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**Research Update:**

## Norway-Based DNB Bank ASA Upgraded To 'AA-' On Increasing Additional Loss-Absorbing Capacity Buffer; Outlook Stable

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## Research Update:

# Norway-Based DNB Bank ASA Upgraded To 'AA-' On Increasing Additional Loss-Absorbing Capacity Buffer; Outlook Stable

## Overview

- We think DNB Bank ASA is making progress in increasing its additional loss-absorbing capital buffers--in anticipation of the introduction of minimum requirements for own funds and eligible liabilities--which provide protection to senior creditors in a resolution scenario.
- We are therefore raising to 'AA-' from 'A+' our long-term issuer credit rating on DNB Bank ASA.
- The stable outlook on DNB Bank ASA reflects our expectation that our ratings on the bank will remain unchanged over our two-year rating horizon, supported by continued strong capitalization and earnings capacity and the bank's improving asset quality.

## Rating Action

On Jan. 22, 2019, S&P Global Ratings raised to 'AA-' from 'A+' its long-term issuer credit rating on DNB Bank ASA (DNB). We also raised to 'A-1+' from 'A-1' the short-term issuer credit rating on the bank. The outlook is stable.

At the same time, we raised the rating on the senior unsecured debt to 'AA-' from 'A+', and we raised the rating on the commercial paper to 'A-1+' from 'A-1'.

We affirmed the 'AA-/A-1+' long- and short-term resolution counterparty ratings (RCRs) on DNB.

We also affirmed the 'A-' rating on the subordinated debt issued by DNB, and we affirmed the 'BBB' rating on the junior subordinated debt that the bank issues.

## Rationale

We have raised the long- and short-term issuer credit ratings on DNB to reflect the progress the bank is making in building up its capital instruments in anticipation of the future minimum requirement for own funds and eligible liabilities (MREL), which we take into consideration in our additional loss-absorbing capacity (ALAC) analysis. Although the MREL requirements for

DNB Bank are not currently known, we expect the regulator will soon finalize them. The upgrade also takes into account our expectation that the bank's creditworthiness will remain solid.

Over the past few years, DNB has enjoyed strong capitalization that has compared well with European peers. A strong existing capital base, combined with solid internal capital generation on the back of improving economic conditions in Norway, supports the bank's capitalization. We estimate that DNB's ALAC ratio was close to 6% at end-2018, which is above our 5% minimum threshold for one notch of uplift to the ratings on a bank. Furthermore, we anticipate that this metric will gradually rise above 6% by end-2020, because we assume DNB will be issuing MREL-eligible instruments over the next four years. The bank estimates that it will issue up to Norwegian krone (NOK) 150 billion (approximately €16 billion) of senior nonpreferred debt by 2022--which will gradually replace maturing senior debt--in order to meet future MREL. Banks are to issue such instruments in accordance with EU legislation, which is introducing a senior nonpreferred ranking class, as prescribed by Article 108(2) of the BRRD, as amended by Directive (EU) 2017/2399 of the European Parliament. When this legislation is fully implemented into domestic law in Norway, DNB will be able to issue this new type of MREL-eligible liability.

Our view of the group's underlying unsupported creditworthiness, as reflected in the 'a+' unsupported group credit profile (UGCP), remains unchanged. DNB has a solid track record of paying dividends and could consider some excess capital return, supported by strong capitalization and solid internal capital generation. We continue to expect that DNB's risk-adjusted capital (RAC) ratio will remain comfortably above our 10% threshold for a strong assessment; DNB's RAC ratio was 13.5% at Dec. 31, 2017, and we assume that this measure will be in the 13.5%-14% range through end-2020. We continue to view positively DNB's capitalization and credit risk profile.

The long-term issuer credit rating on DNB now includes one notch of uplift from the unsupported group credit profile, reflecting our assessment of the ALAC buffers that we expect the bank will maintain. We also consider that DNB compares well with 'AA-' rated peers in terms of its overall creditworthiness, as well as credit factors such as capitalization and its risk and funding profiles.

## **Outlook**

The stable outlook reflects our expectation that our ratings on DNB will remain unchanged over our two-year rating horizon, on the back of the bank's stable creditworthiness and supportive macroeconomic conditions. We expect the bank will maintain its strong capitalization and earnings, and further gradually build up its ALAC buffers, which should better protect senior creditors against potential losses.

## Downside scenario

We could lower the rating if DNB's ALAC ratio becomes materially lower than we currently expect. We could also consider a negative rating action if, contrary to our expectations, asset quality improvements slow down, which could stem from a deterioration of the operating climate in Norway. This could have a negative effect on the credit quality of some of DNB's lending exposures and substantially increase its credit costs.

## Upside scenario

We consider the possibility of an upgrade to be remote at this stage because we anticipate that the bank's creditworthiness will remain stable over the forecast horizon.

## Ratings Score Snapshot

	To	From
Issuer credit rating	AA-/Stable/A-1+	A+/Positive/A-1
UGCP*	a+	a+
Anchor	a-	a-
Business Position	Strong (+1)	Strong (+1)
Capital and Earnings	Strong (+1)	Strong (+1)
Risk Position	Adequate (0)	Adequate (0)
Funding and Liquidity	Average and Adequate (0)	Average and Adequate (0)
Support	+1	0
ALAC Support	+1	0
GRE Support	0	0
Group Support	0	0
Sovereign Support	0	0
Additional Factors	0	0

\*Describes the intrinsic creditworthiness of the consolidated DNB Group.

## Related Criteria

- Criteria - Financial Institutions - General: Methodology For Assigning Financial Institution Resolution Counterparty Ratings, April 19, 2018
- Criteria - Financial Institutions - General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- Criteria - Financial Institutions - Banks: Bank Rating Methodology And

Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015

- Criteria - Financial Institutions - Banks: Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

## Related Research

- Nordic Banks Sport Strong Capital--And It's Not Likely To Soften, Oct. 17, 2018
- Nordic Bank Ratings Continue To Stand Tall, Aug. 16, 2018
- Resolution Counterparty Ratings Jurisdiction Assessment For Norway Completed, June 29, 2018
- Banking Industry Country Risk Assessment: Norway, May 11, 2018
- DNB Bank, Eiendomskreditt, Bank Norwegian Ratings Affirmed On Stabilizing Domestic Risks; DNB Bank Outlook Now Positive, March 26, 2018

## Ratings List

### Upgraded

	To	From
DNB Bank ASA		
Issuer Credit Rating	AA-/Stable/A-1+	A+/Positive/A-1
Senior Unsecured	AA-	A+
Commercial Paper	A-1+	A-1

### Ratings Affirmed

DNB Bank ASA		
Resolution Counterparty Rating	AA-/--/A-1+	AA-/--/A-1+
Subordinated	A-	A-
Junior Subordinated	BBB	BBB

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