MOODY'S
INVESTORS SERVICE

NEW ISSUE REPORT

SR-Boligkreditt AS Mortgage Covered Bonds

Covered Bonds / Norway

Closing Date

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Provisional ratings

Cover Pool (in NOK)	Ordinary Cover Pool Assets	Covered Bonds (in NOK)	Rating
3,916,698,667	Residential Mortgage Loans	2,000,000,000	Aaa

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.

Transaction summary

We have assigned a definitive long-term rating of Aaa to the mortgage covered bonds (*obligasjoner med fortrinnsrett* or covered bonds) issued by SR-Boligkreditt AS (the issuer, or SRBOL). The covered bonds are full recourse to the issuer. The issuer is a wholly owned subsidiary of SpareBank 1 SR-Bank ASA (the parent company, or SR-Bank A1 stable, baa1, Prime-1, Aa3(cr), P-1(cr))[1]. The issuer itself (SRBOL) is not rated. The covered bond rating is linked to the credit strength of the issuer's parent company, mainly because SR-Bank has established a revolving credit facility for the benefit of the issuer. SR-Bank'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 SR-Bank also means that the reference point for Moody's expected loss (EL) analysis and timely payment indicator (TPI) for this covered bond programme (currently "Probable-High") will be the covered bond (CB) anchor[2] of SR-Bank.

The covered bonds are governed by Norwegian covered bond legislation. Following a CB anchor event[3], the covered bondholders will have priority claims over a pool of assets (cover pool). As of 26 May 2015, the assets in SRBOL's cover pool amounted to approximately NOK 3.9 billion. All the assets in the cover pool are Norwegian residential mortgages and at the time this transaction was rated, there were no substitute assets included in the cover pool.

In summary, the covered bond rating takes into account, among other factors (1) the credit strength of SR-Bank; (2) the Norwegian legal framework for covered bonds and (3) the credit quality of the cover pool, which is reflected in the collateral score of 5% (3.3% excluding systemic risk).

The over-collateralisation (OC) in place is currently 95.8% on a nominal basis, 2% of which we consider to be "committed". The minimum OC that is consistent with the current Aaa ratings is 0.5%. We have assigned a TPI of Probable-High for the covered bonds issued by SRBOL.

We consider the transaction to be linked to the credit strength of the parent, SR-Bank, particularly from a default probability perspective. If SR-Bank's credit strength deteriorates, all other variables being equal, we would expect the rating on the covered bonds to come under pressure.

In the case of deterioration of the parent's credit strength or the pool quality, 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.

The principal methodology used in these ratings was Moody's Approach to Rating Covered Bonds, published in March 2015 after the Request for Comment (RFC) published in January 2015, Update to Covered Bond Methodology Resulting from New Counterparty Risk Measure. The updated methodology identifies a financial institution's Counterparty Risk (CR) Assessment as the new reference point for the covered bond (CB) anchor.

The CR Assessments, when available, will be used to express CB anchors in all jurisdictions. For more information on the CR Assessment see the Bank Rating Methodology published in March 2015 and the corresponding Frequently Asked Questions document that sets out the positioning of the CR Assessment relative to credit ratings published by our banking group.

The CB anchor will be the CR Assessment plus one notch for covered bonds that fall under either (1) the EU directive on bank resolution and recovery; or (2) a resolution regime that Moody's believes provides an equivalent level of protection for covered bonds. Otherwise, the CB anchor will typically be the CR Assessment.

Other methodologies and factors that may have been considered in the rating process can also be found on 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.

Opinion

Strengths of the transaction

Issuer:

The covered bonds are full recourse to the issuer, which is a wholly owned subsidiary of SR-Bank. The covered bond rating is linked to the credit strength of the parent company of the issuer, SR-Bank. SR-Bank has established a revolving credit facility for the benefit of the issuer. SR-Bank's commitment to the covered bond programme is further underlined by the range of functions it carries out on behalf of the issuer.

The Norwegian legal framework:

The covered bonds are governed by the Norwegian covered bond legislation. There are a number of strengths in this legislation, which include *inter alia* the following:

- The issuer is regulated and supervised by the Financial Supervisory Authority of Norway (NFSA or *Finanstilsynet*).
- Following a CB anchor event, the claims of the covered bondholder will be secured by a pool of assets. Eligibility criteria for assets in the cover pool are set out in the Norwegian covered bond legislation. The ordinary cover pool assets can be residential mortgages, commercial mortgage and public sector debt. We expect only residential mortgages will be used as ordinary cover pool assets. Mortgage covered bonds can only be issued against 75% of the loan to value (LTV) of residential mortgages.
- If the LTV of a loan subsequent to inclusion exceeds the limit (the value of the property has decreased after inclusion), the loan can remain in the pool, but only that part that is within the 75% LTV limit is taken into account when calculating the asset coverage test.
- The value of the cover pool has to exceed the value of preferential claims against the pool itself (i.e., covered bondholder and claims of swap counterparties), if swaps are in the cover pool. As a rule, derivative contracts and substitute assets are valued at prudent market value. However, bank deposits, which are redeemable with a notice of up to 30 days, and floating-rate loans are valued at their nominal value, plus accrued interest. The value of the outstanding covered bonds is determined by the sum of the discounted face value of the covered bonds and discounted coupon payments (present value).
- There is an external cover pool monitor (*uavhengig gransker*) responsible for monitoring various operations with respect to the cover pool.

Credit quality of the cover pool:

- The covered bonds are supported by a cover pool. The cover pool consists of Norwegian residential mortgages.
- The low WA indexed LTV (52.7%) of the residential mortgages (excluding junior ranks).
- The high WA seasoning 196 months of the residential mortgages.
- All the mortgage loans are held by owner-occupier borrowers.
- The higher-than-average geographical distribution of the residential mortgages (76.7% of the residential loans are concentrated in Rogaland).
- All of the mortgage loans are performing as of the date of this report.
- All the properties securing the loans are completed (i.e., not development or construction financing).

- Loans to employees won't exceed 5% of the total pool.
- The good credit quality of the cover pool is reflected by the collateral score of 5% (3.3% excluding systemic risk).

Refinancing risk:

- Refinancing risk for Norwegian residential mortgage loans is lower than in many other jurisdictions as the issuer has the ability to reset loan rates on floating-rate residential mortgages. The right to reset the margins on floating-rate loans is based on the Norwegian Financial Contracts Act, which requires giving the borrower six weeks' notice. Following a CB anchor event, the insolvency administrator of the issuer (who will be also responsible for the management of the cover pool) will be able to similarly reset the loan rates. We believe this right to reset margins should materially reduce the level of refinancing risk compared to most other covered bond jurisdictions.
- The net liquidity inflow on the balance sheet of the issuer for the following six-month period should at all times be positive as stipulated by the Norwegian covered bond legislation. Stress tests on liquidity will be carried out.
- Covered bonds issued under this programme will benefit from a 12-months extension period.

Interest rate and currency mismatches:

- There is no currency risk and only limited interest rate risk, because, as of 26 May 2015, all the outstanding covered bonds and cover pool assets were floating-rate and denominated in Norwegian kroner.
- Interest rate and currency mismatches will likely be swapped in addition to stringent internal limits imposed on interest rate and currency exposures.
- SRBOL has swap agreements in place with counterparties that are part of SR-Bank. These swaps are standard compared with swaps used in other Norwegian covered bond programmes

De-linkage / 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.

Weaknesses and mitigants

Issuer Discretion:

As with most covered bonds, until the CB anchor event, the issuer can materially change the nature of the programme. For example, new assets may be added to the cover pool, new covered bonds issued with varying promises and new hedging arrangements entered into. These changes could affect the credit quality of the cover pool as well as the overall refinancing risk and market risks. **Mitigants**: (1) The covered bondholders have a direct claim on the issuer that benefits from the support provided by SR-Bank; and (2) the requirements and controls imposed by the Norwegian covered bond legislation.

Credit quality of the cover pool:

- In line with Norwegian market standards, all loans in the cover pool feature floating interest rates (bank variable rate). This exposes the borrowers to the risk of increasing debt service payments in case of increasing interest rates, possibly leading to higher pool arrears. **Mitigant**: SR-Bank assesses the borrower's ability to fulfil the debt service obligation assuming stressed interest rates (i.e., the current bank variable rate plus 5.0%).
- As of 26 May 2015, 76.7% of the loans in the cover pool are secured on properties in the Rogaland region, which is the area of main activity for SR-Bank. High regional concentration may increase the probability of significant losses. **Mitigant:** Our collateral score model takes into account, inter alia, the impact of regional concentration.
- Around 2.5% of the loans in the cover pool are flexi loans. The issuer's cover pool exhibits a slightly lower share of flexi loans than observed in other Norwegian cover pools. This loan product may increase default risk if it leads to large one-off payment obligations for borrowers at loan maturity. **Mitigants**: (1) SR-Bank, in line with Norwegian market practice, reviews the credit quality of borrowers obtaining such loan products at least every five years and has the option to change the loan to an instalment loan if the borrower's credit quality weakens; (2) we will monitor the cover pool and incorporate into our analysis the aforementioned risk factors.

Refinancing risk:

Following a CB anchor event in order to achieve timely principal payment, covered bondholders may need to rely on proceeds being raised through the sale of, or borrowing against, assets in the cover pool. Following a CB anchor event the market value of these assets may be subject to high volatility. **Mitigants**: (1) The credit strength of the issuer and the support of SR-Bank. The stronger the credit quality of SR-Bank, the lower the chance of being exposed to refinancing risk; (2) the issuer's ability to raise interest rates on the underlying collateral, which is subject to six weeks' notice; and (3) the stressed refinancing margins used in our modelling.

Interest rate and currency mismatches:

As of the date of this report, all the assets in the cover pool and the covered bonds were floating rate and denominated in Norwegian kroner. Under the programme, the issuer may issue fixed-rate covered bonds denominated in other currencies, which gives rise to potential interest rate and currency mismatches. **Mitigant**: We expect there will be interest rate and currency hedging agreements in place with internal parties following the Norwegian market standard, which are, from a credit standpoint, average compared with most other swaps found in the covered bond market.

Time subordination:

After a CB anchor event, later-maturing covered bonds are subject to time subordination. 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 OC being eroded before any payments are made to later paying covered bonds. **Mitigant**: If the bankruptcy administrator is of the opinion that it may not be able to repay covered bondholders in full, it may introduce a halt of the payments. All preferential claims over the cover pool will be calculated by discounting them to present value, on the date when payments have been halted. The liquidation proceeds from the cover pool will be used to repay the claims of all preferential creditors of the cover pool on a present value basis.

Structure summary

Issuer:	SR-Boligkreditt AS (unrated)
Sponsor Bank:	SpareBank 1 SR-Bank ASA (SR-Bank)
Covered Bond Type	Mortgage covered bonds (obligasjoner med fortrinnsrett)
Issued under Covered Bonds Law:	Yes
Applicable Covered Bonds Law:	Norwegian covered bond legislation
Main Originator(s):	SpareBank 1 SR-Bank ASA (SR-Bank)
Main Servicer(s):	SpareBank 1 SR-Bank ASA (SR-Bank)
Issuer account bank:	SpareBank 1 SR-Bank ASA (SR-Bank)
Intra-Group Swap Provider:	Yes
Monitoring of Cover Pool:	Cover pool monitor, mandatory by operation of the Norwegian covered bond legislation
Trustees:	Bond Trustee, monitoring the compliance by the issuer of its obligations under the covered bond agreement
Timely Payment Indicator (TPI):	Probable-High
TPI Leeway:	4

CB anchor

Entity used in Moody's expected loss and TPI analysis	Sparebank 1 SR-Bank ASA (SR-Bank)
CR Assessment	Aa3 (cr)
CB Anchor	CR + 1

Covered bonds summary

Total Covered Bonds Outstanding:	NOK 2,000,000,000
Currency of Covered Bonds:	Norwegian kroner (100%)
Extended Refinance Period:	Yes, 12 months
Principal Payment Type:	Soft bullet (12-month extension period)
Interest Rate Type:	Floating-rate covered bonds (100%)

Collateral summary (see Appendix 1 for further information)

Size of Cover Pool:	NOK 3,916,698,667
Main collateral type in Cover Pool:	Residential mortgages (100%)
Main Asset Location:	Norway (100%)
Loans Count:	2,388
Currency:	Norwegian kroner (100%)
Concentration of 10 Biggest Borrowers:	1.74% of the residential mortgage loans
WA Current LTV:	52.7% (on indexed property value; excluding junior ranks)
WA Seasoning:	196 months
WA Remaining Term:	274 months
Interest Rate Type:	Floating-rate assets (100%)
"Committed" OC:	2.0%
Current OC:	95.8%
Collateral Score:	5% (3.3% excluding systemic risk)
Cover Pool Losses:	9.0%
Further Details:	See Appendix 1
Pool Cut-off Date:	26 May 2015

Structural and Legal Aspects

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 NFSA to issue covered bonds (*obligasjoner med fortrinnsrett*). The licence and its subsequent maintenance are subject to the issuer satisfying, on an ongoing basis, several requirements in respect to procedures and risk control systems set out by the Norwegian covered bond legislation and other applicable regulations.

SR-Bank, which fully owns the issuer, has sold a portion of its residential mortgage loan book to the issuer. We expect regular further transfers from SR-Bank to the issuer.

SR-Bank provides a revolving credit facility to the issuer that covers payment obligations under the outstanding covered bonds over the next 12 months.

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, either of the following two scenarios may occur:

» 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) would be continued by the bankruptcy administrator of the bank. The bankruptcy administrator would be appointed by the competent court, and would be responsible for running the general insolvency estate and the cover pool of the issuer.

» The bankruptcy administrator decides that it may not be able to repay covered bondholders in full and introduces a halt of the payments. The creditors would be informed of the halt to 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, on 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.

Commingling risk

According to the structure of the covered bond programme, payment flows with respect to the assets in the cover pool are transferred daily from the SR-Bank account to the issuer's account held at SR-Bank. With this setup covered bondholders are exposed to limited commingling risk following a CB anchor event because the insolvency administrator has the right and the ability to redirect all payments made by Norwegian Interbank Clearing System to a suitable issuer collection account.

Set-off risk excluded by operation of the Norwegian covered bond legislation

Under the Norwegian covered bond legislation, no right of set-off may be declared for an asset included in the cover pool. If a borrower exercises set-off in violation of the Norwegian covered bond legislation, the issuer will have a monetary claim against the borrower equal to the amount set off. This claim can be brought before the courts and enforced.

Clawback risk is mitigated by notification of the borrowers

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

Moody's rating methodology

Our approach to rating covered bond transactions is detailed in our rating methodology.[4] Below we consider the impact of the credit strength of SR-Bank, quality of the collateral and market risks.

Credit strength of the issuer

The covered bonds are full recourse to the issuer, which is a wholly owned subsidiary of SR-Bank. The commitment of the parent company, which has established a revolving credit facility for the benefit of the issuer 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 SR-Bank means that the covered bond rating is directly linked to the parent company's credit strength. This leads to a CB anchor of CR assessment +1.

For more information on SR-Bank, see "Related research".

The credit quality of the cover pool

We were provided with good quality information on the cover pool assets. As of May 2015, 100% of the loans in the cover pool were residential mortgage loans. All properties that are serving as security for the mortgage loans are located in Norway.

The cover pool assets, which total NOK3.9 billion, are backing a total of NOK2.0 billion covered bonds. This translates into an OC of 95.8% on a nominal basis, 2% of which we consider to be "committed" .

According to the issuer, all residential mortgage loans in the cover pool are performing. The Norwegian covered bond legislation ensures that in any case, the 75% LTV threshold calculation takes any prior ranks into consideration. Under Norwegian covered bond legislation, only the loan parts within the first 75% LTV threshold are eligible for inclusion in the cover pool in the case of residential mortgage loans. This is the case also if there are prior-ranking land charges over the property, which serves as security for the mortgage loan in the cover pool.

See Appendix 1 for more information on the cover pool.

Residential mortgages

From a credit perspective, Moody's views the following characteristics of the mortgage loans as positive:

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

» The weighted-average LTV of the residential mortgages is low at 53.1% (unindexed LTV, excluding junior loan ranks within SR-Bank). The loans have an average seasoning of 196 months.

» The totality of the properties that serve as security for the mortgage loans are occupied by the borrower.

» The income of the borrower has been independently verified, and the income restricts the amount that can be lent. At the time of granting the loan, SR-Bank verifies the income of all applicants from independent sources.

» 0.8% of the loans in the cover pool are granted to SR-Bank's employees. The issuer has agreed to limit this amount to a maximum of 5% of total residential mortgage loans.

From a credit perspective, we regard the following portfolio characteristics of the residential mortgage loans as negative:

» In line with Norwegian market standard, all loans in the cover pool feature floating interest rates (bank variable rate). This exposes the borrowers to the risk of increasing debt service payments in case of increasing interest rates, possibly leading to higher pool arrears.

» Around 76.7% of the properties securing the residential mortgages in the cover pool are concentrated in the region of Rogaland. The regional concentration increases the likelihood of severe losses in certain scenarios.

» As is common in Norway, all valuations backing loans are valued based on an automated valuation method (AVM) provided by Eiendomsverdi. These valuations do not include an inspection of the property. Only valuations with a high confidence level are accepted. Where valuation data of sufficient quality is unavailable, the valuation will be supported by an external valuer report.

For further information on the income underwriting and valuation see Appendix 2.

Summary collateral analysis: collateral score

The result of the cover pool analysis is the collateral score.[5] We calculate a collateral score based on the credit quality of the cover pool assets as described above. In addition, the collateral score published in this report reflects all adjustments made; this number therefore includes the cushion built in to address the aforementioned factors.

More generally, we calculate the collateral score using a scoring model for the residential mortgages in the cover pool. Our analysis takes into account, *inter alia,* the impact of concentration on borrower, regional and country levels, as well as the different types of properties securing the loan.

For this transaction, the collateral score of the current pool is 5.0% (or 3.3% excluding systemic risk).

For further information on the cover pool, see Appendix 1. For further information on the income underwriting and valuation see Appendix 2.

Other credit considerations

As with most covered bonds issued in Europe, there are few restrictions or limitations on the future composition of the cover pool. These restrictions may create substitution risk.

Mitigants to substitution risk, which should protect the quality of the cover pool over time, include:

» Norwegian covered bond legislation requirements. Covered bonds may only be issued against mortgages with an LTV of up to 75% of the prudent market value for residential loans. If a loan in the pool exceeds the LTV limit, as a result of, for example, property value deterioration, then only a senior portion up to 75% LTV is considered in the amount of the cover pool. The issuer does not intend to include any commercial mortgage loans in the cover pool.

» As per the regulations, the issuer will not take into account non-performing loans when computing the required matching test. However, the priority right of the covered bondholder remains as long as such loans are registered in the cover pool. Furthermore, non-performing mortgage loans will not be added to the cover pool. However, mortgage loans that move into arrears while in the cover pool may remain in the pool but will not be taken into consideration for the mandatory cover test. The issuer has the ability to replace such assets with performing assets if the quality of the cover pool deteriorates.

» The cover pool composition will be monitored.

If the quality of the collateral deteriorates below a certain threshold, the issuer will have the ability, but not the obligation, to increase the OC in the cover pool to support the current rating. If additional OC is not added following a deterioration of the collateral, a negative rating action could ensue.

Refinancing risk

Following a CB anchor event, where the "natural" amortisation of the cover pool assets alone cannot be relied on to repay the principal, we assume that funds must be raised against the cover pool at a discount if covered bondholders are to receive timely principal payment. If 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 exceeds 50% of the cover pool.

After a CB anchor event, the market value of these assets may be subject to certain volatility. Examples of the stressed refinance margins we use for different types of prime-quality assets are published in our rating methodology (see "Moody's Approach to Rating Covered Bonds", published in March 2015).

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 lender to increase the interest rate charged on floating-rate loans to the underlying borrowers with a notice period of six weeks. 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:

- Our understanding that all covered bonds issued under this programme will have a bullet repayment. However, the covered bonds will have an extension period of 12 months.
- Our expectation that cover pool assets will have a higher weighted-average life compared with the outstanding covered bonds.
- The material geographical concentration of the cover pool. This may increase the probability of significant losses, but we have taken this fact into account in our collateral score.
- 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 following a CB anchor event. The bankruptcy administrator will be responsible for both the insolvency estate and management of the cover pool.

Interest rate and currency mismatches

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, which could arise from the different payment promises and durations made on the cover pool and the covered bonds.

Following a CB anchor event, our covered bond 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 interest and currency stressed rates used over different time horizons are published in our rating methodology (see "Moody's Approach to Rating Covered Bonds", published in March 2015).

EXHIBIT 1

Overview of Assets and Liabilities

	Assets (%)	Liabilities (%)	WAL Assets (Years)	WAL Liabilities (Years)
Fixed rate	0%	0%	n/a	n/a
Variable rate	100%	100%	13.2	5.25

WAL = weighted-average life, n/a = not applicable

The issuer intends to hedge any interest rate and currency mismatches, should they occur. Currently, there are no hedging agreements in the cover pool.

The issuer will hedge asset liability mismatches by entering into swap agreement(s) with a counterparty who's long-term senior unsecured rating is at least A2 and which are broadly in line with hedging arrangements that have been established as market standard in Norway. We expect the swaps to be entered into with counterparties that are part of the SR-Bank. The swap agreements include features intended to (1) assist in the timely payment of covered bonds, (2) the swap collateral posting provisions should provide material support up until swap counterparty default and (3) swap counterparty replacement triggers may protect bondholders following issuer default.

Aspects specific to this programme that are interest rate and currency mismatch-positive include:

- The floating-rate nature of all loans in the cover pool. Interest risk may be limited by the variable nature of the assets in the cover pool.
- The stringent internal limits imposed on interest rate and currency exposures.

Aspects specific to this programme that are interest rate and currency mismatch-negative include:

- Possibility of material change of the nature of the programme by the issuer prior to a CB anchor event. For example, the issuer may issue fixed-rate covered bonds denominated in currencies other than Norwegian kroner. This would introduce material interest rate and/or currency mismatches, which nonetheless have to be hedged according to the Norwegian covered bond legislation.

Linkage

All covered bonds are linked to the issuer of the covered bonds. The issuer is a wholly owned subsidiary of SR-Bank and benefits from the parent company's credit strength. The covered bonds will come under rating stress if the credit strength of the issuer or its parent deteriorates. Reasons for this could include:

» Refinancing risk: Following a CB anchor event, if principal receipts from cover pool collection are insufficient to meet the principal payment on a covered bond, funds may need to be raised against the cover pool. However, the fact that a CB anchor event has occurred may negatively affect the ability to raise funds against the cover pool.

» The exposure to decisions made by the issuer in its discretion as manager of the covered bond programme. 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. These actions could negatively affect the value of the cover pool.

» More generally, the incorporation of the strength of the issuer in accordance with our rating methodology.

As a result of this linkage, the probability of default of the covered bonds may be higher than expected for a senior unsecured debt with the same rating. However, our primary rating target is the expected loss, which also takes severity of loss into account; in this case, it is consistent with the covered bond rating.

Timely Payment Indicator

Moody's Timely Payment Indicator (TPI)[6] reflects the probability that timely payments will be made to covered bondholders following a CB anchor event. This indicator 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.

Aspects to this programme that are TPI positive include:

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

» Our understanding that set-off risk for loans registered in the cover pool, which are made under Norwegian law and located in Norway, is excluded by the operation of the Norwegian covered bond legislation.

» The credit quality of the cover pool assets, which is reflected by the collateral score of 5.0% (3.3% excluding systemic risk).

Aspects to this programme that are TPI 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, 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.

» Some limited commingling risk upon default of SR-Bank.

» The potential for currency risk. However, the issuer intends to hedge foreign currency risks using cover pool derivatives.

We have assigned a TPI of "Probable-High" to this transaction. The support provided by SR-Bank also means that the reference point for our TPI for this covered bond programme will be the CB anchor of SR-Bank. However, the robustness of a covered bond rating usually depends on the credit strength of the issuer to a large degree.

The TPI Leeway measures the number of notches by which we might lower the CB anchor before downgrading 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.

Monitoring

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

Appendix 1: Cover pool information

Residential mortgage loans

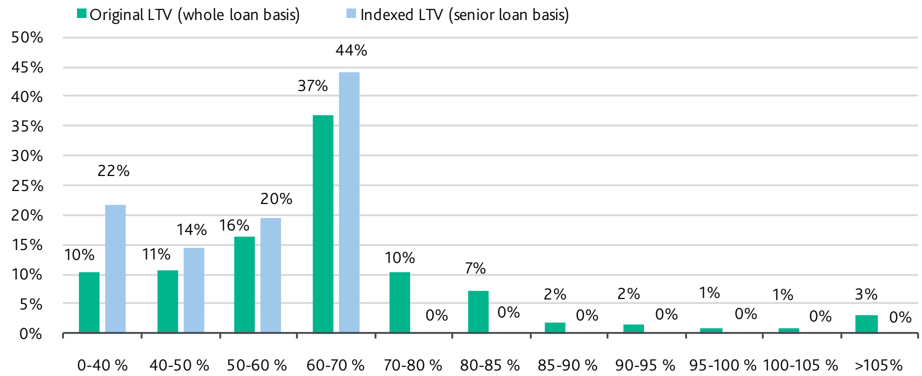
Overview		Specific Loan and Borrower characteristics	
Collateral Score (CS) / CS excl. systemic risk	5.0% / 3.3%	Loans benefiting from a guarantee:	n/a
Asset balance (mortgage loans):	3,916,698,667 NOK	Bullet Loans / Flexi Loans:	0.0% / 2.5%
Average loan balance:	1,640,159 NOK	Loans for second homes / Vacation:	0.0%
Number of loans:	2,388	Loan to Employees:	0.8%
Number of borrowers:	2,356	Limited income verified	0.0%
Number of properties:	2,388	Adverse Credit Characteristics (****):	0.0%
WA Remaining Term (in months):	274		
WA Seasoning (in months):	196	**Performance**	
		Loans in arrears (≥ 2months - < 6months):	0.0%
Details on LTV		Loans in arrears (≥ 6months - < 12months):	0.0%
WA Unindexed LTV (*): Whole loan / Senior loan	64.8%/ 53.1%	Loans in arrears (> 12months):	0.0%
WA Indexed LTV: Whole loan / Senior loan	62.7%/ 52.7%	Loans in a foreclosure procedure:	0.0%
Valuation type:	Market Value		
LTV threshold:	60%/70% (**)	**Multi-Family Properties**	
Junior ranks (***):	11.7%	Loans to tenants of tenant-owned Housing Cooperatives:	0.0%
Prior ranks:	0.0%	Other type of Multi-Family loans (*****)	0.0%

(*) Based on original property valuation; (**) 60% for flexi loans and 70% for amortising loans according to internal guidelines; (***)Internal junior ranks (delta between Unindexed Whole loan WA LTV incl. Internal junior ranks and Unindexed WA LTV excl. Internal junior ranks); (****) Refers to borrowers with previous missed payments. Borrowers with a previous personal bankruptcy or borrowers with record of court claims against them at time of origination; (*****) This "other" type refers to loans directly to housing cooperatives and to professional landlords

n/d: information not disclosed by issuer

EXHIBIT 2

Balance per LTV-Band



Notes: Original LTV on whole loan basis including junior ranks at parent bank level.
Indexed LTV on senior loan basis as in cover pool.

EXHIBIT 3

Cover Pool Composition

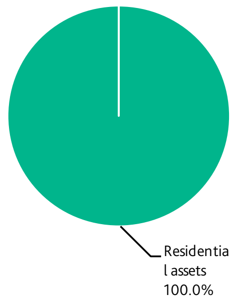


EXHIBIT 4
Seasoning

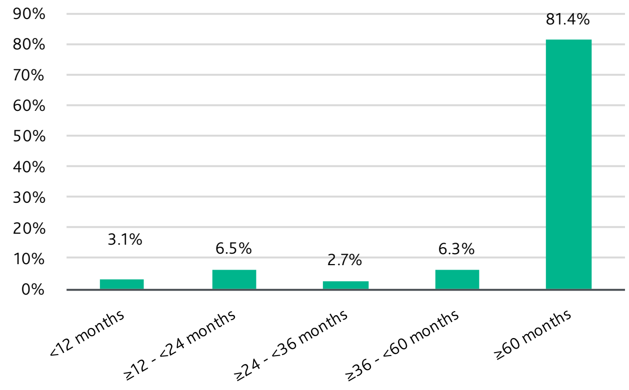


EXHIBIT 5
Interest Rate Type

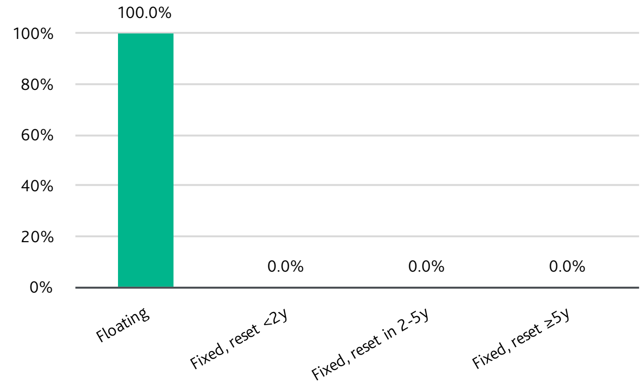
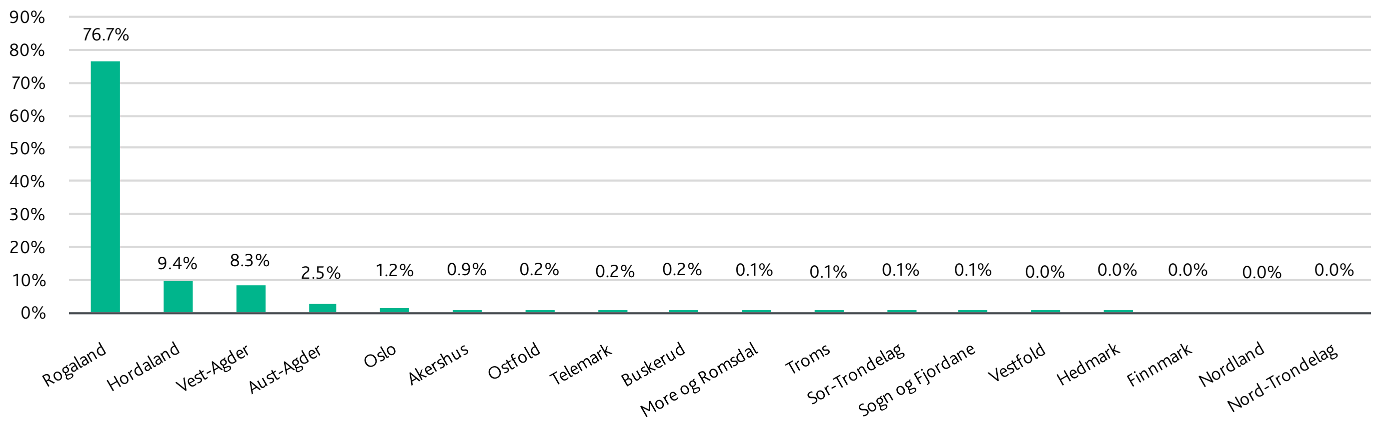


EXHIBIT 6
Regional Distribution



Qualitative collateral information

All pool characteristics are actual levels (rather than assumed levels) based on reports from the issuer.

Appendix 2: Income underwriting and valuation

1. Income Underwritings		
1.1	Is income always checked?	Yes
1.2	Does this check ever rely on income stated by borrower ("limited income verification") income stated by the borrower?	No
1.3	Percentage of loans in the Cover Pool that have limited income verification	0 %
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")?	Generally yes, but the LTV constraint at maximum 85% LTV at bank level, and 75% at cover pool level, will often be the constraint rather than the income / debt servicing capacity.
1.6	If not, what percentage of cases are exceptions?	If the applicant does not pass the IST the application can be sent to a higher underwriting power, ie. a credit committee. 25 % of all mortgage loans granted in 2014 were decided in credit committee (4562 cases). 18 % (823 cases) of these were related to failed IST. Hence, in 2014 the share of applications with failed IST granted by credit committee was 4,4 % of total number of loans granted.
For the purposes of any IST		
1.7	Is income after tax confirmed as 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 25 years.
1.9	Does the age of the borrower constrain the period over which principal can be amortised?	Yes
1.10	Are any stresses made to interest rates when carrying out the IST? If so when and for what type of products?	Yes, every time an IST is performed and for every product
1.11	Are all other debts of the borrower taken into account at the point the loan is 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-tax)	Expenses are based on national standards prepared by the National Institute for Consumer Research (SIFO-model). The starting point is the applicant's (or the household's) disposable income after tax. Firstly household expenses (food, clothing, health care, education and child care, transportation costs, cost related to communication and media) are deducted according to national standards (SIFO-model). Then costs related to insurance and electricity are taken into account. Lastly the debt servicing costs are deducted, including deductions covering a 5% interest rate stress. The applicant needs to show a positive liquidity position after all expenses are paid, measured by the following ratio: Disposable income after all expenses paid, including interest rate stress of 5 % / household expenses ≥ 125%
Other comments		

Source: SR-Boligkreditt AS

2. Valuations

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?	At origination the valuation is carried out by a licenced appraiser or real estate agent. The real estate agent will often be employed by Eiendomsmegler 1 (real estate agency) a wholly owned subsidiary of SpareBank 1 SR-Bank.
2.3	How are valuations carried out where external valuer not used?	See description under 2. above. When refinancing/re-mortaging one can also use an AVM-provider called Eiendomsverdi to update the valuation.
2.4	What qualifications for external valuers require?	Licenced appraiser or real estate agent
2.5	What qualifications do internal valuers require?	Licenced appraiser or real estate agent. Internal is in this context to be understood as employees of Eiendomsmegler 1.
2.6	Do all external valuations include an internal inspection of a property?	Yes
2.7	What exceptions?	None
2.8	Do all internal valuations include an internal inspection of a property?	Yes, Eiendomsmegler 1 performs inspection of property.
2.9	What exceptions?	When AVM-model is used.

Source: SR-Boligkreditt AS

Moody's Related Research

For a more detailed explanation of Moody's approach to this type of transaction as well as similar transactions please refer to the following reports:

Rating Methodology:

- Moody's Approach to Rating Covered Bonds, March 2015 (SF396210)

Special Reports:

- Moody's Global Covered Bonds Monitoring Overview: Q4 2014, May 2015 (SF406323)
- 2015 Outlook - Global Covered Bonds, December 2014 (SF388771)
- Norway - Legal Framework for Covered Bonds, July 2014 (SF374614)
- Comparing Legal Frameworks for Covered Bonds: Eligibility Criteria and Cover Pool Management Before Issuer Default, December 2014 (SF386530)
- Banking System Profile: Norway, March 2014 (166001)
- Lower Oil Prices Will Slow Growth and Reduce Transfers into Pension Fund, But Credit Impact Is Not Significant, November, 2014 (1001457)
- Norwegian Banks: Credit Profiles are Sensitive to Elevated House Prices, October 2012 (145883)

Credit Opinion:

- SpareBank 1 SR-Bank ASA

Rating Actions:

- Moody's assigns provisional (P)Aaa to SR-Boligkreditt AS Mortgage Covered Bonds
- Moody's concludes review on 12 Norwegian banks' ratings

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.

1 The ratings shown in this report are Sparebank 1 SR Bank ASA's deposit rating, its baseline credit assessment, the short term debt rating, counterparty risk (CR) assessment and the corresponding rating outlooks.

2 The CB anchor refers to the probability of a CB anchor event occurring. A CB anchor event occurs when the issuer, or another entity in the issuer group that supports the issuer, ceases to service the debt obligations under the covered bonds. We use the issuer's CR assessment as a reference point to determine the CB anchor The CB anchor is the CR assessment plus one notch for covered bonds that fall under the EU's Bank Resolution and Recovery Directive or a resolution regime providing an equivalent level of protection for covered bonds, reflecting the relevant resolution regimes' legislative frameworks in relation to covered bonds. For more detail see Moody's Approach to Rating Covered Bonds, published in March 2015.

3 A CB anchor event occurs when the issuer, or another entity in the issuer group that supports the issuer, ceases to service the debt obligations under the covered bonds.

4 Moody's Approach to Rating Covered Bonds, published in March 2015 (see Related Research).

5 The collateral score can be seen as the amount of risk-free enhancement required to protect an Aaa rating from otherwise unsupported assets. Therefore, the stronger the credit quality of the collateral, the lower the collateral score. This only considers the credit deterioration of the assets and ignores any risk from any market risks (see Moody's Approach to Rating Covered Bonds, published in March 2015).

6 Please see Moody's Approach to Rating Covered Bonds, published in March 2015.

» contacts continued from page 1

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