



Terra BoligKreditt AS  
Investor Presentation  
January 2013

# Executive summary

Norway	<ul style="list-style-type: none"> <li>Norway is one of the strongest economies in the world with a large budget surplus and low public debt</li> <li>Rated Aaa / AAA / AAA (all stable outlooks)</li> <li>Low unemployment, high household wealth and strong housing market</li> </ul>
Terra Banks	<ul style="list-style-type: none"> <li>Third largest Norwegian banking group with nationwide network and a strong focus on retail clients</li> <li>Lending operations only in the Norwegian market and no foreign exposure</li> <li>Highly capitalised, strong asset quality and high deposit base</li> <li>Strong asset growth</li> <li>Covered bonds increasingly important funding source</li> </ul>
Terra BoligKreditt (TBK)	<ul style="list-style-type: none"> <li>Terra BoligKreditt is a specialised covered bond issuer owned by 79 Terra Banks and OBOS*</li> <li>Strong incentive structure ensures that only high quality loans are passed on to Terra BoligKreditt</li> <li>The mortgages in the cover pool comprise of 100% high quality Norwegian residential mortgages</li> <li>Low average indexed LTV-ratio of 42%, maximum LTV of 60% for individual loans</li> <li>Has never recorded loans in arrears (&gt;3 months) nor any losses on mortgages</li> <li>Covered bonds rated <b>Aa2</b> with stable outlook by Moody's, Timely Payment Indicator of <b>"High"</b></li> <li>Among the lowest (best) Collateral Score in the Nordics and among the best globally</li> </ul>
Strong covered bond legislation	<ul style="list-style-type: none"> <li>Terra BoligKreditt is set up under the Norwegian covered bond legislative framework</li> <li>CRD and UCITS compliant</li> </ul>

*\* OBOS is the largest Nordic Cooperative Housing Association, established in 1929 and is owned by 226,000 members, mostly located in the Oslo-area. More information about OBOS can be found on [www.obos.no](http://www.obos.no)*

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## The operating environment

### The Norwegian economy – Key indicators

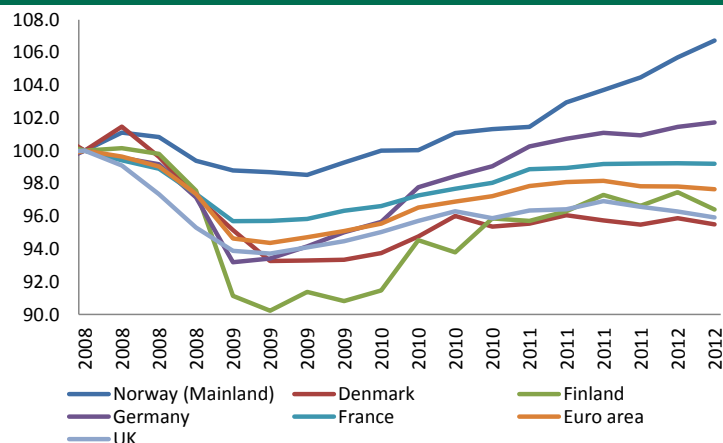
- Constitutional monarchy; Non EU member (EEA member); Population of 5 million
- Aaa / AAA / AAA (outlook stable) rated country
- GDP per capita amongst the highest in the OECD countries – estimated at \$98,300 in 2012
- Drivers of growth:
  - Energy sector – Norway is the seventh largest oil exporter and second largest gas exporter
  - Open, export oriented economy
  - High domestic demand

	2007	2008	2009	2010	2011	2012E
GDP growth (Mainland)	5.3%	1.5%	-1.6%	1.9%	2.6%	2.7%
Consumer price inflation	0.8%	3.8%	2.1%	2.5%	1.2%	0.9%
Unemployment	2.5%	2.6%	3.2%	3.6%	3.3%	3.3%
Private consumption growth	5.4%	1.8%	0.0%	3.7%	2.2%	3.5%
Household savings rate	0.9%	3.5%	6.8%	6.3%	8.2%	8.8%
Interest rates (3m Nibor)	5.0%	6.2%	2.5%	2.5%	2.9%	2.4%
Government budget surplus / GDP	12.5%	15.9%	10.8%	13.6%	13.8%	15.1%
Government pension fund / GDP	78%	79%	95%	131%	130%	141%

## The operating environment

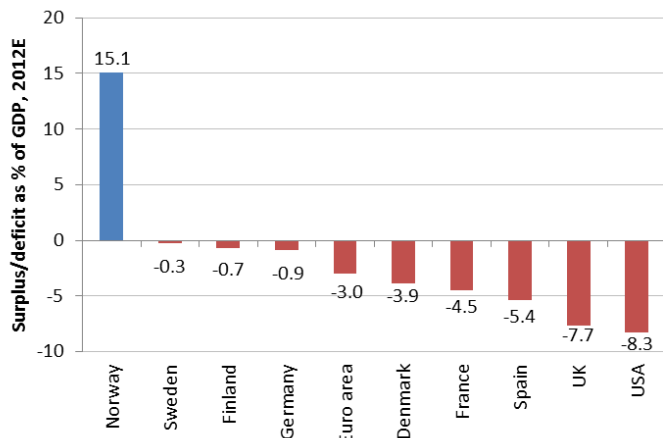
# The Norwegian economy – Solid economic situation

Real GDP growth (indexed to 100)

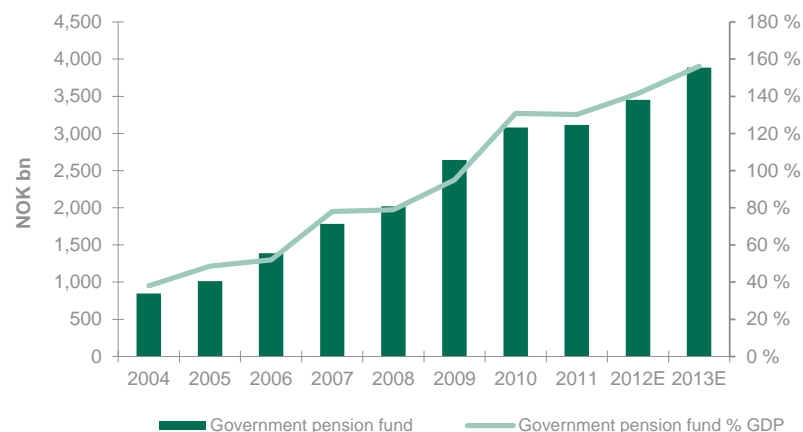


- Norway has an extremely strong balance sheet
- Relatively high net central government financial assets (166% of GDP in 2011)
- Significant budget surplus (13.8% of GDP in 2011) and a Government pension fund well in excess of GDP
- Sound growth at an a per annum average of 2.5% for the past 10 years
- A strong current account surplus averaging around 14% of GDP since 2001
- Low interest rates helped by a strong Norwegian Kroner

Government budget surplus



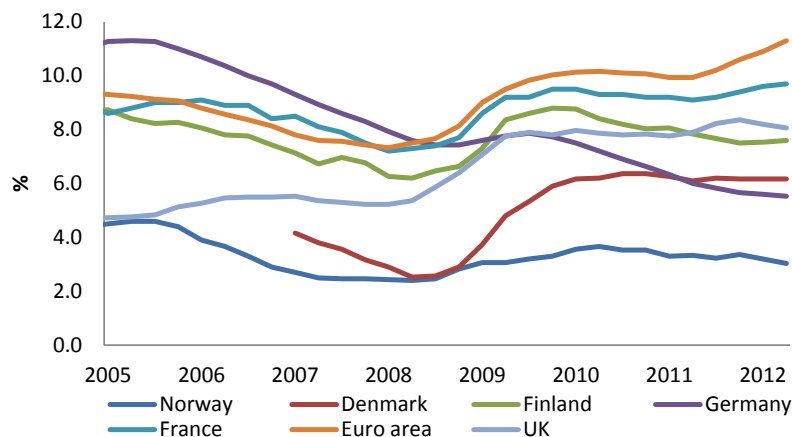
Market value of Government Pension Fund



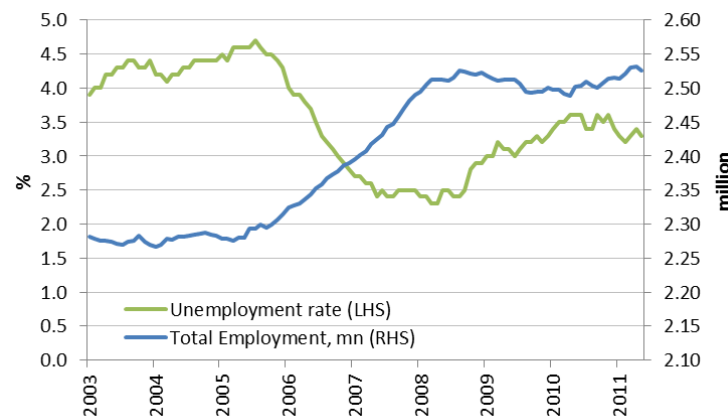
## The operating environment

# The Norwegian economy – Low unemployment and high welfare

Norway has consistently lower unemployment rates



Unemployment rate and total employment



- A buoyant economy ensures a high rate of employment
- Average unemployment rate of 3.5% in the past 10 years
- A strong welfare system providing significant income protection: average unemployment benefit of 62% of salary for a minimum of 104 weeks

## The operating environment

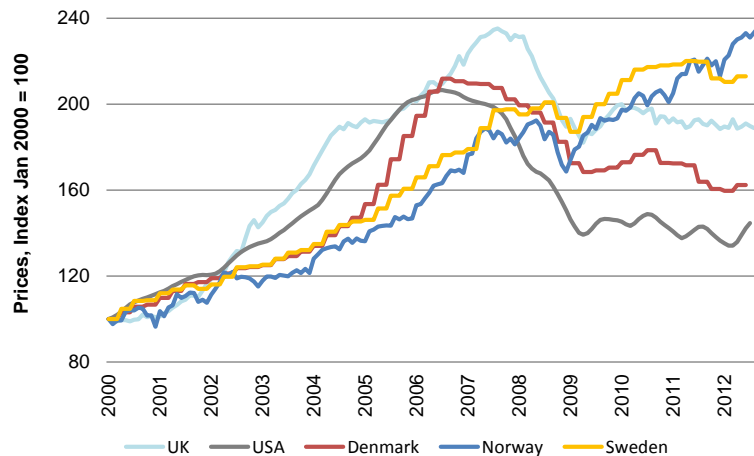
### The housing market – Characteristics

<b>Home ownership</b>	<ul style="list-style-type: none"><li>▪ Among the highest in the world - around 80% of owner-occupied households</li><li>▪ Total mortgage market ~ NOK 1,900bn (EUR 250bn)</li></ul>
<b>Regulation</b>	<ul style="list-style-type: none"><li>▪ Maximum loan to value of 85% (since Q4 2011)</li><li>▪ Mortgages are required to be stress tested by 5%-point increase in interest rates upon origination</li></ul>
<b>Tax incentives</b>	<ul style="list-style-type: none"><li>▪ All interest expenses are tax deductible in Norway at capital gains tax rate (28%)</li><li>▪ Preferential treatment of properties when calculating the wealth tax (tax rate at 1.1%)</li><li>▪ Capital gain on a dwelling tax-free after one year of occupancy by the owner</li></ul>
<b>Personal liability</b>	<ul style="list-style-type: none"><li>▪ Borrowers personally liable for their debt – including following foreclosures and forced sales</li><li>▪ Prompt and efficient foreclosure upon non-payment</li><li>▪ Strong incentive to service debt reflected in low arrears</li><li>▪ Transparent and reliable information about borrowers available to the lenders</li></ul>
<b>Mortgage lending</b>	<ul style="list-style-type: none"><li>▪ Typical legal maturity 25-30 years</li><li>▪ Around 90% of residential mortgages variable rate loans</li><li>▪ Banks allowed to increase interest rates with a six week notice</li><li>▪ No “sub-prime” market in Norway</li><li>▪ Very limited buy-to-let market</li></ul>

# The operating environment

## The housing market – Price development

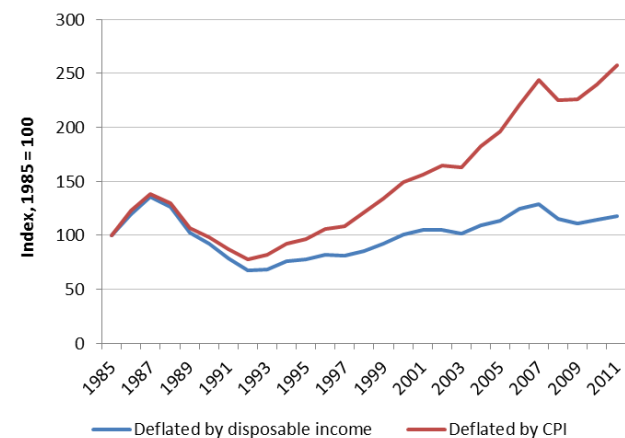
Nominal house price development



Source: S&P Case-Shiller Home Price Indices Composite 20, Realkreditrådet, Halifax House price Index, Statistics Sweden, Eiendomsverdi

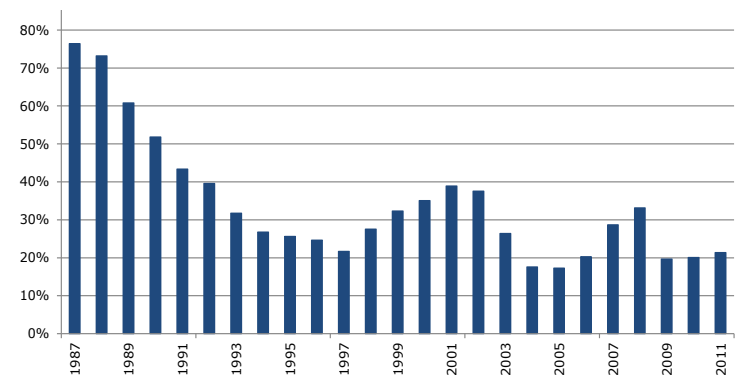
- House prices have increased by an average of 11% per annum in 2004-2007 with house prices estimated to have grown 41% since end of 2008
- This has been spurred by an environment of low interest rates, high wage growth, population growth and supply constraints
- When deflated by income growth the increase in house prices is more moderate – indeed the real median wage in Norway has increased by 52% in the period 1997 to 2009
- Household solid income growth and lower interest rates determine the affordability of housing

Real house price development



Source: Norges Bank

Interest-to-income ratio

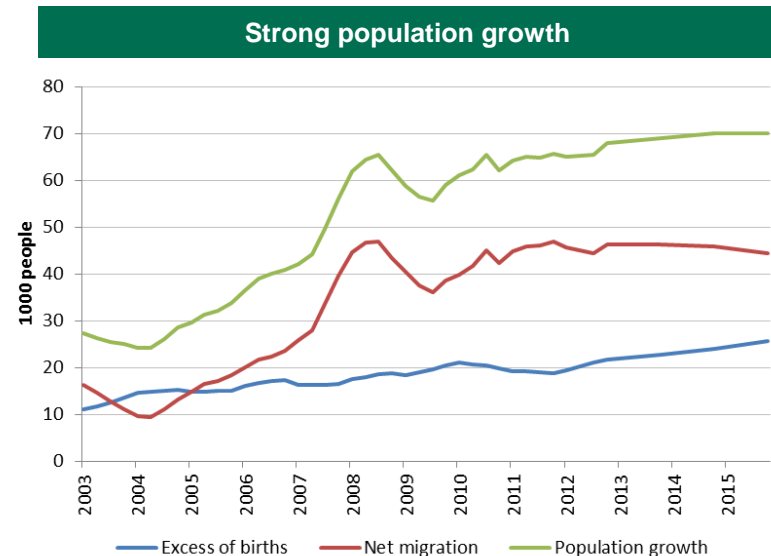
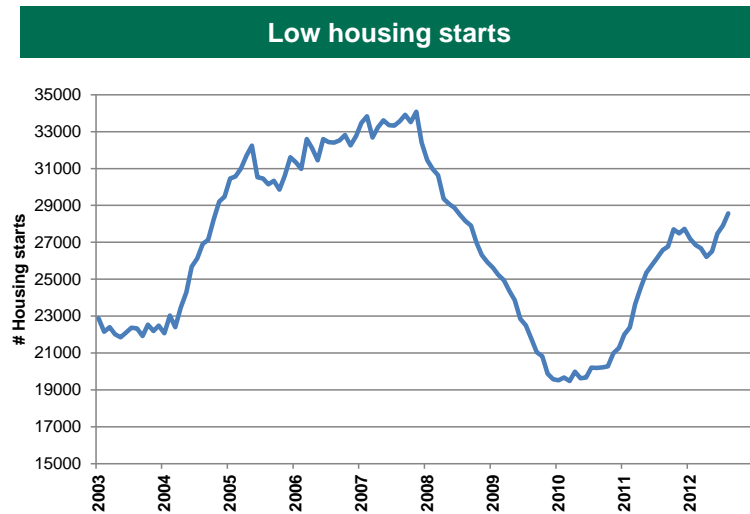


Source: Eiendomsverdi



## The operating environment

# The housing market – Drivers of the housing market



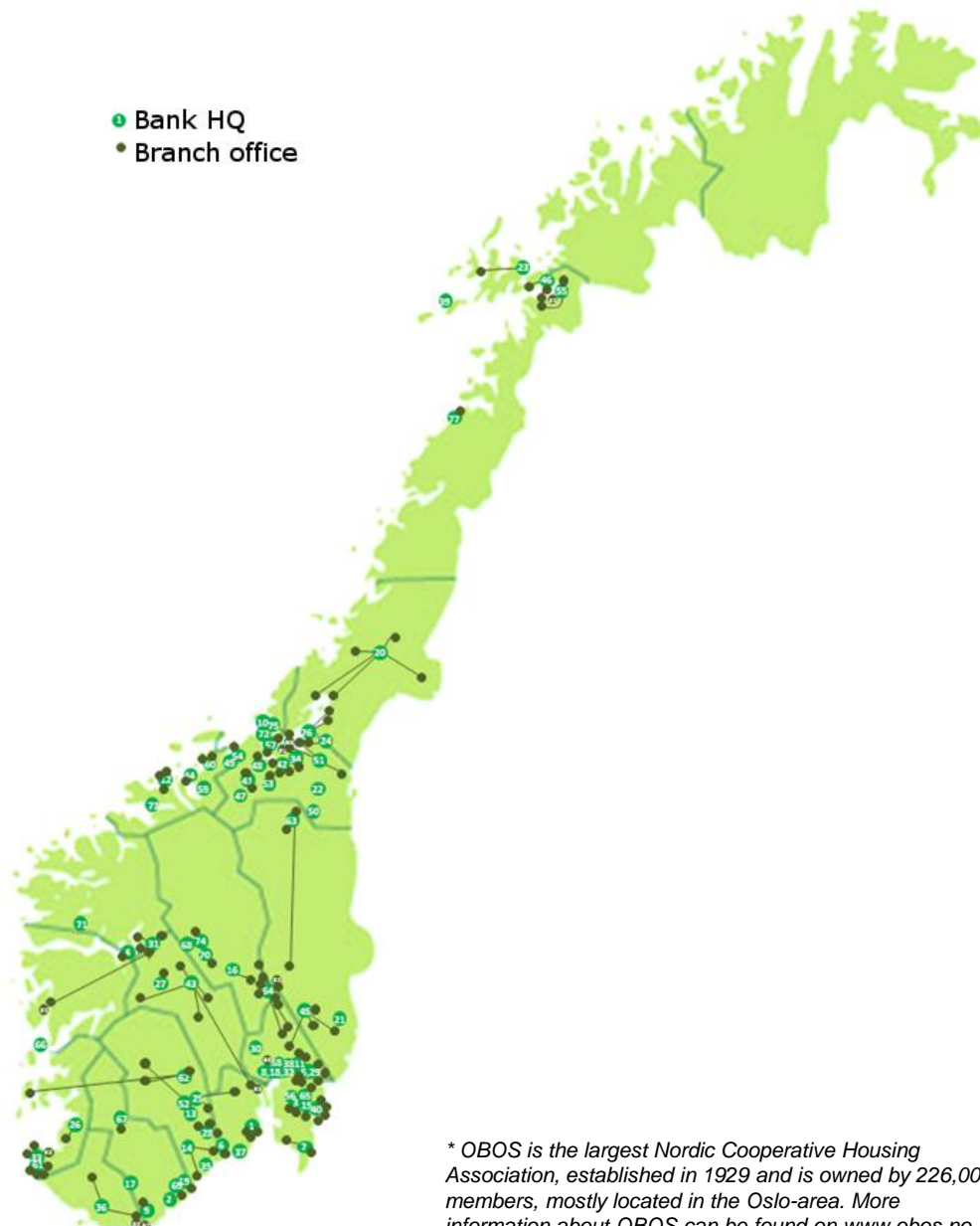
- Low housing starts and a strong population growth have been significant drivers of the strong growth in the Norwegian housing market
- New home construction is up on the record lows of 2009 and 2010 but are levelling off – while still down from the boom of 2005 – 2007 they have evolved recently towards the higher end of construction. This should mitigate the momentum on house prices
- The population growth has essentially been driven by a growth in the birth rate in Norway (1.98 in 2009, 1.95 in 2010 and 1.88 in 2011). A growth in immigration is also noteworthy since the trough of 2009 and is also a strong contributor as migrant population gets settled professionally and culturally

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# The Terra Banks

## Diversified operations

- The Terra banks are a group of 79 Norwegian banks and OBOS\*
- Although the Terra banks activity is fully focused on Norway, they have a wide geographical breadth (18 out of 19 counties) with a strong focus in vibrant economic centres in mid and Eastern Norway
- Scope of the banking operations:
  - Third largest banking group in Norway
  - 190 branch offices
  - 2,000 employees
- Aggregated balance sheet of Terra Banks is NOK 201bn (EUR 27.3bn) and overall capitalisation of NOK 18.7bn (EUR 2.5bn)
- Market share lending retail customers
  - from 40% to 80% in local markets (except the largest cities)
  - 10% overall in Norway



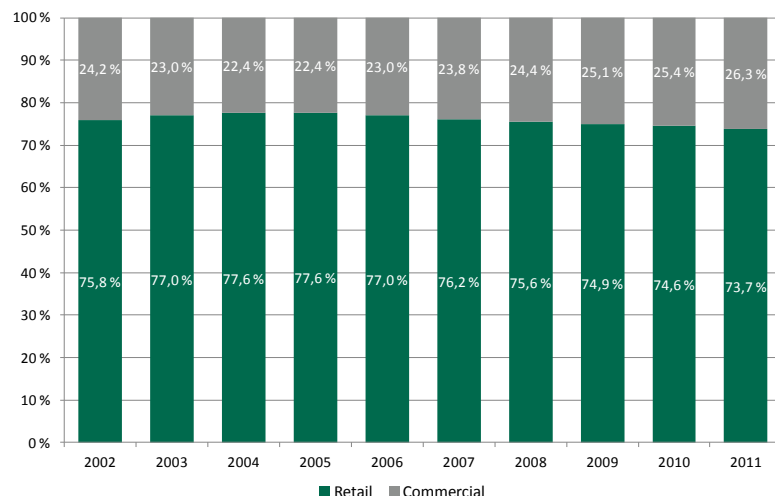
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# The Terra Banks

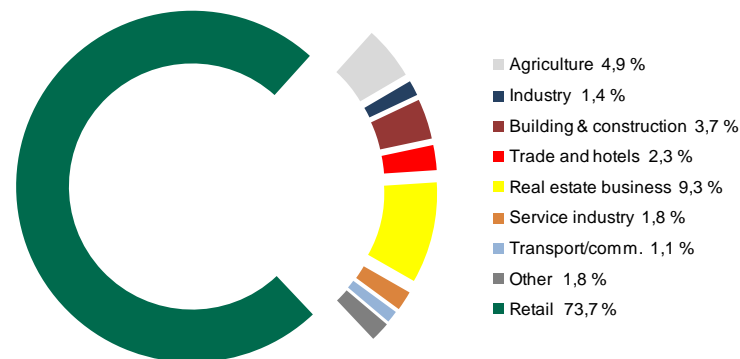
## Focus on retail customers

- Retail lending accounts for 73% of Terra Banks' total lending at YE2011 (loans on the banks' own balance sheet, i.e. excluding transfers to TBK)
- The Terra banks have a higher share of retail lending compared to peers (DNB 47%, Sparebank 1 56%, Alliance free banks 59%)
- Retail lending consist mainly of loans to housing/mortgage (approx. 94% of total retail lending)
  - Average LTV of approx 65% and only few loans over 80% of LTV
  - 59% have collateral within 60% of LTV, and 91%, within 80% of LTV
  - Approximately 11% of mortgage loans are flexi loans
- Terra Banks have no exposure to shipping and relatively low exposure to commercial real estate

Breakdown of lending for the Terra banks



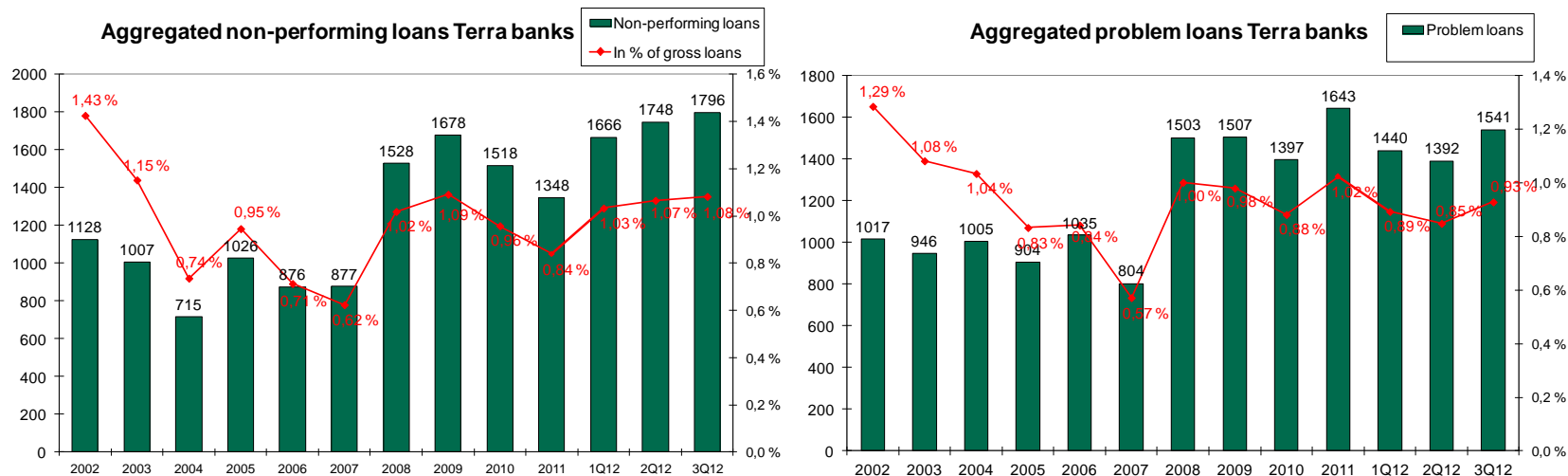
Sector breakdown of the loan book



# The Terra Banks

## High Asset Quality

### Non-performing and problem loans (in NOK mn)



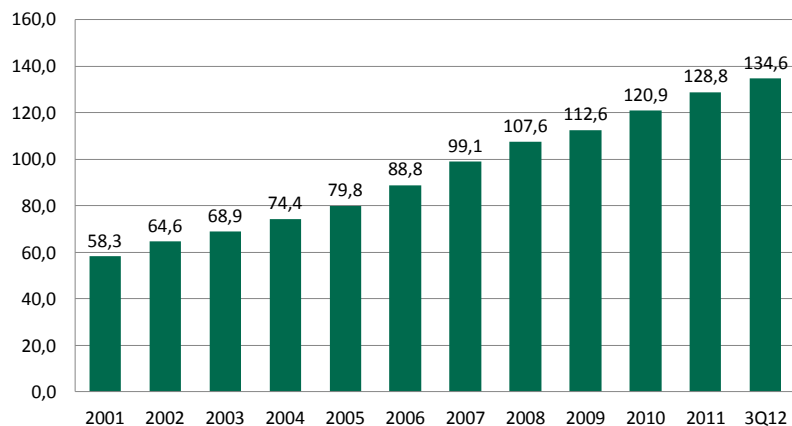
- Few non-performing and problem loans
  - Non-performing loans constitute 1.08% of gross loans, versus 0.86% in 4Q11.
  - Problem loans constitute 0.93% of gross loans, versus 1.03% in 4Q11.
- Write-down ratio of 44.4% (48.6%)

# The Terra Banks

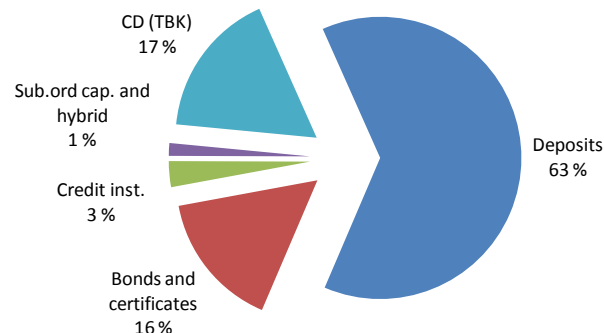
## High and increasing deposit base

- Total funding for the Terra bank amounts to NOK 216bn
- Steady growth in the deposit base and high deposit/lending ratio of 80%
- Well diversified deposit base - approx. 85% of all deposits is within the NOK 2mn bank guarantee fund limit
- These deposits are essentially household retail deposits

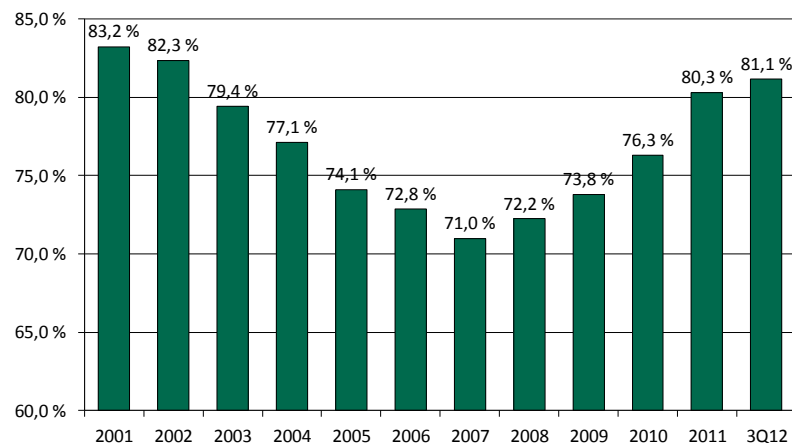
Aggregated deposits (in NOK mn)



Deposits as a share of total funding



Deposit ratio (Deposit / lending)

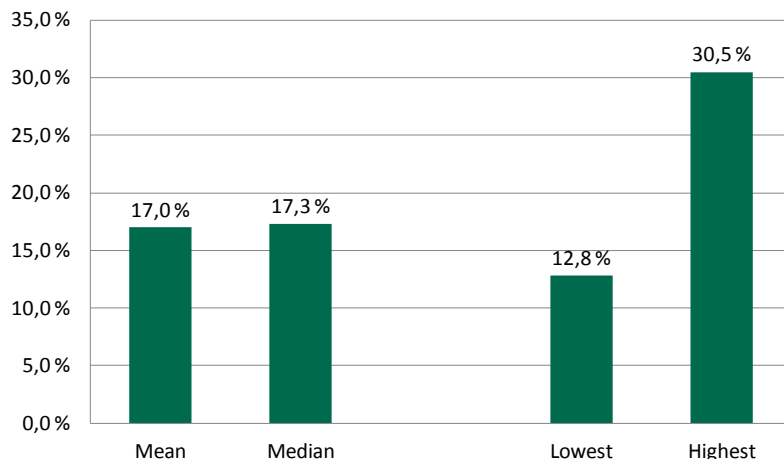


# The Terra Banks

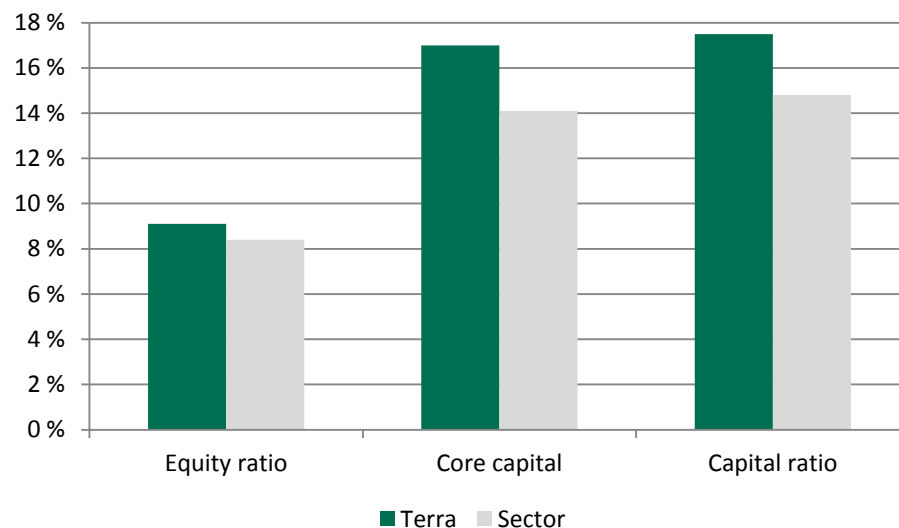
## Strong capitalisation

- Average core capital ratio of 17.0%
- Average total capital ratio of 17.4%
- All Terra Banks use the standard approach under Basel II
- The core capital is almost entirely equity, and the numbers will not change significantly under the proposed Basel III regulations

Core capital ratio 2011 – Terra banks



Capital ratios Terra banks vs. Sector (2012Q3)



Sector constitute all Norwegian savings banks (ex DNB)  
Equity ratio calculated on total balance, Core capital and capital ratio on RWA

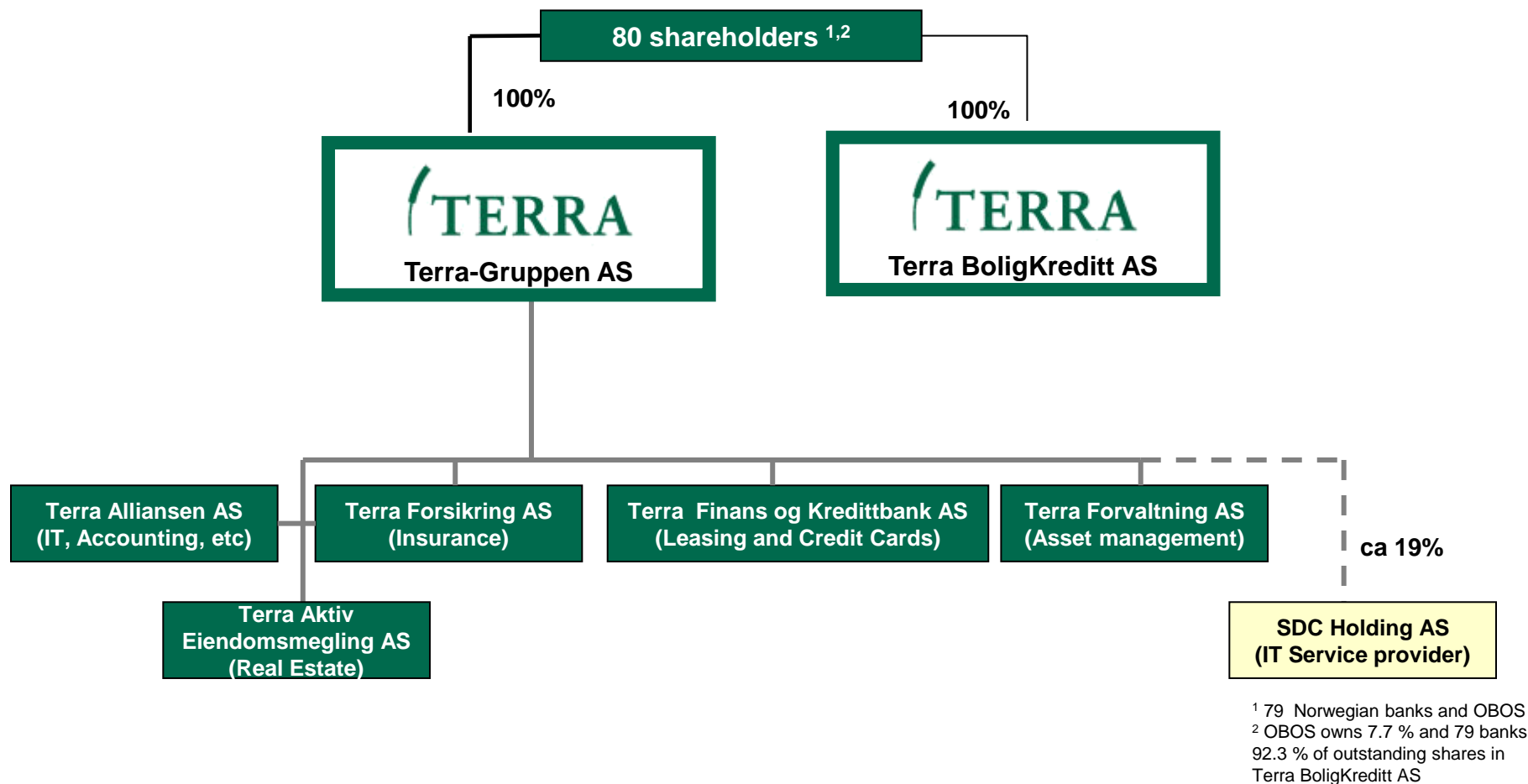
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# Terra BoligKreditt

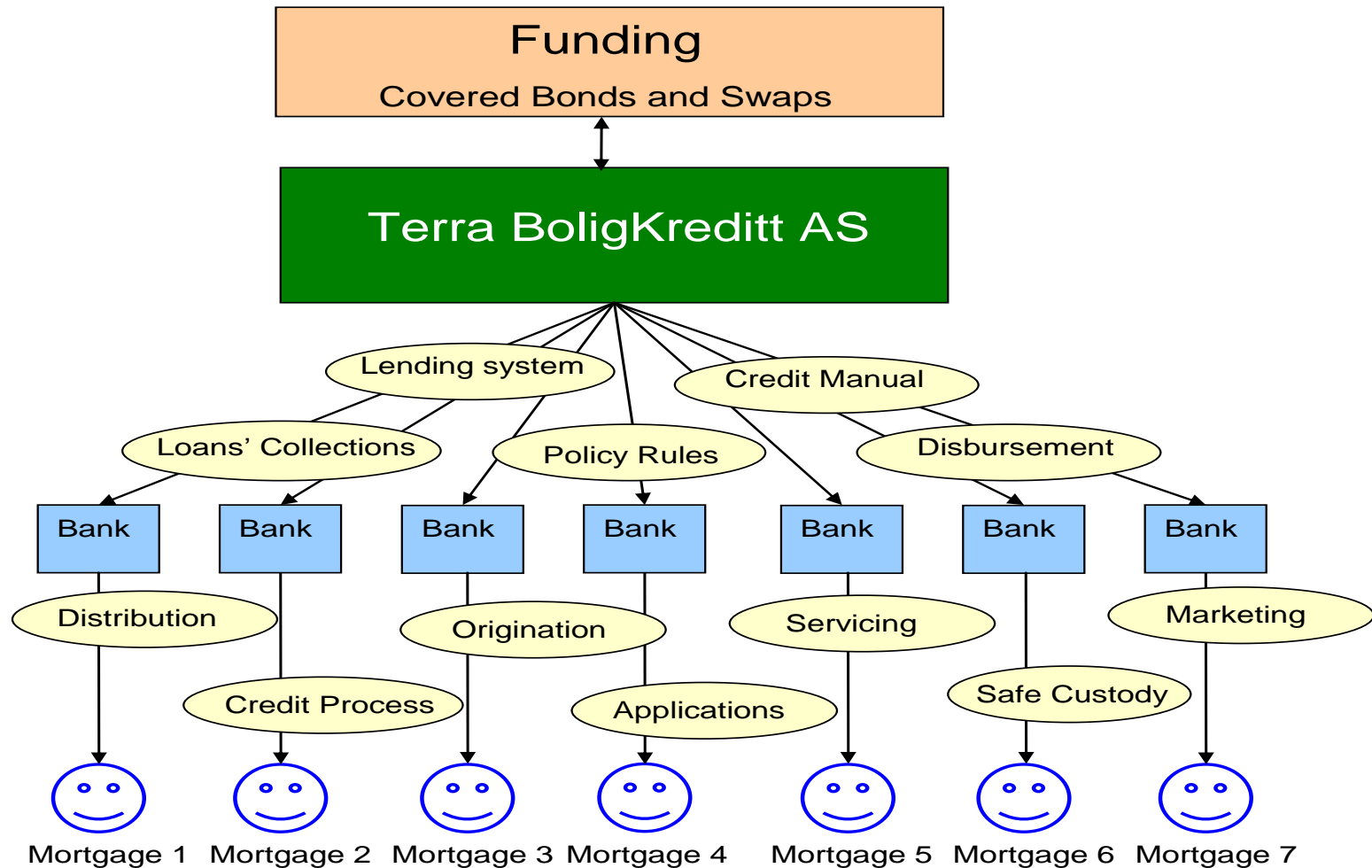
## Ownership structure

- Structure of ownership and overview of the Terra Group operations
- A banking group providing conservative retail products



# Terra BoligKreditt

## Business concept



# Terra BoligKreditt

## Eligibility criteria for the cover pool

<b>Origination process</b>	<ul style="list-style-type: none"> <li>▪ Loan-by-loan origination</li> </ul>
<b>Customer categories</b>	<ul style="list-style-type: none"> <li>▪ Norwegian residents (Retail)</li> <li>▪ Cooperative housing associations (common debt between multiple individuals)</li> </ul>
<b>Credit Criteria</b>	<ul style="list-style-type: none"> <li>▪ TBK sets the credit policy for acceptable mortgages (credit manual)</li> <li>▪ No arrears</li> <li>▪ Mortgage size is normally limited to 3 times annual household income</li> </ul>
<b>Collateral</b>	<ul style="list-style-type: none"> <li>▪ Max LTV 60% at time of origination (vs. max 75% in the Norwegian legislation)</li> <li>▪ Recent valuations (within 6 months at time of origination)</li> <li>▪ Quarterly valuation from independent 3<sup>rd</sup> party, documented</li> </ul>
<b>Type of properties</b>	<ul style="list-style-type: none"> <li>▪ Stand alone residential mortgages</li> <li>▪ Cooperative housing residential mortgages</li> </ul>
<b>Type of products</b>	<ul style="list-style-type: none"> <li>▪ Principal repayment loans, no flexi loans</li> <li>▪ Fixed and variable interest rate loans</li> </ul>

# Terra BoligKreditt

## Strong incentive structure

- With regards to the mortgages in the Terra BoligKreditt cover pool there is a 3 pillar guarantee mechanisms; this is to ensure that the originating banks are held responsible for potential losses on mortgages they distribute for TBK

**Moody's:** *"The members of the Terra Group are incentivised by guarantee obligations to pass high quality loans to the issuer."*

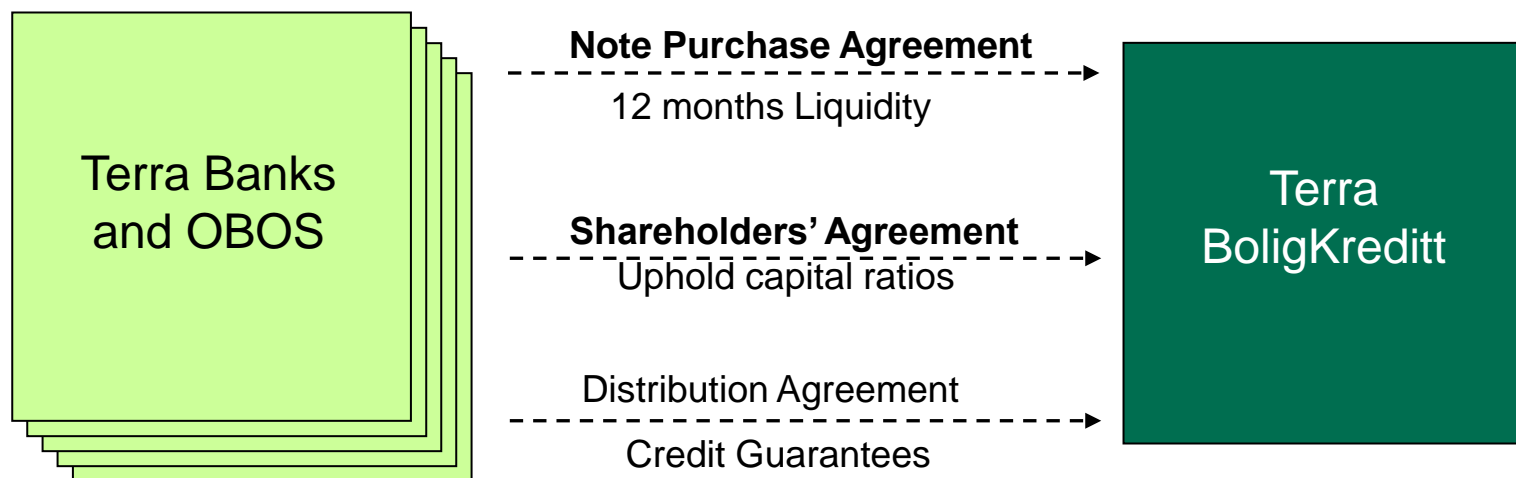
(Source: Moody's Investors Services, Terra BoligKreditt Mortgage Covered Bonds, August 2007)

<b>I</b> <b>Loss Guarantee</b>	<b>II</b> <b>Set-off rights</b>	<b>III</b> <b>Pro-rata Framework Guarantee</b>
<ul style="list-style-type: none"> <li>First loss guarantee for the portion of the loan exceeding 50% LTV</li> <li>Minimum guarantee of NOK 25.000 (EUR 3,138) per loan, irrespective of LTV</li> <li>100% of the loan is guaranteed by the bank until the collateral is registered</li> </ul>	<ul style="list-style-type: none"> <li>Terra BoligKreditt has set-off rights against each bank's commission for a period of up to 3 years</li> <li>To be used by Terra BoligKreditt if losses exceed loss guarantee amounts, or a bank fails to meet its guarantee obligation</li> </ul>	<ul style="list-style-type: none"> <li>All banks participate in a 1% of the total mortgage portfolio pro-rata framework guarantee</li> <li>To be used by Terra BoligKreditt if banks fail to meet their guarantee obligations, or losses exceed individual guarantees and set-offs</li> </ul>
<b>Currently EUR 476mn</b>	<b>Currently EUR 84mn</b>	<b>Currently EUR 64mn</b>

## Terra BoligKreditt

### Structure of support

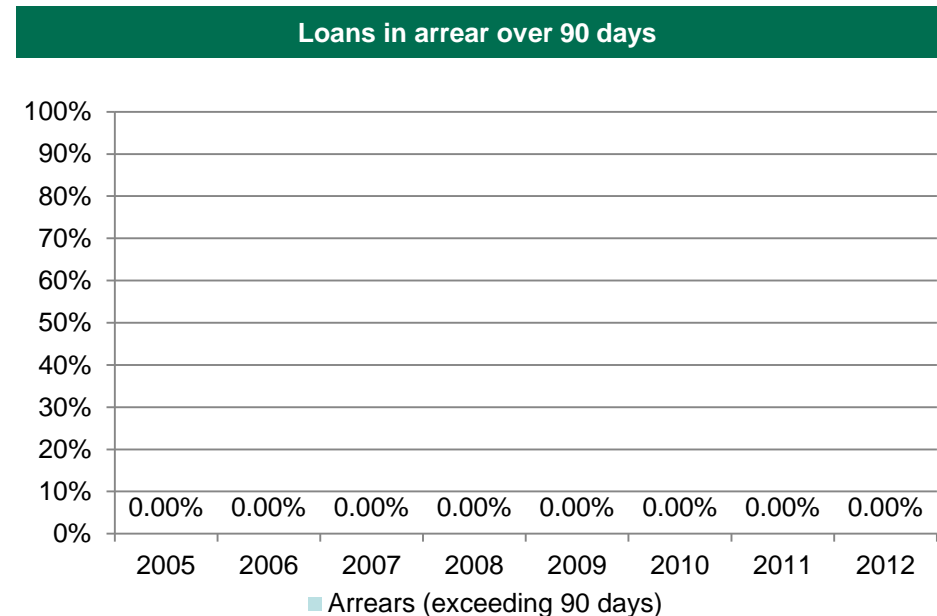
- **The Note Purchase Agreement** (NPA) is structured to ensure that TBK has liquidity, at all times, sufficient to pay the Final Redemption Amount of any series of Notes in a rolling twelve month period
- The NPA replaces the former NOK 3bn facility described in earlier Offering Circulars to the EMTCN Program
- **The Shareholders' Agreement** is structured to ensure that TBK will uphold a sufficient capital adequacy ratio at all times
- The Owner Banks are obliged to pay their pro-rata share of any capital increase adopted by the TBK's general meeting and of any capital instruments to be issued
- The agreements are structured to meet the Moody's criteria to categorize as a Category 2 support agreement for Specialized Covered Bond Issuers



# Terra BoligKreditt

## No arrear exceeding 90 days

- Terra BoligKreditt has **never** experienced mortgages being delinquent for more than 3 months
- The guarantees from the banks further reduces credit risk and helps to avoid cherry-picking of mortgages
- In case there is a delayed payment (> 35 days) the Bank which has transferred the mortgage need to solve the problem within 2 months by:
  - Giving the client extra credit
  - Transferring the loan back to the bank (305 loans since start-up of company in 2004)
  - Paying the full guaranteed amount to TBK



# Terra BoligKreditt

## Top-notch collateral score by Moody's

- On 19 July 2012, Moody's released the 10th edition of their EMEA Covered Bonds monitoring overview. The primary objective of this report is to provide transparency to Moody's covered bond ratings
- In the report Terra BoligKreditt is ranked the best out of over 200 covered bond issuers in terms of quality of collateral in the cover pool which is measured by the Collateral Score\*
- Starting from Q2 2012, Moody's changed its methodology by applying a transaction minimum credit enhancement level, which resulted in TBK's new collateral score at the floor level of 5% instead of a TBK individual Collateral Score reported to be 2.1%
- Starting from Q3 2012 Moody's has announced that a ranking will be available in the overview report using the collateral scores before applying the floor

EXHIBIT 11

### Deals with lowest (best) Collateral Scores\*

Name of Programme	Type of Programme	Country	Collateral Score
Terra Boligkreditt Mortgage Covered Bond Programme	Mortgage	Norway	2.3%
HSBC Covered Bond Programme	Mortgage	United Kingdom	2.6%
OP Mortgage Bank Mortgage Covered Bonds	Mortgage	Finland	2.6%
Landesbank Baden-Wuerttemberg - Public Sector Covered Bonds	Public Sector	Germany	2.7%
Deutsche Postbank AG Mortgage Covered Bonds	Mortgage	Germany	2.7%
KLP Kommunekreditt AS Public-Sector Covered Bonds	Public Sector	Norway	2.8%
Norddeutsche Landesbank GZ Public Sector Covered Bonds	Public Sector	Germany	3.0%
Eurohypo AG Public Sector Covered Bonds	Public Sector	Germany	3.0%
DekaBank Deutsche	Public	Germany	3.2%

\* Measures the overall quality of collateral in the Cover Pool. The lower the Score, the better the credit quality of the Cover Pool. The average Collateral Score was just over 11.7%.

# Terra BoligKreditt

## Rating summary

- Covered bonds are rated **Aa2** by Moody's
- TPI: **High**
- Collateral Score on individual basis of 2% as of Q3 2012 (pre 5% country floor)

### Stock Exchange Notice from TBK

#### Update on changes to support mechanisms

Terra BoligKreditt AS (hereafter **TBK**) announced the intention to implement changes to its support structure on 2011-12-15[1], which was further described on 2012-05-04[2], and completed on 2012-05-10[3].

The description state that "Covered bonds issued by TBK are today rated Aa2 by Moody's Investors Service. According to Moody's rating criteria further enhancement of support mechanisms could be supportive to the financial strength of TBK." [2].

Since starting this process, Moody's on 2012-03-09 placed five Norwegian savings banks on review for downgrade[4] and performed a downgrade of the largest Norwegian bank on 2012-05-24[5]. On 2012-10-10 Moody's published the special report "Norwegian banks are sensitive to elevated house prices"[6].

Moody's have reviewed the support agreement. TBK's Covered Bond rating remains **Aa2**, with the TPI at "High"

Source: Stock exchange notice from TBK, 18 October 2012

### Timely Payment Indicators

	Very Improbable	Improbable	Probable	Probable- High	High	Very High
<b>A1</b>	Aaa	Aaa	Aaa	Aaa	Aaa	Aaa
<b>A2</b>	Aa1	Aa1	Aaa	Aaa	Aaa	Aaa
<b>A3</b>	Aa2	Aa2	Aaa	Aaa	Aaa	Aaa
<b>Baa1</b>	Aa3	Aa3	Aa1	Aa1	Aaa	Aaa
<b>Baa2</b>	A1	A1	Aa2	Aa2	Aa1	Aaa
<b>Baa3</b>	A3	A2	A1	Aa3	<b>Aa2</b>	Aa1
<b>Ba1</b>	Baa3	Baa2	Baa1	A3	Aa3 - A2	A1
<b>Ba2</b>	Baa3	Baa2	Baa1	A3	A1-A3	A1
<b>Ba3</b>	Baa3	Baa2	Baa1	A3	A2-Baa1	A1
<b>B1</b>	Ba3	Ba2	Ba1	Baa3	A3-Baa2	Baa1
<b>B2</b>	Ba3	Ba2	Ba1	Baa3	Baa1-Baa3	Baa1
<b>B3</b>	Ba3	Ba2	Ba1	Baa3	Baa2-Ba1	Baa1



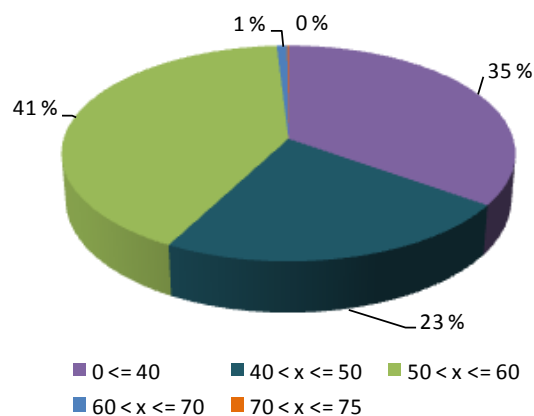
# Terra BoligKreditt

## Summary of the cover pool

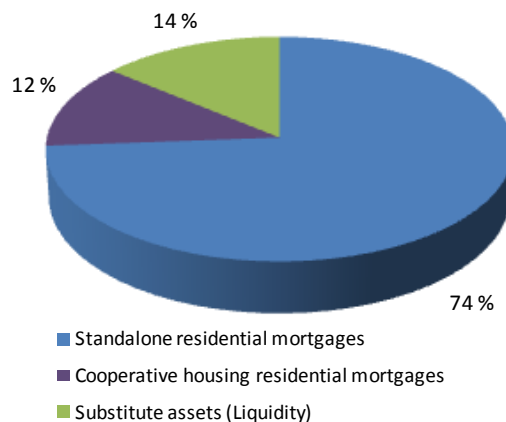
### Overview of mortgages in the cover pool (EUR) as of 31 December 2012

	Grand total	Standalone residential mortgages	Cooperative residential housing
Nominal value	6,407,542,000	5,496,406,866	911,135,133
In % of total mortgage Pool	100 %	85.78 %	14.22 %
Number of loans	33,613	33,046	567
Arithmetic average loan (nominal)	190,627	166,326	1,606,940
WA LTV (unindexed / indexed)	46.29% / 41.99%	51.28% / 46.78%	16.17% / 13.17%
WA seasoning (months)	20.3	19.7	24.4
Loans in arrears (over 90 days)	0	0	0

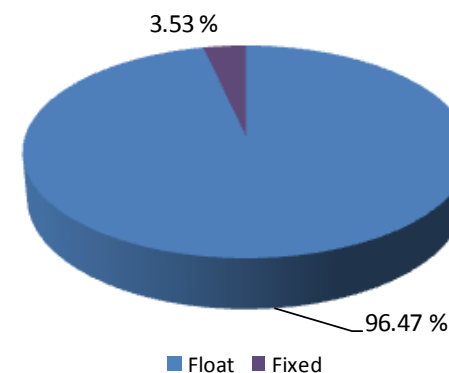
Indexed LTV distribution



Composition of Cover Pool



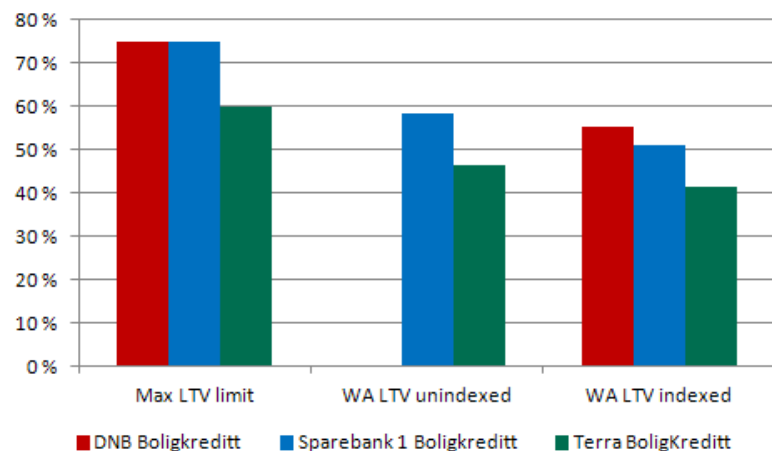
Variable vs fixed rate



# Terra BoligKreditt

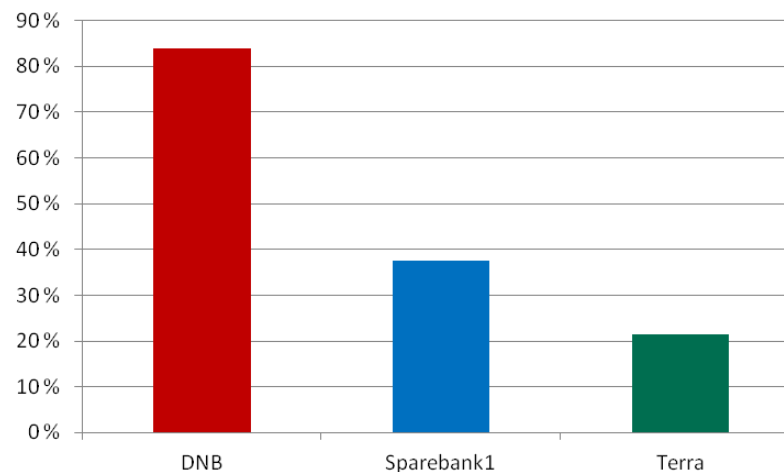
## Summary of the cover pool

LTV Comparison with peers\*



Source: Investor Presentation DNB October 2012,  
Investor Presentation SPB1 August 2012

Share of retail mortgage loans transferred to CB issuer\*



Source: Bank Analyst, Terra

Stress test: Decline in house prices\*

Stress test house price reduction	Today's market	Decline of 15%	Decline of 25%	Decline of 35%
Portfolio total value	5,958,094	5,958,094	5,958,094	5,958,094
Part of mortgage exceeding 75% LTV	-	1,109	33,554	260,236
Share of total portfolio >75% LTV	-	0.02 %	0.56 %	4.37 %

Numbers are in EUR thousand

\* Numbers are as of 2012Q3

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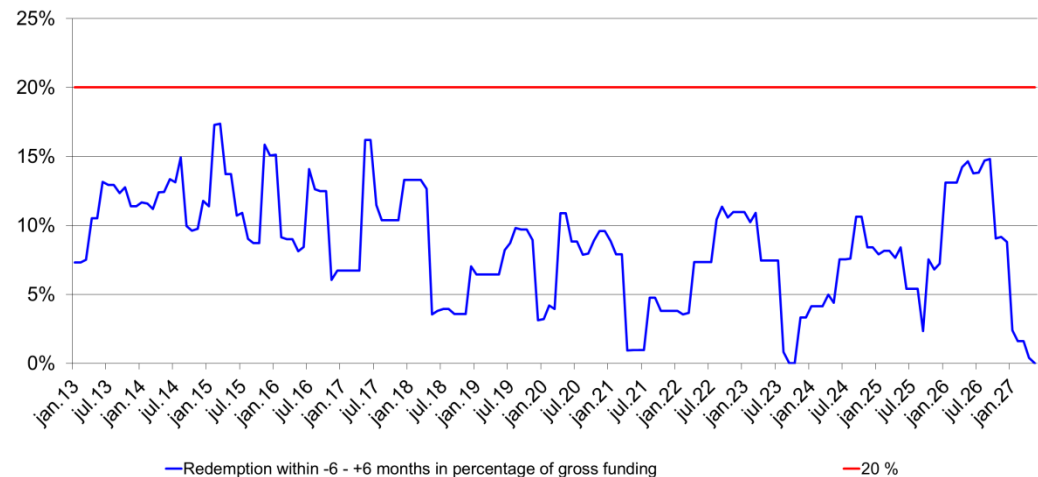
# Funding strategy and activity

## Strong risk management

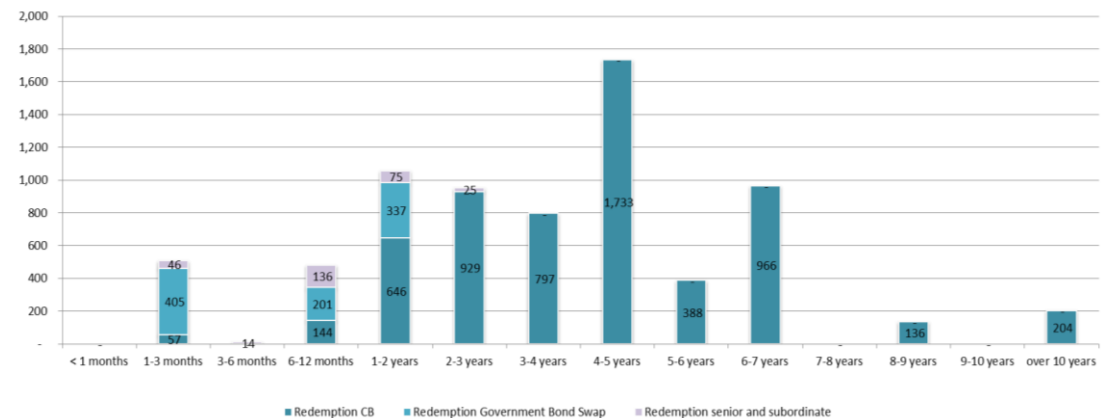
### ALM

- Both sides of the balance mostly swapped to 3 month NIBOR
- Minimum Over Collateralization level of 5% (committed in EMTCN Program)
- Redemption within any future 12-month rolling period should not exceed 20% of the gross funding at the time of redemption
- The 20% level is related to the expected maturity on the assets, i.e. 5 years
- One of the stress tests is the refinancing Indicator I
  - a simulation taking into account, amongst other, expected growth and future transactions
  - ensuring availability of funding options within the 20% limit also forwards

### Control of Refinancing Indicator I



### Maturity profile

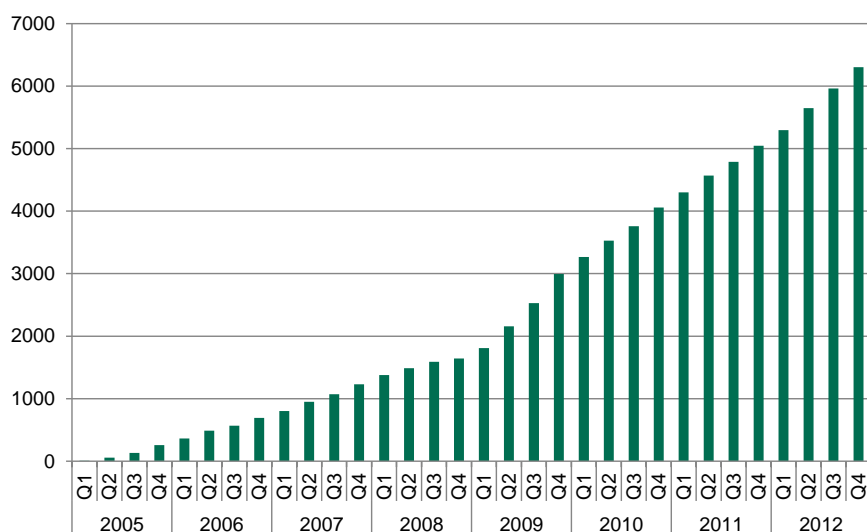


# Funding strategy and activity

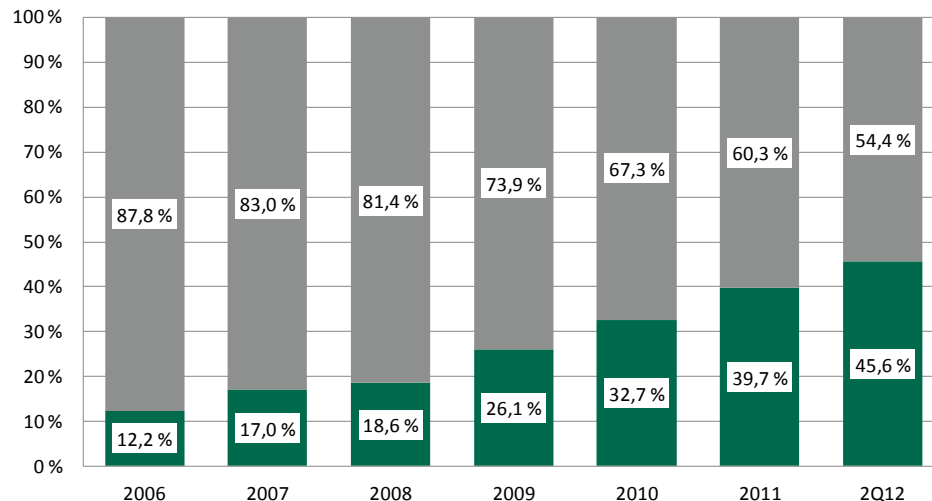
## Funding strategy

- With a stable organic growth, and redemptions starting to materialize in EUR, TBK has evolved from the EUR 500mn no-grow strategy, to an issuer of Jumbo covered with its inaugural EUR 1bn November 2017 transaction launched in late October 2012
- To reflect this shift TBK has increased the European Medium Term Covered Note Program to a size of EUR 20bn
  - Active in both the NOK and EUR funding market
  - TBK has the objective to issue in the Euro covered bond market at least twice a year and to have an established, liquid yield curve

Stable Growth in the loan book (in EUR mn)



TBK funding as share of bank's external funding



# Funding strategy and activity

## Liquidity portfolio

- The substitute assets constitute TBK's liquidity buffer
- The Liquidity portfolio conforms to a conservative investment policy
  - Only Norwegian, and NOK, exposure
  - Portfolio weighted average time to maturity of maximum 2 years
  - An individual investment can have a maturity of max 3 years
  - Rated AA-/Aa3 or better if the maturity exceeds 100 days, or A-/A3 if the maturity less than 100 days
  - Weighted average portfolio interest rate duration of less than 0.5 years, and individual securities less than 1 year

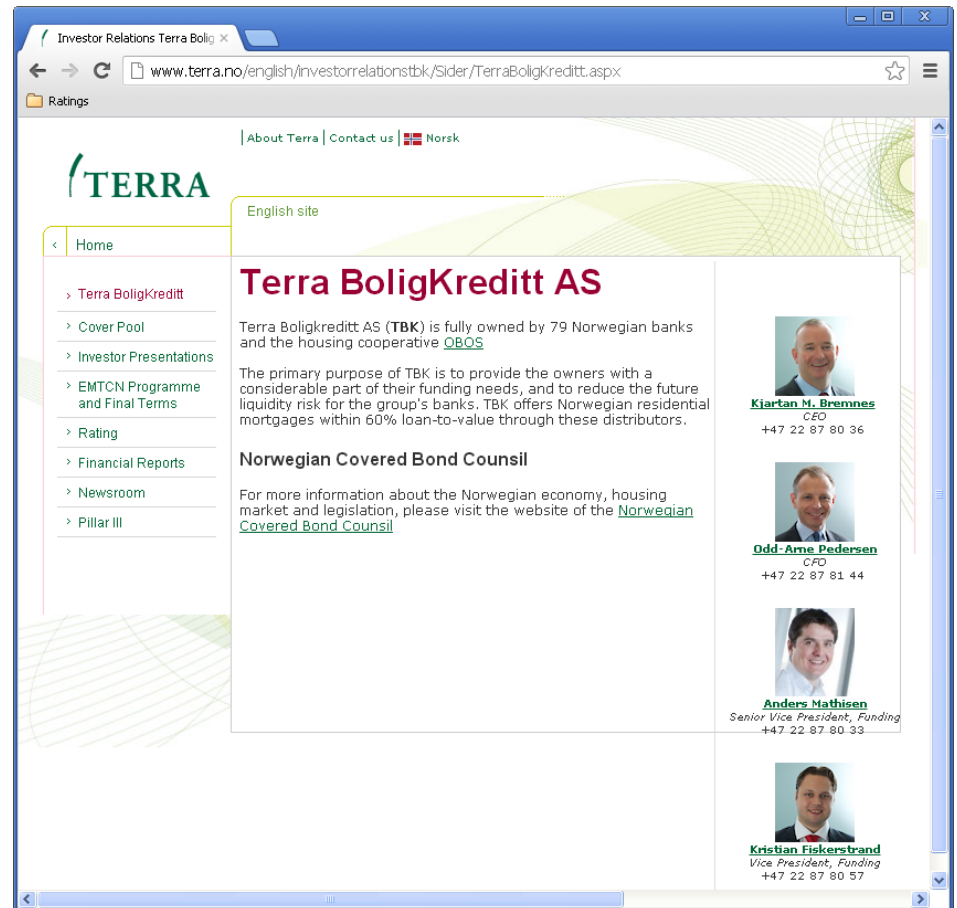
Liquidity portfolio (in EUR mn) as of 31 December 2012

Asset type	Amount (EUR mn)	In % of portfolio	WA Duration (yrs)	WA Maturity (yrs)
Government bonds	229	22 %	0.22	0.22
Municipalities	302	29 %	0.09	0.21
Covered bonds	285	28 %	0.15	1.93
Corporate	10	1 %	0.20	1.61
Bank deposits	209	20 %	N/A	N/A
<b>Total portfolio</b>	<b>1035</b>	<b>100 %</b>	<b>0.15</b>	<b>0.87</b>

# Funding strategy and activity





## Funding strategy

- To establish and maintain TBK as a solid, well-known and frequent borrower
  - Diversified funding both in terms of geography and investor type
  - About ¾ of the funding expected to be international. (Exception: TBK's domestic funding in 2011 about EUR 1.5bn)
- Provide the market with high quality and transparent information
  - Timely and high quality annual/quarterly reports and financial statements
  - Frequent road shows and investor presentations
  - Quarterly data on the cover pool on a (in accordance with standard developed by NCBC on request of CBIC) available on <http://terrabk.no>



## Funding strategy and activity

### Contacts

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More information may be found on <http://terrabk.no>



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## The Terra Banks

### P&L - Strong growth and low loan losses

<i>P&amp;L in NOK mil.</i>	2 007	2 008	2 009	2 010	2 011	1Q12	2Q12	3Q12
Net interest income	3 269	3 689	3 418	3 536	3 640	906	944	969
Net commission income	569	585	589	673	747	182	210	231
Other income	53	52	53	43	43	11	10	9
<b>Total income</b>	<b>3 891</b>	<b>4 327</b>	<b>4 060</b>	<b>4 252</b>	<b>4 430</b>	<b>1 098</b>	<b>1 164</b>	<b>1 209</b>
Personnel and adm. expenses	1 870	2 011	2 044	2 077	2 150	564	519	558
Depreciation	199	190	167	124	98	22	23	22
Other costs	410	410	448	477	502	139	133	119
<b>Total costs</b>	<b>2 479</b>	<b>2 611</b>	<b>2 658</b>	<b>2 677</b>	<b>2 750</b>	<b>724</b>	<b>675</b>	<b>699</b>
Core earnings before loan losses	1 412	1 716	1 402	1 575	1 680	374	488	510
Write-downs on loans	50	606	482	418	463	55	64	85
<b>Core earnings</b>	<b>1 362</b>	<b>1 111</b>	<b>920</b>	<b>1 157</b>	<b>1 217</b>	<b>319</b>	<b>424</b>	<b>425</b>
Dividends/associated companies	150	155	79	177	190	33	24	9
Net return on financial investments	-58	-734	564	220	-73	109	-1	91
One-offs and loss/gain on long-term assets	10	-91	121	372	-70	15	116	8
<b>Pre tax profit</b>	<b>1 464</b>	<b>441</b>	<b>1 684</b>	<b>1 927</b>	<b>1 263</b>	<b>476</b>	<b>563</b>	<b>534</b>
Taxes	399	247	439	500	412	123	129	145
<b>Net profit</b>	<b>1 066</b>	<b>194</b>	<b>1 245</b>	<b>1 427</b>	<b>851</b>	<b>353</b>	<b>434</b>	<b>389</b>

# The Terra Banks

## Balance and key figures

<i>Balance</i>	2 007	2 008	2 009	2 010	2 011	1Q12	2Q12	3Q12
Gross loans	139 584	148 925	152 591	158 411	160 374	161 202	163 989	165 888
Deposits	99 051	107 562	112 561	120 864	128 763	129 735	136 150	134 594
Equity	14 095	14 306	15 591	16 819	17 585	17 908	18 363	18 714
Total assets	159 552	177 404	185 967	192 195	197 536	193 386	200 990	201 557
Growth in loans	14,5 %	6,7 %	2,5 %	3,8 %	1,2 %	0,5 %	1,7 %	1,2 %
Growth in deposits	11,5 %	8,6 %	4,6 %	7,4 %	6,5 %	0,8 %	4,9 %	-1,1 %
Deposit ratio	71,0 %	72,2 %	73,8 %	76,3 %	80,3 %	80,5 %	83,0 %	81,1 %
Equity ratio	8,8 %	8,1 %	8,4 %	8,8 %	8,9 %	9,3 %	9,1 %	9,3 %
Core capital ratio	14,9 %	15,0 %	16,4 %	17,0 %	17,4 %	17,5 %	17,0 %	17,0 %
Capital ratio	16,0 %	16,3 %	17,6 %	18,2 %	18,2 %	18,2 %	17,5 %	17,4 %
<i>Key figures</i>								
Net interest/total assets	2,20 %	2,19 %	1,88 %	1,87 %	1,87 %	1,85 %	1,91 %	1,93 %
Net commission incom/total assets	0,38 %	0,35 %	0,32 %	0,36 %	0,38 %	0,37 %	0,43 %	0,46 %
Loss provision ratio	0,04 %	0,42 %	0,32 %	0,27 %	0,29 %	0,14 %	0,16 %	0,21 %
Cost/income ratio (adj.)	61,4 %	58,3 %	64,2 %	60,4 %	59,5 %	64,0 %	56,8 %	57,4 %
Net profit in % of total assets	0,72 %	0,12 %	0,69 %	0,75 %	0,44 %	0,72 %	0,88 %	0,77 %
Net profit on core earnings in % of RVA	1,41 %	1,16 %	0,90 %	1,09 %	1,12 %	1,17 %	1,52 %	1,52 %
Return on equity	7,9 %	1,4 %	8,3 %	8,8 %	4,9 %	7,9 %	9,6 %	8,4 %

## Appendix

# Terra Banks have transferred a relatively low share of retail loans to CB company

Numbers in NOK mill.	Gross lending	Retail lending	Transferred to CB company	Transfer-rate retail	Retail share
DNB (1)	1308000	574632	496660	86,4 %	47,8 %
Nordea	474909	216200	102592	47,5 %	45,5 %
BN Bank	31238	7269	6631	47,7 %	23,3 %
<b>Terra banks (2)*</b>	<b>163989</b>	<b>120557</b>	<b>36287</b>	<b>23,1 %</b>	<b>73,5 %</b>
Other banks*	263652	151519	98073	39,3 %	57,5 %
Sparebank1*	345046	188015	131434	41,1 %	54,5 %
SR-BANK*	99628	48007	47501	49,7 %	48,2 %
Sparebank1 SMN*	71121	30760	26208	46,0 %	43,3 %
Sparebanken Vest*	67217	38288	37747	49,6 %	57,0 %
Sparebank1 Nord-Norge*	49731	28915	19539	40,3 %	58,1 %
Lillestrøm Sparebank (3)*	3820	2355	2393	50,4 %	61,6 %
Jernbanepersonalets Sparebank (4)*	4301	4158	3085	42,6 %	96,7 %

\* Retail share on own loan book (after transfer to CB company)

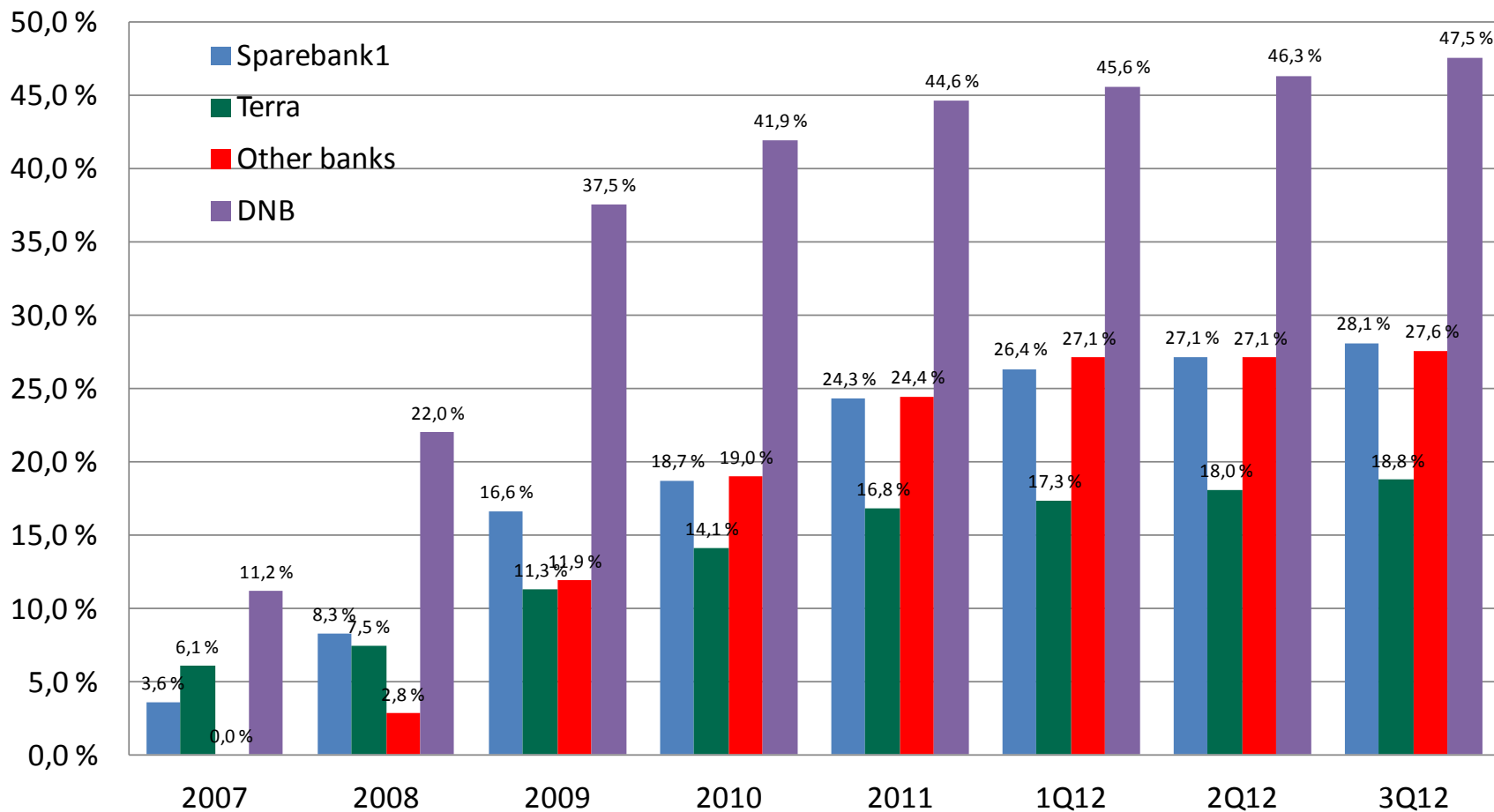
1 DNB adjusted and estimated number

2 Terra adjusted for OBOS

3 and 4 - Terra banks with the highest transferred rate to TBK

## Appendix

# Transfers of mortgages to CB issuer of total lending

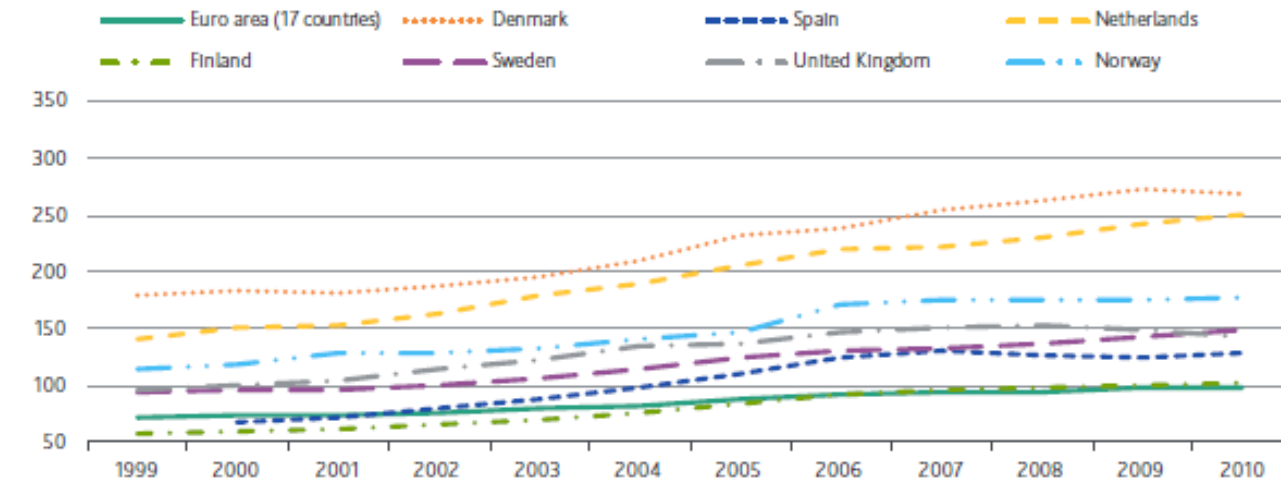


## Appendix

# Household debt

EXHIBIT 3

Household gross debt / disposable income (% , averages per country)



Source: Eurostat

- Increased indebtedness reflects, in large part, the high level of homeownership in Norway, at approximately 85 % of households

## Appendix

### Risk positioning (Owner banks)

- Significantly higher retail share compared with Sparebank 1, other saving banks and DNB
- Exposure to agriculture has more in common with retail loans since the house on the farm often makes up the main collateral of the loan
- 0 exposure to shipping and relatively low exposure to commercial real estate

Sector distribution 2011	Terra	Other	Sparebank 1	DNB
Agriculture/forestry	4,9 %	2,7 %	4,6 %	0,7 %
Fishing/fish farming	0,0 %	2,1 %	1,1 %	1,3 %
Industry	1,4 %	2,3 %	2,7 %	4,0 %
Building and construction	3,7 %	4,0 %	3,4 %	3,4 %
Trade and hotels	2,3 %	2,3 %	2,7 %	3,2 %
Shipping	0,0 %	1,9 %	2,0 %	11,3 %
Real estate business	9,3 %	18,1 %	18,5 %	14,7 %
Service industry	1,8 %	4,2 %	4,9 %	6,8 %
Transport/comm.	1,1 %	1,1 %	3,0 %	2,7 %
Other	1,7 %	2,0 %	0,7 %	4,6 %
Public sector	0,1 %	0,2 %	0,4 %	0,5 %
Retail customers	73,7 %	59,2 %	56,0 %	46,9 %
Total	100,0 %	100,0 %	100,0 %	100,0 %

# Appendix

## Comparison of legal frameworks

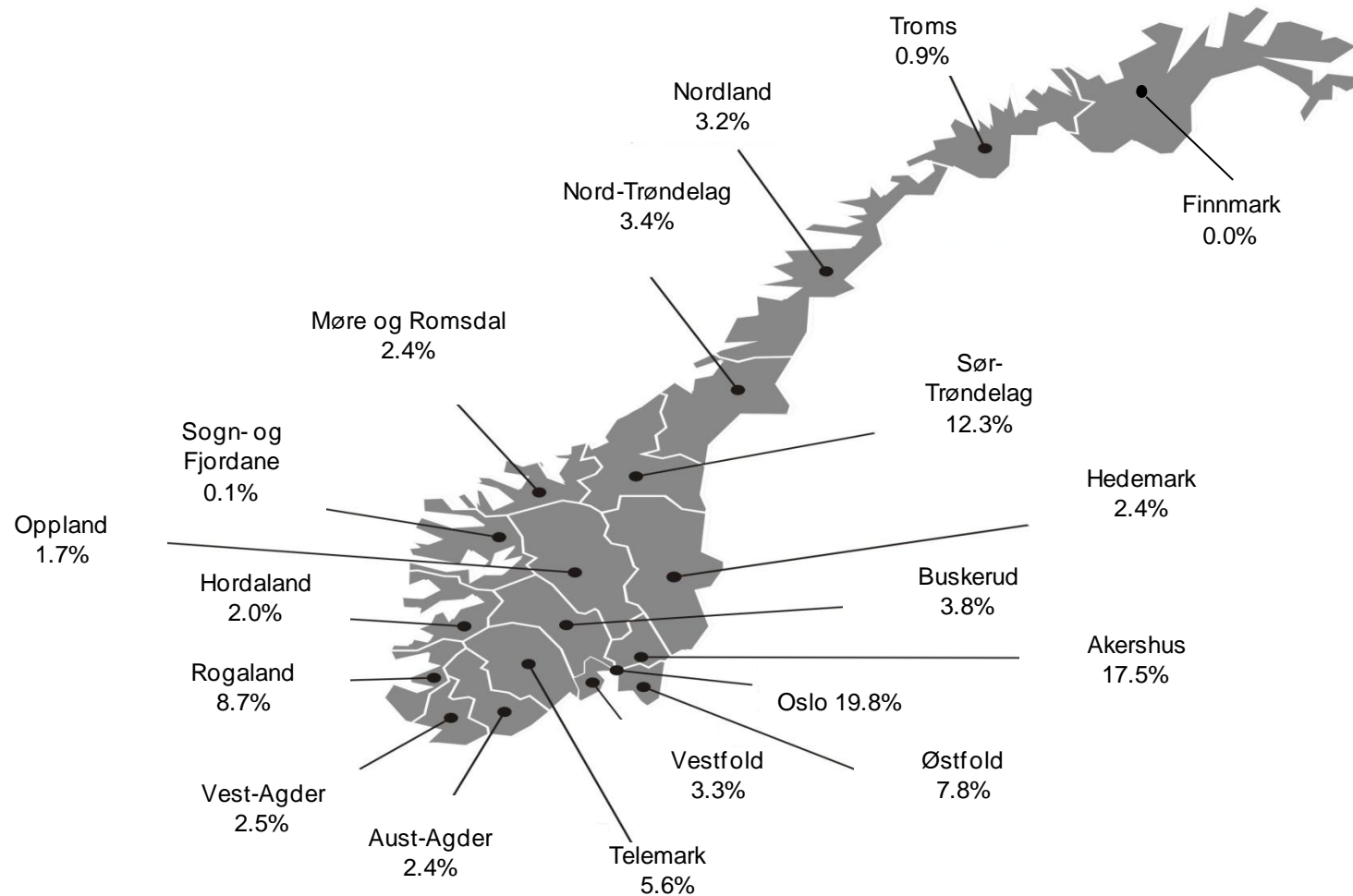
	Norway	Sweden	Denmark	Finland	Germany
Special Banking Principle	Yes; Kredittforetaks	No, but specialist banks still exist	No, but specialist banks still exist	No, but specialist banks still exist	No
Potential Collateral	Residential mortgages, commercial mortgages, public sector debt	Residential Mortgages, commercial mortgages (max 10%), public sector debt	Residential and commercial mortgage loans and substitute collateral. Commercial banks are also allowed to introduce ship loans.	Residential mortgages, commercial mortgages (max. 10%), public sector debt and shares in Finnish real estate corporations	Mortgage loans, public sector debt, ship loans, aircraft loans
RMBS inclusion	No	No	No	No	No
Inclusion of Hedge Positions	Yes	Yes	Yes	Yes	Yes, 12% of the pool's NPV
Substitute collateral	Max. 20%; 30% for a limited period if authorized by the Norwegian FSA	Up to 20% (30% for a limited period if authorised by the Swedish FSA)	Yes	Up to 20%	Max. 20%
Geographical scope for public assets	OECD	OECD	Not applicable	EEA	EEA, Switzerland, USA, Canada and Japan
Geographical scope for mortgage assets	OECD	EEA	Denmark, Greenland and Faroe Islands without restrictions - other countries with approval of Supervisory Authority	EEA	EEA, Switzerland, USA, Canada and Japan
LTV barrier residential	75%	75% (70% for agricultural purposes)	80%	70%	60%
LTV barrier commercial	60%	60%	60%	60%	60%
Basis for valuation	Prudent Market value	Market value	Mortgage lending value	Market value	Mortgage lending value
Valuation check	Regular surveillance through accountant	Regular monitoring of property values	No explicit regulation	Regular examination	Regular (at least every 2 years) examination of the cover register
Special supervision	Yes; Finanstilsynet	Yes; Finansinspektionen	Yes ; Finanstilsynet	Yes; Finanssivalvonta Finansinspektionen	Yes; BaFin
Protection against mismatching	The law stipulates that cash-flows should be matched narrowly	Nominal coverage, NPV coverage	Yes; general or specific balance principles govern several restrictions on max. mismatches possible	Nominal coverage, NPV coverage; 12 month cash flow coverage, stress testing, liquidity management	Nominal coverage, NPV coverage, 180d liq. buffer
Obligation to replace non-performing loans	No, but haircuts for loans in-arrears for more than 90 days	No	No	Readjustment of valuation	No
Mandatory overcollateralization	No	No	8% on a risk-weighted basis is required by law – also at capital centre level.	Yes (2% on a NPV basis)	2% NPV
Fulfills UCITS 22(4)/CRD	Yes	Yes	Yes	Yes	Yes

Source: Natixis Covered Bond Research



## Appendix

# Strong geographical diversification



Map of distribution as of 31.12.2012

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