MOODY'S
INVESTORS SERVICE

Rating Action: Moody's concludes review on Aktia Bank, confirms A3 ratings; outlook stable

Global Credit Research - 28 May 2015

Actions conclude methodology-related review

London, 28 May 2015 -- Moody's Investors Service has today concluded its rating review on Aktia Bank p.l.c. The review was initiated on 17 March 2015 following the publication of Moody's revised bank methodology and revisions in Moody's government support assumption for Aktia Bank.

Moody's rating actions reflect the following considerations: (1) Moody's view of Finland's "Strong+" macro profile; (2) the bank's low-risk lending, owing to its focus on mortgage lending; (3) the protection offered to senior creditors by bail-in-able securities, as captured by Moody's Advanced Loss Given Failure (LGF) liability analysis; and (4) a reduced likelihood of government support.

As such, Moody's has affirmed Aktia Bank's baa2 baseline credit assessment (BCA), affirmed its baa2 adjusted BCA, affirmed its short-term deposit and senior unsecured ratings at Prime-2, and confirmed its long-term deposit and senior unsecured ratings at A3. The outlook on the ratings is stable. Moody's has also assigned A2(cr)/Prime-1(cr) long- and short-term Counterparty Risk Assessments (CR Assessments) to Aktia Bank.

For more information on the new bank rating methodology, please see Moody's press release at http://www.moodys.com/viewresearchdoc.aspx?docid=PR_321005

The full list of affected ratings is provided at the end of the press release.

RATINGS RATIONALE

The new methodology includes a number of elements that Moody's has developed to help accurately predict bank failures and determine how each creditor class is likely to be treated if a bank fails and enters resolution. These new elements capture insights gained from the crisis and the fundamental shift in the banking industry and its regulation.

(1) FINLAND'S "STRONG+" MACRO PROFILE

Aktia Bank operates exclusively in Finland (Aaa stable) and benefits from the country's high wealth levels, high economic strength, very high institutional and government financial strength and low susceptibility to event risk. Unlike neighbouring banks in Sweden (Aaa stable), Finnish banks, including Aktia Bank, do not benefit from a deep domestic investor base and Moody's captures this with a negative funding adjustment in its macro profile for Aktia Bank.

(2) LOW-RISK LENDING AS A RESULT OF MORTGAGE FOCUS

Within the context of Finland's Strong+ macro profile, the affirmation of Aktia Bank 's standalone baa2 BCA is primarily driven by Moody's expectation that the bank's asset risk will remain low given its focus on mortgage lending. Of its loan portfolio, 88.7% was to households as of 31 March 2015, located mainly in the South and South-Western parts of Finland. 6.7% of lending was to corporate customers, mainly small companies that carry higher credit risks. However, Aktia Bank's internal rating distribution of these loans remains stable even though the Finnish economy did not grow between 2012 and 2014 (Moody's forecasts zero growth for Finland in 2015). As a result of Aktia Bank's low-risk profile, and despite the subdued economic environment in Finland, the bank's problem loans ratio has consistently been below 1.7%. This figure is comparable with savings banks in Norway (Aaa stable) that engage in both household and corporate lending.

Aktia Bank's BCA is constrained mainly by moderate profitability, which remains a key challenge. Return on equity has not exceeded 10% in recent years and is unlikely to do so in the coming years, given the continued focus on low-risk mortgage lending, combined with a persistently low interest-rate environment. Profitability is also below many Nordic banks because of its high cost-base, consisting mainly of staff and IT expenses. Total annual operating expenses have remained almost unchanged since 2010, although the purpose of "Action Plan 2015" has been to strengthen efficiency. More positively, Aktia Bank' strong capitalisation provides a cushion against unexpected losses, mitigating its moderate profitability. The core equity tier 1 (CET1) capital ratio increased to 22.6% at 31 March 2015 from 14.6% at year end-2014 following the Finnish FSA's permission for Aktia Bank to use an internal risk-based (IRB) approach for calculating capital requirements.

(3) THE PROTECTION OFFERED TO SENIOR CREDITORS, AS CAPTURED BY MOODY'S ADVANCED LGF LIABILITY ANALYSIS

The confirmation of the bank's A3 deposit and senior unsecured debt ratings also takes into account the rating agency's LGF analysis of the bank's debt and deposits and securities subordinated to them in Moody's creditor hierarchy. Aktia Bank benefits from a substantial volume of junior deposits, senior unsecured and subordinated debt, resulting in a very low LGF.

(4) LESS LIKELY GOVERNMENT SUPPORT

The positive effect of the low loss-given-failure on the deposit and senior debt ratings is offset by Moody's reduced government support assumption. The lowering of Moody's government support assumption reflects the reduced likelihood of support being forthcoming within the context of the expected implementation of new bank resolution legislation. Aktia Bank has mortgage and deposit market shares of 4.1% and 3.9% in Finland, respectively.

RATIONALE FOR OUTLOOKS

The stable outlook reflects Moody's view that Aktia Bank's business model will remain stable and that the bank's financial performance will also remain solid in Finland's stable but low growth macroeconomic environment.

ASSIGNMENT OF COUNTERPARTY RISK ASSESSMENTS

Moody's has assigned A2(cr)/Prime-1(cr) long- and short-term Counterparty Risk Assessments (CR Assessments) to Aktia Bank. CR Assessments are opinions of how counterparty obligations are likely to be treated if a bank fails and are distinct from debt and deposit ratings in that they (1) consider only the risk of default rather than the likelihood of default and the expected financial loss suffered in the event of default and (2) apply to counterparty obligations and contractual commitments rather than debt or deposit instruments. The CR assessment is an opinion of the counterparty risk related to a bank's covered bonds, contractual performance obligations (servicing), derivatives (e.g., swaps), letters of credit, guarantees and liquidity facilities.

WHAT COULD CHANGE THE RATINGS UP/DOWN

Upward pressure on the bank's debt and deposit ratings could develop if the bank shows sustained strong profitability and efficiency whilst maintaining good asset quality. But, weaker profitability and/or asset quality would put downward pressure on the debt and deposit ratings.

Aktia Bank's debt and deposit ratings would come under pressure (1) if the BCA were lowered; and/or (2) if conditions were to change such that the bank's cushion of liabilities, eligible for bail-in, were to lessen under Moody's advanced LGF analysis.

LIST OF AFFECTED RATINGS

Issuer: Aktia Bank p.l.c.

Assignments:

.... Counterparty Risk Assessment, Assigned A2(cr)/P-1(cr)

Confirmations:

....Senior Unsecured Medium-Term Note Program, Confirmed at (P)A3

....Senior Unsecured Regular Bond/Debenture, Confirmed at A3

....Long-Term Deposit Rating, Confirmed at A3

Affirmations:

....Adjusted Baseline Credit Assessment, Affirmed baa2

....Baseline Credit Assessment, Affirmed baa2

....Short-Term Deposit Rating, Affirmed P-2

....Senior Unsecured Medium-Term Note Program, Affirmed (P)P-2

Outlook:

....Outlook, Changed To Stable From Rating Under Review

The principal methodology used in these ratings was Banks published in March 2015. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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