

REPUBLIC OF FINLAND

Rating Analysis - 9/2/21

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

*EJR CP Rating: A1+

EJR's 3 yr. Default Probability: 1.0%

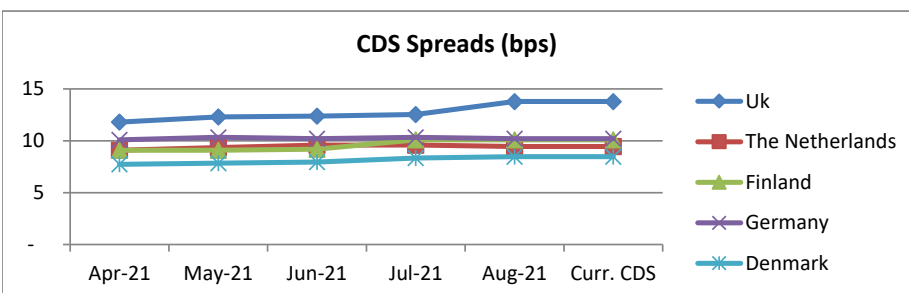
With the third COVID-19 wave and the associated containment measures receding, economic growth is projected to increase to 2.6% in 2021 and 2.7% in 2022, led by consumption and exports. However, the Finnish Central bank expects GDP growth in 2023 would drop to 1.3 percent, reflecting the longer-term challenges posed by an aging population and weak productivity growth. Business investment should strengthen in 2022 as uncertainty abates. Output is expected to regain the pre-pandemic level by late 2021 and employment by mid-2022. The main risk to the outlook is that further virus waves could delay the recovery.

The economy returned to growth in the second quarter according to preliminary data. The result was likely driven by rebounding private spending, with consumers becoming more optimistic throughout the quarter as the unemployment rate decreased. Moving to the third quarter, momentum has seemingly remained solid, albeit slowed somewhat. Economic sentiment ticked down in July—but remained upbeat nonetheless—while the unemployment rate was largely unchanged in the same month. Once the recovery is firmly established and the pandemic has subsided, a medium-term fiscal strategy will be required to stabilise the debt-to-GDP ratio. Affirming.

CREDIT POSITION	Annual Ratios (source for past results: IMF)					
	2018	2019	2020	P2021	P2022	P2023
Debt/ GDP (%)	69.9	69.8	82.0	83.8	86.3	85.0
Govt. Sur/Def to GDP (%)	-0.1	-0.1	-4.3	-5.8	-6.9	-7.0
Adjusted Debt/GDP (%)	69.9	69.8	82.0	83.8	86.3	85.0
Interest Expense/ Taxes (%)	2.9	2.7	2.2	2.2	2.3	2.3
GDP Growth (%)	3.2	2.8	-1.6	15.0	15.0	20.0
Foreign Reserves/Debt (%)	3.2	3.6	3.5	3.3	3.1	2.9
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

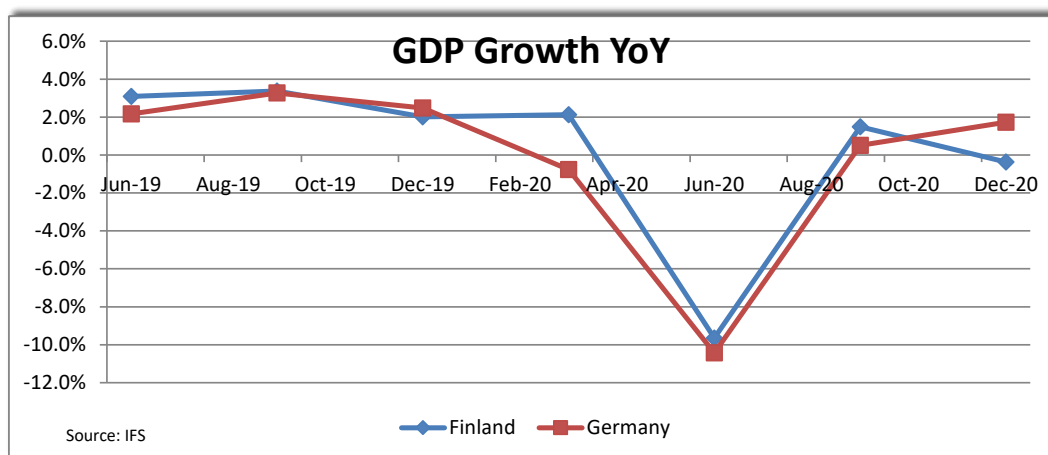
PEER RATIOS	Other NRSRO Sen.	Debt as a % of GDP	Govt. Surp. Def to GDP (%)	Adjusted Debt/ GDP	Interest Expense/ Taxes %	GDP Growth (%)	Ratio-Implied Rating*
Federal Republic Of Germany	AAA	79.7	-4.2	79.7	2.9	-3.3	A
Kingdom Of Denmark	AAA	58.8	0.2	58.8	1.2	0.5	AA
Kingdom Of Sweden	AAA	63.5	-1.3	63.5	0.8	-1.4	A+
Kingdom Of The Netherlands	AA+	69.8	-4.0	69.8	2.7	-1.6	A
United Kingdom	AA	187.8	-12.8	187.8	7.2	-4.8	B



Country	EJR Rtg.	CDS
Uk	A+	14
The Netherlands	AA-	9
Finland	AA	10
Germany	AA	10
Denmark	AA	8

Economic Growth

The Finnish gross domestic product advanced by 2.1% quarter-on-quarter in the June quarter 2021, faster than an earlier estimate of a 2.0% growth, accelerating sharply from a 0.1% gain in the previous quarter. Both government spending (0.7% vs -0.2% in Q1) and private consumption (1.9% vs -0.2%) rebounded. At the same time, fixed investment grew by 1.3%, recovering from 0.1% decline in Q1. Meanwhile, net foreign demand contributed negatively to the GDP, as exports rose by 0.3%, while imports grew at a faster 1.5%. On a yearly basis, the economy expanded by 7.5% in the second quarter, rebounding sharply from an upwardly revised 1.5% contraction in the prior quarter.



Fiscal Policy

The substantial fiscal stimulus in 2020 continued to support growth this year as will grants from the EU Recovery and Resilience Facility. The 2022 budget framework is designed to exceed the 2019 government programme by €900 million and by a further €500 million in 2023 as a more strict fiscal policy was abandoned. The Finnish gov. has committed itself to expenditure cuts worth €370 million in 2023, and tax will be increased by about €100-150 million, though it will be tailored to heighten the burden on the business sector.

	Surplus-to-GDP (%)	Debt-to-GDP (%)	5 Yr. CDS Spreads
Finland	-4.35	82.03	10.09
Germany	-4.19	79.69	10.21
Denmark	0.20	58.84	8.47
Sweden	-1.32	63.50	13.79
The Netherlands	-4.00	69.76	9.46
Uk	-12.82	187.83	9.33

Sources: Thomson Reuters and IFS

Unemployment

Employment figures are predicted to improve sharply and approach the level of structural unemployment by 2023, when the employment rate should be 73%. This will boost the rise in earnings, but also increase inflationary pressures. The government will aim for an employment rate of 75% by 2025. Unemployment benefits remain largely untouched. Finland's unemployment rate declined to 7.1% in July of 2021 from 7.5% in the same month the previous year.

	Unemployment (%)	
	2019	2020
Finland	6.80	7.90
Germany	3.20	4.31
Denmark	4.91	5.66
Sweden	6.77	8.29
The Netherla	3.38	4.09
Uk	3.74	4.34

Source: Intl. Finance Statistics

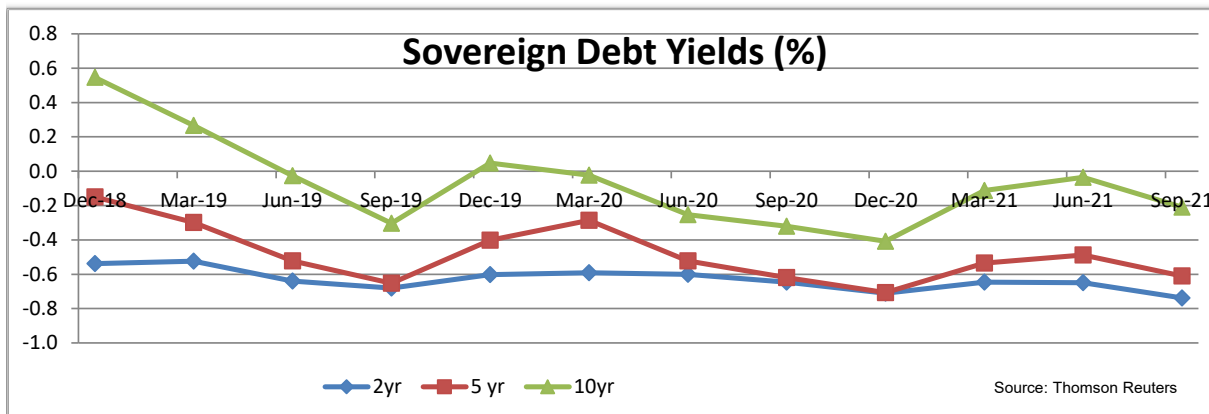
Banking Sector

The stock of corporate loans granted by Finnish banks decreased from June'21 to stand at EUR 57.6 billion at the end of July 2021. In July, the stock of Finnish non-financial corporations' loans fell below its pre-COVID level in March 2020. At the beginning of the pandemic, the loan stock grew rapidly, and it has contracted thereafter. Loan drawdowns during the last 12 months were down 16.9% from the same period a year earlier.

Bank Assets (billions of local currency)		
	Assets	Mkt Cap/ Assets %
Aktia Bank	10.6	8.21
ALBAV FH Equity	6.0	7.63
Total	16.6	
EJR's est. of cap shortfall at 10% of assets less market cap		0.3
Finland's GDP		236.2

Funding Costs

The Finland 10Y Government Bond has a -0.210% yield and the 10 Years vs 2 Years bond spread is 74 bps. The Current 5-Years Credit Default Swap quotation is 7.90 and implied probability of default is 0.13%. The annual inflation rate in Finland inched down to 1.9 percent in July 2021 from 2.0 percent in the previous month.



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 20 (1 is best, 189 worst) is strong.

The World Bank's Doing Business Survey*			
	2021	2020	Change in
	Rank	Rank	Rank
Overall Country Rank:	20	20	0
Scores:			
Starting a Business	31	31	0
Construction Permits	42	42	0
Getting Electricity	24	24	0
Registering Property	34	34	0
Getting Credit	80	80	0
Protecting Investors	61	61	0
Paying Taxes	10	10	0
Trading Across Borders	37	37	0
Enforcing Contracts	45	45	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 strong in its overall rank of 76.1 for Economic Freedom with 100 being best.

Heritage Foundation 2021 Index of Economic Freedom				
World Rank 76.1*				
	2021 Rank**	2020 Rank	Change in Rank	World Avg.
Property Rights	91.9	92.3	-0.4	53.6
Government Integrity	82.2	96.1	-13.9	45.9
Judicial Effectiveness	97.2	80.5	16.7	45.4
Tax Burden	68.0	67.5	0.5	77.7
Gov't Spending	14.3	11.2	3.1	67.1
Fiscal Health	91.4	90.7	0.7	72.1
Business Freedom	85.8	84.8	1.0	63.2
Labor Freedom	50.5	50.3	0.2	59.5
Monetary Freedom	83.3	83.6	-0.3	74.7
Trade Freedom	84.0	86.4	-2.4	70.7

*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

Credit Quality Driver: Taxes Growth:

REPUBLIC OF FINLAND has seen a decline in taxes of 1.3% per annum in the last fiscal year which is disappointing. We expect tax revenues will decline by approximately 1.3% per annum over the next couple of years and 0.5% per annum for the next couple of years thereafter.

Credit Quality Driver: Total Revenue Growth:

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

Income Statement	Peer Median	Issuer Avg.	Assumptions	
			Yr 1&2	Yr 3,4,5
Taxes Growth%	(1.9)	(1.3)	(1.3)	0.5
Social Contributions Growth %	0.6	(3.4)	0.5	0.5
Grant Revenue Growth %	0.0	NMF		
Other Revenue Growth %	0.0	NMF		
Other Operating Income Growth%	0.0	(4.4)	(4.4)	(4.4)
Total Revenue Growth%	(1.5)	(2.4)	(2.4)	(2.1)
Compensation of Employees Growth%	4.5	1.7	1.7	1.7
Use of Goods & Services Growth%	4.5	4.0	4.0	4.0
Social Benefits Growth%	5.4	5.8	5.8	5.8
Subsidies Growth%	130.5	62.4		
Other Expenses Growth%	0.0			
Interest Expense	1.8	0.8	0.8	
Currency and Deposits (asset) Growth%	33.8	0.0		
Securities other than Shares LT (asset) Growth%	(3.7)	0.0		
Loans (asset) Growth%	20.2	521.8	400.0	360.0
Shares and Other Equity (asset) Growth%	5.0	6.5	6.5	6.5
Insurance Technical Reserves (asset) Growth%	0.0	0.0		
Financial Derivatives (asset) Growth%	(22.9)	10.5	(1.3)	(1.3)
Other Accounts Receivable LT Growth%	25.0	23.8	23.8	21.4
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%	15.1	14.3	3.0	3.0
Currency & Deposits (liability) Growth%	3.6	(12.2)	0.5	0.5
Securities Other than Shares (liability) Growth%	17.0	18.4	12.9	12.9
Loans (liability) Growth%	3.6	6.8	6.8	6.8
Insurance Technical Reserves (liability) Growth%	0.0	10.2	10.2	10.2
Financial Derivatives (liability) Growth%	0.0	14.7	14.7	14.7
Additional ST debt (1st year)(millions EUR)	0.0	0.0		

ANNUAL OPERATING STATEMENTS

Below are REPUBLIC OF FINLAND's annual income statements with the projected years based on the assumptions listed on page 5.

	ANNUAL REVENUE AND EXPENSE STATEMENT					
	(MILLIONS EUR)					
	2017	2018	2019	2020	P2021	P2022
Taxes	69,688	71,081	72,745	71,795	70,862	69,940
Social Contributions	27,300	27,916	28,541	27,561	27,699	27,837
Grant Revenue						
Other Revenue						
Other Operating Income	<u>22,907</u>	<u>23,502</u>	<u>24,273</u>	<u>23,206</u>	<u>23,206</u>	<u>23,206</u>
Total Revenue	119,895	122,499	125,559	122,562	121,766	120,984
Compensation of Employees	28,069	28,942	29,930	30,452	30,983	31,523
Use of Goods & Services	24,332	25,094	25,715	26,735	27,795	28,898
Social Benefits	48,953	49,661	50,752	53,704	56,828	60,133
Subsidies	2,703	2,557	2,606	4,232	4,232	4,233
Other Expenses				7,473	7,473	7,473
Grant Expense						
Depreciation	7,738	8,020	8,459	8,660	8,660	8,660
Total Expenses excluding interest	<u>117,817</u>	<u>120,568</u>	<u>123,867</u>	<u>131,256</u>	<u>135,972</u>	<u>140,920</u>
Operating Surplus/Shortfall	2,078	1,931	1,692	-8,694	-14,205	-19,937
Interest Expense	<u>2,265</u>	<u>2,094</u>	<u>1,958</u>	<u>1,579</u>	<u>1,592</u>	<u>1,605</u>
Net Operating Balance	-187	-163	-266	-10,273	-15,797	-21,541

ANNUAL BALANCE SHEETS

Below are REPUBLIC OF FINLAND's balance sheets with the projected years based on the assumptions listed on page 5.

Base Case	ANNUAL BALANCE SHEETS					
	(MILLIONS EUR)					
ASSETS	2017	2018	2019	2020	P2021	P2022
Currency and Deposits (asset)	20,626	18,098	16,007	28,535	28,535	28,535
Securities other than Shares LT (asset)	39,948	39,136	36,686	30,427	30,427	30,427
Loans (asset)	-2,515	-3,026	87	541	2,705	13,525
Shares and Other Equity (asset)	5,770	2,641	4,689	4,995	5,321	5,668
Insurance Technical Reserves (asset)	284	287	308	321	321	321
Financial Derivatives (asset)	2,507	7,718	8,280	9,146	9,027	8,910
Other Accounts Receivable LT	13,125	10,465	9,827	12,163	15,054	18,633
Monetary Gold and SDR's						
Other Assets					268,397	268,397
Additional Assets	<u>223,935</u>	<u>221,928</u>	<u>249,723</u>	<u>268,397</u>		
Total Financial Assets	303,680	297,247	325,607	354,525	359,787	374,416
LIABILITIES						
Other Accounts Payable	18,338	15,331	14,538	16,619	17,118	17,631
Currency & Deposits (liability)	908	787	901	791	791	791
Securities Other than Shares (liability)	114,833	114,851	117,973	139,721	157,751	178,108
Loans (liability)	31,090	32,205	34,137	36,461	52,258	73,800
Insurance Technical Reserves (liability)	123	128	137	151	166	183
Financial Derivatives (liability)	745	6,260	7,032	8,067	9,254	10,616
Other Liabilities	<u>522</u>	<u>522</u>	<u>522</u>	<u>519</u>	<u>519</u>	<u>519</u>
Liabilities	166,559	170,084	175,240	202,329	223,388	259,558
Net Financial Worth	<u>137,121</u>	<u>127,163</u>	<u>150,367</u>	<u>152,196</u>	<u>136,399</u>	<u>114,857</u>
Total Liabilities & Equity	303,680	297,247	325,607	354,525	359,787	374,416

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Comments on the Difference between the Model and Assigned Rating

In this case, there has been little change in the recent results and therefore we have used our best judgement in making adjustments which are reflected in the results for the projected ratings. We have assigned a rating of "AA" whereas the ratio-implied rating for the most recent period is "AA-"; the median rating for the peers is significantly higher than the issuer's rating.

Changes in Indicative Ratios

We have not made any adjustment in the indicative ratios at this time.

SEC Rule 17g-7(a) Disclosure (Non-NRSRO)

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+) except for AAA and those deep into speculative grade, i.e., CC, C, and D do not have 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 Methodologies for Determining Credit Ratings (Main Methodology) version #15a 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 projections on pages 1, 6, and 7 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 dependent 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 information from the IMF and other similar sources. In some cases, the information is limited because of issues such as the lack of reported data, a delay in reporting data, restatements, inaccurate accounting and other issues. Such issues 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 publicly available information from the IMF, governmental filings and other similar sources for ratings on sovereign 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%	(1.3)	2.7	(5.3)	AA	AA	AA-
Social Contributions Growth %	0.5	3.5	(2.5)	AA	AA	AA
Other Revenue Growth %		3.0	(3.0)	AA	AA	AA
Total Revenue Growth%	(2.4)	0.1	(4.4)	AA	AA	AA
Monetary Gold and SDR's Growth %	23.8	25.8	21.8	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

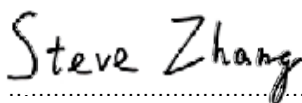


Subramanian NG
Senior Rating Analyst

September 02, 2021

Reviewer Signature:

Today's Date



Steve Zhang
Senior Rating Analyst

September 02, 2021

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.