MOODY'S
INVESTORS SERVICE

## CREDIT OPINION
10 December 2019

Update

Rate this Research

**RATINGS**

**DNB Bank ASA**

| | |
|---|---|
| Domicile | Norway |
| Long Term CRR | Aa2 |
| Type | LT Counterparty Risk Rating - Fgn Curr |
| Outlook | Not Assigned |
| Long Term Debt | Aa2 |
| Type | Senior Unsecured - Fgn Curr |
| Outlook | Stable |
| Long Term Deposit | Aa2 |
| Type | LT Bank Deposits - Fgn Curr |
| Outlook | Stable |

*Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.*


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# DNB Bank ASA

Update to credit analysis

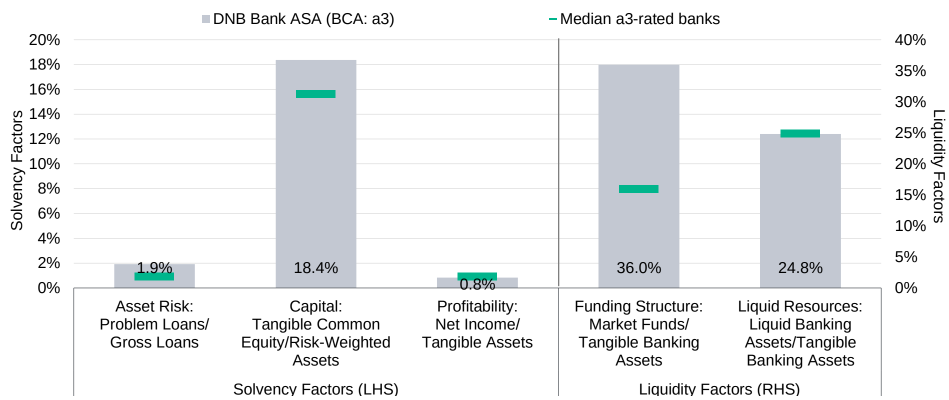

## Summary

We assign a baseline credit assessment (BCA) of a3 and long-term deposit and senior unsecured debt ratings of Aa2 to DNB Bank ASA (DNB). The outlook on the bank's long-term senior ratings is stable.

DNB's a3 BCA reflects the bank's strong capital and good level of profitability, balanced against negative, albeit receding, pressures on asset quality and high reliance on international capital markets, which renders the bank susceptible to investor sentiment. Our forward-looking loss given failure (LGF) analysis results in three notches of rating uplift from DNB's adjusted BCA, and our assessment of government support translates into a further one notch uplift, resulting in Aa2 long-term deposit and senior unsecured debt ratings.


Exhibit 1

**Rating Scorecard - Key Financial Ratios as of 30 September 2019**




*Source: Moody's Financial Metrics*

## Credit strengths

» Strong and stable domestic franchise

» Capital is high and leverage compares well with Nordic and European peers

» Solid core earnings, benefiting from the relatively strong performance of the Norwegian economy

## Credit challenges

» High dependence on market funding, mitigated by a solid deposit base and good access to local and international capital markets

» Negative, albeit receding, pressures on the asset risk profile of the bank, mostly related to challenges in the oil offshore portfolio

## Rating outlook

The outlook on DNB Bank ASA's deposit and senior debt ratings is stable, as we expect that the profitable lending growth generated by the bank's domestic franchise, combined with its high capital levels, will remain consistent with a BCA of a3. The stable outlook also reflects our expectations that DNB will issue additional loss-absorbing instruments over the outlook period, mainly in the form of non-preferred senior (NPS) debt, supporting the LGF notching embedded in the Aa2 ratings.

## Factors that could lead to an upgrade

DNB's debt and deposit ratings could be upgraded as a result of an upgrade in its standalone BCA. The bank's BCA could be upgraded if it: (1) further reduces its asset vulnerability, especially in relation to oil-related and offshore exposures as well as to historically more volatile segments, such as shipping and CRE; (2) maintains strong and stable earnings generation without increasing its risk profile; and (3) preserves sustained access to international capital markets.

## Factors that could lead to a downgrade

DNB's debt and deposit ratings could be downgraded as a result of (i) a downgrade in its standalone BCA; or (ii) gradual replacement of maturing senior debt with non-preferred senior debt being significantly below Moody's expectation. Downward pressure on the bank's BCA could develop if: (1) DNB's financing conditions become challenging; (2) its asset quality were to deteriorate beyond our expectations and lead to further increase of the bank's credit costs; (3) its credit profile substantially deteriorates due to adverse developments in the Norwegian oil, offshore and real-estate markets; (4) DNB increases its involvement in more risky operations such as capital market activities.

## Key indicators

Exhibit 2
**DNB Bank ASA (Consolidated Financials) [1]**

| | 09-19[2] | 12-18[2] | 12-17[2] | 12-16[2] | 12-15[2] | CAGR/Avg.[3] |
|---|---|---|---|---|---|---|
| Total Assets (NOK Billion) | 2,491.9 | 2,220.1 | 2,264.5 | 2,235.4 | 2,173.3 | 3.7[4] |
| Total Assets (USD Million) | 274,260.9 | 256,382.9 | 276,854.6 | 259,700.0 | 245,537.2 | 3.0[4] |
| Tangible Common Equity (NOK Billion) | 193.6 | 188.0 | 183.8 | 177.6 | 172.7 | 3.1[4] |
| Tangible Common Equity (USD Million) | 21,302.9 | 21,710.8 | 22,467.6 | 20,638.1 | 19,514.7 | 2.4[4] |
| Problem Loans / Gross Loans (%) | 1.6 | 1.8 | 1.8 | 2.6 | 1.6 | 1.9[5] |
| Tangible Common Equity / Risk Weighted Assets (%) | 18.4 | 17.9 | 18.1 | 17.1 | 16.3 | 17.6[6] |
| Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%) | 13.2 | 14.1 | 13.6 | 19.3 | 12.3 | 14.5[5] |
| Net Interest Margin (%) | 1.6 | 1.6 | 1.5 | 1.5 | 1.5 | 1.6[5] |
| PPI / Average RWA (%) | 2.8 | 2.5 | 2.6 | 2.6 | 3.0 | 2.7[6] |
| Net Income / Tangible Assets (%) | 0.9 | 0.9 | 0.8 | 0.7 | 1.0 | 0.9[5] |
| Cost / Income Ratio (%) | 42.3 | 44.8 | 44.1 | 42.7 | 39.6 | 42.7[5] |
| Market Funds / Tangible Banking Assets (%) | 39.2 | 36.0 | 37.7 | 35.4 | 34.9 | 36.6[5] |
| Liquid Banking Assets / Tangible Banking Assets (%) | 28.9 | 24.8 | 29.3 | 27.8 | 25.4 | 27.3[5] |
| Gross Loans / Due to Customers (%) | 171.2 | 168.5 | 160.9 | 151.8 | 152.2 | 160.9[5] |

[1]All figures and ratios are adjusted using Moody's standard adjustments. [2]Basel III - fully-loaded or transitional phase-in; IFRS. [3]May include rounding differences due to scale of reported amounts. [4]Compound Annual Growth Rate (%) based on time period presented for the latest accounting regime. [5]Simple average of periods presented for the latest accounting regime. [6]Simple average of Basel III periods presented.
*Source: Moody's Investors Service; Company Filings*

## Profile

DNB Bank ASA (formerly DnB NOR Bank ASA) is a subsidiary of the Norwegian financial services group DNB ASA and part of the DNB Group. The group (including DNB ASA, DNB Asset Management Holding AS, DNB Livsforsikring AS and DNB Forsikring) offers a full range of financial services, including loans, savings, advisory services, insurance and pension products for retail and corporate customers. In this structure, the bank (DNB Bank) mainly provides products and services to four different segments: personal customers, small and medium enterprises, large corporates and international customers, and trading.

As of 30 September 2019, DNB Bank ASA exhibited 2.1 million retail customers, 223,000 corporate customers, 1.5 million internet bank users, 935,000 mobile banking users and 1.2 million customer in life and pension insurance companies in Norway. DNB is Norway's largest asset management company with approximately 478,000 mutual fund customers in Norway and 183 institutional clients in Norway and Sweden. DNB Markets is Norway's leading investment firm and offers investment banking services, including risk management, investment and financing products in the capital markets, to the Group's customers.

As of 30 September 2019, DNB Bank Group reported a consolidated asset base of NOK2.5 trillion ($275 billion).

DNB Bank ASA was established by the merger of Den norske Bank ASA (established in 1990 following the merger of Bergen Bank and Den norske Creditbank) and Gjensidige NOR. The newly merged bank, DnB NOR Bank ASA, was registered in January 2004. The bank was renamed DNB Bank ASA in November 2011.

## Detailed credit considerations

### DNB's BCA is supported by its Very Strong- Macro Profile

DNB Bank ASA's operating environment is primarily influenced by developments in its home market Norway, the EU and through its shipping exposures to the rest of the world. Norway, which accounted for 78% of customer loans at end-2017, carries a Very Strong- Macro Profile.

Banks in Norway (Aaa stable) benefit from operating in a wealthy and developed country with very high economic, institutional and government financial strength as well as low susceptibility to event risk. Norway has a diversified and growing economy, which has demonstrated resilience to the weaknesses in the oil sector. The main risks to the system stem from the high level of household indebtedness, elevated real estate prices and domestic banks' extensive use of market funding. However, these risks are offset by the strength of households' ability to service debt, banks' adequate capitalization and the relatively small size of the banking system compared to the total size of the economy.

### DNB's solid and stable franchise supports its fundamentals

DNB's sizeable domestic franchise is a key positive rating driver, supporting the bank's profitability and asset quality. DNB is Norway's largest financial institution, with a dominant and sustainable market share of 28% in retail loans and 30% in corporate loans domestically as of 30 June 2018, according to Norges Bank. DNB achieves stable earnings generation capacity aided by the supportive operating environment, the bank's solid customer base and pricing power, and high brand recognition in Norway.

DNB is Norway's most international bank. The share of total income from DNB's international units accounted for 20% in 2018, thus adding diversification to DNB's earnings and risk.

In contrast with European banks that were nationalised during the recent financial crisis, we continue to view DNB as the government's flagship financial institution. As at 28 June 2019 the Norwegian government's 34.3% stake in the bank makes it the largest shareholder and ensures the bank's headquarters remain in the country, so that we view a reduction of this stake as unlikely.

DNB has been a front-runner in the European banking industry's digital journey, as illustrated by its pre-emptive launch of the Vipps mobile payment app in May 2015, three years before tech rivals Apple Pay and Google Pay became available to Norwegian consumers. To ensure large-scale adoption, DNB made Vipps available to the customers of all Norwegian banks from launch. In early 2017, it sold stakes in the platform to over 100 Norwegian lenders, retaining a 52% holding. The sale convinced some participating banks to shelve their own mobile payment offerings in favour of Vipps, which is now used by two-thirds of the Norwegian population.

In October 2019 DNB announced the launch, in partnership with Nordic API Gateway, of a new version of its mobile banking app that allows DNB customers and non-customers to access all personal and business accounts from across Norway. The partnership will allow DNB to take advantage of the opportunities created by the European Union's second Payment Services Directive (PSD2), which requires banks to share customer data with third parties at the customer’s request, and allows customers to initiate bank-to-bank payments. The app will allow DNB to have access to all Norwegian banks’ personal and business accounts, enabling it to tap into the large portion of Norwegians who bank with more than one financial institution.

### DNB's strong underlying profitability is enhanced by controlled cost increases

The bank's net income to tangible assets remained stable at 0.86% during the first nine months of 2019, slightly down from 0.93% in 2018. During the first nine months of 2019, net interest income (the main driver of DNB's revenues contributing to around 74% of total revenues on a three year average basis) increased by 6.0% year on year as a result of higher lending volumes.

DNB's operating expenses increased by NOK988 million year on year due to higher costs related to salaries and other personnel expenses as well as impairment of a leasing contract of NOK116 million. DNB's cost-to-income ratio remains among the strongest in its European peer group with a three-year average of around 43%, reflecting good cost control.

In Q3, DNB made a loan-loss provision of around NOK1 billion linked to specific circumstances in the third quarter. While the one-off provision is not expected to foreshadow a reversal of the loan-loss cycle in the corporate sector, it highlights the risk stemming from DNB's high borrower concentrations.

We continue to view DNB's underlying profitability as strong, given its domestic franchise, enhanced by controlled cost increases and improved use of capital. We expect volumes in the personal customer and small business segments to continue to rise, which will increase DNB's net interest income by a compound annual growth rate of more than 4% over the next 12-18 months. However, increased competition on the lending side will limit the benefits from recent interest rate hikes from Norges Bank because DNB will need to pass on more to depositors than in recent months.

### Negative pressures on the asset risk profile of the bank are receding as the performance of the oil related portfolio stabilises

We view DNB's loan portfolio as well diversified, with 51% of exposures at default (EAD) comprising retail lending at end-September 2019 (mainly residential mortgages) and the remaining amount spread across industries. However, shipping and commercial real estate (CRE) respectively account for 3% and 10% of the bank's EAD, and we typically view these sectors as more volatile. Although the exposure to riskier oil, gas, oilfield services and the offshore sectors have been reduced, they still account for 5% of DNB's EAD (5% at end-September 2018).

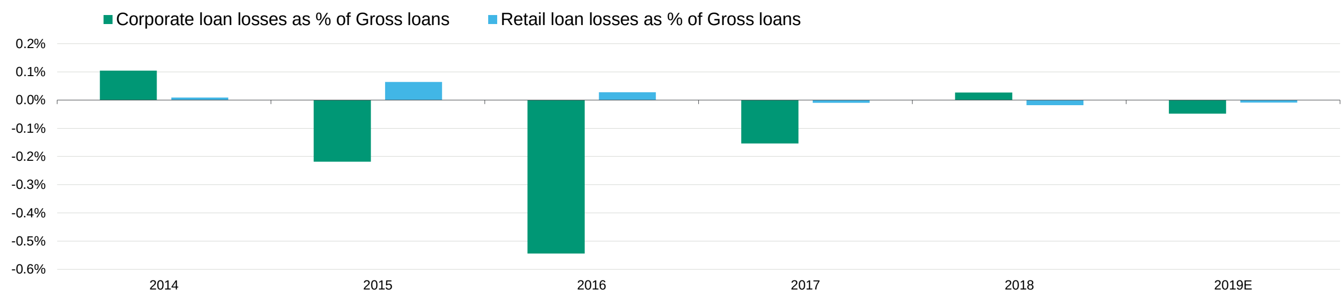
The bank set up a new non-core division in January 2018 to accelerate the rebalancing of its non-core portfolio (shipping and oil-related exposures), enabling the rest of the group to focus on profitable new business. The corporate portfolio generated material loan losses after oil prices fell sharply in mid-2014, but the cost of risk has since declined to low levels (see Exhibit 3).

The bank's retail loan book has shown good resilience. While we believe that the high leverage of Norwegian households and elevated house prices create credit risks, the high levels of employment and supportive welfare system partly mitigate these risks. In addition, in our opinion the strong Norwegian operating environment will remain supportive for bank credit quality for the 12-18 months horizon.

Exhibit 3

**DNB Bank's corporate and retail loan losses**

**Offshore supply losses peaked in 2016**



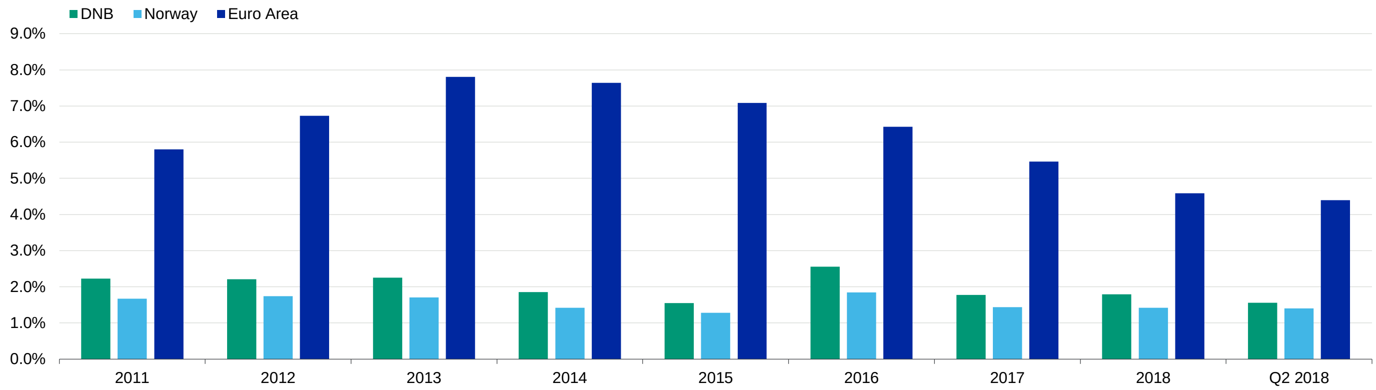

*Source: Company reports*

We view DNB's risk management and systems as robust, but our assessment of the bank's risk practices is constrained by its high borrower concentration. We understand this concentration is partly explained by the fact that DNB is the leading corporate bank in Norway, and this is also a typical feature at many Nordic banks. However, we believe such concentration poses material risk to DNB's asset quality as it potentially heightens the pace and the extent of any deterioration in asset quality.

During the first nine months of 2019 most industry segments, including personal customers and commercial real estate, experienced a stable credit quality. There were reversal net impairment losses of NOK78 million for oil, gas and offshore in the first nine months 2019 (NOK1,079 million in 2018), reflecting improved macro development, while a negative development for individually assessed customers resulted in net impairment for the industry segment. It recorded net impairment expense of NOK102 million (NOK8 million in 2018) within the shipping segment and the macro drivers for the shipping portfolio remained stable during the first nine months of 2019.

DNB's problem loans ratio has improved to 1.6% at end-September 2019 compared to 1.8% as of year-end 2018 and decreased from 2.6% at year-end 2016 owing to an improvement in the performance of the bank's oil offshore portfolio, and asset risk metrics compare well with most European peers (see Exhibit 4).

Exhibit 4
**DNB's Problem Loans Relative to Norwegian and European Banks. DNB is showing strong asset risk metrics compared to most European systems**




Note: Asset weighted average for rated banks in Eurozone and Norway
*Source: Moody's Banking Financial Metrics*

DNB is exposed to Eksportfinans (Baa1/P-2; stable) via a 40% shareholding and a guarantee provided for the institution's portfolio, which in our opinion entails some risks due to Eksportfinans' run-off business model.

On 28 November the Norwegian National Authority for Investigation and Prosecution of Economic and Environmental Crime (Økokrim) announced that they would investigate reports that DNB has been used by Icelandic fishing company Samherji to transfer $70 million to the Marshall Islands between 2011 and 2018, in order to pay bribes securing fishing quotas in Namibia. Reports claim that DNB was only made aware of the money laundering scheme in 2017, but that transfers allegedly continued until May 2018. We will monitor whether the investigation will identify further shortcomings in DNB's compliance with anti-money laundering (AML) regulations, adding to the ones identified following the late-2018 inspection by the Financial Supervisory Authority (FSA). Material findings can cause reputational and operational risks by dampening the confidence of some customers, investors and counterparties.

### Capital is high and leverage compares well with peers

At the end of September 2019, DNB's common equity Tier 1 (CET1) according to Basel III transitional rules was 16.5% in-line with the Group's target. DNB reached its targeted capital level through internal capital generation as well as a strategic reduction in risk-weighted assets relating to large international corporates with low profitability. The bank is well-positioned for new regulatory requirements, including Basel 4, which is expected to have minimal effects for DNB.

The group's dividend policy remains unchanged, targeting a a dividend pay-out ratio above 50% towards the year-end 2019 and the distribution of a higher cash dividend per share each year, provided that capital adequacy is at a satisfactory level.

In June 2019, Norges Bank proposed to increase the systemic risk buffer in Norway to 2.5% from 2% effective from 31 December 2019. The effect for the increased buffer requirements depends on the credit exposures and as of end-September 2019 was 0.8% and 0.2%, respectively.

While DNB's 12.0% return on equity (ROE) target is well below some of its Nordic peers (e.g. 15% ROE target for Swedbank),this reflects higher local capital requirements, which have forced Norwegian banks to bolster their capital bases earlier than scheduled under international rules. DNB's leverage ratio of 7.8% as of 30 September 2019 compares well against international peers and is the highest among the largest Nordic banks

### High dependence on market funding, but DNB benefits from a solid deposit base and good access to local and international capital markets

DNB's funding is underpinned by a solid deposit base, which comprises around 44% of total funding and 58% of the loan portfolio; the remainder consists of market funding. Interbank funding accounted for 24% of total market funding at end-September 2019. Covered bonds have represented a rapidly growing source of funding, and contributed one-fourth of market funding at end- September 2019. We globally reflect the relative stability of covered bonds compared to unsecured market funding through a standard adjustment in our scorecard. Nevertheless, we note that extensive use of covered bond funding structurally subordinates senior creditors, including depositors.

DNB has good access to the capital markets, including extensive use of international funding. However, we note that the bank's dependence on market funding - albeit common for Nordic banks - could be a source of risk because, in times of market stress, market funds can become less cost-effective, exerting pressure on banks' net profitability. In early June 2018, DNB Boligkreditt issued its first green bonds, which will finance the most energy efficient residential properties in DNB Boligkreditt's portfolio.

On 29 June 2018, the Norwegian FSA published a draft proposal of the minimum requirement for own funds and eligible liabilities (MREL) rule, under which banks must hold minimum volumes of loss-absorbing debt so as to shield taxpayers from the cost of lender insolvency. Although the Norwegian regulator has not yet communicated bank specific requirements, the bank anticipates its MREL requirements to be approximately NOK150 billion, which is in line with the current outstanding volume of senior bonds.

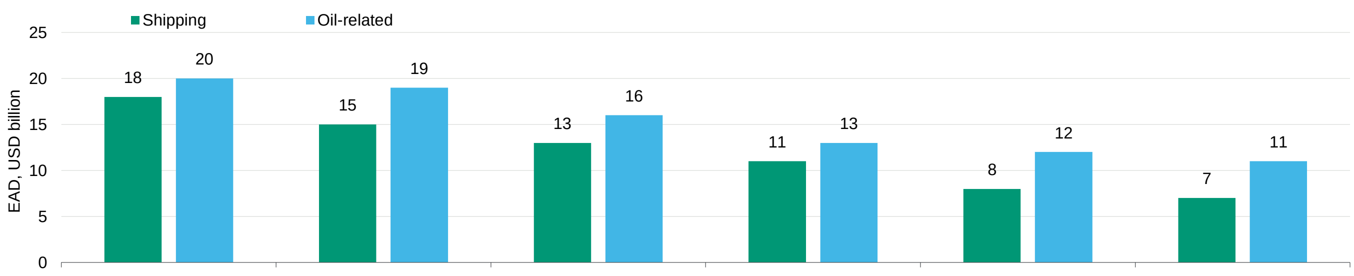
The bank's liquidity profile is supported by a relatively large liquidity buffer of NOK720 billion - 29% of reported total assets at end-September 2019. The reserve consists of: cash and deposits with financial institutions and central banks (70%), Norwegian bonds and fixed-income securities (39%) and shareholdings (5%).

### Environmental, social and governance considerations

In line with our general view for the banking sector, DNB Bank has low exposure to environmental risks. However, DNB Bank's exposure to the oil, gas and offshore industries is an environmental risk that requires monitoring, particularly as the transition to low carbon economy accelerates. The bank's oil, gas and offshore exposure, although higher than local peers, is considered manageable at 10% of corporate banking (EAD) as of September 2019. Furthermore, Norway, similar to other countries in the European Union, has policies in place that ensure new housing constructed is energy-efficient, which enables banks to gather mortgages for asset pools for green bond issuances. Such policies also help limit environmental risks for Norwegian banks that have large mortgage lending portfolios. See our Environmental risk heat map for further information.

Exhibit 5

**Shipping exposure reduced by about 2/3 since 2012 and oil-related exposure by more than 40% since 2014**




*Source: The bank's presentation*

We believe banks face moderate social risks. See our Social risk heat map for further information.

Governance is highly relevant for DNB Bank, as it is to all players in the banking industry.Corporate governance weaknesses can lead to a deterioration in a company's credit quality, while governance strengths can benefit its credit profile. Governance risks are largely internal rather than externally driven, and for DNB Bank, we do not highlight any particular governance issue. Nonetheless, corporate governance remains a key credit consideration and requires ongoing monitoring.

## Support and structural considerations

The bank's Aa2 long-term deposit and debt ratings take into account (1) the a3 adjusted BCA; (2) an extremely low loss given failure for these instruments as analysed using our LGF framework resulting in a three-notch LGF uplift; and (3) our expectation of government support.

### Loss Given Failure

Norway implemented the EU's Bank Recovery and Resolution Directive (BRRD) on 1 January 2019, which confirms our current assumptions regarding LGF analysis. For our resolution analysis we assume residual tangible common equity of 3% and losses post-failure of 8% of tangible banking assets, a 25% run-off in “junior” wholesale deposits, a 5% run-off in preferred deposits, and assign a 25% probability to deposits being preferred to senior unsecured debt. We apply a standard assumption for the large European banks that 26% of deposits are junior.

Our forward-looking Loss Given Failure (LGF) analysis incorporates our expectations that DNB will issue additional loss-absorbing instruments, mainly in the form of non-preferred senior (NPS) debt, referred to as “junior senior” unsecured notes, in response to the framework for minimum requirements for own funds and eligible liabilities (MREL) that has been set by the Norwegian Financial Supervisory Authority (FSA). This new debt class is senior to subordinated debt and regulatory capital instruments, and junior to other ordinary senior unsecured claims. Such instruments facilitate loss-absorption via a conversion to equity or write-down in resolution, before senior creditors are affected. We expects the Norwegian FSA to formally communicate to DNB their MREL later this year.

DNB's Aa2 long-term deposit and senior unsecured debt rating reflects our view that the enhanced volume of senior unsecured debt and underlying subordination, which benefits the position of senior unsecured debt, will be sustainable. For junior securities issued by DNB, our LGF analysis confirms a high loss-given-failure, given the small volume of debt and limited protection from more subordinated instruments and residual equity. We also incorporate additional notching for junior subordinated and preference share instruments reflecting the coupon features.

### Government Support

On 3 June 2019, we lowered our government support assumption to moderate from high for DNB. The bank has been designated by the regulator as a systemically important financial institution (SIFI), and is currently 34.3% owned by the Norwegian Ministry of Trade and Industry.

This is consistent with our view of systemically important banks in the EU: while the implementation of the BRRD has reduced the likelihood of such banks being resolved with government support, we consider that even with the BRRD's resolution tools, effectively resolving such banks without causing contagion could be challenging. This accords with the remaining flexibility conferred by resolution authorities to minimize losses for senior creditors by bailing out banks once 8% of liabilities and own funds have absorbed losses.

For junior securities, we continue to believe that the probability of government support is low and that these ratings do not include any related uplift. Junior securities also include additional downward notching from the BCA reflecting coupon suspension risk ahead of a potential failure.

### Counterparty risk ratings

CRRs are opinions of the ability of entities to honour the uncollateralised portion of non-debt counterparty financial liabilities (CRR liabilities) and also reflect the expected financial losses in the event such liabilities are not honoured. CRRs are distinct from ratings assigned to senior unsecured debt instruments and from issuer ratings because they reflect that, in a resolution, CRR liabilities might benefit from preferential treatment compared with senior unsecured debt. Examples of CRR liabilities include the uncollateralised portion of payables arising from derivatives transactions and the uncollateralised portion of liabilities under sale and repurchase agreements.

**DNB Bank ASA's CRR is positioned at Aa2/P-1.**

The counterparty risk rating of Aa2 reflects the Adjusted BCA of a3, three notches of uplift reflecting the extremely low loss-given failure from the high volume of instruments that are subordinated to CRR liabilities. The CRR also benefits from one notch of systemic support, resulting from our assumption of a moderate likelihood of government support. The short-term CRR is P-1.

### Counterparty Risk Assessment

CR Assessments are opinions of how counterparty obligations are likely to be treated if a bank fails and are distinct from debt and deposit ratings in that they (1) consider only the risk of default rather than both the likelihood of default and the expected financial loss suffered in the event of default and (2) apply to counterparty obligations and contractual commitments rather than debt or deposit instruments. The CR assessment is an opinion of the counterparty risk related to a bank's covered bonds, contractual performance obligations (servicing), derivatives (e.g., swaps), letters of credit, guarantees and liquidity facilities.

**The CR Assessment of DNB Bank ASA is positioned at Aa2(cr)/P-1(cr).**

The counterparty risk assessment of Aa2(cr) reflects the Adjusted BCA of a3, three notches of uplift reflecting the extremely low loss-given failure from the high volume of instruments that are subordinated to CRA liabilities. The CRA also benefits from one notch of systemic support, resulting from our assumption of a moderate likelihood of government support. The short-term CRA is P-1(cr).

## Source of facts and figures cited in this report

Unless noted otherwise, all figures shown in this report are sourced from the company's latest annual and interim financial reports and our Banking Financial Metrics. These metrics are based on our own chart of account, and are adjusted for analytical purposes. Please refer to the documents entitled “Financial Statement Adjustments in the Analysis of Financial Institutions” published on 9 August 2018

## About Moody's bank scorecard

Our Scorecard is designed to capture, express and explain in summary form our Rating Committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment is expressed. As a result, the output of our Scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The Scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

## Rating methodology and scorecard factors

Exhibit 6
**DNB Bank ASA**

| Macro Factors | | |
|---|---|---|
| **Weighted Macro Profile** | **Very Strong -** | **100%** |

| Factor | Historic Ratio | Initial Score | Expected Trend | Assigned Score | Key driver #1 | Key driver #2 |
|---|---|---|---|---|---|---|
| Solvency | | | | | | |
| Asset Risk | | | | | | |
| Problem Loans / Gross Loans | 1.9% | aa3 | ←→ | a3 | Quality of assets | Sector concentration |
| Capital | | | | | | |
| Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in) | 18.4% | aa1 | ←→ | aa2 | Expected trend | |
| Profitability | | | | | | |
| Net Income / Tangible Assets | 0.8% | baa1 | ←→ | baa1 | Return on assets | |
| Combined Solvency Score | | aa3 | | a2 | | |
| Liquidity | | | | | | |
| Funding Structure | | | | | | |
| Market Funds / Tangible Banking Assets | 36.0% | ba2 | ←→ | ba2 | Term structure | |
| Liquid Resources | | | | | | |
| Liquid Banking Assets / Tangible Banking Assets | 24.8% | baa1 | ←→ | baa1 | Stock of liquid assets | |
| Combined Liquidity Score | | baa3 | | baa3 | | |
| Financial Profile | | | | a3 | | |
| Qualitative Adjustments | | | | Adjustment | | |
| Business Diversification | | | | 0 | | |
| Opacity and Complexity | | | | 0 | | |
| Corporate Behavior | | | | 0 | | |
| Total Qualitative Adjustments | | | | 0 | | |
| Sovereign or Affiliate constraint | | | | Aaa | | |
| BCA Scorecard-indicated Outcome - Range | | | | a2 - baa1 | | |
| Assigned BCA | | | | a3 | | |
| Affiliate Support notching | | | | 0 | | |
| Adjusted BCA | | | | a3 | | |

| Balance Sheet | in-scope (NOK Million) | % in-scope | at-failure (NOK Million) | % at-failure |
|---|---|---|---|---|
| Other liabilities | 1,209,183 | 48.6% | 1,309,497 | 52.6% |
| Deposits | 983,472 | 39.5% | 883,158 | 35.5% |
| Preferred deposits | 727,769 | 29.2% | 691,381 | 27.8% |
| Junior deposits | 255,703 | 10.3% | 191,777 | 7.7% |
| Senior unsecured bank debt | 171,270 | 6.9% | 171,270 | 6.9% |
| Dated subordinated bank debt | 30,963 | 1.2% | 30,963 | 1.2% |
| Preference shares (bank) | 18,715 | 0.8% | 18,715 | 0.8% |
| Equity | 74,648 | 3.0% | 74,648 | 3.0% |
| Total Tangible Banking Assets | 2,488,250 | 100.0% | 2,488,250 | 100.0% |

| Debt Class | De Jure waterfall | | De Facto waterfall | | Notching | | LGF Notching Guidance vs. Adjusted BCA | Assigned LGF notching | Additional Notching | Preliminary Rating Assessment |
|---|---|---|---|---|---|---|---|---|---|---|
| | Instrument volume + subordination | Sub-ordination | Instrument volume + subordination | Sub-ordination | De Jure | De Facto | | | | |
| Counterparty Risk Rating | 19.6% | 19.6% | 19.6% | 19.6% | 3 | 3 | 3 | 3 | 0 | aa3 |
| Counterparty Risk Assessment | 19.6% | 19.6% | 19.6% | 19.6% | 3 | 3 | 3 | 3 | 0 | aa3 (cr) |
| Deposits | 19.6% | 5.0% | 19.6% | 11.9% | 2 | 3 | 2 | 3 | 0 | aa3 |
| Senior unsecured bank debt | 19.6% | 5.0% | 11.9% | 5.0% | 2 | 0 | 1 | 3 | 0 | aa3 |
| Dated subordinated bank debt | 5.0% | 3.8% | 5.0% | 3.8% | -1 | -1 | -1 | -1 | 0 | baa1 |
| Non-cumulative bank preference shares | 3.8% | 3.0% | 3.8% | 3.0% | -1 | -1 | -1 | -1 | -2 | baa3 |

| Instrument Class | Loss Given Failure notching | Additional notching | Preliminary Rating Assessment | Government Support notching | Local Currency Rating | Foreign Currency Rating |
|---|---|---|---|---|---|---|
| Counterparty Risk Rating | 3 | 0 | aa3 | 1 | Aa2 | Aa2 |
| Counterparty Risk Assessment | 3 | 0 | aa3 (cr) | 1 | Aa2(cr) | |
| Deposits | 3 | 0 | aa3 | 1 | Aa2 | Aa2 |
| Senior unsecured bank debt | 3 | 0 | aa3 | 1 | Aa2 | Aa2 |
| Dated subordinated bank debt | -1 | 0 | baa1 | 0 | Baa1 (hyb) | (P)Baa1 |
| Non-cumulative bank preference shares | -1 | -2 | baa3 | 0 | Baa3 (hyb) | Baa3 (hyb) |

[1]Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
*Source: Moody's Investors Service*

## Ratings

Exhibit 7

| Category | Moody's Rating |
|---|---|
| **DNB BANK ASA** | |
| Outlook | Stable |
| Counterparty Risk Rating | Aa2/P-1 |
| Bank Deposits | Aa2/P-1 |
| Baseline Credit Assessment | a3 |
| Adjusted Baseline Credit Assessment | a3 |
| Counterparty Risk Assessment | Aa2(cr)/P-1(cr) |
| Senior Unsecured | Aa2 |
| Subordinate -Dom Curr | Baa1 (hyb) |
| Pref. Stock Non-cumulative | Baa3 (hyb) |
| Commercial Paper | P-1 |
| Other Short Term | (P)P-1 |
| **DNB BANK ASA, NEW YORK BRANCH** | |
| Outlook | Stable |
| Bank Deposits | Aa2/P-1 |
| Other Short Term | P-1 |
| **DEN NORSKE CREDITBANK** | |
| Bkd Jr Subordinate | Baa2 (hyb) |

*Source: Moody's Investors Service*

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## CLIENT SERVICES


| | |
|---|---|
| Americas | 1-212-553-1653 |
| Asia Pacific | 852-3551-3077 |
| Japan | 81-3-5408-4100 |
| EMEA | 44-20-7772-5454 |


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