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Sparebanken SØR Boligkreditt Mortgage Covered Bonds

Norwegian Covered Bonds

Ratings

Cover Pool (NOK)	Ordinary Cover Pool Assets	Covered Bonds (NOK)	Rating
28,165,912,380	Residential Mortgage Loans	24,610,000,000	Aaa

Note: The ratings address 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.

Summary Rating Rationale

We assign a definitive long-term rating of Aaa to the covered bonds issued by Sparebanken Sør Boligkreditt AS (Sparebanken Sør Boligkreditt, the issuer). The covered bonds are full recourse to the issuer and the issuer is a stand-alone legal entity wholly owned by Sparebanken Sør (the parent; deposits A1 stable; adjusted baseline credit assessment baa1; counterparty risk (CR) assessment Aa3(cr)). The issuer itself is not rated. The covered bond rating is linked to the credit strength of the parent company of the issuer, principally because Sparebanken Sør has established a revolving credit facility for the issuer's benefit. The covered bonds are governed by the Norwegian covered bond legislation. Following a CB anchor event[1], the covered bondholders will have priority claims over a pool of assets (cover pool) consisting of Norwegian residential mortgage loans. As of 30 September 2016, over-collateralisation (OC) in place is 14.4% on a nominal basis, of which the issuer has committed to maintain 2.0% (on a nominal basis). The minimum OC level that is consistent with the current Aaa rating is 0.5%. We have assigned a TPI of High to the covered bonds issued by Sparebanken Sør Boligkreditt.

The rating takes into account, among other factors:

» The credit strength of the issuer.

» The cover pool's credit quality, which is reflected by the collateral score of 5.0% (4.2% excluding systemic risk).

» The support provided by the Norwegian legal framework for covered bonds.

Credit Strengths

» *Recourse to the issuer*: The covered bonds are full recourse to the issuer. See "Covered Bonds Analysis".

» *Support provided by the Norwegian legal framework*: The covered bonds are governed by the Norwegian covered bond legislation which includes several strong features. See "Covered Bond Description".

» *High credit quality of the cover pool*: The covered bonds are supported by a cover pool of high-quality assets. The assets are residential mortgage loans backed by properties located in Norway. The collateral quality is reflected by the collateral score of 5.0% (4.2% excluding systemic risk). See "Cover Pool Analysis".

» *Refinancing Risk*: Refinancing risk for Norwegian residential mortgage covered bonds is lower than in other jurisdictions as the issuer has the ability to reset loan rates on floating-rate residential mortgages at six weeks notice to the borrower. In the event of the issuer's default, the insolvency administrator will be able to similarly reset loan rates. Further, covered bonds issued under this programme will benefit from a 12-month extension period. See "Covered Bond Analysis".

» *Interest rate and currency mismatches:* As of the date of this report, all the assets in the cover pool are floating rate and denominated in NOK. However, some of the outstanding covered bonds are fixed rate and/or denominated in EUR. Interest rate and currency mismatch risks are hedged by way of swap agreements entered into by the issuer with swap counterparties that are not part of the issuer's group. The swap agreements provide for collateral posting and replacement triggers. See "Covered Bond Analysis".

» *Liquidity matching requirements:* In accordance with the Norwegian covered bond legislation, the issuer has established liquidity risk guidelines and limits. These guidelines state that the net liquidity inflow should at all times be positive for the following twelve month period, on a rolling basis. Liquidity gaps are reported based on projected monthly liquidity inflows and outflows, on the basis of contractual loan redemption plans. Stress tests on liquidity are also carried out.

» *Regulatory oversight:* In its capacity as a regulated financial institution (*kredittforetak*) under the terms of the Norwegian covered bond legislation, the issuer has obtained a licence from the Norwegian Financial Services Authority (FSAN or Finanstilsynet) to issue covered bonds (*obligasjoner med fortrinnsrett*), and is subject to ongoing supervision. See "Structure Description".

» *Pool monitoring:* There is an external cover pool monitor (*uavhengig gransker*) responsible for monitoring various operations with respect to the cover pool. This is mandatory by operation of the Norwegian covered bond legislation.

» *Set-off risk*: Set-off risk is well addressed by the combination of the Norwegian covered bond legislation and the transaction structure of the issuer's covered bond programme. See "Covered Bond Analysis".

Credit Challenges

» *High level of dependency on the issuer:* As with most covered bonds, before a CB anchor event the issuer can materially change the nature of the programme. For example, the issuer can add new assets to the cover pool, issue new covered bonds with varying promises, and enter into new hedging arrangements. As with most covered bonds in Europe, there are few restrictions on the future composition of the cover pool. These changes could affect the cover pool's credit quality as well as the overall refinancing risk and market risks. Further, If the quality of the collateral deteriorates below a certain threshold, the issuer would have the ability, but not the obligation, to increase the OC in the cover pool. See "Covered Bond Analysis".

» *Credit quality of the cover pool:* In line with Norwegian market standards, most of the loans in the cover pool (100% in this case) feature floating interest rates. This exposes the borrowers to the risk of increasing debt service payments in case of increasing interest rates, possibly leading to higher pool arrears. See "Cover Pool Analysis".

» *Market risks*: Following a CB anchor event, covered bondholders may need to rely on proceeds being raised through the sale of, or borrowing against, cover pool assets in order to make timely payments of principal on the bonds. Following a CB anchor event, the market value of these assets may be subject to high volatility. In addition, covered bondholders may be exposed to interest rate and currency risk. See "Covered Bond Analysis".

Key Characteristics

Exhibit 1

Covered Bonds Characteristics

Issuer:	**Sparebanken Sør Boligkreditt AS**
Covered Bond Type:	Mortgage Covered Bonds
Issued under Covered Bonds Law:	Yes
Applicable Covered Bonds Law:	Norwegian covered bond legislation
Entity used in Moody's EL and TPI analysis	**Sparebanken Sør**
CR Assessment:	Aa3(cr)
CB Anchor:	CR assessment +1 notch
Senior unsecured/deposit rating:	A1
Total Covered Bonds Outstanding:	**NOK 24,610,000,000**
Main Currency of Covered Bonds:	NOK (81.7%)
Extended Refinance Period:	1-year refinancing period for covered bonds
Principal Payment Type:	Soft bullet
Interest Rate Type:	Fixed rate covered bonds (21.7%), variable rate covered bonds (78.3%)
Committed Over-Collateralisation:	2.0%
Current Over-Collateralisation:	14.4% (on a nominal value basis)
Intra-group Swap Provider:	**No**
Monitoring of Cover Pool:	Cover pool monitor, mandatory by operation of the Norwegian covered bond legislation
Trustees:	n/a
Timely Payment Indicator:	High
TPI Leeway:	5

Source: Moody's Investors Service; based on information provided by the issuer as of 30/09/2016

Exhibit 2

Cover Pool Characteristics

Size of Cover Pool:	**NOK 28,165,912,380**
Main Collateral Type in Cover Pool:	Residential Mortgage Loans (100%)
Main Asset Location of Ordinary Cover Assets:	Norway (100.0%)
Main Currency:	NOK (100.0%)
Loans Count:	26,103
Number of Borrowers:	23,404
Concentration of 10 Biggest Borrowers:	n/a
WA Remaining Term:	17.0 years
Interest Rate Type:	Fixed rate assets (0.0%), floating rate assets (100%)
Collateral Score:	5.0%
Cover Pool Losses:	8.5%
Further Cover Pool Details:	See Exhibit 5
Pool Cut-off Date:	30-Sep-16

Source: Moody's Investors Service; based on information provided by the issuer as of 30/09/2016

Covered Bond Overview

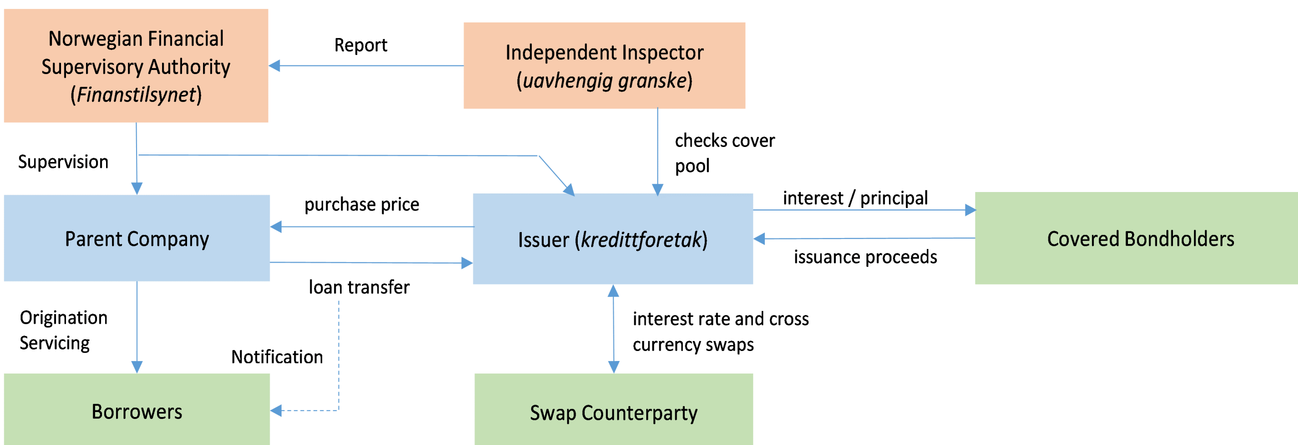
The covered bonds are governed by the Norwegian covered bond legislation and benefit from recourse to both the issuer and the cover pool. Our rating reflects these features.

Covered Bond Description

The covered bonds are full recourse to the issuer. Upon occurrence of a CB anchor event, covered bondholders will have a priority claim on the cover pool.

Structure Diagram

Exhibit 3



Structure Description

THE BONDS

All outstanding bonds benefit from a 12-month maturity extension.

ISSUER RECOURSE

The covered bonds are full recourse to the issuer. Therefore, the issuer is obliged to repay principal and pay interest on the covered bonds.

RECOURSE TO COVER POOL AND OVER-COLLATERALISATION

If the issuer becomes insolvent, the covered bondholders will have priority claims over a pool of assets (cover pool). See "Cover Pool Description" for the cover pool characteristics and "Cover Pool Analysis" for our analysis of the pool.

As of 30 September 2016, the level of over-collateralisation (OC) in the programme was 14.4% on a nominal value basis. The minimum OC level that is consistent with the current Aaa rating is 0.5%.

Although the issuer has the ability to increase the OC in the cover pool if collateral quality deteriorates below a certain threshold, the issuer does not have any obligation to do so. The failure to increase OC following a deterioration of the collateral could lead to a negative rating action.

LEGAL FRAMEWORK

The covered bonds are governed by the Norwegian covered bond legislation. There are a number of above-average strengths in this legislation, which include *inter alia* the following: (i) non-performing assets are excluded from cover pool tests, and therefore cannot dilute pool quality; (ii) set-off is excluded in respect of any asset in the cover pool; (iii) because issuers are specialist credit institutions, the default of the parent or group supporting the issuer would not necessarily trigger the immediate default or insolvency of the issuer;

(iv) the issuer must limit interest rate risk (unless swapped) by reference to the potential losses resulting from a parallel shift of one percentage point in all interest-rate curves and "distortion" of the interest rate curves; (v) swap counterparties must post collateral or provide other security if their credit quality reduces.

A description of the general legal framework by the Norwegian covered bond legislation is contained in our Sector In-depth Report Norway - Legal Framework for Covered Bonds.

OTHER STRUCTURAL FEATURES

In its capacity as a regulated financial institution under the terms of the Norwegian covered bond legislation, Sparebanken Sør Boligkreditt has obtained a license from the NFSA to issue covered bonds. The license and its subsequent maintenance are subject to the issuer satisfying, on an ongoing basis, several requirements in respect of procedures and risk control systems set out by the Norwegian covered bond legislation and other applicable regulations.

Covered Bonds Analysis

Our credit analysis of the covered bonds primarily focuses on the issuer's credit quality, refinancing risk and interest rate and currency mismatch risk, as well as the probability that payments on the covered bonds will be made in a timely fashion following a CB anchor event which we measure using the Timely Payment Indicator (TPI), explained further below.

Primary Analysis

ISSUER ANALYSIS

Credit quality of the issuer: Sparebanken Sør Boligkreditt is unrated.

The reference point for our analysis is the "covered bond (CB) anchor", which for Norwegian covered bonds is the counterparty risk (CR) assessment plus one notch[2].

The covered bond rating is linked to the credit strength of the issuer's parent company, Sparebanken Sør Banken, mainly because the parent has established a revolving credit facility for the benefit of the issuer. Sparebanken Sør Banken's commitment to the covered bond programme is further underlined by the range of functions it carries out on behalf of the issuer. The support provided by the parent also means that the reference point for our analysis will be the CB anchor of Sparebanken Sør Banken.

Dependency on the issuer's credit quality: The credit quality of the covered bonds depends on the credit quality of the issuer mainly due to the existence of refinancing risk and issuer discretion.

» *Refinancing risk*: Should the credit strength of the issuer or its parent deteriorate, there would be a greater risk that a CB anchor event would occur, leading to refinancing risk for the covered bonds. Consequently the credit quality of the covered bonds would deteriorate unless other credit risks decrease. If the CB anchor deteriorates, the issuer would have the ability, but not the obligation, to increase the OC in the cover pool. Failure to increase the level of OC under these circumstances could lead to negative rating actions.

» *Issuer discretion*: The covered bonds are exposed to decisions made by the issuer, in its discretion as manager of the covered bond programme, and the parent as owner of the issuer. For example, before a CB anchor event, the issuer may add new assets to the cover pool, issue further bonds and enter new hedging arrangements. Such actions could negatively affect the value of the cover pool.

REFINANCING RISK

Following a CB anchor event, the "natural" amortization of the cover pool assets alone cannot be relied on to repay principal. We assume that funds must be raised against the cover pool at a discount if covered bondholders are to receive timely principal payment. Where the portion of the cover pool that is potentially exposed to refinancing risk is not contractually limited, our expected loss analysis typically assumes that this amount is in excess of 50% of the cover pool.

After a CB anchor event, the market value of these assets may be volatile. Examples of the stressed refinancing margins we use for different types of prime-quality assets are published in our rating methodology (see: "Moody's Approach to Rating Covered Bonds", December 2016).

Aspects of this covered bond programme that are refinancing-positive include:

» Provisions to allow for a principal refinancing period of 12 months, which should, in the event of a CB anchor event, improve the sales value of the cover pool and increase chances of timely principal payments on the covered bonds.

» The ability of the issuer to increase the interest rate charged on floating-rate loans to the underlying borrowers, with a notice period of six weeks, enabling margins on the cover pool assets to increase to cover funding costs. This right also applies to any potential bankruptcy administrator in charge of the cover pool after a CB anchor event.

Aspects of this covered bond programme that are refinancing-negative include:

» The lack of a separate cover pool administrator following a CB anchor event. The Norwegian covered bond legislation provides for a bankruptcy administrator to be appointed for both the insolvency estate and management of the cover pool. While the manager is not dedicated to the cover pool, he or she should, however, face a minimum of conflicts as the issuer is a specialist institution with few creditors outside the cover pool.

INTEREST-RATE AND CURRENCY RISK

As with the majority of European covered bonds, there is potential for interest rate and currency mismatches. For example, following a CB anchor event, covered bondholders may be exposed to interest rate risk that arises from different interest rates, and the duration of those interest rates, on the cover pool versus the covered bonds.

Following a CB anchor event, our model separately assesses the impact of increasing and decreasing interest rates on the expected loss of the covered bonds, taking the path of interest rates that leads to the highest loss. The stressed interest rate and currency exchange rates used over different time horizons are published in our rating methodology (see: "Moody's Approach to Rating Covered Bonds", December 2016).

Exhibit 4
Overview Assets and Liabilities

	WAL Assets (Years)	WAL Liabilities (Years)	Assets (%)	Liabilities (%)
Fixed rate	n/a	5.2	0.0%	21.7%
Variable rate	10.2	2.9	100.0%	78.3%

WAL = weighted-average life
Source: Moody's Investors Service; based on information provided by the issuer as of 30/09/2016

Aspects specific to this programme that are credit positive for interest rate and currency mismatches include:

» All loans in the cover pool have a floating rate and are denominated in NOK.

» The issuer has entered into hedging arrangements with external swap counterparties with a view to mitigating interest rate and currency risks. The hedging agreements include collateral posting and replacement triggers.

On the other hand, we consider the following programme feature to be credit negative for interest rate and currency mismatches:

» All cover pool assets are denominated in Norwegian Kroner (NOK), whereas 18.3% of the bonds are denominated in EUR. This introduces some currency risk, which however is somewhat mitigated by the hedging arrangements in place.

TIMELY PAYMENT INDICATOR

Our Timely Payment Indicator (TPI) assesses the likelihood that timely payments will be made to covered bondholders following a CB anchor event, and thus determines the maximum rating a covered bond programme can achieve with its current structure while allowing for the addition of a reasonable amount of OC. We have assigned a TPI of High to these covered bonds.

TPI-positive aspects of this covered bond programme include:

» The covered bonds' extended refinancing period of 12 months.

» The issuer's ability to reset loan rates on floating-rate residential mortgages on six weeks notice to the borrower. In the event of issuer default, the administrator will be able to similarly reset loan rates.

» The hedging arrangements in place.

» The credit quality of the cover pool assets, which is reflected by the collateral score of 5.0% (4.2% excluding systemic risk).

TPI-negative aspects of this covered bond programme include:

» The lack of a separate cover pool administrator following a CB anchor event. The Norwegian covered bond legislation provides for a bankruptcy administrator, who runs the cover pool in the interest of the covered bondholders, to be appointed following a CB anchor event. However, the bankruptcy administrator will also be responsible for running the estate of the insolvent issuer, which would lead to some conflicts. This risk is mitigated by the specialist nature of the issuer, meaning it has few creditors other than the covered bondholders.

» The currency risk, as referred to above. This risk, however, is somewhat mitigated by the hedging arrangements entered into by the issuer.

Additional Analysis

SCENARIOS FOLLOWING A CB ANCHOR EVENT

Following a CB anchor event, the Norwegian covered bond legislation would not contemplate the dissolution of the issuer, nor would it include any acceleration event or event of default. Following a CB anchor event, any one or more of the following scenarios may occur:

» Despite a CB anchor event in relation to the parent, the issuer is able to remain solvent, in which case the issuer may continue to operate the covered bond programme for the time being. However the issuer or parent may decide to terminate arrangements by which the parent provides services to the issuer

» Should the issuer become insolvent, payments to the creditors with a preferential claim over the cover pool (which includes covered bondholders and, if derivatives form part of the cover pool, derivative counterparties) could be continued by the public administration board of the issuer. The public administration board would be appointed by the Ministry of Finance, and would be responsible for running the general insolvency estate and the cover pool of the issuer.

» Should the issuer become insolvent, the public administration board may decide that it may not be able to repay covered bondholders in full and introduce a halt of payments. The creditors would be informed of the halt of payments and the date on which it is to be introduced. All preferential claims over the cover pool would be calculated by discounting them to present value as of the date when payments have been halted. The liquidation proceeds from the cover pool would be used to repay the claims of all preferential creditors of the cover pool on a present value basis.

TIME SUBORDINATION

After a CB anchor event, the Norwegian covered bond legislation does not contemplate the acceleration of the covered bonds. Principal cash collections may be used on a first-come, first-served basis, paying earlier-maturing covered bonds prior to later-maturing covered bonds. This could lead to the OC being eroded before any payments are made to later-paying covered bonds, although the possibility for a halt of payments mitigates this risk.

Cover Pool Overview

Following a CB anchor event, we determine the value of the cover pool, and therefore any losses, assuming a stressed environment.

Cover Pool Description

Pool Description as of 30 September 2016

As of 30 September 2016, the cover pool comprises 100% residential mortgage loans. All properties that are serving as security for the loans are located in Norway.

On a nominal value basis, the cover pool assets total NOK 28.2 billion and are backing equivalent NOK 24.6 billion covered bonds. This translates into an OC level on a nominal basis of 14.4%.

For Sparebanken Sør Boligkreditt's underwriting criteria, see Appendix: Income Underwriting and Valuation.

RESIDENTIAL MORTGAGE LOANS

Residential mortgage loans account for 100% of the total cover pool.

The high credit quality of the cover pool is evidenced, among other things, by the following features:

» These loans consist of prime, first-lien Norwegian residential mortgage loans originated by the parent and secured against properties that are geographically well dispersed across Norway.

» The current weighted-average (WA) indexed loan-to-value (LTV) of the residential mortgage loans is 52.8% (excluding junior ranking loan parts outside the cover pool). This ratio is in line with LTVs observed for other residential loans backing covered bonds that we rate in Norway.

» All the residential mortgages are floating interest rate loans. These loans have an average seasoning of 37 months. All of them are denominated in NOK.

Exhibit 5 below shows more details about the cover pool characteristics.

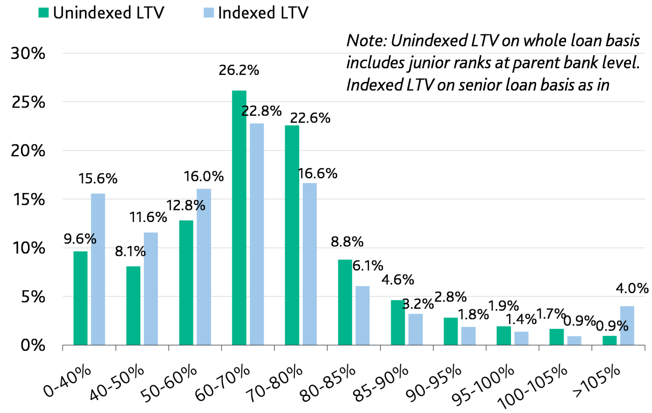
Exhibit 5
Residential Assets

Overview		Specific Loan and Borrower characteristics	
Asset type:	Residential	Loans with an external guarantee in addition to a mortgage:	0.0%
Asset balance:	28,165,912,380	Interest only Loans(***)/Flex Loan(****):	1.1% / 25.2%
Average loan balance:	1,079,030	Loans for second homes / Vacation:	0.0%
Number of loans:	26,103	Buy to let loans / Non owner occupied properties:	2.1%
Number of borrowers:	23,404	Limited income verified:	0.0%
Number of properties:	25,545	Adverse credit characteristics (*****):	0.0%
WA remaining term (in months):	204	**Performance**	
WA seasoning (in months):	37	Loans / bonds in arrears (≥ 2months - < 6months):	0.0%
Details on LTV		Loans / bonds in arrears (≥ 6months - < 12months):	0.0%
WA Unindexed LTV: Whole loan / Senior loan (*) :	66.1% / 59.5%	Loans / bonds in arrears (≥ 12months):	0.0%
WA Indexed LTV: Whole loan / Senior loan:	60.4% / 52.8%	Loans / bonds in a foreclosure procedure:	0.0%
Valuation type:	Market Value		
LTV threshold:	n/d	**Multi-Family Properties**	
Junior ranks(**):	6.6%	Loans to tenants of tenant-owned Housing Cooperatives:	0.0%
Prior ranks:	4.1%	Other type of Multi-Family loans (******):	0.0%

(note *) may be based on property value at time of origination or further advance or borrower refinancing, (note **) Internal junior ranks as a percentage of total residential asset balance, i.e. total amount of junior lien loans outside of the cover pool (but on the books of the issuing bank) that are secured on the same properties as the first lien loans in the cover pool. (note ***) This category includes loans which currently are in an initial interest only period before they start amortising. (note ****) FlexLoans have an amortisation profile and can be re-drawn by the customer up to a certain limit. (note *****) Typically borrowers with a previous personal bankruptcy or borrowers with record of court claims against them at time of origination. (note ******) This "other" type refers to loans directly to Housing Cooperatives and to Landlords of Multi-Family properties (not included in Buy to Let). This figure represents a percentage of the total cover pool.

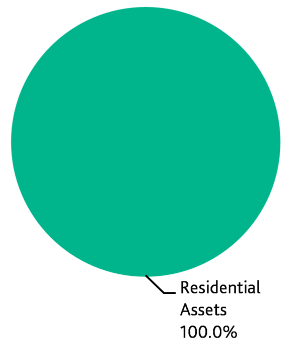
Source: Moody's Investors Service; based on information provided by the issuer as of 30/09/2016

Exhibit 6
Balance per LTV-band



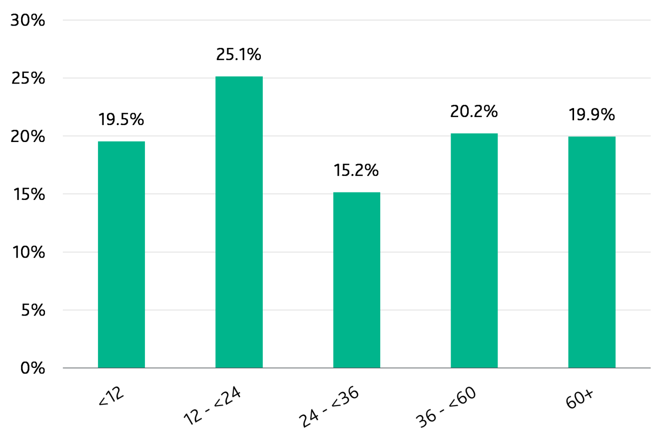
Source: Moody's Investors Service; based on information provided by the issuer as of 30/09/2016

Exhibit 7
Percentage of residential assets



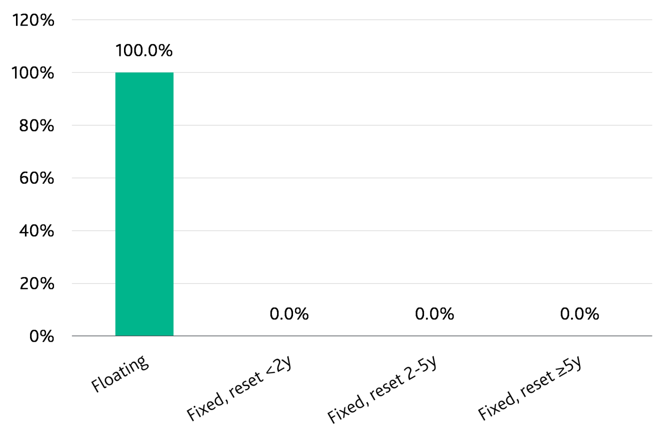
Source: Moody's Investors Service; based on information provided by the issuer as of 30/09/2016

Exhibit 8
Seasoning (in months)



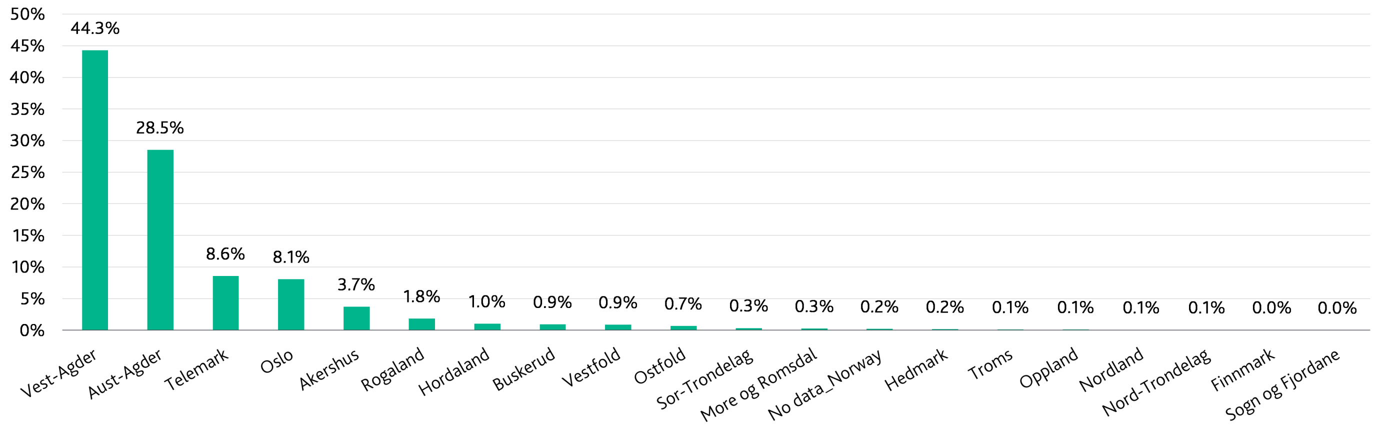
Source: Moody's Investors Service; based on information provided by the issuer as of 30/09/2016

Exhibit 9
Interest rate type



Source: Moody's Investors Service; based on information provided by the issuer as of 30/09/2016

Exhibit 10
Main regional distribution



Source: Moody's Investors Service; based on information provided by the issuer as of 30/09/2016

Substitution

Exposure to decisions made by the issuer in its discretion as manager of the cover pool creates additional risk. For example, before a CB anchor event, the issuer may remove assets from the cover pool and/or add new assets to the cover pool. Such actions could negatively affect the value of the cover pool.

As with most covered bonds in Europe, there are few contractual restrictions on the future composition of the cover pool, creating substitution risk. Nevertheless, cover pool quality over time will be protected by, among other things, the requirements of the Norwegian covered bond legislation that specify the types of assets that are eligible (see Norway – Legal Framework for Covered Bonds, section entitled "Asset and Covered Bond Eligibility").

Cover Pool Analysis

Our credit analysis of the pool takes into account specific characteristics of the pool, as well as legal risks.

Primary Cover Pool Analysis

The result of the cover pool analysis is the collateral score. We calculate the collateral score using a scoring model to assess the credit risk for the loans in the cover pool.

For this programme, the collateral score of the current pool is 5.0% (4.2% excluding systemic risk) which is comparable to the average collateral score in other Norwegian mortgage covered bonds (see Moody's Global Covered Bonds Monitoring Overview: Q2 2016).

From a credit perspective, Moody's views the following portfolio characteristics as positive:

» All of the mortgage loans are performing as of the cut-off date of this report.

» The WA unindexed LTV of the residential mortgages is relatively low at 59.5% on a senior loan basis excluding junior ranking loan parts not transferred to the cover pool. Furthermore, the weighted average seasoning of the loans is 37 months, relatively high figure.

» Borrowers' income is always independently verified, and the income restricts the amount that can be lent.

On the other hand, we regard the following portfolio characteristics as credit negative:

» In line with the Norwegian market standard, all loans in the cover pool feature floating interest rates. This exposes the borrowers to the risk of increasing debt service payments in case of increasing interest rates, possibly leading to higher pool arrears. This risk is partially mitigated by a standard 5 percentage points stress applied to affordability testing.

- Around 25.2% of the loans in the cover pool are interest only loans. This category includes loans which currently are in an initial interest only period before they start amortizing. This loan product may increase default risk if it leads to large principal payment obligations for borrowers at the end of the interest only period.
- As it is common in Norway, valuations backing loans may be based on an automated valuation method (AVM) provided by Eiendomsverdi. Some of them are based on Sørmegleren AS valuations. These valuations do not include a physical inspection of the property.

Additional Cover Pool Analysis

COMMINGLING RISK

The payment flows with respect to the assets in the cover pool are transferred daily from the Sparebanken Sør account to the issuer's account held at Sparebanken Sør. Upon a rating downgrade of the issuer account bank's rating below P-1, the issuer account bank shall be replaced by a suitably rated new entity. Furthermore, following a CB anchor event the insolvency administrator has the right and the ability to redirect all payments made by Norwegian Interbank Clearing System (NICS) to a suitable issuer collection account within very short time frame.

CLAW-BACK RISK

All borrowers will be notified at the time the loans are transferred from the parent to the issuer. Provided that the borrowers have been notified and that the transfer has been performed in accordance with market practice, it cannot be subject to clawback by the transferor or any public administration board appointed in respect of the transferor.

Methodology and Monitoring

The primary methodology we use in rating the issuer's covered bonds is "Moody's Approach to Rating Covered Bonds", published in December 2016. Other methodologies and factors that may have been considered in the rating process can also be found on http://www.moodys.com. In addition, we publish a weekly summary of structured finance credit, ratings and methodologies, available to all registered users of our website, at www.moodys.com/SFQuickCheck.

We expect the issuer to deliver certain performance data to us on an ongoing basis. In the event that this data is not made available to us, our ability to monitor the ratings may be impaired. This could negatively affect the ratings or, in some cases, our ability to continue to rate the covered bonds.

Income Underwriting and Valuation

1. Income Underwriting	
1.1 Is income always checked?	Yes
1.2 Does this check ever rely on income stated by borrower ("limited income verification")?	No
1.3 Percentage of loans in Cover Pool that have limited income verification	None
1.4 If limited income verification loans are in the Cover Pool, describe what requirements lender has in place for these loans.	Not applicable
1.5 Does income in all cases constrain the amount lent (for example through some form of Income Sufficiency Test ("IST").	Yes
1.6 If not, what percentage of cases are exceptions.	No exceptions.
For the purposes of any IST	
1.7 Is it confirmed income after tax is sufficient to cover both interest and principal.	Yes
1.8 If so over what period is it assumed principal will be paid (typically on an annuity basis)? Any exceptions?	Payment of interest and principal on an annuity basis over the life of the relevant loan, normally 20-30 years.
1.9 Does the age of the borrower constrain the period over which principal can be amortised?	No
1.10 Are any stresses made to interest rates when carrying out the IST? If so when and for what type of products?	Yes. On granting a long-term loan, the borrower's ability to withstand an interest rate increase of 5% should be assessed.
1.11 Are all other debts of the borrower taken into account at point loan made?	Yes
1.12 How are living expenses of the borrower calculated? And what is the stated maximum percentage of income (or income multiple if relevant) that will be relied on to cover debt payments. (specify if income is pre or post tact)	Expenses are based on standard indices prepared by governmental consumer research (SIFO). The borrower's liquidity after tax and debt payment, as well as an interest rate increase of 5% is calculated and has to be positive if the loan shall be granted.
2. Valuation	
2.1 Are valuations based on market or lending values?	Market values
2.2 Are all or the majority of valuations carried out by external (with no direct ownership link to any company in the Sponsor Bank group) valuers?	A majority of valuations are carried out by Eiendomsverdi, but also some by Sørmegleren AS.
2.3 How are valuations carried out where external valuer not used?	Not applicable
2.4 What qualifications for external valuers require?	Valuations are based on estimates received from Eiendomsverdi AS.
2.5 What qualifications do internal valuers require?	Not applicable
2.6 Do all external valuations include an internal inspection of a property?	No
2.7 What exceptions?	AVMs by Eiendomsverdi are based on historical and statistical data, but do not include an internal inspection of the property.
2.8 Do all internal valuations include an internal inspection of a property?	No
2.9 What exceptions?	Not applicable

Moody's Related Research

Rating Methodology

» Moody's Approach to Rating Covered Bonds, December 2016 (PBS_1044142)

Special Comments

» Moody's Global Covered Bonds Monitoring Overview: Q2 2016, November 2016 (PBS_1039127)

» Norway – Legal Framework for Covered Bonds, October 2016

» European Covered Bond Legal Frameworks: Moody's Legal Checklist, December 2005 (SF66418)

Performance Overview

» Sparebanken Sør Boligkreditt Mortgage Covered Bonds, December 2016 (SF444024)

Webpage

» www.moodys.com/coveredbonds

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

Endnotes

1 This is the probability that the issuer or another rated entity (which is normally in the issuer group) ceases to make payments under the covered bonds. It should be noted that a CB Anchor Event does not necessarily mean there has been a late or missed payment on the covered bonds. The likelihood of timely payments continuing on the covered bonds following a CB Anchor Event is measured by our TPI.

2 See Moody's Sector Comment "Bank Resolution Regime Strengthen Norwegian Covered Bonds and Improve Their Ratings", August 2015.

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