MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns definitive rating to covered bonds issued by Sør Boligkreditt AS

Global Credit Research - 15 Jun 2011

London, 15 June 2011 -- Moody's Investors Service has assigned a definitive long term rating Aaa to the following series of covered bonds issued by Sør Boligkreditt AS ("Sør Boligkreditt" or the issuer) under the Norwegian covered bond law:

Issuer: Sor Boligkreditt AS - Mortgage Covered Bonds

....NKr.1000M FRN 2009-2015, Assigned Aaa

....NKr.1000M FRN 2009-2016, Assigned Aaa

....NKr.1000M FRN 2009-2016 Series 2, Assigned Aaa

....NKr.1000M FRN 2009-2017, Assigned Aaa

RATINGS RATIONALE

As with all covered bonds, the covered bonds benefit from two layers of protection by having recourse to both the issuer and a collateral pool. The rating therefore takes into account the following factors:

1) The credit strength of Sparebanken Sør (rated A3). The covered bond rating is linked to the credit strength of the issuer's parent company, mainly because Sparebanken Sør has established a revolving credit facility for the benefit for the issuer. The covered bonds are full recourse to the issuer and the issuer is a wholly owned subsidiary of Sparebanken Sør.

2) The value of the cover pool. The mortgage covered bonds are backed by residential mortgage loans. The credit quality of the cover pool assets is reflected in the collateral score of 8.10%.

Other key factors:

3) The commitment of the issuer to maintain over-collateralisation of around 11.5%. Moody's considers this over-collateralisation to be "committed".

4) The Norwegian legal framework for covered bonds, as the covered bonds are governed by the Norwegian covered bond law.

Moody's has assigned a Timely Payment Indicator (TPI) of "Probable-High" to the covered bonds.

The rating assigned by Moody's addresses the expected loss posed to investors. Moody's ratings address only the credit risks associated with the transaction. Other non-credit risks have not been addressed, but may have a significant effect on yield to investors.

The Aaa rating assigned to the issuer's existing covered bonds is expected to be assigned to all subsequent covered bonds issued by the issuer under this programme. This is subject to any subsequent future rating actions in relation to the issuer's covered bonds, which are expected to affect all such covered bonds. Should there be any exceptions to this, Moody's will in each case publish details in a separate press release.

KEY RATING ASSUMPTIONS/FACTORS

Covered bond ratings are determined after applying a two-step process: expected loss analysis and TPI framework analysis.

EXPECTED LOSS: Moody's determines a rating based on the expected loss on the bond. The primary model used is Moody's Covered Bond Model (COBOL) which determines expected loss as a function of the issuer's probability of default, measured by its rating of A3, and the stressed losses on the cover pool assets following issuer default.

The Cover Pool Losses for this programme are 12.85%. This is an estimate of the losses Moody's currently models in the event of issuer default. Cover Pool Losses can be split between Market Risk of 7.4% and Collateral Risk of 5.4%. Market Risk measures losses as a result of 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 the credit quality of the assets in the cover pool. Collateral Risk is derived from the Collateral Score which for this programme is currently 8.1%.

TPI FRAMEWORK: Moody's assigns a "timely payment indicator" (TPI) which indicates the likelihood that timely payment will be made to covered bondholders following issuer default. The effect of the TPI framework is to limit the covered bond rating to a certain number of notches above the issuer's rating.

SENSITIVITY ANALYSIS

The robustness of a covered bond rating largely depends on the credit strength of the issuer.

The number of notches by which the issuer's rating may be downgraded before the covered bonds are downgraded under the TPI framework is measured by the TPI Leeway. Based on the current TPI of "Probable-High" the TPI Leeway for this programme is 0 notches, meaning if the rating of Sparebanken Sør would be downgraded by one notch to Baa1, the covered bonds are downgraded too, all other things being equal.

A multiple notch downgrade of the covered bonds might occur in certain limited circumstances. Some examples might be (a) a sovereign downgrade negatively affecting both the issuer's senior unsecured rating and the TPI; (b) a multiple notch downgrade of the issuer; or (c) a material reduction of the value of the cover pool.

For further details on Cover Pool Losses, Collateral Risk, Market Risk, Collateral Score and TPI Leeway across all covered bond programmes rated by Moody's please refer to "Moody's EMEA Covered Bonds Monitoring Overview", published quarterly. These figures are based on the most recent cover pool information provided by the issuer and are subject to change over time.

RATING METHODOLOGY

The principal methodology used in rating the issuer's covered bonds is "Moody's Rating Approach to Covered Bonds" published in March 2010. Other methodologies and factors that may have been considered in the rating process can also be found on the Moody's website.

REGULATORY DISCLOSURES

The rating has been disclosed to the rated entity or its designated agents and issued with no amendment resulting from that disclosure.

Information sources used to prepare the credit rating are the following: parties involved in the ratings, parties not involved in the ratings, public information, and confidential and proprietary Moody's Investors Service information.

Moody's Investors Service considers the quality of information available on the issuer or obligation satisfactory for the purposes of assigning a credit rating.

Moody's Investors Service may have provided Ancillary or Other Permissible Service(s) to the rated entity or its related third parties within the three years preceding the Credit Rating Action. Please see the ratings disclosure page www.moodys.com/disclosures on our website for further information.

Moody's adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources Moody's considers to be reliable including, when appropriate, independent third-party sources. However, Moody's is not an auditor and cannot in every instance independently verify or validate information received in the rating process.

Please see ratings tab on the issuer/entity page on Moodys.com for the last rating action and the rating history.

The date on which some Credit Ratings were first released goes back to a time before Moody's Investors Service's Credit Ratings were fully digitized and accurate data may not be available. Consequently, Moody's Investors Service provides a date that it believes is the most reliable and accurate based on the information that is available to it. Please see the ratings disclosure page on our website www.moodys.com for further information.

Please see the Credit Policy page on Moodys.com for the methodologies used in determining ratings, further information on the meaning of each rating category and the definition of default and recovery.

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