

**Rating Action: Moody's downgrades long-term deposit and senior unsecured debt ratings of Swedbank to Aa3 and changes the outlook to stable**

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**This action follows the conclusions of the Swedish Financial Supervisory Authorities' investigations and Swedbank's own investigation regarding anti-money laundering.**

Stockholm, April 02, 2020 -- Moody's Investors Service (Moody's) has downgraded Swedbank AB's (Swedbank) long-term deposit and senior unsecured debt ratings to Aa3 from Aa2, junior senior unsecured debt ratings to Baa1 from A3, subordinated debt ratings to Baa2 from Baa1, and Baseline Credit Assessment (BCA) to baa1 from a3. The outlook on the long-term deposits and senior unsecured ratings has been changed to stable from negative.

The high-trigger Additional Tier 1 (AT1) rating is affirmed at Ba1(hyb).

The rating action follows the conclusions from the Swedish Financial Supervisory Authorities' (SFSA) investigations and the independent investigation commissioned by Swedbank into anti-money laundering (AML) controls at the bank which showed serious and systematic deficiencies in Swedbank's management of money laundering risks, particularly in its Baltic operations. According to the bank's own independent probe, Swedbank's active pursuit of high-risk customers in the Baltics may have facilitated significant amounts of suspicious money laundering transactions. In addition, the bank may have breached US sanctions.

Moody's considers that the underlying governance and risk management deficiencies that were revealed are significant enough to have a material bearing on the bank's overall risk profile, which is reflected through the introduction of a negative adjustment to the BCA for Corporate Behavior.

Swedbank is also subject of criminal investigations by the Estonian Prosecutor's Office linked to money laundering through its Estonian subsidiary and is being investigated by US authorities.

Whereas Swedbank has faced higher costs to strengthen its AML framework along with moderately higher funding costs, the bank's financial profile remains strong with robust asset quality, capitalization and profitability remaining supportive of the bank's creditworthiness. Moody's also recognizes that the bank has already taken steps to tighten internal control functions and address any money laundering failures.

The stable outlook reflects Moody's view that additional financial penalties arising from the continued US and Estonian investigations are unlikely to materially impact the bank's creditworthiness. More broadly, Moody's expects the bank's financial performance to be relatively resilient in the midst of the current uncertainty and slowdown in economic growth.

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

#### RATINGS RATIONALE

##### ANTI-MONEY LAUNDERING GOVERNANCE AND CONTROL FAILURE DRIVE DOWNGRADE

The key driver for today's ratings downgrade of Swedbank's BCA to baa1 from a3 is the recent conclusions of the SFSA's and Estonian FSA's investigations[1] along with Swedbank's own investigation conducted by the law firm Clifford Chance[2].

In addition to the bank facing increased regulatory and compliance costs along with moderately higher funding costs, Moody's considers that the governance and risk management deficiencies that were revealed are significant enough to impact the bank's creditworthiness.

The SFSA issued a SEK 4 billion fine for serious and systematic deficiencies in Swedbank's governance of AML work in its Baltic subsidiaries. The SFSA concluded that the bank's awareness of the risk of money laundering and its processes, routines and control systems were insufficient, and that the Baltic operations were lacking adequate resources to combat money laundering.

The investigation showed that Swedbank AB had been aware of suspected money laundering activities in the Baltics, but despite several internal and external reports pointing to the deficiencies in the Baltic subsidiaries and the risk of money laundering, the bank did not take proper and sufficient action.

The SFSA also found a number of examples of the bank withholding documentation and information from the SFSA that in retrospect reveal the seriousness of the situation, although the bank argues this was not intentional.

The SFSA considered these findings of such a nature that the authorities considered revoking the bank's license. However, the SFSA sees the fact that Swedbank have taken efforts to significantly enhance the bank's AML framework and processes - demonstrating a willingness to correct the deficiencies - as a mitigating factor.

The report conducted by the law firm Clifford Chance indicates that potential suspicious (ingoing and outgoing) transactions of a total amount of €36.7 billion may have flowed through the bank's Baltic subsidiaries through the years 2014-2019. Suspicious transactions may have been at a high level also in the years before 2014. Suspicious flows declined quickly after the bank decided to abandon its previous high-risk non-resident business strategy.

Moody's considers that the governance and risk management deficiencies that were revealed are significant enough to impact the bank's creditworthiness and therefore introduced a negative qualitative adjustment to the BCA reflecting the bank's Corporate Behavior.

Whereas the risk and control failures identified by Clifford Chance and the authorities took place in the past, the withholding by the bank of information from both the Swedish and the Estonian FSAs is recent and suggest that these deficiencies have not yet been fully addressed. The current CEO, Jens Henriksson, has also initiated a review of Swedbank's corporate culture to see if there are shortcomings that need to be addressed, but changes in corporate culture will likely take a number of years to be fully embedded.

Swedbank is also subject of criminal investigations by the Estonian Prosecutor's Office linked to money laundering through its Estonian subsidiary and is being investigated by US authorities. As indicated by similar cases in the past, Moody's considers that the prolonged and complex nature of the investigation and remediation procedures will consume a significant amount of bank resources and managerial focus.

While there is a high degree of uncertainty surrounding the magnitude of any potential fines resulting from the investigations, an analysis of past money laundering cases involving US authorities suggests that while the financial penalties (i.e. excluding internal operational and remediation costs) could represent a sizable figure relative to the bank's annual net income. However, Moody's believes that these are unlikely to result in a material impact on the bank's financial profile.

Furthermore, Moody's recognises that the bank has already taken a number of steps to address its governance and control and specifically its money laundering process controls deficiencies. The bank is implementing an action program which at year-end 2019 consisted of 152 AML initiatives, out of which 67 had been completed whilst 68 were ongoing. These actions underpin the bank's baa1 BCA along with its solid asset quality, robust capital and profitability.

We regard Swedbank's weakness in corporate governance and risk management as a governance risk under our ESG framework, given its implications for the management credibility and track record. Today's action reflects the impact on Swedbank from the governance weakness, and the deterioration in credit quality it has triggered.

#### SENIOR UNSECURED, DEPOSIT AND JUNIOR SENIOR UNSECURED DEBT RATINGS ARE DOWNGRADED

The downgrade of the long-term deposit and senior unsecured debt ratings follows the downgrade of the bank's Adjusted BCA. Moody's Advanced Loss Given Failure (LGF) analysis is based on the group's current balance sheet structure and its capital and funding plans up to the beginning of January 2022, based on the subordination requirements for the current Minimum Requirements for own funds and Eligible Liabilities (MREL).

This analysis indicates that Swedbank's depositors and senior creditors are likely to face extremely low loss-given-failure, due to the loss absorption provided by the senior non-preferred issuance. This results in three notches of uplift for deposits and senior unsecured debt ratings, which are further supported by our view of "moderate" probability of government support, which results in an additional uplift for these two rating classes, leading to long-term deposit and senior unsecured ratings of Aa3. Moody's does not incorporate government support in the Baa1 junior senior unsecured ratings, as this debt class has been introduced by the authorities to absorb losses.

#### HIGH-TRIGGER ADDITIONAL TIER 1 RATING IS AFFIRMED

The high-trigger Additional Tier 1 (AT1) rating is affirmed at Ba1(hyb) as the AT1 rating is resilient to the downgrade of the bank's Adjusted BCA as per Moody's High-trigger CoCo model. This is because the slight increase in the probability that the bank might fail, absent extraordinary support, as indicated by the lower Adjusted BCA, means that there is a reduced amount of incremental risk of loss to AT1 bondholders from a conversion following a breach of the capital trigger. The combination of both considerations results in an expected loss consistent with the Ba1(hyb) rating.

#### STABLE OUTLOOK

The stable outlook reflects Moody's view that additional financial penalties arising from the continued US and Estonian investigations are unlikely to materially impact on the bank's creditworthiness.

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

The ratings could be downgraded were there: (i) further concerns come to light regarding governance resulting in 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 constraint 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 EU's updated Bank Recovery and Resolution Directive (BRRD2).

The BCA and Adjusted BCA could be upgraded if the company demonstrates it has fully addressed previous and ongoing governance, steering and cultural shortcoming. In addition, associated risks need to have dissipated without a negative impact on Swedbank's financial profile or its franchise compared to the current positioning of the BCA.

#### LIST OF AFFECTED RATINGS

..Issuer: Swedbank Mortgage AB

Downgrades:

....Long-term Counterparty Risk Ratings, Downgraded to Aa3 from Aa2

....Long-term Counterparty Risk Assessment, Downgraded to Aa3(cr) from Aa2(cr)  
....Long-term Issuer Rating, Downgraded to Aa3 from Aa2, Outlook Changed to Stable from Negative  
....Baseline Credit Assessment, Downgraded to baa1 from a3  
....Adjusted Baseline Credit Assessment, Downgraded to baa1 from a3  
....Senior Unsecured Medium-Term Note Program, Downgraded to (P)Aa3 from (P)Aa2

Affirmations:

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

Outlook Action:

....Outlook changed to Stable from Negative

..Issuer: Swedbank AB

Downgrades:

....Long-term Counterparty Risk Ratings, Downgraded to Aa3 from Aa2  
....Long-term Bank Deposits, Downgraded to Aa3 from Aa2, Outlook Changed to Stable from Negative  
....Long-term Deposit Note/ CD Program, Downgraded to (P)Aa3 from (P)Aa2  
....Long-term Counterparty Risk Assessment, Downgraded to Aa3(cr) from Aa2(cr)  
....Long-term Issuer Rating, Downgraded to Aa3 from Aa2, Outlook Changed to Stable from Negative  
....Baseline Credit Assessment, Downgraded to baa1 from a3  
....Adjusted Baseline Credit Assessment, Downgraded to baa1 from a3  
....Senior Unsecured Regular Bond/Debenture, Downgraded to Aa3 from Aa2, Outlook Changed to Stable from Negative  
....Senior Unsecured Medium-Term Note Program, Downgraded to (P)Aa3 from (P)Aa2  
....Junior Senior Unsecured Regular Bond/Debenture, Downgraded to Baa1 from A3  
....Junior Senior Unsecured Medium-Term Note Program, Downgraded to (P)Baa1 from (P)A3  
....Subordinate Regular Bond/Debenture, Downgraded to Baa2 from Baa1  
....Subordinate Medium-Term Note Program, Downgraded to (P)Baa2 from (P)Baa1

Affirmations:

....Short-term Counterparty Risk Ratings, Affirmed P-1  
....Short-term Bank Deposits, Affirmed P-1  
....Short-term Deposit Note/CD Program, Affirmed P-1  
....Short-term Deposit Note/CD Program, Affirmed (P)P-1  
....Short-term Counterparty Risk Assessment, Affirmed P-1(cr)  
....Preferred Stock Non-cumulative, Affirmed Ba1(hyb)  
....Commercial Paper, Affirmed P-1  
....Other Short Term, Affirmed (P)P-1

Outlook Action:

....Outlook changed to Stable from Negative

..Issuer: Swedbank AB, New York Branch

Downgrades:

....Long-term Deposit Note/CD Program Takedown, Downgraded to Aa3 from Aa2, Outlook changed to Stable from Negative

Outlook Action:

....Outlook changed to Stable from Negative

## PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in November 2019 and available at [https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC\\_1147865](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1147865). Alternatively, please see the Rating Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

## REGULATORY DISCLOSURES

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](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004).

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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at [https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC\\_1133569](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1133569).

At least one ESG consideration was material to the credit rating outcome announced and described above.

## REFERENCES/CITATIONS

[1] SFSA press release "Swedbank fined for serious deficiencies in its measures to combat money laundering" on 19-Mar-2020

[2] Clifford Chance "Report of investigation on Swedbank AB (publ)" on 23-Mar-2020

Please see [www.moodys.com](http://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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Louise Lundberg  
VP - Senior Credit Officer  
Financial Institutions Group  
Moody's Investors Service (Nordics) AB  
Norrländsgatan 20  
Stockholm 111 43  
Sweden  
JOURNALISTS: 44 20 7772 5456  
Client Service: 44 20 7772 5454

Sean Marion  
MD - Financial Institutions  
Financial Institutions Group  
JOURNALISTS: 44 20 7772 5456  
Client Service: 44 20 7772 5454

Releasing Office:  
Moody's Investors Service (Nordics) AB  
Norrländsgatan 20  
Stockholm 111 43

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