

# Research

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## Research Update:

# Finland-Based Pohjola Bank 'AA-/A-1+' Ratings On CreditWatch Negative On Announced Share Buyback Transaction

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## Research Update:

# Finland-Based Pohjola Bank 'AA-/A-1+' Ratings On CreditWatch Negative On Announced Share Buyback Transaction

## Overview

- The OP-Pohjola Group central cooperative has launched a tender offer to acquire 63% of the shares in Pohjola Bank PLC it does not already own.
- The transaction, with an estimated value of €3.4 billion, will be initially financed by debt and might weaken Pohjola Bank's capital and earnings position.
- We are therefore placing our 'AA-/A-1+' ratings on Pohjola Bank PLC and its core subsidiary Pohjola Non-Life Insurance Co. Ltd. on CreditWatch negative.
- We intend to resolve the CreditWatch within 90 days or once we have greater clarity regarding the transaction's impact on the group's capitalization. We could lower the ratings on Pohjola Bank and its core subsidiary by one notch if we believed that the bank would not recapitalize in line with our current expectations.

## Rating Action

On Feb. 6, 2014, Standard & Poor's Ratings Services placed its 'AA-/A-1+' long- and short-term counterparty credit ratings on Finland-based Pohjola Bank PLC on CreditWatch with negative implications.

At the same time, we also placed on CreditWatch with negative implications our 'AA-' long-term issuer credit and financial strength ratings on Pohjola Bank's core subsidiary Pohjola Non-Life Insurance Co. Ltd.

## Rationale

The CreditWatch placement follows the announcement by the OP-Pohjola Group that its central cooperative has launched a tender offer to buy back shares in Pohjola Bank PLC. The transaction will initially be financed by issuing debt in the market, which might weaken the group's strong capital and earnings position, in our view. Our ratings on Pohjola Bank, OP-Pohjola Group's main operating entity, reflect the franchise and creditworthiness of the wider group.

We understand that the tender offer will run from Feb. 24, 2014, until April 1, 2014. The group's central cooperative seeks to acquire all of the outstanding shares in Pohjola Bank--it currently owns 37%, while an additional

16% is directly owned by the group's member banks, and the remaining 47% is in free float. The offer is conditional on the central cooperative reaching 90% ownership of the shares. We consider the strategic rationale--to internalize all of the group's profits, simplify the organizational steering model, and increase incentives for continuing the successful cross-selling strategy--to be sound.

We understand that OP-Pohjola group's core Tier 1 ratio could drop by 600 basis points to roughly 12%, according to the group's projections. Likewise, we estimate that our risk-adjusted capital (RAC) ratio as of June 30, 2013, all other factors remaining equal, would decrease to 6.2% from 10.1%. The estimated purchase price of €3.4 billion is based on the share premium offered and is subject to change. We estimate that the group's equity base will be reduced by about €2.5 billion, as member banks will reinvest the proceeds from the offer into the group.

Given its history of adopting a conservative capital policy, we believe that the group is committed to rebuilding its capital. It has presented a plan to reach the pre-transaction level by increasing earnings and issuing profit shares to its retail member clients through the 200-member-banks' branch network. We will assess whether we include the profit share instruments in our preferred measure of capital, total adjusted capital, once we have the final documentation. However, we believe that the plan presents challenges and that capital, as measured by our RAC ratio, might not return to a level commensurate with our current "strong" assessment in the coming two years.

The ratings on Pohjola Non-Life Insurance Co. Ltd. reflect our view of its core status as the non-life insurance subsidiary of the Finland-based OP-Pohjola financial services group, reflecting its successful bancassurance business model in Finland and the insurer's contributions to the group's earnings through insurance commission revenues.

## **CreditWatch**

We aim to resolve the CreditWatch placement within the next three months, after the tender offer has been finalized and all necessary approvals have been received. We expect by then to have better visibility as to the impact of the announced share buyback and other capital measures on the group's capital position.

We could lower the ratings on Pohjola Bank by one notch if the wider OP-Pohjola Group cannot sustain its capitalization at a "strong" level after the transaction, specifically, if we believe our projected RAC ratio would not sustainably reach 10% within the next 24 months.

Conversely, we could affirm the ratings, should we take the view that the group will be able to comfortably reach its capital targets within the next two years and continue its conservative capital policy.

The CreditWatch placement on Pohjola Non-Life Insurance Co. Ltd. reflects that on Pohjola Bank.

## Ratings Score Snapshot

Issuer Credit Rating	AA-/Watch Neg/A-1+
SACP	a+
Anchor	a-
Business Position	Strong (+1)
Capital and Earnings	Strong (+1)
Risk Position	Adequate (0)
Funding and Liquidity	Average and Adequate (0)
Support	(+1)
GRE Support	(0)
Group Support	(0)
Short Term Support	(0)
Sovereign Support	(+1)
Additional Factors	(0)

## Related Criteria And Research

### Related Criteria

- Group Rating Methodology, Nov. 19, 2013
- Insurers: Rating Methodology, May 7, 2013
- Enterprise Risk Management, May 7, 2013
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Bank Hybrid Capital Methodology And Assumptions, Nov. 1, 2011
- Bank Capital Methodology And Assumptions, Dec. 6, 2010
- Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

### Related Research

- Banking Industry Country Risk Assessment: Finland, Jan. 25, 2013
- Pohjola Bank PLC, July 31, 2013

## Ratings List

CreditWatch/Outlook Action

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Pohjola Bank PLC

Counterparty Credit Rating	AA-/Watch Neg/A-1+	AA-/Negative/A-1+
Senior Unsecured	AA-/Watch Neg	AA-
Subordinated	A/Watch Neg	A
Commercial Paper	A-1+/Watch Neg	A-1+

Pohjola Non-Life Insurance Co. Ltd.

Counterparty Credit Rating		
Local Currency	AA-/Watch Neg/--	AA-/Negative/--
Financial Strength Rating		
Local Currency	AA-/Watch Neg/--	AA-/Negative/--

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Complete ratings information is available to subscribers of RatingsDirect at [www.globalcreditportal.com](http://www.globalcreditportal.com) and at [spcapitaliq.com](http://spcapitaliq.com). All ratings affected by this rating action can be found on Standard & Poor's public Web site at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column. Alternatively, call one of the following Standard & Poor's 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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