

Swedish Bank Ratings Affirmed Amid Housing Market Transformation; Five Outlooks Revised To Stable

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(**Editor's Note:** Please see the Credit FAQ published today, "Why Our Outlooks Are Stable On Swedish Banks--Despite The Decline In House Prices," where we delve deeper into factors behind our Swedish bank ratings.)

- In our view, Sweden's housing market is undergoing a transformation amid increased supply and the impact of new amortization requirements, and we project prices could fall by 7%-10% from their August peak before stabilizing in 2018.
- However, we now see a stable economic risk trend, due to Sweden's robust economy, steady recovery of its trading partners, high household savings, and the continued low interest rate environment.
- Projections of banks' future issuance of bail-in-able debt support our ratings on the largest banks; however, such instruments complicate the Swedish authorities' ability to provide pre-emptive capital support, so we now view government support as uncertain.
- We are revising our outlook on Swedbank, to stable from negative and affirming our ratings.

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STOCKHOLM (S&P Global Ratings) Nov. 24, 2017--S&P Global Ratings said today that it has affirmed its ratings on eight Swedish banks. At the same time, we revised our outlooks on five of the banks to stable from negative while maintaining our stable outlooks on the other three banks (see the ratings list).

The rating actions stem from our review of the Swedish banking sector, which led us to change our opinion of the market and government support for banks.

More specifically, the outlook revisions reflect our view that the economic risk trend for Swedish banks is now stable rather than negative. This is although house prices are declining as a result of increased supply and the effect of current and proposed amortization requirements on demand. Sweden's economy remains strong, with unemployment falling and activity high. In addition, the majority of Sweden's trading partners are showing positive economic momentum, and Sweden's household savings and corporate balance sheets are robust. Consequently, we believe the banks we rate can maintain their current capital and earnings positions.

We project house prices could decrease by 7%-10% from their August 2017 peak and stabilize by the end of 2018 as the market adapts to higher housing supply and regulatory initiatives to discourage high household debt. As a result, we project nominal house price growth of 0.5% in 2018 and increases slightly ahead of inflation in 2019. Furthermore, we anticipate that the impact of additional amortization requirements for highly leveraged new borrowers from March 2018 could result in further regional declines in house prices. In particular, we foresee prices decreasing faster than the national average for apartments in Stockholm and Gothenburg, where household debt is generally higher but demographic changes support demand. In our view, existing and future amortization requirements will gradually curb growth of household debt. However, household borrowing will continue to outpace GDP growth, in part to finance the growing volume of tenant-owned property development.

We have affirmed our ratings after taking the stable economic risk trend into account and reassessing the likelihood of the Swedish government providing capital support, if needed, to prevent the failure of four systemically important banks. In our view, the banks' future issuance of bail-in-able senior nonpreferred debt, while providing meaningful buffers to protect senior debtholders, will also reduce the government's incentive to inject capital. For Swedbank AB, our long-term issuer credit rating now includes one notch of uplift for additional loss-absorbing capacity (ALAC) rather than for potential government support, given expectations of considerable senior nonpreferred debt issuance.

Following the implementation of the EU's Banking Recovery and Resolution Directive (BRRD) in Sweden in February 2016, we continued to classify the Swedish government as supportive of the largest banks in the domestic banking system. However, the BRRD limits the government's ability to provide capital injections to solvent banks in scenarios where systemwide financial stability is at risk and funds are needed to prevent potential capital shortfalls. Bail-in-able senior nonpreferred debt instruments absorb losses only in a resolution scenario. This raises doubts about our previous assumption that the Swedish government, via its Stability Fund, would protect senior unsecured debtholders with pre-emptive capital injections. As such, we now view government support to the banking sector as uncertain.

With the banks' prescribed plan for material buffers to the minimum requirements for eligible liabilities and own funds (MREL), to be built up through 2022, we now believe the government is more prepared to allow a large bank to go through a resolution. Therefore, while capital support may be possible, we believe it is less certain to protect holders of a bank's senior unsecured debt and any future bail-in-able senior nonpreferred debt. European examples attest to the authorities' determination to apply resolution tools, which may be further facilitated by banks' buildup of loss-absorbing buffers.

We anticipate that Sweden's four systemically important banks will replace significant portions of outstanding senior unsecured debt with senior nonpreferred debt starting in 2018, once market standards for the instruments have been established. We expect such issuance to create material ALAC capacity for the four banks; therefore, the removal of government support is neutral for our ratings.

SWEDBANK

The stable outlook on Swedbank reflects our view that the bank will maintain resilient earnings and capital as Sweden's economy benefits from improvements in Europe's economic environment and the domestic housing market adjusts to higher volumes and stricter amortization requirements. We also anticipate that Swedbank will build considerable ALAC buffers in the coming years as it fulfills its MREL requirements, likely by replacing a large share of senior unsecured debt with senior subordinated debt instruments through 2022. As such, our projected risk-adjusted capital (RAC) ratio before diversification will remain between 12% and 13% in the next 18-24 months, and we expect a quick increase of Swedbank's ALAC buffers from 2019, which we anticipate will already exceed 5% of our risk-weighted assets (RWAs) figure by the end of that year.

We could lower our ratings on Swedbank if excessive payouts or exposure growth resulted in our projected RAC ratio trending below 10%, or if the issuance of ALAC-eligible instruments totals less than 5% of RWAs.

We consider a positive rating action on Swedbank to be remote at present, given that our ratings on the bank are now among the highest of those on

- General Criteria: S&P Global Ratings' National And Regional Scale Mapping Tables, Aug. 14, 2017
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- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
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Assumptions, Dec. 6, 2010

- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Financial Institutions - Banks: Commercial Paper I: Banks, March 23, 2004

RELATED RESEARCH

- Credit FAQ: Why Our Outlooks Are Stable On Swedish Banks--Despite The Decline In House Prices, Nov. 24, 2017

BICRA SCORE SNAPSHOT*

Sweden	To	From
BICRA Group	2	2
Economic risk	2	2
Economic resilience	Very low risk	Very low risk
Economic imbalances	Intermediate risk	Intermediate risk
Credit risk in the economy	Low risk	Low risk
Trend	Stable	Negative
Industry risk	3	3
Institutional framework	Intermediate risk	Intermediate risk
Competitive dynamics	Low risk	Low risk
Systemwide funding	Intermediate risk	Intermediate risk
Trend	Stable	Stable

*Banking Industry Country Risk Assessment (BICRA) economic risk and industry risk scores are on a scale from 1 (lowest risk) to 10 (highest risk). For more details on our BICRA scores on banking industries across the globe, please see "Banking Industry Country Risk Assessment Update," published monthly on RatingsDirect.

RATINGS LIST

* * * * * Swedbank AB * * * * *

Ratings Affirmed; Outlook Action

	To	From
Swedbank AB		
Swedbank Mortgage AB		
Counterparty Credit Rating	AA-/Stable/A-1+	AA-/Negative/A-1+

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