

Rating Action: Moody's upgrades Aktia Bank's deposit and senior unsecured ratings to A1, stable outlook

29 Jun 2018

London, 29 June 2018 -- Moody's Investors Service, ("Moody's") has today upgraded the long- and short-term deposit ratings of Aktia Bank p.l.c. (Aktia) in Helsinki to A1/P-1 from A3/P-2. The long-term senior unsecured rating was upgraded to A1 from A3. The baseline credit assessment (BCA) was upgraded to a3 from baa2. Furthermore, the long-term foreign and local currency counterparty risk ratings (CRR) were upgraded to Aa3 from A2, and the long-term counterparty risk (CR) assessment was upgraded to Aa3(cr) from A2(cr). The short-term local foreign and local currency CRRs and short-term CR assessment were affirmed at P-1 and P-1(cr), respectively. The outlook on the long-term deposit and senior ratings was changed to stable from positive.

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

RATINGS RATIONALE

The primary driver of the rating upgrade is the consistent improvement in Aktia Bank's standalone financial performance over the last two years, including a successful diversification of the bank's income mix, through the expansion of its asset management business.

The baseline credit assessment of a3 also captures the bank's continued strong asset quality and capitalization as well as the moderate profitability and some reliance on market funding. Aktia has a history of strong and stable asset quality reflecting its portfolio of loans dominated by Finnish mortgages, with the problem loans ratio decreasing to 0.82% as of end-March 2018 from 1.29% as of year-end 2017, mainly due to the implementation of IFRS9. The bank is robustly capitalized with a tangible common equity (TCE) to risk weighted assets ratio of 21.9% as of end-March 2018.

Profitability is moderate with Moody's forecasting a net income/tangible assets ratio of 0.4% to 0.5% going forward. Finnish household lending space is competitive, and Aktia has a limited ability to influence lending rates and consequently its profitability. However, its focus on asset management is mitigating lower net interest income in the retail business, contributing increasingly to both income and earnings, with Asset Management and Life Insurance contributing approximately half of earnings.

Aktia Bank has gradually reduced its reliance on market funding, which Moody's views positively because it reduces its susceptibility to sudden changes in investor sentiment. The bank's Moody's-calculated market funds to tangible banking assets ratio was 26.8% in Q1 2018, compared to 29.3% at December 2017. Furthermore, Aktia Bank's liquidity portfolio is sizeable at approximately a quarter of the balance sheet and is of good quality.

LOSS GIVEN FAILURE

Moody's considers that Aktia Bank's deposits and senior unsecured debt are likely to face very low loss-given-failure, owing to the substantial cushion of loss absorbing obligations protecting depositors and senior creditors.

The minimum requirement of own funds and eligible liabilities (MREL) do not have any impact on Aktia's LGF analysis, with the requirement being fulfilled already.

The deposit and senior ratings of A1 continue to incorporate two notches of uplift, from the adjusted BCA of a3, due to the large cushion of loss absorbing obligations protecting depositors and creditors in case of failure, as indicated by Moody's Advanced Loss Given Failure (LGF) analysis.

The counterparty risk rating of Aa3 reflects the adjusted BCA of a3, and three notches of uplift due to the very high volumes of subordinated loss absorbing obligations protecting counterparties in case of failure, as indicated by LGF.

The counterparty risk assessment of Aa3(cr) reflects three notches above its adjusted BCA of a3 as indicated

by LGF.

OUTLOOK

The stable outlook on Aktia Bank's long-term ratings reflects Moody's expectation that the bank's financial performance will be sustained over the outlook period (up to 18 months) and that the increased diversification of income sources will remain, also in a changing operating environment.

Factors that could lead to an upgrade

The ratings could be upgraded due to: 1) improvements in the fundamentals of the bank, such as lower levels of impaired loans, higher capitalization and a sustained improvement in profitability; and/or 2) a significantly higher cushion of loss absorbing obligations, providing protection to creditors and depositors in case of failure.

Factors that could lead to a downgrade

The ratings could be downgraded if the bank were to experience: (1) an unexpected 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; or (3) a lower amount of loss absorbing obligations providing protection to depositors and senior creditors in case of failure; and/or (4) a worsening in operating conditions in Finland.

LIST OF AFFECTED RATINGS

Issuer: Aktia Bank p.l.c.

..Upgrades:

-Adjusted Baseline Credit Assessment, upgraded to a3 from baa2
-Baseline Credit Assessment, upgraded to a3 from baa2
-Long-term Counterparty Risk Assessment, upgraded to Aa3(cr) from A2(cr)
-Long-term Counterparty Risk Ratings, upgraded to Aa3 from A2
-Long-term Bank Deposits, upgraded to A1 Stable from A3 Positive
-Short-term Bank Deposits, upgraded to P-1 from P-2
-Senior Unsecured Regular Bond/Debenture, upgraded to A1 Stable from A3 Positive
-Senior Unsecured Medium-Term Note Program, upgraded to (P)A1 from (P)A3
-Other Short Term, upgraded to (P)P-1 from (P)P-2

..Affirmations:

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

..Outlook Action:

-Outlook changed to Stable from Positive

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks published in June 2018. Please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

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