

**Rating Action: Moody's changes outlook on Aktia Bank's A3 ratings to positive from stable; affirms all ratings**

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Global Credit Research - 04 Jul 2016

Madrid, July 04, 2016 -- Moody's Investors Service has today affirmed Aktia Bank p.l.c.'s (Aktia Bank) A3 long-term deposit and senior unsecured debt ratings, and changed the outlook to positive from stable.

Concurrently, Moody's has affirmed the bank's: (1) baseline credit assessment (BCA) and adjusted BCA at baa2; (2) short-term deposit ratings at Prime-2; and (3) Counterparty Risk (CR) Assessment at A2(cr)/Prime-1(cr).

Today's rating affirmation reflects the institution's solid credit performance, particularly in terms of asset risk, capital and funding. Moody's has changed the outlook on the rating to positive owing to the bank's improved capital and funding.

A list of affected ratings can be found at the end of this press release.

**RATINGS RATIONALE**

**--RATIONALE FOR THE AFFIRMATION OF AKTIA BANK'S RATINGS AND THE POSITIVE OUTLOOK**

The affirmation of Aktia Bank's ratings reflects the bank's solid credit performance, particularly in terms of asset risk, capital and funding, with the change to positive outlook reflecting the improving trend observed in the latter two factors.

As a result of the run-off of the covered-bond issuing vehicle Aktia Real Estate Mortgage Bank PLC (Aktia REMB, covered bond rating Aaa), Aktia Bank's total assets have reduced and the bank has redeemed a large part of its market funding. Given that the bank's deposits have remained broadly stable, the share of Aktia Bank's balance sheet funded through customer deposits has increased. The bank has not only reduced reliance on covered bond funding, but also in terms of unsecured debt and short-term funding.

Aktia Bank continues to maintain very strong capital ratios, in terms of Moody's TCE ratio and the regulatory Common Equity Tier (CET) 1 ratio. Although Moody's assessment of Aktia Bank's capitalisation has historically been constrained by the bank's high leverage, leverage is nevertheless gradually improving as a consequence of the balance sheet's reduction and, to a lesser extent, internal capital generation. As of 31 March 2016, the bank's leverage ratio (measured as tangible common equity ratio over tangible assets) stood at 5.1%, gradually improving from 4.4% as of year-end 2013.

Moody's rating affirmation also takes into account the strong performance of the bank's assets (the problem loan ratio has consistently been below 2%), its very low credit costs, and its profitability. Albeit modest, the bank's profitability shows a high degree of stability, with minimum fluctuations in profitability ratios over the past few years.

The affirmation of Aktia Bank's deposit and senior unsecured debt ratings also reflects the result from the rating agency's Advanced Loss-Given Failure (LGF) analysis, which results in an unchanged two notches of uplift for both deposits and senior unsecured debt ratings. Moody's considers that Aktia Bank's deposits and senior unsecured debt ratings are likely to face very low loss-given-failure, owing to the protection from losses provided by the bank's liability structure, as well as the rated instruments' own debt volumes, which would share losses under Moody's Advanced LGF analysis, under a currently unlikely failure scenario.

**--RATIONALE FOR AFFIRMING THE CR ASSESSMENT**

As part of today's rating action, Moody's has affirmed at A2(cr)/Prime-1(cr) the CR Assessment of Aktia Bank, three notches above the adjusted BCA of baa2. The CR Assessment reflects the banks' baa2 adjusted BCA, the cushion against default provided to the senior obligations represented by the CR Assessment by subordinated instruments amounting to 19% of tangible banking assets and a low likelihood of government support.

## --WHAT COULD CHANGE THE RATING UP

Upward pressure on Aktia Bank's BCA could develop if the improving trends observed in liquidity and capital metrics are sustained over the following months. Upward pressure on the BCA could also follow a sustained improvement in the bank's recurrent profitability, provided that the bank's risk profile does not deteriorate.

As the bank's deposit and senior unsecured debt ratings are linked to its BCA, a positive change in the bank's BCA would likely affect all ratings. The ratings could also be upgraded as a result of changes in the liability structure, which indicates a lower loss-given-failure on deposits and/or senior unsecured debt.

## --WHAT COULD CHANGE THE RATING - DOWN

Downward pressure could be exerted on Aktia Bank's BCA as a result of: (1) an unexpected considerable worsening in the bank's asset quality indicators; (2) a weakening of the bank's risk-absorption capacity through earnings-generation capacity or capital levels; and/or (3) any worsening, beyond our current expectations, in operating conditions in the Finnish operating environment.

Aktia Bank's deposit and senior unsecured debt ratings could also change as a result of changes in the liability structure, which could indicate a higher loss-given-failure to be faced by these instruments.

## LIST OF AFFECTED RATINGS

Issuer: Aktia Bank p.l.c.

### ..Affirmations:

...Adjusted Baseline Credit Assessment, affirmed baa2

...Baseline Credit Assessment, affirmed baa2

...Long-term Counterparty Risk Assessment, affirmed A2(cr)

...Short-term Counterparty Risk Assessment, affirmed P-1(cr)

...Long-term Deposit Ratings, affirmed A3, outlook changed to Positive from Stable

...Short-term Deposit Ratings, affirmed P-2

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

...Other Short Term, affirmed (P)P-2

...Senior Unsecured Regular Bond/Debenture, affirmed A3, outlook changed to Positive from Stable

### ..Outlook Action:

...Outlook changed to Positive from Stable

## PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks published in January 2016. Please see the Ratings Methodologies page on [www.moody's.com](http://www.moody's.com) for a copy of this methodology.

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