

**Rating Action: Moody's concludes review on Lansforsakringar Bank AB (publ), Skandiabanken AB and Volvofinans Bank AB**

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**Actions conclude methodology-related review**

London, 28 May 2015 -- Moody's Investors Service has concluded its rating reviews on Lansforsakringar Bank AB (publ), Skandiabanken AB and Volvofinans Bank AB. These reviews were initiated on 17 March 2015 following the publication of Moody's new bank rating methodology (see "Rating Methodology: Banks," 16 March 2015, available at moodys.com) and include revisions in Moody's government support assumptions for Volvofinans Bank.

Moody's has affirmed Lansforsakringar Bank AB (publ)'s baa1 baseline credit assessment (BCA), affirmed its a3 adjusted BCA, which captures affiliate support, and upgraded its long- and short-term deposit ratings to A1/P-1 from A3/P-2. The outlook on the long term rating is stable. Moody's has also assigned Aa3(cr)/Prime-1(cr) long- and short-term Counterparty Risk Assessments (CR assessments) to the bank.

Moody's has affirmed SkandiaBanken AB's baa1 baseline credit assessment (BCA), affirmed its a3 adjusted BCA that captures affiliate support, and upgraded its long- and short-term deposit ratings to A2/P-1 from A3/P-2. The outlook on the long-term rating is negative. Moody's has also assigned A1(cr)/Prime-1(cr) long- and short-term CR assessments to Skandiabanken.

Moody's has upgraded Volvofinans Bank AB's baseline credit assessment (BCA) and adjusted BCA to baa2 from baa3 and upgraded its long-term deposit ratings to A3 and affirmed the P-2 short-term deposit ratings. The outlook on the long term rating is stable. Moody's has also assigned A2(cr)/Prime-1(cr) long- and short-term CR assessments to Volvofinans Bank.

For more information on the new bank rating methodology, please see Moody's press release at [http://www.moodys.com/viewresearchdoc.aspx?docid=PR\\_321005](http://www.moodys.com/viewresearchdoc.aspx?docid=PR_321005)

The full list of affected ratings is provided at the end of the press release.

**RATINGS RATIONALE**

The new methodology includes a number of elements that Moody's has developed to help accurately predict bank failures and determine how each creditor class is likely to be treated when a bank fails and enters resolution. These new elements capture insights gained from the crisis and the fundamental shift in the banking industry and its regulation.

In terms of the application of the new methodology to these three Swedish banks, Moody's rating actions reflect the following considerations: (1) Moody's view of Sweden's, and for Skandiabanken also Norway's, "Very Strong-" macro profiles; (2) the banks' strong and improved financial fundamentals, including low asset risk, strong capitalisation, and low but stable profitability balanced against a generally high reliance on market funding; (3) limitations resulting from their narrow product range; (4) support provided by their owners; (5) the protection offered to senior creditors by substantial volumes of bail-in-able securities, as captured by Moody's Advanced Loss Given Failure (LGF) liability analysis; and (6) a reduction in Moody's view of the likelihood of government support.

**1) Sweden's and Norway's "Very Strong-" macro profiles**

Lansforsakringar Bank and Volvofinans Bank operate exclusively in Sweden and therefore benefit from the country's supportive macro environment, which is underpinned by high wealth levels, as well as very high economic, institutional and government financial strength and very low susceptibility to event risk.

Skandiabanken's macro profile is a combination of Sweden and Norway, reflecting that 56% of its lending is to customers located in Norway. This diversification does not impact the bank's macro profile as Sweden's and Norway's macro profile are both "Very Strong-".

## 2) Strong and improved financial fundamentals

Lansforsakringar Bank and Skandiabanken benefit from low asset risk, resulting from low-risk, residential mortgage focused lending. For both institutions, problem loan ratios have been below 50 basis points of gross loans over the last five years (and often even below 50 basis points), which is low even when compared to many strong performing Nordic peers.

More negatively, both banks continue to grow lending rapidly. This potentially exposes them to weaker underwriting and higher problem loans in the future, although this risk has not materialised to date. Moody's also notes that Lansforsakringar Bank extensively uses market funding to enable lending growth and Skandiabanken is increasingly pursuing a similar strategy. High reliance on market funding exposes them to swings in investor sentiment.

Volvofinans Bank exclusively lends to customers in the vehicle-segment. The bank benefits from strong underwriting, partially explaining a problem loans ratio which is consistently comparable with the equivalent ratio of Nordic mortgage lenders. In addition, Volvo dealers guarantee vehicle loans, thus shielding the bank from losses. Stable asset risk has contributed to predictable and stable earnings, even during the 2008/09 financial crisis. In addition, the bank has also gradually lowered reliance on market funding, thus lowering risk and supporting a higher BCA.

## 3) Strong focus on lending narrow product range

Lansforsakringar Bank, Skandiabanken and Volvofinans offer different products but each lender focuses mainly on a single product: residential mortgages for Lansforsakringar Bank and Skandiabanken, and car financing for Volvofinans. Moody's negatively adjusts the banks' scorecards to reflect the limitations that these focused business models bring.

## 4) Owner support

Lansforsakringar Bank and Skandiabanken benefit from a one-notch rating uplift due to affiliate support to a3 from baa1 (excluding additional uplift due to our advance LGF analysis of liabilities). Their insurance-parent-companies have a track record of injecting capital into the banks in order to enable lending growth. For example, in 2014 Lansforsakringar Bank received SEK550 and in Q1 2015 the bank received another SEK500 million from its owners. Skandiabanken received SEK725 million in capital from its parent as recently as November and December 2014.

Volvofinans Bank's ratings do not benefit from affiliate support. A Swedish-government-related pension fund, (AP6) holds a 40% stake but is smaller than the bank, thus likely unable to support the bank to the extent required for a one-notch uplift, assuming a currently unlikely stress scenario. We do not factor in support from the remaining owners because Volvo car dealers (50% stake) and Volvopersonvagnar AB (10% stake) are likely to experience distress at the same time as the bank, as both are in the car business in Sweden.

## 5) Protection offered to senior creditors, as captured by Moody's Advanced LGF liability analysis

Sweden is a member of the European Union and, given the implementation of the Bank Recovery and Resolution Directive (BRRD), Moody's applies its Advanced LGF analysis to these banks' liability structures. This analysis results in a "Very Low" loss given failure for long-term deposits, taking into account the protection offered by the banks' sizeable volumes of junior deposits combined with bail-in-able senior unsecured and subordinated debt.

## 6) Less likely government support

Following the introduction of the BRRD, Volvofinans Bank is less likely to benefit from government support. With this rating action, the bank no longer benefit from a one-notch rating uplift due to government support.

The ratings assigned to Lansforsakringar Bank and Skandiabanken do not benefit from government support.

## RATIONALE FOR OUTLOOKS

The stable outlooks assigned to Lansforsakringar Bank's and Volvofinans Bank's ratings reflect Moody's view that their business models will remain solid and that their financials will remain stable as a result of the stable macroeconomic environment in Sweden.

The outlook assigned to Skandiabanken's ratings is negative owing to below par efficiency and profitability

associated with its Swedish business. These challenges are likely to become more pronounced if the bank sells its comparably efficient and profitable Norwegian business at the end of 2015, as it announced in January 2015.

#### SPECIFIC ANALYTICAL FACTORS FOR THE THREE BANKS

##### --- Lansforsakringar Bank

The affirmation of Lansforsakringar Bank's standalone baa1 BCA is primarily driven by Moody's expectation that the bank's asset risk will remain very low given a strong focus on geographically diverse mortgage lending. Lending to customers in the agricultural segment (12.5% of total lending) is riskier. However, that risk is mitigated because loans to the agricultural sector are mainly small, (average volume SEK1.9 million) first-lien mortgages, to families that work as farmers rather than to riskier corporate customers. As a result of its low-risk profile, Lansforsakringar Bank's problem loans ratio is consistently below 50 basis points of gross loans.

The bank's ability to withstand -- currently unlikely -- shocks is also helped by improving profitability and capitalisation. Reported return on equity increased to 9.1% at 31 March 2015 compared to 5% in at year end-2010. The total capital ratio reached 21.7% at Q1 2015, up from 13.5% at year end-2010, supported by the bank's parent's track-record of injecting capital into the bank, thus allowing continued growth. Such injections are likely in the future because the parent has stated its intention to keep the bank well capitalised as the latter grows. We capture this affiliate support with a one-notch rating uplift.

The upgrade of the bank's deposit and senior unsecured debt ratings to A1 from A3 also takes into account the LGF analysis of the bank's own volume of debt and deposits and securities subordinated to them in Moody's assessed creditor hierarchy. Lansforsakringar Bank benefits from a substantial volume of junior deposits, senior unsecured and subordinated debt, resulting in a very low LGF.

##### --- Skandiabanken

The affirmation of Skandiabanken AB's standalone baa1 BCA is primarily driven by Moody's expectation that the bank's asset risk will remain low given its strong focus on geographically diverse mortgage lending. On a negative note, Moody's deems continuously aggressive lending growth and related underwriting as a risk. However, the macroeconomic environments in Sweden and Norway remain supportive, thus problem loans are unlikely to materially increase in the coming quarters. The bank has no direct exposure to the currently weaker oil sector in Norway or to companies in Norway that might suffer as a result of a lower oil price. Skandiabanken's problem loans ratio is consistently one of the lowest of rated Nordic banks, at 50 basis points of gross loans.

Skandiabanken has a modest track-record when it comes to independently building capital buffers in order to withstand shocks in the future. Its return on equity has consistently been below 10% since 2010, owing to a large cost-base associated with its less profitable Swedish business. In January 2015 the bank announced its intention to sell its more profitable Norwegian business. If the sale is successful, Skandiabanken will become entirely reliant on its less efficient Swedish operations. However, the Swedish business is strategically important for the wider Skandia group, a leading insurer in Sweden. The parent is likely to continue to inject capital into the bank in order to enable lending growth and Moody's captures this with a one-notch of rating uplift.

The upgrade of the bank's deposit ratings to A2 from A3 also takes into account the LGF analysis of the bank's own volume of debt and deposits which are eligible for bail-in assuming a currently unlikely stress-scenario. Skandiabanken benefits from a bail-in buffer of junior deposits and senior unsecured debt, resulting in very low loss given failure.

##### --- Volvofinans Bank

The one-notch upgrade of Volvofinans's standalone BCA to baa2 is primarily driven by Moody's expectation that the bank's asset risk will remain low given its geographical focus on car-related lending in Sweden combined with its strong underwriting. Low asset risk is also helped as Volvo car dealers guarantee vehicle loans which constitute the bulk of Volvofinans Bank's lending. Moreover, reliance on market funding, which we have historically seen as a key weakness, has reduced significantly after the 2008/09 global financial crisis. Market funds that amounted to 67.7% of tangible banking assets (TBA) in 2010 had decreased to 33.6% of TBA at year end-2014. Meanwhile, consistently stable earnings, even throughout the 2008/09 crisis, have allowed Volvofinans Bank to strengthen its capital position significantly. Tangible common equity reached 21.5% of risk weighted assets at year end-2014, up from 13.7% four years earlier.

The upgrade of the bank's deposit ratings to A3 from Baa2 also takes into account the LGF analysis of the bank's own volume of debt and deposits which are eligible for bail-in assuming a currently unlikely stress-scenario.

Volvofinans Bank benefits from a bail-in buffer consisting of junior deposits, senior unsecured and subordinated debt, resulting in very low loss given failure.

#### WHAT COULD CHANGE THE RATINGS UP/DOWN

For Lansforsakringar Bank, upward rating momentum could develop from stronger profitability combined with less aggressive lending growth and less reliance on market funding. Downward rating pressure could develop if asset quality were to materially weaken combined with weaker profitability and increased use of market funding.

Upward rating momentum for Skandiabanken could develop from stronger profitability combined with less aggressive lending growth. Downward rating pressure could develop if asset quality were to materially weaken combined with weaker profitability and increased use of market funding.

Upward rating momentum for Volvofinans Bank could develop from reduced reliance on market funding. Downward rating pressure could develop if profitability, asset quality were and capital were to materially weaken combined with increased use of market funding.

#### ASSIGNMENT OF COUNTERPARTY RISK ASSESSMENTS

Moody's has also assigned CR assessments to Lansforsakringar Bank, Skandiabanken and Volvofinans Bank. CR Assessments are opinions of how counterparty obligations are likely to be treated if a bank fails and are distinct from debt and deposit ratings in that they (1) consider only the risk of default rather than the likelihood of default and the expected financial loss suffered in the event of default and (2) apply to counterparty obligations and contractual commitments rather than debt or deposit instruments. The CR assessment is an opinion of the counterparty risk related to a bank's covered bonds, contractual performance obligations (servicing), derivatives (e.g., swaps), letters of credit, guarantees and liquidity facilities.

#### LIST OF AFFECTED RATINGS

##### Upgrades:

- ..Issuer: Lansforsakringar Bank AB (publ)
- .... Deposit Rating, Upgraded to A1 from A3
- .... Deposit Rating, Upgraded to P-1 from P-2
- ....Senior Unsecured Medium-Term Note Program, Upgraded to (P)A1 from (P)A3
- ....Senior Unsecured Medium-Term Note Program, Upgraded to (P)P-1 from (P)P-2
- ....Senior Unsecured Commercial Paper, Upgraded to P-1 from P-2
- ....Senior Unsecured Regular Bond/Debenture, Upgraded to A1 from A3
- ..Issuer: SkandiaBanken AB
- .... Deposit Rating, Upgraded to P-1 from P-2
- ....Deposit Rating, Upgraded to A2 from A3
- ..Issuer: Volvofinans Bank AB
- .... Adjusted Baseline Credit Assessment, Upgraded to baa2 from baa3
- .... Baseline Credit Assessment, Upgraded to baa2 from baa3
- ....Deposit Rating, Upgraded to A3 from Baa2

##### Assignments:

- ..Issuer: Lansforsakringar Bank AB (publ)
- .... Counterparty Risk Assessment, Assigned Aa3(cr)

... Counterparty Risk Assessment, Assigned P-1(cr)

..Issuer: SkandiaBanken AB

... Counterparty Risk Assessment, Assigned A1(cr)

... Counterparty Risk Assessment, Assigned P-1(cr)

..Issuer: Volvofinans Bank AB

... Counterparty Risk Assessment, Assigned A2(cr)

... Counterparty Risk Assessment, Assigned P-1(cr)

Outlook Actions:

..Issuer: Lansforsakringar Bank AB (publ)

...Outlook, Changed To Stable From Rating Under Review

..Issuer: SkandiaBanken AB

...Outlook, Changed To Negative From Rating Under Review

..Issuer: Volvofinans Bank AB

...Outlook, Changed To Stable From Rating Under Review

Affirmations:

..Issuer: Lansforsakringar Bank AB (publ)

... Adjusted Baseline Credit Assessment, Affirmed a3

... Baseline Credit Assessment, Affirmed baa1

..Issuer: SkandiaBanken AB

... Adjusted Baseline Credit Assessment, Affirmed a3

... Baseline Credit Assessment, Affirmed baa1

..Issuer: Volvofinans Bank AB

... Deposit Rating, Affirmed P-2

The principal methodology used in these ratings was Banks published in March 2015. Please see the Credit Policy page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

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