

**Issuer Comment: Organisational Changes at Aktia Bank Have Limited Credit Implications**

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On 9 April 2013, Aktia's Annual General Meeting approved the proposed merger between Aktia plc (unrated) and Aktia Bank plc (deposits A3 negative; Bank Financial Strength Rating C-/Baseline Credit Assessment baa2 stable) with the intention of streamlining the group structure and lowering costs. The merger is planned to be implemented on 1 July 2013. The merger will result in Aktia Life Insurance Ltd and Aktia Real Estate Agency becoming subsidiaries of the rated entity, Aktia Bank plc, instead of sister companies as previously was the case.

We believe this will have a very limited impact credit implications for Aktia Bank due to the relatively small sizes of these operations. For example, at end-2012, Aktia Life Insurance Ltd's total exposures were €720 million, 6% of the group total. In terms of profitability, the life insurance operations contributed 13% of group total operating profit during 2012 following strong investment performance. The real estate agency contributed 9% of total commission income, with total net commission income constituting around 30% of total operating income. Additionally, we note that Aktia estimate the impact of the merger on the group's total capital adequacy to be less than 1 percentage point, and that the merger will increase the business-line diversification of the rated entity.

The merger is one part of a wider strategic realignment of the group which has also seen the cessation of Aktia Bank's role as the central credit institution of the POP and savings banks and the decision to no longer issue covered bonds through the bank's Aktia Real Estate Mortgage Bank plc subsidiary. These two decisions resulted in the affirmation of Aktia bank's ratings with the outlook on the long-term debt and deposit ratings revised to negative from stable in February 2013 (see [http://www.moody's.com/research/Moodys-affirms-Aktia-Banks-A3P-2-ratings-outlook-revised-to-PR\\_265392](http://www.moody's.com/research/Moodys-affirms-Aktia-Banks-A3P-2-ratings-outlook-revised-to-PR_265392)). The bank is also looking to implement several other changes, the most significant of which is the upgrading of its core IT systems which will likely result in increased efficiency in the long-run but will present operational risks and costs in the shorter term.

All stated figures are from Aktia Bank Plc and Aktia Plc's annual reports or press releases shown on Aktia's website.

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