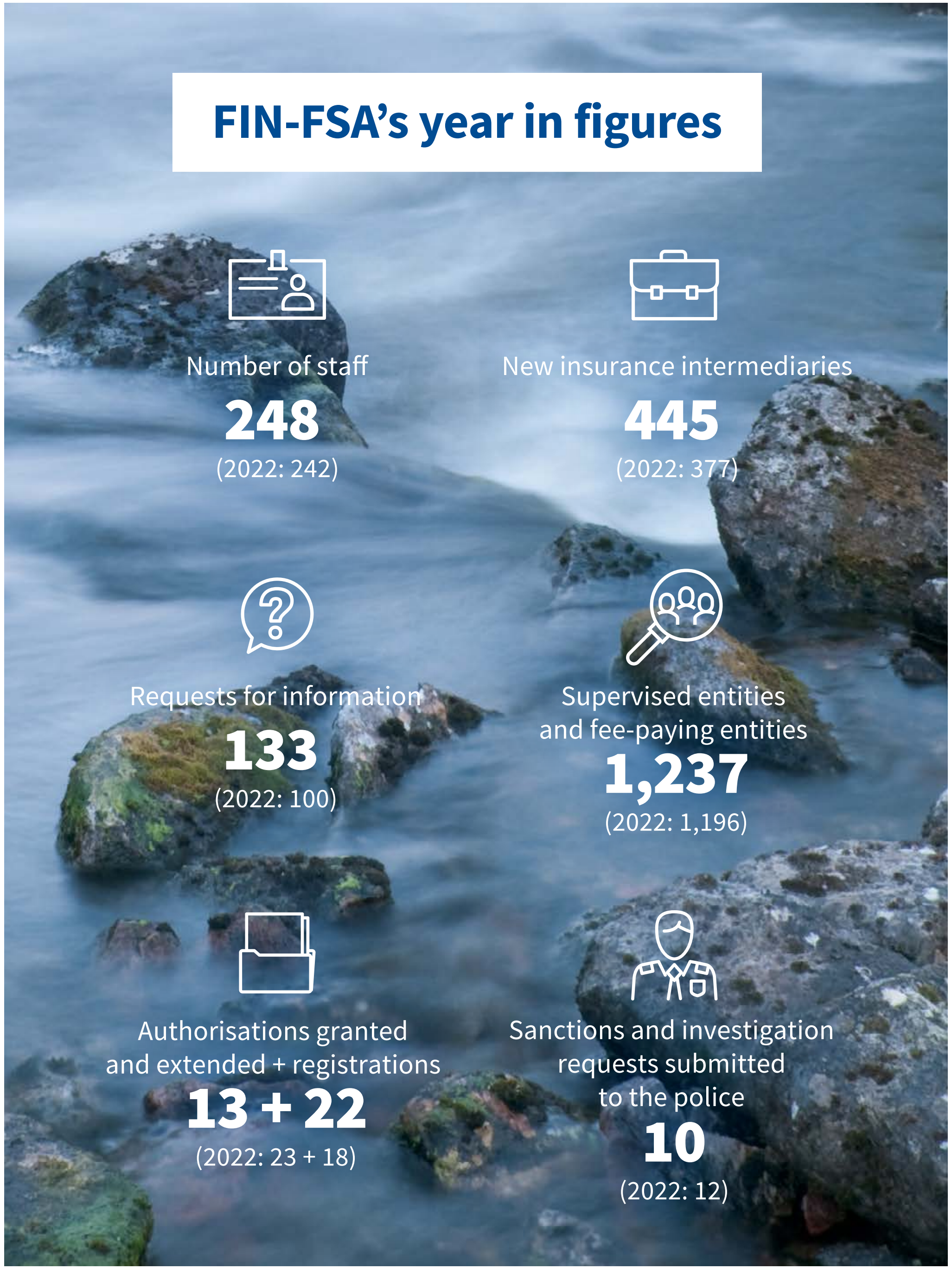
FIN-FSA
FINANCIAL SUPERVISORY AUTHORITY

Annual Report 2023



Contents

Unless otherwise indicated, all texts refer to the year under review 2023.

Photo: Vesa Moilanen / STT-Lehtikuva

Director General's review

The year under review 2023 continued a series of exceptional years. Russia's war of aggression against Ukraine continued and also affected financial markets.

Cyber risks have increased and preparedness for them must be constantly strengthened. At the Financial Supervisory Authority (FIN-FSA), we enhanced monitoring of cyber security as well as the integrity of payment systems during 2023, even though no significant cyber incidents were detected in the Finnish financial sector in this period.

Changes in the operating environment required a flexible response

The sharp increase in inflation and interest rates during the year raised concerns about higher credit and investment risks, particularly in the real estate sector. At the same time, the rapid rise in interest rates significantly increased banks' interest margins and therefore their profits.

In spring 2023, the difficulties of a few medium-sized US banks triggered market turbulence, the effects of which also extended to Europe. As a result, we focused bank supervision on the availability and price of liquidity and financing. High inflation, increased energy costs and a rapid rise in loan interest rates, in turn, reduced the funds available to companies and consumers and weakened debtors' ability to pay their debts. In this situation, we directed supervision and analysed the effects of inflation and rising interest rates particularly with regard to the credit risks of banks and the investment risks of capital market participants and insurance companies.

During the year under review, we tested the stress resilience of banks through the joint stress tests of European supervisors, which are repeated every couple of years. In addition, in cooperation with the Bank of Finland, we carried out a comprehensive assessment of banks' capital needs in a severe stress scenario. Based on this assessment, we increased the systemic risk buffer for all credit institutions, thus ensuring, in line with our mission, the banks' ability to survive even in very difficult situations.

A fall in household indebtedness, in turn, has reduced vulnerabilities in the economy. The recommendation on the debt-service-to-income (DSTI) ratio, which came into force at the beginning of 2023, and the new restrictions on housing and housing company loans, which came into force in July 2023, will help mitigate the risks associated with excessive indebtedness. As a result, in December, we restored the non-first home buyers' maximum LTC ratio, i.e. housing loan cap, to its baseline level.

Changes in the operating environment require the supervisor to be flexible and able to prioritise tasks and target supervisory measures according to the current risk situation.

During the year under review, we tested the stress resilience of banks through the joint stress tests of European supervisors.

Good governance secures operations, especially in challenging conditions

When corporate governance systems function properly, potential operational challenges are usually easier to identify. In an uncertain operating environment and in the face of long-term changes, the importance of the reliability of supervised entities' governance and information quality increases. It is important that organisations are able to react to changes and potential problems in a timely manner.

Changes in the operating environment require the supervisor to be flexible and able to prioritise tasks and target supervisory measures according to the current risk situation.

Our mandate is to ensure confidence in the financial markets. As part of European financial market supervision, we have paid special attention to, among other things, management of climate and environmental risks and a risk-based approach to anti-money laundering supervision. Supervised entities must have up-to-date and effective practices to manage these risks, but the availability of banking services, for example, must not deteriorate unreasonably as a result of due diligence requirements.

Higher interest rates brought real estate risks to the surface last year and this situation does not seem to be changing this year. This underlines, among other things, the importance of continuous evaluation of real estate funds in the capital market. At the same time, it highlights the responsibility of company boards to ensure that they are adequately informed about the situation of funds and that risk management tools are in good order.

Wash trades are one example of the unfortunate phenomena evident in the period under review. A record number of reports of suspected market abuse reached the supervisor's desk, and the number of requests for investigations we made to the police increased from the previous year. However, from the statistics it is not possible to draw a direct conclusion about the increase in the number of abuses; the increased number of investigations is partly explained by the development of the investigation process. Prevention of abuses requires supervised entities to have in place good practices and systems as well as functional and effective corporate governance.

New tasks and increasing regulation added to supervisory responsibilities

During 2023, enforcement of financial sector participants' compliance with sanctions and other consumer credit providers were transferred to our supervision.

Increasing regulation adds to our supervisory responsibilities. The year under review saw the entry into effect of the DORA Regulation, aimed at ensuring digital operational resilience, the ESAP Regulation, creating a single point of access to information mandatorily reported and disclosed by companies, and supervision of ESG risks and disclosure requirements.

During 2023, enforcement of financial sector participants' compliance with sanctions and other consumer credit providers were transferred to our supervision.

The objectives of all these reforms are to be welcomed: strengthening the protection of non-professional investors, promoting consumers' and companies' access to and utilisation of financial information, and strengthening the digital resilience of the financial sector. The preparation and application of new regulation in practice is challenging for the legislator and financial sector participants as well as for the supervisor. New and increasing regulation also compels the supervisor to renew its own operating practices, develop its expertise and maintain good communication with supervised entities and other stakeholders.

Coming years will continue to require us to be proactive and predictable

The field of supervision is constantly expanding and becoming more complex. In order to be able to succeed properly in our demanding task we must continuously maintain and develop the competence of personnel and attend to their wellbeing and coping capacity. In addition, as an employer, we must be able to attract new talent to our ranks to replace those who are retiring.

With our new strategy, we changed our operations and way of thinking this year, particularly in terms of transparency and leadership. We implemented the FIN-FSA's vision of predictability by telling more about our activities, for example by publishing our thematic review and inspection plans and arranging supervised entity events. We developed an internal leadership system and delegation of decision-making and gained new efficiency in everyday activities as well as more opportunities to prioritise and focus on what is essential. All of this has required us to get used to a new way of working. This work will continue in the coming years. Our goal is clear: to enable work to be done effectively in a way that increases employees' opportunities to influence their own work.

I would like to thank all FIN-FSA personnel for the past year.

Helsinki, 6 March 2024

Tero Kurenmaa

State of financial markets

Although the Finnish economy avoided the anticipated recession in early 2023, economic development was generally weak towards the end of the year.[1] Sluggish cyclical development weakened the operating environment of the Finnish financial sector and kept risks at an elevated level. Risks increased particularly in the real estate markets. The strong solvency of the financial sector, however, provided protection against the risks brought by a deteriorating operating environment.

The weak economic development in 2023 was driven by the persistently high level of interest rates, weak consumer and business confidence and contraction of exports. Feeble cyclical development and lacklustre demand, in combination with rising management, repair, construction and financing costs, are taking a particularly heavy toll on the real estate and construction sector. Declining real estate prices, subdued sales volumes and market uncertainty are also elevating the credit, investment and liquidity risks in the financial sector and challenging current asset valuations.

The Bank of Finland is forecasting continued sluggish economic development in Finland in 2024, although the deceleration of inflation and rising wage level are lending support to private consumption.[2] Expectations of a decline in interest rates and data on strong

[1] Further information on the state of the Finnish economy in 2023 is available in the Bank of Finland's economic review and forecast (in Finnish) https://www.eurojatalous.fi/fi/2024/artikkelit/suomen-talous-pakkasella/.

[2] See https://www.suomenpankki.fi/en/media-and-publications/releases/2023/finlands-economy-is-in-recession-and-the-recovery-will-be-slow/.

US economic development in early 2024 have supported market sentiment, but financial market sentiment is prone to rapid shifts when faced with negative news or shocks. The risks to economic forecasts include, for example, geopolitical risks, protracted high inflation and a weakening of the employment situation.

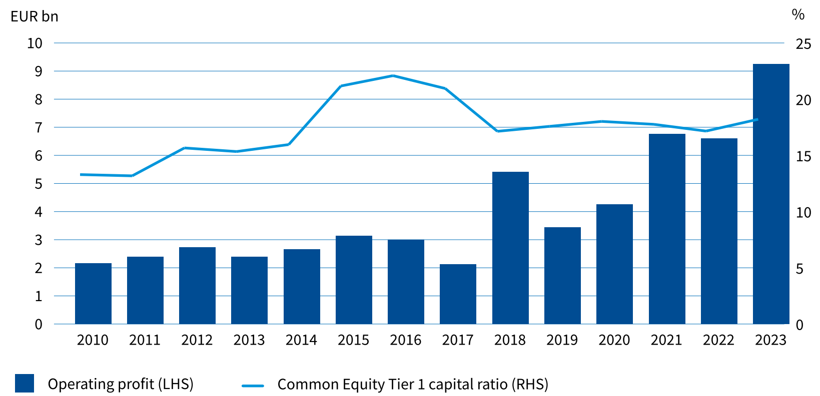
Uncertainty will keep the risks of the Finnish financial sector at a high level in the short term. In the long term, financial sector operators are also challenged by persistent change trends, such as the impacts of climate change (ESG risks), demographic change, digitalisation, new technologies, the development of new types of products and operating models (e.g. cloud services and artificial intelligence) as well as ICT and cyber risks.

The Finnish financial sector as a whole has remained well capitalised despite the weakening of the operating environment. Strong capital adequacy provides protection against risks brought about by a deteriorating operating environment. Non-performing exposures of the banking sector relative to the credit stock have remained at a low level, although there have been signs of an increase in credit risks. Finnish banks' liquidity position has remained stable. The situation of the insurance sector has also stayed solid in spite of the development of the investment markets.

Capital adequacy and profitability of the banking sector improved due to good profit performance

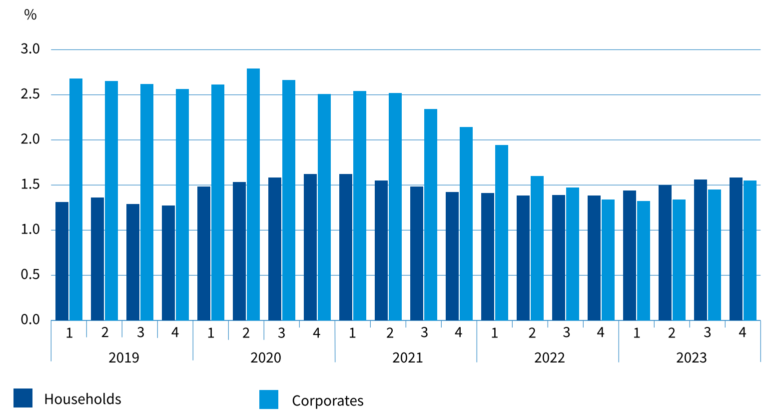
The capital ratios of the banking sector improved during the review year. This was primarily due to growth of CET1 capital as a result of solid profit performance. The surplus of own funds of the banking sector relative to the total capital adequacy requirement improved despite the tightening macroprudential requirements, and banks

Operating profit and CET1 capital ratio of the domestic banking sector



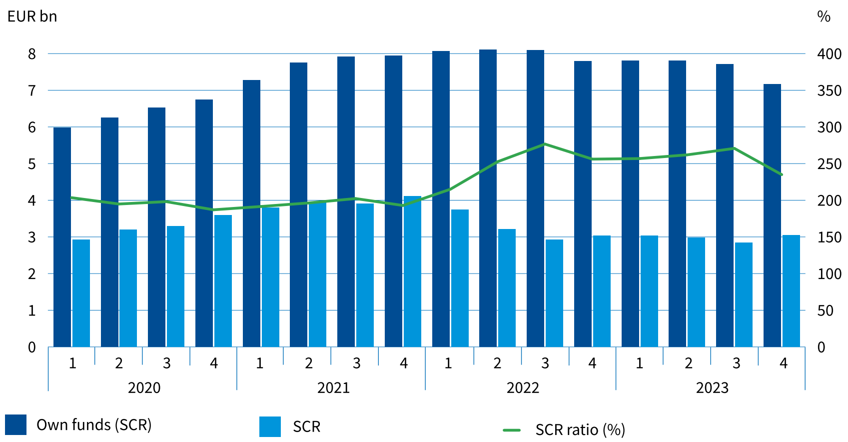
Source: The FIN-FSA

Non-performing loans of the domestic banking sector relative to the credit stock



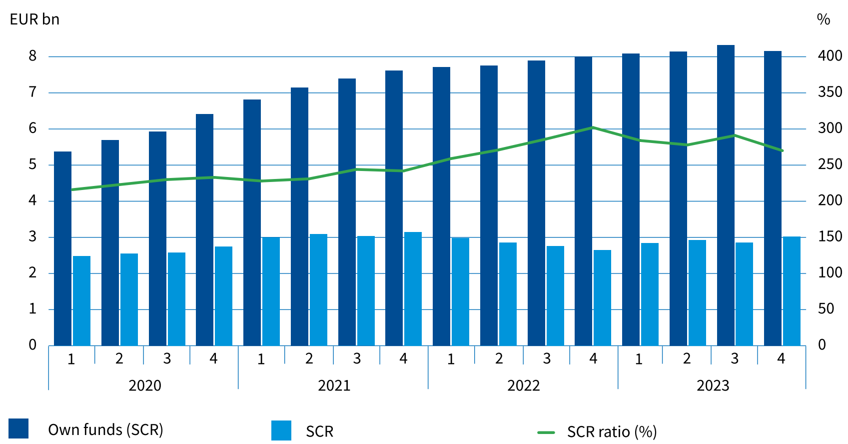
Source: The FIN-FSA

Solvency of life insurance companies



Source: The FIN-FSA

Solvency of non-life insurance companies



Source: The FIN-FSA

continued to have ample capital relative to the requirements. Their capital ratios remained above European averages in the review year.

The operating profit of the banking sector grew significantly during the review year on the back of strong growth in net interest income. Net interest income was also the most important income item for Finnish banks.

Non-performing loans in the banking sector remained at a low level and among the lowest in Europe, although there was marginal growth both in non-performing corporate and household loans. During the review year, there was increased migration of credit into higher credit risk impairment categories, signalling an increase in credit risks. Loans classified as involving elevated credit risk increased, particularly among corporate loans granted to the real estate and construction sector.

The liquidity position of the banking sector remained strong, and liquidity improved during the review year. However, the Finnish banking sector's above-average dependency on market-based funding exposes banks to potential market disruptions, and the general rise of the interest rate level has also increased domestic banks' market funding costs.

Life insurance companies' solvency weakened towards the end of the year

The solvency ratio of the life insurance sector declined from a year ago. Own funds diminished considerably in the last quarter, as the rapid fall in interest rates increased the amount of insurance liabilities. At the same time, the Solvency Capital Requirement (SCR) grew only slightly from a year earlier.

Life insurance companies' investment returns amounted to a solid level of 6.2% in 2023. Most of the returns were made in the last quarter. Both fixed-income and equity investments generated clearly positive returns, but real estate investment returns were negative, at -4.9%.

Insurance premium income rose slightly from the previous year. The growth of the premium income stemmed from corporate customers' capital redemption policies. Claims paid declined slightly from the previous year.

Non-life insurance companies' solvency remained solid, although it was weakened by the growth in market risks

The solvency ratio of the non-life insurance sector weakened at the end of the year in comparison with the end of 2022, which marked the highest level during the Solvency II period (since 1 January 2016). Solvency was reduced by the growth of the capital requirement due to higher equity prices and the growth of the market value of insurance liabilities due to the decline in the level of interest rates compared to the end of 2022. Nevertheless, solvency remained solid as investment returns bolstered own funds and the value of insurance liabilities remained lower than its average level despite the decline in interest rates.

The returns on fixed-income and equity investments were positive, but real estate investments provided a negative return due to weak market conditions. The best returns were generated in equity investments.

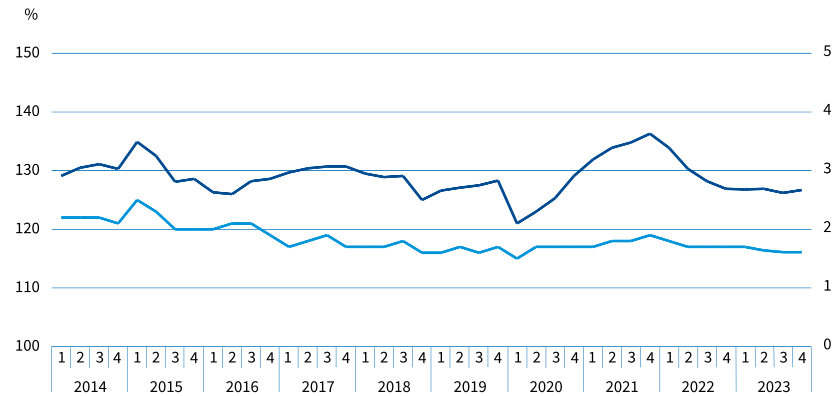
The profitability of the insurance business excluding calculation base changes weakened from 2022 but remained positive. Profitability was reduced by higher claims and operating expenses. These were increased, among other things, by higher medical insurance claims, reinsurance prices, inflation, and growth in ICT expenditure.

Solvency of the employee pension sector was almost unchanged and remained at a solid level

The solvency capital of the employee pension sector grew during the review year due to strong investment returns. The solvency ratio, which indicates the ratio of solvency capital and insurance liabilities, remained almost unchanged. The solvency position, which refers to solvency capital divided by the solvency limit, weakened slightly as the solvency limit rose faster than the solvency capital due to increased risk-taking. The growth of the solvency limit is mainly explained by higher investment assets and the higher equity allocation.

The positive valuation change of the investment assets was mainly due to the solid return on equity and fixed-income investments. The return on real estate investments fell into negative territory due to a negative change in the value of real estate. Employee pension institutions' resilience to equity shocks remained at a reasonable level. Employee pension institutions continue to be able to withstand negative changes in the values of illiquid real estate and private equity funds.

Employee pension insurance sector's solvency development in 2014–2023



— Solvency ratio (LHS) — Risk-based solvency position (RHS)

Source: The FIN-FSA

Due to an amendment of legislation that entered into force at the beginning of 2017, the solvency position of 2017–2023 is not comparable with previous years.
Solvency ratio is calculated by dividing pension assets by technical provisions.
Solvency position is solvency capital divided by the solvency capital requirement.

FIN-FSA's supervisory actions in 2023

The FIN-FSA's supervision and operational development were guided by the operations strategy finalised at the end of 2022, emphasising proactivity and predictability, the utilisation of digitalisation in operations, leadership that supports expertise, and flexibility and adaptability. During the year, the FIN-FSA reacted to the changes in the operating environment described above in the chapter 'State of financial markets'. These included the weakening of the economy and falling into a recession, rise of the interest rate level, elevated risks in the real estate sector, challenging investment asset valuations, deteriorating consumer and business confidence as well as growth in cyber risks brought about by the tightening of the geopolitical situation.

Macroprudential decisions strengthened the resilience of the financial system

In the early part of the year, the FIN-FSA strengthened the resilience of the banking sector by imposing on Finnish credit institutions a systemic risk buffer requirement of 1%, which will enter into force on 1 April 2024. In the second quarter, the FIN-FSA reciprocated the systemic risk buffer imposed by the Norwegian macroprudential authority for partial application to Finnish banks' exposures in Norway. Following the entry into force of the buffer requirements, the combined amount of the macroprudential buffer requirements on the Finnish banking sector rises to an overall level deemed adequate by the FIN-FSA.

FIN-FSA-related topics most visible in the media

In December of the review year, the FIN-FSA restored the housing loan cap, or the maximum loan-to-collateral (LTC) ratio, for non-first home buyers to its baseline level of 90%. The decision was justified by the reduction of vulnerabilities in the financial system due to the realised and anticipated decline in household indebtedness. In addition, the recommendation on the debt-servicing burden that entered into force at the beginning of 2023 helps contain risks associated with excessive indebtedness. The maximum LTC ratio was lowered by 5 percentage points in summer 2021 to contain risks related to the accumulation of household debt.

The recommendation issued by the FIN-FSA in June 2022 on the maximum debt-servicing burden for housing loan applicants entered into force in early 2023. A preliminary assessment of compliance with the recommendation was carried out in late 2023. A more comprehensive assessment will be conducted in early 2024.

Banking supervision reacts to changes in the operating environment

The indebtedness of Finnish households continued its decline, which started in 2022, and the amount of debt also began to trend downwards in 2023, but household indebtedness resulting from both housing loans and consumer credit remains at a high level. The supervision of certain consumer lenders and credit intermediaries was transferred from the Regional State Administrative Agency for Southern Finland to the FIN-FSA as of 1 July 2023.

The FIN-FSA assessed its new supervised entities' fulfilment of the preconditions for registration, compliance with code of conduct and obligations under the AML Act, and management of default risk. This work will continue in 2024 and will lay the foundation for targeting risk-based supervision at this group of supervised entities.

Reflecting the changes in the operating environment, topics emphasised in banking supervision comprised the management of credit and liquidity risk, compliance with new interest rate risk regulation and corporate governance. Inspections targeted credit risk, liquidity risk, corporate governance and internal models used in capital adequacy calculation.

High inflation, increased energy costs and the rapid rise in loan interest rates weakened companies' and households' purchasing power and increased borrowers' debt-servicing costs. The FIN-FSA targeted its supervision particularly at banks' credit risks, and analysed the effects of inflation and higher interest rates on them.

As a result of the market turbulence triggered in spring 2023 by difficulties among a few medium-sized US banks, banking supervision focused on the availability and price of liquidity and funding. The FIN-FSA assessed banks' balance sheet items, paying particular attention to the valuation of items comparable to those that caused problems for US banks. Problematic balance sheet items consist of those that are not measured at market value on an ongoing basis.

Bank reviews focused on risk management

Banking Supervision conducted ten supervisory reviews (SREP) during the review year. The SREP is a process for assessing banks' various risk factors, which is carried out every 1–3 years depending on the bank's risk position and significance. In addition, thematic reviews and investigations were carried out at banks under direct FIN-FSA supervision or ECB supervision. Direct ECB supervision covers the most significant banks in Finland, i.e. Nordea, OP Financial Group, Municipality Finance and Danske Bank's Finnish branch. Other banks in Finland are under direct FIN-FSA supervision.[3]

The FIN-FSA conducted a review of the present state of climate and environmental risks and related development plans in banks under its direct supervision as well as information published by the banks on these risks. This thematic review built on the ECB's supervisory expectations for climate and environmental risk management, as applicable. Banks had not yet incorporated the impacts of climate and environmental risks in their risk management comprehensively in terms of different risk categories, but some progress could be identified.

In December of the review year, the FIN-FSA restored the housing loan cap, or the maximum loan-to-collateral (LTC) ratio, for non-first home buyers to its baseline level of 90%.

[3] Described in more detail in the sub-chapter 'Cooperation with the European Central Bank and the European Supervisory Authorities.

The FIN-FSA assessed the implementation of regulation on the revised definition of default by banks under its direct supervision that apply the standardised approach to capital adequacy calculation. Differences were identified across the banks in their compliance with the definition of default. The most significant shortcomings were identified in the classification of non-performing forborne exposures as exposures in default, the definition of past due receivables and the calculation of the impaired value of an exposure in the context of restructuring. The FIN-FSA urged the banks to remediate the shortcomings, and it will follow up on the implementation as part of regular supervisory reviews.

In 2019, the FIN-FSA had assessed risk reporting provided to credit institutions' boards of directors and, in the review year, it assessed the actions taken by the credit institutions based on the 2019 recommendations. In this thematic review, covering entities under direct FIN-FSA supervision, development of risk reporting was found to have taken place in all supervised entities reviewed. However, there was major variation across different risk areas and supervised entities. The content of risk reports had become more versatile, and clear improvement had taken place, for example through the addition of different risk areas and components, visual illustrations and forward-looking scenarios, allowing the members of the board of directors to formulate a view of the essence of the risk and the significance of the components for the resulting risk exposure. The credit institutions had also added textual analysis to the reports.

The European Banking Authority (EBA), the European Central Bank (ECB) and the FIN-FSA conducted stress tests of Finnish banks, and the results will be utilised by the authorities in their supervision. Among other things, they help ensure that each supervised entity has adequate own funds to cover material risks. The stress tests covered the years 2023–2025 and included both a baseline scenario and one characterised by weaker development.

The FIN-FSA conducted a corresponding stress test for banks under its direct supervision in Finland. Based on the results, the capital adequacy of smaller Finnish banks will remain on average good also in the weak scenario. The average capital adequacy (CET1) declined in the weak scenario by 3.8 percentage points to 11.4%. However, there were major differences between the banks.

The FIN-FSA targeted its supervision particularly at banks' credit risks and analysed the effects of inflation and higher interest rates on them.

Based on the results of the stress test, the FIN-FSA imposed for the first time a Pillar 2 Guidance (P2G), an indicative additional capital buffer recommendation, for banks under its direct supervision. In addition, the FIN-FSA imposed a discretionary buffer on the leverage ratio for the first time.

The supervision of the largest banks directly supervised by the ECB was based on the priorities of the ECB's banking supervision. The ECB amplified its activities to amend protracted shortcomings demonstrated by European banks under its supervision and imposed actions to address them. It urged banks to remediate qualitative deficiencies in their internal governance, credit risk management and capital planning. These qualitative measures are a key part of the banking supervision toolbox. Banks must pay particular attention to internal governance and control because three out of four European banks under ECB supervision were urged to remediate related deficiencies.

In December 2023, the ECB slightly refocused its supervisory priorities for the next three years, which steer the supervision of all banks within the scope of common European banking supervision. The ECB asked banks to strengthen their resilience to macro-financial and geopolitical shocks (Priority 1) by remediating shortcomings in asset and liability management and the management of credit and counterparty credit risk. Banks were also requested to accelerate the effective remediation of shortcomings in governance and the management of climate and environmental risks (Priority 2). In addition, they were requested to make further progress in their digital transformation and building robust operational resilience frameworks (Priority 3).

Changes in the operating environment highlighted in the supervision of cyber and ICT risks

The FIN-FSA has monitored cyber security and the operability of payment systems on an enhanced basis due to Russia's continued war of aggression and damage inflicted on critical infrastructure.[4] Information concerning payment traffic and cyber incidents have been transmitted to other authorities in accordance with mutually established practices. No significant cyber incidents have been detected in the Finnish financial sector.

The FIN-FSA has, together with the Ministry of Finance, the Financial Stability Authority and the Bank of Finland, created a fallback system to secure the continuity of daily payments in the event that normal payment systems are unavailable amid severe civil disturbances or emergency conditions. If a bank were to suffer from protracted operative disruptions, its customers' account and card services could be

[4] Damage to the gas pipeline and telecommunications connection between Finland and Estonia detected on 8 October 2023.

provided by the backup account system. The framework also entails, among other things, guaranteeing interbank payment traffic.

The EU Regulation on digital operational resilience for the financial sector (Digital Operational Resiliency Act – DORA) entered into force on 17 January 2023 and will apply as of 17 January 2025. European Supervisory Authorities (ESAs) have working groups in place to prepare lower-level regulation (Regulatory Technical Standards) to complement the Regulation, expected to be finalised in June 2024. The FIN-FSA has launched preparations for incorporating DORA into regulation and supervision.

In the spring of the review year, the FIN-FSA completed two inspections of ICT and information security risks and two thematic reviews (mapping of supervised entities' ICT outsourcing chains and payment system abuse and the compensation process).

In autumn 2023, the FIN-FSA launched an inspection of ICT and information security risks directed at one banking group and a thematic review of a wider target group concerning the security of online banking, mobile banking and online payments.

In the insurance sector, supervision focused on customer protection and solvency

In insurance supervision, the themes of pension insurance, non-life and life insurance as well as prudential supervision were highlighted extensively during the review year. This was in line with both the FIN-FSA's own supervisory focus areas and the Union-wide strategic priorities established by the European Insurance and Occupational Pensions Authority (EIOPA).

The themes in the supervision of conduct of business included insurance distribution, verbal claims decisions, professional competence of agents and the value of investment-linked policies for customers. The themes for non-life and life insurance groups focused on questions concerning good governance and risk management, such as the quality of own risk and solvency assessments and the management of interest rate risk and the impacts of inflation.

The themes in the supervision of pension insurance included employee pension companies' outsourcing practices and information to be provided by supplementary pension institutions to the insured. The themes covered in the supervision of investment activities of pension, non-life and life insurance providers, included, for example, liquidity risk, while the supervision of unemployment funds looked into the funds' investment plans.

As regards the supervision of conduct of business, customer protection has taken a prominent role in the European supervisory culture. The FIN-FSA prioritises statutory insurance classes in its supervision, but it also supervised, based on, among other things, customer enquiries, reactively other insurance classes, related product management and added value of the products for policyholders. The supervisor paid particular attention to the registration of insurance intermediaries and fulfilment of the registration requirements.

The FIN-FSA participated in EIOPA's work the same way as in previous year, particularly in matters that are crucial from the perspective of the Finnish markets. Topics addressed on this forum during the year

New applications for registration in the insurance agent register

467

Applications for change in the insurance agent register

6,103

included sustainable development themes, such as market risks stemming from climate change, insurance technical risks stemming from natural catastrophes in the solvency requirement as well as digitalisation and cyber risks.

In insurance supervision, particular attention was paid to thematic reviews and broader analyses and to communicating their results to the supervised entities.

Sharing and utilisation of information highlighted in inspections and reviews

In insurance supervision, the efficiency and effectiveness of proactive and predictable supervision was improved by putting a particular emphasis on thematic reviews, more extensive analyses and communication of the results to the supervised entities. The objective was to maximise the visibility and effectiveness of the expectations posed by insurance supervision to supervised entities. In insurance supervision, nine thematic reviews were completed, and one was still in preparation at the turn of the year.

Insurance Supervision arranged events for pension foundations and funds, employee pension insurance companies and special supervised entities, insurance companies contact persons, unemployment funds as well as non-life and life insurance companies.

The FIN-FSA launched a project together with the Bank of Finland to analyse macroprudential risks in the pension and insurance sector. The first analytical report on the pension sector was completed in the first year-half.

Insurance Supervision strengthened its data-based supervision by rolling out the first part of software capable of analysing and stressing non-life and life insurance companies' solvency and insurance liabilities. In addition, steps were taken in the supervision of conduct of business to promote the utilisation of Solvency II data.

In capital markets supervision, the focus was on market confidence and sustainability disclosures

In capital markets supervision, market confidence and compliance with the sustainability-related disclosure obligations promoted by the European Securities and Markets Authority (ESMA) were highlighted during the review year.

In its Markets newsletter, the FIN-FSA drew attention to what kind of transactions may be considered wash trades and thereby meet the criteria of market manipulation. Market participants must be able to trust that information available from the markets and transactions executed there are real and genuine.

The FIN-FSA presented good practices that can be applied by issuers in order to ensure that its interaction with analysts is in compliance with regulation. Interaction between listed companies and analysts may arouse suspicions of the disclosure of inside information, which may be likely to undermine confidence in the financial markets.

The FIN-FSA supervises financial statements prepared under the IFRS standards. Supervisory themes largely revolved around the macroeconomic environment, economic impacts of Russia's war of aggression and climate issues. In addition, as regards real estate investment companies, there was a review of key topics related to the notes to financial statements, including the valuation of investment properties and notes related to financial liabilities.

The FIN-FSA drew attention to what kind of transactions may be considered wash trades and thereby meet the criteria of market manipulation.

During the review year, the FIN-FSA reviewed the organisation and quality of the compliance function in investment firms, management companies and AIFMs, and identified significant shortcomings in this area. In addition, the FIN-FSA carried out stress tests of real estate funds, also detecting significant shortcomings. Some of these firms failed to pay adequate attention in the stress test scenarios to market risks related to real estate in exceptional market conditions. Some of the firms also had shortcomings in the reporting of the results of stress tests to the board of directors.

In June 2023, the FIN-FSA prohibited the unauthorised provision of investment service by an entity that had applied for authorisation.

The FIN-FSA conducted a survey on sustainability reporting with audit committees of financial and non-financial listed companies. Based on the results, the FIN-FSA deemed that the companies represented very different stages in the adoption of sustainability reporting and that the schedule posed a challenge for many. In addition, there were challenges related to the collection of high-quality data, finalising the requisite systems in time and the scarcity of resources and expertise in the markets. Audit committees were aware of the new extensive regulatory framework related to sustainability reporting, but some respondents demonstrated a shallow knowledge.

During the review year, minimum level models were established for the supervision of sustainability reporting and supervision of the Sustainable Finance Disclosure Regulation. The models promote uniform supervisory practices in different areas of supervision. The European Commission supports national supervisors in the development of modern tools of supervision for sustainable finance, and the related development of an IT tool proceeded in line with the Commission's project. Furthermore, towards the end of the year, the FIN-FSA participated in launching an ESMA project to tackle greenwashing.

An EU regulation establishing a European Single Access Point (ESAP) was adopted at the end of the review year. The FIN-FSA will function as one of the data collectors in Finland, and transmitting an extensive volume of data as required by regulation to the single access point will require significant IT systems changes within the FIN-FSA. The assessment and preliminary review of the changes was launched during the review year.

In addition, the FIN-FSA began preparation for new authorisations and supervision required by the EU's Markets in Crypto-Assets Regulation, which becomes applicable in 2024.

Anti-money laundering supervision also to cover sanctions compliance

The FIN-FSA supervision strategy for anti-money laundering (AML) was adopted at the beginning of the review year. It highlights a risk-based approach and effectiveness, and also covers the prevention of terrorist financing and the supervision of sanctions compliance. AML supervision concerns all entities supervised by the FIN-FSA and is based on long-term risk assessment.

The FIN-FSA's preventive role, i.e. communication and guidance, and the targeting of supervision on the basis of risks are at the core of the supervision strategy. In recent years, the market has seen the entry of many new kinds of small and international players that may not necessarily be aware of the content of legislation or the supervi-

Inspections were targeted in line with the AML supervision strategy at new areas of activity, such as payment service providers.

sor's expectations. The objective of supervision is always that supervised entities know how to act correctly and there is no need to impose sanctions. Supervision covers the entire life cycle of the operators, starting from the application for registration or authorisation. Operators with the most significant overall risk are subject to regular supervision and yearly inspections or thematic reviews.

The reforms of the Anti-Money Laundering Act entered into force in spring 2023, and the FIN-FSA issued its regulations and guidelines on anti-money laundering in late June 2023. At the same time, responsibility for the supervision of sanctions compliance was vested with the FIN-FSA. The related regulations and guidelines were issued in December 2023 and they enter into force in March 2024.

The FIN-FSA conducted inspections concerning money-laundering according to plan. In 2023, three inspections were completed, and four new inspections were launched. Inspections were targeted in line with the AML supervision strategy at new areas of activity, such as payment service providers. In addition, the supervision of hawala-type money transmitters remains a focus area. During the review year, the FIN-FSA cancelled the registration of one obliged entity on the grounds of shortcomings in anti-money laundering.

During the year, the supervision of certain consumer lenders and credit intermediaries was also transferred to the FIN-FSA, and related AML analysis will continue into 2024.

Investigation requests submitted to the police
8
(2022: 5)

Penalty payments
0
(2022: 3)

Public warnings
1
(2022: 2)

Administrative fines
1
(2022: 2)

The supervision of anti-money laundering is a very international activity. The FIN-FSA is particularly committed to the activities of the FATF (Financial Action Task Force), which provides input to the upcoming country assessment round. Towards the end of the year, political accord was reached regarding the establishment of a European Anti-Money Laundering Authority (AMLA).

Themes for 2023

The operating environment of the financial sector deteriorated in 2023, as the high inflation and interest rate level as well as weakening economic growth took a toll on households and companies. This was also reflected in the housing and real estate markets where the Finnish financial sector has exposures. In its supervision, the FIN-FSA paid particular attention to the management of risks stemming from the operating environment. This topic is discussed in the article "Real estate risks increased as a result of weak economic development and rising interest rates".

During the review year, the AML Act was amended so that, as part of their customer due diligence procedures, entities obliged under the Act must also consider financial sanctions and national freezing orders issued to prevent the financing of terrorism. Among other things, the FIN-FSA prepared guidance for supervised entities on sanctions risk management. The article "Sanctions as part of the FIN-FSA's supervisory work" discusses this topic.

The article "The FIN-FSA's thematic reviews examined the current state of climate and environmental risk management in the banking and insurance sectors" discusses thematic reviews about climate and environmental risks conducted by the FIN-FSA in 2023 at banks and insurance sector operators. The reviews focused on the present state of climate and environmental risk management as well as climate risk exposures. It is important in both sectors that both the operators and the supervisor are well aware of the kind of effects climate risks have on the operators and how these risks are managed.

In 2023, the FIN-FSA began to develop its activities towards the vision of begin a proactive and predictable supervisor. The article "Proactive and predictable supervision" describes how the supervisor sees proactivity and predictability in its supervisory work and what the development efforts have encompassed in the first year.

Real estate risks increased as a result of weak economic development and rising interest rates

The operating environment of the financial sector deteriorated in 2023, as the high inflation and interest rate level as well as weakening economic growth took a toll on households and companies.[5]

Feeble cyclical development in combination with rising management, repair, construction and financing costs took a particularly heavy toll on the real estate and construction sector. At the same time, the revenues of the real estate and construction were under pressure as sales of constructed residential properties cooled off and competition for tenants dampened the potential for raising rents. The slow-down in construction was particularly steep, and real estate prices declined in 2023. Declining real estate prices, sluggish sale volumes and market uncertainty, in turn, increased credit, investment and liquidity risks in the financial sector.

The Finnish financial sector is considerably exposed to the residential property and real estate markets. The exposures are in many respects larger than in Europe on average. The proportion of non-performing housing company loans rose last year, and growth in housing company loans with elevated credit risk continued to increase. The proportions of credit with elevated credit risk in the real estate and construction sector also continued to rise.

[5] Further information on the state of the Finnish economy in 2023 is available in the Bank of Finland's economic review and forecast (in Finnish). Suomen talous pakkasella – Euro ja talous, https://www.suomenpankki.fi/fi/media-ja-julkaisut/tiedotteet/2023/suomen-talous-on-taantumassa-ja-toipuminen-takkuaa/.

Real estate risks also reflected on employee pension institutions, whose direct and indirect real estate investments in 2023 generated a negative return. According to the quarterly data released by the FIN-FSA in autumn 2023, the returns of life and non-life insurance companies' real estate investments were also the lowest in over ten years.

The weak performance of the real estate market has also been evident in negative valuation adjustments in domestic open real estate funds and increasing redemptions by investors. Amid challenging market conditions, real estate funds have made amendments to their rules by, for example, reducing the frequency of their redemption windows and lengthening the notice period for redemption orders.

Importance of capital adequacy and preparedness is highlighted in times of elevated risks

Despite the turbulence in the operating environment, there were no signs of any extensive and powerful realisation of credit, investment or liquidity risk in the financial sector in 2023. The importance of capital adequacy, strong risk capacity and preparedness is highlighted in times of elevated risks.

The risks to the financial sector are mitigated and hedged by careful risk management and the nature of its investment activities in addition to the sector's strong loss-bearing capacity and shock resilience, further supported by the buffer requirements imposed by regulation and authorities.

FIN-FSA paid particular attention to real estate risks

The focus areas of supervision in 2023 reflected changes in the operating environment. In its supervision, the FIN-FSA paid particular attention, among other things, to the management of credit and liquidity risk, corporate governance, and operational risks, including cyber risks.

The supervision of credit risks was one of the focus areas in banking supervision. Meanwhile, in the supervision of the insurance and pension sector, particular attention was paid to the valuation and valuation practices regarding real estate investments. The liquidity management and valuation of investment funds have been focus areas of fund supervision in 2019–2023. In addition, a thematic review of stress testing of open real estate funds was carried out in 2023.

The proportion of non-performing housing company loans rose last year, and growth in housing company loans with elevated credit risk continued to increase.

According to the FIN-FSA's findings, there remains room for development in the stress testing of real estate funds, since some of the firms covered by the review had not considered market risks related to the properties and had shortcomings in the reporting of the results to the board of directors. In 2024, the FIN-FSA will continue to monitor the measures taken by the firms to develop stress tests for the liquidity of these funds as well as the state of real estate funds.

A great deal of uncertainty continues to surround economic development, so the risks of the financial sector remain elevated at the beginning of 2024. The focus areas of the FIN-FSA's future activities will also continue to respond to changes brought about by changes in the operating environment.

Thematic reviews of climate risks in the banking and insurance sectors

FIN-FSA's thematic reviews examined the current state of climate and environmental risk management in the banking and insurance sectors

In 2023, the FIN-FSA carried out thematic reviews of banks and insurance sector institutions under its direct supervision. The reviews focused on the present state of climate and environmental risk management as well as climate risk exposures. It is important in both sectors that both the operators and the supervisor are well aware of the kind of effects climate risks have on the operators and how these risks are managed.

Risks related to climate change are typically divided into physical risks and transition risks. Physical risks comprise the adverse effects of climate warming, such as floods, storms and changing natural conditions. Transition risks are caused by the evolution of the operating environment in the context of adjustment towards a lower-emission economy. These may be related, for example, to political decision-making and regulation or changes in market behaviour.

Significance of climate and environmental risks in banks' risk management has increased

Banks must identify and manage climate risk in the same way as they identify and manage other risks that they are exposed to in banking operations. Climate change and environmental degradation result in significant changes that also affect the Finnish financial system and

Banks must identify and manage climate risk in the same way as they identify and manage other risks that they are exposed to in banking operations.

real economy as well as banks' profitability and capital adequacy. Even smaller banks may be vulnerable to the impacts of climate change and environmental degradation, in particular, if their activities focus on markets, sectors or geographical areas exposed to material physical risks and transition risks.

A thematic review was carried out to explore the present state of climate and environmental risks and related development plans in seven banks under the FIN-FSA's direct supervision. The review built on the supervisory expectations laid out in the ECB's Guide on climate-related and environmental risk management, as applicable.

The review focused on four areas of climate and environmental risk management:

- materiality assessment
- impacts on the business model and strategy of the credit institution
- impacts on governance and risk appetite
- impacts on risk management with respect to different risk areas, focusing on credit, business model and operational risks.

It was stated in the conclusions of the thematic review that the banks continued to have plenty of room for development in all four areas.

In the same context, a further subject of study was the extent to which the banks had published information in their management reports and sustainability reports for 2022 related to climate and environmental risks and management thereof. There were major differences across the banks, and most banks still have a lot to do on this subject.

Reporting requirements concerning climate and environmental risks are determined in reporting standards related to the Corporate Sustainability Reporting Directive (CSRD). According to the thematic review, banks have begun preparations for the reporting, but the timelines presented by some of them seem challenging.

Based on the results of the thematic review, the FIN-FSA will require that banks under its direct supervision prepare a comprehensive materiality assessment and a plan to develop the management of climate and environmental risks. It is important that banks identify and prepare for the impacts of growing climate and environmental risks in their risk management.

In the insurance sector, regulatory changes introduced sustainability risks into the supervision of investment activities

Uncertainties related to climate change mean higher risks for investors. The mapping and analysis of these risks is not straightforward. Rising prices of emission allowances, structural changes in the economy and steep fluctuations of energy prices create both threats and opportunities. On the other hand, a potential failure or delay of the green transition also has its risks. In particular, long-term investors, including insurance and pension companies, must also assess the potential for the realisation of physical risks related to climate change and their consequences.

The review of the investment assets of Finnish insurance institutions focused solely on transition risks caused by climate change. They are simpler to assess than physical risks due to more straightforward analytical methodologies and better availability of data, but on the other hand, the reliability of the methodology and the predictive power are weaker. The role of transition risks in Finland is more significant than physical risks, which justifies the choice.

The methodology of the analysis is based on analysis by Battiston[6]. With his research team, he observed that direct and indirect exposures to so-called climate-policy-relevant sectors represented a significant proportion of the financial sector's investments, particularly for fund management companies and pension insurance companies. These sectors have particularly large exposures to transition risks associated with climate change.

The methods and forms of sustainability-based investment are still being developed. For the time being, there are no exact specifications. As a main rule, however, it can be stated that the use of sustainability-related information depends on the objective of the investment activities.

One of the most significant findings of the analysis was that, in assessing transitional risks of climate change, the sector- and company-specific differences are quite significant. In particular, there was quite a bit of variation in life and non-life insurance companies' investment strategies and key sources of risks at the company level. This should be borne in mind when making comparisons between individual companies. The FIN-FSA will utilise the results of the thematic review in focusing the supervision of sustainability risks.

EU-wide climate risk exercise in 2024

The European Commission has requested the European Supervisory Authorities (ESAs) to conduct a climate risk exercise for the financial sector in cooperation with the ECB and the European Systemic Risk Board (ESRB). The exercise will look into the ability of the financial sector to adapt to climate objectives. The review will focus on the impacts of two adverse scenarios, also considering contagion risks and second-round effects.[7] The exercise will be carried out during 2024, and the report will be published in early 2025.

[6] A climate stress-test of the financial system. Stefano Battiston, Antoine Mandel, Irene Monasterolo, Franziska Schütze and Gabriele Visentin (2017).

[7] EBA: One-off Fit-for-55 climate risk scenario analysis, https://www.eba.europa.eu/legacy/risk-analysis-and-data/climate-risk-stress-testing-eu-banks/one-fit-55-climate-risk-scenario.

Sanctions as part of the FIN-FSA's supervisory work

The AML Act was reformed on 31 March 2023. The FIN-FSA was vested with the authority to supervise, in addition to money laundering and terrorism financing, that financial market participants have effective policies, procedures and internal control to ensure compliance with sanctions. Due to the legislative amendment, the FIN-FSA will be able to intervene more effectively than before in any shortcomings and failures detected in sanctions compliance.

Entities obliged to report under the AML Act must, as part of their customer due diligence procedures, also consider the financial sanctions imposed by the UN Security Council and the EU as well as national freezing orders to prevent the financing of terrorism, which are issued by the National Bureau of Investigation.

These changes stem largely from the OECD member states' common Financial Action Task Force (FATF) and its findings presented in the 2019 country assessment on Finland, highlighting, among other things, supervisors' lacking powers in the supervision of financial sanctions.

Many authorities participate in the implementation and supervision of sanctions in Finland. The

With the new AML strategy, the FIN-FSA communicates to supervised entities and the public on the principles and practices of anti-money laundering supervision.

competent authority in the area of sanctions is the Ministry for Foreign Affairs, whose tasks include handling exemption requests and issuing interpretation guidelines. The National Enforcement Authority is responsible for the implementation of asset freezes, Customs oversees the supervision of export and import sanctions, and the Border Guard is tasked with preventing entry by sanctions-listed parties into the EU area. When an authority has grounds to suspect, for example, a breach or evasion of sanctions, it is investigated by the Police. Furthermore, as regards sectoral sanctions, several other authorities participate in the supervision, including the Transport and Communications Agency Traficom.

Supervision strategy for prevention of money laundering and terrorist financing and for compliance with financial sanctions

In spring 2023, the FIN-FSA published an AML strategy aimed at reducing the risk of money laundering, terrorist financing and non-compliance with sanctions in the activities of supervised entities. With the new strategy, the FIN-FSA communicates to supervised entities and the public on the principles and practices of anti-money laundering supervision.

According to the strategy, one of the key areas in the development of the competencies of the FIN-FSA personnel in the next few years is financial sanctions and the supervision of the appropriateness and effectiveness of procedures established to ensure compliance with them.

In November 2023, the FIN-FSA arranged a seminar on current themes in anti-money laundering and sanctions supervision, which had an audience of over 60 participants on site and almost 800 remotely. The topics covered in the seminar included de-risking, the FIN-FSA's supervisory findings and detection of sanctions evasion. In addition, the FIN-FSA has delivered presentations, for example in training events on sanctions organised by the Ministry for Foreign Affairs for other authorities.

In the future, the FIN-FSA's sanctions-related supervisory efforts will also focus, in particular, on the prevention of sanctions evasion.

Regulations and guidelines on sanctions

As regards the supervision of conduct concerning sanctions, the most important task in 2023 was to prepare and issue regulations and guidelines on sanctions for entities supervised by the FIN-FSA. This was the first set of guidance prepared by the supervisor on sanctions risk management for the Finnish financial markets.

A draft set of regulations and guidelines was prepared in the spring and early summer of 2023, followed by a public consultation round and a separate hearing. Lots of consultation feedback was given, and requisite revisions were made to the draft version based on the feedback in autumn 2023. The Board of the FIN-FSA approved the publication of the regulations and guidelines in December 2023.

The objective of the regulations and guidelines is to ensure that supervised entities understand sanctions risks related to their activities and arrange effective and adequate means to manage and mitigate these risks. In recent years, sanctions have been imposed on Russia, in particular. It is important that supervised entities have effective risk management processes to comply with sanctions.

Supervision of compliance with the regulations and guidelines will be an essential part of sanctions-related supervision by the FIN-FSA. The regulations and guidelines enter into force on 1 March 2024.

Supervisory actions and risk assessment as the main themes for 2024

After the entry into force of the regulations and guidelines, the main focus in 2024 will shift to supervisory actions and work on risk assessments. As regards supervisory actions, in 2024 there will be, for example, on-site inspections focused on sanctions.

The consideration of sanctions is also important in the FIN-FSA's risk assessment work from the perspective of supervision. In 2024, a risk assessment will be conducted on sanctions, with the aim of mapping sanctions risks related to supervised entities. The risk assessment will be based on data from 2023, collected from supervised entities in January-February 2024.

Operating environment from a sanctions perspective

The main attention regarding sanctions remains on sanctions imposed on Russia. It is likely that new sanctions will be imposed in 2024. Besides imposing sanctions, another focus area going forward will be the prevention of sanctions evasion. This may mean, for example, designating new persons who have participated in sanctions evasion, and also closing the loopholes of previous sanctions regulations.

In the future, the FIN-FSA's sanctions-related supervisory efforts will also focus, in particular, on the prevention of sanctions evasion.

Proactive and predictable supervision

The FIN-FSA's vision is to be a proactive and predictable supervisor. This means that the supervisor must monitor changes in the operating environment and anticipate their impacts on supervision. The vision also entails that the FIN-FSA acts consistently and predictably in its own activities. Development of activities towards this objective began in 2023.

Published information on supervisory focus areas

At the beginning of the year, the FIN-FSA published the focus areas for inspections and thematic reviews during the year, and these were mainly followed through. In accordance with the strategy, the FIN-FSA will be flexible in its activities, and therefore a small proportion of planned inspections and thematic reviews were postponed to a more opportune time from the perspective of the operating environment and more extensive supervisory initiatives.

By publishing its supervisory focus areas, the supervisor signals the topics it considers important in supervision. This also steers the supervised entities to pay attention to these themes.

The supervisor may also make inspections outside the published plan and intervene in any shortcomings it becomes aware of.

Transparency about supervision steers supervised entities to act appropriately

The objective of supervision is that supervised entities are able and willing to do the right thing. This requires clarity, predictability and

Proactivity and predictability have been developed by harmonising supervisory practices and the interpretation of regulation in the steering group for supervision.

transparent communications by the supervisor.

The FIN-FSA publishes a supervisory or press release on thematic reviews completed, and often also a report. The subjects of the thematic review will receive more detailed information on the findings made by the supervisor. Based on the results of the thematic reviews, more detailed reviews can be launched.

Inspections concerning individual supervised entities are discussed with the supervised entity. Based on the findings of the inspection, guidance can be prepared for other supervised entities, or supervision may be focused on other supervised entities.

As part of the development of predictability, the FIN-FSA is assessing how to better communicate the results of an individual investigation and thereby potentially steer the entire field of supervised entities by telling how the supervisor interprets regulation and what it emphasises in its reviews.

Consistency of supervision in different areas

Proactivity and predictability have been developed by harmonising supervisory practices and the interpretation of regulation in the steering group for supervision. A significant part of regulation and changes in the operating environment concerns several sectors of supervised entities, and it is important that these changes are shown as consistently as possible in different sectors.

High quality of data and analysis enables proactivity

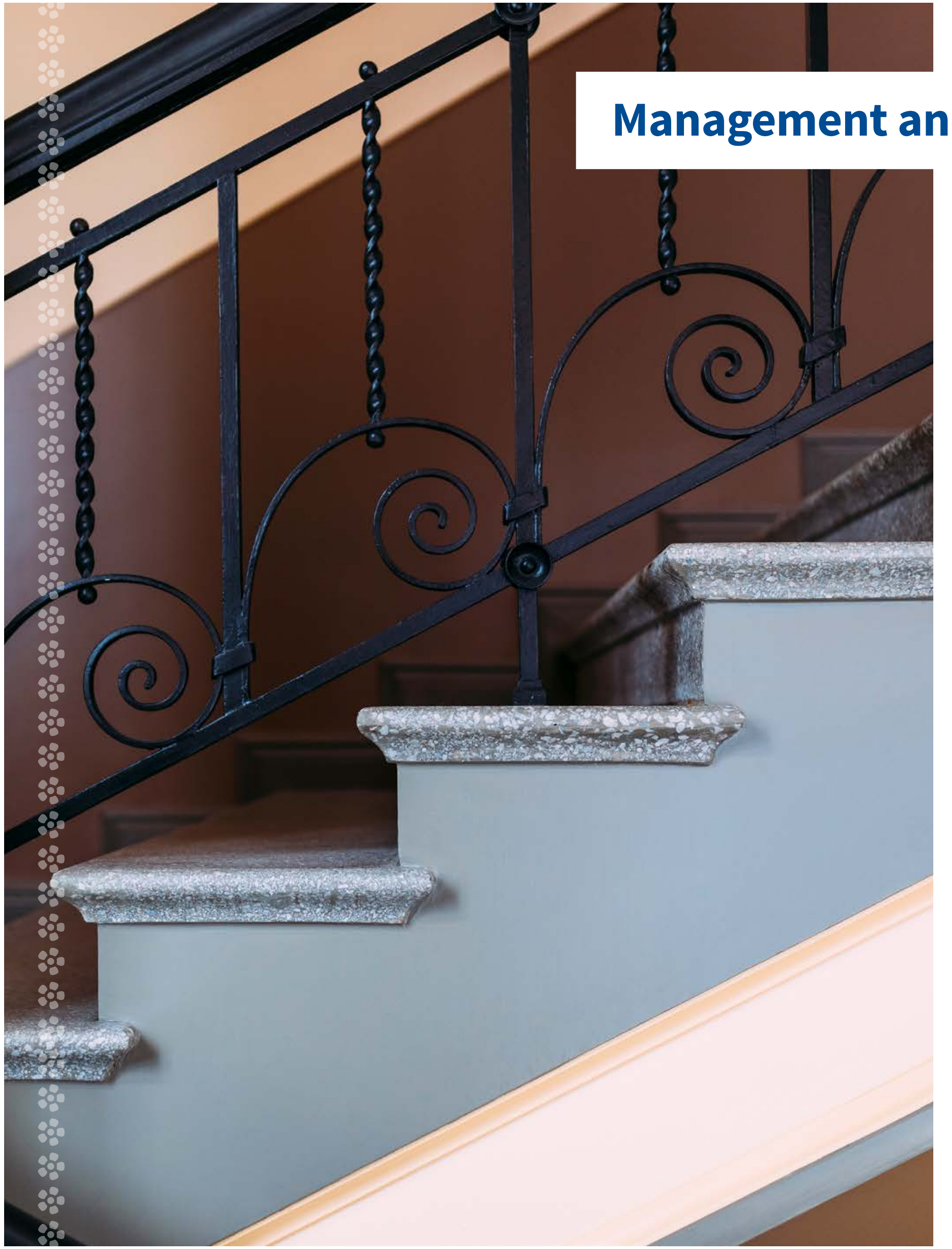
In accordance with its strategy, the FIN-FSA utilises effectively the information and data collected by it in supervision, and a high-quality analysis of the information enables proactive supervision. The FIN-FSA has paid particular attention to the quality of data obtained from supervised entities and has imposed sanctions, for example, on shortcomings in reporting on derivatives contracts.

The FIN-FSA will utilise the data collected by it in new thematic reviews. As an example, the thematic review published in January 2024 on Finnish banks' liquidity strengthens the supervisor's situational view in the challenging economic conditions.

Background information on supervision for the media

The FIN-FSA improves its predictability beyond the scope of supervised entities, for example by providing a backdrop to its supervisory efforts by writing blogs and arranging explanatory events for the media in addition to news-focused press conferences. In the context of changes in the operating environment, the FIN-FSA publishes information on its supervisory focus in the prevailing situation and its expectations for the supervised entities.

You can follow and subscribe to FIN-FSA news and releases through the website Publications and press releases – www.finanssivalvonta.fi.



Management and personnel 2023

All FIN-FSA staff

248

(2022: 242)

58% (59%) **42%** (41%)

Management*

34

47% **53%**

Experts*

214

59% **41%**

*Due to changes in personnel reporting, the staff is now broken down into two groups instead of the previous three, and therefore the figures are not comparable with the figures for 2022.

Board

The photo shows the Board of the Financial Supervisory Authority in February 2024.
Back row: Lasse Heiniö and Martti Hetemäki. Front row: Leena Kallasvuo, Marja Nykänen and Jaana Rissanen.

In the supervision of the financial markets, the Board's key task is to set specific objectives for the FIN-FSA duties under sections 3 and 3a of the Act on the Financial Supervisory Authority and for the FIN-FSA's activities, to decide on its overall strategy, and to direct and supervise the achievement of these objectives and compliance with the strategy. The Board's other tasks in the supervision of the financial markets include the adoption of such regulations based on law and guidelines that have not been vested with the Director General, as well as deciding on administrative sanctions and on the use of macroprudential instruments. The Board's key tasks concerning the FIN-FSA's administration include the review of its annual budget and submitting it to the Board of the Bank of Finland for confirmation. In addition, at least once a year, it supplies the Parliamentary Supervisory Council with a report on the FIN-FSA's operational objectives and their achievement. This includes an assessment of expected changes in supervision, their impact on the accumulation of supervision fees and measures required by the expected changes. In addition, the Board shall consult financial market participants as well as representatives of consumers and other users of financial services annually on the objectives set for supervision and their achievement, the budget and the abovementioned assessment of expected changes in supervision, their potential effect on the accumulation of supervision fees, and measures required by foreseeable changes.

- CVs of the Board, composition of the Parliamentary Supervisory Council, organisation chart: finanssivalvonta.fi/en: About us › Organisation and tasks

Board 2023

Chair **Marja Nykänen**	LLM (trained on the bench), Deputy Governor of the Bank of Finland
Vice Chair **Pauli Kariniemi**	LicSc Econ, MSc Econ, Attestation Erasmus, Head of Department, Director General, Ministry of Finance
Liisa Siika-aho	(as of 17 February 2023), MSc Admin, Head of Department, Director General, Ministry of Social Affairs and Health
Lasse Heiniö	MSc, (SHV) actuary approved by the Ministry of Social Affairs and Health
Leena Kallasvuo	MSc Econ
Martti Hetemäki	DSocSc, Professor of Practice, Aalto University, University of Helsinki

The deputy member for Marja Nykänen was Head of Department **Katja Taipalus** (DSocSc, Head of Department, Bank of Finland). The deputy member for Pauli Kariniemi was **Paula Kirppu**, LLM, Legislative Counsellor. The deputy member for Liisa Siika-aho was **Jaana Rissanen**, LLM, Director.

The Secretary to the Board was **Pirjo Kyyrönen**, LLM (trained on the bench), Chief Legal Advisor. The Board convened 39 times during the year. Fees to the members and deputies in the year totalled EUR 84,426.

Management Group

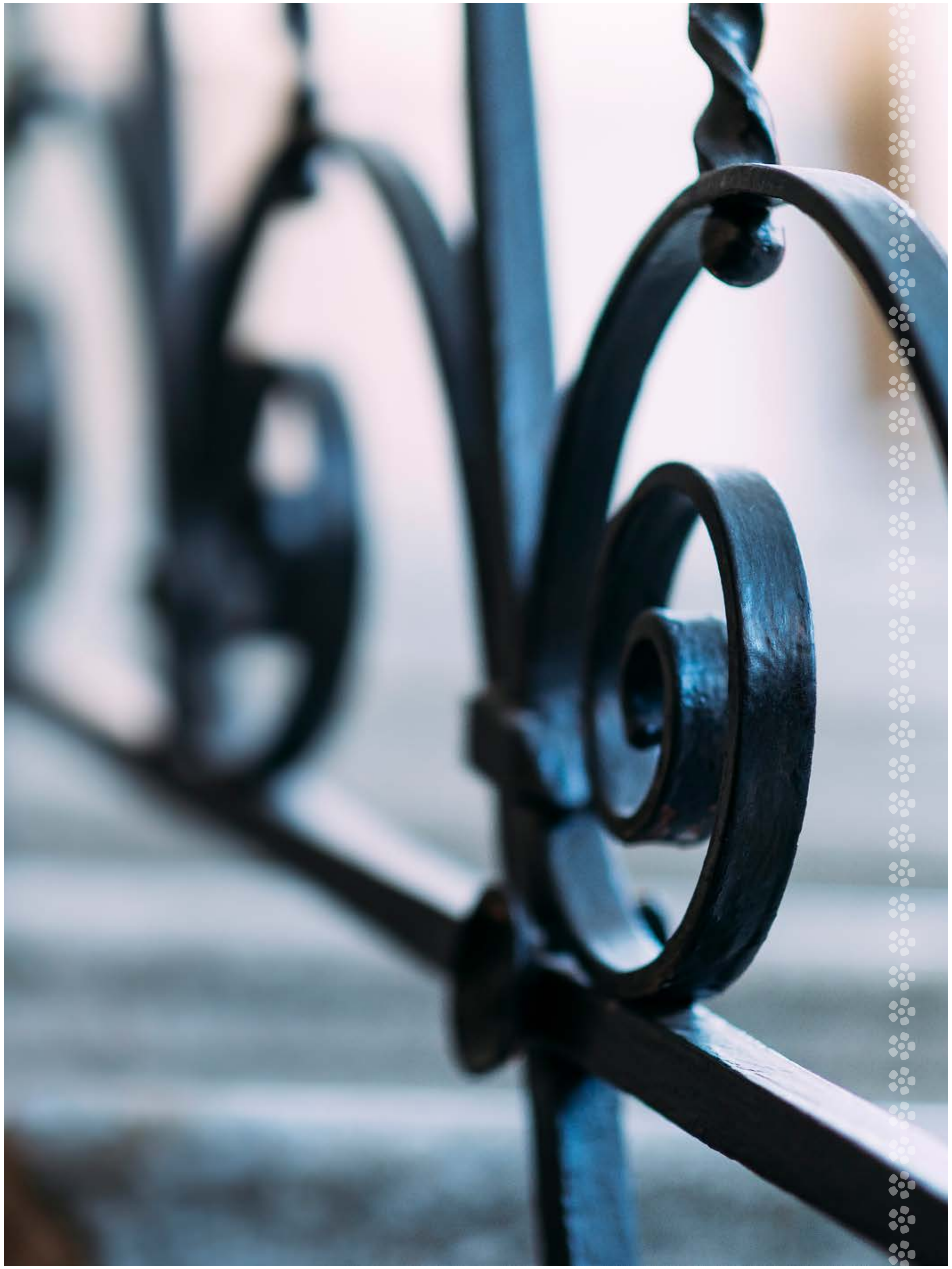
Back row: Mira Väisänen, Milka Lahnalammi-Vesivalo, Janne Häyrynen, Marko Myller and Kaisa Forsström
Front row: Päivi Turunen, Tero Kurenmaa, Armi Taipale and Samu Kurri. Jyri Helenius and Erkki Rajaniemi are not in the photo. Photo: Vesa Moilanen / STT-Lehtikuva

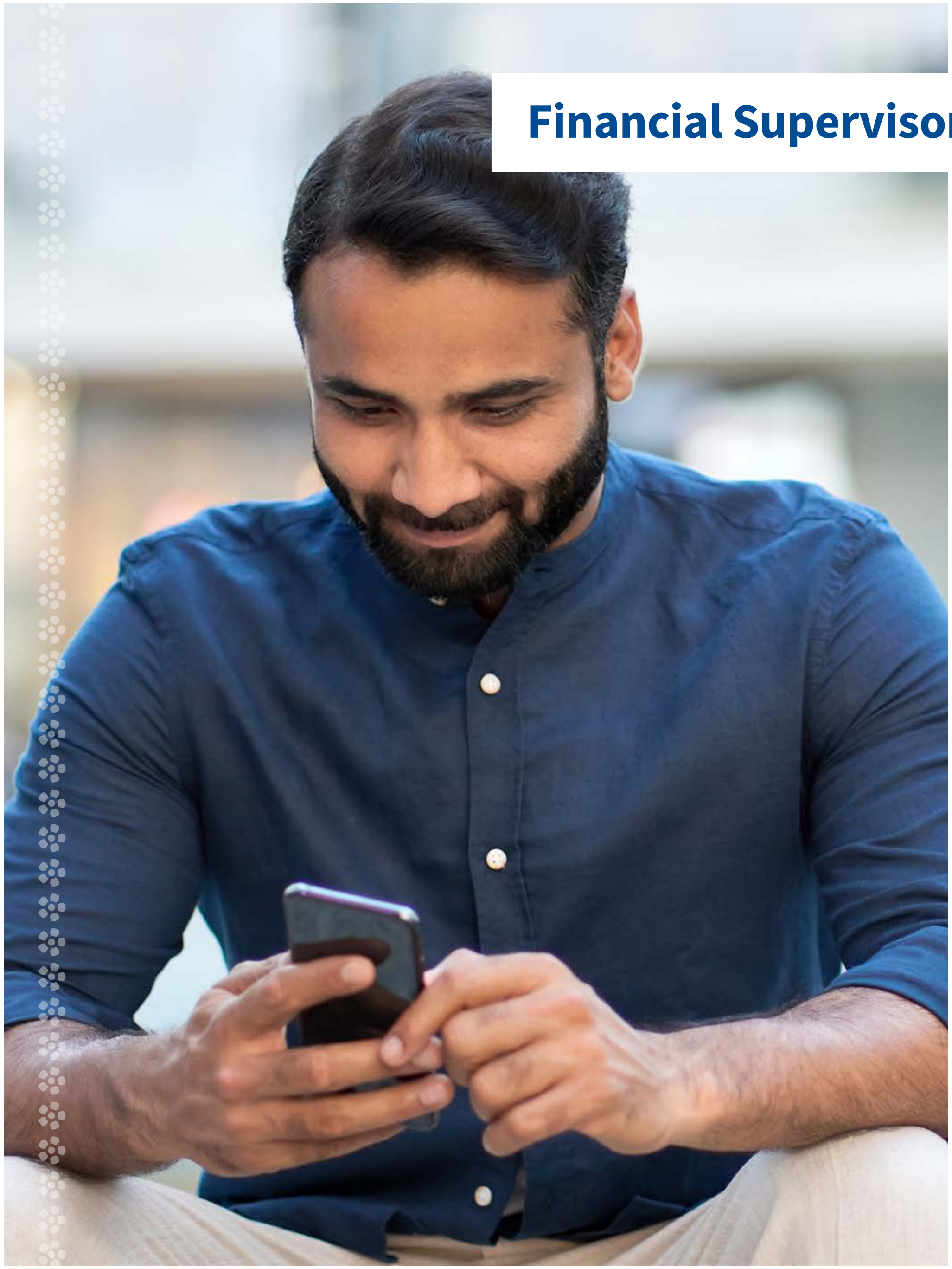
The Management Group convened 48 times during the year. The Director General's salary and fees totalled EUR 243,219. Salaries and fees paid to the other Management Group members totalled EUR 998,675.

- CVs of the members of the Management Group and its Secretary: finanssivalvonta.fi/en: About us › Organisation and tasks
- Ethical guidelines applying to all FIN-FSA staff: finanssivalvonta.fi/en: About us › Statements and guidelines › Ethical Code of Conduct

Management Group 2023

Tero Kurenmaa	LLD, LLM, Director General, Chair of the Management Group
Jyri Helenius	MSc Eng, Deputy Director General, Head of Banking Supervision until 30 June 2023, Deputy Director, Head of Director General's Staff, as of 1 July 2023
Kaisa Forsström	LLM, Head of Insurance Supervision
Samu Kurri	MSocSc, Head of Digitalisation and Analysis
Armi Taipale	LLM, MSc Econ, Head of Supervision of Capital Markets
Janne Häyrynen	LLM, DSc Econ, Docent in Securities Market Law, Head of Unit, Legal
Sonja Lohse	LLM (trained on the bench), Chief Advisor, Head of the Director General's Staff until 30 June 2023
Erkki Rajaniemi	DSc Econ, LicLL, LLM (trained on the bench), Advisor to the Management
Päivi Turunen	LLB, Senior Market Supervisor, representative of the personnel
Mira Väisänen	LLM, MSc Econ, Senior Legal Advisor, Secretary to the Management Group
Milka Lahnalammi-Vesivalo	MSocSc, Head of Communications, right to attend Management Group meetings





Financial Supervisory Authority in brief

The Financial Supervisory Authority (FIN-FSA) is the authority for the supervision of Finland's financial and insurance sectors. Its supervised entities include banks, insurance companies and authorised pension insurers, as well as others active in the insurance business, investment firms, fund management companies, and the stock exchange. 95% of our activities are funded by the supervised entities; the remaining 5% comes from the Bank of Finland.

Administratively, the FIN-FSA operates in connection with the Bank of Finland, but in its supervisory work, it takes its decisions independently. At the end of the review year, FIN-FSA's personnel amounted to 248. Our office is located in Helsinki.

The objective our activities is the stable operation of credit, insurance and pension institutions and other supervised entities required for the stability of the financial markets. Another objective is to safeguard the best interests of the insured and to maintain public confidence in the operation of the financial markets. Furthermore, it seeks foster compliance with good practices in the financial markets and public awareness of the financial markets. These objectives and tasks have been laid down in the Act on the Financial Supervisory Authority.

We work in the interests of the users of banking, insurance and investment services.

Responsibility at the FIN-FSA

Responsibility stems from the core of the FIN-FSA's activities. Our statutory task is to ensure financial stability, confidence in the financial markets as well as customer and investor protection and the protection of the insured. Through our work, we also respond to major societal challenges, such as climate change, demographic and geopolitical changes and the prevention of cyber threats. Together with other authorities and financial sector institutions, we play a key role in the prevention of money laundering and terrorist financing.

These actions are described in more detail in the thematic articles of this annual report and in the chapter FIN-FSA's supervisory actions in 2023.

The FIN-FSA's values are 'dynamic', 'responsible', 'productive' and 'together', and they are guidelines for responsible action in all activities within the FIN-FSA.

The FIN-FSA operates administratively in connection with the Bank of Finland, and therefore more information about our sustainability efforts can be found in the Bank of Finland's sustainability report.

Hearings of specialists in parliamentary committees
26

Submissions on draft legislation
39

Other submissions related to the financial sector
48

Summary of FIN-FSA's activities in 2023

The activities of the Financial Supervisory Authority are aimed at ensuring financial stability and the necessary smooth operation of credit, insurance and pension institutions, and other supervised entities, so as to safeguard the interests of the insured and maintain confidence in the financial markets. (Act on the Financial Supervisory Authority, section 1)

During the review year, the FIN-FSA's supervisory attention focused on the weakening cyclical situation and risks related to the geopolitical situation. The FIN-FSA paid particular attention to the supervision of risks associated with the real estate sector. The supervision of credit risks was one of the focus areas in banking supervision. The supervision of the insurance and pension sector addressed the valuation and valuation practices of real estate investments. At the same time, the liquidity management and valuation of investment funds have been particular focus areas in fund supervision for some years already. In its supervisory activities, the FIN-FSA emphasised the following areas during the review year: functioning of corporate governance systems (incl. risk management and control systems), management of market and cyber risks, compliance with the disclosure obligation as well as contingency and continuity management required by the changed geopolitical situation.

Strategy of the Financial Supervisory Authority 2023–2025

- Our supervision is proactive and consistent.
- Our effectiveness and trust in us have increased and are supported by communication.
- We use data effectively in monitoring and decision-making.
- In our supervisory activities, we harness cooperation with the EU.

- We apply common, uniform and efficient processes.
- High-quality analysis enables proactive supervision.
- Data systems enhance our operational efficiency.

- Our operational management is flexible.
- Our organisation's activities and resourcing are long-term and risk-based.
- Our expertise responds to changes in the operating environment.

- Our management supports well-being in work.
- We have comprehensive and encouraging career-path and development opportunities.
- Our good employer image promotes successful recruitment.

ECONOMIC DEVELOPMENT REGULATION DIGITALISATION CYBER THREATS GEOPOLITICAL SITUATION DEMOGRAPHICS AND WORK CLIMATE CHANGE

Total number of supervised and other fee-paying entities

Fee-paying entities	31 December 2022	31 December 2023
Credit institutions	190	184
Investment firms	182	172
Fund management companies and AIFMs	42	45
Securities issuers	206	203
Stock exchange, clearing corporation	1	1
Finnish Central Securities Depository	1	1
Other fee-paying entities in the financial sector	210	254
Financial sector, total	**832**	**860**
Life insurance companies	9	9
Non-life insurance companies	34	34
Pension insurance companies	4	4
Unemployment funds	16	16
Pension foundations and funds	41	39
Sickness funds and other insurance funds	122	120
Insurance associations	5	5
Insurance brokers	86	100
Public-sector funds	4	4
Other fee-paying entities in the insurance sector	43	46
Insurance sector, total	**364**	**377**
All supervised and other fee-paying entities, total	**1,196**	**1,237**

Entities supervised by the Financial Supervisory Authority include banks, insurance and pension institutions, investment firms, fund management companies and the stock exchange. The FIN-FSA also supervises the operations of foreign EEA supervised entities' and EEA supplementary pension institutions' operations in Finland as well as the provision of services by foreign supervised entities in Finland without establishing a branch.
In addition, FIN-FSA supervises, among other things, insurance agents and compliance with the obligation to declare insider holdings.

Expenses and funding

Expenses and funding, EUR thousands	2022	2023*
Staff expenses	26,756	27,988
Staff-related expenses	448	649
Other expenses	5,708	6,398
Services	2,456	2,994
Real estate expenses	1,434	1,536
Other expenses	1,818	1,868
Depreciation and amortisation	1,084	1,039
Bank of Finland services	6,791	7,273
Total expenses	**40,787**	**43,347**
Funding of operations		
Supervision fees	36,650	40,690
Processing fees	2,073	2,068
Other income	1	3
Bank of Finland’s contribution: 5% of expenses	2,039	2,167
Surplus carried over from the previous year	2,371	2,347
Surplus carried over to the next year	-2,347	-3,928
Total funding	**40,787**	**43,347**

*The figures for 2023 are unaudited and unconfirmed.

Set supervision fees

Set supervision fees, EUR thousands

Fee-paying entities	2022	2023
Credit institutions	18,894	21,839
Investment firms	1,977	2,182
Fund management companies and AIFMs	3,232	3,018
Securities issuers	2,615	2,842
Stock exchange, clearing corporation	349	387
Finnish Central Securities Depository	232	251
Other fee-paying entities in the financial sector	766	929
Financial sector, total	**28,065**	**31,448**
Life insurance companies	1,639	1,594
Non-life insurance companies	1,584	1,679
Pension insurance companies	2,783	3,104
Unemployment funds	1,063	1,128
Pension foundations and funds	210	215
Sickness funds and other insurance funds	97	104
Insurance associations	5	5
Insurance brokers	120	136
Public-sector funds	861	896
Other fee-paying entities in the insurance sector	244	285
Insurance sector, total	**8,606**	**9,146**
Adjustment items carried over from previous years	-21	96
Fee-paying entities, total	**36,650**	**40,690**

Processing fees

Processing fees, EUR thousands

Fee-paying entities	2022	2023
Credit institutions	149	67
Investment firms	59	73
Fund management companies and AIFMs	953	805
Securities issuers	272	196
Other fee-paying entities in the financial sector	72	85
Financial sector, total	**1,505**	**1,226**
Insurance companies[1]	24	133
Unemployment funds	23	13
Pension foundations and funds	59	47
Sickness funds and other insurance funds	30	78
Insurance brokers[2]	424	550
Other fee-paying entities in the insurance sector	8	21
Insurance sector, total	**568**	**842**
Fee-paying entities, total	**2,073**	**2,068**

1 Life, non-life and pension insurance companies
2 Insurance brokers and agents