

Rating Action: Moody's affirms all ratings of Swedbank AB and changes outlook to negative from stable

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Stockholm, April 02, 2019 -- Moody's Investors Service (Moody's) has affirmed all ratings of Swedbank AB (Swedbank), including the long-term deposit and senior unsecured debt ratings of Aa2. The rating agency has also changed the outlook on Swedbank's long-term deposit, senior unsecured debt and long-term issuer ratings to negative from stable.

The rating action follows the sequence of events around alleged money laundering, and governance issues that resulted in the Swedish Economic Crime Authority (SECA) undertaking preliminary investigations, including into whether the bank had misled the public and markets regarding the occurrence of money laundering in the bank's Baltic operations. The sequence of events also led to the departure of its previous President and CEO.

The affirmation reflects the strength and expected resilience of Swedbank's franchise and financial profile, as strong asset quality, capitalization and profitability remain supportive of the bank's creditworthiness. Likewise, the affirmation also recognizes that the bank has already taken steps to tighten internal control functions and address any money laundering failures.

The negative outlook reflects, nevertheless, potential reputational and financial risks that may arise from potential investigations and regulatory penalties, in addition to the need to repair trust with customers, investors and counterparties.

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

RATINGS RATIONALE

The rating affirmation primarily reflects the strength of Swedbank's franchise and financial profile. Swedbank's a3 BCA is underpinned by strong asset quality, with a focus on Swedish mortgages, which Moody's considers low-risk, solid capitalisation, and robust recurring earnings. However, similarly to many Nordic peers, the BCA also reflects the bank's high reliance on market funding.

The affirmation of the deposit and senior unsecured debt ratings also reflects Moody's Advanced Loss Given Failure (LGF) analysis, giving three notches of uplift to the deposit and senior unsecured debt ratings. Furthermore, one notch of government support is incorporated into these ratings given Moody's assessment of moderate probability of support from the Swedish government.

NEGATIVE OUTLOOK

The negative outlook reflects the balance of risks from potential further investigations and regulatory penalties, in addition to the task of repairing trust of customers and investors. Besides the financial impact that could result from any monetary penalties, Swedbank faces heightened reputational risks, given its response to previous concerns by external stakeholders, which have cast doubts over the corporate culture of the bank, and could in turn reduce the confidence of some customers, investors and counterparties.

WHAT COULD CAUSE RATINGS TO GO DOWN

The ratings could be downgraded if further concerns come to light regarding governance, control functions or compliance, along with any indications of a renewed strategy resulting in heightened credit or operational risks. The ratings could be downgraded were there: (i) a sustained loss in clients, business or investor confidence, exerting pressure on the bank's financial profile, (ii) heightened risks of a significant fine or operational constraints that would reduce the bank's earnings or capital, or (iii) signs that funding becomes significantly more costly or access to certain markets becomes more limited.

The long-term deposit and senior unsecured debt ratings could also be downgraded if the Swedish subordination requirements under MREL were to fall, for instance, due to harmonization with proposed EU

rules.

WHAT COULD CHANGE THE OUTLOOK TO STABLE

The outlook could return to stable if the company demonstrated it had addressed shortcomings and associated risks have dissipated without a material negative impact on Swedbank's financial profile.

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.

LIST OF ALL AFFECTED RATINGS

Issuer: Swedbank AB

..Affirmations:

- Adjusted Baseline Credit Assessment, Affirmed a3
- Baseline Credit Assessment, Affirmed a3
- Long-term Deposit Note / CD Program, Affirmed (P)Aa2
- Short-term Deposit Note / CD Program, Affirmed P-1
- Short-term Deposit Note / CD Program, Affirmed (P)P-1
- Other Short-term, Affirmed (P)P-1
- Commercial Paper, Affirmed P-1
- Long-term Counterparty Risk Assessment, Affirmed Aa2(cr)
- Short-term Counterparty Risk Assessment, Affirmed P-1(cr)
- Long-term Counterparty Risk Rating, Affirmed Aa2
- Short-term Counterparty Risk Rating, Affirmed P-1
- Long-term Issuer Rating, Affirmed Aa2, Outlook Changed To Negative From Stable
- Senior Unsecured Medium-Term Note Program, Affirmed (P)Aa2
- Subordinate Medium-Term Note Program, Affirmed (P)Baa1
- Pref. Stock Non-cumulative Preferred Stock, Affirmed Ba1 (hyb)
- Senior Unsecured Regular Bond/Debenture, Affirmed Aa2, Outlook Changed To Negative From Stable
- Subordinate Regular Bond/Debenture, Affirmed Baa1
- Long-term Bank Deposits, Affirmed Aa2, Outlook Changed To Negative From Stable
- Short-term Bank Deposits, Affirmed P-1

..Outlook Action:

- Outlook Changed To Negative From Stable

Issuer: Swedbank AB, New York Branch

..Affirmations:

- Long-term Deposit Note / CD Program, Affirmed Aa2, Outlook Changed To Negative From Stable

..Outlook Action:

... Outlook Changed To Negative From Stable

Issuer: Swedbank Mortgage AB

..Affirmations:

... Adjusted Baseline Credit Assessment, Affirmed a3

... Baseline Credit Assessment, Affirmed a3

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

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

... Long-term Counterparty Risk Rating, Affirmed Aa2

... Short-term Counterparty Risk Rating, Affirmed P-1

... Long-term Issuer Rating, Affirmed Aa2, Outlook Changed To Negative From Stable

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

...Other Short-term, Affirmed (P)P-1

..Outlook Action:

... Outlook Changed To Negative From Stable

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