 17% will be reduced to 12% as of October 1. Small enterprises are not liable to register for VAT if their turnover is not more than EUR 8,500 during the financial period. The registration threshold does not apply to foreign suppliers without fixed establishment in Finland. However, the reverse charge mechanism is broadly applied to supplies of goods and services by foreign enterprises to Finnish VAT registered buyers in Finland. Certain services are VAT exempt, e.g. insurance services and certain financial and banking services. There is no right to deduct the input VAT relating to the exempt activities.

Employers must without tax and social security on a monthly basis

Employer Obligations – Tax and Social Security Withholdings

Employers are required to withhold income tax and social contributions on employees' wages on a monthly basis and submit the monthly notifications as well as an annual notification about the payroll and withholding to the tax authorities. Employers are also required to pay pension insurance, accident insurance, unemployment insurance and group life insurance premiums. Further, employers are obliged to pay the employer's social security contribution. Such contributions are normally deductible for tax purposes.

Source and Contacts

Sources used for this country profile

Sources

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Financial Supervisory Authority (FIN-FSA)	www.finanssivalvonta.fi
Federation of Finnish Financial Services	www.fki.fi
Helsinki Stock Exchange	www.hex.fi
State Treasury	www.valtiokonttori.fi
Ministry of Finance	www.vm.fi
Statistics Finland	www.stat.fi
The Central Chamber of Commerce	www.keskuskauppakamari.fi
Invest in Finland Bureau	www.investinfinland.fi

Contact Danske Bank for cash management services

Danske Bank Contacts

See www.danskebank.com/corporate for contact persons for all countries.

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