SSB Boligkreditt AS

Norwegian Covered Bonds

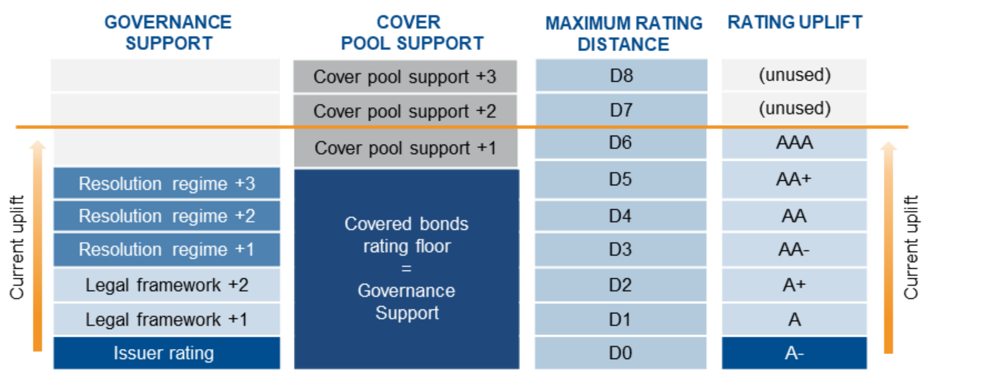
The AAA rating with a Stable Outlook assigned to the Norwegian mortgage-covered bonds issued by SSB Boligkreditt AS (SSBB) is based on the bank's A- issuer rating enhanced by six notches of cover pool support. Five notches of the support reflect our assessment of the strong governance support provided by the Norwegian legal covered bond and resolution framework.

Table title

Cut-off date	Cover pool	Cover asset type	Covered bonds	Rating/Outlook
31 12 2023	NOK 14.78bn	Residential mortgage loans	NOK 11.63bn	AAA/Stable

SSBB is a wholly owned, specialised credit institution dedicated to providing secured covered bond funding for its parent, Sandnes Sparebank (Sandnes). The issuer rating on SSBB reflects its full ownership by Sandnes (both banks rated A-/Stable) and SSBB's ability to refinance residential mortgage loans using covered bonds. Governance support factors from the Norwegian legal and resolution framework provide a five-notch uplift above the bank's rating. This effectively forms a rating floor at AA+. Cover pool support enables the programme to be rated AAA, with another one notch of uplift reflecting the credit strength of the covered bond programme. We have assigned the covered bonds a cover pool complexity (CPC) category of 'Low' for the interplay between complexity and transparency. This allows for a maximum additional uplift of three notches on top of the governance uplift and enables the programme to be rated AAA, reflecting the credit strength of the covered bond programme. The programme could further benefit from a two-notch buffer against an issuer downgrade as the maximum theoretical uplift constitutes eight notches, as opposed to the six notches used to achieve the highest rating for these covered bonds.

Figure 1: Covered bond rating building blocks



Covered bond rating
AAA

Outlook
Stable

Rating action
Affirmation

Last rating action
29 Feb 2024

Issuer rating
A-

Outlook
Stable

Last rating action
22 Mar 2023

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Stable Outlook

Scope's Stable Outlook on the mortgage covered bonds reflects the Stable Outlook on the issuer and the strong cover pool, which could provide up to two notches of additional uplift. The rating may be downgraded upon: i) an issuer rating downgrade by more than two notches; ii) a deterioration in Scope's view on governance support factors relevant to the issuer and Norwegian covered bonds in general and a change of our assessment on the interplay between complexity and transparency, and/or iii) the inability of the cover pool to provide an additional uplift in case the issuer rating is downgraded.

Changes since the last performance update

Since December 2022, the cover pool as well as the outstanding covered bonds have increased by around 10%. At the same time the programmes overall credit metrices have remained largely unchanged. The programmes minimum supporting OC remains 6.0% representing the stability of the pool and the market since last year.

On 7 December 2023, Sandnes Sparebank (rated A-/Stable) announced its intention to merge with Hjelmeland Sparebank, a neighbouring local savings bank. Both banks are part of the Eika Alliance. The merged bank will be named Rogaland Sparebank and have on-balance sheet assets of more than NOK 37bn. The merger is expected to be completed in the second half of 2024. In Scope's view, the merger will not fundamentally change the sound credit profile of Sandnes Sparebank. The merger is also not expected to change the cover pools risk profile and SSBB's covered bonds credit quality. Hjelmelands existing mortgage loans will only gradually become available for refinancing using SSBB as currently sold to and refinanced by another Norwegian covered bond issuer. Credit quality is expected to remain stable as the merger is completed and underwriting harmonised. Additional mortgage loans available to become refinanced will not materially change the credit quality of the cover pool and the programme's risk profile.

In January 2024, SSBB issued its second green covered bond building on its Green Bond Principles based framework (SSBB26). Overcollateralisation has decreased since but remains above the rating supporting level and is credit neutral.

Rating drivers and mitigants

Positive rating drivers	Negative rating drivers and mitigants
• Strong legal covered bond framework • Strong resolution regime and systemic importance of covered bonds in Norway • Best Cover pool complexity categorization allowing for the highest cover pool support • Strong cover pool support allowing for maximum uplift	• Mid to low systemic importance currently constrains governance support uplift

Upside rating-change drivers	Downside rating-change drivers
• The ratings are on the highest level achievable • Additional issuer downgrade protection if we were able to assign a higher systemic importance to the issuer and its covered bonds • Additional issuer downgrade cushion could further arise from a rating upgrade of the issuer	• The rating may be downgraded upon an issuer downgrade by more than two notches. • Reduction of the provided overcollateralisation below the level of rating supporting oc which currently is at 6.0% • The rating may also be downgraded upon a deterioration governance support factors and the interplay between complexity and transparency by together more than two notches

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The issuer

SSBB's ratings reflect those of its parent bank, Sandnes Sparebank. Founded in 1875, Sandnes Sparebank is a local savings bank operating in the county of Rogaland in southwest Norway. The bank is the second largest savings bank in Rogaland, with a focus on personal customers and SMEs in the area. As a member of the Eika Alliance, the bank can provide a broad range of financial services to its customers. Following the planned merger with Hjelmeland Sparebank in H2 2024, the bank's name will become Rogaland Sparebank.

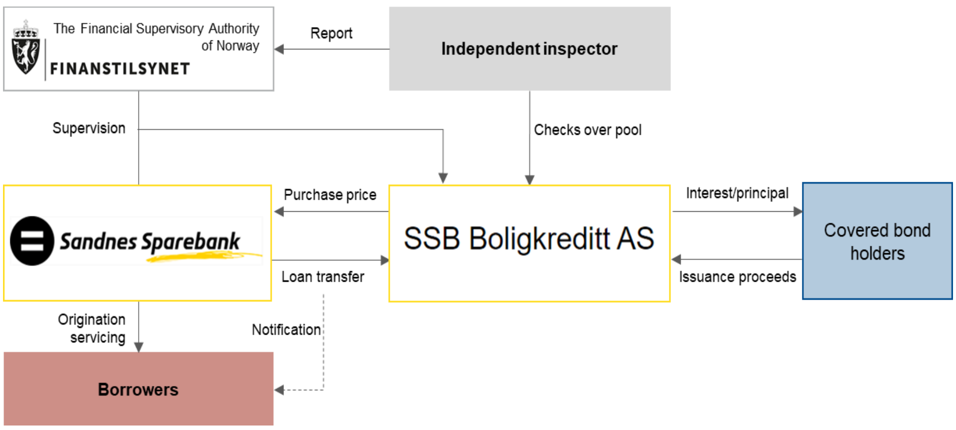
For further details on our bank credit analysis, see the full bank rating report available on www.scoperatings.com.

Programme structure

Specialised mortgage credit institution issuing covered bonds

The Norwegian legal covered bond framework is mainly based on the relevant section on covered bonds in the Financial Institutions Act together with a related regulation on mortgage credit institutions. The Act was amended to transpose the European CBD and came into force 8 July 2022. Under this framework, issuance is permitted only through specialist covered bond issuers. Most issuers of covered bonds (called Boligkreditt, or specialised residential mortgage institutions) are subsidiaries that rely on loans originated by their respective parent bank. A Boligkreditt issues covered bonds whose proceeds are used to purchase mortgage assets from its parent bank(s).

Figure 2: Issuance structure



Source: Scope Group GmbH

Governance credit support analysis

Governance support provides five notches of credit uplift

Governance credit support factors enhance the covered bond rating by five notches above SSBB's issuer rating. This reflects: i) Norway's strong covered bond legal framework; and ii) the resolution regime and systemic importance of SSB's covered bonds.

For more information on our general view of the Norwegian legal covered bond and resolution regime framework, please refer to Legal framework analysis: Norway.

Legal framework analysis

Two notches of uplift based on legal framework analysis

We consider the Norwegian covered bond framework to be one of Europe's strongest, meeting all of our expectations for protecting investors. There are no issuer specific considerations which would prompt us to deviate from the general assessment. We assign the highest credit differentiation of two notches.

Resolution regime analysis

... plus three notches of resolution regime uplift

SSBB's covered bonds benefit from an additional three-notch uplift that reflects their exemption from bail-in, the high systemic importance of covered bonds in Norway and support from a strong stakeholder community. We also recognise a moderate to high likelihood that the covered bond issuer will be maintained in a resolution scenario but also take into account the moderate visibility and importance of SSBB as a covered bond issuer.

We generally classify Norwegian mortgage covered bonds as a systemic refinancing product for domestic banks, particularly for residential mortgages. Outstanding covered bonds accounted for 34% of GDP in 2022. Globally, Norway was the seventh most active covered bond issuing country and measured by outstanding covered bonds Norway ranks as the tenth largest in 2022.

From Scope's standpoint, SSBB's covered bond activities and market share suggest a low to moderate systemic importance. SSBB only issues in the domestic market, and this is likely to soften negative repercussions on other issuers should it fail. However, we also have taken into account that most of Norway's covered bond issuers are subsidiaries of similarly small to midsize banks. Even a failure of a covered bond issuer with the size and setup of SSBB could thus result in contagion, effectively creating systemic problems for other issuers reliant on this refinancing tool for their core product, residential mortgage lending.

Cover pool analysis

SSBB's mortgage-covered bond ratings are cover pool-supported, with six out of eight possible notches currently needed to achieve the highest rating. Governance support provides for a five-notch rating uplift and, effectively, a floor against a deterioration in cover pool credit quality. Our assessment on the interplay between complexity and transparency translates into a CPC Category of 'Low' which allows for a maximum three notch uplift on top of the governance uplift.

The minimum supporting OC needed to achieve the highest rating is the same as last year 6.0%. This is supported by the sound credit metrics of the cover pool and low market risks. Market risks arise from maturity mismatches that are partly mitigated by the bonds' soft-bullet structure.

Cover pool characteristics

Reporting date	Dec 2023	Dec 2022
Balance (NOK bn)	14.8	12.9
Residential (%)	94.6	91.9
Substitute (%)	5.4	8.1

Property type (%)

Reporting date	Dec 2023	Dec 2022
Single-family house	80.1	80.0
Apartment	19.7	20.0
Others	0.2	0.0

General information

Reporting date	Dec 2023	Dec 2022
No. of loans	7,321	7,010
No. of obligors	6,163	5,764
Avg. size (NOK m)	1.9	1.7
Top 10 (%)	0.9	0.9
Remaining life (years)	21.6	20.0
LTV (%)	53.5	51.1

Interest rate type (%)

Reporting date	Dec 2023	Dec 2022
Floating	100.0	100.0
Fixed	0.0	0.0

Repayment type (%)

Reporting date	Dec 2023	Dec 2022
Annuity	81.8	80.2
Flexible loan	0	0
Interest-only	18.2	19.8

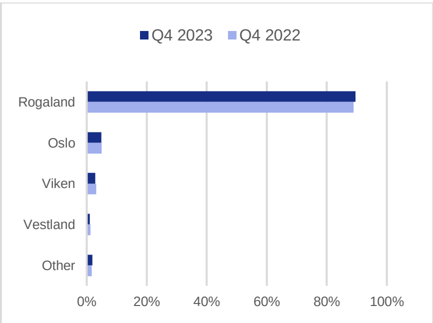
Cover pool composition

The cover pool is secured by Norwegian residential mortgage loans denominated in Norwegian krone. The mortgage pool consists of 7,321 loans granted to 6,163 obligors with an average loan size of NOK 1.9m (around EUR 168,000). The 10 largest obligors only accounts for 0.9% indicating a good granularity.

Around 80% of the portfolio is made up of single-family houses and terraced houses, the remaining 20% are apartments.

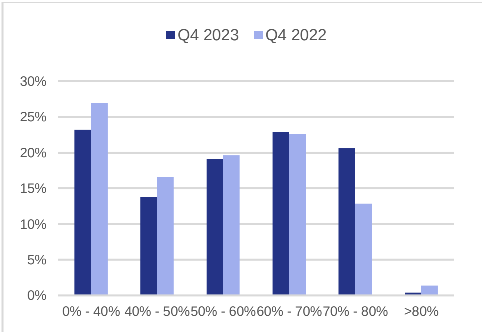
The bank operates primarily in the Stavanger region in southwestern Norway which belongs to the county of Rogaland. As of December 2023, 89.5% of the mortgage loans are exposed to Rogaland, 4.8% to Oslo and 2.8% to Viken. The remaining are spread across Norway.

Figure 3: Regional distribution



Source: Scope Ratings, SSBB

Figure 4: LTV distribution



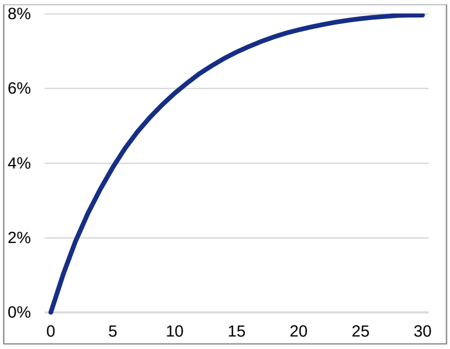
Source: Scope Ratings, SSBB

Asset risk analysis

Strong credit quality translates into low credit risk

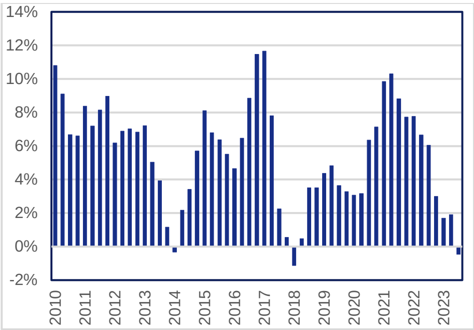
The cover pool's credit quality remains strong. Our projection of default on mortgage loans uses an inverse Gaussian distribution, based on available credit performance data provided by the bank (in particular, historical delinquencies, portfolio loss rate) and benchmarking. We have assessed the average borrower PD to be commensurate with a bb+ rating. This translates into an unchanged cumulative term default rate of 8.0%. We have further maintained our assumption of a coefficient of variation of 60% for the mortgage assets. This factors in the higher sensitivity to economic shocks in the western, oil industry focussed regions of Norway.

Figure 5: Expected term defaults, cumulative (DP/years)



Source: Scope Ratings

Figure 6: House price growth in Norway, annualised



Source: Scope Ratings, OECD

Stressed mortgage recovery rates improved slightly to 73.5% up from around 73% assessed a year ago. This is driven by lower value haircuts in the south-western region of Norway reflecting moderate market value correction. We assume base market value haircuts of 5% across the country to account for further moderate market correction. House prices are back to more sustainable levels again.

Table 1. security value haircuts

Region	Base MVD 2023	Base MVD 2022	Stressed MVD 2023	Stressed MVD 2022	Firesale discount	Stressed TSVH 2023	Stressed TSVH 2022
Oslo	5.0%	10.0%	45.0%	55.0%	20.0%	57.5%	65.0%
South Western	5.0%	10.0%	40.0%	42.5%	20.0%	52.5%	55.0%
Rest of Norway	5.0%	10.0%	40.0%	42.5%	20.0%	50.0%	55.0%

MVD: market value decline / SVH: security value haircut

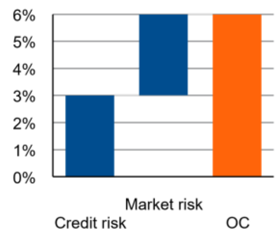
Our base recovery expectation marginally decreased to 96.3% from 98% last year. We keep the firesale discount unchanged at 20%. The fire-sale discount is applied to properties sold under non-standard market or distressed conditions. In our recovery analysis we do further size for 2.5% of variable costs and NOK70.000 of fixed costs.

We analysed the substitute asset defaults with a non-parametric distribution. The default expectation is based on the individual credit assessment of the issuers. The low default rate of 0.12% and the very high coefficient of variation of 805% reflects not only the high individual credit quality but also the very high obligor concentration. We have applied a correlation framework accounting for geographical and obligor type concentration. The individual asset recovery rate assumptions ranged between 100% in the base case and 50% in the most stressed scenario. We calculated an average stressed substitute asset portfolio recovery rate of 60.2%.

Cash flow risk analysis

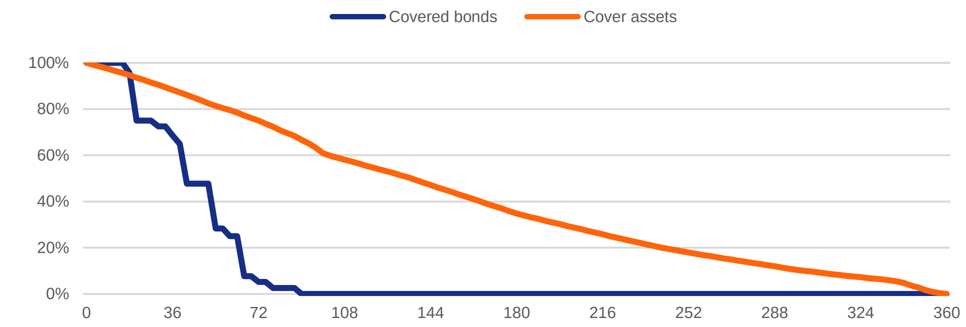
The rating-supporting OC of 6.0% equally reflects the programme's market risks, with asset-liability maturity mismatch risk accounting for 3.0pp (the same as last year) and credit risk accounting for 3.0pp (the same as last year) since the loan quality is the same the last year. The programme has a sensitivity to low prepayments, which creates large liquidity gaps and accordingly the need for stressed assets sales under a discount.

Supporting OC breakdown



Source: Scope Ratings

Figure 7: Amortisation profile



Source: Scope Ratings, SSBB

As of Q4 2023, the weighted average life of the outstanding covered bonds is 3.8 years when accounting for their soft-bullet structure. In comparison the (scheduled) weighted average life of the cover pool of 12.6 years.

Asset-liability mismatches

	Assets	Liabilities
NOK	100%	100%
Fixed	0.0%	0.0%
Floating	100%	100%
WAL (years)	**12.6**	**3.8***

*incl. one year extension and post hedging

We assume, that if assets are sold a discount of up to 150bps if the cash accumulated from cover pool amortisation is insufficient to pay timely interest and principal on the covered bonds. The programme benefits from 5.4% of liquid substitute assets.

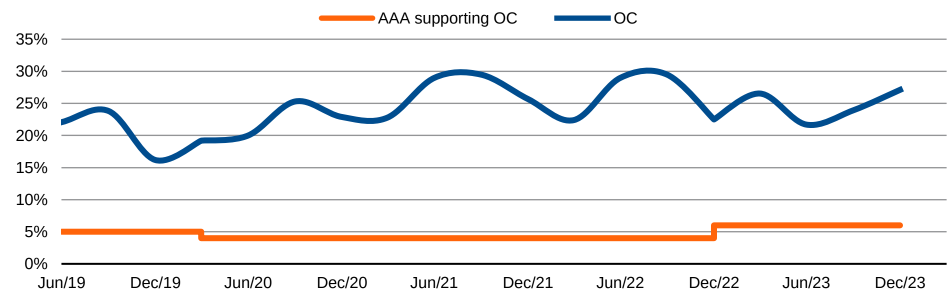
Other market risks are limited as cover assets are floating, and fixed covered bonds are hedged into floating rate. Also, there is no foreign exchange risk as both assets and liabilities are denominated in Norwegian krone. At this stage, we do not expect foreign currency-denominated issuances.

Availability of overcollateralisation

Overcollateralisation fully taken into account

The current issuer rating of SSBB allows us to fully account for the provided OC of 27.1% at the end of December 2023. As of January 2024, and following the NOK 3bn green bond issuance, OC provided dropped to 14.9%. However, it is still above the level of overcollateralisation supporting the programme's AAA rating. We are not aware of plans that would significantly change the risk profile or reduce available OC to levels that would no longer support the current rating uplift.

Figure 8: Available OC versus current rating-supporting level



Source: Scope Ratings

Other risk considerations

Counterparty risk mitigated by alignment of interests

The rated covered bonds have counterparty exposures to the issuer, as well as to the issuer's parent as loan originator, servicer, bank account provider and paying agent. However, if a regulator were to intervene, we believe the strong alignment of interests between the issuer and the covered bond holders would prevent any negative impact. We also view positively the fact that collections are generally made via direct debit, allowing for a relatively swift redirection of payments if necessary. Derivatives registered in the cover pool are compliant with our counterparty risk methodology, do not introduce additional counterparty risk and fully mitigate interest rate risk from the limited amount of fixed rate covered bonds.

Sovereign risk does not affect the ratings

Sovereign risk does not limit the ratings of SSBB's mortgage-covered bonds. Norway is currently rated AAA/Stable. We have no evidence that transfer risk (e.g. risk of capital controls), convertibility risk, the risk of an institutional meltdown are pertinent risk factors for Norway.

Established green bond framework

SSBB is an active green bond issuer with currently NOK3.3bn in green bonds outstanding. According to its Green Bond Framework, the bank uses its green bonds' proceeds to finance and/or refinance, in part or in full, new and/or existing green eligible residential buildings.

The sum of eligible cover assets in the cover pool accounts for NOK3.7bn (around 26% of mortgage cover pool). Following the January 2024 issuance there is limited headroom for additional green bond issuance. Based on information provided our analysis could not establish a significant credit relationship between a loan's performance and its 'greenness'.

So far, we see little evidence for a better credit performance by green mortgages. We therefore did not include information of environmental factors and their impact on the cover assets' probability of default or recovery proceeds. At the same time, we have indirectly included environmental aspects because collateral valuations reflect the age, condition and quality of the collateral. In our quantitative analysis performed for the covered bonds issued by SSBB we however have not directly included ESG aspects.

Sensitivity analysis

Two notches of buffers against potential change in issuer rating

SSBB's mortgage-covered bond ratings benefit from two notches of buffer against an issuer downgrade. The covered bond ratings may be downgraded if: i) our view on the issuer deteriorates by three notch or more; ii) our view on the CPC classification would change thereby reducing the maximum cover pool support uplift, iii) risk in the covered bond programme increases and overcollateralisation provided no longer supports the maximum uplift; or iii) there is a deterioration in our view on the governance support factors relevant to the issuer and Norwegian mortgage-covered bonds in general.

Summary of covered bond characteristics

Reporting date	31 Dec 2023	31 Dec 2022
Issuer name	SSB Boligkreditt AS	
Country	Norway	
Covered bond name	Obligasjoner med fortrinnsrett (Norwegian mortgage-covered bonds)	
Covered bond legal framework	Norwegian legal covered bond framework	
Cover pool type	Residential mortgage loans	
Composition	Residential = 94.6%	Residential = 91.9%
	Substitute = 5.4%	Substitute = 8.1%
Issuer rating	A-/Stable	A-/Stable
Current covered bond rating	AAA/Stable	AAA/Stable
Covered bond maturity type	Soft bullet	Soft bullets
Cover pool currencies	NOK (100%)	NOK (100%)
Covered bond currencies	NOK (100%)	NOK (100%)
Governance cover pool support	5	5
Maximum additional uplift from cover pool complexity score	1	1
Maximum achievable covered bond uplift	8	8
Potential covered bond rating buffer	2	2
Cover pool (NOK bn)	14.8	12.9
thereof, substitute assets (NOK bn)	0.8	1.0
Covered bonds (NOK bn)	11.6	10.6
Overcollateralisation: current/legal minimum	27.1% / 5.0%	22.5% / 5%
Overcollateralisation to support current rating	6.0%	6.0%
Overcollateralisation upon a one-notch issuer downgrade	7.0%	7.0%
Weighted average life of assets	12.6 years	11.4 years
Weighted average life of liabilities[1]	3.8 years	4.1 years
Number of loans	7,321	5,764
Average loan size (NOK m)	1.9	1.7
Top 10 residential	0.9%	0.9%
Interest rate type assets	Floating 100%	Floating 100%
	Fixed 0%	Fixed 0%
Interest rate type liabilities[2]	Floating 100%	Floating 100%
	Fixed 0%	Fixed 0%
Weighted average LTV (indexed)	53.5%	51.1%
Geographic split (top 3)	Rogaland = 89.5%	Rogaland = 89.0%
	Oslo = 4.8%	Oslo = 5.0%
	Viken = 2.8%	Viken = 3.1%
Default measure	Inverse Gaussian	Inverse Gaussian/ non-parametric
Weighted average term default rate	8.0%	8.0%
Weighted average coefficient of variation	60%	60%
Weighted average recovery assumption (D0/D8)[3]	96.3% / 73.5%	98.0% / 73.0%
Share of loans > three months in arrears (NPL)	0.0%	0.0%
Interest rate stresses (max/min; currency-dependent)	-1 to 10%	-1 to 10%
FX stresses (max/min; currency-dependent)	n/a	n/a
Max liquidity premium	150bps	150bps
Average servicing fee	24bps	24bps

Source: Scope Ratings

[1] Including the 12-month extension

[2] Post hedge

[3] D0 and D8 denote the stresses commensurate with the rating distance between our credit view on the issuer and the covered bond ratings.

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Related research

Norway maintains strong covered bond framework following alignment with EU Directive, Sep 2022

Sandnes Sparebank announces merger with Hjelmeland Sparebank, December 2023

Scope affirms A- issuer rating of Sandnes Sparebank with Stable Outlook, March 2023

Scope affirms AAA rating on SSB Boligkreditt's Norwegian mortgage-covered bonds, Outlook Stable, February 2024

Applied methodologies

Covered Bonds - Covered Bonds Rating Methodology, May 2023

Counterparty Risk Methodology, July 2023

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