

RATING ACTION COMMENTARY

# Fitch Takes Actions on 9 Nordic Banking Groups On Coronavirus Uncertainties

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Fitch Ratings - Stockholm - 31 Mar 2020: Fitch Ratings has taken rating action on nine Nordic banking groups following the coronavirus outbreak as detailed below.

The rating actions are driven by our assessment that the risks to banks' credit profiles are clearly skewed to the downside due to the coronavirus outbreak, although the ultimate economic and financial market implications are unclear. Fitch expects a significant deterioration in eurozone GDP prospects and we expect that a GDP contraction is also highly likely in the Nordic economies.

Fiscal support measures for the private sector and financial markets have mixed first order implications for banks. The four Nordic countries have strong social safety nets and automatic stabilisers in place. Moreover, the strength of their public finances and sovereign ratings allow the governments to launch significant relief measures to help soften the negative impact on their economies from the coronavirus outbreak. Measures that the governments have taken so far aim at preventing corporate bankruptcies and layoffs, protecting household income and supporting liquidity for the banking sector. We estimate that fiscal and credit measures represent 12% of GDP in Denmark, 9% in Sweden, 3% in Norway and 1% in Finland. The income protection measures for households are particularly generous in Denmark and Norway.

Debt relief measures directly related to the COVID-19 outbreak (such as payment holidays for private individuals and moderate debt restructuring for viable companies) should partly mitigate pressure on banks' asset quality metrics. The regulators allow banks to apply large flexibility in impairment recognition under IFRS9 to avoid excessive pro-cyclical profitability impact.

Nonetheless, the operating environment in the Nordic countries will likely deteriorate significantly in 2020 and we have revised our assessment of the banks' operating environments to negative. We expect asset quality to weaken relative to previous expectations and for earnings challenges to

intensify due to reduced business volumes and rising loan impairment charges. Higher wholesale funding costs represent an additional downside risk.

Nordic banks are well capitalised and their capital surpluses over regulatory limits allow them sufficient cushion to absorb losses and inflation of risk-weighted assets. We do not expect immediate pressure on Nordic banks' funding profiles, given their ample liquidity and limited use of short-term debt. Nordic banks rely strongly on secured long-term wholesale funding and we expect the covered bond market to remain liquid even in case of turbulence in the global financial markets. We consider Nordic banks' liquidity sufficient to service even intensified drawdowns of committed credit facilities by companies. The banks' liquidity profiles are underpinned by available central banks' funding facilities.

## RATING ACTIONS

ENTITY/DEBT	RATING			PRIOR
Svenska Handelsbanken AB	LT IDR	AA	Rating Watch On	AA
	ST IDR	F1+	Affirmed	F1+
	Viability	aa	Rating Watch On	aa
	Support	5	Affirmed	5
	Support Floor	NF	Affirmed	NF
	DCR	AA+(dcr)	Upgrade	AA(dcr)
● subordinated	LT	A-	Upgrade	BBB+

[VIEW ADDITIONAL RATING DETAILS](#)

## KEY RATING DRIVERS

Nykredit Realkredit A/S (Nykredit) and Nykredit Bank

Unless noted below, the key rating drivers for Nykredit and its subsidiary are those outlined in our Rating Action Commentary published on 2 July 2019 (Fitch Affirms Nykredit at 'A'; Outlook Stable).

We have affirmed Nykredit's 'A' Long-Term IDR and 'a' Viability Rating (VR) and revised the Outlook to Negative from Stable because we believe the economic fallout from the coronavirus crisis represents a medium-term risk to the ratings. However, the bank enters the economic downturn from a relative position of strength, given its conservative risk appetite, which has resulted in

healthy and resilient through-the-cycle asset quality to date and robust capitalisation. We believe the economic and financial market fallout from the coronavirus outbreak creates additional downside risks to our assessment of asset quality and profitability relative to when we last reviewed the bank's ratings.

While the bank has limited direct exposure to industries that are more vulnerable to the coronavirus outbreak, its loan book is geographically concentrated in one country and thus strongly linked to the performance of the Danish economy and sensitive to rising unemployment. The bank's good profitability to date has been underpinned by its leading Danish mortgage lending franchise and consistent strategy. However, Nykredit's loss absorption capacity is only moderate given the bank's thin margins and its revenues being predominantly in the form of net interest income.

Nykredit Bank's ratings and Outlook are aligned with Nykredit's.

Fitch has downgraded Nykredit's Tier 2 debt by one notch to 'BBB+' from 'A-' and removed it from Under Criteria Observation (UCO) to reflect the change in baseline notching for loss-severity to two notches (from one previously) from the VR since the bank does not meet the specific conditions under our criteria for applying one notch.

We have upgraded the AT1 debt by one notch to 'BBB-' from 'BB+' and removed it from UCO to reflect a change in baseline notching to four notches (from the previous five) from the VR, reflecting a reduction in incremental non-performance risk relative to our previous assumptions. Our assessment is based on the bank operating with a common equity Tier 1 (CET1) ratio that is comfortably above maximum distributable amount (MDA) thresholds and our expectation that this will continue.

#### Landshypotek Bank AB

Unless noted below, the key rating drivers for Landshypotek are those outlined in our Rating Action Commentary published on 2 July 2019 (Fitch Affirms Sweden's Landshypotek at 'A'; Outlook Stable).

We have affirmed Landshypotek's 'A' Long-Term IDR and 'a' VR and revised the Outlook to Negative from Stable since we believe the coronavirus outbreak has a modest immediate impact on the bank's ratings. The bank has no direct exposure to industries that are more sensitive to the COVID-19 outbreak because its loan book is dominated by loans to retail customers and agricultural and forest owners. However, we believe the economic and financial market fallout from the coronavirus outbreak creates additional downside risks to our assessment of asset quality and earnings relative to when we last reviewed the bank's ratings. A downward revision of our assessment of the bank's asset quality would require Stage 3 loans to at least triple from current levels, which we consider unlikely in the short term but could become more plausible in the event of a severe and prolonged economic stress. The bank's profitability is sensitive to lower revenue and higher impairments.

Fitch has downgraded Landshypotek's Tier 2 debt by one notch to 'BBB+' from 'A-' and removed it from UCO to reflect the change in baseline notching for loss-severity to two notches (from one

previously) from the VR since the bank does not meet the specific conditions under our criteria for applying one notch.

We have upgraded the AT1 debt by one notch to 'BBB-' from 'BB+' and removed it from UCO to reflect a change in baseline notching to four notches (from the previous five) from the VR, reflecting a reduction in incremental non-performance risk relative to our previous assumptions. Our assessment is based on the bank operating with a CET1 ratio that is comfortably above MDA thresholds and our expectation that this will continue.

#### SpareBank 1 SR-Bank (SR-Bank)

Unless noted below, the key rating drivers for SR-Bank are those outlined in our Rating Action Commentary published on 11 September 2019 (Fitch Affirms 3 Norwegian Savings Banks; Outlook Stable).

We have affirmed SR-Bank's 'A-' Long-Term IDR and 'a-' VR and revised the Outlook to Negative from Stable, since we believe the coronavirus outbreak has a modest immediate impact on the bank's ratings. The bank has some direct exposure to industries that are more vulnerable to the COVID-19 outbreak as well as to materially lower oil-prices. However, we consider SR-Bank's low risk business model, strict underwriting standards, resilient retail portfolio, strong capitalisation and strong policy response in Norway as factors that when combined can mitigate pressure on the bank's credit profile.

Nonetheless, we believe the economic and financial market fallout from the coronavirus outbreak creates additional downside risks to our assessment of asset quality and earnings relative to when we last reviewed the bank's ratings. A revision of our asset quality assessment would require Stage 3 loans to more than double from current levels, which while unlikely in the short term, could become more plausible in the event of a severe and prolonged economic stress. The bank's profitability is sensitive to lower revenue and higher impairments.

Fitch has downgraded SR-Bank's Tier 2 debt by one notch to 'BBB' from 'BBB+' and removed it from UCO to reflect the change in baseline notching for loss-severity to two notches (from one previously) from the VR since the bank does not meet the specific conditions under our criteria for applying one notch.

#### SpareBank 1 SMN (SMN)

Unless noted below, the key rating drivers for SMN are those outlined in our Rating Action Commentary published on 11 September 2019 (Fitch Affirms 3 Norwegian Savings Banks; Outlook Stable).

We have affirmed SMN's 'A-' Long-Term IDR and 'a-' VR and revised the Outlook to Negative from Stable, since we believe the coronavirus outbreak has a modest immediate impact on the bank's ratings. The bank has some direct exposure to industries that are more vulnerable to the COVID-19 outbreak as well as to materially lower oil-prices. However, we consider SMN's low risk business

model, strict underwriting standards, resilient retail portfolio, strong capitalisation and strong policy response in Norway as factors that when combined can mitigate pressure on the bank's credit profile.

Nonetheless, we believe the economic and financial market fallout from the coronavirus outbreak creates additional downside risks to our assessment of asset quality and earnings relative to when we last reviewed the bank's ratings. A revision of our asset quality assessment would require Stage 3 loans (calculated excluding loans sold to SpareBank 1 Boligkreditt) to nearly double from current levels. The bank's profitability is sensitive to lower revenue and higher impairments.

Fitch has downgraded SMN's Tier 2 debt by one notch to 'BBB' from 'BBB+' and removed it from UCO to reflect the change in baseline notching for loss-severity to two notches (from one previously) from the VR since the bank does not meet the specific conditions under our criteria for applying one notch.

#### SpareBank 1 Nord-Norge (SNN)

Unless noted below, the key rating drivers for SNN are those outlined in our Rating Action Commentary published on 11 September 2019 (Fitch Affirms 3 Norwegian Savings Banks; Outlook Stable).

We have affirmed SNN's 'A' Long-Term IDR and 'a' VR and revised the Outlook to Negative from Stable because we believe the coronavirus outbreak has a modest immediate impact on the bank's ratings. The bank has some direct exposure to industries that are more vulnerable to the coronavirus outbreak. However, we consider SNN's low risk business model, strict underwriting standards, resilient retail portfolio, strong capitalisation and strong policy response in Norway as factors that when combined can mitigate pressure on the bank's credit profile.

Nonetheless, we believe the economic and financial market fallout from the coronavirus outbreak creates additional downside risks to our assessment of asset quality and earnings relative to when we last reviewed the bank's ratings. A revision of our asset quality assessment would require such a material increase in Stage 3 loans (calculated excluding loans sold to SpareBank 1 Boligkreditt) that this could only become a possibility in the event of a severe and prolonged economic stress. The bank's profitability is sensitive to lower revenue and higher impairments.

#### Svenska Handelsbanken AB (Handelsbanken) and subsidiaries

Unless noted below, the key rating drivers for Handelsbanken and its subsidiaries are those outlined in our Rating Action Commentary published on 8 November 2019 (Fitch Affirms Svenska Handelsbanken at 'AA'; Outlook Stable).

Fitch has placed Handelsbanken's 'AA' Long-Term IDR, 'aa' VR, and debt ratings on Rating Watch Negative (RWN) because the economic fallout from the coronavirus crisis represents a near-term risk to Handelsbanken's ratings, since the bank enters the economic downturn with only moderate rating headroom. The bank has limited exposure to industries that are more vulnerable to the

coronavirus outbreak and very low Stage 3 loans (0.4% end-2019). However, a moderate increase in Stage 3 loans to around 1% would likely lead to a revision of asset quality assessment. The bank's profitability is sensitive to lower revenue and higher impairments, although we consider the bank's robust revenue generation, good cost efficiency and traditional low-risk business model as potentially mitigating factors. We believe the economic and financial market fallout from the coronavirus outbreak creates additional downside risks to our assessment of asset quality and earnings relative to when we last reviewed the bank's ratings.

Fitch has upgraded Handelsbanken's senior preferred debt and Derivative Counterparty Rating (DCR) to 'AA+' from 'AA', one notch above the bank's Long-Term IDR, to reflect the protection that could accrue to senior preferred debt from the bank's more junior bank resolution debt and equity buffers. The Swedish resolution authority has already set minimum requirement for own funds and eligible liabilities (MREL) for Handelsbanken. From 2022 only senior non-preferred (SNP) or junior debt will be MREL-eligible in Sweden.

We also assigned Handelsbanken long- and short-term deposit ratings of 'AA+/'F1+', one notch above the bank's Long-Term IDR, because deposits benefit from the same level of protection as derivative counterparties and preferred senior creditors coming from the planned build-up of bank resolution debt and equity buffers. The bank's long-term deposit rating was placed on RWN.

The Long-Term ratings of Handelsbanken Plc and Stadshypotek AB (publ) were also placed on RWN.

Fitch has downgraded Handelsbanken's Tier 2 debt by one notch to 'A+' from 'AA-' and removed it from UCO to reflect the change in baseline notching for loss-severity to two notches (from one previously) from the VR since the bank does not meet the specific conditions under our criteria for applying one notch.

We have upgraded the AT1 debt by one notch to 'A-' from 'BBB+' and removed it from UCO to reflect a change in baseline notching to four notches (from the previous five) from the VR, reflecting a reduction in incremental non-performance risk relative to our previous assumptions. Our assessment is based on the bank operating with a CET1 ratio that is comfortably above MDA thresholds and our expectation that this will continue.

## Danske Bank A/S

Unless noted below, the key rating drivers for Danske Bank are those outlined in our Rating Action Commentary published on 2 July 2019 (Fitch Affirms Danske Bank at 'A', Negative Outlook).

Fitch has placed Danske Bank's 'A' Long-Term IDR, 'a' VR, and debt ratings on RWN because the economic fallout from the coronavirus crisis represents a near-term risk to Danske Bank's ratings, since the bank enters the economic downturn with only moderate rating headroom. The bank has material exposure to sectors potentially vulnerable to the coronavirus outbreak such as shipping, oil and gas, transportation, tourism, hotel and restaurants and construction (on aggregate representing about 100% of CET1 capital). Danske Bank's profitability, which we already expected to be relatively weak in 2020 partly owing to higher investments in compliance functions, is likely to suffer from

higher credit losses and weaker fee income. We believe the economic and financial market fallout from the coronavirus outbreak creates additional downside risks to our assessment of asset quality and earnings relative to when we last reviewed the bank's ratings.

We have affirmed Realkredit Danmark's 'A' Long-Term IDR and 'a' Viability Rating (VR) and revised the Outlook to Negative from Stable because we believe the economic fallout from the coronavirus crisis represents a medium-term risk to the ratings. However, the bank enters the economic downturn from a relative position of strength, given its conservative risk appetite, which has resulted in healthy and resilient through-the-cycle asset quality to date and robust capitalisation. We believe the economic and financial market fallout from the coronavirus outbreak creates additional downside risks to our assessment of asset quality and profitability relative to when we last reviewed the bank's ratings.

Fitch has downgraded Danske Bank's Tier 2 debt by one notch to 'BBB+' from 'A-' and removed it from UCO to reflect the change in baseline notching for loss-severity to two notches (from one previously) from the VR since the bank does not meet the specific conditions under our criteria for applying one notch.

We have upgraded the AT1 debt by one notch to 'BBB-' from 'BB+' and removed it from UCO to reflect a change in baseline notching to four notches (from the previous five) from the VR, reflecting a reduction in incremental non-performance risk relative to our previous assumptions. Our assessment is based on the bank operating with a CET1 ratio that is comfortably above MDA thresholds and our expectation that this will continue.

#### Nordea Bank Abp

Fitch has placed Nordea's Long-Term 'AA-' IDR, 'aa-' VR, and debt ratings on RWN because the economic fallout from the coronavirus crisis represents a near-term risk to Nordea's ratings, since the bank enters the economic downturn with only moderate rating headroom. Nordea's profitability has decreased in recent years and is weak compared with 'AA-' rated peers. Its profitability is likely to suffer from higher loan impairment charges and weaker fee income. We believe the economic and financial market fallout from the coronavirus outbreak creates additional downside risks to our assessment of asset quality, earnings and capitalisation relative to when we last reviewed the bank's ratings.

Fitch has upgraded Nordea's senior preferred debt and DCR to 'AA' from 'AA-', one notch above its Long-Term IDR, to reflect the protection that could accrue to senior preferred debt from the bank's junior resolution debt and equity buffers. Nordea has not received its individual MREL yet from the Single Resolution Board but we expect that its MREL will incorporate a subordination requirement. The bank has already issued SNP debt and based on its issuance plans, we estimate that its buffers of SNP and more junior debt will eventually comfortably exceed 10% of risk-weighted assets.

We also assigned Nordea's long and short-term deposit ratings at 'AA'/F1+', one notch above the bank's Long-Term IDR, because deposits benefit from the same protection as derivative

counterparties and preferred senior creditors coming from the planned build-up of bank resolution debt and equity buffers. The bank's long-term deposit rating has been placed on RWN.

Fitch has downgraded Nordea's Tier 2 debt by one notch to 'A' from 'A+' and removed it from UCO to reflect the change in baseline notching for loss-severity to two notches (from one previously) from the VR since the bank does not meet the specific conditions under our criteria for applying one notch.

We have upgraded the AT1 debt by one notch to 'BBB+' from 'BBB' and removed it from UCO to reflect a change in baseline notching to four notches (from the previous five) from the VR, reflecting a reduction in incremental non-performance risk relative to our previous assumptions. Our assessment is based on the bank operating with a CET1 ratio that is comfortably above MDA thresholds and our expectation that this will continue.

Skandinaviska Enskilda Banken AB (publ) (SEB)

Unless noted below, the key rating drivers for SEB are those outlined in our Rating Action Commentary published on 8 November 2019 (Fitch Affirms SEB at 'AA-'; Outlook Stable).

Fitch has placed SEB's 'AA-' Long-Term IDR, 'aa-' VR, and debt ratings on RWN because the economic fallout from the coronavirus crisis represents a near-term risk to SEB's ratings, since the bank enters the economic downturn with only moderate rating headroom. SEB has a dominant corporate focus and a material exposure to sectors potentially vulnerable to the coronavirus outbreak, such as shipping, oil and gas and transportation (representing about 150% of CET1 capital at end-2019). SEB's profitability is likely to suffer from higher credit losses and a weakening in fee income. We believe the economic and financial market fallout from the coronavirus outbreak creates additional downside risks to our assessment of the bank's asset quality, profitability and capitalisation relative to when we last reviewed the bank's ratings.

Fitch has upgraded SEB's senior preferred debt and DCR to 'AA' from 'AA-', one notch above the bank's Long-Term IDR, to reflect the protection that could accrue to senior preferred debt from the bank's junior resolution debt and equity buffers. The Swedish resolution authority has already set MREL for SEB. From 2022 only SNP or junior debt will be MREL-eligible in Sweden.

We also assigned SEB long and short-term deposit ratings of 'AA'/F1+', one notch above the bank's Long-Term IDR, because deposits benefit from the same protection as derivative counterparties and preferred senior creditors coming from the planned build-up of bank resolution debt and equity buffers. The bank's long-term deposit rating has been placed on RWN.

Fitch has downgraded SEB's Tier 2 debt by one notch to 'A' from 'A+' and removed it from UCO to reflect the change in baseline notching for loss-severity to two notches (from one previously) from the VR since the bank does not meet the specific conditions under our criteria for applying one notch.



We have upgraded the AT1 debt by one notch to 'BBB+' from 'BBB' and removed it from UCO to reflect a change in baseline notching to four notches (from the previous five) from the VR, reflecting a reduction in incremental non-performance risk relative to our previous assumptions. Our assessment is based on the bank operating with a CET1 ratio that is comfortably above MDA thresholds and our expectation that this will continue.

## **RATING SENSITIVITIES**

The most immediate downside rating sensitivity for banks' IDRs, VRs and debt ratings relates to the economic and financial market fallout arising from the coronavirus outbreak as this represents a clear risk to our assessment of asset quality and earnings. The extent to which government and central bank support packages can mitigate rating pressure on the banks' ratings will depend on the amount and form such support takes.

### **Nykredit and Nykredit Bank**

Nykredit has headroom to emerge with its IDRs, VR and debt ratings intact due to the relative strength of its risk appetite, asset quality, capitalisation and funding profile, which are all in line with or above its VR. However, this outcome will depend on the ultimate depth and duration of the coronavirus shock to the Danish economy.

Nykredit's ratings would likely be downgraded if prospects that the health crisis is resolved globally in 2H20 become less likely, which would make a sharp recovery in global growth in 2021 more remote. A delay to this sharp recovery would likely result in a more permanent damage of the bank's asset quality and earnings, which would be difficult to restore within a short period of time.

In the event Nykredit withstands ratings pressure arising from the coronavirus outbreak, an upgrade would be unlikely given the group's already high ratings and limited product breadth. In the longer term, an upgrade would be contingent on Nykredit broadening its product offering, providing it with significantly more diversified revenue streams.

The AT1 ratings could be downgraded if non-performance risk increases relative to the risk captured in the bank's VR, for example if capital buffers over regulatory requirements are eroded. The senior preferred debt ratings are sensitive to changes in the bank's resolution buffer requirements which would lead to a reduction of the level of protection.

### **Landshypotek**

Landshypotek has headroom to emerge with its IDRs, VR, debt ratings intact due to the relative strength of its risk appetite, asset quality and capitalisation, which are all in line with or above its VR. However this outcome will depend on the ultimate depth and duration of the coronavirus shock to the Swedish economy.

Landshypotek's ratings would likely be downgraded if prospects that the health crisis is resolved globally in 2H20 become less likely, which would make a sharp recovery in global growth in 2021 more remote. A delay to this sharp recovery would likely result in more permanent damage of the bank's asset quality and earnings, which would be difficult to restore within a short period of time.

In the event Landshypotek withstands ratings pressure arising from the coronavirus outbreak, an upgrade would be unlikely given the bank's already high ratings and limited franchise and small size compared with more highly rated peers. In the longer term, an upgrade would be contingent on Landshypotek broadening its product offering and materially improving its franchise, providing it with significantly more diversified revenue streams.

#### SR-Bank

SR-Bank has headroom to emerge with its IDRs, VR, debt ratings intact due to the relative strength of its company profile, risk appetite, management and strategy, capitalisation and funding and liquidity profile, which are all in line with or above its VR. However this outcome will depend on the ultimate depth and duration of the coronavirus shock to the Norwegian economy.

SR-Bank's ratings would likely be downgraded if prospects that the health crisis is resolved globally in 2H20 become less likely, which would make a sharp recovery in global growth in 2021 more remote. A delay to this sharp recovery would likely result in more permanent damage of the bank's asset quality and earnings, which would be difficult to restore within a short period of time.

In the event SR-Bank withstands ratings pressure arising from the coronavirus outbreak, an upgrade would require a sustained asset quality improvement, most likely through the successful restructuring of the offshore service vessel portfolio. Rating upside is limited due to the geographical concentration.

#### SMN

SMN has headroom to emerge with its IDRs, VR, debt ratings intact due to the relative strength of its company profile, risk appetite, management and strategy, capitalisation and funding and liquidity profile, which are all in line with or above its VR. However this outcome will depend on the ultimate depth and duration of the coronavirus shock to the Norwegian economy.

SMN's ratings would likely be downgraded if prospects that the health crisis is resolved globally in 2H20 become less likely, which would make a sharp recovery in global growth in 2021 more remote. A delay to this sharp recovery would likely result in more permanent damage of the bank's asset quality and earnings, which would be difficult to restore within a short period of time.

In the event SMN withstands ratings pressure arising from the coronavirus outbreak, an upgrade would require a sustained asset-quality improvement, most likely through the successful restructuring of the offshore service vessel portfolio. Rating upside is limited due to the geographical concentration.

## SNN

SNN has headroom to emerge with its IDRs, VR, debt ratings intact due to the relative strength of its risk appetite, asset quality, capitalisation and funding and liquidity profile, which are all in line with or above its VR. However this outcome will depend on the ultimate depth and duration of the coronavirus shock to the Norwegian economy.

SNN's ratings would likely be downgraded if prospects that the health crisis is resolved globally in 2H20 become less likely, which would make a sharp recovery in global growth in 2021 more remote. A delay to this sharp recovery would likely result in more permanent damage of the bank's asset quality and earnings, which would be difficult to restore within a short period of time.

In the event SNN withstands ratings pressure arising from the coronavirus outbreak, an upgrade would be unlikely given the bank's already high ratings and limited franchise and small size compared with more highly rated peers. In the longer term, an upgrade would be contingent on SNN decreasing its borrower diversification and improving its franchise.

## Handelsbanken and subsidiaries

The RWN on Handelsbanken's and its main subsidiaries' ratings reflects the near-term risks to its ratings arising from the coronavirus outbreak and the heightened probability we will downgrade the bank. The bank has only moderate rating headroom to maintain its exceptionally strong asset quality in the face of the economic disruption posed by the outbreak. We expect to resolve the RWN in the near term, when the impact of the outbreak on the bank's credit profile becomes more apparent. Potential downgrade triggers are i) an expected increase in impaired loans ratio materially above 1%; or ii) an expected sustained reduction of its operating profitability due to credit losses and subdued earnings. In resolving the RWN, Fitch will seek to understand the extent to which fiscal support measures for the private sector will cushion the financial impact on the bank's asset quality and earnings.

In the event Handelsbanken withstands ratings pressure arising from the coronavirus outbreak, an upgrade would be unlikely and would require a substantial strengthening of the franchise that could follow from wider geographic and borrower diversification.

The AT1 ratings could be downgraded if non-performance risk increases relative to the risk captured in the bank's VR, for example if capital buffers over regulatory requirements are eroded. The DCR, deposit and senior preferred debt ratings are sensitive to changes in the bank's resolution buffer requirements which would lead to a reduction of the level of protection.

The ratings on Handelsbanken Plc are sensitive to a downgrade of the UK sovereign rating (AA-/Negative), to the extent that such a downgrade would impact the parent's propensity or ability to support the subsidiary. A one-notch downgrade of the UK sovereign would lead us to reassess Handelsbanken's ability to support its UK subsidiary, which may result in a downgrade of Handelsbanken PLC's Long-Term IDR.

## Danske Bank

The RWN on Danske Bank's ratings reflects the near-term risks to its ratings arising from the coronavirus outbreak and the heightened probability we will downgrade the bank. The bank's material exposure to sectors potentially vulnerable to the coronavirus outbreak means it has only moderate rating headroom in the face of the economic disruption posed by the outbreak. We expect to resolve the RWN in the near term, when the impact of the outbreak on the bank's credit profile becomes more apparent. Potential downgrade triggers are i) an expected increase in impaired loans ratio materially above 3%; ii) an expected sustained reduction of its operating profitability due to credit losses; or iii) if it becomes likely that the bank will incur fines that would materially deplete its capital base, especially if we believe that this would also translate into a material loss of franchise strength or a weaker funding profile. In resolving the RWN, Fitch will seek to understand the extent to which fiscal support measures for the private sector will cushion the financial impact on the bank's asset quality and earnings.

In the event Danske Bank withstands ratings pressure arising from the coronavirus outbreak, an upgrade would be unlikely, although longer term, a sustained and material improvement in asset quality and profitability, while maintaining solid capital, funding and liquidity ratios, could be rating-positive.

The AT1 ratings could be downgraded if non-performance risk increases relative to the risk captured in the bank's VR, for example if capital buffers over regulatory requirements are eroded. The DCR, deposit and senior preferred debt ratings are sensitive to changes in the bank's resolution buffer requirements which would lead to a reduction of the level of protection.

## Realkredit Danmark

Realkredit Danmark has headroom to emerge with its IDRs, VR, debt ratings intact due to the relative strength of its risk appetite, management and strategy, capitalisation and funding and liquidity profile, which are all in line with or above its VR. However this outcome will depend on the ultimate depth and duration of the coronavirus shock to the Danish economy.

Realkredit's ratings would likely be downgraded if prospects that the health crisis is resolved globally in 2H20 become less likely, which would make a sharp recovery in global growth in 2021 more remote. A delay to this sharp recovery would likely result in more permanent damage of the bank's asset quality and earnings, which would be difficult to restore within a short period of time.

In the event Realkredit withstands ratings pressure arising from the coronavirus outbreak, an upgrade would be unlikely given the group's already high ratings and limited product breadth. In the longer term, an upgrade would be contingent on Realkredit broadening its product offering, providing it with significantly more diversified revenue streams.

## Nordea

The RWN on Nordea's ratings reflects the near-term risks to its ratings arising from the coronavirus outbreak and the heightened probability we will downgrade the bank. The bank's material exposure to sectors potentially vulnerable to the coronavirus outbreak and profitability headwinds means it has only moderate rating headroom in the face of the economic disruption posed by the outbreak. We expect to resolve the RWN in the near term, when the impact of the outbreak on the bank's credit profile becomes more apparent. Potential downgrade triggers are i) an expected increase in impaired loans ratio materially above 3%; or ii) an expected sustained reduction of its operating profitability driven by credit losses and subdued earnings; or iii) a material capital erosion which would be difficult to restore in a relatively short period of time; or iv) if the bank's franchise weakens and if market share losses impede efforts to improve the bank's profitability. Failure by management to properly finalise the implementation of its pan-Nordic IT transformation agenda would also be rating-negative. In resolving the RWN, Fitch will seek to understand the extent to which fiscal support measures for the private sector will cushion the financial impact on the bank's asset quality and earnings.

In the event Nordea withstands ratings pressure arising from the coronavirus outbreak, an upgrade would be unlikely and would require a substantial improvement in the bank's earnings and asset-quality metrics.

The AT1 ratings could be downgraded if non-performance risk increases relative to the risk captured in the bank's VR, for example if capital buffers over regulatory requirements are eroded. The DCR, deposit and senior preferred debt ratings are sensitive to changes in the bank's resolution buffer requirements which would lead to a reduction of the level of protection.

## SEB

The RWN on SEB's ratings reflects the near-term risks to its ratings arising from the coronavirus outbreak and the heightened probability we will downgrade the bank. The bank's material exposure to sectors potentially vulnerable to the coronavirus outbreak means it has only moderate rating headroom in the face of the economic disruption posed by the outbreak. We expect to resolve the RWN in the near term, when the impact of the outbreak on the bank's credit profile becomes more apparent. Potential downgrade triggers are i) an expected increase in impaired loans ratio materially above 1%; or ii) an expected sustained reduction of its operating profitability driven by credit losses and subdued earnings; or iii) a material capital erosion which would be difficult to restore in a relatively short period of time. In resolving the RWN, Fitch will seek to understand the extent to which fiscal support measures for the private sector will cushion the financial impact on the bank's asset quality and earnings.

In the event SEB withstands ratings pressure arising from the coronavirus outbreak, an upgrade would be unlikely unless it achieves a greater diversification of its business model (dominated by corporate banking) and a stronger geographical franchise outside the Nordic region

The AT1 ratings could be downgraded if non-performance risk increases relative to the risk captured in the bank's VR, for example if capital buffers over regulatory requirements are eroded. The DCR,

deposit and senior preferred debt ratings are sensitive to changes in the bank's resolution buffer requirements which would lead to a reduction of the level of protection.

### **BEST/WORST CASE RATING SCENARIO**

Ratings of Financial Institutions issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings <https://www.fitchratings.com/site/re/10111579>.

### **REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING**

The principal sources of information used in the analysis are described in the Applicable Criteria.

### **PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS**

Danske Corporation's debt rating is driven by institutional support from Danske Bank. A change in the debt ratings of Danske Bank would result in the change in the debt ratings of Danske Corporation.

### **ESG CONSIDERATIONS**

Danske has an ESG Relevance Score of '4' for governance structure due to its potential involvement in money laundering, which is not a key rating driver but has an impact on the RWN in combination with other factors. Danske's other ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or to the way in which they are being managed by the entity.

Except for the matters discussed above, the highest level of ESG credit relevance, if present, is a score of 3 - ESG issues are credit neutral or have only a minimal credit impact on the entities, either due to their nature or the way in which they are being managed by the entities. For more information on Fitch's ESG Relevance Scores, visit [www.fitchratings.com/esg](http://www.fitchratings.com/esg).

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### **APPLICABLE CRITERIA**

## ADDITIONAL DISCLOSURES

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Danske Bank A/S	EU Issued
Danske Corporation	EU Issued
Handelsbanken Plc	EU Issued
Landshypotek Bank AB	EU Issued
Nordea Bank Abp	EU Issued
Nykredit Bank A/S	EU Issued
Nykredit Realkredit A/S	EU Issued
Realkredit Danmark A/S	EU Issued
Skandinaviska Enskilda Banken AB (publ)	EU Issued
SpareBank 1 Nord-Norge	EU Issued
SpareBank 1 SMN	EU Issued
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