MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns Aaa to Skandiabanken Boligkreditt's covered bonds (Norway)

Global Credit Research - 06 Oct 2015

NOK 11.1 billion of notes affected

London, 06 October 2015 -- Moody's Investors Service has today assigned a definitive Aaa long-term rating to the covered bonds issued by Skandiabanken Boligkreditt AS (Skandia-BOL or the issuer; unrated). Skandia-BOL has been established in connection with a transaction agreement to separate the Norwegian business of SkandiaBanken AB (Sweden). This transaction has been executed on 5 October 2015. Covered bonds issued by Skandia-BOL do not have recourse to SkandiaBanken AB.

RATINGS RATIONALE

A covered bond benefits from (1) the issuer's promise to pay interest and principal on the bonds; and (2) following a CB anchor event, the economic benefit of a collateral pool (the cover pool). The ratings therefore reflect the following factors:

(1) The credit strength of Skandia-BOL (unrated).

The covered bond rating is linked to the credit strength of the parent company of the issuer, Skandiabanken ASA. Skandiabanken ASA is rated deposits A3 stable; adjusted baseline credit assessment baa1; short term debt P-2, counterparty risk (CR) assessment A1 (cr). The CB anchor is the CR assessment plus one notch, mainly because Skandiabanken ASA has established a revolving credit facility for the issuer's benefit.

The covered bonds are full recourse to the issuer and the issuer is a wholly owned subsidiary of Skandiabanken ASA. Skandiabanken ASA has taken over the assets and liabilities of SkandiaBanken AB Filial Norge. For more information please refer to related research titled "Moody's assigns A3/P-2 deposit ratings to Skandiabanken ASA; outlook stable", published on 6 October 2015.

(2) Following a CB anchor event the value of the cover pool. The stressed level of losses on the cover pool assets following a CB anchor event (cover pool losses) for this transaction is 9.3%.

Moody's considered the following factors in its analysis of the cover pool's value:

a) The credit quality of the assets backing the covered bonds. The covered bonds are backed by Norwegian residential mortgage loans. The collateral score for the cover pool is 5.0%.

b) The Norwegian legal framework for covered bonds.

c) The exposure to market risk, which is 5.9% for this cover pool.

d) The over-collateralisation (OC) in the cover pool is 21.1%, of which the issuer provides 0% on a "committed" basis (see Key Rating Assumptions/Factors, below).

The TPI assigned to this transaction is High. Moody's TPI framework does not constrain the rating.

The total value of the assets included in the cover pool is approximately NOK 13.5 billion, comprising NOK 9.9 billion of single family housing and NOK 3.6 billion of tenant owner rights. The single family housing have a weighted-average seasoning of 34 months and tenant owner rights of 30 months. The weighted-average loan-to-value (LTV) ratio is 53.2% (on an indexed basis) for single family housing and 53.6% for tenant owner rights.

The rating that Moody's has assigned addresses the expected loss posed to investors. Moody's ratings address only the credit risks associated with the transaction. Moody's did not address other non-credit risks, but these may have a significant effect on yield to investors.

KEY RATING ASSUMPTIONS/FACTORS

Moody's determines covered bond ratings using a two-step process: an expected loss analysis and a TPI framework analysis.

EXPECTED LOSS: Moody's uses its Covered Bond Model (COBOL) to determine a rating based on the expected loss on the bond. COBOL determines expected loss as (1) a function of the probability that the issuer will cease making payments under the covered bonds (a CB anchor event); and (2) the stressed losses on the cover pool assets following a CB anchor event.

The CB anchor for this programme is the CR assessment plus 1 notch. The CR assessment reflects an issuer's ability to avoid defaulting on certain senior bank operating obligations and contractual commitments, including covered bonds. Moody's may use a CB anchor of CR assessment plus one notch for covered bonds that fall under either (1) the European Union directive on bank resolution and recovery (BRRD); or (2) a resolution regime that Moody's believes provides an equivalent level of protection for covered bonds. Norwegian covered bonds do not fall directly under the EU's BRRD. However, we expect that an equivalent resolution regime will be put in place and we incorporate this expectation in our covered bond analysis.

The cover pool losses for this programme are 9.3%. This is an estimate of the losses Moody's currently models if Skandia-BOL defaults. Moody's splits cover pool losses between market risk of 5.9% and collateral risk of 3.4%. Market risk measures losses stemming from refinancing risk and risks related to interest-rate and currency mismatches (these losses may also include certain legal risks). Collateral risk measures losses resulting directly from cover pool assets' credit quality. Moody's derives collateral risk from the collateral score, which for this programme is currently 5.0%.

The OC in the cover pool is 21.1%, of which the issuer provides 0% on a "committed" basis. The minimum OC level consistent with the Aaa rating target is 2.5%, of which the issuer should provide 0% in a "committed" form (numbers in nominal terms). These numbers show that Moody's is relying on "uncommitted" OC in its expected loss analysis.

All numbers in this section are based on Moody's most recent modelling (based on data, as of 31 August 2015).

For further details on cover pool losses, collateral risk, market risk, collateral score and TPI Leeway across covered bond programmes rated by Moody's please refer to "Moody's EMEA Covered Bonds Monitoring Overview", published quarterly.

TPI FRAMEWORK: Moody's assigns a "timely payment indicator" (TPI), which indicates the likelihood that the issuer will make timely payments to covered bondholders following a CB anchor event. The TPI framework limits the covered bond rating to a certain number of notches above the CB anchor.

FACTORS THAT WOULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATING

The CB anchor is the main determinant of a covered bond programme's rating robustness. A change in the level of the CB anchor could lead to an upgrade or downgrade of the covered bonds. The TPI Leeway measures the number of notches by which Moody's might lower the CB anchor before the rating agency downgrades the covered bonds because of TPI framework constraints.

Based on the current TPI of "High", the TPI Leeway for this programme is 4 notch. This implies that Moody's might downgrade the covered bonds because of a TPI cap if it lowers the CB anchor by 5 notches all other variables being equal.

A multiple-notch downgrade of the covered bonds might occur in certain circumstances, such as (1) a country ceiling or sovereign downgrade capping a covered bond rating or negatively affecting the CB Anchor and the TPI; (2) a multiple-notch downgrade of the CB Anchor; or (3) a material reduction of the value of the cover pool.

RATING METHODOLOGY

The principal methodology used in these ratings was "Moody's Approach to Rating Covered Bonds" published in August 2015. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions of the disclosure form.

Moody's did not use any stress scenario simulations in its analysis.

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