Svenska Handelsbanken AB Issuer Rating Report

STABLE OUTLOOK

A+

Scope Ratings has assigned an Issuer Rating of A+ and a short term rating of S-1 to Svenska Handelsbanken AB, each with a stable outlook.

The Issuer Rating was upgraded by one notch on 2nd February 2017. This was in line with our bank rating methodology and takes into account the ranking of TLAC/MREL senior unsecured debt. While the credit fundamentals of the group did not change, Scope is of the view that the Issuer Rating (and any senior unsecured liabilities not eligible for TLAC/MREL) should benefit from the protection of a materially more ample capital structure in a default-like scenario.

The ratings were not solicited by the issuer. Both ratings and analysis are based solely on publicly available information. The issuer has participated in the process. The ratings are not applicable to unguaranteed subsidiaries of the rated parent.

For the full list of ratings see the **Ratings** section at the end of this report.

Highlights

Our ratings reflect Handelsbanken's reassuring financial fundamentals, to some extent supported by a positive macroeconomic cycle but also by company-specific factors, such as a well-tested risk culture and incentive structure.

The ratings also reflect the concentrated exposure to what we consider an overvalued real estate sector in Sweden, an economy with very high levels of household borrowing. As highlighted by the Riksbank in its latest financial stability report, Sweden's banking system is sensitive to shocks due to significant reliance on wholesale funding, a large part of which is in foreign currency.

In addition to its strong domestic franchise, Handelsbanken's degree of international diversification offers some additional protection against potential domestic asset quality shocks, as Sweden's housing and mortgage markets show signs of a slowdown – though not, as yet, a correction. We note that international revenues have grown strongly in recent years, with the UK franchise driving the growth.

Rating drivers (Summary)

The rating drivers, in decreasing order of importance in the rating assignment, are:
1. Strong franchise in Sweden, with growing international presence that could help provide a buffer against buffer domestic asset quality downturns
2. Large liquidity reserves to cover for potentially less stable wholesale funds
3. A well-calibrated incentive structure underpinning a conservative risk culture, which has led to strong, resilient earnings and asset quality metrics over time
4. Large concentrated exposure to the Swedish real estate sector

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Bloomberg: SCOP

Rating change drivers

Preserving reassuring prudential and financial metrics (including on asset quality) in a less favourable macro environment. Should Handelsbanken's risk and prudential metrics show resilience in the event of a deep real estate and macroeconomic adjustment, we would take it as a further confirmation that the bank's risk culture is effectively shielding financial performance from economic volatility.

Slowdown in the Swedish macro environment. Given the recent strength of the Swedish economy in the context of a benign credit cycle and negative interest rates, a macro slowdown could test Handelsbanken's impressive track-record of low loan losses through the cycle, which is supportive of the current rating.

Material decline in real estate prices. Given the highly concentrated exposure to Swedish real estate assets, both through residential mortgages and through loans to property management companies and housing cooperatives, a significant decline in real estate values may negatively impact Handelsbanken's asset quality and earnings.

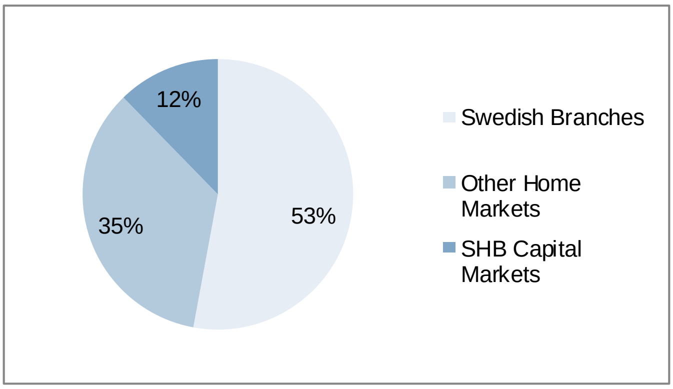
A significant increase in the weight of conservatively run international operations providing additional earnings stability. Sweden still accounts for the bulk of Handelsbanken's revenues. Additional geographic diversification without adding new risks could alleviate our concerns about the potential for a domestic real estate downturn and provide Handelsbanken with more buffer to absorb shocks.

Rating drivers (Details)

1. Strong franchise in Sweden, with a growing international presence that could help buffer domestic asset quality downturns

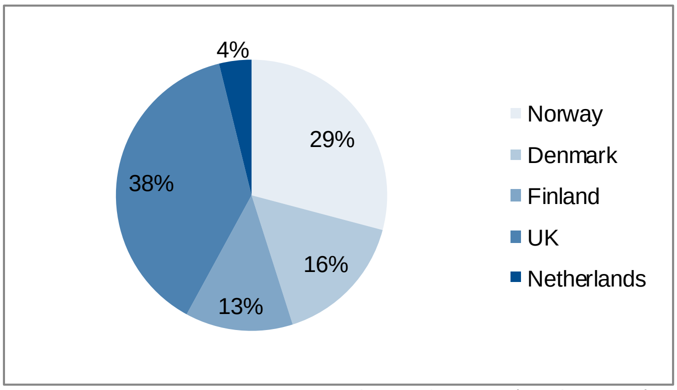
While Sweden represents by far the most important market for the group, with 53% of 2016 revenues coming from the Swedish branch network, a still significant 35% of revenues were generated outside of Sweden, primarily in other Nordic countries but also in the UK and Netherlands. The balance is largely accounted for by the capital markets division (see Figure 1).

Figure 1: Revenues split by division (2016)



Source: Company data, Scope Ratings

Figure 2: Other retail markets revenue split (2016)

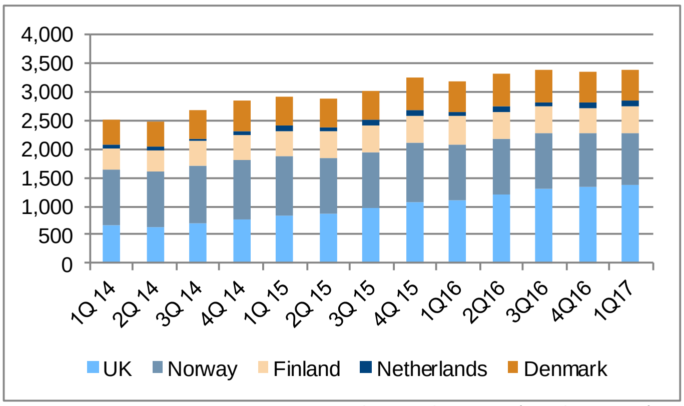


Source: Company data, Scope Ratings

Handelsbanken has been expanding internationally in recent years, driven especially by the UK business, and helping to offset the effect of negative interest rates pressuring domestic revenues. However, some of the international businesses saw their contribution to pre-tax profits fall in FY16. UK profits were affected by sterling's depreciation. In Denmark the fall was the result of higher loan loss provisions related to a single customer, while Finland was hit by lower lending margins.

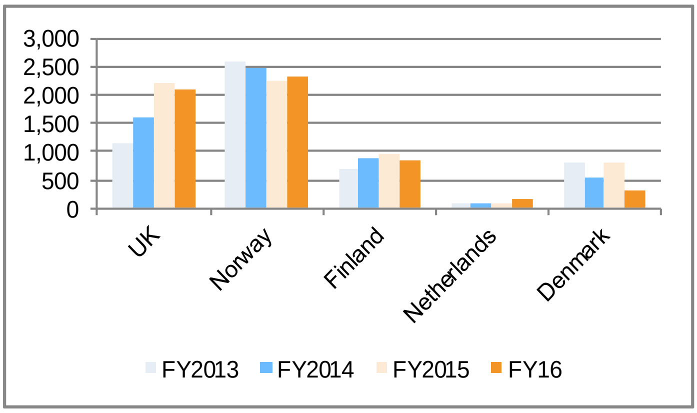
We view Handelsbanken's international diversification positively, sticking closely as it does to the bank's established business model. All businesses are run with a tight grip on costs, though with some necessary investment in growth markets such as the UK, where new branches continue to open. Despite the challenges faced in FY16, these businesses continue to contribute a positive and substantial earnings flow to the group, and as such could provide a buffer should the domestic business suffer a reversal of fortune.

Figure 3: International branches revenues (SEKm)



Source: Company data, Scope Ratings

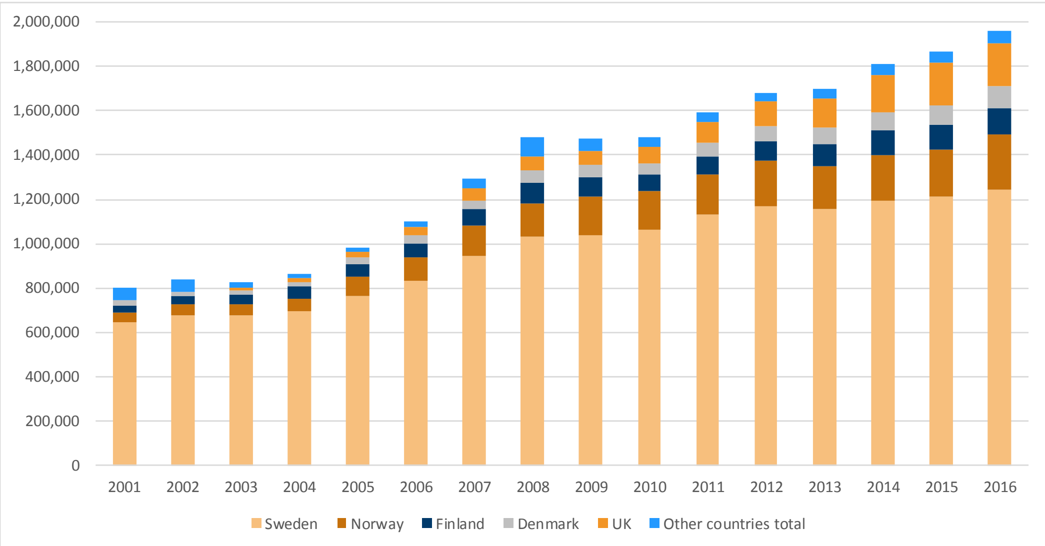
Figure 4: International branches pre tax profits, (SEKm, 2013-2016)



Source: Company data, Scope Ratings

We note that the preponderance of Swedish exposures in the loan book has decreased from 81% in 2001 to 63% in 2016. Whether the asset quality track record of the Swedish operations can be replicated in other countries throughout the cycle is more of an open question – although so far credit losses in the international operations have remained low.

Figure 5: Evolution of loan book - distribution by geography



Source: Company data, Scope Ratings

2. Large liquidity reserves to cover for potentially less stable wholesale funds.

An important consideration in assessing Swedish banks is that rather than being placed in bank deposits, Swedish household savings are often tied up in longer term investments, typically intermediated by insurance or pension companies. These savings are partly recycled into the banking system in the form of wholesale funds, chiefly covered bonds. By volume Sweden's covered bond market is the world's fourth largest after those of Germany, France and Spain, and in size equals around half of GDP, a far higher proportion than in any other country. As one of Sweden's largest mortgage lenders Handelsbanken's liability structure reflects this market reality.

Covered bonds are considered to be a well tested, stable source of funding for Swedish banks. The market benefits from a strong investor base domestically and to a lesser extent (about one third) internationally. Investors primarily consist of insurance companies, banks and asset managers including pension funds. Covered bonds issued by Stadshypotek, Handelsbanken's mortgage financing subsidiary, totaled SEK644bn at YE16, equivalent to 28% of total funding.

Handelsbanken's excellent track record and reputation also give it substantial access to diverse unsecured market funding sources. The main wholesale funding currencies are SEK, EUR and USD. Aside from covered bonds, other securities issued (which include long-term senior unsecured debt, commercial paper and certificates of deposit) accounted for 27% of funding at YE16, and interbank borrowings 8%. Subordinated debt made up just 1% of total funding.

The relatively low availability of domestic household deposits in Sweden also gives Handelsbanken significant reliance on corporate deposits, which, along with interbank borrowings and short-term securities are considered inherently more volatile and vulnerable to market sentiment than household deposits. Deposits as a whole amounted to SEK 829bn at YE16, or 36% of Handelsbanken's funding. Just under 50% of the total came from households, with the remainder from corporate sources. Handelsbanken's headline loan-deposit ratio was 237%% as of YE 2015, well above that of international peers. This includes corporate deposits. Reflecting their potential volatility, these are not used to fund long term assets. .

From a maturity point of view, Handelsbanken discloses short term liabilities (under one year) at SEK744bn, or 28% of total liabilities. These comprise interbank loans and issued securities (including covered bonds) with less than one year residual maturity. The calculation does not include SEK 776bn of deposits from the public (29% of liabilities). Handelsbanken works on the assumption that under a scenario of liquidity stress, 20% of deposits could disappear, and thus estimates that (as of YE16) liabilities maturing in under one year would be around SEK 849bn.

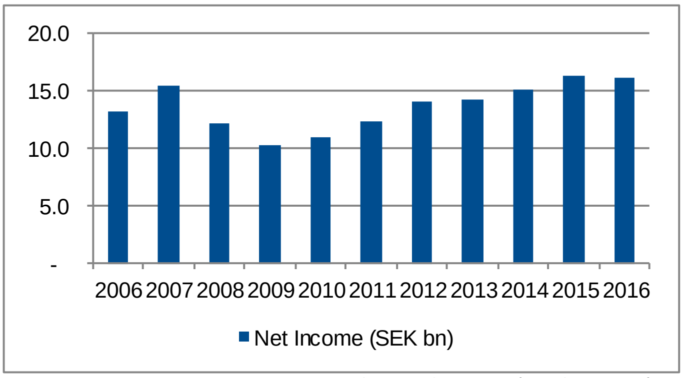
Set against this, Handelsbanken has an immediate high quality liquidity reserve totaling SEK 382bn, comprising cash and balances with central banks, and additionally liquid securities – mainly government bonds and covered bonds. In all, the bank estimates that taking into account interbank balances and loans maturing in less than one year, available liquidity for the first twelve months is in the region of SEK 1tr. We also note that there is an unutilised issue amount for covered bonds in the mortgage bank subsidiary Stadshypotek of around SEK 61bn (the amount by which the pool is overcollateralised), plus a further SEK284 bn of unpledged mortgage loans, which don't form part of the cover pool.

From a regulatory standpoint, Handelsbanken's funding amply complies with requirements: its LCR stood at 126%[1] in at YE16 and both the LCR in EUR and USD are well above 100%. The NSFR was 102% at year end.

3. A well-calibrated incentive structure underpinning a conservative risk culture and enabling an effective, decentralized decision-making model

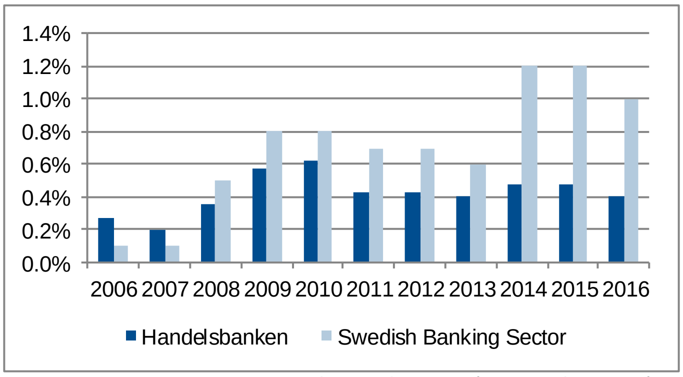
Svenska Handelsbanken has an impressive track record of profits underpinned by low levels of credit losses and non performing assets throughout the cycle. The bank reported FY16 net earnings of SEK16.25bn, marginally lower than in FY15, but still above the pre-crisis peak of 2007 (Figure 6). The impaired loans ratio stood at 0.4% in 2016 and has been remarkably stable, at negligible levels, throughout the crisis. The cost of risk in 2016 was also negligible at 9bps, having reached just 23bps at the height of the crisis in 2009.

Figure 6: Net earnings (SEK bn)



Source: Company data, Scope Ratings

Figure 7: NPL ratio (%)



Source: Company data, IMF, Scope Ratings

[1] According to the Swedish FSA's definition

Cyclical factors, including the benign credit environment in Sweden and ever-rising house prices, partly explain Handelsbanken's more recent performance. We also believe that its strong track record is driven by more structural factors, including its conservative strategy and incentive scheme, which in our view contributes to a healthy, low-risk corporate culture. Handelsbanken has for a long time been focused on long term profitability rather than immediate growth or boosting market share. The bank has not paid cash bonuses in 40 years. Instead employees have a stake in the bank via the Oktogonen foundation (which owned 10.1% of shares at YE16). These shares are only cashed out when the employee turns 60.

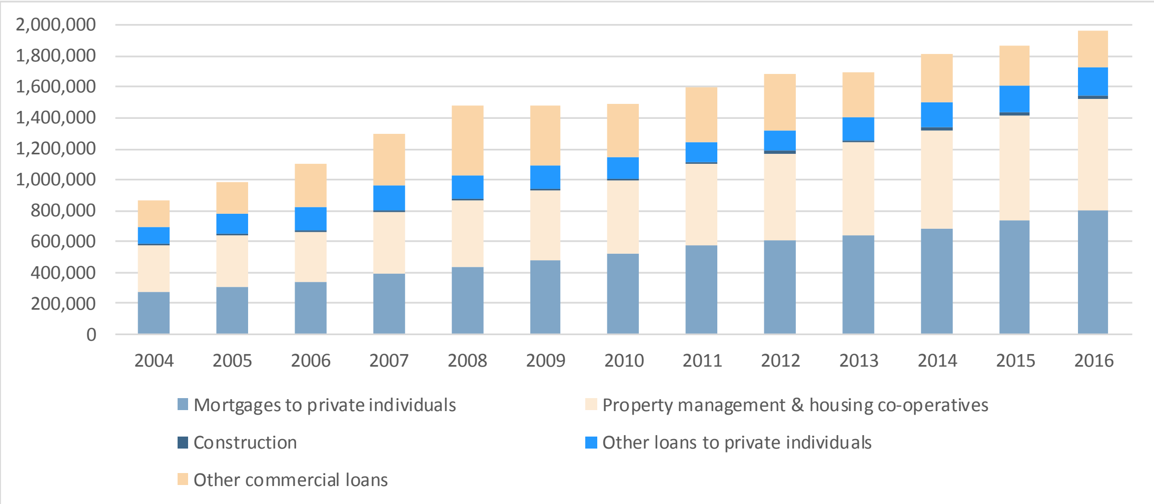
Meanwhile, Handelsbanken has no sales targets, budgets or central business plan. Instead, it entrusts branch level managers with credit decisions focused on a combination of knowing the customer and low risk tolerance. While this could lead to increase risk-taking behavior in any institution where employees have a focus on short term profit targets and bonuses, it has proven to be sustainable for Handelsbanken. Decisions on the largest credits are taken at regional or central level, but only with local support.

4. Large concentrated exposure to Swedish real estate

As is the case for other Swedish banks, Scope considers that concentrated exposure to domestic real estate is an inherent risk factor for Handelsbanken. Following a bull market lasting more than two decades, and with real estate prices rising much faster than inflation, Sweden's property market has been looking vulnerable to a potential correction for some time. According to the BIS[2] as of end-2016 average real residential property prices in Sweden had risen by 55% since end-2007; this compares to the euro area where the BIS calculates that prices are still 10% below their 2007 level. In recent years, several warnings have been issued – by the Riksbank, the IMF and the European Stability Risk Board among others.

While we acknowledge that several structural factors including strong income growth help to explain the deviation of prices from historical valuation norms, we believe that a serious correction in the real estate market could hurt Handelsbanken's performance.

Figure 8: Handelsbanken - loan book evolution 2004-2016, by sector



Source: Company data, Scope Ratings

As shown in Figure 8, property-related lending has expanded more rapidly in recent years than other segments of the loan book, and made up 85% of all loans as of YE16. Of this amount, Swedish exposures totaled SEK 1.1tr or two thirds.

The domestic loan book is more concentrated in property than the whole, with property loans equaling 88% of loans in Sweden as of YE16 (YE15: 87%), or ca 9 times group CET1 capital (FY15: 10 times). Of these, 63% of exposures are related to residential mortgages, which have a strong track record in Sweden and which we would expect to perform well under most scenarios.

The riskiest part of the credit book as a whole comprises loans secured by commercial real estate (CRE), and represents 14% of loans or 11% of group assets – not insignificant but not of excessive concern either. 59% of CRE exposures are outside Sweden, primarily in Norway and in the UK. Direct exposure to real estate construction is relatively small.

[2] Global developments in residential real estate prices – fourth quarter of 2016, author Robert Szemere of the BIS's Monetary and Economic Department

We note that both the Swedish Finansinspektionen (FSA) and the Riksbank have grown increasingly cautious about excessive credit growth and levels of household debt in Sweden. The average debt to income ratio for Swedish households with a mortgage stood at 343% in 2016, compared to 324% in 2010[3].Household debt is nearly 86% of GDP, among the highest in the EU.

The FSA has implemented some macro-prudential measures designed to put a brake on excess lending growth. These include a mortgage cap limiting the LTV ratio on new loans to 85% from 2010 onwards, and raising the risk weight on Swedish mortgages to 25%, applied through a Pillar 2 requirement. Given the traditional Swedish reliance on maintaining long-maturity mortgages, in June 2016 the FSA also introduced an amortisation requirement, forcing households with a mortgage LTV ratio between 50% and 70% to amortise at least 1% of the mortgage's original value every year, rising to 2% for an LTV ratio over 70%. Such measures have helped to decelerate house price growth, yet are not comprehensive, as they only affect new mortgages.

Recently the FSA has proposed an additional mortgage amortization requirement for new mortgage loans with a value exceeding 4.5x household gross income. These would be amortised 1% faster than would otherwise have been the case. Thus, where the income cap is exceeded, loans with an LTV below 50% would amortise at least 1% annually, with the percentage rising to 2% for mortgages with LTVs between 50% and 70% and to 3% for mortgages with LTVs in excess of 70%. According to the regulator this could affect about 14% of new mortgages and, pending government approval, could possibly take effect in 2018.

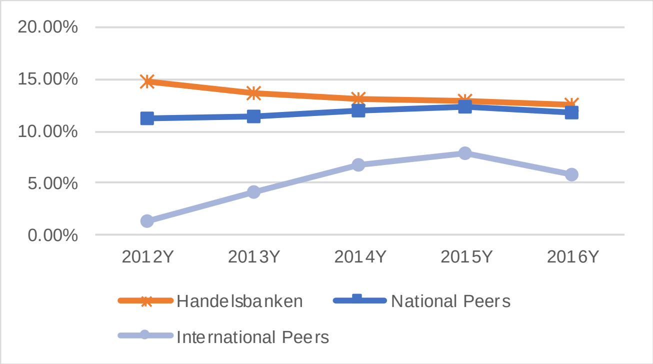
As a result of the benign economic environment in Sweden the level of credit losses over recent periods has been remarkably low and internal models' estimated inputs for calculating capital requirements have been declining. We note that Swedish banks' headline capital ratios appear notably high versus international peers, but asset risk intensity and leverage ratios are lower. Looking ahead, if Swedish banks become subject to capital floors limiting the differences between risk weights used under internal models and those imposed under the standardized approach, as the Basel Committee proposes, a negative impact on CET1 ratios looks likely. Although an effective increase in risk weights would presumably lead to some or all Pillar 2 requirements being dropped, we would expect Handelsbanken to be among the names hit hardest, given that its asset risk intensity (RWAs as a percentage of total assets) was 17% at YE16, compared to 23% for its Nordic peers and 33% for international peers.

Our view is that prevailing low levels of credit losses may not be fully sustainable. Handelsbanken's granular decision-making framework has proved reliable in limiting credit losses in the past, so we expect it to be more able than most to manage through a potentially more challenging economic backdrop. We caution that there are downside risks to asset quality and profitability (through reduced net interest income and loan loss provisions) if the environment were to deteriorate faster than expected.

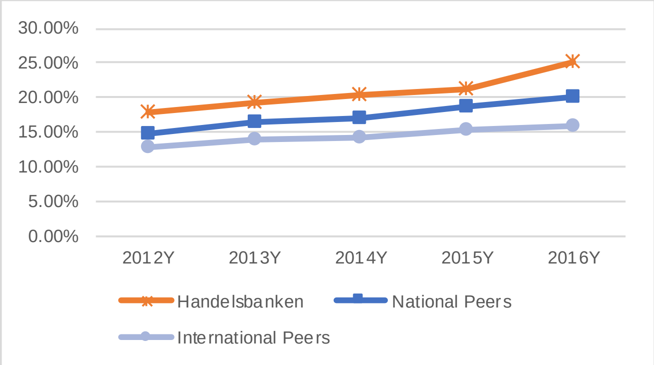
[3] Source: Sveriges Riksbank

Appendix A: Peer comparison

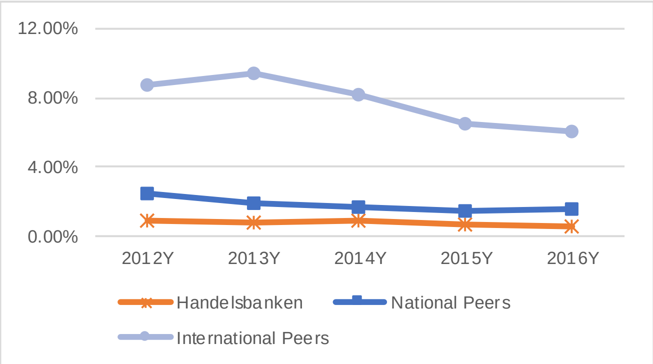
Return on Average Equity (%)



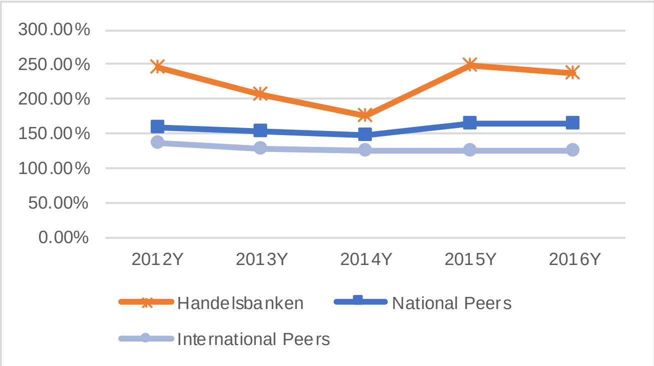
CET1 Ratio (%, transitional)



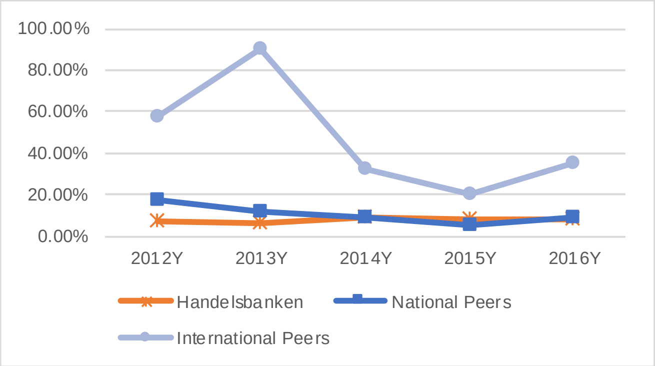
Impaired & Delinquent Loans % Total loans



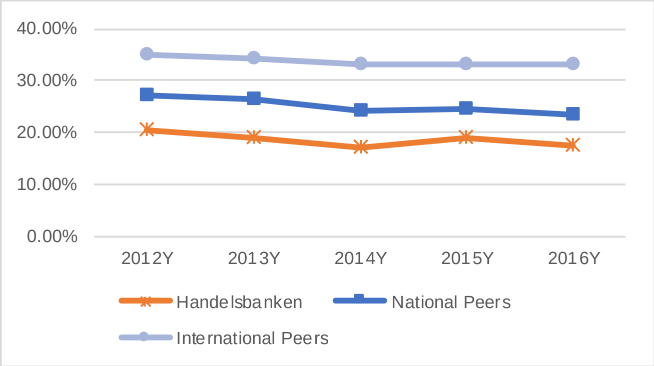
Amortised Loans % Depositso



Loan loss provisions % pre-provision income



RWA intensity (%)



*Nordic peers: Danske Bank, DNB ASA, Nordea, Handelsbanken, Swedbank, SEB

**Cross-border peers: Credit Agricole, BPCE, Credit Mutuel, Lloyds, Nationwide, Rabobank, Intesa Sanpaolo, Commerzbank, Danske Bank, ABN AMRO, CaixaBank, Banco de Sadabell, Banco Popular, Handelsbanken, DNB, SEB, Swedbank, La Banque Postale, Bank of Ireland, AIB, Bank of Ireland, Banco BPM, UBI Banca

Source: SNL, Scope Ratings.

Appendix B: Selected Financial Information

	2012	2013	2014	2015	2016E	2017E	2018E
Balance Sheet summary (SEK billion)							
Assets							
Cash and Interbank Assets	338.4	432.9	575.9	286.4	300.9	316.2	332.0
Total Securities	147.4	170.2	188.5	149.7	154.2	158.8	163.6
Derivatives	116.1	70.1	116.2	85.4	87.9	90.6	93.3
Net Loans to Customers	1,680.5	1,696.3	1,807.8	1,866.5	1,922.5	1,980.1	2,039.5
Other Assets	101.5	115.3	128.2	134.2	137.4	140.6	144.0
Total assets	**2,384.0**	**2,484.7**	**2,816.7**	**2,522.1**	**2,602.9**	**2,686.3**	**2,772.3**
Liabilities							
Interbank liabilities	183.9	171.6	200.1	163.8	168.7	173.7	179.0
Senior Debt	1,151.4	1,150.6	1,212.6	1,245.4	1,282.7	1,321.2	1,360.8
Derivatives	106.0	61.5	62.9	40.6	41.8	43.1	44.4
Deposits from Customers	682.2	825.2	1,022.3	753.9	784.0	815.4	848.0
Subordinated Debt + Non Equity Hybrids	21.2	16.0	30.3	34.2	34.2	34.2	34.2
Other Liabilities	135.3	148.4	161.7	156.1	159.2	162.5	165.8
Total Liabilities	**2,280.1**	**2,373.4**	**2,689.8**	**2,393.9**	**2,470.7**	**2,550.1**	**2,632.2**
Ordinary Equity	103.8	111.3	126.8	128.3	132.2	136.2	140.1
Equity Hybrids	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Minority Interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Liabilities and Equity	**2,384.0**	**2,484.7**	**2,816.7**	**2,522.1**	**2,602.9**	**2,686.3**	**2,772.3**
Core Tier 1 / Common Equity Tier 1 Capital	87.2	93.0	98.1	100.5	104.8	108.9	113.0
Income Statement summary (SEK billion)							
Net Interest Income	26.1	26.7	27.2	27.7	28.4	28.8	29.3
Net Fee & Commission Income	7.4	7.8	8.6	9.3	10.0	10.5	10.9
Net Trading Income	1.1	1.4	1.8	2.6	1.5	1.5	1.5
Other income	0.5	0.5	0.7	0.7	0.6	0.6	0.6
Operating Income	**35.1**	**36.3**	**38.3**	**40.3**	**40.5**	**41.4**	**42.3**
Operating Expense	16.7	17.1	17.3	18.3	18.5	18.6	18.8
Pre-provision Income	**18.4**	**19.3**	**21.0**	**22.1**	**22.0**	**22.8**	**23.4**
Loan Loss Provision charges	1.3	1.2	1.8	1.6	1.9	2.9	3.9
Other Impairments	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-recurring items	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	**17.1**	**18.1**	**19.2**	**20.5**	**20.1**	**19.9**	**19.5**
Discontinued Operations	0.0	0.1	0.0	0.1	0.0	0.0	0.0
Income Tax Expense	3.1	3.9	4.1	4.3	4.2	4.2	4.1
Net Profit Attributable to Minority Interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Profit Attributable to Parent	**14.0**	**14.3**	**15.2**	**16.3**	**15.9**	**15.7**	**15.4**

Notes: SNL Financial and Scope Ratings for historical figures. Scope's forecasts are based on publicly available information and were last updated in March 2016. Please refer to "Methodologies Used for this Report" for further details.

Source: SNL, Scope Ratings

Appendix C: Ratios

	2012	2013	2014	2015	2016E	2017E	2018E
Funding/Liquidity							
Gross loans % Total deposits	247.0%	206.1%	177.2%	248.2%	245.9%	243.5%	241.2%
Total deposits % Total funds	33.5%	38.1%	41.5%	34.3%	34.5%	34.8%	35.0%
Wholesale funds % Total funds	66.5%	61.9%	58.5%	65.7%	65.5%	65.2%	65.0%
Liquidity coverage ratio (%)			140.0%	137.0%			
Net stable funding ratio (%)				100.0%			
Asset Mix, Quality and Growth							
Gross loans % Funded assets	74.0%	70.2%	65.8%	75.4%	75.3%	75.1%	75.0%
Impaired loans % Gross loans	0.4%	0.4%	0.5%	0.5%	0.5%	0.5%	0.5%
Loan loss reserves % Impaired loans	60.3%	61.3%	47.2%	54.5%	54.2%	54.0%	53.8%
Gross loan growth (%)	5.6%	0.9%	6.5%	3.3%	3.0%	3.0%	3.0%
Impaired loan growth (%)	6.8%	-5.2%	25.3%	1.6%	5.7%	5.4%	5.1%
Funded assets growth (%)	-2.1%	6.4%	13.6%	-9.9%	3.2%	3.2%	3.2%
Earnings							
Net interest income % Revenues	74.4%	73.4%	71.1%	68.8%	70.2%	69.6%	69.3%
Fees & commissions % Revenues	21.0%	21.5%	22.3%	23.1%	24.6%	25.3%	25.8%
Trading income % Revenues	3.2%	3.7%	4.6%	6.5%	3.7%	3.6%	3.5%
Other income % Revenues	1.4%	1.4%	1.9%	1.7%	1.5%	1.4%	1.4%
Net interest margin (%)	1.2%	1.2%	1.1%	1.2%	1.2%	1.2%	1.2%
Pre-provision Income % Risk-weighted assets (RWAs)	3.7%	3.9%	4.3%	4.6%	4.6%	4.6%	4.6%
Loan loss provision charges % Pre-provision income	6.8%	6.2%	8.5%	7.2%	8.6%	12.7%	16.7%
Loan loss provision charges % Gross loans (cost of risk)	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.2%
Cost income ratio (%)	47.6%	47.0%	45.2%	45.3%	45.6%	45.0%	44.5%
Net Interest Income / Loan loss charges (x)	20.8	22.3	15.3	17.4	15.0	10.0	7.5
Return on average equity (ROAE) (%)	14.2%	13.3%	12.8%	12.8%	12.2%	11.7%	11.2%
Return on average funded assets (%)	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%
Retained earnings % Prior year's book equity	7.7%	3.7%	3.7%	3.4%	3.3%	3.2%	3.0%
Pre-tax return on common equity tier 1 capital	20.5%	20.1%	20.1%	20.6%	19.6%	18.6%	17.6%
Capital and Risk Protection [1]							
Common equity tier 1 ratio (%, Fully loaded)		18.9%	20.4%	21.2%	21.4%	21.7%	21.8%
Common equity tier 1 ratio (%, Transitional)	17.9%	18.9%	20.4%	21.2%	21.4%	21.7%	21.8%
Tier 1 capital ratio (%, Transitional)	20.4%	21.1%	22.1%	23.7%	23.9%	24.0%	24.1%
Total capital ratio (%, Transitional)	20.7%	21.6%	25.6%	27.1%	27.2%	27.2%	27.2%
Tier 1 leverage ratio (%)			3.7%	4.4%	4.4%	4.5%	4.5%
Total loss coverage (CET1 + loan loss provisions) % RWAs	18.8%	19.8%	21.3%	22.2%	22.5%	22.7%	22.9%
Non-senior MREL estimate (%)	5.5%	5.3%	5.7%	6.5%	6.5%	6.4%	6.4%
Asset risk intensity (RWAs % total assets)	20.4%	19.8%	17.1%	18.8%	18.8%	18.7%	18.7%

Notes: Scope's forecasts are based on publicly available information and were last updated in March 2016. Please refer to "Methodologies Used for this Report" for further details.
Source: SNL, Scope Ratings

Ratings *

Issuer Rating	**A+**
Outlook	Stable
Senior unsecured debt rating	A
Additional Tier 1 rating	BB+
Short term debt rating	S-1
Short term debt rating outlook	Stable
Covered bond rating	AAA

* The ratings are not applicable to debt issued by unguaranteed subsidiaries of the rated parent.

Regulatory Disclosures

Information pursuant to Regulation (EC) No 1060/2009 on credit rating agencies, as amended by Regulations (EU) No. 513/2011 and (EU) No. 462/2013

Responsibility

The party responsible for the dissemination of the financial analysis is Scope Ratings AG, Berlin, District Court for Berlin (Charlottenburg) HRB 161306 B, Executive Board: Torsten Hinrichs (CEO), Dr. Stefan Bund.

The rating analysis has been prepared by Jennifer Ray, Executive Director

Responsible for approving the rating: Sam Theodore, Managing Director

Rating History for Issuer Rating

Date	Rating action	Rating
19.01.2015	First Assignment	A, Stable Outlook
02 02 2017	Upgrade	A+, Stable Outlook

The rating outlook indicates the most likely direction of the rating if the rating were to change within the next 12 to 18 months. A rating change is, however, not automatically ensured.

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Key sources of Information for the rating

Website of the rated entity/issuer, Annual reports/quarterly reports of the rated entity/issuer, Current performance record, Data provided by external data providers, Interview with the rated entity, External market reports, Press reports / other public information.

Scope Ratings considers the quality of the available information on the evaluated company to be satisfactory. Scope ensured as far as possible that the sources are reliable before drawing upon them, but did not verify each item of information specified in the sources independently.

Examination of the rating by the rated entity prior to publication

Prior to publication, the rated entity was given the opportunity to examine the rating and the rating drivers, including the principal grounds on which the credit rating or rating outlook is based. The rated entity was subsequently provided with at least one full working day, to point out any factual errors, or to appeal the rating decision and deliver additional material information. Following that examination, the rating was not modified.

Methodology

The methodologies applicable for this rating “Bank Rating Methodology” (May 2017) & “Bank Capital Instruments Rating Methodology” (May 2017) are available on www.scoperatings.com. The historical default rates of Scope Ratings can be viewed on the central platform (CEREP) of the European Securities and Markets Authority (ESMA): http://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml. A comprehensive clarification of Scope’s credit rating, definitions of rating symbols and further information on the analysis components of a rating can be found in the documents on methodologies on the rating agency’s website.

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