Valuation different for digitalised banks?

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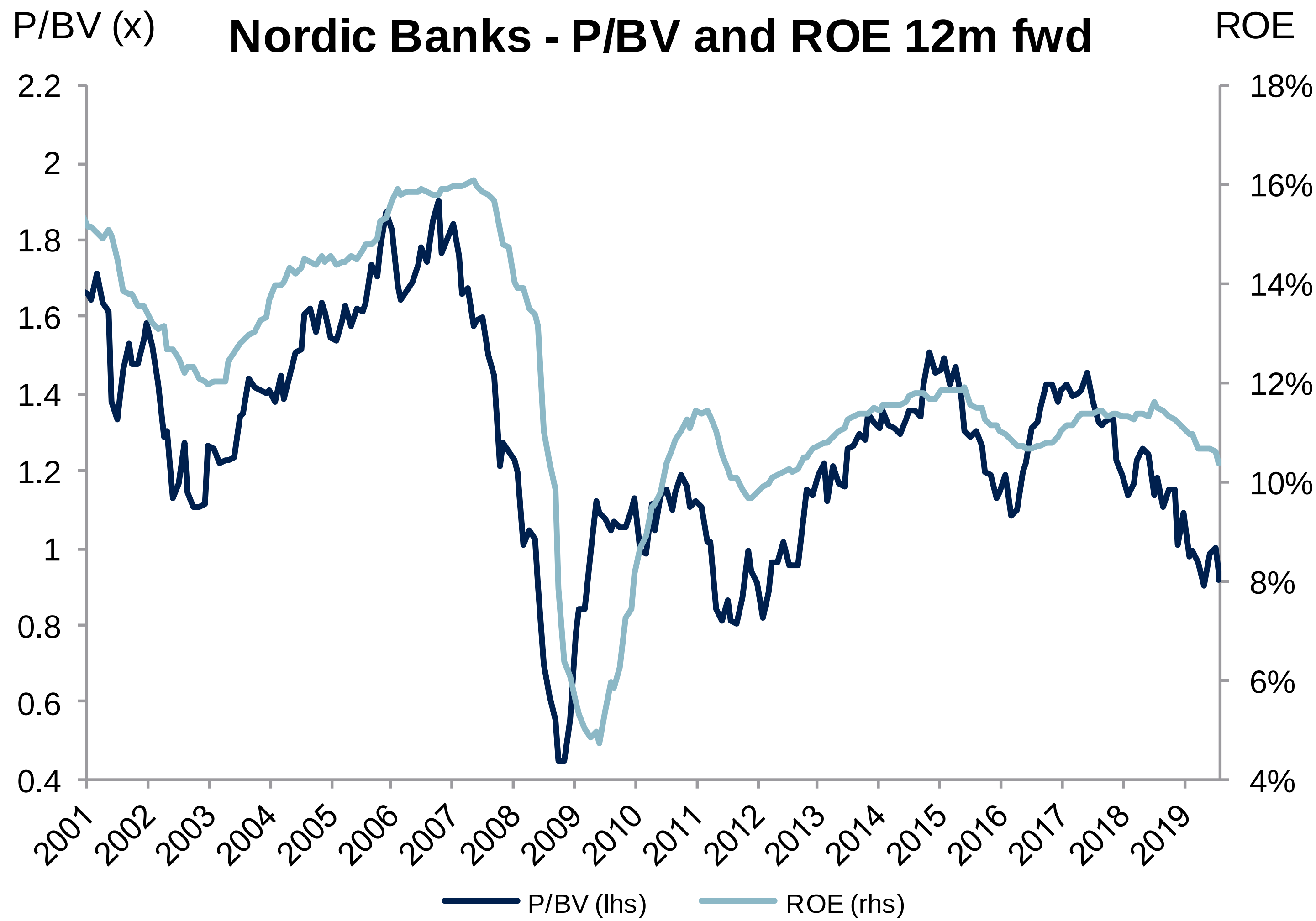
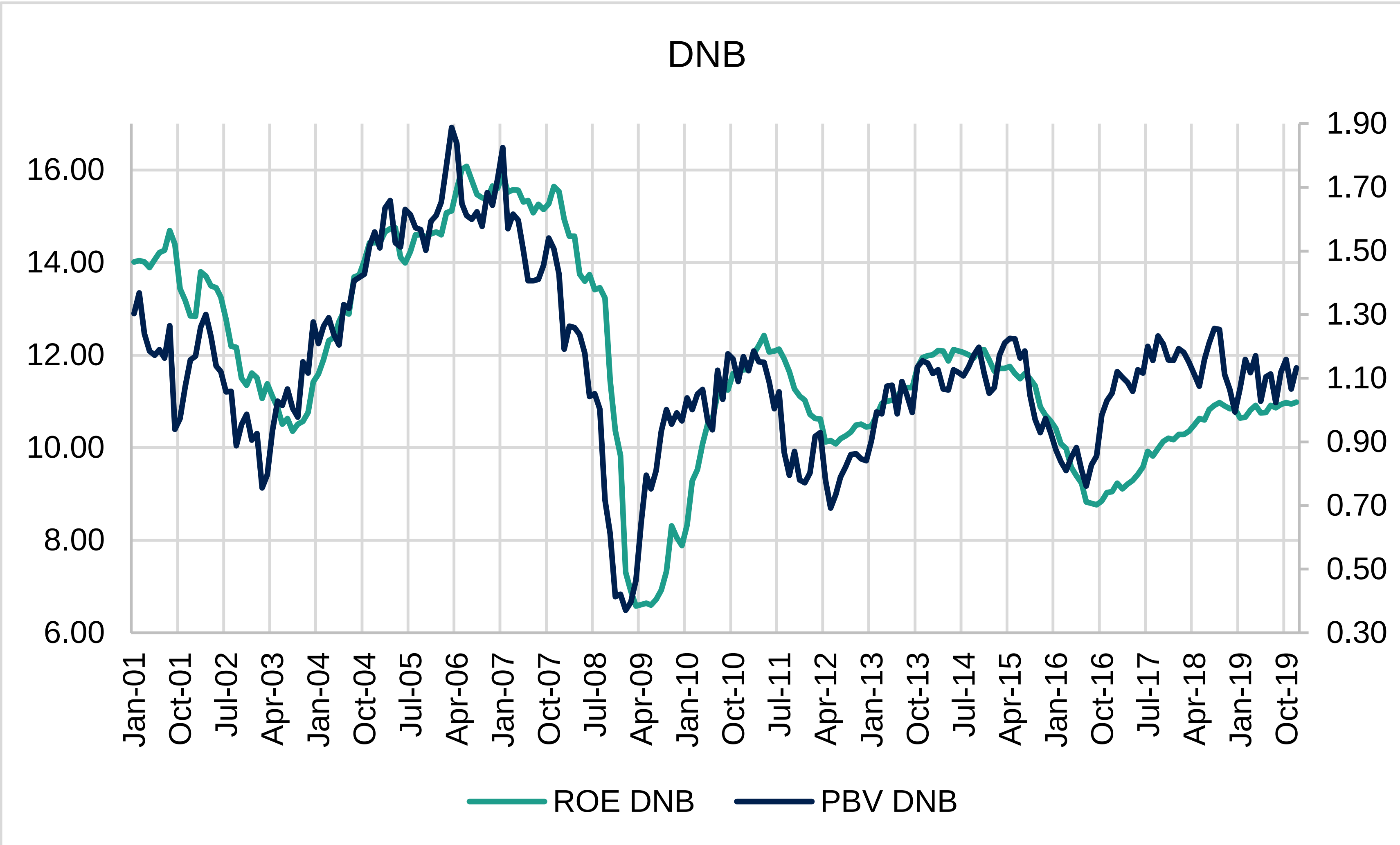
How we value a bank…fundamentally…ROE vs. P/BV

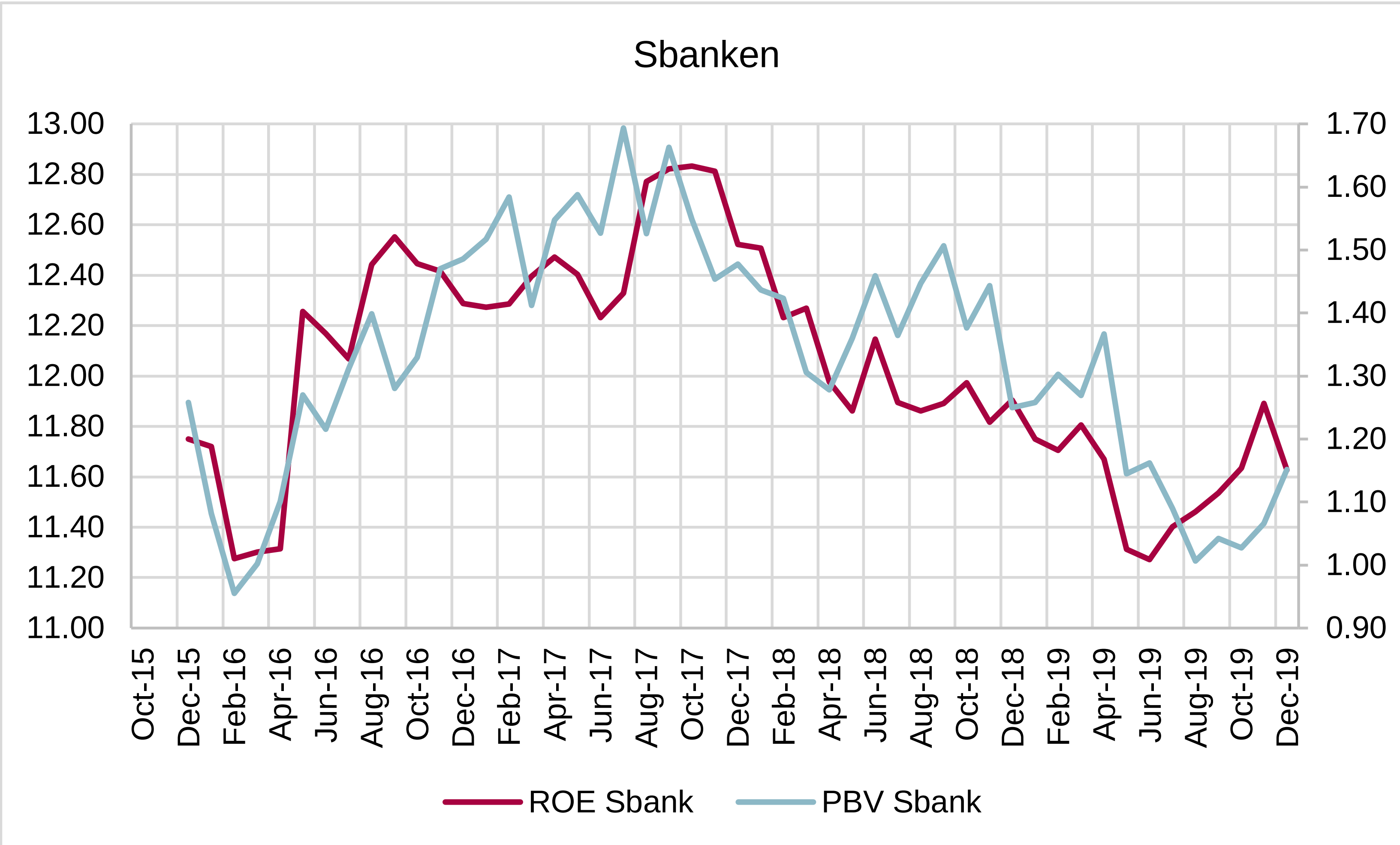


Source: Factset & ABGSC Research

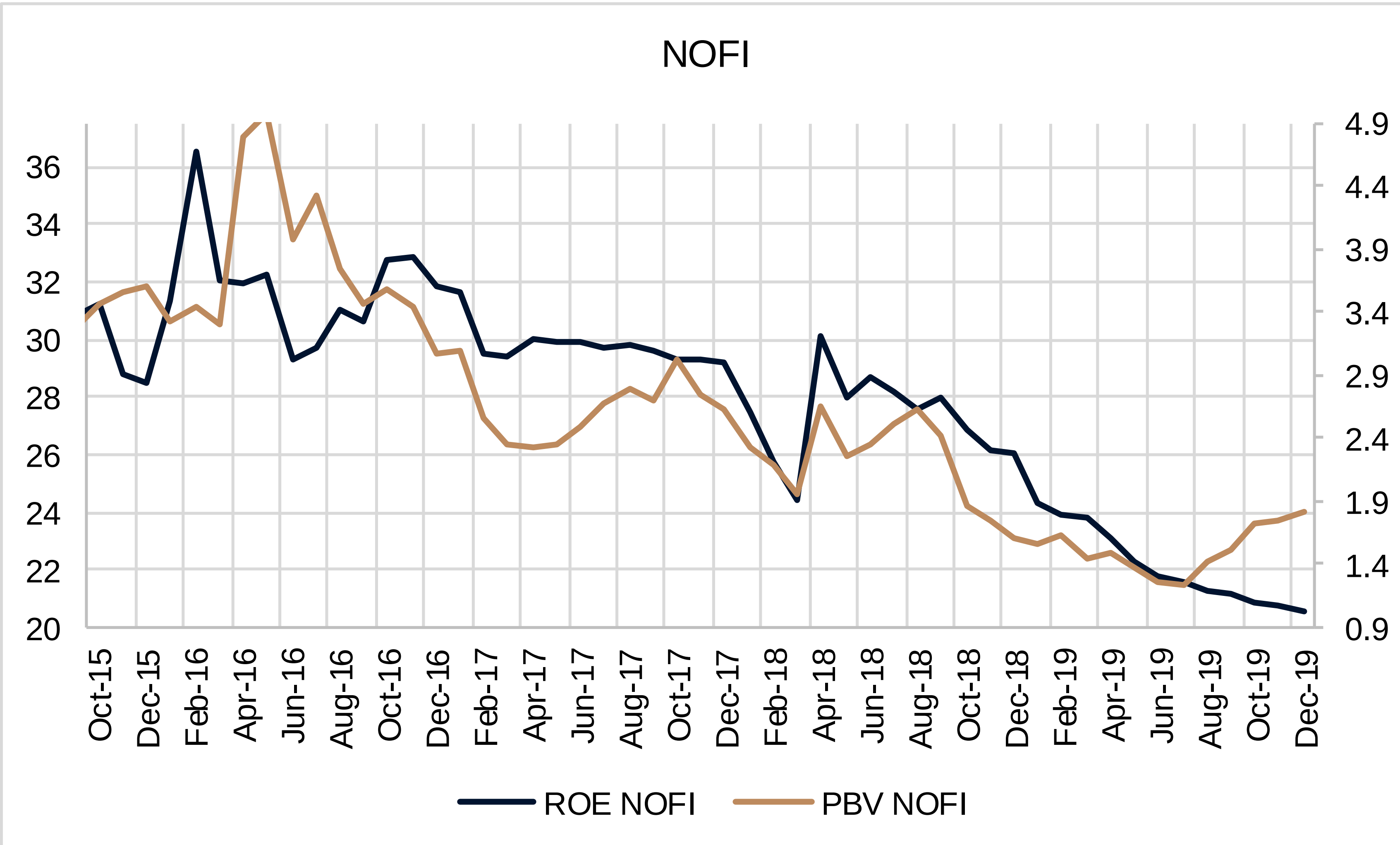
Any difference in banks with branches…



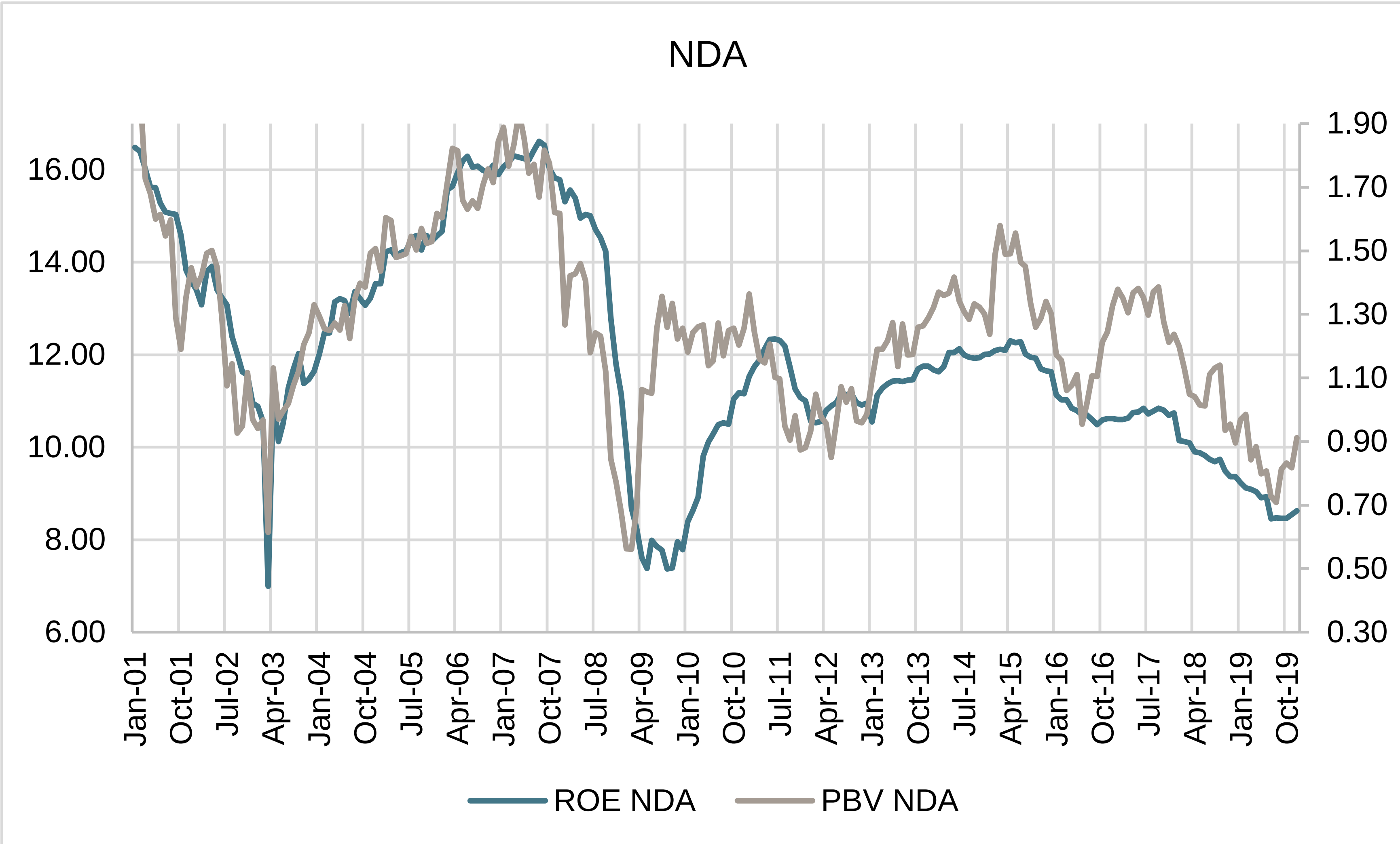
…vs. bank without branches – Sbanken
- it looks like it boils down to the ROE



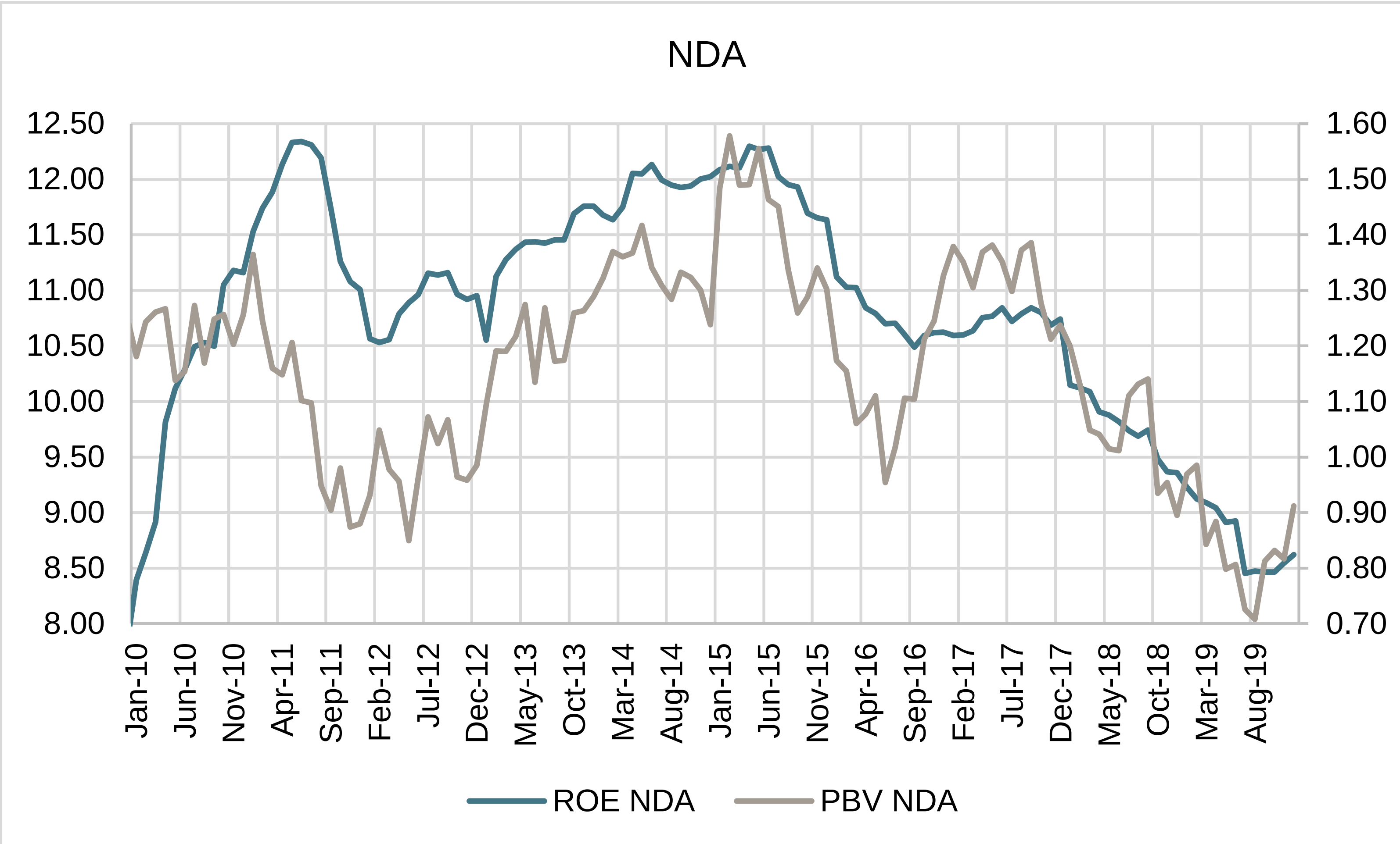
…vs. NOFI – does products have something to say?
- maybe? Or just higher ROE?



…so its not if you are digitalised or not
- its the ROE – look at Nordea 2000-2020



…or maybe its the
- its the ROE – look at Nordea 2010-2020



Costs:

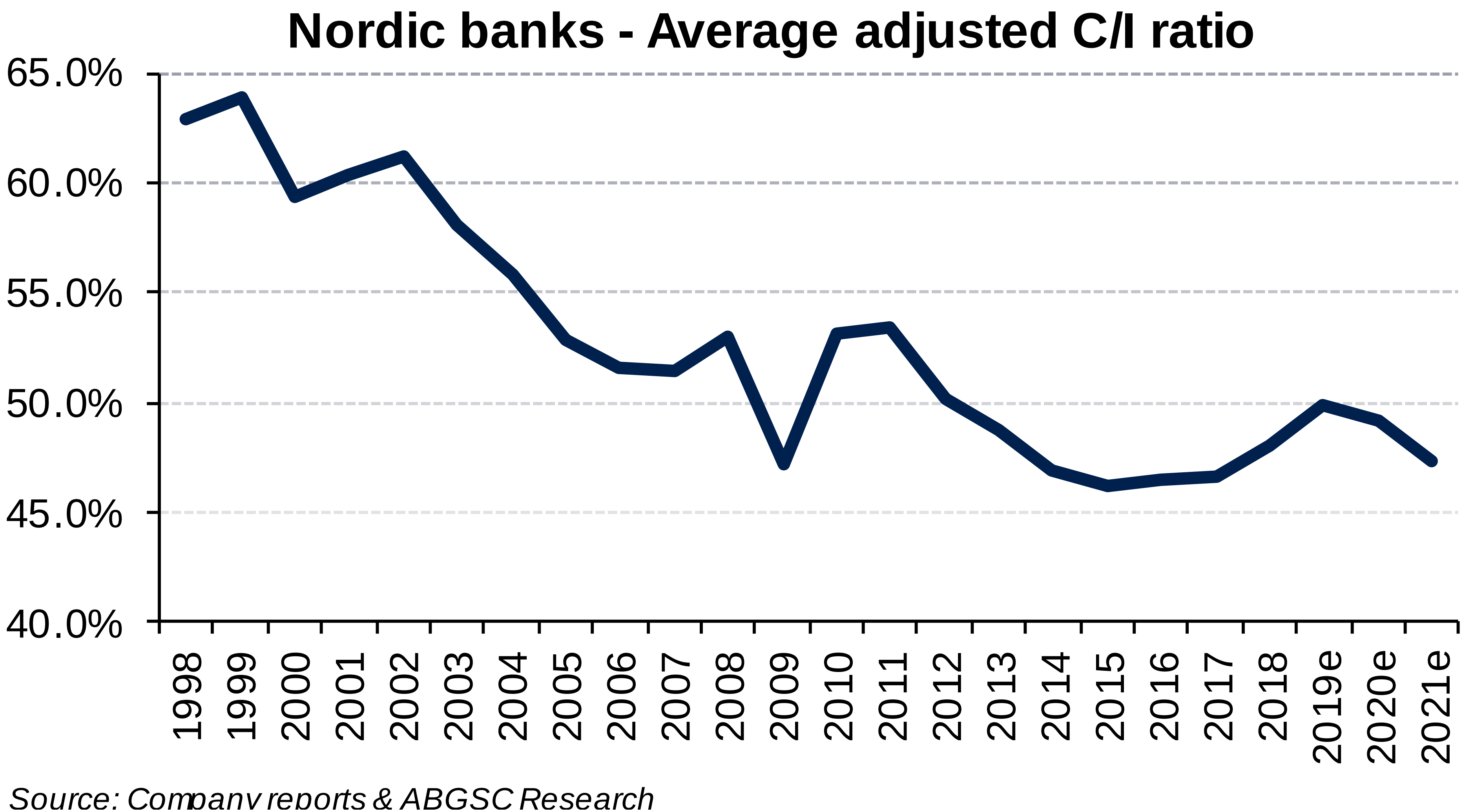
Old «rule of thumb»

- Cover costs by by net interest income…

That is no longer the case

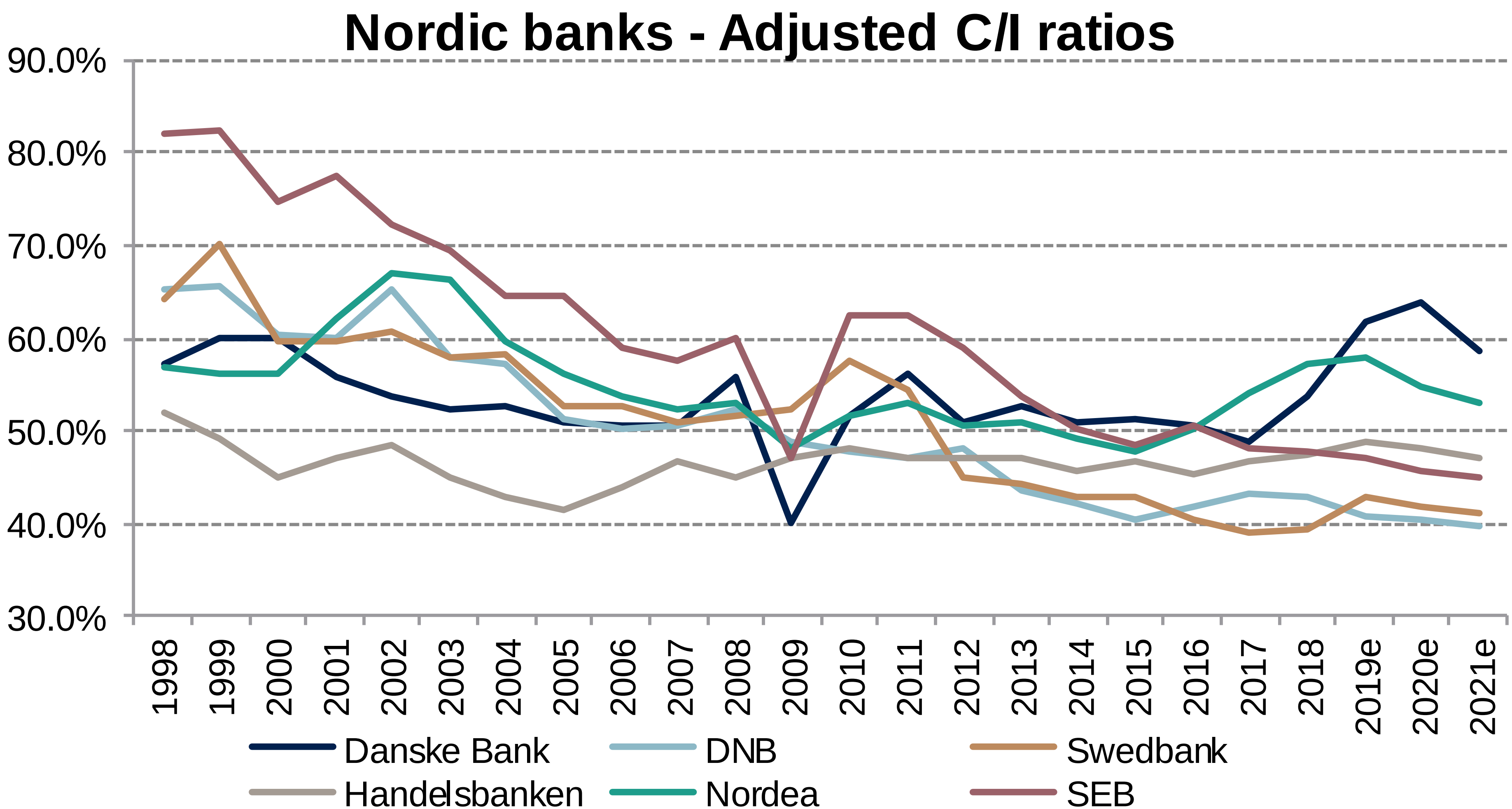
…must go towards 25% !!!

ROE contributors for Nordic banks:
- Cost-efficiency, been extremely important
- Nordic banks looks good in an European perspective…



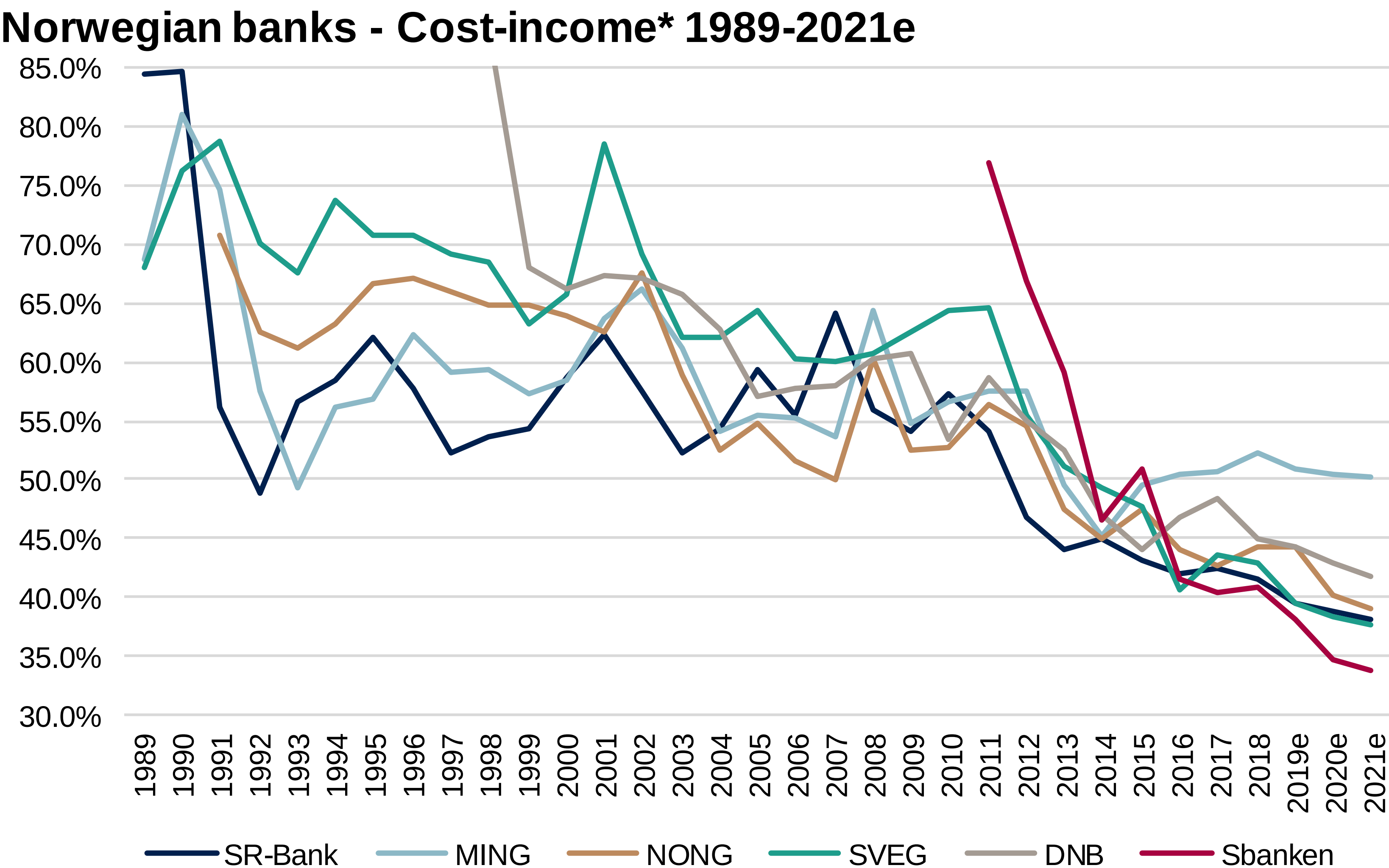
 Source: ABG Sundal Collier, Company reports, Nordics banks are Danske Bank and its predecessors, DNB and its predecessors, Nordea and its predecessors, SHB, SEB and Swedbank and its predecessors.

…but there is a negative pattern of late from IT and AML-costs



Source: Company reports & ABGSC Research

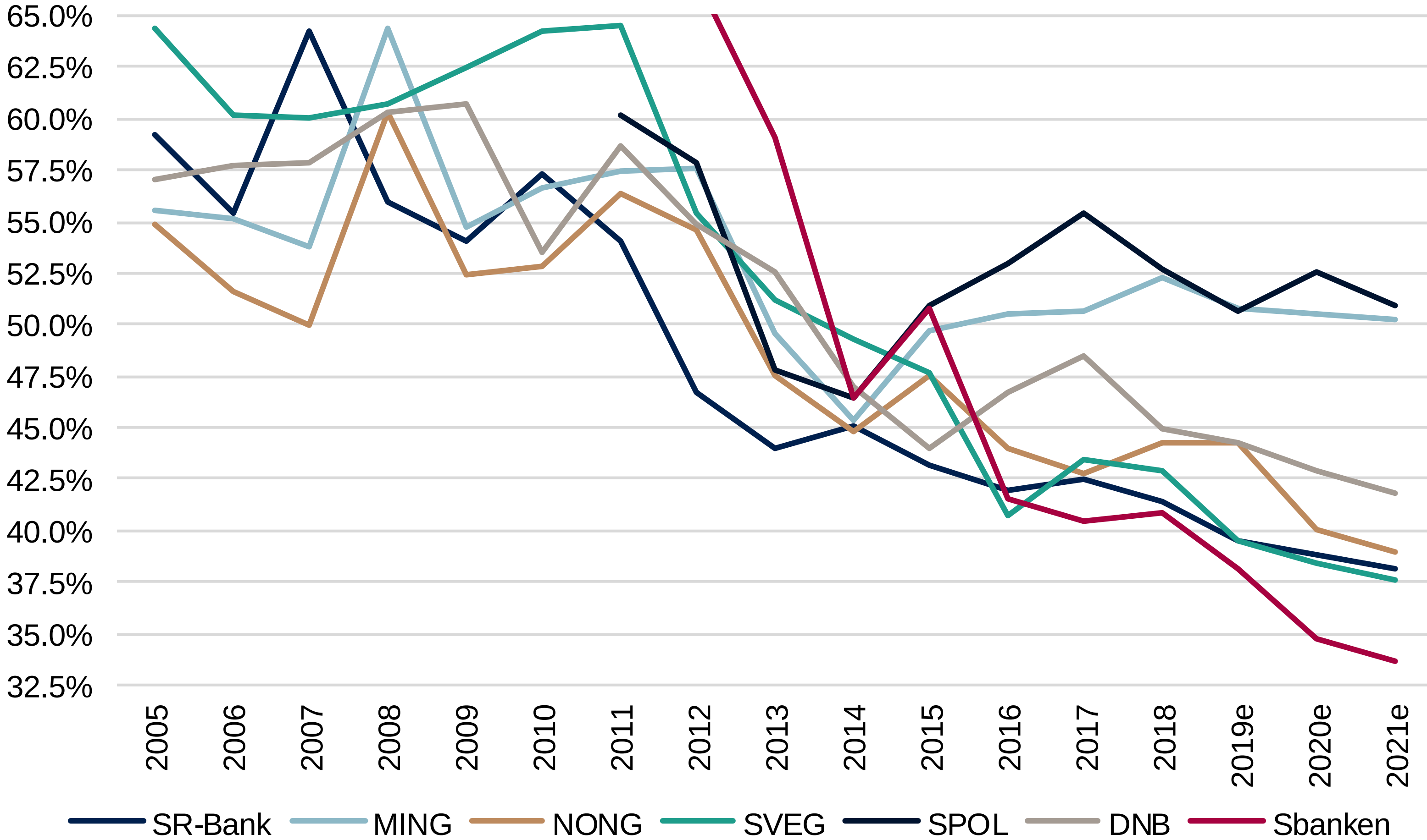
Norwegian banks – cost-to-income



*Source: Bank's reports and ABGSC calc. * Cost-income-ratio ex. trading*

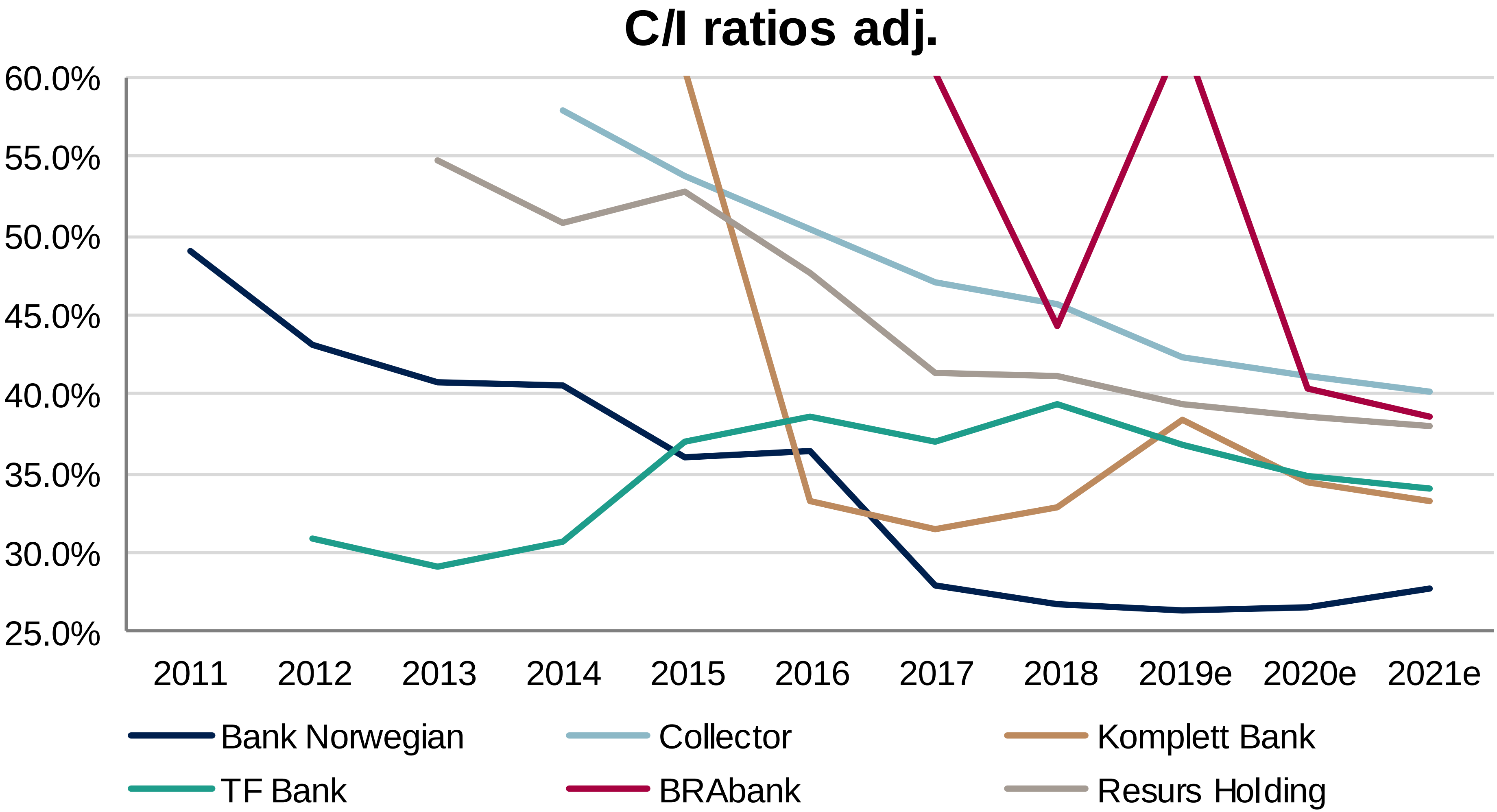
… and have really understood its competition is not the old banks, but the new challengers

Norwegian banks - Cost income-ratio ex. trading



*Source: Bank's reports and ABGSC calc. * Cost-income-ratio ex. trading*

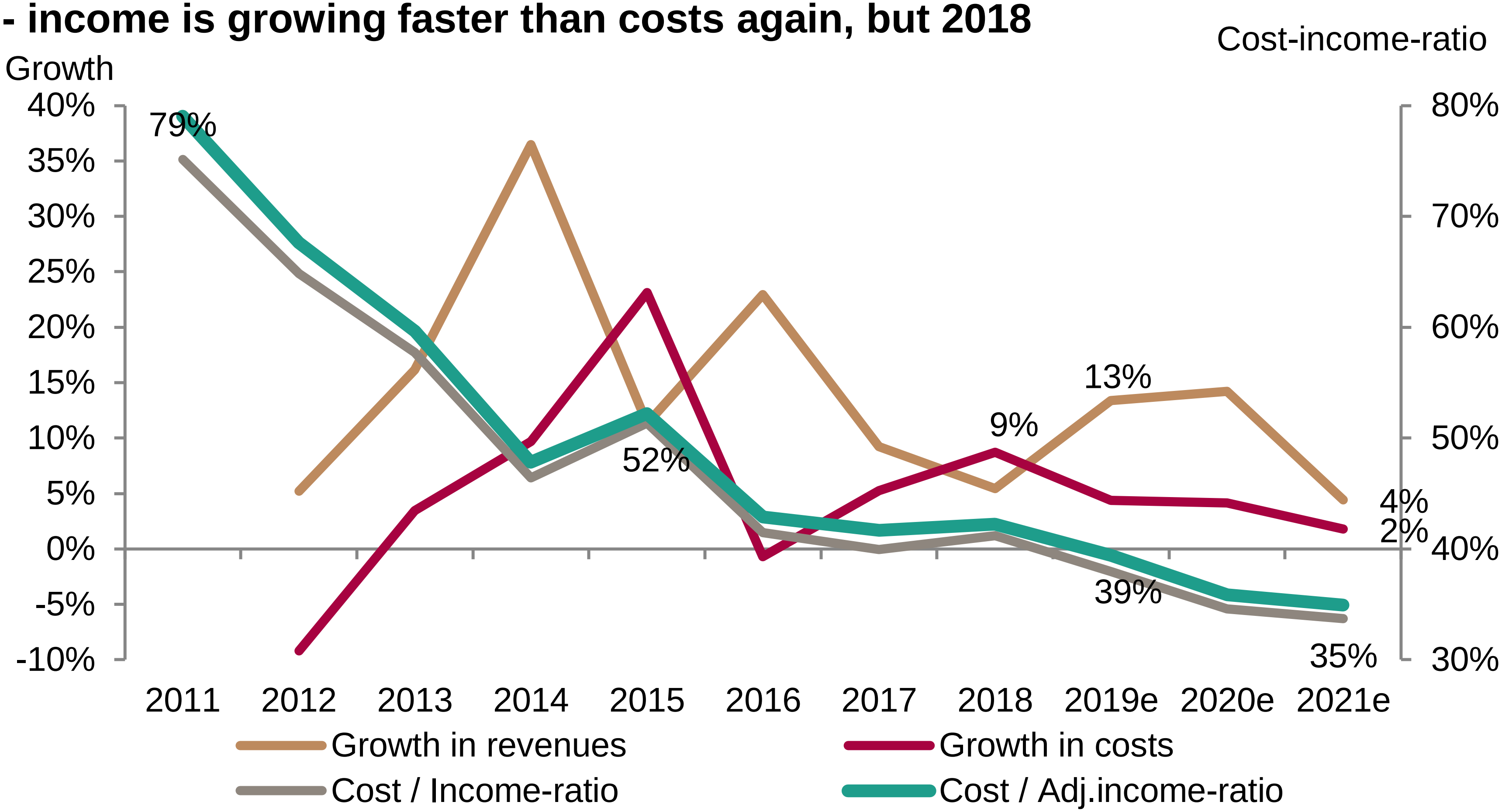
Challenger banks – like consumer banks
– is 25-30% C/I the norm going forward?



Source: Company reports & ABGSC Research

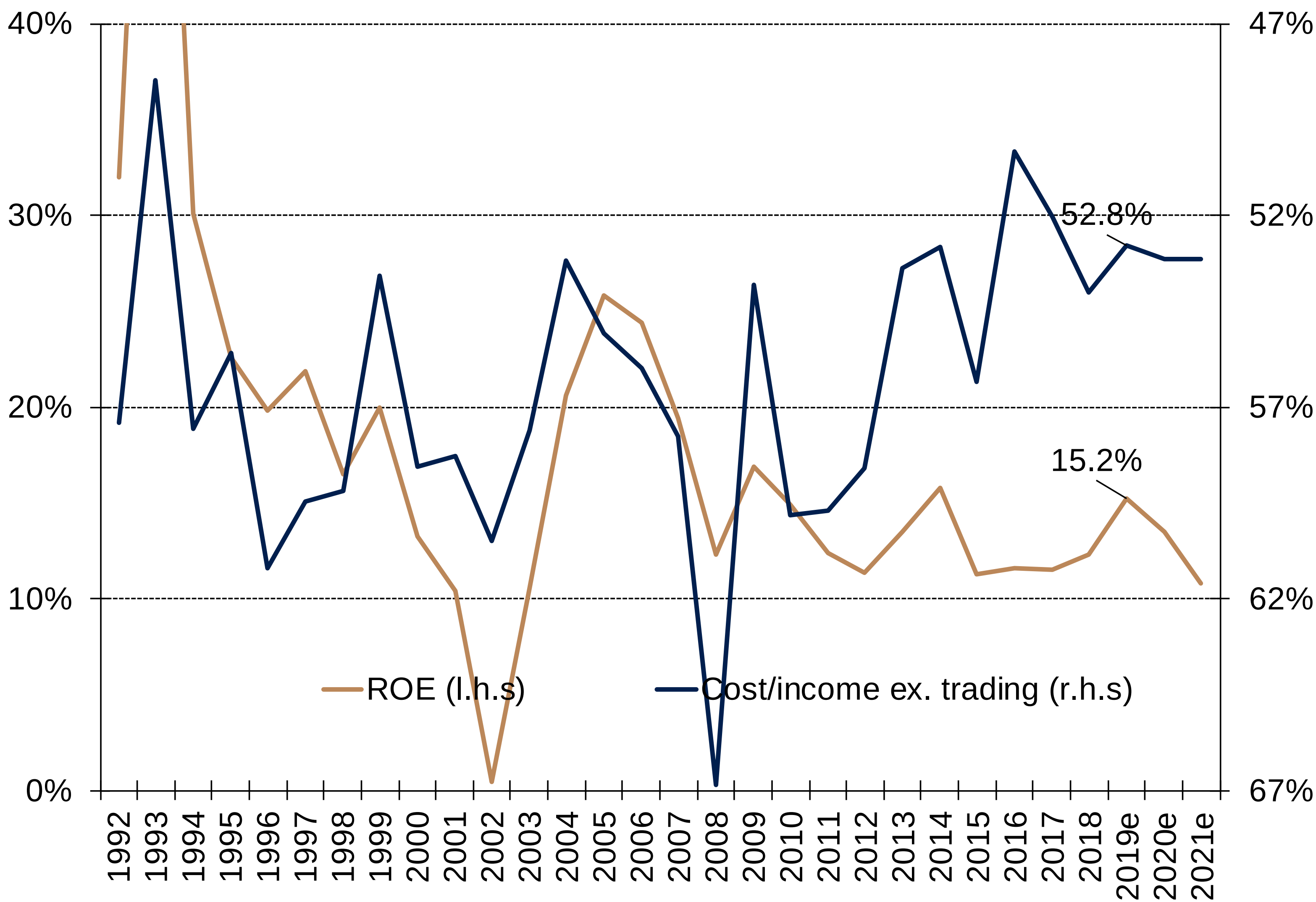
So costs vs ROE or just the positive jaws?

Sbanken - Cost-income-ratio improving
- income is growing faster than costs again, but 2018

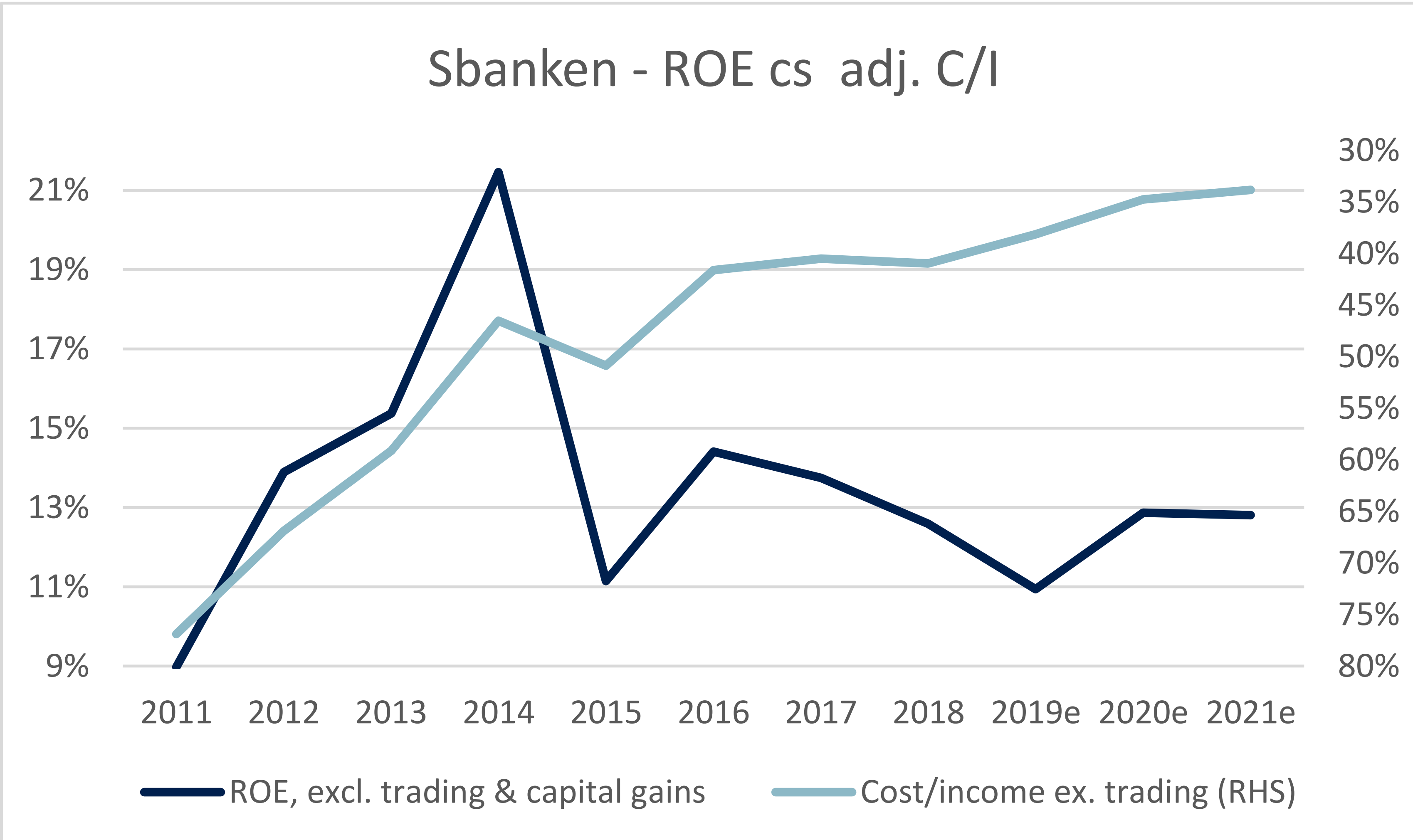


Source: Sbanken's interim report, ABG Sundal Collier.

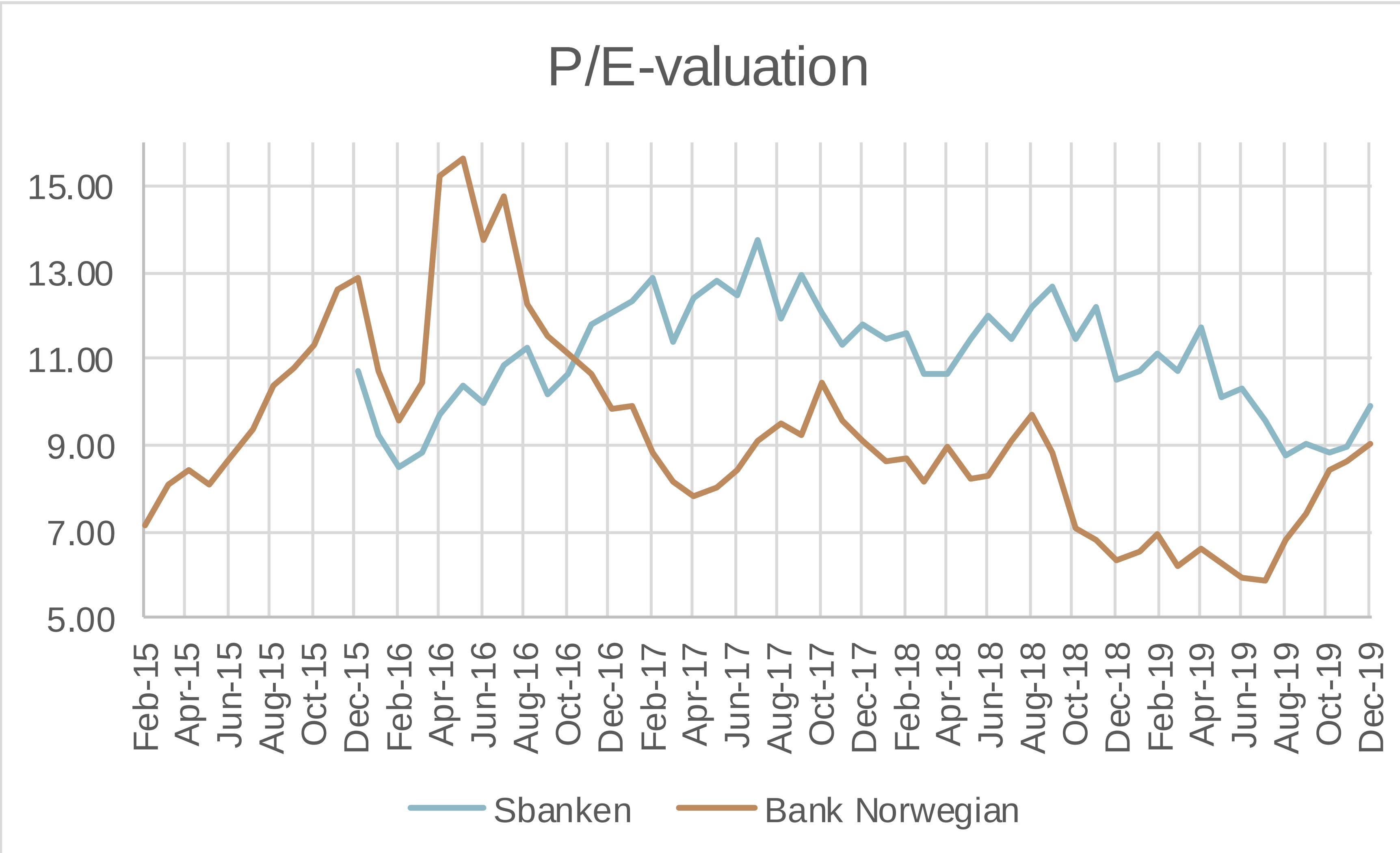
ROE and costs - MING



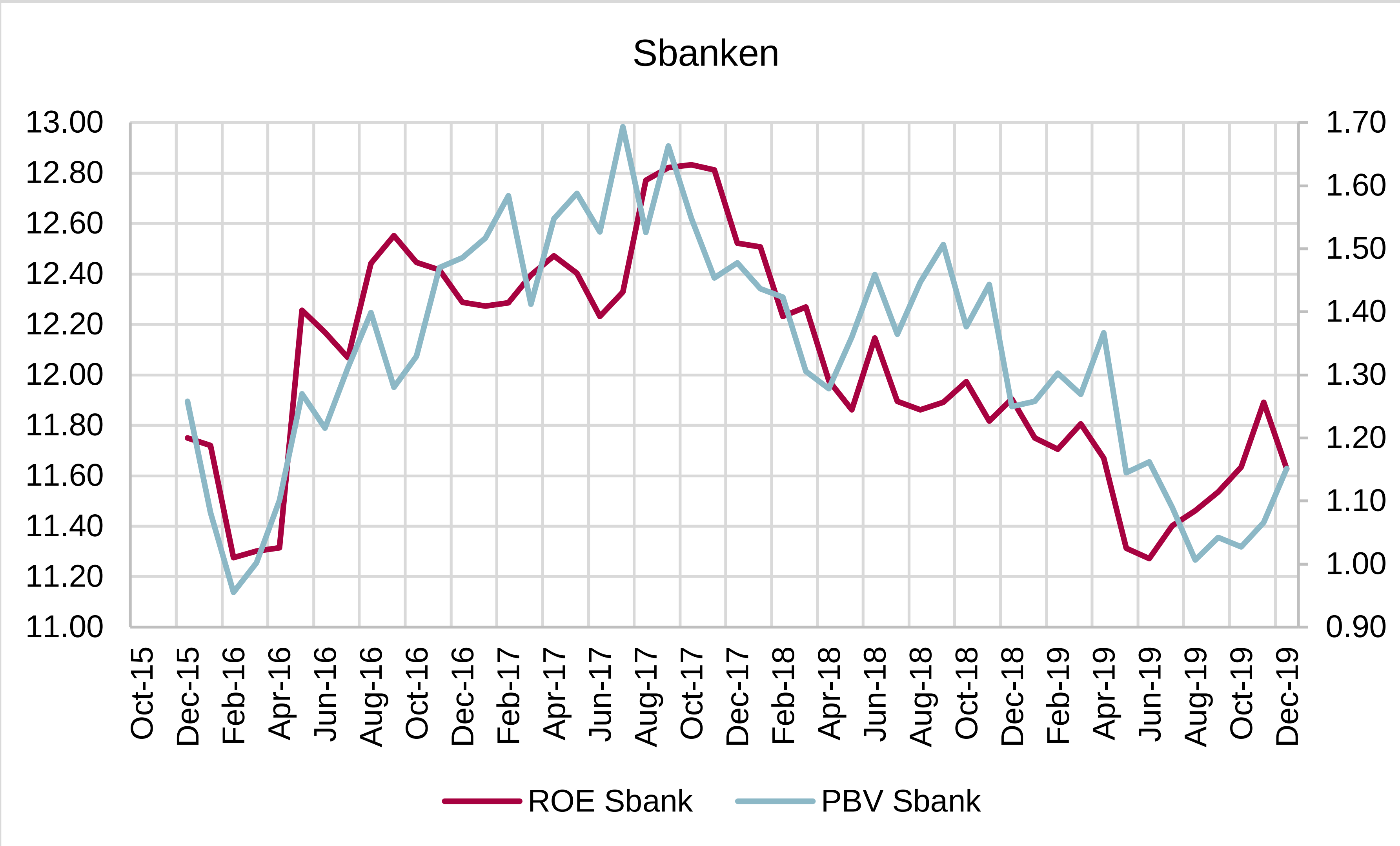
In the old days this worked…as there was not so much capital



Sbanken & NOFI - P/E-valuation



…at the end of the day - *it looks like it boils down to the ROE*

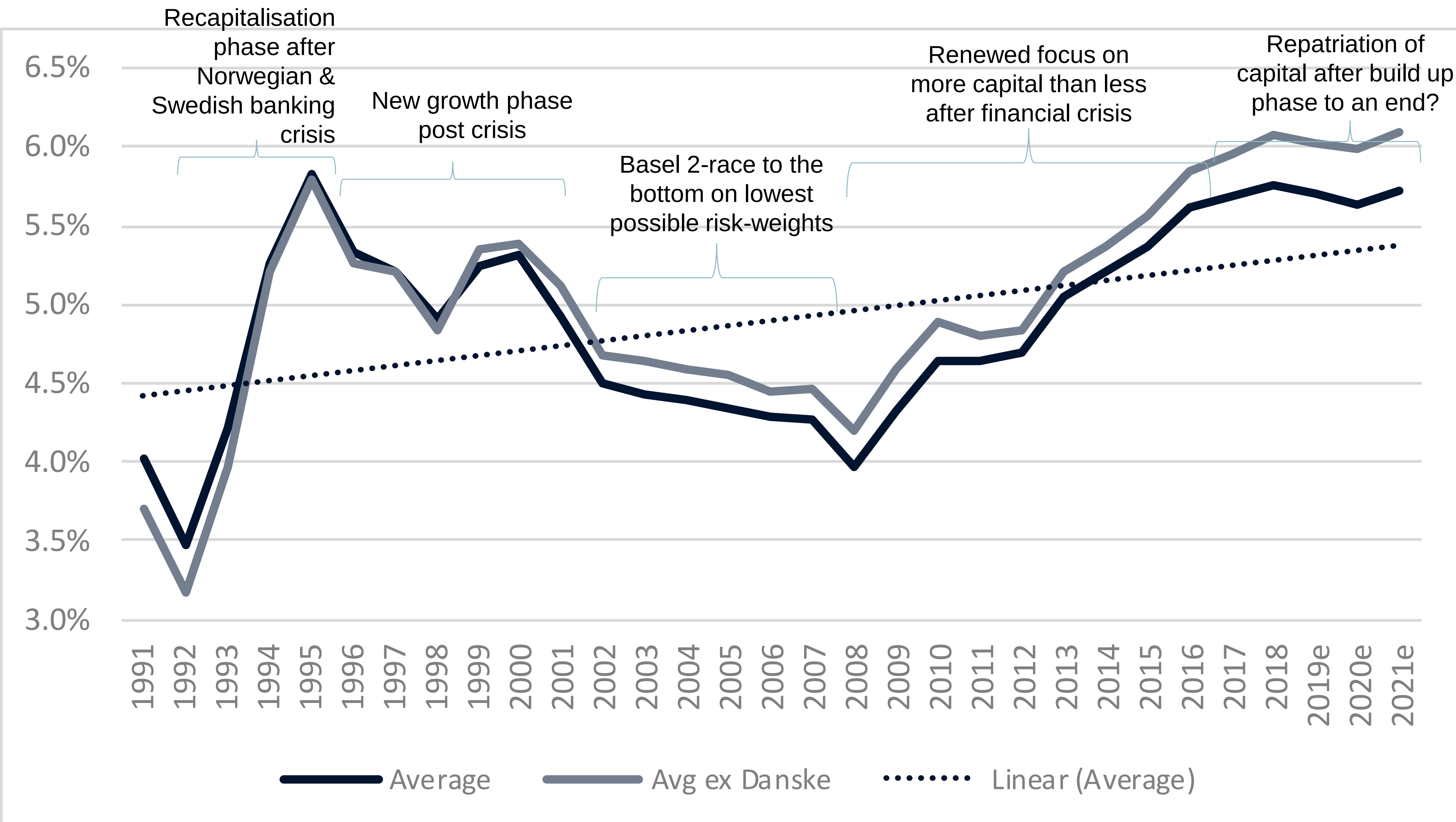


Questions??

Capital is a scare resource, and

needed for growth!

From Basel 1 to Basel 4!
- long term linear trend up from 4.5% to 5.5%-leverage ratio in the Nordics



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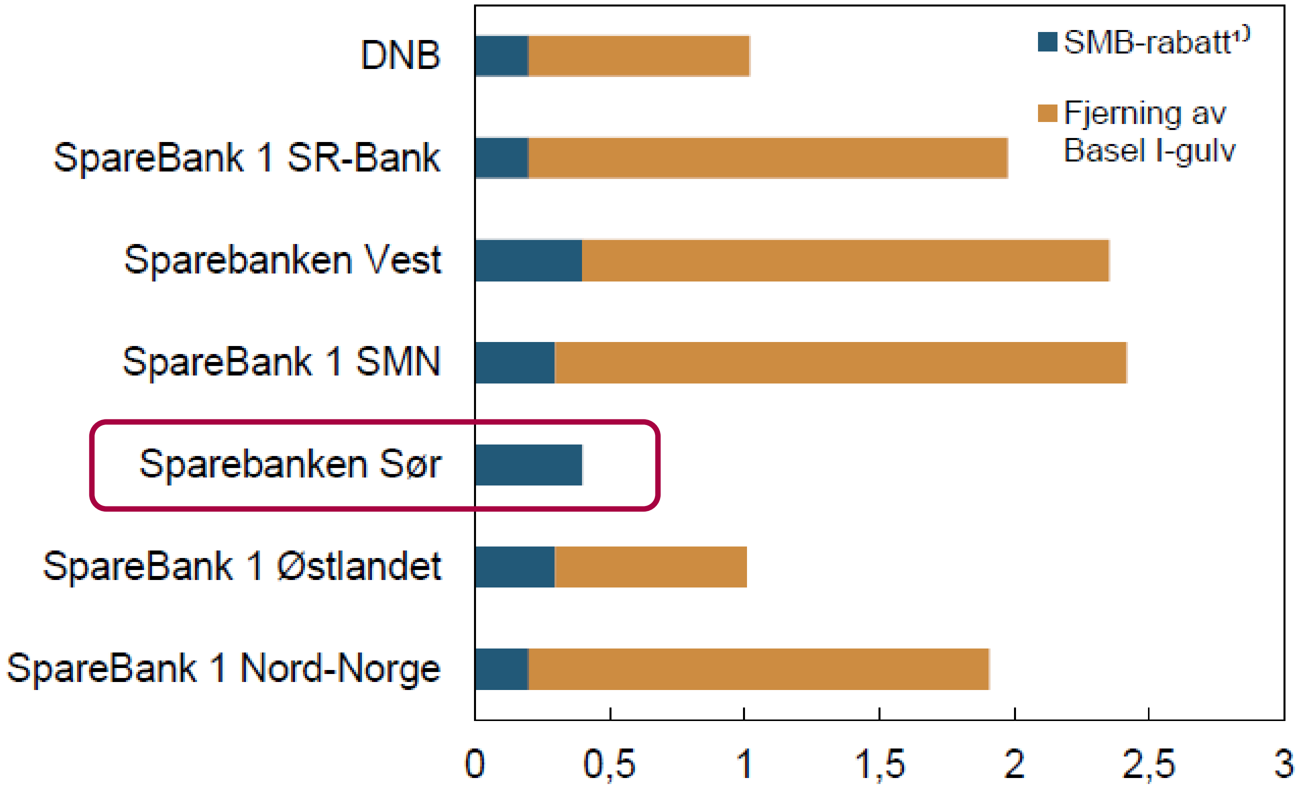
Capital levels, once must hold between 15-17% CET1-req
- banks hold 17-19%, like to have a mgmt. buffer

Estimated management buffer levels in 2019-21e	DB	DNB	NDA	SEB	SHB	SWB
CET1 ratio (2019e)	16.7%	18.3%	15.6%	16.5%	17.6%	16.6%
CET1 ratio (2020e)	17.1%	18.5%	15.9%	16.6%	17.7%	17.4%
CET1 ratio (2021e)	16.9%	18.8%	16.5%	16.8%	17.9%	18.3%
Local FSA CET1 ratio requirement (2019e)	14.3%	16.9%	13.1%	14.7%	15.6%	15.1%
Local FSA CET1 ratio requirement (2020e)	14.8%	16.9%	13.2%	15.1%	16.0%	15.5%
Local FSA CET1 ratio requirement (2021e)	14.8%	16.9%	13.2%	15.0%	15.9%	15.5%
Buffer to the min. local FSA requirement (2019e)	**2.4%**	**1.4%**	**2.5%**	**1.8%**	**2.0%**	**1.5%**
Buffer to the min. local FSA requirement (2020e)	**2.3%**	**1.6%**	**2.7%**	**1.5%**	**1.7%**	**1.8%**
Buffer to the min. local FSA requirement (2021e)	**2.2%**	**1.9%**	**3.3%**	**1.8%**	**2.0%**	**2.8%**
Management buffer targets	150-200bps	100bp	150-200bps	~150bp	100-300bps	100-300bps

Source: SFSA, company reports & ABGSC Research

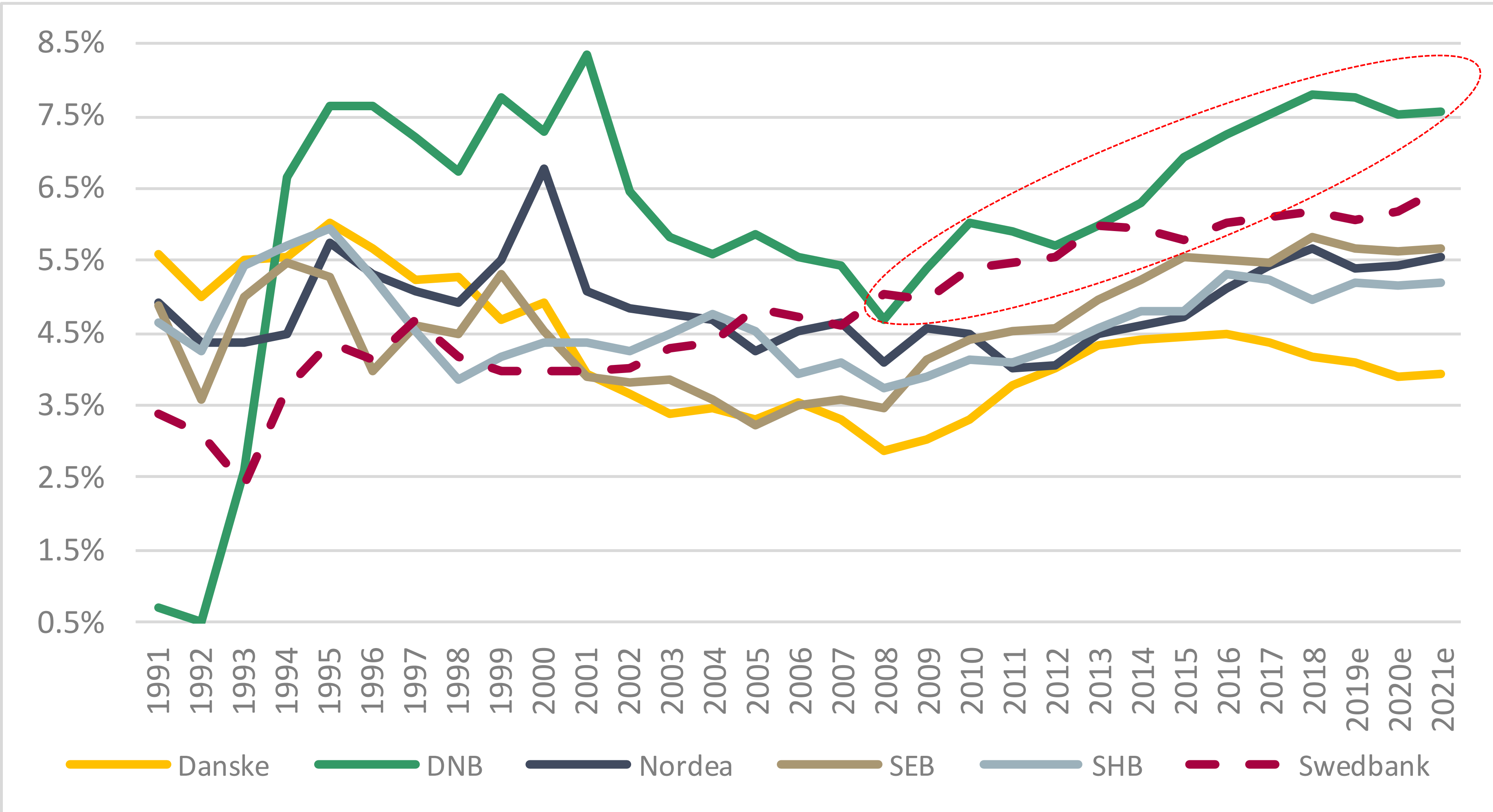
Norway about to tranfer to CRD4/Basel 3
– *easier for IRB, less so for non-IRB-banks*

Figur 2.12 Effekt på ren kjernekapitaldekning av innføring av CRR/CRD IV. Største norskeide bankkonsern. Prosentenheter. Per 30. juni 2019



1) Anslag fra bankene.
Kilde: Bankenes kvartalsrapporter og kvartalspresentasjoner

Huge variation among banks on simple leverage ratio
– DNB's continue to increase, like most savings banks



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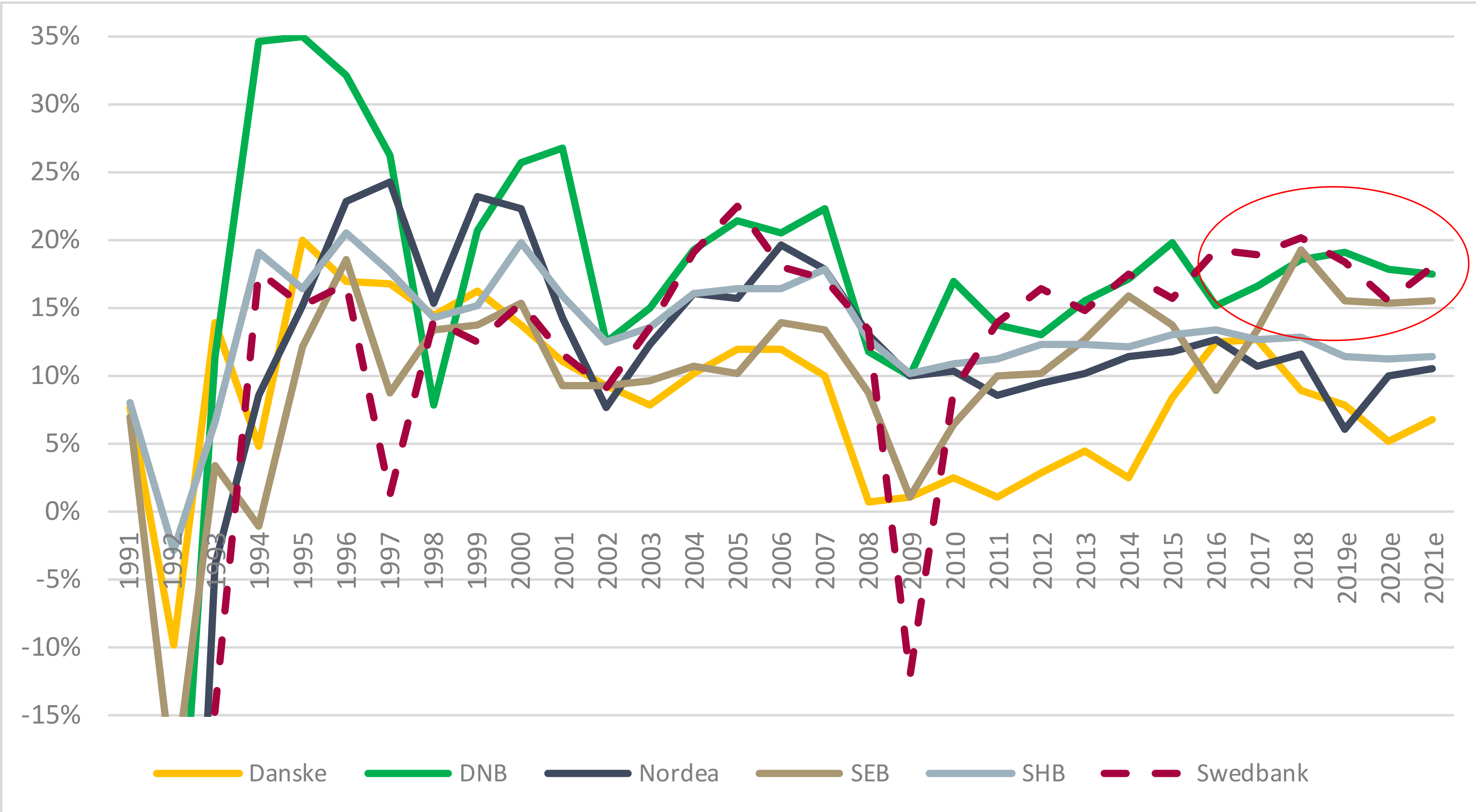
Adj. return on equity between 15-20%, for DNB, SWED & SEB

- all banks had same (simple) leverage ratio of 4.7%



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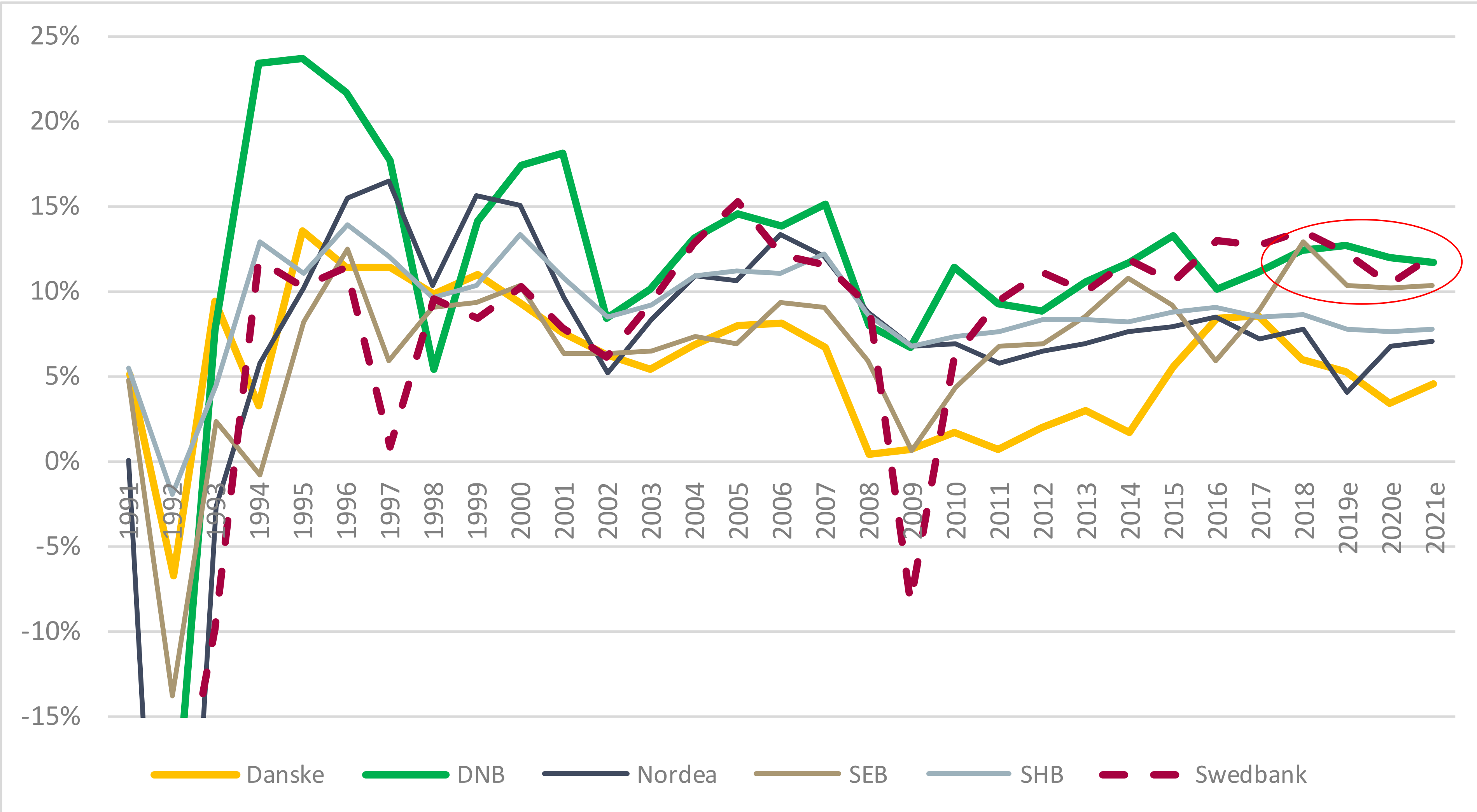
Adj. return on equity just above 10%, for DNB, SWED & SEB

- all banks had same (simple) leverage ratio of 7%(!)



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How banks can make high ROE in a low rate environment

- Increase its **risk-adjusted margins**
- Increase capital light commission and fees
  - i.e. improve sale of **capital light** insurance products, life & non-life, AM, real estate
- Continue the **cost-efficiency**
- Avoid **loan losses**, as margins in general are too low
- Improve the leverage, **distribute capital** if possible

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