CREDIT OPINION
9 September 2024

Update

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RATINGS

DNB Bank ASA

Domicile	Oslo, Norway
Long Term CRR	Aa1
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Aa2
Type	Senior Unsecured - Fgn Curr
Outlook	Stable
Long Term Deposit	Aa1
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.

Contacts

Paula Jouandet-Dahlen +46.8.5179.1280
VP-Senior Analyst
paula.jouandetdahlen@moodys.com

Juliana Cerenkova +46.8.5179.1254
Ratings Associate
juliana.cerenkova@moodys.com

Simon James Robin Ainsworth +44 207 772 5347
Associate Managing Director
simon.ainsworth@moodys.com

Carola Schuler +49.69.70730.766
MD-Banking
carola.schuler@moodys.com

CLIENT SERVICES

DNB Bank ASA

Update to credit analysis following rating action

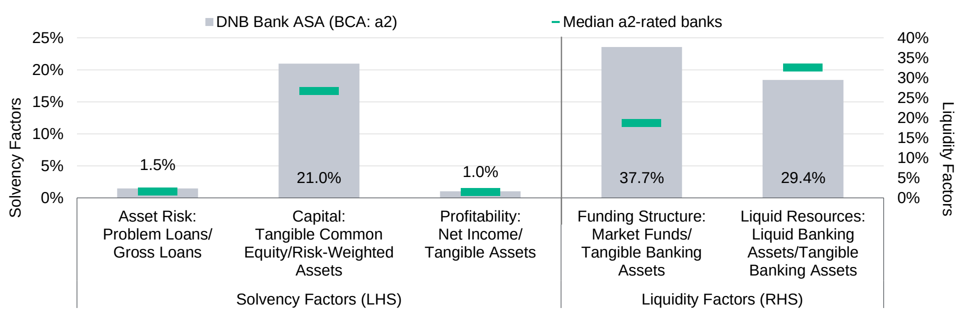
Summary

DNB Bank ASA (DNB or DNB Bank) is Norway's (Aaa) largest bank with an assigned Baseline Credit Assessment (BCA) of a2, long-term deposit ratings of Aa1 and senior unsecured debt ratings of Aa2. The outlook on the long-term deposit and senior unsecured debt ratings is stable.

DNB's a2 BCA reflects the bank's entrenched franchise that supports robust recurring profitability, comprehensive risk management, and very strong capitalization, balanced against high market funding.

The long-term deposit ratings of Aa1 and senior unsecured debt ratings of Aa2 reflect our forward-looking advanced Loss Given Failure (LGF) analysis resulting in three notches of rating uplift above DNB's BCA for deposit ratings and two notches for senior unsecured debt ratings, and one notch positive adjustment due to our assessment of moderate probability of government support in case of failure.

Exhibit 1
Rating Scorecard - Key Financial Ratios



These are our Banks Methodology scorecard ratios. Asset risk and profitability reflect the weaker of the three-year average and the latest annual figure. Capital is the latest reported figure. Funding structure and liquid resources reflect the latest fiscal year-end figures.
Source: Moody's Financial Metrics™

Credit strengths

» Very strong domestic franchise supporting robust recurring profitability, with strong ties to decision makers and government backing

» Very high capital buffers and lower leverage than most other large Nordic peers

» Solid pre-provision earnings, the primary buffer for higher loan loss provisions

» Prudent risk and liquidity management controls

Credit challenges

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

» Pockets of higher asset risk, primarily in the offshore and shipping portfolios, mitigated by a well diversified corporate loan book and DNB's active reduction of exposure to riskier sectors over the past years

» Customer churn related to the recent integration of Sbanken

Outlook

The stable outlook on the long-term deposit and senior unsecured ratings reflects our view that DNB will continue to generate sound recurring earnings, supporting a robust capitalisation and manage asset risk prudently. We also assume continued excellent access to capital markets and prudent liquidity management.

Factors that could lead to an upgrade

» DNB's BCA could be upgraded if the bank further improves its profitability and asset quality on a sustainable basis and reduces its dependence on market funding. The senior unsecured debt ratings could be upgraded as a result of further uplift in the Advanced LGF analysis if DNB maintains additional volumes of senior unsecured and junior senior unsecured debt so that the volume and subordination of senior unsecured debt remains above 12% of tangible banking assets on a sustainable basis.

Factors that could lead to a downgrade

» DNB's ratings could be downgraded as a result of (i) lower volumes of loss absorbing liabilities protecting creditors in case of failure; or (ii) a downgrade in its standalone BCA due to asset quality deteriorating beyond our expectations for example through rapid international expansion; lower capitalisation resulting in tangible common equity to risk weighted assets falling below 18%, or financing conditions becoming challenging.

Key indicators

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

	06-24[2]	12-23[2]	12-22[2]	12-21[2]	12-20[2]	CAGR/Avg.[3]
Total Assets (NOK Billion)	3,591.6	3,344.1	3,131.5	2,839.6	2,351.2	12.9[4]
Tangible Common Equity (NOK Billion)	228.6	236.6	223.1	220.8	213.9	1.9[4]
Problem Loans / Gross Loans (%)	1.3	1.4	1.5	1.8	1.9	1.6[5]
Tangible Common Equity / Risk Weighted Assets (%)	21.0	21.5	21.0	22.7	23.0	21.8[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	10.3	10.8	11.9	13.2	14.0	12.0[5]
Net Interest Margin (%)	1.7	1.8	1.6	1.4	1.5	1.6[5]
PPI / Average RWA (%)	4.7	4.8	3.7	3.2	3.1	3.9[6]

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on https://ratings.moodys.com for the most updated credit rating action information and rating history.

Net Income / Tangible Assets (%)	1.1	1.1	1.1	0.9	0.7	1.0[5]
Cost / Income Ratio (%)	36.4	35.5	39.7	44.1	43.0	39.7[5]
Market Funds / Tangible Banking Assets (%)	35.6	37.7	33.8	30.4	37.3	35.0[5]
Liquid Banking Assets / Tangible Banking Assets (%)	34.5	29.4	28.7	23.9	27.6	28.8[5]
Gross Loans / Due to Customers (%)	122.1	136.2	134.4	135.7	152.1	136.1[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 because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.
Sources: Moody's Ratings and company filings

Profile

DNB Bank ASA is the parent of the group that offers a full range of financial services, including loans, savings, advisory services, insurance and pension products for retail and corporate customers, with exposure equally balanced between the two broad customer categories. The Corporate segment serves a diversified customer base across small and medium-sized enterprises, large domestic and international corporates.

DNB is Norway's leading financial services group and one of the largest in the Nordic region in terms of market capitalisation. It has dominant and sustainable market shares of 23% in both retail and corporate loans as of 31 May 2024. As of 30 June 2024, DNB reported a consolidated asset base of around NOK3.6 trillion ($336 billion) and had over 10,600 full-time positions, 2.4 million retail customers, 235,000 corporate customers, 1.5 million internet bank users, around 1.5 million mobile bank users, and 1.4 million customers in life and pension insurance companies in Norway. DNB is also Norway's leading asset management company, with NOK 945 billion in assets under management at the end of 2023. DNB's market share of mutual funds reached 35% as of May 2024. DNB Markets Inc, a subsidiary of DNB Bank, offers investment banking services, including risk management, investment and financing products in the capital markets.

At the end of June 2024, the Norwegian government had a 34% stake in the bank through the Norwegian Ministry of Trade, Industry and Fisheries, which makes the government DNB's largest shareholder and ensures the bank's headquarters remains in Norway; consequently we consider a reduction in the ownership stake unlikely.

Recent developments

Sbanken ASA (ratings withdrawn) was consolidated into DNB's financial accounts as of the end of March 2022. As of May 2023, the merger with Sbanken was completed, and DNB Bank ASA assumed all of Sbanken's assets, rights and obligations.

In May 2024, DNB announced key management changes, including the appointment of Maria Ervik Løvold as Head of Personal Banking (previously Group VP Technology and Services) following difficulties in managing the expectations of Sbanken's customers who were migrated onto DNB's platform, Eline Skramstad as Head of Risk Management and Even Westerveld as Head of People & Communication.

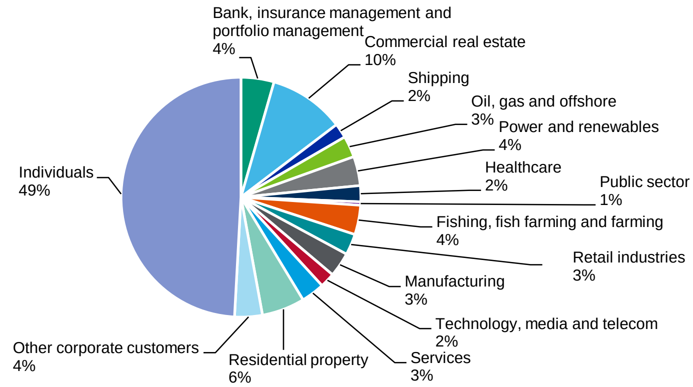
Detailed credit considerations

DNB has a strong asset risk, with solid portfolio diversification and exposures to riskier sectors actively reduced

DNB's asset risk score of a3 balances the low levels of problem loans and strong performance in most segments, supported by the resilient economic activity in Norway thus far in 2024 and improving macro backdrop going into 2025, against the exposures to cyclical sectors such as the offshore sector, which was a key driver for large provisioning during 2020. Positively, exposure to riskier sector has actively been reduced over the past few years.

DNB's loan portfolio is well diversified, with 49% of exposures at default (EAD) comprising of retail lending as of 30 June 2024 (mainly low risk residential mortgages) and the remaining amount spread across industries (see Exhibit 3). During the first six months of 2024, DNB reported impairment provisions of NOK 882 million, a slight increase from NOK792 million in the corresponding year-earlier period.

Exhibit 3
DNB's exposures at default (EAD) are well-distributed across sectors

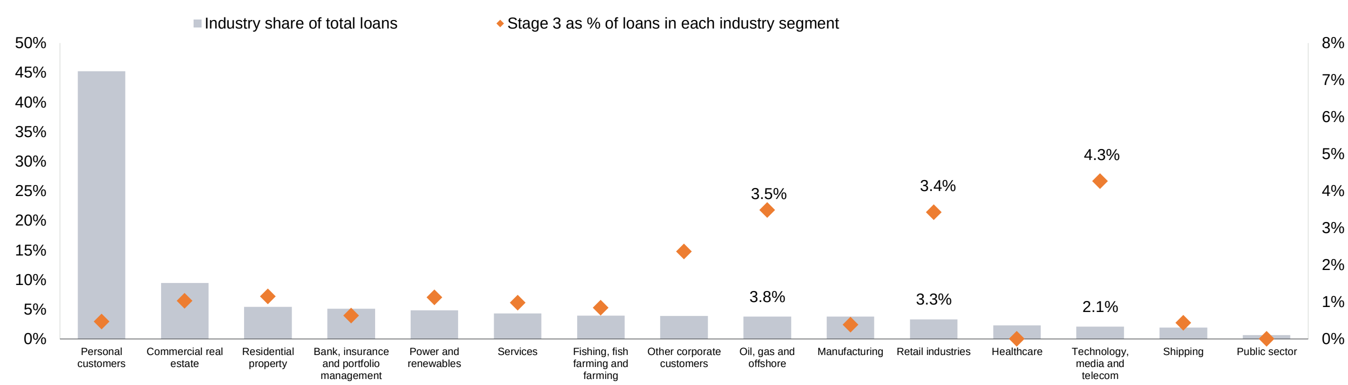


Source: Bank's Factbook, Moody's Ratings

We expect DNB's problem loan ratio to remain relatively stable in 2024 as global macroeconomic challenges subside, with Norway being well positioned due to its energy exports. Problem loans to gross loans ratio decreased to 1.3% as of end-June 2024, down from 1.4% in 2023 and 1.5% in 2022 as the bank has successfully unwound large part of problem loans in the oil and offshore sector.

While DNB has consistently reduced its exposures to higher risk sectors, these cause large provisions from time to time. Due to strong recurring pre-provision profits, the bank has efficiently absorbed these provisions and remained profitable. The oil and offshore sector has declined significantly in volume during the last decade and the sector represents a low 3% of EAD and 13% (down from 36% in 2023) of total Stage 3 loans (see Exhibit 4) as of end-June 2024. The decision in January 2023 by the Norwegian government to grant 47 oil and gas exploration permits in northern parts of Norway may drive needed demand for exploration services, which together with investments in wind turbines at sea, help alleviate some of the overcapacity in the offshore sector. Strong earnings mitigate the risk of further loan loss provisions in the sector, with the unreserved oil and offshore Stage 3 exposures amounting to NOK3.7 billion, compared to Moody's adjusted PPI of NOK 26 billion for the first six months of 2024.

Exhibit 4
The distribution of stage 3 loans is well dispersed across multiple sectors
Industry share of total loans (LHS), Stage 3 as % of loans in each industry segment (RHS)



Source: Bank's Factbook, Moody's Ratings

Other riskier segments include commercial real estate (CRE), fishing, and shipping, which together with oil and offshore account for 19% of EAD and 200% of tangible common equity (TCE).

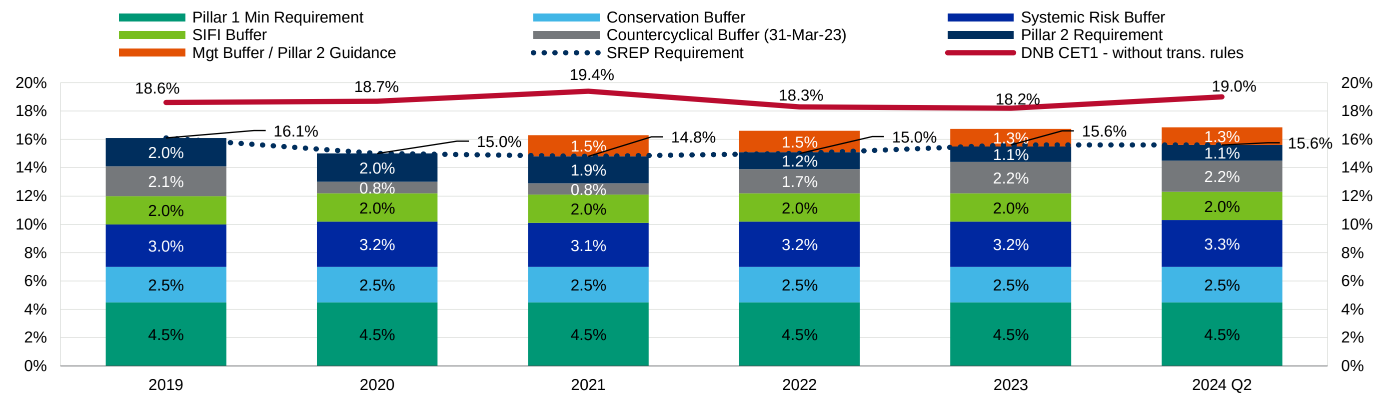
DNB has exposure to the Baltic countries through its 20% stake in Luminor Bank AS (Luminor Bank, A2/A3 stable, baa2). By decreasing its ownership in Luminor Bank to 20% from 50% through a sale to The Blackstone Group in 2019, DNB reduced its exposures to the Baltic countries, which have had historically high asset-risk volatility and anti-money laundering (AML) risks.

Risk adjusted capitalisation is very strong

DNB operates with ample capital buffers. As of 30 June 2024, DNB group's Common Equity Tier 1 (CET1) capital ratio was 19.0%, resulting in a 210 bps buffer above the regulatory expectation of 16.9%, which includes Pillar 2 Guidance of 1.25% (see Exhibit 5). The countercyclical buffer (CCyB) requirement returned to its pre-pandemic level of 2.5% on 31 March 2023, after it was reduced to 1.0% in March 2020 as a result of the covid-19 pandemic. Taking into account systemic risk buffers in other countries, DNB's effective systemic risk buffer was 3.3% as of 30 June 2024[1]. We assess that DNB will remain above their target in the next couple of years with a buffer of at least 0.5 percentage point.

Exhibit 5

DNB's CET1 ratio is comfortably above regulatory CET1 capital requirements



Source: Bank's reports and presentations, Moody's Ratings

DNB's Tier 1 leverage ratio has weakened to 6.5% as of 30 June 2024 from 6.8% in December 2023, but compares favourable with international and Nordic peers.

The group's dividend policy remains unchanged, targeting a payout ratio of more than 50%, which is complemented by share buy-backs to allocate excess capital.

DNB's strong recurring income has enabled the bank to continue building capital buffers, with tangible common equity (TCE) to risk weighted assets (RWA) reaching 21.0% at end of June 2024, slightly down from 21.5% at the end of 2023. Capitalisation has remained very high and above the pre-pandemic levels.

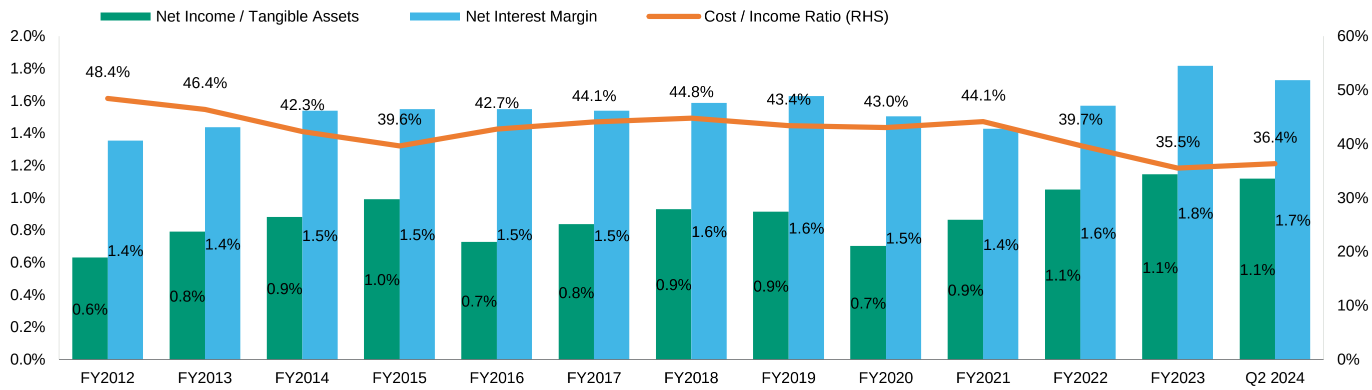
Overall, the capital score of aa1 reflects DNB's robust capital buffers, both risk adjusted and in unweighted terms. Furthermore, the very strong capital score also reflects our expectations that access to capital for DNB remains strong, and that the government of Norway continues to retain its 34% ownership stake.

DNB's consistent track record of strong pre-provision income provides good loss absorbing buffers

DNB's entrenched franchise in the Norwegian economy provides a stable base to leverage on further growth potential in the Norwegian economy and the bank's role as price leader underpins strong future profitability. We expect the group's profitability to remain resilient in 2024 supported by still elevated net interest margins and strong contribution from net commissions and fees benefitting from a diversified product portfolio across investment banking, asset management and money transfer services.

Reported pre-provision income in the first six months of 2024 amounted to NOK27 billion, a 2% increase compared to the same period in 2023. However, during the first six months of 2024 DNB's net income to tangible assets ratio declined slightly on the back of asset growth in the period and reached 1.12%, compared to 1.16% in the year-earlier period (see Exhibit 6).

Exhibit 6
DNB's strong recurring profitability provides loss absorbing buffers



Source: Bank's reports and presentations, Moody's Ratings

Net interest income accounted for 75% of the group's revenues for the full year of 2023 and remains the main driver of DNB's revenues. A year-on-year increase of 24% in bank's reported operating income, was only slightly offset by a 8% increase in operating expenses, leading to an improvement in Moody's adjusted cost-to-income ratio to 36% for the full year of 2023 from 40% for same period in 2022. DNB remains highly cost efficient vs international peers, operating comfortably within its target of a cost-to-income ratio at below 40%.

We expect volumes in the personal customer segment to pick up as customer churn related to the Sbanken integration stabilises and the housing market recovers throughout the end of 2024 and 2025, whereas the corporate segment will benefit from an improving macro backdrop, overall supporting strong net interest income and commission income.

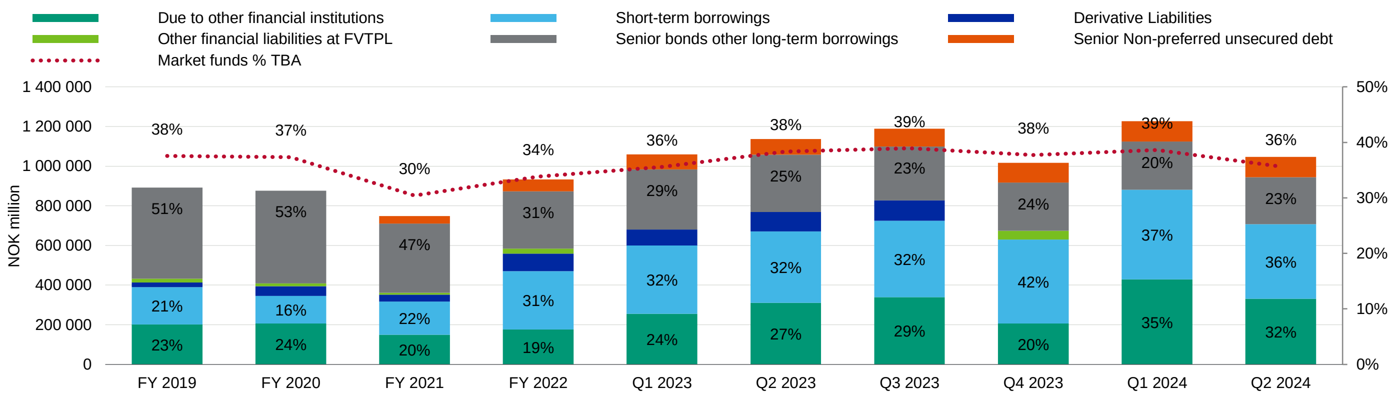
DNB reported impairment provisions of NOK882 million for the first six months of 2024. Of these, NOK660 million were related to corporates. We expect some further rise in loan loss provisions due to continued lag effect from the high rate environment in sectors like construction and commercial real estate.

The assigned a3 score reflects both our expected trend in profitability, but also DNB's strong franchise and stability in revenues underpinned by a diversified portfolio across customer segments and products.

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

The baa3 funding structure score balances DNB's high reliance on market funding - market funds to tangible banking assets ratio was 35.6% at the end of June 2024 (2023: 37.7%), with its continued strong access to the capital markets and increasing deposit volumes (see Exhibit 7). The bank's dependence on market funding — although common for Nordic banks — could be a source of risk because, in times of stress, market funds can become less cost-effective, exerting pressure on banks' net profitability.

Exhibit 7
DNB's market funding is well-diversified

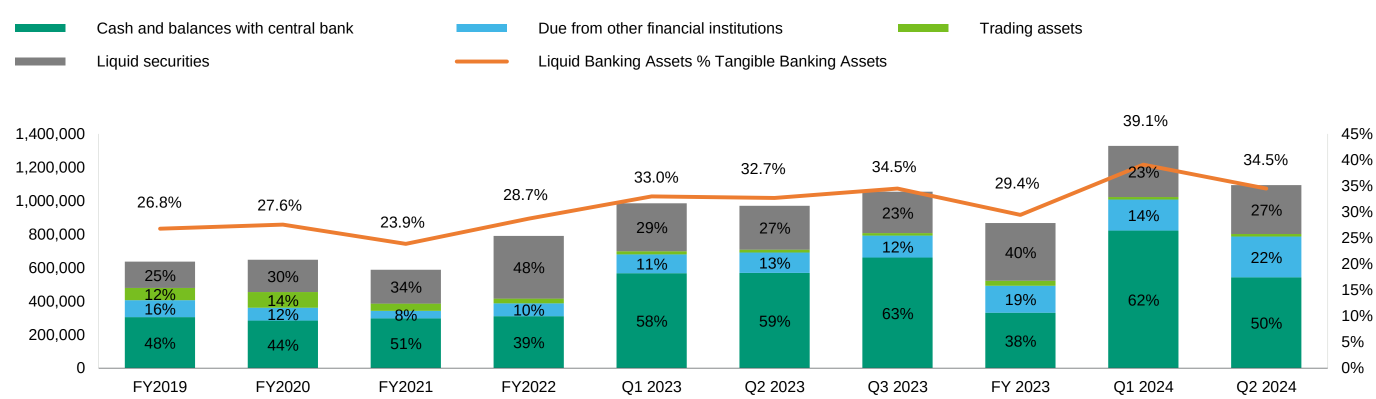


Source: Bank's reports and presentations, Moody's Ratings

DNB experienced strong deposit growth in 2020, 2021 and 2022 (more than 10% per year). However, deposit growth in 2023 slowed down to 0.5% due to stretched consumers and a reduction of excess savings amid tightening of monetary policies. The Norwegian economy is likely to remain resilient, and DNB has large oil companies as customers whose deposits are growing quickly with the elevated demand for Norwegian oil and gas. We expect a modest uptick in SME and household deposit growth helped by an improving macro outlook and real wage increases, with overall deposit growth for DNB at around 2-4% per year over the next 12-18 months.

DNB has a well-diversified liquidity portfolio with around half of the portfolio comprising of cash while the remainder is split between highly liquid government, covered bonds and other debt securities (see Exhibit 8). Moody's preferred liquidity metric - adjusted liquid banking assets to tangible banking assets, remained stable over the years above 25%, only with a small drop in 2021. The stability and the strength of DNB's liquidity profile is reflected in the a2 liquidity score. The bank's reported liquidity coverage ratio (LCR) was 135% as of June 2024.

Exhibit 8
DNB's liquidity profile is well-diversified

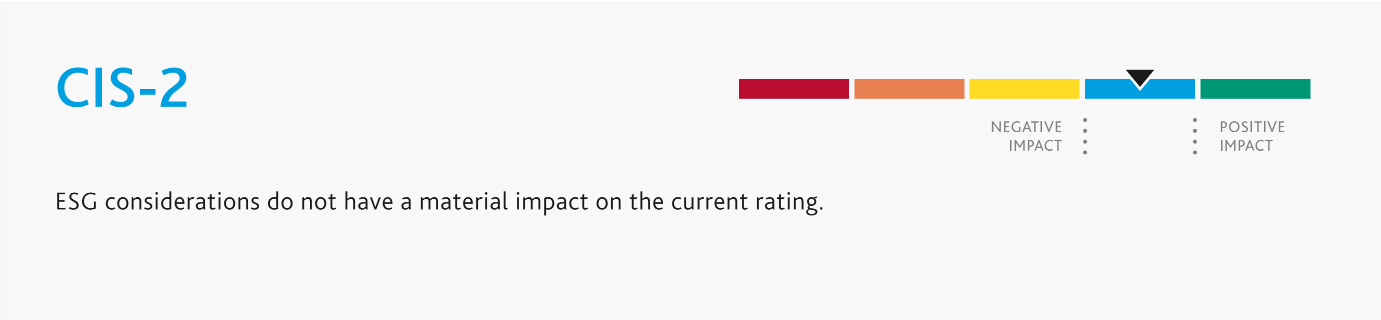


Source: Bank's reports and presentations, Moody's Ratings

ESG considerations

DNB Bank ASA's ESG credit impact score is CIS-2

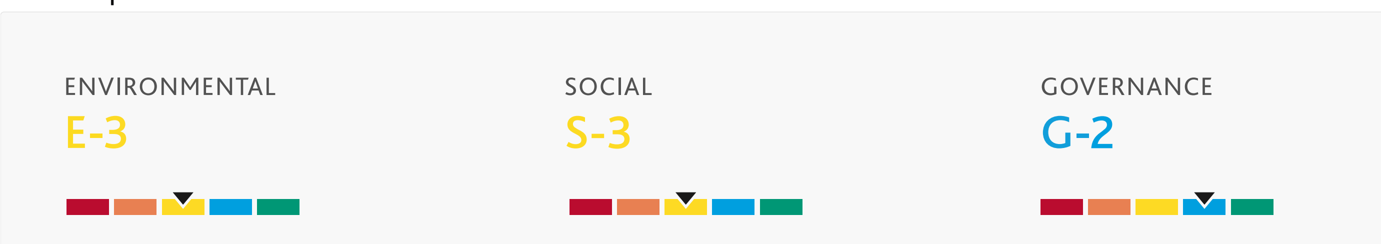
Exhibit 9
ESG credit impact score



Source: Moody's Ratings

DNB Bank's **CIS-2** indicates that ESG considerations do not have a material impact on current ratings. This reflects the limited credit impact of environmental and social risk factors on the ratings to date, and the low governance risks.

Exhibit 10
ESG issuer profile scores



Source: Moody's Ratings

Environmental

DNB Bank faces moderate environmental risks primarily because of its portfolio exposure to carbon transition. The risks are primarily related to its corporate business segments, and in particular its oil, offshore and shipping business. In line with its peers, the bank is facing mounting business risks and stakeholder pressure to meet broader carbon transition goals. In response, the bank is developing its climate risk and portfolio management capabilities.

Social

DNB Bank faces moderate social risks related to regulatory and litigation risks, requiring high compliance standards. We expect customer relations to improve following initial high customer churn in connection with the integration of Sbanken and its customers onto DNB's technology platform. DNB Bank is a digitally advanced bank in Norway, with a robust IT infrastructure and strong capabilities to mitigate cyber and personal data risks.

Governance

DNB Bank's governance risks are low. The bank has a strong track record of risk management and has demonstrated a prudent risk appetite. Management has strong credibility and continuously delivers on targets. DNB is partly owned by the Government of Norway, which is considered a passive shareholder, but this does not result in incremental governance risks because of the country's developed institutional framework.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Support and structural considerations

Loss Given Failure Analysis

Norway implemented the EU's Bank Recovery and Resolution Directive (BRRD) on 1 January 2019 and BRRD2 was implemented into Norwegian law 1 June 2022, which results in lower subordination requirements for non-preferred senior volumes. For our resolution analysis, we apply our advanced Loss Given Failure (LGF) analysis, using our standard assumptions for a bank operating in an operational resolution regime (ORR) country.

Our forward-looking LGF analysis incorporates our expectations that DNB will maintain the required volumes of loss-absorbing instruments, mainly in the form of senior non-preferred debt in response to the current MREL framework that has been set by the Norwegian FSA.

Government support

We assess that there is a moderate probability of government support in case of need, which translates into a one notch positive adjustment in the senior ratings of DNB. The bank has been designated by the regulator as a systemically important financial institution, and is currently 34% owned by the Norwegian Ministry of Trade and Industry. We expect the government to keep at least 34% ownership share in DNB to ensure that it remains headquartered in Norway.

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.

Source of facts and figures cited in this report

Unless noted otherwise, all figures shown in this report are sourced from the bank'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 document Financial Statement Adjustments in the Analysis of Financial Institutions, published on 8 April 2024.

Methodology and scorecard

About Moody's bank scorecard

Our scorecard is designed to capture, express and explain in summary form our Rating Committee's judgement. When read in conjunction with our research, a fulsome presentation of our judgement 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 11
Rating Factors

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	1.5%	aa2	↔	a3	Quality of assets	
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	21.0%	aa1	↔	aa1	Expected trend	Access to capital
Profitability						
Net Income / Tangible Assets	1.0%	a2	↔	a3	Expected trend	
Combined Solvency Score		aa2		a1		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	37.7%	ba2	↑	baa3	Expected trend	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	29.4%	a2	↔	a2	Stock of liquid assets	Expected trend
Combined Liquidity Score		baa2		baa1		
Financial Profile				a2		
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				a1 - a3		
Assigned BCA				a2		
Affiliate Support notching				0		
Adjusted BCA				a2		

Balance Sheet	in-scope (NOK Million)	% in-scope	at-failure (NOK Million)	% at-failure
Other liabilities	1 249 892	39.4%	1 409 555	44.4%
Deposits	1 565 330	49.3%	1 405 666	44.3%
Preferred deposits	1 158 344	36.5%	1 100 427	34.7%
Junior deposits	406 986	12.8%	305 239	9.6%
Senior unsecured bank debt	92 677	2.9%	92 677	2.9%
Junior senior unsecured bank debt	104 870	3.3%	104 870	3.3%
Dated subordinated bank debt	33 279	1.0%	33 279	1.0%
Preference shares (bank)	30 830	1.0%	30 830	1.0%
Equity	95 161	3.0%	95 161	3.0%
Total Tangible Banking Assets	3 172 039	100.0%	3 172 039	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	20.9%	20.9%	20.9%	20.9%	3	3	3	3	0	aa2
Counterparty Risk Assessment	20.9%	20.9%	20.9%	20.9%	3	3	3	3	0	aa2 (cr)
Deposits	20.9%	8.3%	20.9%	11.2%	3	3	3	3	0	aa2
Senior unsecured bank debt	20.9%	8.3%	11.2%	8.3%	3	1	2	2	0	aa3
Junior senior unsecured bank debt	8.3%	5.0%	8.3%	5.0%	0	0	0	0	0	a2
Dated subordinated bank debt	5.0%	4.0%	5.0%	4.0%	-1	-1	-1	-1	0	a3
Non-cumulative bank preference shares	4.0%	3.0%	4.0%	3.0%	-1	-1	-1	-1	-2	baa2

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	aa2	1	Aa1	Aa1
Counterparty Risk Assessment	3	0	aa2 (cr)	1	Aa1(cr)	
Deposits	3	0	aa2	1	Aa1	Aa1
Senior unsecured bank debt	2	0	aa3	1	Aa2	Aa2
Junior senior unsecured bank debt	0	0	a2	0	A2	A2
Dated subordinated bank debt	-1	0	a3	0		(P)A3
Non-cumulative bank preference shares	-1	-2	baa2	0	Baa2 (hyb)	Baa2 (hyb)

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

Ratings

Exhibit 12

Category	Moody's Rating
DNB BANK ASA	
Outlook	Stable
Counterparty Risk Rating	Aa1/P-1
Bank Deposits	Aa1/P-1
Baseline Credit Assessment	a2
Adjusted Baseline Credit Assessment	a2
Counterparty Risk Assessment	Aa1(cr)/P-1(cr)
Senior Unsecured	Aa2
Junior Senior Unsecured	A2
Junior Senior Unsecured MTN	(P)A2
Subordinate MTN	(P)A3
Pref. Stock Non-cumulative	Baa2 (hyb)
Commercial Paper	P-1
Other Short Term	(P)P-1
DNB BANK ASA, NEW YORK BRANCH	
Outlook	Stable
Bank Deposits	Aa1/P-1

Source: Moody's Ratings

Endnotes

1 Since this buffer requirement targets structural vulnerabilities and other systemic risks in the Norwegian economy, it should only apply to banks' exposures in Norway, in contrast to the previous systemic risk buffer requirement, which applies to all exposures.

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