MOODY'S
INVESTORS SERVICE

Rating Action: Moody's upgrades Eika Boligkreditt's mortgage covered bonds

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Madrid, June 06, 2017 -- Moody's Investors Service has upgraded to Aaa from Aa1 the covered bond ratings issued by Eika Boligkreditt (the issuer / LT issuer rating Baa1 stable; counterparty risk (CR) assessment A3(cr)). The covered bonds are predominantly backed by a pool of Norwegian mortgage loans and are governed by the Norwegian covered bond legislation.

RATINGS RATIONALE

Today's rating actions follow Moody's assignment of a Baa1 issuer rating and a Counterparty Risk Assessment (CRA) of A3(cr)/Prime-1(cr) to Eika Boligkreditt AS on 02 June 2017. For further details on the rating actions on Eika Boligkreditt AS, please refer to Moody's press release http://www.moodys.com/viewresearchdoc.aspx?docid=PR_367429.

Following Moody's assignment of the A3(cr) CR Assessment, we now give full value to uncommitted over-collateralisation (OC). The programme holds sufficient uncommitted OC to achieve the new Aaa rating (please see Expected Loss section for more information).

Previously, the Aa1 ratings of the covered bonds were constrained by the level of committed OC.

KEY RATING ASSUMPTIONS/FACTORS

Moody's determines covered bond ratings using a two-step process: an expected loss analysis and a TPI framework analysis.

EXPECTED LOSS: Moody's uses its Covered Bond Model (COBOL) to determine a rating based on the expected loss on the bond. COBOL determines expected loss as (1) a function of the probability that the issuer will cease making payments under the covered bonds (a CB anchor); and (2) the stressed losses on the cover pool assets should the issuer cease making payments under the covered bonds (i.e., a CB anchor event).

The CB anchor for this programme is CR assessment plus one notch. The CR assessment reflects an issuer's ability to avoid defaulting on certain senior bank operating obligations and contractual commitments, including covered bonds. Moody's may use a CB anchor of CR assessment plus one notch in the European Union or otherwise where an operational resolution regime is particularly likely to ensure continuity of covered bond payments.

The cover pool losses for this programme are 10.5%. This is an estimate of the losses Moody's currently models following a CB anchor event. Moody's splits cover pool losses between market risk of 7.2% and collateral risk of 3.4%. Market risk measures losses stemming from refinancing risk and risks related to interest-rate and currency mismatches (these losses may also include certain legal risks). Collateral risk measures losses resulting directly from cover pool assets' credit quality. Moody's derives collateral risk from the collateral score, which for this programme is currently 5.0%.

The over-collateralisation in the cover pool is 8.9%, of which issuer provides 5.0% on a "committed" basis. The minimum OC level consistent with the Aaa rating is 6.0%, of which the issuer should provide 0% in a "committed" form. These numbers show that Moody's is relying on "uncommitted" OC in its expected loss analysis.

For further details on cover pool losses, collateral risk, market risk, collateral score and TPI Leeway across covered bond programmes rated by Moody's please refer to "Moody's Global Covered Bonds Monitoring Overview", published quarterly. All numbers in this section are based on Moody's most recent modelling (based on data, as per Q4 2016).

TPI FRAMEWORK: Moody's assigns a "timely payment indicator" (TPI), which measures the likelihood of timely payments to covered bondholders following a CB anchor event. The TPI framework limits the covered bond rating to a certain number of notches above the CB anchor.

For Eika Boligkreditt's mortgage covered bonds, Moody's has assigned a TPI of High.

Factors that would lead to a downgrade of the ratings:

The CB anchor is the main determinant of a covered bond programme's rating robustness. A change in the level of the CB anchor could lead to a downgrade of the covered bonds. The TPI Leeway measures the number of notches by which Moody's might lower the CB anchor before the rating agency downgrades the covered bonds because of TPI framework constraints.

Based on the current TPI of "High", the TPI Leeway for this programme is two notches. This implies that Moody's might downgrade the covered bonds because of a TPI cap if it lowers the CB anchor by more than two notches all other variables being equal.

A multiple-notch downgrade of the covered bonds might occur in certain circumstances, such as (1) a country ceiling or sovereign downgrade capping a covered bond rating or negatively affecting the CB Anchor and the TPI; (2) a multiple-notch downgrade of the CB Anchor; or (3) a material reduction of the value of the cover pool.

RATING METHODOLOGY

The principal methodology used in these ratings was "Moody's Approach to Rating Covered Bonds" published in December 2016. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions of the disclosure form.

Moody's did not use any stress scenario simulations in its analysis.

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