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CREDIT OPINION
25 May 2017

Update

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RATINGS

SkandiaBanken AB

Domicile	Sweden
Long Term Deposit	A2
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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SkandiaBanken AB

Semiannual Update

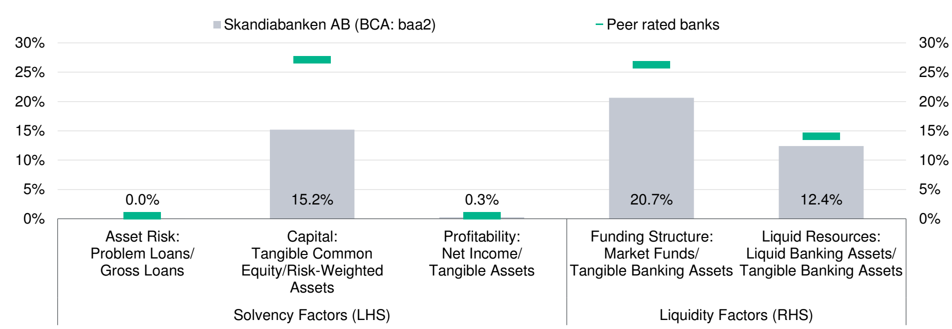
Summary Rating Rationale

On 17 May, we affirmed SkandiaBanken AB's deposit ratings at A2/P-1, underpinned by: (1) the bank's baa2 standalone baseline credit assessment (BCA); (2) our assessment of very high assumptions of affiliate support from the bank's parent, Skandia Insurance Company Ltd. (Insurance Financial Strength A2/Stable), resulting in two notches of uplift leading to an adjusted BCA of a3; and (3) the low unexpected loss given failure under our Advanced Loss Given Failure (LGF) analysis. We also affirmed the Counterparty Risk Assessment (CR Assessment) at Aa3(cr)/Prime-1(cr). At the same time we changed the outlook to stable from negative.

SkandiaBanken's baa2 BCA reflects the bank's solid asset quality, capital and leverage position, a healthy funding structure focused on retail deposits and a very high probability of support from its parent in the event of need. These strengths are balanced against the bank's above-market growth rate in mortgage lending in a rising house price environment, as well as the bank's improving although still weak standalone efficiency and low profitability. The adjusted BCA of a3 reflects Moody's very high assumptions of affiliate support from the bank's parent, Skandia Insurance Company Ltd. (Insurance Financial Strength A2/Stable), resulting in two notches of uplift. The long term deposit rating of A2 also receives one notch uplift according to the Loss Given Failure (LGF) approach due to significant volumes of senior unsecured debt and junior deposits.

The change in outlook to stable on SkandiaBanken's long-term deposit ratings reflects our forward-looking view of the bank's funding profile, given its plan to increase senior unsecured debt and sustained level of deposits, which would result in continued protection for junior depositors under Loss Given Failure (LGF) analysis.

Exhibit 1
Rating Scorecard- Key Financial Ratios (end-2016)



Source: Moody's

Credit Strengths

» Growing importance in the wider Skandia Group

» Strong asset quality

» Strong capital and higher-than-peers leverage ratio

» A retail-based funding profile and adequate liquidity given wholesale funding needs

» SkandiaBanken's BCA supported by Sweden "Very Strong-" Macro Profile

Credit Challenges

» Limited standalone franchise

» High lending growth

» Lower-than-peers efficiency and weak profitability

Rating Outlook

The change in outlook on SkandiaBanken's long-term deposit ratings to stable from negative reflects the bank's evolving funding strategy, which previously included a lower volume of senior debt and would have provided limited protection to junior deposits in case of failure. The stable outlook reflects the bank's plan to issue an increasing proportion of senior unsecured debt to support balance sheet growth. We note that the execution of this plan might result in lower-than-expected losses for junior depositors under its Advanced Loss Given Failure analysis, providing a higher degree of protection to its junior depositors. A higher-than-expected loss for junior depositors could also result if the percentage of junior deposits is significantly below our assumption of 10% of total deposits.

Factors that Could Lead to an Upgrade

» SkandiaBanken's BCA could be upgraded following a significant improvement in its efficiency and profitability ratios and/or a slowdown in its growth rate, whilst maintaining its asset quality, capital and liquidity metrics. An upward movement in its BCA would likely result in an upgrade of its deposit ratings.

Factors that Could Lead to a Downgrade

» A weakening in the Swedish operating environment, impacting SkandiaBanken's ability to absorb losses via earnings and capital, along with an increased reliance on confidence-sensitive wholesale funding could lead to a lower BCA. A change in Moody's assessment of the probability of parental support could also lead to a lower Adjusted BCA. A downward movement in SkandiaBanken's BCA and Adjusted BCA would likely result in a downgrade of its deposit ratings.

» The long-term deposit ratings could be also downgraded if Moody's considers that SkandiaBanken's changing liability structure results in a structural increase in risk for this instrument. This could be evidenced by a lower proportion of senior unsecured debt funding in the bank's liability structure and/or by a lower than expected volume of junior deposits.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.

Key Indicators

Exhibit 2

SkandiaBanken AB (Consolidated Financials) [1]

	3-17[2]	12-16[2]	12-15[2]	12-14[2]	12-13[2]	CAGR/Avg.[3]
Total Assets (SEK million)	68,733	65,214	58,735	114,918	98,597	-10.5[4]
Total Assets (EUR million)	7,198	6,806	6,413	12,132	11,141	-12.6[4]
Total Assets (USD million)	7,698	7,178	6,967	14,680	15,352	-19.1[4]
Tangible Common Equity (SEK million)	3,665	3,484	3,921	5,036	3,907	-1.9[4]
Tangible Common Equity (EUR million)	384	364	428	532	442	-4.2[4]
Tangible Common Equity (USD million)	410	384	465	643	608	-11.4[4]
Problem Loans / Gross Loans (%)	0.1	0.0	0.1	0.2	0.2	0.1[5]
Tangible Common Equity / Risk Weighted Assets (%)	15.7	15.2	19.6	12.1	10.9	14.7[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	0.9	0.7	0.8	3.4	3.5	1.8[5]
Net Interest Margin (%)	1.2	1.1	1.2	1.3	1.2	1.2[5]
PPI / Average RWA (%)	1.2	0.7	-0.1	1.5	0.7	0.8[6]
Net Income / Tangible Assets (%)	0.3	0.2	-0.2	0.4	0.3	0.2[5]
Cost / Income Ratio (%)	71.0	83.6	103.0	67.0	81.0	81.1[5]
Market Funds / Tangible Banking Assets (%)	23.5	20.7	19.3	15.9	12.9	18.5[5]
Liquid Banking Assets / Tangible Banking Assets (%)	13.3	12.4	11.4	16.1	13.8	13.4[5]
Gross Loans / Due to Customers (%)	152.9	149.3	129.8	120.3	103.1	131.1[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments [2] Basel III - fully-loaded or transitional phase-in; IFRS [3] May include rounding differences due to scale of reported amounts [4] Compound Annual Growth Rate (%) based on time period presented for the latest accounting regime [5] Simple average of periods presented for the latest accounting regime. [6] Simple average of Basel III periods presented

Source: Moody's Financial Metrics

Detailed Rating Considerations

A Limited Standalone Franchise With Growing Importance in the Wider Skandia Group

SkandiaBanken is the banking arm of Skandia Insurance Company Ltd (A2, stable), which is owned by Livförsäkringsbolaget Skandia, ömsesidigt (Skandia Liv), a leading Swedish life insurer. The bank reported assets at end-March 2017 of SEK69 billion and a 1.9%share of the Swedish mortgage market.

SkandiaBanken focuses on mortgage lending and aims to grow its fee and commissions through higher volumes of customer transactions, both savings and payments. The bank sells its products on the internet, by phone, and through the branch network of the wider Skandia insurance group (54 branches). We consider it to be a monoline with a business model focused on mortgages, with earnings highly dependent on retail interest income, which represented just under 80% of its operating income during the first three months of 2017. This structural dependence results in a one-notch qualitative downwards adjustment to the BCA in respect of Business Diversification, an adjustment shared with the majority of the Swedish mortgage lenders.

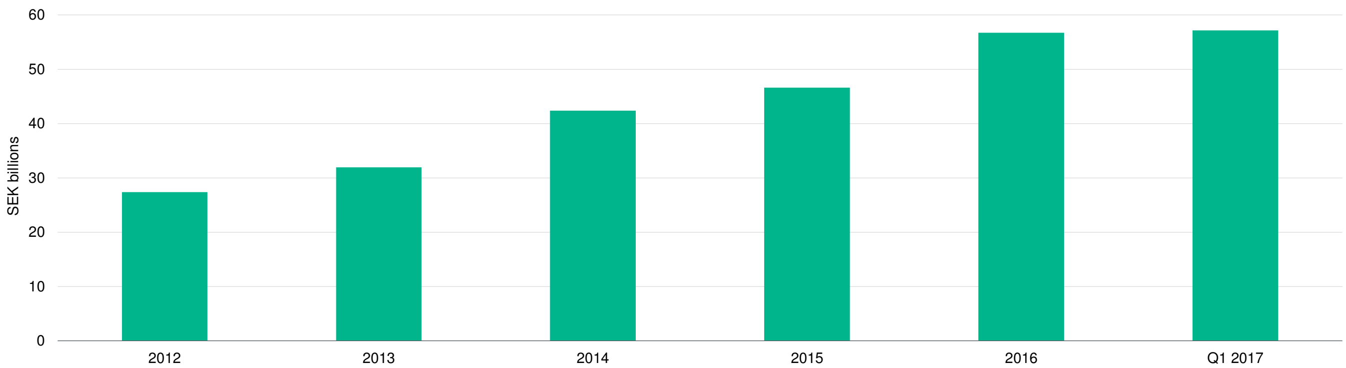
In line with the group's strategic plan, SkandiaBanken has significantly grown over the last years: in 2013 management set a target of doubling the lending volume in five years' time and, at end-March 2017, SkandiaBanken reported SEK57 billion of outstanding mortgage, a 78% volume increase since 2013 (excluding the Norwegian operations).

In October 2015, SkandiaBanken spun-off its Norwegian business, which had accounted for 54% of total lending at 30 September 2015 and was the most profitable part of the bank.

Strong Asset Quality, But High Lending Growth

Our a3 Asset risk score reflects SkandiaBanken's very low problem loan ratio – in line with all the Swedish mortgage lenders – and its significant lending growth over the last years, a result of the strategic plan to increase the bank's market share and size (see Exhibit 3).

Exhibit 3
Outstanding Loans to the Public in the Swedish Business
SkandiaBanken has experienced significant lending growth over the past years



Source: Company reports

SkandiaBanken reported problem loans ratio at end of March 2017 was very low at 0.06%: in line with other Swedish mortgage lenders, its asset quality has benefitted from low interest rates, increasing property prices, and the Swedish households' ability to service their largely non-amortising debts.

The SEK57 billion lending book comprises almost entirely mortgages: at end-2016 lending with houses and vacation homes as collateral accounted for 57% of the total book and tenant-owner apartments for 41%. The large majority of loans is concentrated in Stockholm, which thus poses some concentration risks and potential tail risks due to the high appreciation in property prices in recent years. A mitigating factor is the bank's cap on lending at loan-to-value of 85%, as it does not provide unsecured lending to borrowers above that limit for the purpose of buying a property. Loan-to-value (LTV) ratio of the home mortgage portfolio (exposure-weighted) was a low 54% (52% in 2015) as per the end of December 2016.

At end of March 2017 SkandiaBanken's gross outstanding loans had increased by 18.6% on an annual basis, mainly driven by the offer of competitive rates. In our view the bank's above-market growth of its mortgage book poses some risk. These mortgages have been originated during a period of very low interest rates and are for the majority base on variable interest rates, and are considered to be of higher risk compared to a more seasoned loan portfolio.

Strong Capital and Higher-than-peers Leverage Ratio

We view SkandiaBanken's capitalisation as strong given its business model focused on low risk lending, and the support from its parent, which offset the weak internal capital generation through capital injections. Due to the low internal capital generation, we expect capital ratios to deteriorate somewhat during the coming quarters, assuming that the bank will continue to grow its balance sheet. The parent has a history of supporting SkandiaBanken through direct capital injections, with SEK1.7 billion in 2015 and SEK981 million in 2014. The more recent capital injection of SEK 122 million in the beginning of 2017 is capital neutral as the bank made a group contribution of an equivalent amount at the end of 2016. Our aa3 assigned Capital score reflects the very strong capitalisation as well as our expectation of a negative trend, a consequence of the ambitious growth strategy.

SkandiaBanken reported a Common Equity Tier 1 ratio of 15.2% at end-March 2017, well above the 10.8% requirement set by the FSA for the first quarter of 2017; its TCE relative to risk-weighted assets under Moody's definition was 15.7% at the same date. This ratio is lower than peers' (median 24%) because it is calculated under the Standardised Approach for credit risk, whilst the majority of other rated Swedish banks use the Internal Ratings Based approach (IRB). SkandiaBanken is in the process of obtaining IRB approval, which should be implemented by 2018 and the bank currently manages its capital ratio on both standardised and IRB basis.

The reported regulatory leverage ratio was 5.0% at end-March 2017, which is higher than peers; under Moody's definition, SkandiaBanken's TCE relative on total tangible assets was 5.34% at end-March 2017.

Lower-than-peers Efficiency and Weak Profitability

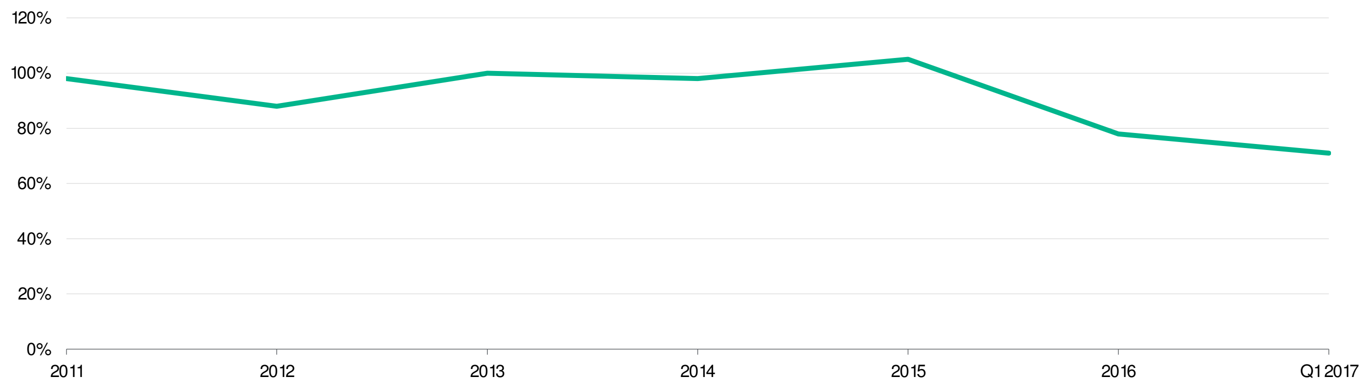
The b3 Profitability score reflects SkandiaBanken's weaker-than-peers profitability with net income / tangible assets of 0.25% for the first three months results 2017, a consequence of its relatively low risk products, its aggressive pricing strategy, and its low efficiency. The sale of the Norwegian part of the business, which was more efficient and profitable, was credit negative for the bank. We expect weak profitability to persist over the outlook period but recognise an improving trend in efficiency.

SkandiaBanken reported pre-tax income was SEK70 million for the first three months of 2017 compared with SEK28 million during the same period in 2016 (exclusive of the Norwegian business), driven by a 16% growth of the mortgage book to SEK57 billion in March 2017. For 2016, adjusting for group contributions largely related to intra-group tax efficiency planning, net income improved to SEK 192million from a loss of SEK 292 million in 2015. The improvement is largely due to costs incurred in 2015 related to the demerger and IPO of the Norwegian operations. SkandiaBanken reported an improved cost to income ratio of 71% for the first three months of 2017 compared with 78% in 2016 and 105% in 2015 (see Exhibit 4). In the coming years, SkandiaBanken plans to reduce its cost base, and increase efficiency through economies of scale. Due to its limited size, we expect that IT costs, regulatory and compliance costs, as well as general administration costs will be difficult to decrease considerably, and therefore expect marginal improvements in the bank's efficiency ratio over the outlook period despite the growth in lending.

Exhibit 4

Cost to Income Ratio for SkandiaBanken's Swedish Operations

SkandiaBanken has maintained high cost-to-income ratio over several years



Source: Company reports

A Retail-based Funding Profile and Adequate Liquidity Given Wholesale Funding Needs

Our a2 Funding Structure score captures SkandiaBanken's high proportion of retail deposits, as well as our expectation of an increasing reliance on wholesale funding to support balance sheet growth, although mainly via covered bonds issuances.

Reported retail deposits were SEK37 billion at end-March 2017, or 54% of total balance sheet. The large majority of these retail deposits are internet-based because the bank does not have its own branch network and, in our view, they are more price and confidence sensitive compared to deposits sourced through branches. SkandiaBanken reported a loan-to-deposit ratio of 144% at end-March 2017 compared with 130% at end-2016. The SEK19 billion gap between customer loans and deposits at end of March 2017 – a result of the sustained growth in mortgage lending – is funded mainly with the issuance of debt securities: SEK20.5 billion covered bonds, SEK4.4 billion senior unsecured funding, and SEK0.9 billion subordinated debt.

We expect the bank to continue increasing its reliance on confidence sensitive wholesale funding to support its balance sheet growth. This is however mitigated by the fact that most of the issuance will be in SEK-denominated covered bonds, which in our view are less confidence-sensitive than senior unsecured bonds because they benefit from a deep local market. We reflect this feature by treating covered bonds denominated in local currency as retail funding, an adjustment shared with most other Swedish banks.

SkandiaBanken's liquidity position is adequate given its wholesale funding needs, as captured by our baa3 assigned Liquid Resources score.

The liquid resources/tangible banking assets ratio was 12.4% at end of 2016 and reported liquidity reserves were SEK8 billion at the same date, which account for 61% of the outstanding debt. The portfolio consists mainly of cash and balances with central banks, and highly rated government securities and secured and unsecured debt issued by financial institutions, mostly Nordics. SkandiaBanken reported a Liquidity Coverage ratio (LCR) of 276% at end-March 2017.

Supportive Operating Environment as Expressed by the Very Strong- Macro Profile for Sweden

As a domestic bank, SkandiaBanken's operating environment is determined by Sweden (Aaa, stable) and its Macro Profile is thus aligned with Sweden at Very Strong-. Swedish banks benefit from a competitive and diverse economy, robust public institutions and a stable political environment that supports consensus orientated policy making. However, we view Swedish households' debt levels (around 80% of which consist of mortgages) and the multi-year growth in household debt as key vulnerabilities to the financial system.

Notching Considerations

Affiliate Support

The a3 Adjusted BCA incorporates Moody's assessment of a very high probability of support from the bank's parent Skandia Insurance Company Ltd. (Insurance Financial Strength A2/Stable) in the event of need.

Loss Given Failure

We apply our advance loss-given-failure analysis on SkandiaBanken as the bank is subject to the EU Bank Recovery and Resolution Directive (BRRD), which we consider to be an Operational Resolution Regime. For this analysis we assume that equity and losses stand at 3% and 8%, respectively, of tangible banking assets in a failure scenario. We also assume a 25% run-off of "junior" wholesale deposits and a 5% run-off in preferred deposits. Moreover, we assign a 25% probability to junior deposits being preferred to senior unsecured debt. These are in line with our standard assumptions. Given the bank's focus on retail deposits, we assume the bank's junior deposits to account for 10% of total deposits, in line with other retail mortgage banks.

The change in outlook on SkandiaBanken's long-term deposit ratings to stable from negative reflects the bank's evolving funding strategy, which previously included a lower volume of senior debt and would have provided limited protection to junior deposits in case of failure. The stable outlook reflects the bank's plan to issue an increasing proportion of senior unsecured debt to support balance sheet growth. We note that the execution of this plan might result in lower-than-expected losses for junior depositors under its Advanced Loss Given Failure analysis, providing a higher degree of protection to its junior depositors. A higher-than-expected loss for junior depositors could also result if the percentage of junior deposits is significantly below our assumption of 10% of total deposits.

Government Support

Owing to the relatively small size of its retail operations, we assume a low probability of government support for SkandiaBanken's longterm deposit ratings.

Counterparty Risk Assessment

The CR assessment is an opinion of the counterparty risk related to a bank's covered bonds, contractual performance obligations (servicing), derivatives (e.g., swaps), letters of credit, and liquidity facilities. The CR Assessments is distinct from debt and deposit ratings in that they consider only the risk of default rather than both the likelihood of default and the expected financial loss suffered in the event of default.

SkandiaBanken's CR Assessment is positioned at Aa3(cr) and P-1(cr), based on the cushion against default provided by junior deposits, senior unsecured, and subordinated debts and does not benefit from any government support, in line with deposits and senior unsecured debt ratings.

Rating Methodology and Scorecard Factors

Exhibit 5

SkandiaBanken AB

Macro Factors		
Weighted Macro Profile	**Very Strong -**	**100%**

Factor	**Historic Ratio**	**Macro Adjusted Score**	**Credit Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency						
Asset Risk						
Problem Loans / Gross Loans	0.1%	aa1	←→	a3	Loan growth	
Capital						
TCE / RWA	15.7%	aa2	←→	aa3	Expected trend	
Profitability						
Net Income / Tangible Assets	0.2%	b1	↓	b2	Return on assets	
Combined Solvency Score		a1		baa1		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	20.6%	baa1	←→	a2	Market funding quality	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	12.4%	baa3	←→	baa3	Stock of liquid assets	
Combined Liquidity Score		baa2		baa1		
Financial Profile				baa1		
Business Diversification				-1		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				-1		
Sovereign or Affiliate constraint:				Aaa		
Scorecard Calculated BCA range				baa1-baa3		
Assigned BCA				baa2		
Affiliate Support notching				--		
Adjusted BCA				a3		

Balance Sheet	**in-scope (SEK million)**	**% in-scope**	**at-failure (SEK million)**	**% at-failure**
Other liabilities	23,856	34.8%	26,472	38.6%
Deposits	37,371	54.5%	34,755	50.7%
Preferred deposits	33,634	49.0%	31,952	46.6%
Junior Deposits	3,737	5.4%	2,803	4.1%
Senior unsecured bank debt	4,411	6.4%	4,411	6.4%
Dated subordinated bank debt	900	1.3%	900	1.3%
Equity	2,058	3.0%	2,058	3.0%
Total Tangible Banking Assets	68,596	100%	68,596	100%

Debt class	De jure waterfall		De facto waterfall		Notching		LGF notching guidance versus BCA	Assigned LGF notching	Additional notching	Preliminary Rating Assessment
	Instrument volume + Subordination	Sub-ordination	Instrument volume + Subordination	Sub-ordination	De jure	De facto				
Counterparty Risk Assessment	14.8%	14.8%	14.8%	14.8%	3	3	3	3	0	aa3 (cr)
Deposits	14.8%	4.3%	14.8%	10.7%	1	3	1	1	0	a2

Instrument class	Loss Given Failure notching	Additional Notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Assessment	3	0	aa3 (cr)	0	Aa3 (cr)	--
Deposits	1	0	a2	0	A2	A2

Source: Moody's Financial Metrics

Ratings

Exhibit 6

Category	Moody's Rating
SKANDIABANKEN AB	
Outlook	Stable
Bank Deposits	A2/P-1
Baseline Credit Assessment	baa2
Adjusted Baseline Credit Assessment	a3
Counterparty Risk Assessment	Aa3(cr)/P-1(cr)
PARENT: SKANDIA INSURANCE COMPANY LTD.	
Outlook	Stable
Insurance Financial Strength	A2

Source: Moody's Investors Service

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