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Research Update:

Pohjola Non-Life Insurance Downgraded To 'A+' After Government Support Review Of Pohjola Bank; Outlook Remains Negative

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Overview

- We believe the prospect of extraordinary government support for Finnish banks is now uncertain and we are therefore removing government support from our ratings on Pohjola Bank PLC, the parent of Finland-based Pohjola Non-Life Insurance Co. Ltd. (Pohjola Non-Life).
- However, we incorporate additional loss-absorbing capacity (ALAC) support into our ratings on the bank.
- We continue to view Pohjola Non-Life as core to Pohjola Bank, but we consider that Pohjola Non-Life is unlikely to benefit from Pohjola Bank's ALAC.
- We are therefore lowering our ratings on Pohjola Non-Life to 'A+' from 'AA-'.
- The negative outlook reflects that on Pohjola Bank and our view that Finland's weak economic recovery could hamper the banking sector's performance over the next two years.

Rating Action

On Dec. 2, 2015, Standard & Poor's Ratings Services lowered its long-term counterparty credit and insurer financial strength ratings on Finland-based non-life insurer Pohjola Non-Life Insurance Co. Ltd. (Pohjola Non-Life) to 'A+' from 'AA-'. The outlook remains negative.

Rationale

The rating action follows the removal of government support from our ratings on Pohjola Bank (AA-/Negative/A-1+), the parent of Pohjola Non-Life, and the inclusion of ALAC.

The downgrade of Pohjola Non-Life reflects our view that, as an insurance subsidiary of Pohjola Bank, Pohjola Non-Life would not benefit from the bank's ALAC. We expect that any eventual resolution of Pohjola Non-Life would be separate from that of the bank, meaning that any outstanding ALAC instruments at the bank would not be available for the insurance operations. Therefore, we rate Pohjola Non-Life at the level of Pohjola Bank's 'a+' unsupported group credit profile.

The ratings also reflect our view of Pohjola Non-Life as a core operating

entity of Pohjola Bank, reflecting its key role in the bank's financial services offering as a market-leading non-life insurer in Finland and its strong integration within the group. Pohjola Non-Life is the leading non-life insurer in Finland with a market share of about 30%. By the end of the third quarter of 2015, Pohjola Non-Life had contributed 24% of the group's total earnings before tax.

Outlook

The negative outlook on Pohjola Non-Life reflects that on Pohjola Bank, based on Pohjola Non-Life's core status and our view that Finland's weak economic recovery could hamper the banking sector's performance over the next two years, which could lead us to revise down our anchor for Finnish banks, including Pohjola Bank. We could also lower the ratings on Pohjola Non-Life over the next 12-24 months if we no longer regarded it as core to Pohjola Bank. This is because we view the stand-alone credit profile of Pohjola Non-Life as weaker than the unsupported group credit profile of Pohjola Bank. We consider a downgrade stemming from a change in its core status as unlikely, but we could consider lowering the rating if we saw a significant weakening of Pohjola Non-Life's operating performance or group integration, or indications of the bank's reduced commitment to Pohjola Non-Life.

We could revise the outlook to stable over the next 12-24 months if we concluded that the Finnish banking sector had remained resilient to the weak economic recovery sufficient to lead us to revise the outlook on Pohjola Bank to stable.

Related Criteria And Research

Related Criteria

- Criteria | Financial Institutions | Banks: Rating Methodology And Assumptions - Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions - Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Bank Capital Methodology And Assumptions - Dec. 6, 2010
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions - Jul. 17, 2013
- Criteria | Financial Institutions | Commercial Paper I: Banks - Mar. 23, 2004
- Criteria | Financial Institutions | Methodology For Mapping Short- And Long-Term Issuer Credit Ratings For Banks - May 4, 2010
- Criteria | Financial Institutions | Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, Apr.27, 2015
- Criteria | Financial Institutions | Banks: Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions - Jan. 29, 2015

- Criteria | Financial Institutions | Bank: Assessing Bank Branch Creditworthiness, Oct. 14, 2013
- Criteria | Financial Institutions | Banks: Revised Market Risk Charges For Banks In Our Risk-Adjusted Capital Framework, June 22, 2012
- General Criteria | Use Of CreditWatch And Outlooks – Sep. 14, 2009
- General Criteria | Group Rating Methodology – Nov. 19, 2013
- General Criteria | Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- General Criteria | Criteria For Assigning 'CCC+', 'CCC', 'CCC-', 'CC' Ratings, Oct. 1, 2012
- General Criteria | S&P's National And Regional Scale Mapping Tables, Sep. 30, 2014
- General Criteria | National And Regional Scale Credit Ratings, Sep. 22, 2014
- General Criteria | Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- General Criteria | Rating Government-Related Entities: Methodology And Assumptions, Mar. 25, 2015
- General Criteria | Use Of 'C' And 'D' Issue Credit Ratings For Hybrid Capital And Payment-In-Kind Instruments, Oct. 24, 2013

Related Research

- Pohjola Bank 'AA-/A-1+' Ratings Affirmed On Government Support And ALAC Review; Outlook Negative, Dec. 2, 2015
- 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
- Pohjola Bank Ratings Affirmed At 'AA-/A-1+' Following Sovereign Rating Action; Outlook Negative, Sept. 29, 2015
- Pohjola Bank PLC, Aug. 24, 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

	To	From
Pohjola Non-Life Insurance Co. Ltd.		
Counterparty Credit Rating		
Local Currency	A+/Negative/--	AA-/Negative/--
Financial Strength Rating		

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Local Currency

A+/Negative/--

AA-/Negative/--

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