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Research Update:

Central Bank of Savings Banks Finland Downgraded To 'BBB+' On Government Support And ALAC Review; Outlook Stable

Primary Credit Analyst:

Salla von Steinaecker, Frankfurt (49) 69-33-999-164; salla.vonsteinaecker@standardandpoors.com

Secondary Contact:

Olivia Fleischmann, Stockholm (46) 8-440-5904; olivia.fleischmann@standardandpoors.com

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Overview

- We believe the prospect of extraordinary government support for Finnish banks is now uncertain in view of the country's well-advanced and effective resolution regime.
- We are therefore removing the one notch of uplift for government support that we had previously incorporated into the long-term counterparty credit ratings on Central Bank of Savings Banks Finland Plc (Sp Central Bank).
- We consider that the wider Savings Banks Group is unlikely to increase its additional loss-absorbing capacity (ALAC) above our 5.0% threshold within a four-year projection period.
- Consequently, we are lowering the long-term counterparty credit ratings on Sp Central Bank to 'BBB+' from 'A-'.
- The stable outlook reflects our view that the Savings Banks Group's franchise and the cohesiveness within the group is likely to strengthen over the next two years. This could counterbalance a risk of increased economic imbalances in the Finnish economy adversely affecting the Finnish banking sector's performance.

Rating Action

As previously announced on Dec. 2, 2015, Standard & Poor's Ratings Services lowered the long-term counterparty credit rating on Finland-based Central Bank of Savings Banks Finland Plc (Sp Central Bank) to 'BBB+' from 'A-'. The outlook is stable.

At the same time, we affirmed the short-term ratings at 'A-2'.

Rationale

We believe that the prospect of extraordinary government support for the Finnish banking sector is now uncertain following the expected full implementation of the EU Bank Recovery and Resolution Directive, including bail-in powers, from Jan. 1, 2016. We do not completely exclude the possibility of such support and we consider that systemically important Finnish institutions face several more years of structural and balance sheet reforms to address their "resolvability" in order to mitigate the systemic impact if they fail. Nevertheless, we believe the Finnish government's ability

and willingness to provide support is lower and less predictable under the enhanced resolution framework. We have therefore reclassified Finland's tendency to support private sector commercial banks as "uncertain" under our criteria, and removed the one notch that we previously included for government support in the long-term counterparty credit rating on Sp Central Bank.

We view the Finnish resolution regime as "effective" under our ALAC criteria because, among other factors, we believe it contains a well-defined bail-in process under which authorities would permit non-viable systemically important banks to continue critical functions as going concerns following a bail-in of eligible liabilities.

The ratings on Sp Central Bank reflect the franchise and creditworthiness of the wider Savings Banks Group, comprising some 23 member savings banks, the Savings Banks' Union Coop, and Sp Central Bank itself. The group operates as a single entity for regulatory purposes under a joint and several liability scheme established by Finland's Act on Amalgamation.

At this stage, the Savings Banks Group has no outstanding qualifying instruments that would have capacity to absorb losses without triggering a default on senior obligations. We have not included any uplift in the long-term rating on Sp Central Bank under our additional loss-absorbing capacity (ALAC) criteria because we believe its ALAC ratio is unlikely to exceed our 5% threshold over a four-year projection period. This threshold is consistent with our criteria for a bank with an anchor of 'bbb-' or higher. Furthermore, the Finnish authorities have not yet identified the Savings Banks Group as subject to a well-defined bail-in process, which is a pre-condition for us to include ALAC support in our ratings on a bank.

In our view, the recently formed Savings Banks Group will continue to make progress toward forming a cohesive second-tier banking group in Finland. We expect its prudent risk management will remain a cornerstone of its business strategy as it improves efficiency, as a group, and aims to expand lending in growth centers in Finland. Savings Banks Group has started to transfer its share of mortgage loans from Aktia Real Estate Mortgage Bank (AREMB), which has provided much of the 9% loan growth since forming the group in December 2014. We expect loan growth (focused on residential mortgages and loans to small and midsize companies) to moderate somewhat as the group aims to grow organically. We believe the group will achieve its long-term financial targets, which will help establish Sp Central Bank's track record. As such, we believe our assessment of the group's business position will gradually improve in the next two years. This could, in our view, counterbalance the potential risk of increased economic imbalances in the Finnish economy.

The long-term rating on Sp Central Bank reflects our 'a-' anchor for Finnish banks, and Savings Banks Group's "weak" business position, based on its weak franchise in growth centers and untested track record of operating as a cohesive banking group, and the group's "very strong" capital and earnings. The latter assessment mainly reflects our expectation of an increase in our risk-adjusted capital ratio to about 16.0%-16.5% in the next 12-18 months

(15.6% as of June 30, 2015). The ratings equally reflect the group's "moderate" risk position, due to concentration risks in its loan book, partly mitigated by a high level of collateralization; its "average" funding and "adequate" liquidity, owing to sound funding metrics; its funding profile dominated by customer deposits; and its comfortable liquidity position. We assess the group credit profile (GCP) at 'bbb+'.

We view Sp Central Bank as integral to the group's operation, and therefore equalize our long-term rating with the GCP.

Outlook

Our stable outlook on Sp Central Bank reflects our view that the Saving Banks Group's strategic development and capital levels counterbalance what we see as a weak economic recovery in Finland's export-oriented economy, which could undermine the Finnish banking sector's performance during the next two years.

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

Given our view of potentially increasing economic imbalances in Finland, we currently view a positive rating action as unlikely.

Ratings Score Snapshot

	To	From
Issuer Credit Rating	BBB+/Stable/A-2	A-/Negative/A-2
GCP	bbb+	bbb+
Anchor	a-	a-
Business Position	Weak (-2)	Weak (-2)
Capital and Earnings	Very strong (+2)	Very strong (+2)
Risk Position	Moderate (-1)	Moderate (-1)
Funding and Liquidity	Adequate Average (0)	Adequate Average (0)
Support	0	0
ALAC Support	0	0
GRE Support	0	0
Group Support	0	0
Sovereign Support	0	+1
Additional Factors	0	0

Related Criteria And Research

Related Criteria

- Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Bank Capital Methodology And Assumptions, Dec. 6, 2010
- Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Commercial Paper I: Banks, March 23, 2004
- Methodology For Mapping Short- And Long-Term Issuer Credit Ratings For Banks, May 4, 2010
- Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- Assessing Bank Branch Creditworthiness, Oct. 14, 2013
- Revised Market Risk Charges For Banks In Our Risk-Adjusted Capital Framework, June 22, 2012
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Group Rating Methodology, Nov. 19, 2013
- Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- Criteria For Assigning 'CCC+', 'CCC', 'CCC-', 'CC' Ratings, Oct. 1, 2012
- S&P's National And Regional Scale Mapping Tables, Sept. 30, 2014
- National And Regional Scale Credit Ratings, Sept. 22, 2014
- Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Use Of 'C' And 'D' Issue Credit Ratings For Hybrid Capital And Payment-In-Kind Instruments, Oct. 24, 2013

Related Research

- Most European Bank Ratings Affirmed Following Government Support And ALAC Review, Dec. 2, 2015
- Credit FAQ: How Standard & Poor's Applied Its Government Support And ALAC Criteria To European Banks In December 2015, Dec. 2, 2015
- Standard & Poor's To Conclude Its Review Of Systemic Support For Remaining EU Banks By Early December 2015, Oct. 1, 2015
- Government And ALAC Support Ratings Uplift For Systemically Important European Banking Groups, Oct. 1, 2015
- Central Bank Of Savings Banks Finland Plc, June 3, 2015
- How The Regulatory Reform Process Could Reshape Banks' Business Models And Affect Issuer Ratings, Aug. 18, 2014
- Standard & Poor's Takes Various Rating Actions On European Banks Following Government Support Review, April 29, 2014
- Credit FAQ: The Rating Impact Of Resolution Regimes For European Banks, April 29, 2014

Ratings List

Downgraded; CreditWatch/Outlook Action; Ratings Affirmed

	To	From
Central Bank of Savings Banks Finland Plc		
Counterparty Credit Rating	BBB+/Stable/A-2	A-/Negative/A-2
Senior Unsecured	BBB+	A-

Additional Contact:

Financial Institutions Ratings Europe; FIG_Europe@standardandpoors.com

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