

**Swedbank AB (/gws/en/esp/issr/80359928)**



## Fitch Affirms Swedbank at 'AA-'; Outlook Stable

Fitch Ratings-London-16 May 2017: Fitch Ratings has affirmed Swedbank AB's (Swedbank) Long-Term Issuer Default Rating (IDR) at 'AA-', Viability Rating (VR) at 'aa-', and Short-Term IDR at 'F1+'. The Outlook on the Long-Term IDR is Stable. A full list of rating actions is at the end of this rating action commentary.

In addition, Fitch has assigned Swedbank a 'AA-(dcr)' Derivative Counterparty Rating (DCR) as part of its roll-out of DCRs to significant derivative counterparties in Western Europe and the US. DCRs are issuer ratings and express Fitch's view of banks' relative vulnerability to default under derivative contracts with third-party, non-government counterparties.

The ratings actions are part of a periodic portfolio review of major Swedish banking groups rated by Fitch.

### KEY RATING DRIVERS

#### IDRS, VR, DCR AND SENIOR DEBT

Swedbank's ratings reflect the strong execution of the bank's low risk strategy, which we expect will continue to deliver strong and resilient financial metrics. The bank benefits from resilient revenue generation, good cost efficiency and strong asset quality, both domestically and in the Baltics.

Swedbank's Swedish retail franchise is strong (over 20% market shares in deposits and lending), but the bank has fairly high geographical concentration, with domestic loans accounting for over 85% of the group's total. Some diversification is achieved through its activities in the Baltics, where Swedbank is a market leader. As a predominantly retail bank, maintaining its close relationships with customers to attract a large share of additional services and its strong operating efficiency is crucial. We expect loan impairment charges to remain low.

Asset quality should remain solid, supported by a benign operating environment, good underwriting standards and a large low-risk domestic mortgage loan portfolio. The bank has a significant property management exposure, but this is mostly made up of large strong corporate clients with sound cash flows and access to the debt and capital markets, a typical feature of the Swedish property management sector. Swedbank's corporate lending (excluding property management) is smaller than of domestic peers.

Swedbank's capitalisation is strong, and risk-weighted ratios in particular compare well with similarly rated peers. At end-March 2017, the bank reported a fully loaded common equity Tier 1 ratio of 24.2%. The bank's fully loaded leverage ratio of 4.7% was more in line with peers.

Like its Nordic peers, Swedbank is reliant on wholesale funding due to a structural shortage of deposits in Sweden. The risks are mitigated by prudent liquidity management and a strong focus on covered bonds, with a sizeable portion placed with a domestic captive investor base consisting of large Swedish insurance and pension funds. Swedbank's senior unsecured debt issuance is limited.

We have assigned a DCR to Swedbank due to its significant derivatives activity. The DCR is at the same level as the Long-Term IDR because under Swedish legislation, derivative counterparties have no preferential status over other senior obligations in a resolution scenario.

### SUPPORT RATING AND SUPPORT RATING FLOOR

Swedbank's '5' Support Rating (SR) and 'No Floor' Support Rating Floor (SRF) reflect Fitch's view that senior creditors cannot rely on receiving full extraordinary support from the Swedish sovereign in the event that the bank becomes non-viable.

The EU's Bank Recovery and Resolution Directive (BRRD) provides a framework for resolving banks that is likely to require senior creditors participating in losses, if necessary, instead of or ahead of a bank receiving sovereign support.

Sweden has more flexibility to interpret and apply the BRRD than Banking Union member countries, but we believe in a resolution scenario the intention of the resolution authority is that non-preferred senior instruments would be bailed in, and when issued this will become Fitch's reference debt class for setting a bank's IDR. The Swedish resolution authority published on 23 February 2017 its framework for banks' minimum requirements for own funds and eligible liabilities (MREL). The requirements introduce a minimum debt component that cannot be met with capital instruments.

### SUBORDINATED DEBT AND OTHER HYBRID SECURITIES

The ratings on the subordinated and additional Tier 1 debt issued by Swedbank are notched off the bank's VR.

In accordance with Fitch's criteria, subordinated (lower Tier 2) debt is rated one notch below Swedbank's VR to reflect the above-average loss severity of this type of debt.

Additional Tier 1 securities are rated five notches below Swedbank's VR to reflect higher-than-average loss severity risk of these securities (two notches) as well as high risk of non-performance (an additional three notches).

#### RATING SENSITIVITIES

##### IDRS, VR, DCR AND SENIOR DEBT

The Stable Outlook on Swedbank's Long-Term IDR reflects Fitch's view that Swedbank will maintain its robust capitalisation, strong asset quality and a healthy liquidity profile. Fitch expects Swedbank's financial metrics to outperform most peers, offsetting the bank's reliance on its domestic market and its smaller equity base compared to similarly rated global peers.

While not expected by Fitch, a downgrade could result from a prolonged inability to competitively access the debt capital markets or renewed uncertainty in its Baltic portfolio. A shift away from long-term funding or significant reliance on international investors would likely be rating-negative.

Given Swedbank's high exposure to Sweden, the bank's ratings are sensitive to a severe downturn in Sweden. This would particularly be the case should a downturn lead to a significant correction in house prices and wider losses in both Swedbank's mortgage lending and corporate portfolios, including its property management exposure. This is not Fitch's central scenario.

An upgrade is unlikely given Swedbank's already high rating.

##### SUPPORT RATING AND SUPPORT RATING FLOOR

An upgrade of the SR and upward revision of the SRF would be contingent on a positive change in the sovereign's propensity to support its banks. While not impossible, this is highly unlikely in Fitch's view.

##### SUBORDINATED DEBT AND OTHER HYBRID SECURITIES

The ratings on the subordinated debt and additional Tier 1 securities are sensitive to a change in Swedbank's VR.

Additional Tier 1 securities are also sensitive to Fitch changing its assessment of the probability of their non-performance risk relative to the risk captured in Swedbank's VR.

The rating actions are as follows:

Long-Term IDR: affirmed at 'AA-'; Outlook Stable  
Short-Term IDR: affirmed at 'F1+'  
Viability Rating: affirmed at 'aa-'  
Support Rating: affirmed at '5'  
Support Rating Floor: affirmed at 'No Floor'  
Derivative Counterparty Rating: assigned at 'AA-(dcr)'  
Senior unsecured debt: affirmed at 'AA-/F1+'  
Commercial paper: affirmed at 'F1+'  
Certificates of deposit: affirmed at 'F1+'  
Subordinated debt: affirmed at 'A+'  
Additional Tier 1 instruments: affirmed at 'BBB'

#### Contact:

Primary Analyst  
Bjorn Norrman  
Senior Director  
+44 20 3530 1330  
Fitch Rating Limited  
30 North Colonnade  
London E14 5GN

Secondary Analyst  
Olivia Perney Guillot  
Senior Director  
+33 1 44 299 174

Committee Chairperson  
James Watson  
Managing Director  
+7 495 956 6657

Media Relations: Peter Fitzpatrick, London, Tel: +44 20 3530 1103, Email: [peter.fitzpatrick@fitchratings.com](mailto:peter.fitzpatrick@fitchratings.com).

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### Applicable Criteria

Global Bank Rating Criteria (pub. 25 Nov 2016) (<https://www.fitchratings.com/site/re/891051>)

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