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## SBAB Bank AB (publ)

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# SBAB Bank AB (publ)

<b>SACP</b>	<b>a-</b>		+	<b>Support</b>	<b>+1</b>	+	<b>Additional Factors</b>	<b>0</b>
<b>Anchor</b>	<b>a-</b>			<b>ALAC Support</b>	<b>+1</b>		<b>Issuer Credit Rating</b>	<b>A/Stable/A-1</b>
<b>Business Position</b>	Moderate	-1		<b>GRE Support</b>	<b>0</b>		<b>Resolution Counterparty Rating</b>	<b>A+/--/A-1</b>
<b>Capital and Earnings</b>	Strong	+1		<b>Group Support</b>	<b>0</b>			
<b>Risk Position</b>	Adequate	0		<b>Sovereign Support</b>	<b>0</b>			
<b>Funding</b>	Average	0						
<b>Liquidity</b>	Adequate							

## Major Rating Factors

Strengths:	Weaknesses:
<ul style="list-style-type: none"> <li>• Strong and resilient asset quality.</li> <li>• Sound capitalization levels and reserves of loss-absorbing liabilities.</li> <li>• Efficient business model.</li> </ul>	<ul style="list-style-type: none"> <li>• Highly concentrated on the Swedish property market.</li> <li>• Limited product offering and business diversification compared with peers.</li> </ul>

## Outlook: Stable

The stable outlook on SBAB reflects our expectation that the bank will continue building additional loss-absorbing capacity (ALAC) substantially above our adjusted threshold of 6% over the next two years, while maintaining robust capitalization. We also expect that the bank will remain highly concentrated in the Swedish retail mortgage market, with higher-than-peer loan volumes targeted in this segment, but that its loan losses will remain low.

### Downside scenario

We could take a negative rating action if we observed changes in the bank's risk appetite or operating conditions that might materially weaken asset quality, or if the RAC ratio were to fall below 10%.

### Upside scenario

An upgrade appears remote at this point. Although we expect the bank's ALAC to exceed 10% by year-end 2021, which could warrant a second notch of ALAC support, SBAB's concentration in domestic retail mortgages and high leverage is likely to constrain our view of the bank's overall creditworthiness compared with more diversified international peers at the 'A+' rating level.

## Rationale

Our ratings on SBAB reflect the bank's solid capitalization, sound asset quality, and streamlined business model, all contributing to the bank's expected resilience to the potential consequences of the ongoing COVID-19 pandemic. These strengths are counterbalanced by the bank's low revenue diversification as a mortgage and property lender and large exposure to the Swedish residential real estate market. Despite some earnings pressure linked to the current economic environment, we expect SBAB to maintain its strong capital base and sustained profit generation, partly thanks to reduced dividend payments, while continuing to build ALAC above 6% of its capital. We expect SBAB's highly collateralized loan book, with a low share of nonperforming assets, to remain resilient in this recession. Lastly, we regard the bank's funding and liquidity positions as in line with peers.

We now consider SBAB to be subject to an effective resolution regime. Although we do not rule out extraordinary support from its government owner, we now assume that it would be subject to a bail-in-led resolution if it failed, and hence factor into the rating our expectation support from its ALAC instead of government support.

### **Anchor: 'a-' for Swedish banks**

Our assessment of low economic risk in Sweden balances the anticipated recession in the wake of the COVID pandemic and elevated private-sector debt (vis-à-vis international peers) with our view of the Swedish economy as highly diverse and competitive, with demonstrated monetary and fiscal flexibility, and a historical focus on prudent management of public finances. We currently forecast Swedish GDP to contract by 6.4% in 2020 before bouncing back to 4.8% growth in 2021.

We expect the recession to negatively affect household consumption, investments, and exports leading to increased unemployment in 2020. We expect the domestic small and midsize enterprises sector will face challenges, given the country's small and open economy. That said, the wide-ranging fiscal, monetary, and regulatory support measures will, in our view, partially mitigate this sharp shock to the Swedish economy, and so support the stability of the Swedish banking system. Although we do not rule out a moderate price correction in the residential housing markets and the commercial property in real terms, we believe the impact on banks to be manageable, given the cushion from household wealth and widespread social welfare schemes. In the corporate sector, we believe overall balance sheet strength among corporates will also mitigate the risks to the Swedish banking system.

Our assessment of industry risks for Swedish banks incorporates our view of a proactive banking regulation, a stable competitive environment with strong profitability and robust capitalization of the banking sector. While we expect declines in profitability and capital ratios as a result of the economic stresses this year, we note the Swedish banking sector is operating from a position of strength in terms of profitability, asset quality, and capital levels vis-à-vis the European average. High levels of digitalization help Swedish banks operate at higher cost-efficiency compared with European peers. Banks in Sweden have long been on the leading edge of digital transformation including offering mobile payment, investment solutions and more recently mortgages. Customer interactions are today mainly digital and we expect COVID-19 to accelerate this trend.

Sweden's banks continue to rely on foreign wholesale funding to a large extent relative to customer deposits, which remains in our view a key risk factor. That said, Sweden's deep debt capital markets and the government's willingness

to ensure liquidity and a well-functioning domestic covered bond market mitigate this risk, in our view.

Our assessment for both economic and industry risk trends for the Swedish banking sector remains stable.

**Table 1**

<b>SBAB Bank AB (publ) Key Figures</b>					
	<b>--Year-ended Dec. 31--</b>				
<b>(Mil. SEK)</b>	<b>2020*</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
Adjusted assets	519,660	475,221	448,121	416,608	375,004
Customer loans (gross)	389,467	383,939	364,346	335,320	296,257
Adjusted common equity	16,134	15,792	14,138	13,259	12,340
Operating revenues	824	3,521	3,280	3,163	2,918
Noninterest expenses	311	1,187	1,049	959	889
Core earnings	375	1,788	1,726	1,709	1,570

\*Data as of March 31.

SEK--Swedish krona. N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

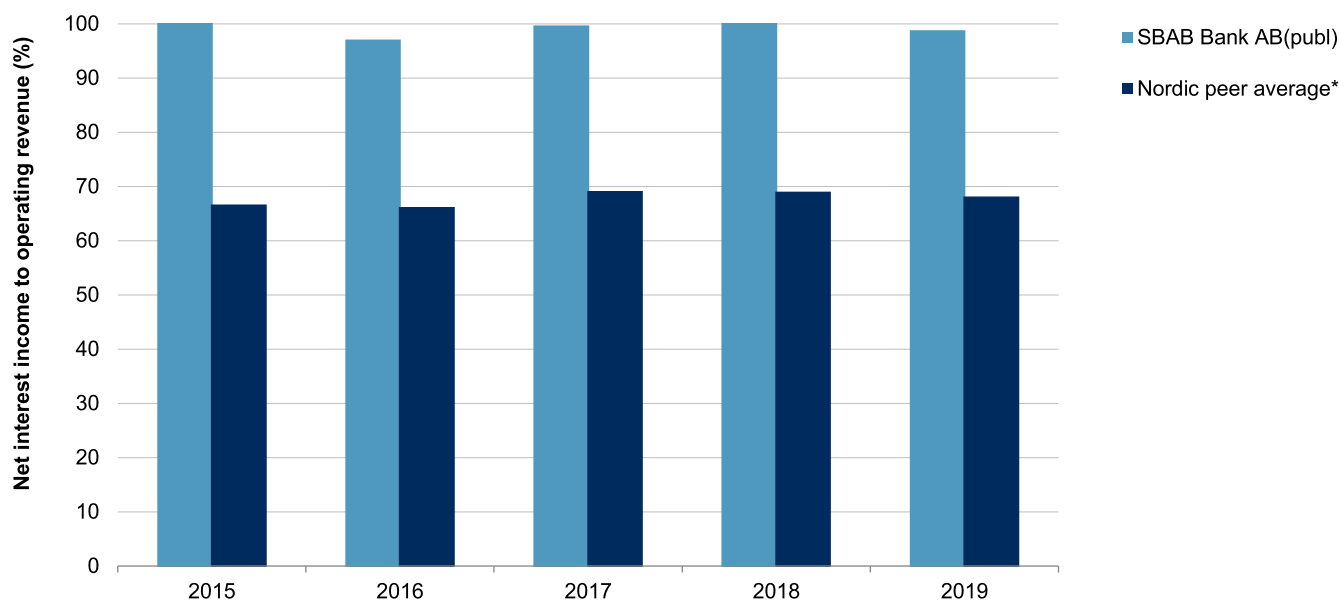
### **Business position: Business lines are limited to the Swedish property market**

We take into account SBAB's narrower business mix, both from a product and geographic perspective, compared with other Nordic peers. SBAB is Sweden's fifth-largest bank, with about Swedish krona (SEK) 520 billion (€49 billion) in assets on its balance sheet as of March 31, 2020, mostly related to retail mortgages (76% of its loan book). Fully government owned, the bank has been operating since 1985. The bank has grown to become a challenger on the retail mortgage market, while expanding its offering to savings products, consumer finance, and funding of tenant-owners' associations and property companies in Sweden. SBAB has increased its residential mortgage market share to about 8.5% as of February 2020 from about 7.2% in December 2016, in an operating climate that shows sustained domestic mortgage lending. The bank continues to grow faster than its existing market share (see chart 3). In 2019, it seized about 10% of the net growth in the Swedish residential mortgage market, putting it in sixth position in Sweden.

SBAB's lending growth has focused primarily on large cities and economic hubs in Sweden, and in urban areas where demand has increased in the past few years, as urbanization and immigration affect the country.

Chart 1

## SBAB's Mortgage Lending Focus Translates To Revenue Concentration



\*Includes Nordea Bank Abp, Svenska Handelsbanken AB, Skandinaviska Enskilda Banken AB, Swedbank AB, and Lansforsakringar Bank AB. Source: S&P Global Ratings.

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Despite its revenue concentration in interest income from property financing in Sweden, we expect SBAB's business model to be resilient to the potential consequences of the COVID-19 pandemic.

SBAB maintains a leaner and more variable operating cost structure than many other banks because it serves retail clients only by phone and internet. Consequently, the bank boasts a cost-to-income ratio of about 38% at Q1 2020, which compares favorably with both Nordic and European peers'. This supports our view that SBAB's earnings capacity will remain stable over the next few years.

We consider SBAB's management as prudent and committed to the bank's robust capitalization, as highlighted by the board of director's decision not to propose a dividend for 2019 in the uncertainty of the ultimate consequences of the COVID-19 pandemic. Furthermore, management is committed to offering a cost-efficient platform, which supports the current strategy of delivering transparent mortgage loans and underpins SBAB's robust net profit performance. The board of directors includes one member that represents the government's 100% stake. However, the board is generally considered to be independent and supportive of management in order to allow for autonomous business decisions.

**Table 2**

SBAB Bank AB (publ) Business Position					
	--Year-ended Dec. 31--				
(%)	2020*	2019	2018	2017	2016
Loan market share in country of domicile	8.5	8.5	8.4	8.0	7.2
Deposit market share in country of domicile	4.6	4.7	4.7	4.3	4.1
Total revenues from business line (currency in millions)	824	3,521	3,280	3,163	2,918
Commercial banking/total revenues from business line	23.4	23.5	24.4	23.2	21.0
Retail banking/total revenues from business line	76.6	76.4	78.3	77.7	77.5
Commercial & retail banking/total revenues from business line	100.0	99.9	102.7	100.9	98.5
Other revenues/total revenues from business line	0.0	0.1	(2.7)	(0.9)	1.5
Return on average common equity	8.1	10.6	11.5	12.2	12.3

\*Data as of March 31.

N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

### Capital and earnings: Resilient earnings generation supports capitalization

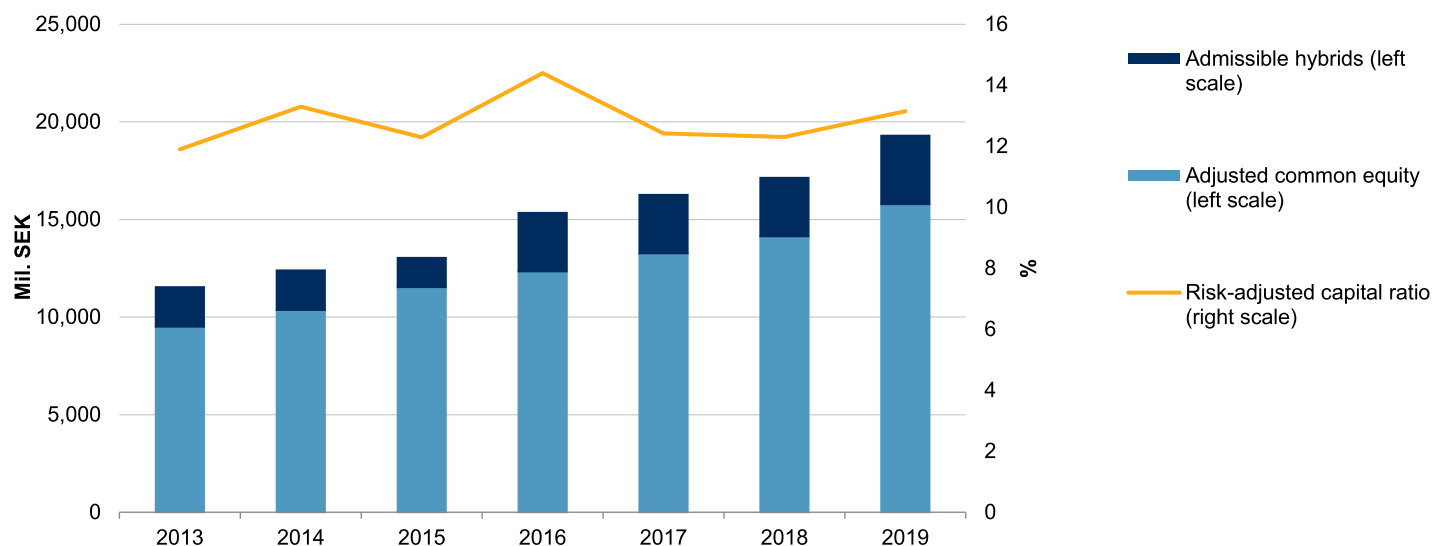
We continue to consider SBAB's capital levels to be a rating strength, offsetting potential downside to our earnings forecast and risks linked to the bank's geographic and sector concentrations. Specifically, we expect SBAB's RAC ratio--our measure of the bank's capital--to remain between 12%-13% over the next two years, supported by resilient net income.

As of December 2019, SBAB's RAC ratio increased to 13.15% from 12.3% a year earlier following the board's decision to propose a full retention of 2019 profits. This largely mitigated the impact of continued, still-steady loan growth (sustained at an average 7% over the past two years). Despite the uncertainties caused by the COVID-19 pandemic, we expect the bank to continue growing, at 5% in 2020, in line with the Swedish market. Through 2022, we expect SBAB's need for new provisions to remain lower than the overall market, and forecast that its annual net profits will remain in the range of SEK1.3 billion-SEK1.6 billion, from SEK1.8 billion in 2019, of which 40% will be distributed. As such, we anticipate that SBAB's capital will continue to compare favorably with peers' in RAC terms (see chart 2). However, the bank's regulatory leverage ratio--3.7% as of March 31, 2020--remains below the European average, as the bank is mostly exposed to assets with low regulatory risk-weights, such as retail mortgages.

Our 2019 RAC ratio includes SEK3.5 billion (€33 million) of additional Tier 1 (AT1) hybrid capital instruments. We include them in our total adjusted capital (TAC) measure, representing approximately 18% of TAC, and expect the total amount of hybrid capital to remain stable. We exclude from our measure the SEK1.5 billion instrument which the bank called in March 2020. Overall, we view SBAB as having average quality of capital, given that many European peers have greater shares of core capital, as measured by adjusted common equity.

Chart 2

### SBAB's Risk-Adjusted Capital Will Remain A Rating Strength On Sustained Earnings



SEK--Swedish krona. Source: S&P Global Ratings.

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Table 3

### SBAB Bank AB (publ) Capital And Earnings

	--Year-ended Dec. 31--				
(%)	2020*	2019	2018	2017	2016
Tier 1 capital ratio	15.5	17.3	15.1	39.3	40.1
S&P Global Ratings' RAC ratio before diversification	N/A	13.2	12.3	12.4	14.4
S&P Global Ratings' RAC ratio after diversification	N/A	8.5	8.3	8.3	9.4
Adjusted common equity/total adjusted capital	82.2	81.9	82.5	81.5	80.4
Double leverage	90.9	90.7	118.1	110.9	104.4
Net interest income/operating revenues	107.4	98.6	102.5	99.6	96.9
Fee income/operating revenues	(2.2)	(0.4)	(1.5)	(0.2)	0.2
Market-sensitive income/operating revenues	(6.7)	0.7	(2.0)	(0.4)	1.6
Noninterest expenses/operating revenues	37.7	33.7	32.0	30.3	30.5
Provision operating income/average assets	0.4	0.5	0.5	0.6	0.5
Core earnings/average managed assets	0.3	0.4	0.4	0.4	0.4

\*Data as of March 31.

N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Table 4

SBAB Bank AB (publ)--Risk-Adjusted Capital Framework Data					
	EAD(1)	Basel III RWA (2)	Average Basel III RW (%)	S&P Global Ratings RWA	Average S&P Global Ratings RW (%)
<b>Credit risk</b>					
Government and central banks	39,724.0	0.0	0.0	1,191.7	3.0
Of which regional governments and local authorities	15,471.0	0.0	0.0	464.1	3.0
Institutions and CCPs	47,273.0	7,787.5	16.5	6,211.8	13.1
Corporate	46,589.0	13,412.5	28.8	46,102.7	99.0
Retail	351,538.0	14,275.0	4.1	82,806.2	23.6
Of which mortgage	348,534.0	12,025.0	3.5	80,825.0	23.2
Securitization (3)	0.0	0.0	0.0	0.0	0.0
Other assets(4)	457.0	225.0	49.2	452.1	98.9
Of which deferred tax assets	0.0	--	--	0.0	0.0
Of which amount of over (-) or under (+) capitalization of insurance subsidiaries	0.0	--	--	0.0	0.0
Total credit risk	485,581.0	35,700.0	7.4	136,764.6	28.2
<b>Credit valuation adjustment</b>					
Total credit valuation adjustment	--	2,400.0	--	3,120.0	--
<b>Market risk</b>					
Equity in the banking book	101.0	1,262.5	1,250.0	883.8	875.0
Trading book market risk	--	462.5	--	693.8	--
Total market risk	--	1,725.0	--	1,577.5	--
<b>Operational risk</b>					
Total operational risk	--	4,850.0	--	5,194.6	--
<b>Diversification adjustments</b>					
RWA before diversification	--	120,575.0	--	146,656.7	100.0
Single name(On Corporate Portfolio) (5)	--	--	--	23,480.0	50.9
Sector(On Corporate Portfolio)	--	--	--	4,870.8	7.0
Geographic	--	--	--	25,941.7	15.6
Business and Risk Type	--	--	--	24,772.1	12.3
Total Diversification/ Concentration Adjustments	--	--	--	79,064.7	53.9
RWA after diversification	--	120,575.0	--	225,721.4	153.9
		<b>Tier 1 capital</b>	<b>Tier 1 ratio (%)</b>	<b>Total adjusted capital</b>	<b>S&amp;P Global Ratings RAC ratio (%)</b>
<b>Capital ratio</b>					
Capital ratio before adjustments		20,830.0	17.3	19,292.0	13.2
Capital ratio after adjustments (6)		20,830.0	17.3	19,292.0	8.5

Footnotes: (1) EAD: Exposure at default (2) RWA: Risk-weighted assets (3) Securitisation Exposure includes the securitisation tranches deducted from capital in the regulatory framework (4) Other assets includes Deferred Tax Assets (DTAs) not deducted from ACE (5) For Public-Sector Funding Agencies, the single name adjustment is calculated on the regional government and local authorities portfolio (6) For Tier 1 ratio, adjustments are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons) (7) RW--Risk weight



**Risk position: Low-risk business and prudent underwriting support future asset quality in uncertain economic environment**

Our risk profile assessment reflects SBAB's dominant exposure to residential real estate and its loss history, which is in line with the overall assessment of the Swedish banking industry risk. Over the next two years, as the bank pursues lending growth of about 5%--slightly above the overall mortgage market--we think that SBAB will maintain strict lending guidelines for new growth. Its average LTV ratio for residential mortgage customers was 61% at March 31, 2020, 64% for corporate real estate, and 34% for tenant-owned associations.

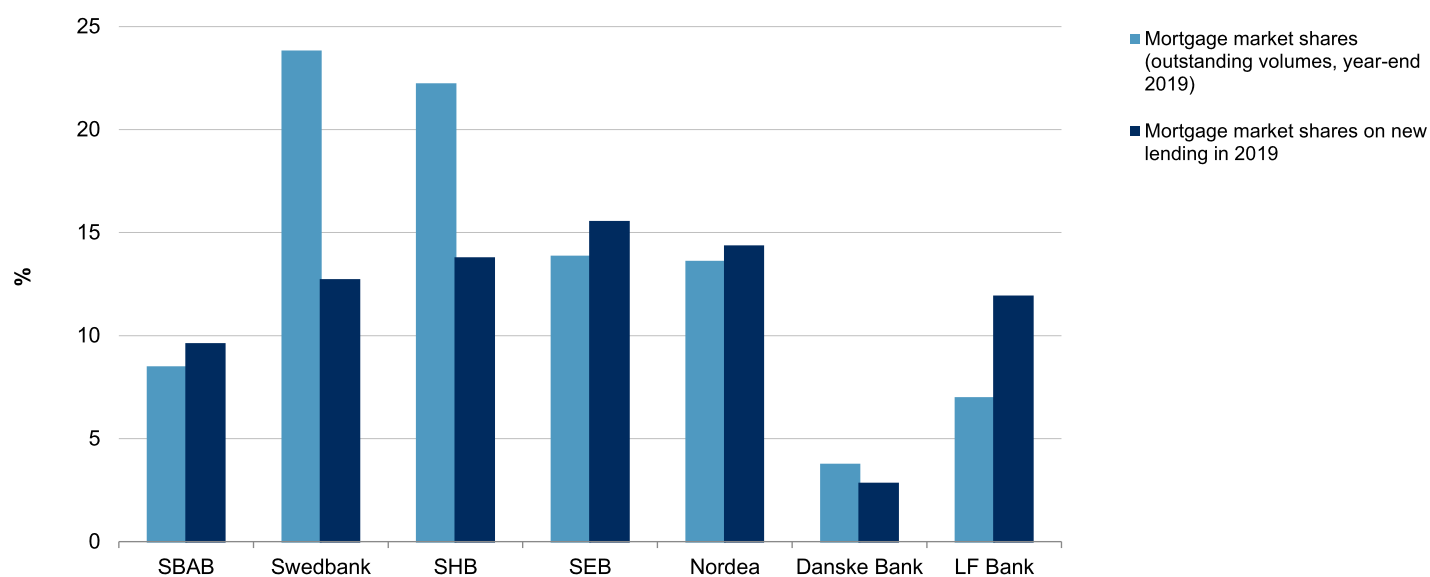
As of first-quarter 2020, residential retail mortgage lending represents about 76% of SBAB's loan book, with the remaining 23.5% split between tenant-owner associations (13.4%) and corporates real estate (10.1%).

Overall, we consider the bank's exposure to sectors that are sensitive to COVID-19 to remain limited. Due to its property financing niche, the bank has no direct exposure to hotel and leisure or transportation. Furthermore, the bank has significantly reduced its exposure to the commercial real estate market, which we think could be affected by the secondary effects of the pandemic, to about 0.7% of lending. Noncore lending, such as unsecured consumer and secondary-housing loans, are also a small portion of SBAB's loan portfolio, and exposure to construction loans is capped at 6% of total credit.

As of March 31, 2020, SBAB's ratio of gross nonperforming assets to customer loans remains marginal at 8 basis points. The bank posted SEK27 million of new provisions in the first quarter of the year, following a revision of its economic assumptions under IFRS9. Realized defaults had remained stable overall, although requests for amortization relief have increased following the decision by the Swedish FSA to offer such amortization relief to all mortgage customers to ease the consequences of COVID-19. We expect the bank's focus on residential retail mortgages, which creates a naturally well-collateralized loan book, to continue to support SBAB's asset quality. Furthermore, we expect the Swedish social safety net to act as an effective stabilizer in this recession, despite unemployment increasing to 9.5% in our base case for 2020. In addition, the bank's LTV levels provide a cushion against a potential correction of the Swedish property markets. We expect Swedish house prices to decrease moderately in 2020 by 5% in nominal terms in 2020. Overall, we expect SBAB's provision needs should remain below 6 basis points of loans in 2020, well below our overall market expectations. We also expect annual net charge offs to remain marginal this year.

Chart 3

## SBAB Pursues Annual Above-Market Lending Growth



Source: Statistics Sweden.

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Table 5

## SBAB Bank AB (publ) Risk Position

(%)	--Year-ended Dec. 31--				
	2020*	2019	2018	2017	2016
Growth in customer loans	5.8	5.4	8.7	13.2	(0.3)
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	53.9	48.6	49.0	52.1
Total managed assets/adjusted common equity (x)	32.2	30.1	31.7	31.4	30.4
Gross nonperforming assets/customer loans + other real estate owned	0.1	0.1	0.1	0.1	0.1
Loan loss reserves/gross nonperforming assets	48.8	47.0	49.1	69.4	86.7

\*Data as of March 31.

N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

**Funding and liquidity: Increased deposit funding is underpinned by government ownership**

Over the past few years, SBAB has been focused on attracting depositors (both retail and corporate) and lengthening its funding profile. Although the bank is still predominately wholesale funded, its funding metrics are now more in line with levels seen at Nordic peers. Our calculation of the funding ratio remained stable at 101% as of December 2019, a level we expect the bank to maintain through 2021.

In first-quarter 2020, SBAB's deposits totaled SEK128.7 billion, or about 33% of its loan book. Retail deposits (82% of total deposits from the public) slightly decreased during Q1 2020 and reached a market share of about 4.6% in Sweden

as of Q1 2020, compared with virtually none in 2011. Although the Swedish deposit guarantee covers about 60% of SBAB's deposit base, we think that growth over the last few years has also been supported by the government's 100% ownership of the bank. SBAB's loan growth over the coming years will likely be funded by a mix of deposits, covered bonds, and senior bonds. As such, we anticipate that the bank's funding metrics will remain balanced.

The covered bonds issued via SBAB's covered bond subsidiary, SCBC, make up 75% of outstanding issuance and around 55% of the total funding base. Issuances denominated in Swedish krona dominate the bank's balance sheet, with other currencies (mostly euro-denominated issuances) representing a quarter. This is to minimize cross currency basis swap usage, which has created earnings volatility in the past.

We consider SBAB's liquidity to be adequate. The bank's liquidity portfolio stood at about SEK94 billion at Q1 2020, having increased by about SEK36 billion over the past five years. Despite an increase in short-term wholesale funding, SBAB's ratio of broad liquid assets to short-term wholesale funding reduced to 1.1x in December 2019, and we expect it to remain above 1.0x in 2020. However, we also note that asset encumbrance remains high at about 53% as of December 2018. It has been stable around this level over recent years and is broadly in line with most Nordic peers. We note that SBAB reported that its regulatory liquidity coverage ratio was 303%--well above the 100% minimum.

**Table 6**

SBAB Bank AB (publ) Funding And Liquidity					
	--Year-ended Dec. 31--				
(%)	2020*	2019	2018	2017	2016
Core deposits/funding base	26.6	29.0	29.3	28.3	27.4
Customer loans (net)/customer deposits	302.5	294.0	291.5	299.5	305.9
Long-term funding ratio	80.9	83.2	84.7	84.5	88.1
Stable funding ratio	103.7	100.9	102.2	102.8	108.6
Short-term wholesale funding/funding base	20.0	17.6	16.0	16.1	12.4
Broad liquid assets/short-term wholesale funding (x)	1.1	1.0	1.1	1.2	1.6
Net broad liquid assets/short-term customer deposits	8.0	(2.0)	4.3	8.7	26.9
Short-term wholesale funding/total wholesale funding	26.9	24.5	22.4	22.3	16.9
Narrow liquid assets/3-month wholesale funding (x)	1.8	1.7	1.8	1.1	1.6

\*Data as of March 31.

N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

### External support: One-notch of ALAC support instead of government support

SBAB is among the midsize banks considered by the Swedish National Debt Office (SNDO) as critical to the domestic financial system. The bank must therefore fulfil a substantial minimum requirement for own funds and eligible liabilities (MREL), set at 5.35% of total liabilities and own funds (TLOF) as of March 31, 2020. Part of these requirements (about SEK12 billion as of March 2020) need to be met with subordinated liabilities only--a policy that is consistent with the U.K. and Switzerland, but more demanding than we currently see elsewhere in Europe. Due to COVID-19, the phase-in period has been extended from Jan. 1, 2022 to end-2023.

In the event that SBAB experiences stress, we see two possible scenarios for extraordinary support: the bank would receive pre-emptive support from its government owner, or, if it became nonviable, it would be subject to a bail-in-led

resolution that could restore its viability (see Various Rating Actions On Swedish Midsize Banks As Resolution Regime Gains Effectiveness).

Under our methodology we take an either/or, not cumulative, approach when a bank has more than one form of potential support, following the approach that produces the highest issuer credit rating (ICR) outcome. For SBAB, both approaches would merit one notch of support in the long-term ICR--taking into account our expectation that the bank's ALAC will durably exceed our adjusted 6% threshold in the next two years. Although we do not see the resolution backstop as having altered the government's willingness to support the bank, we choose ALAC support (resolution) as our base-case assumption. Therefore, we factor one notch of ALAC support in the ICR, instead of one notch of support stemming from the bank's government owner, as previously.

### **Ratings on hybrid instruments**

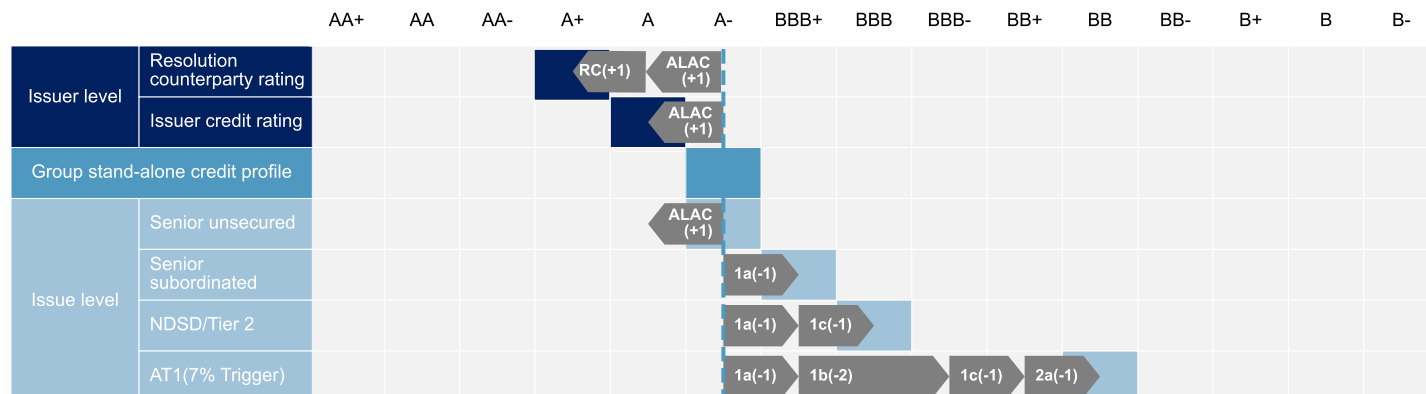
We rate SBAB's senior nonpreferred notes, which rank below its senior unsecured debt, at 'BBB+', one notch below the bank's SACP, reflecting the subordination risk (see the "senior subordinated" notes listed in the Ratings Detail box below). This follows our approach when an instrument is contractually or statutorily subordinated to preferred senior unsecured debt. In addition, we believe that the senior nonpreferred notes would be subject to a possible conversion or write-down only in resolution, and would be excluded from any burden-sharing under EU state-aid rules. We have not applied further notching from the SACP because we believe that senior nonpreferred notes do not carry any additional default risk relative to that represented by the SACP assessment.

We rate the nondeferrable subordinated debt instruments of SBAB at 'BBB', two notches below the bank's SACP. The rating reflects our view of the debt's contractual subordination as a Tier 2 instrument and that the BRRD (bank recovery and resolution directive) is equivalent to a contractual write-down clause.

We rate SBAB's AT1 instruments 'BB'. We deduct five notches from the SACP to reflect:

- One notch for contractual subordination;
- Two notches for the instruments' status as Tier 1 regulatory capital;
- One notch because the instruments allow for the full or partial temporary write-down of the principal amount; and
- One notch because we expect the SBAB's CET1 ratios to remain less than 700 basis points above the mandatory conversion trigger for their perpetual noncumulative AT1 instruments.

## SBAB Bank AB (publ): Notching



### Key to notching

----- Group stand-alone credit profile

----- Issuer credit rating

RC Resolution counterparty liabilities (senior secured debt)

ALAC Additional loss-absorbing capacity buffer

1a Contractual subordination

1b Discretionary or mandatory nonpayment clause and whether the regulator classifies it as regulatory capital

1c Mandatory contingent capital clause or equivalent

2a Mandatory going-concern, regulatory capital-based trigger (either statutory or contractual)

Note: The number-letter labels in the table above are in reference to the notching steps we apply to hybrid capital instruments, as detailed in table 3 of our "Hybrid Capital: Methodology And Assumptions" criteria, published on July 1, 2019.

AT1--Additional Tier 1. NDS--Non-deferrable subordinated debt. NVCC--nonviability contingent capital.

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## Environmental, Social and Governance

We consider ESG credit factors for SBAB to be broadly in line with industry and country peers.

Through its mortgage focus, SBAB is expanding its franchise in green lending and funding. The bank currently offers three different green lending products: green mortgages to energy efficient customers, green consumer loans for sustainable investments in homes, and green investment loans, targeting tenant-owners' associations and property companies. Their combined volume represented about 6% of total lending at year-end 2019. Green mortgages represent the lion's share and have grown quickly since their launch in 2018, reaching about SEK16 billion at year-end 2019, or about 4% of total lending.

This increased focus on green lending supports SBAB as it expands its own use of green capital market funding, totaling SEK12.7 billion at year-end 2019, or about 3% of the total funding base. The bank was the first in Sweden to issue a green bond in 2016, and the first to issue a green covered bond backed by residential mortgages and property loans in 2019.

The bank is increasingly incorporating climate aspects in its overall risk management framework. In 2019, the bank leveraged on recommendations from the Task Force on Climate Related Financial Disclosures (TCFD) to conduct stress tests for climate-related risk on its residential mortgage portfolio, showing, for instance, limited sensitivities to

flooding and rising sea levels.

The bank is furthermore committed to delivering strong customer service, as illustrated by the highest share of satisfied customers in 2019 for both residential mortgages and corporate property loans, according to the Swedish Quality Index (SKI).

We consider the bank's governance standards to be consistent with industry norms in Sweden overall, but view the Swedish government's 100% stake as a supportive factor.

### **Additional rating factors: None**

No additional factors affect this rating.

## **Related Criteria**

- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Financial Institutions | General: Methodology For Assigning Financial Institution Resolution Counterparty Ratings, April 19, 2018
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Financial Institutions | Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
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- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

## **Related Research**

- Banking Industry Country Risk Assessment Update: May 2020, May 18, 2020
- EMEA Financial Institutions Monitor 2Q2020: Resilient But Not Immune To COVID-19, May 14, 2020
- How COVID-19 Risks Prompted European Bank Rating Actions, April 29, 2020
- European Banks' First-Quarter Results: Many COVID-19 Questions, Few Conclusive Answers, April 1, 2020
- Various Rating Actions On Swedish Midsize Banks As Resolution Regime Gains Effectiveness, Feb. 28, 2020
- What A Weaker Swedish Property Market Would Mean For Nordic Real Estate Companies And Banks, Feb. 20,

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- Nordic Banks' Capital And Earnings Can Weather The Weakening Credit Cycle, Nov. 14, 2019
- CreditWatch On SBAB And Landshypotek's AT1 Instruments Maintained On Regulatory Capital Evolution, March 22, 2019
- Banking Industry Country Risk Assessment: Sweden, April 11, 2019
- Banking
- Ratings On Various Swedish Mid-Size Banks Affirmed On MREL Requirements; Some AT1 Hybrids On Watch Negative, Nov. 27, 2018
- 24 European Banking Groups Assigned Resolution Counterparty Ratings, June 29, 2018

**Anchor Matrix**

Industry Risk	Economic Risk									
	1	2	3	4	5	6	7	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	a-	bbb+	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

**Ratings Detail (As Of May 29, 2020)\*****SBAB Bank AB (publ)**

Issuer Credit Rating	A/Stable/A-1
<i>Nordic Regional Scale</i>	--/--/K-1
Resolution Counterparty Rating	A+/--/A-1
Commercial Paper	A-1
<i>Nordic Regional Scale</i>	K-1
Junior Subordinated	BB
Senior Subordinated	BBB+
Senior Unsecured	A
Short-Term Debt	A-1
Subordinated	BBB
<b>Issuer Credit Ratings History</b>	
24-Nov-2017 <i>Foreign Currency</i>	A/Stable/A-1
25-Sep-2013	A/Negative/A-1
19-Jul-2013	A/Watch Neg/A-1

**Ratings Detail (As Of May 29, 2020)\*(cont.)**

24-Nov-2017	<i>Local Currency</i>	A/Stable/A-1
25-Sep-2013		A/Negative/A-1
19-Jul-2013		A/Watch Neg/A-1
22-Jun-2004	<i>Nordic Regional Scale</i>	--/--/K-1

**Sovereign Rating**

Sweden		AAA/Stable/A-1+
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\*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.



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