

Rating Report

DNB Bank ASA

DBRS Morningstar

23 August 2022

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Ratings

| Debt | Rating | Rating Action | Trend |
|--------------------------|--------------|--------------------|--------|
| Long-Term Issuer Rating | AA (low) | Confirmed July 22 | Stable |
| Short-Term Issuer Rating | R-1 (middle) | Confirmed July 22 | Stable |
| Intrinsic Assessment | AA (low) | Maintained July 22 | -- |

Rating Drivers

Factors with Positive Rating Implications

- Given the high level of the ratings, an upgrade of the Long-Term Issuer Rating is unlikely and would require significantly lower reliance on wholesale funding over time, while maintaining strong earnings and the current risk profile.

Factors with Negative Rating Implications

- A downgrade of the Long-Term Issuer Rating would be driven by a material deterioration of asset quality, profitability and/or capitalisation.

Rating Considerations

Franchise Strength (Strong)

- Strong franchise with a dominant position in the Norwegian market. Other operations include the Nordic area and selected sectors globally.

Earnings Power (Strong/Good)

- Historically high earnings generation supported by very strong operating efficiency.

Risk Profile (Strong/Good)

- Strong asset quality metrics supported by de-risking in critical sectors. Uncertainty remains due to deteriorating macroeconomic outlook.

Funding and Liquidity (Good/Moderate)

- Sound and stable funding profile although, similar to other Nordic banks, the reliance on wholesale funding is higher than European peers.

Capitalisation (Strong)

- Robust capital position supported by strong internal capital generation capacity.

| 2021 | Scorecard Building Block (BB) Assessment | Grids BB Assessment | Combined BB Assessment |
|---------------------|--|---------------------|------------------------|
| Franchise | S | S | S |
| Earnings | G | S | S/G |
| Risk | S/G | S | S/G |
| Funding & Liquidity | G/M | G | G/M |
| Capitalisation | S | S | S |
| Overall Assessment | Intrinsic Assessment Range (IAR) | | Assigned IA |
| S/G | [AH-AA] | | AA (low) |

Financial Information

| (In NOK Millions unless otherwise stated) | For the Year Ended December 31 (IFRS) | | | | | | |
|---|---------------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| | H1 2022 | H1 2021 | 2021 | 2020 | 2019 | 2018 | 2017 |
| Total Assets | 3,307,807 | 3,080,095 | 2,919,244 | 2,918,943 | 2,793,294 | 2,634,903 | 2,698,268 |
| Gross Loans to Customers | 1,845,019 | 1,648,735 | 1,676,474 | 1,635,679 | 1,585,105 | 1,542,266 | 1,548,577 |
| Income Before Provisions and Taxes (IBPT) | 18,970 | 15,084 | 32,026 | 33,072 | 31,999 | 28,819 | 29,560 |
| Net Attributable Income | 15,274 | 12,349 | 25,329 | 19,854 | 25,726 | 24,282 | 21,803 |
| Net Interest Margin | 1.7% | 1.6% | 1.6% | 1.6% | 1.7% | 1.6% | 1.6% |
| Cost / Income ratio | 39.7% | 44.0% | 42.7% | 41.4% | 41.7% | 42.8% | 42.2% |
| LLP / IBPT | -4.2% | -6.3% | -2.7% | 30.0% | 6.8% | -0.5% | 8.2% |
| Cost of Risk | -0.09% | -0.12% | -0.05% | 0.61% | 0.14% | -0.01% | 0.16% |
| CET1 Ratio | 18.00% | 19.10% | 19.40% | 18.73% | 18.56% | 17.20% | 16.40% |

Source: Morningstar Inc., Company Documents

Issuer Description

DNB Bank ASA (DNB or the Bank) is the largest bank in Norway. It benefits from a leading position in the domestic market offering universal banking products to personal, commercial and corporate customers. The Bank also operates in the Nordic area and in selected sectors globally through its international units.

Rating Rationale

The Long-Term Issuer Rating reflects DNB's robust franchise in the domestic Norwegian market where the Bank has strong market shares among retail and corporate customers, as well as a high level of digital penetration. In addition, the ratings also consider that DNB has been able to maintain its historically sound earnings profile with strong revenue generation expected to further benefit from increasing interest rates. The Bank's efficiency remains very strong compared to other European peers.

The ratings also reflect DNB's stable risk profile and sound asset quality metrics, albeit uncertainty remains due to the deterioration in the macroeconomic outlook after Russia's invasion of Ukraine. DNB continues to show a high reliance on wholesale funding when compared to many European peers, however this is mitigated by DNB's stable and well-established access to debt capital markets and ample liquidity. Capitalisation is robust, supported by solid internal capital generation.

Franchise Strength

| Scorecard BB Assessment | Grids BB Assessment | Combined BB Assessment |
|-------------------------|---------------------|------------------------|
| Strong | Strong | Strong |

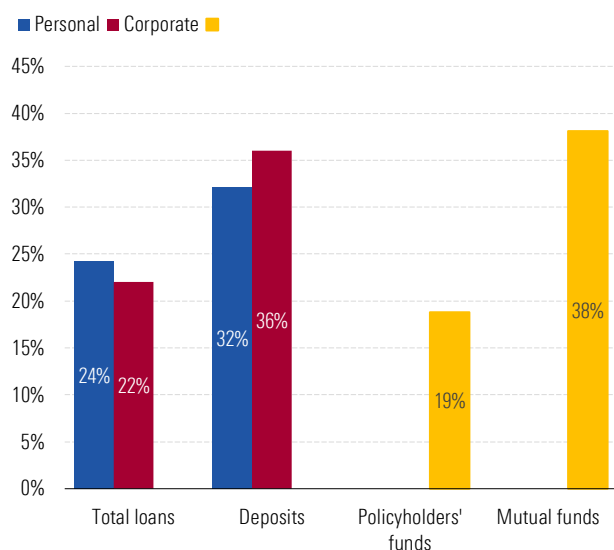
DNB is the largest bank in Norway with total assets of around NOK 3,308 billion at end-H1 2022 (EUR 320 billion). The Bank provides universal banking products to around 2.1 million personal customers and around 231,000 corporate clients through a wide range of physical and digital channels. DNB benefits from a dominant market position in Norway supported by strong market shares in both Personal and Corporate segments across different products (Exhibit 1). The Bank also has a presence in the rest of the Nordic area and has a global strategic focus in selected industries such as energy, seafood and shipping. Nevertheless, its activities remain mostly concentrated in Norway with its international units accounting for 19% of total income and 12% of lending in 2021.

DNB's main shareholder is the Norwegian government which owns 34% of the Bank through the Ministry of Trade, Industry and Fisheries. The majority of the Bank is owned by the Norwegian government and other Norwegian institutional investors. In DBRS Morningstar's view, this provides

stability to the Bank's strategy and ensures that DNB's activities remain strongly connected with the Norwegian economy. But despite the government ownership, the Bank is run on purely commercial terms.

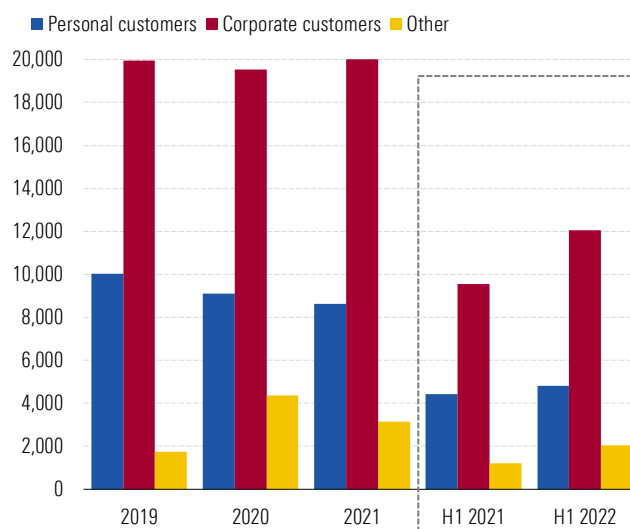
In 2022, DNB completed the acquisition of Sbanken ASA (Sbanken). Sbanken was one of the leading digital retail banks in Norway. Established in 2000, Sbanken had around 484,000 retail customers and around 10,000 SMEs customers at end-2021. Following the necessary regulatory approvals, DNB completed the acquisition of 100% of Sbanken's shares and voting interests in April 2022. Following the acquisition, DNB merged the two Sbanken legal entities, Sbanken ASA and Sbanken Boligkreditt AS, into DNB Bank ASA and DNB Boligkreditt AS, respectively. Sbanken's acquisition is expected to further strengthen DNB's position in the retail segment in Norway and complement DNB's activity in the savings area as well as bring high technological skilled personnel within the Group. In terms of market share, in May 2022, DNB's market shares in the retail segment increased to 24% in loans (22% in March 2022) and 32% in deposits (28% in March 2022), incorporating the acquisition of Sbanken. Market shares in corporate were 22% in loans and 36% in deposits. Loans to customers increased by 10% at end-H1 2022 compared to end-2021 while customer deposits increased by 12% at end-H1 2022 compared to end-2021.

Exhibit 1 Market Shares in Norway Q2 2022



Source: Company reports, DBRS Morningstar

Exhibit 2 IBPT Evolution by Business segment (NOK million)



Source: Company reports, DBRS Morningstar

Description of operations:

DNB's main operating segments are reported below:

1. Personal Customers - H1 2022 pre-impairment profit of NOK 4.8 billion - which incorporates all the activities with private retail customers in Norway and abroad. In particular, this segment serves Norwegian retail customers with a broad range of products and services through a physical and digital distribution network. It also includes credit cards and car financing in Sweden.

2. Corporate Customers - H1 2022 pre-impairment profit of NOK 12 billion - which incorporates all the Bank's business customers in Norway and abroad. Since the first quarter of 2020, DNB incorporated two segments Small and medium-sized enterprises and Large corporates into the Corporate customer segment.
3. Other - H1 2022 pre-impairment profit of NOK 2 billion - which includes Risk Management activity, Traditional Pension products and profit from associated companies (mostly Luminor, Vipps and Fremtind).

Earnings Power

| Scorecard BB Assessment | Grids BB Assessment | Combined BB Assessment |
|-------------------------|---------------------|------------------------|
| Good | Strong | Strong / Good |

In DBRS Morningstar's view, DNB continued to demonstrate sound earnings generation which benefits from the Bank's very strong operating efficiency levels. In 2021, DNB's performance improved significantly compared to the previous year mostly due to the very high loan loss provisions reported by the Bank in 2020 to cover potential losses from the COVID-19 pandemic as well as the sharp decline in oil prices. In 2021, the Bank reported a Return-on-Equity (ROE) of 10.7%, compared to 8.4% in 2020.

DNB has been able to maintain good revenue generation even if total operating income slightly decreased to NOK 55,915 million in 2021, down 1% year-on-year (YoY). The reduction was mainly driven by lower net gains on financial instruments at fair value, which went down 38% from the previous year when they benefited from exceptionally high market volatility due to the pandemic. Net interest income (NII) was fairly stable in 2021 vs. 2020 at NOK 38,690 million. This mainly reflected increasing volumes and lower long-term funding costs counterbalanced by repricing following the central bank, Norges Bank, cutting its key policy rate to zero in 2020 and a negative FX impact. Net fees and commissions went up by 16% YoY reflecting strong performance and business activity across several products especially investment banking and asset management services.

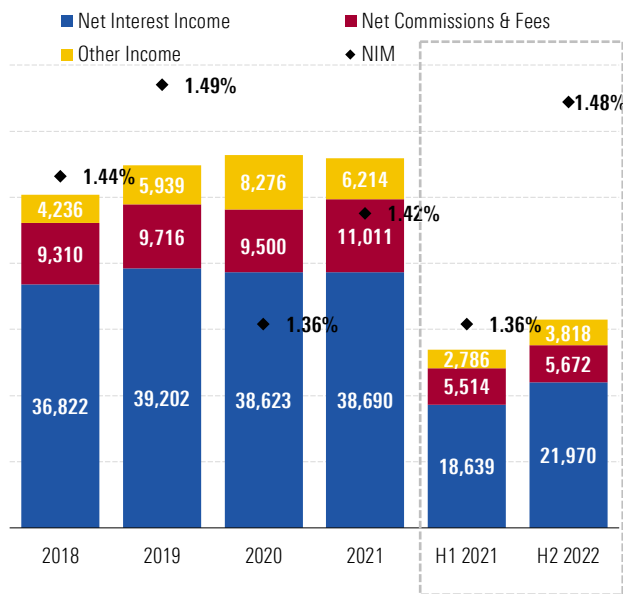
DNB's operating efficiency remains strong compared to European and Nordic peers. However, in 2021, the cost-income ratio slightly increased to 43% from 41.5% in 2020. Total operating expenses increased by 3% YoY mostly due to the increase in personnel expenses (+7% YoY) which were impacted by increased business activity and consequently higher compensation. The Bank has a long term aspiration of a cost-income ratio below 40%.

In 2021, DNB reported net loan loss reversals of NOK 868 million which compares with the significantly high amount of loan loss provisions (LLPs) of NOK 9,918 million reported in 2020. In 2020, the majority of the LLPs were booked against oil, gas and offshore exposure (69% of total). In 2021, the oil, gas and offshore segment reported loan loss reversals of NOK 323 million which were mainly related to exposure classified as either Stage 1 or Stage 2. Also Stage 3 exposure in the oil and gas segment reported loan loss reversals which was partially compensated by additional loan loss provisions in the offshore business.

In H1 2022, DNB reported a net profit of NOK 15.3 billion compared to NOK 12.3 billion in H1 2021. This led to a ROE of 13.1% in H1 2022 compared to 10.5% in H1 2021. Revenue generation continued to improve supported by significantly higher NII. NII increased to NOK 21,970 million, which was NOK 3,331 million higher than in H1 2021. On top of the contribution from the incorporation of Sbanken which had a positive effect of NOK 405 million in Q2 2022, NII increased mostly thanks to higher volumes and increasing interest rates. In particular, Q2 2022 figures incorporate the full effect of the repricing activity implemented in January 2022 as well as the partial effect of the repricing implemented in May 2022. The Bank announced an additional repricing in August in line with the Norges Bank decision to increase the key policy rate further to 1.25% from 0.75% in June 2022.

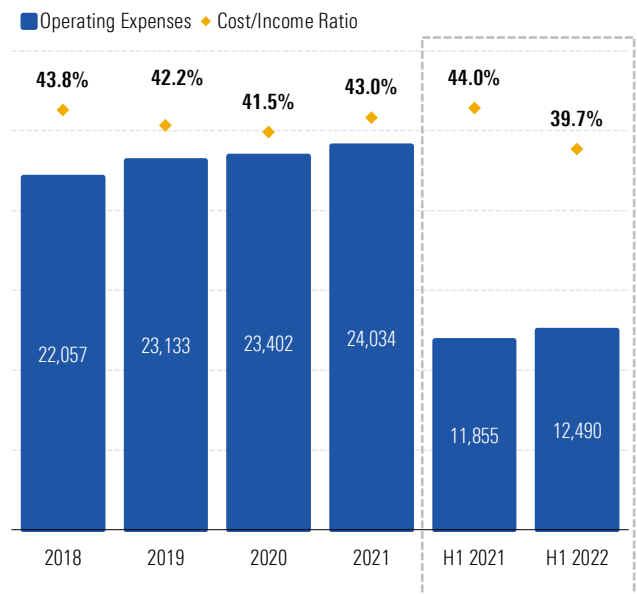
Operating expenses increased to NOK 12,490 million in H1 2022, up 5% compared to H1 2021, reflecting higher business activity and staff costs. However, the cost-income ratio decreased to 39.7% in H1 2022, from 44.0% in H1 2021. DNB continued to report loan loss reversals of NOK 798 million in H1 2022, albeit slightly lower than NOK 943 million in H1 2021. The reversals are still concentrated mostly within the oil, gas and offshore portfolio.

Exhibit 3 Operating Income Evolution (NOK Million)



Source: Company Report, DBRS Morningstar

Exhibit 4 Statutory Operating efficiency (NOK Million)



Source: Company reports, DBRS Morningstar.

Risk Profile

| Scorecard BB Assessment | Grids BB Assessment | Combined BB Assessment |
|-------------------------|---------------------|------------------------|
| Strong / Good | Strong | Strong / Good |

DNB's risk profile is good and is supported by high levels of diversification and relatively low credit risk in its lending portfolio. The Norwegian economy has proved to be resilient to the effect of the global pandemic and credit deterioration has been limited to specific sectors. In 2021 and in the first quarter of 2022, improving macroeconomic conditions saw asset quality metrics return to pre-pandemic levels. In addition, in recent years, the Group has progressively reduced its exposure to cyclical industries which were more affected by the pandemic, while rebalancing its portfolio towards personal customers.

Credit Risk:

While uncertainty remains due to the worsening macroeconomic outlook following Russia's invasion of Ukraine, DBRS Morningstar notes that DNB's asset quality improved in 2021 and during the first half of 2022, mostly due to the improving macroeconomic conditions in 2021 and write offs within the oil, gas and offshore portfolio. Gross Stage 3 loans and financial commitments decreased by 6% YoY in 2021 and further decreased by around 4% in H1 2022 vs. end-2021 (Exhibit 5). The decrease at end-2021 and end-H1 2022 was primarily due to a reduction in Stage 3 exposures in oil and gas-related sectors and exposures to retail and services industries. The Bank's asset quality metrics remained sound with gross Stage 3 loans amounting to 1.3% of total gross credit exposure at end-H1 2022 vs. 1.5% at end-2021 and 1.6% at end-2020.

At end-H1 2022, the largest exposure was towards personal customers which accounted for 53% of total net exposure at default (EAD, NOK 2,353 billion, including loans to customers and financial commitments) (Exhibit 6). The majority of total personal customer EAD or NOK 1,106 billion at end-H1 2022 was related to mortgages, with the majority of mortgages located in Norway. DBRS Morningstar notes that house prices in Norway reached an all-time high in May 2022 but have gradually decreased since. In response to rising inflation, Norway's central bank has raised the policy rate five consecutive times since September 2021, and in light of this house prices are expected to grow moderately going forward. We note that at end-H1 2022, 65% of DNB's mortgage book had a loan-to-value (LTV) below 60%, 23% of the book had a LTV between 60-75% and 10% of the book had an LTV between 75% and 85%.

The remainder of the exposure at default consists of large corporates and small and medium-sized companies. The main exposures in the corporate loan portfolio are commercial real estate (10% of total net EAD), residential property (6%), and oil, gas and offshore (5%, of which 1.0% specifically offshore). The Group's exposure to the more cyclical industries such as shipping and oil, gas and offshore, accounted for a combined 7% of net EAD at end-H1 2022. However, reflecting the Bank's de-risking strategy, the current exposure to these sectors decreased by almost 60% compared to end-September 2015. In addition, the Bank's EAD has been rebalanced in favour of Personal Customers as Large Corporates accounted for 47% of total exposure vs. 54% at end-Q3 2015.

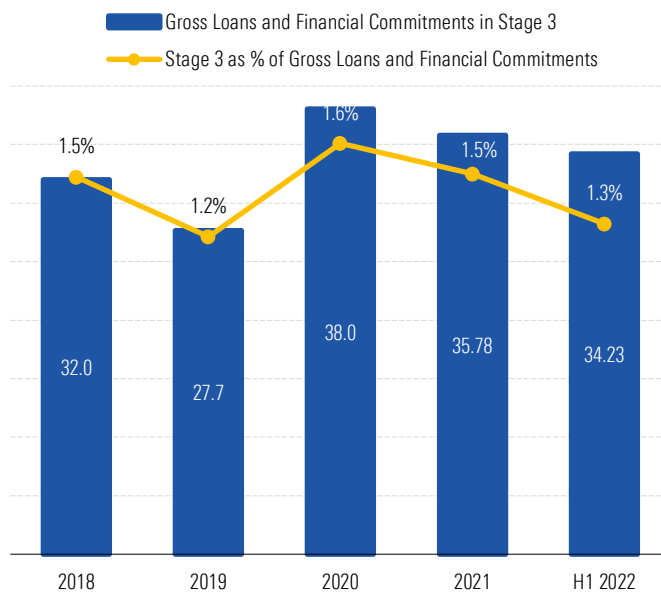
At end-H1 2022, DNB's exposure towards commercial real estate was mainly concentrated towards office premises (41% of total), hotels (16%), warehouse/logistics/multi-purpose building (15%), retail

store facilities (9%), and shopping centres (6%). The CRE book asset quality remains sound, with only 0.4% of total CRE exposure classified as Stage 3. Geographically, net EAD in commercial real estate is mainly focused in Norway (97.2% of total), with Oslo/Akershus accounting for 39%, Eastern Norway excluding Oslo/Akershus for 21%, Western Norway for 19% and Central/Northern Norway for 14%. The remaining 6% of net EAD is mostly in Sweden and other Europe.

Operational Risk:

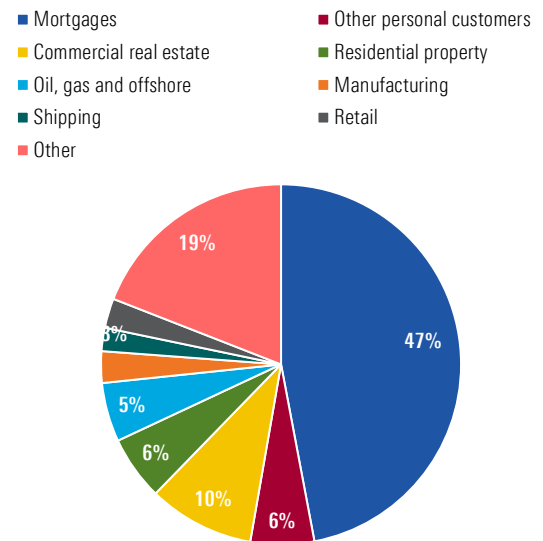
We note that DNB received an administrative fine of NOK 400 million in 2021 from the Norwegian Financial Supervisory Authority (FSA) in relation to inadequate compliance with the Norwegian Money Laundering Act. DNB has not directly been involved in any suspicious money laundering activity and in the second half of 2021 a new programme was established at DNB to ensure progress is made in their AML work as well as a new central governing professional environment was set up to further streamline the work around AML. While the fine was substantial it did not have any meaningful impact on DNB’s franchise strength or earnings power. However, we will continue to monitor the progress made by DNB in terms of strengthening its AML framework as any major operational risk deficiencies could have a significant impact on the bank’s rating.

Exhibit 5 Stage 3 Loans Evolution FY18-H122 (NOK billion)



Source: Company reports, DBRS Morningstar.

Exhibit 6 Net Exposure At Default by Industry at end-H122



Source: Company reports, DBRS Morningstar.

Funding and Liquidity

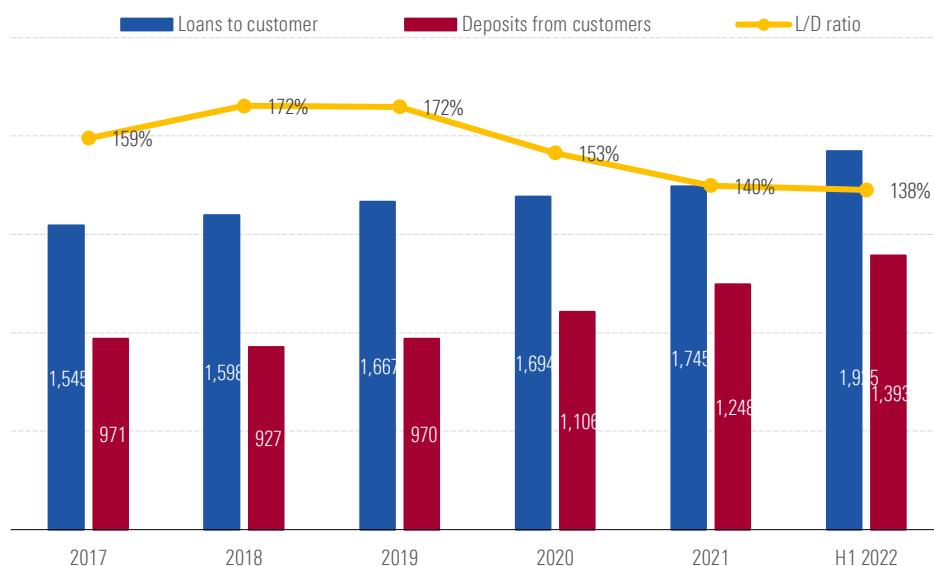
| Scorecard BB Assessment | Grids BB Assessment | Combined BB Assessment |
|-------------------------|---------------------|------------------------|
| Good /Moderate | Good | Good /Moderate |

DNB maintains a sound and stable funding profile. Similar to its Nordic peers, reliance on wholesale funding is higher than other European peers. However, this is mainly accessed through covered bonds which are very typical in the Nordic markets. In addition, we believe that DNB has consistently maintained good access to various funding markets and the covered bond market kept functioning well during the global pandemic.

DBRS Morningstar notes that customer deposits remain the major source of funding, accounting for 57% of total funding at end-H1 2022 (vs. 58% at end-2021, 52% at end-2020 and 47% at end-2019). Total customer deposits increased to NOK 1,393 billion at end-H1 2022 from NOK 1,248 billion at end-2021 and NOK 1,106 billion at end-2020 (Exhibit 7). Deposits from personal customers accounted for 41% of total deposits at end-H1 2022 and increased only by 18% compared to end-2021. Corporate customers and other deposits accounted for the remaining 59% of total deposits and decreased by 9% vs. end-2021.

We note that the increase in deposits over the past two years has resulted in DNB significantly reducing its long-term funding needs, although we note that the majority of the increase in customer deposits comes from corporate customers which are more volatile and less sticky in nature. In 2022, the Bank issued NOK 48.1 billion long term debt of which NOK 47.4 senior unsecured bonds and NOK 0.8 billion senior non-preferred bonds. In addition, DNB has lengthened the maturity of its funding profile over the years, with the average life of long-term senior debt and covered bonds at around 3.7 years as of end-March 2022, compared to 2.4 years in 2008. Outstanding covered bonds represented 14% of total funding at end-Q1 2022.

DNB's liquidity profile is strong with a Liquidity Coverage Ratio (LCR) of 139% at end-H1 2022 and total liquid assets of NOK 688.7 billion at end-H1 2022 (+20% vs. end-2021), which adequately covers DNB's short-term maturities.

Exhibit 7 Loan-to-deposit ratio evolution (NOK billion)

Source: DBRS Morningstar, Company Documents.

Capitalisation

| Scorecard BB Assessment | Grids BB Assessment | Combined BB Assessment |
|-------------------------|---------------------|------------------------|
| Strong | Strong | Strong |

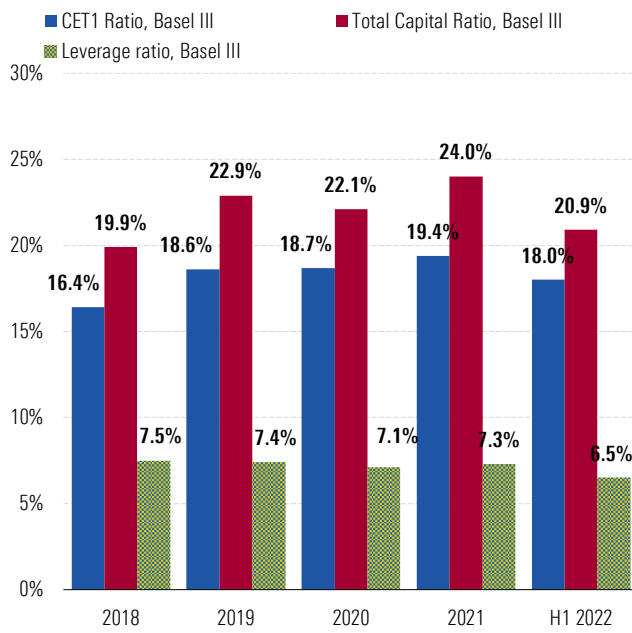
DNB's capitalisation is robust, supported by the Bank's historically high internal capital generation capacity. At end-H1 2022, DNB reported a Common Equity Tier 1 (CET1) ratio of 18%, decreasing from 19.4% at end-2021 (Exhibit 9). The reduction was mostly driven by the acquisition of Sbanken which had a negative effect of around 125 basis points (bps) on the CET1 ratio. This was partially compensated for by retained earnings which had a positive impact of 80 bps.

Following the COVID-19 outbreak, governments and regulators have adopted significant capital relief measures to help banks navigate the challenging operating environment. This includes the reduction in the countercyclical buffer (CCyB) to 1% from 2.5% for Norwegian exposures from 2020. As a consequence, DNB reported a minimum requirement for CET1 ratio (SREP) of 15.2% at end-H1 2022. Nevertheless, considering the level of activity in the Norwegian economy has continued to increase since the control measures have been lifted, the Ministry of Finance has decided to increase the CCyB back to 2.5% effectively end-March 2023. However, the increase is going to happen gradually with the CCyB going up to 2% at end-December 2022 from the current 1.5% at end-June 2022. As a consequence, DNB has estimated the minimum requirement will increase to 15.7% at end-2022 and 16.2% at end-Q1 2023. In addition, the Bank also reported a Pillar 2 Guidance of 1.5% (Exhibit 9).

As per the above, we note that the minimum capital requirements for Norwegian banks remain high compared to European and Nordic peers. DNB current capital position seems to be in line with its capital ratio target, which is to be above 17.7%. This corresponds to the supervisory expectations taking into account the full counter-cyclical capital buffer requirement.

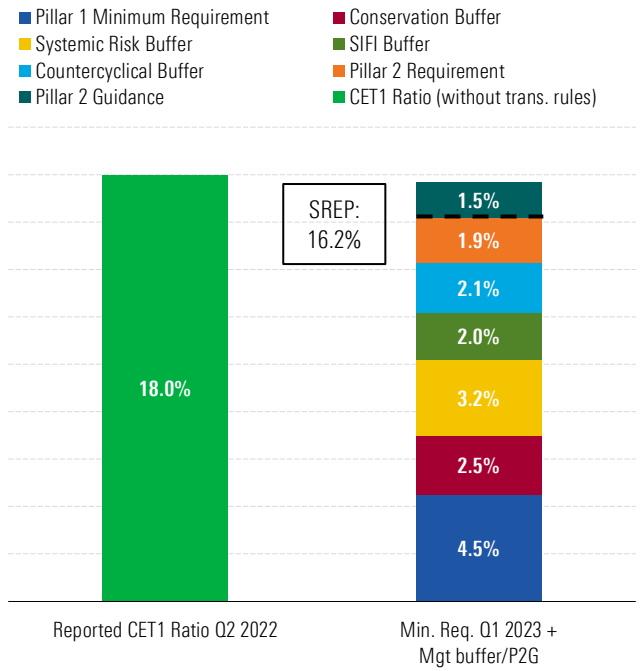
DNB continued to report one of the stronger leverage ratios among European banks which stood at 6.5% at end-H1 2022 compared to 7.3% at end-2021.

Exhibit 8 Capital Ratio Evolution



Source: Company reports, DBRS Morningstar.

Exhibit 9 Capital Requirements and Reported CET1 Ratios



Source: Company reports, DBRS Morningstar.

DNB Bank ASA ESG Checklist

| ESG Factor | ESG Credit Consideration Applicable to the Credit Analysis: Y/N | Extent of the Effect on the ESG Factor on the Credit Analysis: Relevant (R) or Significant (S)* | | |
|---|--|---|----------|----------|
| Environmental | | Overall: | N | N |
| Emissions, Effluents, and Waste | Do we consider that the costs or risks for the issuer or its clients result, or could result, in changes to an issuer's financial, operational, and/or reputational standing? | N | N | N |
| Carbon and GHG Costs | Does the issuer face increased regulatory pressure relating to the carbon impact of its or its clients' operations resulting in additional costs and/or will such costs increase over time affecting the long-term credit profile? | N | N | N |
| Climate and Weather Risks | In the near term, will climate change and adverse weather events potentially disrupt issuer or client operations, causing a negative financial impact? | N | N | N |
| | In the long term, will the issuer's or client's business activities and infrastructure be materially affected financially by a 2°C rise in temperature? | N | N | N |
| Passed-through Environmental credit considerations | Does this rating depend to a large extent on the creditworthiness of another rated issuer which is impacted by environmental factors (see respective ESG checklist for such issuer)? | N | N | N |
| Social | | Overall: | N | N |
| Social Impact of Products and Services | Do we consider that the social impact of the issuer's products and services could pose a financial or regulatory risk to the issuer? | N | N | N |
| Human Capital and Human Rights | Is the issuer exposed to staffing risks, such as the scarcity of skilled labour, uncompetitive wages, or frequent labour relations conflicts that could result in a material financial or operational impact? | N | N | N |
| | Do violations of rights create a potential liability that could negatively affect the issuer's financial wellbeing or reputation? | N | N | N |
| Human Capital and Human Rights: | | N | N | N |
| Product Governance | Does failure in delivering quality products and services cause damage to customers and expose the issuer to financial and legal liability? | N | N | N |
| Data Privacy and Security | Has misuse or negligence in maintaining private client or stakeholder data resulted, or could result, in financial penalties or client attrition to the issuer? | N | N | N |
| Community Relations | Does engagement, or lack of engagement, with local communities pose a financial or reputational risk to the issuer? | N | N | N |
| Access to Basic Services | Does a failure to provide or protect with respect to essential products or services have the potential to result in any significant negative financial impact on the issuer? | N | N | N |
| Passed-through Social credit considerations | Does this rating depend to a large extent on the creditworthiness of another rated issuer which is impacted by social factors (see respective ESG checklist for such issuer)? | N | N | N |
| Governance | | Overall: | N | N |
| Bribery, Corruption, and Political Risks | Do alleged or actual illicit payments pose a financial or reputational risk to the issuer? | N | N | N |
| | Are there any political risks that could impact the issuer's financial position or its reputation? | N | N | N |
| Bribery, Corruption, and Political Risks: | | N | N | N |
| Business Ethics | Do general professional ethics pose a financial or reputational risk to the issuer? | N | N | N |
| Corporate / Transaction Governance | Does the issuer's corporate structure limit appropriate board and audit independence? | N | N | N |
| | Have there been significant governance failures that could negatively affect the issuer's financial wellbeing or reputation? | N | N | N |
| | Does the board and/or management have a formal framework to assess climate-related financial risks to the issuer? | N | N | N |
| Corporate / Transaction Governance: | | N | N | N |
| Passed-through Governance credit considerations | Does this rating depend to a large extent on the creditworthiness of another rated issuer which is impacted by governance factors (see respective ESG checklist for such issuer)? | N | N | N |
| Consolidated ESG Criteria Output: | | N | N | N |

* A **Relevant Effect** means that the impact of the applicable ESG risk factor has not changed the rating or rating trend on the issuer.

A **Significant Effect** means that the impact of the applicable ESG risk factor has changed the rating or trend on the issuer.

Environment

None of the environmental factors are relevant or significant to the rating or trend assigned to DNB. DNB aims to become a bank with net-zero emissions by 2050 including emissions from its lending and investment portfolios. The Bank has set several interim emission targets in its oil and gas portfolio, shipping and CRE portfolios by 2030. At end-H122, the oil, gas and offshore sector accounted for 5.3% of the DNB's total exposure. We also note that for all DNB customers with a total credit commitment of more than NOK 8 million, ESG risks must be incorporated into the credit assessment. DNB has been reporting its climate related disclosures according to TCFD standard since June 2017.

Norway's Central Bank has for the past two years included climate-related risks in its stability reports, and Norwegian banks' direct exposure to transition risks appear to be moderate, and exposure to known physical risks appears to be limited. Nevertheless, the Central Bank has noted that going forward they will include more comprehensive climate scenario stress testing analyses to further understand climate-related risks on the Norwegian financial system.

Social

The social factor does not affect the rating or trend assigned to DNB. Nevertheless, we note that since Russia's invasion of Ukraine, there is a heightened risk of cyberattacks towards financial institutions in Europe. At end-June 2022, several Norwegian public service websites were targeted in a cyberattack by an alleged pro-Russian group, however, the impact was limited and no sensitive or personal data was compromised. The increased risk of cyberattacks towards the Norwegian financial system was also highlighted by the Norwegian Central Bank in its most recent financial stability report. We note that any cybersecurity attacks or data privacy breaches could have a significant impact on the Bank's operations and franchise.

Governance

None of the governance factors are relevant or significant to the rating or trend assigned to DNB. DNB has not experienced any significant governance failures in the past. However, we note that DNB received an administrative fine of NOK 400 million (USD 48 million) from the Norwegian FSA in 2021 due to weaknesses in their anti-money laundering framework mainly related to shortcomings surrounding the Bank's customer due diligence. The fine was absorbed by DNB and did not have any meaningful impact on the Bank's profitability or franchise strength. DNB has since worked on strengthening its efforts to combat money laundering.

DNB's board of directors consist of 10 members, with seven being independent.

IA Framework

DNB Bank ASA

| | | 1 | 2 | 3 | 4 | 5 |
|--------------------------------|--|--------------------------|--------------------------------|--|---------------------|------------------------|
| 2021 | Scorecard Indicator | Scorecard Indicator Data | Scorecard Indicator Assessment | Scorecard Building Block (BB) Assessment | Grids BB Assessment | Combined BB Assessment |
| Franchise | Adjusted Assets | 289 | S/G | S | S | S |
| | Sovereign Rating | 20 | VS | | | |
| Earnings | Return on Equity | 9.82% | S/G | | | |
| | Return on Assets | 0.89% | S/G | G | S | S/G |
| | IBPT/Avg.Assets | 1.21% | G/M | | | |
| Risk | Net NPLs/Net Loans | 1.09% | G | S/G | S | S/G |
| | Provisions/IBPT | 8.53% | S | | | |
| Funding & Liquidity | Sovereign-Adjusted Funding Ratio | 156.3% | G/M | G/M | G | G/M |
| | Sovereign-Adjusted Capital Ratio | 18.77% | VS | | | |
| Capitalisation | NPL/Equity + Loan Loss Reserves | 11.58% | S/G | S | S | S |
| | 5-Year Accumulated Net Income/Total Assets | 4.44% | VS/S | | | |

| 6 | 7 | | | 8 |
|--------------------|----------------------------------|----------|----------|-------------|
| Overall Assessment | Intrinsic Assessment Range (IAR) | | | Assigned IA |
| S/G | AA | AA (low) | A (high) | AA (low) |

Financials:

| | For the Year Ended December 31 (IFRS) | | | | | | |
|---|---------------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| | H1 2022 | H1 2021 | 2021 | 2020 | 2019 | 2018 | 2017 |
| Balance Sheet (NOK Millions) | | | | | | | |
| Cash & Cash Equivalents* | 517,721 | 636,108 | 420,116 | 434,143 | 500,043 | 351,128 | 390,823 |
| Investments in Financial Assets | 719,833 | 591,026 | 633,280 | 684,949 | 554,205 | 590,247 | 598,784 |
| Gross Loans to Customers | 1,845,019 | 1,648,735 | 1,676,474 | 1,635,679 | 1,585,105 | 1,542,266 | 1,548,577 |
| Loan Loss Reserves | (8,588) | (11,967) | (9,982) | (14,018) | (10,253) | (9,898) | (13,162) |
| Net Lending to Customers | 1,836,431 | 1,636,768 | 1,666,492 | 1,621,661 | 1,574,852 | 1,532,368 | 1,545,415 |
| Total Assets | 3,307,807 | 3,080,095 | 2,919,244 | 2,918,943 | 2,793,294 | 2,634,903 | 2,698,268 |
| Deposits from Customers | 1,393,381 | 1,230,931 | 1,210,256 | 1,066,533 | 969,557 | 927,092 | 971,137 |
| Debt & Capital Lease Obligations | 847,515 | 817,754 | 796,267 | 835,730 | 906,737 | 835,415 | 813,071 |
| Total Liabilities | 3,068,684 | 2,834,547 | 2,675,333 | 2,670,546 | 2,551,038 | 2,410,936 | 2,481,372 |
| Total Equity | 239,123 | 245,548 | 243,911 | 248,397 | 242,256 | 223,967 | 216,896 |
| Income Statement (NOK Millions) | | | | | | | |
| Net Interest Income | 21,971 | 18,639 | 38,689 | 38,623 | 39,202 | 36,824 | 35,422 |
| Non Interest Income | 9,359 | 7,953 | 16,701 | 17,374 | 15,244 | 13,229 | 15,832 |
| Equity Method Results | 129 | 346 | 524 | 402 | 410 | 314 | (112) |
| Total Operating Income | 31,459 | 26,938 | 55,914 | 56,399 | 54,856 | 50,367 | 51,142 |
| Total Operating Expenses | 12,493 | 11,855 | 23,889 | 23,329 | 22,856 | 21,549 | 21,582 |
| Income Before Provisions and Taxes (IBPT) | 18,970 | 15,084 | 32,026 | 33,072 | 31,999 | 28,819 | 29,560 |
| Loan Loss Provisions | (798) | (943) | (668) | 9,918 | 2,191 | (139) | 2,428 |
| Irregular Income/Expenses | (2) | 106 | 227 | (693) | (1,427) | (21) | 274 |
| Net Attributable Income | 15,274 | 12,349 | 25,329 | 19,854 | 25,726 | 24,282 | 21,803 |
| Growth (%) - YoY Change | | | | | | | |
| Net Interest Income | 17.88% | -6.08% | 0.17% | -1.48% | 6.46% | 3.96% | 3.85% |
| Total Operating Income | 16.78% | -9.19% | -0.86% | 2.81% | 8.91% | -1.52% | -1.96% |
| Total Operating Expenses | 5.38% | 5.95% | 2.40% | 2.07% | 6.07% | -0.15% | 5.70% |
| IBPT | 25.76% | -18.36% | -3.16% | 3.35% | 11.03% | -2.51% | -6.88% |
| Net Attributable Income | 23.69% | 38.13% | 27.58% | -22.83% | 5.95% | 11.37% | 13.26% |
| Gross Loans & Advances | 11.91% | 0.53% | 2.49% | 3.19% | 2.78% | -0.41% | 2.31% |
| Deposits from Customers | 13.20% | 11.47% | 13.48% | 10.00% | 4.58% | -4.54% | 3.88% |
| Earnings (%) | | | | | | | |
| Net Interest Margin | 1.73% | 1.56% | 1.62% | 1.56% | 1.70% | 1.61% | 1.55% |
| Non-Interest Income / Total Revenue | 29.75% | 29.52% | 29.87% | 30.81% | 27.79% | 26.27% | 30.96% |
| Cost / Income ratio | 39.71% | 44.01% | 42.72% | 41.36% | 41.67% | 42.78% | 42.20% |
| LLP / IBPT | -4.21% | -6.25% | -2.71% | 29.99% | 6.85% | -0.48% | 8.21% |
| Return on Avg Assets (ROAA) | 0.98% | 0.82% | 0.84% | 0.66% | 0.92% | 0.89% | 0.80% |
| Return on Avg Equity (ROAE) | 12.61% | 10.10% | 10.30% | 8.18% | 11.20% | 11.19% | 10.36% |
| IBPT over Avg RWAs | 3.70% | 1.56% | 3.31% | 3.34% | 3.05% | 2.76% | 2.78% |
| Internal Capital Generation | 0.13% | -0.55% | -0.67% | 8.18% | 5.49% | 5.91% | 5.95% |
| Risk Profile (%) | | | | | | | |
| Cost of Risk | -0.09% | -0.12% | -0.05% | 0.61% | 0.14% | -0.01% | 0.16% |
| Gross NPLs over Gross Loans | 1.59% | 1.93% | 1.82% | 1.96% | 1.53% | 1.81% | 1.67% |
| NPL Coverage Ratio | 29.19% | 37.53% | 32.78% | 43.78% | 42.18% | 35.55% | 12.24% |
| Net NPLs over Net Loans | 1.13% | 1.20% | 1.23% | 1.11% | 0.89% | 1.17% | 1.56% |
| NPLs to Equity and Loan Loss Reserves Ratio | 11.90% | 12.40% | 13.10% | 12.21% | 9.63% | 11.91% | 11.74% |
| Funding & Liquidity (%) | | | | | | | |
| Net Loan to Deposit Ratio | 131.80% | 132.97% | 137.70% | 152.05% | 162.43% | 165.29% | 159.13% |
| Liquidity Coverage Ratio | 138% | 148% | 135% | 140% | 138% | 125% | 117% |
| Net Stable Funding Ratio | NA | NA | 112% | 111% | 112% | NA | NA |
| Capitalization (%) | | | | | | | |
| CET1 Ratio | 18.00% | 19.10% | 19.40% | 18.73% | 18.56% | 17.20% | 16.40% |
| Tier1 Ratio | 18.90% | 20.30% | 21.00% | 20.13% | 20.80% | 18.50% | 17.90% |
| Total Capital Ratio | 20.90% | 22.20% | 24.00% | 22.15% | 22.92% | 20.80% | 20.00% |
| Leverage Ratio | 6.50% | 6.70% | 7.30% | 7.07% | 7.39% | 7.50% | 7.20% |
| Dividend Payout Ratio | 99.0% | 105.5% | 106.5% | 0.0% | 50.9% | 47.2% | 42.6% |

Source: Morningstar Inc., Company Documents

*Includes Loans to Banks

Rating Methodology

The applicable methodology are the *Global Methodology for Rating Banks and Banking Organisations (June 23, 2022)* and *DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings (May 17, 2022)* which can be found on our website under Methodologies.

Ratings

| Issuer | Obligation | Rating Action | Rating | Trend |
|--------------|--|---------------|--------------|--------|
| DNB Bank ASA | Long-Term Issuer Rating | Confirmed | AA (low) | Stable |
| DNB Bank ASA | Long-Term Deposits | Confirmed | AA (low) | Stable |
| DNB Bank ASA | Long-Term Senior Debt | Confirmed | AA (low) | Stable |
| DNB Bank ASA | Dated Subordinated Debt | Confirmed | A | Stable |
| DNB Bank ASA | Undated Subordinated Debt | Confirmed | A | Stable |
| DNB Bank ASA | Short-Term Issuer Rating | Confirmed | R-1 (middle) | Stable |
| DNB Bank ASA | Short-Term Deposits | Confirmed | R-1 (middle) | Stable |
| DNB Bank ASA | Short-Term Debt | Confirmed | R-1 (middle) | Stable |
| DNB Bank ASA | Long Term Critical Obligations Rating | Confirmed | AA (high) | Stable |
| DNB Bank ASA | Short Term Critical Obligations Rating | Confirmed | R-1 (high) | Stable |

Ratings History

| Issuer | Obligation | Current | 2021 | 2020 | 2019 | 2018 |
|--------------|--|--------------|--------------|--------------|--------------|--------------|
| DNB Bank ASA | Long-Term Issuer Rating | AA (low) | AA (low) | AA (low) | AA (low) | AA (low) |
| DNB Bank ASA | Long-Term Deposits | AA (low) | AA (low) | AA (low) | AA (low) | AA (low) |
| DNB Bank ASA | Long-Term Senior Debt | AA (low) | AA (low) | AA (low) | AA (low) | AA (low) |
| DNB Bank ASA | Dated Subordinated Debt | A | A | A | A | A |
| DNB Bank ASA | Undated Subordinated Debt | A | A | A | A | A |
| DNB Bank ASA | Short-Term Issuer Rating | R-1 (middle) | R-1 (middle) | R-1 (middle) | R-1 (middle) | R-1 (middle) |
| DNB Bank ASA | Short-Term Deposits | R-1 (middle) | R-1 (middle) | R-1 (middle) | R-1 (middle) | R-1 (middle) |
| DNB Bank ASA | Short-Term Debt | R-1 (middle) | R-1 (middle) | R-1 (middle) | R-1 (middle) | R-1 (middle) |
| DNB Bank ASA | Long Term Critical Obligations Rating | AA (high) | AA (high) | AA (high) | AA (high) | AA (high) |
| DNB Bank ASA | Short Term Critical Obligations Rating | R-1 (high) | R-1 (high) | R-1 (high) | R-1 (high) | R-1 (high) |

Previous Actions

- [DBRS Morningstar Confirms DNB Bank ASA's Long-Term Issuer Rating at AA \(low\), Trend Stable, July 14, 2022](#)
- [DBRS Morningstar Confirms DNB Bank ASA's Issuer Ratings at AA \(low\)/R-1 \(middle\), Trend Stable, July 16, 2021](#)
- [DBRS Morningstar Confirms DNB Bank ASA's LT Issuer Rating at AA \(low\), Stable Trend, July 23, 2020](#)

Related Research

- [Large Nordic Banks H122 Results: Stable Profits With Cost of Risk Still Below Normalised Levels, August 2, 2022](#)
- [European Banks: Lower Cost of Risk in FY21; However, Likely to Worsen After Ukraine War, March 22, 2022](#)
- [Nordic Banks' Baltic Operations: Contained Risks From The Invasion of Ukraine, March 15, 2022](#)
- [Large Nordic Banks FY21 Results: Higher Profits Led by Lower Provisions; Capital Remains Strong, February 21, 2022](#)

Previous Reports

- [DNB Bank ASA: Rating Report](#), August 26, 2021
- [DNB Bank ASA: Rating Report](#), August 18, 2020
- [DNB Bank ASA: Rating Report](#), August 6, 2019
- [DNB Bank ASA - Rating Report](#), August 9, 2018

European Bank Ratios & Definitions

- [Bank Ratio Definitions](#), March 14, 2022

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