

REPUBLIC OF FINLAND

Rating Analysis - 5/16/16

*EJR Sen Rating(Curr/Prj) AA/ AA

*EJR CP Rating: A1+

EJR's 3 yr. Default Probability: 1.0%

Slow growth - over the last 6 quarters, the YoY GDP growth rate of Finland dropped into the range of 0.5% to 1.2%, from around 2.6% in December 2013 while the Debt-to-GDP ratio climbed from 48.5% in 2011 to 59.3% in 2014.

Despite efforts of diversification, Finland's overreliance on the forestry and telecommunication sectors continues to be a major concern for the economy, as evidenced by the hit on GDP growth years ago when the telecommunication industry in Finland showed signs of decline. However, with the gradual recovery of EU and the stabilization of major industries, we are expecting GDP growth to improve slightly to the range of 1.0% to 1.5%. Another factor that might drive growth is the recent agreement between the labor union and employer organizations to cut holiday bonuses and employer pension contributions, which will likely boost companies' competitiveness and help alleviate the sovereign deficit. To conclude, we expect the public debt to be contained at a low level with a relatively tight fiscal policy and a slight recovery of the economy. We are assigning a rating of "AA".

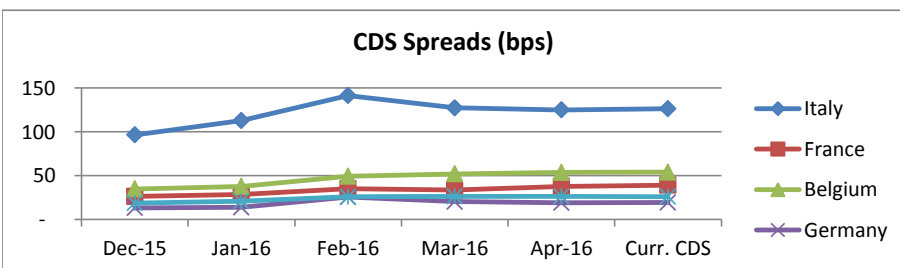
CREDIT POSITION

	Annual Ratios (source for past results: IMF)					
	2012	2013	2014	P2015	P2016	P2017
Debt/ GDP (%)	52.9	55.6	59.3	63.9	68.6	73.4
Govt. Sur/Def to GDP (%)	-1.6	-2.0	-2.7	-2.8	-2.9	-3.1
Adjusted Debt/GDP (%)	52.9	55.6	59.3	63.9	68.6	73.4
Interest Expense/ Taxes (%)	4.7	4.1	4.0	4.0	3.9	3.9
GDP Growth (%)	1.5	1.5	1.2	1.5	1.5	1.5
Foreign Reserves/Debt (%)	4.1	4.3	4.3	4.0	3.7	3.4
Implied Sen. Rating	AA	AA	AA	AA	AA	AA-

INDICATIVE CREDIT RATIOS

	AA	A	BBB	BB	B	CCC
Debt/ GDP (%)	100.0	115.0	130.0	145.0	170.0	200.0
Govt. Sur/Def to GDP (%)	2.5	0.5	-2.0	-5.0	-8.0	-10.0
Adjusted Debt/GDP (%)	95.0	110.0	125.0	140.0	160.0	190.0
Interest Expense/ Taxes (%)	9.0	12.0	15.0	22.0	26.0	35.0
GDP Growth (%)	3.5	3.0	2.0	1.0	-1.0	-5.0
Foreign Reserves/Debt (%)	3.0	2.5	2.0	1.5	1.0	0.5

	Other NRSRO Sen.	Debt as a % of GDP	Govt. Surp. Def to GDP (%)	Adjusted Debt/ GDP	Interest Expense/ Taxes %	GDP Growth (%)	Ratio-Implied Rating*
PEER RATIOS							
Federal Republic Of Germany	AAA	75.2	0.2	75.2	7.7	3.4	AA
French Republic	AA	95.5	-3.6	95.5	7.5	0.7	A
Kingdom Of Belgium	AA	106.3	-3.0	106.3	10.3	1.7	A-
Republic Of Italy	BBB-	132.2	-3.6	132.2	15.4	0.4	BBB-
Portugal Republic	BB+	130.2	-8.1	130.2	19.5	1.9	BB+

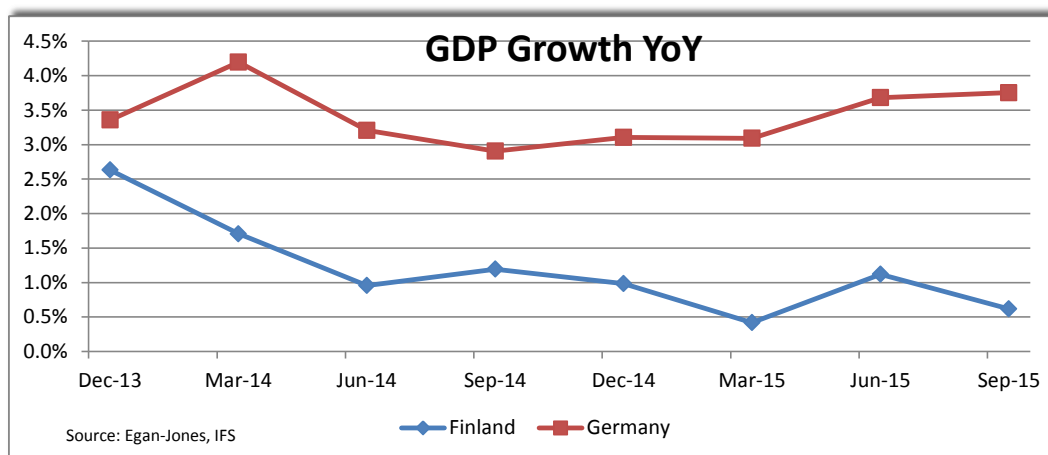


Country (EJR Rtg*)	CDS
Italy (CCC+)	127
France (BBB)	39
Belgium (BBB)	54
Germany (A)	19
Finland (AA)	26

Economic Growth

Recent performance indicates that the downtrend in GDP growth might have finally come to a close. However, the growth level is still much lower than that of 2013. Given the absence of any significant government action to boost the economy, we are expecting the growth rate to remain at the current level for the foreseeable future.

As can be seen in the chart below, Finland's GDP growth has shrunk substantially from 2.6% in Dec 2013 to 0.6% in Sept 2015, while Germany sustained its GDP growth at around 3.5%. In June 2014, the GDP growth stopped dropping and started fluctuating between 0.5% to around 1.2%, which is not particularly comforting, even for an advanced economy like Finland.



Fiscal Policy

Finland's Deficit-to-GDP ratio of 2.72% is within a normal level while its 59.35% Debt-to-GDP ratio is strong by international standards, indicating a very low likelihood that Finland will default on its debt for the foreseeable future. As shown in the chart, Finland's Debt-to-GDP ratio is the lowest among the peer countries and its Deficit-to-GDP ratio is higher only compared to Germany. Furthermore, the recent agreement between the labor union and employer organizations on lower employee benefits will improve price competitiveness and help alleviate the deficits.

	Deficit-to-GDP (%)	Debt-to-GDP (%)	5 Yr. CDS Spreads
Finland	2.72	59.35	25.95
Germany	-0.19	75.22	19.32
France	3.60	95.51	39.17
Belgium	3.01	106.29	54.08
Italy	3.55	132.15	126.51
Portugal	8.05	130.17	259.02

Sources: Thomson Reuters and IFS

Unemployment

Finland's unemployment rate of 8.66% is within a normal level. Compared to the peers, the rate is above Germany's and Belgium's but below that of France. Finland's unemployment rate has risen since 2011, which to some degree may increase the social benefit costs and put more pressure on the government budget.

	Unemployment (%)	
	2013	2014
Finland	8.19	8.66
Germany	6.88	6.70
France	10.28	10.30
Belgium	8.45	8.53
Italy	12.13	12.65
Portugal	16.46	14.13

Source: Intl. Finance Statistics

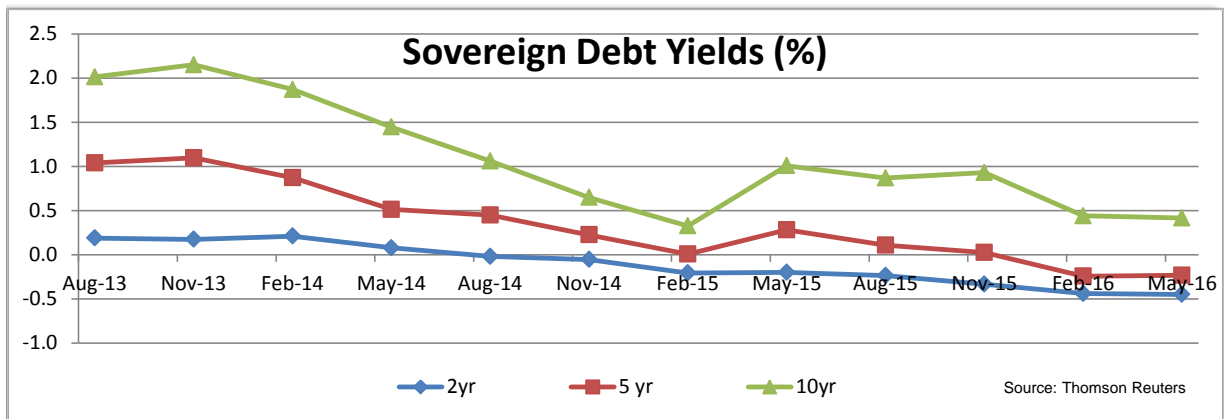
Banking Sector

Finland's banking sector is relatively small compared to the overall economy. If the banks experienced capital shortfalls, the central government has the wherewithal to provide support. Due to the prevailing of private banks in Finland, the limited data we have on the public banks is not representative enough for us to provide a detailed analysis on the banking sector.

	Assets	Cap/ Assets %
Aktia Bank	9.88	7.93
ALBAV FH Equity	4.60	7.89
Total	14.5	
EJR's est. of cap shortfall at 10% of assets less market cap		1.1
Finland's GDP		205.2

Funding Costs

Although the 10-year sovereign debt yield increased a little in 2015, the overall yields have dropped a lot since 2013. As can be seen in the chart, the 2-year and 5-year debt yield have decreased to and remained negative. As there's no sign that ECB will quit the expansionary monetary policy and Finland's GDP growth remains sluggish, we are expecting the low sovereign debt yields to persist in the foreseeable future.



Ease of Doing Business

Major factors for growing the economy are the ease of doing business and the economic freedom; although not the sole factor for determining economic growth, a country which makes it easy for businesses to operate and provides a reasonably free environment to conduct business has a good chance for growth. The chart on the right indicates that with an overall rank of 10 (1 is best, 189 worst) is extremely strong.

	2015 Rank	2014 Rank	Change in Rank
Overall Country Rank:	10	10	0
Scores:			
Starting a Business	33	26	-7
Construction Permits	27	29	2
Getting Electricity	16	17	1
Registering Property	20	19	-1
Getting Credit	42	36	-6
Protecting Investors	66	64	-2
Paying Taxes	17	21	4
Trading Across Borders	32	31	-1
Enforcing Contracts	30	30	0
Resolving Insolvency	1	1	0

* Based on a scale of 1 to 189 with 1 being the highest ranking.

Economic Freedom

As can be seen below, Finland is above average in its overall rank of 73.4 for Economic Freedom with 100 being best.

Heritage Foundation 2015 Index of Economic Freedom				
World Rank 73.4*				
	2015 Rank**	2014 Rank	Change in Rank	World Avg.
Property Rights	90	90	0	42.2
Freedom from Corruption	89	93.4	-4.4	41.9
Fiscal Freedom	66.4	65.1	1.3	77.4
Government Spending	3.6	8.9	-5.3	61.7
Business Freedom	92.6	93.6	-1	64.1
Labor Freedom	54.8	46.5	8.3	61.3
Monetary Freedom	79.9	78.9	1	75.0
Trade Freedom	88	87.8	0.2	75.4
Investment Freedom	90	90	0	54.8
Financial Freedom	80	80	0	48.6

*Based on a scale of 1-100 with 100 being the highest ranking.
**The ten economic freedoms are based on a scale of 0 (least free) to 100 (most free).
Source: The Heritage Foundation

Valuation Driver: Taxes Growth:

REPUBLIC OF FINLAND has grown its taxes of 1.4% per annum in the last fiscal year which is disappointing. We expect tax revenues will grow approximately 1.5% per annum over the next couple of years and 1.5% per annum for the next couple of years thereafter.

Valuation Driver: Total Revenue Growth:

REPUBLIC OF FINLAND's total revenue growth has been more than its peers and we assumed no growth in total revenue growth over the next two years.

Income Statement	Peer Median	Co. Avg.	Assumptions	
			Yr 1&2	Yr 3,4,5
Taxes Growth%	1.5	1.4	1.5	1.5
Social Contributions Growth %	1.0	1.5	1.5	1.5
Grant Revenue Growth %	0.0	NMF		
Other Revenue Growth %	0.0	NMF		
Other Operating Income Growth%	0.0	(0.8)		
Total Revenue Growth%	0.7	1.0	1.0	0.9
Compensation of Employees Growth%	1.7	0.2	0.2	0.2
Use of Goods & Services Growth%	2.6	1.8	1.8	1.8
Social Benefits Growth%	2.4	4.7	2.5	2.5
Subsidies Growth%	6.9	3.3		
Other Expenses Growth%	0.3	0.3		
Interest Expense	0.0	2.1	1.0	
Currency and Deposits (asset) Growth%	0.0	0.0		
Securities other than Shares LT (asset) Growth%	0.0	0.0		
Loans (asset) Growth%	0.1	(1.2)		
Shares and Other Equity (asset) Growth%	4.5	11.2	11.2	11.2
Insurance Technical Reserves (asset) Growth%	0.0	109.5	5.0	5.0
Financial Derivatives (asset) Growth%	0.0	0.0		
Other Accounts Receivable LT Growth%	1.6	23.9	1.5	1.5
Monetary Gold and SDR's Growth %	0.0	0.0	5.0	5.0
Other Assets Growth%	0.0	0.0		
Other Accounts Payable Growth%	0.0			
Currency & Deposits (liability) Growth%	6.7	22.5	1.5	1.5
Securities Other than Shares (liability) Growth%	11.1	14.7	5.0	5.0
Loans (liability) Growth%	3.9	9.2	4.0	4.0
Insurance Technical Reserves (liability) Growth%	0.0	64.3	2.0	2.0
Financial Derivatives (liability) Growth%	0.0	(3.5)	(3.5)	(3.5)
Additional ST debt (1st year)(millions EUR)	0.0	0.0		

ANNUAL INCOME STATEMENTS

Below are REPUBLIC OF FINLAND's annual income statements with the projected years based on the assumptions listed on page 3.

	ANNUAL REVENUE AND EXPENSE STATEMENT					
	(MILLIONS EUR)					
	2011	2012	2013	2014	P2015	P2016
Taxes	58,784	59,823	62,889	63,794	64,751	65,722
Social Contributions	24,037	25,528	25,902	26,288	26,680	27,077
Grant Revenue						
Other Revenue						
Other Operating Income	22,189	22,578	22,802	22,622	22,622	22,622
Total Revenue	105,010	107,929	111,593	112,704	114,053	115,422
Compensation of Employees	27,449	28,561	29,128	29,180	29,232	29,284
Use of Goods & Services	21,418	22,483	23,441	23,868	24,303	24,745
Social Benefits	38,909	41,342	43,923	45,970	47,119	48,297
Subsidies	2,724	2,740	2,697	2,785	2,785	2,786
Other Expenses	6,281	6,258	6,750	6,771	6,771	6,771
Grant Expense						
Depreciation	6,532	6,883	7,167	7,169	7,169	7,169
Total Expenses excluding interest	103,313	108,267	113,106	115,743	117,379	119,053
Operating Surplus/Shortfall	1,697	-338	-1,513	-3,039	-3,327	-3,631
Interest Expense	<u>2,745</u>	<u>2,840</u>	<u>2,560</u>	<u>2,536</u>	<u>2,561</u>	<u>2,587</u>
Net Operating Balance	-1,048	-3,178	-4,073	-5,575	-5,888	-6,218

ANNUAL BALANCE SHEETS

Below are REPUBLIC OF FINLAND's balance sheets with the projected years based on the assumptions listed on page 3.

Base Case	ANNUAL BALANCE SHEETS					
	(MILLIONS EUR)					
ASSETS	2011	2012	2013	2014	P2015	P2016
Currency and Deposits (asset)	18,001	16,341	14,743	13,114	13,114	13,114
Securities other than Shares LT (asset)						
Loans (asset)	26,468	30,184	31,091	30,726	30,726	30,726
Shares and Other Equity (asset)	111,926	125,749	141,473	157,363	175,038	194,698
Insurance Technical Reserves (asset)	41,028	84	84	176	185	194
Financial Derivatives (asset)						
Other Accounts Receivable LT	9,083	9,307	7,550	9,352	9,492	9,635
Monetary Gold and SDR's						
Other Assets					45,750	45,750
Additional Assets	<u>1,899</u>	<u>44,472</u>	<u>44,695</u>	<u>45,750</u>		
Total Financial Assets	208,405	226,137	239,636	256,481	274,305	294,116
LIABILITIES						
Other Accounts Payable						
Currency & Deposits (liability)	767	555	614	752	752	752
Securities Other than Shares (liability)	83,630	92,545	94,004	107,848	113,240	118,902
Loans (liability)	18,264	22,152	23,453	25,602	31,490	37,708
Insurance Technical Reserves (liability)	-49	369	84	138	141	144
Financial Derivatives (liability)	-1,383	-1,517	-1,039	-1,003	-968	-935
Other Liabilities	<u>11,149</u>	<u>11,535</u>	<u>12,987</u>	<u>11,822</u>	<u>11,822</u>	<u>11,822</u>
Liabilities	112,378	125,639	130,103	145,159	168,871	194,900
Net Financial Worth	<u>96,027</u>	<u>100,498</u>	<u>109,533</u>	<u>111,322</u>	<u>105,434</u>	<u>99,216</u>
Total Liabilities & Equity	208,405	226,137	239,636	256,481	274,305	294,116

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Comments on the Difference between the Model and Assigned Rating

SEC Rule 17g-7(a) Disclosure

Below are the disclosures as required by Paragraph (a) of Rule 17g-7.

1. The symbol in the rating scale used to denote the credit rating categories and notches within categories and the identity of the obligor, security, or money market instrument as required by Paragraph (a)(1)(ii)(A) of Rule 17g-7:

For the issuer REPUBLIC OF FINLAND with the ticker of 1306Z FH we have assigned the senior unsecured rating of AA. There are three notches in our rating categories (e.g., A-, A, and A+) other than those deep into speculative grade; for CC, C, and D there are no notches.

2. The version of the procedure or methodology used to determine the credit rating as required by Paragraph (a)(1)(ii)(B) of Rule 17g-7:

We are using the methodology available in our Form NRSRO Exhibit #2 dated May 10, 2015 available via egan-jones.com under the tab at the bottom of the page "Methodologies".

3. The main assumptions and principles used in constructing the procedures and methodologies used to determine the credit rating as required by Paragraph (a)(1)(ii)(C) of Rule 17g-7:

The credit rating assigned reflects our judgement regarding the future credit quality of the issuer. Regarding the specific assumptions used, please refer to page 3 of this Rating Analysis Report.

4. The potential limitations of the credit rating as required by Paragraph (a)(1)(ii)(D) of Rule 17g-7:

Our rating pertains solely to our view of current and prospective credit quality. Our rating does not address pricing, liquidity, or other risks associated with holding investments in the issuer.

5. Information on the uncertainty of the credit rating as required by Paragraph (a)(1)(ii)(E) of Rule 17g-7:

Our rating is dependant on numerous factors including the reliability, accuracy, and quality of the data relied upon in determining the credit rating. The data is sourced from publicly-available 10Q and 10K statements, quarterly reports, 8K filings, earnings reports, and other similar sources. In some cases, the information is limited because of issues such as short operating histories, the lack of reported data, a delay in reporting data, restatements, inaccurate accounting, and other issues. Such shortcomings are not always readily apparent. EJR aims to identify such shortcomings and make adjustments using its best judgement.

6. Whether and to what extent third-party due diligence services have been used in taking the rating action as required by Paragraph (a)(1)(ii)(F) of Rule 17g-7:

EJR does not utilize third-party due diligence services.

7. How servicer or remittance reports were used, and with what frequency, to conduct surveillance of the credit rating as required by Paragraph (a)(1)(ii)(G) of Rule 17g-7:

Servicer or remittance reports normally pertain to structured finance issuers; this report does not pertain to a structured finance issuer (EJR is not an NRSRO for structured finance or sovereigns/ municipal issuers). Regarding surveillance, the minimum time period for corporation issuers is normally one year.

8. A description of the data that were relied upon for the purpose of determining the credit rating as required by Paragraph (a)(1)(ii)(H) of Rule 17g-7:

EJR uses 10Q and 10K statements, quarterly reports, 8K filings, earnings reports, and other similar sources for ratings on publicly-traded issuers. In the case of private issuers, EJR relies on information provided mainly by issuers.

9. A statement containing an overall assessment of the quality of information available and considered in the credit rating as required by Paragraph (a)(1)(ii)(I) of Rule 17g-7: The information is generally high quality and readily avail.**10. Information relating to conflicts of interest as required by Paragraph (a)(1)(ii)(J) of Rule 17g-7:**

This rating is unsolicited.

11. An explanation or measure of the potential volatility of the credit rating as required by Paragraph (a)(1)(ii)(K) of Rule 17g-7:

Our rating aims to assess the probability of the payment of obligations in full and on-time. Factors which affect such probability, and in turn our rating, include changes in the operating performance of the issuer, changes in capital structure, and merger and acquisition events.

12. Information on the content of the credit rating as required by Paragraph (a)(1)(ii)(L) of Rule 17g-7:

Regarding the historical performance of the credit rating, our rating transition matrix is available in our Form NRSRO, exhibit 1. The expected probability of default and the expected loss in the event of default is listed on the first page of this report.

13. Information on the sensitivity of the credit rating to assumptions as required by Paragraph (a)(1)(ii)(M) of Rule 17g-7:

Below is a summary of the impact of the 5 assumptions which independently would have the greatest impact on our "ratio-implied rating":

	Assumptions			Resulting Ratio-Implied Rating		
	Base	Optimistic	Pessimistic	Base	Optimistic	Pessimistic
Taxes Growth%	1.5	5.5	(2.5)	AA-	AA+	A+
Social Contributions Growth %	1.5	(1.5)	4.5	AA-	AA-	AA
Other Revenue Growth %		(3.0)	3.0	AA-	AA-	AA-
Total Revenue Growth%	1.0	0.1	3.0	AA-	AA-	AA-
Monetary Gold and SDR's Growth %	5.0	3.0	7.0	AA-	AA-	AA-

14. If the credit rating is assigned to an asset-backed security, a description of: (i) the representations, warranties, and enforcement mechanisms available to investors; and (ii) how they differ from the representations, warranties, and enforcement mechanisms in issuances of similar securities, as required by Paragraph (a)(1)(ii)(N) of Rule 17g-7:

This credit rating is not assigned to an asset-backed security.

ATTESTATION FORM

In compliance with the US Securities and Exchange Commission (SEC) Rule 17g-7(a), the Egan-Jones analyst who published the report is responsible for the rating action and to the best knowledge of the person:

- 1) No part of the credit rating was influenced by any other business activities,
- 2) The credit rating was based solely upon the merits of the obligor, security, or money market instrument being rated, and
- 3) The credit rating was an independent evaluation of the credit risk of the obligor, security, or money market instrument.

Analyst Signature:

Today's Date

Mike Huang

May 16, 2016

Mike Huang
Rating Analyst

Reviewer Signature:

Today's Date

Caroline Ding

May 16, 2016

Caroline Ding
Rating Analyst

Sovereign Rating Methodology (Non-NRSRO)

Scope and Limitations: Sovereign Issuer Credit Quality Ratings (CQR) are a forward-looking assessment of a sovereign's capacity and willingness to honor its existing and future obligations in full and on time. Sovereigns are assigned two CQRs: a Local-Currency CQR, which reflects the likelihood of default on debt issued and payable in the currency of the sovereign, and a Foreign-Currency CQR, which is an assessment of the credit risk associated with debt issued and payable in foreign currencies.

Key Rating Drivers: EJR's approach to sovereign risk analysis is a synthesis of quantitative and qualitative judgments. The quantitative factors EJR uses are:

- Debt in relation to GDP.
- Surplus or deficit in relation to GDP.
- Debt plus potential under-funding of major banks in relation to GDP.
- Interest expense in relation to taxes.
- GDP growth.
- Foreign reserves in relation to debt.

Debt levels for many sovereign issuers have increased at an accelerating rate over the past decade, affecting implied ratings. EJR also considers unemployment levels and funding costs. EJR recognizes that no model can fully capture all the relevant influences on sovereign creditworthiness, meaning that the its sovereign ratings can and do differ from those implied by the rating model. Some of the qualitative factors that impact its ultimate assessment of credit quality include the flexibility, stability and overall strength of the economy, efficiency of tax collection, acceptance of contract law, ease of doing business, trade balances, prospects for future growth and health and monetary policy, and economic freedom. These subjective and dynamic qualitative issues are not captured by the model but affect sovereign ratings

For additional information, please see Exhibit 2: Methodologies in EJR's Form NRSRO.