SSB Boligkreditt AS

Norwegian Covered Bonds – Performance Update

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 fundamental credit support provided by the Norwegian legal covered bond and resolution framework.

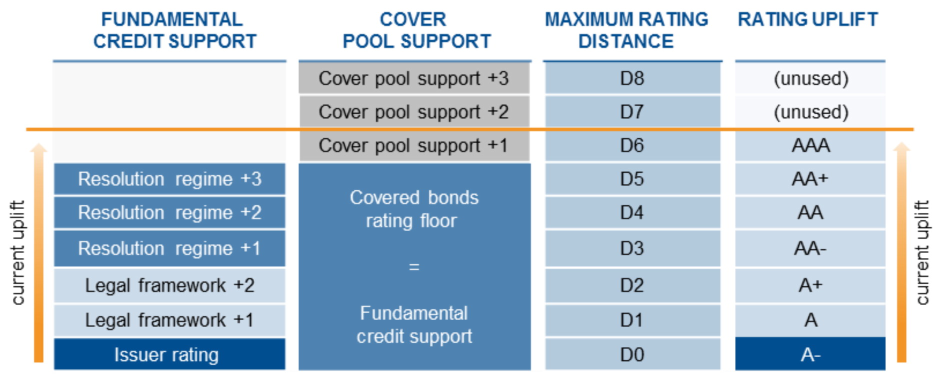
Cut-off date	Cover pool	Cover asset type	Covered bonds	Rating/Outlook
31 Mar 2021	NOK 10.14bn	Residential mortgage loans	NOK 8.26bn	AAA/Stable

Rating rationale (summary)

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.

Fundamental credit 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.

The interplay between complexity and transparency is classified with a CPC Score of '1' allowing for a maximum additional uplift of up to three notches on top of the fundamental uplift. From this, the programme may 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.



Stable Outlook

The Stable Outlook on the covered bond rating reflects: i) the continuous availability of high overcollateralisation (OC), which provides a buffer against a rise in credit and market risks; ii) our view that European covered bond harmonisation will not negatively impact the fundamental support factors relevant for the issuer and Norwegian mortgage-covered bonds in general; and iii) our view of a stable credit quality of the issuer.

Changes since the last performance update

Since March 2021, the cover pool has increased to NOK 10.14bn (+14%). At the same time, the Scope-calculated loan-to-value (LTV) ratio decreased by 2.6pp to 52.7%. The assets' weighted average remaining life (11.4 years) and that of the bonds (4.8 years, extended) remained relatively stable. We maintained the supporting overcollateralisation at 4% while the contribution to credit loss dropped to 2.4% (from 2.7%).

Ratings & Outlook

Issuer rating	**A-**
Outlook	Stable
Last rating action	Affirmation
Last rating action	5.5.2021
Covered bond	**AAA**
Outlook	Stable
Rating action	Affirmation
Last rating action	28.5.2021

Rating Team (Covered Bonds)

Mathias Pleißner
+49 69 6677389-39
m.pleissner@scoperatings.com

Reber Acar
+49 69 6677389-50
r.acar@scoperatings.com

Lead Analyst (Banks)

Pauline Lambert
p.lambert@scoperatings.com

Related Research

Scope affirms AAA ratings on Norwegian SSB Boligkreditt's mortgage-covered bonds – Outlook Stable
May 2021

Sandnes Sparebank Issuer Rating Report
May 2021

Earnings outlook for Norwegian banks more nuanced than zero interest rates suggest
Oct 2020

Scope Ratings GmbH

Lennéstraße 5
10785 Berlin

Tel. +49 30 27891-0
Fax +49 30 27891-100

info@scoperatings.com
www.scoperatings.com

Bloomberg: RESP SCOP

The Issuer

SSBB's ratings reflect those of its parent bank, Sandnes. Founded in 1875, Sandnes is a local savings bank operating in the county of Rogaland in southwest Norway. The bank serves about 40,000 personal and 5,000 business customers from its head office and branch in Sandnes as well as a branch in Stavanger. The bank is the second largest savings bank in Rogaland, competing with SpareBank 1 SR-Bank, DNB, Danske Bank, and others.

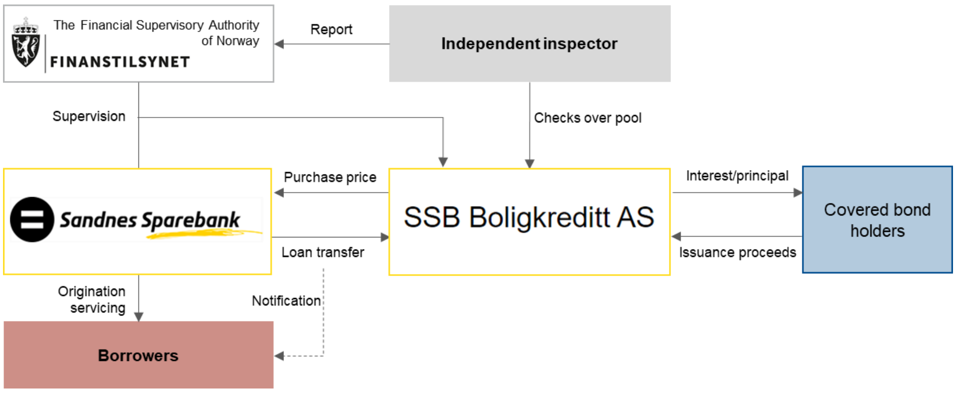
For further details on our bank credit analysis, see the full bank rating report available on www.scoperatings.com.

Programme structure

Specialised mortgage bank issuing covered bonds

The Norwegian legal covered bond framework is mainly based on the relevant section on covered bonds in the Financial Institutions Act and a related regulation on mortgage credit institutions, both introduced in 2007. Under this framework, issuance is permitted only through specialist covered bond issuers. Like SSBB, most issuers of covered bonds (generally called Boligkreditt, or specialised residential mortgage institutions) are subsidiaries that rely on loans originated by their respective parent banks. The parent banks generally also provide most of the services for these subsidiaries, allowing the latter to keep staff numbers low.

Figure 1: Sovereign Rating categories summary:



Source: Transaction documents and Scope.

Fundamental credit support analysis

Fundamental credit support factors enhance the covered bond rating by five notches above SSBB's issuer rating. This is based on our view of: i) Norway's covered bond legal framework; and ii) the resolution regime and systemic importance of SSBB's covered bonds.

Two notches of uplift based on legal framework analysis…

We consider the Norwegian covered bond framework to be one of Europe's strongest, meeting our criteria for protecting investors. Therefore, we assign the highest credit differentiation of two notches.

… on top of three notches of uplift reflecting the resolution regime

SSBB's covered bonds benefit from an additional three-notch uplift that reflects their exemption from bail-in and the support from a strong stakeholder community. This is based on: i) a moderate to high likelihood that the covered bond issuer will be maintained in a resolution scenario; and ii) the high systemic importance of covered bonds in Norway. However, we also recognise the low visibility and importance of SSBB as a covered bond issuer. We may provide four additional notches of support for Norwegian covered bonds issued by resolvable and very visible entities.

For more information, see our related research.

Cover pool characteristics

Reporting date	Mar 2021	Mar 2020
Balance (NOK bn)	10.1	8.9
Residential (%)	91.7	94.8
Substitute (%)	8.3	5.2

Property type (%)

Reporting date	Mar 2021	Mar 2020
Single-family house	69.5	67.9
Terraced house	10.5	11.0
Apartment	19.9	20.9
Others	0.1	0.2

General information

Reporting date	Mar 2021	Mar 2020
No. of obligors	5,215	4,956
Avg. size (NOK m)	1.8	1.7
Top 10 (%)	1.1	1.1
WA Remaining life (y)	11.4	11.2
Loan to value (%)	52.7	55.3

Interest rate type (%)

Reporting date	Mar 2021	Mar 2020
Floating	100	100
Fixed	0.0	0.0

Repayment type (%)

Reporting date	Mar 2021	Mar 2020
Annuity	77.7	76.2
Interest-only / flexible	22.3	23.8

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. Fundamental credit 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 Score of '1' which allows for a maximum three notch uplift on top of the fundamental uplift.

The minimum supporting OC needed to achieve the highest rating remains unchanged at 4%, 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.

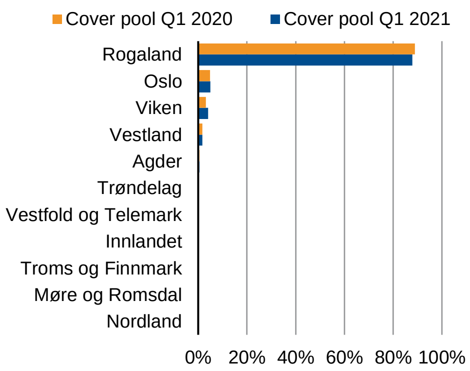
Cover pool composition

The cover pool is predominantly secured by Norwegian residential mortgage loans denominated in Norwegian krone. The cover pool also comprises substitute assets, mainly other highly rated Norwegian covered bonds. The mortgage pool consists of 5,830 loans granted to 5,215 obligors with an average loan size of NOK 1.78m (around EUR 175,000). The largest obligor only accounts for 13 bps. Since our last review, granularity has improved slightly, reflecting 10.7% growth in the mortgage portfolio.

Around 80% of the portfolio is made up of single-family houses and terraced houses, the remaining 20% are apartments. Others account for only 0.1%.

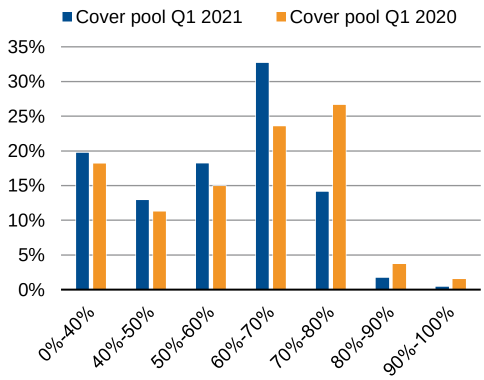
The bank operates primarily in the Stavanger region in southwestern Norway. Hence, as of March 2021, 88% (down from 89%) of the mortgage loans are exposed to the region of Rogaland, 5.2% to Oslo and 3.1% to Viken. The remaining 4.8% are spread across Norway. Compared to March 2020, the regional distribution remained relatively stable.

Figure 2: Regional distribution



Source: Scope Ratings, SSBB

Figure 3: Loan-to-value distribution



Source: Scope Ratings, SSBB

The weighted average loan-to-value ratio of 52.7% (down from 55.3%) is based on the current outstanding balance. Loans with loan-to-value ratios exceeding 70% have halved since our analysis one year ago. Such high loan-to-value loans benefit the most from collateral value appreciations and accordingly rising prices over the past year are positive for recovery expectations.

Flexible loans make up 22% (down from 24%) of the cover pool. These loans have an embedded credit line that can be drawn on without new credit approval. Flexible loans will only be granted if the loan's loan-to-value ratio does not exceed 60%. Existing flexible loans may only be drawn up to 60%. The portfolio average loan-to-value ratio would be 55.3% if the maximum drawable amount for flexible loans were used.

Asset risk analysis

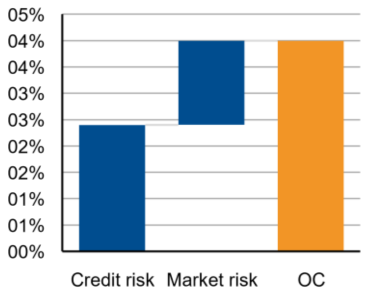
Strong credit quality translates into low credit risk

The cover pool's credit quality remains strong. We assume an annual average default probability of 42bps, which provides a comfortable cushion against actual defaults observed in the previous benign economic situation. 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 further maintained our assumption of a coefficient of variation of 60% for the mortgage assets.

Recovery rates slightly improved, reflecting the decreased loan-to-value ratio together with our assumptions regarding market value declines for residential properties in Norway. We estimate a weighted average recovery rate of 98.9% under a base case scenario and 81.9% (from 79.5%) under the most stressful scenario.

Cash flow risk analysis

Supporting OC breakdown



Source: Scope Ratings

The unchanged rating-supporting OC of 4.0% mainly reflects the programme's credit risk accounting for 2.4 pp (down from 2.7 pp). Credit risk has decreased compared to Scope's earlier analysis which is mainly driven by higher recoveries (due to lower loan-to-value levels).

Market risk accounts for the remaining 1.6 pp of the supporting OC and is driven by the programme's asset-liability maturity mismatch risk. The programme is most sensitive to high prepayments creating a large amount of cash and reducing the transaction's excess spread. In contrast, a low prepayment scenario in which long-dated assets need to be sold at a discount because of maturity mismatches results into lower levels of supporting OC due to the strong asset margin.

As of Q1 2021, the weighted average life of the outstanding covered bonds is 4.8 years when accounting for their soft-bullet structure, down from 4.9 years in the previous analysis. In comparison, with 15% of additional repayments, the asset's remaining weighted average life goes down to 2.7 years which compares to the (scheduled) weighted average life of the cover pool of 11.4 years. In the event of recourse to the cover pool, we assume that such excess cash does not generate any margin, which negatively affects the programme's excess spread.

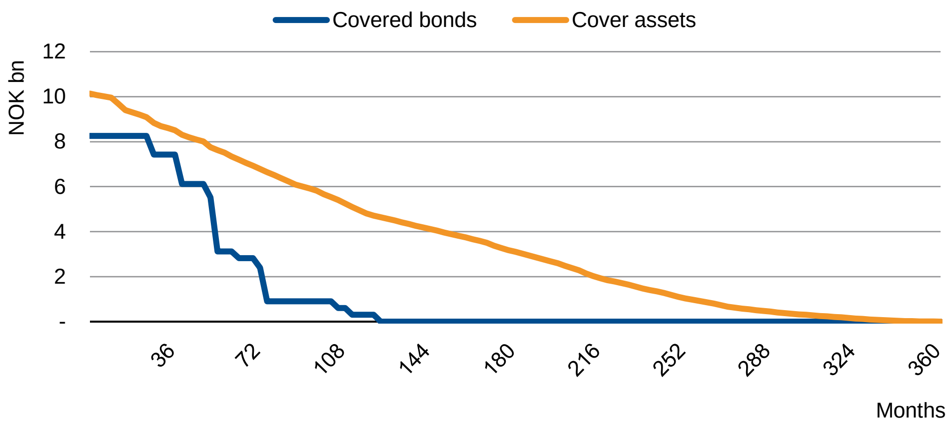
Asset-liability mismatches

	Assets	Liabilities
NOK	100%	100%
Fixed	0.0%	0.0%[1]
Floating	100%	100%[1]
Scheduled WAL (years)	11.4	4.8

[1]After hedging, 27% of fixed bonds pay floating rates

Other market risks are limited as cover assets are floating, and fixed covered bonds (26.9%) 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.

Figure 4: Amortisation profile



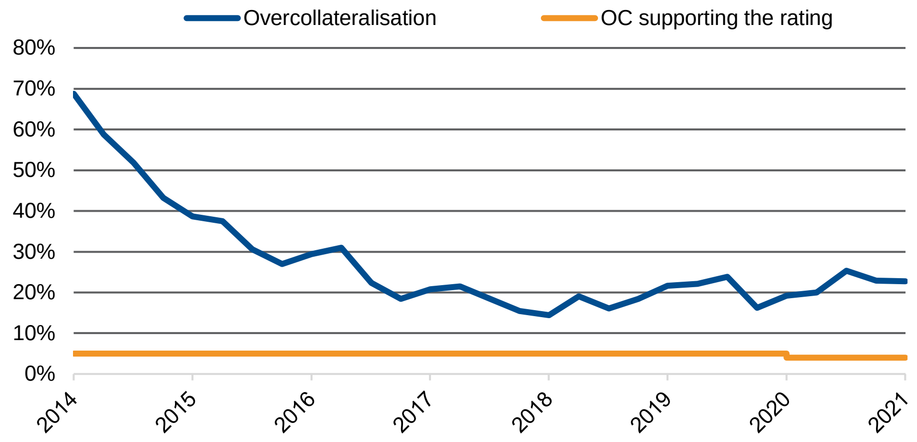
Source: Scope Ratings, SSBB

Availability of overcollateralisation

Overcollateralisation fully taken into account

The current rating of SSBB allows us to fully account for the provided OC. 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 5: Available overcollateralisation versus current rating-supporting level



Source: Scope Ratings, SSBB

ESG considerations

Sound green bond framework…

SSBB is an active green bond issuer with currently NOK300m 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. Eligible buildings are classified as:

- new or existing Norwegian apartments that comply with the Norwegian building codes of 2007 (TEK07), 2010 (TEK10), 2017 (TEK17) or any subsequent building codes;
- existing Norwegian residential buildings built using older building codes than TEK10 for apartments and TEK07 for other residential dwellings (built before 2009) with EPC-labels A, B or C;
- refurbished residential buildings in Norway with at least two steps of improvement in their energy label compared to the calculated label based on the building code in the year of construction or with at least two steps of improvement in their energy label compared to the calculated label based on the building code in the year of construction.

As of March 2021, the sum of eligible cover assets in the cover pool accounts for NOK1.9bn (around 20% of mortgage cover pool) which provides strong headroom for additional green bond issuance.

…but based on available data no clear relationship between green loans and credit risk

SSBB provided us with line-by-line classification on its mortgage loans used to determine the loan's eligibility. We analysed the data and correlated it with performance information (PD and LGD) on the respective loans. From this, we could not find any significant relationship between a loan's performance and its 'greenness.'

We therefore did not include such 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.

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 bank 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.

The rated covered bonds are further exposed to counterparty exposure from hedging of fixed rate liabilities into floating rates. Those agreements are contracted with four different banks of which one is Sandnes. The corresponding documentation (CSA/ISDA schedules) is in line with our counterparty methodology.

Sovereign risk does not affect the ratings

Sovereign risk does not limit the ratings of SSBB's mortgage-covered bonds. We believe the risks of an institutional framework meltdown, legal insecurity or currency-convertibility problems are currently remote.

Sensitivity analysis

Two-notch buffer against potential change in issuer rating

SSBB's mortgage-covered bond ratings benefit from a buffer against an issuer downgrade of up to two notches. Assuming the issuer's willingness to support the highest ratings as well as a stable covered bond programme risk profile, a one-notch downgrade would increase the rating-supporting OC to 5.0%.

Summary of covered bond characteristics

Reporting date	31 Mar 2021	31 Mar 2020
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 = 91.7% Substitute = 8.3%	Residential = 94.8% Substitute = 5.2%
Issuer rating	A-/Stable	A-/Stable
Current covered bond rating	AAA/Stable	AAA/Stable
Covered bond maturity type	Soft bullets	Soft bullets
Cover pool currencies	NOK (100%)	NOK (100%)
Covered bond currencies	NOK (100%)	NOK (100%)
Fundamental cover pool support	5	5
CPC Score	1	n/a
Maximum achievable covered bond uplift	8	8
Potential covered bond rating buffer	2	1
Cover pool (NOK bn)	10.14	8.86
thereof, substitute assets and deposits (NOK bn)	0.84	0.46
Covered bonds (NOK bn)	8.26	7.43
Overcollateralisation: current / legal minimum	22.8% / 2%	19.2% / 2%
Overcollateralisation to support current rating	4.0%	4.0%
Overcollateralisation upon a one-notch issuer downgrade	5.0%	5.0%
Weighted average life of assets	11.4 years	11.2 years
Weighted average life of liabilities[1]	4.8 years	4.9 years
Weighted average life gap	6.6 years	6.3 years
Number of borrowers	5,215	4,956
Average loan size per borrower (NOK m)	1.8	1.7
Top 10 residential	1.1%	1.1%
Interest rate type – assets	Floating 100% Fixed 0%	Floating 100% Fixed 0%
Interest rate type – liabilities	Floating 100% Fixed 0%	Floating 100% Fixed 0%
Weighted average LTV (indexed)	52.7%	55.3%
Geographic split (top 3)	Rogaland = 89.6% Oslo = 3.7% Viken = 3.1%	Rogaland = 89.0% Oslo and Akershus = 4.8% Sør-Østlandet = 3.1%
Default measure	Inverse Gaussian/ non-parametric	Inverse Gaussian/ non-parametric
Weighted average default rate (mortgage) (annualised/cumulative)	42bps / 8.0%	55bps / 10.5%
Coefficient of variation (mortgage)	60%	60%
Weighted average recovery assumption (D0/D8)[2] (mortgage)	98.8% / 81.9%	97.9% / 79.5%
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%
Foreign exchange stresses (max./min.; currency-dependent)	n/a	n/a
Maximum liquidity premium	150bps	150bps
Average servicing fee	24bps	24bps

[1] Including the 12-month extension
[2] D0 and D8 denote the stresses commensurate with the rating distance from the minimum and maximum achievable covered bond uplift

Scope Ratings GmbH

Headquarters Berlin

Lennéstraße 5
D-10785 Berlin

Phone +49 30 27891-0

Frankfurt am Main

Neue Mainzer Straße 66-68
D-60311 Frankfurt am Main

Phone +49 69 66 77 389 0

Paris

23 Boulevard des Capucines
F-75002 Paris

Phone +33 1 8288 5557

Oslo

Karenslyst allé 53
N-0279 Oslo

Phone +47 21 62 31 42

Madrid

Edificio Torre Europa
Paseo de la Castellana 95
E-28046 Madrid

Phone +34 914 186 973

Milan

Via Nino Bixio, 31
20129 Milano MI

Phone +39 02 30315 814

Scope Ratings UK Limited

London

111 Buckingham Palace Road
London SW1W 0SR

Phone +44 020 7340 6347

info@scoperatings.com
www.scoperatings.com

Disclaimer