

Standard & Poor's Research

S&PCORRECT: Outlooks On Two Finnish Banks Revised To Negative Due To Rising Economic Risks

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(**Editor's Note:** In the original version of this release published earlier today, the BICRA Score Snapshot section was misstated. A corrected version follows.)

- Economic risks in the export-oriented Finnish economy have increased in our view, leaving the banking sector moderately more exposed to a longer recession in the eurozone (European Economic and Monetary Union).
- We think that economic risk could rise further as we see potential additional pressure from a more negative economic scenario.
- We are revising the outlooks to negative from stable on Finnish-based banks Pohjola Bank and Bank of Åland and affirming our ratings on the banks.

STOCKHOLM (Standard & Poor's) Nov. 20, 2012--Standard & Poor's Ratings Services said today that it had revised its outlook to negative from stable on Finnish Pohjola Bank PLC and its core subsidiary Pohjola Non-Life Insurance Co. Ltd., and on Finnish Bank of Åland PLC. At the same time, we affirmed the 'AA-/A-1+' long- and short-term counterparty credit ratings on Pohjola Bank and Pohjola Non-Life Insurance Co. and the 'BBB/A-3' long- and short-term counterparty credit ratings on Bank of Åland.

We view economic risks in Finland's banking industry as having increased moderately, and we view the trend as negative. Our assessment of industry risk is unchanged, and we view the trend as stable. (Watch the related CreditMatters TV segment titled "Various Nordic Bank Rating Actions Due To Increasing Economic Risk In The Region," dated Nov. 26, 2012.)

Our assessment of increased risks in Finland's export-oriented economy is caused by our expectation of a more prolonged recession in the eurozone and deteriorating performance among its major trading partners. Subdued domestic demand, the restructuring of important domestic sectors such as the pulp and paper and electronic manufacturing industries, and deteriorating competitiveness, will also put pressure on the economy and, in our view, lower its resilience.

We have also observed that private sector credit growth in the Republic of Finland (AAA/Negative/A-1+), especially among households, has been substantially outpacing GDP growth and has fuelled house price appreciation above long-term trends in the last decade. This has led to a higher debt burden and Finland has now nearly reached European average indebtedness levels. However, we see a meaningful difference between Finland and its Nordic peers, where debt levels are significantly higher, and we don't think that the share of impairments from household mortgage lending will constitute a significant portion of the higher losses we expect to see in the Finnish banking sector.

We still consider Finland's economy to be relatively strong and resilient overall, as manifested in the sovereign rating. Although factored into our assessment of worsening economic risk, we believe Finland's relatively high dependence on exports, especially investment goods, will, in a protracted contraction in Europe, potentially put additional pressure on the economy. We therefore consider the economic risk trend to be negative.

Any further worsening in economic risk may lead to one-notch downgrades of Pohjola Bank and Bank of Åland.

We affirmed our ratings on both Pohjola Bank and Bank of Åland because we think that the Finnish banking system continues to be characterized by low risk. Therefore, we have maintained the baseline assessment (the "anchor") on banks operating only in Finland at 'a-'.

We revised our outlooks on both Pohjola Bank and Bank of Åland to negative as we believe that a more negative economic scenario could put additional pressure on the banking sector's financial performance, increase impairment costs, and potentially lead us to lower the ratings on both banks.

RELATED CRITERIA AND RESEARCH

- The Eurozone's New Recession--Confirmed, Sept. 25, 2012
- Un-Finnished Business: Assessing Finland's Growth Prospects, Sept. 20, 2012

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- Full analysis on Finland, June 14, 2012
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Group Rating Methodology And Assumptions, Nov. 9, 2011
- Bank Hybrid Capital Methodology And Assumptions, Nov. 1, 2011
- Bank Capital Methodology And Assumptions, Dec. 6, 2010
- General Criteria: Use of CreditWatch and Outlooks, Sept. 14, 2009
- Criteria | Insurance | General: Group Methodology, April 22, 2009

BICRA SCORE SNAPSHOT*

Finland

	To	From
BICRA Group	2	2
Economic risk	2	1
Economic resilience	Low risk	Very low risk
Economic imbalances	Low risk	Low risk
Credit risk in the economy	Low risk	Very low risk
Industry risk	3	3
Institutional framework	Intermediate risk	Low risk
Competitive framework	Low risk	Low risk
Systemwide funding	Intermediate risk	Intermediate risk

*Banking Industry Country Risk Assessment (BICRA) 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.

RATINGS LIST

CreditWatch/Outlook Action; Ratings Affirmed

	To	From
Pohjola Bank PLC		
Counterparty Credit Rating	AA-/Negative/A-1+	AA-/Stable/A-1+
Pohjola Non-Life Insurance Co. Ltd.		
Counterparty Credit Rating	AA-/Negative/--	AA-/Stable/--
Bank of Aaland PLC		
Counterparty Credit Rating	BBB/Negative/A-3	BBB/Stable/A-3

NB: This list does not include all ratings affected.

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