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Ratings

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Summary:
SBAB Bank AB (publ)

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Summary:

SBAB Bank AB (publ)

SACP	a-
Anchor	a-	
Business Position	Adequate	0
Capital and Earnings	Strong	+1
Risk Position	Moderate	-1
Funding	Average	0
Liquidity	Adequate	

+

Support	+1
ALAC Support	0
GRE Support	+1
Group Support	0
Sovereign Support	0

+

Additional Factors	0

Issuer Credit Rating
A/Negative/A-1

Major Rating Factors

Strengths:	Weaknesses:
• Strong capital levels. • Minimal credit losses. • Stable market position in mortgage lending.	• Business model highly concentrated on the Swedish property market. • Narrow product offering.

Outlook: Negative

The negative outlook on SBAB Bank AB (publ) reflects our view that economic imbalances in Sweden have been increasing at an unsustainable rate. In particular, household debt continues to increase unabated, and given the rapid pace of house price appreciation, we believe that economic risks will continue to rise if the measures introduced by the Swedish regulator fail to mitigate such developments.

As such, our negative outlook accounts for the at least one-in-three likelihood that we could downgrade SBAB by one notch over the next two years if we believed that efforts to inhibit further debt accumulation or house price appreciation were derailed, leading us to increase the economic risk scoring used in our Banking Industry Country Risk Assessment for the Swedish economy. This would, in turn, lead us to revise downward our assessment of SBAB's anchor to 'bbb+' and to assign a higher risk weight to SBAB's domestic loan exposures in our risk-adjusted capital (RAC) ratio. In such a scenario, we anticipate SBAB's sound capital level and risk position would prevent a two-notch downgrade.

We could revise the outlook to stable if we see Swedish economic imbalances stabilizing, indicated by a more balanced development of household debt. In addition, further improvements in SBAB's capital position could lead us to revise our outlook to stable. However, we see this as unlikely over the next 18-24 months.

Rationale

Our ratings on SBAB reflect its 'a-' anchor, its adequate business position, strong capital and earnings, moderate risk position, average funding, and adequate liquidity. The bank's stand-alone credit profile is 'a-'.

Anchor: 'a-' for Swedish banks

Our bank criteria use our Banking Industry Country Risk Assessment's economic risk and industry risk scores to determine a bank's anchor, the starting point in assigning an issuer credit rating. The anchor for a commercial bank operating only in Sweden is 'a-', based on an economic risk score of '2' and an industry risk score of '3'.

Economic risks for Sweden's banks are relatively low in a global comparison. However, we see imbalances increasing at an unsustainable rate. We view the economy as highly diverse and competitive, and Sweden has strong monetary and fiscal flexibility given the authorities' strong record of prudent management of public finances. We believe that the development in house prices over the past two years is no longer fully explained by fundamental factors and, in connection with Sweden's high and rising household and private sector debt, are exacerbating existing imbalances. Despite the authorities' efforts to reintroduce an amortization culture, we believe that low interest rates, tax incentives, and a structural shortage of housing will continue to push existing imbalances in Sweden. Household incomes are high and households' net financial assets and high savings remain relative strengths for the banking sector. As such, we expect credit losses will remain low in a low-interest environment, but believe that high household indebtedness increases the sensitivity of small and midsize enterprises to swings in consumer confidence and interest rates.

We assess Sweden's industry risk at intermediate, and we see the high share of net external debt as a key risk factor for the sector. Core customer deposits represent only 34% of domestic loans, with a large share of households' financial assets in pensions and other investments. The banks fill the resulting funding gap with covered bonds and senior debt, often in international markets. The authorities' handling of the 2008-2009 global financial crisis, comparatively high capital buffers, and general early adoption of regulation support our view of the sector. We also note the stability of the banking sector and absence of complex instruments. The four largest banks account for about 70% of systemwide lending and deposits, and there is an absence of material market distortions.

Despite the implementation of EU Bank Recovery and Resolution Directive (BRRD) in Sweden in early 2016, we continue to classify the Swedish government as supportive of the domestic banking system. Sweden is the only EU country that has implemented bail-in provisions under the BRRD that we assess as supportive.

Related Criteria And Research

Related Criteria

- Group Rating Methodology - November 19, 2013
- Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions - January 29, 2015
- Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions - July 17, 2013
- Revised Market Risk Charges For Banks In Our Risk-Adjusted Capital Framework - June 22, 2012
- Banks: Rating Methodology And Assumptions - November 09, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions - November 09, 2011

- Bank Capital Methodology And Assumptions - December 06, 2010
- Methodology For Mapping Short- And Long-Term Issuer Credit Ratings For Banks - May 04, 2010
- Commercial Paper I: Banks - March 23, 2004
- Rating Government-Related Entities: Methodology And Assumptions - March 25, 2015
- Use Of CreditWatch And Outlooks - September 14, 2009
- National And Regional Scale Credit Ratings - September 22, 2014

Related Research

- Nordic Banks' Capital Growth Tapers Off, Aug. 2, 2016
- The Future Of Banking: Nordic Banks Looking Svelte In The Fintech Race, June 14, 2016
- Banking Industry Country Risk Assessment: Sweden, Dec. 8, 2015

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-

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