

Ratings On Nine Finnish Financial Institutions Affirmed Under Revised Criteria; Outlooks Unchanged

February 4, 2022

- We have reviewed our ratings on eight Finnish banks and one nonbank financial institution under our revised "Financial Institutions Rating Methodology".
- We affirmed the ratings on these financial institutions, and the outlooks are unchanged.
- In December 2021, we also affirmed our ratings on Aktia Bank PLC in a separate review.

FRANKFURT (S&P Global Ratings) Feb. 4, 2022--S&P Global Ratings today affirmed its issuer and issue credit ratings on nine Finnish financial institutions and their subsidiaries. The affirmations follow a revision to our criteria for rating banks and nonbank financial institutions and for determining a Banking Industry Country Risk Assessment (BICRA; see "Financial Institutions Rating Methodology," and "Banking Industry Country Risk Assessment Methodology And Assumptions," both published Dec. 9, 2021, on RatingsDirect).

The affirmations include:

- Bank of Aland PLC (issuer credit rating [ICR] BBB/Positive/A-2)
- Bonum Bank PLC (ICR BBB/Stable/A-2)
- Central Bank of Savings Banks Finland PLC (ICR A-/Negative/A-2, resolution counterparty rating [RCR] A/A-1)
- LocalTapiola Finance Ltd. (ICR BBB-/Positive/A-3)
- Nordea Bank Abp (ICR AA-/Stable/A-1+, RCR AA-/A-1+)
- Oma Savings Bank PLC (ICR BBB+/Stable/A-2)
- OP Corporate Bank PLC (ICR AA-/Stable/A-1+, RCR AA-/A-1+)
- S-Bank PLC (ICR BBB/Stable/A-2)
- The Mortgage Society of Finland (ICR BBB/Stable/A-2)

Our outlooks on the nine financial institutions are unchanged. In addition, the stand-alone credit profiles (SACPs) of the abovementioned banks, with the exception of Bonum Bank and S-Bank, and our assessment of the additional loss-absorbing capacity (ALAC) on Nordea Bank and OP Corporate Bank, are unchanged under our revised criteria.

Our assessments of economic risk and industry risk in Finland are also unchanged at '2' and '3',

PRIMARY CREDIT ANALYSTS

Salla von Steinaecker
Frankfurt
+ 49 693 399 9164
salla.vonsteinaecker@spglobal.com

Antonio Rizzo
Madrid
+ 34 91 788 7205
Antonio.Rizzo@spglobal.com

Heiko Verhaag, CFA, FRM
Frankfurt
+ 49 693 399 9215
heiko.verhaag@spglobal.com

Olivia K Grant
Stockholm
+ 46 84 40 5904
olivia.grant@spglobal.com

SECONDARY CONTACTS

Francesca Massarotti
Frankfurt
+ 49 69 3399 9130
francesca.massarotti@spglobal.com

Kristian Pal
Stockholm
kristian.pal@spglobal.com

See complete contact list at end of article.

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respectively. These scores determine the BICRA and the anchor, or starting point, for our ratings on financial institutions that operate primarily in that country. The trends we see for economic risk and industry risk remain stable.

We separately reviewed our ratings on Aktia Bank PLC in December (see "Four European Bank Ratings Raised, One Affirmed On ALAC Uplift; Off UCO On Implementation Of Revised FI Criteria, published Dec. 16, 2021).

Bank of Åland PLC

Primary analyst: Olivia Grant

We affirmed our 'BBB/A-2' ratings on Bank of Åland PLC. The ratings reflect Bank of Åland's premium and private banking operations in Åland Islands, and selected regions of Finland and Sweden. The bank's sound earnings and capital instrument issuance have led to a strong level of capital. The launch of Swedish mortgage lending joint venture Borgo and the carve out of the bank's Swedish mortgage portfolio are likely to diversify the bank's revenue base and strengthen its capitalization.

Outlook

The positive outlook on Bank of Åland reflects our view that the bank could build an ample capital base in the coming two years on the back of sustained robust earnings and limited credit losses, while further diversifying its revenue base through the mortgage lending joint venture. We expect the bank's specialized retail and premium banking franchise to weather the current stress well.

Upside scenario: We could raise the rating if Bank of Åland's capitalization improves, as indicated by a sustained increase of its risk-adjusted capital (RAC) ratio beyond 15% over the next 24 months, after the establishment of the joint mortgage platform, likely supported by the issuance of hybrid capital instruments. An upgrade would depend on the bank's efforts to uphold sound profitability and an unchanged stance toward prudent underwriting standards and collateralization.

Downside scenario: We could revise the outlook to stable over the next 24 months if Bank of Åland's profitability and the pace or quality of its capital build-up remain weaker than our expectations. More aggressive volume growth and lending standards to increase earnings, higher-than-expected credit losses, or sustained high costs with a subsequent drag on the bank's internal capital generation, would also weigh on the rating.

Ratings Score Snapshot

Issuer Credit Rating: BBB/Positive/A-2

Stand-alone credit profile: bbb

- Anchor: a-
- Business Position: Constrained (-2)
- Capital and Earnings: Strong (+1)
- Risk Position: Moderate (-1)

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- Funding and Liquidity: Adequate and Adequate (0)
- Comparable Rating Analysis: 0

Support: 0

- ALAC Support: 0
- GRE Support: 0
- Group Support: 0
- Sovereign Support: 0

Additional Factors: 0

ESG credit indicators: E-2, S-2, G-2

Bonum Bank PLC

Primary analyst: Antonio Rizzo

We affirmed the 'BBB/A-2' ratings on Bonum Bank but revised down the SACP to 'bbb' from 'bbb+'. The ratings reflect the superior capital levels at the wider POP Bank Group and the risks in the group's lending book, which is concentrated on retail and small and midsize enterprises. Moreover, the rating also factors the limited franchise in the country and weak profitability metrics of POP Bank Group compared to peers. We therefore introduced a negative comparable rating analysis (CRA) adjustment in the SACP.

Outlook

The stable outlook reflects our expectation that the wider POP Bank Group will continue to focus on improving the group structure and digitalization, while maintaining robust capitalization and stable funding and liquidity.

Downside scenario: We could lower the rating if the expected strengthening in the group's cohesiveness does not materialize, and if lagging efficiency and deteriorating asset quality lead to a weakening of the group's combined capital and risk profile because the RAC ratio falls below 15%. We could incorporate the CRA adjustment into the bank's business position--without an impact on the SACP--if the wider group does not close the operating profitability and cost-efficiency gap with domestic peers.

Upside scenario: We could consider raising the rating if the group demonstrates a significant improvement in revenue generation and cost efficiency, so that it builds an earnings buffer more in line with that of its peers. In such a scenario, we would no longer apply a negative adjustment of one notch.

Ratings Score Snapshot

Issuer Credit Rating: BBB/Stable/A-2

Stand-alone credit profile: bbb

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- Anchor: a-
- Business Position: Constraint (-2)
- Capital and Earnings: Very strong (+2)
- Risk Position: Moderate (-1)
- Funding and Liquidity: Adequate and Adequate (0)
- Comparable Rating Analysis: -1

Support: 0

- ALAC Support: 0
- GRE Support: 0
- Group Support: 0
- Sovereign Support: 0

Additional Factors: 0

ESG credit indicators: E-2, S-2, G-2

Central Bank of Savings Banks Finland PLC

Primary analyst: Antonio Rizzo

We affirmed the 'A-/A-2' ratings on Central Bank of Savings Bank Finland. The ratings reflect our view on the broader Savings Bank Group's deeply rooted regional franchise as well as its sound capitalization, which we continue to view as a ratings strength. This is partially offset by the group's concentrated activities, by geography and business, which result in limited earnings diversification and higher risks compared with those of larger peers.

Outlook

The negative outlook on Central Bank of Savings Bank Finland indicates that we could take a negative rating action in the next 12-24 months if the wider Savings Bank Group fails to improve group cohesiveness and the integration of local savings banks.

Downside scenario: We could downgrade Central Bank of Savings Banks Finland in the next 24 months if the group fails to strengthen the cohesiveness of the local savings banks within its common framework, which limits the group's efficiency and management's steering ability. Moreover, we could take a negative action if the group's asset quality ratios, such as nonperforming loans, coverage of impaired loans, and cost of risk, remain weaker than those of peers.

Upside scenario: We could revise the outlook to stable if the group improves its asset quality indicators, in line with peers. At the same time, we would also need to see further progress in the integration of member banks for a positive rating action. Furthermore, we could positively change our view if we have more visibility on the group's plans to build an ALAC buffer that we consider sufficient to protect senior bondholders.

Ratings Score Snapshot

Issuer Credit Rating: A-/Negative/A-2

Stand-alone credit profile: a-

- Anchor: a-
- Business Position: Moderate (-1)
- Capital and Earnings: Very strong (+2)
- Risk Position: Moderate (-1)
- Funding and Liquidity: Adequate and Adequate (0)
- Comparable Rating Analysis: 0

Support: 0

- ALAC Support: 0
- GRE Support: 0
- Group Support: 0
- Sovereign Support: 0

Additional Factors: 0

ESG credit indicators: E-2, S-2, G-3

LocalTapiola Finance Ltd.

Primary analyst: Heiko Verhaag

We affirmed our 'BBB-/A-3' ratings on LocalTapiola Finance Ltd. (LTF). The ratings continue to reflect its expected strong portfolio growth in the Finnish car financing market over 2022 and 2023, which will gradually broaden its revenue base and reduce single-name concentration. We see the expansion as well supported by the parent, LocalTapiola General Mutual Insurance Group, which we expect will regularly inject capital to support LTF's adequate capitalization. We expect intensifying cross-selling initiatives to also support strong revenue growth in the future.

Outlook

The positive outlook on LTF reflects our expectation of continuing strong portfolio growth over the coming 24 months, supported by its parent, which will diversify the loan book and broaden its revenue base.

Upside scenario: We would consider a higher rating if LTF establishes a longer track record of profitable growth. This would underline the sustainability of its competitive advantage, increase its revenue streams, and improve our view of revenue diversification. Continuing growth would also mitigate the single-name concentration in the unseasoned portfolio. In addition, an upgrade would require COVID-19-related risk to have eased. Over the medium term, we could consider a

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higher rating if we observe stronger strategic relevance to or commitment from the parent group.

Downside scenario: We could revise the outlook to stable if:

- Competition distracts LTF from its profitable growth path;
- The targeted strong growth in lending is not supported by additional capital contributions from the owners, resulting in our RAC ratio deteriorating to below 7% sustainably; or
- The unseasoned lending portfolio is higher risk than we expect.

Ratings Score Snapshot

Issuer Credit Rating: BBB-/Positive/A-3

Stand-alone credit profile: bb-

- NBFi anchor: bbb-
- Business Position: Constrained (-2)
- Capital and Earnings: Adequate (0)
- Risk Position: Moderate (-1)
- Funding and Liquidity: Adequate and Adequate (0)
- Comparable Rating Analysis: 0

Support: +3

- Group Support: +3

Nordea Bank Abp

Primary analyst: Salla von Steinaecker

We affirmed our 'AA-/A-1+' ratings on Nordea Bank Abp. This reflects the bank's leading retail and corporate franchise across the Nordics and the consistent management and execution of the business strategy to improve profitability and operating efficiency by 2022 and beyond. We also believe that Nordea's broad simplification program will continue to support the bank by creating an agile platform for future development in digital business. In addition, the ratings reflect the bank's robust capital base and its sound asset quality in the diversified loan portfolio, which has shown resilience to COVID-19 stress.

Outlook

The stable outlook on Nordea reflects our expectation that the bank will diligently execute its business plans to sustainably improve income growth, operating profitability, and cost efficiency to meet its new financial targets 2025 (return on equity above 13%). We therefore consider the bank likely to gradually align its performance indicators with those of highly rated peers over the next 12-24 months. We expect the economic rebound in Nordea's home markets along with its streamlining of business areas, agility in terms of digital customer offering, and strong financial

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position, will underpin the bank's lending capacity and earnings generation.

Downside scenario: We could take a negative rating action in the next 12-24 months if Nordea is unable to demonstrate sustainable business generation and maintain its performance trajectory to meet its key financial target. Although less probable, we could lower the ratings if Nordea's loan book is severely affected by pandemic fallout, leading to weaker asset quality and increased credit losses beyond our base-case assumptions.

Upside scenario: We consider the likelihood of an upgrade remote. This is because our ratings on the bank are among the highest of more diversified commercial banks that we rate globally.

Ratings Score Snapshot

Issuer Credit Rating: AA-/Stable/A-1+

Stand-alone credit profile: a+

- Anchor: a-
- Business Position: Strong (+1)
- Capital and Earnings: Strong (+1)
- Risk Position: Adequate (0)
- Funding and Liquidity: Adequate and Adequate (0)
- Comparable Rating Analysis: 0

Support: +1

- ALAC Support: +1
- GRE Support: 0
- Group Support: 0
- Sovereign Support: 0

Additional Factors: 0

ESG credit indicators: E-2, S-2, G-2

Oma Savings Bank PLC

Primary analyst: Antonio Rizzo

We affirmed the 'BBB+/A-2' ratings on Oma Savings Bank. This factors its better-than-peer profitability, which underpins superior capital levels, with the risk in the bank's lending book, which is mostly focused on residential mortgages and shows weaker metrics than its competitors. Moreover, the ratings also reflect the concentrated business model and marginal franchise in the country.

Outlook

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The stable outlook reflects our view that the bank will maintain its sound financial profile, underpinned by projected very strong capitalization and high earnings capacity over the next two years. We expect Oma Savings Bank's resilient earnings will continue to support its loss-absorbing capacity and mitigate downside risks in 2022-2023.

Furthermore, Oma Savings Bank has improved its funding and liquidity profile by recently lowering its share of short-term wholesale funding, and we expect this to be maintained through our outlook.

Downside Scenario: We could lower the rating if the bank's asset quality and earnings come under greater pressure than we currently expect. This could materialize if increased credit losses, excessive growth, and lower earnings retention result in a notable decrease in the bank's RAC ratio below 15%.

Upside Scenario: A positive rating action is remote at this stage, given Oma Savings Bank's concentrated business model and already high rating level among peers.

Ratings Score Snapshot

Issuer Credit Rating: BBB+/Stable/A-2

Stand-alone credit profile: bbb+

- Anchor: a-
- Business Position: Constraint (-2)
- Capital and Earnings: Very strong (+2)
- Risk Position: Moderate (-1)
- Funding and Liquidity: Adequate and Adequate (0)
- Comparable Rating Analysis: 0

Support: 0

- ALAC Support: 0
- GRE Support: 0
- Group Support: 0
- Sovereign Support: 0

Additional Factors: 0

ESG credit indicators: E-2, S-2, G-2

OP Corporate Bank PLC

Primary analyst: Antonio Rizzo

We affirmed our 'AA-/A-1+' ratings on OP Corporate Bank PLC. This continues to reflect the wider OP Financial Group's dominant position within the Finnish banking and insurance market, its revenue diversity, superior RAC of above 15% backed by the additional profit share issuance,

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stable earnings generation, and conservative capital policy in the cooperative network. After asset quality indicators worsened in 2020, we expect some stabilization in the coming years.

Outlook

The stable outlook on OP Corporate Bank reflects our view that the creditworthiness of the wider OP Financial Group is unlikely to change over the next two years, and the support mechanisms within the group--underpinned by the joint liability between OP Cooperative and the group's member credit institutions--will remain a supportive factor. Moreover, building on further integration in the group, a leaner structure, and digitalization, we expect OP Financial Group to gradually improve its efficiency, which will, in turn, boost profitability.

The outlook also indicates that we expect our RAC ratio for the bank to reach and stay above 15% in the next two years, on the back of stable retained earnings and the issuance of additional profit shares.

Furthermore, the bank should continue to build its bail-in-able buffers. Because we already consider this a rating strength, we allocate one notch of uplift for ALAC.

Downside scenario: We could take a negative rating action if OP Financial Group's operating performance materially lags that of highly rated peers. Specifically, this could occur if its cost efficiency fails to improve despite the streamlining of the group structure and increased digital investments. Moreover, we could also lower the rating if we project the RAC ratio will decline below 15% and--at the same time--we no longer consider OP able to sustain the 'a+' group SACP.

Upside scenario: An upgrade during the two-year outlook horizon is unlikely at present, given that our rating on the bank is now among the highest of those on rated commercial banks globally. Moreover, we do not currently see OP Financial Group as a positive outlier compared with these banks.

Ratings Score Snapshot

Issuer Credit Rating: AA-/Stable/A-1+

Stand-alone credit profile: a+

Anchor: a-

- Business Position: Strong (+1)
- Capital and Earnings: Very strong (+2)
- Risk Position: Moderate (-1)
- Funding and Liquidity: Adequate and Adequate (0)
- Comparable Rating Analysis: 0

Support: +1

- ALAC Support: +1
- GRE Support: 0
- Group Support: 0
- Sovereign Support: 0

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Additional Factors: 0

ESG credit indicators: E-2, S-2, G-2

S-Bank PLC

Primary analyst: Salla von Steinaecker

We affirmed our 'BBB/A-2' ratings on S-Bank but revised down the SACP to 'bbb' from 'bbb+'. The ratings are based on our view that S-Bank benefits from being part of S Group but lags peers in terms of profitability and operating efficiency. We therefore introduced a negative CRA adjustment in S-Bank's SACP. This is partially offset by S-Bank's robust capitalization, which we believe remains a key strength for the rating and a strong buffer against the risk in its lending book, and its sound deposit funding franchise.

Outlook

The stable outlook reflects our expectation that S-Bank will continue to follow its growth strategy while maintaining a sound financial profile over the next 12-24 months, despite the continuous high investment needs, and potential repercussions on the wider S Group from the COVID-19 pandemic. We expect that S-Bank will maintain its RAC ratio above 15% over the next two years. The outlook also incorporates somewhat weakening asset quality as the bank's fairly young mortgage loan book matures. At the same time, we expect that S-Bank's growth strategy will eventually increase profitability and its operating efficiency.

Downside scenario: We could lower our long-term rating on S-Bank if stress on the parent's creditworthiness increases or the S Group brand weakens, which we expect would also harm the bank.

We could take a negative rating action on S-Bank if its loan growth is more aggressive or departs from its underwriting standards, alongside increased credit losses, which could translate into a RAC ratio below the 15% threshold. Furthermore, we could incorporate the negative CRA adjustment notch into S-Bank's business position--without an impact on the SACP--should the bank remain an underperformer in terms of profitability and cost efficiency compared with peers.

Upside scenario: We consider a positive rating action remote at this stage. We view S-Bank as an insulated member of S Group, which allows us to rate the bank above the group's credit quality. Therefore, we cap the rating at 'BBB'. That said, we could remove the negative CRA adjustment notch and revise up the SACP if the bank can improve its business stability, so that its profitability and cost-efficiency metrics are more in line with those of peers with similar SACP.

Ratings Score Snapshot

Issuer Credit Rating: BBB/Stable/A-2

Stand-alone credit profile: bbb

- Anchor: a-
- Business Position: Constrained (-2)

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- Capital and Earnings: Very strong (+2)
- Risk Position: Moderate (-1)
- Funding and Liquidity: Adequate and Adequate (0)
- Comparable Rating Analysis: -1

Support: 0

- ALAC Support: 0
- GRE Support: 0
- Group Support: 0
- Sovereign Support: 0

Additional Factors: 0

ESG credit indicators: E-2, S-2, G-2

The Mortgage Society of Finland

Primary analyst: Salla von Steinaecker

We affirmed the 'BBB/A-2' ratings on Mortgage Society of Finland (Hypo). We expect Hypo's conservative underwriting and pure focus on residential mortgage lending in Finland's growth centers will continue to translate into superior asset quality and exceptional loan loss experience compared with domestic peers. The ratings also reflect Hypo's robust capitalization and its highly collateralized loan book, which we believe will provide a robust buffer against unexpected asset quality risks. Although Hypo has gradually diversified its funding profile, we believe the deposit base remains less stable than that of domestic universal bank peers.

Outlook

The stable outlook reflects our view that Hypo's creditworthiness will remain resilient over the next two years, supported by the bank's conservative underwriting standards, stable high asset quality, and very strong capitalization. It also reflects our view that noteworthy changes to the bank's capital management are unlikely over the next two years.

Downside scenario: We could lower the rating on Hypo in the next 12-24 months if it unexpectedly changes its current conservative lending policies or it fails to maintain its very strong capital, for example, via more ambitious business growth without corresponding earnings improvements.

Upside scenario: We could raise the rating if the bank's funding profile improves, demonstrated by a more diversified funding mix and funding metrics in line with domestic peers. Furthermore, a reassessment of the combined capital and earnings and risk position could be warranted if the bank continues to demonstrate better resilience compared with similarly rated peers.

Ratings Score Snapshot

Issuer Credit Rating: BBB/Stable/A-2

Stand-alone credit profile: bbb

- Anchor: a-
- Business Position: Constrained (-2)
- Capital and Earnings: Very strong (+2)
- Risk Position: Moderate (-1)
- Funding and Liquidity: Moderate and Adequate (-1)
- Comparable Rating Analysis: 0

Support: 0

- ALAC Support: 0
- GRE Support: 0
- Group Support: 0
- Sovereign Support: 0

Additional Factors: 0

ESG credit indicators: E-2, S-2, G-2

Related Criteria

- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Methodology For National And Regional Scale Credit Ratings, June 25, 2018
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Four European Bank Ratings Raised, One Affirmed On ALAC Uplift; Off UCO On Implementation Of Revised FI Criteria, Dec. 16, 2021
- Certain Financial Institution Issuer And Issue Ratings Placed Under Criteria Observation Following Criteria Update, Dec. 9, 2021
- RFC Process Summary: Financial Institutions Rating Methodology, Dec. 9, 2021
- RFC Process Summary: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Financial Institutions And BICRA Criteria Published, Dec. 9, 2021

Ratings List

*******Bank of Aland PLC*******

Ratings Affirmed

Bank of Aland PLC

Issuer Credit Rating	BBB/Positive/A-2
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*******LocalTapiola General Mutual Insurance Co.*******

Ratings Affirmed

LocalTapiola Finance Ltd

Issuer Credit Rating	BBB-/Positive/A-3
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*******Mortgage Society of Finland (The)*******

Ratings Affirmed

Mortgage Society of Finland (The)

Issuer Credit Rating	BBB/Stable/A-2
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*******Nordea Bank Abp*******

Ratings Affirmed

Nordea Bank Abp

Issuer Credit Rating	AA-/Stable/A-1+
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Nordic Regional Scale	--/--/K-1
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Nordea Bank Abp

Nordea Direct Boligkreditt AS

Nordea Direct Bank ASA

Resolution Counterparty Rating	AA-/--/A-1+
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Nordea Direct Bank ASA

Nordea Direct Boligkreditt AS

Issuer Credit Rating	AA-/Stable/A-1+
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Nordea Hypotek AB

Issuer Credit Rating	--/--/A-1+
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Resolution Counterparty Rating --/--/A-1+

***** OP Financial Group *****

Ratings Affirmed

OP Corporate Bank PLC

Issuer Credit Rating AA-/Stable/A-1+

Resolution Counterparty Rating AA-/--/A-1+

***** Oma Savings Bank PLC *****

Ratings Affirmed

Oma Savings Bank PLC

Issuer Credit Rating BBB+/Stable/A-2

***** POP Bank Group *****

Ratings Affirmed

Bonum Bank PLC

Issuer Credit Rating BBB/Stable/A-2

***** S-Bank PLC *****

Ratings Affirmed

S-Bank PLC

Issuer Credit Rating BBB/Stable/A-2

***** Savings Banks Group Finland *****

Ratings Affirmed

Central Bank of Savings Banks Finland PLC

Issuer Credit Rating A-/Negative/A-2

Resolution Counterparty Rating A/--/A-1

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceld/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

Contact List

PRIMARY CREDIT ANALYST

Salla von Steinaecker
Frankfurt
+ 49 693 399 9164
salla.vonsteinaecker@spglobal.com

PRIMARY CREDIT ANALYST

Antonio Rizzo
Madrid
+ 34 91 788 7205
Antonio.Rizzo@spglobal.com

PRIMARY CREDIT ANALYST

Heiko Verhaag, CFA, FRM
Frankfurt
+ 49 693 399 9215
heiko.verhaag@spglobal.com

PRIMARY CREDIT ANALYST

Olivia K Grant
Stockholm
+ 46 84 40 5904
olivia.grant@spglobal.com

SECONDARY CONTACT

Francesca Massarotti
Frankfurt
+ 49 69 3399 9130
francesca.massarotti@spglobal.com

SECONDARY CONTACT

Kristian Pal
Stockholm
kristian.pal@spglobal.com

SECONDARY CONTACT

Markus W Schmaus
Frankfurt
+ 49 693 399 9155
markus.schmaus@spglobal.com

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