MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns provisional (P)Aaa to SR-Boligkreditt AS Mortgage Covered Bonds

Global Credit Research - 11 May 2015

London, 11 May 2015 -- Moody's Investors Service has today assigned a provisional (P)Aaa long-term rating to the mortgage covered bonds to be issued by SR-Boligkreditt AS (the issuer, unrated).

RATINGS RATIONALE

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

(1) The credit strength of SR-Boligkreditt AS (unrated).

The covered bond rating is linked to the credit strength of the parent company of the issuer, SpareBank 1 SR-Bank ASA (deposits A1 stable; adjusted baseline credit assessment baa1; counterparty risk (CR) assessment Aa3) and a CB anchor of the CR assessment plus one notch, mainly because SpareBank 1 SR-Bank ASA has established a revolving credit facility for the issuer's benefit. The covered bonds are full recourse to the issuer and the issuer is a wholly owned subsidiary of SpareBank 1 SR-Bank ASA.

(2) Following a CB anchor event the value of the cover pool.

The stressed level of losses on the cover pool assets following a CB anchor event (cover pool losses) for this transaction is 9.0%. Moody's considered the following factors in its analysis of the cover pool's value:

a) The credit quality of the assets backing the covered bonds, which are residential mortgage loans in Norway (Aaa stable). The collateral score for the cover pool is 5%.

b) The Norwegian legal framework /structure of the programme.

c) The exposure to market risk, which is 5.7% for this cover pool.

d) SR-Boligkreditt AS provides 2% over-collateralisation (OC) on a "committed" basis (see Key Rating Assumptions/Factors, below).

The TPI assigned to this transaction is "Probable-High".

At present, the total value of the assets included in the cover pool is approximately NOK3.0 billion, comprising 1,965 residential mortgage loans, and substitute assets. The residential mortgage loans have a weighted-average (WA) seasoning of 68 months and an indexed WA loan-to-value (LTV) ratio of 61.0% (including junior ranks). The indexed WA LTV excluding junior ranks is 53.2%.

The provisional 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.

Moody's issues provisional ratings in advance of the final sale of securities and these ratings only represent Moody's preliminary opinion. Upon a conclusive review of the transaction and associated documentation Moody's will endeavour to assign a definitive rating to the covered bonds.

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 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 9.0%. 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 5.7% and collateral risk of 3.3%. 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%.

SR-Boligkreditt AS provides 2% OC on a "committed" basis. The minimum OC level consistent with the Aaa rating target is 0.5%, of which the issuer should provide 0% in a "committed" form.

All numbers in this section are based on Moody's most recent modelling (based on data, as of 27 February 2015).

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.

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.

Moody's has assigned a TPI of "Probable-High" to SR-Boligkreditt AS' mortgage covered bonds.

FACTORS THAT WOULD LEAD TO A DOWNGRADE OF THE RATING:

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 "Probable-High", the TPI Leeway for this programme is four notches. This implies that Moody's might downgrade the covered bonds because of a TPI cap if it lowers the CB anchor by five 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 this rating was "Moody's Approach to Rating Covered Bonds" published in March 2015. Please see the Credit Policy 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.

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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