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Moody's Confirms SBAB A2/P-1 Ratings

Moody's Investors Service has today confirmed SBAB Bank's A2 long-term issuer and senior unsecured ratings and Prime-1 short-term rating, with a negative outlook for long-term ratings. Following the action, Moody's has removed SBAB from negative review.

The confirmations reflect Moody's view that the bank's low profitability and limited capital generating ability are in line with its limited credit risk as a mortgage lender. The negative outlook for senior debt reflects the increased probability that Moody's reduces the systemic support uplift for senior debt, following the introduction of the Bank Recovery and Resolution Directive.

The negative outlook is in line with the negative outlook assigned to a wide range of European banks' supported long term ratings on 29 May (https://www.moodys.com/research/Moodys-changes-outlooks-to-negative-on-82-long-term-European--PR_300582). It reflect Moody's view that, with the legislation underlying the new resolution framework now in place and the explicit inclusion of burden-sharing with unsecured creditors as a means of reducing the public cost of bank resolutions, the balance of risk for banks' senior unsecured creditors has shifted to the downside. While Moody's support assessments with regards to senior unsecured debt are unchanged for now, the probability has risen that they will be revised downwards to reflect the new framework.

At the same time, Moody's downgraded SBAB Bank's subordinated debt rating to Baa3 from A3, and preferred stock rating to Ba2(hyb) from Ba1(hyb), with stable outlook. Going forward, the ratings for these debt classes will be notched off SBAB's Baa2 baseline credit assessment, and no longer incorporate systemic support.

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