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Norway-Based Eiendomskreditt Mortgage Covered Bond Ratings Affirmed At 'AA+'; Outlook Negative

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OVERVIEW

- As part of our ongoing surveillance, we have reviewed the performance of Eiendomskreditt AS' commercial mortgage covered bond program and related issuances.
- The program's available credit enhancement and features remain commensurate with the currently assigned ratings.
- We are therefore affirming our 'AA+' ratings on the program and its related issuances.
- The negative outlook reflects that on the issuer credit rating.

LONDON (Standard & Poor's) April 4, 2016--Standard & Poor's Ratings Services said today that it has affirmed its 'AA+' ratings on the mortgage covered bonds issued by Norway-based Eiendomskreditt AS (BBB/Negative/A-2). The outlook on the ratings is negative.

The affirmation follows our scheduled review of Eiendomskreditt's commercial mortgage covered bonds under our criteria in "Covered Bonds Criteria," published Dec. 9, 2014, on RatingsDirect.

Under our covered bonds criteria, we organize the analytical process for rating covered bonds into four key stages:

- Performing an initial analysis of issuer-specific factors--legal and regulatory risks and operational and administrative risks--which mainly

assess whether a rating on the covered bond may be higher than the rating on the issuer.

- Assessing the starting point for the rating analysis, based on the applicable resolution regimes, to determine the reference rating level (RRL).
- Determining the maximum achievable covered bond rating from an analysis of jurisdictional and cover-pool-specific factors.
- Combining the results of the above and incorporating 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. We assess the expected jurisdictional support for mortgage covered bond programs in Norway as very strong (see "Assessments For Jurisdictional Support According To Our Covered Bonds Criteria," published on Dec. 22, 2015). Under our covered bonds criteria, the 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 for 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.

When applicable, we cap our ratings on mortgage covered bond programs according to our criteria for rating single-jurisdiction securitizations above the sovereign foreign currency rating. Given the ratings on Norway (AAA/Stable/A-1+), sovereign risk does not limit the current ratings on the covered bonds (see "Methodology And Assumptions For Ratings Above The Sovereign--Single-Jurisdiction Structured Finance," published on May 29, 2015).

The ratings on the covered bonds are not constrained by legal, operational, or counterparty risks.

The 'AA+' ratings reflect our RRL of 'bbb' and JRL of 'a' for the covered bonds, as well as the coverage of 'AAA' credit risk and 100% of refinancing risk. In this case, the issuer credit rating acts as a floor for the RRL, since Norway has not implemented a resolution regime that exempts covered bonds from bail in. Although we expect Norway will eventually implement legislation similar to the EU's Bank Recovery and Resolution Directive (BRRD), it remains unclear how the implementation will differ from the BRRD, and whether such differences may affect our reference rating analysis. Due to these uncertainties, our analysis does not give credit for the eventual adoption of a resolution regime. The covered bonds are able to achieve the full collateral-based uplift of four notches because liquidity is covered through a one-year extendable maturity date (soft bullet) and the issuer has

made a commitment to maintaining a level of overcollateralization commensurate with the rating, as stated on its website.

The negative outlook on the covered bond ratings reflects the outlook on the issuer.

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
- Methodology And Assumptions For Analyzing Mortgage Collateral In Finnish And Norwegian Covered Bonds, Dec. 10, 2014
- 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 Analysis In Covered Bonds, Dec. 21, 2015
- Methodology: Credit Stability Criteria, May 3, 2010
- Understanding Standard & Poor's Ratings Definitions, June 3, 2009

Related Research

- 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
- Credit Rating Model: Covered Bond Monitor, June 26, 2015
- Norway 'AAA/A-1+' Ratings Affirmed On Wealthy Economy And Strong Financial Standing; Outlook Stable, April 24, 2015

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