

Rating Action: Moody's concludes review on 6 Nordic banking groups and their subsidiaries

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Actions conclude methodology-related review and revision of government support considerations

London, 17 June 2015 -- Moody's Investors Service has today concluded its rating reviews on six Nordic banks and their subsidiaries. These reviews were initiated on 17 March 2015 following the publication of Moody's revised bank methodology (see "Rating Methodology: Banks," 16 March 2015, available at moodys.com) and include revisions to Moody's government support assumptions for these banks.

In light of the revised bank rating methodology, Moody's rating actions on these six banking groups generally reflect the following considerations: (1) their "Strong +" to "Very Strong -" macro profiles; (2) the banks' healthy and strengthened core financial ratios; (3) the protection offered to depositors and senior creditors, as captured by Moody's Advanced Loss Given Failure (LGF) liability analysis, reflecting the benefit of instrument volume and subordination protecting creditors from losses in the event of resolution; and (4) Moody's view of the likelihood of government support for these institutions.

For its own business reasons, Moody's has withdrawn the outlooks for all of the junior instrument ratings. Please refer to "Moody's Investors Service's Policy for Withdrawal of Credit Ratings", available at moodys.com. Outlooks, which indicate the direction of any rating pressures, are now assigned only to long-term senior debt and deposit ratings. All of the affected banks' long-term senior debt and deposit ratings carry stable outlooks.

For more information on the revised bank rating methodology, please see Moody's press release at http://www.moodys.com/viewresearchdoc.aspx?docid=PR_321005

The full list of affected ratings is provided at the end of the press release.

RATINGS RATIONALE

The revised methodology includes a number of elements that Moody's has developed to help accurately predict bank failures and determine how each creditor class is likely to be treated when a bank fails and enters resolution. These new elements capture insights gained from the crisis and the fundamental shift in the banking industry and its regulation.

1) THE "STRONG +" TO "VERY STRONG-" BANK-SPECIFIC MACRO PROFILES

The Macro Profiles for the banks are "Very Strong -" for operations in Sweden (Aaa stable) and Norway (Aaa stable) and "Strong +" for Denmark (Aaa stable) and Finland (Aaa negative), reflecting high economic, institutional and government financial strength. The Macro Profile constitutes an assessment of the macroeconomic environment in which a bank operates. Given the geographic scope of their operations, these Nordic banking groups are exposed to macroeconomic variables across multiple countries within Europe as most of them have a substantial portion of their exposures in markets other than their home countries. For most banks, the bank-specific Macro Profiles are in line with country-specific Macro Profile scores for the countries in which these banks are headquartered, given that the majority of the operations are within the banks' home countries as well as in areas with similar macroeconomic conditions, with only limited exposures in countries with weaker profiles.

2) CORE FINANCIAL METRICS

The BCAs of these six banks and their subsidiaries range from a2 to baa3, reflecting core financial metrics, including aggregate problem loan ratios that are among the lowest in Europe for Norwegian and Swedish banks, and improving metrics for Danish banks. The BCAs also reflect strong capital buffers, and stable profitability metrics with a strong focus on cost management. The differentiation in BCAs reflects both variances in financial

performance over the recent period and Moody's forward-looking expectations for the individual banks.

See below for outlines of the analytical considerations for the individual banks covered in this press release.

3) PROTECTION OFFERED TO SENIOR CREDITORS, AS CAPTURED BY MOODY'S ADVANCED LOSS GIVEN FAILURE (LGF) LIABILITY ANALYSIS

Moody's applies its Advanced LGF analysis to banks in the Nordic countries as Moody's expects all four countries to introduce operating resolution regimes. The LGF analysis leads to one to two notches of uplift from the banks' adjusted BCA reflecting differences in the banks' liability structures in terms of the amount of bail-in-able liabilities and resulting loss severity on different instruments. This analysis represents a range of "very-low" to "low" loss given failure for long-term deposits and senior debt, taking into account the protection offered by the banks' sizeable volumes of deposits and the amount of debt subordinated to both senior debt and deposits. For the Nordea Bank and Danske Bank groups, Moody's Advanced LGF analysis reflects the high probability of a Single Point of Entry (SPE) resolution approach given these banks' pan-Nordic organisation structures and the cooperation amongst the Nordic national regulators. This results in one notch of LGF uplift for the long term senior unsecured debt and deposit ratings of Danske Bank A/S and its Finnish subsidiary Danske Bank plc, and two notches of LGF uplift for Nordea Bank AB and its Nordic subsidiaries.

4) LIKELIHOOD OF GOVERNMENT SUPPORT

In addition to the impact of the new aspects of the methodology on the banks' ratings, Moody's has also lowered its expectations about the degree of support that individual Nordic governments might provide in a stress scenario. The main trigger for this reassessment is the introduction of the Bank Recovery and Resolution Directive (BRRD) in the European Union (in January 2015). However, the impact on ratings is moderated -- and in some cases wholly or more than offset -- by the aforementioned decline in expected loss assumptions under the new LGF framework. The six banking groups covered in this press release are all among the market leaders in their respective home markets with lending and deposit market shares in excess of 10%. Moody's consider these banks to have a high degree of importance to the financial stability of their individual markets and therefore their ratings incorporate a moderate degree of support resulting in one notch of government support uplift.

Moody's expects that Norway, as a non-EU member, will also introduce bank resolution legislation similar to the BRRD. However, Moody's considers Norway to have more flexibility in terms of supporting banks, and hence assesses the probability of government support for DNB Bank as "high", resulting in two notches of government support uplift for senior debt and deposit ratings.

STABLE OUTLOOKS

The stable outlooks on the banks' long-term senior debt and deposit ratings reflect Moody's view that recent strengthening in banks' financials will be sustained over the next 12-18 months and that individual banks remain well positioned to weather headwinds posed by low interest rates, intense competition and margin pressures.

ASSIGNMENT OF COUNTERPARTY RISK ASSESSMENTS

Moody's has also assigned CR Assessments to these six banks and their subsidiaries. CR Assessments are opinions of how counterparty obligations are likely to be treated if a bank fails, and are distinct from debt and deposit ratings in that they (1) consider only the risk of default rather than expected loss and (2) apply to counterparty obligations and contractual commitments rather than debt or deposit instruments. The CR Assessment is an opinion of the counterparty risk related to a bank's covered bonds, contractual performance obligations (servicing), derivatives (e.g., swaps), letters of credit, guarantees and liquidity facilities.

The CR Assessment takes into account the issuer's standalone strength as well as the likelihood of affiliate and government support in the event of need, reflecting the anticipated seniority of these obligations in the liabilities hierarchy. The CR Assessment also incorporates other steps authorities can take to preserve the key operations of a bank, should it enter a resolution.

The CR Assessment is positioned, prior to government support, above the banks' Adjusted BCAs, based on the cushion against default provided to the senior obligations by subordinated instruments. The main difference with Moody's Advanced LGF approach used to determine instrument ratings is that the CR Assessment captures the probability of default on certain senior obligations, rather than expected loss, therefore Moody's focuses purely on subordination and does not take into account the volume of the instrument class.

The CR Assessments also benefit from government support in line with Moody's support assumptions on deposits

and senior unsecured debt. This reflects Moody's view that any support provided by governmental authorities to a bank, which benefits senior unsecured debt or deposits is very likely to benefit operating activities and obligations reflected by the CR Assessment as well, consistent with Moody's belief that governments are likely to maintain such operations as a going-concern in order to reduce contagion and preserve a bank's critical functions. As a result, five of the six banks' CR Assessments benefit from one notch of government support uplift, while DNB Bank's CR Assessment benefits from two notches of government support.

BANK SPECIFIC ANALYTICAL FACTORS

--- Danske Bank A/S

Moody's has affirmed Danske Bank's baa1 BCA and upgraded its long-term senior unsecured debt and deposit ratings to A2.

The affirmation of Danske Bank's standalone BCA of baa1 reflects the progressive strengthening of the bank's performance in recent years, including improvements in asset quality and capitalisation. The bank manages a balanced and well-diversified lending portfolio, generating a significant volume of recurring earnings. These strengths are balanced against (1) Danske Bank's below-peer profitability and hence weaker capacity to build capital and earnings buffers; and (2) relatively high earnings volatility.

Moody's expects the positive recent trend in Danske Bank's problem loan-levels to continue in the coming 12-18 months, triggering further reductions in loan loss provisions and improvements in profitability. In line with the wind-down of Danske Bank's non-core loan book in Ireland (Baa1 stable), problem loans fell to 3.7% of gross loans at end-March 2015, from 4.2% at end-2013.

Danske Bank's capital ratios have also improved, increasing its ability to absorb potential future losses. At end-March 2015, the Tier 1 ratio and total capital ratios stood at 16.2% and 18.4%, respectively. On a nominal leverage basis, tangible common equity (TCE) stood at 4.4% of total assets.

With net income in the period 2012-14 averaging 0.25% of tangible assets, Danske Bank's earnings capacity remains below those of its peers. While improving to 0.32% in 2014, Moody's expects earnings to remain below those of its peers, reflecting Denmark's modest, albeit improving, growth environment, and margin pressure in the low interest-rate environment.

The upgrade of Danske Bank's long-term senior unsecured debt and deposit ratings to A2 takes into account the bank's baa1 BCA, Moody's view of a very low loss given failure on these instruments resulting in one notch of LGF uplift, and a moderate assessment of government support which translates into one notch of rating uplift. The LGF analysis assesses the banking group's own volume of deposits and debt, and the volume of securities subordinated to them in Moody's creditor hierarchy.

Moody's applies its Advanced LGF analysis on the consolidated total banking group including the Finnish operations, and thereby assumes an SPE resolution across the group's Nordic operations. Moody's considers that the bank's highly interconnected group structure and cooperation between national regulators make a cross-border resolution probable, implying the equal treatment of creditors of Danske Bank A/S and those of its Finnish subsidiary Danske Bank plc.

Danske Bank is Denmark's largest financial institution, and is the market leader in most financial products. As such, Moody's sees a moderate probability of government support for Danske Bank, resulting in one notch of government support uplift in the bank's A2 long-term senior unsecured debt and deposits.

WHAT COULD CHANGE THE RATINGS UP/DOWN

Upward pressure on the rating might develop from a continuation of the recent strengthening trends in financial performance, including (1) stronger profitability from core earnings, without an increase in its risk profile; and (2) improved asset-quality metrics, especially in more volatile segments, such as agriculture and commercial real estate (CRE).

Downward rating pressure would emerge if (1) any renewed pressure on asset quality emerges, particularly in Denmark; (2) there are indications that Danske Bank will not deliver the anticipated improvement in profitability; or (3) the improvements achieved in recent years are not sustainable.

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--- Danske Bank Plc

Moody's has affirmed Danske Bank Plc's baa1 BCA and confirmed the bank's A2 long-term senior unsecured and deposit ratings.

The affirmation of Danske Bank Plc's standalone BCA of baa1 reflects the bank's solid market position as Finland's third-largest bank, stable earnings generation and sound asset quality. Danske Bank Plc's profitability is relatively low. However, Moody's expects that the implementation of restructuring measures to improve cost efficiency and profitability, set against the low pace of economic growth in the country, will drive a positive trend in profits.

Moody's applies its Advanced LGF analysis on the total banking group, including the Finnish operations, as it assumes an SPE resolution. Danske Bank is subject to the BRRD and Moody's expects resolution to take place with a SPE approach. Therefore, Moody's performs the LGF analysis on the consolidated balance sheet of Danske Bank group. Moody's LGF analysis for Danske Plc indicates a low loss-given failure, resulting in one-notch uplift from the bank's adjusted BCA to the long-term deposits and to senior unsecured ratings. The LGF analysis assesses the banking group's own volume of deposits and debt, and the volume of securities subordinated to them in Moody's creditor hierarchy, which together offset the decrease in government support assumptions.

As with its parent, Danske Bank A/S, Moody's continues to believe that the probability of government support for Danske Bank's plc long-term deposits and senior unsecured debt is moderate, resulting in a one-notch uplift included in the bank's A2 long-term senior unsecured debt and deposit ratings.

WHAT COULD CHANGE THE RATINGS UP/DOWN

Upward pressure on the rating might develop if the bank is able to strengthen its earnings generation without increasing its risk profile.

Downward rating pressure would emerge if (1) the bank's profitability deteriorates; (2) its asset quality deteriorates; and/or (3) its risk profile increases, for example as a result of increased exposures to more volatile sectors or increased involvement in more risky operations such as capital market activities.

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-- DNB Bank ASA

Moody's has upgraded DNB Bank's BCA to a3 from baa1, the long-term senior unsecured debt rating to Aa3 from A1 and the deposit ratings to Aa2 from A1.

The upgrade of the DNB Bank's BCA to a3 from baa1 is driven by recent improvements in the bank's asset quality and profitability, along with strengthening risk-weighted capitalisation. However, DNB's reliance on market funding offsets these credit positive factors.

Despite headwinds from the impact of lower oil prices on the Norwegian economy, Moody's expects that DNB's asset quality will remain resilient, owing to the resilience of DNB's retail and large corporate customers. Problem loans levels have reduced to 1.6% of gross loans at end-March 2015, compared to 1.9% at end-2014. That said, DNB's shipping and CRE exposures remain sizeable, and carry higher credit risks; alongside high borrower concentrations, these increase vulnerability in cyclical downturns.

Asset-quality performance metrics have been resilient and Moody's considers DNB's core earnings to be sound. Net income to tangible assets has been steadily increasing over the last three years to 0.9% in 2014 from 0.6% in 2012. DNB's cost-to-income ratio remains among the strongest in its European peer group with a three-year average of 46%, reflecting rigorous cost control. In Moody's opinion, the slowing of Norway's growth following reduced oil investments will have a slightly negative impact on DNB's earnings.

In line with its domestic and international peers, the bank has increased its capital buffers: the TCE-RWAs ratio was 14.2% at end-March 2015, up from 12.3% at end-2013. While DNB benefits from a solid deposit base and good access to local and international capital markets, reliance on market funding is high (market funds stood at 41% of tangible banking assets at end-March).

The upgrade of the bank's deposit rating to Aa2 from A1 and of the senior unsecured debt rating to Aa3 from A1 takes into account (1) the adjusted BCA upgrade to a3; (2) the LGF analysis of the bank's own volume of deposits

and debt, and the volume of the securities subordinated to them; and (3) Moody's expectation of a high probability of government support. Taking into account the Norwegian government's 34% ownership of the bank, Moody's government support assessment translates into two notches of support uplift. While Moody's expects Norway to introduce bank resolution legislation in the coming years, the rating agency believes that Norway, as a non-EU European Economic Area (EEA) member with substantial government wealth, will have more flexibility in dealing with bank resolutions compared with EU states.

DNB benefits from a large volume of deposits and substantial layers of subordination, resulting in very low loss given failure for deposits and two notches of LGF uplift. The senior unsecured ratings benefit from a low loss-given-failure rate because of a moderate volume of senior unsecured debt and subordination, resulting in a one notch LGF uplift. Going forward, Moody's will consider how DNB's planned additional bail-in-able debt issuance weighs against maturing debt.

WHAT COULD MOVE THE RATINGS UP/DOWN

A limited amount of upwards rating momentum could develop if DNB (1) further reduces its asset vulnerability, especially in relation to historically more volatile segments such as shipping and CRE; (2) maintains stronger and more stable earnings generation without increasing its risk profile; and (3) preserves sustained, good access to capital markets.

Downwards pressure on the ratings could develop if (1) DNB's financing conditions were to become difficult; (2) its asset quality were to deteriorate; and/or (3) its risk profile increases, for example as a result of increased exposures to more volatile sectors or increased involvement in more risky operations such as capital market activities. In addition, Moody's believes that downward pressure could be exerted on the ratings because of external factors, such as substantially adverse developments in the Norwegian real-estate market.

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--Nordea Bank AB

Moody's has affirmed Nordea Bank AB's a3 BCA and confirmed the bank's Aa3 long-term senior unsecured debt and deposit ratings.

The affirmation of Nordea Bank AB's a3 standalone BCA reflects the banking group's distinctive and diverse footprint throughout the Nordic area, a resilient earnings pattern, good operational efficiency and healthy asset-quality metrics. These positive factors are counterbalanced by Nordea's high reliance on market funding.

Nordea commands double-digit market shares as a leading bank in each of the Nordic economies. The bank's diversified footprint and business lines have benefited income stability and asset quality. On a three-year average basis at end-March 2015, net income stood at 0.6% of tangible assets and problem loans amounted to just below 2%. Balanced against this strong performance, Moody's notes that Nordea's reliance on market funding exposes the bank to changes in market confidence.

The confirmation of Nordea Bank AB's Aa3 deposit and senior unsecured debt ratings takes into account (1) Nordea Bank's a3 adjusted BCA; (2) a very low loss given failure for these instruments as analysed using the rating agency's LGF framework resulting in a two-notch LGF uplift; and (3) a moderate probability of government support translating into one notch government support uplift.

The LGF analysis assesses the banking group's own volume of deposits and debt, and the volume of securities subordinated to them in Moody's creditor hierarchy, which together offset the decrease in government support assumptions.

Moody's applies its Advanced LGF analysis on the consolidated balance sheet of Nordea Group as the rating agency considers that an SPE resolution approach is probable across the Nordic countries in which Nordea operates. Moody's expects that Nordea's highly interconnected group structure and organisation, and the established level of cooperation amongst the Nordic national resolution authorities will enable cross-border resolution, implying equal treatment of creditors of Nordea Bank AB and those of its three main foreign subsidiaries in Finland, Denmark and Norway.

Moody's has aligned the Adjusted BCA of Nordea's subsidiaries with the a3 group BCA. In Moody's opinion, the support that the subsidiaries receive continues to be captured through (1) these entity's BCAs; and (2) rating uplift owing to the group-wide two-notch LGF uplift.

As a result of affiliate support and the SPE resolution approach that Moody's has used to analyse LGF for the Nordea group, the deposit, senior unsecured debt and junior instruments ratings of Nordea Bank Finland Plc, Nordea Bank Danmark A/S and Nordea Bank Norge ASA are aligned to those of Nordea Bank AB, in line with the SPE resolution approach.

WHAT COULD CHANGE THE RATING UP/DOWN

A limited amount of upward rating momentum could develop if the Nordea group and its subsidiaries demonstrate (1) reduced reliance on (short-term) market funds; (2) long-term stability in its asset performance, including reduced single-name concentrations in its loan book; and/or (3) stronger earnings generation, without a material increase in risk profile.

The current stable outlooks assigned to the ratings of the Nordea group and its subsidiaries indicates a low likelihood of downward pressure on the ratings. However, downward pressure could develop if these banks' financing conditions were to become more difficult, asset quality were to deteriorate and/or risk profiles increase, for example as a result of increased exposures to more volatile sectors or increased involvement in more risky operations such as capital market activities.

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--Nordea Bank Danmark A/S

Moody's has affirmed Nordea Bank Danmark's baa1 BCA, downgraded the Adjusted BCA to be aligned with the group BCA at a3, and upgraded the bank's long-term senior unsecured debt and deposit ratings to Aa3 from A1.

The affirmation of Nordea Bank Danmark's baa1 BCA reflects the bank's solid business franchise as Denmark's second-largest banking group, its strong integration in the Nordea Group, and its relatively stable core earnings, underpinned by a sizeable retail portfolio. These positive credit factors are counterbalanced by (1) the bank's reliance on market funding, which makes it sensitive to swings in investor and market sentiment; (2) weakened profitability and efficiency metrics compared with those of the overall group; and (3) exposure to the historically more volatile Danish agriculture and real-estate sectors.

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--Nordea Bank Finland Plc

Moody's has affirmed Nordea Bank Finland's a3 BCA and confirmed the bank's Aa3 long-term senior unsecured debt and deposit ratings.

The affirmation of Nordea Bank Finland's a3 BCA reflects the bank's valuable and defensible business franchise in Finland as one of the country's leading banks, its strong integration in the Nordea Group and its sound capital levels. However, the BCA is constrained by the bank's reliance on market funding, which makes it sensitive to swings in investor and market sentiment, relatively low profitability metrics and risks associated with its large derivatives book.

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-- Nordea Bank Norge ASA

Moody's has upgraded Nordea Bank Norge's BCA to a3 from baa1, downgraded the Adjusted BCA to be aligned with the group BCA at a3, and confirmed the bank's Aa3 long-term senior unsecured debt and deposit ratings.

The upgrade of Nordea Bank Norge's BCA reflects (1) the bank's solid business franchise as Norway's second-largest financial institution; (2) its strong integration in the Nordea Group; and (3) its sizeable retail portfolio and improvements in the global shipping market, which have underpinned the improvement in asset quality.

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-- SEB

Moody's has upgraded SEB's BCA to a3 from baa1 and the long-term senior unsecured debt and deposit ratings to Aa3 from A1.

The bank's improved asset quality and re-occurring earnings, a good degree of revenue diversification across its

main activities and increased efficiency are the main drivers of the BCA upgrade. However, higher earnings sensitivity to capital market activities counterbalance these positive credit factors.

The efforts of SEB management to continuously focus the bank on core operations since the global financial crisis has led to steady improvements in asset quality, illustrated by a decline in the bank's gross problem loan ratio (as defined by Moody's) to 1.3% in 2014 from 1.5% in 2011. Net income to tangible assets has been steadily increasing since 2009 (0.7% at end-March 2015 compared to 0.2% at end-2009), also underpinned by the bank's strong and wealth-management franchise. Moreover, Moody's also notes that earnings volatility has shown a reducing trend in recent years.

SEB's franchise as leading merchant bank positions the bank well to continue to grow in the current low interest-rate environment. However, it also leads to more cyclical earnings than the more retail-focused peers, high borrower concentration risks and a reliance on market funding, which constrain the rating. However, Moody's positively notes the bank's structural shift towards an increasing contribution of the more stable retail franchise in recent years.

The upgrade of the bank's deposit and senior unsecured debt rating to Aa3 from A1 takes into account the higher BCA, the LGF analysis of the bank's own volume of deposits and debt, and the volume of securities subordinated to them in Moody's creditor hierarchy, which together offset the decrease in government support assumptions. SEB benefits from a large volume of deposits and substantial layers of subordination, resulting in very low loss given failure and two notches of LGF uplift. This liability-side analysis offsets Moody's decision to decrease the bank's government support assumptions to "moderate", leading to one notch of support uplift, from "very high" and two notches.

WHAT COULD MOVE THE RATING UP/DOWN

A limited amount of upward rating momentum could develop on SEB and SEB AG's BCAs if (1) SEB demonstrates continued further improvement in the core earnings, without increasing its risk profile; and/or (2) further sustained lengthening of its funding maturity profile, combined with an increasing share of deposit funding and strong liquidity levels.

Downward rating pressure could develop if (1) there is significant macroeconomic deterioration in the group's main operating markets; (2) the bank's reliance on market funding increases; (3) there are signs of pressure on profits, which could primarily arise from weakening economic stability and franchise value; and/or (4) its risk profile increases, owing to increased exposures to more volatile sectors and earnings streams.

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-- SEB AG

Moody's has upgraded SEB AG's BCA to baa3 from ba1, its adjusted BCA to a3 from baa1, and its long-term senior unsecured debt and deposit ratings to A2 from Baa1.

The bank's improving recurring earnings is the primary driver of the upgrade of SEB AG's BCA. Profitability and efficiency remain weak, but restructurings in recent years have led to some improvements in these areas. The BCA also reflects the bank's small franchise with a focus on corporate banking in Germany (Aaa stable), adequate capital levels, good credit quality and the solid integration of liquidity management and funding within the SEB group. However, SEB AG's high CRE exposure, single-name credit-risk concentrations, and historically volatile earnings counterbalance the positive credit factors.

The upgrade of SEB AG's adjusted BCA to a3 from baa1 reflects the very high likelihood of affiliate support from its parent, SEB (BCA of a3), in the event of failure. This is consistent with three notches of affiliate support.

The upgrade of the bank's deposit rating to A2 from Baa1 takes into account both the upgrade of the adjusted BCA and the LGF analysis of the bank's own volume of deposits, and the volume of securities subordinated to them in Moody's creditor hierarchy. SEB AG benefits from a large volume of deposits, but bail-in-able liabilities below deposits are limited, resulting in a low loss given failure and one notch of LGF uplift from the bank's adjusted BCA. For SEB AG, Moody's continues to believe that the potential for government support is low, because of the bank's low market share in Germany (less than 1% of lending). As a result, the bank deposit ratings do not include any government support uplift.

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--Svenska Handelsbanken

Moody's has upgraded Svenska Handelsbanken's BCA to a2 from a3 and the bank's long-term senior unsecured debt and deposit ratings to Aa2 from Aa3.

The upgrade of Handelsbanken's BCA to a2 from a3 reflects Moody's expectation that asset quality will remain strong as the bank expands beyond its Swedish core franchise, that earnings will remain stable in the low interest-rate environment and that capital buffers will remain solid as industry-wide pressure to increase dividend payouts mount. The BCA is constrained by the bank's high reliance on market funding, which renders the bank more vulnerable to investor sentiment.

Moody's considers that Handelsbanken has shown exemplary long-term governance and stewardship, underpinned by the bank's decentralized organizational structure, cautious risk incentive system and fully deferred, equitable profit sharing to employees. Handelsbanken's asset quality has remained exceptionally solid and stable over the past decade, with problem loans peaking at 0.7% of gross loans in 2010. Moody's believes that the bank has similarly applied its conservative underwriting practices to its rapid expansion in the UK (Aa1 stable) over the last five years. The upgrade also takes into account the proven stability in Handelsbanken's earnings, with net income standing at 0.55% of tangible assets at end-March 2015. The bank's ability to generate income at low costs sets it apart from industry peers: its cost-to-income ratio stood at 46% at end-March 2015.

In recent years, the bank's capital ratios have increased as lower risk weights in internal rating-based models were introduced. Nominal leverage ratios are more limited, also reflecting the bank's large market share in lower-risk Swedish mortgages: TCE stood at 3.9% of tangible banking assets at end-March 2015.

Notwithstanding the above, Moody's considers that the unprecedented, rapid expansion of the Swedish bank-centric model abroad increases the bank's risk of unforeseen profitability and risk-management issues. This risk is exacerbated by the bank's reliance on market funding, which accounted for 54% of tangible banking assets at end-2014.

The upgrade of Handelsbanken's senior debt and deposit ratings to Aa2 takes into account the upgrade of the BCA and adjusted BCA to a2, Moody's view of a very low loss given failure on these instruments resulting in two notches of LGF uplift, and a moderate assessment of government support, which translates into one notch of rating uplift. The LGF analysis assesses the banking group's own volume of deposits and debt, and the volume of securities subordinated to them in Moody's creditor hierarchy, which together offset the decrease in government support assumptions.

WHAT COULD CHANGE THE RATING -- UP/DOWN

Moody's would expect any upward pressure on the BCA to be preceded by a material reduction of reliance on market funding, which, however, could negatively impact the LGF assessment. In addition, Moody's would consider a reduction of the bank's sector concentrations as credit positive.

Given the upgrade of Handelsbanken's BCA, long-term deposits, senior unsecured ratings, Moody's believes there is a low likelihood for a downward change in ratings in the near-term. Nevertheless, deteriorating asset quality, including from the bank's UK expansion, could exert downward pressure on the ratings.

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--Swedbank

Moody's has upgraded Swedbank's BCA to a3 from baa1 and the bank's long-term senior unsecured debt and deposit ratings to Aa3 from A1.

The upgrade of Swedbank's BCA to a3 from baa1 reflects Moody's expectation that Swedbank's strong asset quality and stable earnings generation, underpinned by its focused management and established franchise in Sweden and the Baltic countries, position the bank well to manage challenges coming from the low interest-rate environment, developments in mobile banking, and competition in historically more profitable activities, including asset management. Moody's in addition notes that Swedbank's reliance on market funding remains high, which renders the bank more vulnerable to shifts in investor sentiment.

Moody's expects that Swedbank will remain focused on its core markets and manage its asset quality with greater

oversight, now that the bank has resolved its legacy challenges in Eastern Europe. At end-March 2015, Sweden accounted for 86% of the loan book, and Swedbank's problem loan ratio declined to 0.5%, from a high of 3.1% in 2009. While Moody's expects Swedbank to maintain strong asset quality, the rating agency notes that the loan book includes significant sector concentration to real estate, which has historically been a more volatile and cyclical asset class: exposure to corporate property management stood at 210% of TCE at end-March.

Swedbank's rigorous focus on costs and margins has enabled the bank to generate stable earnings in the low interest-rate environment. Net income stood at 0.8% of tangible assets in 2014 and Q1 2015, supported by an improvement in the bank's cost-to-income ratio to 44% in Q1 2015, down from 57% in 2010. Balanced against this strong performance, Moody's notes that Swedbank's reliance on market funding exposes the bank to changes in market confidence: market funding stood at 52% of tangible banking assets at end March 2015.

The upgrade of Swedbank's long-term senior debt and deposit ratings to Aa3 reflects the upgrade of the BCA to a3, and Moody's forward-looking assessment of a very low loss given failure on these instruments, translating into a two-notch uplift from the a3 adjusted BCA. The LGF analysis assesses the banking group's own volume of deposits and debt, and the volume of securities subordinated to them in Moody's creditor hierarchy, which together offset the decrease in government support assumptions. Moody's considers it likely that Swedbank's cushion of bail-in able liabilities will grow through 2015. Finally, Moody's includes a moderate assessment of government support, translating into a one-notch uplift.

WHAT COULD CHANGE THE RATING -- UP/DOWN

Swedbank's ratings could become subject to upward pressure following a sustained track record of strong performance, paired with a material reduction of reliance on market funding. The latter, however, could negatively impact the LGF assessment. In addition, Moody's would consider a reduction of the bank's sector concentrations as credit positive. As reflected by the upgrade of Swedbank's BCA, long-term deposits and senior unsecured ratings, and corresponding stable outlook, downward pressure on the rating is currently limited. Nevertheless, a deviation from the bank's focus on low-risk lending, leading to a deterioration in asset quality could exert downward pressure on the ratings.

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LIST OF AFFECTED RATINGS

Issuer: Danske Bank A/S

....Adjusted Baseline Credit Assessment , Affirmed baa1

....Baseline Credit Assessment , Affirmed baa1

....Long-Term Issuer Rating , Upgraded to A2 Stable from A3 Ratings Under Review

....Short-Term Bank Deposit Ratings , Upgraded to P-1 from P-2

....Senior Unsecured Regular Bond/Debenture, Upgraded to A2 Stable from A3 Ratings Under Review

....Junior Subordinated Regular Bond/Debenture, Affirmed Baa3(hyb)

....Pref. Stock Non-cumulative, Affirmed Ba1(hyb)

....Senior Unsecured Medium-Term Note Program, Upgraded to (P)A2 from (P)A3

....Senior Unsecured Deposit Program, Upgraded to (P)A2 from (P)A3

....Short-Term Medium-Term Note Program, Upgraded to (P)P-1 from (P)P-2

....Short-Term Deposit Program, Upgraded to (P)P-1 from (P)P-2

....Short-Term Deposit Program, Upgraded to P-1 from P-2

....Short-Term Commercial Paper, Upgraded to P-1 from P-2

....Counterparty Risk Assessment , Assigned Aa3(cr)

....Counterparty Risk Assessment , Assigned P-1(cr)

....Outlook, Stable

Issuer: Danske Bank Plc

.....Adjusted Baseline Credit Assessment , Affirmed baa1

.....Baseline Credit Assessment , Affirmed baa1

.....Long-Term Bank Deposit Ratings, Confirmed at A2 Stable

.....Short-Term Bank Deposit Ratings, Confirmed at P-1

.....Long-Term Issuer Rating, Confirmed at A2 Stable

.....Senior Unsecured Regular Bond/Debenture, Confirmed at A2 Stable

.....Pref. Stock Non-cumulative, Affirmed Ba1(hyb)

.....Senior Unsecured Medium-Term Note Program, Confirmed at (P)A2

.....Subordinate Medium-Term Note Program, Affirmed (P)Baa2

.... Counterparty Risk Assessment , Assigned Aa3(cr)

.... Counterparty Risk Assessment , Assigned P-1(cr)

....Outlook, Stable

Issuer: Danske Corporation

.... Backed Short-Term Commercial Paper, Upgraded to P-1 from P-2

Issuer: Danske Bank A/S (London Branch)

....Senior Unsecured Deposit Program, Upgraded to (P)A2 from (P)A3

....Short-Term Deposit Program, Upgraded to (P)P-1 from (P)P-2

....Outlook, Stable

Issuer: Leonia Corporate Bank plc

....Backed Senior Unsecured Regular Bond/Debenture, Confirmed at A2 Stable - (Assumed by Danske Bank Plc)

....Outlook, Stable

Issuer: DNB Bank ASA

....Adjusted Baseline Credit Assessment , Upgraded to a3 from baa1

....Baseline Credit Assessment , Upgraded to a3 from baa1

....Long-Term Bank Deposit Ratings, Upgraded to Aa2 Stable from A1 Ratings Under Review

....Short-Term Bank Deposit Ratings, Affirmed P-1

....Senior Unsecured Regular Bond/Debenture, Upgraded to Aa3 Stable from A1 Ratings Under Review

....Subordinate Regular Bond/Debenture, Upgraded to Baa1(hyb) from Baa2 (hyb) Ratings Under Review

....Pref. Stock Non-cumulative, Upgraded to Baa3(hyb) from Ba1(hyb) Ratings Under Review

....Short-Term Commercial Paper, Affirmed P-1

....Senior Unsecured Medium-Term Note Program, Upgraded to (P)Aa3 from (P)A1

....Subordinate Medium-Term Note Program, Upgraded to (P)Baa1 from (P)Baa2

....Short-Term Medium-Term Note Program, Affirmed (P)P-1

....Counterparty Risk Assessment , Assigned Aa1(cr)

....Counterparty Risk Assessment , Assigned P-1(cr)

....Outlook, Stable

Issuer: Den norske Bank ASA

....Senior Unsecured Medium-Term Note Program, Upgraded to (P)Aa3 from (P)A1

....Subordinate Medium-Term Note Program, Upgraded to (P)Baa1 from (P)Baa2

....Short-Term Medium-Term Note Program, Affirmed (P)P-1

....Outlook, Stable

Issuer: Den norske Creditbank

....Backed Junior Subordinated Regular Bond/Debenture, Upgraded to Baa2 (hyb) from Baa3(hyb)

Issuer: DNB Bank ASA, New York Branch

....Long-Term Bank Deposit Rating, Upgraded to Aa2 Stable from A1 Ratings Under Review

....Short-Term Bank Deposit Rating, Affirmed P-1

....Senior Unsecured Deposit Note/Takedown, Upgraded to Aa2 Stable from A1 Ratings Under Review

....Short-Term Senior Unsecured Deposit Note/Takedown, Affirmed P-1

....Outlook, Stable

Issuer: Nordea Bank AB

....Adjusted Baseline Credit Assessment , Affirmed a3

....Baseline Credit Assessment , Affirmed a3

....Long-Term Bank Deposit Ratings, Confirmed at Aa3 Stable

....Short-Term Bank Deposit Ratings, Affirmed P-1

....Senior Unsecured Regular Bond/Debenture, Confirmed at Aa3 Stable

....Subordinate Regular Bond/Debenture, Affirmed Baa1

....Pref. Stock Non-cumulative, Affirmed Ba1(hyb)

....Pref. Stock Non-cumulative, Affirmed Baa3(hyb)

....Backed Pref. Stock Non-cumulative, Affirmed Baa3(hyb)

....Short-Term Commercial Paper, Affirmed P-1

....Senior Unsecured Medium-Term Note Program, Confirmed at (P)Aa3

....Subordinate Medium-Term Note Program, Affirmed (P)Baa1

....Junior Subordinated Medium-Term Note Program, Affirmed (P)Baa2

....Short-Term Medium-Term Note Program, Affirmed (P)P-1

....Counterparty Risk Assessment , Assigned Aa2(cr)

....Counterparty Risk Assessment , Assigned P-1(cr)

....Outlook, Stable

Issuer: Nordea Bank Danmark A/S

....Adjusted Baseline Credit Assessment , Downgraded to a3 from a2

....Baseline Credit Assessment , Affirmed baa1

....Long-Term Bank Deposit Rating, Upgraded to Aa3 Stable from A1 Ratings Under Review

....Short-Term Bank Deposit Rating, Affirmed P-1

....Long-term Issuer Rating , Upgraded to Aa3 Stable from A1 Ratings Under Review

....Senior Unsecured Medium-Term Note Program, Upgraded to (P)Aa3 from (P)A1

....Short-Term Medium-Term Note Program, Affirmed (P)P-1

....Counterparty Risk Assessment , Assigned Aa2(cr)

....Counterparty Risk Assessment , Assigned P-1(cr)

....Outlook, Stable

Issuer: Nordea Bank Finland Plc

....Adjusted Baseline Credit Assessment , Downgraded to a3 from a2

....Baseline Credit Assessment , Affirmed a3

....Long-Term Bank Deposit Ratings, Confirmed at Aa3 Stable

....Short-Term Bank Deposit Ratings, Affirmed P-1

....Long-term Issuer Rating Confirmed at Aa3 Stable

....Senior Unsecured Regular Bond/Debenture, Confirmed at Aa3 Stable

....Senior Unsecured Medium-Term Note Program, Confirmed at (P)Aa3

....Subordinate Medium-Term Note Program, Confirmed (P)Baa1

....Junior Subordinated Medium-Term Note Program, Confirmed (P)Baa2

....Short-Term Medium-Term Note Program, Affirmed (P)P-1

....Counterparty Risk Assessment , Assigned Aa2(cr)

....Counterparty Risk Assessment , Assigned P-1(cr)

....Outlook, Stable

Issuer: Nordea Bank Finland Plc, NY Branch

....Long-Term Bank Deposit Rating, Confirmed at Aa3 Stable

....Senior Unsecured Deposit Note/Takedown, Confirmed at Aa3 Stable

....Outlook, Stable

Issuer: Nordea Bank Norge ASA

....Adjusted Baseline Credit Assessment , Downgraded to a3 from a2

....Baseline Credit Assessment , Upgraded to a3 from baa1

....Long-Term Bank Deposit Ratings, Confirmed at Aa3 Stable

....Short-Term Bank Deposit Ratings, Affirmed P-1

....Senior Unsecured Regular Bond/Debenture, Confirmed at Aa3 Stable

.... Counterparty Risk Assessment , Assigned Aa2(cr)

.... Counterparty Risk Assessment , Assigned P-1(cr)

....Outlook, Stable

Issuer: Nordea North America, Inc.

.... Backed Short-Term Commercial Paper, Affirmed P-1

Issuer: SEB

.... Adjusted Baseline Credit Assessment , Upgraded to a3 from baa1

.... Baseline Credit Assessment , Upgraded to a3 from baa1

.....Long-Term Bank Deposit Ratings, Upgraded to Aa3 Stable from A1 Ratings Under Review

.... Short-Term Bank Deposit Ratings, Affirmed P-1

.... Long-Term Issuer Rating , Upgraded to Aa3 Stable from A1 Ratings Under Review

.....Senior Unsecured Regular Bond/Debenture, Upgraded to Aa3 Stable from A1 Ratings Under Review

.....Subordinate Regular Bond/Debenture, Upgraded to Baa1 from Baa2 Ratings Under Review

.....Pref. Stock Non-cumulative, Upgraded to Baa3(hyb) from Ba1(hyb) Ratings Under Review

.....Pref. Stock Non-cumulative, Affirmed at Ba1(hyb)

.....Senior Unsecured Medium-Term Note Program, Upgraded to (P)Aa3 from (P)A1

.....Subordinate Medium-Term Note Program (Foreign Currency) , Upgraded to (P)Baa1 from (P)Baa2

.... Junior Subordinate Medium-Term Note Program, Upgraded to (P)Baa2 from (P)Baa3

.....Short-Term Deposit Program, Affirmed P-1

.....Short-Term Commercial Paper, Affirmed P-1

.....Backed Short-Term Commercial Paper, Affirmed P-1

.... Counterparty Risk Assessment , Assigned Aa2(cr)

.... Counterparty Risk Assessment , Assigned P-1(cr)

....Outlook, Stable

Issuer: SEB AG

.... Adjusted Baseline Credit Assessment , Upgraded to a3 from baa1

.... Baseline Credit Assessment , Upgraded to baa3 from ba1

....Long-Term Bank Deposit Ratings, Upgraded to A2 Stable from Baa1 Ratings Under Review

.... Short-Term Bank Deposit Ratings, Upgraded to P-1 from P-2

.... Counterparty Risk Assessment , Assigned Aa3(cr)

.... Counterparty Risk Assessment , Assigned P-1(cr)

....Outlook, Stable

Issuer: Svenska Handelsbanken AB

....Adjusted Baseline Credit Assessment , Upgraded to a2 from a3

....Baseline Credit Assessment , Upgraded to a2 from a3

....Long-Term Bank Deposit Ratings, Upgraded to Aa2 Stable from Aa3 Ratings Under Review

....Short-Term Bank Deposit Ratings, Affirmed P-1

....Long-term Issuer Rating , Upgraded to Aa2 Stable from Aa3 Ratings Under Review

....Senior Unsecured Regular Bond/Debenture, Upgraded to Aa2 Stable from Aa3 Ratings Under Review

....Backed Senior Unsecured Regular Bond/Debenture, Upgraded to Aa2 Stable from Aa3 Ratings Under Review

....Subordinate Regular Bond/Debenture, Upgraded to A3 from Baa1 Ratings Under Review

....Pref. Stock Non-cumulative, Upgraded to Baa2(hyb) from Baa3(hyb) Ratings Under Review

....Pref. Stock Non-cumulative, Upgraded to Baa2(hyb) from Baa3(hyb) Stable

....Short-Term Commercial Paper, Affirmed P-1

....Short-Term Deposit Program, Affirmed P-1

....Senior Unsecured Medium-Term Note Program, Upgraded to (P)Aa2 from (P)Aa3

....Backed Senior Unsecured Medium-Term Note Program, Upgraded to (P)Aa2 from (P)Aa3

....Subordinate Medium-Term Note Program, Upgraded to (P)A3 from (P)Baa1

....Backed Subordinate Medium-Term Note Program, Upgraded to (P)A3 from (P)Baa1

....Junior Subordinated Medium-Term Note Program, Upgraded to (P)Baa1 from (P)Baa2

....Backed Junior Subordinated Medium-Term Note Program, Upgraded to (P)Baa1 from (P)Baa2

....Short-Term Medium-Term Note Program, Affirmed (P)P-1

Backed Short-Term Medium-Term Note Program, Affirmed (P)P-1

....Counterparty Risk Assessment , Assigned Aa1(cr)

....Counterparty Risk Assessment , Assigned P-1(cr)

....Outlook, Stable

Issuer: Stadshypotek AB

.... Backed Short-Term Commercial Paper, Affirmed P-1

.... Counterparty Risk Assessment , Assigned Aa1(cr)

.... Counterparty Risk Assessment , Assigned P-1(cr)

Issuer: Svenska Handelsbanken, Inc.

.... Backed Short-Term Commercial Paper, Affirmed P-1

Issuer: Svenska Handelsbanken, New York Branch

....Long-Term Bank Deposit Rating, Upgraded to Aa2 Stable from Aa3 Ratings Under Review

....Senior Unsecured Deposit Note/Takedown, Upgraded to Aa2 Stable from Aa3 Ratings Under Review

....Counterparty Risk Assessment , Assigned Aa1(cr)

....Counterparty Risk Assessment , Assigned P-1(cr)

....Outlook, Stable

Issuer: Swedbank AB

....Adjusted Baseline Credit Assessment , Upgraded to a3 from baa1

....Baseline Credit Assessment , Upgraded to a3 from baa1

....Long-Term Bank Deposit Rating, Upgraded to Aa3 Stable from A1 Ratings Under Review

....Short-Term Bank Deposit Rating, Affirmed P-1

....Long-term Issuer Rating , Upgraded to Aa3 Stable from A1 Ratings Under Review

....Senior Unsecured Regular Bond/Debenture, Upgraded to Aa3 Stable from A1 Ratings Under Review

....Subordinate Regular Bond/Debenture, Upgraded to Baa1 from Baa2 Ratings Under Review

....Pref. Stock Non-cumulative , Upgraded to Baa3(hyb) from Ba1(hyb) Ratings Under Review

....Backed Pref. Stock Non-cumulative , Upgraded to Baa3(hyb) from Ba1 (hyb) Ratings Under Review

....Short-Term Commercial Paper, Affirmed P-1

....Short-Term Deposit Program, Affirmed P-1

....Senior Unsecured Medium-Term Note Program , Upgraded to (P)Aa3 from (P)A1

....Senior Unsecured Deposit Program , Upgraded to (P)Aa3 from (P)A1

....Subordinate Medium-Term Note Program, Upgraded to (P)Baa1 from (P)Baa2

....Junior Subordinated Medium-Term Note Program, Upgraded to (P)Baa2 from (P)Baa3

....Short-Term Medium-Term Note Program, Affirmed (P)P-1

....Counterparty Risk Assessment , Assigned Aa2(cr)

....Counterparty Risk Assessment , Assigned P-1(cr)

....Outlook, Stable

Issuer: Swedbank Mortgage AB

....Long-Term Issuer Rating , Upgraded to Aa3 Stable from A1 Ratings Under Review

....Short-Term Commercial Paper, Affirmed P-1

....Backed Short-Term Commercial Paper, Affirmed P-1

....Senior Unsecured Medium-Term Note Program , Upgraded to (P)Aa3 from (P)A1

...Backed Senior Unsecured Medium-Term Note Program , Upgraded to (P)Aa3 from (P)A1

...Short-Term Medium-Term Note Program, Affirmed (P)P-1

...Backed Short-Term Medium-Term Note Program, Affirmed (P)P-1

...Counterparty Risk Assessment , Assigned Aa2(cr)

...Counterparty Risk Assessment , Assigned P-1(cr)

...Outlook, Stable

PRINCIPAL METHODOLOGY

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