

22 March 2013 | 7 pages

Diversified Banks (GICS) | Banks (Citi)
Europe | Norway

DNB ASA (DNB.OL)

Alert: Proposal for New Capital Rules, Negative Court Ruling

Proposal on Capital In-Line with Expectations — The Norwegian Ministry of Finance (MoF) today proposed new capital requirements for the Norwegian banks. The proposal is in-line with our expectations, as discussed in our note [DNB ASA \(DNB.OL\) - The Norwegian Finish: Capital Build But Limited Return](#). The outstanding question-mark remains the composition and timing of the countercyclical buffer, which could add up to 2.5% of core capital.

12% Core Tier 1 from 2016 — The MoF proposes a CT1 of 12% from 1 July 2016 for systemically important banks (we expect DNB will be in this category). We forecast a CT1 under transitional rules of 12.7% in 2015E. We forecast a 14.1% CT1 (fully loaded B3) on current mortgage risk weights – we estimate a 35% mortgage RWA floor would reduce it by c1.3% to 12.8%.

Mortgage Risk-Weights Pending — The mortgage risk-weight consultation will continue in coming months. In a recent response from the FSA, indications were that it could be up to 40%, which would be in-line with current transitional Basel rules (see note [DNB ASA \(DNB.OL\) - Mortgage Risk-Weights - Could it be 40%?](#)). We believe the potential impact of this is well understood by the market.

Countercyclical Buffers Still Outstanding — The MoF also proposes a countercyclical buffer of up to 2.5% – we have not seen any details of the timing and composition of this buffer.

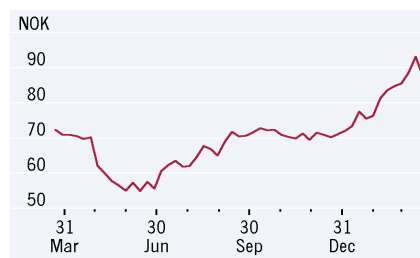
Reduced Capital Uncertainty — With the MoF's proposal of a 12% CT1 from 2016, the regulatory uncertainty is reduced. We expect DNB to achieve the proposed capital requirements with some margin in 2015, assuming a pay-out ratio of c25% in 2013-15E.

Negative Court Ruling — In other news, DNB today lost a case in the final high court whereby DNB will have to reimburse the loss a client incurred from a levered structured product sold over a decade ago. The Norwegian finance magazine *Dine Penger* has, according to Dagens Naringsliv (www.dn.no), estimated that Norwegian bank clients may have lost somewhere between Nkr11bn and Nkr14bn on similar products. The business daily also reported that the Norwegian equivalent of the financial ombudsman, Finansklagenemnda (FinKN), has c2,000 complaints pending for similar products, of which over half refer to DNB.

■ Company Update

Neutral	2
Price (22 Mar 13)	Nkr86.60
Target price	Nkr85.00
Expected share price return	-1.8%
Expected dividend yield	2.6%
Expected total return	0.8%
Market Cap	Nkr141,054M
	US\$24,153M

Price Performance (RIC: DNB.OL, BB: DNB NO)



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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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DNB ASA

Valuation

We use a two-stage dividend discount model (DDM) to value DNB, including the present value of 2012-15E dividends and a terminal value assuming zero growth at a sustainable RoE of 11.3%. We use a 10.75% cost of equity. We cross-check this valuation using: (1) justified price to book valuation; (2) comparable P/E and P/GOP valuation relative to the banks sector; and (3) comparable valuation relative to DNB's historical trading range and growth prospects. We set a target price of Nkr85 based on this methodology, equivalent to 1.0x '13E book value.

Risks

There are a number of risks and factors that could cause the share price to deviate from our target price. These include: (1) a slowdown in Norwegian banking growth or materially adverse developments in specialist markets such as shipping; (2) the Norwegian economy is an oil economy and thus exposed to price fluctuations which may impact the banking market; (3) adverse conditions in their markets division; and (4) regulatory risks relating to the implementation of capital adequacy rules for the bank and the bank's insurance operations. If the impact on the company from any of these factors proves to be greater or less than we anticipate, the stock may undershoot or outperform our financial forecasts and target price.

Appendix A-1

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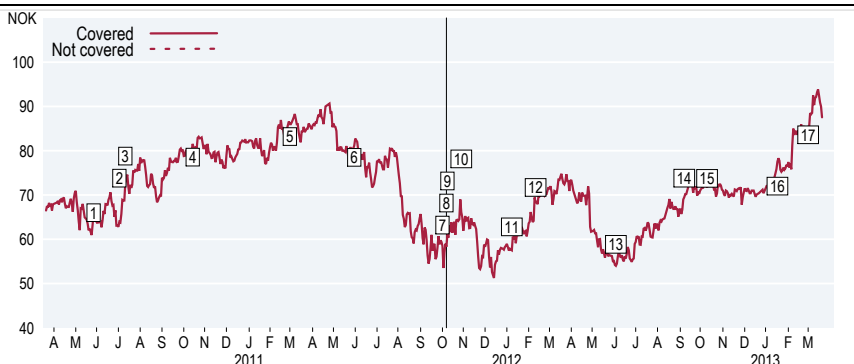
IMPORTANT DISCLOSURES

DNB ASA (DNB.OL)

Ratings and Target Price History Fundamental Research

Analyst: Ronit Ghose

Covered since January 18 2013



Date	Rating	Target Price	Closing Price
1 27-May-10	1M	*85.00	66.00
2 2-Jul-10	1M	*80.00	63.95
3 12-Jul-10	1M	*83.00	72.70
4 14-Oct-10	1M	*90.00	81.55
5 1-Mar-11	1M	*100.00	86.00
6 31-May-11	1M	*95.00	81.15

Date	Rating	Target Price	Closing Price
7 3-Oct-11	1M	*75.00	58.50
8 7-Oct-11	Stock rating system changed		
9 8-Oct-11	*1	75.00	58.30
10 28-Oct-11	1	*78.00	66.10
11 9-Jan-12	1	*71.00	57.50
12 10-Feb-12	1	*77.00	68.20

Date	Rating	Target Price	Closing Price
13 4-Jun-12	1	*75.00	54.00
14 7-Sep-12	1	*80.00	69.50
15 10-Oct-12	1	*83.00	71.70
16 17-Jan-13	*2	83.00	77.55
17 1-Mar-13	2	*85.00	85.25

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

DNB ASA (DNB.OL)

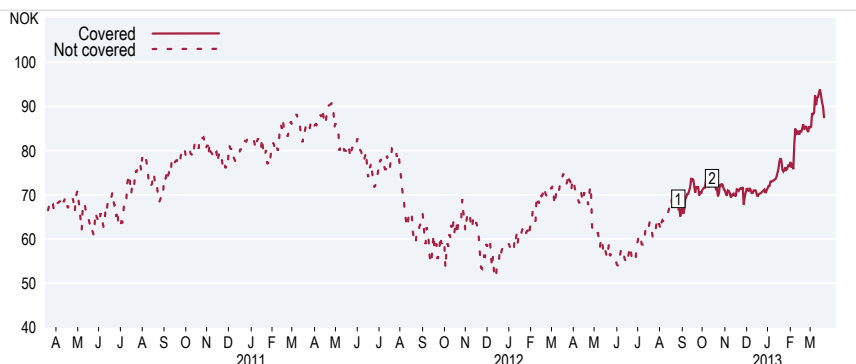
Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Ronit Ghose

Covered since January 18 2013



Date	Rating	Target Price	Closing Price
[1] 28-Aug-12	*ADD MP	-	66.70

* Indicates change

Date	Rating	Target Price	Closing Price
[2] 15-Oct-12	*REM MP	-	72.60

Rating/target price changes above reflect Eastern Standard Time

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Data current as of 31 Dec 2012

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% of companies in each rating category that are investment banking clients

12 Month Rating			Relative Rating		
Buy	Hold	Sell	Buy	Hold	Sell
49%	38%	12%	7%	86%	7%
53%	49%	45%	60%	49%	55%

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