

INVITATION TO TENDER - REVISED

The arrangement for the exchange of government securities for covered bonds

On Monday 29 June 2009, a Dutch auction will be conducted in connection with the arrangement for the exchange of government securities for covered bonds (OMF). The following covered bonds are included in the arrangement:

- a. Covered bonds backed by Norwegian residential mortgage loans (cf. Section 2-28, first paragraph, a) of the Financial Institutions Act).
- b. Covered bonds backed by Norwegian commercial mortgage loans, cf. Section 2-28, first paragraph, b) of the Financial Institutions Act, if a plan for obtaining a credit rating is submitted and a high rating is anticipated.
- c. Covered bonds backed by Norwegian loans to, or guaranteed by, central or local government, cf. Section 2-28, first paragraph, d) of the Financial Institutions Act, if a plan for obtaining a credit rating is submitted and a high rating is anticipated.
- d. Similar securities (covered bonds) issued under the rules of other EU/EEA states backed by Norwegian residential or commercial mortgage loans. Covered bonds backed by Norwegian commercial mortgage loans are eligible, provided a plan for obtaining a credit is submitted and a high rating is anticipated.

The arrangement also includes covered bonds backed by Norwegian residential or commercial mortgage loans denominated in SEK, DKK, EUR, USD, GBP or CHF.

1. Banks eligible to participate

1.1. Bidders

Banks eligible to sign up for Norges Bank's fixed-rate lending facility (F-loans) and mortgage companies owned by such banks are eligible to enter into swap agreements with the government.

1.2. Agreement

Participation in the arrangement is subject to an agreement between each bank or mortgage company and the government represented by the Ministry of Finance.

2. The swap arrangement

2.1. Amount

NST 05 Treasury bills with a nominal value of up to NOK 10 billion will be exchanged for covered bonds. Norges Bank may distribute the total auction amount across the different swap periods within each auction following an assessment of all the bids received.

2.2. Duration

2.2.1. All swap agreements will mature or be rolled over on an IMM date, i.e. the third Wednesday in March, June, September and December.

2.2.2. Bidders may in the auction on 29 June 2009 enter into swap agreements with a maturity up to one or more of the following IMM dates: 19 December 2012, 18 December 2013 and 17 December 2014.

2.2.3. The following possible maturity and rollover dates thus apply to swap agreements entered into in the auction on 29 June 2009:

IMM date → Maturity to ↓	16.12.09	16.06.10	15.12.10	15.06.11	21.12.11	20.06.12	19.12.12	19.06.13	18.12.13	18.06.14
19.12.12	Rollover	Rollover	Rollover	Rollover	Rollover	Rollover	Maturity			
18.12.13	Rollover	Rollover	Rollover	Rollover	Rollover	Rollover	Rollover	Rollover	Maturity	
18.06.14	Rollover	Rollover	Rollover	Rollover	Rollover	Rollover	Rollover	Rollover	Rollover	Maturity

2.3. Minimum price in the auction and the swap arrangement, pricing and Treasury bills

2.3.1. The minimum price in the auction is NIBOR(5) – 20 basis points. NIBOR(5) is the average NIBOR over the past five trading days. In the swap agreement, the NIBOR with the same maturity as the Treasury bill is applied. When a new agreement is concluded and the first bill matures between 3 and 6 months ahead, NIBOR(5) is estimated based on a weighted average of 3-month and 6-month NIBOR. All NIBOR quotes are taken from Reuters page NIBP at 12:00 noon.

2.3.2. Bidders bid for the number of basis points (Y) above the minimum price defined in 2.3.1. The auction interest rate is thus NIBOR(5) – 20 basis points + Y basis points.

2.3.3. The interest rate applied in the swap agreement will be either (i) NIBOR(5) – 20 basis points + Y basis points, or (ii) effective Treasury bill yield for the period to the next rollover + 40 basis points, whichever is the highest.

2.3.4. Pricing of Treasury bills will be based on the average of the highest bid prices quoted on the Oslo Stock Exchange over the past five trading days. If Norges Bank observes fluctuations in Treasury bill yields that are abnormally wide in this period, Norges Bank will exclude substantial deviations in the calculations or apply other prices when setting the price.

2.4. Bidders' obligations

2.4.1. The bidder will sell covered bonds to the government with settlement on Wednesday 1 July 2009 for an amount equal to the market value of the allotted volume of Treasury bills in the auction (amount = B). The market value of covered bonds is calculated and given a haircut as set out in 3.1.3, and shall after the haircut be equal to or higher than the market value of the Treasury bills.

2.4.2. The bidder will repurchase the same covered bonds from the government on the date agreed in accordance with the swap maturity, for the same amount (B) as applied when the bidder sold the covered bonds to the government.

2.4.3. The bidder will purchase the volume of NST 05 Treasury bills allotted in the auction for the amount (B) applied when the government bought covered bonds from the bidder.

2.4.4. Each time Treasury bills mature or are rolled over, the bidder will pay a fee equal to the amount (B) applied when the government bought covered bonds from the bidder multiplied by the interest rate specified in 2.3.3, in actual days in a 360-day calendar year.

2.4.5. At rollover, the bidder will purchase Treasury bills with a six-month residual maturity from the government for the same amount (B) as when the agreement was entered into, rounded to the market value of a specific number of Treasury

bills with a nominal value in whole NOK millions. Pricing of Treasury bills is specified in 2.3.4.

- 2.4.6. For bidders that choose a top-up swap the following applies: Norges Bank will assess the value of covered bonds each time a Treasury bill matures and otherwise when deemed necessary by the government. The market value of covered bonds is calculated as specified in 3.1.3. The margin for banks is determined by adjusting the calculated value of covered bonds by the same haircut rates as apply to banks' collateralisation for loans from Norges Bank. For mortgage companies, the haircut rates are indicated in Annex 1. The government may demand, with four days' written notice, that the bidder provides top-up by transferring additional covered bonds or a cash amount if the government considers that the valuation as specified in 3.1.3 and 3.1.4. shows that the value of Treasury bills relative to the value of received covered bonds has changed substantially. The covered bond leg will be topped up to ensure that the value of total transfer relative to the value of the Treasury bills is the same as at the beginning of the swap period.
- 2.4.7. The bidder is not entitled to terminate a swap agreement for early settlement.

3. The covered bonds in the swap agreement

3.1. Valuation

- 3.1.1. Bidders intending to participate in the auction must submit a prospectus to Norges Bank of the covered bonds to be included in the swap arrangement in addition to face value of the covered bonds available for the auction. Bidders must in addition indicate alternatives concerning top-up electronically. The information must be sent electronically to prospektOMF@norges-bank.no by Thursday 25 June 2009 14 pm.
- 3.1.2. All covered bonds must satisfy the requirements applicable to covered bonds pursuant to Circular No. 8/26 May 2009 regarding guidelines for pledging securities as collateral for loans from Norges Bank. For swaps without top-up in the period to maturity, only covered bonds with a floating rate are accepted. Additional requirements regarding top-up apply cf. annex 1.
- 3.1.3. Covered bonds with a reliable market value will be valued as such. Other covered bonds will be valued at an estimated market value, which will be determined by discounting the nominal value of covered bonds including coupons to the current value at NIBOR for the same or approximately the same maturity.
- 3.1.4. For banks with top-up swaps, the market value of the covered bonds is reduced according to the same rules that apply for loans from Norges Bank. Otherwise, the haircut rates – and criteria – set out in annex 1 apply.
- 3.1.5. Regarding covered bonds denominated in foreign currencies the provisions in section 2.4.6 on top-up of collateral apply and furthermore a specific haircut set out in Annex 1 applies.

3.2. Residual maturity for covered bonds

Covered bonds must have a residual maturity that is at least 15 days longer than the swap maturity.

3.3. Interest payments related to covered bonds

Interest payments related to covered bonds – fixed coupon or floating rates – are credited to bidders' accounts the same day as the payments are made, unless default occurs during the swap agreement.

4. Conduct of auction

4.1. Form of auction

The swaps will be offered by a uniform price (Dutch) auction. If bids exceed the amount pursuant to 2.1, the allotment will be subject to the following principles:

- All bids are ranked (regardless of maturities) by the price the bidders are willing to pay above the minimum price pursuant to 2.3.2.
- Bids on lowest accepted price will be subject to pro rata reduction.
- Bids are allotted according to the maturities specified by the bidders.

4.2. Submission of bids

4.2.1. Binding bids must be submitted to Norges Bank by telephone +47 22 31 71 80 between 12.15 pm and 12.45 pm on Monday 29 June 2009.

4.2.2. Each bidder may submit no more than three competitive bids within each of the swap maturities offered, cf. 2.2.2.

4.2.3. Each bid must specify the following:

4.2.3.1. Duration of the swap agreement pursuant to 2.2.2.

4.2.3.2. Number of basis points the bidder is willing to pay above the minimum price pursuant to 2.3.1.

4.2.3.3. Nominal value (amount) of the NST 05 Treasury bill the bidder wishes to acquire in exchange.

4.3. Non-competitive bids

4.3.1. A non-competitive bid of up to NOK 500 million may be submitted in each auction. A bidder submitting a non-competitive bid cannot also submit a competitive bid. A non-competitive bid will only specify nominal value and swap maturity pursuant to 2.2.2. The bidder will pay the price determined in the auction or the minimum price if no competitive bids have been submitted.

4.3.2. The total of non-competitive bids may not exceed 25 per cent of the amount pursuant to 2.1.

4.4. Rejection

Norges Bank reserves the right to reject any bids received or all bids received.

5. Announcement

5.1. The results of the auction will be published on Reuters pages NOCC and NOCD and on Norges Bank's website www.norges-bank.no.

6. Settlement

6.1. Norges Bank will draw up an allotment confirmation specifying the choice regarding top-up, allotted amount (nominal and market value), the result of the auction, the repurchase price and number of covered bonds with ISIN and the terms and settlement conditions set out in the auction of Monday 29 June 2009. The allotment confirmation will be sent to the bidder receiving an allotment, and must be returned signed by the bidder to Norges Bank the same day.

6.2. Settlement will take place on Wednesday 1 July 2009.

6.3. Mortgage companies must use an ordinary participant in the securities settlement system (VPO) in both the cash and securities settlement.

6.4. In all auctions, payments and transfers of securities in the operation will be settled in the securities settlement system (VPO). The bidder must register the trades in the VPS (Central Security Depository) on the day of the auction. Norges Bank will

confirm the trades in the VPS no later than the evening before the settlement day. This ensures that the transactions will be finalised in the first daily securities settlement (VPO I) on the settlement day.

- 6.5.** At rollover on the specified IMM dates, the following applies:
- 6.5.1. The sale of new government securities will be settled in the securities settlement system (VPO).
 - 6.5.2. Payment in connection with maturity will occur through the normal channel, i.e. the banks' clearing system (NICS).
 - 6.5.3. The fee specified in 2.4.4 will be paid in to account no. 6345 05 07859.
- 6.6.** At the end of the swap period, the repurchase of covered bonds will be settled in the securities settlement system.
- 6.7.** Coupon payments related to covered bonds, cf. 3.3, will be credited via gross settlement in NICS.
- 6.8.** Norges Bank may choose to cancel the allotment in full or in part, or sell the Treasury bills at the bidder's cost and risk if settlement is not completed by the deadline.

**Oslo, 24 June 2009
(revised 13 July 2009)**

Norges Bank

Ministry of Finance

Annex 1.

1. Reduction in market value (haircuts) – rules for mortgage companies' swap agreements with collateral top-up

Haircut rates are one percentage point higher than the haircut rates in the guidelines for pledging securities for loans from Norges Bank with an additional one percentage point for each initiated year after the first year of the swap agreement.

2. Reduction in market value (haircuts) – rules for banks' and mortgage companies' swap agreements without collateral top-up.

The following haircut rates apply in addition to the haircut rates in the guidelines for pledging securities for loans from Norges Bank and the haircut rates in point 1:

- an additional haircut of 2 percentage points will be applied to covered bonds with a residual maturity of 0 - 3 years
- an additional haircut of 3 percentage points will be applied to covered bonds with a residual maturity of 3 - 7 years
- an additional haircut of 5 percentage points will be applied to covered bonds with a residual maturity of 7 years.

3. Reduction in market value (haircuts) – rules for covered bonds denominated in foreign currencies

An additional haircut of 10 percentage points will be applied to covered bonds denominated in foreign currencies.