

Structure of Presentation

- Part I: Moody's Bank Rating Methodology**
- Part II: Current Crisis and Bank Credit Risk**
- Part III: Nordic Banking Systems**
- Part IV: Outlook**

Appendix:

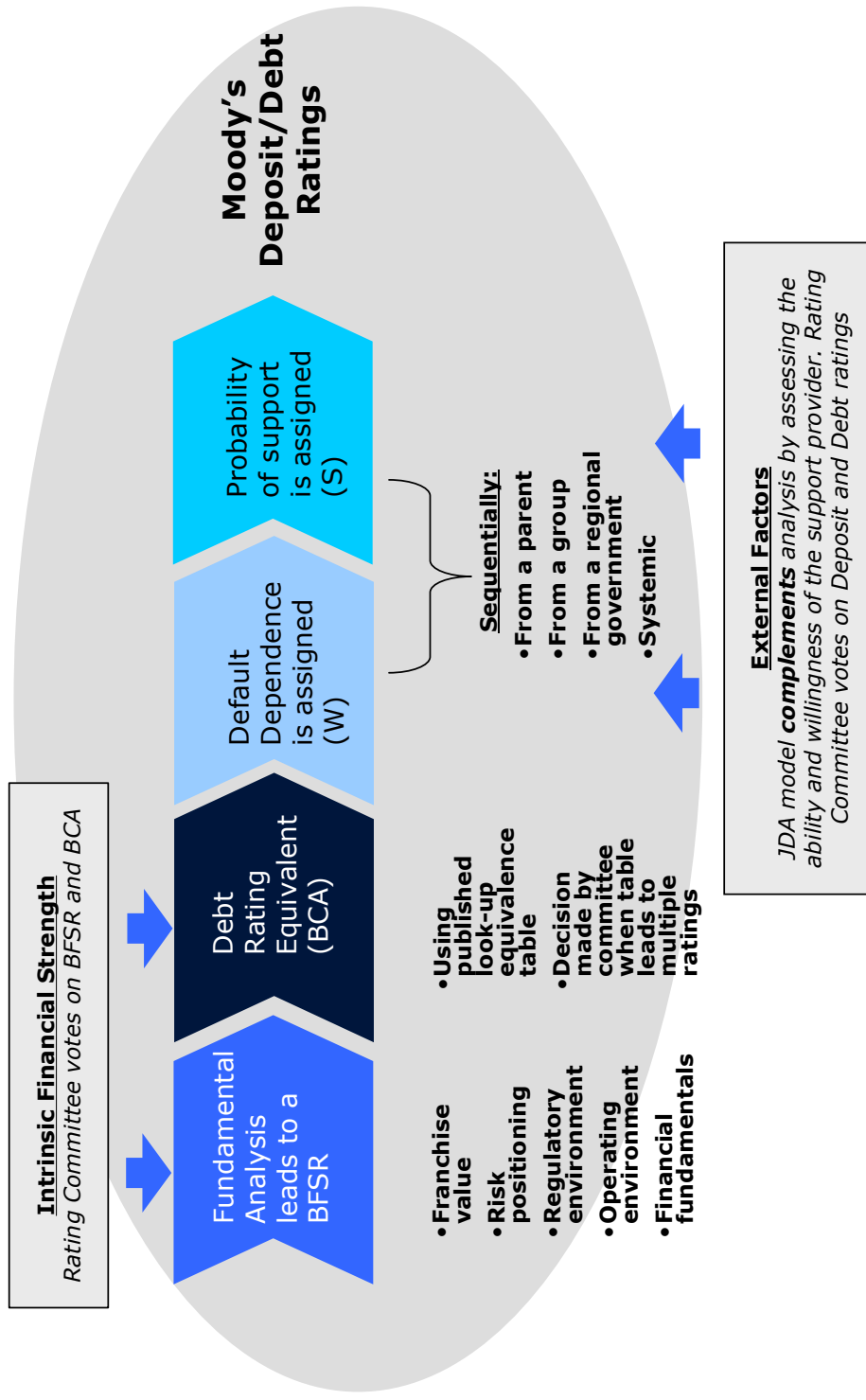
- **Rated Nordic banks**
- **Moody's Nordic-Baltic Team**



Part I: Moody's Bank Rating Methodology



Moody's Bank Rating Methodology



Part II: Current Crisis and Bank Credit Risk



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Banking is Inherently Risky Business

The current crisis has validated that:

- **Banks are highly geared**
- **....are subject to the swing of the credit cycle**
- **Banks are exposed to asset prices**
- **.... funding is confidence sensitive**
- **Banks *true solvency* is unknowable**



Implicit Government Support Has Become Explicit

- **High support expectation may be already factored into the rating**
- **Has support revealed/remedied fundamental weaknesses?**
- **Impact on franchise/customers?**
- **Is support only temporary?**



Support Has Not Always Included Hybrid Securities

- **Roskilde Bank/Fionia Bank: losses expected on subordinated and hybrid debt securities**
- **Changes to hybrid rating methodology considered:**
 - **Exclude likelihood of systemic support**
 - **Widen the notching**
- **Rating action last week on Danish banks subordinated and hybrid issues due to proven lack of support for these types of debt in stress**



A “New” Risk Paradigm

- Credit risk has been increasingly replaced by market risk
- Pre-Provision Income is a good measure of protection against “tidal flows”
- Not suited for lower frequency, higher amplitude market losses
- Refocus on capitalisation as defence against market-risk “tsunamis”



Part III: Nordic Banking Systems



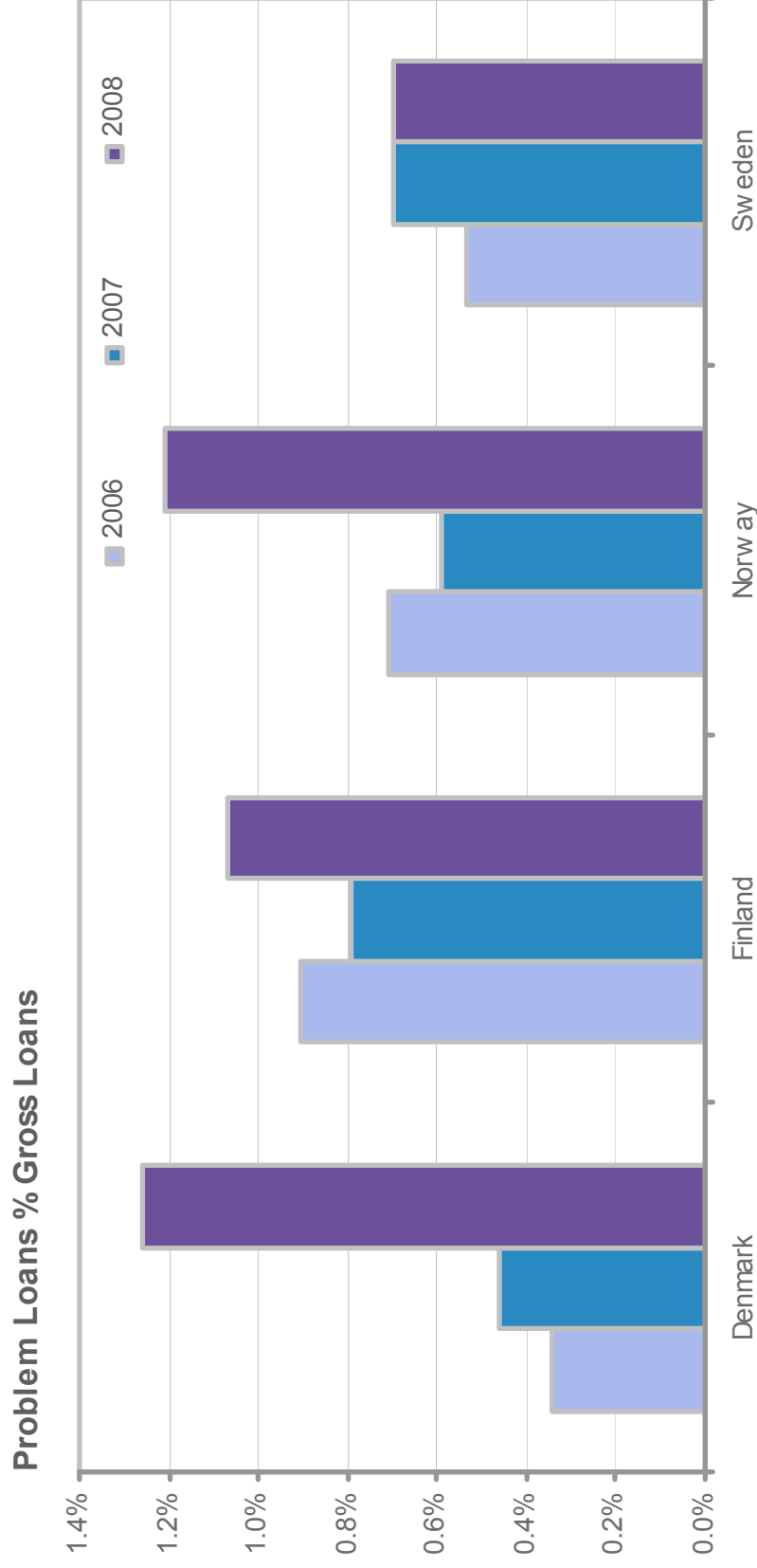
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Recent Nordic Rating Actions

- **Main reasons; concerns over asset quality, earnings volatility, capital levels, franchise value and liquidity**
 - **Amagerbanken, Danske Bank, DnB NOR, Eksportfinans, FIH, Fionia Bank, HFF, Jyske Bank, Sampo Bank, SEB, SpareBank 1 Gruppen, SpareBank 1 SR-Bank, SpareBank1 SMN, SpareBank 1 Nord-Norge, Sparebanken Øst, Storebrand Bank, Swedbank and Volvofinans**



Asset Quality



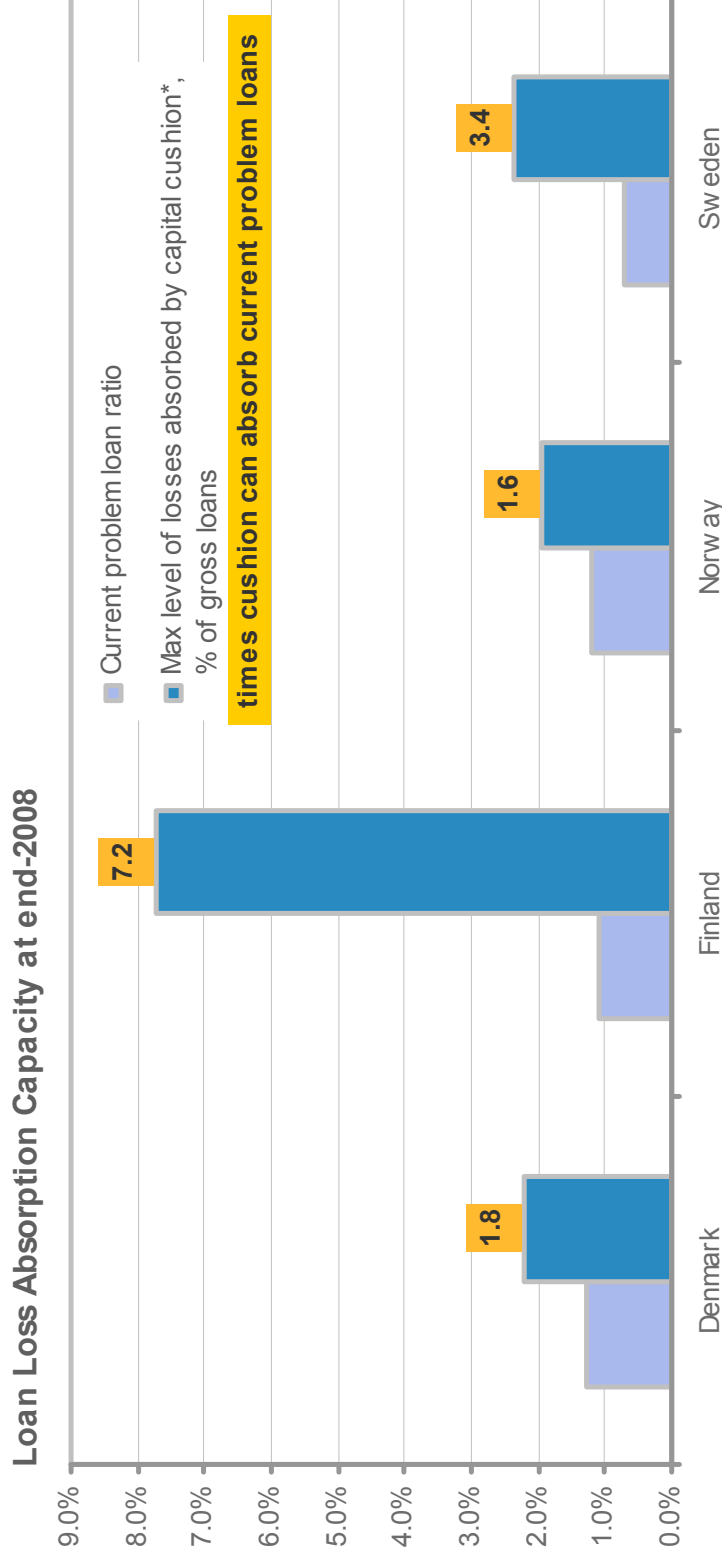
Problem Loans are defined as defaults over 90 days + individually impaired

Source: Moody's calculations



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Loan Loss Absorption Capacity



* Capital cushion = 80% net income for 2008 + Tier 1 capital above 6% + Loan loss reserves at end-2008

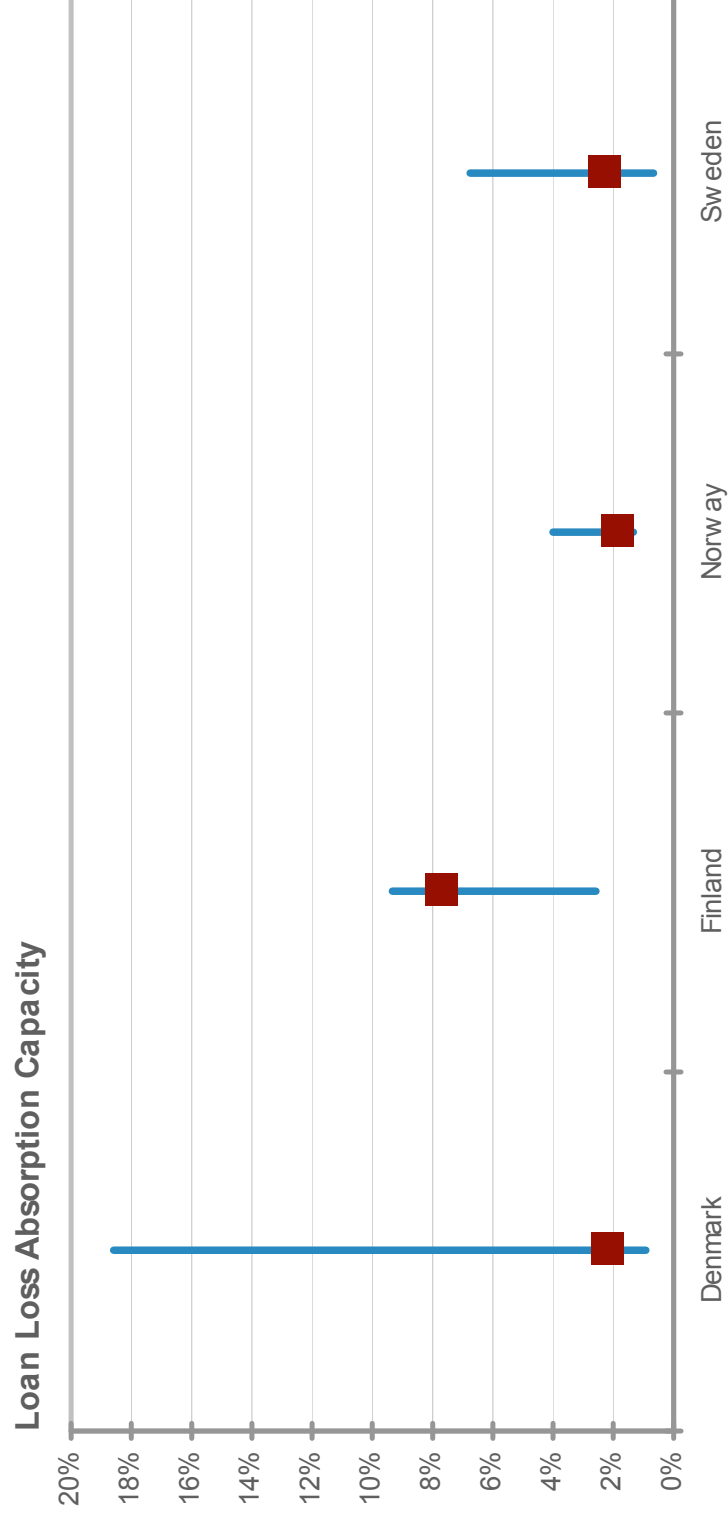
Note: Excess core capital is calculated based on Basel II transitional rules at end-2008

Source: Moody's calculations



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Loan Loss Absorption Capacity



* Capital cushion = 80% net income for 2008 + Tier 1 capital above 6% + Loan loss reserves at end-2008

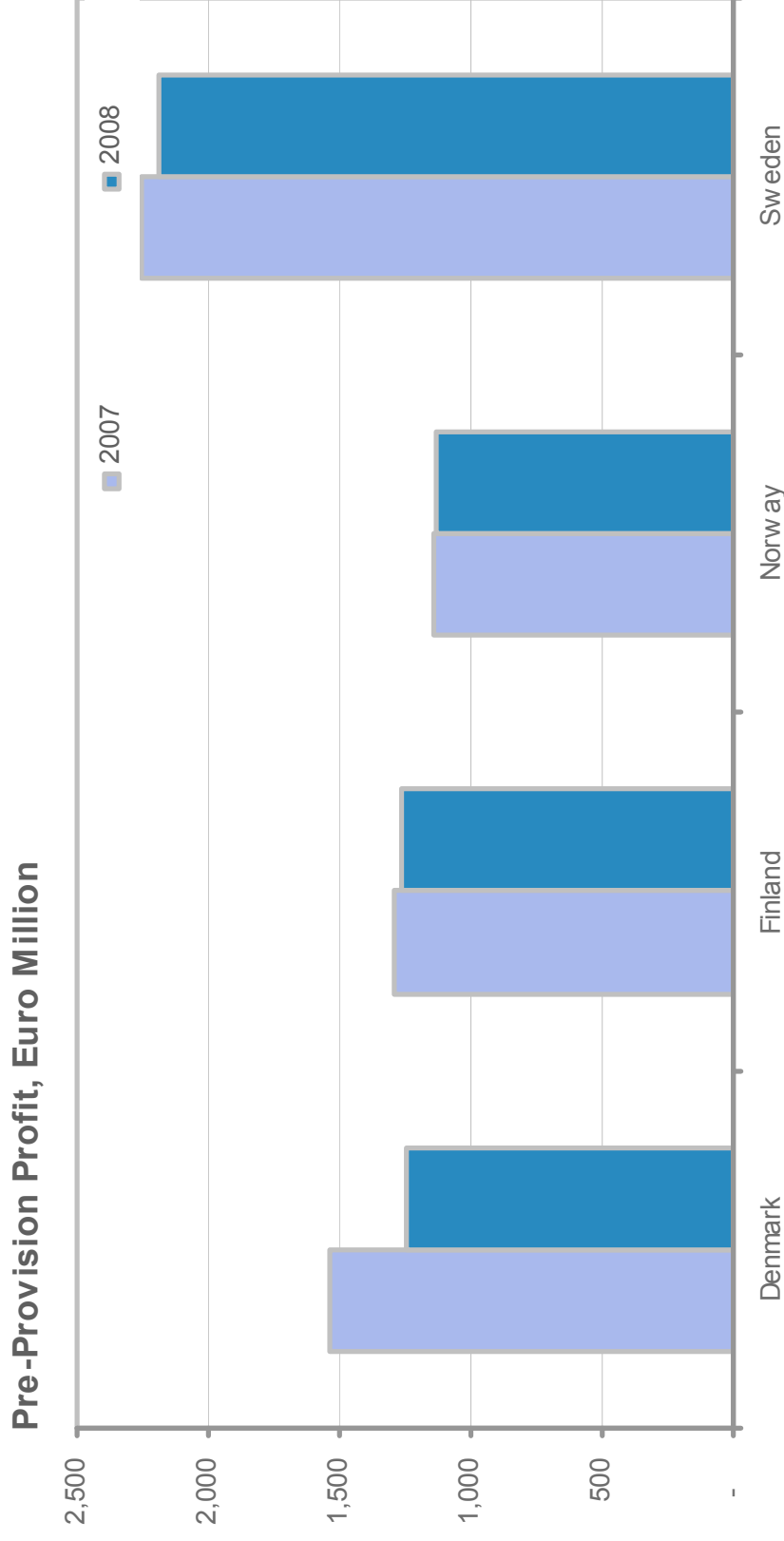
Note: Excess core capital is calculated based on Basel II transitional rules at end-2008

Source: Moody's calculations



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Profitability



Source: Moody's calculations



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Part IV: Outlook



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Nordic Banks; Negative Outlook (1/3)

- **Rapid changes in macro economic environment**
- **Asset quality concerns; Commercial properties, private equity, SME's, transportation (hereunder shipping), agriculture, fish farming and household lending**
- **Mark to market volatility despite IAS39**



Nordic Banks; Negative Outlook (2/3)

- **Earnings outlook –will lending margin increases be fast and large enough to outweigh cost for weaker asset quality, higher funding cost and cost for government liquidity support**
- **Capital –size and quality**
- **BFSRs need to reflect high intrinsic risk of banks' credit portfolio**

Will lead to further downward pressure on the Nordic banks financial strength



Nordic Banks; Negative Outlook (3/3)

- **Our analytical framework, focusing on earnings, capital, liquidity and franchise remains**
 - **More emphasis on stress testing**
- **But some adaptations necessary to address lessons currently learnt**
- **Debt & Deposit ratings should remain high due to systemic support assumptions that have held up well so far**
- **Ratings of junior sub debt and hybrids may be reassessed**





Nordic Entities Rated By Moody's



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Rated Banks in the Nordic Region (1/2)

DENMARK		
Bank Name	Ratings	Outlook
Amagerbanken A/S	Baa2/P-2/D-	NEG
BRFKredit a/s	*A2/--/--	STA
Danmarks Skibskredit A/S	*Aa3/--/--	STA
Danske Bank A/S	Aa3/P-1/C	STA(m)
DLR Kredit A/S	*A1/--/--	STA
FIH Erhvervsbank A/S	Baa3/P-3/D+	RUR
Fionia Bank A/S	A3/P-2/E	STA
Foroya Banki P/F	A3/P-2/C-	STA
Jyske Bank A/S	Aa2/P-1/B-	NEG
Nordea Bank Danmark A/S	Aa1/P-1/B-	STA
Nykredit Bank A/S	Aa3/P-1/C+	STA
Nykredit Realkredit A/S	*Aa3/--/--	STA
Ringjobing Landbobank A/s	A1/P-1/C+	STA
Spar Nord Bank A/S	A1/P-1/C	STA
Sydbank A/S	Aa3/P-1/C+	STA

FINLAND		
Bank Name	Ratings	Outlook
Aktia Bank p.l.c.	A1/P-1/C	STA
Nordea Bank Finland Plc	Aa1/P-1/B	STA
OP-Pohjola Group	--/--/B	STA
Pohjola Bank plc	Aa1/P-1/C+	STA
Sampo Bank plc	A1/P-1/C	STA

* When no deposit rating, the issuer rating is displayed instead.



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Rated Banks in the Nordic Region (2/2)

NORWAY		
Bank Name	Ratings	Outlook
DNB NOR Bank ASA	Aa1/P-1/B-	NEG
Eksportfinans ASA	*Aa1/--/--	NEG
Nordea Bank Norge ASA	Aa1/P-1/B-	STA
SpareBank 1 Gruppen AS	*Baa1/*P-2/	NEG
SpareBank 1 Nord-Norge	A1/P-1/C	STA(m)
SpareBank 1 SMN	A1/P-1/C	STA(m)
SpareBank 1 SR-Bank	A1/P-1/C-	NEG(m)
Sparebanken Oest	A1/P-1/C-	NEG(m)
Sparebanken Vest	A1/P-1/C	STA
Storebrand Bank	A2/P-1/C-	NEG

SWEDEN		
Bank Name	Ratings	Outlook
Landshypotek AB (publ)	A2/P-1/C+	STA
Lansforsakringar Bank AB (publ)	A2/P-1/C	STA
Nordea Bank AB	Aa1/P-1/B	STA
SEB	Aa2/P-1/B-	NEG
Stadshypotek AB	*Aa1/P-1/--	
Svenska Handelsbanken AB	Aa1/P-1/B	STA
Swedbank AB	A1/P-1/C-	NEG
Swedbank Mortgage AB	*A1/P-1/--	NEG
Swedish Export Credit Corporation	*Aa1/P-1/--	STA
Swedish Housing Finance Corp. (SBAB)	*A1/P-1/--	NEG
Volvofinans Bank AB	Baa1/P-2/C-	NEG(m)

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