

Capital efficiency and cost control

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DNB



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Capital efficiency and cost control

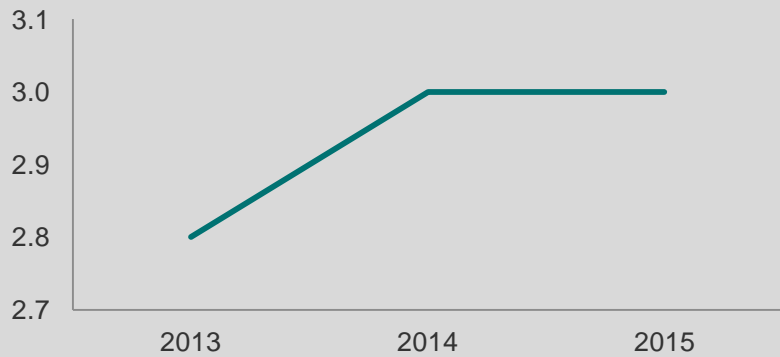
Adequately capitalised

Strict cost control

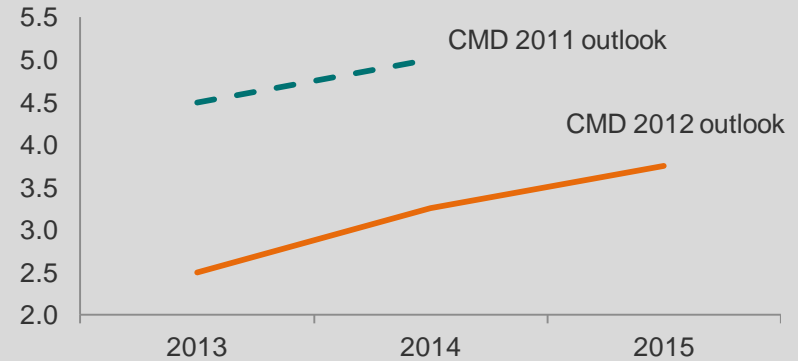
Strong funding position

Macro parameters Norway - key assumptions

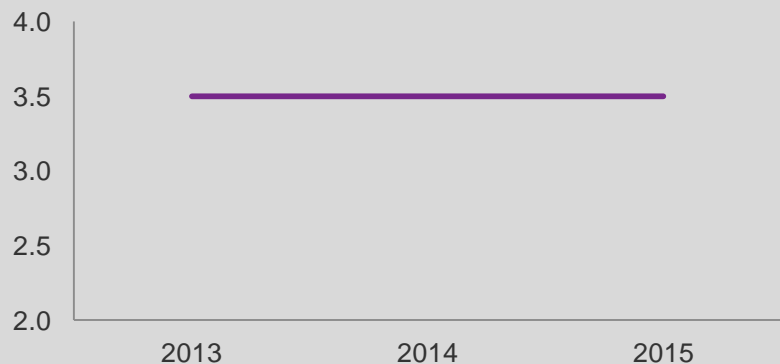
GDP growth*, per cent



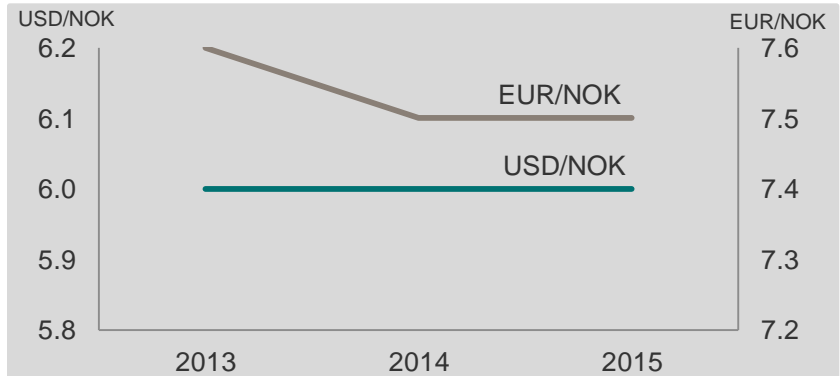
3-month NIBOR, per cent



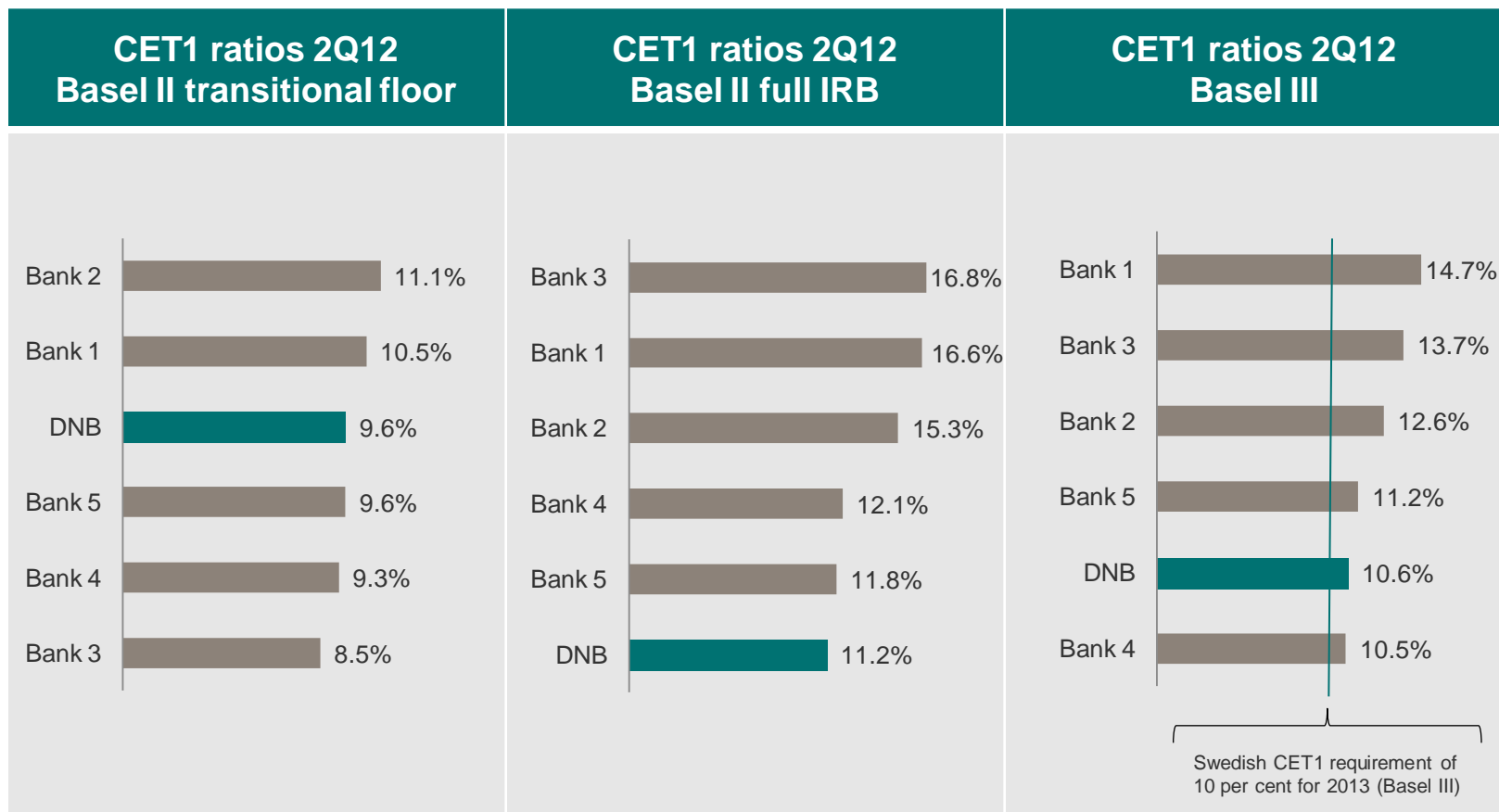
Unemployment rate, per cent



Exchange rates

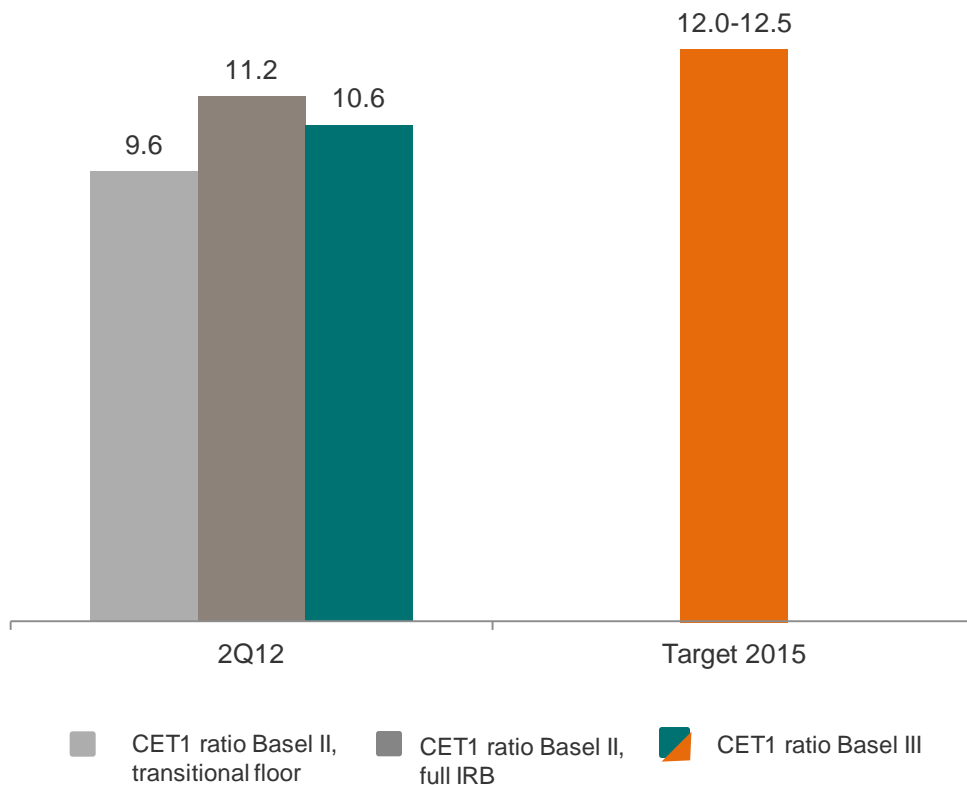


DNB already meets the 2013 Swedish capital requirement – despite higher risk weights than peers



Well positioned to comply with future capital requirements under Basel III

CET1 ratios (per cent)

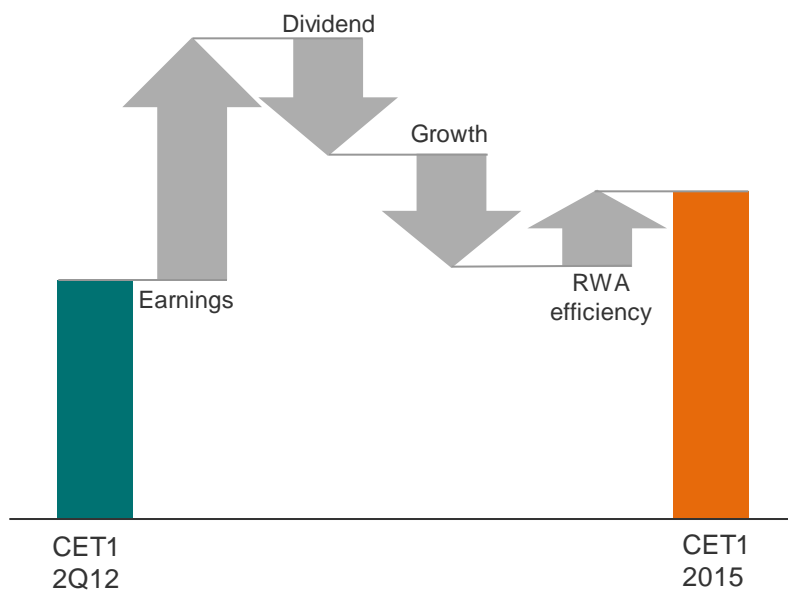


Key assumptions, Basel III transition

- Transitional floor removed
- International Accounting Standard 19 included
- Credit Value Adjustment (CVA) charge included
- Increased CET1 deduction for expected loss (EL) > loan-loss provisions
- Deduction method applied for consolidation of insurance

Adequately capitalised through earnings and increased RWA efficiency

CET1 ratio development (illustration)





Key measures, RWA efficiency

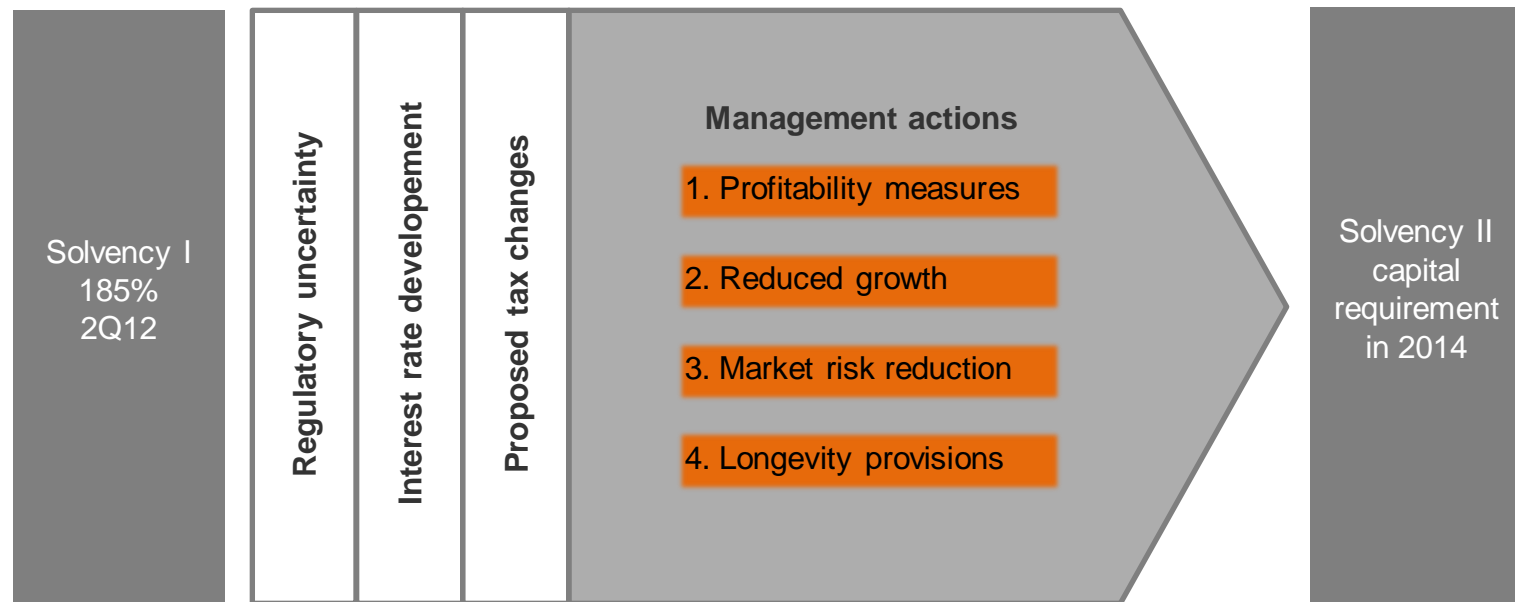
- Sale of non-core assets
- Asset reallocation
- Alignment of investments between business areas
- Product redesign
- Trimming of exposures and limits
- Enhancing RWA awareness

Recent regulatory development for life insurance is positive

- key uncertainties still need to be resolved

	Recent developments and key uncertainties	
Solvency II	<ul style="list-style-type: none">• Final decision on Norwegian interpretation not finalized• Transition for existing life contracts being discussed	
Product regulation	<ul style="list-style-type: none">• New hybrid product models for private occupational pensions introduced• Voluntary transfers of paid-up policies to non-guarantee• Conversion mechanism to new products still to be decided upon	
Longevity provisioning	<ul style="list-style-type: none">• Longevity provisions to be prioritized, but time-frame remains uncertain	
Tax	<ul style="list-style-type: none">• Proposal of removing tax exemption on capital gains for life companies	

Positioned to meet future Solvency II capital requirements without further capital injections



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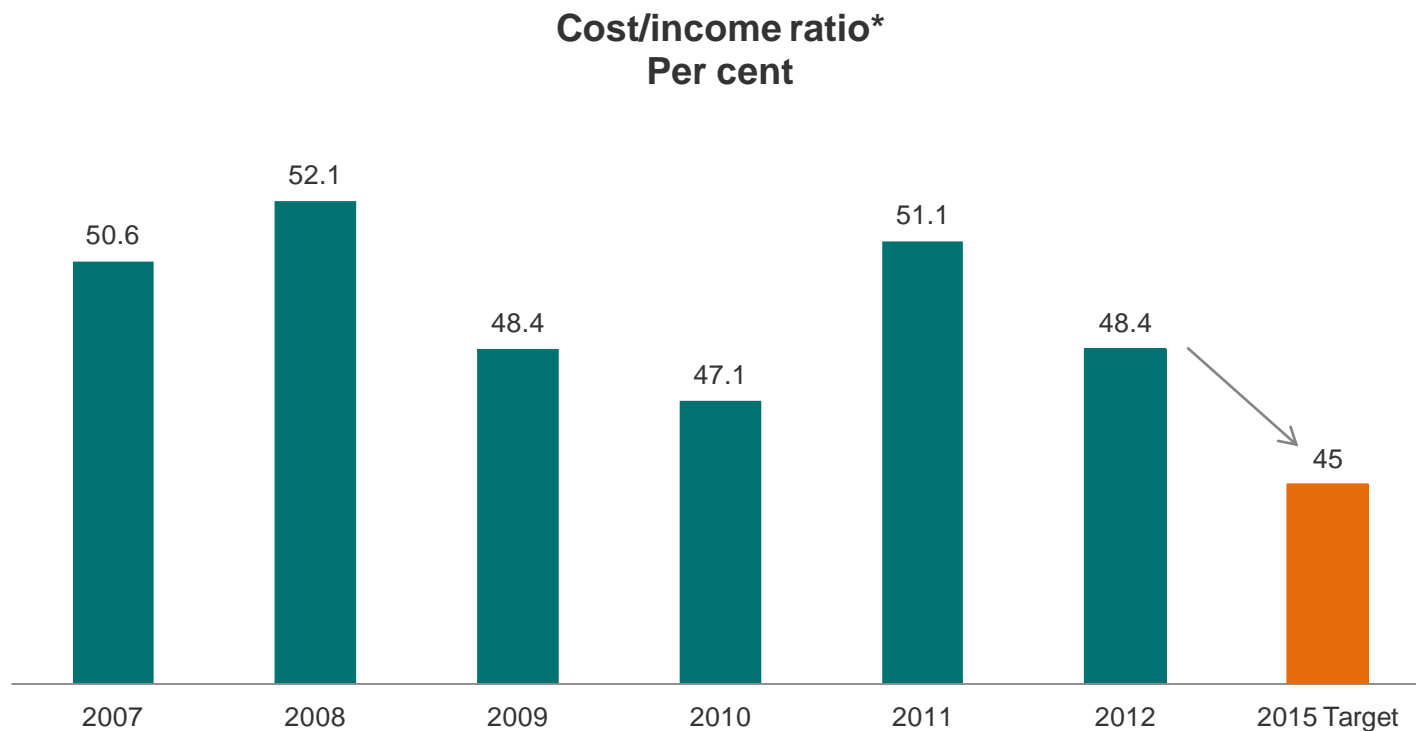
Adequately capitalised

Strict cost control

Strong funding position

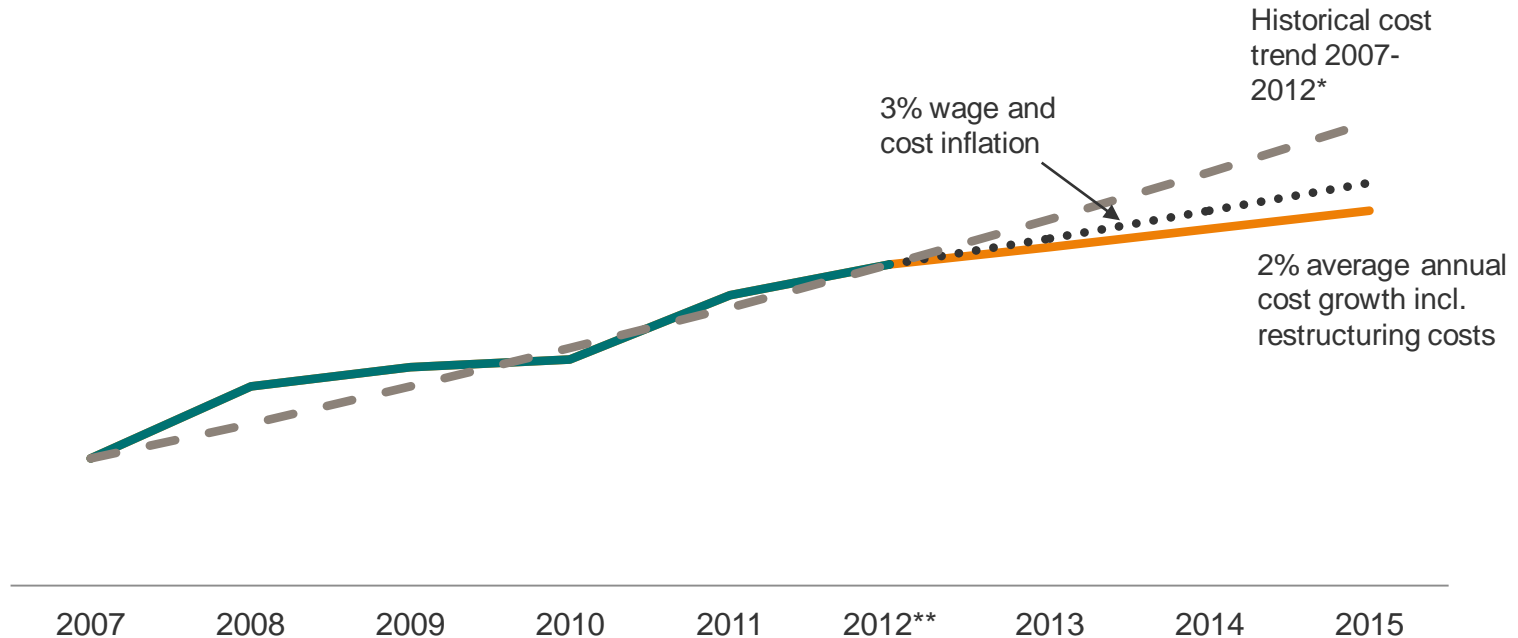
Solid cost/income ratio

- on track to reach the 45 per cent target



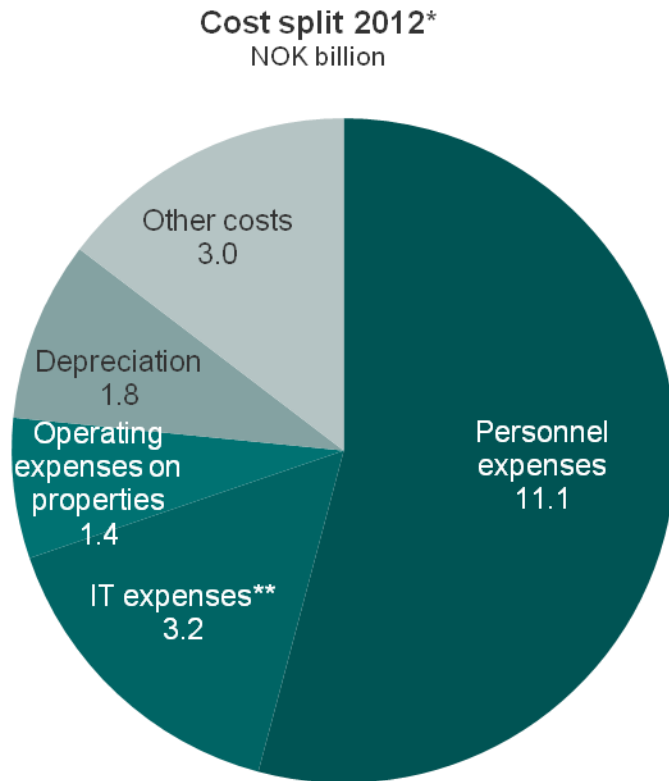
Curbing cost inflation

- future operating costs targeted at nominal level

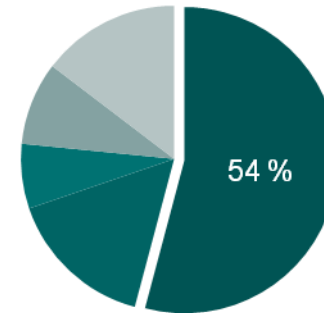


Maximum 2 per cent average annual growth in nominal operating costs from 2012**

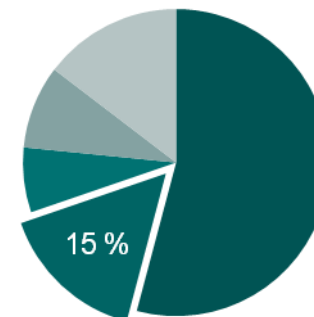
Addressing the main elements of our cost base



Personnel expenses as share of total costs

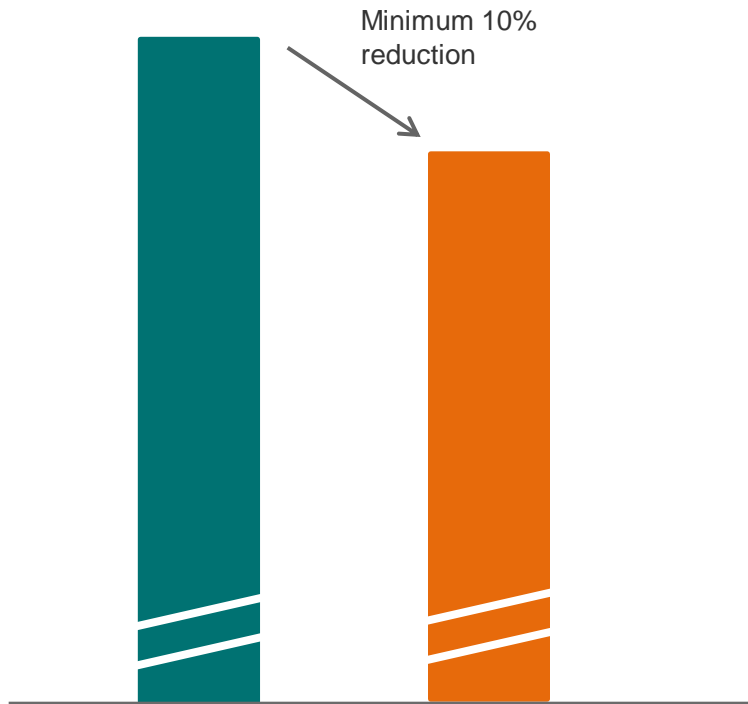


IT expenses as share of total costs**



Cost initiatives include reduced headcount

Projected number of full-time positions towards 2015



Structural adjustments and productivity measures

- Sale/restructuring of non-core assets:
 - 700-800 employees
- Measures to increase productivity:
 - Minimum 650-700 employees

Major efficiency and restructuring measures

NOK million

Increased efficiency – One Group	<ul style="list-style-type: none">• Change IT sourcing model, consolidation and decommissioning of IT systems• Optimise marketing sourcing mix• Scale and optimise back office/support functions	200-300
More efficient retail distribution	<ul style="list-style-type: none">• Reduce the number of physical locations in the distribution network• Increase economies of scale through the integration of Nordlandsbanken• Divest non-core assets	250-300
Optimise corporate banking across geographies	<ul style="list-style-type: none">• Adjust international distribution• Optimise core functions across geographic and industry segments• Restructure banking activities in Poland	150-200
Restructuring life insurance	<ul style="list-style-type: none">• Restructure organisation in line with new business model<ul style="list-style-type: none">• process automation, standardisation and lean back office operations• more efficient customer operations and sales	200-250

Case 1: Realising the effects from One Group



Cost initiatives of NOK 200-300 million

Back-office operations

- ▶ Coordination, automation and process improvements
 - ▶ Offshoring of banking production – pilot rollout autumn 2012
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Business support

- ▶ Full review and optimisation of processes in business support functions and corporate staff units
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IT

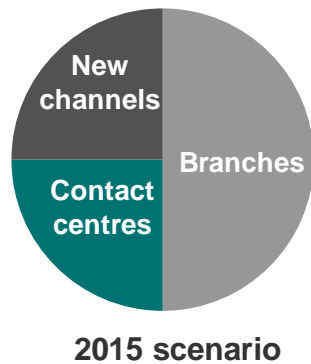
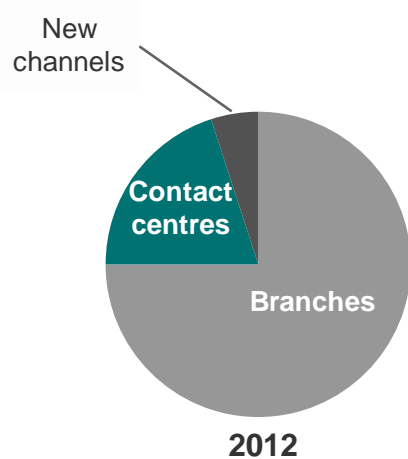
- ▶ Sourcing of IT applications
 - ▶ Consolidation and decommissioning of systems
 - ▶ Quality and productivity improvements through LEAN initiatives
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Marketing

- ▶ Optimisation of marketing sourcing mix

Case 2: Increased distribution efficiency through a new retail distribution strategy

Sales by channel



Cost initiatives of NOK 100-150 million

Increase traffic through new channels

- ▶ Increase sales and service through mobile, digital and social media
 - ▶ Increase process automation
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Adjust physical presence

- ▶ Remove overlaps in branch network
 - ▶ Reduce presence in unattractive markets
 - ▶ Focus on big cities and demographic centres
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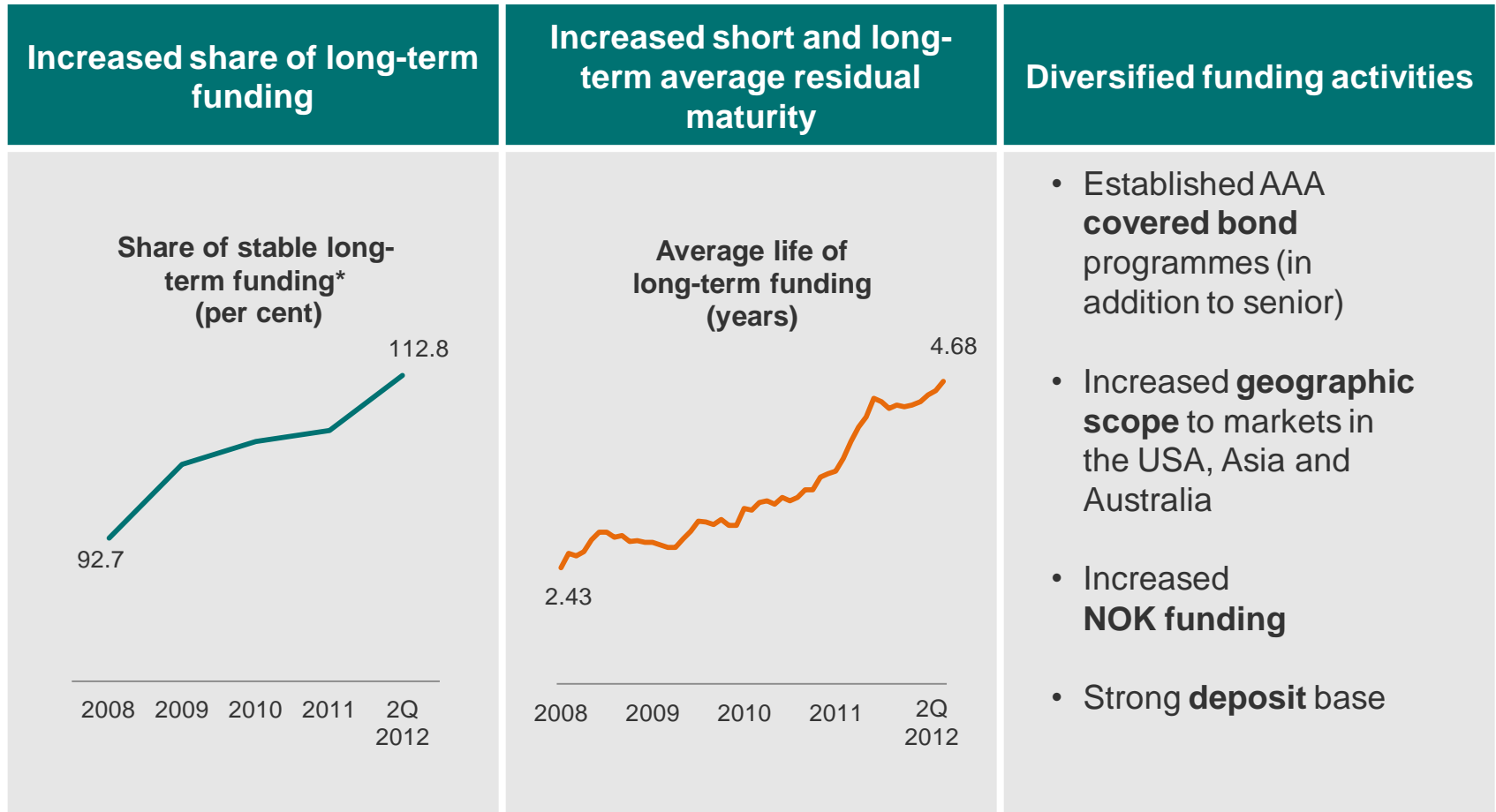
Capital efficiency and cost control

Adequately capitalised

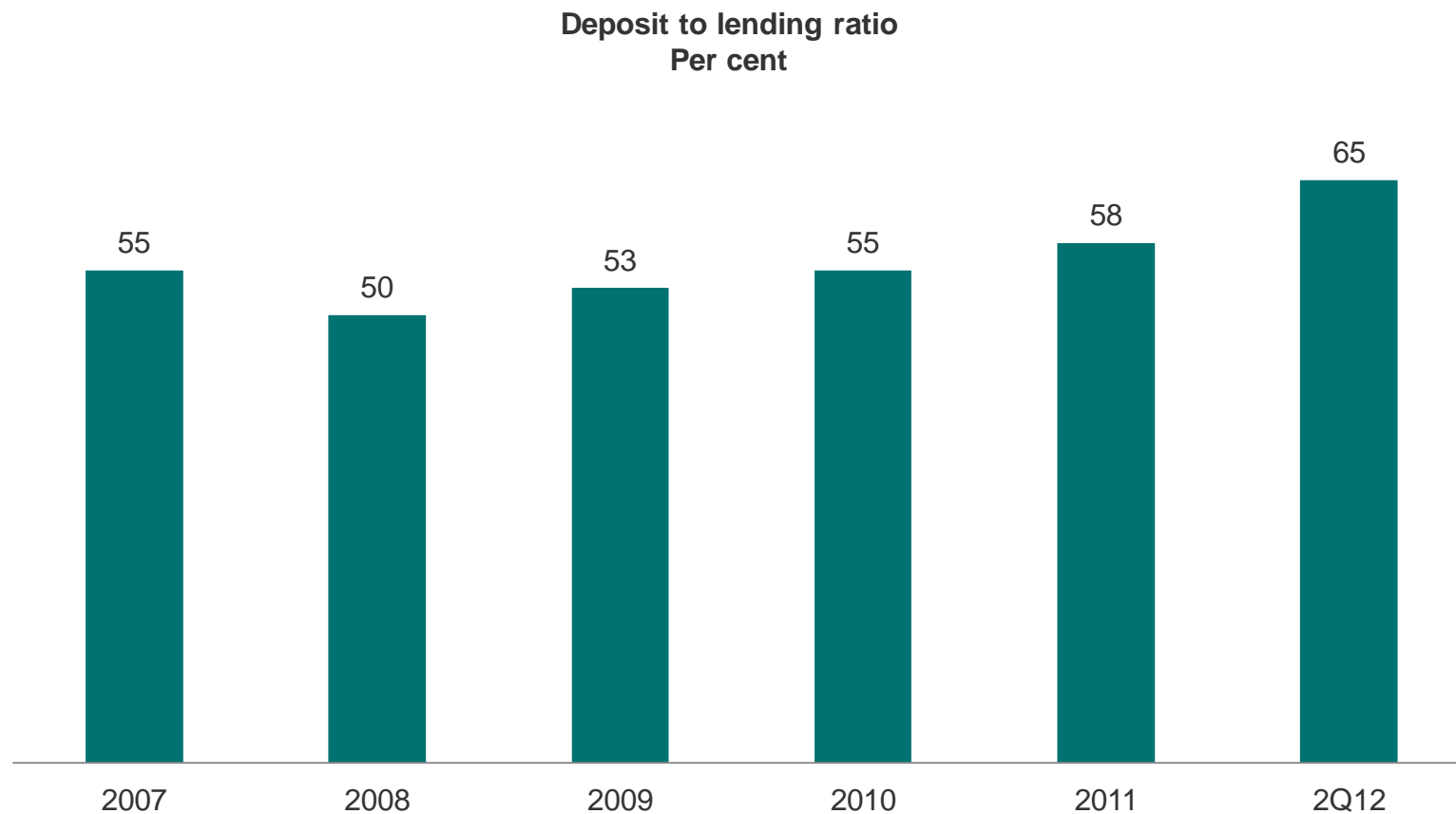
Strict cost control

Strong funding position

Funding structure significantly strengthened since the financial crisis

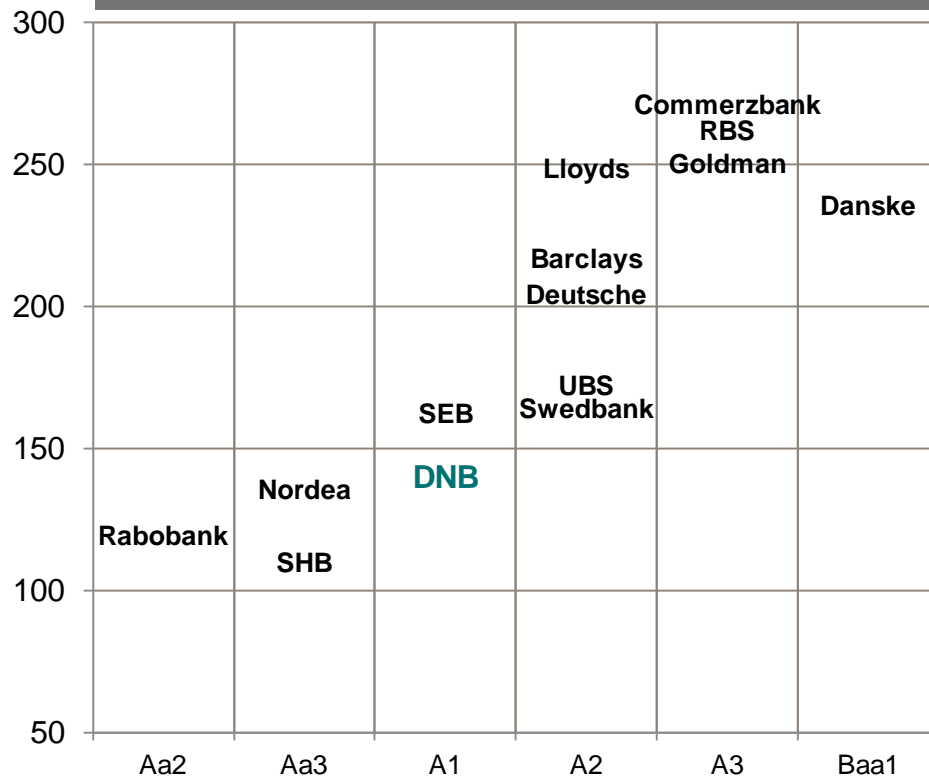


Solid and stable deposit to lending ratio

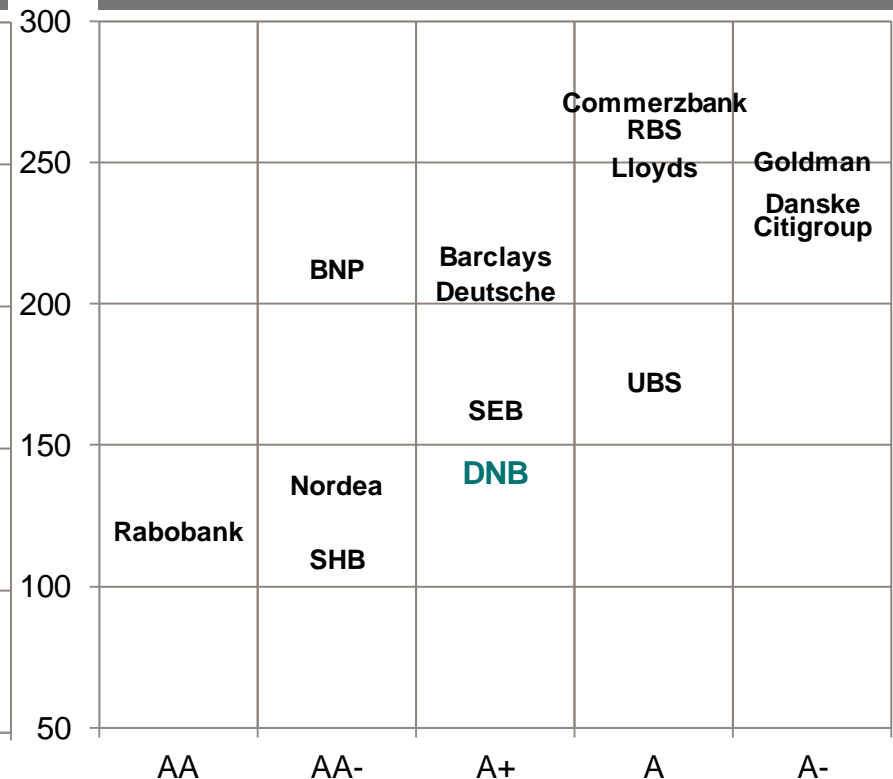


CDS prices best in rating class - and in line with stronger ratings

Moody's - CDS (bps)



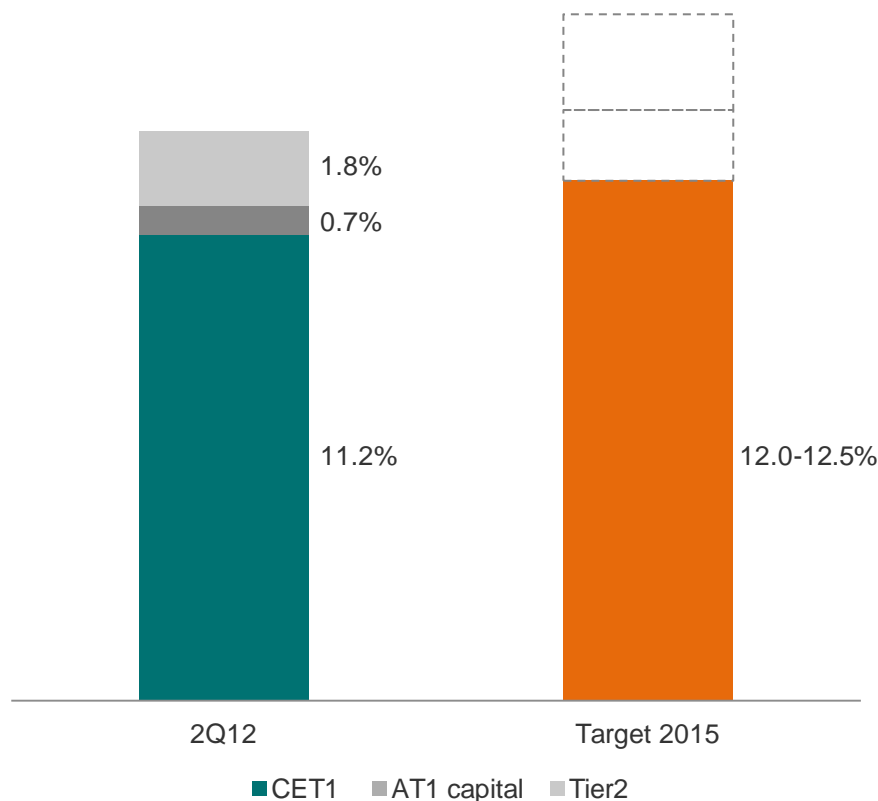
S&P - CDS (bps)



Long-term rating ambition of AA for DNB Bank ASA and AAA for Boligkreditt AS is maintained



Optimising total capital structure



- DNB will continue to issue additional capital instruments to optimise capital structure
- Dividend payments on ordinary shares and coupon payments on Additional Tier 1 (AT1) instruments are at the discretion of the issuer
- DNB intends to make decision on such payments in line with the hierarchy of DNB's capital structure

Less impact from funding costs

Compliant with the Liquidity Coverage Ratio (LCR) requirements

- Central bank deposits and bonds are financed by money market funding

Prepared to implement Net Stable Funding Ratio (NSFR) towards 2018

- Most of the inexpensive funding raised before the start of the financial turmoil is already refinanced
- The average margin for the current funding portfolio almost equals current market levels for covered bonds
- Most of the funding requirements are expected to be covered by customer deposits and covered bonds

Reasonably **stable funding and liquidity costs** in the short run. Future changes in liquidity and funding costs to be **absorbed in customer margins**

Adequately capitalised

Strict cost control

Strong funding position



RoE above 12 per cent in 2015

DNB

DNB