

COUNTRY REPORT FINLAND 2008

1. Economic and Financial Background

Key Figures (end of 2007)¹

Population:	5,315,280
GDP	179.7 billion €, or 33,983 € per capita*
GDP growth	4.4 %*
Inflation rate	2.5 %
Unemployment	6.0 %

*Preliminary data

Investments in Finland and from Finland in billion €²

Direct investments	2000	2001	2002	2003	2004	*2005	*2006	*2007
Finnish investments abroad	56.0	59.3	61.0	60.2	62.4	69.2	71.8	76.8
Foreign investments in Finland	26.1	27.3	32.4	39.8	42.1	46.3	51.6	57.9
Securities investments								
Finnish investments in foreign securities	55.0	63.4	72.5	84.7	107.5	130.9	162.5	172.4
Foreign investments in Finnish securities	272.3	202.1	152.1	157.5	162.9	195.2	219.6	257.4

* preliminary data

Main Features of Finnish Economy in 2007 - 2008³

According to preliminary figures from Statistics Finland, Finland's GDP increased 4.4 per cent in 2007. However, the cyclical upswing in the Finnish economy has peaked and the growth is decelerating during the second half of 2008. Still, the foundations of the economy are sound and employment figures remain strong. The Ministry of Finance expects a GDP growth of 2.8% for 2008. The comparably high figure is mainly attributable to the growth during the first half of the year.

The inflation has reached a peak after a long period of slow inflation. The higher inflation is particularly due to food and fuel prices and high pay rises. The Ministry of Finance forecasts that the inflation for 2008 will be above 4%.

The growth in foreign trade was still strong in the early 2008 but the exports are slowing down. Export is going to suffer from strong Euro and the cooling international demand.

Household consumption has grown strongly and the Ministry of Finance forecasts a 3% growth in 2008. Increase in disposable income is result of improving employment and higher pay levels. The high inflation will offset the increase in purchasing power.

Robust economic growth has fostered employment in recent years. Even though the deteriorating cyclical outlook, the employment remains strong. The unemployment rate is forecasted fall back this year to 6.2 per cent.

¹ Source: Statistics Finland

² Source: Statistics Finland

³ Source: Ministry of Finance

2. Key trends in flows and assets under management

Statistical situation and trends

During the last twelve years the Finnish investment fund market has grown quite dramatically (see chart 1). Total assets have grown from EUR 1.9 billion in 1996 to EUR 55.9 billion in June 2007. The growth has sustained also periods of unfavorable market conditions. However, the subprime crises that started during the second half of 2007 has had an unforeseen effect on the Finnish mutual fund market. During the twelve months from July 2007 total assets have decreased from all-time-high of EUR 70.8 billion to EUR 55.9 billion, a change of EUR 14.9 billion or -21%. Cumulative net subscriptions for the same period were EUR -8.3 billion.

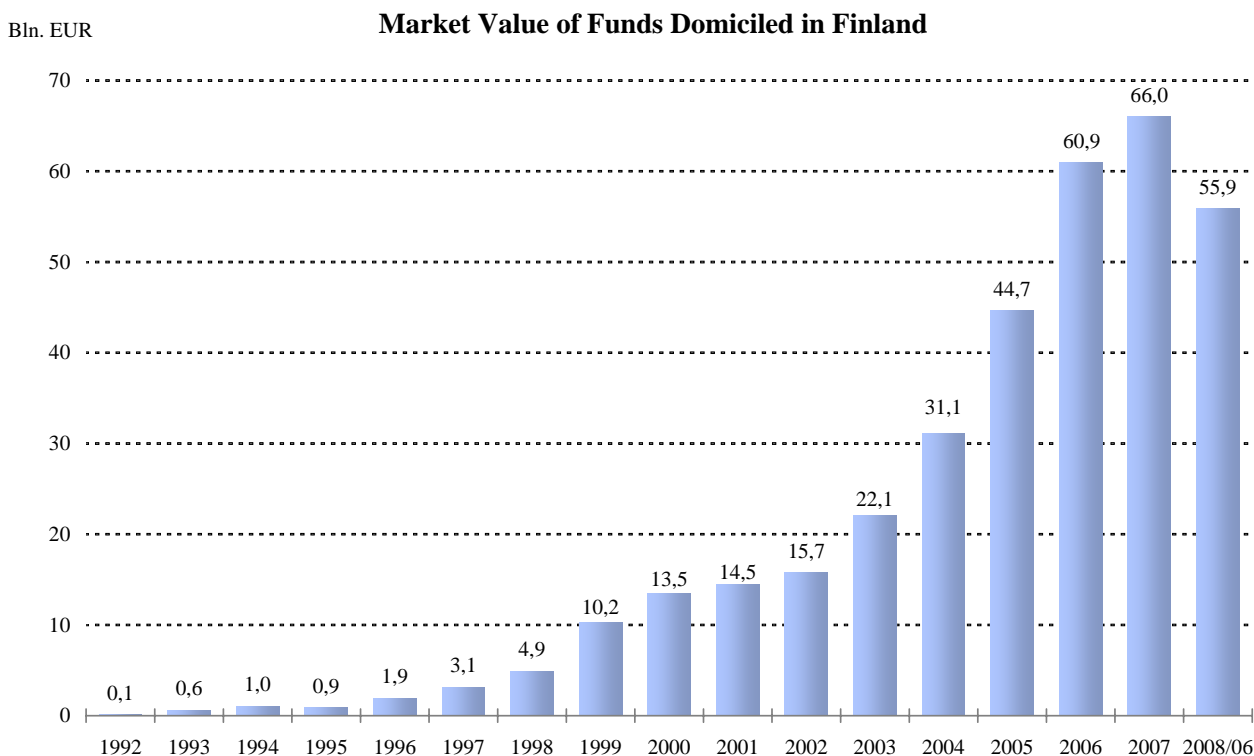


Chart 1. Total Assets in Finnish Mutual Funds 31.12.1992-30.6.2008 (EUR billions).
(Funds managed by Companies registered in Finland)

Overall market development

In the early 1990's over 70% of total fund assets were invested into equity funds. Later fixed income (bond and money market) funds started to gain popularity and the market share of equity funds' declined below 30% in 1997. In the recent years the share of assets invested into equity funds has varied around 25% and 40 % of total assets (see chart 2). The equity boom in 1998-2000, that was particularly strong in Finland, lifted equity funds' market share to almost 50% at the market peak in 2000. However, after the peak the market share of equity funds dropped below 30% again at 2003, following a long slide of stock prices that triggered investors to transfer their wealth to lower risk fixed income funds. In the last 12 months the fixed income funds and especially money market funds have had greater outflows than equity funds but the equities have lost more value during the ongoing market turbulence.

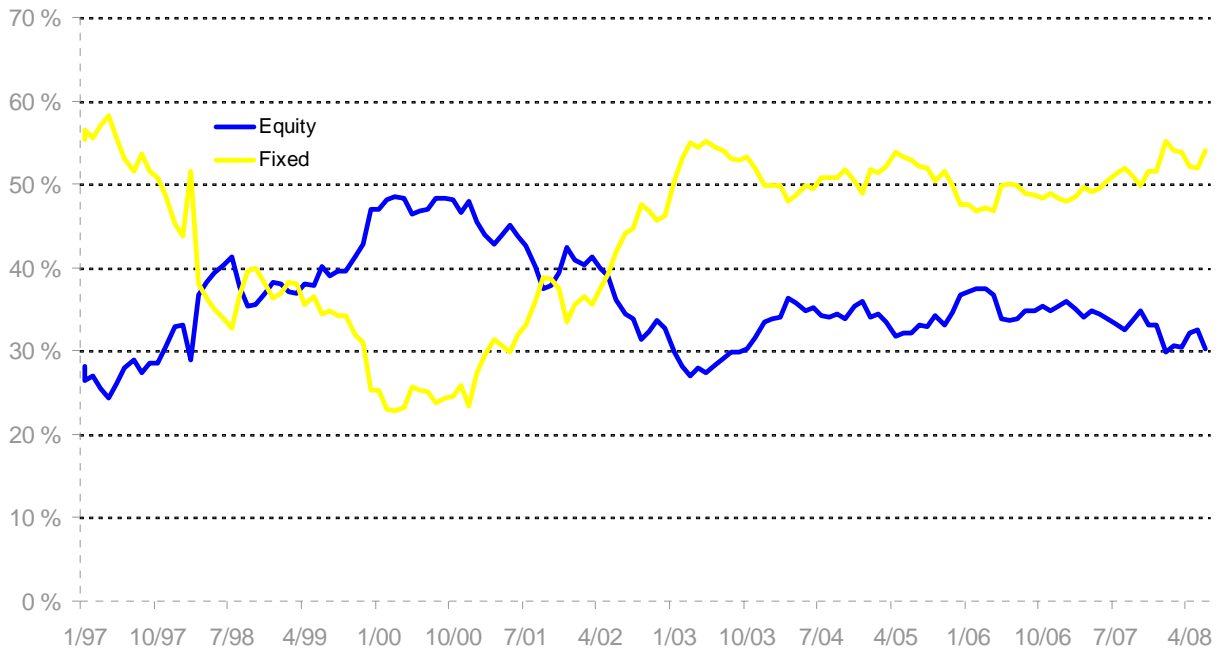


Chart 2. Market Share Development of Equity and Fixed Income Funds Between. 1.1.1997 and 30.6.2008 (Funds domiciled in Finland)

Equity funds

Finnish equity fund market has evolved substantially since 1997 (see chart 3). In the mid 1990's equity funds investing into Finnish stock markets were dominant. Since then especially funds investing in Europe and global markets have increased their popularity, which has caused a steady decrease in the market share of domestic equity funds. The market share of the domestic equity funds has stayed quite steadily around 20% since 2001. Since the turn of the century emerging markets fund class has been the most notable gainer, while funds investing in global markets have lost ground. One of the key drivers behind this development has been the strong performance of the emerging markets.

Equity funds market share 30.6.2008 was at 16.9 EUR billions or 30% of the market. Net subscriptions 07/2007 – 06/2008 were -1.7 EUR billions which was 20% of all net subscriptions.

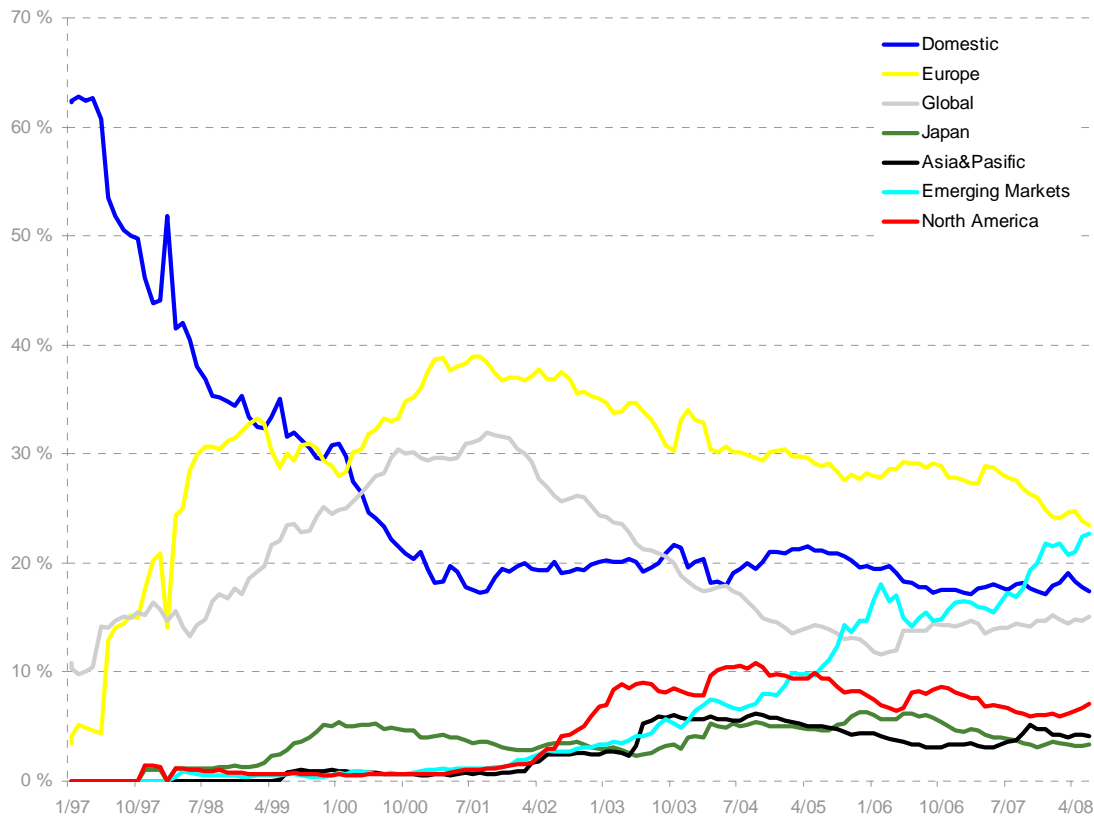


Chart 3. Market Share Development of Different Equity Fund Classes Between 1.1.1997 and 30.6.20078 (Funds domiciled in Finland)

Chart 4 shows the geographical distribution of equity fund investments in Finland. Funds investing to Europe and fund investing in Emerging markets are the largest groups both having 23% share of the total equity assets. Funds investing to Finland have about 17% of total equity assets.

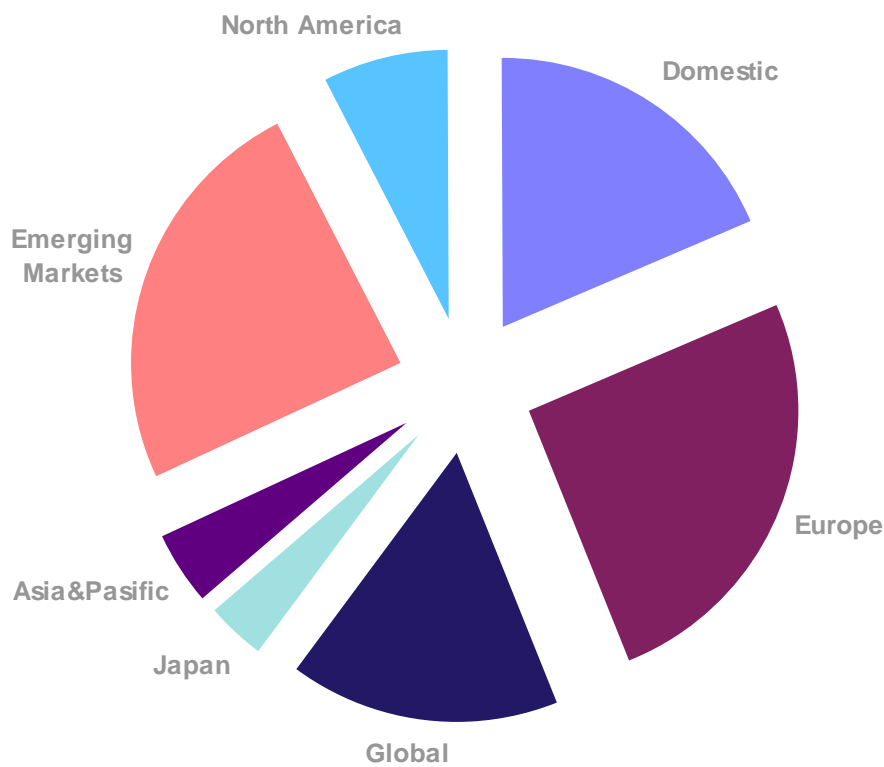


Chart 4. Geographical Distribution of Equity Fund Investments as a Percentage of Total Assets Invested into Equity Funds as of 30.6.2008. (Funds domiciled in Finland)

Bond funds

Total asset invested into bond funds were EUR 15.7 billion at 30.6.2008, or 28% of total assets. Euro-zone government bonds cover about 46% of the bond fund investments. During the last year net subscriptions in the class were EUR -1.1 billion i.e. 13% of all net subscriptions.

Money market funds

Measured with net sales, money market funds have taken the biggest hit during the on going credit crunch. During the last year net subscriptions were EUR -4.2 billion, which is 51% of total net subscriptions. Total assets in short term fixed income funds were EUR 14.5 billion at 30.6.2008.

Asset allocation funds

Asset allocation funds have had a steady market share of about 12% for the last four years. In 30.6.2008 asset allocation funds had EUR 6.7 billion total assets and the class maintained its market share of 12%. Net subscriptions in the last 12 months totaled -0.8 EUR billions or 10% of all net subscriptions.

3. Regulatory and self regulatory developments (including tax)

Markets in Financial Instruments Directive, MiFID

The directive was implemented in Finland by amending securities legislation and a few other statutes. To a large extent the directive was also implemented by means of regulations issued by the Finnish Financial Supervision Authority. The amendment bills were passed by Parliament on 26 October 2007 and they came into force on 1 November 2007.

Real Estate Investment Funds

Despite the Act on Real Estate Investment Funds from year 1997 no real estate investment funds were founded, because for tax reasons many institutional investors preferred direct investments in real estate or fiscally more transparent investment instruments rather than investment in the form of limited companies or funds. The new improved Act came into force May 2007 and since then a few funds have been founded.

Single National Supervisory Authority

The Government submitted a bill to Parliament on May 2008 to merge the existing Financial Supervision Authority and Insurance Authority to create a single national supervisory authority. The new legal provisions would enter into force in time to allow the new authority to start operating on 1 January 2009.

Taxation

As a part of implementing the MiFID directive the Parliament passed a bill in October 2007 to abolish the requirement of the transfer having to take place at the trading place for tax exemption to be gained so that the tax exemption will apply to transfers of all listed securities regardless of how the transfer actually takes place. A securities intermediary must participate in the transfer as a party or a broker for the tax exemption to apply.

No other major tax law changes have occurred. The capital income tax rate is 28% and the corporate income tax rate is 26%. Capital gains tax is not collected if the value of the sold assets during the tax year does not exceed 1,000 euros. On the other hand, capital losses are not deductible if the total acquisition costs of the assets do not exceed 1,000 euros. The Net wealth tax has been abolished. There are two ways you can calculate the deductible acquisition cost: either use the actual acquisition cost or a so called deemed acquisition cost. If you have owned the securities sold for at least 10 years you are entitled to use as deemed acquisition cost 40% of the sale price. In case you have owned them for less than 10 years, the deemed acquisition cost is 20%.

Dividends received by private individuals and deceased persons' estates is taxed differently depending on whether the dividends have been distributed by listed companies, including companies listed on the so called ancillary lists, or by non-listed companies. A tax amounting to 19,6 % is collected from dividends paid by listed companies, as 70% of the dividend income is taxable and 30 % non-taxable. Dividends paid by non-listed companies are tax free provided the dividend does not exceed an amount corresponding to 9 % of the mathematical value of the share and the total amount of such dividends received by a tax payer do not exceed 90,000 euros.

Self regulatory developments

The Finnish Association of Investment Funds also renewed the trading instructions 2007 and is planning changes to the fund classification in the monthly published fund report during 2008.

4. Corporate governance

According to legislation the right of the fund management companies to invest the assets of investment funds is ten percent into a single company. If investment fund invests more than five percent into a single company, it should announce the goals of corporate governance principles for the company in question to the extent that they differ from goals given in prospectus.

The Finnish Association of Mutual Funds has issued a recommendation on fund governance, which sets minimum guidelines for corporate governance principles that fund manager should approve and disclose to their unit holders.

5. Fund governance

The Finnish investment fund legislation requires 1/3 of the board members of Finnish fund management companies to be elected by the unit holders of the investment fund.

6. Product developments

Despite that there is no special legislation regarding Socially Responsible Investing funds 13 of that category funds exists in Finland and their AuM is EUR 369 million. The forces behind the SRI growth are global trends and general interest in Responsible Investing.

In Finland there is no regulatory distinction between “sophisticated” and “non-sophisticated” UCITS III funds. Despite that a few sophisticated funds have started during spring 2008.