

Rating Action: Moody's takes rating actions on covered bonds previously issued by Sor and Pluss Boligkreditt entities

Global Credit Research - 16 May 2014

London, 16 May 2014 -- Moody's Investors Service has today taken actions on the ratings of the covered bonds previously issued by Sor Boligkreditt AS ("Former Sor") and Pluss Boligkreditt AS ("Former Pluss", together with Former Sor: "the issuers"). The rating actions follow the merger between Former Pluss and Former Sor, where Pluss is the acquiring party. Concurrently, the ratings of Former Sor have been withdrawn. The new merged entity has been renamed Sor Boligkreditt ("New Sor").

A full list of affected ratings is provided towards the end of this press release, before the regulatory disclosure section.

Please refer to the Moody's Investors Service's Policy for Withdrawal of Credit Ratings, available on www.moodys.com.

RATINGS RATIONALE

On 2 January 2014, the parent companies of the issuers, respectively Sparebanken Sor (for Former Sor) and Sparebanken Pluss (for Former Pluss), merged where Sparebanken Pluss was the acquiring party. The new merged entity has been renamed Sparebanken Sor and, on 5 March 2014, its rating was confirmed by Moody's at A2/Prime-1, stable (see https://www.moodys.com/research/PR_293715).

Following the merger of their parent companies, on 4 March 2014 the issuers merged as well where Former Pluss was the acquiring entity. As a consequence, Moody's has withdrawn the rating of the bonds issued by Former Sor and assigned new rating to the bonds transferred through the merger to New Sor. The ratings on New Sor's debt instruments remain unchanged.

Moody's understands that the cover pool backing New Sor's covered bonds represent the combination of the cover pool of Former Sor and Former Pluss.

A covered bond benefits from (1) the issuer's promise to pay interest and principal on the bonds; and (2) the economic benefit of a collateral pool (the cover pool) in the event of issuer default. The ratings therefore reflect the following factors:

(1) The credit strength of New Sor. The covered bond rating is linked to the credit strength of the parent company of the issuer, Sparebanken Sor (A2/Prime-1 stable) mainly because Sparebanken Sor has established a revolving credit facility for the benefit of New Sor. The covered bonds are full recourse to New Sor, and New Sor is a wholly owned subsidiary of Sparebanken Sor.

(2) The value of the cover pool, if the issuer defaults. The stressed level of losses modelled in event of issuer default (cover pool losses) for this transaction is 8.4%.

Moody's uses the covered bond (CB) anchor to determine the probability that the issuer ceases to make payments under the covered bonds. The CB anchor of this programme is A1 because the bail-in eligible debt ratio of Sparebanken Sor is above 10%.

Moody's considered the following factors in its analysis of the cover pool's value:

1) The credit quality of the assets backing the covered bonds. The mortgage covered bonds are backed by Norwegian residential mortgage loans. The collateral score for the cover pool is 5.0%.

2) The Norwegian legal framework for covered bonds.

3) The exposure to market risk, which is 5.0% for this cover pool.

4) The over-collateralisation in the cover pool is 16%, of which New Sor provides 0% on a "committed" basis (see Key Rating Assumptions/Factors, below).

The timely payment indicator (TPI) assigned to this transaction is High.

At present, the total value of the assets included in the cover pool, comprising 22,106 residential mortgage loans and substitute assets, is approximately NOK 22.2 billion. The residential mortgage loans have a weighted-average seasoning of 37 months and a weighted-average loan-to-value (LTV) ratio of 58.3% (including junior ranks).

The definitive rating that Moody's has assigned addresses the expected loss posed to investors. Moody's ratings address only the credit risks associated with the transaction. Moody's did not address other non-credit risks, but these may have a significant effect on yield to investors.

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 event); and (2) the stressed losses on the cover pool assets following a CB anchor event.

The cover pool losses for New Sor's covered bonds are 8.4%. This figure is an estimate of the losses Moody's currently models if a CB anchor event occurs. Moody's splits cover pool losses between market risk of 5.0% 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 16%, of which New Sor provides 0% on a "committed" basis. The minimum over-collateralisation level consistent with the Aaa rating target is 4.5%, of which the issuer should provide 0.0% in a "committed" form.

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 EMEA Covered Bonds Monitoring Overview", published quarterly. All numbers in this section are based on Moody's most recent modelling (based on data, as per 31/03/2014).

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

FACTORS THAT WOULD LEAD TO A DOWNGRADE OF THE RATING:

The CB anchor is the main determinant of a covered bond rating's robustness. 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 New Sor's mortgage covered bonds is three notches. This notching implies that Moody's might downgrade the covered bonds because of a TPI cap, if it lowers Sparebanken Sor's CB anchor below Baa2, all other variables remaining unchanged.

A multiple-notch downgrade of the covered bonds might occur in certain limited circumstances, such as (1) a sovereign downgrade negatively affecting both the CB anchor and the TPI; (2) a multiple-notch lowering 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 March 2014. Please see the Credit Policy page on www.moody.com for a copy of this methodology.

LIST OF AFFECTED RATINGS:

Issuer: Sor Boligkreditt AS - Mortgage Covered Bonds

...Nkr.1250M FRN 2012-2018 NO0010649056, Withdrawn; previously on Jun 11, 2012 Assigned Aaa
...Nkr.1250M FRN 2011-2015 NO0010633415, Withdrawn; previously on Dec 28, 2011 Assigned Aaa
...Nkr.1200M FRN 2011-2016 NO0010614688, Withdrawn; previously on Jul 4, 2011 Assigned Aaa
...Nkr.1250M FRN 2013-2019 NO0010679806, Withdrawn; previously on May 29, 2013 Assigned Aaa
...Nkr.850M FRN 2012-2019 NO0010664659, Withdrawn; previously on Nov 30, 2012 Assigned Aaa
...Nkr.500M FRN 2013-2028 NO0010670409, Withdrawn; previously on Feb 12, 2013 Assigned Aaa
...Nkr.1000M FRN 2009-2016 NO0010518129, Withdrawn; previously on Jun 15, 2011 Assigned Aaa
...Nkr.1200M FRN 2011-2017 NO0010623945, Withdrawn; previously on Sep 7, 2011 Assigned Aaa
...Nkr.1000M FRN 2009-2015 NO0010508443, Withdrawn; previously on Jun 15, 2011 Assigned Aaa
...Nkr.1250M FRN 2011-2015 NO0010625841, Withdrawn; previously on Sep 30, 2011 Assigned Aaa
...Nkr.400M FRN 2013-2023 NO0010671597, Withdrawn; previously on Feb 25, 2013 Assigned Aaa

Issuer: Pluss Boligkreditt AS - Covered Bond Programme

...Nkr.1000M FRN 2009-2015 NO0010508443, Assigned Aaa
...Nkr.1000M FRN 2009-2016 NO0010518129, Assigned Aaa
...Nkr.1200M FRN 2011-2016 NO0010614688, Assigned Aaa
...Nkr.1200M FRN 2011-2017 NO0010623945, Assigned Aaa
...Nkr.1250M FRN 2011-2015 NO0010625841, Assigned Aaa
...Nkr.1250M FRN 2011-2015 NO0010633415, Assigned Aaa
...Nkr.1250M FRN 2012-2018 NO0010649056, Assigned Aaa
...Nkr.850M FRN 2012-2019 NO0010664659, Assigned Aaa
...Nkr.500M FRN 2013-2028 NO0010670409, Assigned Aaa
...Nkr.400M FRN 2013-2023 NO0010671597, Assigned Aaa
...Nkr.1250M FRN 2013-2019 NO0010679806, Assigned Aaa

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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