

CREDIT OPINION

22 March 2024

New Issue



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RATINGS

Alandsbanken Abp

Domicile	MARIEHAMN, Finland
Long Term CRR	A2
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Not Assigned
Long Term Deposit	A3
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Alandsbanken Abp

Rating action: Moody's assigns first time A3 deposit ratings to Ålandsbanken

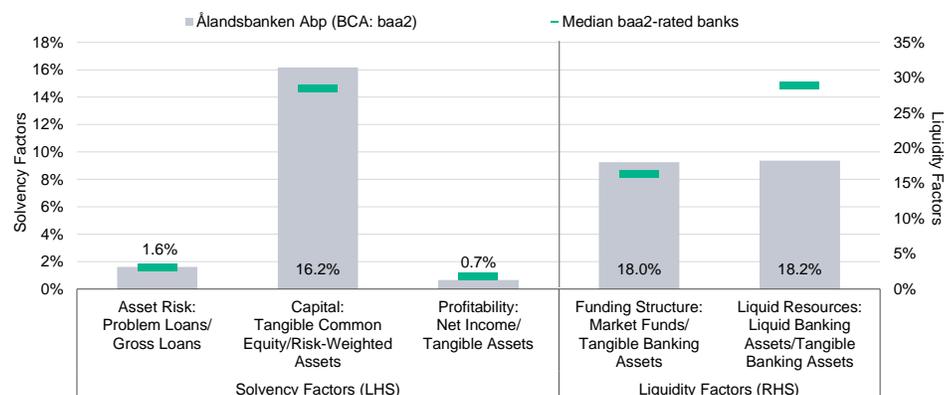
Summary

Moody's has assigned A3/P-2 deposit ratings to Ålandsbanken Abp (Ålandsbanken or Bank of Åland) and a Baseline Credit Assessment (BCA) of baa2. The long-term deposit ratings carry a stable outlook.

The A3 deposit ratings reflect Ålandsbanken's strong franchise focusing on private banking customers in Finland and Sweden, reflected in the baa2 BCA, and two notches of uplift due to the large volumes of junior depositors sharing losses in the case of a failure, as indicated by Moody's Advanced Loss Given Failure (LGF) analysis.

Exhibit 1

Rating Scorecard - Key financial ratios as of year end 2023



These represent our [Banks](#) methodology scorecard ratios, whereby asset risk and profitability reflect the weaker of either the three-year average and the latest annual figure. The capital ratio is the latest reported figure. The funding structure and liquid resource ratios reflect the latest fiscal year-end figures.

Source: Moody's Ratings

Credit strengths

- » Long and solid track record
- » Diversified earnings from banking, investment and wealth management services
- » Improving profitability
- » Low reliance on market funding

Credit challenges

- » Concentrated, less granular than peers, loan book
- » Increasing problem loans to gross loans ratio
- » High share of uninsured deposits

Outlook

- » The stable outlook reflects Moody's view that during the coming 12 to 18 months, Ålandsbanken's fundamentals will remain strong, with limited deterioration in asset quality, a slight strengthening in capitalisation as Swedish mortgages are transferred to Borgo, and a stable profitability while funding structure and liquidity improve moderately.

Factors that could lead to an upgrade

- » Ålandsbanken's ratings could be upgraded if solvency factors are strengthened, including a long-term improvement in capitalisation, and stronger recurring profitability and efficiency. The ratings could also be upgraded if the volumes of loss absorbing liabilities were to increase, triggering a higher uplift in Moody's Advanced LGF.

Factors that could lead to a downgrade

- » Ålandsbanken's ratings could be downgraded if credit quality significantly deteriorates; if capitalisation declines unexpectedly; if recurring profitability is weakened; or if the banks funding sources are materially affected, thus weakening its liquidity. Furthermore, if the banks share of junior deposits declines, the ratings could be downgraded as per Moody's Advanced LGF.

Key indicators

Exhibit 2

Ålandsbanken Abp

	12-23 ²	12-22 ²	12-21 ²	12-20 ²	12-19 ²	CAGR/Avg. ³
Total Assets (EUR Million)	5 340.0	5 896.8	6 633.1	6 033.6	5 605.8	(1.2) ⁴
Total Assets (USD Million)	5 898.9	6 293.3	7 516.1	7 382.4	6 292.5	(1.6) ⁴
Tangible Common Equity (EUR Million)	287.0	270.0	277.9	265.3	231.6	5.5 ⁴
Tangible Common Equity (USD Million)	317.0	288.1	314.9	324.6	260.0	5.1 ⁴
Problem Loans / Gross Loans (%)	1.6	1.6	1.2	0.9	0.8	1.2 ⁵
Tangible Common Equity / Risk Weighted Assets (%)	16.2	13.9	14.1	15.9	14.6	14.9 ⁶
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	20.4	24.1	20.2	14.0	13.7	18.5 ⁵
Net Interest Margin (%)	1.8	1.1	1.0	1.0	1.0	1.2 ⁵
PPI / Average RWA (%)	3.4	2.1	2.9	2.8	2.3	2.7 ⁶
Net Income / Tangible Assets (%)	0.9	0.4	0.6	0.5	0.5	0.6 ⁵
Cost / Income Ratio (%)	69.5	76.8	70.6	70.9	73.2	72.2 ⁵
Market Funds / Tangible Banking Assets (%)	18.0	16.0	22.3	20.5	20.5	19.4 ⁵
Liquid Banking Assets / Tangible Banking Assets (%)	18.2	20.2	22.2	20.7	20.2	20.3 ⁵
Gross Loans / Due to Customers (%)	107.9	103.4	118.0	113.0	118.6	112.2 ⁵

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; IFRS. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.

Sources: Moody's Ratings and company filings

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody.com> for the most updated credit rating action information and rating history.

Profile

Ålandsbanken Abp (Ålandsbanken) is a Finnish bank that was originally established in 1919 on the Åland Islands, an autonomous region of Finland. The bank provides personal banking, business banking, wealth management, and investment services. Ålandsbanken has a subsidiary, Crosskey Banking Solutions (Crosskey), which provides IT-solutions for banks and other financial companies.

In Finland and Sweden, the main focus is Private/Premium Banking, wealth management and investment services with offices located in the larger urban areas. On the Åland Islands, the bank offers a full product range of banking services. Ålandsbanken has a market share of above 50% on the Åland Islands for banking, as well as <5% of Private Banking in Sweden and >5% of Private Banking in Finland.

Recent developments

June 2019: Ålandsbanken together with Ikano Bank, ICA Banken, Soderberg & Partners founded [Borgo AB](#) (Baa2 Negative, baa3), a Swedish mortgage company.

Detailed credit considerations

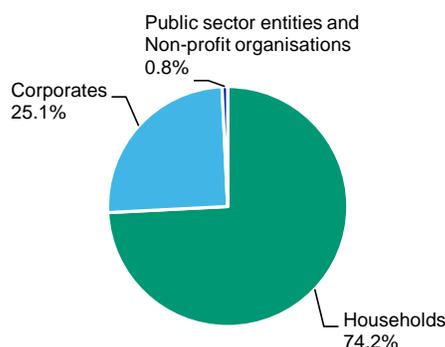
Low asset risk with concentration toward affluent households and their companies

Ålandsbanken has a history of strong asset quality, with loan portfolios dominated by mortgages in the Åland Islands, Finland and Sweden. The problem loans/gross loans ratio was 1.6% as of year end 2023, unchanged from year end 2022.

By end of year 2023, the loan book consisted of 55% mortgages, 25% corporate loans, and 20% other household lending. Ålandsbanken historically had a larger exposure to real estate lending in Sweden, but began reducing this exposure in 2018 and 2019.

Exhibit 3

Ålandsbanken's loan book breakdown as of year end 2023



Source: Company reports and Moody's Ratings

During 2022 and 2023 Ålandsbanken transferred a majority of its Swedish mortgage portfolio to Borgo, a mortgage bank created, and jointly owned by, Ålandsbanken and several other Swedish banks. The transfer of mortgages amounted to SEK 10.4 billion in 2022 and SEK 5.8 billion in 2023. These transfers of low risk loans partly drove an increase in the share of problem loans to remaining gross loans (1.6% at end of 2023, up from 0.9% in 2020), as the remaining loans left on balance sheet, largely comprised of lending to corporates comprised a higher proportion of problem loans.

The process of granting mortgages differs in Sweden and Finland for Ålandsbanken. In Sweden, the bank grants mortgages up to 85% loan-to-value (LTV) and maximum five times debt to income.

In Finland and the Åland Islands, mortgages are granted up to 70% LTV, which is meaningfully lower than the regulatory cap of 90%. Higher LTV's may be approved if additional collaterals or guarantees are provided.

Due to the focus on affluent individuals and their companies, there is a higher concentration risk compared with similarly sized banks, with lower granularity in the loan exposures. Although affluent customers will have very strong balance sheets, the concentration risk implies that if customers with larger exposures default, it will have a visible deterioration in Ålandsbanken's loan performance.

We expect Ålandsbanken's loan quality to deteriorate modestly over the next 12-18 months due to our forecast of a continued mild contraction in Swedish and Finnish economies during 2024 and gradually increasing unemployment. The assigned asset risk score of baa2, incorporates four negative adjustments, reflecting sector concentration and expected deterioration.

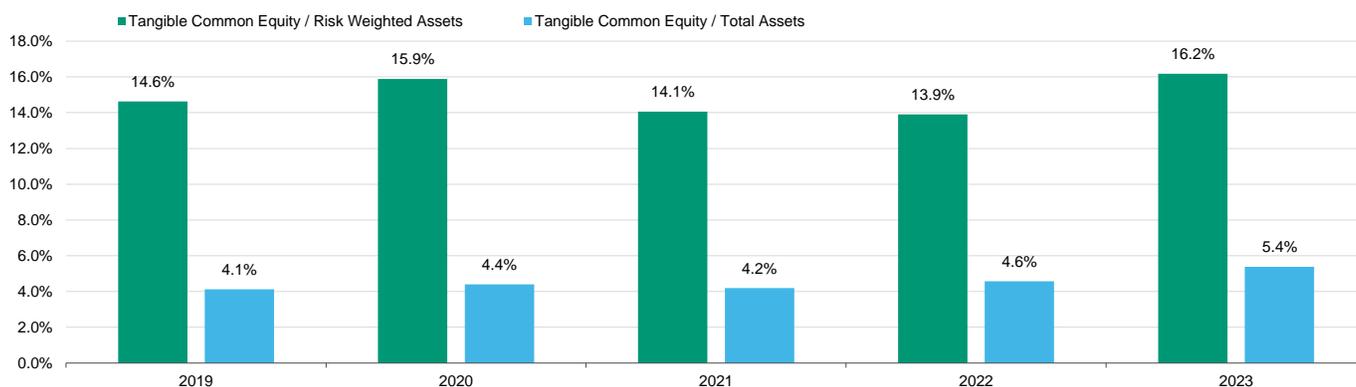
Stronger capitalisation due to lower risk weighted assets and high earnings

Ålandsbanken ended 2023 with a strong capital position, reporting tangible common equity (TCE) to risk-weighted assets ratio of 16.2%, improving from 13.9% in prior year, largely due to transferring mortgages to Borgo and strong internal capital generation.

Ålandsbanken has an internal target to maintain a CET1 ratio buffer 1.75-3 percentage points above its regulatory requirements. At end of 2023, the CET1 ratio was 5.2 percentage points above its 8.5% requirement, however excess capital will reduce during 2024 as the bank expects requirements to increase to 10.3%, largely due to the reintroduction of systemic risk buffers in Finland. Thus we expect that CET1 ratio will stabilise between 13% and 14%. The bank's pillar 2 requirement was 1.1% at end of 2023.

Exhibit 4

Development of Ålandsbanken's capital metrics



Source: Moody's Ratings

Ålandsbanken's long term dividend policy targets a minimum 60% payout ratio. For 2023 they aim to pay out 75% of earnings in an ordinary dividend and an additional 8% as an extra dividend, totaling 83% of earnings.

Ålandsbanken's leverage, measured as TCE to tangible assets, improved to 5.4% in year end 2023 from 4.6% a year earlier.

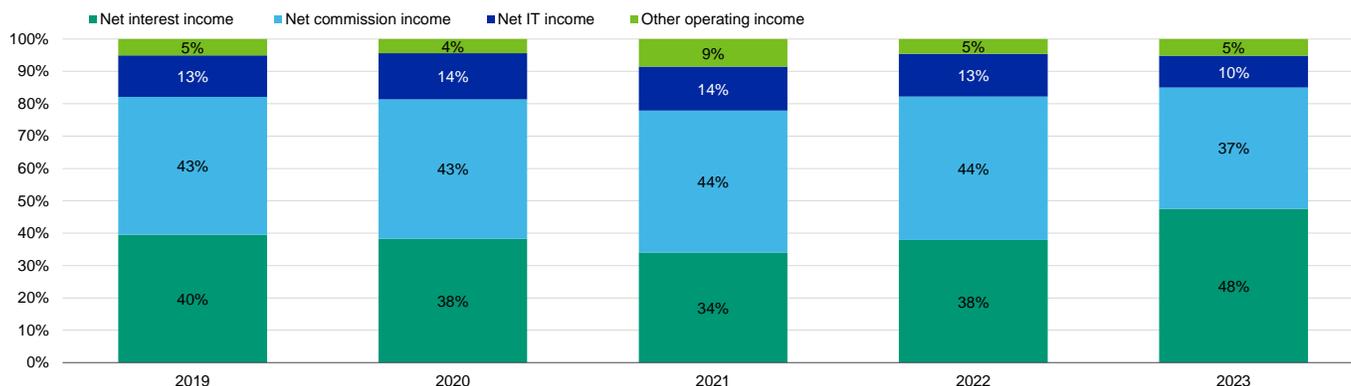
Capitalisation may strengthen temporarily during 2024 due to the last carve out of Swedish mortgages being transferred to Borgo. However, we expect that the long term leverage ratio to hover around 5%, leading to negative adjustments in the assigned capital score as per Moody's Banks methodology.

Our assigned Capital score of a1 incorporates two negative adjustments to reflect the bank's capital targets and nominal leverage.

Diversified revenues and higher net interest income drive earnings

Ålandsbanken has diversified revenues due to its focus on both lending and asset management, but also selling IT services to other banks (see exhibit below). Net income to tangible assets ratio was a strong 0.9% in 2023, increasing from 0.5% a year earlier. We expect earnings to come back down in coming years as margins stabilise. However, as IT service revenues increase over time, recurring profitability could improve.

Exhibit 5

Ålandsbanken's profitability breakdown by income class

Source: Company reports and Moody's Ratings

Ålandsbanken's robust profitability is due to its diversification despite its limited size, both by geography and product line. 43% of revenue comes from Finland, 33% of revenue from Sweden and 24% from the Åland Islands. Of these revenues, 35% was attributable to deposits and daily banking services, 30% from investment services and 19% from financing services. IT Services stood for 14% of revenue, comprising of revenue from the subsidiary Crosskey.

The C/I-ratio was 69.5% which is higher than peers', and reflects the high costs related to Crosskey which is an IT-company. As the company gains scale through growing partnerships, the C/I ratio will likely improve, with better earnings as a result.

We assign a Profitability score of baa3. We believe this reflects the fact that profitability will likely peak in 2023 or 2024 due to interest rate rises of the past few years starting to reverse, partly offset by increasing revenues from Crosskey.

Deposit funded but with concentration in depositors

Ålandsbanken mainly relies on deposit funding representing 74% of funding excluding equity. Private banking customers may be represented both as private and corporate depositors, which creates a concentration risk for Ålandsbanken. Due to the nature of the private banking franchise, the share of uninsured deposits is large at 60% of total deposits. Uninsured deposits are typically more volatile, and exhibit a higher likelihood of flowing out of the bank in case of reputational damage. However, Ålandsbanken's strong record of attracting deposits during times of market volatility reflects the bank's focus on building strong relationships with its customers and the trust they place in the bank.

Ålandsbanken also uses covered bonds to finance its mortgage portfolio. We consider this type of funding to have lower refinancing risk than unsecured bonds due to the liquidity in the market during times of stress.

Ålandsbanken has no unsecured bonds outstanding. During the pandemic Ålandsbanken borrowed money from the ECB. We believe Ålandsbanken will repay their ECB loans in the coming 12-18 months.

Ålandsbanken's funding structure score of baa3 reflects the market funds to tangible banking assets ratio is 18.0% and negative adjustments for depositor concentration.

Ample volumes of high quality liquid assets to meet shifts in deposit flows.

Ålandsbanken has a prudent approach to asset liability management and has ample liquid resources to meet shifts in deposit flows, including large volumes of unencumbered mortgages that can be used to place as collateral in covered bonds to use in repo transactions with the European Central Bank (ECB).

Ålandsbanken's liquid banking assets / tangible banking assets as of year end 2023 was 18.2%. They had a liquidity reserve amounting to €1,264 million, consisting of Aaa rated covered bonds, cash including deposits at central banks, sovereign and sub-sovereign bonds as well as retained covered bonds. The liquidity reserve consists of 95% High Quality Liquid Assets (HQLA), which results in an HQLA/TBA ratio of 23.2%, up from 19.26% in year end 2022.

Ålandsbanken's NSFR ratio was 109% in year end 2023, up from 108% in year end 2022. The LCR ratio had gone up to 156% in year end 2023 from 138% in year end 2022. These ratios are above regulatory and internal requirements, however we consider that the NSFR is narrowly managed due to the depositor concentration.

Ålandsbanken's ALM strategy aims to match a significant part of both assets and liabilities on a floating rate. They can use derivatives to swap fixed interest to floating for their assets and liabilities. To manage the FX risk that arise by holding assets and liabilities in both Euro and SEK, they use different FX swaps, forwards and spots. The FX risk mainly occurs in SEK through activities via the Swedish branch.

The Liquidity score of baa3, reflects the ample volumes of liquid assets and one negative adjustment due to relatively tightly managed NSFR given our view on the volatile nature of unsecured deposits.

Source of facts and figures cited in this report

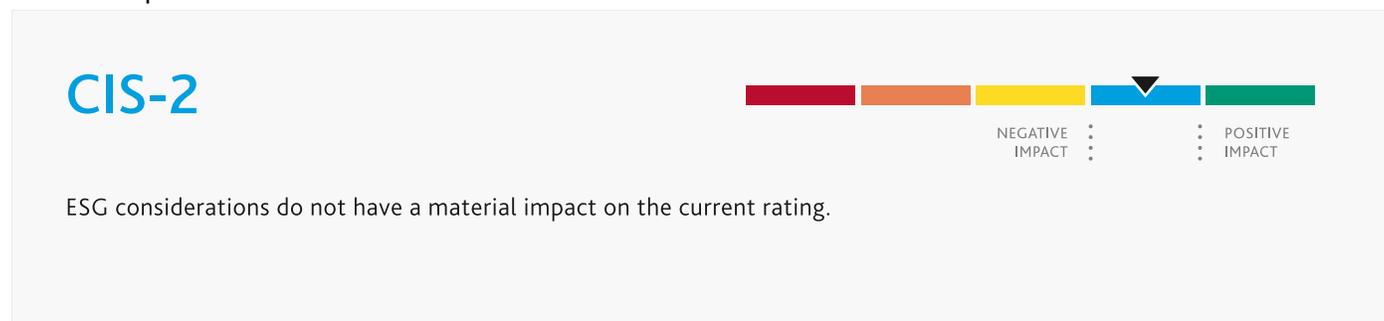
Unless noted otherwise, the bank-specific figures originate from the bank's reports and Moody's Banking Financial Metrics. All figures are based on our own chart of accounts and may be adjusted for analytical purposes. Please refer to the document [Financial Statement Adjustments in the Analysis of Financial Institutions](#), published on 9 August 2018.

ESG considerations

Ålandsbanken Abp's ESG credit impact score is CIS-2

Exhibit 6

ESG credit impact score



Source: Moody's Ratings

Ålandsbanken's Credit Impact Score of **CIS-2** reflects the limited credit impact of ESG considerations on the ratings.

Exhibit 7

ESG issuer profile scores



Source: Moody's Ratings

Environmental

Ålandsbanken faces moderate environmental risks primarily because of its portfolio exposure to carbon transition risk as a diversified bank. In line with its peers, the bank is facing mounting business risks and stakeholder pressure to meet broader carbon transition goals. In response, Ålandsbanken is developing its climate risk and portfolio management capabilities. It is proactively engaging with customers and stakeholders to reduce their footprint by initiating the Åland index.

Social

Ålandsbanken faces moderate industry-wide social risks related to regulatory and litigation risks, requiring high compliance standards. These risks are mitigated by the bank's developed policies and procedures. High cyber and personal data risks are mitigated by the bank's strong IT framework. As retail bank providing services to clients in Sweden and Finland, Ålandsbanken has moderate exposure to customer relations risks. Ålandsbanken's focus on affluent and wealthy clients highlights the importance of customer relations and reputational risks. Data security and customer privacy are critical for banks, particularly in the retail segment because they access large amounts of personal data. Fines and reputational damage as a result of product mis-selling, misrepresentation and other types of misconduct are also key social risks. Continued investments in technology and the bank's long track record of handling sensitive customer data, as well as appropriate culture and governance and compliance functions that ensure adherence to regulatory standards, help to manage the associated credit risk.

Governance

Ålandsbanken faces low governance risks and its risk management, policies and procedures are in line with industry best practices. Ålandsbanken is a regional bank with niche focus on affluent customers which creates some concentration risks in depositors but has a strong track record of good risk management and financial strategy. The bank has a clear and simple organisational structure. The bank has some concentration in ownership with the largest owner controlling 29.8% of votes, however, the bank's board of directors has a majority of independent directors.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moody's.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Support and structural considerations

Loss Given Failure

Ålandsbanken's A3 deposit ratings reflect the baa2 BCA and two notches of uplift as per Moody's Advanced LGF. Ålandsbanken is subject to the EU Bank Recovery and Resolution Directive, which Moody's considers an Operational Resolution Regime. For this analysis, Moody's assumes that equity and losses stand at 3% and 8%, respectively, of tangible banking assets in a failure scenario. The ratings agency also assumes a 25% run-off of "junior" wholesale deposits and a 5% run-off in preferred deposits. Moreover, Moody's assigns a 25% probability to junior deposits being preferred to senior unsecured debt. For Ålandsbanken, Moody's assesses a 26% proportion of junior deposits over total deposits. These are in line with the rating agency's standard assumptions.

In line with the Advanced LGF analysis, Ålandsbanken's junior depositors are likely to face very low loss given failure, because of the substantial buffer of loss-absorbing obligations protecting depositors.

The minimum requirements of own funds and eligible liabilities (MREL) do not currently oblige Ålandsbanken to issue MREL eligible debt and therefore do not affect the Advanced LGF analysis.

Government support

Due to Ålandsbanken's limited market share in Finnish deposits of 1.2%, Moody's assesses the probability of government support in case of failure to be low, providing no further uplift in the ratings.

Counterparty Risk Ratings (CRRs)

The CRRs of Ålandsbanken are A2/Prime-1

The CRR of A2 reflects the Adjusted BCA of baa2 and three notches of uplift, reflecting the extremely low loss given failure from the high volume of instruments that are subordinated to CRR liabilities. The short-term CRR is P-1.

Counterparty Risk (CR) Assessment

The CR Assessment of Ålandsbanken is A2(cr)/Prime-1(cr)

The CR Assessment of Ålandsbanken is positioned at A2(cr), three notches above the Adjusted BCA of baa2, based on the buffer against default provided to the senior obligations. In addition, the low probability of government support does not result in any uplift. The short-term CR Assessment is P-1(cr).

About Moody's Bank Scorecard

Our scorecard is designed to capture, express and explain in summary form our Rating Committee's judgement. When read in conjunction with our research, a fulsome presentation of our judgement is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating methodology and scorecard factors

Exhibit 8

Ålandsbanken Abp

Macro Factors							
Weighted Macro Profile		Strong +		100%			
Factor	Historic Ratio	Initial Score	Expected Trend	Assigned Score	Key driver #1	Key driver #2	
Solvency							
Asset Risk							
Problem Loans / Gross Loans	1.6%	a1	↔	baa2	Geographical concentration	Sector concentration	
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	16.2%	aa2	↓	a1	Expected trend	Nominal leverage	
Profitability							
Net Income / Tangible Assets	0.7%	baa2	↔	baa3	Expected trend		
Combined Solvency Score		a1		baa1			
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets	18.0%	a3	↔	baa3	Deposit quality		
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets	18.2%	baa2	↔	baa3	Stock of liquid assets		
Combined Liquidity Score		baa1		baa3			
Financial Profile							
				baa2			
Qualitative Adjustments				Adjustment			
Business Diversification				0			
Opacity and Complexity				0			
Corporate Behavior				0			
Total Qualitative Adjustments				0			
Sovereign or Affiliate constraint				Aa1			
BCA Scorecard-indicated Outcome - Range				baa1 - baa3			
Assigned BCA				baa2			
Affiliate Support notching				0			
Adjusted BCA				baa2			
Balance Sheet							
		in-scope (EUR Million)		% in-scope		at-failure (EUR Million)	% at-failure
Other liabilities		1 240		23.3%		1 634	30.7%
Deposits		3 863		72.6%		3 469	65.2%
Preferred deposits		2 858		53.7%		2 715	51.0%
Junior deposits		1 004		18.9%		753	14.2%
Dated subordinated bank debt		31		0.6%		31	0.6%
Preference shares (bank)		27		0.5%		27	0.5%
Equity		160		3.0%		160	3.0%
Total Tangible Banking Assets		5 321		100.0%		5 321	100.0%

Debt Class	De Jure waterfall		De Facto waterfall		Notching		LGF Notching Guidance vs. Adjusted BCA	Assigned LGF notching	Additional Notching	Preliminary Rating Assessment
	Instrument volume + subordination	Sub-ordination	Instrument volume + subordination	Sub-ordination	De Jure	De Facto				
Counterparty Risk Rating	18.3%	18.3%	18.3%	18.3%	3	3	3	3	0	a2
Counterparty Risk Assessment	18.3%	18.3%	18.3%	18.3%	3	3	3	3	0	a2 (cr)
Deposits	18.3%	4.1%	18.3%	4.1%	2	2	2	2	0	a3

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Assessment	3	0	a2 (cr)	0	A2(cr)	
Deposits	2	0		0	A3	A3

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.

Source: Moody's Ratings

Ratings

Exhibit 9

Category	Moody's Rating
ALANDBANKEN ABP	
Outlook	Stable
Counterparty Risk Rating	A2/P-1
Bank Deposits	A3/P-2
Baseline Credit Assessment	baa2
Adjusted Baseline Credit Assessment	baa2
Counterparty Risk Assessment	A2(cr)/P-1(cr)

Source: Moody's Ratings

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