

Report for the second quarter 2015

Norwegian Finans Holding ASA

Norwegian Finans Holding ASA Report for the second 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 second quarter 2015 a customer base of 516,600 customers, which can be broken down into 66,800 loan customers, 76,000 deposit customers and 373,800 "Norwegian Reward" credit card customers.

Profit and loss as of June 30, 2015

The NFH Group's profit after tax amounted to MNOK 242.1 as of June 30, 2015. Net interest income totalled MNOK 636.7, net other operating income amounted to MNOK 42.2, while total operating expenses were MNOK 261.9. Provisions for loan losses were MNOK 85.4.

Profit and loss for the second quarter of 2015

The NFH Group's profit after tax amounted to MNOK 128.8 in the second quarter, compared with MNOK 113.3 in the first quarter 2015. The profit in Sweden amounted to MNOK 10.8. Annual return on equity in the second quarter was 39.1 %, while return on assets was 3.7 %.

Net interest income amounted to MNOK 335.1, an increase of MNOK 33.5 from the first quarter. The net interest margin increased from 9.0 % in the first quarter to 9.6 %, due to of improved asset utilization and lower funding costs.

Net other operating income amounted to MNOK 21.7 compared with MNOK 20.5 in the first quarter. Net commission income increased MNOK 0.3. Net loss on securities and currency amounted to MNOK 1.4.

Total operating expenses amounted to MNOK 134.4 compared with MNOK 127.5 in the first quarter. Personnel expenses decreased MNOK 3.0 due to accrual effects. Administrative expenses increased MNOK 12.1, due to increased marketing expenses. Depreciation decreased MNOK 2.6 due to charge-offs in relation to the system change in the first quarter. Other operating expenses increased MNOK 0.3.

The bank's provisions for loan losses amounted to MNOK 46.0, an increase of MNOK 6.7 from the first quarter. Provisions equaled 1.7 % of average gross loans, compared with 1.6 % in the first quarter. Delinquent loans accounted for 5.2 % of gross loans, compared with 4.3 % at the end of the previous quarter. Non-performing loans accounted for 4.0 % of gross loans, compared with 3.1 % as of March 31, 2015.

Balance sheet as of June 30, 2015

Total assets increased MNOK 854 in the quarter and amounted to MNOK 14,547 as of June 30, 2015. Net loans to customers amounted to MNOK 11,002, an increase of MNOK 889 in the quarter. Consumer loans amounted to MNOK 8,121 and credit card loans amounted to MNOK 3,042.

Customer deposits increased MNOK 918 in the second quarter and amounted to MNOK 10,873 at the end of the quarter.

Liquid assets decreased MNOK 47 and amounted to MNOK 3,313, equivalent to 23 % of total assets at the end of the second quarter.

Total equity amounted to MNOK 1,389, compared with MNOK 1,255 as of March 31, 2015. The total capital ratio was 15.8 %, the core capital ratio was 14.2 % and the common equity tier 1 ratio was 13.0 % per June 30, 2015.

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

Outlook for the remaining of the year

The Norwegian economy shows signs of slower growth and somewhat higher unemployment, while the Swedish economy shows signs of increased growth and a stable unemployment. 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 levels of interest rates 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 investment portfolio has provided a satisfactory return. 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	Q2 2014	Q2 2015	Amounts in NOK 1000	Note	Q2 2015	Q2 2014	YTD 2015	YTD 2014	2014
124	62	15	27	5	Interest income		408,792	304,738	788,565	575,315	1,279,849
-	-	-	-	-	Interest expenses		73,685	77,425	151,844	146,044	309,930
124	62	15	27	5	Net interest income		335,106	227,313	636,721	429,270	969,918
-	-	-	-	-	Commission and bank services income		42,662	30,272	81,728	59,517	127,903
261	231	156	217	79	Commission and bank services expenses		19,544	13,935	35,750	24,958	56,045
-	-	-	-	-	Net change in value on securities and currency		-1,381	985	-3,737	2,275	-3,401
-	-	-	-	-	Other income		-	-	-	-	443
-261	-231	-156	-217	-79	Net other operating income		21,737	17,323	42,241	36,834	68,900
-137	-169	-141	-191	-74	Total income		356,843	244,636	678,962	466,104	1,038,819
1,282	622	698	295	362	Personnel expenses		11,517	9,435	26,050	23,851	51,966
21	20	-	20	-	General administrative expenses		115,150	83,079	218,164	163,162	343,475
-	-	-	-	-	Ordinary depreciation		3,224	2,567	9,013	5,045	10,514
94	69	98	31	63	Other operating expenses		4,487	3,521	8,690	8,404	14,930
1,397	710	796	346	425	Total operating expenses		134,378	98,602	261,916	200,461	420,884
-	-	-	-	-	Provision for loan losses	2	46,029	33,636	85,378	63,871	142,570
-1,534	-879	-937	-537	-499	Profit on ordinary activities before tax		176,436	112,398	331,668	201,773	475,364
-414	-237	-253	-145	-135	Tax charge		47,638	30,347	89,550	54,479	129,585
-1,120	-642	-684	-392	-364	Profit on ordinary activities after tax		128,798	82,050	242,118	147,294	345,779

Balance sheet

Norwegian Finans Holding ASA					Norwegian Finans Holding Group				
31.12.14		30.6.14	30.6.15	Amounts in NOK 1000	Note	30.6.15	30.6.14		31.12.14
-	-	-	-	Assets					
-	-	-	-	Deposits with Norges Bank		55,990	106,865		58,998
13,342	-	13,275	17,225	Loans and deposits with credit institutions		402,495	389,133		299,705
-	-	-	-	Loans to customers	2	11,002,186	8,080,097		9,401,001
-	-	-	-	Certificates and bonds		2,854,567	2,918,677		3,454,319
310,000	-	310,000	310,000	Ownership interests in group companies		-	-		-
-	-	-	-	Shares and other securities		443	-		443
-	-	-	-	Other intangible assets		39,678	30,590		33,874
1,172	-	996	1,426	Deferred tax asset		1,579	1,533		1,326
-	-	-	-	Fixed assets		918	1,379		1,124
-	-	62	15	Receivables and accrued income		189,435	138,736		174,191
324,515	-	324,332	328,666	Total assets		14,547,291	11,667,010		13,424,980
-	-	-	-	Liabilities and equity					
-	-	-	-	Deposits from customers		10,873,365	9,039,933		10,155,698
-	-	-	-	Debt securities issued	3	1,675,267	1,099,801		1,601,856
-	-	-	-	Tax payable		89,395	54,669		129,591
-	-	-	-	Other liabilities		24,596	30,588		21,755
1,315	-	654	677	Accrued expenses and unearned income received		196,415	199,894		75,446
-	-	-	-	Subordinated loan	4	298,808	298,756		298,782
1,315	-	654	677	Total liabilities		13,157,847	10,723,642		12,283,127
173,000	-	173,000	173,195	Share capital	4	173,195	173,000		173,000
145,123	-	145,123	150,402	Share premium reserve	4	150,402	145,123		145,123
5,076	-	5,554	4,392	Retained earnings and other reserves	4	1,065,848	625,245		823,730
323,200	-	323,678	327,989	Total equity		1,389,444	943,369		1,141,853
324,515	-	324,332	328,666	Total liabilities and equity		14,547,291	11,667,010		13,424,980

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Changes in equity

Norwegian Finans Holding ASA

<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	-	-	-684	-684
Balance sheet as at 30.6.15	173,195	150,402	4,392	327,989

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	-	-	242,118	242,118
Balance sheet as at 30.6.15	173,195	150,402	1,065,848	1,389,444

* 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

Q2 2014	Q2 2015	<i>Amounts in NOK 1000</i>	Q2 2015	Q2 2014
		Cash flows from operating activities		
-879	-937	Profit / loss before tax	331,668	201,773
-	-	- Taxes paid	-129,999	-93,459
-	-	- Ordinary depreciations	9,013	5,045
-	-	- Change in loans	-1,601,185	-1,716,390
-	-	- Change in deposits from customers	717,668	2,447,753
-	-	- Change in securities	599,752	-1,224,563
-62	-15	Change in other accruals	-15,245	-41,613
-674	-638	Change in short-term liabilities	123,810	156,513
-1,615	-1,590	Net cash flow from operating activities	35,482	-264,941
		Cash flows from investment activities		
-	-	- Payment for acquisition of tangible fixed assets	-	-92
-	-	- Payment for acquisition of intangible assets	-14,611	-4,766
-	-	Net cash flow from investment activities	-14,611	-4,858
		Cash flow from financing activities		
-	-	- Debt securities issued	73,411	600,039
-	-	- Subordinated debt	26	26
5,584	5,473	Gross payments of subordinated debt	5,473	5,584
5,584	5,473	Net cash flow from financing activities	78,911	605,649
3,969	3,883	Net cash flow for the period	99,782	335,850
9,306	13,342	Cash and cash equivalents at the start of the period	358,703	160,147
13,275	17,225	Cash and cash equivalents at the end of the period	458,485	495,997

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Note 1. General accounting principles

The interim report for the second 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	30.6.14	30.6.15	Amounts in NOK 1000	30.6.15	30.6.14	31.12.14
-	-	-	Gross lending	11,283,357	8,390,941	9,596,917
-	-	-	- individual write-downs on loans	43,224	151,509	13,690
-	-	-	- write-downs on groups of loans	237,947	159,335	182,226
-	-	-	Net loans to and receivables from customers	11,002,186	8,080,097	9,401,001

Note 2.B. Default and loss on loans

Norwegian Finans Holding ASA				Norwegian Finans Holding Group		
31.12.14	30.6.14	30.6.15	Amounts in NOK 1000	30.6.15	30.6.14	31.12.14
Defaulted loans						
-	-	-	Gross defaulted loans	624,533	649,390	405,668
-	-	-	- Individual write-downs on loans	43,224	151,509	13,690
-	-	-	- Write-downs on groups of loans	237,947	159,335	182,226
-	-	-	Net defaulted loans	343,363	338,546	209,752

Net defaulted loans are presented after write-downs on groups of loans.

Defaulted loans which are performing	131,605	127,349	123,240
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Norwegian Finans Holding ASA				Norwegian Finans Holding Group		
2014	Q2 2014	Q2 2015	Amounts in NOK 1000	Q2 2015	Q2 2014	2014
Write-downs on loans for the period						
-	-	-	Change in group write-downs for the period	23,580	20,094	83,277
-	-	-	Write-offs for which provisions were made earlier	21,871	16,577	59,294
-	-	-	Write-offs for which provisions were not made earlier	578	-	-
-	-	-	Included in earlier write-offs	-	-3,035	-
-	-	-	Write-downs on loans for the period	46,029	33,636	142,570

Note 3. Debt securities issued

Norwegian Finans Holding ASA				Norwegian Finans Holding Group		
31.12.14	30.6.14	31.12.14	Amounts in NOK 1000	30.6.15	30.6.14	31.12.14
-	-	-	Floating rate note bonds 2013/2016	174,083	199,893	300,228
-	-	-	Floating rate note bonds 2013/2018	301,967	299,908	302,314
-	-	-	Floating rate note bonds 2014/2017	399,817	400,000	399,767
-	-	-	Floating rate note certificate 2014/2015	-	200,000	199,992
-	-	-	Floating rate note bonds 2014/2019	399,603	-	399,556
-	-	-	Floating rate note bonds 2015/2018	399,796	-	-
-	-	-	Total	1,675,267	1,099,801	1,601,856

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Note 4. Subordinated capital

Norwegian Finans Holding ASA				Norwegian Finans Holding Group		
31.12.14	30.6.14	30.6.15	Amounts in NOK 1000	30.6.15	30.6.14	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	5,554	4,392	+ Other reserves	1,065,848	625,245	823,730
1,172	996	1,426	- Deferred tax assets and intangible assets	41,257	32,123	35,199
322,028	322,682	326,563	Common equity tier 1	1,348,187	911,245	1,106,654
-	-	-	+ Hybrid capital	124,250	124,250	124,250
322,028	322,682	326,563	Core capital	1,472,437	1,035,495	1,230,904
-	-	-	+ Supplemental capital	174,558	174,506	174,532
322,028	322,682	326,563	Total capital	1,646,996	1,210,001	1,405,436
Calculation basis						
Credit risk						
-	-	-	From assets 10%	-	-	17,016
2,668	2,655	3,460	+ From assets 20%	445,312	471,890	472,448
-	-	-	+ From assets 75%	8,056,535	5,919,683	6,903,704
310,000	310,062	310,000	+ From assets 100%	732,106	637,995	567,736
-	-	-	+ Other off-balance sheet items	3,504	3,452	3,423
-	-	-	- Provisions for losses that cannot be included	237,947	159,183	182,226
-	-	-	+ Operational risk	1,397,077	960,303	960,303
312,668	312,717	313,460	Total calculation basis	10,396,587	7,834,140	8,742,403
102.99 %	103.19 %	104.18 %	Common equity tier 1	12.97 %	11.63 %	12.66 %
102.99 %	103.19 %	104.18 %	Core capital	14.16 %	13.22 %	14.08 %
102.99 %	103.19 %	104.18 %	Total capital	15.84 %	15.45 %	16.08 %

Norwegian Finans Holding ASA Report for the second quarter 2015

Quarterly figures

Profit and loss account

Norwegian Finans Holding Group						
<i>Amounts in NOK 1000</i>						
	Note	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014
Interest income		408,792	379,773	368,384	336,150	304,738
Interest expenses		73,685	78,158	81,878	82,008	77,425
Net interest income		335,106	301,615	286,506	254,142	227,313
Commission and bank services income		42,662	39,066	35,097	33,289	30,272
Commission and bank services expenses		19,544	16,205	14,994	16,092	13,935
Net change in value on securities and currency		-1,381	-2,356	-3,385	-2,291	985
Other income		-	-	-	443	-
Net other operating income		21,737	20,504	16,718	15,349	17,323
Total income		356,843	322,119	303,224	269,491	244,636
Personnel expenses		11,517	14,533	14,241	13,874	9,435
General administrative expenses		115,150	103,013	94,387	85,927	83,079
Ordinary depreciation		3,224	5,789	2,747	2,723	2,567
Other operating expenses		4,487	4,203	3,865	2,661	3,521
Total operating expenses		134,378	127,538	115,239	105,184	98,602
Provision for loan losses	2	46,029	39,349	43,337	35,363	33,636
Profit on ordinary activities before tax		176,436	155,232	144,648	128,944	112,398
Tax charge		47,638	41,913	40,292	34,815	30,347
Profit on ordinary activities after tax		128,798	113,319	104,356	94,129	82,050

Balance sheet

Norwegian Finans Holding Group						
<i>Amounts in NOK 1000</i>						
	Note	30.6.15	31.3.15	31.12.14	30.9.14	30.6.14
Assets						
Deposits with Norges Bank		55,990	59,029	58,998	56,968	106,865
Loans and deposits with credit institutions		402,495	321,454	299,705	406,572	389,133
Loans to customers	2	11,002,186	10,113,490	9,401,001	8,801,991	8,080,097
Certificates and bonds		2,854,567	2,979,661	3,454,319	3,371,032	2,918,677
Shares and other securities		443	443	443	443	-
Other intangible assets		39,678	36,801	33,874	32,543	30,590
Deferred tax asset		1,579	1,444	1,326	1,621	1,533
Fixed assets		918	1,021	1,124	1,252	1,379
Other assets		189,435	180,247	174,191	152,685	138,736
Total assets		14,547,291	13,693,591	13,424,980	12,825,107	11,667,010
Liabilities and equity						
Deposits from customers		10,873,365	9,955,498	10,155,698	9,500,416	9,039,933
Debt securities issued	3	1,675,267	1,875,394	1,601,856	1,602,018	1,099,801
Tax payable		89,395	126,572	129,591	89,572	54,669
Other liabilities		24,596	22,641	21,755	15,603	30,588
Accrued expenses and unearned income received		196,415	159,517	75,446	281,232	199,894
Subordinated loan	4	298,808	298,795	298,782	298,769	298,756
Total liabilities		13,157,847	12,438,418	12,283,127	11,787,610	10,723,642
Share capital	4	173,195	173,000	173,000	173,000	173,000
Share premium reserve	4	150,402	145,123	145,123	145,123	145,123
Retained earnings and other reserves	4	1,065,848	937,049	823,730	719,374	625,245
Total equity		1,389,444	1,255,173	1,141,853	1,037,497	943,369
Total liabilities and equity		14,547,291	13,693,591	13,424,980	12,825,107	11,667,010