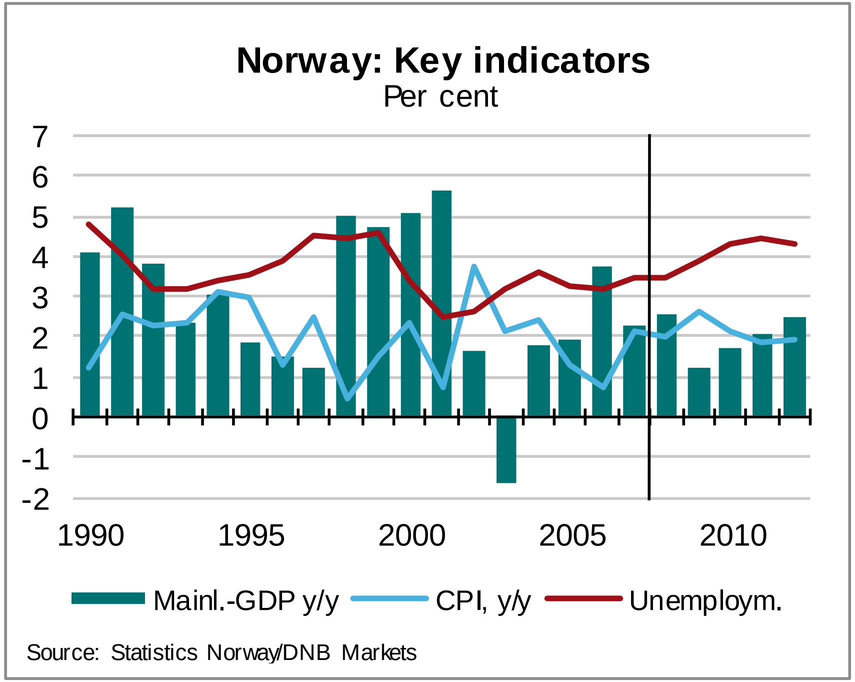
DNB Group: Robust oil-related portfolio

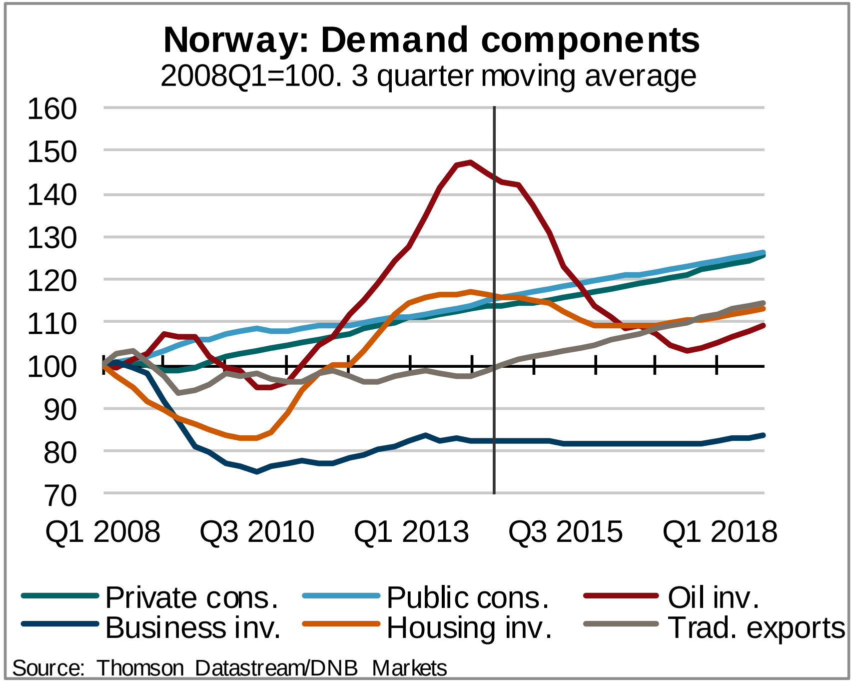
19 December 2014

Agenda for 19 Dec 2014:
Oil & Gas, Offshore and Oilfields Service

Kjersti Haugland	Senior macro analyst	**Norwegian economy**
Torbjørn Kjus	Senior oil analyst	**Oil price forecast**
Trygve Young	Chief Risk Officer	**Robust portfolio in oil-related exposure**
Berit Henriksen	Global Head of Energy	**Portfolio overview**
Espen Kvilekval	Head of Oil & Gas Section	**Oil & Gas - details**
Magnus Piene	Head of Offshore Section	**Offshore - details**
Morten Kreutz	Head of Oilfield Services Section	**Oilfield Services - details**
Trygve Young & Bjørn Erik Næss	Chief Risk Officer Chief Financial Officer	**Concluding remarks**
Q&A		

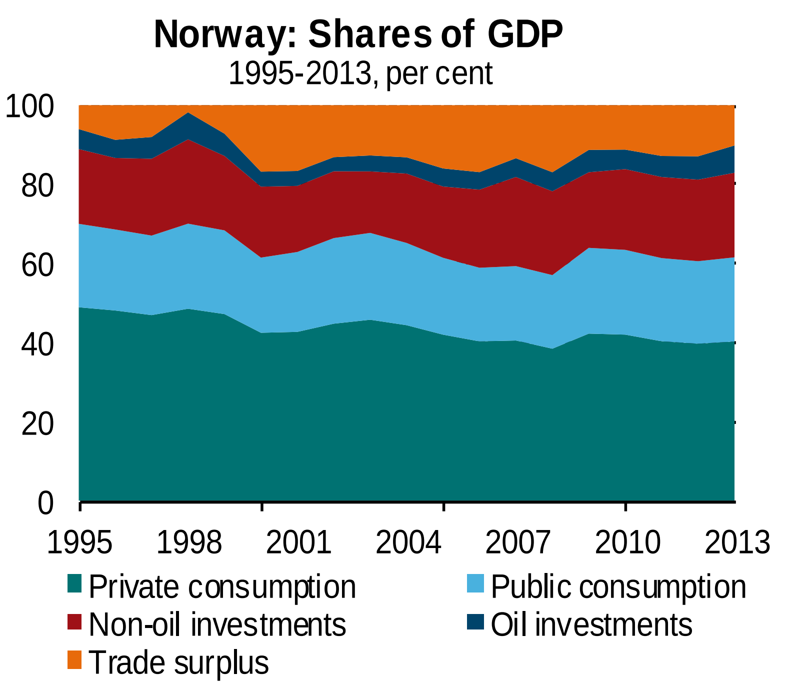
Norway: Soft landing



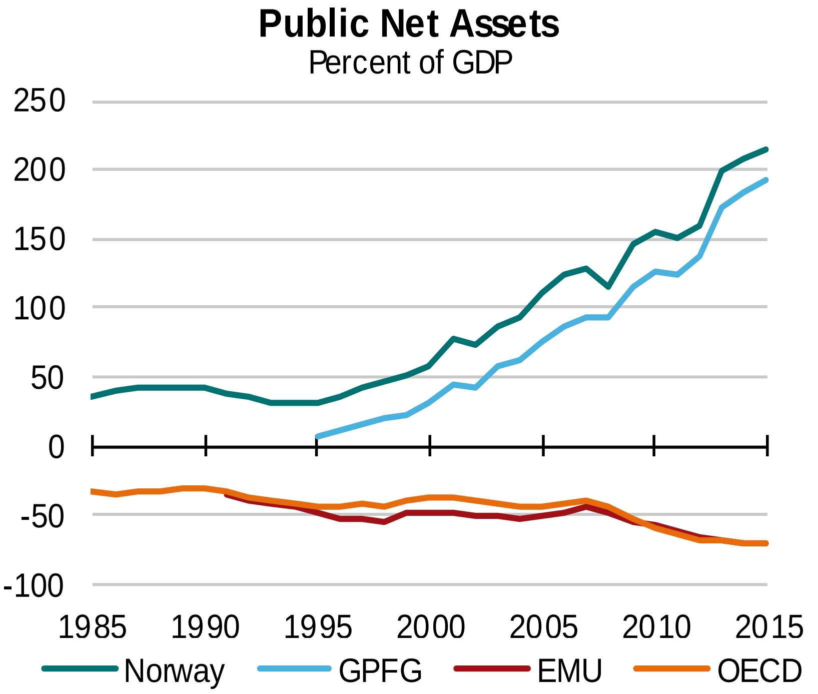


Forecast by DNB Markets as of 16 Dec 2014

Norway: A robust economy
Oil investments 7% of GDP. Ample fiscal leeway.



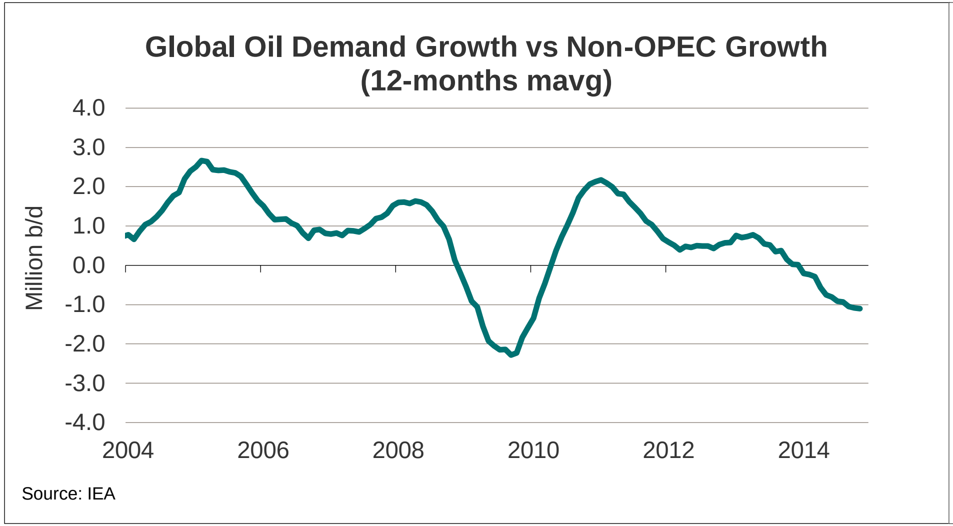
Source: Statistics Norway/DNB Markets

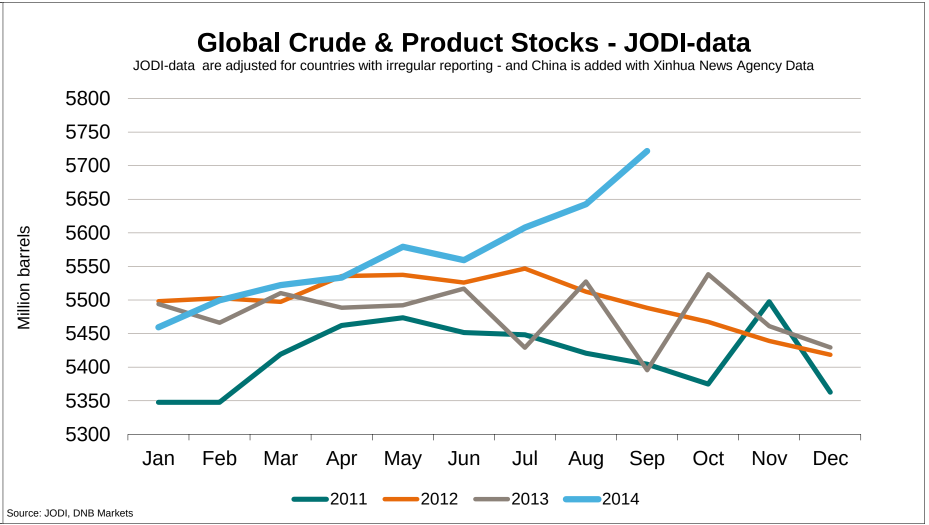


Source: Ministry of Finance, NB2015/DNB Markets

Forecast by DNB Markets as of 16 Dec 2014

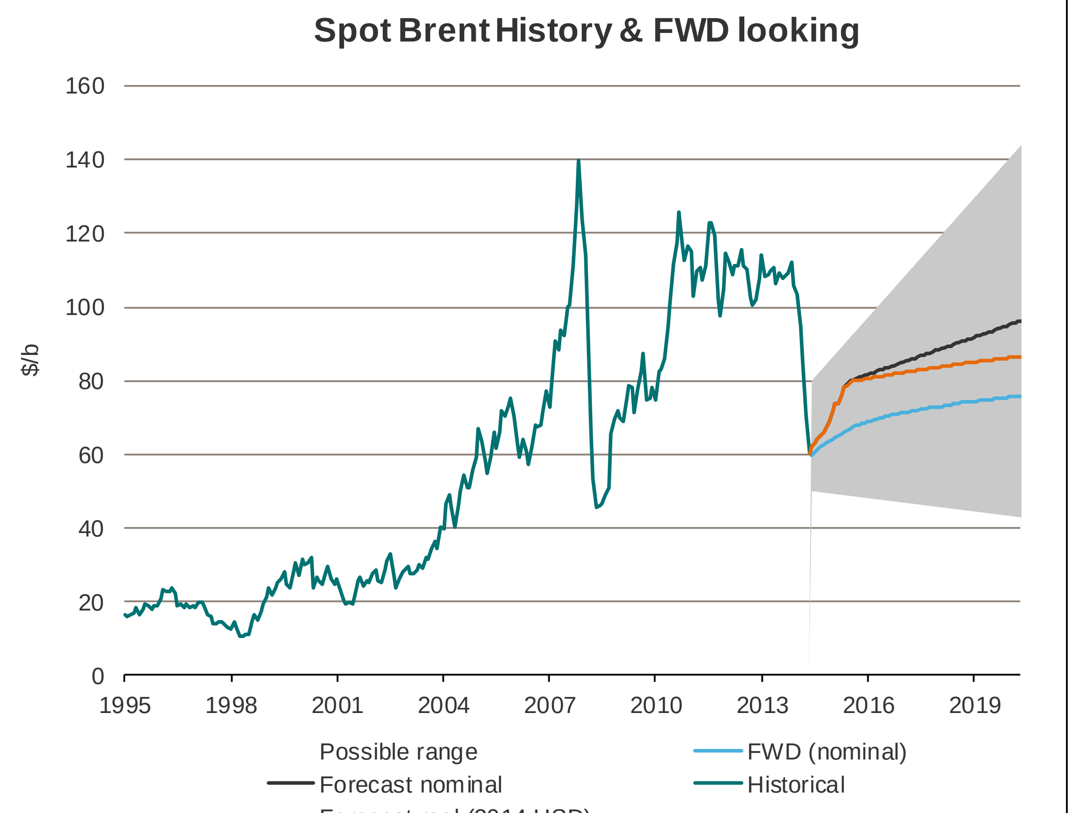
Updated oil price estimate – short term volatility
- stabilising at 65-75$/brl for 2015 and 75-85$/brl for 2016





We are now positive to the future oil price
- the oil market is now overshooting to the downside

	Historical Nominal $/b	Historical Real (2015) $/b
2001	24.4	32.2
2002	25.0	32.4
2003	28.8	36.5
2004	38.3	47.2
2005	54.5	65.0
2006	65.1	75.3
2007	72.4	81.3
2008	97.3	105.2
2009	61.7	67.0
2010	79.5	84.9
2011	111.3	115.2
2012	111.7	113.3
2013	108.7	108.7
2014	100.0	100.0
	Forecast Nominal $/b	**Forecast Real (2015) $/b**
Q1-15	65	65
Q2-15	66	66
Q3-15	72	72
Q4-15	76	76
2015	70	70
2016	80	79
2017	85	82
2018	88	84
2019	91	85
2020	95	86



Source: Reuters, DNB Markets

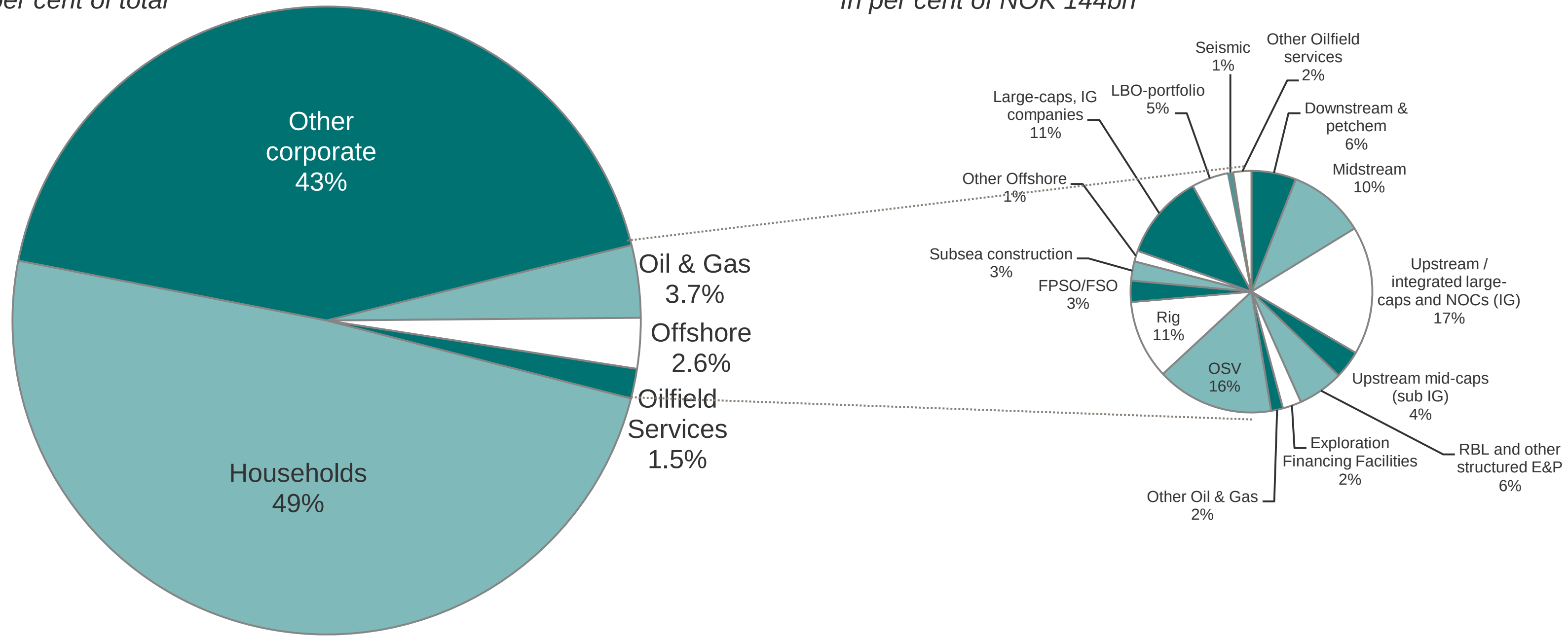
Credit strategy for the DNB Group

- We are a long term relationship oriented bank
- Focus on quality of management
- We have a low-risk portfolio strategy
- We finance corporate risk based on debt service ability (cash flow), not assets alone
- Exposure to non-investment grade companies is secured and followed up by covenants
- We finance industry sectors where we have institutional industry sector competence, and we have been in the oil related industries since oil was discovered on the Norwegian Continental Shelf

DNB has a well diversified oil-related portfolio
- 8% of total Group EaD to oil related portfolios

Total DNB Group
EaD of NOK 1834bn as of 30 Sep 14
In per cent of total

Total oil-related portfolios
EaD of NOK 144bn as of 30 Sep 14
In per cent of NOK 144bn



EaD: Exposure at Default, IG: Investment Grade, NOCs: National Oil Companies, RBL: Reserved Based Lending, E&P: Exploration & Production, F(P)SO: Floating (Production) Storage Offloading, LBO: Leverage Buyout, OSV: Offshore Supply Vessel

Oil & Gas, Offshore and Oilfield Services – An overview

DNB Group as of 30 Sept 2014	Oil & Gas	Offshore	Oilfield Services
Total portfolio, EaD, NOK billion	68	48	28
Total portfolio, drawn amount, NOK billion	25	26	11
Average grade*	3.8	4.9	4.8
Expected loss	0.08%	0.19%	0.16%
Number of client groups	85	55	75
Number of employees in sector	24	23	17
No. of clients in grade 8-10 (PD > 3%)	2	4	3
EaD of clients in grade 8-10, NOK billion	0.2	1.5	0.6
10 largest client groups in % of total segment	31%	44%	43%
20 largest client groups in % of total segment	47%	65%	64%

* DNB's risk grade system: 1 represents the lowest risk and 10 the highest risk. EaD: Exposure at default, PD: Probability of default

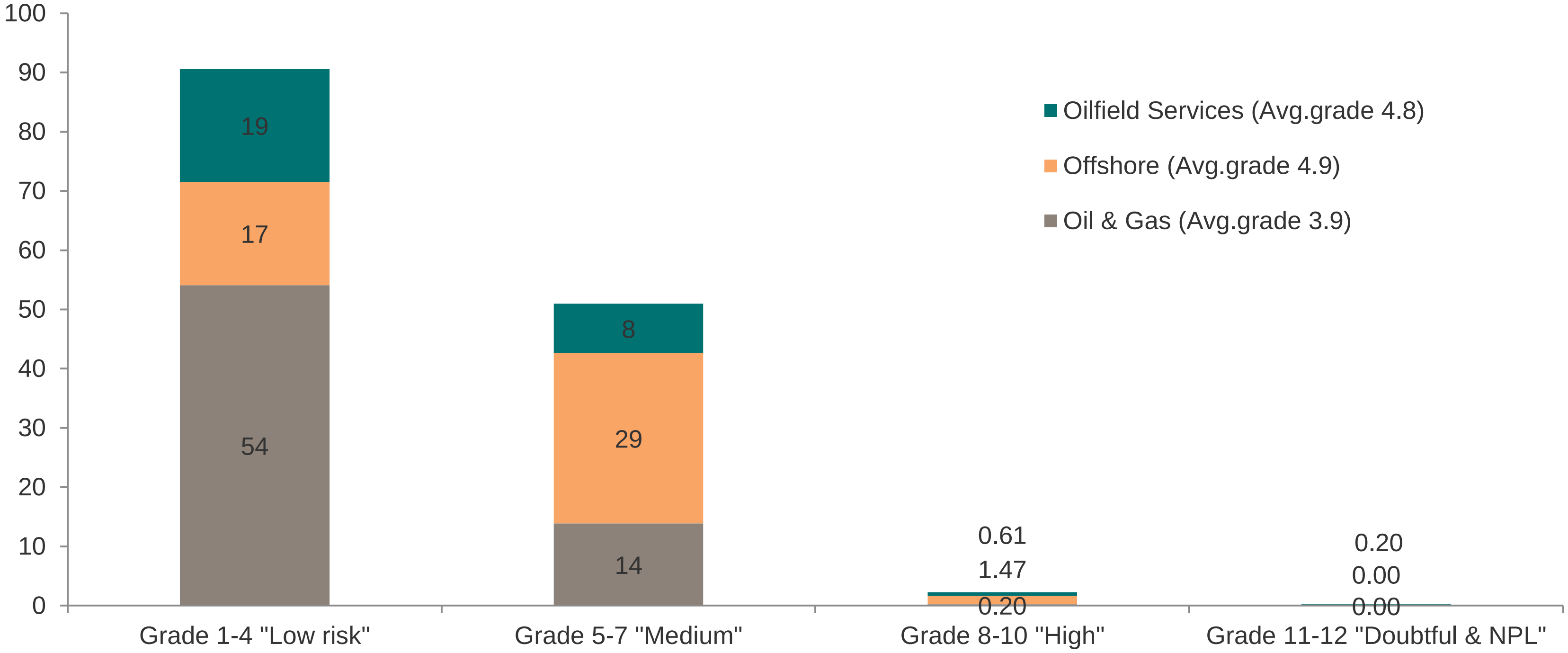
Proactively handling the uncertainty & market turbulence

- Monitoring of our portfolio is given top priority in the current situation with oil price turbulence
- We have reviewed our oil, gas, offshore and oilfield service portfolios
- We actively manage our credits/clients
- Those who are performing, but not in accordance with their business plans require additional attention, and are placed on (the so-called) «Watch-list», it's our early warning tool!
- Watch-listed companies are reviewed quarterly, as a minimum
- We allocate additional expertise and resources to clients and sub-portfolios with higher risk
- We are continuously evaluating which clients to put on "Watch-list", and what actions to be taken

63% of our portfolio is low-risk and 35% is medium risk

DNB's oil-related portfolio split by sub-segment in exposure (EaD) NOK 144bn as of 30 Sep 2014

NOK billion

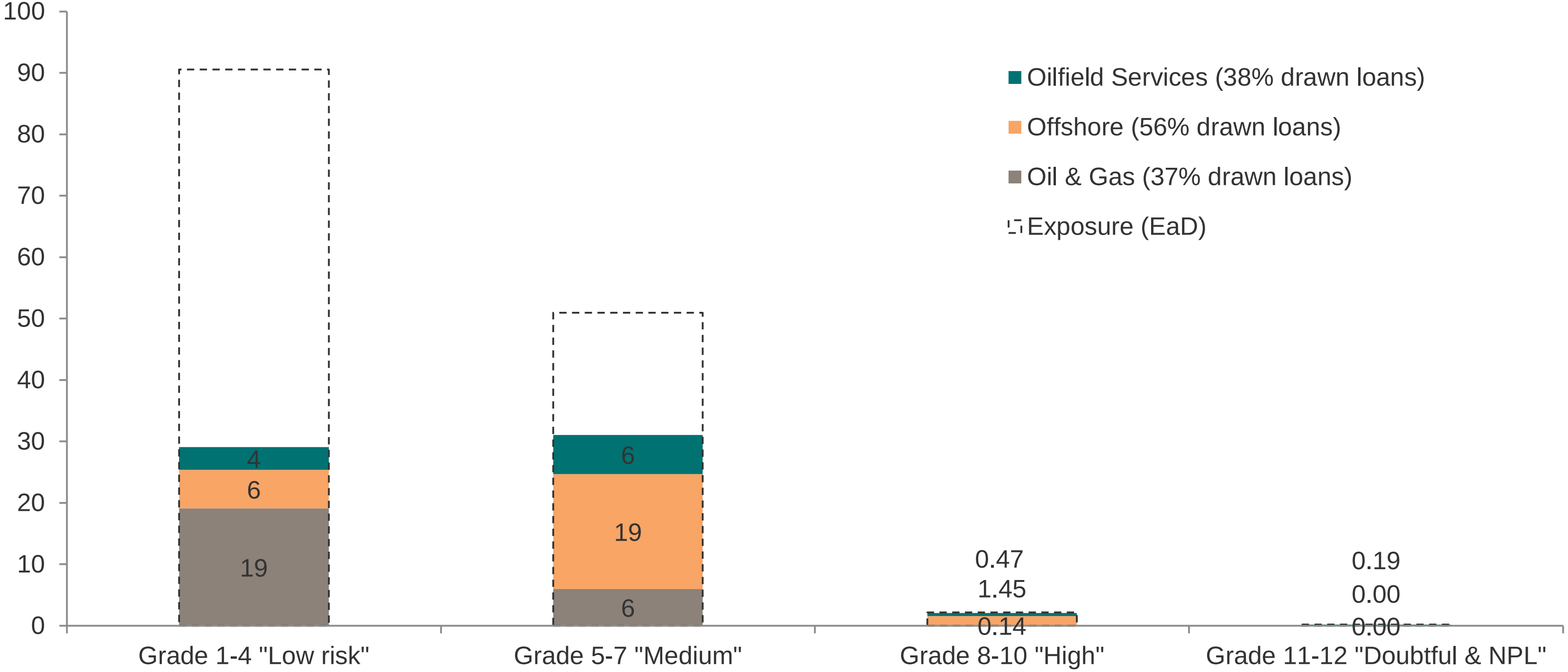


EaD: Exposure at Default, PD: Probability of default. Risk grade system, please see back up slide for details.
DNB's risk classification system, where 1 represents the lowest risk and 10 the highest risk. All figures as of 30 Sept 2014.

Outstanding loans to oil, offshore and oil service are 43% of EaD
- Large part of remaining exposure is guarantees and back-stops to investment grade

Drawn loans NOK 62bn, Exposure (EaD) NOK 144bn as of 30 Sep 2014 by sub-segments

NOK billion



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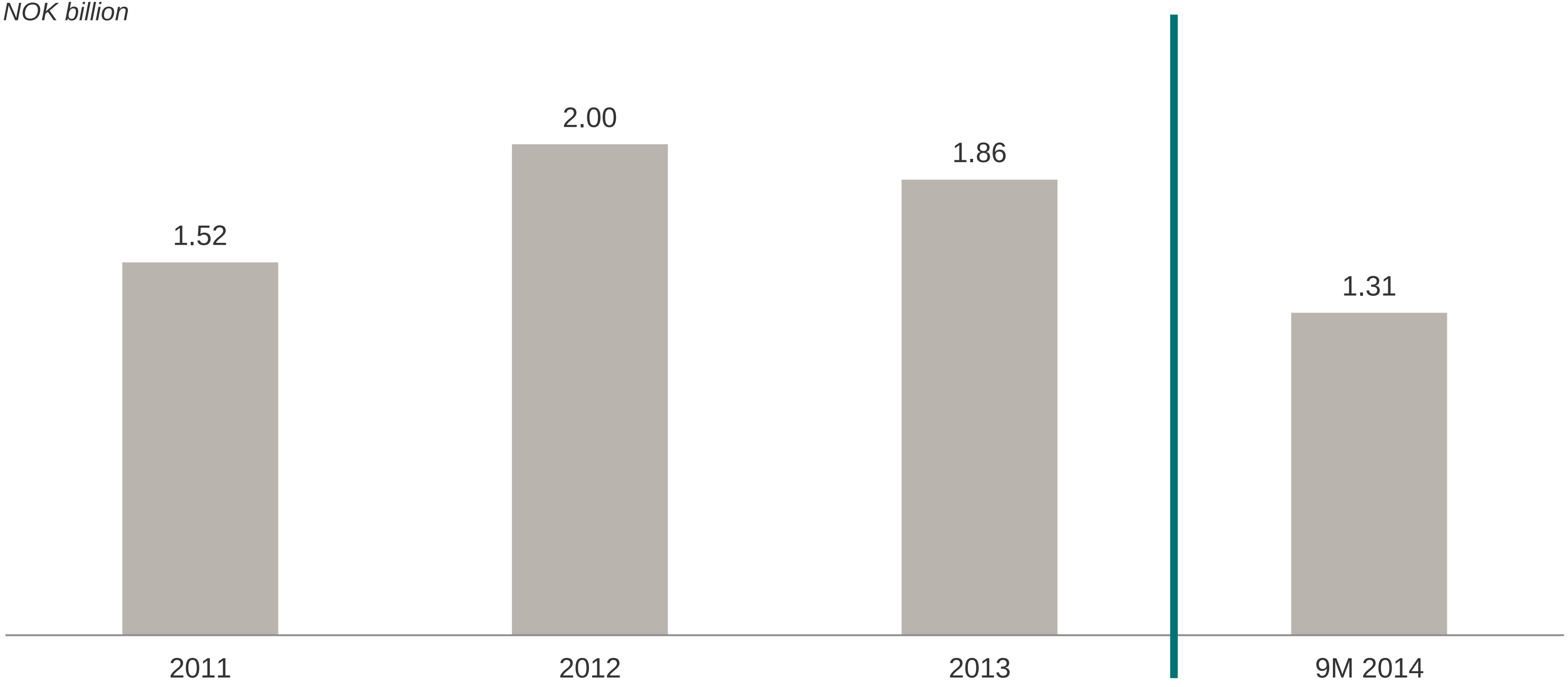
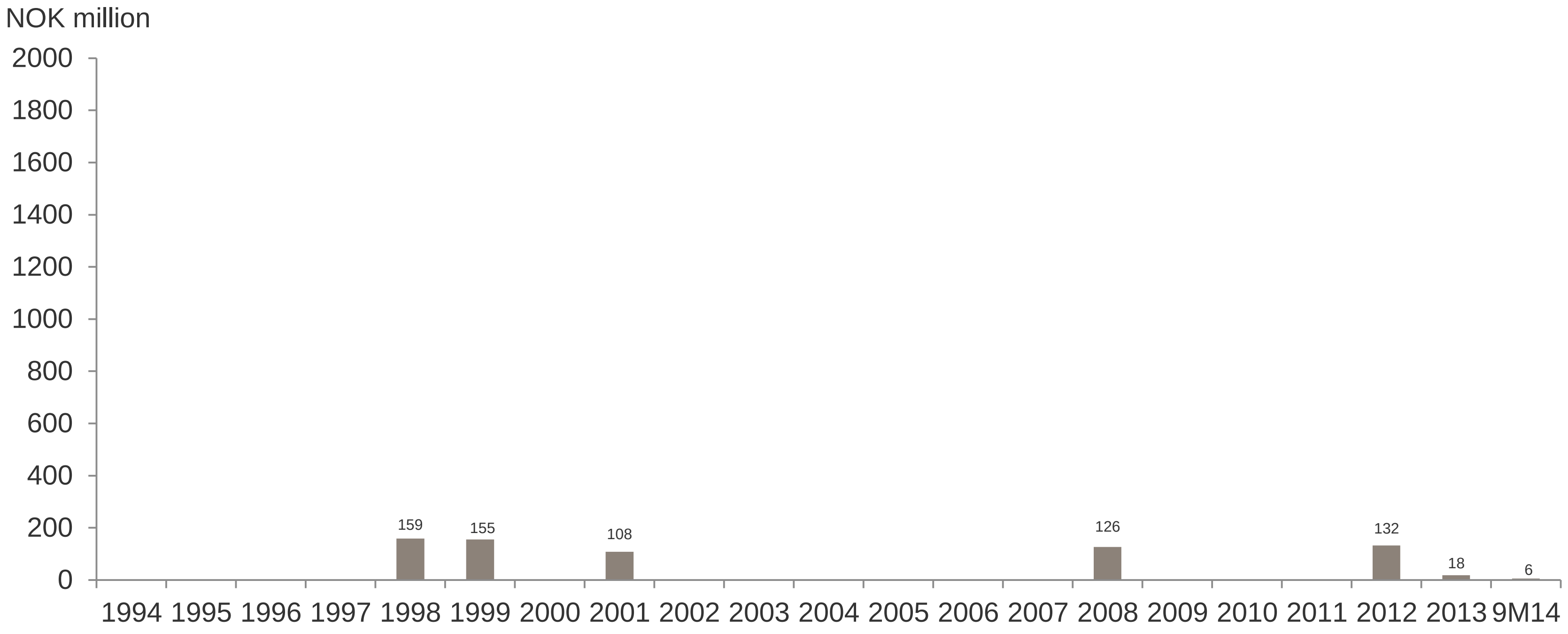
Highly profitable portfolio
- within DNB's Oil & Gas, Offshore and Oilfield Service sectors

DNB's oil-related portfolios - profit before tax and impairments from 2011 till 30 Sep 2014
NOK billion



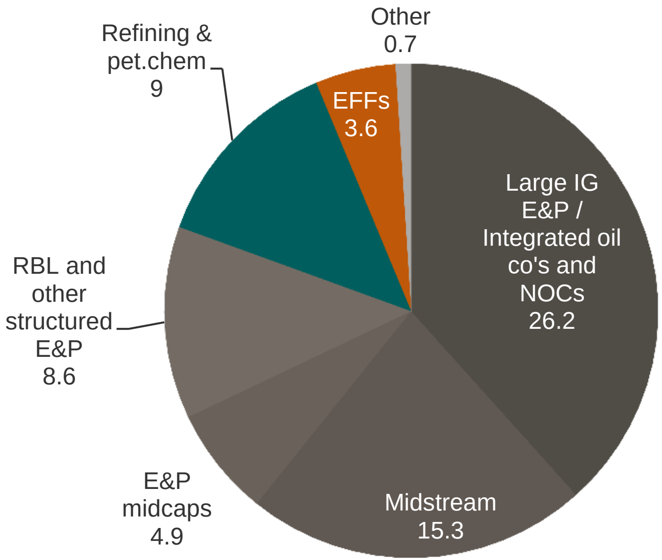
* Oil, offshore and oilfield services units are all part of the business unit Large Corporate & International

Historical low impairments in absolute levels
- Oil & Gas, Offshore and Oilfield Services sectors



Oil & Gas - It's a well diversified portfolio
– robust to oil price movements

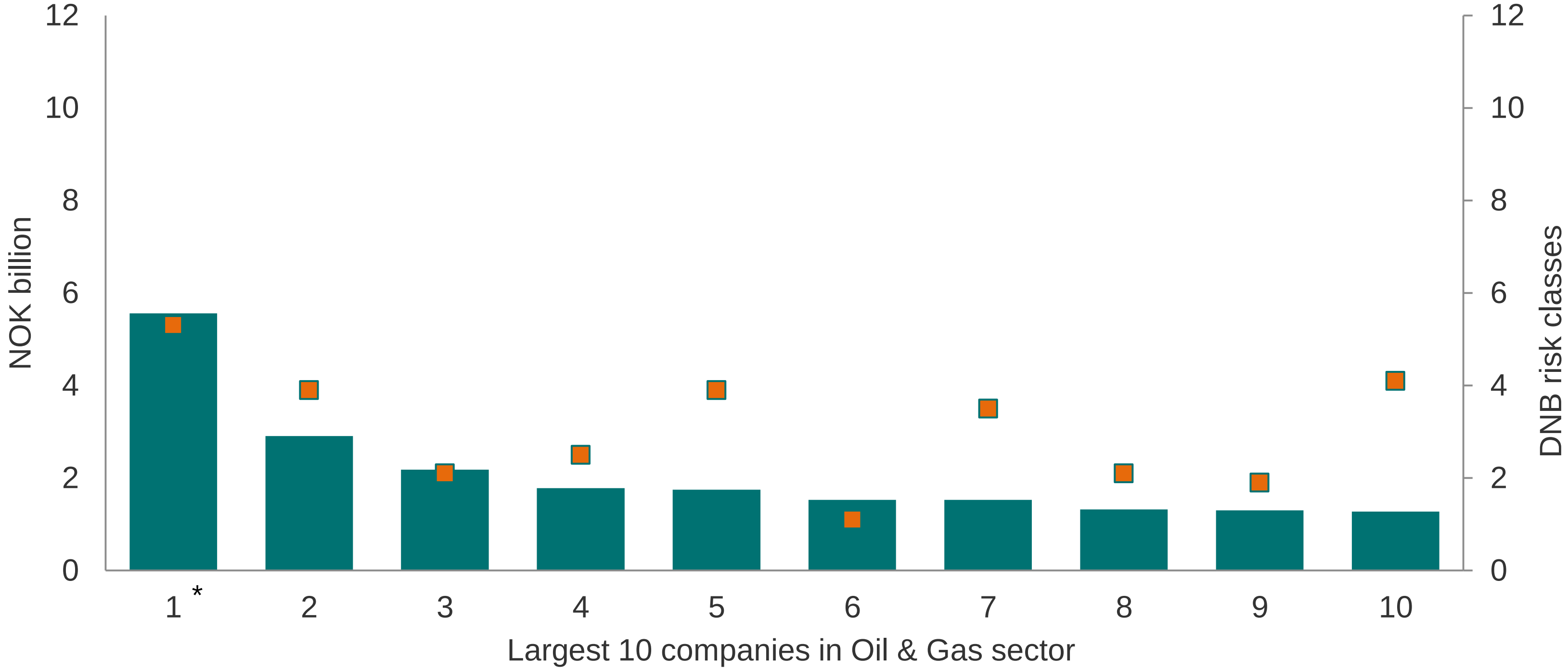
Oil & Gas exposure - NOK 68bn (4% of total Group EaD)
Average grade 3.8, NOK 41bn (60%) to investment grade
NOK billion



- **Large IG E&P/ integrated and national oil companies:** (Grade 2.1). In general large, diversified companies with robust balance sheets and ample liquidity that can sustain a significant drop in oil price.
- **Midstream:** (Grade 3.2) Mainly companies with infrastructure (pipelines, etc.) assets. 69% of EaD is IG. Limited sensitivity to commodity price movements.
- **Exploration & Production (E&P) mid-caps:** (Grade 3.9) Typically more robust than RBL.
- **Reserved based lending (RBL) / other struct. E&P**: (Grade 4.3) Bank debt is based on certain assumptions (reserves/ production volumes, commodity prices, capex, etc). Well structured, i.e. "very early" covenants and collateral-based. For RBLs, semi-annual re-determinations of borrowing base. As to price decks used for RBL: 1) Price decks used for debt sizing purposes never been higher than low to mid $70ies. 2) In our credit analysis we run sensitivity cases at oil prices below $60/bbl, and we run a 1 year liquidity test at $35/bbl.
- **Refining & Petrochemical:** (Grade 4.9) Primarily margin based business. 47% of EaD is IG. Less sensitive to commodity price movements.
- **Exploration financing facilities (EFFs):** (Grade 5.4) Secured financing of tax refund (related to exploration) from the Norwegian State. No direct oil-price risk.

RBL: Reserve Based Lending, IG: Investment grade, E&P: Exploration & Production, NOC: National Oil Companies, EFF: Exploration financing facilities. All figures as of 30 Sept 2014

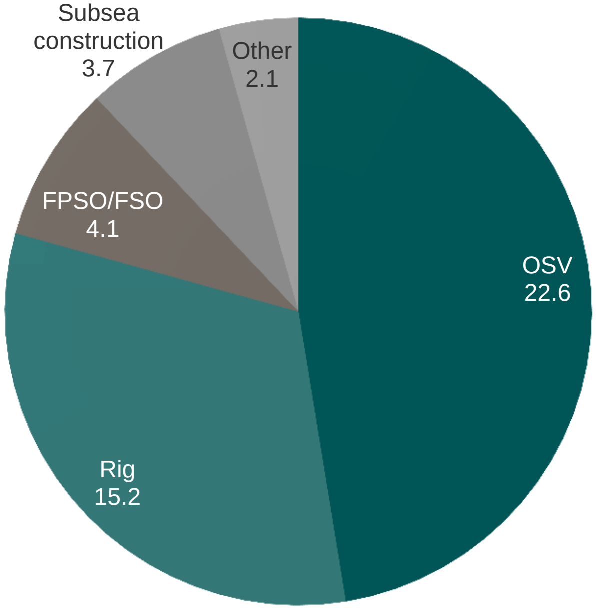
Oil & Gas: 10 largest exposures
- 29% of Oil & Gas' exposure (EaD)



* Has been syndicated in Q4 2014. EaD: Exposure at Default, PD: Probability of default. Risk grade system, please see back up slide for details. DNB's risk classification system, where 1 represents the lowest risk and 10 the highest risk. All figures as of 30 Sept 2014

Offshore - solid companies and high contract coverage
- The direct risk factor is not oil price, but the activity level and day-rates

Offshore exposure - NOK 48bn (3% of total Group EaD)
Average grade: 4.8
NOK billion



- **Offshore service vessels (OSV):** (Grade 5.6)
  Mainly corporates with modern fleets (6-8 years) and good contract coverage (60% for 2015)
  Substantial part of the fleet supports existing infrastructure as well as activities related to inspection, maintenance & repair (IRM)
- **Rig:** (Grade 4.0)
  More than 40% of EaD are either investment grade (IG) companies or have full contract coverage. Primarily latest generation rigs. 75% weighted average contract coverage for 2015 (61% for 2016 and 43% for 2017).
- **FPSO/FSO:** (Grade 4.3)
  Primarily full contract coverage to strong counterparties
  Mainly full amortisation during contract period
- **Subsea constructions:** (Grade 3.9)
  Low short term oil price dependency, as it's linked to approved field development projects

OSV: Offshore Service Vessels, F(P)SO: Floating (Production) Storage Offloading. All figures as of 30 Sept 2014

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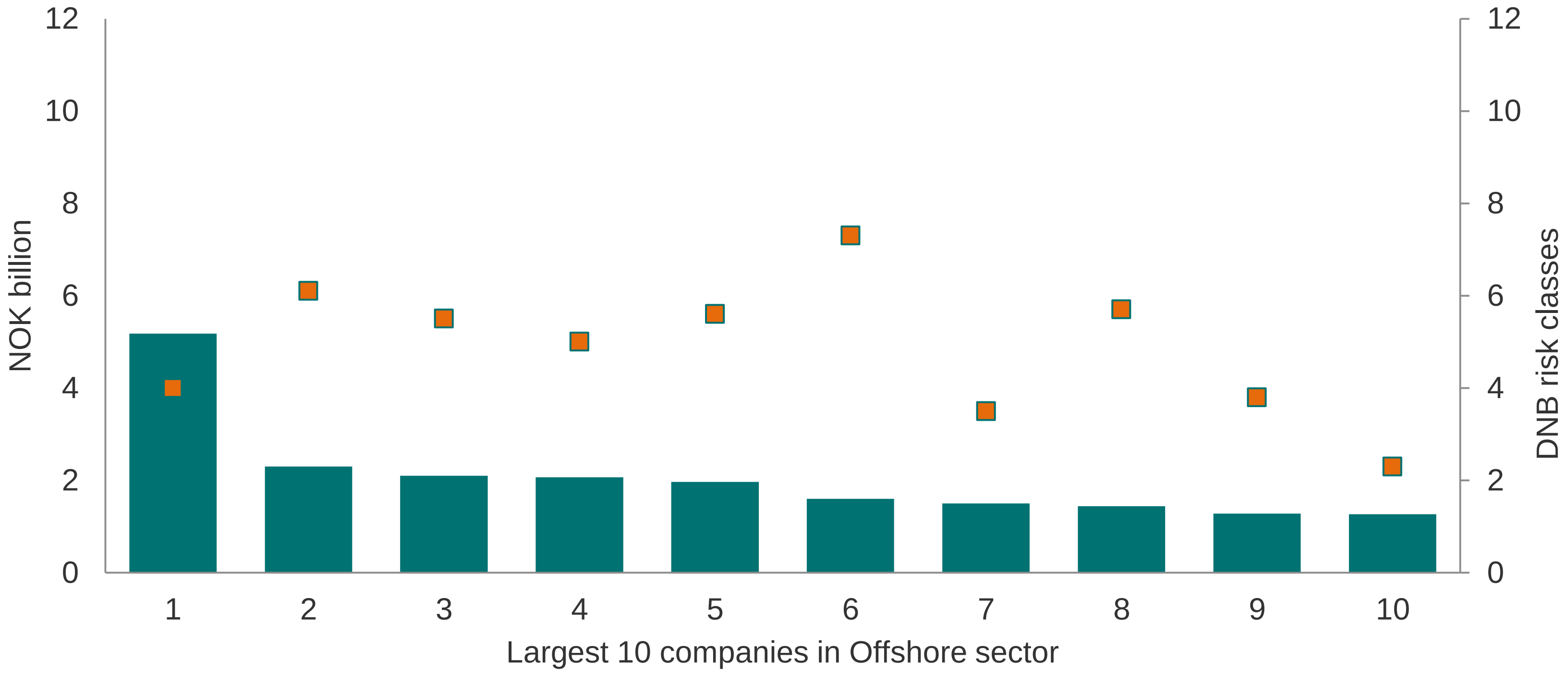
Offshore: 10 largest exposures
- 44% of Offshore's exposure (EaD)



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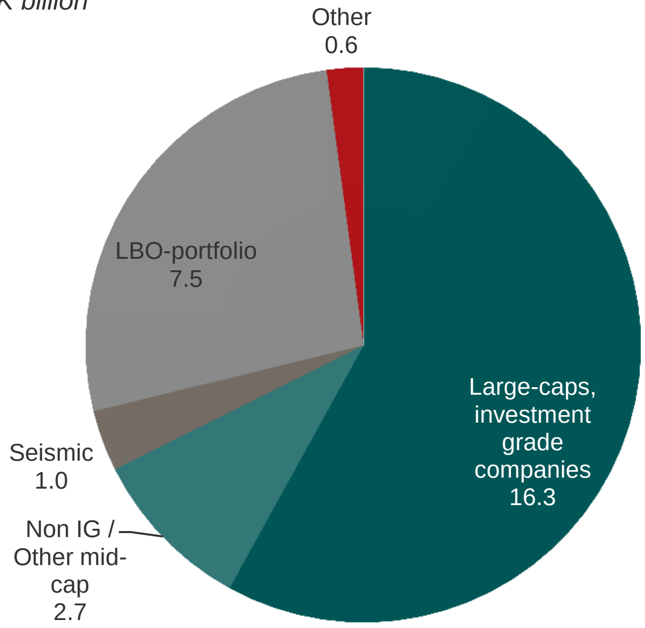
Oilfield Services exposure
- Mainly low risk exposure

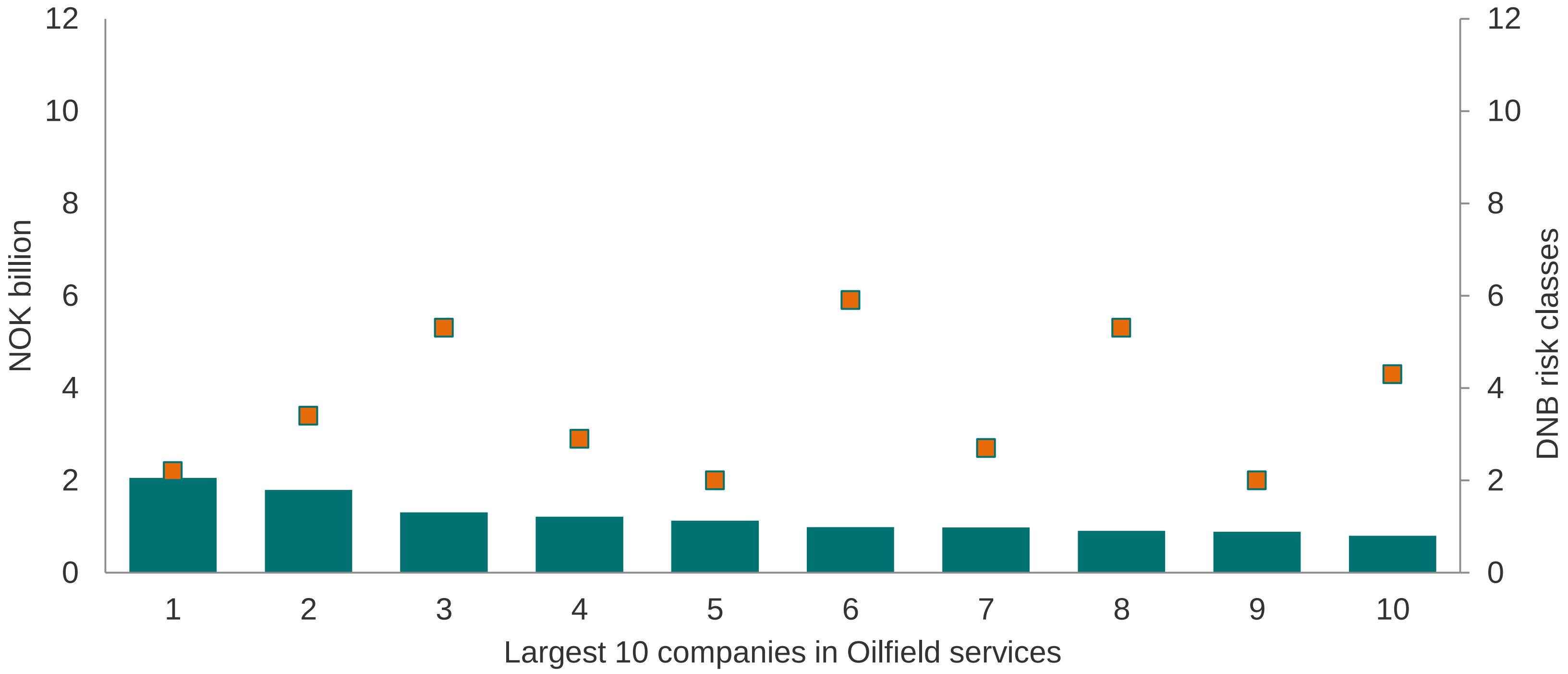
Oilfield Services - NOK 28bn (1% of total Group EaD)
Average grade 4.8
NOK billion



- **Large caps investment grade companies:** (Grade 2.8)
  ~60% of EaD in large cap, global investment grade companies. Primarily US based.
- **Non-investment grade oilfield services/other midcaps:** (Grade 4.8)
  Wide range of companies through the oil and gas service value chain. Medium/small caps only close to home.
- **Seismic:** (Grade 5.8)
  Limited exposure – EaD of NOK 1bn
  Dominant part is short-term working capital financing.
- **Leveraged buyout (LBO):** (Grade 6.0)
  EaD of NOK 7.5bn mainly related to development and production. LBO financing only close to home. Careful selection of sponsors in the LBO space. Acceptance of higher financial risk only if coupled with low operational risk. Prefer clients with less dependence on oil companies' CAPEX budgets.

IG: Investment grade, All figures as of 30 Sept 2014

Oilfield Services: 10 largest exposures
- 43% of Oilfield Services' exposure (EaD)



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DNB's impairment is expected to stay below normalised levels in 2015

Oil-related:

- We have a strong portfolio going into this situation
- Institutional competence
- Experience and resources allocated to handle the situation

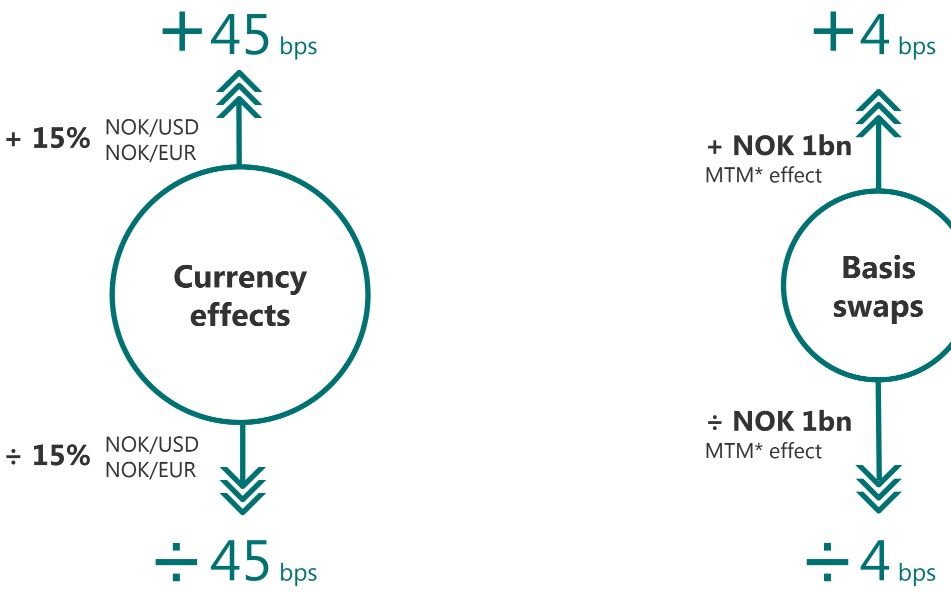
DNB Group:

- For 2014 we reiterate earlier guidance for the DNB Group of below NOK 2bn

Normalised levels are around ~20 bps of EaD ~ NOK 4bn

CET1 ratio is sensitive to currency fluctuations
– other external factors have less impact

Factors affecting the CET1 ratio
2016 effect, bps



* MTM: mark-to-market

Q & A

Appendix

- DNB Grading vs external ratings
- The offshore and oilfield service value chain

DNB Grading vs external ratings

DNB Grade	Pd		S&P	Moody's
1.a	0,015 %	Investment grade	AAA - AA+	Aaa - Aa1
1.b	0,035 %	↓	AA - AA-	Aa2 - Aa3
1.c	0,050 %	↓	A+	A1
1.d	0,070 %	↓	A	A2
1.e	0,090 %	↓	A-	A3
2.a	0,130 %	↓	BBB+	Baa1
2.b	0,220 %	↓	BBB	Baa2
3	0,390 %	↓	BBB-	Baa3
4	0,670 %	↓	BB+	Ba1
5	1,170 %	High yield	BB	Ba2
6	1,630 %	↓		
7	2,030 %	↓	BB-	Ba3
8	3,510 %	↓	B+	B1
9	6,080 %	↓	B	B2
10.a	10,540 %	↓	B-	B3
10.b	18,270 %	↓	CCC+	Caa1
10.C	25,000 %	↓	CCC og lavere	Caa2 og lavere
10.D	40,000 %	↓		
11		Doubtful		
12		Non-performing		

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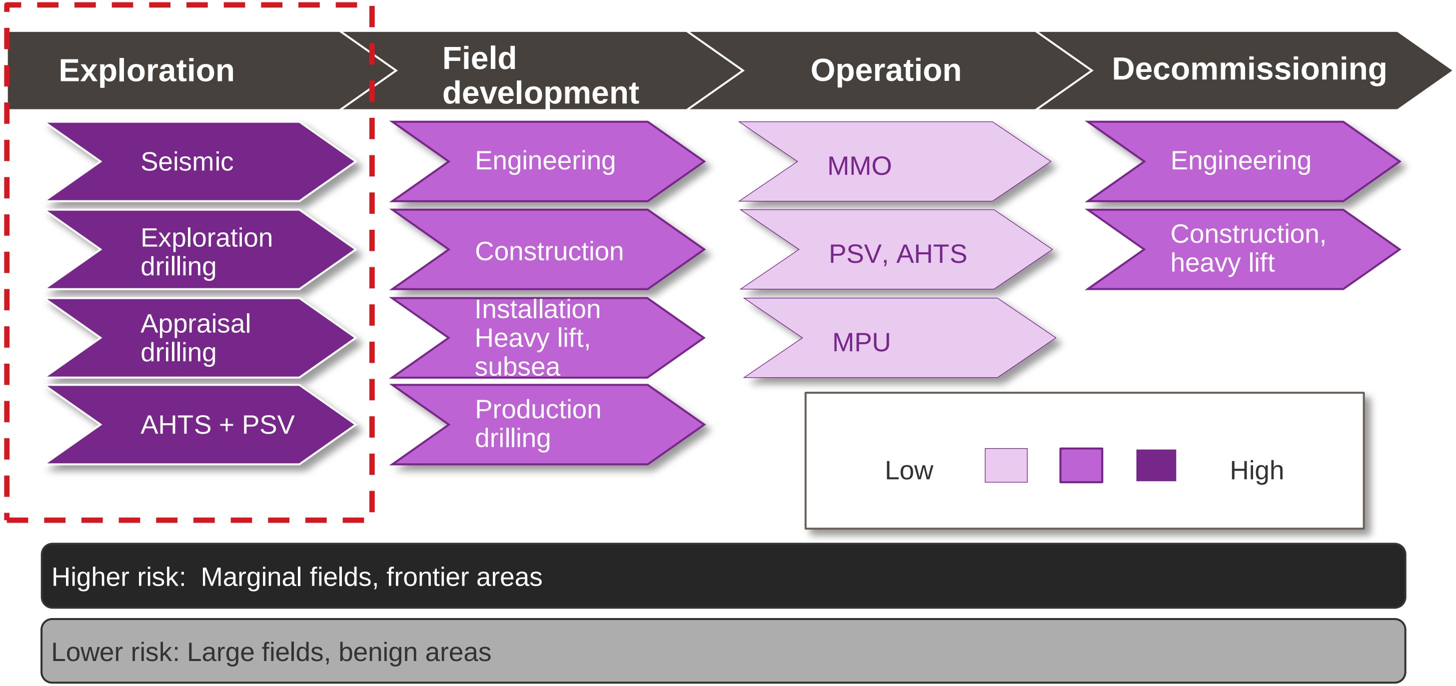
The offshore and oilfield service value chain

Activities within the early phase of value chain are the first to be cut in a time of low oil prices.



AHTS: Anchor Handling Tug Supply, PSV: Platform Supply Vessel, MMO: Maintenance and modifications, MPU: Multi Purpose Unit

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Although DNB believes that the expectations reflected in any such forward-looking statements are reasonable, no assurance can be given that such expectations will prove to have been correct.

Actual results, performance or events may differ materially from those set out or implied in the forward-looking statements. Important factors that may cause such a difference include, but are not limited to: (i) general economic conditions, (ii) performance of financial markets, including market volatility and liquidity (iii) the extent of credit defaults, (iv) interest rate levels, (v) currency exchange rates, (vi) changes in the competitive climate, (vii) changes in laws and regulations, (viii) changes in the policies of central banks and/ or foreign governments, or supra-national entities.

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