

MOODY'S

RATINGS

Rating Action: Moody's Ratings affirms DNB Bank's long-term deposit ratings at Aa1 and senior unsecured ratings at Aa2, outlook stable

03 Sep 2024

Stockholm, September 03, 2024 -- Moody's Ratings (Moody's) today affirmed DNB Bank ASA's (DNB) deposit and senior unsecured debt ratings at Aa1/P-1 and Aa2, respectively. Furthermore, the junior senior unsecured debt (also referred to as non-preferred senior unsecured debt) ratings were affirmed at A2 and the preferred stock non-cumulative ratings (used on Additional Tier 1 notes) were affirmed at Baa2(hyb).

The Baseline Credit Assessment (BCA) and Adjusted BCA were affirmed at a2.

The outlook on the long-term deposit ratings remains stable and the outlook on the senior unsecured ratings was changed to stable from positive.

Please click on this link https://www.moody.com/viewresearchdoc.aspx?docid=PBC_ARFTL495139 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and identifies each affected issuer.

RATINGS RATIONALE

AFFIRMATION OF THE BASELINE CREDIT ASSESSMENT

The affirmation of DNB's BCA of a2 reflects our expectation that the bank will maintain its low asset risk, resilient earnings generation and solid capital position, supported by its strong risk management culture and market leading position in Norway. We expect customer churn to stabilise after a period of outflows in connection with the technical integration of Sbanken ASA onto DNB's platform. Similar to many Nordic peers, the BCA is constrained by the bank's high reliance on market funding, mitigated by its excellent access to international capital markets and different funding instruments.

Asset risk is low, as demonstrated by low levels of problem loans following active de-risking to exposure in the shipping and offshore sectors, and further explained by a well-balanced loan portfolio encompassing personal (49% of loan book) and corporate

(51%) exposure across various industries, combined with prudent underwriting standards and a supportive economic backdrop in Norway. Cost of risk will normalise somewhat from current low levels (annualised loan loss provisions to gross loans of 9 basis points at end June 2024) because vulnerable sectors, including secondary commercial real estate and construction related industries, will remain challenged by the current rate cycle.

DNB's net interest income, representing more than 70% of revenues, will remain underpinned by the still high interest rate environment in Norway, with the central bank expected to maintain a tight monetary policy stance into early 2025, partly offset by continued high level of competition. Profitability is further boosted by strong operating efficiency as illustrated by a lower than peers cost to income ratio at 36% for the first six months of 2024. We forecast net income to tangible assets at or above 1% over the next two years.

DNB has a robust capital base, with a reported Common Equity Tier 1 (CET1) ratio of 19% compared to minimum requirement of 15.6% at end June 2024. Despite ongoing share repurchases we expect DNB to maintain a solid buffer over regulatory requirements over the next 12-18 months, supported by internal capital generation.

LOSS GIVEN FAILURE (LGF) AND GOVERNMENT SUPPORT ANALYSIS

The affirmation of the long-term deposit and senior unsecured debt ratings of Aa1 and Aa2 respectively, are underpinned by the bank's Adjusted BCA of a2 and our analysis of the severity of loss faced by the different liability classes in the event of a failure, resulting in three and two notches uplift in the relevant ratings, respectively. Our assessment of moderate government support reflecting DNB's systemic importance and 34% ownership by the Norwegian government, translates into a further notch of uplift.

We consider that DNB's junior senior unsecured debt holders face a moderate loss given failure, resulting in a rating aligned with the issuers' Adjusted BCA of a2. We do not assign government support to this debt class.

DNB's preferred stock non-cumulative Baa2(hyb) ratings on its AT1 instruments are positioned three notches below the bank's Adjusted BCA, reflecting the high loss-given-failure for the AT1 securities and the securities' coupon skip mechanism and write-down features, which reduce the rating by an additional two notches.

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. The change in outlook on the senior unsecured debt ratings to stable from positive reflects our expectations

of unchanged severity of losses under our Advanced LGF analysis for DNB's senior unsecured debt based on the anticipated evolution of the bank's debt issuance and tangible banking assets over the next 12 to 18 months.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

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.

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.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in March 2024 and available at <https://ratings.moodys.com/rmc-documents/409852>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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- EU Endorsement Status
- UK Endorsement Status
- Rating Solicitation

- Issuer Participation
- Participation: Access to Management
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For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moody.com/rating-definitions>.

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