

Rating Action: Moody's affirms Municipality Finance's Aa1 long term issuer and senior unsecured ratings; outlook stable

23 Sep 2020

Stockholm, September 23, 2020 -- Moody's Investors Service ("Moody's") has today affirmed Municipality Finance Plc's (MuniFin) long-term issuer and senior unsecured ratings at Aa1, as well as the senior unsecured MTN programme ratings at (P)Aa1. The short-term commercial paper ratings were affirmed at P-1 and other short term at (P)P-1. Moody's has also affirmed the bank's long- and short-term Counterparty Risk (CR) Assessment of Aa1(cr)/P-1(cr). The rating of MuniFin's Additional Tier 1 (AT1) securities was also affirmed at A3(hyb). The outlook on the senior unsecured ratings remains stable.

Municipality Finance Housing plc.'s backed senior unsecured Aa1 rating and the outlook on the rating were withdrawn since there is no longer any debt outstanding.

MuniFin's senior ratings are supported by the joint guarantee provided by the regional and local governments (RLGs) through Municipal Guarantee Board (Aa1, stable), MuniFin's public policy mandate to act as the de facto debt management office for the RLGs, and the RLGs' close association with the central government and the RLGs' income tax levying power.

Please click on this link https://www.moodys.com/viewresearchdoc.aspx?docid=PBC_ARFTL433228 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and identifies each affected issuer.

RATINGS RATIONALE

The affirmation of MuniFin's issuer and senior and short-term ratings reflects the institution's close links to Finnish regional and local governments (RLGs) and ultimately the sovereign. This is due to: (1) its role as the main provider of funding to the municipal sector and its strong solvency profile; (2) its public policy mandate to act as the de-facto debt management office for the RLGs; and (3) the joint guarantee by RLGs in Finland with income tax levying power, provided through the Municipal Guarantee Board (MGB).

MGB plays its role by guaranteeing all funding by credit institutions directly or indirectly owned by municipalities that will be used for lending to municipalities, entities under their control and government guaranteed social housing entities. These guarantees improve funding availability and assist the municipalities ability to deliver their public services in Finland as mandated by the central government. MuniFin is the only entity benefiting from MGB's guarantees.

In Moody's opinion, although it is not stated explicitly by the central government, the interlinkages, controls and importance of services provided by the local government sector indicate that the ultimate support provider in the unlikely event of an acute liquidity stress would be the Government of Finland.

The CR Assessment is based on Moody's Banks Methodology and incorporates an implied baseline credit assessment (BCA) of a1, and extremely low losses given failure as indicated by Moody's advanced loss given failure (LGF) leading to a Preliminary Rating Assessment (PRA) of aa1(cr). The CR Assessment also incorporates Moody's assumptions of very high probability of government support if needed, but that does not result in additional uplift as the PRA is aligned with ratings on the government of Finland of Aa1. MuniFin's implied BCA reflects the company's (1) extremely low asset risk with its profile as Finnish municipal lender, (2) predictable financial performance due to public policy mandate, (3) sound liquidity, (4) very strong capitalisation, and (5) low risk appetite.

MuniFin's non-cumulative preferred stock's rating of A3(hyb) assigned to MuniFin's Additional Tier 1 non-viability securities issued in October 2015, is also based on Moody's Banks Methodology. The rating is positioned two notches below the implied BCA of a1. One notch downward adjustment is due to the securities deep subordination, small volume and limited protection from residual equity, which imply a high loss severity in the case of failure. The other one notch adjustment reflects our assessment of the risk on coupon skips on non-viability AT1 securities balanced against the expectation of support from MuniFin's owners and guarantors to prevent such an event from occurring. The AT1 has a common equity tier 1 (CET1) trigger of 5.125%, while

Munifin's CET1 ratio was 87.8% at the end of June 2020.

OUTLOOK

The stable outlook on Munifin's backed senior unsecured ratings reflects the stable outlook on the government of Finland's rating.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Although unlikely in the short-term, MuniFin's ratings could be upgraded as a result of an upgrade of the government of Finland.

Although not expected in the short-term, MuniFin's ratings could be downgraded if the government of Finland is downgraded. Downward pressure on the ratings could also arise over time as a result of: (1) a diluted public policy mandate; (2) a weaker standing in debt capital markets; or (3) a weakening in the MGB guarantee.

PRINCIPAL METHODOLOGY

The methodologies used in these ratings were Banks Methodology published in November 2019 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1147865, and Government-Related Issuers Methodology published in February 2020 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1186207. Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

The List of Affected Credit Ratings announced here are a mix of solicited and unsolicited credit ratings. Additionally, the List of Affected Credit Ratings includes additional disclosures that vary with regard to some of the ratings. Please click on this link https://www.moodys.com/viewresearchdoc.aspx?docid=PBC_ARFTL433228 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and provides, for each of the credit ratings covered, Moody's disclosures on the following items:

- Endorsement
- Rating Solicitation
- Issuer Participation
- Participation: Access to Management
- Participation: Access to Internal Documents
- Disclosure to Rated Entity
- Lead Analyst
- Releasing Office

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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