

## Various Positive Rating Actions On Finnish Banks On Improved Economic Conditions

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- We believe Finland's economy is gradually recovering after three years of negative to weak economic growth, safeguarding its strong economic resilience.
- The positive momentum in the economy and improving labor market conditions are supportive of consumer confidence, which has been reflected in a more active housing market in 2016.
- We therefore consider that the risk of a price correction in the housing market is becoming remote and believe the Finnish banking sector will face stable economic and industry risk trends over the next two years.
- Consequently, we are taking various positive rating actions on five Finnish banks and one of their core subsidiaries and affirming our 'BBB/A-2' ratings on Bonum Bank PLC with stable outlook.

FRANKFURT (S&P Global Ratings) Nov. 17, 2016--S&P Global Ratings today took various positive rating actions on Finnish banks:

- We revised to stable from negative the outlook on Aktia Bank PLC, The Mortgage Society of Finland, OP Corporate Bank PLC, and OP Corporate Bank's core entity OP Insurance Ltd, and affirmed our long- and short-term counterparty credit ratings on the banks (see "Ratings List" for details).
- We revised the outlook to positive from stable on Central Bank of Savings Banks Finland PLC and affirmed our 'BBB+/A-2' long- and short-term counterparty credit ratings on the bank.
- We raised the short-term counterparty credit rating on Bank of Aland to 'A-2' from 'A-3' and affirmed the long-term rating at 'BBB'. We revised the outlook on the long-term rating to stable from negative.

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- We affirmed the 'BBB/A-2' long- and short-term counterparty credit ratings on Bonum Bank PLC. The outlook remains stable.

The rating actions follow our review of the Finnish banking sector and reflect improved economic conditions for the country's banks. We have revised our assessment of the economic risk trend in the Finnish banking industry to stable from negative.

We believe that the Finnish economy has achieved a turnaround after several years of subdued economic growth. The sound domestic demand driven by private consumption and construction activity led the economy to rebound in 2015, with GDP growth of 0.2%. The decline in key industries seems to have bottomed out and there are signs of new investment activity. We expect the economy will gradually recover, with forecast average GDP growth of 1.1% in 2016-2018 mainly based on continued growth of domestic demand. Therefore, we believe that the Finnish economy, with estimated GDP per capita of \$42,700 in 2016, will demonstrate very low risk in terms of economic resilience. At the same time, we believe Finland's economy continues to be weighed down by a confluence of factors, including the structural decline of the paper and pulp industry and the information and communications technology sector, coupled with weak exports to Russia due to sanctions and its prevailing economic recession. While Finland's economy seems to have turned the corner, a lack of structural reform efforts or an external shock could present downside risks for the Finnish economy.

The Finnish government remains committed to further reforms to address the prevailing structural issues in the economy. We believe that the recently concluded competitiveness pact between the government and social partners--which aims to improve the competitiveness of the Finnish economy by lowering unit labor costs--demonstrates that there is high acceptance even for difficult decisions between the social partners. We believe the competitiveness pact will start bearing fruit in terms of increasing net exports from 2018. Consensus-based decision-making has also resulted in other important reforms over the past two years, addressing, for example, social and health care services, pensions, and wage-setting, and we anticipate further reforms in the labor market will address the low employment rate in comparison with Nordic neighbors.

We believe Finnish households have postponed their investment decisions in the economic downturn, and we have observed a slightly declining trend in nationwide house prices over the past few years. However, the housing market now seems to be picking up again. As of September 2016, the prices of dwellings in nationwide housing companies increased by 1.4%, compared with the same period last year, and the number of transactions is increasing on an annual basis. House prices continue to develop on two tracks, with Helsinki, the capital region, showing annual price increases of 2.8% and the rest of the country 0.2% relative to 2015. The positive momentum in the economy and better employment prospects appear to be creating demand for flats, with the number of transactions and sizes of flats on an upward trend. We therefore believe that the risk of a price correction in asset prices is abating in Finland.

Still, we forecast private sector credit will grow only moderately over the next two years. Loan growth will be driven by household demand for loans, especially via mortgage loans and loans to housing corporations. Corporate loan demand is likely to rise in tandem with the economic recovery as companies resume their investment activity. For the time being, corporate loan demand seems to be primarily for working capital purposes.

The banks have, in our view, maintained moderately conservative lending standards, and we haven't observed any meaningful change in asset quality. This is despite the economic downturn and recent amortization holidays on mortgage loans offered by a number of banks. We forecast the cost of risk will remain at the current low levels at about 10-15 basis points of the total loan book in 2016-2017. The new recommendations by Finnish supervisory authority on loan-to-value (LTV) ratios (a maximum 90% LTV ratio and 95% LTV ratio for first-time buyers) and the planned risk-weight floors on mortgage loans for banks applying an internal rating-based approach are intended to decelerate households' indebtedness. Household debt has increased to about 125% of their disposable income as of mid-2016, but, positively, households are increasing wealth in terms of net financial assets.

#### AKTIA BANK PLC

The stable outlook on Aktia Bank reflects our view that the bank will maintain its market position as a well-established local retail franchise in Finland. The outlook also reflects our expectation that the bank's capitalization will be supported by sound earnings capacity over the next 24 months. The improving economic conditions in Finland further underpin this view.

We could take a negative rating action if we saw Aktia Bank's business position weaken, such that the bank's profitability and market shares decline. The termination of cooperation with independent local savings banks and co-operative banks has temporarily hurt Aktia's risk-adjusted capital (RAC) ratio. If we saw the bank's lending growth were to lead to a lower projected RAC ratio we could also take a negative rating action.

We consider a positive rating action unlikely at this time.

#### BANK OF ALAND PLC

We raised the short-term rating on Bank of Aland to 'A-2' because the bank's funding and liquidity metrics have improved and we anticipate they will remain supportive of an 'A-2' short-term rating. This is furthermore underpinned by our stable outlook on Bank of Aland.

The stable outlook on Aland reflects our view that the bank will maintain strong capital and earnings and uphold a sound approach to risk over the next two years. It also reflects our expectation that the majority of the bank's credit exposures will continue to be in Finland.

We could take a negative rating action if Bank of Aland's exposure to Sweden increases markedly from its current levels, and, at the same time, we consider that the economic environment for banks operating in Sweden has deteriorated. We currently see risks associated with economic imbalances in Sweden that could disrupt economic developments and increase credit risks in the country. This could have a negative impact on banks active in Sweden, including Bank of Aland, as we could lower the bank's weighted anchor.

We could revise the outlook to positive if Bank of Aland increases its capital ratios such that we considered our RAC ratio would remain sustainably above the 15% level, while at the same time we believed that the operating environment in Sweden had improved, corresponding to a stabilization of economic imbalances.

#### BONUM BANK PLC

The stable outlook on Bonum Bank PLC reflects our view that the wider POP Bank Group will continue its ongoing integration, but that it may not reach the efficiency and profitability of its peers over the next two years. Bonum Bank is the group's central credit institution. The group has a short operating history under the current amalgamation structure, and we expect it will realize synergies mainly by increasing the integration of shared support functions. The stable outlook also reflects our expectations that the bank group will maintain a RAC ratio sustainably above 15%.

We could lower the ratings if the group's cohesiveness does not strengthen as we anticipate and if lagging efficiency leads to a weakening of its combined capital and risk position.

We could consider a positive rating action if we observed clear improvements in the group's revenue generation, cost structure, and profitability, leading to an earnings buffer more in line with peers.

#### CENTRAL BANK OF SAVINGS BANKS FINLAND PLC

The positive outlook on Central Bank of Savings Banks Finland PLC reflects our view that the wider Saving Bank Group's strategic development as an amalgamation of deposit banks and the improving economic environment in Finland will support the group's business generation and operational efficiency over the next two years. Central Bank of Savings Banks Finland PLC is the group's central credit institution. We believe that the group's efforts in terms of common franchise, strategy, and risk management as well as its more diversified funding profile will improve its growth prospects and market position. This could lead us to revise our assessment of its business position to moderate over the next two years.

We could revise the outlook to stable if we saw that the integration within the group was being hampered, such that the group's future growth prospects became restricted.

OP CORPORATE BANK PLC

The stable outlook on OP Corporate Bank reflects our view that the group credit profile of the wider OP Financial Group is not likely to change over the next two years and that the support within the group--underpinned by the joint and several liability between members of amalgamation--remains unchanged. Owing to OP Financial Group's position as leading bancassurance group, we expect it will benefit from the improving operating environment, which will translate into stable earnings and further capital build-up.

A positive or negative rating action is remote at this stage.

The stable outlook on OP Insurance Ltd reflects that on its parent OP Corporate Bank.

THE MORTGAGE SOCIETY OF FINLAND (HYPO)

The outlook on The Mortgage Society of Finland is now stable. We believe that the improving economic environment and the sound growth in construction activity in Hypo's operating regions are aiding Hypo in reaching its targeted loan growth over the next two years. We expect the bank will remain committed to high asset quality in loan origination and to an elevated capitalization underpinned by its status as a mutual company.

We could lower the ratings if Hypo unexpectedly changed its current conservative lending policies, leading to weakening of its asset quality and ensuing credit losses. We could also take a negative rating action if Hypo increased its business growth more aggressively than we assume and failed to maintain its very strong capital and earnings in line with our expectations.

A positive rating action is in our view remote at this stage. It could be triggered by an improved funding profile demonstrated by more diversified funding mix and structural change in Hypo's deposit base leading to funding metrics more in line with the domestic peers.

RELATED CRITERIA AND RESEARCH

Related Criteria

- Methodology For Mapping Short- And Long-Term Issuer Credit Ratings For Banks - May 04, 2010
- Commercial Paper I: Banks - March 23, 2004
- Group Rating Methodology - November 19, 2013
- Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity - April 27, 2015
- Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions - January 29, 2015
- Revised Market Risk Charges For Banks In Our Risk-Adjusted Capital Framework - June 22, 2012

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- Banks: Rating Methodology And Assumptions - November 09, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions - November 09, 2011
- Bank Capital Methodology And Assumptions - December 06, 2010
- Use Of CreditWatch And Outlooks - September 14, 2009
- Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- National And Regional Scale Mapping Tables, June 1, 2016
- National And Regional Scale Credit Ratings - September 22, 2014

### Related Research

- Banking Industry Country Risk Assessment Update: November 2016, Nov. 4, 2016
- Finland Outlook Revised To Stable On Gradual Economic Recovery; Ratings Affirmed At 'AA+/A-1+', Sept. 16, 2016
- The Mortgage Society of Finland, Sept. 19, 2016
- OP Corporate Bank PLC, Aug. 17, 2016
- Bank of Aland, Aug. 17, 2016
- Bonum Bank PLC, June 20, 2016
- Central Bank of Savings Banks, May 23, 2016
- Aktia Bank PLC, March 29, 2016

### BICRA SCORE SNAPSHOT\*

Finland	To	From
BICRA Group	2	2
Economic risk	2	2
Economic resilience	Very low	Low
Economic imbalances	Low	Low
Credit risk in the economy	Low	Low
Trend	Stable	Negative
Industry risk	3	3
Institutional framework	Intermediate	Intermediate
Competitive dynamics	Low	Low
Systemwide funding	Intermediate	Intermediate
Trend	Stable	Stable

\*Banking Industry Country Risk Assessment (BICRA) economic risk and industry risk scores are on a scale from 1 (lowest risk) to 10 (highest risk). For more details on our BICRA scores on banking industries across the globe, please see "Banking Industry Country Risk Assessment Update," published monthly on RatingsDirect.

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RATINGS LIST

Outlook Action; Ratings Affirmed

	To	From
Aktia Bank PLC Counterparty Credit Rating	A-/Stable/A-2	A-/Negative/A-2
The Mortgage Society of Finland Counterparty Credit Rating	BBB/Stable/A-3	BBB/Negative/A-3
OP Corporate Bank PLC Counterparty Credit Rating	AA-/Stable/A-1+	AA-/Negative/A-1+
OP Insurance Ltd Counterparty Credit Rating Local Currency Financial Strength Rating Local Currency	A+/Stable/-- A+/Stable/--	A+/Negative/-- A+/Negative/--
Central Bank of Savings Banks Finland Plc Counterparty Credit Rating	BBB+/Positive/A-2	BBB+/Stable/A-2

Upgraded; Outlook Action; Rating Affirmed

	To	From
Bank of Aland PLC Counterparty Credit Rating	BBB/Stable/A-2	BBB/Negative/A-3

Ratings Affirmed

Bonum Bank PLC Counterparty Credit Rating	BBB/Stable/A-2
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NB: This list does not include all the ratings affected.

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