MOODY'S INVESTORS SERVICE

CREDIT OPINION
23 November 2023

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

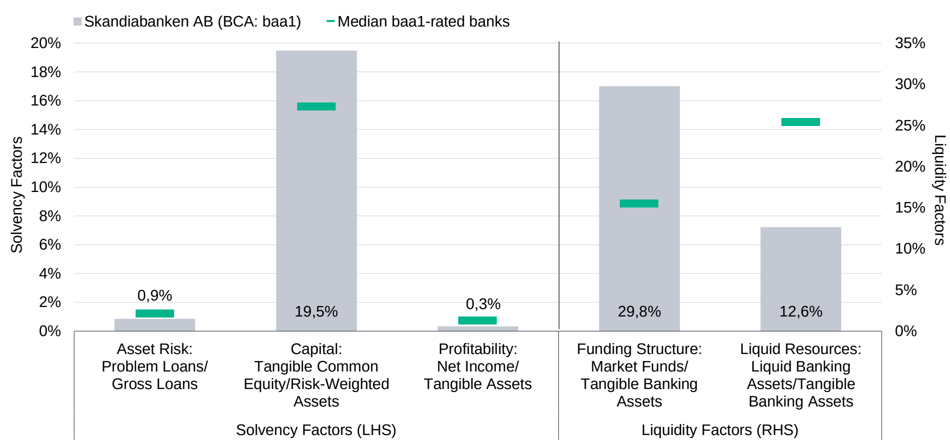
Update following affirmation of ratings

Summary

Skandiabanken AB (Skandiabanken) A2 long-term deposit ratings, with a stable outlook, reflect the bank's baa1 Baseline Credit Assessment (BCA), a one-notch rating uplift based on our very high assumption of affiliate support from the bank's parent, Livförsäkringsbolaget Skandia, ömsesidigt (Skandia Liv, A2 stable), and a one-notch of rating uplift as a result of the application of our Advanced Loss Given Failure (LGF) analysis, which follows our view that the bank's junior depositors face a low unexpected Loss Given Failure.

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 Investors Service

Credit strengths

» Very strong asset quality

» Strong capitalisation

» Very high support from Skandia group

Credit challenges

» Historically high lending growth

» Lower-than-peer efficiency and weak profitability, albeit gradually improving

Outlook

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

Factors that could lead to an upgrade

An upgrade to the rating of Skandia Liv could result in higher ratings on the bank. 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 a change in our assessment of the probability of parental support would result in a lower Adjusted BCA.

Although we consider this less likely, 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]

	09-23[2]	12-22[2]	12-21[2]	12-20[2]	12-19[2]	CAGR/Avg.[3]
Total Assets (SEK Million)	115,623.0	108,647.0	97,074.0	89,934.0	81,707.0	9.7[4]
Total Assets (USD Million)	10,642.6	10,427.3	10,730.0	10,950.8	8,728.4	5.4[4]
Tangible Common Equity (SEK Million)	5,707.0	5,323.0	4,691.0	4,403.0	4,150.0	8.9[4]
Tangible Common Equity (USD Million)	525.3	510.9	518.5	536.1	443.3	4.6[4]
Problem Loans / Gross Loans (%)	0.9	0.5	0.5	0.2	0.1	0.4[5]
Tangible Common Equity / Risk Weighted Assets (%)	19.5	18.9	18.9	19.6	19.7	19.3[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	14.9	9.6	8.3	3.3	1.4	7.5[5]
Net Interest Margin (%)	1.1	1.0	0.9	1.0	1.0	1.0[5]
PPI / Average RWA (%)	2.3	1.7	1.2	1.3	0.5	1.4[6]
Net Income / Tangible Assets (%)	0.4	0.3	0.3	0.3	0.2	0.3[5]
Cost / Income Ratio (%)	54.9	62.7	72.8	71.9	87.7	70.0[5]
Market Funds / Tangible Banking Assets (%)	27.6	29.7	27.1	26.0	25.8	27.2[5]
Liquid Banking Assets / Tangible Banking Assets (%)	13.4	12.6	12.5	14.7	12.4	13.1[5]
Gross Loans / Due to Customers (%)	196.8	209.9	187.9	174.8	175.3	189.0[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 Investors Service 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 2023, Skandiabanken held a consolidated asset base of SEK115.6 billion (€10.0 billion) and a market share of almost 3% in the Swedish mortgage market.

Detailed credit considerations

A limited 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 Q3 2023. 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). As of September 2023 Skandiabanken reached SEK100.1 billion in mortgages, which provides better conditions for the bank to improve its economies of scale, thus improving efficiency.

Strong asset quality reflecting low risk mortgage lending

Steeply rising mortgage interest rates will raise debt service costs for borrowers going forward [1]. However, we expect the deterioration to be manageable and that Skandiabanken's asset quality will be broadly resilient.

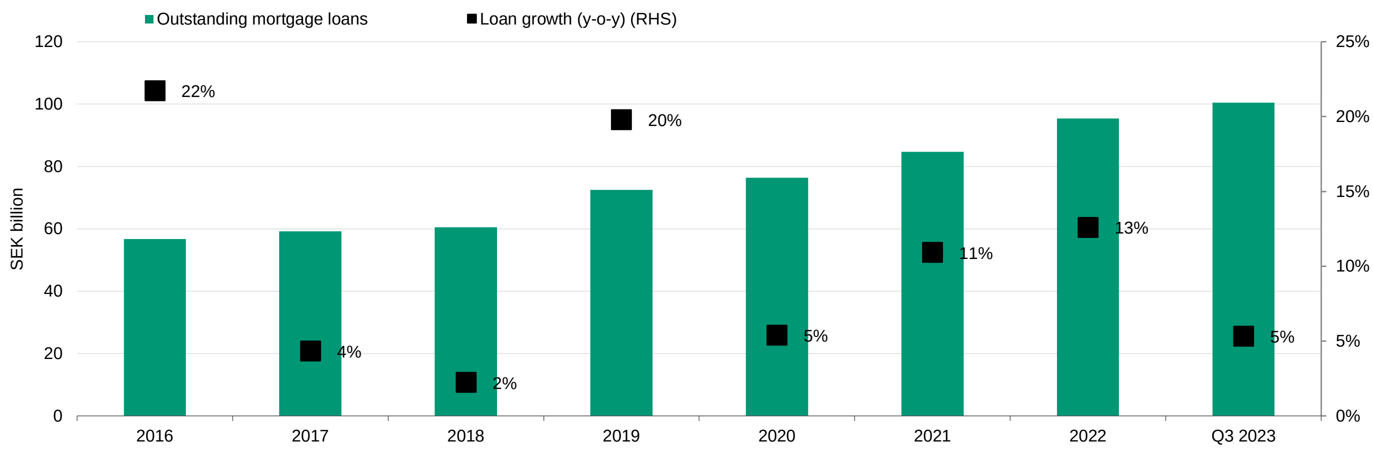
Our a1 Asset Risk score reflects Skandiabanken's low problem loan ratio, largely in line with that of its Swedish mortgage lenders peer group, balanced against its significant lending growth over the last few years, resulting from the strategic plan to increase the bank's market share and size.

Skandiabanken's mortgage loan book grew to SEK100.1 billion as of September 2023, from SEK95.0 billion at year-end 2022, equivalent to a 5.4% increase, because of efforts to increase visibility, shorten processing times and answering calls more diligently. 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 5% year over year as of September 2023

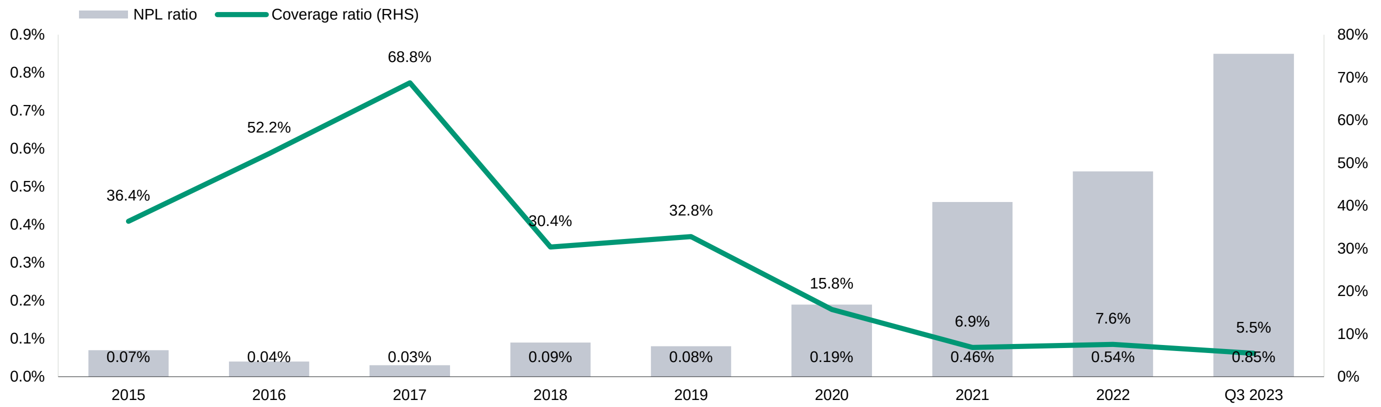
Outstanding mortgage loans



Source: Moody's Investors Service

Skandiabanken's problem loan ratio was 0.85% as of September 2023, having risen steadily since year end 2020 when it was at 0.19%. After 1 September 2021, when the temporary amortisation relief introduced by Swedish FSA during the pandemic ended, a number of Skandiabanken's customers were granted extensions of the temporary repayment exemption. These customers are classified as stage 3, although Skandiabanken expects them to continue servicing their mortgages according to plan. Skandiabanken's level of problem loans is now moderately higher than domestic mortgage lenders, but considerably lower than most European peers. The bank updated its definition of probability of default in fourth quarter 2020, which resulted in an increase in the number of loans in stage 3. Skandiabanken considers that these additional loans have sound collateral and hence a low need for provisions, leading to a reduction in the reserve ratio for stage 3. Skandiabanken's loan book consists almost entirely of mortgages, 99.7% of total lending as of September 2023. Skandiabanken's loan loss provisions/gross loans remained low at 0.02% as of September 2023 compared with 0.02% as of year-end 2022.

Exhibit 4
Asset quality evolution



Sources: Bank's disclosures, Moody's Investors Service

The LTV ratio of the bank's mortgage portfolio (exposure-weighted) stood at a low around 54% as of September 2023. 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.

High capitalisation, benefitting from affiliate support from its insurance parent

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. 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.

As of March 2018, Skandiabanken received approval from the SFSA to apply 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 2023, the bank reported a CET1 capital ratio of 18.8%, up from 18.6% as of year-end 2022, due to strong earnings generation. Skandiabanken's tangible common equity/total tangible assets was 4.9% as of September 2023, and we therefore apply a negative adjustment due to the leverage ratio being below 5%.

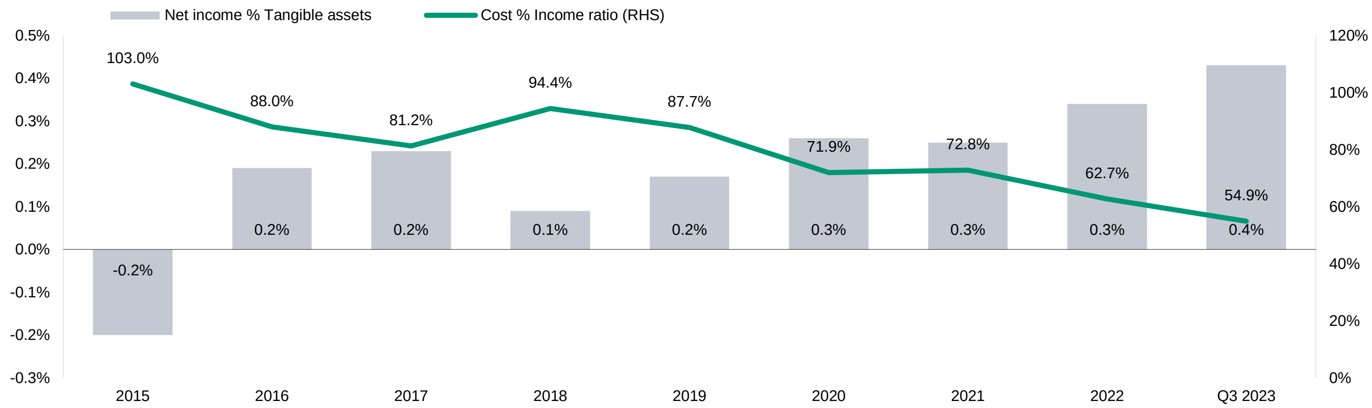
Gradual improvement in profitability due to cost efficiency measures and increased business volumes

The ba2 Profitability score reflects Skandiabanken's weaker-than-peer profitability, with net income to tangible assets of 0.3% as of September 2023, resulting primarily from higher net interest income and growing business volumes. We expect profitability to be slightly higher over the next 12-18 months due to the higher for longer interest rate environment, and continued cost control efforts. At the same time, we acknowledge that Skandiabanken follows a more aggressive pricing strategy in an intense competitive landscape for Swedish mortgage lenders and has relatively low efficiency. We expect profitability to gradually improve over the next 12-18 months due to continued growing business volumes.

Skandiabanken's profitability increased substantially during the third quarter of 2023 with Moody's adjusted net income reaching SEK371 million compared to SEK252 million for the same period in 2022. 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 8%.

As a result, the bank's cost efficiency improved in the first nine months of 2023 with a cost to income ratio of 55% (see Exhibit 5), from very weak historical levels compared to most Swedish peers, who report a weighted average cost-to-income ratio below 45%. We expect Skandiabanken to maintain its internal cost-to-income ratio target of 60% through higher lending volumes leading to better economies of scale.

Exhibit 5
Skandiabanken is gradually improving its efficiency
Evolution of profitability metrics



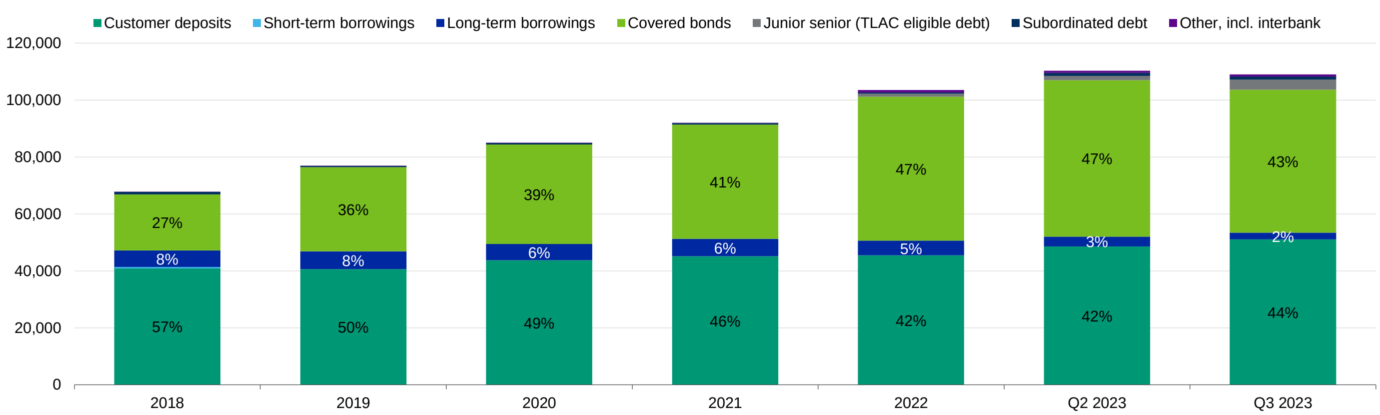
Sources: Bank's disclosures, Moody's Investors Service

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 issuance will be in SEK denominated covered bonds, which we consider more resilient than most other covered bonds as they benefit from a large domestic investor base. We reflect this feature by making an additional positive adjustment for covered bonds denominated in local currency for all Swedish banks.

The bank's retail deposits were SEK51 billion as of September 2023, or 44% 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 197% as of September 2023, compared with 210% as of year-end 2022. Skandiabanken's funding as of end of September 2023 included issued debt securities of SEK50.2 billion in covered bonds, SEK4.0 billion of senior unsecured funding and SEK2.0 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
Total funding breakdown



Sources: Bank's disclosures, Moody's Investors Service

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 bank intends to continue to issue senior non-preferred debt to fulfil its subordination requirements ahead of the deadline on 1 January 2024. The updated MREL decisions based on the EU Bank Recovery and Resolution Directive (BRRD2), were announced in

December 2021[2], and the updated subordination requirement resulted in lower senior nonpreferred (SNP) needs compared to the previous Swedish requirements.

The bank's liquid resources/tangible banking assets was 13.4% as of September 2023, and its reported liquidity reserves were SEK15.0 billion. 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 in the Nordics. Skandiabanken reported a liquidity coverage ratio of 242% as of September 2023. Skandiabanken's liquidity is adequate as captured by our ba1 assigned Liquid Resources score.

Source of facts and figures cited in this report

Bank-specific figures originate from the banks' reports and Moody's Banking Financial Metrics. All figures are based on our own chart of accounts and may be adjusted for analytical purposes. Please refer to the document Financial Statement Adjustments in the Analysis of Financial Institutions, published on 9 August 2018.

ESG considerations

Skandiabanken AB's ESG Credit Impact Score is Neutral-to-Low CIS-2

Exhibit 7
ESG Credit Impact Score

CIS-2
Neutral-to-Low

NEGATIVE IMPACT
POSITIVE IMPACT

For an issuer scored CIS-2 (Neutral-to-Low), its ESG attributes are overall considered as having a neutral-to-low impact on the current rating; i.e., the overall influence of these attributes on the rating is non-material.

Source: Moody's Investors Service

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

Exhibit 8
ESG Issuer Profile Scores

ENVIRONMENTAL	SOCIAL	GOVERNANCE
E-2	S-4	G-2
Neutral-to-Low	Highly Negative	Neutral-to-Low

Source: Moody's Investors Service

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 high industrywide 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.

As a Swedish retail bank, Skandiabanken has high exposure to customer relations risks. Data security and customer privacy are critical for retail banks because they access large amounts of personal data. Fines and reputational damage as a result of product mis-selling, misrepresentation and other types of misconduct are also key social risks. Continued investments in technology and the company's track record of handling sensitive customer data, as well as appropriate culture and governance and compliance functions that ensure adherence to regulatory standards, help to manage the associated credit risk.

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 as the bank is subject to the EU BRRD, 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 and senior unsecured debt provides a loss-absorption buffer in case of failure, and our Advanced LGF Analysis indicates a low loss rate given failure for the bank's junior deposits, resulting in a one-notch uplift from the bank's a3 Adjusted BCA.

Skandiabanken is subject to MREL requirements, and we expect Skandiabanken to issue junior senior debt in order to meet its subordination requirements. We include this additional loss absorbing capacity in our LGF analysis of Skandiabanken.

Government support considerations

Because of the relatively small size of its retail operations, we assume a low probability of government support for Skandiabanken's long-term deposit ratings.

Counterparty Risk (CR) Assessment

Skandiabanken's CR Assessment is Aa3(cr)/P-1(cr)

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

Counterparty Risk Ratings (CRRs)

Skandiabanken's CRR is A1/P-1

The CRRs are positioned two notches above Skandiabanken's Adjusted BCA of a3, reflecting very low loss given failure from the high volume of instruments that are subordinated to CRR liabilities.

Rating methodology and scorecard factors

Exhibit 9
Skandiabanken AB

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	0,9%	aa2	↔	a1		
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	19,5%	aa2	↔	aa3		
Profitability						
Net Income / Tangible Assets	0,3%	ba2	↔	ba1		
Combined Solvency Score		a1		a2		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	29,7%	baa2	↔	a3		
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	12,6%	ba1	↔	ba1		
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				-		
Adjusted BCA				a3		

Balance Sheet	**in-scope (SEK Million)**	**% in-scope**	**at-failure (SEK Million)**	**% at-failure**
Other liabilities	54 640	47,3%	58 213	50,4%
Deposits	51 040	44,2%	47 467	41,1%
Preferred deposits	45 936	39,7%	43 639	37,8%
Junior deposits	5 104	4,4%	3 828	3,3%
Senior unsecured bank debt	3 950	3,4%	3 950	3,4%
Junior senior unsecured bank debt	2 000	1,7%	2 000	1,7%
Dated subordinated bank debt	500	0,4%	500	0,4%
Equity	3 468	3,0%	3 468	3,0%
Total Tangible Banking Assets	115 598	100,0%	115 598	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	11,9%	11,9%	11,9%	11,9%	2	2	2	2	0	a1
Counterparty Risk Assessment	11,9%	11,9%	11,9%	11,9%	3	3	3	3	0	aa3 (cr)
Deposits	11,9%	5,2%	11,9%	8,6%	1	1	1	1	0	a2
Senior unsecured bank debt	11,9%	5,2%	8,6%	5,2%	1	0	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 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	1	0	a2	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 Investors Service

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 Investors Service

Endnotes

1 See Higher central bank rates are credit positive for banks, but asset risks are building, published 22 September 2022

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

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