

## *ENCLOSURE TO FINANSTILSYNET's PRESS RELEASE 14/2014*

**29 April 2014**

### **THE EBA 2014 EU WIDE STRESS TEST OF BANKS - MACROECONOMIC SCENARIOS FOR NORWAY**

The European Banking Authority (EBA) released on 29 April 2014 its methodology and macroeconomic scenarios for the 2014 EU-wide stress test. The published macroeconomic scenarios contain country specific macro variables for both baseline and adverse scenarios for all EU countries, but not for Norway. DNB Bank is the only Norwegian and only non-EU bank taking part in the EU-wide stress test. The only macroeconomic variables published for Norway are deviations from baseline for GDP and inflation, respectively.

As a result, the Central Bank of Norway (Norges Bank) and the Financial Supervisory Authority of Norway (Finanstilsynet) has developed the relevant macroeconomic scenarios for Norway. The following approach is chosen:

#### Baseline scenarios:

- Norges Bank's baseline projections for Norwegian GDP excluding petroleum, CPI, unemployment and house prices are used as baseline scenarios in the stress test, see Monetary Policy Report 1/2014.
- Norges Bank does not produce baseline projections for commercial real estate prices and long-term government bond yields. The following simplified assumptions are made for these variables:
  - *Commercial real estate prices*: Assumed to follow the development in house prices.
  - *Long-term government bond yields*: Assumed to follow the development in long-term EU government bond yields.

#### Deviations from baseline scenarios:

- All deviations from baseline are assumed to equal the unweighted average deviations from baseline for Sweden, Denmark, Finland, Germany, the Netherlands and the UK.
- For simplicity's sake, EUR/NOK is assumed to be fixed at the 2013 level.

Norges Bank and Finanstilsynet have chosen this approach with a view seeking stress scenarios close to those applied in the common EU stress test. It should be mentioned that both Norges Bank and Finanstilsynet are conducting separate stress tests on DNB Bank and other banks based on their own macro and stress testing models.

The relevant macroeconomic scenarios for Norway are outlined in the tables below.<sup>1</sup> All other details relevant for the stress test are given in the documents of the EBA press release package.

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<sup>1</sup> The tables refer to the corresponding tables in the document "EBA/SSM stress test: The macroeconomic adverse scenario" which is published as part of the EBA press release.

**TABLES:**

**Table 2. Long-term government bond yield shocks**  
(level of bond yields in per cent)

	Baseline in %				Adverse in %		
	2013	2014	2015	2016	2014	2015	2016
Norway	2,9	3,0	3,3	3,4	4,5	4,4	4,5
<b>European Union</b>	<b>2,8</b>	<b>2,9</b>	<b>3,2</b>	<b>3,3</b>	<b>4,4</b>	<b>4,3</b>	<b>4,4</b>

**Table 3. Equity price shocks**  
(in percentage deviations from baseline levels)

	2014	2015	2016
Norway	-17,8	-15,8	-18,0
<b>European Union</b>	<b>-18,6</b>	<b>-16,6</b>	<b>-19,2</b>

**Table 6. House price shocks**  
(percentage deviations from baseline levels)

	2014	2015	2016
Norway	-9,0	-14,4	-14,4
<b>European Union</b>	<b>-8,7</b>	<b>-14,0</b>	<b>-14,0</b>

**Table 7. Funding shock impact on real GDP growth**  
(percentage deviations from baseline levels)

	2014	2015	2016
Norway	-0,03	-0,07	-0,10
<b>European Union</b>	<b>-0,04</b>	<b>-0,09</b>	<b>-0,13</b>

**Table 9. Baseline and adverse scenario paths for real GDP**  
(growth rates in per cent)

	Baseline growth in % <sup>2</sup>				Adverse growth in % <sup>3</sup>		
	2013	2014	2015	2016	2014	2015	2016
Norway	2,0	1,8	2,5	3,0	-0,9	-0,6	3,8
<b>European Union</b>		<b>1,5</b>	<b>2,0</b>	<b>1,8</b>	<b>-0,7</b>	<b>-1,5</b>	<b>0,1</b>

**Table 10. Baseline and adverse scenario paths for price inflation**  
(growth rates in per cent)

	Baseline inflation in % <sup>4</sup>				Adverse inflation in % <sup>5</sup>		
	2013	2014	2015	2016	2014	2015	2016
Norway	2,1	2,0	2,0	2,2	1,6	0,9	0,6
<b>European Union</b>		<b>1,2</b>	<b>1,5</b>	<b>1,7</b>	<b>1,1</b>	<b>0,6</b>	<b>0,0</b>

<sup>2</sup> See Norges Bank's Monetary Policy Report 1/2014.

<sup>3</sup> See Table 8 in EBA/SSM-document.

<sup>4</sup> See Norges Bank's Monetary Policy Report 1/2014.

<sup>5</sup> See Table 8 in EBA/SSM-document.

**Table 11. Baseline and adverse scenario paths for the unemployment rate**  
(level in per cent)

	Baseline unemployment rate in %				Adverse unemployment rate in %		
	2013	2014	2015	2016	2014	2015	2016
Norway	3,5	3,8	4,0	4,0	4,6	6,7	7,8
<b>European Union</b>		<b>10,7</b>	<b>10,4</b>	<b>10,1</b>	<b>11,3</b>	<b>12,3</b>	<b>13,0</b>

**Table 12. Residential property price impact under baseline and adverse scenarios**  
(growth rates in per cent)

	Baseline inflation in %				Adverse inflation in %		
	2013	2014	2015	2016	2014	2015	2016
Norway	4,6	0,4	2,2	2,0	-11,2	-9,0	-4,0
<b>European Union</b>		<b>0,9</b>	<b>2,7</b>	<b>3,8</b>	<b>-7,9</b>	<b>-6,2</b>	<b>-2,1</b>

**Table 13. Commercial property price impact under baseline and adverse scenarios**  
(growth rates in per cent)

	Baseline inflation in %				Adverse inflation in %		
	2013	2014	2015	2016	2014	2015	2016
Norway		0,4	2,2	2,0	-8,5	-6,7	-2,8
<b>European Union</b>		<b>1,5</b>	<b>2,8</b>	<b>3,4</b>	<b>-3,5</b>	<b>-3,7</b>	<b>-1,2</b>

**Market risk scenario (see "Market risk scenarios" included in the EBA-press release package)**

Credit spreads for Norwegian sovereigns:<sup>6</sup>

Asset class	Baseline	Adverse	EBA scenario o 1	EBA scenario o 2	EBA scenario o 3	EBA scenario o 4
<b>Credit - Sovereign</b>	0	120	264	79	340	-77

**Securitisation calibration (see "Securitisation scenario" included in the EBA-press release package)**

Valuation haircuts for sovereign exposures under the adverse scenario:<sup>7</sup>

Norway	Adverse scenario						
	3M	1Y	2Y	3Y	5Y	10Y	Over 10Y
2014	0,2%	0,7%	1,4%	2,2%	4,9%	11,8%	22,5%
2015	0,1%	0,6%	1,0%	1,6%	3,4%	8,2%	15,9%
2016	0,2%	0,7%	1,3%	1,9%	4,0%	9,4%	17,9%

**3M Interest rates – Baseline from European Commission (available on 12 May 2014)**

**3M Interest Rates -  
baseline**

	2014	2015	2016
Norway	1,8	2,0	2,2

<sup>6</sup> Unweighted average of Sweden, Denmark, Finland, Germany, Netherlands and UK.

<sup>7</sup> Unweighted average of Sweden, Denmark, Finland, Germany, Netherlands and UK.