

---

# DnB NOR Bank

# Liquidity Portfolio

Update Q4, 2010

February 10, 2011

# Liquidity Portfolio Rationale

---

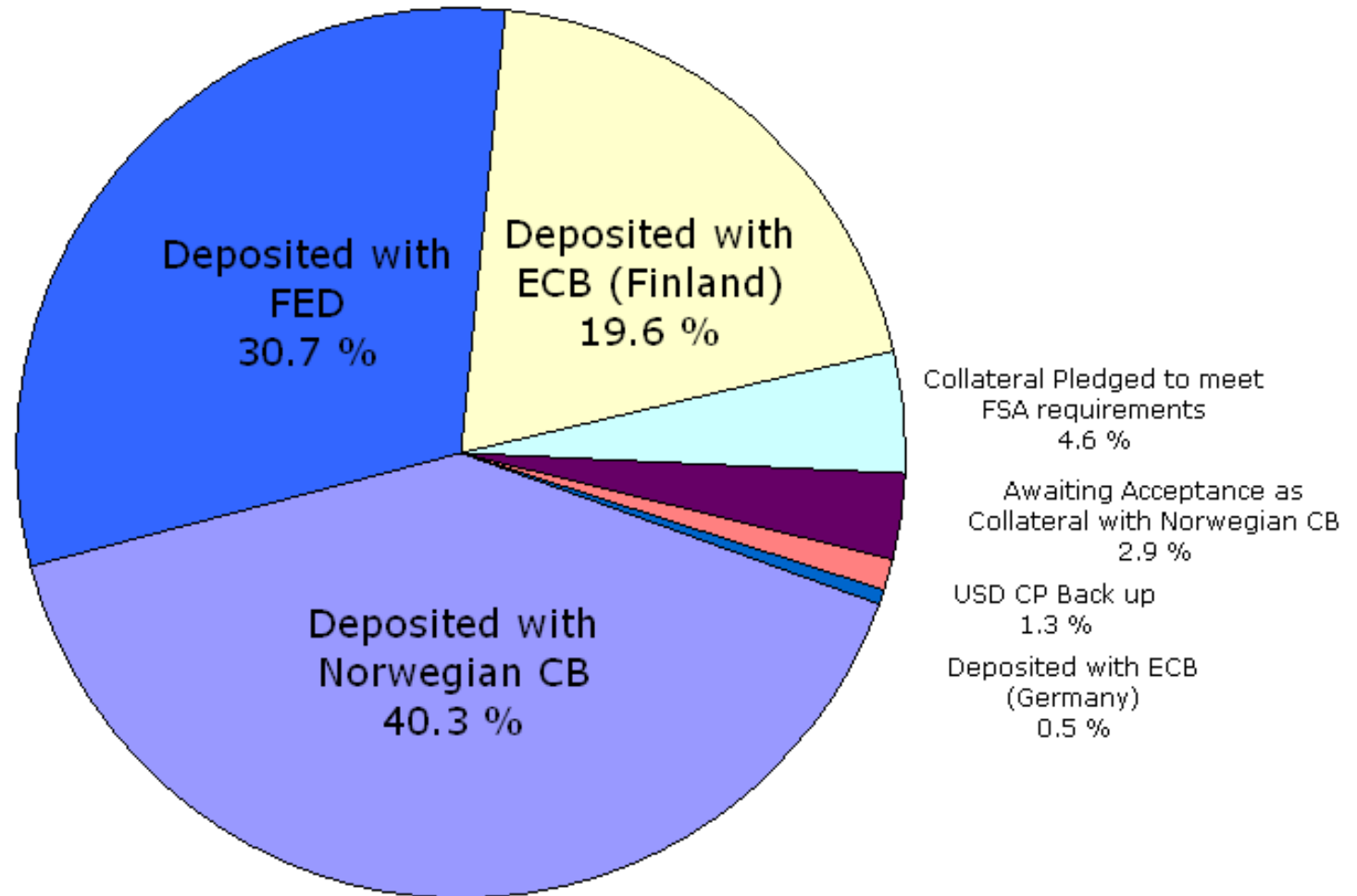
- DnB NOR's portfolio is deposited with Central Banks or used as collateral elsewhere
  - Represents Liquidity Reserve – drawing rights from Central Banks
  - Used to raise multi currency liquidity through Central Banks' Liquidity Operations
  - Supports DnB NOR's NOK clearing function
- Fulfils rating agency requirements
- Portfolio size and reinvestments reflect evolving regulatory liquidity requirements

# Liquidity Portfolio Accounting Classification

---

- Since 3Q08, the portfolio has been booked according to the hold to maturity principle
- The portfolio was reclassified out of the fair value category at its fair value on the date of reclassification
  - The accumulated MtM writedown at reclassification is reversed linearly to maturity, subject to no significant asset quality impairment

# Liquidity Portfolio: 100% is Used as Collateral

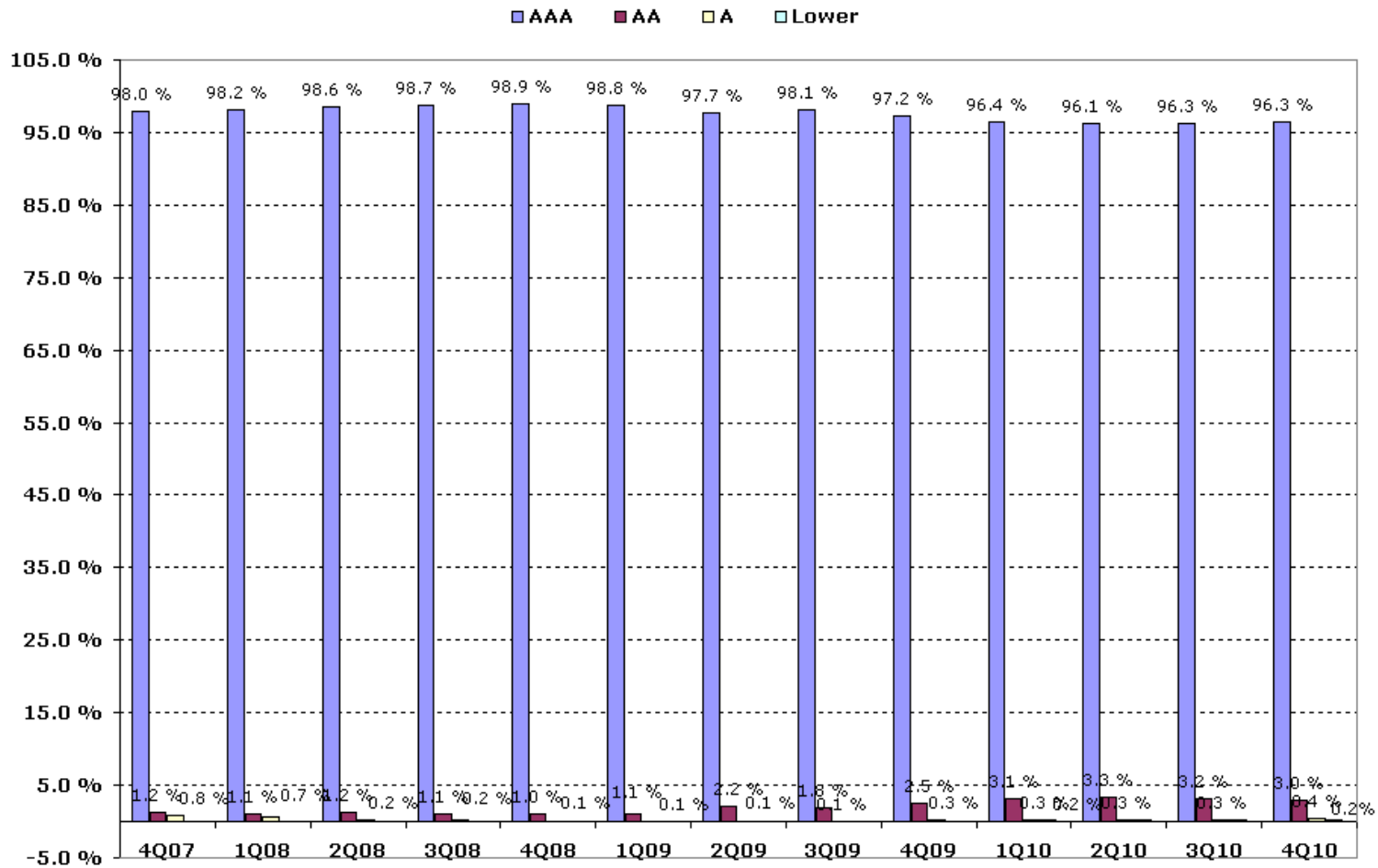


# Liquidity Portfolio: Overview

---

- Size € 14,688 million
- Rating distribution:
  - AAA 96.3 %
  - AA 3.0 %
  - A 0.4 %
  - Lower 0.2%
- 31.5% Sovereign exposure. The remainder is predominantly European and Australian RMBS
- 100% deposited with Central Banks or otherwise used as collateral for liquidity purposes

# Liquidity Portfolio: Rating Migration



Using Moody's, S&P and Fitch, rating is defined as best of two or median of three, depending on how many ratings a security has.

# Liquidity Portfolio: Details on Exposures & Ratings

	VOLUME (EUR mn)	% OF PORTFOLIO	% OF ASSET CLASS	AAA	AA	A	BBB	BB	B	<B
<b>TOTAL PORTFOLIO</b>	<b>14,688</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>96.3 %</b>	<b>3.0 %</b>	<b>0.4 %</b>	<b>0.1 %</b>	<b>0.1 %</b>	-	-
<b>RMBS TOTAL</b>	<b>9,450</b>	<b>64.3 %</b>	<b>100.0 %</b>	<b>97.0 %</b>	<b>2.8 %</b>	<b>0.2 %</b>	-	-	-	-
RMBS - UK	2,757		29.2 %	100.0 %	-	-	-	-	-	-
RMBS - NETHERLANDS	2,164		22.9 %	100.0 %	-	-	-	-	-	-
RMBS - AUSTRALIA	2,023		21.4 %	100.0 %	-	-	-	-	-	-
RMBS - SPAIN	1,388		14.7 %	85.4 %	13.2 %	1.4 %	-	-	-	-
RMBS - ITALY	465		4.9 %	100.0 %	-	-	-	-	-	-
RMBS - PORTUGAL	316		3.3 %	100.0 %	-	-	-	-	-	-
RMBS - IRELAND	316		3.3 %	75.4 %	24.6 %	-	-	-	-	-
RMBS - KOREA	21		0.2 %	100.0 %	-	-	-	-	-	-
<b>SOVEREIGN - TOTAL<sup>1</sup></b>	<b>4,624</b>	<b>31.5 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	-	-	-	-	-	-
<b>CORPORATE LOANS<sup>2</sup> - TOTAL</b>	<b>332</b>	<b>2.3 %</b>	<b>100.0 %</b>	<b>36.3 %</b>	<b>45.3 %</b>	<b>12.0 %</b>	-	<b>6.3 %</b>	-	-
CORPORATE LOANS - GERMANY	154		46.3 %	17.5 %	57.5 %	25.0 %	-	-	-	-
CORPORATE LOANS - UK	52		15.5 %	75.1 %	22.0 %	2.9 %	-	-	-	-
CORPORATE LOANS - SPAIN	48		14.5 %	67.8 %	32.2 %	-	-	-	-	-
CORPORATE LOANS - SCANDINAVIA	35		10.6 %	-	100.0 %	-	-	-	-	-
CORPORATE LOANS - AUSTRALIA	22		6.8 %	100.0 %	-	-	-	-	-	-
CORPORATE LOANS - DENMARK	21		6.3 %	-	-	-	-	100% <sup>3</sup>	-	-
<b>CONSUMER CREDIT - TOTAL</b>	<b>282</b>	<b>1.9 %</b>	<b>100.0 %</b>	<b>84.5 %</b>	<b>12.2 %</b>	-	<b>3.4 %</b>	-	-	-
CONSUMER CREDIT - USA	135		47.6 %	92.9 %	-	-	7.1% <sup>4</sup>	-	-	-
CONSUMER CREDIT - SPAIN	77		27.4 %	55.6 %	44.4 %	-	-	-	-	-
CONSUMER CREDIT - FRANCE	43		15.3 %	100.0 %	-	-	-	-	-	-
CONSUMER CREDIT - AUSTRALIA	23		8.2 %	100.0 %	-	-	-	-	-	-
CONSUMER CREDIT - JAPAN	3		1.0 %	100.0 %	-	-	-	-	-	-
CONSUMER CREDIT - GERMANY	1		0.5 %	100.0 %	-	-	-	-	-	-

<sup>1</sup> USA, Nordics, Germany, Netherlands, France, Australia and Supranationals.

<sup>2</sup> The Corporate loan exposure includes EUR 1.5 mn insurance exposure (0.01% of total portfolio).

<sup>3</sup> and <sup>4</sup> The underlying portfolios consist of Danish banks subordinated loans and US private student loans, respectively.

# Liquidity Portfolio RMBS Exposures: Further Details

Jurisdiction	Volume (EUR mn)	Average delinquencies > 90 days	Cumulative losses on underlying loans (covered by excess spread/reserve fund)	Average Loan to Original Value (LTV) ratio	Average seasoning (months)	Average current credit enhancement (CE) %	CE / Delinquencies > 90 days	Lowest rating (Moody's/S&P/Fitch)	House price inflation last 5 3/4 years <sup>1</sup>	Unemployment <sup>2</sup>	Interest rate level <sup>3</sup>
<b>UK</b>	2,757	1.85 %	0.03 %	66.22 %	64.39	14.65 %	7.9	Aaa/AAA/AAA	17.0 %	7.7%	0.50 %
<b>Netherlands<sup>4</sup></b>	2,164	0.62 %	0.10 %	83.09 %	65.49	9.05 %	14.7	Aaa/AAA/AAA(neg)	9.5 %	5.2%	1.00 %
<b>Australia<sup>5</sup></b>	2,023	0.52 %	0.01 %	60.23 %	69.07	8.02 %	15.4	Aaa/AAA/AAA	47.8 %	5.0%	4.75 %
<b>Spain</b>	1,388	2.41 %	0.39 %	54.72 %	79.69	9.24 %	3.8	Aa3/A/BBB	12.1 %	20.6%	1.00 %
<b>Italy</b>	465	0.97 %	0.05 %	42.88 %	88.73	15.00 %	15.5	Aaa(neg)/AAA/AAA	13.3 %	8.3%	1.00 %
<b>Portugal</b>	316	2.84 %	0.00 %	58.65 %	81.82	8.41 %	3.0	Aaa(neg)/AAA(neg)/AAA	-3.2 %	9.8%	1.00 %
<b>Ireland</b>	316	5.44 %	0.00 %	64.38 %	72.51	11.65 %	2.1	Aaa(neg)/A(neg)/A	-28.6 %	13.4%	1.00 %
<b>Korea</b>	21	0.23 %	0.00 %	52.62 %	78.30	23.40 %	101.7	Aa1/AAA/AAA	27.1 %	3.6%	2.50 %
<b>Tot / Weighted Avg<sup>6</sup></b>	<b>9,450</b>	<b>1.47 %</b>	<b>0.1 %</b>	<b>65.6 %</b>	<b>70.0</b>	<b>10.9 %</b>	<b>10.7</b>	<b>Aaa/AAA/AAA</b>	<b>18.8%</b>	<b>8.7%</b>	<b>1.66 %</b>

Sources: <sup>1</sup> Datastream (quarterly figures including 3Q10 for all countries (4Q10 for Korea) applied for five and 3/4 years – to replicate the WA seasoning in the portfolio), <sup>2</sup> Bloomberg. <sup>3</sup> Central Bank rates as at December 31, 2010. <sup>4</sup> Average LTV ratios for Dutch mortgages are higher than the average of the other jurisdictions. This is due to a) the Dutch tax model and b) the fact that in Holland, this figure actually represents the Loan-To-Foreclosure-Value (LTFV) where a theoretical foreclosure price is used in the denominator (considerably lower than market value, which is the parameter used in other jurisdictions). In General, the market perception is that Dutch RMBS are of extremely high quality. <sup>5</sup> Average Credit Enhancement for Australian RMBS are lower than the average of other jurisdictions. This is due to the fact that losses on the underlying mortgages are insured in Australian RMBS, making the bond rating less dependent on credit enhancement. The AAA ratings on Australian RMBS are thus partially dependent on the rating of the lenders mortgage insurance (LMI) companies. This dependence is only partial at origination (a downgrade buffer of several notches is usually provided for) and the dependence is reduced gradually over time following the amortization of the tranches, until the rating is completely independent of the rating of the LMIs. <sup>6</sup> Of the volume of RMBS in the portfolio, 99.6% holds at least one AAA rating.



# RMBS Buffers

## What it Takes to Lose the First Cent on a AAA RMBS

### 1. Borrower default

Linked to rising unemployment and rising interest rates.

Current 90+ days portfolio delinquencies is 1.5%. Very limited losses.

### 2. Realisation of collateral below loan balance

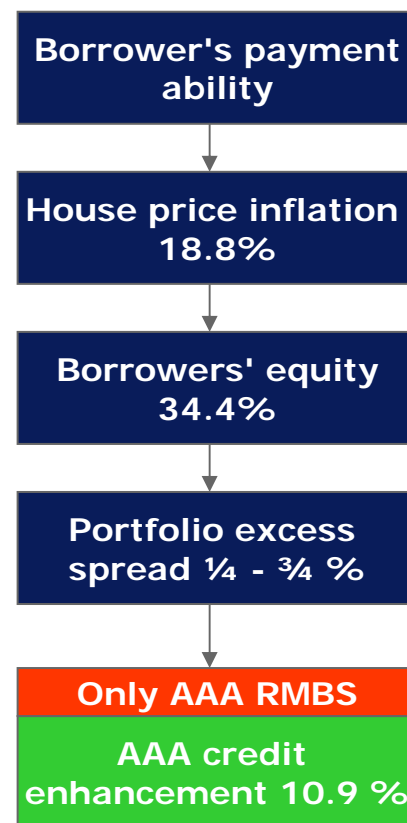
Requires both reversal of house price increase since mortgage was granted (portfolio average 70 months seasoning = **18.8%** house price inflation) and house price decline exceeding borrowers equity (portfolio average **34.4%**).

### 3. Loss exceeding acc. excess spread in portfolio

The first losses in a portfolio will be covered by the accumulated net excess spread (**0.25% - 0.75%**) the portfolio generates annually.

### 4. AAA subordination

Any further losses will be covered by lower rated tranches and reserve fund. This Credit Enhancement equals **10.9%** on average in the portfolio.



# Liquidity Portfolio "PIGS" Exposures

	2Q2007	4Q2010	% of liquidity portfolio	Types of exposures	Current ratings			
					AAA	AA	A	<A
<b>Portugal</b>	604	316	2.1 %	RMBS only	100.0 %	-	-	-
<b>Ireland</b>	386	316	2.1 %	RMBS only	75.4 %	24.6 %	-	-
<b>Greece</b>	0	0	0.0 %	None	-	-	-	-
<b>Spain</b>	2574	1513	10.3 %	RMBS, corporate loans, consumer credit	83.3 %	15.4 %	1.3 %	-

There have been no Liquidity Portfolio reinvestments in Portuguese, Irish nor Spanish assets since the outset of the financial crisis.