MOODY'S
RATINGS

Rating Action: Moody's Ratings affirms Aktia Bank PLC's A2 long-term deposit ratings, outlook changed to stable

26 Feb 2025

Stockholm, February 26, 2025 -- Moody's Ratings (Moody's) today affirmed Aktia Bank PLC's (Aktia) ratings, including its long- and short-term Counterparty Risk Ratings (CRR) at A1/P-1, the long- and short-term deposit ratings at A2/P-1, the senior unsecured domestic currency MTN program rating at (P)A2, the subordinate debt ratings at Baa2 and subordinate MTN program rating of (P)Baa2. Furthermore, we affirmed the Baseline Credit Assessment (BCA) and Adjusted BCA at baa1, the long- and short-term Counterparty Risk Assessments (CR Assessment) at A1(cr)/P-1(cr) and the other short-term program rating at (P)P-1. We also affirmed the preferred stock non-cumulative rating of Ba1(hyb). The outlook on the long-term deposit ratings was changed to stable from negative.

RATINGS RATIONALE

-- AFFIRMATION OF THE baa1 BCA

The affirmation of the baa1 BCA reflects our expectations that Aktia will sustain its well diversified earnings generation profile, spanning across retail and corporate banking (66% of operating profit in 2024 excluding group functions), asset management (19%) and life insurance (15%), while maintaining sound asset quality, stable profitability and improving capitalisation levels. These strengths are balanced against an increase in non-performing loans (NPLs) on a weak economic backdrop in Finland during 2023-24, with the problem loans ratio, measured as stage 3 loans to gross loans, increasing to about 2% at year-end 2024 from 1.6% at year-end 2023; a modest but improving leverage ratio, which strengthened by 40 basis points (bps) year-on-year to 4.6% as at 31 December 2024; and a higher cost-to-income ratio compared to larger regional peers. Similar to other Nordic banks, Aktia's BCA is constrained by its high reliance on market funding, partly mitigated by good access to the debt capital markets and sound liquidity.

Aktia's new CEO, Aleksi Lehtonen, in place since early June 2024 brings extensive banking experience to the bank and together with the appointment of a permanent CFO since January 2025, the new leadership team is complete. In this regard, we will monitor the implementation of the bank's new business plan and delivery of the updated financial targets by the new management.

Aktia's net interest income, representing 49% of operating income in 2024, will likely decline in a lower interest rate environment in 2025 as net interest margins will be compressed. This will be partly offset by higher lending volumes driven by gradually improving housing market, consumer spending and corporate investments in Finland following subdued lending growth over the past year. Net commission income will rise as Aktia continues to leverage its capital-light wealth management business, whereas life insurance is expected to remain a steady, but more modest contributor to the group's earnings.

We expect the bank's asset quality to stabilise in 2025, with a problem loan ratio at around 2% and cost of risk at a moderate level below 20 basis points (bps) compared to 14 bps in 2024 (loan loss provisions to gross loans) supported by a strong collateral base, principally in Helsinki metropolitan area, in Finland's growth regions and on the coast.

Capital has strengthened, with a reported Common Equity Tier 1 (CET1) ratio rising by 70 bps year-on-year to 12%, well above the regulatory requirement of 8.64% at end December 2024. We expect Aktia to maintain adequate capital buffers over the next 12-18 months, supported by sound earnings generation, partly offset by moderate shareholder returns in line with its current 60% dividend payout policy.

-- ADVANCED LOSS GIVEN FAILURE ANALYSIS

The affirmation of the A2 long-term deposit and (P)A2 senior unsecured MTN program ratings are underpinned by the bank's Adjusted BCA of baa1 and our unchanged assumption of very low loss given failure as per our Advanced Loss Given Failure (LGF) analysis, which continues to result in a two-notch uplift from the bank's BCA. Aktia's preferred stock non-cumulative Ba1(hyb) rating on its AT1 instruments are positioned three notches below the bank's Adjusted BCA of baa1, reflecting the high loss-given failure for the AT1 securities and the securities' coupon skip mechanism and write-down features.

OUTLOOK

The change of the outlook to stable from negative on the long-term deposit ratings, reflects our view that Aktia's standalone credit profile has strengthened since April 2023. This was mainly underpinned by the bank's improved underlying profitability, increased capitalisation and higher confidence in strategic execution. It also considers our expectation that the bank's asset quality metrics will stabilise, and any drop in profitability to be contained. Concurrently, we expect the bank's capital to remain sound, comfortably above regulatory minimum requirements, and that the new management will successfully execute its updated strategic plan in a prudent manner.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Aktia's BCA of baa1 could be upgraded following sustained improvements in the fundamentals of the bank, such as a sustained lower level of non-performing loans, a higher capitalisation and improved profitability. A higher BCA would likely lead to an upgrade of long-term deposit ratings. Furthermore, the ratings could be upgraded due to significantly higher cushion of loss absorbing obligations, providing additional protection to senior creditors and depositors in case of failure.

The ratings could be downgraded if the bank experiences an unexpected worsening in its asset quality indicators, with the problem loans ratio rising above 3%, profitability deteriorates sharply, capital ratios decline below the bank's target, or the bank's ability to fund itself on capital markets weakens. Also, the ratings could be downgraded if the bank decreases the amount of loss absorbing obligations providing protection to senior creditors and depositors in case of failure.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks published in November 2024 and available at https://ratings.moodys.com/rmc-documents/432741 . Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions .

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