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Research Update:

Swedbank 'AA-/A-1+' Ratings Affirmed Following CEO's Unexpected Departure; Outlook Remains Negative

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Overview

- Swedbank's announcement on Feb. 9, 2016, of the immediate departure of its CEO and that he would be replaced by the bank's current head of Swedish banking was followed three days later by media coverage regarding an investigation into the former CEO's potential involvement in market abuse under Swedish law.
- We understand that Swedbank acted according to internal and external regulations as well as reporting obligations, and we have not identified any significant governance issues, nor do we believe these developments will materially escalate further. We therefore see no immediate risks to Swedbank's earnings or strong business position.
- We are affirming our 'AA-' and 'A-1+' ratings on Swedbank.
- The negative outlook reflects the heightened economic risks associated with growing economic imbalances in Sweden, which could lead us to revise down our anchor for banks operating in Sweden to 'bbb+' from 'a-'.

Rating Action

On Feb. 17, 2016, Standard & Poor's Ratings Services affirmed its 'AA-' long-term and 'A-1+' short-term counterparty credit ratings on Swedbank AB. The outlook remains negative.

We also affirmed our ratings on Swedbank's debt instruments. (See the 'Ratings List' below for all the issue ratings included in today's action.)

Rationale

On Feb. 9, 2016, Swedbank announced the immediate and unexpected departure of its long-standing CEO and the appointment of its current head of Swedish banking as the new acting CEO. The bank's board of directors explained that its action was primarily based on some key performance indicators, such as employee and client satisfaction, being lower than expected and communicated that it had already initiated a process to replace the CEO some three to six months earlier. The board of directors also cited, as a secondary motive for the leadership change, the CEO's recent approval of various real estate deals, which were undertaken by two senior executive managers, that could constitute a potential conflict of interest.

Three days after this announcement, details regarding the unexpected timing of the succession emerged in the media, indicating that the former bank CEO is under investigation following allegations of potential market abuse. The bank's group internal audit function had been made aware of activities that could be assumed as violations of the market abuse act and, in accordance with the act, were forwarded to the Swedish Financial Services Authority (FSA). The findings were subsequently handed over to the Swedish Economic Crime Authority, which later confirmed it had initiated an investigation. We understand that the board and the internal audit function were prohibited from disclosing any details of the report filed with the FSA or from sharing information about the ongoing investigation with any third party, because it would have been a violation of non-disclosure provisions within the market abuse act. However, following media coverage, the bank, after consulting with authorities and legal experts, confirmed that a report had been submitted to the FSA.

While we have no insights into the nature or scope of any potential violations committed by Swedbank's former CEO, we believe that the bank has acted in line with internal and external regulations and according to its reporting obligations towards the FSA. We therefore see no reason to question our assessment of its corporate governance. As such, we expect that Swedbank's actions should mitigate any potential legal claims against the bank relating to any misconduct by its former CEO.

In light of the aforementioned real estate transactions, we understand that the FSA has opened up a broad investigation related to the bank's processes and policies to identify and manage potential conflict of interest and significant outside activities. We understand that such investigation will likely occur over the next couple of months and could result in disciplinary action, including fines levied on the bank. However, in our view, the events are likely to be considered as having a minimal negative impact for the bank's clients, and any potential fines are likely to be limited. Overall, we expect that these recent events will not have a pronounced impact on earnings and that our risk-adjusted capital ratio will remain above 10% in the coming 18-24 months (10.8% at June 30, 2015).

Although we believe that the recent events and ensuing negative media coverage are not positive for the bank, we anticipate that any long-term significant impact will be limited. We understand that Swedbank's largest shareholders support the bank's recent actions and are unlikely to change the recommendation put forward by the nomination committee. The committee suggests, at the annual general meeting, to reelect the majority of the board and its chairman, which we think would underpin the stability of the bank's steering body. Moreover, potential damage to the bank's reputation--such as some loss of customers--will be small, in our opinion. We expect that the bank will continue its strategic initiatives under its new acting CEO, the remaining executive management team, and largely intact board. This should enable the bank to continue its focus on its strong domestic business franchise and allow the bank to report revenue and efficiency metrics, supporting our view of its strong business position.

Outlook

The negative outlook on Swedbank reflects our view of heightened economic risks associated with growing economic imbalances in Sweden.

We could lower the ratings in the next 24 months if the negative trends we see for Swedish economic risk lead us to revise down our anchor for banks operating in Sweden, including Swedbank, to 'bbb+' from 'a-'. We could revise our assessment of Swedbank's stand-alone credit profile downward if, contrary to our current expectation, the bank is unable to maintain a risk-adjusted capital ratio sustainably above 10%, our threshold for a strong capital and earnings assessment.

We could revise the outlook to stable if we consider that the trend for economic risk affecting the Swedish banking sector had stabilized.

Ratings Score Snapshot

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

Related Criteria And Research

Related criteria

- Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- Group Rating Methodology, Nov. 19, 2013
- Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013

- Revised Market Risk Charges For Banks In Our Risk-Adjusted Capital Framework, June 22, 2012
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Bank Capital Methodology And Assumptions, Dec. 6, 2010
- Methodology For Mapping Short- And Long-Term Issuer Credit Ratings For Banks, May 4, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Commercial Paper I: Banks, March 23, 2004

Related research

- Various Rating Actions Taken On Swedish Banks On Continued Government Support And Heightened Economic Risks, Dec. 2, 2015
- Swedbank AB, Aug. 31, 2015
- Swedbank Outlook Revised To Stable From Negative On Improved Business Position; Ratings Affirmed At 'A+/A-1', June 25, 2015

Ratings List

Ratings Affirmed

Swedbank AB

Swedbank Mortgage AB

Counterparty Credit Rating	AA-/Negative/A-1+
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Swedbank AB

Senior Unsecured	AA-
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Subordinated	A-
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Junior Subordinated	BBB
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Certificate Of Deposit	A-1+
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Commercial Paper	A-1+
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Swedbank Mortgage AB

Commercial Paper	A-1+
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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at spcapitaliq.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following Standard

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