

MOODY'S

INVESTORS SERVICE

Rating Action: Moody's affirms long-term deposit and senior unsecured debt ratings, and downgrades high-trigger Additional Tier 1 (AT1) ratings of Svenska Handelsbanken AB, SEB, and Swedbank AB

27 Sep 2018

London, 27 September 2018 -- Moody's Investors Service has today affirmed the long-term deposit and senior unsecured debt ratings, and maintained stable outlooks on Svenska Handelsbanken AB (Handelsbanken), SEB and Swedbank AB (Swedbank). At the same time, Moody's downgraded the foreign currency high-trigger Additional Tier 1 ratings of Handelsbanken to Baa3(hyb) from Baa2(hyb), and those of SEB and Swedbank to Ba1(hyb) from Baa3(hyb).

The affirmation of the banks' long-term deposit and senior unsecured debt ratings is based on Moody's view that the banks will continue to report resilient financial performance in the context of a modest slowdown in economic domestic growth (from 2.6% in 2018 to 2.0% in 2019), the ongoing risks related to high household leverage and the housing market. In Moody's opinion, the banks maintain robust capital and profitability buffers against those risks.

The downgrade of the high-trigger AT1 securities follows the Swedish FSA's (SFSA) decision to move the 25% risk-weight floor for Swedish mortgages to pillar I from pillar II. Although nominal capital requirements will remain unchanged, this will lower capital metrics, including CET1, thereby reducing the distance between the banks' future CET1 ratios and the 8% threshold, a breach of which would trigger a full or partial write-down or equity conversion.

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

RATINGS RATIONALE

AFFIRMATION OF SVENSKA HANDELSBANKEN AB'S, SEB'S AND SWEDBANK AB'S LONG-TERM DEPOSIT AND SENIOR UNSECURED DEBT RATINGS

The affirmation of the banks' long-term deposit and senior unsecured debt ratings is based on Moody's view that the banks will remain resilient to the moderate slowdown in economic growth, the continued elevated risks related to high household leverage and the housing market. In Moody's opinion, the banks' generally have strong buffers against those risks, in terms of robust capital and profitability, and will continue to generate consistent, stable financial performance.

SVENSKA HANDELSBANKEN AB

The affirmation of Handelsbanken's a2 BCA reflects the bank's strong credit quality, solid capitalisation (Tangible Common Equity / Risk Weighted Assets 24.9% at end-June 2018) and improved recurring earnings (Net Income / Tangible Assets 0.55% in the first half of 2018), which we expect to remain as such while the bank expands its operations outside Sweden. However, similarly to many Nordic peers, the BCA is constrained by the bank's high reliance on market funding (Market Funds / Tangible Banking Assets 44.8% at end-June 2018). Handelsbanken's BCA continues to benefit from a rare positive corporate behaviour notch due to its track-record of exemplary long-term stewardship in running the bank.

The bank's long-term deposit and senior unsecured debt ratings of Aa2 incorporate Moody's expectations of the bank's issuance of additional loss-absorbing debt in response to bank-specific MREL (Minimum Requirements for own funds and Eligible Liabilities). They include a two-notch uplift from our advanced Loss Given Failure (LGF) analysis, reflecting our view that the bank's junior depositors and senior creditors face a very low loss given failure. Our moderate assessment of government support translates into a further notch uplift included in these ratings.

SEB

The affirmation of SEB's a3 BCA reflects the bank's strong credit quality, solid capitalisation (Tangible Common Equity / Risk Weighted Assets 23.0% at end-June 2018) and improved recurring earnings (Net

Income / Tangible Assets 0.73% in the first half of 2018). However, similarly to many Nordic peers, the BCA is constrained by the bank's high reliance on market funding (Market Funds / Tangible Banking Assets 34.6% at end-June 2018).

SEB's long-term deposit and senior unsecured debt ratings of Aa2 incorporates Moody's expectations of the bank's issuance of additional loss-absorbing debt in response to its MREL. They include a three-notch uplift in our advanced Loss Given Failure (LGF) analysis, reflecting our view that the bank's junior depositors and senior creditors face an extremely low loss given failure. Our moderate assessment of government support translates into a further notch uplift included in these ratings.

SWEDBANK AB

The affirmation of Swedbank's a3 BCA captures the bank's strong credit quality, with a focus on Swedish mortgages, which Moody's considers low-risk, solid capitalisation (Tangible Common Equity / Risk Weighted Assets 28.1% at end-June 2018), and strong and recurring earnings (Net Income / Tangible Assets 0.83% in the first half of 2018). However, similar to many Nordic peers, the BCA is counterbalanced by the bank's high reliance on market funding (Market Funds / Tangible Banking Assets 38.5% at end-June 2018).

Swedbank's long-term deposit and senior unsecured debt ratings of Aa2 incorporates Moody's expectations of the bank's issuance of additional loss-absorbing debt in response to its MREL. They include a three-notch uplift in our advanced Loss Given Failure analysis, reflecting our view that the bank's junior depositors and senior creditors face an extremely low loss given failure. Our moderate assessment of government support translates into a further notch uplift included in these ratings.

AT1 DOWNGRADES REFLECT THE REDUCED DISTANCE TO 8% TRIGGER

The rationale for downgrading Handelsbanken's, SEB's and Swedbank's high trigger AT1 ratings reflects Moody's assessment that, following the SFSA's decision to move the mortgage risk-weight floor to pillar I, the banks' CET1 ratios will decline, and thereby reduce their respective distance to the regulatory trigger of 8%. Moody's has taken into account the expected capital ratios in the context of the banks' capital and funding plans.

WHAT COULD CHANGE THE RATINGS OF THESE BANKS UP

Moody's does not expect any immediate upward pressure on the ratings of Svenska Handelsbanken AB, SEB or Swedbank AB, as implied by the stable outlook on these banks' ratings.

However, bank outlooks could be revised to positive if the affected banks were to significantly improve their leverage ratios, and/or funding and liquidity profiles in a sustainable way going forward.

If banks' future CET1 ratios strengthens significantly compared to Moody's current expectations, there could be upward pressure on the AT1 ratings.

WHAT COULD CHANGE THE RATINGS OF THESE BANKS DOWN

Moody's does not expect any immediate downward pressure on the deposit and senior unsecured debt ratings of Svenska Handelsbanken AB, SEB and Swedbank AB, as implied by the stable outlook on these instruments.

However, the BCAs and the ratings could be lowered downgraded if the current moderate correction in the housing market were to become significant, resulting in a longer period of adverse economic developments in Sweden, for instance a long period of slow or stagnant growth.

The BCAs of the banks could also come under pressure for other reasons unrelated to housing, such as a severe decline in profitability or, given the banks' material dependence on wholesale funding, if there were indications that refinancing could become more difficult and significantly more costly.

The long-term deposit and senior unsecured debt ratings could be downgraded, in particular of Swedbank AB and SEB (which currently get an uplift of 3 notches in our LGF framework), if the Swedish subordination requirements under the Minimum Requirements for own funds and Eligible Liabilities (MREL) would decline, for instance, due to EU harmonisation. Handelsbanken only benefits from 2 notches in our LGF framework, and is solidly within that range.

LIST OF AFFECTED RATINGS

Issuer: Svenska Handelsbanken AB

..Affirmations:

-Long-term Counterparty Risk Ratings, affirmed Aa1
-Short-term Counterparty Risk Ratings, affirmed P-1
-Long-term Bank Deposits, affirmed Aa2 Stable
-Short-term Bank Deposits, affirmed P-1
-Short-term Deposit Note/CD Program, affirmed P-1
-Long-term Counterparty Risk Assessment, affirmed Aa1(cr)
-Short-term Counterparty Risk Assessment, affirmed P-1(cr)
-Long-term Issuer Rating, affirmed Aa2 Stable
-Baseline Credit Assessment, affirmed a2
-Adjusted Baseline Credit Assessment, affirmed a2
-Senior Unsecured Regular Bond/Debenture, affirmed Aa2 Stable
-Backed Senior Unsecured Regular Bond/Debenture, affirmed Aa2 Stable
-Senior Unsecured Medium-Term Note Program, affirmed (P)Aa2
-Backed Senior Unsecured Medium-Term Note Program, affirmed (P)Aa2
-Subordinate Regular Bond/Debenture, affirmed A3
-Subordinate Medium-Term Note Program, affirmed (P)A3
-Backed Subordinate Medium-Term Note Program, affirmed (P)A3
-Backed Junior Subordinate Medium-Term Note Program, affirmed (P)Baa1
-Other Short Term, affirmed (P)P-1
-Backed Other Short Term, Affirmed (P)P-1
-Commercial Paper, affirmed P-1

..Downgrades:

-Preferred Stock Non-cumulative (Foreign Currency), downgraded to Baa3(hyb) from Baa2(hyb)
-Preferred Stock Non-cumulative Medium-Term Note Program, downgraded to (P)Baa3 from (P)Baa2

..Confirmation:

-Preferred Stock Non-cumulative (Local Currency), confirmed Baa2(hyb)

..Outlook Action:

-Outlook remains Stable

Issuer: Svenska Handelsbanken, New York Branch

..Affirmations:

-Long-term Counterparty Risk Ratings, affirmed Aa1

...Short-term Counterparty Risk Ratings, affirmed P-1
...Long-term Bank Deposits, affirmed Aa2 Stable
...Long-term Deposit Note/CD Program, affirmed Aa2 Stable
...Long-term Counterparty Risk Assessment, affirmed Aa1(cr)
...Short-term Counterparty Risk Assessment, affirmed P-1(cr)

..Outlook Action:

...Outlook remains Stable

Issuer: Svenska Handelsbanken, Inc.

..Affirmation:

...Backed Commercial Paper, affirmed P-1

..No Outlook assigned

Issuer: Stadshypotek AB

..Affirmations:

...Long-term Counterparty Risk Ratings, affirmed Aa1
...Short-term Counterparty Risk Ratings, affirmed P-1
...Long-term Counterparty Risk Assessment, affirmed Aa1(cr)
...Short-term Counterparty Risk Assessment, affirmed P-1(cr)
...Commercial Paper, affirmed P-1

..No Outlook assigned

Issuer: SEB

..Affirmations:

...Long-term Counterparty Risk Ratings, affirmed Aa2
...Short-term Counterparty Risk Ratings, affirmed P-1
...Long-term Bank Deposits, affirmed Aa2 Stable
...Short-term Bank Deposits, affirmed P-1
...Short-term Deposit Note/CD Programme, affirmed P-1
...Long-term Counterparty Risk Assessment, affirmed Aa2(cr)
...Short-term Counterparty Risk Assessment, affirmed P-1(cr)
...Long-term Issuer Rating, affirmed Aa2 Stable
...Baseline Credit Assessment, affirmed a3
...Adjusted Baseline Credit Assessment, affirmed a3
...Senior Unsecured Regular Bond/Debenture, affirmed Aa2 Stable
...Backed Senior Unsecured Regular Bond/Debenture, affirmed Aa2 Stable
...Senior Unsecured Medium-Term Note Program, affirmed (P)Aa2

...Subordinate Regular Bond/Debenture, affirmed Baa1
...Subordinate Medium-Term Note Program, affirmed (P)Baa1
...Junior Subordinate Medium-Term Note Program, affirmed (P)Baa2
...Commercial Paper, affirmed P-1
...Backed Commercial Paper, affirmed P-1
..Downgrades:
...Preferred Stock Non-cumulative, downgraded to Ba1(hyb) from Baa3(hyb)

..Outlook Action:

...Outlook remains Stable

Issuer: SEB AG

..Affirmations:

...Long-term Counterparty Risk Ratings, affirmed Aa2
...Short-term Counterparty Risk Ratings, affirmed P-1
...Long-term Bank Deposits, affirmed Aa2 Stable
...Short-term Bank Deposits, affirmed P-1
...Long-term Counterparty Risk Assessment, affirmed Aa2(cr)
...Short-term Counterparty Risk Assessment, affirmed P-1(cr)
...Baseline Credit Assessment, affirmed a3
...Adjusted Baseline Credit Assessment, affirmed a3

..Outlook Action:

...Outlook remains Stable

Issuer: Swedbank AB

..Affirmations:

...Long-term Counterparty Risk Ratings, affirmed Aa2
...Short-term Counterparty Risk Ratings, affirmed P-1
...Long-term Bank Deposits, affirmed Aa2 Stable
...Short-term Bank Deposits, affirmed P-1
...Long-term Deposit Note/CD Program, affirmed (P)Aa2
...Short-Term Deposit Note/CD Program, affirmed P-1
...Long-term Counterparty Risk Assessment, affirmed Aa2(cr)
...Short-term Counterparty Risk Assessment, affirmed P-1(cr)
...Long-term Issuer Rating, affirmed Aa2 Stable
...Baseline Credit Assessment, affirmed a3

...Adjusted Baseline Credit Assessment, affirmed a3
...Senior Unsecured Regular Bond/Debenture, affirmed Aa2 Stable
...Senior Unsecured Medium-Term Note Program, affirmed (P)Aa2
...Subordinate Regular Bond/Debenture, affirmed Baa1
...Subordinate Medium-Term Note Program, affirmed (P)Baa1
...Backed Preferred Stock Non-cumulative, affirmed Baa3(hyb)
...Commercial Paper, affirmed P-1
...Other Short Term, affirmed (P)P-1
..Downgrades:
...Preferred Stock Non-cumulative, downgraded to Ba1(hyb) from Baa3(hyb)

..Outlook Action:

...Outlook remains Stable

Issuer: Swedbank AB, New York Branch

..Affirmations:

...Long-term Deposit Note/CD Program, affirmed Aa2 Stable

..Outlook Action:

...Outlook remains Stable

Issuer: Swedbank Mortgage AB

..Affirmations:

...Long-term Counterparty Risk Ratings, affirmed Aa2

...Short-term Counterparty Risk Ratings, affirmed P-1

...Long-term Counterparty Risk Assessment, affirmed Aa2(cr)

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

...Long-term Issuer Rating, affirmed Aa2 Stable

...Baseline Credit Assessment, affirmed a3

...Adjusted Baseline Credit Assessment, affirmed a3

...Senior Unsecured Medium-Term Note Program, affirmed (P)Aa2

...Other Short Term, affirmed (P)P-1

..Outlook Action:

...Outlook remains Stable

PRINCIPAL METHODOLOGY

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

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