

Update: SBAB Bank AB (publ)

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Table Of Contents

Credit Highlights

Outlook

Key Metrics

Key Statistics

Related Criteria

Related Research

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SACP: a-			Support: +1	Additional factors: 0								
Anchor	a-		ALAC support	+1								
Business position	Moderate	-1	GRE support	0								
Capital and earnings	Strong	+1	Group support	0								
Risk position	Adequate	0	Sovereign support	0								
Funding	Adequate	0	<table border="1"> <tr> <th colspan="2">Issuer credit rating</th> </tr> <tr> <td colspan="2" style="text-align: center;">A/Stable/A-1</td> </tr> <tr> <th colspan="2">Resolution counterparty rating</th> </tr> <tr> <td colspan="2" style="text-align: center;">A+/A-1</td> </tr> </table>		Issuer credit rating		A/Stable/A-1		Resolution counterparty rating		A+/A-1	
Issuer credit rating												
A/Stable/A-1												
Resolution counterparty rating												
A+/A-1												
Liquidity	Adequate											
CRA adjustment	0											

ALAC--Additional loss-absorbing capacity. CRA--Comparable ratings analysis. GRE--Government-related entity. ICR--Issuer credit rating. SACP--Stand-alone credit profile.

Credit Highlights

Global Scale Ratings
Issuer Credit Rating A/Stable/A-1
Resolution Counterparty Rating A+/-/A-1
<i>Nordic Regional Scale</i> <i>Issuer Credit Rating</i> -/-/K-1

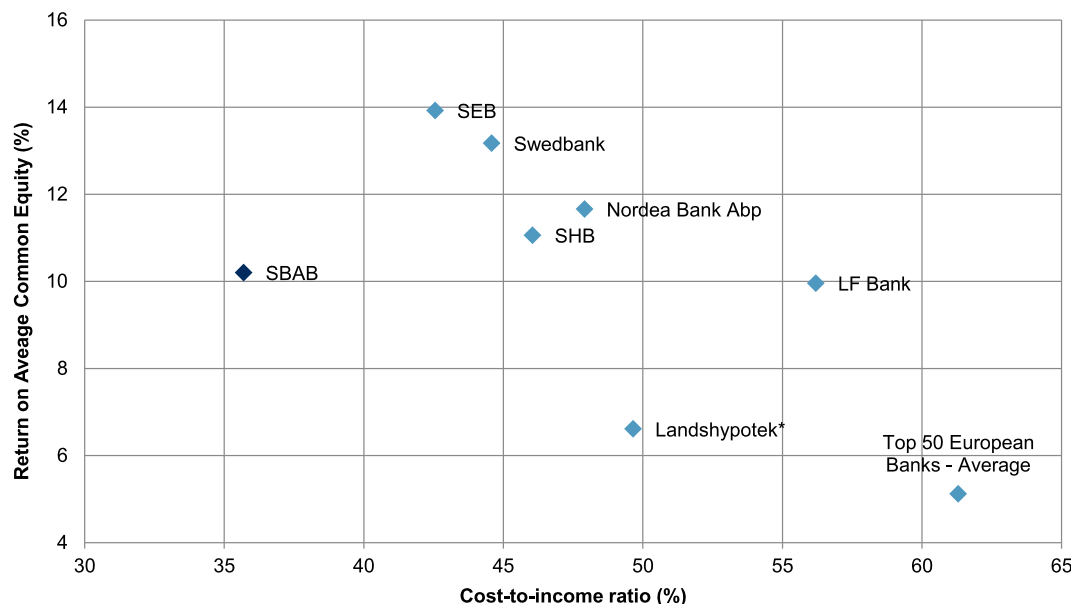
Key strengths	Key risks
Resilient asset quality owing to highly collateralized lending focus.	Swedish property market concentration.
Very efficient business model with a cost-income ratio near 35%.	Limited product and revenue diversification compared with peers.
Meaningful capital and loss-absorption buffers.	

Recent management changes are unlikely to change SBAB's strategy as we believe that online mortgage growth will continue to lead revenue growth. Formed as a government-owned bank more than 36 years ago, SBAB has advanced its role as a challenger bank in mortgage lending to become Sweden's fifth largest bank. The board of directors decided in November 2021 to replace SBAB's CEO after seven years of service, and recently announced that the interim CEO Mikael Inglander (formerly the chief financial officer) would assume the role permanently. We do not believe that this will have any meaningful effect on the bank's strategy over the medium term. SBAB's product offering focuses on providing no-fuss mortgage loans to retail and corporate customers, such as tenant-owner associations and property companies, online or over the phone. As a result, SBAB boasts a better cost-income ratio than most European banks (see chart 1). However, this leads to revenue concentration as net income is the bank's sole source of revenue.

Chart 1

SBAB's 2021 Cost-To-Income Ratio And Return On Average Common Equity

Compared with the top 50 European banks



*As of Q3 2021. Source: S&P Global Ratings.

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We expect SBAB's capital levels to be robust due to stable earnings. As of Dec. 31, 2021, SBAB's risk-adjusted capital (RAC) was 12.2%. We expect SBAB to pursue annual lending growth of about 6%-8% by expanding into urban areas of Sweden. We think that this growth will lead to an annual pre-tax profit of Swedish krona (SEK) 2.0 billion-SEK2.3 billion and, in addition to capital instrument issuance, result in RAC of 12.5%-13.5% over 2021-2023 (see key metrics and forecast table). This assumes that SBAB will pay dividends of about 40% of net profits.

We anticipate SBAB to report low levels of loan losses. Residential retail mortgage lending represents about 71% of SBAB's loan book as of the first quarter of 2022 and the remaining 29% is to tenant-owner associations and corporate real estate. As the bank pursues an above average mortgage market growth rate in Sweden's expanding urban areas, we believe that SBAB will maintain its strict lending guidelines for new growth. As of March 31, 2022, the average loan-to-value ratio for new lending was 68% and debt to income was 3.9x. Generally, we anticipate that the economic backdrop will support asset quality for the coming two years and we expect the bank's losses to remain marginal.

Wholesale funding, including increased senior nonpreferred issuance, will remain the bank's primary source of funding. SBAB relies on slightly more than 70% market-based wholesale funding to meet its funding needs and we do not foresee a change in the bank's funding mix. We expect regulatory requirements to support funding and liquidity metrics, which were fairly balanced as of first quarter of 2022 (see table 5). The ongoing funding to satisfy SBAB's minimum requirement for own funds and eligible liabilities should ensure that the 2024 deadline is met, supporting our view that the bank's additional loss-absorbing capacity (ALAC) will remain above 6% over the medium term. As of Dec. 31, 2021, SBAB's ALAC buffer represented about 6% of risk-weighted assets.

Outlook

The stable outlook on SBAB reflects our expectation that the bank will continue building 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 could exceed 10% in the medium-term, 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.

Key Metrics

SBAB Bank AB (publ)--Key Ratios And Forecasts

	--Fiscal year ended Dec. 31--				
	2020a	2021a	2022f	2023f	2024f
Growth in customer loans (%)	10.2	10.4	7.0-8.0	6.5-7.0	6.0-6.5
Net interest income/average earning assets (%)	0.8	0.8	0.79-0.81	0.81-0.83	0.82-0.84
Cost to income ratio (%)	35.8	36.2	35.5-36.5	35.0-36.0	34.0-35.0
Return on equity (%)	9.6	10.2	8.5-9.5	9.0-10.0	9.0-10.0
Gross nonperforming assets/customer loans (%)	0.1	0.1	0.0-0.1	0.0-0.1	0.0-0.1
Net charge-offs/average customer loans (%)	0.0	0.0	0.0-0.0	0.0-0.0	0.0-0.0
Risk-adjusted capital ratio (%)	13.0	12.2	12.5-13.5	12.5-13.5	12.5-13.5

*All figures adjusted by S&P Global Ratings. a--Actual. f--Forecast.

Key Statistics

Table 1

SBAB Bank AB (publ) Key Figures

(Mil. SEK)	--Year-ended Dec. 31--				
	2022*	2021	2020	2019	2018
Adjusted assets	571,532.0	557,877.0	511,029.0	475,221.0	448,121.0
Customer loans (gross)	478,805.0	467,179.0	422,986.0	383,939.0	364,346.0

Table 1

SBAB Bank AB (publ) Key Figures (cont.)					
	--Year-ended Dec. 31--				
(Mil. SEK)	2022*	2021	2020	2019	2018
Adjusted common equity	19,465.2	18,433.6	17,464.0	15,792.0	14,137.8
Operating revenues	1,061.0	4,122.0	3,728.0	3,521.0	3,280.0
Noninterest expenses	358.0	1,492.0	1,335.0	1,187.0	1,049.0
Core earnings	541.1	2,081.0	1,839.0	1,788.0	1,726.0

*Data as of March 31. SEK--SEK-Swedish krona.

Table 2

SBAB Bank AB (publ) Business Position					
	--Year-ended Dec. 31--				
(%)	2022*	2021	2020	2019	2018
Loan market share in country of domicile	8.5	8.5	8.5	8.5	8.4
Deposit market share in country of domicile	4.2	4.3	4.4	4.7	4.7
Total revenues from business line (currency in millions)	1,061.0	4,122.0	3,728.0	3,521.0	3,280.0
Commercial banking/total revenues from business line	25.7	23.3	22.9	23.5	24.4
Retail banking/total revenues from business line	74.3	76.7	77.1	76.4	78.3
Commercial & retail banking/total revenues from business line	100.0	100.0	100.0	99.9	102.7
Other revenues/total revenues from business line	0.0	0.0	0.0	0.1	(2.7)
Return on average common equity	9.2	10.2	9.6	10.6	11.5

*Data as of March 31.

Table 3

SBAB Bank AB (publ) Capital And Earnings					
	--Year-ended Dec. 31--				
(%)	2022*	2021	2020	2019	2018
Tier 1 capital ratio	16.1	16.6	16.1	17.3	15.1
S&P Global Ratings' RAC ratio before diversification	N/A	12.2	13.0	13.2	12.3
S&P Global Ratings' RAC ratio after diversification	N/A	8.2	8.6	8.5	8.3
Adjusted common equity/total adjusted capital	81.9	81.1	83.3	81.9	82.5
Double leverage	80.0	79.2	84.5	90.7	118.1
Net interest income/operating revenues	102.2	99.8	100.5	98.6	102.5
Fee income/operating revenues	1.2	0.7	(0.6)	(0.4)	(1.5)
Market-sensitive income/operating revenues	(4.6)	(1.7)	(1.0)	0.7	(2.0)
Cost to income ratio	33.7	36.2	35.8	33.7	32.0
Preprovision operating income/average assets	0.5	0.5	0.5	0.5	0.5
Core earnings/average managed assets	0.4	0.4	0.4	0.4	0.4

*Data as of March 31. N/A--Not applicable.

Table 4

SBAB Bank AB (publ) Risk Position					
	--Year-ended Dec. 31--				
(%)	2022*	2021	2020	2019	2018
Growth in customer loans	10.0	10.4	10.2	5.4	8.7
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	48.4	51.4	53.9	48.6
Total managed assets/adjusted common equity (x)	29.4	30.3	29.3	30.1	31.7
New loan loss provisions/average customer loans	0.0	(0.0)	0.0	0.0	(0.0)
Net charge-offs/average customer loans	0.0	0.0	0.0	0.0	0.0
Gross nonperforming assets/customer loans + other real estate owned	0.0	0.0	0.1	0.1	0.1
Loan loss reserves/gross nonperforming assets	68.4	59.7	62.7	47.0	49.1

*Data as of March 31. N/A--Not applicable.

Table 5

SBAB Bank AB (publ) Funding And Liquidity					
	--Year-ended Dec. 31--				
(%)	2022*	2021	2020	2019	2018
Core deposits/funding base	27.4	27.5	28.2	29.0	29.3
Customer loans (net)/customer deposits	325.7	322.2	311.7	294.0	291.5
Long-term funding ratio	82.4	83.9	84.0	83.2	84.7
Stable funding ratio	94.8	98.1	99.1	100.9	102.2
Short-term wholesale funding/funding base	18.4	16.8	16.8	17.6	16.0
Regulatory net stable funding ratio	128.5	128.6	128.8	134.0	122.0
Broad liquid assets/short-term wholesale funding (x)	0.9	0.9	0.9	1.0	1.1
Broad liquid assets/total assets	14.8	14.7	14.7	16.1	16.4
Broad liquid assets/customer deposits	57.6	56.6	55.4	58.6	58.8
Net broad liquid assets/short-term customer deposits	(11.7)	(4.5)	(4.2)	(2.0)	4.3
Regulatory liquidity coverage ratio (LCR) (x)	237.6	232.5	262.3	289.9	275.7
Short-term wholesale funding/total wholesale funding	25.1	22.9	23.1	24.5	22.4
Narrow liquid assets/3-month wholesale funding (x)	N/A	1.2	1.2	1.7	1.8

*Data as of March 31. N/A--Not applicable.

Related Criteria

- Banking Industry Country Risk Assessment Update: April 2022, April 26, 2022
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019

- 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
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- The Russia-Ukraine Conflict: European Banks Can Manage The Economic Spillovers, For Now, April 21, 2022
- Bulletin: Nordic Banks' Solid Financials Mitigate Increased Geopolitical Uncertainties, April 12, 2022
- SLIDES: Nordic Banks Shift Their Focus To Profitable Growth, March 16, 2022
- Swedish Bank Ratings Affirmed Under Revised FI Criteria, Feb. 4, 2022
- Banking Industry Country Risk Assessment: Sweden, Dec. 2, 2021
- Banking Industry Country Risk Assessment Update: October 2021, Oct. 27, 2021
- Nordic Banks, Even After Generous Payouts, Should Remain Well Capitalized, Oct. 11, 2021
- Full Analysis: SBAB AB (publ), June 21, 2021
- Leading Nordic Banks Keep Calm And Carry On Despite COVID-19 Stress, Feb. 23, 2021

Ratings Detail (As Of May 30, 2022)*

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

Issuer Credit Ratings History

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
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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Ratings Detail (As Of May 30, 2022)*(cont.)

*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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