

## Research

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### Research Update:

# Swedbank AB Ratings On Watch Negative Due To Implications Of Authorities' Investigations Into Alleged Money Laundering

**Primary Credit Analyst:**

Antonio Rizzo, Madrid (34) 91-788-7205; Antonio.Rizzo@spglobal.com

**Secondary Contact:**

Pierre-Brice Helsing, Stockholm + 46 84 40 5906; Pierre-Brice.Helsing@spglobal.com

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## Research Update:

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## Overview

- Swedbank is currently under investigation by authorities for alleged money laundering and disclosure of insider information.
- We consider that this is damaging the bank's reputation and could raise concerns among the bank's investor base.
- Ongoing investigations could also reveal serious deficiencies in the bank's controls and governance.
- The bank is undertaking management changes following the board of directors dismissing the CEO.
- As a result, we are placing our 'AA-/A-1+' long- and short-term issuer credit ratings on Swedbank and its outstanding debt on CreditWatch with negative implications.
- We intend to resolve the CreditWatch within three months. The outcome will depend on the bank's ability to stabilize its franchise and the effect of the ongoing investigations on its business and financial profiles.

## Rating Action

On April 1, 2019, S&P Global Ratings placed on CreditWatch negative its long- and short-term issuer credit ratings on Swedbank AB and its core subsidiary Swedbank Mortgage AB.

At the same time, we also placed on CreditWatch negative all the outstanding debt instruments.

## Rationale

The CreditWatch follows the recent money-laundering allegations and subsequent regulatory investigations in Sweden and Estonia, which in our view are undermining the bank's reputation and might weigh negatively on its creditworthiness.

The Swedish broadcaster SVT has presented information linking Swedbank to Danske Bank's alleged money-laundering case in Estonia. SVT also alleged that

the bank might have misled the U.S. authorities in connection with the Panama Papers investigations. Management reaction to the flow of negative news has proven insufficient to clear these allegations and has failed, in our view, to preserve its reputation and reassure investors. In an attempt to recover market confidence, on March 28, 2019, the board dismissed the group's CEO, Ms. Birgitte Bonnesen and appointed CFO Mr. Anders Karlsson as acting CEO.

The ongoing investigations could potentially reveal misconduct that might impair our view of the bank's corporate governance, conservative risk management, and strategy in the Baltics. We also see potential risks of fines or lawsuits that could ultimately affect its financial profile. Although these penalties are currently uncertain and difficult to quantify, we will monitor the effect on the bank's profitability resulting from any risk provisions or higher funding costs following the market's negative reaction to recent events.

Swedbank is the leading bank in the Baltics, holding private lending and deposit market shares above 30% in the region and around 45%-50% in Estonia, in particular. We understand that Swedbank has focused predominantly on domestic customers in the Baltics, while holding an important 25% market share in cross-border business in Estonia. In response to the accusations, the bank's management assured the authorities that it had diligently followed the "know your customer" rules in its Estonian operations, off-boarded questionable clients, and reported any suspicious transactions to the relevant authorities.

Swedbank also instigated an independent investigation, carried out by Forensic Risk Alliance (FRA), into the SVT allegations. FRA's preliminary findings, which focused on 50 account holders, show that the relationships between Swedbank and suspicious clients singled out by SVT had been terminated by the end of May 2017 at the latest. However, the limited scope of the report and the fact that it was heavily redacted failed to reassure the market.

The Estonian and Swedish Financial Supervisory Authorities are conducting a joint investigation into the information reported by SVT. The Latvian FSA and the Lithuanian central bank have also agreed to cooperate with the investigation. In a related but separate incident, the Swedish Economic Crime Authority has launched an investigation against Swedbank for unlawful disclosure of insider information and suspected fraud.

Our ratings on Swedbank continue to factor in its solid balance sheet and leading market share in retail banking in its home country and the Baltics. We consider the bank benefits from strong capitalization underpinned by a risk-adjusted capital (RAC) ratio of 12.4% as of December 2018. We expect the RAC ratio to remain stable over the year on the back of sustained capital generation. High profitability (15.4% return on equity as of December 2018) provides financial flexibility and supports our current capital assessment. Although funding spreads have widened, we expect the market to remain open to Swedbank, and the bank's liquidity buffers to remain sufficient.

We continue to factor into our ratings the issuance of approximately SEK100 billion (about €9.7 billion) of subordinated liabilities by 2022 to meet MREL and, in turn, support the ratings through the additional loss absorbing capacity (ALAC) buffer.

## **CreditWatch**

The CreditWatch with negative implications reflects the possibility that we could lower our ratings on Swedbank over the next three months if management fails to take decisive measures to stabilize the bank's franchise and strengthen market confidence in its corporate governance.

We could also lower the ratings if the current regulatory investigations identify serious control and governance weaknesses or if Swedbank fails to address organizational and risk management deficiencies.

Moreover, we could take a negative rating action if we believe that the money-laundering allegations could lead to material regulatory fines and penalties, which significantly weaken Swedbank's financial profile.

Conversely, we could affirm the current ratings if the bank manages to restore confidence in its management and corporate governance. We could also affirm the ratings if we obtain greater clarity over the likely outcome of the regulatory investigations and we consider their impact on Swedbank's creditworthiness to be manageable.

## **Ratings Score Snapshot**

Issuer Credit Rating	AA-/Watch Neg/A-1+
SACP	a+
Anchor	a-
Business Position	Strong (+1)
Capital and Earnings	Strong (+1)
Risk Position	Adequate (0)
Funding and Liquidity	Adequate and Adequate(0)
Support	+1
ALAC Support	+1
GRE Support	0
Group Support	0
Sovereign Support	0
Additional Factors	0

## Related Criteria

- Criteria - Financial Institutions - General: Methodology For Assigning Financial Institution Resolution Counterparty Ratings, April 19, 2018
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- Criteria | Financial Institutions | Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- Criteria | Financial Institutions | Banks: Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria | Financial Institutions | Banks: Assessing Bank Branch Creditworthiness, Oct. 14, 2013
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria | Financial Institutions | Banks: Commercial Paper I: Banks, March 23, 2004

## Related Research

- Nordic Banks' Strong Capital Will Cushion Them From The Challenges Ahead, March 28, 2019
- Banking Industry Country Risk Assessment Update: February 2019, Feb. 22, 2019
- Nordic Banks Sport Strong Capital--And It's Not Likely To Soften, Oct. 17, 2018
- Nordic Bank Ratings Continue To Stand Tall, Aug. 16, 2018
- 24 European Banking Groups Assigned Resolution Counterparty Ratings, June 29, 2018
- Banking Industry Country Risk Assessment: Sweden, Nov. 24, 2017

## Ratings List

Ratings Affirmed; CreditWatch/Outlook	Action	To	From
Swedbank AB			
Swedbank Mortgage AB			
Issuer Credit Rating		AA-/Watch Neg/A-1+	AA-/Stable/A-1+
Swedbank AB			
Senior Unsecured		AA-/Watch Neg	AA-
Subordinated		A-/Watch Neg	A-
Junior Subordinated		BBB/Watch Neg	BBB
Commercial Paper		A-1+/Watch Neg	A-1+
Certificate Of Deposit		AA-/Watch Neg/NR	AA-
Swedbank AB (New York Branch)			
Senior Unsecured		AA-/Watch Neg	AA-

### Ratings Affirmed

Swedbank AB			
Swedbank Mortgage AB			
Resolution Counterparty Rating		AA-/--/A-1+	

### Additional Contact:

Salla von Steinaecker, Frankfurt (49) 69-33-999-164; [salla.vonsteinaecker@spglobal.com](mailto:salla.vonsteinaecker@spglobal.com)

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