

Ratings Raised To 'AAA' On Eiendoms kreditt's Mortgage Covered Bonds After BRRD Enters Into Force In Norway

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OVERVIEW

- On Jan. 1, 2019, the Bank Recovery And Resolution Directive (BRRD) became effective in Norway.
- The law exempts covered bonds from bail-in, which under our criteria results in two additional notches of uplift from the adjusted ICR on the issuing bank for covered bonds issued in Norway.
- As a result, we have raised to 'AAA' from 'AA+' our ratings on the program and related issuances. Our outlook on the ratings is stable.

MADRID (S&P Global Ratings) Jan. 2, 2019--S&P Global Ratings today raised to 'AAA' from 'AA+' its credit ratings on the commercial mortgage covered bonds ("Obligasjoner Med Fortrinnsrett") issued by Norwegian Eiendoms kreditt AS (BBB/Negative/A-2). Our outlook on the ratings is stable.

On Jan. 1, 2019, directive 2014/59/EU (the Bank Recovery And Resolution Directive [BRRD]) became effective in Norway. Our covered bonds criteria recognize that the BRRD allows an issuer to service its covered bonds following a bail-in of its senior unsecured obligations. This means that a bank facing failure may continue to make payments on its covered bonds once resolved without accessing the cover pool.

As a result, we have added two notches above the adjusted issuer credit rating (ICR) on Eiendomskreditt--adjusted by removing any uplift allocated to reflect extraordinary government support to the issuer--to reflect the increased probability that the issuer can service its covered bonds. Consequently, we have assessed the reference rating level (RRL) as 'a-', up from 'bbb' before the directive's implementation (two notches above the 'bbb' adjusted ICR on the issuer).

Given our very strong jurisdictional assessment of mortgage covered bonds in Norway, we can assign up to three notches of jurisdictional uplift above the RRL, provided that the long-term sovereign foreign currency rating on Norway does not limit the uplift (see "Assessments For Jurisdictional Support According To Our Covered Bonds Criteria," published on Oct. 16, 2018). As our long-term sovereign rating on Norway is 'AAA', there is no cap from the sovereign and we have assessed the jurisdiction-supported rating level (JRL) on the program at 'aa-' (previously 'a', before the directive's implementation).

The program's available credit enhancement exceeds the target credit enhancement, which means that covered bonds are eligible for up to four notches of collateral-based uplift. We reduce no notches from the potential collateral-based uplift given that overcollateralization is committed and that we consider the soft-bullet structure of the liabilities to cover liquidity risk for 180 days. With the current JRL of 'aa-', the program only requires three notches of uplift to achieve a 'AAA' rating, hence benefitting from one unused notch of uplift.

There are no rating constraints related to counterparty, legal, country, or administrative and operational risks.

As a result, we have raised to 'AAA' from 'AA+' our ratings on the covered bond program and related issuances. The stable outlook reflects the fact that we would not lower our ratings on the covered bonds if we were to lower the rating of the issuer by one notch, all else being equal.

POTENTIAL EFFECTS OF PROPOSED CRITERIA CHANGES

Our ratings are based on our applicable criteria, including our "Covered Bonds Criteria," published on Dec. 9, 2014, "Counterparty Risk Framework Methodology And Assumptions," published on June 25, 2013, "Counterparty Risk Analysis In Covered Bonds," published on Dec. 21, 2015, and "Ratings Above The Sovereign - Structured Finance: Methodology And Assumptions," published on Aug. 8, 2016.

However, these criteria are under review (see "Request For Comment: Methodology For Incorporating The Effect Of Resolution Regimes Into Covered Bond Ratings," published on Jan. 31, 2017, "Request For Comment: Counterparty Risk Framework: Methodology And Assumptions," published on Oct. 9, 2018, and "Request For Comment: Ratings Above The Sovereign - Structured Finance: Methodology And Assumptions," published on Nov. 20, 2018). As a result of

these reviews, we may amend certain paragraphs of our covered bonds criteria and our analysis of counterparty risk in a covered bond program. These changes may affect the ratings on the outstanding covered bonds issued under this covered bond program. Until this time, we will continue to rate and surveil these covered bonds using our existing criteria (see "Related Criteria").

RELATED CRITERIA

- Legal Criteria: Structured Finance: Asset Isolation And Special-Purpose Entity Methodology, March 29, 2017
- Criteria - Structured Finance - General: Ratings Above The Sovereign - Structured Finance: Methodology And Assumptions, Aug. 8, 2016
- Criteria - Structured Finance - Covered Bonds: Counterparty Risk Analysis In Covered Bonds, Dec. 21, 2015
- Criteria - Structured Finance - Covered Bonds: Covered Bond Ratings Framework: Methodology And Assumptions, June 30, 2015
- Criteria - Structured Finance - Covered Bonds: Methodology And Assumptions: Analyzing European Commercial Real Estate Collateral In European Covered Bonds, March 31, 2015
- Criteria - Structured Finance - Covered Bonds: Covered Bonds Criteria, Dec. 9, 2014
- Criteria - Structured Finance - Covered Bonds: Methodology And Assumptions For Assessing Portfolios Of International Public Sector And Other Debt Obligations Backing Covered Bonds And Structured Finance Securities, Dec. 9, 2014
- Criteria - Structured Finance - General: Counterparty Risk Framework Methodology And Assumptions, June 25, 2013
- General Criteria: Methodology: Credit Stability Criteria, May 3, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

RELATED RESEARCH

- Norway's Adoption Of BRRD Resolution Regime Results In Additional Ratings Uplift For Norwegian Covered Bonds, Jan. 2, 2019
- Global Covered Bond Characteristics And Rating Summary Q4 2018, Dec. 12, 2018
- Request For Comment: Ratings Above the Sovereign - Structured Finance: Methodology And Assumptions, Nov. 21, 2018
- Assessments For Target Asset Spreads According To Our Covered Bonds Criteria, Oct. 16, 2018
- Assessments For Jurisdictional Support According To Our Covered Bonds Criteria, Oct. 16, 2018
- Request For Comment: Counterparty Risk Framework: Methodology And Assumptions, Oct. 9, 2018
- Covered Bonds Criteria Guidance, May 2, 2018
- Glossary of Covered Bond Terms, April 27, 2018
- Request For Comment: Methodology For Incorporating The Effect Of Resolution Regimes Into Covered Bond Ratings, Jan. 31, 2017

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