MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns Aaa to KLP Boligkreditt AS's mortgage covered bonds

Global Credit Research - 17 Sep 2014

NOK 500 million of debt affected

London, 17 September 2014 -- Moody's Investors Service has today assigned a Aaa long-term rating to the mortgage covered bonds issued by KLP Boligkreditt AS (the issuer, unrated).

RATINGS RATIONALE

Today's rating action reflects the following factors:

(1) The credit strength of KLP Boligkreditt AS. The covered bond rating is linked to the credit strength of the parent company of the issuer, KLP Banken (Private Monitored Rating), mainly because KLP Banken has established a revolving credit facility for the benefit of the issuer. The covered bonds have full recourse to the issuer and the issuer is a wholly owned subsidiary of KLP Banken.

(2) The value of the cover pool, if the issuer defaults. The stressed level of losses modelled in event of issuer default (cover pool losses) for this transaction is 10.1%.

Moody's uses the CB anchor to determine the probability that the issuer ceases to make payments under the covered bonds. The CB anchor of this programme is not public.

Moody's considered the following factors in its analysis of the cover pool's value:

a) The credit quality of the assets backing the covered bonds. The covered bonds are backed primarily by Norwegian residential mortgage loans. The collateral score for the cover pool is 7.3%.

b) The Norwegian legal framework for covered bonds.

c) The exposure to market risk, which is 5.2% for this cover pool.

d) The over-collateralisation (OC) in the cover pool is 7%, none of which is provided on a "committed" basis by KLP Boligkreditt AS (see Key Rating Assumptions/Factors, below).

The TPI assigned to this transaction is High.

At present, the total value of the assets included in the cover pool, comprising 672 residential mortgage loans and substitute assets, is approximately NOK675 million. The residential mortgage loans have a weighted-average seasoning of 32 months and a weighted-average loan-to-value (LTV) excluding junior ranks of 40.0%.

The rating that Moody's has assigned addresses the expected loss posed to investors. Moody's ratings address only the credit risks associated with the transaction. Moody's did not address other non-credit risks, but these may have a significant effect on yield to investors.

KEY RATING ASSUMPTIONS/FACTORS

Moody's determines covered bond ratings using a two-step process: an expected loss analysis and a TPI framework analysis.

EXPECTED LOSS: Moody's uses its Covered Bond Model (COBOL) to determine a rating based on the expected loss on the bond. COBOL determines expected loss as (1) a function of the probability that the issuer will cease making payments under the covered bonds (a CB anchor event); and (2) the stressed losses on the cover pool assets following a CB anchor event.

The cover pool losses for KLP Boligkreditt AS's mortgage covered bonds are 10.1%. This is an estimate of the losses Moody's currently models if a CB anchor event occurs. Moody's splits cover pool losses between market risk of 5.2% and collateral risk of 4.9%. Market risk measures losses stemming from refinancing risk and risks related to interest-rate and currency mismatches (these losses may also include certain legal risks). Collateral risk measures losses resulting directly from cover pool assets' credit quality. Moody's derives collateral risk from the collateral score, which for this programme is currently 7.3%.

The OC in the cover pool is currently 35%, of which KLP Boligkreditt AS provides 0% on a "committed" basis. The minimum OC level consistent with the Aaa rating target is 7%. Moody's relies on voluntary OC in its analysis.

For further details on cover pool losses, collateral risk, market risk, collateral score and TPI Leeway across covered bond programmes rated by Moody's please refer to "Moody's EMEA Covered Bonds Monitoring Overview", published quarterly. All numbers in this section are based on Moody's most recent modelling (based on data, as per 15/08/2014).

TPI FRAMEWORK: Moody's assigns a "timely payment indicator" (TPI), which indicates the likelihood that covered bonds continue to receive timely payments following a CB anchor event. The TPI framework limits the covered bond rating to a certain number of notches above the CB anchor. The TPI assigned to this transaction is High.

FACTORS THAT WOULD LEAD TO A DOWNGRADE OF THE RATING:

The CB anchor is the main determinant of a covered bond rating's robustness. 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 KLP Boligkreditt AS's mortgage covered bonds is one notch.

A multiple-notch downgrade of the covered bonds might occur in certain limited circumstances, such as (1) a sovereign downgrade negatively affecting both the CB anchor and the TPI; (2) a multiple-notch lowering of the CB anchor; or (3) a material reduction of the value of the cover pool.

RATING METHODOLOGY

The principal methodology used in this rating was "Moody's Approach to Rating Covered Bonds" published on 12 March 2014. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions of the disclosure form.

Moody's did not use any stress scenario simulations in its analysis.

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