DnB NOR

Press release

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DnB NOR: Sound operations and strengthened capital adequacy

DnB NOR achieved profits of NOK 3 577 million in the first half of 2009, a reduction from NOK 4 480 million in the corresponding period in 2008. Performance reflected sound operations and improved earnings from core activities. The core capital ratio rose to 7.3 per cent, from 6.9 per cent at end-June 2008.

"In light of the current economic downturn, we are satisfied with these figures," says group chief executive Rune Bjerke.

Mark-to-market adjustments which are not related to underlying operations had a negative effect on the accounts. Total write-downs developed in line with expectations, with high write-downs on loans and large impairment losses for goodwill in the Baltic region. Developments in Norway were better than anticipated.

First half 2009

- Pre-tax operating profits before write-downs were NOK 9.6 billion (6.1)
- Profit for the period was NOK 3.6 billion (4.5)
- Profit after minority interests was NOK 4.3 billion (4.4)
- Earnings per share were NOK 3.22 (3.27)
- Return on equity was 10.8 per cent (11.8)
- The cost/income ratio, excluding impairment losses for goodwill, was 48.6 per
- cent (58.7)
- The core capital ratio, including 50 per cent of interim profits, was 7.3 per cent (6.9)

Second quarter 2009

- Pre-tax operating profits before write-downs were NOK 3.5 billion (4.6)
- Profit for the period was NOK 0.6 billion (3.4)
- Profit after minority interests was NOK 1.2 billion (3.3)
- Earnings per share were NOK 0.90 (2.47)
- Return on equity was 6.0 per cent (18.1)
- The cost/income ratio, excluding impairment losses for goodwill, was 55.1 per
- cent (49.0)
- The core capital ratio, including 50 per cent of interim profits, was 7.3 per cent (6.9)

Comparable figures for 2008 in parentheses.

Stable combined spread
Average net customer lending increased from NOK 1 026 billion in the April through June period in 2008, to NOK 1 151 billion in the corresponding period in 2009, though the upward trend levelled off through 2009. Average lending spreads widened from 0.81 per cent to 1.60 per cent during the corresponding period, reflecting higher credit risk margins in the market. Parallel to this, there was a narrowing in deposit spreads.

"Our spreads have been maintained in a low interest rate regime," says Rune Bjerke. "Parallel to this, we continue to offer Norwegian housing loan customers competitive terms. DnB NOR has reduced housing loan rates by 5.0 percentage points from October 2008."

Losses in the Baltic region
"In spite of the write-downs on loans in the Baltic States, our previously communicated estimates remain unchanged," says Rune Bjerke. The Group still estimates that total write-downs in 2009 will reach NOK 8-10 billion.

The operating loss recorded by DnB NORD was mainly due to impairment losses for goodwill in Latvia and Lithuania and large write-downs on loans in the second quarter and is the main reason for the decline in group profits. The write-downs resulted from a major deterioration in the macroeconomic situation in the region and significant fiscal tightening. Write-downs are expected to remain high in DnB NORD over the next few quarters. 51 per cent of the write-downs affect DnB NOR's shareholders.

Cost programme ahead of schedule
Operating expenses, adjusted for impairment losses for goodwill, rose by NOK 155 million from the second quarter of 2008. The number of full-time positions was reduced by 208 during the same period, to 13 711. Adjusted for the transition from operational to financial leasing in DnB NOR Finans, an increase in IT development activity, a rise in performance-based pay and the transfer of financial consultants from Norway Post, there was a sight decline in costs.

The Group's cost programme was ahead of schedule, generating cost savings of NOK 112 million compared with the second quarter of 2008. Operating expenses, adjusted for impairment losses for goodwill, were brought down NOK 115 million compared with the first quarter of 2009.

Improved capital adequacy ratio
The core capital ratio was strengthened and represented 7.3 per cent at end-June, up from 6.9 per cent a year earlier.

"This is in line with our previously communicated ambition to continually work to improve our core capital ratio," says Rune Bjerke.

Profit target unchanged
During the second quarter, a number of restructuring processes and other projects were implemented to help increase income and reduce costs. The business area Retail Norway became operative on 1 July 2009 and will serve both retail customers and small and medium-sized businesses in Norwegian regions. The business area Large Corporates and International will ensure better follow-up of the largest clients.

"The Group has a good chance of strengthening income in the business areas while reducing costs through streamlining measures," says Rune Bjerke. "Business operations will generate sufficient capital to compensate for higher write-downs. Pre-tax operating profits before write-downs were NOK 9.6 billion in the first half of 2009, up from NOK 6.1 billion in the year-earlier period.
The target of pre-tax operating profits before write-downs of NOK 20 billion in 2010 remains firm, as does the estimate for total write-downs of NOK 8-10 billion in 2009 and NOK 10-12 billion in 2010.

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The quarterly report, presentation and Supplementary Information for Investors and Analysts can be downloaded from www.dnbnor.com