

RatingsDirect®

Research Update:

DNB Bank Outlook Revised To Stable On Steady Capital Improvement; 'A+ / A-1' Ratings Affirmed

Primary Credit Analyst:

Sean Cotten, Stockholm (46) 8-440-5928; sean.cotten@spglobal.com

Secondary Contact:

Olivia Fleischmann, Stockholm (46) 8-440-5904; olivia.fleischmann@spglobal.com

Table Of Contents

Overview

Rating Action

Rationale

Outlook

Ratings Score Snapshot

Related Criteria

Related Research

Ratings List

Research Update:

DNB Bank Outlook Revised To Stable On Steady Capital Improvement; 'A+/A-1' Ratings Affirmed

Overview

- In our view, Norway-based DNB Bank's strengthened capitalization will, with the bank's good and still improving earnings capacity, likely ensure that it remains resilient even if economic risks worsen.
- Looking further ahead, we also see implementation of Norway's resolution and recovery regime and DNB's likely buildup of a substantial bail-in buffer as helping to offset negative rating factors.
- We are therefore revising our outlook on DNB to stable from negative and affirming our 'A+/A-1' ratings.
- The stable outlook reflects our view that despite negative economic trends dampening the Norwegian banking sector, we consider that DNB's improved capitalization, tightening efficiency, and bail-in buffers would likely offset these risks.

Rating Action

On March 29, 2017, S&P Global Ratings revised its outlook on Norway-based DNB Bank ASA (DNB) to stable from negative and affirmed its 'A+/A-1' long- and short-term counterparty credit ratings on the bank.

In addition, we affirmed our issue ratings on the bank's subordinated and junior subordinated instruments at 'A-' and 'BBB', respectively, and on its commercial paper at 'A-1'.

Rationale

The affirmation primarily reflects the continued improvements in DNB's capitalization and efficiency, which have further bolstered the bank's resilience to a possible weakening in economic conditions in Norway and its key markets. The bank's capital and leverage ratios have improved even as Norway and its oil sector continue to face the consequences of low oil prices and reduced shipping and oil-related activity. Moreover, DNB has moved past most of its peers in efficiency and digitalization. In our view, management will achieve its targeted cost-to-income ratio of below 40%, one of the lowest among major European banks. Looking further ahead, we also acknowledge that the impending creation of an effective resolution regime in Norway and the bank's building of its additional loss-absorbing capacity (ALAC) could, in time, help to protect its senior unsecured creditors.

DNB's capital has improved consistently in recent years as the bank has aimed

to fulfill the Norwegian regulator's relatively tough capital requirements. DNB must have a minimum 15.05% common equity Tier 1 (CET1) ratio at the end of 2017, based on Basel 1 transitional rules. As of end 2016, DNB had largely achieved its CET1 ratio target of 16.0% and indicated that it will increase dividend payouts as a result. As a result of the buildup, the bank's risk-adjusted capital ratio (RAC), our measure of its capital, strengthened to 12.3% at end-2016, compared with 11.2% at end-2015.

Management has achieved this improvement despite a period of somewhat weaker asset quality within segments of the loan book. Given the stress on oil, offshore, and related service companies, the bank reported elevated losses of Norwegian krone (NOK)7.4 billion (€800 million) in 2016, and anticipates nearly NOK11 billion in further related provisions through 2018. These losses stem from shipping and offshore exposures, in particular associated with lower activity for offshore vessels and rigs, as well as lower rates for crude and dry bulk customers. As a result, the bank's nonperforming loan (NPL) ratio stood at 2.5% at end-2016, compared with 1.5% at end-2015. Despite higher losses, the bank reported pretax profits of NOK23.4 billion for 2016. Looking ahead, we see the sector as stabilizing, giving improved visibility on the bank's provision estimates. Furthermore, we think that manageable impairments and strengthening efficiency and pre-provision profits will enable the bank to continue to produce solid 10%-11% return on equity over the coming two years.

Our projected RAC ratio of 12.5%-13.0% through end-2018 acknowledges that DNB expects to pay dividends exceeding 50% of profits. We include an expectation of 75% in our ratio, given the current payout ratios of DNB's direct Nordic peers and our expectation of very low risk-weighted asset growth as the bank replaces a portion of its shipping and offshore exposures with lower risk credit exposure. While DNB could consider larger dividends and/or share buybacks, we only see this happening if the bank makes progress in reducing further downside risk from its offshore and oil exposures.

Norway, as part of the European Economic Area, is obliged to implement a bank resolution and recovery directive (BRRD) similar to that of the EU. We anticipate that Norway will implement its own resolution framework by late 2017 or in 2018. To improve resolvability, we expect that DNB will have to bolster its buffer of capital and going-concern loss absorbing instruments, providing additional protection for its senior unsecured creditors. As has been the case for other European countries, this could in time lead us to include uplift for ALAC in our rating on DNB, assuming that we consider Norway to have an effective resolution and bail-in regime.

Our unsupported group credit profile for the DNB group (that is, our view of its intrinsic creditworthiness as if it was a single legal entity) remains unchanged at 'a+', and the bank remains a core subsidiary of ultimate parent DNB ASA. While the bank continues to qualify for one notch of uplift for potential extraordinary government support, we continue to apply a one-notch negative adjustment. This reflects our expectation that we will soon remove the notch of government support once an effective resolution regime is in place, as we have in most other European countries.

Outlook

The stable outlook reflects our view that our ratings on DNB will most likely remain unchanged over our two-year rating horizon. This balances the still-negative trend that we see for economic risks in the Norwegian banking sector, with the bank's improved capitalization, earnings and, in time, loss absorbing instruments. Together, these factors should protect senior creditors from losses as DNB prepares for the implementation of BRRD in Norway. We see the Norwegian government's commitment to its 34% stake in DNB as a stabilizing factor for the rating, although we do not consider DNB a government-related entity under our criteria.

We could upgrade DNB if we revised our negative trend for economic risks for the Norwegian banking sector to stable and the bank improved its loss absorbing capacity to further mitigate bail-in risks for senior unsecured creditors. Although unlikely, we could also raise the ratings if we saw the potential for extraordinary government support for DNB's senior unsecured creditors as unchanged in practice despite the introduction of bail-in powers.

We could lower our ratings on DNB if we took a more negative view on the risks the Norwegian banking sector faces and we also saw a risk of sharp deterioration of asset quality for DNB-specific exposures, for example, to high-volatility segments like shipping, oil, and offshore.

Ratings Score Snapshot

	To	From
Issuer Credit Rating	A+/Stable/A-1	A+/Negative/A-1
Unsupported GCP*	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	+1
GRE Support	0	0
Group Support	0	0
Sovereign Support	+1	+1
Additional Factors	-1	-1

* Describes the intrinsic creditworthiness of the consolidated DNB Group.

Related Criteria

- General Criteria: S&P Global Ratings' National And Regional Scale Mapping Tables, June 01, 2016
- 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: National And Regional Scale Credit Ratings, Sept. 22, 2014
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Financial Institutions - Banks: Assessing Bank Branch Creditworthiness, Oct. 14, 2013
- Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria - Financial Institutions - Banks: Revised Market Risk Charges For Banks In Our Risk-Adjusted Capital Framework, June 22, 2012
- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 09, 2011
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions, Nov. 09, 2011
- Criteria - Financial Institutions - Banks: Bank Capital Methodology And Assumptions, Dec. 06, 2010
- Criteria - Financial Institutions - Banks: Methodology For Mapping Short-And Long-Term Issuer Credit Ratings For Banks, May 04, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Financial Institutions - Banks: Commercial Paper I: Banks, March 23, 2004

Related Research

- Banking Industry Country Risk Assessment: Norway, March 14, 2017
- Nordic Banks' Capital Growth Tapers Off, Aug. 2, 2016
- Nordic Banks Are Looking Svelte In The Fintech Race, Jun. 14, 2016
- DNB Bank ASA, Dec. 13, 2016
- Norwegian Banks: Sliding Oil Prices Are Not The Only Risk, Dec. 2, 2015

Ratings List

Outlook Action; Ratings Affirmed

	To	From
DNB Bank ASA		
Counterparty Credit Rating	A+/Stable/A-1	A+/Negative/A-1
Senior Unsecured	A+	
Senior Unsecured	cnAAA	
Subordinated	A-	

Junior Subordinated	BBB
Commercial Paper	A-1

Additional Contact:

Financial Institutions Ratings Europe; FIG_Europe@spglobal.com

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at spcapitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

Copyright © 2017 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription) and www.spcapitaliq.com (subscription) and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.