MOODY'S RATINGS

CREDIT OPINION

2 December 2024

Update

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RATINGS

Skandiabanken AB

Domicile	Sweden
Long Term CRR	A1
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Not Assigned
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

Update to credit analysis

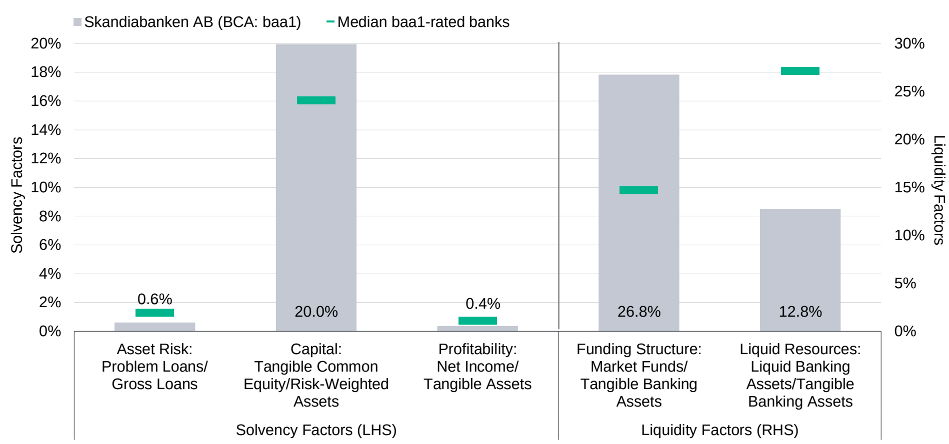
Summary

Skandiabanken AB (Skandiabanken) A2 long-term deposit ratings, which have a stable outlook, reflect the bank's standalone credit worthiness, as expressed by a baa1 Baseline Credit Assessment (BCA); our assumption of a very high probability of support coming from the bank's parent, Livförsäkringsbolaget Skandia, ömsesidigt(Skandia Liv, A2 stable), which results in a one-notch uplift; and low loss-given-failure under our advanced Loss Given Failure (LGF) analysis, which results in another notch of uplift. Our assumption of a low probability of support coming from the Government of Sweden (Aaa stable) does not result in any further uplift.

Skandiabanken's baa1 BCA reflects the bank's very low asset risk as a Swedish mortgage lender, strong capitalisation and healthy funding structure focusing on retail deposits. These strengths are balanced against Skandiabanken's historically growth rate in mortgage lending that exceeds the market's average, as well as the bank's low efficiency and weak profitability.

Exhibit 1

Rating Scorecard — Key financial ratios



These are our Banks Methodology scorecard ratios. The bank's problem loan and profitability ratios are the weaker of the average of the latest three year-end ratios and the latest reported ratio. The bank's capital ratio is the latest reported figure. The bank's funding structure and liquid resources ratios are the latest year-end figures.
Source: Moody's Ratings

Credit strengths

» Very strong asset quality

» Strong capitalisation

» Very high support from Skandia group

Credit challenges

» Monoline business focused on mortgages, with earnings being highly dependent on interest income from its retail segment.

» Historically high lending growth

» Moderate efficiency compared to peers

Outlook

The outlook on Skandiabanken's long-term deposit and issuer ratings is stable, in line with the outlook of the parent, Skandia Liv.

Factors that could lead to an upgrade

An upgrade of Skandia Liv's ratings could result from a higher adjusted BCA and consequently, higher issuer and deposit ratings. Furthermore, if the volumes of loss absorbing liabilities offering protection to senior creditors increases significantly, the deposit and issuer ratings could be upgraded.

Factors that could lead to a downgrade

A downgrade to Skandia Liv's ratings leading to a reduced level of affiliate support uplift, or indications of lower parental support could result in a lower Adjusted BCA.

A significant deterioration in the bank's fundamentals, including asset quality and capitalization, could lead to a downgrade of the BCA but not the Adjusted BCA.

Key indicators

Exhibit 2

Skandiabanken AB (Consolidated Financials) [1]

	09-24[2]	12-23[2]	12-22[2]	12-21[2]	12-20[2]	CAGR/Avg.[3]
Total Assets (SEK Million)	126,105.0	117,484.0	108,647.0	97,074.0	89,934.0	9.4[4]
Total Assets (USD Million)	12,440.6	11,657.6	10,427.3	10,730.0	10,950.8	3.5[4]
Tangible Common Equity (SEK Million)	6,229.0	5,821.0	5,323.0	4,691.0	4,403.0	9.7[4]
Tangible Common Equity (USD Million)	614.5	577.6	510.9	518.5	536.1	3.7[4]
Problem Loans / Gross Loans (%)	0.4	1.0	0.5	0.5	0.2	0.5[5]
Tangible Common Equity / Risk Weighted Assets (%)	20.0	19.5	18.9	18.9	19.6	19.4[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	7.8	17.6	9.6	8.3	3.3	9.3[5]
Net Interest Margin (%)	1.1	1.1	1.0	0.9	1.0	1.0[5]
PPI / Average RWA (%)	2.2	2.1	1.7	1.2	1.3	1.7[6]
Net Income / Tangible Assets (%)	0.4	0.4	0.3	0.3	0.3	0.3[5]
Cost / Income Ratio (%)	55.5	57.2	62.7	72.8	71.9	64.0[5]
Market Funds / Tangible Banking Assets (%)	26.5	26.8	29.7	27.1	26.0	27.2[5]
Liquid Banking Assets / Tangible Banking Assets (%)	12.1	12.8	12.6	12.5	14.7	12.9[5]
Gross Loans / Due to Customers (%)	197.6	190.1	209.9	187.9	174.8	192.1[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 because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.

Sources: Moody's Ratings and company filings

Profile

Skandiabanken is a bank based in Stockholm that provides retail banking products and services, as well as mutual funds and equity trading in Sweden. The bank does not have any branches of its own, but offers its banking services through the branch network of the wider Skandia Group. As of September 2024, Skandiabanken held a consolidated asset base of SEK126.1 billion (€11.2 billion) and a market share of almost 3% in the Swedish mortgage market.

Detailed credit considerations

A monoline standalone franchise with growing importance in the wider Skandia Group

On 30 September 2020, Skandiabanken's ownership was transferred to the ultimate parent in the group, Skandia Liv, a leading Swedish life insurer, from Skandia Insurance Company Ltd (SICL).

Skandiabanken focuses on mortgage lending and aims to grow its fees and commissions by increasing the volume 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. We consider it a monoline business focused on mortgages, with earnings being highly dependent on interest income from its retail segment, which represented around 87% of its operating income in H1 2024. This structural dependence results in a one-notch qualitative downward adjustment to the bank's BCA for (the lack of) Business Diversification, an adjustment shared with most Swedish mortgage lenders.

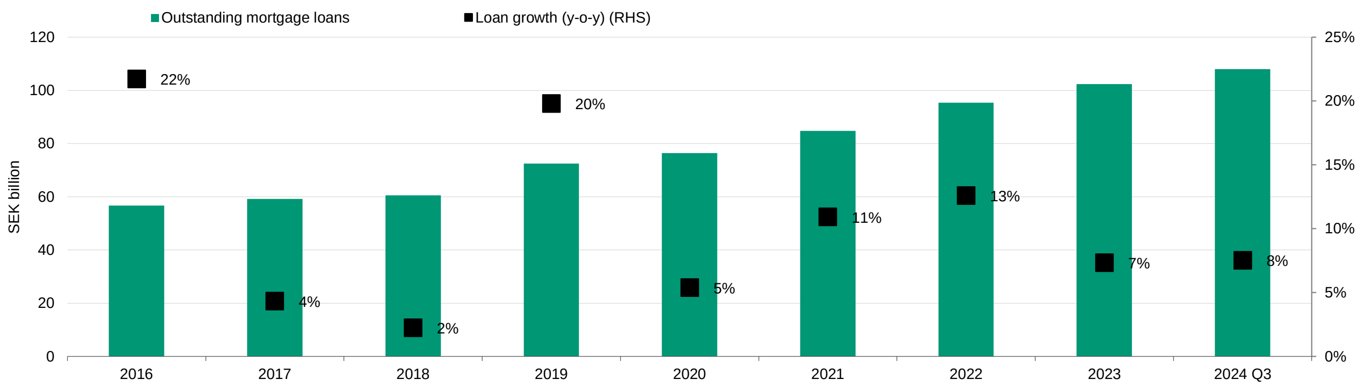
Starting in 2018, the bank started targeting Skandia group's customers offering rebates for occupational insurance clients. This strategy gathered significant interest and Skandiabanken's lending increased significantly in the past few years (with the exception when loan growth slowed to 5.4% in 2020).

Very strong asset quality reflecting low risk mortgage lending, with historically high lending growth

Our aa3 Asset Risk score reflects Skandiabanken's low problem loan ratio, which is in line most of the bank's Swedish mortgage lenders peer group. Our assigned score incorporates a one-notch negative adjustment to reflect Skandiabanken's significant lending growth over the last few years, resulting from the strategic plan to increase the bank's market share and size.

Skandiabanken's mortgage loan book grew to SEK107.6 billion as of September 2024, from SEK102.0 billion at year-end 2023, equivalent to a 5.5% increase, because of efforts to increase visibility, shorten processing times and answering calls more diligently. A higher loan book provides better conditions for the bank to improve its economies of scale, thus improving efficiency. Skandiabanken aims to sustain its mortgage lending growth by offering its customers a transparent pricing model and rates that are among the lowest in the market. By increasing cross-selling to Skandia group's clients with low LTVs, the bank is able to grow while maintaining prudent asset quality metrics.

Exhibit 3
Skandiabanken's mortgage loan growth was 8% year over year as of September 2024
Outstanding mortgage loans

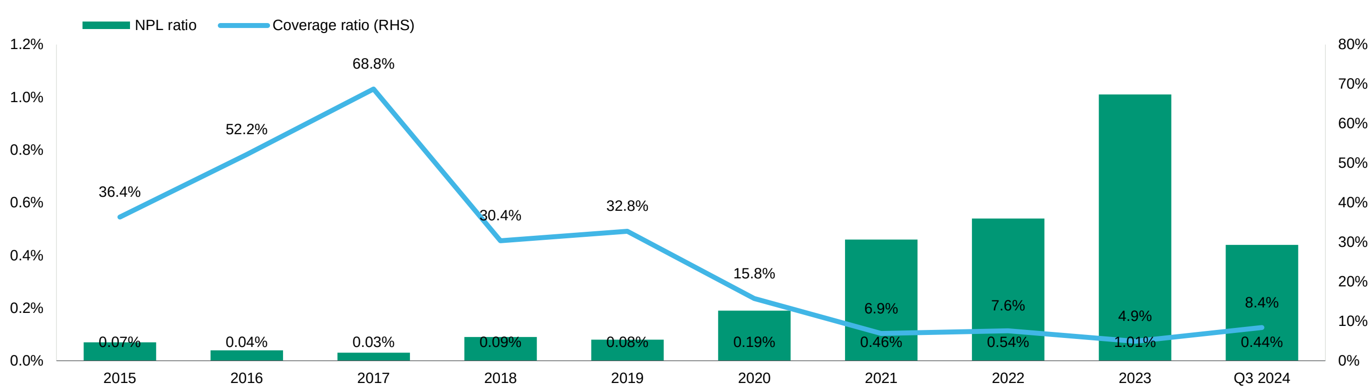


Source: Moody's Ratings

As of September 2024, Skandiabanken's problem loan ratio was 0.44%, an improvement from 1.01% at year-end 2023. In Q2 2024, Skandiabanken revised its criteria for credit-impaired loans. Previously, all loans with amortisation relief were automatically classified as stage 3. Under its current approach, only loans where the borrower is financially troubled are considered impaired, in line with IFRS 9 standards. This change aligns Skandiabanken's classification with other Swedish mortgage banks and makes its problem loan ratio comparable to peers.[1]

Skandiabanken's loan book consists almost entirely of mortgages, 97.4% of total lending as of September 2024. Skandiabanken's loan loss provisions/gross loans remained low at 0.00% as of September 2024 compared with 0.02% as of year-end 2023.

Exhibit 4
Asset quality evolution



Sources: Bank's disclosures, Moody's Ratings

The LTV ratio of the bank's mortgage portfolio (exposure-weighted) stood at a low around 53% as of September 2024. The bank implemented stricter underwriting standards by introducing caps on the debt-to-income ratio in 2016 and higher stressed interest rates in its loan approval process in 2017. The bank's current underwriting standards are aligned with those of its peers.

Strong capitalisation supported by parent's capital injections

We view Skandiabanken's capitalisation as strong, given its business model, which is focused on low risk mortgage lending.
Our aa3 assigned Capital score reflects the bank's strong capitalisation, but also the high leverage, which results in a one notch

negative adjustment. The relatively weak internal capital generation is partly mitigated by the parent having a history of supporting Skandiabanken through direct capital injections (2014, 2015 and 2022). In June 2022, the bank received a shareholder contribution from the parent of SEK250 million to support future growth in mortgage lending.

Since March 2018, Skandiabanken applies the internal ratings-based (IRB) approach for exposures with collateral in real estate. The bank's Common Equity Tier 1 (CET) capital includes the 25% mortgage risk weight floor in Pillar I. As of September 2024, the bank reported a CET1 capital ratio of 18.5%, down from 19.2% as of year-end 2023, mainly due to growth in their mortgage portfolio which have had a slight adverse effect on CET1 ratio. Skandiabanken's tangible common equity/total tangible assets was 4.9% as of September 2024, and we therefore apply a negative adjustment due to the leverage ratio being below 5%.

Profitability is weaker than peers due to moderate efficiency, but improving

The ba1 Profitability score balances Skandiabanken's weaker than peer profitability, with net income to tangible assets of 0.4% as of September 2024, and the low risk mortgage portfolio reducing the need for high loan loss provisions, which results in a one-notch positive adjustment. Profitability is gradually improving, resulting primarily from higher net interest income and growing business volumes. We expect profitability to be stable over the next 12-18 months due to lower interest rates, mitigated by growing business volumes.

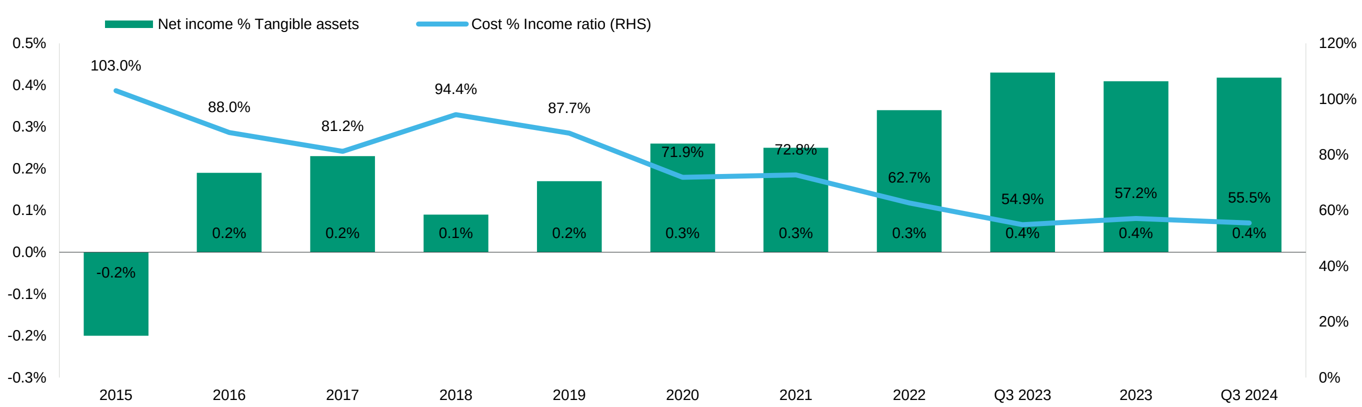
Skandiabanken's profitability increased slightly during the third quarter of 2024 with Moody's adjusted net income reaching SEK395 million compared to SEK371 million for the same period in 2023. The improvement was mainly related to an increase in net interest income, because of higher mortgage volumes and higher rates. In the same periods, the bank's other income streams remained broadly stable and costs increased moderately by 5%.

As a result, the bank's cost efficiency improved in the first nine months of 2024 with a cost to income ratio of 56% (see Exhibit 5), and is gradually approaching its Swedish peers, who report an average cost-to-income ratio around 48%. We expect Skandiabanken's cost-to-income ratio to continue improving due to higher lending volumes leading to better economies of scale.

Exhibit 5

Skandiabanken is gradually improving its efficiency

Evolution of profitability metrics



Sources: Bank's disclosures, Moody's Ratings

A retail-based funding profile and adequate liquidity

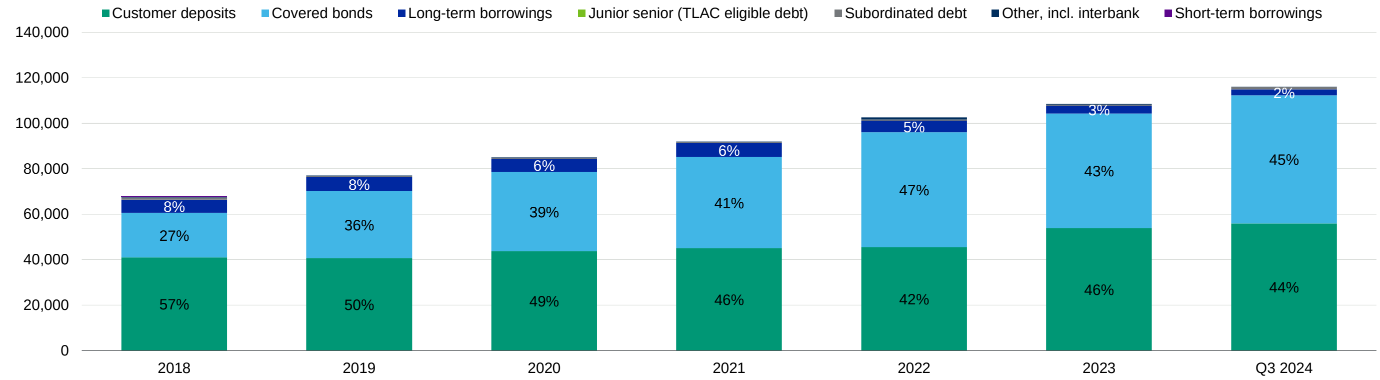
The a3 Funding Structure score captures Skandiabanken's high proportion of retail deposits and our expectation of an increase in the bank's reliance on wholesale funding to support balance-sheet growth. This reliance is, however, mitigated by the fact that most of the issuances will be in SEK denominated covered bonds, which benefit from the ability to tap the market gradually and a large domestic investor base. We reflect the strong liquidity in the Swedish covered bond market by making a two-notch positive adjustment for covered bonds denominated in local currency for Swedish banks.

The bank's retail deposits amounted to SEK56 billion as of September 2024, or 47% of total funding. Most of these retail deposits are internet based because the bank does not have its own branch network and we consider these to be more price and confidence sensitive than deposits sourced through branches. Skandiabanken's loan-to-deposit ratio was 198% as of September 2024, compared with 190% as of year-end 2023. Skandiabanken's funding as of end of September 2024 included issued debt securities of SEK56.4 billion in covered bonds, SEK2.1 billion of senior unsecured funding and SEK2.5 billion senior non-preferred (SNP) debt as well as internally issued to the parent SEK0.5 billion SNP debt and SEK0.5 billion of subordinated debt.

Exhibit 6

Skandiabanken's reliance on market funding is mitigated by liquidity of SEK denominated covered bonds

Funding sources as % of tangible banking assets



Source: Bank's disclosures, Moody's Ratings

On 31 December 2019, Skandiabanken took a SEK500 million subordinated loan from its owner, Skandia Liv. This loan is eligible for bail-in and can therefore be counted towards fulfilling the bank's minimum requirements for own funds and eligible liabilities (MREL). The updated MREL decisions based on the EU Bank Recovery and Resolution Directive (BRRD2), were announced in December 2023[2] and the updated subordination requirement did not change the senior non preferred (SNP) needs compared to the previous Swedish requirements.

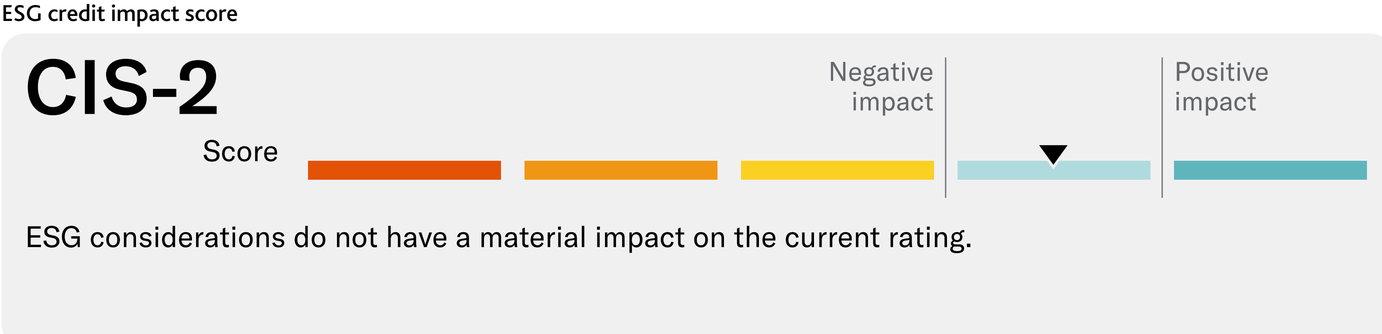
The bank's liquidity portfolio of SEK17.5 billion per end of September 2024 consisted mainly of cash and balances with central banks, highly rated government securities and secured and unsecured debt issued by financial institutions, mostly in the Nordics. Skandiabanken reported a liquidity coverage ratio of 279%. Skandiabanken's stock of liquid assets is captured by our ba1 assigned Liquid Resources score, with a liquid resources to tangible banking assets ratio of 12.8% as of December 2023.

ESG considerations

Skandiabanken AB's ESG credit impact score is CIS-2

Exhibit 7

ESG credit impact score

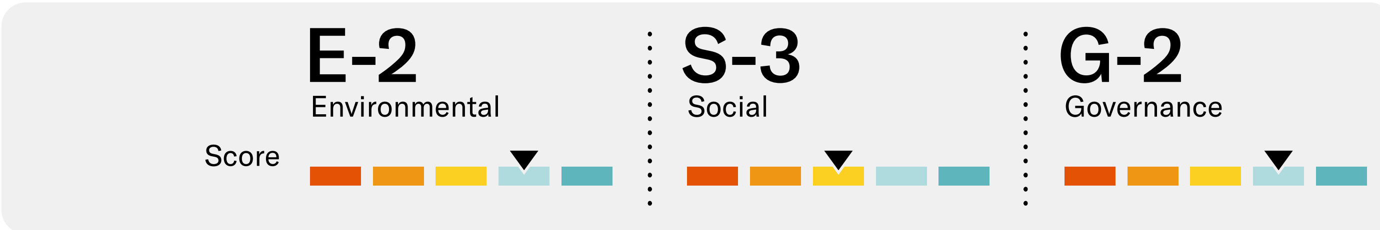


Source: Moody's Ratings

Skandiabanken's **CIS-2** indicates that ESG considerations have limited impact on the ratings.

Exhibit 8

ESG issuer profile scores



Source: Moody's Ratings

Environmental

Skandiabanken faces low environmental risks, specifically in relation to carbon transition risks. This is because of the structure of its loan book, which is almost exclusively composed of mortgages.

Social

As a retail bank with focus on servicing private individuals, Skandiabanken faces social risks particularly related to customer relations risk and associated regulatory and litigation risks, requiring high compliance standards. These risks are mitigated by the bank's developed policies and procedures. High cyber and personal data risks are mitigated by the bank's IT framework.

Governance

Skandiabanken is wholly owned by the mutual insurance company Skandia, and the low risk of governance failures reflects the strong governance within the group. Corporate governance remains a key credit consideration and requires ongoing monitoring, but we currently do not have any governance related concerns for Skandiabanken.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Support and structural considerations

Affiliate support

The a3 Adjusted BCA incorporates our assessment of a very high probability of support from the bank's parent Skandia Liv, in the event of need. We use A3 as an anchor rating for Skandia Liv, which is one notch below its Insurance Financial Strength Rating of A2, because any potential support to its subsidiaries will be subordinated to the claims of its own policyholders. The Skandia insurance group has a history of supporting Skandiabanken through direct capital injections, with SEK250 million in 2022, SEK1.7 billion in 2015 and SEK981 million in 2014.

Loss Given Failure (LGF) analysis

We apply our Advanced LGF analysis to Skandiabanken because the bank operates in Sweden, which we consider an operational resolution regime. For this analysis, we assume that equity and losses are 3% and 8%, respectively, of tangible banking assets in a failure scenario. We also assume a 25% runoff in junior wholesale deposits and a 5% runoff 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 buffer of outstanding junior deposits, senior unsecured debt and senior non-preferred debt provides a loss-absorption buffer in case of failure, which under our Advanced LGF Analysis indicates a low loss rate given failure for the bank's junior deposits and senior creditors, resulting in a one-notch uplift from the bank's a3 Adjusted BCA.

Government support considerations

Because of the relatively small size of its retail operations, we assume a low probability of government support for Skandiabanken's depositors.

About Moody's Bank Scorecard

Our Bank Scorecard is designed to capture, express and explain in summary form our Rating Committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment is expressed. As a result, the output of our scorecard may materially differ from that suggested by unadjusted accounting data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating methodology and scorecard factors

Exhibit 9

Rating Factors

Macro Factors		
Weighted Macro Profile	**Strong +**	**100%**

Factor	**Historic Ratio**	**Initial Score**	**Expected Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency						
Asset Risk						
Problem Loans / Gross Loans	0.6%	aa2	↑	aa3	Loan growth	Sector concentration
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	20.0%	aa2	↔	aa3	Nominal leverage	
Profitability						
Net Income / Tangible Assets	0.4%	ba2	↔	ba1	Earnings quality	
Combined Solvency Score		a1		a2		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	26.8%	baa2	↔	a3	Market funding quality	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	12.8%	ba1	↔	ba1	Stock of liquid assets	
Combined Liquidity Score		baa3		baa2		
Financial Profile				a3		
Qualitative Adjustments				Adjustment		
Business Diversification				-1		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				-1		
Sovereign or Affiliate constraint				Aaa		
BCA Scorecard-indicated Outcome - Range				a3 - baa2		
Assigned BCA				baa1		
Affiliate Support notching				1		
Adjusted BCA				a3		

Balance Sheet	**in-scope (SEK Million)**	**% in-scope**	**at-failure (SEK Million)**	**% at-failure**
Other liabilities	60,838	48.2%	64,753	51.4%
Deposits	55,926	44.4%	52,011	41.2%
Preferred deposits	50,333	39.9%	47,817	37.9%
Junior deposits	5,593	4.4%	4,194	3.3%
Senior unsecured bank debt	2,050	1.6%	2,050	1.6%
Junior senior unsecured bank debt	3,000	2.4%	3,000	2.4%
Dated subordinated bank debt	500	0.4%	500	0.4%
Equity	3,783	3.0%	3,783	3.0%
Total Tangible Banking Assets	126,097	100.0%	126,097	100.0%

Debt Class	De Jure waterfall		De Facto waterfall		Notching		LGF Notching Guidance vs. Adjusted 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 Rating	10.7%	10.7%	10.7%	10.7%	2	2	2	2	0	a1
Counterparty Risk Assessment	10.7%	10.7%	10.7%	10.7%	3	3	3	3	0	aa3 (cr)
Deposits	10.7%	5.8%	10.7%	7.4%	1	1	1	1	0	a2
Senior unsecured bank debt	10.7%	5.8%	7.4%	5.8%	1	0	1	-	-	-

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Rating	2	0	a1	0	A1	A1
Counterparty Risk Assessment	3	0	aa3 (cr)	0	Aa3(cr)	
Deposits	1	0	a2	0	A2	A2
Senior unsecured bank debt	-	-	-	0	A2	A2

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
Source: Moody's Ratings

Ratings

Exhibit 10

Category	Moody's Rating
SKANDIABANKEN AB	
Outlook	Stable
Counterparty Risk Rating	A1/P-1
Bank Deposits	A2/P-1
Baseline Credit Assessment	baa1
Adjusted Baseline Credit Assessment	a3
Counterparty Risk Assessment	Aa3(cr)/P-1(cr)
Issuer Rating	A2
PARENT: SKANDIA INSURANCE COMPANY LTD.	
Outlook	Stable
Insurance Financial Strength	A2

Source: Moody's Ratings

Endnotes

1 After the temporary amortisation relief ended on 1 September 2021, some customers received extensions, and these loans were classified as credit-impaired (stage 3) until Q2 2024. The problem loan ratio has risen since year-end 2020.

2 Decisions on resolution plans and MREL, Swedish National Debt Office

REPORT NUMBER 1420708