



DnB NOR MARKETS CREDIT RESEARCH

COVERED BOND REPORT

RESIDENTIAL MORTGAGE-BACKED COVERED BONDS

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Initiating coverage, March 17th 2011

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Sør Boligkreditt AS

Official Ratings, Covered Bond Program:

S&P:	Not rated
Moody's:	Not rated
Fitch:	Not rated

DnB NOR Markets' rating,*:

CB Program:	AAA
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Official Ratings, Owner bank:

S&P:	Not rated
Moody's:	Not rated
Fitch:	Not rated

DnB NOR Markets' rating*:

Owner bank:	A
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* Note that the credit ratings are not official ratings, but ratings assigned by DnB NOR Markets Credit Research with the purpose of indicating the credit risk on a scale comparable to what the official rating agencies use

Sector:

Covered bonds

Company Management:

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Web:

Owner Bank:

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The rating on Sør Boligkreditt AS's ('SORB', 'the company' or 'the issuer') covered bond program reflects its high quality cover pool, the very strong link to the parent bank and 'Probable-High' expected probability of timely payment.

Credit Strengths

- Backed by cover pool with 100 % prime residential mortgages
- The very strong link between the owner bank and the issuer

Credit Weaknesses

- Relatively high LTV-ratio, and a large part of the total loan volume has LTV exceeding 60 %

SORB is a wholly owned subsidiary of the regional savings bank Sparebanken Sør (rated A by DnB NOR Markets, 'the parent' or 'the owner'). The cover pool value is NOK 5.9 billion, and outstanding covered bonds under the program is NOK 4.0 billion, which makes the current level of over-collateralisation 48 %. SORB was established in 2008, issued its first covered bond in 2009 and conducts its activities mainly in the southern part of Norway.

The TPI of this program is estimated to be 'Probable-High', due to the high quality of the cover pool, the LTV-ratio and the LTV-distribution, and the fact that the market risk is low. Hence, the covered bond program rating is AAA, and the TPI leeway is 1.

The issuer is backed by a full, unconditional and irrevocable guarantee from the owner bank. The owner bank has an obligation to ensure that SORB meets all its obligations, and has also established a revolving credit facility for the benefit for SORB.

Credit quality of the cover pool

Residential mortgages constitute 100 % of the value of the cover pool. All mortgages are located in Norway, with 77 % in the counties of Aust-Agder and Vest-Agder.

The Loan-to-value ratio (LTV) is moderate for the mortgages in the cover pool, being 53 % on a weighted average basis. As much as 41 % of the loan volume is loans exceeding LTV of 60 %.

NOK 311 million of the mortgages has fixed rate interest payments. The rest has floating, which imply the issuer having the ability of resetting the loan rates on six weeks' notice.

The company has guided towards a level of over-collateralisation of 8 %. The current over-collateralisation level being as high as 48 % gives a credit protection today, but is no guarantee for the future.

SORB has not set any requirements to counterparties of derivative contract the company enters into. However, the owner bank will not be a possible future counterparty of derivative contracts.

Commingling risk is reduced by the issuer having an account in its own name, at the owner bank, to which the payments from the assets in the cover pool are made. SORB has no explicit requirements for the bank at which the account will be held.

The issuer emphasises that it at all times will have a positive net liquidity inflow on the balance sheet for the following twelve-month period. All future issued covered bonds will have an extension period of twelve months.

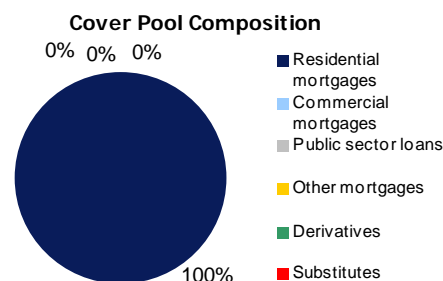
Market risk

All loans in the cover pool and the issued covered bonds are floating rate and denominated in NOK. If future mismatches should arise the issuer is expected to hedge the interest rate and currency risks by entering into swap agreements. The company has set a limit of NOK 5 million for the potential loss following a 100 bp parallel shift of the interest rate curve.

Substitution risk

The issuer communicates that it will not include commercial mortgages into the cover pool.

Overview Cover Pool	31/12/2010
Asset balance, MNOK	5,856
Number of loans	6,587
Average loan balance, MNOK	0.89
WA remaining Term (months)	220
WA Seasoning (months)	26
Losses on loans in 2010 (NOK)	0
Loans in arrears (> 90 days)	0
Fixed rate loans	311
WA Indexed LTV	53%
LTV threshold	75% / 60%
Current OC level	46%
Committed OC	
Total volume, 20 largest borrowers, MNOK	130



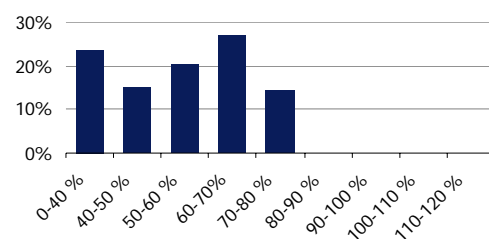
Income statement - MNOK	2010	2009	2008
Interest income	217	97	0
Interest expenses	-169	-66	0
Net interest income	48	31	0
Other income	-4	2	0
Total income	43	33	0
Salaries, general and administrative expenses	-17	-8	0
Other operating expenses	-1	-1	0
Total operating expenses	-18	-9	0
Write-downs on loans and guarantees	0	-4	0
Other expenses	0	0	0
Pre-tax operating profit	25	20	0
Taxes	-7	-6	0
Comprehensive income for the period	18	15	0

Balance sheet - MNOK	2010	2009	2008
Lending to and deposits with credit institutions	0	174	99
Lending to customers	5,860	5,345	9
Lending to public institutions	0	0	0
Financial derivatives	0	0	0
Other assets	8	7	0
Total assets	5,865	5,523	110
Loans and deposits from credit institutions	1,574	1,271	9
Financial derivatives	5	1	0
Debt securities issued	4,000	4,000	0
Subordinated loan capital	0	0	0
Other liabilities	54	37	1
Total liabilities	5,632	5,309	10
Share capital	200	200	100
Other equity	0	0	0
Reserves and retained earnings	33	15	0
Total equity	233	215	100
Total liabilities and equity	5,865	5,523	110

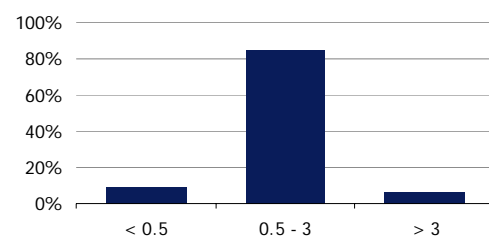
Capital	2010	2009	2008
Equity / Assets	4.0%	3.9%	91.0%
Core capital ratio	10%	10%	0%
Core capital - MNOK	231	213	0
Total capital ratio	10%	10%	%
Total capital - MNOK	231	213	0

List of covered bonds outstanding							Volume - MNOK
ISIN	Ticker	Currency	Coupon	Issued	Maturity	Extended maturity	
NO 0010508443		nok	3M Nibor + 50	24/04/2009	08/04/2014	08/04/2015	1000
NO 0010518129		nok	3M Nibor + 55	09/06/2009	04/07/2015	04/07/2016	1000
NO 0010530744		nok	3M Nibor + 60	05/08/2009	06/10/2016	06/10/2017	1000
NO 0010536162		nok	3M Nibor + 55	01/09/2009	06/10/2015	06/10/2016	1000

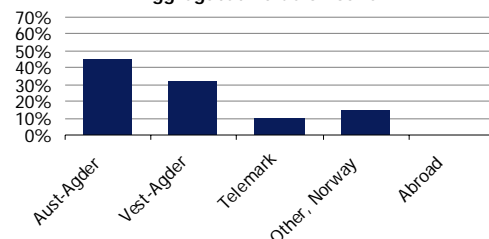
Indexed LTV of Loans in Cover Pool - Aggregated value of loans - Distribution



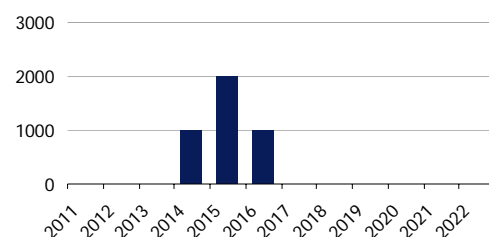
Loan Size Distribution - Aggregated value of loans



Regional Distribution - Aggregated value of loans



Covered Bonds - Maturity Profile - NOK million



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