

Risk Management and Capital Efficiency



Presentation by Tom Grøndahl, CFO and deputy CEO
Capital Markets Day, 9 October 2007

DnBNOR

Balance Sheet as at 30 June 2007



Amounts in NOK billion

Cash and deposits with central banks	9.0	Loans and deposits from credit institutions	163.7
Lending to/deposits with credit institutions	127.3	Deposits from customers	527.9
Lending to customers	882.8	Borrowings through the issue of securities	328.5
Commercial paper and bonds	220.2	Insurance liabilities, customers bearing the risk	19.1
Shareholdings	67.0	Liabilities to life insurance policyholders	191.5
Fixed and intangible assets	39.2	Other liabilities and provisions	104.7
Financial assets, customers bearing the risk	19.1	Subordinated loan capital	34.2
Other assets	72.5	Total equity	67.4
Total assets	1437.1	Total liabilities and equity	1437.1

Commercial Paper and Bonds



Amounts in NOK billion

Vital Hold to Maturity portfolio	62.9
Vital Trading portfolio	44.7
Bank Hold to Maturity portfolio	-
Bank International Liquidity portfolio (98.3% AAA, 1.7% AA)	86.4
Bank Domestic Liquidity portfolio	10.1
Other	16.1
<hr/>	
Total	220.2

Questions related to bank international liquidity portfolio



Do you have direct/indirect subprime exposure?

No

Do you have RMBSs?

NOK 66.4 billion

Do you have CDOs or CLOs?

NOK 7.9 billion in CLOs

Do you have investments in hedge funds?

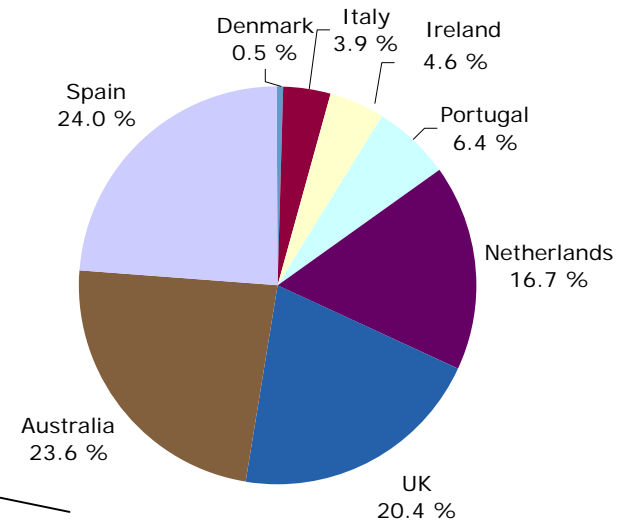
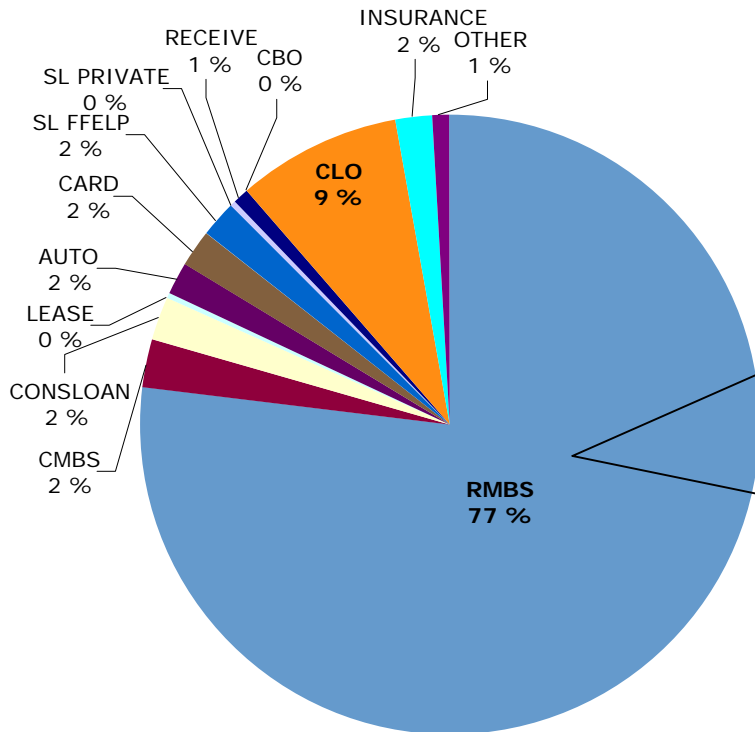
DnB NOR Bank: NOK 0.1 billion
Vital: NOK 2.3 billion

Do you have investments in P/E companies?

DnB NOR Bank: NOK 0.7 billion
Vital: NOK 4.3 billion

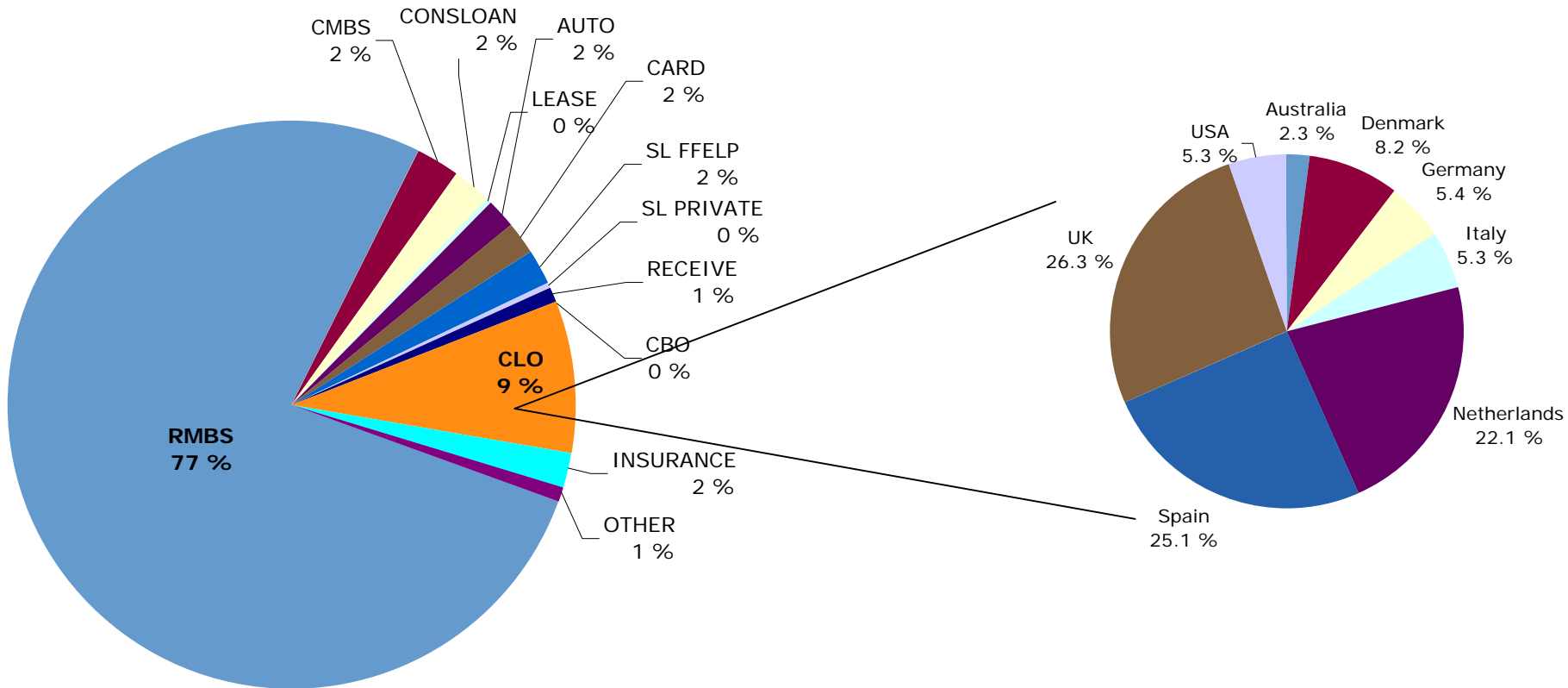
Bank international liquidity portfolio

Asset Classes and RMBSs by Country

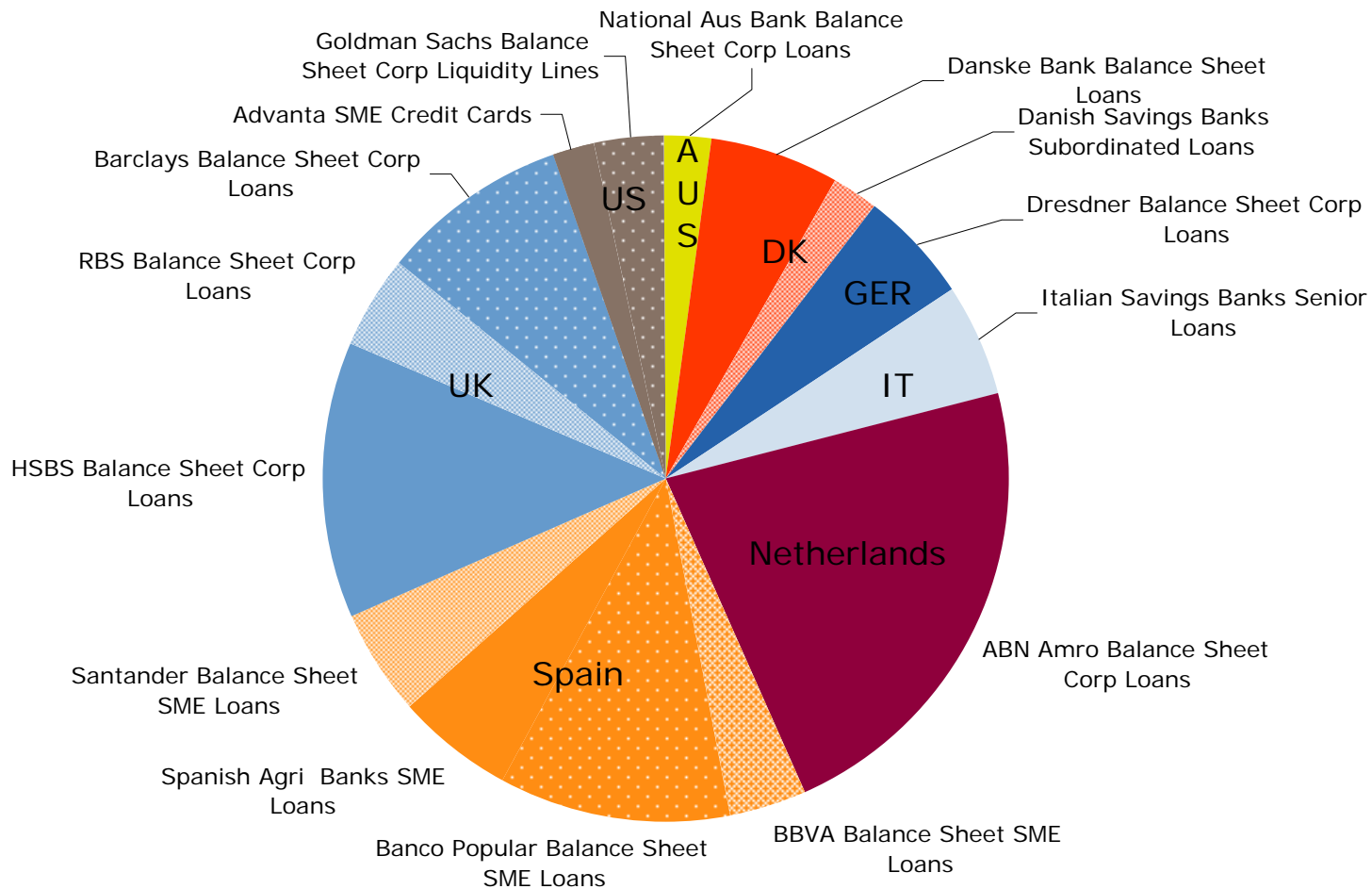


Bank international liquidity portfolio

Asset Classes and CLOs by country



Bank international liquidity portfolio: CLOs



All CLOs are Aaa/AAA

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Lending



Amounts in NOK billion

Lending to/deposits with credit institutions	127
Lending to customers	882
- retail	438
- shipping	76
- commercial real estate	128
- other	240

Questions related to loan portfolio



Do you have hedge fund loans outstanding/prime brokerage?	No
Do you have loans outstanding to P/E companies?	No
Do you have loans to companies owned by P/E?	NOK 20 billion
How big is your syndication pipeline?	NOK 16.9 billion
How much of synd. pipeline in P/E or LBOs?	NOK 3.3 billion
How much undrawn lines to large corporates?	NOK 58 billion
What exposure to financial institutions?	Only to rated A or better
Sponsor/liquidity facilities to US conduits?	No

Balance Sheet as at 30 June 2007



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Robust funding



- Solid and well-diversified customer deposit base
 - 60 per cent deposit-to-loan ratio
- Conservative funding guidelines
 - More than 90 per cent of loans to customers is funded by customer deposits, capital, subordinated debt or senior debt with >1-year residual maturity
- Inaugural Norwegian Covered Bond issued by DnB NOR in June 2007
 - Large, nearly untapped funding source for the bank
 - Replacement of senior unsecured debt by covered bonds reduces cost of new funding
 - In spite of financial turmoil, new Covered Bond funding is cheaper than existing Senior Unsecured

Balance Sheet as at 30 June 2007



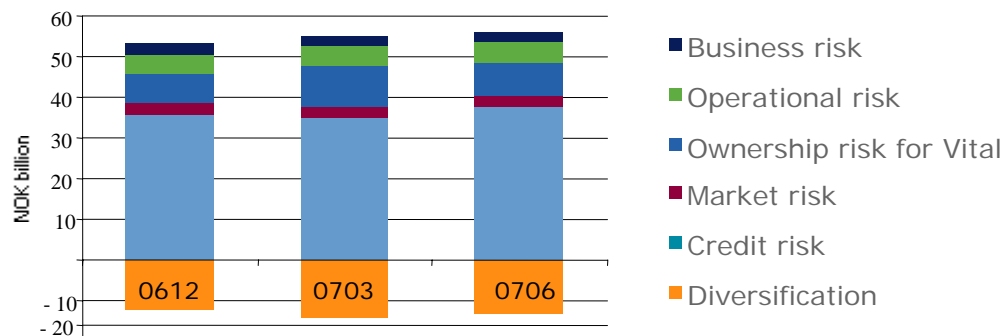
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Capitalisation policy in DnB NOR



Risk-Adjusted Capital DnB NOR Group



Too much:
inefficient returns
to shareholders



Too little:
Missed opportunities, regulatory
and rating agency pressure

ICAAP* : Regulatory minimum + buffer = Capitalisation target ≈ 6.5% Tier I

* ICAAP: Internal Capital Adequacy Assessment Process

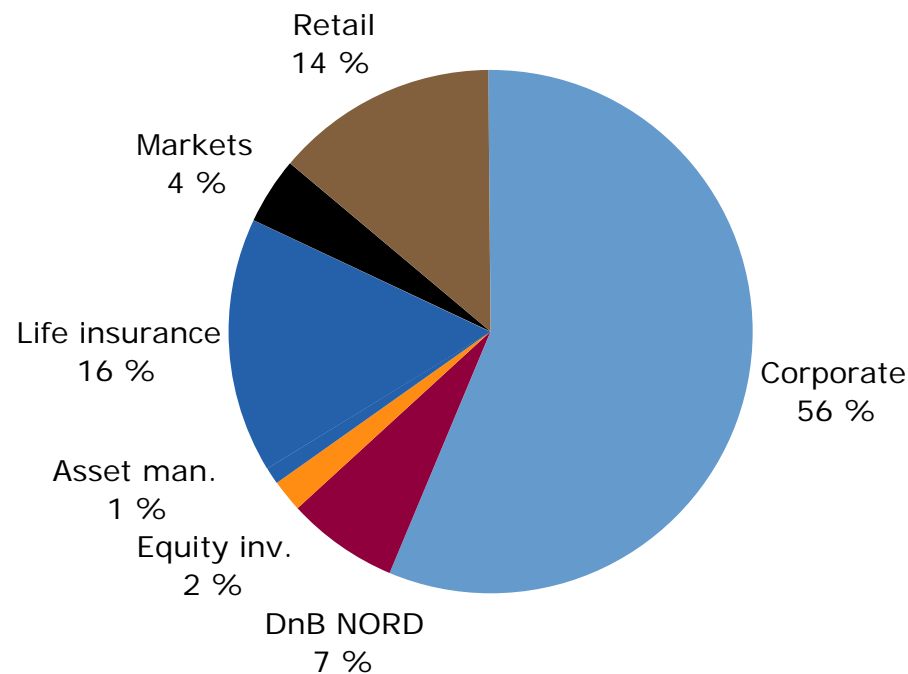
Allocation of capital to business areas



We calculate Risk-Adjusted Capital (RAC) to each business area and allocate on a stand-alone basis

30 June 2007

NOK billion	DnB NOR Group
Credit risk	37.7
Market risk	2.8
Vital risk	8.2
Operational risk	5.0
Business risk	2.4
Diversification within BAs	-3.1
Gross RAC	53.0
Diversification between BAs	-10.0
Net RAC	43.0



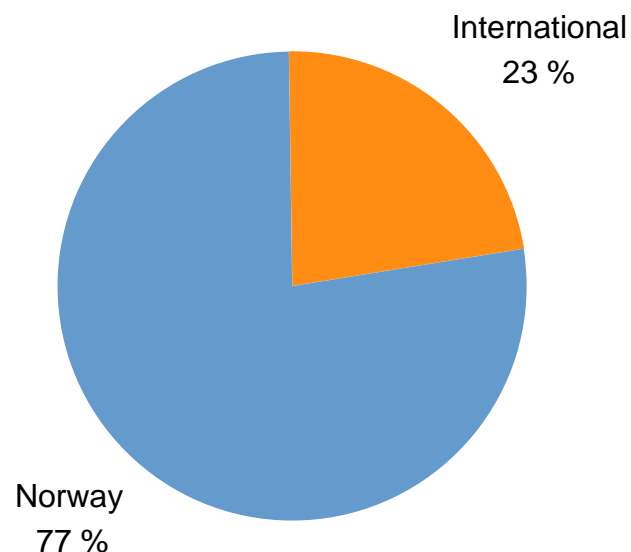
Allocation of capital to business areas



Split of RAC between domestic and international operations

30 June 2007

	DnB NOR Group
NOK billion	
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Gross RAC	53.0
Diversification between BAs	-10.0
Net RAC	43.0



Return on risk-adjusted capital in business areas



<i>First half 2007</i> <i>Amounts in NOK million</i>	<i>Corporate Banking</i>	<i>Retail Banking</i>	<i>DnB NOR Markets</i>	<i>Life and Asset Management</i>	<i>DnB NORD</i>
Total income	5 685	4 963	2 058	2 144	867
Operating expenses	1 971	3 147	794	1 083	574
Pre-tax operating profit before write-downs	3 714	1 817	1 264	1 061	293
Pre-tax operating profit	3 666	1 676	1 240	1 061	263
Profit for the period ¹⁾	2 639	1 207	893	995	216
Return on risk-adjusted capital (per cent)	18.9	34.5	84.6	20.7	12.5
Average risk-adjusted capital (NOK billion)	28.1	7.1	2.1	9.7	3.5

- 1) Profit for the period is calculated based on a tax rate of 28 per cent in Corporate Banking, Retail Banking, DnB NOR Markets and Asset Management, 18 per cent in DnB NORD and 0 per cent in Vital. Return on risk-adjusted capital in Life and Asset Management was 28.9 per cent after recorded tax in Vital.

Return on risk-adjusted capital in International and Norwegian operations



<i>First half 2007 Amounts in NOK million</i>	<i>Total Business areas 1)</i>	<i>BAs International operations 2)</i>	<i>BAs Norwegian operations</i>
Total income	15 717	2 486	13 231
Operating expenses	7 568	1 279	6 289
Pre-tax operating profit before write-downs	8 148	1 207	6 942
Pre-tax operating profit	7 906	1 161	6 745
Profit for the period ¹⁾	5 950	863	5 088
Return on risk-adjusted capital (per cent)	23.8	14.7	26.6
Average risk-adjusted capital (NOK billion)	50.5	11.9	38.6

1) Figures for total business areas are before eliminations of double entries.


2) International operations in Corporate Banking is calculated based on the customer's address, thus the figures include international customers who are served from Norway. The operating expenses in international operations include some support functions in Norway.

Allocation of capital to business areas

All capital has to be serviced...



- Actual equity exceeds risk-adjusted capital allocated to business areas (BA)
- Group profits are generated by the BAs => total net profit in BAs must satisfy the Group target


$$16\% \text{ Group ROE target} * \frac{\text{Actual equity } 67.4^{1})}{\text{Allocated capital } 53^{1})} \approx 20\% \text{ Total required ROE in BAs}$$

1) In NOK billion. In the actual calculations average annual numbers are being used, adjusted for minority interests.

Capitalisation of the Group today

ICAAP

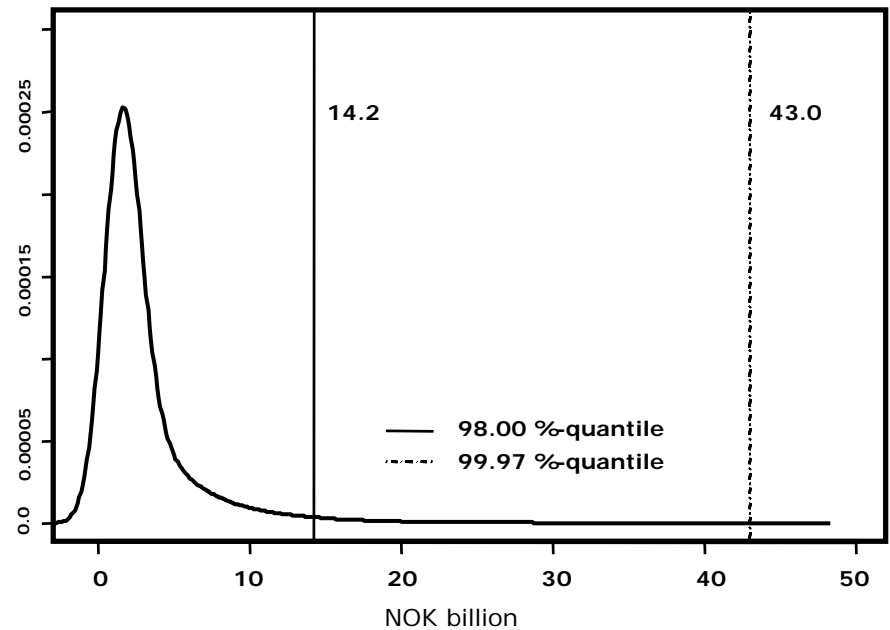


Amounts in NOK billion

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4.25% of risk weighted assets	38.6
98% Capital buffer	14.2
Core capital target excl hybrid	52.8
Statutory deductions in core capital	6.8
Equity target	59.7
Actual equity incl. retained earnings	67.4
- 1h 07 dividend allocation	3.1
Actual equity incl. 50% of retained earnings	64.3
Equity reserve	4.6

Total loss distribution for DnB NOR as at 30 June 2007

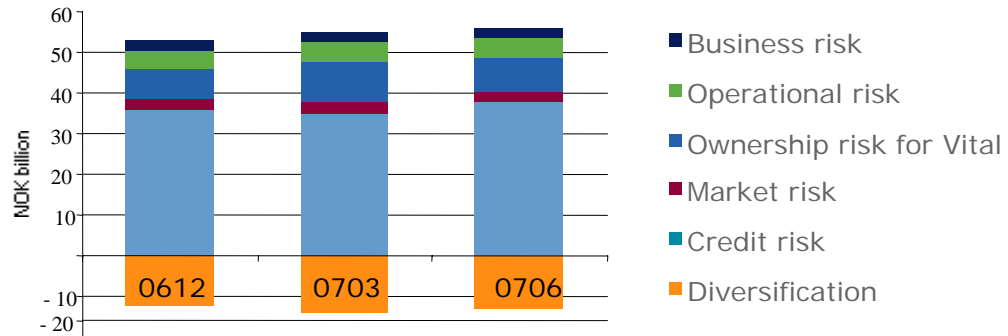


Capitalisation of the Group today

NOK 67.4 billion: too much – OK – or too little?



Risk-Adjusted Capital DnB NOR Group



Too much:
inefficient returns
to shareholders

$$59.7 + 4.6 + 3.1 = 67.4$$

Equity target Equity reserve 1h 07 dividend allocation

Too little:
Missed opportunities, regulatory
and rating agency pressure

Projections on equity reserve

Assumptions



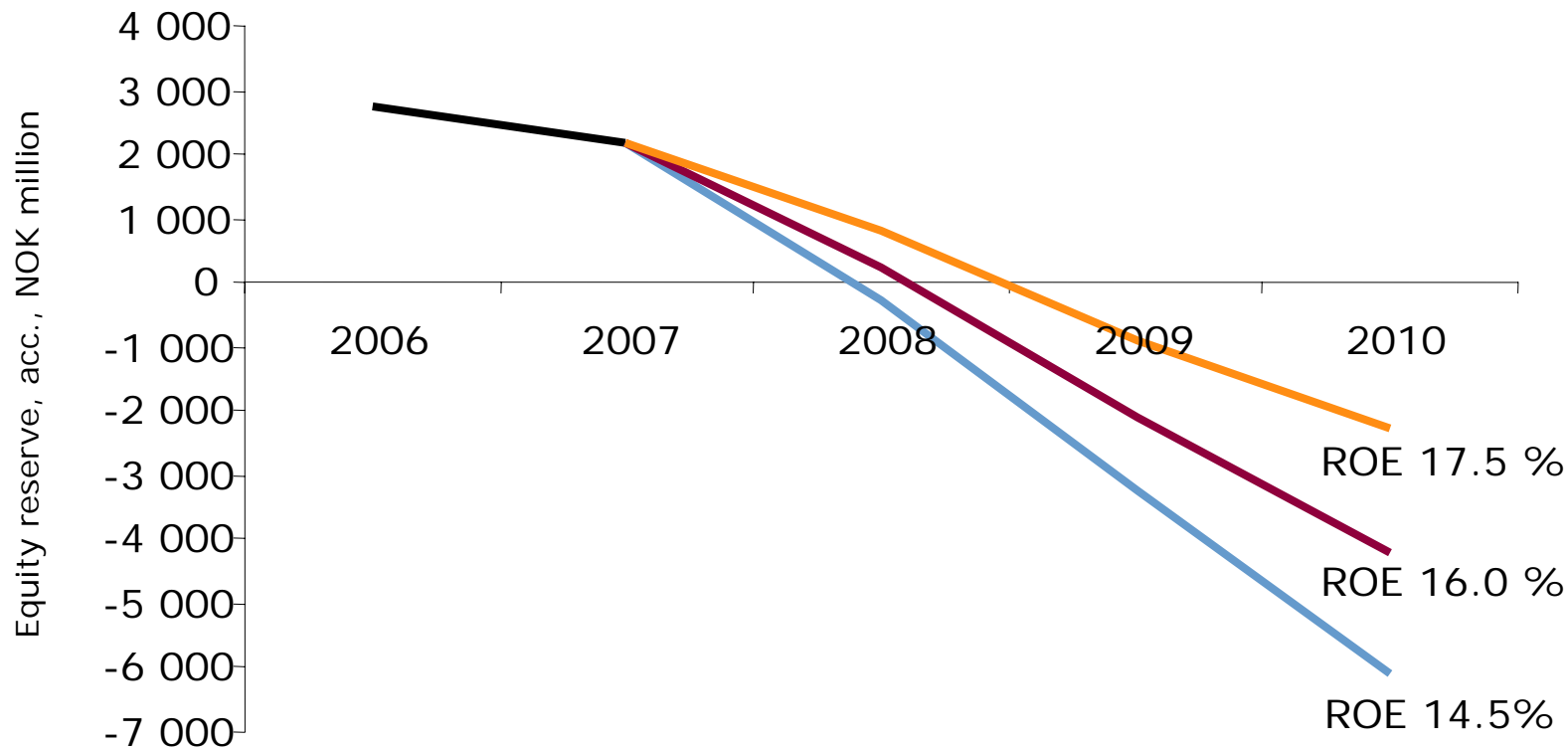
- Volume Growth alternatives (2008-2010 average annual Basel I RWA growth)
 - Base Line: 12%
 - Low growth: 8%
 - High growth: 16%
- ROE alternatives: 14.5% 16.0% 17.5%
- Dividend: 50% pay-out ratio
- Stable risk profile and diversification effects

Projections on equity reserve

Base line and Basel I



Average annual volume growth: 12 %

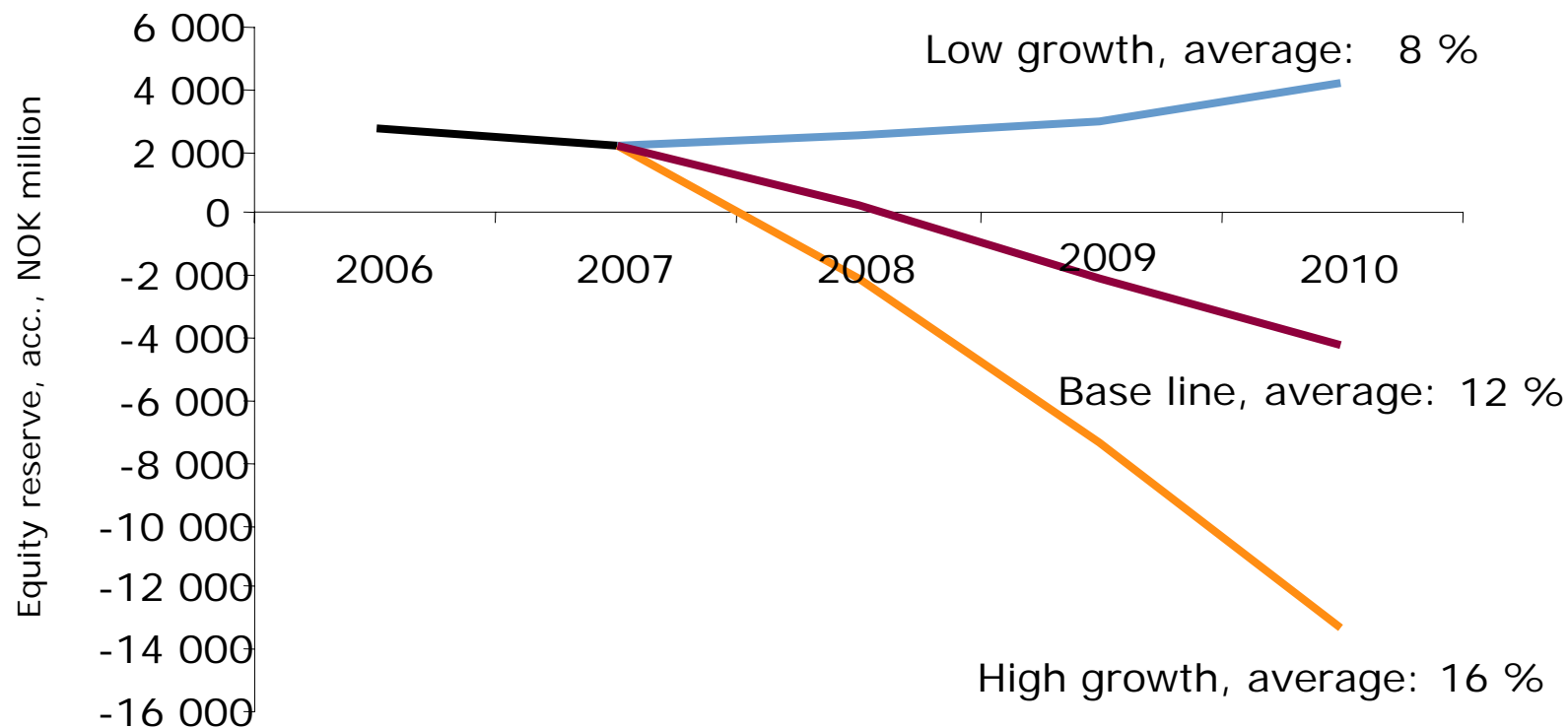


Projections on equity reserve

Base line plus high and low growth alternatives. Basel I



ROE 16.0 %

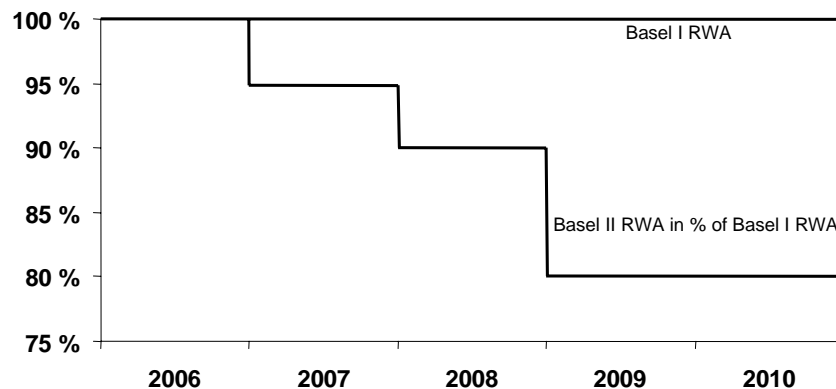


Projections on equity reserve

Assumptions



- Volume Growth alternatives (2008-2010 average annual Basel I RWA growth)
 - Base Line: 12%
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- ROE alternatives: 14.5% 16.0% 17.5%
- Dividend: 50% pay-out ratio
- Stable risk profile and diversification effects
- Basel II implementation
 - 2010 Basel II RWA = 80% of 2010 Basel I RWA



Projections on equity reserve

DnB NOR and Basel II



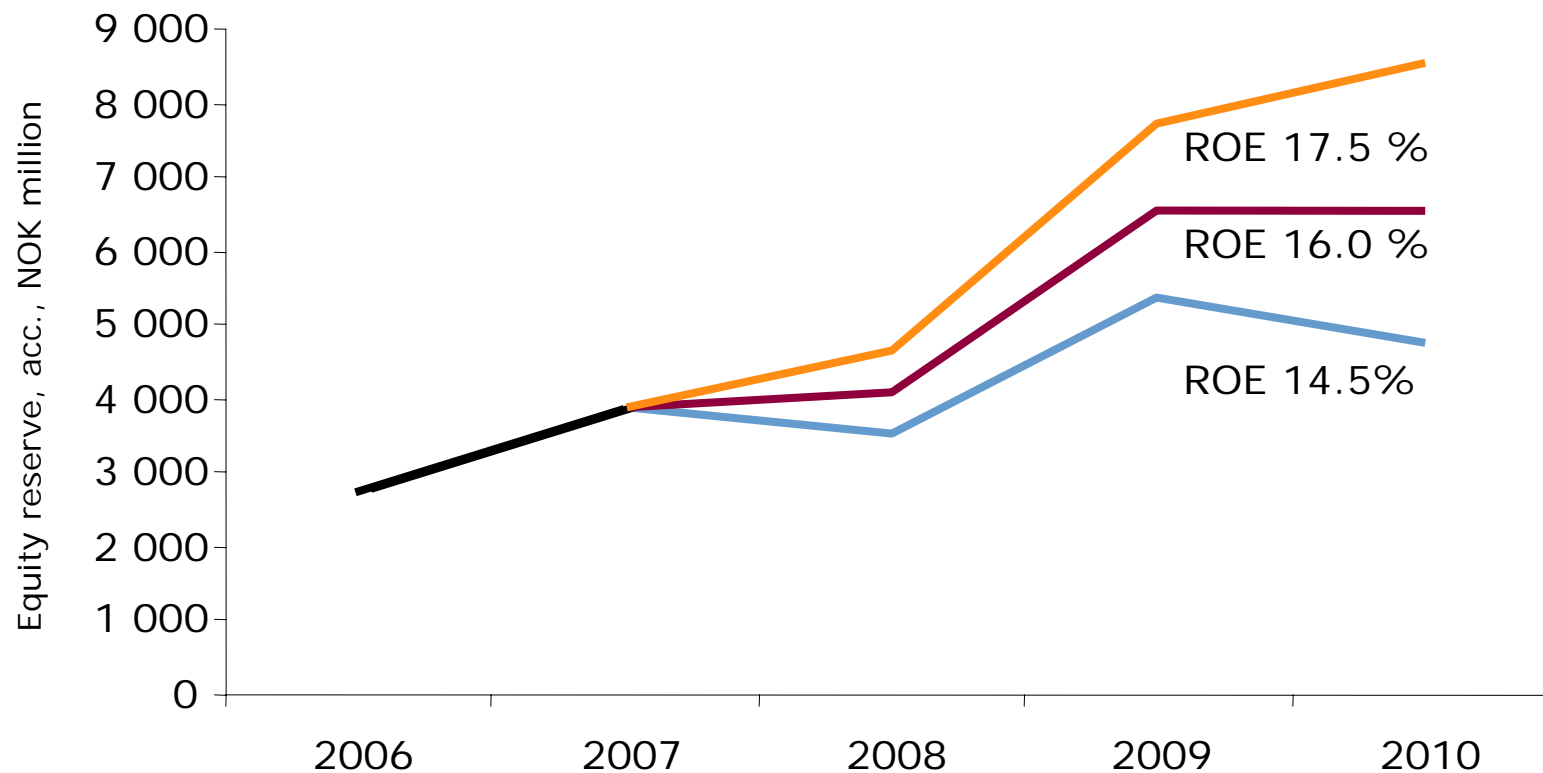
- Foundation IRB approach from 1 January 2007
- Standardised Approach for operational risk
 - Go to AMA in some years' time
- Ambition to upgrade to IRB advanced from 1 January 2008
- QIS5 indicates a reduction in RWA of 38 per cent after full implementation of IRB advanced
 - Due to safety margins and conservatism in the calibration required by the regulator, the final reduction will be less
- ICAAP/pillar 2 dialogue with FSA Norway started

Projections on equity reserve

Base line. Basel II



Average annual volume growth: 12 %

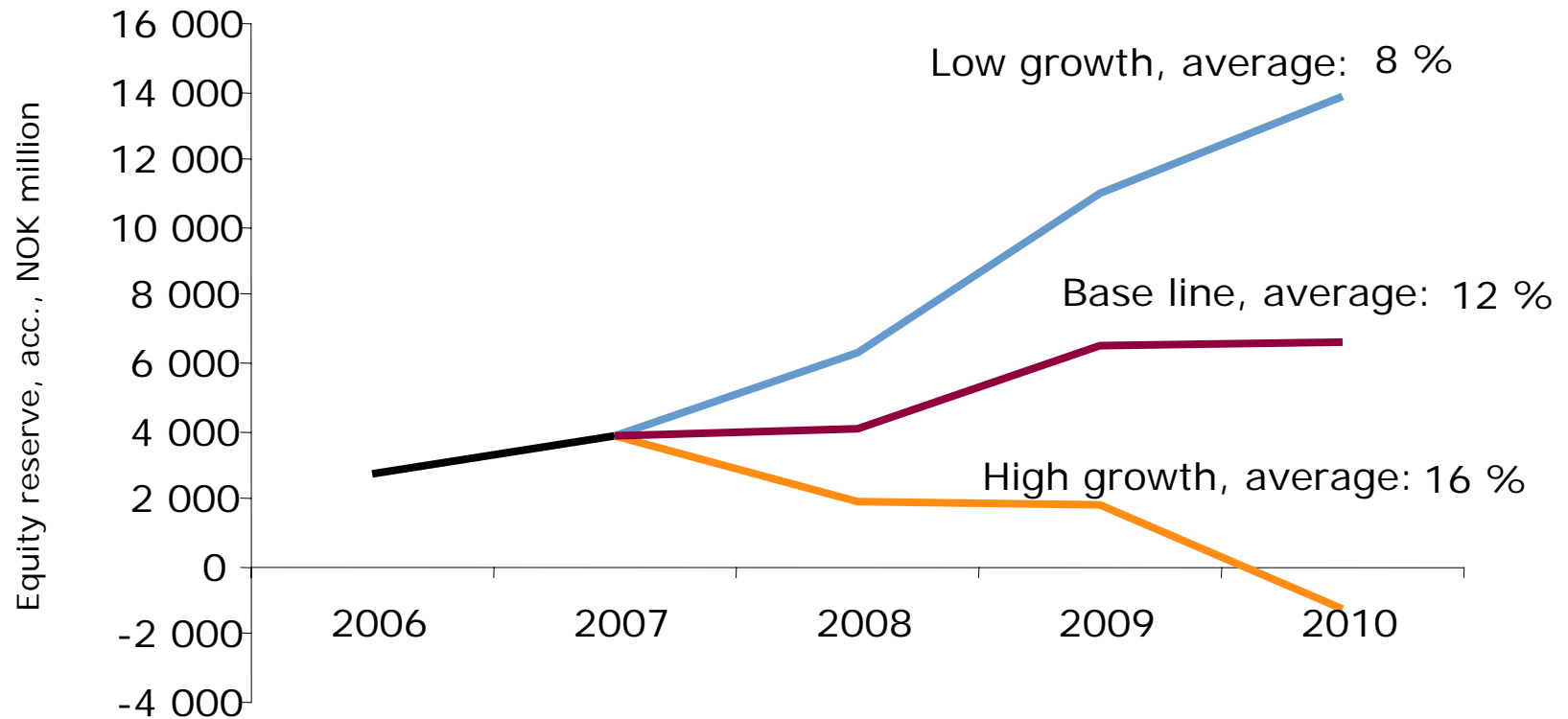


Projections on equity reserve

Base line plus high and low growth alternatives. Basel II



ROE 16.0 %



Conclusions



- Healthy growth prospects require capital
 - ...50% pay-out ratio and 16% ROE finance "only" 8% volume growth...
- Still – a gradual Basel II reduction in RWA is expected to increase equity reserve towards 2010
- Likely scenarios should open for a potential annual share buy-back of NOK 1.5-2 billion over the next three years (assuming no acquisitions)