

Report for the third quarter 2015

Norwegian Finans Holding ASA

Norwegian Finans Holding ASA Report for the third quarter 2015

Norwegian Finans Holding ASA (NFH) owns 100 % of the shares in Bank Norwegian AS. The company does not engage in any other operations. The ownership of NFH is divided between institutional and individual investors in Norway and abroad, of which Norwegian Air Shuttle ASA is the largest owner with a stake of 20 %. Norwegian Finans Holding ASA is registered on the NOTC-list with the ticker code BANK.

Bank Norwegian started its operations in November 2007 and offers high-interest no-fee deposit accounts, and consumer loans, which are distributed through the Internet. The bank also offers "Norwegian Reward", a combined credit card and reward card for the airline Norwegian.

The bank started operations in Sweden in May 2013 and aims to launch operations in Denmark and Finland in the first quarter of 2016.

The strategy is based on leading e-commerce solutions, synergies with the airline Norwegian, attractive terms for our customers, cost-effective operations and effective risk selection.

The bank has at the end of the third quarter 2015 a customer base of 564,100 customers, which can be broken down into 73,200 loan customers, 77,800 deposit customers and 413,100 "Norwegian Reward" credit card customers.

Profit and loss as of September 30, 2015

The NFH Group's profit after tax amounted to MNOK 370.0. Net interest income was MNOK 1,009.4, net other operating income amounted to MNOK 51.1, while total operating expenses were MNOK 414.3. Provisions for loan losses were MNOK 139.3.

Profit and loss for the third quarter of 2015

The NFH Group's profit after tax amounted to MNOK 127.9 compared with MNOK 128.8 in the second quarter 2015. The profit in Sweden amounted to MNOK 14.5. Annual return on equity in the third quarter was 35.1 %, while return on assets was 3.4 %.

Net interest income amounted to MNOK 372.7, an increase of MNOK 37.6 from the second quarter. The net interest margin increased from 9.6 % in the second quarter to 9.8 %, due to improved asset utilization and lower funding costs.

Net other operating income amounted to MNOK 8.8 compared with MNOK 21.7 in the second quarter. Net commission income increased MNOK 6.9 to MNOK 30.0. Net loss on securities and currency amounted to MNOK 21.2, of which MNOK 19.5 were unrealized losses on securities due to increased credit spreads on bonds.

Total operating expenses amounted to MNOK 152.4 compared with MNOK 134.4 in the second quarter. Personnel expenses increased MNOK 4.0 due to accrual effects. Administrative expenses increased MNOK 12.2, mainly due to increased marketing expenses. Depreciation was unchanged. Other operating expenses increased MNOK 1.9.

The bank's provisions for loan losses amounted to MNOK 53.9, an increase of MNOK 7.9 from the second quarter. Provisions equaled 1.8 % of average gross loans, compared with 1.7 % in the second quarter. Delinquent loans accounted for 4.9 % of gross loans, compared with 4.8 % at the end of the previous quarter. Non-performing loans accounted for 3.8 % of gross loans, compared with 3.6 % as of June 30, 2015.

Balance sheet as of September 30, 2015

Total assets increased MNOK 1,063 in the quarter and amounted to MNOK 15,610. Net loans to customers amounted to MNOK 12,313, an increase of MNOK 1,310. Consumer loans amounted to MNOK 9,140 and credit card loans amounted to MNOK 3,383.

Customer deposits increased MNOK 813 in the third quarter and amounted to MNOK 11,687 at the end of the quarter.

Liquid assets decreased MNOK 272 and amounted to MNOK 3,041, equivalent to 19.5 % of total assets.

Total equity amounted to MNOK 1,517, compared with MNOK 1,389 as of June 30, 2015. The total capital ratio was 15.6 %, the core capital ratio was 14.0 % and the common equity tier 1 ratio was 13.0 %.

There has been a limited review of the accounts per September 30, 2015, and the full result is added to retained earnings.

Outlook for the remaining of the year

The Norwegian economy shows slower growth and slightly higher unemployment is expected, while the Swedish economy shows increased growth and stable employment. Increased unemployment may entail higher levels of loan losses.

The level of interest rates in Norway and Sweden are expected to remain low. The bank will benefit from the low interest rate level through reduced funding expenses going forward.

The earnings growth is expected to continue based on strong lending growth, stable margins, cost control and good credit quality.

A high deposit to loans ratio and good access to the securities market are expected to maintain the bank's strong liquidity position.

The return on the investment portfolio was weak this quarter due to increased credit spreads in the bond market. A positive effect of reduced credit spreads is expected going forward. The portfolio's low risk mandate will remain.

The credit quality of the loan portfolio shows a stable development and the level of write-downs is expected to remain stable going forward. The credit quality of the Swedish loan portfolio is developing in line with expectations.

The bank has a sound capital position. The current capital base and internal generation of capital are considered sufficient to ensure the bank's growth ambitions.

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Profit and loss account

Norwegian Finans Holding ASA						Norwegian Finans Holding Group					
2014	YTD 2014	YTD 2015	Q3 2014	Q3 2015	Amounts in NOK 1000	Note	Q3 2015	Q3 2014	YTD 2015	YTD 2014	2014
124	97	20	35	5	Interest income		442,662	336,150	1,231,227	911,465	1,279,849
-	-	-	-	-	Interest expenses		69,977	82,008	221,821	228,052	309,930
124	97	20	35	5	Net interest income		372,684	254,142	1,009,405	683,413	969,918
-	-	-	-	-	Commission and bank services income		49,000	33,289	130,728	92,806	127,903
261	248	237	17	81	Commission and bank services expenses		18,981	16,092	54,731	41,051	56,045
-	-	-	-	-	Net change in value on securities and currency		-21,171	-2,291	-24,907	-16	-3,401
-	-	-	-	-	Other income		-	443	-	443	443
-261	-248	-237	-17	-81	Net other operating income		8,849	15,349	51,090	52,182	68,900
-137	-151	-217	18	-76	Total income		381,533	269,491	1,060,495	735,595	1,038,819
1,282	952	1,034	330	336	Personnel expenses		15,523	13,874	41,573	37,725	51,966
21	20	-	-	-	General administrative expenses		127,315	85,927	345,479	249,088	343,475
-	-	-	-	-	Ordinary depreciation		3,194	2,723	12,207	7,768	10,514
94	81	99	13	1	Other operating expenses		6,401	2,661	15,091	11,065	14,930
1,397	1,053	1,133	343	337	Total operating expenses		152,433	105,184	414,349	305,645	420,884
-	-	-	-	-	Provision for loan losses	2	53,944	35,363	139,322	99,234	142,570
-1,534	-1,203	-1,350	-325	-413	Profit on ordinary activities before tax		175,156	128,944	506,824	330,716	475,364
-414	-325	-365	-88	-112	Tax charge		47,292	34,815	136,842	89,293	129,585
-1,120	-879	-986	-237	-302	Profit on ordinary activities after tax		127,864	94,129	369,981	241,423	345,779

Balance sheet

Norwegian Finans Holding ASA				Norwegian Finans Holding Group				
31.12.14	30.9.14	30.9.14	30.9.15	Amounts in NOK 1000	Note	30.9.15	30.9.14	31.12.14
Assets								
-	-	-	-	Deposits with Norges Bank		56,003	56,968	58,998
13,342	-	13,246	17,081	Loans and deposits with credit institutions		313,450	406,572	299,705
-	-	-	-	Loans to customers	2	12,312,556	8,801,991	9,401,001
-	-	-	-	Certificates and bonds		2,671,359	3,371,032	3,454,319
310,000	-	310,000	310,000	Ownership interests in group companies		-	-	-
-	-	-	-	Shares and other securities		443	443	443
-	-	-	-	Other intangible assets		40,560	32,543	33,874
1,172	-	1,083	1,537	Deferred tax asset		1,690	1,621	1,326
-	-	-	-	Fixed assets		816	1,252	1,124
-	-	97	82	Receivables and accrued income		213,251	152,685	174,191
324,515	324,426	328,700	328,700	Total assets		15,610,128	12,825,107	13,424,980
Liabilities and equity								
-	-	-	-	Deposits from customers		11,686,515	9,500,416	10,155,698
-	-	-	-	Debt securities issued	3	1,675,137	1,602,018	1,601,856
-	-	-	-	Tax payable		136,799	89,572	129,591
-	-	-	-	Other liabilities		33,848	15,603	21,755
1,315	985	1,013	1,013	Accrued expenses and unearned income received		261,700	281,232	75,446
-	-	-	-	Subordinated loan	4	298,821	298,769	298,782
1,315	985	1,013	1,013	Total liabilities		14,092,820	11,787,610	12,283,127
173,000	173,000	173,195	173,195	Share capital	4	173,195	173,000	173,000
145,123	145,123	150,402	150,402	Share premium reserve	4	150,402	145,123	145,123
5,076	5,317	4,090	4,090	Retained earnings and other reserves	4	1,193,711	719,374	823,730
323,200	323,441	327,687	327,687	Total equity		1,517,308	1,037,497	1,141,853
324,515	324,426	328,700	328,700	Total liabilities and equity		15,610,128	12,825,107	13,424,980

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Changes in equity

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<i>Amounts in NOK 1000</i>	Share capital	Share premium	Other reserves	Total
Balance sheet as at 1.1.14	172,594	139,945	6,196	318,735
Capital increase *	406	5,178	-	5,584
Result for the period	-	-	-1,120	-1,120
Balance sheet as at 31.12.14	173,000	145,123	5,076	323,200
Capital increase *	195	5,279	-	5,473
Result for the period	-	-	-986	-986
Balance sheet as at 30.9.15	173,195	150,402	4,090	327,687

Norwegian Finans Holding Group

<i>Amounts in NOK 1000</i>	Share capital	Share premium	Other reserves	Total
Balance sheet as at 1.1.14	172,594	139,945	477,951	790,490
Capital increase *	406	5,178	-	5,584
Result for the period	-	-	345,779	345,779
Balance sheet as at 31.12.14	173,000	145,123	823,730	1,141,853
Capital increase *	195	5,279	-	5,473
Result for the period	-	-	369,981	369,981
Balance sheet as at 30.9.15	173,195	150,402	1,193,711	1,517,308

* Bonus to executives, paid in shares with a minimum holding period of three years.

Cash flow statement

Norwegian Finans Holding ASA

Norwegian Finans Holding Group

Q3 2014	Q3 2015	<i>Amounts in NOK 1000</i>	Q3 2015	Q3 2014
		Cash flows from operating activities		
-1,203	-1,350	Profit / loss before tax	506,824	330,716
-	-	- Taxes paid	-129,999	-93,459
-	-	- Ordinary depreciations	12,207	7,768
-	-	- Change in loans	-2,911,555	-2,438,284
-	-	- Change in deposits from customers	1,530,817	2,908,235
-	-	- Change in securities	782,960	-1,676,918
-97	-82	Change in other accruals	-39,060	-55,561
-344	-302	Change in short-term liabilities	198,347	222,865
-1,644	-1,735	Net cash flow from operating activities	-49,459	-794,637
		Cash flows from investment activities		
-	-	- Payment for acquisition of tangible fixed assets	-	-92
-	-	- Payment for acquisition of intangible assets	-18,585	-9,314
-	-	Net cash flow from investment activities	-18,585	-9,406
		Cash flow from financing activities		
-	-	- Debt securities issued	73,281	1,102,256
-	-	- Cash flow from financing activities	-	-443
-	-	- Subordinated debt	39	39
5,584	5,473	Gross payments of subordinated debt	5,473	5,584
5,584	5,473	Net cash flow from financing activities	78,794	1,107,437
3,940	3,739	Net cash flow for the period	10,750	303,393
9,306	13,342	Cash and cash equivalents at the start of the period	358,703	160,147
13,246	17,081	Cash and cash equivalents at the end of the period	369,453	463,541

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Note 1. General accounting principles

The interim report for the third quarter 2015 is set up according to the same accounting principles as the annual report 2014.

Note 2.A. Loans to and receivables from customers

Norwegian Finans Holding ASA				Norwegian Finans Holding Group		
31.12.14	30.9.14	30.9.15	Amounts in NOK 1000	30.9.15	30.9.14	31.12.14
-	-	-	Gross lending	12,652,858	9,147,348	9,596,917
-	-	-	- individual write-downs on loans	65,536	168,758	13,690
-	-	-	- write-downs on groups of loans	274,766	176,599	182,226
-	-	-	Net loans to and receivables from customers	12,312,556	8,801,991	9,401,001

Note 2.B. Default and loss on loans

Norwegian Finans Holding ASA				Norwegian Finans Holding Group		
31.12.14	30.9.14	30.9.15	Amounts in NOK 1000	30.9.15	30.9.14	31.12.14
Defaulted loans						
-	-	-	Gross defaulted loans	683,714	694,522	405,668
-	-	-	- Individual write-downs on loans	65,536	168,758	13,690
-	-	-	- Write-downs on groups of loans	274,766	176,599	182,226
-	-	-	Net defaulted loans	343,412	349,165	209,752

Defaulted loans which are performing	143,166	137,707	123,240
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Norwegian Finans Holding ASA				Norwegian Finans Holding Group		
2014	Q3 2014	Q3 2015	Amounts in NOK 1000	Q3 2015	Q3 2014	2014
Write-downs on loans for the period						
-	-	-	Change in group write-downs for the period	21,012	17,263	83,277
-	-	-	Write-offs for which provisions were made earlier	32,319	21,824	59,294
-	-	-	Write-offs for which provisions were not made earlier	369	-	-
-	-	-	Included in earlier write-offs	244	-3,724	-
-	-	-	Write-downs on loans for the period	53,944	35,363	142,570

Note 3. Debt securities issued

Norwegian Finans Holding ASA				Norwegian Finans Holding Group		
31.12.14	30.9.14	30.9.15	Amounts in NOK 1000	30.9.15	30.9.14	31.12.14
-	-	-	Floating rate note bonds 2013/2016	174,058	300,271	300,228
-	-	-	Floating rate note bonds 2013/2018	301,793	302,487	302,314
-	-	-	Floating rate note bonds 2014/2017	399,842	399,742	399,767
-	-	-	Floating rate note certificate 2014/2015	-	199,986	199,992
-	-	-	Floating rate note bonds 2014/2019	399,627	399,532	399,556
-	-	-	Floating rate note bonds 2015/2018	399,817	-	-
-	-	-	Total	1,675,137	1,602,018	1,601,856

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Note 4. Subordinated capital

Norwegian Finans Holding ASA				Norwegian Finans Holding Group		
31.12.14	30.9.14	30.9.15	Amounts in NOK 1000	30.9.15	30.9.14	31.12.14
Subordinated capital						
173,000	173,000	173,195	Share capital	173,195	173,000	173,000
145,123	145,123	150,402	+ Share premium reserve	150,402	145,123	145,123
5,076	5,317	4,090	+ Other reserves	1,193,711	719,374	823,730
1,172	1,083	1,537	- Deferred tax assets and intangible assets	42,251	34,164	35,199
322,028	322,357	326,150	Common equity tier 1	1,475,058	1,003,333	1,106,654
-	-	-	+ Hybrid capital	124,250	124,250	124,250
322,028	322,357	326,150	Core capital	1,599,308	1,127,583	1,230,904
-	-	-	+ Supplemental capital	174,571	174,519	174,532
322,028	322,357	326,150	Total capital	1,773,879	1,302,102	1,405,436
Calculation basis						
Credit risk						
-	-	-	From assets 10%	-	25,654	17,016
2,668	2,649	3,416	+ From assets 20%	402,663	488,125	472,448
-	-	-	+ From assets 75%	9,026,010	6,466,189	6,903,704
310,000	310,097	310,082	+ From assets 100%	832,688	680,143	567,736
-	-	-	+ Other off-balance sheet items	3,451	3,399	3,423
-	-	-	- Provisions for losses that cannot be included	274,766	176,599	182,226
-	-	-	+ Operational risk	1,397,077	960,303	960,303
312,668	312,746	313,498	Total calculation basis	11,387,123	8,447,214	8,742,403
102.99 %	103.07 %	104.04 %	Common equity tier 1	12.95 %	11.88 %	12.66 %
102.99 %	103.07 %	104.04 %	Core capital	14.04 %	13.35 %	14.08 %
102.99 %	103.07 %	104.04 %	Total capital	15.58 %	15.41 %	16.08 %

Norwegian Finans Holding ASA Report for the third quarter 2015

Quarterly figures

Profit and loss account

Norwegian Finans Holding Group						
<i>Amounts in NOK 1000</i>						
	Note	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014
Interest income		442,662	408,792	379,773	368,384	336,150
Interest expenses		69,977	73,685	78,158	81,878	82,008
Net interest income		372,684	335,106	301,615	286,506	254,142
Commission and bank services income		49,000	42,662	39,066	35,097	33,289
Commission and bank services expenses		18,981	19,544	16,205	14,994	16,092
Net change in value on securities and currency		-21,171	-1,381	-2,356	-3,385	-2,291
Other income		-	-	-	-	443
Net other operating income		8,849	21,737	20,504	16,718	15,349
Total income		381,533	356,843	322,119	303,224	269,491
Personnel expenses		15,523	11,517	14,533	14,241	13,874
General administrative expenses		127,315	115,150	103,013	94,387	85,927
Ordinary depreciation		3,194	3,224	5,789	2,747	2,723
Other operating expenses		6,401	4,487	4,203	3,865	2,661
Total operating expenses		152,433	134,378	127,538	115,239	105,184
Provision for loan losses	2	53,944	46,029	39,349	43,337	35,363
Profit on ordinary activities before tax		175,156	176,436	155,232	144,648	128,944
Tax charge		47,292	47,638	41,913	40,292	34,815
Profit on ordinary activities after tax		127,864	128,798	113,319	104,356	94,129

Balance sheet

Norwegian Finans Holding Group						
<i>Amounts in NOK 1000</i>						
	Note	30.9.15	30.6.15	31.3.15	31.12.14	30.9.14
Assets						
Deposits with Norges Bank		56,003	55,990	59,029	58,998	56,968
Loans and deposits with credit institutions		313,450	402,495	321,454	299,705	406,572
Loans to customers	2	12,312,556	11,002,186	10,113,490	9,401,001	8,801,991
Certificates and bonds		2,671,359	2,854,567	2,979,661	3,454,319	3,371,032
Shares and other securities		443	443	443	443	443
Other intangible assets		40,560	39,678	36,801	33,874	32,543
Deferred tax asset		1,690	1,579	1,444	1,326	1,621
Fixed assets		816	918	1,021	1,124	1,252
Other assets		213,251	189,435	180,247	174,191	152,685
Total assets		15,610,128	14,547,291	13,693,591	13,424,980	12,825,107
Liabilities and equity						
Deposits from customers		11,686,515	10,873,365	9,955,498	10,155,698	9,500,416
Debt securities issued	3	1,675,137	1,675,267	1,875,394	1,601,856	1,602,018
Tax payable		136,799	89,395	126,572	129,591	89,572
Other liabilities		33,848	24,596	22,641	21,755	15,603
Accrued expenses and unearned income received		261,700	196,415	159,517	75,446	281,232
Subordinated loan	4	298,821	298,808	298,795	298,782	298,769
Total liabilities		14,092,820	13,157,847	12,438,418	12,283,127	11,787,610
Share capital	4	173,195	173,195	173,000	173,000	173,000
Share premium reserve	4	150,402	150,402	145,123	145,123	145,123
Retained earnings and other reserves	4	1,193,711	1,065,848	937,049	823,730	719,374
Total equity		1,517,308	1,389,444	1,255,173	1,141,853	1,037,497
Total liabilities and equity		15,610,128	14,547,291	13,693,591	13,424,980	12,825,107