

# Research

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## Swedbank Mortgage AB Swedish Covered Bond Ratings Affirmed At 'AAA/A-1+'; Outlook Stable

**Primary Credit Analyst:**

Tom M Deex, London (44) 20-7176-3603; tom.deex@standardandpoors.com

**Secondary Contact:**

Judit O Woelk, Frankfurt (49) 69-33-999-319; judit.woelk@standardandpoors.com

### OVERVIEW

- We have reviewed our ratings on Swedbank Mortgage AB's mortgage covered bonds as part of our scheduled review calendar.
- Following our review, we have affirmed our 'AAA/A-1+' ratings on the program and related issuances.
- The stable outlook reflects the three unused notches of uplift, which means that we would not automatically lower the ratings on the covered bonds if we were to lower our long-term rating on Swedbank Mortgage by three notches or less.

LONDON (Standard & Poor's) March 24, 2016--Standard & Poor's Ratings Services today affirmed its 'AAA/A-1+' long- and short-term credit ratings on Swedbank Mortgage AB's mortgage covered bond program and its related issuances. The outlook is stable.

We organize the analytical process for rating covered bonds into four key stages:

- We perform an initial analysis of issuer-specific factors--legal and regulatory risks and operational and administrative risks--through which we mainly assess whether a rating on the covered bond may be higher than the rating on the issuer.
- We assess the starting point for the rating analysis based on the applicable resolution regimes to determine the reference rating level (RRL).

- We then determine the maximum achievable covered bond rating from an analysis of jurisdictional and cover pool-specific factors.
- Lastly, we combine the results of the above and incorporate any additional factors, such as counterparty risk and country risk, to assign the final covered bond rating.

After assessing the RRL, to determine a maximum achievable covered bond rating we analyze jurisdictional and collateral support. Our assessment of the expected jurisdictional support for mortgage covered bond programs in Sweden is very strong (see "Assessments For Jurisdictional Support According To Our Covered Bonds Criteria," published on Dec. 22, 2015, on RatingsDirect). Uplift from the RRL can be up to three notches when the jurisdictional support is assessed as very strong. Under our analysis of jurisdictional support, we determine a jurisdiction-supported rating level (JRL), which is our assessment of the creditworthiness of a covered bond program once we have considered the level of jurisdictional support, but before giving credit to the amount of collateral.

Following the assessment of the RRL and JRL, we analyze the credit quality of the cover pool and the availability of liquidity support and committed overcollateralization to determine the maximum collateral uplift. We applied a criteria interpretation in our analysis of the tenant-owner rights apartments to address the increased credit risk of a housing association default.

When applicable, we cap our ratings on mortgage covered bond programs. Given the unsolicited ratings on Sweden (AAA/Stable/A-1+), the maximum rating on the program and related issuances is 'AAA' (see "Methodology And Assumptions For Ratings Above The Sovereign--Single-Jurisdiction Structured Finance," published May 29, 2015). We consider country risk exposure to be moderate, which, when combined with an investment grade sovereign rating, allows three notches of uplift above the sovereign rating.

Lastly, the ratings on the covered bond program and related issuances are not constrained by legal, operational, or counterparty risks.

The 'AAA' ratings reflect our RRL of 'aa' and JRL of 'aaa' for the program, as well as the coverage of 'AAA' credit risk. The stable outlook on our ratings reflects our view that we would not automatically lower the ratings on the covered bonds if we were to lower our long-term rating on Swedbank Mortgage by three notches or less. We could also lower our rating if the credit enhancement needed to maintain the rating were to exceed the available credit enhancement.

The 'A-1+' short-term rating reflects the creditworthiness of the short-term maturity bonds that can be issued, or are outstanding, under this covered bond program, using the mapping methodology set out in the criteria article "Commercial Paper I: Banks," published on March 23, 2004.

#### RELATED CRITERIA AND RESEARCH

Related criteria

- Counterparty Risk Analysis In Covered Bonds, Dec. 21, 2015
- Covered Bond Ratings Framework: Methodology And Assumptions, June 30, 2015
- Methodology And Assumptions For Ratings Above The Sovereign--Single-Jurisdiction Structured Finance, May 29, 2015
- Methodology And Assumptions: Analyzing European Commercial Real Estate Collateral In European Covered Bonds, March 31, 2015
- Covered Bonds Criteria, Dec. 9, 2014
- Methodology And Assumptions For Assessing Portfolios Of International Public Sector And Other Debt Obligations Backing Covered Bonds And Structured Finance Securities, Dec. 9, 2014
- Europe Asset Isolation And Special-Purpose Entity Criteria--Structured Finance, Sept. 13, 2013
- Counterparty Risk Framework Methodology And Assumptions, June 25, 2013
- Methodology: Credit Stability Criteria, May 3, 2010
- Understanding Standard & Poor's Rating Definitions, June 3, 2009
- Update To The Cash Flow Criteria For European RMBS Transactions, Jan. 6, 2009
- Criteria For Rating Swedish Covered Bonds, June 20, 2006
- Commercial Paper I: Banks, March 23, 2004
- Cash Flow Criteria for European RMBS Transactions, Nov. 20, 2003

Related research

- Standard & Poor's Ratings Definitions, Feb. 1, 2016
- Global Covered Bond Characteristics And Rating Summary Q4 2015, Dec. 29, 2015
- Assessments For Jurisdictional Support According To Our Covered Bonds Criteria, Dec. 22, 2015
- Assessments For Target Asset Spreads According To Our Covered Bonds Criteria, Dec. 22, 2015
- Covered Bond Ratings In Sweden Reflect Current Risks In The Housing Market , Dec. 8, 2015
- Various Rating Actions Taken On Swedish Banks On Continued Government Support And Heightened Economic Risks, Dec. 2, 2015
- Advance Notice Of Proposed Criteria Change: RMBS In Certain European Jurisdictions, Nov. 13, 2015
- Compulsory Mortgage Loan Amortization Could Enhance Swedish Covered Bonds' Credit Quality, Sept. 16, 2015
- Research Update: Kingdom of Sweden 'AAA/A-1+' Ratings Affirmed; Outlook Stable, Sept. 4, 2015
- Covered Bond Monitor: Technical Note, Aug. 12, 2015

**Additional Contact:**

Structured Finance Europe; [StructuredFinanceEurope@standardandpoors.com](mailto:StructuredFinanceEurope@standardandpoors.com)

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