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## Research Update:

# Ratings On Finland-Based Aktia Bank Affirmed At 'A-/A-2' Following Government Support Review; Outlook Remains Negative

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## Research Update:

# Ratings On Finland-Based Aktia Bank Affirmed At 'A-/A-2' Following Government Support Review; Outlook Remains Negative

## Overview

- We consider that potential extraordinary government support for European banks will likely decrease as resolution frameworks are put into place.
- We are affirming our 'A-/A-2' counterparty credit ratings on Aktia Bank PLC.
- The negative outlook reflects the possible removal of government support by year-end 2015 and the implications for Aktia Bank of the weak economic recovery in Finland.

## Rating Action

As previously announced on April 29, 2014, Standard & Poor's Ratings Services has affirmed its 'A-/A-2' counterparty credit ratings on Finland-based Aktia Bank PLC. The outlook is negative.

## Rationale

The affirmation follows the completion of our review of potential extraordinary government support for European banks (see "Standard & Poor's To Review Government Support In European Bank Ratings," published on March 4, 2014, on RatingsDirect). We observe that European authorities are taking steps to increase the resolvability of banks and require creditors rather than taxpayers to bear the burden of the costs of failure (see "Standard & Poor's Takes Various Rating Actions On European Banks Following Government Support Review," published on April 29, 2014). In the near term, we expect that governments will remain supportive of systemically important banks' senior unsecured creditors while resolution frameworks take shape. From January 2016, however, the EU Bank Recovery and Resolution Directive (BRRD) is set to introduce the mandatory bail-in of a minimum amount of eligible liabilities, potentially including certain senior unsecured obligations, before governments could provide solvency support. Accordingly, we believe that the potential extraordinary government support available to Aktia Bank's senior unsecured bondholders will likely diminish within our two-year rating horizon.

Currently, we consider that Aktia Bank has "moderate" systemic importance to Finland, which we view as "supportive" of private-sector commercial banks. As a result, and in line with our criteria, the 'A-' long-term counterparty credit rating on Aktia Bank stands one notch above the 'bbb+' stand-alone

credit profile (SACP). We could remove this notch shortly before the January 2016 introduction of the BRRD's bail-in powers for senior unsecured liabilities. These rules would indicate to us that EU governments would be much less able to support senior unsecured bank creditors, even though it may take several more years to eliminate concerns about financial stability and the resolvability of systemically important banks.

Specifically, if we perceive that support for senior unsecured creditors is less predictable under the new legislative framework, we would likely remove the government support notch from our ratings on Aktia Bank. This would most likely arise from a reclassification of Finland's support for private-sector commercial banks to "uncertain" under our criteria. Any decision to reclassify governments would be subject to our review of the final resolution legislation and technical standards, and other relevant information.

If, on the other hand, our view was that extraordinary government support may still be forthcoming to Aktia Bank's senior unsecured creditors, we could retain the notch of support in the ratings. This would be the case if authorities publicly confirmed their supportive stance toward senior unsecured creditors, or if we believed that precautionary capital injections would still be likely under the new legislation to minimize the wider economic impact of the resolution of a systemically important bank. In this case, we may consider that Finland remained "supportive" and that Aktia Bank had "moderate" systemic importance.

## **Outlook**

The negative outlook indicates that we may lower the ratings on Aktia Bank by year-end 2015 if we believe there is a greater likelihood that senior unsecured liabilities may incur losses if the bank fails. Specifically, we may lower the long-term counterparty credit rating by one notch if we consider that extraordinary government support is less predictable under the new EU legislative framework.

The negative outlook also reflects our view that the growing economic risks in Finland's export-oriented economy could adversely affect the Finnish banking sector's performance over the next two years. If this were to occur, we would revise downward our anchor--the starting point in assigning an issuer credit rating--on Finnish banks, including Aktia Bank. This could lead us to lower the SACP and our ratings on Aktia Bank.

We could also lower the ratings if Aktia Bank's funding position deteriorates; currently, it derives 46% of its funding from fairly stable customer deposits. Furthermore, we could revise our assessment of Aktia Bank's capital and earnings position if its operations deteriorate substantially due to a downturn in the Finnish economy, leading to higher loan losses and lower earnings than we currently expect. This could reduce Aktia Bank's buildup of capital and its strong ability to absorb losses (the bank's risk-adjusted capital ratio was 12.7% as of Dec. 31, 2013).

In addition to potential changes in the SACP and government support, we will review other relevant rating factors when taking any rating actions. These might include any steps Aktia Bank might take to mitigate bail-in risks to senior unsecured creditors, such as building a large buffer of subordinated instruments.

We consider that an outlook revision to stable is unlikely at this stage.

## Ratings Score Snapshot

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

## Related Criteria And Research

### Related Criteria

- Group Rating Methodology, Nov. 19, 2013
- Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Bank Hybrid Capital Methodology And Assumptions, Nov. 1, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Bank Capital Methodology And Assumptions, Dec. 6, 2010

### Related Research

- Standard & Poor's Takes Various Rating Actions On European Banks Following Government Support Review, April 29, 2014
- Credit FAQ: The Rating Impact Of Resolution Regimes For European Banks, April 29, 2014
- Aktia Bank PLC, March 26, 2014
- Standard & Poor's To Review Government Support In European Bank Ratings, March 4, 2014
- Banking Industry Country Risk Assessment: Finland, Jan. 3, 2014

## **Ratings List**

Ratings Affirmed

Aktia Bank PLC

Counterparty Credit Rating	A-/Negative/A-2
Senior Unsecured	A-

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