

# Seven Finnish Banks Outlooks Revised To Negative On Deepening COVID-19 Downside Risks

May 19, 2020

## Overview

- Despite European governments' measures to contain the COVID-19 pandemic, their economies, including Finland's, are facing an unprecedented challenge.
- We expect Finland's wide-ranging fiscal and related monetary measures to substantially mitigate this extraordinarily sharp shock to the economy, and so also support the banking system in its key role as a conduit of fiscal and monetary support.
- Even in our base case of an economic recovery starting in third-quarter 2020, we expect bank earnings, asset quality, and in some cases capitalization, to weaken meaningfully throughout 2020 and into 2021. That said, we continue to see differentiated implications for banks in the system.
- Because of these factors and our view that downside risks remain substantial, we are revising our outlooks to negative on Finnish banks Aktia Bank, Bank of Aland, Bonum Bank, Central Bank of Savings Banks Finland, Oma Savings Bank, OP Corporate Bank, and The Mortgage Society of Finland.
- We could take further negative rating actions if we expect the cyclical economic recovery in Finland to be substantially weaker or delayed, because this would imply a far more negative effect on bank credit strength. Negative rating actions could also follow individual negative developments at individual banks.

FRANKFURT (S&P Global Ratings) May 19, 2020--S&P Global Ratings today took the following rating actions on these Finnish banks:

- Aktia Bank PLC: We revised the outlook to negative from stable and affirmed the 'A-/A-2' issuer credit ratings.
- Bank of Aland PLC: We revised the outlook to negative from positive and affirmed the 'BBB/A-2' issuer credit ratings.
- Bonum Bank PLC: We revised the outlook to negative from stable and affirmed the 'BBB/A-2' issuer credit ratings.
- Central Bank of Savings Banks Finland PLC: We revised the outlook to negative from stable and affirmed the 'A-/A-2' issuer credit ratings.
- Oma Savings Bank PLC: We revised the outlook to negative from stable and affirmed the

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'BBB+/A-2' issuer credit ratings.

- OP Corporate Bank PLC: We revised the outlook to negative from stable and affirmed the 'AA-/A-1+' issuer credit ratings.
- The Mortgage Society of Finland: We revised the outlook to negative from stable and affirmed the 'BBB/A-2' issuer credit ratings.

We also affirmed all our debt ratings on the senior preferred instruments and subordinated and hybrid instruments, including senior nonpreferred debt, issued by the aforementioned entities.

## Rationale

We have taken these rating actions because we see increased downside risks to various Finnish banks' credit profiles stemming from the economic and financial market implications of the COVID-19 pandemic. We now see economic risk for Finland's Banking Industry Country Risk (BICRA) to be on a negative trend. If we saw more pronounced economic distress, with risk costs for the banking system exceeding our current expectations, we could negatively reassess economic risk, leading to a downward revision to 'bbb+' from 'a-' of the anchor, our starting point for rating domestically-focused Finnish banks.

Until the start of March, Finnish banks were fully engaged with the same two key themes that have been paramount in recent years: harmonizing balance sheet strength with solid investor returns, and identifying how to refine business and operating models in the face of the looming risks and opportunities of the digital era. For the short term at least, the COVID-19 pandemic has changed almost everything. In addition to the human cost, large parts of the economy have ground to a halt. With isolation strategies still very much in force, our economists expect sharp economic contraction in the second quarter of 2020, followed by a rebound starting in the third quarter. However, they are now more cautious on the strength of recovery through the rest of 2020 and into 2021, envisaging a 7.3% GDP contraction in the eurozone, with a recovery of about 4.3% in 2021 (see "Europe Braces For A Deeper Recession In 2020," published April 20, 2020, on RatingsDirect).

We project the Finnish economy will contract by 6.0% in 2020 followed by a modest recovery around 2.5% in 2021, which we consider weaker than our expectation for other Nordic countries. After an anemic final quarter of 2019, Finland was already facing a muted growth outlook, with lower exports, weakening consumer confidence, and only moderate credit demand from households. The lockdown measures started in mid-March will further depress private consumption, and we do not expect consumer confidence to recover to pre-COVID-19 levels any time soon.

Authorities have delivered unprecedented policy responses in the form of monetary, fiscal, and regulatory support to their economies. The Finnish government has announced a package of fiscal and quasi-fiscal discretionary measures estimated at about 8% of GDP, in addition to automatic stabilizers of about 5% of GDP.

The measures include:

- Short-term financing and liquidity measures through the Bank of Finland and the State Pension Fund;
- Guarantees by Finnvera, a government-owned special financing company, of up to €10 billion;
- Direct grants by government agencies Business Finland and ELY-Centres (Centre for Economic Development, Transport, and the Environment), State Treasury, as well as from municipalities;

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- State guarantees to Finnair and shipping companies;
- The Finnish Financial Supervisory Authority's easing of regulatory requirements for banks.

The government anticipates all these will support the real economy over the peak of the crisis and limit the immediate financial difficulties.

The better-capitalized, better-funded, more-liquid banks that have gradually emerged in Finland since the 2008-2009 global financial crisis and the subsequent recession have played an instrumental role as a conduit of the expansion of low-cost credit to affected households and businesses. However, while we expect banks in Finland to remain resilient in the face of this short-term extraordinary shock, we expect that the pandemic-induced recession will have a meaningful impact on asset quality, revenue, profitability, liquidity, and potentially capitalization. We did not see strong evidence of these negative trends in Finnish banks' first-quarter results. However, we consider they will become increasingly evident through the course of 2020 and persist into 2021, in line with most of their European peers. Banks' underwriting discipline over the recent years and the derived asset quality will be key to a good outcome.

Our base case remains subject to significant downside risks. Even under our economic base case, the policy responses taken in Finland may be less than totally successful in avoiding permanent economic damage later (see "European Economic Snapshots: Large Risks To Growth Ahead" published May 4, 2020). We note also that a significant component of the fiscal support package comprises additional indebtedness for the sovereign, some households, and many businesses. At best, the easing of physical isolation is likely to be slow, and could be subject to setbacks. The longer the delay in the recovery of economic activity, the less sustainable this extra debt will be.

We have affirmed our ratings on Finnish banks in view of the resilience that we expect them to demonstrate in the face of this short-term extraordinary event. Negative outlooks tend to reflect the significant downside risks that we see, and our expectation is that we could lower the ratings on one or several of the banks if the recession is more severe and/or longer than we expect, and if the economic rebound is therefore delayed or fiscal countermeasures prove ineffective. This could materially weaken the operating conditions for the Finnish banking sector and reduce the banks' business prospects over the next two years.

We also see a risk of weaker private-sector debt-servicing capacity, especially from small and midsize companies, which could lead to materially higher credit losses for banks. Despite the expected increase in the unemployment rate to around 8%, there is a strong social safety network in Finland. We expect the credit losses from the private household sector to remain moderate, despite the increasing number of applications for amortization holidays from households. These had reached 180,000 on May 15. While we expect some higher losses in the unsecured lending business, we still believe that losses in residential mortgages will remain very low.

We overlay this broad assessment with our view on the individual features of banks, reflecting such aspects as pre-existing positive and negative rating pressures, asset focus and funding profiles, and our view of the potential to absorb setbacks within earnings and so avoid significant capital depletion.

Our ratings and outlook on Nordea Bank Abp are unaffected by our review of the Finnish banking sector. In our view, because it is a pan-Nordic bank, the ratings on Nordea Bank are less vulnerable to increasing economic risks in one single country.

## Finland BICRA

|                            | To                | From              |
|----------------------------|-------------------|-------------------|
| <b>BICRA group</b>         | 2                 | 2                 |
| Implied anchor             | a-                | a-                |
| <b>Economic risk</b>       | 2                 | 2                 |
| Economic resilience        | Very low risk     | Very low risk     |
| Economic imbalances        | Low risk          | Low risk          |
| Credit risk in the economy | Low risk          | Low risk          |
| Trend                      | Negative          | Stable            |
| <b>Industry risk</b>       | 3                 | 3                 |
| Institutional framework    | Intermediate      | Intermediate      |
| Competitive dynamics       | Low risk          | Low risk          |
| Systemwide funding         | Intermediate      | Intermediate      |
| Trend                      | Stable            | Stable            |
| <b>Government support</b>  | Support Uncertain | Support Uncertain |

Banking Industry Country Risk Assessment (BICRA) economic risk and industry risk 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.

## Aktia Bank PLC

We revised our outlook on Aktia Bank to negative from stable and affirmed our 'A-/A-2' ratings because even in our revised base case, we consider that it is well positioned to weather this short-term cyclical downturn. Aktia Bank benefits from a well known retail and asset management franchise in selected regions. We anticipate its capitalization, as represented by our expected risk-adjusted capital (RAC) ratio, will remain comfortably in the 14%-15% range in the next 24 months. The bank's funding and liquidity profile is sound, and it has a material buffer of bail-in-able debt. We now expect a pronounced, but manageable, increase in Aktia Bank's loan-loss provisions and the nonperforming assets in its loan portfolio, similar to its peers.

## Outlook

The outlook is negative because the rising economic risk in the Finnish banking market amid the 2020 recession could trigger a downgrade in the next 24 months.

We expect Finland's economic activity will sharply reduce in 2020, and in the weaker operating environment banks are currently facing, Aktia Bank is exposed to increased asset quality risks and weaker earnings prospects in the next 24 months. We see downside risks to the ratings, given the material uncertainties associated with the COVID-19 pandemic.

We believe that Aktia Bank's aim to strengthen its earnings generation and improve cost efficiency could be delayed in the current uncertain operating environment, but its capitalization, as reflected in our RAC ratio, will remain firmly between 14%-15%, which provides a substantial buffer to absorb potential losses.

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**Downside scenario.** We could take a negative rating action if the recession turns out to be more severe and longer than expected. If this meaningfully increases the asset quality risk for the banking sector, we could revise downward our 'a-' anchor for Finnish banks, including Aktia Bank. This could, in turn, lead us to revise down our assessment of the bank's stand-alone credit profile and lower our ratings on Aktia Bank.

**Upside scenario.** We would revise the outlook to stable if the pandemic receded and the prospects of an economic recovery in Finland became clearer.

We could also take a positive rating action if Aktia Bank replaced a substantial amount of maturing debt by issuing senior non-preferred instruments and therefore built an ALAC buffer well above our 10% adjusted threshold and thereby qualifying for two notches of ALAC support. This would be conditional on Aktia Bank's overall creditworthiness being in line with that of its higher-rated European peers.

### Aktia Bank PLC Ratings Score Snapshot

|                       | To              | From          |
|-----------------------|-----------------|---------------|
| Issuer Credit Rating  | A-/Negative/A-2 | A-/Stable/A-2 |
| SACP                  | bbb+            | bbb+          |
| Anchor                | a-              | a-            |
| Business Position     | Moderate (-1)   | Moderate (-1) |
| Capital and Earnings  | Strong (+1)     | Strong (+1)   |
| Risk Position         | Moderate (-1)   | Moderate (-1) |
| Funding and Liquidity | Average         | Average       |
| Support               | Adequate (0)    | Adequate (0)  |
| ALAC Support          | (+1)            | (+1)          |
| GRE Support           | (0)             | (0)           |
| Group Support         | (0)             | (0)           |
| Government Support    | (0)             | (0)           |
| Additional Factors    | (0)             | (0)           |

SACP--Stand-alone credit profile.

### Bank of Åland PLC

We revised our outlook on Bank of Åland to negative from positive and affirmed the 'BBB/A-2' ratings because of the bank's specialized retail and premium banking franchise in the Åland Islands, and certain areas in mainland Finland and Sweden. We also think its strong capitalization, with RAC in the 13%-14% range, provides it a solid buffer to weather any asset quality risks in its small but concentrated corporate portfolio. Bank of Åland also displays a sound funding and liquidity profile.

We expect Finland, including the region of Åland, to experience a sharp reduction in economic activity in 2020, despite the Finnish and Åland governments' important support packages. Hence, we see downside risks to the ratings, given the material uncertainties associated with the

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pandemic. In the weaker operating environment banks are currently facing, we expect Bank of Åland to be exposed to increased asset quality risks and weaker earnings prospects through 2022.

Furthermore, these pressures mean that we no longer expect Bank of Åland will be able to improve its risk-adjusted capitalization to a very strong level (a RAC ratio increasing sustainably to 15% or higher) through 2022, in the absence of capital measures. However, we expect the bank to remain committed to maintaining its currently robust capital level, even while it proceeds with the transaction to create a joint mortgage company.

### Outlook

The negative outlook reflects our view of the negative impact that COVID-19 could have on Finland's economy, and its potential impact on Bank of Åland's asset quality and profitability in its Finnish operations over the next two years.

**Downside Scenario.** A weaker economic recovery in Finland could adversely affect the Finnish banking sector's performance. This could lead us to revise down our anchor for Finnish banks to 'bbb+' from 'a-'. As about two-thirds of Bank of Åland's lending is toward Finland, including the region of Åland, this could prompt us to lower our long-term rating on the bank.

If we were to revise our view of economic risk in Finland from the current low assessment, this would result in lower projected RAC ratio for Bank of Åland because we would use higher risk weights on Finnish exposures in our calculation. However, we believe that this would lead to at most a one-notch downgrade of the bank, given the meaningful capital buffers with which it entered the current crisis.

**Upside Scenario.** We could revise the outlook to stable if the Finnish economy proved more resilient relative to our expectation over the next 12-24 months.

Subsequently, we could raise the rating if Bank of Åland's capitalization improves, as indicated by a sustained increase of its RAC ratio beyond 15% over the next 24 months, including further earnings retention. An upgrade would depend on the bank's efforts to uphold sound profitability and an unchanged stance toward prudent underwriting standards and collateralization.

### Bank of Åland PLC Ratings Score Snapshot

|                      | To               | From             |
|----------------------|------------------|------------------|
| Issuer Credit Rating | BBB/Negative/A-2 | BBB/Positive/A-2 |
| SACP                 | bbb              | bbb              |
| Anchor               | a-               | a-               |
| Business Position    | Weak (-2)        | Weak (-2)        |
| Capital and Earnings | Strong (+1)      | Strong (+1)      |
| Risk Position        | Moderate (-1)    | Moderate (-1)    |
| Funding              | Average          | Average          |
| and Liquidity        | Adequate (0)     | Adequate (0)     |
| Support              | (0)              | (0)              |
| ALAC Support         | (0)              | (0)              |
| GRE Support          | (0)              | (0)              |
| Group Support        | (0)              | (0)              |

## Bank of Åland PLC Ratings Score Snapshot (cont.)

|                    | To  | From |
|--------------------|-----|------|
| Government Support | (0) | (0)  |
| Additional Factors | (0) | (0)  |

SACP--Stand-alone credit profile.

## Bonum Bank PLC

We revised our outlook on Bonum Bank to negative from stable and affirmed our 'BBB/A-2' ratings because we believe that Bonum Bank and the wider POP Bank Group's aim to strengthen earnings generation and improve cost-efficiency could be delayed in the current operating environment, but that its very strong capitalization will continue to provide a robust buffer to absorb potential losses. We also expect the group's liquidity and funding metrics will continue to provide support against the turbulence seen in the funding market.

### Outlook

The outlook is negative because of the deteriorating economic environment related to the COVID-19 turmoil and its potential impact on the wider POP Bank Group's asset quality and profitability over the next two years.

**Downside Scenario.** A delayed economic recovery in Finland's export-oriented economy could adversely affect the Finnish banking sector's performance. This could lead us to revise down our anchor for Finnish banks, including POP Bank Group, to 'bbb+' from 'a-', which in turn would likely prompt us to lower our long-term rating on POP Bank Group and Bonum Bank.

In addition, we could lower the ratings if lagging efficiency or deteriorating asset quality leads to a weakening of Bonum Bank's combined capital and risk position or if the group's cohesiveness does not further strengthen as we anticipate.

**Upside Scenario.** We could revise the outlook to stable if the Finnish economy proved more resilient than we expect over the next 12-24 months.

We could also take a positive rating action if the group were to demonstrate significant improvements in its revenue generation and cost efficiency to build an earnings buffer more in line with its peers'.

## Bonum Bank PLC Ratings Score Snapshot

|                      | To               | From             |
|----------------------|------------------|------------------|
| Issuer Credit Rating | BBB/Negative/A-2 | BBB/Stable/A-2   |
| SACP                 | bbb+             | bbb+             |
| Anchor               | a-               | a-               |
| Business Position    | Weak (-2)        | Weak (-2)        |
| Capital and Earnings | Very Strong (+2) | Very Strong (+2) |

**Bonum Bank PLC Ratings Score Snapshot (cont.)**

|                    | To            | From          |
|--------------------|---------------|---------------|
| Risk Position      | Moderate (-1) | Moderate (-1) |
| Funding            | Average       | Average       |
| and Liquidity      | Adequate (0)  | Adequate (0)  |
| Support            | (0)           | (0)           |
| ALAC Support       | (0)           | (0)           |
| GRE Support        | (0)           | (0)           |
| Group Support      | (0)           | (0)           |
| Government Support | (0)           | (0)           |
| Additional Factors | (-1)          | (-1)          |

SACP--Stand-alone credit profile.

**Central Bank of Savings Banks Finland PLC**

We revised our outlook to negative from stable and affirmed our 'A-/A-2' ratings on Central Bank of Savings Banks Finland (Sp Central Bank), the central credit institution of Savings Banks Group, reflecting our expectation that the group's financial profile will remain resilient as it relies on a deeply rooted regional franchise and a solid mutual business model. This is accompanied by high and sustainable capital levels. At the same time, we factor into our ratings the group's concentrated activities, by geography and business, which result in limited earnings diversification and higher risks compared with larger peers.

**Outlook**

The negative outlook on Sp Central Bank reflects the potential negative rating implications over our two-year outlook horizon of a sharp economic contraction in 2020 associated with COVID-19, which could weigh on our view of the economic prospects of Finland's banking industry.

**Downside scenario.** We could downgrade the bank if a material worsening of the economic and operating environment hampers its financial strength, by reducing the RAC ratio below 15%, or if asset quality deteriorates materially from current levels.

**Upside scenario.** We could revise the outlook to stable if the bank manages to absorb the effects of the pandemic without meaningfully impairing profitability, capital, and asset quality. Moreover, we could improve our view if we have further insights into the resolution strategy for Savings Banks Group and, in turn, the group's plans to build an ALAC buffer that we consider sufficient to protect senior bondholders in resolution.

**Central Bank of Savings Banks Finland PLC Ratings Score Snapshot**

|                      | To              | From          |
|----------------------|-----------------|---------------|
| Issuer Credit Rating | A-/Negative/A-2 | A-/Stable/A-2 |



**Central Bank of Savings Banks Finland PLC Ratings Score Snapshot (cont.)**

|                      | To               | From             |
|----------------------|------------------|------------------|
| SACP                 | a-               | a-               |
| Anchor               | a-               | a-               |
| Business Position    | Moderate (-1)    | Moderate (-1)    |
| Capital and Earnings | Very Strong (+2) | Very Strong (+2) |
| Risk Position        | Moderate (-1)    | Moderate (-1)    |
| Funding              | Average          | Average          |
| and Liquidity        | Adequate (0)     | Adequate (0)     |
| Support              | (0)              | (0)              |
| ALAC Support         | (0)              | (0)              |
| GRE Support          | (0)              | (0)              |
| Group Support        | (0)              | (0)              |
| Government Support   | (0)              | (0)              |
| Additional Factors   | (0)              | (0)              |

SACP--Stand-alone credit profile.

**Oma Savings Bank PLC**

We revised our outlook on Oma Savings Bank to negative from stable and affirmed our 'BBB+/A-2' ratings because we expect the bank will maintain its sound financial profile, underpinned by projected very strong capitalization with a RAC ratio above 15% and high earnings capacity. However, the weakening economic environment could have a negative impact on the bank in terms of deteriorating asset quality and lower earnings generation through 2022.

**Outlook**

The negative outlook reflects our view that the worsening economic environment induced by the COVID-19 pandemic could affect the bank's asset quality and profitability targets over the next two years.

**Downside scenario.** A prolonged economic recovery in Finland's export-oriented economy could adversely affect the Finnish banking sector's performance. This could lead us to revise down our anchor, the starting point for rating financial institutions, for Finnish banks, including Oma Savings Bank, to 'bbb+' from 'a-', which in turn would prompt us to lower our long-term rating on Oma Savings Bank.

In addition, we could lower the ratings if Oma Savings Bank failed to maintain a RAC ratio above 15% in the next two years or if asset quality worsened materially more than we currently expect.

**Upside scenario.** We could revise the outlook to stable if the Finnish economy proved more resilient relative to our expectations over the next 12-24 months.

## Oma Savings Bank PLC Ratings Score Snapshot

|                      | To                | From             |
|----------------------|-------------------|------------------|
| Issuer Credit Rating | BBB+/Negative/A-2 | BBB+/Stable/A-2  |
| SACP                 | 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              | Average           | Average          |
| and Liquidity        | Adequate (0)      | Adequate (0)     |
| Support              | (0)               | (0)              |
| ALAC Support         | (0)               | (0)              |
| GRE Support          | (0)               | (0)              |
| Group Support        | (0)               | (0)              |
| Government Support   | (0)               | (0)              |
| Additional Factors   | (0)               | (0)              |

SACP--Stand-alone credit profile.

## OP Corporate Bank PLC

We revised our outlook on OP Corporate Bank to negative from stable and affirmed our 'AA-/A-1+' issuer credit ratings because, in our view, the wider OP Financial Group remains resilient to the current crisis. As the leading universal banking group in Finland, OP Financial Group will play an important role in supporting Finland's household and corporate sectors. Relatively high capitalization, supported by the planned issuance of profit shares and organic capital generation, provides the group with a comfortable cushion to weather increased asset quality risks. We expect the group will maintain a diversified funding profile and a sound liquidity profile, and will continue issuing bail-in-able debt to build additional loss-absorbing capacity (ALAC) over the next two years.

### Outlook

The negative outlook indicates the possibility of a downgrade in the next 24 months if we anticipate that deterioration in the economic and operating conditions in Finland were more severe or the recovery took longer than expected. The negative outlook on Pohjola Insurance reflects that on its parent, OP Corporate Bank.

**Downside scenario.** Even if the economic risks were to abate materially, we could lower the ratings if we considered future organic capital generation insufficient to preserve sustainably the group's RAC ratio above 15% and our view of its risk profile does not compensate a lower level of capital.

Lastly, all else being equal, we could also take a negative rating action if the group's ALAC buffer is unlikely to exceed our threshold of 5% of S&P Global Ratings' risk-weighted assets over a two- to

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four-year ramp-up period as we currently expect.

**Upside scenario.** A revision of the outlook to stable would depend on the recovery of the economy and the banking business in Finland. At the same time, we would revise the outlook to stable if the bank manages to absorb the effects of the pandemic without meaningfully impairing profitability, capital and asset quality.

### OP Corporate Bank PLC Ratings Score Snapshot

|                       | To                | From             |
|-----------------------|-------------------|------------------|
| Issuer Credit Rating  | AA-/Negative/A-1+ | AA-/Stable/A-1+  |
| SACP                  | a+                | a+               |
| Anchor                | a-                | a-               |
| Business Position     | Strong (+1)       | Strong (+1)      |
| Capital and Earnings  | Very Strong (+2)  | Very Strong (+2) |
| Risk Position         | Moderate (-1)     | Moderate (-1)    |
| Funding and Liquidity | Average           | Average          |
| Support               | Adequate (0)      | Adequate (0)     |
| ALAC Support          | (+1)              | (+1)             |
| GRE Support           | (0)               | (0)              |
| Group Support         | (0)               | (0)              |
| Government Support    | (0)               | (0)              |
| Additional Factors    | (0)               | (0)              |

SACP--Stand-alone credit profile.

## The Mortgage Society of Finland

We revised our outlook on The Mortgage Society of Finland (Hypo) to negative from stable and affirmed the 'BBB/A-2' ratings because we think the bank will maintain its current conservative lending policies and continue to produce lower loan losses than its domestic peers. In addition, we expect Hypo's very strong capitalization reflected in its RAC ratio above 16% will continue to act as an additional buffer to absorb potential losses. That said, the weakening economic environment could have a negative impact on the bank's earnings prospects through 2022.

### Outlook

The negative outlook on Hypo reflects our view that the weakening Finnish economy, induced by the COVID-19 pandemic, could affect the bank's growth and profitability targets over the next two years.

**Downside scenario.** A prolonged economic recovery in Finland's export-oriented economy could adversely affect the Finnish banking sector's performance. This could lead us to revise down our anchor for Finnish banks, including Hypo, to 'bbb+' from 'a-', which in turn would likely prompt us to lower our long-term rating on Hypo.

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In addition, we could also take a negative rating action if Hypo failed to maintain its very strong capital and earnings in line with our expectations. At the same time we believe that Hypo's better-than-average portfolio quality and its loan loss track record provide more cushion in comparison with local peers.

**Upside scenario.** We could revise the outlook to stable if the Finnish economy proved more resilient than we expect over the next 12-24 months.

### The Mortgage Society of Finland Ratings Score Snapshot

|                      | To               | From             |
|----------------------|------------------|------------------|
| Issuer Credit Rating | BBB/Negative/A-2 | BBB/Stable/A-2   |
| SACP                 | 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              | Below Average    | Below Average    |
| and Liquidity        | Adequate (-1)    | Adequate (-1)    |
| Support              | (0)              | (0)              |
| ALAC Support         | (0)              | (0)              |
| GRE Support          | (0)              | (0)              |
| Group Support        | (0)              | (0)              |
| Government Support   | (0)              | (0)              |
| Additional Factors   | (0)              | (0)              |

SACP--Stand-alone credit profile.

### Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- Criteria | Financial Institutions | General: Methodology For Assigning Financial Institution Resolution Counterparty Ratings, April 19, 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
- Criteria | Financial Institutions | Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011

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- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria | Financial Institutions | Banks: Commercial Paper I: Banks, March 23, 2004

## Related Research

- How Covid-19 Is Affecting Bank Ratings: May 2020 Update, May 7, 2020
- Large Risks To Growth Ahead, May 4, 2020
- Nordea Bank Abp Outlook Revised To Negative On Headwinds To Strategy Execution Amid COVID-19 Outbreak; Ratings Affirmed, April 30, 2020
- Europe's AT1 Market Faces Covid-19 Test: Bend, Not Break, April 22, 2020
- European Banks' First-Quarter Results: Many COVID-19 Questions, Few Conclusive Answers, April 1, 2020
- COVID-19: The Steepening Cost To The Eurozone And U.K. Economies, March 26, 2020
- COVID-19 Countermeasures May Contain Damage To Europe's Financial Institutions For Now, March 13, 2020
- The Coronavirus Will Shave 50 Basis Points Off Eurozone Growth, March 4, 2020

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## Seven Finnish Banks Outlooks Revised To Negative On Deepening COVID-19 Downside Risks

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