

# DNB Bank: Strategy Consistency and Preparing for the Future



**On 21 November 2017, DNB Bank held a Capital Markets Day to provide investors with a strategy update. We note the continuity and consistency of the strategy as well as the actions management is taking to ensure DNB's leading position in an evolving banking landscape. DNB's Issuer Rating is AA-, with a Stable Outlook.**

## Reassuring solvency position to be maintained

DNB has been bolstering its capital position for several years now driven by regulatory demands and currently targets a CET1 ratio of around 16.1% based on Basel 1 transitional rules. This target incorporates the latest increase in the Pillar 2 requirement to 1.6% from 1.5% and a management buffer of around 1%. As of 30 September 2017, the bank's CET1 and leverage ratios were 16.3% and 7.1%, respectively.

For year-end 2019, DNB continues to target a ROE above 12% and a cost-income ratio below 40%. Management considers the targets to be ambitious but achievable. For 9M 2017, the ROE was about 10.6% and the annualized cost-income ratio was 43.8%.

On the revenue side, drivers include higher volumes supported by a positive Norwegian macro outlook, a strengthened position in the Baltics due to the joint venture with Nordea, and developing further capabilities in capital-light businesses such as investment banking, asset management and payment initiatives. On the cost side, the bank's physical infrastructure has been largely addressed but the focus is now on the automation and digitalization of core processes, including credit processes, onboarding and more efficient sales and distribution.

## Further improvements to risk profile expected

The bank plans to further improve the risk profile of its loan book. From January 2018, a new non-core division comprised of about USD 10bn in shipping and oil-related exposures will be established, with the aim to reduce these exposures more quickly.

As of 30 September 2017, oil-related exposures were 6% of EAD (USD 14bn) and shipping exposures were 5% of EAD (USD 11bn). Since 2012, these more cyclical exposures have been reduced by 30% and 45%, respectively. Management also updated its impairment guidance for 2017-2018 to around 17bps of EAD (about USD 3.3bn). This compares to earlier guidance of up to NOK 18bn in provisions during 2016-2018 period. Impairments since 2016 have totaled NOK 9.5bn.

## Proactively addressing the digital challenge

DNB is taking measures to adapt its business to the evolving banking landscape. The CEO commented that banks need to disrupt themselves, otherwise others will do so for them. There were two compelling demonstrations of a new mobile payments platform developed by the bank. The Vipps app was launched in May 2015, allowing P2P transfers. Over 60% of the Norwegian population (above the age of 15) now use Vipps P2P. A year later, P2B was added. Over 45,000 businesses, associations and sports clubs now accept payments via Vipps P2B. The application can also be used instore and to pay invoices.

Vipps has now been spun-off with DNB retaining a 52% stake and with the remainder being held by over 100 Norwegian banks. Vipps will also be merging with BankAxept, the country's national payment system and BankID, an online authentication program to further expand the app's reach. The aim is to increase the number of transactions, particularly in e-commerce and invoice payments as P2B transfers are fee generating while P2P transfers are not.

### Analyst

Pauline Lambert  
[p.lambert@scoperatings.com](mailto:p.lambert@scoperatings.com)

### Investor Outreach

Michael Pinkus  
[m.pinkus@scoperatings.com](mailto:m.pinkus@scoperatings.com)

### Scope Ratings AG

Suite 301  
 2 Angel Square  
 London EC1V 1NY  
 Phone +44 20 3457 0444

### Headquarters

Lennéstraße 5  
 10785 Berlin  
 Phone +49 30 27891 0  
 Fax +49 30 27891 100  
 Service +49 30 27891 300

[info@scoperatings.com](mailto:info@scoperatings.com)  
[www.scoperatings.com](http://www.scoperatings.com)

Bloomberg: SCOP



## **DNB Bank: Strategy Consistency and Preparing for the Future**

### **Scope Ratings AG**

#### **Headquarters Berlin**

Lennéstraße 5  
D-10785 Berlin

Phone +49 30 27891 0

#### **London**

Suite 301  
2 Angel Square  
London EC1V 1NY

Phone +44 203-457 0 4444

#### **Oslo**

Haakon VII's gate 6  
N-0161 Oslo

Phone +47 21 62 31 42

#### **Frankfurt am Main**

Neue Mainzer Straße 66-68  
D-60311 Frankfurt am Main

Phone +49 69 66 77 389-0

#### **Madrid**

Paseo de la Castellana 95  
Edificio Torre Europa  
E-28046 Madrid

Phone +34 914 186 973

#### **Paris**

33 rue La Fayette  
F-75009 Paris

Phone +33 1 82 88 55 57

#### **Milan**

Via Paleocapa 7  
IT-20121 Milan

Phone +39 02 30315 814

[info@scoperatings.com](mailto:info@scoperatings.com)

[www.scoperatings.com](http://www.scoperatings.com)

### **Disclaimer**

© 2017 Scope SE & Co. KGaA and all its subsidiaries including Scope Ratings AG, Scope Analysis GmbH, Scope Investor Services GmbH (collectively, Scope). All rights reserved. The information and data supporting Scope's ratings, rating reports, rating opinions and related research and credit opinions originate from sources Scope considers to be reliable and accurate. Scope cannot however independently verify the reliability and accuracy of the information and data. Scope's ratings, rating reports, rating opinions, or related research and credit opinions are provided "as is" without any representation or warranty of any kind. In no circumstance shall Scope or its directors, officers, employees and other representatives be liable to any party for any direct, indirect, incidental or otherwise damages, expenses of any kind, or losses arising from any use of Scope's ratings, rating reports, rating opinions, related research or credit opinions. Ratings and other related credit opinions issued by Scope are, and have to be viewed by any party, as opinions on relative credit risk and not as a statement of fact or recommendation to purchase, hold or sell securities. Past performance does not necessarily predict future results. Any report issued by Scope is not a prospectus or similar document related to a debt security or issuing entity. Scope issues credit ratings and related research and opinions with the understanding and expectation that parties using them will assess independently the suitability of each security for investment or transaction purposes. Scope's credit ratings address relative credit risk, they do not address other risks such as market, liquidity, legal, or volatility. The information and data included herein is protected by copyright and other laws. To reproduce, transmit, transfer, disseminate, translate, resell, or store for subsequent use for any such purpose the information and data contained herein, contact Scope Ratings AG at Lennéstraße 5 D-10785 Berlin.