MOODY'S INVESTORS SERVICE

NEW ISSUE REPORT

KLP Boligkreditt AS Mortgage Covered Bonds

Covered Bonds / Norway

Closing Date

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Definitive Ratings

Cover Pool (in NOK)	Ordinary Cover Pool Assets	Covered Bonds (in NOK)	Rating
675,579,336	Residential Mortgage Loans	500,000,000	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

Moody's has assigned a definitive long-term rating of Aaa to the mortgage covered bonds (*obligasjoner med fortrinnsrett* or covered bonds) to be issued by KLP Boligkreditt AS (the issuer, or "KLPBO"). The covered bonds are full-recourse to the issuer. The issuer is a wholly owned subsidiary of KLP Banken AS (the parent company, or "KLP Banken"). Moody's has assigned a private monitored rating to KLP Banken. The issuer itself (KLPBO) is not rated. The covered bond rating is linked to the credit strength of the issuer's parent company, mainly because KLP Banken has established a revolving credit facility for the benefit of the issuer. KLP 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 KLP Banken also means that the reference point for Moody's expected loss (EL) analysis and timely payment indicator (TPI) for this covered bond programme (currently "High") will be the covered bond (CB) anchor[1] of KLP Banken.

The covered bonds are governed by Norwegian covered bond legislation. Following a CB anchor event,[2] the covered bondholders will have priority claims over a pool of assets (cover pool). As of 15 August 2014, the assets in KLPBO's cover pool amounted to approximately NOK 675 million. All the assets in the cover pool are Norwegian residential mortgages (NOK 620 million) with the exception of some substitute assets currently in the form of cash, which amounts to NOK 55 million.

In summary, the covered bond rating takes into account, among other factors (1) the credit strength of KLP Banken; (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 7.3%.

The overcollateralisation in place is currently 35% on a nominal basis, none of which is considered “committed” by Moody’s. The minimum overcollateralisation that is consistent with the current Aaa ratings is 7%. Moody’s has assigned a TPI of High for the covered bonds issued by KLPBO.

Moody's considers the transaction to be linked to the credit strength of the parent, in this case KLP Banken, particularly from a default probability perspective. If KLP Banken’s credit strength deteriorates, all other variables being equal, we would expect the rating of the covered bonds to come under pressure.

In 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 overcollateralisation in the cover pool. Failure to increase the level of overcollateralisation under these circumstances could lead to negative rating actions.

The principal methodology used in rating the issuer’s covered bonds is “Moody’s Approach to Rating Covered Bonds”, published in March 2014. Other methodologies and factors that may have been considered in the rating process can also be found on the Moody’s website.

Opinion

Strengths of the Transaction

Issuer: The covered bonds are full recourse to the issuer, which is a wholly owned subsidiary of KLP Banken. The covered bond rating is linked to the credit strength of the parent company of the issuer, KLP Banken, which rating is privately monitored by Moody’s. KLP Banken has established a revolving credit facility for the benefit of the issuer. KLP 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 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. Moody’s expects that 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 LTV 75% 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 counter parties, if swaps are in the cover pool. Moody’s understands that 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 comprises mainly of Norwegian residential mortgages.
- The low WA indexed LTV (40.0%) of the residential mortgages (excluding junior ranks).
- The well diversified geographical distribution of the residential mortgages (the highest exposure is to the Oslo 19.2%)
- 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).
- The higher than average proportion of loans to employees (13% at the cut-off date).
- The higher than average borrower concentration mainly driven by the limited size of the cover pool as of today.

- The credit quality of the cover pool is reflected by the collateral score of 7.3 %.

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. Moody's understands that 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 cover 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:

- No currency risk and only limited interest rate risk, because, the covered bonds and cover pool assets are expected to be floating rate and denominated in Norwegian kroner.
- Stringent internal limits are imposed on interest rate and currency risk exposures.
- Moody's expects that swaps, if added to the cover pool, would be stronger than the standard swaps used in covered bond programmes outside Norway. Moody's believes that swap agreements will be entered into with counterparties that are not part of the KLP group. As of the date of this report, there are no swaps in the cover pool.

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 impact 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 which benefit from the support provided by KLP Banken; 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**: Moody's understands that KLP Banken 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%.
- The eligibility criteria do not exclude loans to employees of the KLP Group to be included in the cover pool. As of 15th of August 2014, 13% of the loans in the cover pool are granted to KLP Group's employees. The default probability of the loans granted to employees may be significantly high upon KLP Banken's default. **Mitigant**: Moody's collateral score model takes into account, *inter alia*, the impact of the higher than average exposure to loans to KLP Group's employees.

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 KLP Banken. The stronger the credit of KLP Banken, 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 Moody's modelling.

Interest Rate And Currency Mismatches:

As of the date of this report, all the assets in the cover pool and the covered bonds are floating rate and denominated in Norwegian kroner. Moody's understands that under the programme the issuer may issue fixed-rate covered bonds, which gives rise to potential interest rate mismatches. **Mitigant**: Moody's understands that the issuer would hedge significant interest rate mismatches using swaps following the Norwegian market standard, which are, from a credit standpoint, stronger than 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 overcollateralisation 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:	KLP Boligkreditt (unrated)
Sponsor Bank:	KLP Banken
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):	KLP Banken
Main Servicer(s):	KLP Banken
Issuer account bank:	DNB Bank ASA (A1/Prime-1)
Intra-Group Swap Provider:	No
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):	High
TPI Leeway:	1 notch

CB Anchor

Entity used in Moody's expected loss and TPI analysis	KLP Banken
SUR[3]	Not public
Adjusted BCA	Not public
Debt Ratio	5-10% (Bail-in-able cushion for Covered Bond Anchor)
CB Anchor	SUR (not public) + 1
Senior unsecured claim	Not used for Moody's expected loss analysis

Covered Bonds Summary

Total Covered Bonds Outstanding:	NOK 500,000,000
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 675,579,336
Main collateral type in Cover Pool:	Residential mortgages (92%) and further cover assets (8%)
Main Asset Location:	Norway (100%)
Loans Count:	658
Currency:	Norwegian kroner (100%)
Concentration of 10 Biggest Borrowers:	2.7% for the residential mortgage loans
WA Current LTV:	40.0% (on indexed property value; excluding junior ranks)
WA Seasoning:	32 months
WA Remaining Term:	271 months
Interest Rate Type:	Floating-rate assets (100%)
"Committed" Overcollateralisation:	0%
Current Overcollateralisation:	35% considering loans and available cash (24% when only considering mortgage loans)
Collateral Score:	7.3%
Cover Pool Losses:	10.1%
Further Details:	See Appendix 1
Pool Cut-off Date:	15 August 2014

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.

KLP Banken, which fully owns the issuer, has sold a portion of its residential mortgage loan book to the issuer. Moody's expects regular further transfers from KLP Banken to the issuer.

KLP Banken provides a revolving credit facility to the issuer that covers the amount of the outstanding covered bonds.

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 KLP banken account to the issuer's account bank held at DNB Bank ASA (A1/Prime-1). Payment flows form part of the cover pool. Moody's understands that the issuer intends to set up the same procedure for payments under derivatives, if derivative were part of the cover pool. Upon 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 – as soon as possible and within 30 days. We believe 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 (NICS) to a suitable issuer collection account within very short time frame.

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. It is Moody's understanding that, 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 KLP Banken to the issuer. It is Moody's understanding that, 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

The approach used by Moody's for rating covered bond transactions is detailed in our Rating Methodology.[4] The impact of the credit strength of KLP Banken, quality of the collateral and market risks is considered below.

Credit Strength Of The Issuer

The covered bonds are full recourse to the issuer, which is a wholly owned subsidiary of KLP Banken. 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 KLP Banken means that the covered bond rating is directly linked to the parent company's credit strength. KLP Banken's debt ratio is between 5 and 10%. KLP Banken's rating is privately monitored hence the CB anchor[5] of SUR+1 is also unpublished.

For more information on KLP Group, see “Related Research”.

The Credit Quality of the Cover Pool

Moody’s was provided with good quality information on the cover pool assets. As of August 2014, 92% of the loans in the cover pool are residential mortgage loans and 8% are substitute assets currently in the form of cash held in the issuer’s account. All properties that are serving as security for the mortgage loans are located in Norway.

The cover pool assets, which total NOK 675,579,336 million, are backing a total of NOK 500.000.000 million covered bonds. This translates into an over-collateralisation of 35% on a nominal basis, of which none is considered “committed” by Moody’s.

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 40.0% (unindexed LTV, excluding junior loan ranks within the KLP group).

» The income of the borrower has been independently verified, and the income restricts the amount that can be lent. Moody’s understands that at the time of granting the loan, KLP Banken verifies the income of all applicants from independent sources.

From a credit perspective, Moody’s regards 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.

» 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.

» 13% of the mortgage loans are granted to employees of the KLP Group, increasing the default probability of these borrowers upon default of the parent companies of the issuer. Moody’s has taken this risk into account when sizing the collateral score of the pool.

» There is a limited number of borrowers in the pool as of August 2014, leading to higher than average borrower concentration risk in the programme. The top 10 borrowers represent 2.7% of the total pool. Moody’s has taken this risk into account when sizing the collateral score of the pool. In addition, we expect this risk to reduce going forward if the programme size increases as expected.

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

Summary Collateral Analysis: Collateral Score

These factors have been incorporated into Moody’s analysis. The result of the cover pool analysis is the collateral score.[6] Moody’s calculates 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, Moody’s calculates 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 7.3%.

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. This may have the effect of creating 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 a LTV of up to 75% of the prudent market value for residential loans. In case a loan in the pool exceeds the LTV limit, for example due to property value deterioration, then only a senior portion up to 75% LTV is considered in the amount of the cover pool. Moody's understands that 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, it is Moody's understanding that 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 would have the ability, but not the obligation, to increase the overcollateralisation in the cover pool to support the current rating. If additional overcollateralisation is not added following a deterioration of the collateral, this could lead to a negative rating action.

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, Moody's assumes 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, Moody's 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 Related Research: "Moody's Approach to Rating Covered Bonds", published in March 2014).

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

» Provisions to allow for a principal refinancing period of twelve 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.

» The expectation that swaps will be stronger from a timely payment point of view than most other swaps seen in the covered bonds market, if swaps were to be added to the cover pool.

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

» Moody's understanding that all covered bonds issued under this programme will have a bullet repayment. However, the covered bonds will have an extension period of twelve months.

» Our expectation that cover pool assets will have a higher weighted-average life compared to the outstanding covered bonds.

» 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, the Moody's 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 Moody's Rating Methodology (see Moody's Related Research: "Moody's Approach to Rating Covered Bonds", published in March 2014).

TABLE 1

Overview Assets and Liabilities

	Assets (%)	Liabilities (%)	WAL Assets (Years)	WAL Liabilities (Years)
Fixed rate	0%	0%	n/a	n/a
Variable rate	100%	100%	12.3	5

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

Moody's understands that the issuer intends to hedge significant interest rate and currency mismatches, should they occur. Currently, there are no hedging agreements in the cover pool.

We expect that the issuer would hedge asset liability mismatches using swaps with a third party rated at least A2 and following swap arrangements that have been established as market standard in Norway. We understand that: (1) the swaps contain provisions to 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.

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 exposures. Moreover, KLP Banken's current risk policy excludes currency risk exposures.

» Moody's expectation is that, from a credit standpoint, the swaps, if added to the cover pool, will be stronger than most other swaps found in the covered bond market. Key provisions that will increase the chances of the swap surviving after a CB anchor event include: (1) the bankruptcy administrator, who will effectively manage the cover pool; and (2) reduced payment provision under the swaps, which would mitigate a late payment on the covered bonds. Furthermore, Moody's expects the swaps to be entered into with counterparties that are not part of the KLP group.

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 KLP Banken 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 impact the value of the cover pool.

» More generally, the incorporation of the strength of the issuer in accordance with Moody's 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 TPI[7] 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 over-collateralisation.

Aspects to this programme that are TPI positive include:

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

» Moody's expectation that swaps, if added to the cover pool, would be stronger from a credit standpoint than most other swaps found in the covered bond market. Compared with most swaps, there are a number of provisions included in cover pool swaps, which increase the chances that: (1) the swaps survive a CB anchor event; (2) the bankruptcy administrator will effectively manage the cover pool; and (3) the swaps will survive a late payment on the covered bonds. Furthermore, we expect the cover pool swaps to be entered into with counterparties that are not part of the KLP group.

» Moody's 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 7.3%.

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 KLP Banken.

Moody's has assigned a TPI of High to this transaction. The support provided by KLP Banken also means that the reference point for our TPI for this covered bond programme will be the CB anchor of KLP Banken. 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 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 this programme is one notch.

Monitoring

The issuer is expected to deliver certain performance data to Moody's on an ongoing basis. If this data is not made available to Moody's, Moody's 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	
Collateral Score:	7.3%
Asset balance (mortgage loans):	620,579,336 NOK
Average loan balance:	923,481 NOK
Number of loans:	672
Number of borrowers:	658
Number of properties:	656
WA Remaining Term (in months):	271
WA Seasoning (in months):	32

Details on LTV	
WA Unindexed LTV (*):Senior loan / Whole loan	43.6%/ 58.1%
WA Indexed LTV: Senior loan / Whole loan	40.0%/53.5%
Valuation type:	Market Value
LTV threshold:	75%
Junior ranks (**):	14.4%
Prior ranks:	0.0%

Specific Loan and Borrower characteristics	
Loans benefiting from a guarantee:	n/a
Bullet Loans / Flex Loans:	0.0% / 0.0%
Loans for second homes / Vacation:	0.0%
Loan to Employees:	13%
Limited income verified	0.0%
Adverse Credit Characteristics (***):	0.0%

Performance	
Loans in arrears (≥ 2months - < 6months):	0.0%
Loans in arrears (≥ 6months - < 12months):	0.0%
Loans in arrears (> 12months):	0.0%
Loans in a foreclosure procedure:	0.0%

Multi-Family Properties	
Loans to tenants of tenant-owned Housing Cooperatives:	0.0%
Other type of Multi-Family loans (****)	0.0%

(*) Based on original property valuation

(**)Internal junior ranks (delta between Unindexed Whole loan WA LTV incl. Internal junior ranks and Unindexed WA LTV excl. Internal junior ranks)

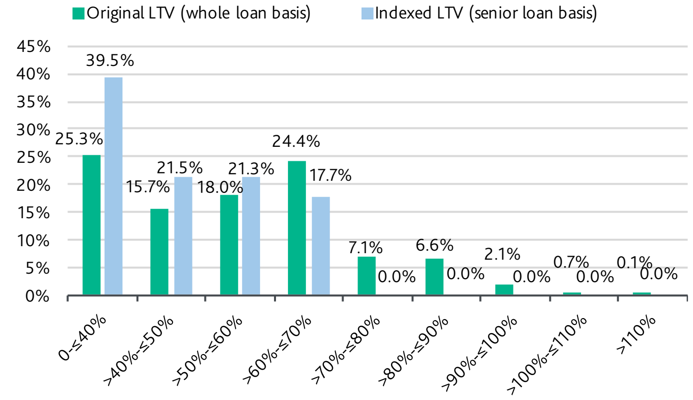
(***) Refers to borrowers with previous missed payments. Borrowers with a previous personal bankruptcy or borrowers with record of court claims against them at time of origination

(****) This "other" type refers to loans directly to housing cooperatives and to professional landlords

n/d: information not disclosed by issuer

EXHIBIT 1

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 2

Cover Pool Composition

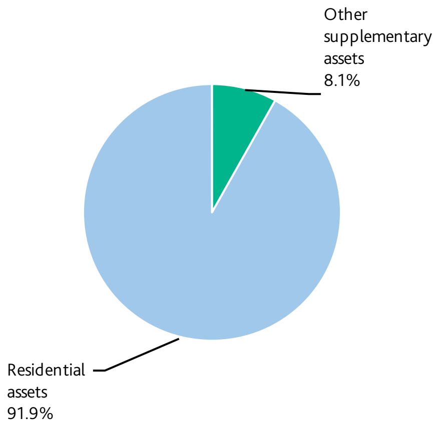


EXHIBIT 3
Seasoning

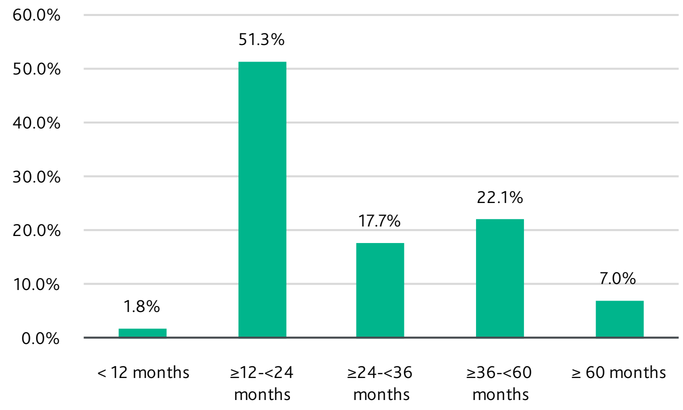


EXHIBIT 4
Interest Rate Type

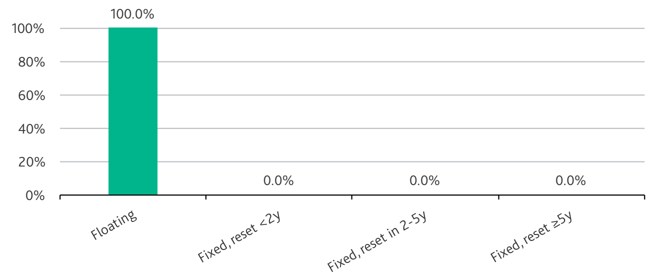
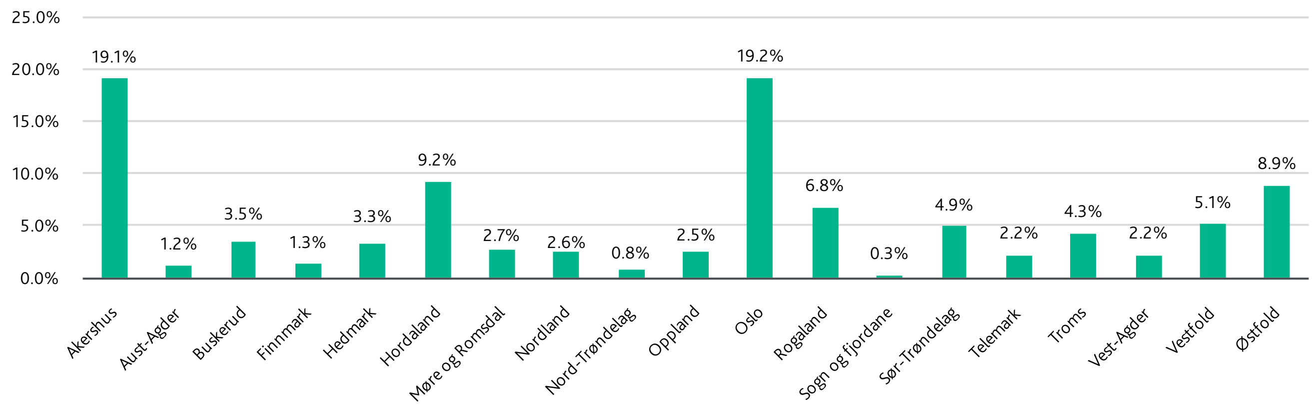


EXHIBIT 5
Regional Distribution



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")?	Yes
1.6	If not, what percentage of cases are exceptions?	No exceptions
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?	Maximum repayment period of 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, 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)	Household Expenses and certain other costs are based on standard indices developed by "SIFO" (National Institute for Consumer Research). These are published in KLP Banken's internal system Rådgiver PM (Delfi Data AS). The percentage of post tax income that is assumed to be available for debt repayment varies.
Other comments		

Source: KLP Boligkreditt

2. Valuations		
2.1	Are valuations based on market or lending values?	Market or lending 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?	Yes
2.3	How are valuations carried out where external valuer not used?	N/A
2.4	What qualifications for external valuers require?	Official authorisation required
2.5	What qualifications do internal valuers require?	N/A
2.6	Do all external valuations include an internal inspection of a property?	No
2.7	What exceptions?	The AVM-system "Eiendomsverdi" does not inspect the properties. Local real estate valuers (Real Estate Agents or approved appraisers) may base their valuation on interior photos of the property. These local real estate valuers have good experience with the housing prices locally, and with local price variations. Even in small towns there are neighborhoods where it is more attractive to live and where the prices of that reason alone is higher than for comparable homes in other neighborhoods. These are factors that the local real estate valuers know well and emphasize. Such desktop/drive-by valuations by independent external real estate valuers are approved for use in residential mortgage companies - in line with the use of "Eiendomsverdi".
2.8	Do all internal valuations include an internal inspection of a property?	N/A
2.9	What exceptions?	N/A

Source: KLP Boligkreditt

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 2014 (SF345822)

Special Reports:

» Moody's Global Covered Bonds Monitoring Overview: Q1 2014, January 2014 (SF354852)

» 2014 Outlook - Global Covered Bonds, December 2013 (SF347563)

» Norway - Legal Framework for Covered Bonds, July 2014 (SF374614)

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

» Moody's Approach to Automated Valuation Models in Rating UK RMBS, August 2008 (SF121128)

» Banking System Outlook: Norway, December 2013 (161441)

» Norwegian Banks: Credit Profiles are Sensitive to Elevated House Prices, October 2012 (145883)

Announcement:

» Covered bond issuer ratings important for accuracy and stability of covered bond ratings

Credit Opinion:

» Kommunal Landspensjonskasse (KLP)

Rating Action:

» Moody's assigns definitive Aaa rating to covered bonds issued by KLP Kommunekreditt

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 CB anchor is the higher of the adjusted BCA plus up to two notches ("adjusted BCA+[0-2]" and the senior unsecured rating plus up to one notch ("SUR+[0-1]"). For more detail see "Moody's Approach to Rating Covered Bonds", published in March 2014.

[2] 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.

[3] We may use a senior unsecured rating or a deposit rating, depending on a case-by-case analysis of the most appropriate reference rating for the CB anchor.

[4] "Moody's Approach to Rating Covered Bonds", published in March 2014 (see Related Research).

[5] We may use a senior unsecured rating or a deposit rating, depending on a case-by-case analysis of the most appropriate reference rating for the CB anchor.

[6] 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 Rating Methodology "Moody's Approach to Rating Covered Bonds", published in March 2014).

[7] Please see Related Research: "Moody's Approach to Rating Covered Bonds", published in March 2014.

» contacts continued from page 1

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