

Rating Action: Moody's upgrades SBAB's long-term deposit, senior and issuer ratings; outlook stable

Global Credit Research - 21 Aug 2017

London, 21 August 2017 -- Moody's Investors Service, ("Moody's") has today upgraded SBAB Bank AB (publ)'s (SBAB) long-term deposit rating to A1 from A2, its senior unsecured rating to A1 from A2 and its long-term senior unsecured MTN to (P)A1 from (P)A2. Moody's also upgraded bank's long-term counterparty risk assessment (CR Assessment) to Aa3(cr) from A1(cr). The rating upgrades reflects improvements in primarily profitability and the diversification of funding sources with increasing retail deposits, which is translated into an upgrade in the bank's baseline credit assessment (BCA) and adjusted BCA to baa1 from baa2.

The outlook on SBAB's ratings is stable, driven by Moody's expectation of a steady financial performance of the bank supported by a stable operating environment.

A full list of affected ratings can be found at the end of this press release.

RATINGS RATIONALE

RATIONALE FOR THE UPGRADE OF THE BCA AND ADJUSTED BCA

The upgrade of SBAB's BCA to baa1 from baa2 primarily reflects the bank's improved and sustained profitability and a significant increase in retail deposits as a source of funding in recent years, which we expect the bank to be able to maintain. SBAB's profitability is underpinned by resilience in net interest margins (NIM) despite the prolonged low interest rate environment and good cost control. SBAB recorded net income over tangible assets of 0.38% at H1 2017 up from 0.37% at end-2016 and 0.31% at end-2015. Although SBAB is highly dependent on market funding, the bank is gradually reducing its gross loans/deposits ratio, standing at 307% at end-June 2017, down from 387% at end-2015 and 431% at end-2014.

SBAB's standalone BCA of baa1 also reflects the strong credit quality track record of the bank, as well as robust capital buffers despite modest -- albeit improving -- profitability. SBAB's loan book is predominantly focused on retail mortgages, in the strong and stable Swedish economic environment. Problem loans over gross loans ratio has been stable over the years, standing at 0.10% at end-June 2017. Nevertheless, Moody's assessment also takes into account the relatively high level of household indebtedness (179% at end-2016) in Sweden, in the context of a prolonged period of rapid loan growth, which has raised the risks of a price correction and related credit quality deterioration.

SBAB's robust capitalization is reflected in its tangible common equity over tangible assets of 31.92% at end-June 2017, which is high compared to Swedish peers. However, like other Swedish banks, the nominal leverage of the bank is high, with tangible common equity over total assets at 3.2% at the same time due to the low risk weights of mortgages.

RATIONALE FOR THE UPGRADE OF DEPOSITS, SENIOR UNSECURED AND ISSUER DEBT RATINGS

The bank's long-term deposit and senior unsecured debt ratings are positioned at A1 and short term deposit ratings are positioned at Prime-1, taking into account the bank's baa1 BCA and Moody's view of a very low probability of losses for these debt classes in case of bail-in, which results in two notches of rating uplift under the rating agency's advanced loss given failure (LGF) approach. The LGF analysis assesses the potential cushion to creditors provided by the banking group's own volume of deposits and debt, and the volume of securities subordinated to them in the creditor hierarchy.

Additionally, a moderate level of government support from Sweden (LT issuer rating Aaa, stable) is incorporated in SBAB's unsecured and deposit ratings, providing one further notch of rating uplift. Moody's support assumptions are derived from the fact that SBAB is fully owned by the Swedish government and has a meaningful market share in the Swedish residential mortgage market (7.5% at end-June 2017).

RATIONALE FOR THE CR ASSESSMENT

As part of today's action, Moody's also upgraded SBAB's long-term CR Assessment at Aa3(cr) from A1(cr), four notches above the BCA of baa1, and affirmed the short-term CR Assessment at P-1(cr). The CR Assessment is driven by the banks' standalone assessment and on the substantial cushion against default provided to the senior obligations represented by subordinated instruments, accounting for three notches of uplift relative to the BCA, as well as one notch of government support, in line with the agency's support assumptions on the bank's deposits and senior unsecured debt.

STABLE OUTLOOK ON ALL LONG-TERM RATINGS

The stable outlook on SBAB's long-term ratings reflects Moody's expectation of steady financial performance of the bank supported by a stable operating environment over the next 12-18 months.

WHAT COULD CHANGE THE RATINGS UP/DOWN

Upward rating pressure could develop from significant improvements in the bank's financial performance, including: (1) an improvement in the nominal capital leverage ratio; and (2) an improvement in profitability, without a material increase in the bank's risk profile; and/or (3) a significant improvement in Moody's assessment of the bank's funding profile.

Conversely, downward rating pressure could arise on SBAB's senior unsecured ratings if its cushion of bail-in eligible liabilities shrinks considerably. Moody's would also consider downgrading SBAB Bank's long-term and subordinated ratings if (1) the bank's profitability significantly deteriorates, and/ or (2) the bank's risk profile increases due to increased exposure to more volatile sectors (e.g. unsecured lending).

LIST OF AFFECTED RATINGS

Issuer: SBAB Bank AB (publ)

Upgrades:

....LT Issuer Rating, Upgraded to A1 from A2, Outlook Changed To Stable From Positive

....LT Bank Deposits, Upgraded to A1 from A2, Outlook Changed To Stable From Positive

....Senior Unsecured Regular Bond/Debenture, Upgraded to A1 from A2, Outlook Changed To Stable From Positive

....Subordinate, Upgraded to Baa2 from Baa3

....Senior Unsecured MTN Program, Upgraded to (P)A1 from (P)A2

....Subordinate MTN Program, Upgraded to (P)Baa2 from (P)Baa3

....Pref. Stock Non-cumulative, Upgraded to Ba1 (hyb) from Ba2 (hyb)

....Adjusted Baseline Credit Assessment, Upgraded to baa1 from baa2

....Baseline Credit Assessment, Upgraded to baa1 from baa2

....LT Counterparty Risk Assessment, Upgraded to Aa3(cr) from A1(cr)

Affirmations:

....ST Bank Deposits, Affirmed P-1

....Commercial Paper, Affirmed P-1

....Other Short Term, Affirmed (P)P-1

....ST Counterparty Risk Assessment, Affirmed P-1(cr)

Outlook Actions:

....Outlook, Changed To Stable From Positive

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks published in January 2016. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

Niclas Boheman
Asst Vice President - Analyst
Financial Institutions Group
Moody's Investors Service Ltd.
One Canada Square
Canary Wharf
London E14 5FA
United Kingdom
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Sean Marion
MD - Financial Institutions
Financial Institutions Group
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Releasing Office:
Moody's Investors Service Ltd.
One Canada Square
Canary Wharf
London E14 5FA
United Kingdom
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

© 2017 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MOODY'S PUBLICATIONS MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives,

licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moody.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be reckless and inappropriate for retail investors to use MOODY'S credit ratings or publications when making an investment decision. If in doubt you should contact your financial or other professional adviser.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.