

Research

Research Update:

Central Bank of Savings Banks Finland Long-Term Rating Up To 'A-' On Established Integrated Bank Group; Outlook Stable

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- We believe Savings Bank Group of Finland is now operating as a cohesive banking group supported by its amalgamation underpinned by the joint and several liability between the members.
- The group achieved organic growth in 2016 enabled by the newly created funding access to both senior unsecured and secured issuance, as well as the improved outlook on the Finnish economy.
- We have therefore revised our assessment of the group's credit profile (GCP) to 'a-' from 'bbb+' on improved assessment of the group franchise.
- Consequently we are raising our long-term rating on the group's core subsidiary and central credit institution, Central Bank of Savings Banks Finland Plc, to 'A-' from 'BBB+'.
- The stable outlook reflects our expectation that Savings Bank Group will continue to benefit from the gradual recovery in the Finnish economy, mirrored in its sound operating profitability and very strong risk-adjusted capitalization.

Rating Action

On April 28, 2017, S&P Global Ratings raised its long-term counterparty credit rating on the central credit institution of the Finnish Savings Bank Group, Central Bank of Savings Banks Finland Plc (Sp Central Bank), to 'A-' from 'BBB+'. The outlook is stable. At the same time, the 'A-2' short-term counterparty credit rating on Sp Central Bank was affirmed.

Rationale

We now consider that the Savings Bank Group of Finland, with Sp Central Bank as the group's central credit institution, is operating as a cohesive banking group, demonstrated by a common strategy, unified risk culture, and guidelines. Furthermore in line with its plans, the group has now established access to both secured and unsecured funding, which allows it to resume growth of its lending business after sluggish development due to funding constraints in 2013-2015. The group ranks fifth in the Finnish banking sector with a stable market share of about 4%-5% in both customer loans and customer deposits. We now assess Savings Bank Group's business risk position as moderate, in line with other regional peers operating in the Nordics.

The group has started to benefit from its legal and operating setup in place since December 2014, seen in a 10% recorded loan growth in 2016 and stable operating profitability. Organic growth made up about half of the loan growth,

mainly driven by retail mortgage lending. The other half resulted from the transfer of the remaining loan assets from Aktia Bank, with whom the group cooperated in covered bond issuance. We expect the transfer of remaining loan assets to be completed by May 2017.

At the same time, the group has increased its cross-selling activities--especially in life insurance and asset management products--which we expect to lead to an increase in broad-based customers and a more diversified operating revenue base. We expect initiatives to combine the specialized product companies in the heart of the group to further improve the unified product offering. Similarly, the creation of a groupwide joint back office by merging existing back office companies will gradually improve operating efficiency. We expect the improving franchise to boost organic growth and profitability in 2017-2018.

In addition to the above, the group credit profile (GCP) reflects our 'a-' anchor for Finnish banks, and the group's very strong capital and earnings, mainly due to our expectation of an increase in our risk-adjusted capital (RAC) ratio to about 17.5%-18.0% in the next 12-24 months. It equally reflects 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 sound funding profile, dominated by customer deposits; and its comfortable liquidity position. We assess the unsupported GCP at 'a-'.

We consider the group to have moderate systemic importance in Finland. However, we believe that the prospects for extraordinary government support appear uncertain for banks in Finland, and we no longer factor any such support into the GCP. We currently do not expect the group to build up a meaningful buffer of additional-loss absorbing capacity over the next two years, as the group will likely cover its minimum requirement of own funds and eligible liabilities by its capital and existing instruments.

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

Outlook

The stable outlook on Sp Central Bank reflects our view that the wider Savings 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. Sp Central Bank 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.

We could take a negative rating action if Savings Bank Group was not able to

further strengthen its franchise and to diversify its operating revenues through asset management and life insurance. Any deficiencies in monitoring the loan growth and asset quality at member banks could also dilute the strength of the group's unified risk management.

We consider a positive rating action unlikely at this stage.

Rating Score Snapshot

	To	From
Issuer Credit Rating	A-/Stable/A-2	BBB+/Positive/A-2
SACP	a-	bbb+
Anchor	a-	a-
Business position	Moderate (-1)	Weak (-2)
Capital & earnings	Very strong (+2)	Very strong (+2)
Risk position	Moderate (-1)	Moderate (-1)
Funding	Average	Average
Liquidity	Adequate (0)	Adequate (0)
Support	0	0

Related Criteria

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- Criteria - Financial Institutions - Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria - Financial Institutions - Banks: Revised Market Risk Charges For Banks In Our Risk-Adjusted Capital Framework, June 22, 2012
- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria - Financial Institutions - Banks: Bank Capital Methodology And Assumptions, Dec. 6, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings List

Upgraded; Ratings Affirmed

To

From

Research Update: Central Bank of Savings Banks Finland Long-Term Rating Up To 'A-' On Established Integrated Bank Group; Outlook Stable

Central Bank of Savings Banks Finland Plc

Counterparty Credit Rating	A-/Stable/A-2	BBB+/Positive/A-2
Senior Unsecured	A-	BBB+

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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. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at spcapitaliq.com. All ratings affected by this rating action can be found on the 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.

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