MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns definitve Aaa to mortgage covered bonds of Aktia Bank plc

Global Credit Research - 25 Jun 2013

London, 25 June 2013 -- Moody's Investors Service has today assigned a definitive Aaa long-term rating to Series 1 of the covered bonds issued by Aktia Bank plc. (long-term global local-currency rating of A3, negative outlook, standalone bank financial strength rating C-/baseline credit assessment baa2 stable).

Aktia Bank plc issues the covered bonds under its EUR three billion Medium Term Note and Covered Bond Programme.

RATINGS RATIONALE

As with all covered bonds, Aktia Bank's covered bonds benefit from (1) a promise from the issuer to pay interest and principal on the covered bonds; and (2) if Aktia Bank defaults the economic benefit from the cover pool.

The covered bond rating takes into account the following factors:

(1) Aktia Bank's credit strength (BCA rating of baa2, stable).

(2) The credit quality of the cover pool. The covered bonds will be primarily backed by Finnish residential mortgage loans.

Other key factors:

(3) The Finnish legal framework for covered bonds, as the covered bonds are governed by the Finnish covered bond legislation.

(4) The issuer maintaining, on a "committed" basis, minimum over-collateralisation of 10%.

As of 10 April 2013, the total value of the cover assets expected to be included in the cover pool, comprising 12,631 prime Finnish residential mortgage loans, is about EUR 710 million. The mortgage loans are secured by properties in Finland and have a weighted average seasoning of 35 months and a weighted average remaining term of 194 months. The weighted average loan-to-value (LTV) is 57.9%.

Moody's has assigned a timely payment indicator (TPI) of "Probable-High" to this transaction. This is in line with the TPI for the majority of covered bond transactions under the Finnish covered bond law. The TPI does not constrain the rating of the covered bonds at its current level; however, the covered bond rating would be expected to be lowered should the issuer's senior unsecured rating be downgraded.

As is the case with other covered bonds, Moody's considers the transaction to be linked to Aktia Bank's credit strength, particularly from a timeliness of payment perspective. If this credit strength deteriorates -- all other variables being equal -- the covered bond ratings may come under pressure.

The rating assigned by Moody's addresses the expected loss posed to investors. Moody's ratings address only the credit risks associated with the transaction. Other non-credit risks have not been addressed, but may have a significant effect on yield to investors. The Aaa rating assigned to the covered bonds is expected to be assigned to all subsequent covered bonds issued under this programme and any future rating actions are expected to affect all such covered bonds. If there are any exceptions to this, Moody's will in each case publish details in a separate press release.

KEY RATING ASSUMPTIONS/FACTORS

Covered bond ratings are determined after applying a two-step process: an expected loss analysis and a TPI framework analysis.

EXPECTED LOSS: Moody's determines a rating based on the expected loss on the bond. The primary model used is Moody's Covered Bond Model (COBOL), which determines expected loss as (1) a function of the issuer's probability of default (measured by the issuer's rating); and (2) the stressed losses on the cover pool assets following issuer default.

The cover pool losses for this programme are 11.7%. This is an estimate of the losses Moody's currently models if Aktia Bank defaults. Cover pool losses can be split between market risk of 7.5% and collateral risk of 4.2%. Market risk measures losses as a result of refinancing risk and risks related to interest-rate and currency mismatches (these losses may also include certain legal risks). Collateral risk measures losses resulting directly from the credit quality of the assets in the cover pool. Collateral risk is derived from the collateral score, which for this programme is currently 6.3%.

Aktia Bank provides 10% of nominal over-collateralisation in the cover pool on a "committed" basis. This commitment exceeds the legally prescribed minimum OC of 2% on a net present value basis. The minimum OC level that is consistent with the Aaa rating target is 9% on a nominal basis. Therefore, Moody's is not relying on "uncommitted" OC in its expected loss analysis.

All numbers in this section are based on Moody's most recent modelling (based on data, as of May 2013)

TPI FRAMEWORK: Moody's assigns a "timely payment indicator" (TPI), which indicates the likelihood that timely payment will be made to covered bondholders following issuer default. The effect of the TPI framework is to limit the covered bond rating to a certain number of notches above the issuer's rating.

SENSITIVITY ANALYSIS

The robustness of a covered bond rating largely depends on the issuer's credit strength. The TPI Leeway measures the number of notches by which the issuer's rating may be downgraded before the covered bonds are downgraded under the TPI framework.

Based on the current TPI of Probable, the TPI Leeway for Aktia Bank's covered bonds is zero notches. This implies that Moody's would expect to downgrade the covered bonds because of a TPI cap if the rating agency downgrades Aktia Bank's senior unsecured rating below A3, all other variables being equal.

A multiple-notch downgrade of the covered bonds might occur in certain limited circumstances, such as (1) a sovereign downgrade negatively affecting both the issuer's senior unsecured rating and the TPI; (2) a multiple-notch downgrade of the issuer; or (3) a material reduction of the value of the cover pool.

RATING METHODOLOGY

The principal methodology used in this rating was "Moody's Approach to Rating Covered Bonds" published in July 2012. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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