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## Research Update:

# Finnish Aktia Bank 'A-/A-2' Ratings Affirmed On Intragroup Merger Forming New Parent; Outlook Negative

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## Table Of Contents

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Overview

Rating Action

Rationale

Outlook

Ratings Score Snapshot

Related Criteria And Research

Ratings List

## Research Update:

# Finnish Aktia Bank 'A-/A-2' Ratings Affirmed On Intragroup Merger Forming New Parent; Outlook Negative

## Overview

- Finnish Aktia Bank PLC merged on July 1, 2013, with Aktia PLC to create the new parent company of the Aktia group. The merger is strictly within the group and in our view won't affect the group's financial position or strategy.
- We are consequently affirming our 'A-/A-2' long- and short-term ratings on Aktia Bank.
- The outlook is negative, reflecting our view of growing economic risks in Finland's export-oriented economy, which could adversely affect the Finnish banking sector's performance.

## Rating Action

On July 2, 2013, Standard & Poor's Ratings Services affirmed its 'A-' long-term and 'A-2' short-term counterparty ratings on Finland-based Aktia Bank PLC. The outlook is negative.

## Rationale

The affirmation follows the legal merger of Aktia Bank with its parent company and listed holding company Aktia PLC, effective as of July 1, 2013. With the merger, Aktia PLC's assets and liabilities are transferred to Aktia Bank, which will become the new parent company of the group, consolidating group banking, life insurance, and asset-management activities. In our view, the merger won't change the group's business model or strategy. The merger is strictly within the group and will not affect the group's financial position, reporting, or business segments. We expect Aktia Bank's organizational streamlining to support its cost-efficiency measures, which we incorporate into our prospective risk-adjusted capital analysis.

Aktia Bank's ratings continue to reflect the bank's 'a-' anchor, its "moderate" business position, "strong" capital and earnings, "moderate" risk position, "average" funding, and "adequate" liquidity, as our criteria define these terms. The stand-alone credit profile (SACP) is 'bbb+'.

As the fourth-largest retail bank in Finland, where Pan-Nordic groups have sizable operations, and with a 4% market share of mortgage loans and 3% of customer deposits, we consider Aktia Bank to have "moderate" systemic

importance in Finland's banking sector and consequently factor one notch of extraordinary government support into the ratings.

## Outlook

The negative outlook on Aktia Bank reflects our view that the growing economic risks in Finland's export-oriented economy could adversely affect the Finnish banking sector's performance. This could lead us to lower our baseline assessment (the anchor) on Finnish banks, including Aktia Bank, to 'bbb+' from 'a-'.

We could take a negative action if Aktia Bank's funding position were to deteriorate, for example if access to the wholesale market were hindered. Furthermore, we could revise our assessment of Aktia Bank's capital and earnings position if its operations were to deteriorate substantially due to a downturn in the Finnish economy, in turn resulting in higher loan losses than in our current base-case scenario and leading to a decline in our projected risk adjusted capital ratio to below 10%.

We consider a positive rating action unlikely at this stage.

## Ratings Score Snapshot

	To	From
Issuer Credit Rating	A-/Negative/A-2	A-/Negative/A-2
SACP	bbb+	bbb+
Anchor	a-	a-
Business Position	Moderate (-1)	Moderate (-1)
Capital and Earnings	Strong (+1)	Strong (+1)
Risk Position	Moderate (-1)	Moderate (-1)
Funding and Liquidity	Average and Adequate (0)	Average and Adequate (0)
Support	+1	+1
GRE Support	0	0
Group Support	0	0
Sovereign Support	+1	+1
Additional Factors	0	0

## Related Criteria And Research

### Related Criteria

- Group Rating Methodology, May 7, 2013
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011

- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Bank Capital Methodology And Assumptions, Dec. 6, 2010

### **Related Research**

- Full analysis on Aktia Bank PLC, March 28, 2013
- Outlooks on Two Finnish Banks Revised to Negative Due To Rising Economic Risks, Nov. 20, 2012

## **Ratings List**

Ratings Affirmed

Aktia Bank PLC

Counterparty Credit Rating

A-/Negative/A-2

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