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S-Bank PLC

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S-Bank PLC

Ratings Score Snapshot

Global Scale Ratings	
Issuer Credit Rating	BBB/Positive/A-2
Resolution Counterparty Rating	BBB+/-/A-2

SACP: bbb → Support: 0 → Additional factors: 0

Anchor	a-	
Business position	Constrained	-2
Capital and earnings	Very strong	+2
Risk position	Moderate	-1
Funding	Adequate	0
Liquidity	Adequate	
CRA adjustment	-1	

Support: 0	
ALAC support	0
GRE support	0
Group support	0
Sovereign support	0

Issuer credit rating
BBB/Positive/A-2

ALAC--Additional loss-absorbing capacity. CRA--Comparable ratings analysis. GRE--Government-related entity. ICR--Issuer credit rating. SACP--Stand-alone credit profile.

Credit Highlights

Overview

Key strengths	Key risks
Strong brand name facilitated by S Group, supporting growth potential.	Weaker profitability and operating efficiency compared with peers, but gradually improving.
Very strong capitalization supported by improved earnings capacity in the higher interest rate environment.	Material investment needs in a medium-term perspective, weighing on operating efficiency.
Sound deposit franchise in Finland.	Execution risks related to acquisition of Handelsbanken Finland's retail portfolio.

S-Bank's acquisition of Handelsbanken Finland's retail business will increase scale and earnings generation and further strengthen S-Bank's wealth management offering. On May 31, 2023, S-Bank announced its intention to acquire Svenska Handelsbanken's private customer, asset management, and investment services operations in Finland as part of a consortium (together with Oma Savings Bank PLC and Fennia Mutual Insurance Co.). The deal involves Handelsbanken's €3.6 billion retail loan book, €2.6 billion assets under management and branch network (23 branches and 230 employees). The acquisition will add significant scale to S-Bank's current business and will diversify the offering with Handelsbanken funds to S-Bank's current and future customers. This transaction presents significant

opportunities for S-Bank business growth and earnings generation in the medium term. However, there are some uncertainties linked to customer attrition, given the somewhat different profiles of S-Bank's and Handelsbanken's customers. Still, we expect synergies to come from cross-selling opportunities, cost savings, and a widened branch network.

We expect S-Bank's robust capitalization to remain a key rating strength supported by improved earnings and support from shareholders. Supported by the bank's capital buildup through sustained improvement in earnings with return on equity (ROE) expected to exceed 10% along with a planned capital injection by the owners, S-Bank's capitalization will remain very strong. We project the risk-adjusted capital (RAC) ratio will exceed 18% through 2024, compared with 16.7% as of year-end 2022. This will, in our view, provide a robust buffer against potential asset quality risks associated with high lending growth, and will continue to support the bank's growth ambitions.

We expect S-Bank's asset quality will remain sound, despite the weaker economic environment. We anticipate S-Bank will exhibit sound asset quality metrics, with projected nonperforming loans (NPLs) at 0.8%-1.0% (Stage 3 loans; 0.71% in first-quarter 2023) and provisions of about 30 basis points (bps) in 2023-2025, in line with 31 bps in first-quarter 2023. Although provisions are somewhat higher than peers', this is because of a higher share of consumer loans and the rapidly growing loan book. We project organic loan growth of 5% in 2023 and an increase of 45% toward the end of 2024 as Svenska Handelsbanken's mortgage business is transferred. That said, the prevailing uncertainty in the economic environment and sticky inflation could dampen organic growth ambitions in the short term.

S-Bank will continue benefitting from a granular deposit base but aims to complement that with covered bonds. S-Bank's granular and stable deposits will remain the primary source of funding for S-Bank and we observed that the deposit base grew by 5% in 2022 and 2% during the first quarter of 2023. That said, we expect the use of wholesale funding to increase significantly as the bank looks to finance the acquired Handelsbanken mortgage portfolio and future mortgage loan growth with covered bonds. Furthermore, the bank will continue to maintain a stock of senior unsecured debt in order to meet a 20.34% minimum requirement for own funds and eligible liabilities (MREL) by 2024.

Outlook

The positive outlook reflects our expectation that S-Bank will achieve sustained improvement in profitability and operational efficiency in the next 12-24 months on the back of the higher interest rate environment, increased cross-selling to the existing customer base, and opportunities provided by the acquisition of Handelsbanken portfolio in 2024.

Upside scenario

We expect S-Bank to prudentially execute the acquisition with robust risk-adjusted capitalization above 15% and it will be able to finance the funding gap stemming from the transaction by issuing covered bonds. The expected improvement in earnings on the back of rising interest rates will further allow the bank to improve its operating efficiency, while continuing to cover its high investment needs and to absorb potential increase in credit losses from the weaker macro environment in Finland.

We could take a positive rating action if the bank were to build an additional loss-absorbing capacity buffer above the adjusted threshold of 4%. This could lead us to decouple the ratings on S-Bank from the broader S Group's creditworthiness because we would deem the Financial Stability Authority's (FSA's) resolution approach to protect the bank from negative group intervention.

Downside scenario

We could take a negative rating action if substantial execution risks emerge over the medium term or if customer retention following the acquisition proves to be materially weaker than expected. Furthermore, we could lower the rating if S-Bank's loan growth is more aggressive or departs from its underwriting standards, alongside increased credit losses. This could translate into a RAC ratio below the 15% threshold.

Key Metrics

S-Bank PLC--Key ratios and forecasts

	--Fiscal year ended 00. 31--				
(%)	2021a	2022a	2023f	2024f	2025f
Growth in operating revenue	7.6	18.6	32.0-39.2	1.0-3.0	13.0-16.0
Growth in customer loans	11.8	10.0	4.5-5.5	40.0-45.0	2.5-3.0
Growth in total assets	11.5	5.3	7.8-9.6	25.0-30.0	2.0-3.0
Net interest income/average earning assets (NIM)	1.3	1.7	2.6-2.8	2.2-2.4	2.2-2.4
Cost to income ratio	78.1	74.3	62.5-65.7	63.0-66.0	62.0-65.0
Return on average common equity	3.9	6.9	11.5-12.8	9.6-10.8	8.5-10.0
Return on assets	0.2	0.4	0.7-0.8	0.6-0.7	0.5-0.7
New loan loss provisions/average customer loans	0.3	0.2	0.3-0.4	0.3-0.4	0.2-0.2
Gross nonperforming assets/customer loans	0.6	0.9	0.9-1.0	1.0-1.1	0.8-0.9
Net charge-offs/average customer loans	0.3	0.2	0.3-0.3	0.3-0.3	0.2-0.2

S-Bank PLC--Key ratios and forecasts (cont.)

(%)	--Fiscal year ended 00. 31--				
	2021a	2022a	2023f	2024f	2025f
Risk-adjusted capital ratio	15.5	16.7	16.8-17.6	18.3-19.3	18.5-20.0

All figures are S&P Global Ratings-adjusted. a--Actual. f--Forecast. NIM--Net interest margin.

Anchor: 'a-' For Banks Operating Solely In Finland

Under our bank criteria, we use our Banking Industry Country Risk Assessment (BICRA) economic risk and industry risk scores to determine the anchor, the starting point for our bank rating. The anchor for S-Bank is 'a-', in line with that for commercial banks based in Finland. Our assessment of the economic and industry risk trends for Finland's BICRA are both stable.

We view Finland as an innovative, wealthy, and small open economy that has mature political and institutional structures. After GDP growth of 2.1% in 2022, we now project the Finnish economy will stagnate in 2023 followed by moderate growth of 1.1%-1.4% in 2024-2025. Even though inflation has likely peaked, interest rates remain high. The resulting decrease in real disposable incomes of households affect their purchasing power. The more muted consumer and business confidence could weaken the banking sector's growth prospects.

We do not see material economic imbalances in the Finnish economy, but house prices are expected to be 5%-7% lower across Finland this year, with an expected rebound in 2024 and thereafter. That said, increasing household debt, a weaker labor market combined with a weaker consumer and business confidence could eventually lead to higher credit losses for banks.

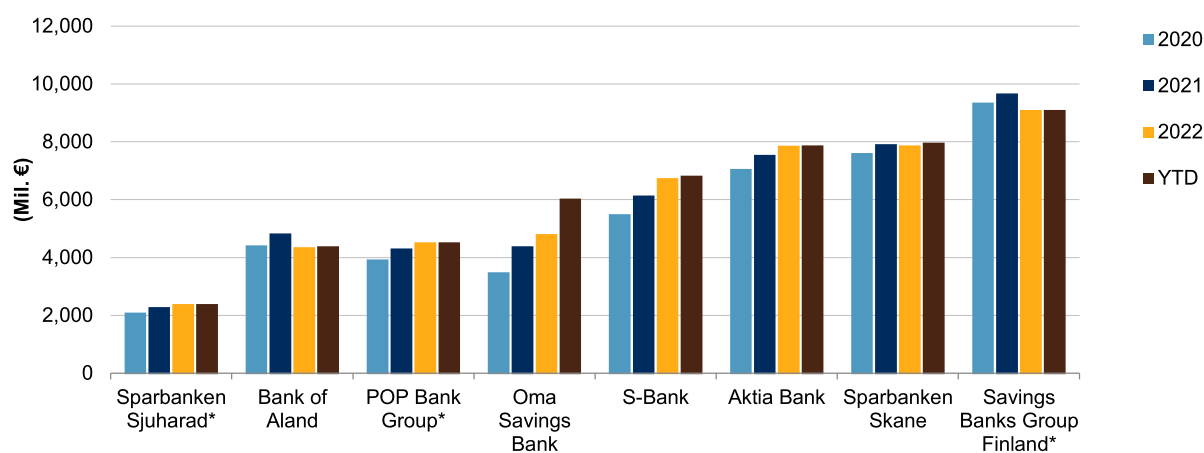
In our view, regulatory standards and bank supervision in Finland are in line with those of European peers. The banking sector is dominated by two major banking groups, OP Financial Group and Nordea, and characterized by intense competition and low lending margins. That said, we believe that overall profitability and capitalization will remain resilient. We also expect banks to maintain their restrained risk appetite. In our view, the risk of technology disruption remains moderate, given the banks' digital customer offerings and ongoing investment in innovation.

Finnish banks will remain dependent on external funding, which makes them vulnerable to changes in confidence sensitivity and higher interest rates. That said, they continue to demonstrate good access to capital markets. In addition, the Nordic banking system remains highly interconnected, which results in potential spillover risks from external events.

Chart 1

S-Bank is a steadily growing retail bank in Finland

Total gross customer loan of selected Nordic peer banks



* Year-to-date as of Dec. 31, 2022. Source: Company reports, S&P Global Ratings.
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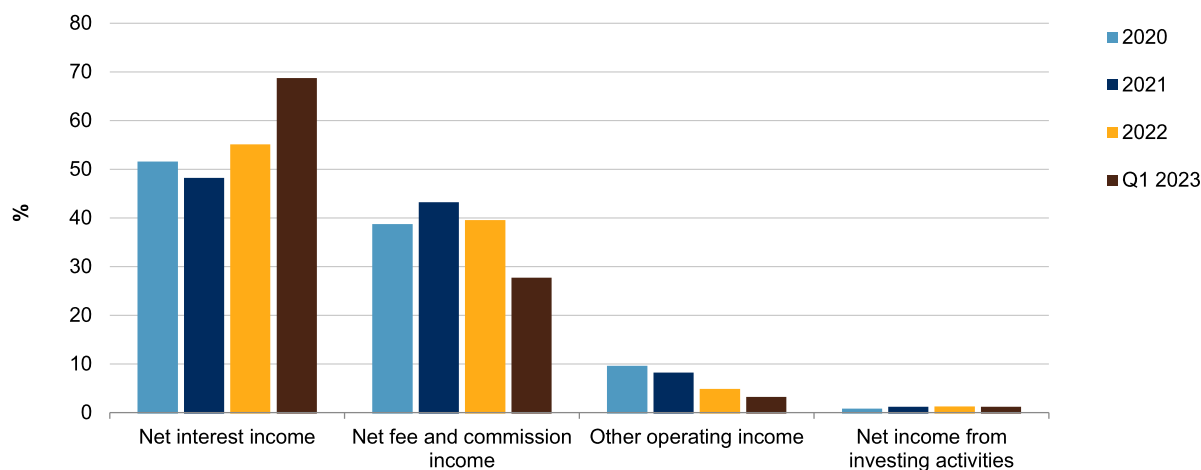
Business Position: Digital Retail Bank Belonging To Retail S Group, With Untapped Potential

With total assets of approximately €9.0 billion as of March 31, 2023, and about 606,000 active customers, S-Bank holds about 4% market share on mortgages, and is the eighth-largest credit institution in Finland. The bank was founded in 2007 and has expanded through organic growth and acquisitions, the most recent completed transaction being Fennia Mutual Insurance Co., an asset management and real estate investment services company acquired in July 2020.

In keeping with the S Group brand, S-Bank focuses primarily on providing retail services, where unsecured consumer and mortgage loans contribute just under half of revenue (see chart 2). Other complimentary services include card payment services and asset management products. We expect the wealth management franchise to provide growth opportunities in the medium and long term, especially as S-Bank will be able to broaden its customer base through acquisition and complement the funds offering through cooperation agreement with Handelsbanken Fonder's. However, the current high interest rates and the volatility in the financial markets could dampen the short-term growth prospects related to wealth and asset management businesses in the Finnish market.

Chart 2

S-Bank's NII will benefit from higher interest rates but diversification remains a strategic focus



Q--Quarter. Source: S&P Global Ratings.

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S-Bank has no traditional branch network but makes use of the existing retail stores of S Group to service both mortgage and consumer loan customers. S Group is the market leading retail group, with stores based in Finland's economically stronger regions. As part of the transaction, S-Bank will acquire 23 branches from Handelsbanken, which will complement the existing distribution channels, if maintained. Digital interactions have increased consistently, and most contacts now take place through digital channels. S-Bank has historically been lagging in terms of offerings, but we believe it will improve its scale as integrates SHB's business. Still, due to some uncertainty regarding the final set-up of the acquired branch network, S-Bank could remain more sensitive to regional developments than larger banks with more established franchises.

As the bank looks to improve its efficiency, cross-selling capabilities toward the approximately 3.2 million potential S Group customers will continue, including increased use of customer data analytics, we anticipate growing digital sales with around 2.0 million customers using the mobile app. With a sustained improvement in profitability and ROE exceeding 10% and cost-to-income ratio below 65% in 2023, we believe that the bank's efficiency metrics are progressing well toward its target of 60% in the medium term (see chart 3).

Capital And Earnings: Very Strong Projected Capitalization, Despite Above-Market Lending Growth

We project the bank's RAC ratio will exceed 18% through 2024 despite the continued growth, compared with 16.7% at end-2022. We expect the cooperative owners to back S-Bank's acquisition with a €200 million capital injection in 2024. Therefore, we do not expect the acquisition to compromise S-Bank's robust capitalization.

We expect S-Bank's annual net earnings to strengthen significantly to approximately €65 million-€70 million over 2023-2024, thanks to the acquired retail banking and asset management business of Handelsbanken. We incorporate organic loan growth of 5% in our projection, and believe that S-Bank will materially benefit from the higher interest rates owing to its predominantly floating rate loan book translating into 70% growth in net interest income in 2023. Although operating expenses will rise--due to rising staff costs, general cost inflation, and continued investments in digitalization and automation--we project the bank's pre-provisioning income will almost double in 2023, with the bank likely to maintain this sustained improvement in earnings capacity. The expected improvement will also allow the bank to absorb a potential increase in credit losses from the weaker economic environment in Finland. We forecast S-Bank's profitability--as reflected by return on average assets--to improve in the forecast period and stand at about 55-70 bps (20-30 bps), compared with peer banks' 70 bps-90 bps. We incorporate an annual dividend distribution of 15% of net earnings in our forecast through 2025.

S-Bank has a comfortable margin in its regulatory capital requirements with a common equity tier 1 ratio of 13.7% against the regulatory requirement of 7.88% at first-quarter 2023.

Risk Position: Fast-Expanding Retail Consumer And Mortgage Portfolio, With Sound Asset Quality

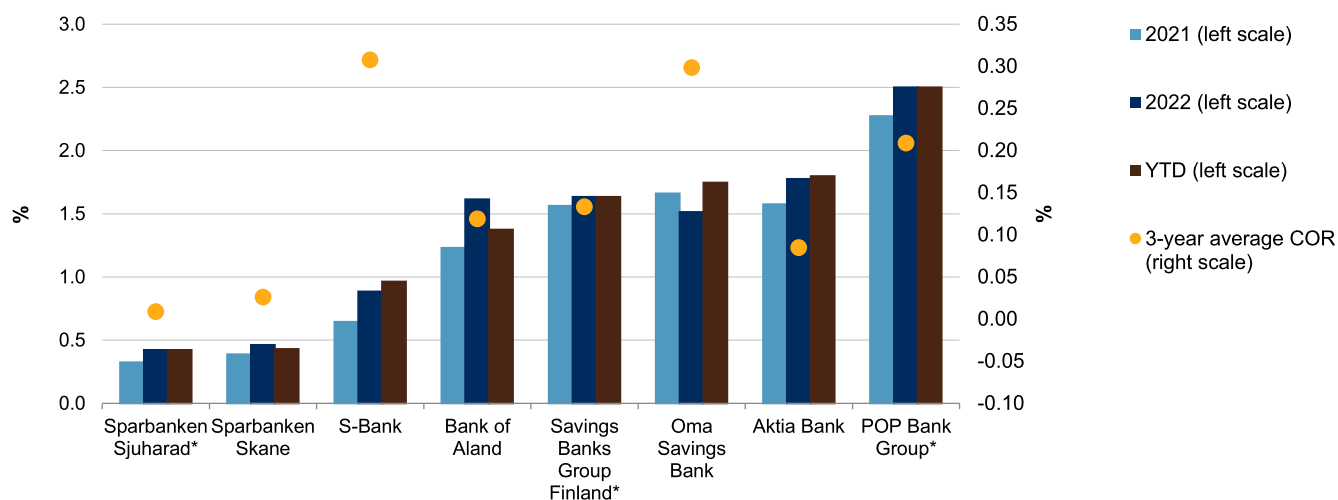
We view S-Bank's retail loan portfolio as carrying slightly more risk than that of domestic peers. The bank has a relatively young mortgage portfolio, which makes the average loan-to-value (LTV) ratio somewhat higher than the market average. Furthermore, S-Bank has a higher share of consumer loans relative to peers, which can add volatility to its loan portfolio.

S-Bank's lending to mortgage customers represents about 70% of the portfolio as of year-end 2022, followed by its corporate exposures at 16% (mainly housing companies), and consumer loans at 13%, respectively. The bank's mortgage exposures are primarily located in Finland's growth centers, where we expect market liquidity to support collateral valuations, but this increases the risk of real estate price volatility to a few regions. We observe that the Finnish housing market is facing a moderate price correction in 2023, but expect the prices to stabilize in 2024. S-Bank's collateralized portfolio has an elevated average LTV ratio of about 70%, which is above our estimate of market average of 60% and a reflection of its fairly young loan portfolio. We understand that the mortgage portfolio acquired from Handelsbanken represents a well collateralized, high credit quality household loan book. In line with the market, S-Bank's mortgage lending is almost entirely on floating rates (97% of mortgage loan stock). While rising interest rates will support the bank's net interest income, we expect a moderate weakening of the asset quality on the back of the muted economic outlook in Finland and increased debt-servicing costs that could affect households' financial position.

Chart 3

S-Bank's asset quality remains sound compared to peers

Non performing assets (NPAs) and 3-year average cost of risk (COR)



YTD--Year to date. Non performing assets measured as adjusted nonperforming assets/customer loans + other real estate owned. Source: S&P Global Ratings.

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S-Bank's consumer loan portfolio generates comparably high margins and it has so far produced relatively sound asset-quality metrics related to these exposures, with an NPL ratio of 0.96% at first-quarter 2023 (see chart 4). Still, due to the higher share of consumer loans and the loan book growth, compared with peers, we believe that S-Bank's cost of risk will be higher at about 30-35 bps in 2023-2024 compared with the market average.

The bank does not have a trading book and holds limited currency risk in its investment portfolio.

Funding And Liquidity: Sound Retail Deposit Franchise And Comfortable Liquidity Position Supports Expansion

In our view, S-Bank's funding profile compares well with domestic peers', reflecting the bank's granular deposit franchise. Household deposits contributed about 92% of the deposits as of March 31, 2023, while the remainder came from corporate customers. The corporate deposits add some single-name concentration and volatility in the deposit base, but these deposits mainly relate to S Group and LocalTapiola-owned entities. While important for customer engagement, the contribution of the S Group cashback bonuses (placed as deposits at S-Bank) on S-Bank's funding profile remains moderate. Overall, about 85% of the customer deposits are covered by the Finnish deposit protection scheme. The bank demonstrated a stable funding ratio of approximately 118% as of first-quarter 2023, indicating a balanced funding profile, in our view.

We note that S-Bank has agreed on a €2 billion funding facility with Danske Bank A/S to finance the acquired loan portfolio. S-Bank aims to diversify its funding profile--which is primarily retail-deposit-based--with covered bond

issuance starting from second-half 2023. In our view, this would provide the bank with a stable and cost-efficient funding source to support its growth plans.

Currently, S-Bank has a low share of wholesale funding, but starting from second-half 2023, we expect this to increase toward 10% of the funding base as the bank begins covered bond issuance and continues to hold a stock of MREL-eligible debt. As of first-quarter, the bank had €107 million tier 2 bonds outstanding and €219 million of unsecured debt. Due to its MREL requirement estimated at €270 million, we expect further wholesale issuance before 2024.

S-Bank's liquidity buffers are sizable with about €1.9 billion (about 21% of total assets) as of March 31, 2023, consisting mainly of cash at the central bank and very-high-quality level 1 assets. Net broad liquid asset covered about 19% of the short-term customer deposits on that date, which is similar to that of many rated small and midsize banks in Finland. We consider this is a better indicator than our traditional broad liquid assets to short-term wholesale funding, since the bank does not make meaningful use of wholesale funding. Despite the increasing use of wholesale funding over the next two years, we expect S-Bank to maintain an adequate liquidity position, allowing it to operate for more than six months without dependence on central bank operations under stressful conditions.

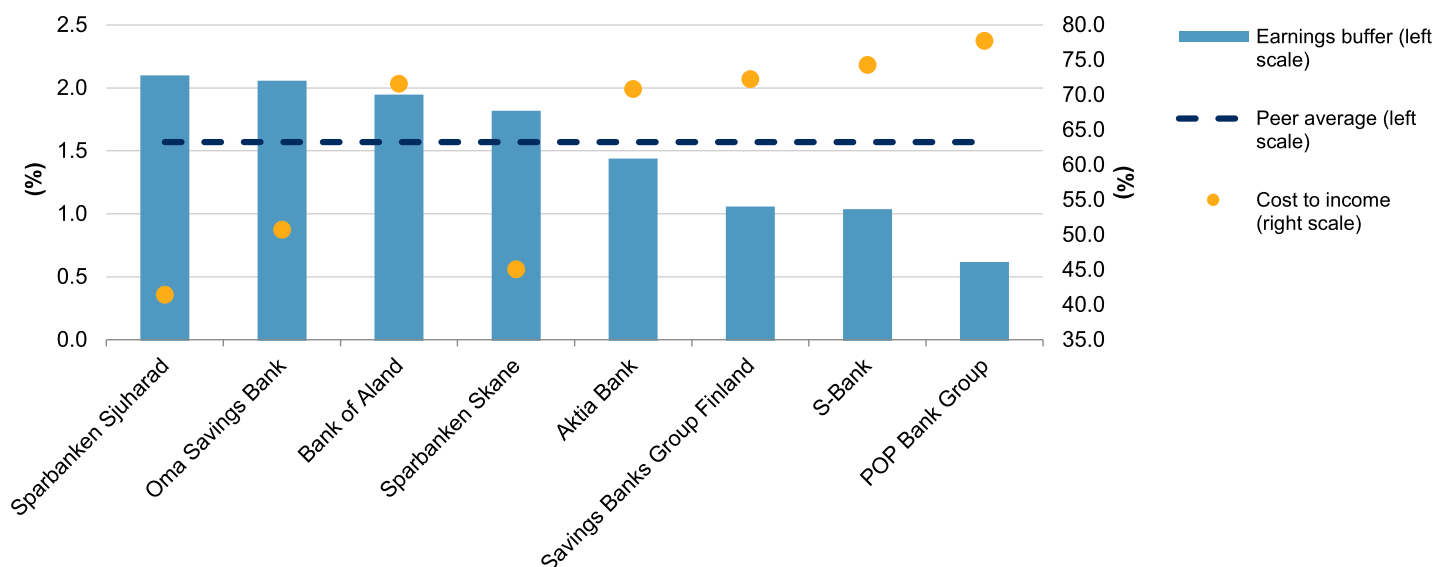
Comparable Rating Analysis (CRA) Adjustment

We apply a negative CRA adjustment to S-Bank because the bank's creditworthiness remains constrained by its historically weaker profitability and cost efficiency than peers'. We project that S-Bank will report a sustained improvement in profitability, with ROE exceeding 10% and a cost-to-income ratio below 65% in 2023. The bank is therefore closer to delivering its long-term financial targets (ROE above 8% and cost to income below 60%) and gradually closing the gap with higher-rated peers domestically and elsewhere in the Nordic region. This could lead us to remove our negative CRA adjustment in the next 12-24 months (see "S-Bank PLC Outlook Revised To Positive On Improved Earnings Capacity And Strengthening Franchise; Affirmed At 'BBB/A-2'," published on June 29, 2023).

Chart 4

Below-peer profitability and operating efficiency constrains S-Bank's ratings

Earnings buffer and cost-to-income in 2022



Source: S&P Global Ratings.

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Group Support: We rate S-Bank above the group credit profile of S Group.

This reflects our view of S-Bank as an independent and severable entity within the group, with no funding dependency, and separated accounting and reporting procedures. We see the group as having a strong and compelling economic incentive to preserve the bank's credit strength. The authorities' apparent intent to resolve the bank if it failed (as opposed to liquidating it) further confirms the bank's position as a critical service provider in Finland, and also reinforces its financial and operational independence. Nevertheless, we remain mindful that, to a degree, the group could have a negative influence on the bank, as a confidence-sensitive business where there is a wider crossover of franchise and customers with the group.

We consider S-Bank to have moderate systemic importance in Finland owing to its 4% market share in customer deposits. The Finnish FSA has imposed on S-Bank a MREL requirement of 20.34% on total exposure amounts and 8.41% on leverage ratio-based calculation with full requirement entering into force on Jan. 1, 2024. This indicates that the MREL would imply a full recapitalization of the banking business, and, given S-Bank's provision of critical functions such as retail deposits (around 4% market share), we would expect the authorities to plan for an open-bank, bail-in-led resolution if S-Bank were to fail or likely to fail.

Resolution Counterparty Ratings (RCRs)

We assigned long- and short-term 'BBB+/A-2' RCRs to S-Bank PLC in January 2023. An RCR is a forward-looking opinion of the relative default risk of certain liabilities, in particular those legally exempt from bail-in (such as insured deposits or secured liabilities), that may be better protected from default in an effective resolution scenario than other senior liabilities.

Environmental, Social, And Governance

ESG Credit Indicators



ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumeric 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

We consider ESG for S-Bank as broadly in line with those of industry and domestic peers.

We believe S-Bank is appropriately addressing environmental and social aspects in its operations. In particular, the wealth management division's climate strategy and funds focus on combatting climate change, while committing to initiatives such as the Tobacco-Free Finance Pledge. The team also acts as an active owner by partaking in annual general meetings for the portfolio companies, and continually develops impact investing products to deliver new solutions to the market that promote the achievement of social goals. In autumn 2021, a fund was launched to focus on social projects in Finland.

Social factors remain neutral for our rating on S-Bank. We acknowledge S-Bank is an important part of the overall value program of S Group, facilitating money paybacks to S-Group's customers, corresponding to about 78% of the total population in Finland.

Governance is neutral for S-Bank. We see that the bank has independent board members, with an effective influence on decision-making. We see the maintenance of a sound corporate governance as critical for S-Bank, and it is a priority for the management team and board of directors. The bank has a stable senior management team and business strategy and exhibits disciplined execution and operational control.

Key Statistics

Table 1

S-Bank PLC--Key figures					
--Year-ended Dec. 31--					
(Mil. €)	2023*	2022	2021	2020	2019
Adjusted assets	8,912.7	8,881.9	8,427.5	7,554.4	6,563.9

Table 1

S-Bank PLC--Key figures (cont.)					
	--Year-ended Dec. 31--				
(Mil. €)	2023*	2022	2021	2020	2019
Customer loans (gross)	6,800.6	6,716.6	6,105.2	5,462.2	4,796.0
Adjusted common equity	487.1	469.6	435.5	418.1	424.0
Operating revenues	80.0	221.8	187.0	173.9	168.1
Noninterest expenses	49.4	164.7	146.1	128.9	125.1
Core earnings	20.4	36.2	19.8	15.9	24.4

*As of March 31, 2023.

Table 2

S-Bank PLC--Business position					
	--Year-ended Dec. 31--				
(%)	2023*	2022	2021	2020	2019
Loan market share in country of domicile	N/A	N/A	2.3	2.1	1.9
Deposit market share in country of domicile	N/A	N/A	3.8	3.7	3.6
Total revenues from business line (currency in millions)	80.0	221.8	187.0	173.9	168.1
Commercial and retail banking/total revenues from business line	86.8	81.4	76.2	85.6	82.0
Asset management/total revenues from business line	12.8	18.2	21.3	16.6	14.4
Other revenues/total revenues from business line	0.5	0.4	2.5	-2.3	3.6
Return on average common equity	15.2	6.9	3.9	3.3	5.3

*As of March 31, 2023. N/A--Not applicable.

Table 3

S-Bank PLC--Capital and earnings					
	--Year-ended Dec. 31--				
(%)	2023*	2022	2021	2020	2019
Tier 1 capital ratio	13.7	13.2	13.0	13.7	14.6
S&P Global Ratings' RAC ratio before diversification	N/A	16.6	15.5	16.4	17.5
S&P Global Ratings' RAC ratio after diversification	N/A	12.0	11.5	11.6	13.4
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Net interest income/operating revenues	68.5	54.9	48.3	51.4	51.2
Fee income/operating revenues	27.4	39.3	43.2	38.5	35.8
Market-sensitive income/operating revenues	1.0	1.1	1.7	1.8	3.5
Cost to income ratio	61.7	74.3	78.1	74.2	74.4
Preprovision operating income/average assets	1.4	0.7	0.5	0.6	0.7
Core earnings/average managed assets	0.9	0.4	0.2	0.2	0.4

*As of March 31, 2023. N/A--Not applicable. RAC--Risk adjusted capital.

Table 4

S-Bank PLC--Risk-adjusted capital framework data					
	Exposure*	Basel III RWA	Average Basel III RW(%)	S&P Global Ratings' RWA	Average S&P Global Ratings' RW (%)
Credit risk					
Government and central banks	1,412,629,058.3	276,069.8	0.0	1,789,955.0	0.1
Of which regional governments and local authorities	28,554,910.9	276,069.8	1.0	1,027,976.8	3.6
Institutions and CCPs	614,374,664.7	98,998,037.3	16.1	78,690,021.7	12.8
Corporate	419,720,331.6	343,760,005.4	81.9	219,750,992.1	52.4
Retail	6,393,998,236.0	2,452,973,403.6	38.4	2,003,527,348.8	31.3
Of which mortgage	4,435,544,699.1	1,511,415,982.1	34.1	1,029,267,146.7	23.2
Securitization§	0.0	0.0	0.0	0.0	0.0
Other assets†	84,904,785.3	110,832,513.8	130.5	77,928,779.6	91.8
Total credit risk	8,925,627,075.8	3,006,840,029.8	33.7	2,381,687,097.3	26.7
Credit valuation adjustment					
Total credit valuation adjustment	--	0.0	--	0.0	--
Market risk					
Equity in the banking book	20,716,690.3	15,722,237.4	75.9	76,703,926.0	370.3
Trading book market risk	--	0.0	--	0.0	--
Total market risk	--	15,722,237.4	--	76,703,926.0	--
Operational risk					
Total operational risk	--	362,824,596.8	--	362,598,100.6	--
	Exposure	Basel III RWA	Average Basel II RW (%)	S&P Global Ratings' RWA	% of S&P Global Ratings' RWA
Diversification adjustments					
RWA before diversification	--	3,385,386,864.0	--	2,820,989,123.9	100.0
Total diversification/ Concentration adjustments	--	--	--	1,108,109,085.7	39.3
RWA after diversification	--	3,385,386,864.0	--	3,929,098,209.6	139.3
		Tier 1 capital	Tier 1 ratio (%)	Total adjusted capital	S&P Global Ratings' RAC ratio (%)
Capital ratio					
Capital ratio before adjustments		448,117,782.0	13.2	469,579,865.0	16.6
Capital ratio after adjustments‡		448,117,782.0	13.2	469,579,865.0	12.0

*Exposure at default. §Securitization exposure includes the securitization tranches deducted from capital in the regulatory framework. †Exposure and S&P Global Ratings' risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions.

‡Adjustments to tier 1 ratio are additional regulatory requirements (e.g. transitional floor or pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. Sources: Company data as of Dec. 31, 2022, S&P Global Ratings.

Table 5

S-Bank PLC--Risk position					
	--Year-ended Dec. 31--				
(%)	2023*	2022	2021	2020	2019
Growth in customer loans	5.0	10.0	11.8	13.9	14.2
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	39.3	34.6	41.0	30.6
Total managed assets/adjusted common equity (x)	18.4	19.1	19.5	18.2	15.6
New loan loss provisions/average customer loans	0.3	0.2	0.3	0.5	0.3
Net charge-offs/average customer loans	0.2	0.2	0.3	0.4	0.3
Gross nonperforming assets/customer loans + other real estate owned	1.0	0.9	0.6	0.5	0.5
Loan loss reserves/gross nonperforming assets	35.0	35.9	48.9	62.3	57.9

*As of March 31, 2023. N/A--Not applicable. RWA--Risk weighted assets.

Table 6

S-Bank PLC--Funding and liquidity					
	--Year-ended Dec. 31--				
(%)	2023*	2022	2021	2020	2019
Core deposits/funding base	95.7	95.8	96.3	99.0	98.6
Customer loans (net)/customer deposits	85.0	83.9	80.0	78.0	79.7
Long-term funding ratio	99.7	99.7	99.9	99.9	99.2
Stable funding ratio	118.3	119.3	122.1	121.8	114.6
Short-term wholesale funding/funding base	0.4	0.3	0.1	0.1	0.8
Regulatory net stable funding ratio	152.0	151.4	151.0	151.0	N/A
Broad liquid assets/short-term wholesale funding (x)	50.7	52.6	368.4	327.7	18.8
Broad liquid assets/total assets	16.5	17.0	19.0	18.9	14.2
Broad liquid assets/customer deposits	18.6	19.1	21.3	20.6	15.7
Net broad liquid assets/short-term customer deposits	19.0	18.8	21.2	20.6	14.9
Regulatory liquidity coverage ratio (LCR) (x)	175.1	164.4	150.0	147.0	N/A
Short-term wholesale funding/total wholesale funding	8.2	8.2	1.5	6.4	57.9
Narrow liquid assets/3-month wholesale funding (x)	63.3	65.8	147,122.3	479,987.0	N.M.

*As of March 31, 2023. N/A--Not applicable. N.M.--Not meaningful.

S-Bank PLC--Rating component scores	
Issuer Credit Rating	BBB/Positive/A-2
SACP	bbb
Anchor	a-
Economic risk	2
Industry risk	3
Business position	Constrained
Capital and earnings	Very strong
Risk position	Moderate
Funding	Adequate
Liquidity	Adequate
Comparable ratings analysis	-1

S-Bank PLC--Rating component scores (cont.)

Issuer Credit Rating	BBB/Positive/A-2
Support	0
ALAC support	0
GRE support	0
Group support	0
Sovereign support	0
Additional factors	0

ALAC--Additional loss-absorbing capacity. GRE--Government-related entity. SACP--Stand-alone credit profile.

Related Criteria

- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions , Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology , Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings , Oct. 10, 2021
- General Criteria: Group Rating Methodology , July 1, 2019
- 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
- General Criteria: Principles Of Credit Ratings , Feb. 16, 2011

Related Research

- S-Bank PLC Outlook Revised To Positive On Improved Earnings Capacity And Strengthening Franchise; Affirmed At 'BBB/A-2', June 29, 2023
- S-Bank Gains Scale With Acquisition Of Handelsbanken's Finnish Retail Portfolio, June 1, 2023
- Finland-Based S-Bank Assigned 'BBB+/A-2' Resolution Counterparty Ratings; 'BBB/A-2' Ratings Affirmed; Outlook Stable, Jan. 26, 2023
- S-Bank PLC, Sept. 22, 2022
- Banking Industry Country Risk Assessment: Finland, June 1, 2022

Ratings Detail (As Of August 1, 2023)***S-Bank PLC**

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

Issuer Credit Ratings History

29-Jun-2023	BBB/Positive/A-2
22-Jan-2021	BBB/Stable/A-2

Ratings Detail (As Of August 1, 2023)*(cont.)

31-Jul-2020	BBB/Negative/A-2
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Sovereign Rating

Finland	AA+/Stable/A-1+
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*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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