MOODY'S
INVESTORS SERVICE

NEW ISSUE REPORT

KLP Kommunekreditt AS Public-Sector Covered Bonds

Covered Bonds / Norway

First Rating Assignment

2010

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Definitive Ratings

COVER POOL (IN NOK)	COVER POOL ASSETS	COVERED BONDS (IN NOK)	RATING
7,582,096,092	Public-sector debt	6,500,000,000	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 Investors Service has today assigned a definitive long-term rating of Aaa to the covered bonds (*obligasjoner med fortrinnsrett*) issued by KLP Kommunekreditt AS (the issuer) established in accordance with the terms of the Norwegian Financial Institutions Act of 1988 and the regulations issued by the Ministry of Finance of the Kingdom of Norway, which came into legal effect on 1 June 2007. As with all covered bonds, the covered bonds benefit from two layers of protection by having recourse to both the issuer and a collateral pool. The rating therefore takes into account the following factors:

1. The credit strength of the issuer, which is owned by KLP Banken AS, which is in turn ultimately a wholly owned subsidiary of Kommunal Landspensjonskasse (KLP, rated A2). Moody's has assigned a private monitored rating to the issuer.

2. The credit quality of the assets securing the payment obligations of the issuer under the covered bonds. As of 31 August 2010, the assets in the cover pool amounted to NOK7.6 billion. The vast majority of the cover assets are claims against Norwegian regional or local governments or claims unconditionally and irrevocably guaranteed by such entities. The remaining part of the cover pool are so-called substitute assets (*fyllingssikkerhet*), which are claims against financial institutions. The collateral score is 1.7%, which is among the best for public-sector covered bonds rated by Moody's.

3. The strength of the Norwegian legal framework. Pursuant to the terms of the Norwegian covered bond legislation, the issuer is regulated and supervised by the Financial Supervisory Authority of Norway. Investors and eligible swap counterparties will have the benefit of a priority right in respect of the cover pool on a *pari passu* basis.

4. The covered bond programme's enhanced features include: (i) an extended refinancing period of 12 months; and (ii) the issuer provides 16% over-collateralisation, which the rating agency considers "committed". The minimum over-collateralisation level that is consistent with the Aaa rating target is 13%. The total level of over-collateralisation currently in the cover pool is 16.9% (as of 31 August 2010).

For KLP Kommunekreditt's covered bonds, Moody's has assigned a TPI of "High". For the purposes of the TPI framework, Moody's uses the private monitored rating of the issuer as the "issuer rating".

As is the case with other covered bonds, Moody's considers the transaction to be linked to the credit strength of the issuer, particularly from a default probability perspective. If the issuer's credit strength deteriorates, all other things being equal the rating of the covered bonds could be expected to come under pressure.

If issuer's rating or the pool quality deteriorated, the issuer would have the ability, but not the obligation, to increase the over-collateralisation in the cover pool. Failure to increase the level of over-collateralisation 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 Covered Bonds" published in March 2010. Other methodologies and factors that may have been considered in the rating process can also be found on the Moody's website. In addition, Moody's publishes 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 KLP Banken AS. KLP Banken AS has established a credit facility for the issuer's benefit. Moody's has assigned a private monitored rating to the issuer, which serves as the reference point for Moody's Timely Payment Indicator (TPI) for this covered bond rating.

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

» The issuer is regulated and supervised by the Financial Supervisory Authority of Norway (NFSA or *Finanstilsynet*).

» Upon the issuer's insolvency, 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. Generally cover pool assets can be residential mortgages, commercial mortgage and public-sector debt.

» The value of the cover pool has to exceed the value of preferential claims against the cover pool (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 within a notice period of up to 30 days, and floating-rate loans, are valued at their nominal value. 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*) who is 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 claims against Norwegian public-sector entities or debt which benefits from an unconditional and irrevocable guarantee by such entities.

» The high credit quality of the cover pool is evidenced by the collateral score, which at 1.7% is among the best for public-sector covered bonds rated by Moody's.

» The issuer provides 16% over-collateralisation, which the rating agency considers "committed".

Refinancing Risk:

» Moody's understands that the issuer has the ability to reset the loan rates on floating-rate loans and that it requires two weeks' notice to the borrower for the majority of the loans in the cover pool. Upon issuer default, the bankruptcy administrator of the issuer (who will be also responsible for the management of the cover pool) will be able to similarly reset loan rates. Moody's believes this right to reset margins should reduce the level of refinancing risk.

» The net liquidity inflow on the balance sheet of the issuer for the following six-month period should be positive at all times, as stipulated by the internal liquidity policy of the issuer. Liquidity stress tests will be carried out.

» Moody's understands that all covered bonds outstanding under this programme will benefit from a 12-month extension period. Further Moody's understands that the issuer undertakes to maintain in the cover pool at all times liquid assets of never less than 100% of the payment obligations on covered bonds and derivatives due over the next two months (rolling basis).

» In general, the more liquid nature of high quality public-sector debt, should improve the sales value of the cover pool.

Market Risks:

» As of 31 August 2010, the outstanding covered bond and the cover pool assets are floating-rate and denominated in Norwegian kroner.

» Moody's understands from the issuer that fixed-rate covered bonds denominated in other currencies may be issued under this covered bond programme. Interest rate and currency risks are expected to be swapped by counterparties that are not part of KLP group.

De-Linkage: Commingling, clawback and set-off risks are 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: As with most covered bonds, until issuer default, 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**: (i) The covered bondholders have a direct claim on the issuer and benefit from the support provided by KLP Banken AS; and (ii) the requirements and controls imposed by the Norwegian covered bond legislation.

Credit Quality of the Cover Pool:

» As of 31 August 2010, the cover pool has geographical and borrower concentration: (i) All loans are located in Norway. Within Norway, the claim against public-sector entities are spread across the whole country with highest exposure in Buskerud (9.4%), Vestfold (9.3%) and Sør-Trondelag (8.8%). (ii) The largest ten borrowers account for 23.5% of the public-sector debt in the cover pool. These facts may increase the probability of significant losses. **Mitigant**: Moody's collateral score model takes into account, *inter alia*, the impact of borrower, regional and country concentrations.

» As with most covered bonds in Europe, there are few restrictions on the future composition of the cover pool, hence substitution risk exists. **Mitigants**: The quality of the cover pool, over time, will be protected by, among others, the requirements of the Norwegian covered bond legislation, which sets out rules detailing which assets qualify as ordinary cover assets. In addition, Moody's will monitor the cover pool. If the quality of the collateral deteriorates below a certain threshold, the issuer would have the ability, but not the obligation, to increase the over-collateralisation in the cover pool. Failure to increase the level of over-collateralisation following deterioration of the cover pool could lead to negative rating actions.

Refinancing Risk: Following an issuer default, 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 an issuer default, the market value of these assets may be subject to high volatility. **Mitigants**: (i) The credit strength of the issuer and the support of KLP Banken AS. The stronger the credit of the issuer, the lower the chance of being exposed to this risk; and (ii) Moody's has used stressed refinancing margins in its modelling. (iii) provisions to allow for a principal refinancing period of 12 months, (iv) the high credit quality of the cover pool.

Market Risk: As with most European covered bonds, there is potential for exposure to interest and currency risks. For example, following issuer default, 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. **Mitigant**: Moody's understands that the issuer intends to enter into hedge arrangements with third parties, which would be part of the cover pool.

Time Subordination: After issuer default, later-maturing covered bonds are subject to time subordination. Principal cash collections may be used on a first-come-first-serve basis, paying earlier-maturing covered bonds prior to later-maturing covered bonds. This could lead to over-collateralisation being eroded before any payments are made to later-paying covered bonds. **Mitigant**: If the bankruptcy administrator calls a halt of payments all preferential claims over the cover pool will be pari passu and calculated by discounting them to present value, on the date when payments have been halted.

Structure Summary

Issuer:	KLP Kommunekreditt AS (rating is not published)
Sponsor Bank:	KLP Banken AS (rating is not published)
Structure Type	Public-sector covered bonds
Issued under Covered Bonds Law:	Yes
Applicable Covered Bonds Law:	Norwegian covered bond legislation
Originators:	KLP Kreditt AS (not rated) and KLP Landspensjonskasse (rated A2)
Servicers:	KLP Banken AS
Intra group Swap Provider:	No
Monitoring of Cover Pool:	Cover pool monitor, mandatory by operation of the Norwegian covered bond legislation
Cover Pool Trustees:	n/a
Timely Payment Indicator:	High
TPI Leeway	Not disclosed

Covered Bonds Summary

Total Covered Bonds Outstanding:	NOK 6,500,000,000
Currency of Covered Bonds:	Norwegian kroner (100%)
Extended Refinance Period:	Yes, 12 months for all outstanding covered bonds
Principal Payment Type:	Soft bullet (12 months extension period)
Interest Rate Type:	Floating-rate covered bonds (100%)

Collateral Summary (see Appendix 1 for further information)

Size of Cover Pool:	NOK7,582,096,092
Main collateral type in Cover Pool:	Public-sector debt (97%), claims against financial institutions (3%)
Main Asset Location:	Norway (100%)
Loans Count:	232
Number of borrowers	126
Currency:	Norwegian kroner (100%)
Concentration of 10 biggest borrowers:	23.5%
WA Remaining Term:	262 months
Interest Rate Type:	Floating-rate assets (100%)
"Committed" Over - Collateralisation:	16%
Current Over-Collateralisation	16.9% (on a nominal basis)
Cover Pool Losses	9.9%
Collateral Score:	1.7%
Further details:	See Appendix 1
Pool Cut-off Date:	31 August 2010

Structural And Legal Aspects

The issuer and sponsor bank support

In its capacity as a regulated financial institution (*kredittforetak*) under the terms of the Norwegian covered bond legislation, KLP Kommunekreditt AS 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 of procedures and risk control systems set out by the Norwegian covered bond legislation and other applicable regulations.

KLP Banken AS owns 100% of the shares of the issuer as well as 100% of the shares of KLP Kreditt AS. KLP Banken AS is ultimately a wholly owned subsidiary of Kommunal Landspensjonskasse (rated A2). Within KLP group, KLP Kreditt AS and Kommunal Landspensjonskasse originate Norwegian public-sector debt. Following the origination, the loans will be regularly transferred to the issuer.

The loans will be serviced by KLP Banken AS. KLP Banken AS also provides a credit facility to the issuer that covers the amount of the currently outstanding covered bonds.

Scenarios upon issuer default

Following the insolvency of the issuer, the Norwegian covered bond legislation does not contemplate the dissolution of the issuer, nor does it include any acceleration event or event of default. In the event of the issuer's insolvency, 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) are continued by the bankruptcy administrator of the issuer. The bankruptcy administrator will be appointed by the competent court, and will be responsible for running the general insolvency estate and the cover pool of the issuer.

» The bankruptcy administrator is of the opinion that it may not be able to repay covered bondholders in full and introduces a halt of the payments. The creditors will be informed of the halt to payments and the date on which it is to be introduced. 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.

Commingling risk

According to the structure of this covered bond programme, payment flows with respect to the assets in the cover pool are made directly to an account in the issuer's name, which forms part of the cover pool. Moody's understands that the issuer intends to set up the same procedure for payments under derivatives (should derivatives be included). This collection account is held at a bank (rated Prime-1). If this bank is downgraded below Prime-1, the account to which payments are directed would be transferred to a bank with a Prime-1 rating from Moody's. We consider that this procedure should be an effective mitigant to commingling risk.

Set-off risk

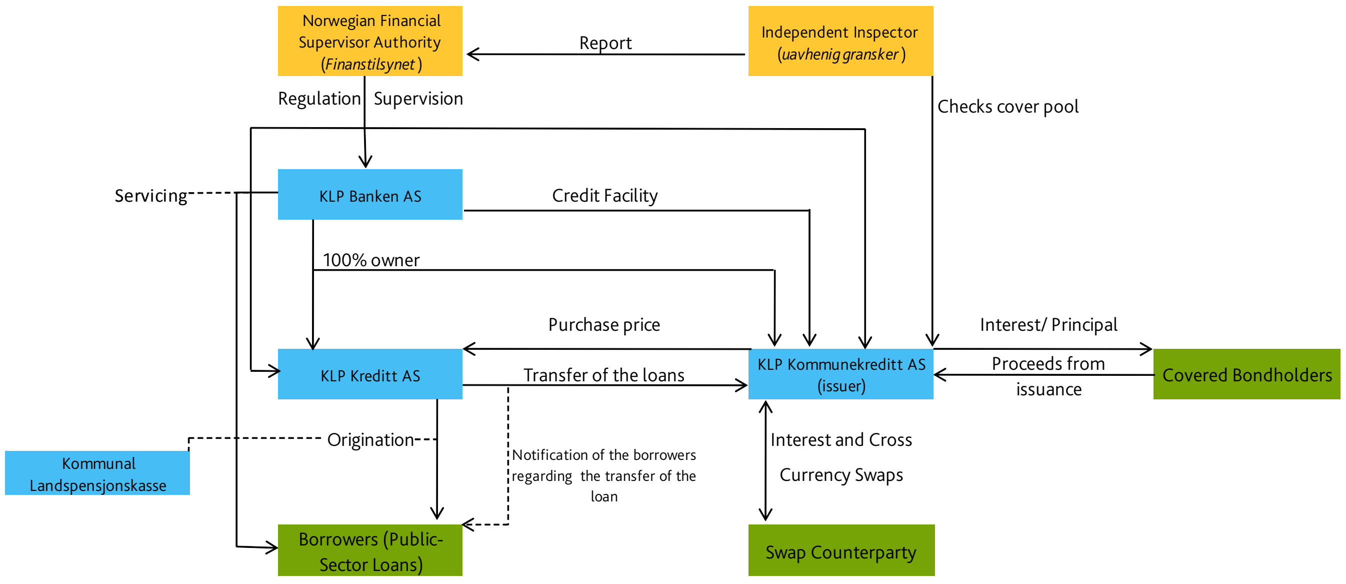
Under the Norwegian covered bond legislation, no right of set-off may be declared for an asset included in the cover pool. It is Moody's understanding that if a borrower exercises set-off in violation of the Norwegian covered bond legislation, the issuer will have a monetary claim against the borrower equal to the amount set-off. In addition, the issuer does not take deposits from its public-sector customers.

Clawback risk

All borrowers will be notified at the time of transfer from the originator of the loans 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.

CHART 1

Transaction Structure Overview



Moody's Rating Methodology

The approach used by Moody's for rating covered bond transactions is detailed in our Rating Methodology.[1] The impact of the credit strength of the issuer, quality of the collateral, refinancing and market risks are considered below.

Credit Strength of the Issuer

The covered bonds are full recourse to the issuer. The rating of the issuer is not published, but Moody's has assigned a private and monitored rating to it.

The issuer is a wholly owned subsidiary of KLP Banken AS and KLP Banken AS has established a credit facility for the issuer's benefit. KLP group's commitment to the covered bond programme is further underlined by the range of functions it carries out on the issuer's behalf.

The reference point for Moody's TPI for this covered bond programme (currently "High") is the private monitored senior unsecured rating of the issuer.

The Credit Quality of the Cover Pool

Moody's was provided with good-quality information on the cover pool assets. As of 31 August 2010, the assets in the cover pool amounted to NOK7.6 billion. The vast majority of the cover assets are claims against Norwegian regional or local governments or claims unconditionally and irrevocably guaranteed by such entities. The remaining part of the cover pool are so-called substitute assets (*fyllingssikkerhet*), which are claims against financial institutions.

The cover pool is backing a total of NOK 6.5 billion outstanding covered bonds. The current over-collateralisation level is 16.9% on a nominal basis. See Appendix 1 for more information on the cover pool.

The credit quality of the borrowers in the cover pool is excellent in Moody's view. Where possible, the current ratings for Moody's-rated public-sector entities were used in the modelling. However, the vast majority of the obligors in the cover pool are not publicly rated by Moody's. Therefore, in its modelling, Moody's has used rating estimates for these entities. [2]

Public-Sector Debt

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

» According to the issuer, all loans are performing as of the cut-off-date.

» The obligors are of high credit quality.

» The cover pool benefits to some extent from regional diversification within Norway.

From a credit perspective, Moody's regards the following portfolio characteristics of the cover assets as negative:

» Obligor concentration: The ten largest obligors account for around 23.5% of the public-sector debt in the cover pool. **Mitigants**: (i) The credit quality of the obligors in general – including the largest obligors in the cover pool – is high; and (ii) in its modelling, Moody's has considered the obligor concentration.

» Geographical concentration: all of the obligors are situated in Norway. **Mitigant**: The generally high credit quality of the obligors. Furthermore, in its modelling, Moody's takes into account the impact of concentration on obligor, regional and country levels.

Summary Collateral Analysis: Collateral Score

These factors have been incorporated into Moody's analysis. Moody's calculates a collateral score[3] 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 factors described above. For this transaction, the collateral score of the current pool is 1.7%, which is among the best across public-sector covered bonds rated by Moody's.

Other Credit Considerations

As with most covered bonds 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:

» Moody's understands that the issuer does not intend to include any mortgage loans or claims that are not unconditionally or irrevocably guaranteed by a public-sector entity into the cover pool.

» Requirements of the Norwegian covered bond legislation, which generally limits the eligible cover pool assets (with respect to public-sector debt) to (i) direct claims against public-sector entities located within member states of the EEA and member states Organisation for Economic Co-operation and Development (OECD); or (ii) debt guaranteed by the aforementioned public-sector entities.

» As per the regulations, the issuer will not take into account non-performing loans when computing the required mandatory cover test. However, the priority right of the covered bondholder remains as long as such loans are registered in the cover pool. Further it is Moody's understanding that non-performing loans will not be added to the cover pool. However, loans that move into arrears while in the cover pool may remain, 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 over-collateralisation in the cover pool to support the current rating. If additional over-collateralisation is not added following a deterioration of the collateral, this could lead to a negative rating action.

Refinancing Risk

Following an issuer default, when the "natural" amortisation of the cover pool assets alone cannot be relied on to repay 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. Where 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 is in excess of 50% of the cover pool.

After an issuer default, the market value of these assets may be subject to certain volatility. Examples of the stressed refinancing margins used by Moody's for different types of prime-quality assets are published in Moody's Rating Methodology.[4]

Aspects of this programme that are refinancing-positive include:

» Provisions to allow for a principal refinancing period of 12 months, which should, in the event of an issuer default improve the sales value of the cover pool and increase chances of timely principal payments on the covered bonds. Further Moody's understands that the issuer undertakes to maintain in the cover pool at all times liquid assets of never less than 100% of the payment obligations on covered bonds and derivatives falling due over the next two months (rolling basis).

» Moody's understands that the issuer is able to increase the interest rate charged on floating-rate loans to the underlying borrowers with a notice period of two weeks for the majority of the loans in the cover pool. This right also applies to any potential bankruptcy administrator in charge of the cover pool after a potential issuer default.

» In general, the relatively liquid nature of high quality public-sector debt, which should improve the sales value of the cover pool.

» Upon issuer default, the bankruptcy administrator has the ability to sell the cover pool assets in order to raise liquidity, if needed for due payments on the outstanding covered bonds. The bankruptcy administrator may also raise funds against the cover pool assets through bridge loans or the issuance new covered bonds, for example.

» The high credit quality of the cover pool, which is reflected, in the low collateral score. A higher credit quality of the cover pool will lead *ceteris paribus* to a lower write-off for losses and lower refinancing margins applied.

Aspects of this programme that are refinancing-negative include:

» Moody's understands 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.

» Moody's expects that the cover pool assets will have a higher weighted-average life compared to the outstanding covered bonds.

» The cover pool is concentrated in Norway.

» Upon issuer default, there is no separate cover pool administrator. The Norwegian covered bond legislation provides for a bankruptcy administrator to be appointed upon issuer default. The bankruptcy administrator will be responsible for both the insolvency estate and the cover pool management.

Market Risk

As with the majority of European covered bonds, there is potential for interest rate and currency risks. For example, following issuer default, 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 issuer default, the Moody's Covered Bond Model looks separately at 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 worst result. The interest and currency stressed rates used over different time horizons are published in Moody's Rating Methodology.[5]

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%	11.7	3.2

WAL = weighted-average life, as of 31 August 2010

Moody's understands that the issuer intends to enter into an interest rate swap for any fixed rate covered bond and foreign exchange rate swaps for covered bonds, which are not denominated in Norwegian kroner. The swap is expected to be entered into with a third party rated at least A2. Furthermore, Moody's understands that any such swaps will contain provisions to assist in the timely payment of covered bonds and the swap collateral posting provisions should provide material support up until issuer default, and replacement triggers may protect bondholders following issuer default. As of 31 August 2010, there were no derivatives in the cover pool.

Aspects specific to this programme that are market-risk-positive include:

» All of the loans in the cover pool have a floating rate. Interest risk may be limited by the variable nature of the assets in the cover pool.

» Swaps are expected to be entered into with counterparties that are not part of the KLP group.

Aspects specific to this programme that are market risk negative include:

» In line with other European public-sector covered bonds, the weighted-average maturity of the cover pool assets is longer than the outstanding covered bond. Furthermore, Moody's expect the weighted-average life of the cover assets to remain longer than the maturity of outstanding covered bonds.

» All assets in the cover pool are denominated in Norwegian kroner whereas a significant portion of the covered bonds issued under this covered bond programme will likely be euro-denominated. This would introduce material currency risk, which has to be hedged according to the Norwegian covered bond legislation. From a credit standpoint Moody's expects the swaps to be stronger than most other swaps found in the covered bond market. Moody expects provisions that will increase the chances that: (i) the swaps survive issuer default and (ii) the bankruptcy administrator will effectively manage the cover pool.

Moody's has modelled a future currency gap of 100% in its analysis, which incorporates a buffer for future currency risks.

Linkage

All covered bonds are linked to the underlying issuer rating. The covered bonds will therefore come under rating stress if the issuer's credit strength deteriorates. Reasons for this include:

» Refinancing risk: Following issuer default, if principal receipts from collections of the cover pool 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 the issuer has defaulted may negatively impact 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, prior to an issuer default, the issuer may add new assets to the cover pool, issue further bonds and enter new hedging arrangements. Such actions could negatively impact the value of the cover pool.

» More generally, by 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, Moody's primary rating target is the expected loss which also takes severity of loss into account, which in this case is consistent with the covered bond rating.

Moody's TPIs[6] assess the likelihood that timely payments will be made to covered bondholders following an issuer default, and thus determine 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 extended refinance period of 12 months for all outstanding covered bonds.

» If swaps were added to the cover pool, theses swaps are expected to have provisions which will increase the chances that: (i) the swaps survive issuer default and (ii) the bankruptcy administrator will effectively manage the cover pool. Further, the swaps are expected to be entered into with counterparties that are not part of the KLP group.

» Commingling risk is covered through the collection account always being held at a Prime-1 bank and all collections are collected directly from the borrower's account to this collection account.

» Moody's understands that set-off risk for loans registered in the cover pool, made under Norwegian law and located in Norway is excluded by the operation of the Norwegian covered bond legislation. Furthermore, since the issuer will not take any deposits, covered bondholders should not be exposed to set-off risk.

» High credit quality of the cover pool assets, which is evidenced by the collateral score of 1.7%.

» The issuer's commitment to provide 16% over-collateralisation on a committed basis.

Aspects to this programme that are TPI-negative include:

» Upon issuer default, there is no separate cover pool administrator. The Norwegian covered bond legislation provides for a bankruptcy administrator to be appointed in case of issuer default, who then runs the cover pool in the interest of the covered bondholders. However the bankruptcy administrator will also be responsible to run the insolvency estate of the issuer.

» The large potential amount of currency risk (due to expected issuance of covered bonds, which are not denominated in Norwegian kroner). However, Moody's understands that the issuer intends to hedge foreign currency risks with derivatives in the cover pool.

» All covered bonds outstanding have a bullet repayment at maturity.

» The relatively small size of the Norwegian market.

Moody's has assigned a TPI of "High" to this transaction. The reference point for Moody's TPI for this covered bond programme will be the private monitored senior unsecured rating of the issuer.

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: Public-Sector Debt

Overview	
Collateral Score :	1.7%
Asset balance :	7,582,096,092
WA Remaining Term (in months) :	262
Number of borrowers :	126
Number of loans :	232
Exposure to the 10 largest borrowers :	23.5%
Average exposure to borrowers :	58,596,118

(*) n/d : information not disclosed by Issuer

Specific Loan and Borrower characteristics	
Repo eligible loans :	0%
Percentage of fixed rate loans :	0%
Percentage of bullet loans/ bonds :	8.4%
Loans in non-domestic currency :	0%
Performance	
Loans in arrears (≥ 2months - < 6months) :	0%
Loans in arrears (≥ 6months - < 12months) :	0%
Loans in arrears (> 12months) :	0%
Loans in a foreclosure procedure :	0%

CHART A
Borrower Type

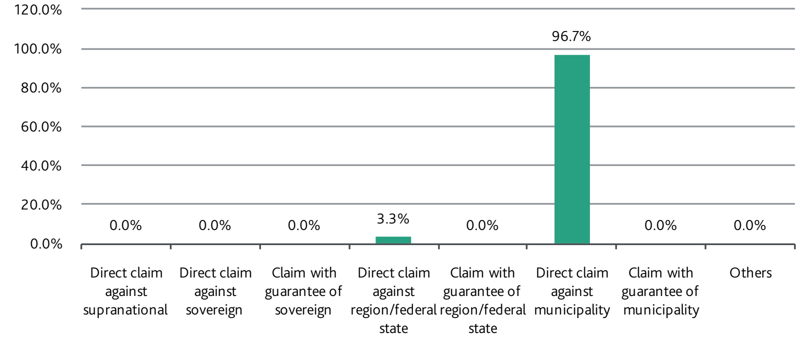


CHART B
Asset Types in Cover Pool

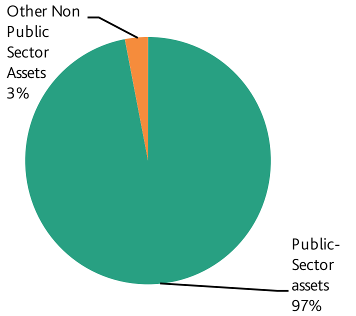


CHART C
Borrower Concentration

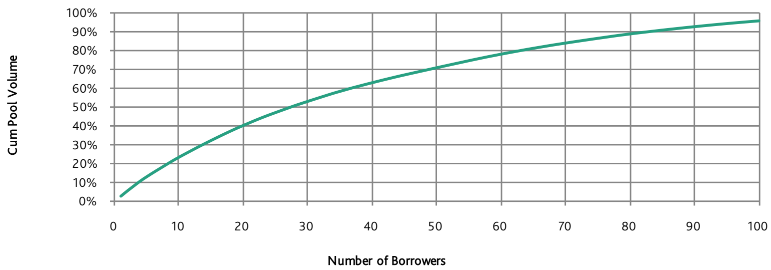


CHART D
Location of Asset in Cover Pool

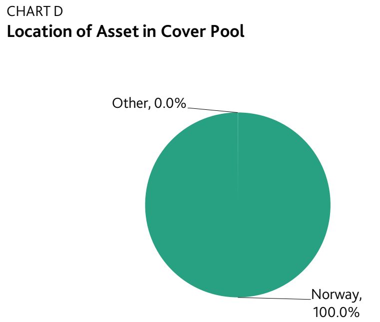
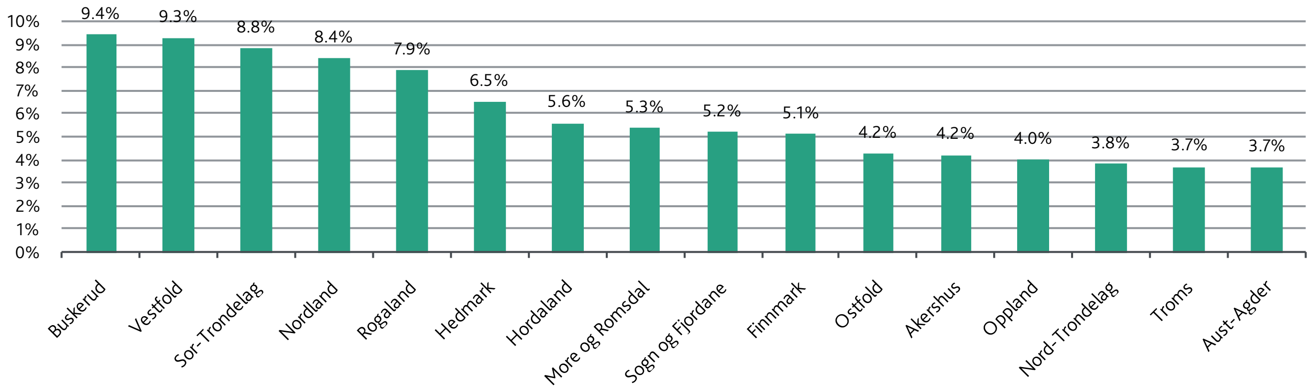


CHART E

Main Country Regional Distribution



Qualitative Collateral Information

All pool characteristics are actual levels (rather than assumed levels) based on reports from KLP Kommunekreditt AS.

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 Methodologies:

» Moody's Approach to Covered Bonds, March 2010 (SF191950)

» Moody's Approach to Rating Financial Entities Specialised in Issuing Covered Bonds, August 2009 (SF175831)

» Assessing Swaps as Hedges in the Covered Bond Market, September 2008 (SF142765)

Special Reports:

» Moody's EMEA Covered Bond Monitoring Overview: Q4 2010, April 2010 (SF210487)

» Sub-sovereign evaluation tool for pooled financings: Q Scores, April 2010 (124409)

» EMEA Covered Bonds 2010 Outlook & 2009 Review: Covered bond ratings under pressure as issuers' credit strength weakens, February 2010 (SF192452)

» Annual Sector Review: Covered Bonds, May 21, 2009, June 2009 (SF170601)

» Rating Migration and Default Rates of Non-U.S. Sub-Sovereign Debt Issuers, 1983-2007, September 2008 (110252)

» Sovereign Default and Recovery Rates, 1983-2007, March 2008 (107687)

» Rating Transition Rates for Covered Bond Programmes, 1996-2008, February 2008 (114622)

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

Announcements:

» Covered bond issuer ratings important for accuracy and stability of covered bond ratings, 30 April 2009

» Moody's announces update of covered bond refinance stresses following credit crisis, 29 February 2008

» Moody's increases refinancing margins for European covered bonds, 8 April 2009

Rating Actions:

» Moody's assigns A2 Insurance Financial Strength Rating to Kommunal Landspensjonskasse; stable outlook, 3 September 2010

» Moody's concludes refinancing review; negative rating action on two Covered Bond programmes; 12 June 2009

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 "Moody's Approach to Covered Bonds", published in March 2010 (see Related Research).

2 "Sub-sovereign evaluation tool for pooled financings: Q Scores", published in April 2010 (see Related Research).

3 The collateral score can be seen as the amount of risk-free enhancement required to protect a 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 refinancing and market risk (see Rating Methodology "Moody's Rating Approach to Covered Bonds" published in March 2010 (see Related Research)).

4 Please see Related Research: "Moody's Rating Approach to Covered Bonds". published March 2010.

5 Please see Related Research: "Moody's Rating Approach to Covered Bonds". published March 2010.

6 See Moody's Rating Methodology: "Moody's Rating Approach to Covered Bonds" published March 2010.

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